

# More for our Customers

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THE NORTH WEST COMPANY INC. 2013

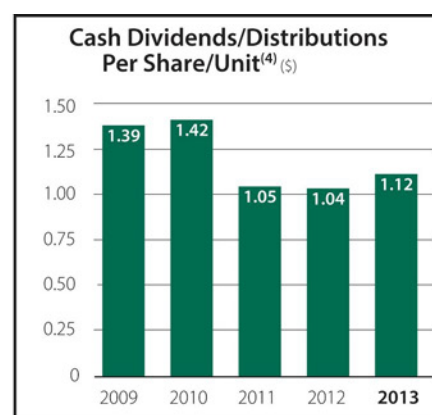
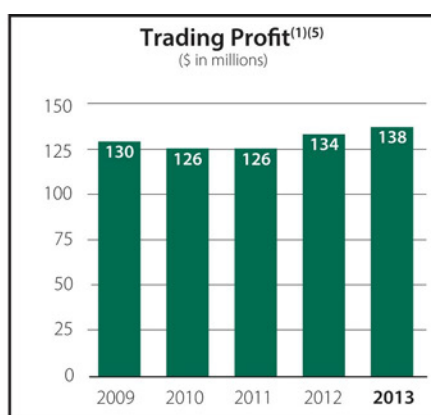
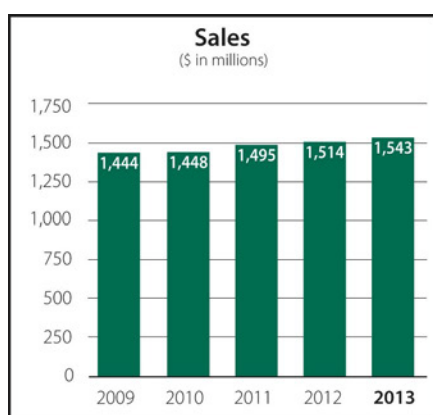
## Annual Report



# Financial Highlights

All currency figures in this report are in Canadian dollars, unless otherwise noted

(\$ in thousands, except per share information)	Year Ended January 31, 2014	Year Ended January 31, 2013 <sup>(5)</sup>	Year Ended January 31, 2012 <sup>(5)</sup>
<b>RESULTS FOR THE YEAR</b>			
Sales	\$ 1,543,125	\$ 1,513,646	\$ 1,495,136
Same store sales % increase <sup>(2)</sup>	1.8%	0.5%	3.3%
Trading profit <sup>(3)</sup> (EBITDA)	\$ 138,336	\$ 133,717	\$ 125,881
Earnings from operations <sup>(3)</sup> (EBIT)	100,060	96,568	89,309
Net earnings	64,263	63,888	57,961
Cash flow from operating activities <sup>(6)</sup>	80,036	128,992	115,469
<b>FINANCIAL POSITION</b>			
Total assets	\$ 670,512	\$ 651,394	\$ 626,917
Total debt	182,862	163,354	175,892
Total equity	322,440	296,250	283,709
<b>FINANCIAL RATIOS</b>			
Debt-to-equity	.57:1	.55:1	.62:1
Return on net assets <sup>(3)</sup> (RONA)	20.0%	20.6%	18.5%
Return on average equity <sup>(3)</sup> (ROE)	21.0%	22.1%	20.1%
Sales blend: Food	77.4%	76.8%	76.4%
General Merchandise	18.9%	19.5%	20.2%
Other	3.7%	3.7%	3.4%
<b>PER SHARE (\$) - DILUTED</b>			
Trading profit <sup>(3)</sup> (EBITDA)	\$ 2.84	\$ 2.75	\$ 2.59
Net earnings	1.32	1.32	1.19
Cash flow from operating activities <sup>(6)</sup>	1.64	2.66	2.38
Market price: January 31	25.42	23.14	19.40
high	29.00	23.88	22.50
low	22.34	19.34	17.85



(1) 2013, 2012 and 2011 are reported in accordance with International Financial Reporting Standards (IFRS). 2010 has been restated to IFRS. All other historical financial information was prepared in accordance with Canadian generally accepted accounting principles (CGAAP) and has not been restated to IFRS.

(2) Same store sales, excluding the foreign exchange impact.

(3) See Non-GAAP Financial Measures section.

(4) Effective January 1, 2011, North West Company Fund converted to a share corporation called The North West Company Inc. The comparative information refers to the units of the Fund. See Conversion To A Share Corporation section for further information.

(5) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. 2011 and previous years have not been restated for these accounting standard changes. See Accounting Standards Implemented in 2013 section for further information.

(6) The decrease in cash flow from operating activities in 2013 is largely due to the payment of Canadian income taxes. Further information is provided under Cash from Operating Activities on page 14.

# Annual Report

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Unless otherwise stated, this Management's Discussion & Analysis ("MD&A") for The North West Company Inc. ("NWC") or its predecessor North West Company Fund ("NWF" or "Fund") and its subsidiaries (collectively, "North West Company", the "Company", "North West", or "NWC") is based on, and should be read in conjunction with the 2013 annual audited consolidated financial statements and accompanying notes. The Company's annual audited consolidated financial statements and accompanying notes for the year ended January 31, 2014 are in Canadian dollars, except where otherwise indicated, and are prepared in accordance with International Financial Reporting Standards ("IFRS").

Due to the transition to IFRS, comparative figures for the year ended January 31, 2011 ("2010") that were previously reported in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") have been restated to conform with the accounting policies and financial statement presentation adopted under IFRS. The financial information for the fiscal years 2009 and prior was prepared in accordance with CGAAP and has not been restated. Further information on the transition to IFRS and the impact on the Company's consolidated financial statements is provided in the 2011 Annual Financial Report available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).

The Company adopted the revised IAS 19 Employee Benefits (IAS 19r) effective February 1, 2013. The implementation of this standard required the restatement of certain 2012 comparative numbers. 2011 and previous years have not been restated for these accounting standard changes as they were effective for the Company February 1, 2013 with retrospective adjustments as at February 1, 2012. Further information on the impact of new accounting standards is provided in the Accounting Standards Implemented in 2013 section of this report or in Note 3 to the Company's 2013 annual audited consolidated financial statements.

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on April 9, 2014 and the information contained in this MD&A is current to April 9, 2014, unless otherwise stated.

## Forward-Looking Statements

This MD&A contains forward-looking statements about North West 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), ongoing 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 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 this MD&A, in the Risk Factors sections of the Annual Information Form and in our most recent consolidated financial statements, management information circular, material change reports and news releases. 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](http://www.sedar.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).

## 2013 President & CEO Message

While our financial results were mixed, 2013 was very productive on setting priorities and getting our business back to delivering superior returns.

Our people worked exceptionally hard, with focus and enterprise that matched up to the best work in retailing today. We learned a great deal about what we do well, what we need to do better and what we need to simply stop doing, so that we win for our customers, every day.

In late 2012, we completed the sale of six underperforming Giant Tiger ("GT") stores, leaving us with a healthy core of 31 locations to build from. Within the western Canadian market we faced competition from new discount food space with no offsetting growth in consumer demand. Under this pressure, the GT advantages stood out: convenience, unwavering commitment to great prices and the newness of our apparel and niche hardlines categories. GT delivered one of its best profit years ever and demonstrated the resiliency we expect from all of our banners.

In addition to Giant Tiger, our Alaska Commercial ("AC") store division stood out in 2013. The Alaskan economy picked up momentum through the summer and our buying teams delivered great seasonal programs. Over the past 10 years, AC's operating margin growth has averaged in the mid to high single digits. We have consistently added new stores through community partnerships and we've helped bring a needed retail service to lower income rural Alaskans. During this period, AC has been led by Rex Wilhelm, President and Chief Operating Officer of The North West Company (International) Inc. (NWC). This spring Rex will be transitioning to a part-time role as Vice-Chairman, NWC, after 30 years of service. I and all Nor' Westers are indebted to Rex for the contribution he has made and will continue to provide in his new position.

In the first quarter we opened our Barbados Cost-U-Less ("CUL") store, which was our first significant investment since acquiring CUL five years ago. While the initial performance did not meet expectations, we gained solid insights into what it takes to grow a profitable business in this market. Building on what we have learned in Barbados and our past success in improving performance in markets like the Cayman Islands, we are localizing more of our merchandise buying and steadily raising store standards. Many of these refinements will benefit our other Cost-U-Less stores, starting with the Caribbean. Overall we recognize that CUL, even as a profitable North West banner, needs more work before it becomes a growth platform.

Another important first half activity was a longer range assessment of North West's business. Through this process, our physical store network emerged as the number one opportunity to sustain and grow profitable sales. This lens identified two priorities. The first was to shift to being more store and customer centered. Technology, processes and, above all, the people in our stores are now clearly ranked ahead of other support activities for attention and investment. Second, more capital will be spent on upgrading store facilities with the highest opportunity to defend and grow sales.

Our store-centered strategy is a sharper tuning of the "More Growth in Store" work we started in 2010. We now have the benefit of three years' worth of execution practice and we know how to bring the right changes to our stores faster and more effectively. More than a productivity gain, we see our expanded store capacity as a path to growth. We plan to introduce more new products and services that require on-site shopping, service and delivery or ongoing after-sales care, all supported by community relations that ensure continued market access.

2013 was a busy year for takeover activity in Canadian retail and we invested considerable resources assessing a number of attractive opportunities. Through the due diligence process we identified synergy and scale value that can be elusive for a company of our size and relative complexity. We were able to model structures that may work in the future and while we did not complete a transaction the time was well spent in light of the few prospects that actually fit with our business and that we are prepared to look at.

At heart, North West has always been an "unconventional" retailer and our success depends on continuing to find enterprising ways to serve our customers outside of the mainstream. Through northern market re-investment, Giant Tiger store growth and CUL improvement, we see real potential to accomplish this on the foundation of our superior physical stores and logistics network.

Through our store presence, we are committed to delivering lower costs, more innovative products and services, more local employment and more reasons for our customers to reward us with their spending. I am confident in these priorities, supported by a total company alignment. They make us a compelling choice with results that we can deliver on in 2014 and beyond.



**Edward S. Kennedy**  
President & CEO  
April 9, 2014



## 2013 Chairman's Message

As expected, 2013 was a demanding year for North West. We challenged the company to deliver more ongoing "In Store" improvements while assessing a wider range of strategic options within our core markets. We also invested significant time in pursuing investment opportunities that arose over the past six months, as part of what turned out to be a very active period of transactional restructuring within the Canadian retail sector.

The results from last year's "In Store" work were better than the financial numbers indicate and set us up for improved future performance. Staying the course on execution and operational excellence in our existing business is proving to be the best focus for short and longer range returns. Within the higher cost, and increasingly complex environment of most North West markets, there remains much to be gained from leaner and more innovative work processes.

Going forward, the strategic overlay that was largely completed in the first half of the year reinforces the fundamental importance of our stores and the people who run them. The confirmation of this core competency is causing us to place even more emphasis on the need for investment in our store network, both in capital and operating resources. It is also helping management and the Board to appropriately prioritize the projects that we are considering.

The pace of new ideas in retail continues to accelerate and, as we saw in 2013, this includes a significant amount of industry consolidation, accompanied by aggressive financial engineering. While the Company has and will continue to consider larger scale investments on a very selective basis, we believe the more likely path to success will be to build on what we know works, for example our focus on improving perishable performance and community relations, and to fix or discard practices and strategies that fall short of our expectations.

Our focus continues to be on building a better business, which understands and meets the needs of our customers and the communities in which we do business. We are seeing a slow shift of economic momentum as income grows within the remote markets we serve. As this gains traction, we are confident that we will be ready with the products and services our customers want.

On behalf of the Board and all Nor' Westers, I would like to acknowledge the exemplary contribution of Gary Lukassen who will be retiring from the Board in June. Gary became a founding member of the Board in 1987, when the Hudson's Bay Company, of which he was CFO, sold its Northern Stores Division to create today's North West Company. For most of these twenty-seven years Gary led the Company's Audit Committee, bringing his deep retail and accounting expertise to this role. Above all, Gary has been dedicated to governance and Board oversight standards that are reflected in North West's impressive success over his years on our Board.



**H. Sanford Riley**

Chairman, Board of Directors

April 9, 2014



# Management's Discussion & Analysis

## OUR BUSINESS TODAY

The North West Company is a leading retailer to underserved rural communities and urban neighbourhood markets in the following regions: northern Canada, western Canada, rural Alaska, the South Pacific islands and the Caribbean. Our stores offer a broad range of products and services with an emphasis on food. Our value offer is to be the best local shopping choice for everyday household and local lifestyle needs.

North West's core strengths include: our ability to adapt to varied local values and priorities to forge community partnerships; our on-the-ground presence with hard-to-replicate skills, insights and facilities; our logistics expertise in moving product to, and operating stores within, remote or difficult-to-reach markets; and our ability to apply these strengths within complementary niche businesses.

North West has a rich enterprising legacy as one of the longest continuing retail enterprises in the world. The Company traces its roots back to 1668 with many of our store locations in northern Canada and Alaska having been in operation for over 200 years. Today these northern stores serve communities with populations from 300 to 9,000. A typical store is approximately 7,500 square feet in size and offers food, family apparel, housewares, appliances, outdoor products and services such as fuel, post offices, pharmacies, income tax return preparation, quick-service prepared food, commercial business sales, prepaid card products, ATMs, cheque cashing and propriety credit programs.

Growth at North West has come from market share expansion within existing locations and from applying our expertise and infrastructure to new markets and complementary businesses. The latter includes wholesaling to independent stores, opening Giant Tiger junior discount stores in rural communities and urban neighbourhoods in western Canada, and our late 2007 acquisition of Cost-U-Less, Inc., a chain of mid-sized warehouse format stores serving the South Pacific islands and the Caribbean.

A key strength and ongoing strategy of North West is to adapt to unique local lifestyles and cultures, and capture selling opportunities better than our competition. Flexible store development models, store management selection and education, store-level merchandise ordering, community relations and enterprising incentive plans are all ingredients of the model we have built to support this leading market position. We believe that continued, efficient enhancement of our execution skills in general, and our logistics and selling skills specifically, are essential components in to meeting customer needs within each market we serve.

North West delivers its products and services through the following retail banners and wholesale businesses, in two reporting segments:

### Canadian Operations

- **122 Northern** stores, offering a combination of food, financial services and general merchandise to remote northern Canadian communities;
- **31 Giant Tiger ("GT")** junior discount stores, offering family fashion, household products and food to urban neighbourhoods and larger rural centers in western Canada;
- **7 NorthMart** stores, targeted at larger northern markets with an emphasis on an expanded selection of fresh foods, fashion and health products and services;
- **13 Quickstop** convenience stores, offering extended hours, ready-to-eat foods, fuel and related services;
- **1 Valu Lots** discount center and direct-to-customer food distribution outlet for remote communities in Canada;
- **1 Solo Market** store, targeted at less remote, rural markets;
- **1 NorthMart Drug Store**, a stand-alone pharmacy and convenience store;
- **Crescent Multi Foods ("CMF")** a distributor of produce and fresh meats to independent grocery stores in Saskatchewan, Manitoba and northwestern Ontario;
- **2 North West Company Fur Marketing** outlets, trading in furs and offering Aboriginal handicrafts and authentic Canadian heritage products; and
- **The Inuit Art Marketing Service**, Canada's largest distributor of Inuit art.

### International Operations

- **30 AC Value Centers ("AC")** stores similar to Northern and NorthMart, offering a combination of food and general merchandise to communities across remote and rural regions of Alaska;
- **4 Quickstop** convenience stores within rural Alaska;
- **Pacific Alaska Wholesale ("PAW")** a leading distributor to independent grocery stores, commercial accounts and individual households in rural Alaska;
- **13 Cost-U-Less (CUL)** mid-sized warehouse stores, offering discount food and general merchandise products to island communities in the South Pacific and the Caribbean; and
- **1 Island Fresh Supermarket** neighborhood food store in Guam offering convenience with an emphasis on fresh and prepared foods.

## VISION

At North West our mission is to be a trusted provider of goods and services within hard-to-reach, underserved and less developed markets. Our vision is to bring products and services to communities that help people live better. At the retail level, this starts with our customers' ability and desire to shop locally with us for the widest possible range of products and services that meet their everyday needs. We do this by being more reliable, convenient, locally adaptable, friendlier and by having the lowest local cost, enabled by lean, innovative processes. For our associates, we want to be a preferred, fulfilling place to work. For our investors, we want to deliver superior, top-quartile total returns over the long term.



## PRINCIPLES

The way we work at North West is shaped by six core principles: *Customer Driven, Enterprising, Passion, Accountability, Trust, and Personal Balance.*

**Customer Driven** refers to looking through the eyes of our customers while recognizing our local presence as a supportive community citizen.

**Enterprising** is our spirit of innovation, improvement and growth, reflected in our unrelenting focus on new and better products, services and processes.

**Passion** refers to our connection to our work, our privileged local market presence and the opportunity to find solutions that make a difference in our customers' lives.

**Accountability** is our management approach to getting work done through effective roles, tasks and resources.

**Trust** at North West means doing what you say you will do, with fairness, integrity and respect.

**Personal Balance** is our commitment to sustaining ourselves and our organization, so that we work effectively for our customers and communities over the long term.

## STRATEGIES

The strategies at North West are aligned with a total return approach to investment performance. We aim to deliver top quartile returns through an equal emphasis on growth and income yield with opportunities considered in terms of their growth potential and ability to sustain an attractive cash return.

The Company's long-range plans ("LRP") are developed in multi-year cycles and are reviewed and adjusted on an annual basis or as required at the senior management and board levels. 2013 was a transition year. It was the start of a LRP cycle and included an in-depth assessment of North West's past performance, opportunity gaps within each business segment, and new business growth potential. It was also a year that required significant attention to unique strategic opportunities

Over the previous LRP cycle, the Company's focus had been on "More Growth in Store". The key initiatives were related to being better at the basic elements of our value offer, including our in-stock performance and the profitability of our perishable and other high-convenience categories. The logistics side of our business was also an investment priority.

The strategic planning work in 2013 identified that further gains in operating standards and efficiency were still attractive for North West. A rigorous review of our business also reinforced the importance of our physical store network, local selling capability and community relations as fundamental competencies. Finally, we also identified the logistics and data links to our stores as secondary, but still important competencies that could be further leveraged.

In total, these findings supported a continued focus on "More Growth in Store" as the best path to optimizing our existing and future business potential.

During the second half of 2013, LRP work was redirected to assessing time-sensitive strategic opportunities that were presented to us. While this work did not result in completed transactions, it was a very valuable investment of management time.

Our strategic priorities are now focused on achievable, higher performance levels within our existing store base. This includes the following areas:

1. Investing in markets that can drive above average sales and profit growth through new, larger stores, highly capable store teams and strong community relations;
2. Completing the investment in Transportation Management Systems ("TMS") that will deliver a competitive advantage on the cost, quality and reliability of moving products, services and information to the remote markets we serve;
3. Delivering greater returns from merchandise categories that will benefit from better inventory control practices, building on the successes from 2010 to 2013;
4. Renewing our Giant Tiger store base through a stronger partnership with our Master Franchisor, Giant Tiger Stores Limited ("GTSL"), so store growth accelerates in western Canada and both companies achieve more cost and scale synergies from working together;
5. Improving returns from our Cost-U-Less stores by continuing to build a highly capable regional buying and store operations structure in the South Pacific and Caribbean and;
6. Ensuring that how we work at North West - what we refer to as our "Management System" -- is store and customer centered.

Following is an update on the *More Growth in Store* strategic initiatives for 2013:

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### Initiative #1

#### Improve perishable food performance gaps

This initiative is a comprehensive reworking of products, processes and technology required to improve the performance of categories that attract higher activity costs and require more complex execution. These include Produce, Meat, Chilled, Frozen Food and Food Service.

#### Result

The emphasis in 2013 was on Fresh Meat, Chilled and Tobacco categories. The key drivers continue to be more controlled assortments, updated plan-o-grams, centralized pricing, simplified ordering processes and tools, enhanced inventory and margin management tools and training certification programs.

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**Initiative #2****Ensure store teams stability**

Within such a remote, diverse store network, our local skill and presence is a core advantage. Through our assessment, we identified a need to solidify our store teams so that they stay together longer in specific locations, deepening customer and community relationships, and building their business. For this to happen consistently, we are revamping recruitment, retention and store work processes to ensure we attract and retain highly capable, thoroughly trained store personnel in key roles.

This initiative specifically addresses the opportunity to optimize overall store performance by ensuring that a highly capable store team is in place within each store location for an average time of at least three years.

**Result**

In 2013, six best practice stores were established in Canada to seek input and feedback as store structures and work practices were evaluated. The best practice stores were used to test better operating practices prior to full implementation. A workforce planning review was completed to determine where talent gaps exist, define recruitment needs and create development plans for existing managers. Recruitment continues to be a major focus to ensure that key role vacant days are minimized and that highly capable and fully trained employees are available. The number of stores with stable key role staffing in both northern Canada and Alaska met our objective for the year.

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**Initiative #3****Be “priced right”**

Better price management is a strategic opportunity at North West, especially in our more remote banners. Market-based pricing is more difficult due to limited local shopping options in many of these locations, and this requires a deeper, more sophisticated understanding of true costs and purchase volumes relative to price.

**Result**

In 2013, we continued to invest savings generated through supply chain efficiencies that further reduced our cost of business, helping our customers realize even more value for their dollar and attract more local shopping.

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**Initiative #4****Build our supply chain advantage**

North West is a major shipper of merchandise and other freight into the remote markets that we serve. This creates an opportunity to work more collaboratively with our transportation partners to fully leverage our knowledge and forecasted volumes. The outcomes we expect from this strategy are improved product visibility and delivery service within a more productive and lower cost integrated logistics network.

**Result**

In 2013, we continued the development of the transportation management system (TMS) platform including a customized application to be used to track and trace cases and pallets moving through our supply chain. The deployment of the TMS solution is six months behind schedule as the complexity of our supply chain posed unique challenges. Once fully deployed in 2014 the TMS solution will provide all the functionality originally planned; including load planning, case/pallet tracking, and carrier management which includes freight settlement and inbound freight management. Outbound freight savings were achieved through improved freight rates as contracts with carriers were negotiated and new arrangements were entered into.

We expect to have all phases of the project fully deployed in 2014 and estimate that, within 24 months following the roll-out, we will be able to further reduce our annual supply chain costs by approximately \$5 million. The net savings from the TMS will be strategically reinvested to continue to bring greater value to our customers.

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**Initiative #5****Cascade our leadership principles into practices**

We consider our leadership principles to be the foundation for great, sustainable performance across all levels at North West. From our cashiers to our buyers and store managers, we recognize that effective management practices reflect these principles and align our work.

**Result**

In 2013, we continued working on cascading our management system practices throughout the organization with a particular emphasis on our store operations and procurement and marketing. A key component of this work is driving efficiencies and a customer centric focus through all of our store operations and merchandise buying processes. A comprehensive employee engagement survey has also been developed to measure the effectiveness of the management system practices, specifically applied to effective store support across the organization.

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## KEY PERFORMANCE DRIVERS AND CAPABILITIES REQUIRED TO DELIVER RESULTS

**The ability to protect and enhance the performance of northern store locations:** Our stores in Alaska and northern Canada represent the highest potential for improved productivity and customer satisfaction. We believe that the shift in our culture and capability towards efficiency, innovation and operational excellence within our new LRP strategies is working and is the best path to achieve these goals.

**The financial capability to sustain the competitiveness of our existing store base and to pursue growth:** Our sustaining investments include replacement and renovated stores, staff housing, energy-efficiency and technology. Non-capital expenditures are centered on improvements to our in-store capabilities through more in-depth training programs and the on-going investment in our LRP work.

**The ability to be a leading community store in every market we serve:** This depends on our ability to tailor our store formats, product/service mix, community support and store associate employment offer, while still realizing the scale efficiencies of our size or the size of our alliance partners. A broad range of products, services and store sizes, combined with flexible technology platforms and “best practice” work processes, are all required to give us the ability to achieve this goal.

**The ability to successfully add new stores and renew existing store leases:** Our new store opening success depends on finding viable locations, communities that are interested in having our store services, willing sellers of independent stores or chains, and being able to integrate and accelerate their full contribution potential. Renewing store leases, especially when the landlord is a community development entity, depends on our track record of solid store operations, our positive community relations and the superior attractiveness of our retail store compared to other options. Other factors include achieving product sourcing, operating and transportation cost savings, while building strong, entrepreneurial store teams.

**Our ability to build and maintain supportive community relations:** Our ongoing community presence depends on our ability to be a trusted, open, respectful and adaptable organization. Our approach is to reflect community priorities first and invest in local causes with community development and healthy living being two examples. We facilitate regular meetings with community and regional leadership to build constructive relationships and to ensure that information and ideas are shared on a proactive basis.

**Our ability to attract, retain and develop highly capable store level employees and work practices:** Enhancing store stability and capability is an on-going priority that aligns with our goal of being a trusted local store. We continually invest in recruiting, retention and best practice work methods. This recognizes the important role played by our managers and other key store-level personnel in realizing local selling opportunities, meeting our customer service commitments and building and maintaining positive community relationships. It also recognizes the reality that remoteness, employment competition from other local sectors and other conditions in our markets create challenges in attracting and retaining people. Related to this is our on-going interest in hiring locally and assisting people to reach their potential.

**Our ability to reduce costs across all of our store banners, improve competitiveness and create more time and skill at store level to sell merchandise:** A key goal is to shift more staff time and skill towards selling merchandise tailored to the unique markets we serve, while reducing costs in the non-selling facets of store work. Productivity opportunities include labour scheduling, energy usage and inventory shrinkage. We have developed alliances with other non-competing retailers to provide sales and distribution services for certain products and services where we do not have the scale to achieve a lower cost structure on our own. Our new store banners and recent acquisitions have further enabled us to achieve cost efficiencies in direct importing, freight consolidation and general administration expenses while enabling us to share our specialized retail knowledge and ideas among our retail, wholesale and support service groups.

## CONVERSION TO A SHARE CORPORATION

On January 1, 2011, the North West Company Fund (the “Fund”) completed its previously announced conversion to a corporation named The North West Company Inc. (the “Company”) by way of a plan of arrangement under section 192 of the Canada Business Corporations Act. The details of the conversion and the Arrangement are contained in the management information circular dated April 29, 2010 which is available on the Company’s website at [www.northwest.ca](http://www.northwest.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com).

The conversion was accounted for as a continuity of interests and as such the carrying amounts of the assets, liabilities and unitholders’ equity in the consolidated financial statements of the Fund immediately before the conversion was the same as the carrying values of the Company immediately after the conversion. The comparative amounts in this MD&A and in the consolidated financial statements are those of the Fund restated to conform with IFRS. The MD&A and consolidated financial statements contain references to “shareholders”, “shares” and “dividends” which were previously referred to as “unitholders”, “units” and “distributions” under the Fund.

As a result of the conversion to a share corporation, the earnings from The North West Company LP that previously flowed to the Fund on a pre-tax basis are now subject to income taxes based on statutory federal and provincial income tax rates commencing January 1, 2011.

On November 21, 2011, income tax legislation was enacted to curtail income deferral by corporations with a partnership that has a different taxation year. The new legislation requires income from these partnerships to be reported on an accrual basis for tax purposes but also includes transitional provisions whereby income earned from the partnership during the initial adoption year can be deferred and recognized over a subsequent five-year period. As a result of these transition rules, a substantial portion of the income tax payable of the Canadian Operations for 2011 has been deferred and will be paid over the next five years. This deferred tax liability has been recorded as a reduction of deferred tax assets. Further information on deferred tax assets and deferred tax liabilities is provided in Note 9 to the consolidated financial statements.

## FISCAL YEAR

The fiscal year ends on January 31. The 2013 year which ended on January 31, 2014 had 365 days of operations. The 2012 year which ended January 31, 2013 had 366 days of operations as a result of February 29<sup>th</sup>. The first quarter of 2012 had 90 days of operations compared to 89 days of operations in the first quarter of 2011 and the first quarter of 2013. The estimated impact of the extra day has been deducted from 2012 same store sales.

# Consolidated Results

## 2013 Highlights

- Sales increased to \$1.543 billion, our 14<sup>th</sup> consecutive year of sales growth.
- Trading profit increased \$4.6 million or 3.5% to \$138.3 million.
- Net earnings increased 0.6% to \$64.3 million.
- Quarterly dividends to shareholders increased 7.7% to \$0.28 per share.
- Return on average equity was 21.0%, our eighth consecutive year greater than 20.0%.
- Total returns to shareholders were 15.1% for the year and were 16.2% on a compound annual basis over the past five years.

## FINANCIAL PERFORMANCE

Some of the key performance indicators used by management to assess results are summarized in the following table:

### Key Performance Indicators

(\$ in thousands, except per share)	2013	2012 <sup>(3)</sup>	2011 <sup>(3)</sup>
Sales	\$ 1,543,125	\$ 1,513,646	\$ 1,495,136
Same store sales % increase <sup>(1)</sup>	1.8%	0.5%	3.3%
Trading profit <sup>(2)</sup> (EBITDA)	\$ 138,336	\$ 133,717	\$ 125,881
EBIT <sup>(2)</sup>	\$ 100,060	\$ 96,568	\$ 89,309
Net earnings	\$ 64,263	\$ 63,888	\$ 57,961
Net earnings per share - basic	\$ 1.33	\$ 1.32	\$ 1.20
Net earnings per share - diluted	\$ 1.32	\$ 1.32	\$ 1.19
Cash dividends per share	\$ 1.12	\$ 1.04	\$ 1.05
Total assets	\$ 670,512	\$ 651,394	\$ 626,917
Total long-term liabilities	\$ 138,334	\$ 164,960	\$ 215,206
Return on net assets <sup>(2)</sup>	20.0%	20.6%	18.5%
Return on average equity <sup>(2)</sup>	21.0%	22.1%	20.1%

(1) All references to same store sales excludes the foreign exchange impact.

(2) See Non-GAAP Financial Measures section.

(3) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. 2011 and previous years have not been restated for these accounting standard changes. See Accounting Standards Implemented in 2013 section for further information.

**Consolidated Sales** Sales for the year ended January 31, 2014 ("2013") increased 1.9% to \$1.543 billion compared to \$1.514 billion for the year ended January 31, 2013 ("2012"), and were up 3.2% compared to \$1.495 billion for the year ended January 31, 2012 ("2011"). The increase in sales in 2013 was driven by same store sales growth and new store sales in our International Operations which more than offset the impact of store closures in the Canadian Operations in the fourth quarter of 2012. The positive impact of foreign exchange on the translation of U.S. denominated sales in the International Operations was partially offset by the impact of one extra day of operations in 2012 as a result of February 29<sup>th</sup>. Excluding the foreign exchange impact, sales increased 0.6% from 2012 and were up 1.6% from 2011. On a same store basis, sales increased 1.8% compared to increases of 0.5% in 2012 and 3.3% in 2011.

Food sales increased 2.8% from 2012, and were up 1.3% excluding the foreign exchange impact led by same store sales growth in our Canadian and International Operations. Same store food sales increased 1.9% over last year with quarterly same store increases of 1.5%, 2.3%, 2.5% and 1.3% in the fourth quarter. Canadian food sales

decreased 1.2% due to the store closures and International food sales increased 5.7% excluding the foreign exchange impact due to same store sales growth and new store sales.

General merchandise sales decreased 1.3% compared to 2012 and were down 2.1% excluding the foreign exchange impact. Same store general merchandise sales increased by 1.4% for the year with a decrease of 2.5% in the first quarter and increases of 1.7%, 1.3% and 4.1% in the last three quarters of the year. Sales growth in apparel categories in southern markets and strong motor sports sales in northern markets were the leading factors contributing to this increase. Canadian general merchandise sales decreased 4.8% due to the store closures and International general merchandise sales increased 9.3% excluding the foreign exchange impact due to same store sales growth and new store sales.

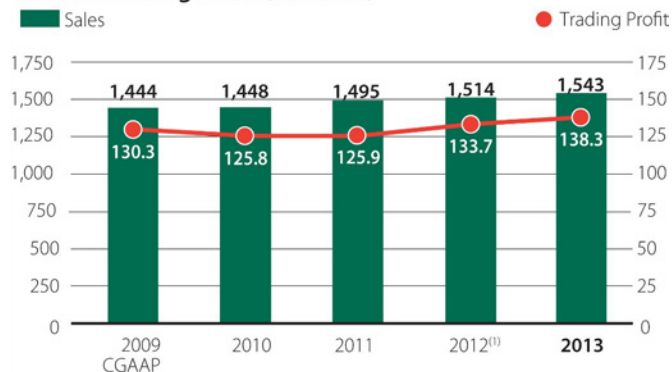
Other revenue, which includes fuel, fur, tele-pharmacy revenue and service charge revenue, increased 1.3% compared to 2012 and was up 8.9% compared to 2011 largely due to new tele-pharmacy contracts and higher fur sales.

**Sales Blend** The table below shows the consolidated sales blend over the past three years:

	2013	2012	2011
Food	77.4%	76.8%	76.4%
General merchandise	18.9%	19.5%	20.2%
Other	3.7%	3.7%	3.4%

Canadian Operations accounted for 66.3% of total sales (68.9% in 2012 and 68.8% in 2011) while International Operations contributed 33.7% (31.1% in 2012 and 31.2% in 2011).

### Sales & Trading Profit (\$ in millions)



(1) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. 2011 and previous years have not been restated for these accounting standard changes. See Accounting Standards Implemented in 2013 section for further information.

**Gross Profit** Gross profit increased 2.3% to \$455.1 million compared to \$444.7 million last year driven by sales growth and an 11 basis points improvement in the gross profit rate. The gross profit rate was 29.49% compared to 29.38% last year as general merchandise gross profit rate improvements in both Canadian and International Operations more than offset lower food gross profit rates in the International Operations. The general merchandise gross profit rate improvements were due to lower product costs, higher sales within trend categories and lower markdowns.

**Selling, operating and administrative expenses** Selling, operating and administrative expenses ("expenses") increased 2.0% to \$355.0 million but were flat as a percentage of sales compared to last year. The increase in expenses is largely due to new stores, due diligence and strategic planning costs and higher utility costs in remote markets. The

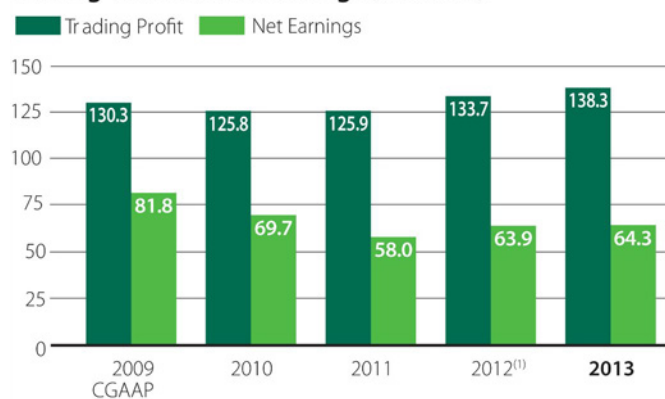
impact of foreign exchange on the translation of U.S. denominated expenses also contributed to the increase in expenses. These cost factors were partially offset by costs related to the store closures last year, a non-comparable insurance gain and lower incentive plan costs. The insurance-related gain is the result of a final settlement of claims on stores in the Canadian Operations destroyed by fire in 2011. A portion of the gain was recognized last year due to a partial settlement of the claim.

**Earnings from operations (EBIT)** Earnings from operations or earnings before interest and income taxes ("EBIT") increased 3.6% to \$100.1 million compared to \$96.6 million last year as sales growth and gross profit rate improvements more than offset higher selling, operating and administrative expenses. Excluding the foreign exchange impact, and the non-comparable items related to due diligence and strategic planning costs the insurance gains and the asset impairment charge resulting from the store closures last year, earnings from operations increased \$1.6 million or 1.7% compared to last year. Trading profit or earnings before interest, income taxes, depreciation and amortization ("EBITDA") of \$138.3 million increased 3.5% compared to last year. Excluding the foreign exchange impact and the non-comparable items, trading profit increased 1.9% and was 9.0% as a percentage of sales compared to 8.8% last year.

**Interest expense** Interest expense increased 11.5% to \$7.8 million compared to \$7.0 million last year. The increase in interest expense is largely due to higher average debt compared to last year and a decrease in the capitalization of interest on construction projects. Average debt levels increased 7.3% compared to last year but the average cost of borrowing was flat to last year at 3.7%. Further information on interest expense is provided in Note 18 to the consolidated financial statements.

**Income tax expense** The provision for income taxes increased 9.0% to \$28.0 million compared to \$25.7 million last year and the effective tax rate for the year was 30.4% compared to 28.7% last year reflecting an increase in earnings in the Canadian Operations and lower earnings in the International Operations. The increase in the effective tax rate is due to the variability of income earned across the various tax jurisdictions in the International Operations. A more detailed explanation of the income tax provision and deferred tax assets is provided in Note 9 to the consolidated financial statements.

### Trading Profit & Net Earnings (\$ in millions)



(1) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. 2011 and previous years have not been restated for these accounting standard changes. See Accounting Standards Implemented in 2013 section for further information.

**Net earnings** Consolidated net earnings increased 0.6% to \$64.3 million compared to \$63.9 million last year and diluted earnings per share of \$1.32 per share was flat to last year as earnings growth in the Canadian Operations was largely offset by lower earnings in the International Operations. Additional information on the financial performance of Canadian Operations and International Operations is included on page 11 and page 13 respectively. In 2013, the average exchange rate used to translate U.S. denominated sales and expenses from the International Operations increased to 1.0389 compared to 0.9976 last year and 0.9911 in 2011.

The Canadian dollar's depreciation versus the U.S. dollar compared to 2012 had the following net impact on the 2013 results:

Sales.....	increase of \$20.7 million or 1.3%
Earnings from operations.....	increase of \$0.7 million
Net earnings.....	increase of \$0.4 million
Diluted earnings per share.....	increase \$0.01 per share

The decrease in net earnings from 2009 and 2010 compared to the 2011 to 2013 performance as shown in the preceding graph is largely due to the conversion to a share corporation and the taxation of earnings in the Canadian Operations. Prior to the conversion to a share corporation on January 1, 2011, earnings from The North West Company LP flowed to North West Company Fund on a pre-tax basis and were fully distributed to unitholders. There was no income tax payable by the Fund on these distributions. See Conversion to a Share Corporation section for further information.

Although the Company was structured as an income trust for most of 2010, the application of different tax rates used to calculate deferred tax assets and liabilities for income trusts under IFRS compared to CGAAP resulted in an increase in the income tax provision from \$7.3 million under CGAAP to \$14.5 million under IFRS. This change in income tax expense was the primary reason for the decrease in 2010 net earnings reported under IFRS compared to 2009 net earnings reported under CGAAP.

**Total Assets** Consolidated assets increased 2.9% to \$670.5 million compared to \$651.4 million in 2012 and were up 7.0% compared to \$626.9 million in 2011. The increase in consolidated assets is largely due to the impact of foreign exchange as the year-end exchange rate used to translate the U.S. denominated assets in the International Operations increased to 1.1119 compared to 0.9992 last year and 1.0052 in 2011. In addition to the foreign exchange impact, higher inventories, property and equipment additions and an increase in deferred tax assets were the leading factors contributing to the increase in assets compared to last year and 2011. The increase in inventories is due in part to new stores and higher inventories in stores serviced by sealift and winter road in the Canadian Operations. The increase in property and equipment is due to investments in new stores, major store renovations, equipment replacements and staff housing renovations. Deferred tax assets have increased compared to last year and 2011 mainly due to an increase in tax assets related to property and equipment and a decrease in the tax liability related to the deferred limited partnership earnings. An increase in intangible assets primarily due to the development of a transportation management system also contributed to the increase in assets compared to 2011.

Consolidated working capital for the past three years is summarized in the following table:

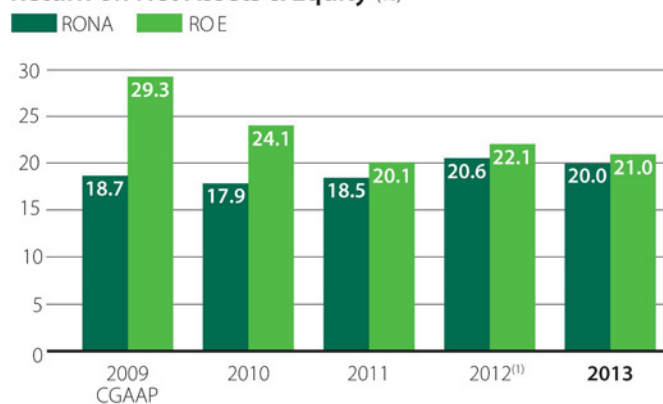
(\$ in thousands)	2013	2012	2011
Current assets	\$ 299,071	\$ 303,896	\$ 295,836
Current liabilities	\$ (209,738)	\$ (190,184)	\$ (128,002)
Working capital	\$ 89,333	\$ 113,712	\$ 167,834

Working capital decreased \$24.4 million or 21.4% to \$89.3 million compared to 2012 and \$78.5 million or 46.8% compared to 2011. The decrease in working capital is primarily due to an increase in current liabilities largely related to the current portion of long-term debt. The current portion of long-term debt increased \$37.4 million or 92.5% compared to 2012 and was \$77.8 million compared to \$0.6 million in 2011 as a result of the timing of the maturity of loan facilities. See Note 11 to the consolidated financial statements for further information on long-term debt. Income tax payable increased from \$5.0 million in 2011 to \$19.3 million in 2012 due to the conversion from an income trust to a share corporation on January 1, 2011 and the resulting taxation of Canadian earnings. The decrease in income tax payable from \$19.3 million in 2012 to \$2.9 million in 2013 is due to the payment of the 2012 accrued income taxes in 2013.

Return on net assets employed was 20.0% compared to 20.6% in 2012 and return on average equity was 21.0% compared to 22.1% in 2012. Return on net assets decreased as the 3.6% increase in earnings before interest and taxes was more than offset by higher average net assets employed. Additional information on net assets employed for the Canadian and International Operations is on page 12 and page 14 respectively.

Return on average equity decreased to 21.0% as the increase in net earnings of 0.6% was more than offset by a 6.0% increase in average equity compared to last year due in part to higher accumulated other comprehensive income. The decrease in the return on average equity from 2009 and 2010 compared to 2011 to 2013 as shown in the graph below is largely due to the conversion to a share corporation and the taxation of earnings in the Canadian Operations as previously noted. Further information on shareholders' equity is provided in the statements of changes in shareholders' equity in the consolidated financial statements.

### Return on Net Assets & Equity (%)



(1) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. 2011 and previous years have not been restated for these accounting standard changes. See Accounting Standards Implemented in 2013 section for further information.

**Total long-term liabilities** Consolidated long-term liabilities decreased \$26.6 million or 16.1% to \$138.3 million compared to 2012 and were down \$76.9 million or 35.7% from 2011. The decrease in long-term liabilities compared to 2012 and 2011 is primarily due to an increase in the current portion of long-term debt. Further information on long-term debt is included in the sources of liquidity and capital structure sections on page 16 and page 17 respectively and in Note 11 to the consolidated financial statements. A decrease in the defined benefit plan obligation as a result of a higher than expected return on pension plan assets and an increase in the discount rate was also a factor. Further information on post-employment benefits is provided in Note 12 to the consolidated financial statements.

## Canadian Operations

### FINANCIAL PERFORMANCE

Canadian Operations results for the year are summarized by the key performance indicators used by management as follows:

#### Key Performance Indicators

(\$ in thousands)	2013	2012 <sup>(2)</sup>	2011 <sup>(2)</sup>
Sales	\$ 1,022,985	\$ 1,043,050	\$ 1,028,396
Same store sales % increase	1.7%	1.0%	3.7%
Trading profit <sup>(1)</sup> (EBITDA)	\$ 111,225	\$ 106,510	\$ 97,998
Earnings from operations <sup>(1)</sup> (EBIT)	\$ 81,967	\$ 77,355	\$ 69,253
Return on net assets <sup>(1)</sup>	25.9%	24.9%	20.7%

(1) See Non-GAAP Financial Measures section.

(2) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. 2011 and previous years have not been restated for these accounting standard changes. See Accounting Standards Implemented in 2013 section for further information.

**Sales** Canadian Operations sales decreased \$20.1 million or 1.9% to \$1.023 billion compared to \$1.043 billion in 2012, and were down \$5.4 million or 0.5% compared to 2011 largely due to the the closure of two Northern stores and six Giant Tiger stores in the fourth quarter of 2012 and the impact of one extra day of operations as a result of February 29<sup>th</sup> last year. Same store sales increased 1.7% compared to a 1.0% increase in 2012 and 3.7% in 2011. Food sales accounted for 72.7% (72.2% in 2012) of total Canadian sales. The balance was made up of general merchandise sales at 22.3% (23.0% in 2012) and other sales, which consists primarily of fuel sales, fur, tele-pharmacy revenue and service charge revenue at 5.0% (4.8% in 2012).

Food sales decreased by 1.2% from 2012 but were up 0.7% compared to 2011. Same store food sales increased 1.9% compared to 2.0% in 2012. Same store food sales had quarterly increases of 1.4%, 2.5%, 2.5% and 1.2%. Food sales were up in most categories with perishable departments and food service, led by new Tim Hortons kiosks, contributing to sales growth. The Company continued to reinvest savings from supply chain efficiencies in lower prices on key products. This improved tonnage growth and market share but had a deflationary impact on sales. Food cost inflation was minimal compared to last year.

General merchandise sales decreased 4.8% from 2012 and 6.0% compared to 2011. Same store sales increased 0.9% compared to a 2.2% decrease in 2012. On a quarterly basis, same store sales decreased 3.6% in the first quarter followed by increases of 1.9%, 0.7%, and 3.5% in the last three quarters of the year. Strong apparel sales in our Giant Tiger stores along with growth in motor sports sales in remote markets were the leading factors contributing to the sales increase.

Other revenues, which include fuel, fur, tele-pharmacy revenue and service charge revenue, were up 0.5% from 2012 and increased 8.5% over 2011. The increase in other revenues is largely due to new tele-pharmacy contracts and strong fur sales.

**Sales Blend** The table below shows the sales blend for the Canadian Operations over the past three years:

	2013	2012	2011
Food	72.7%	72.2%	71.8%
General merchandise	22.3%	23.0%	23.6%
Other	5.0%	4.8%	4.6%



**Same Store Sales** Canadian Operations same store food sales are more stable because of the everyday customer needs they fulfill. Same store general merchandise sales have been more volatile because they are heavily weighted to big-ticket durable goods that depend upon customers' discretionary income. Same store sales for the past three years are shown in the following table:

#### Same Store Sales

(% change)	2013	2012	2011
Food	1.9%	2.0 %	3.8%
General merchandise	0.9%	(2.2)%	3.3%
Total sales	1.7%	1.0 %	3.7%

**Gross Profit** Gross profit dollars for Canadian Operations increased by 0.2% as an improvement in gross profit rates was largely offset by lower sales. The gross profit rate improvement was largely due to favourable product mix changes, improved perishable category profitability and lower markdowns in general merchandise categories.

**Selling, operating and administrative expenses** Selling, operating and administrative expenses ("expenses") decreased 1.7% from 2012 but were up 6 basis points as a percentage of sales compared to last year. The decrease in expenses is largely due to the impact of the store closures in the fourth quarter of 2012. Lower incentive plan costs, a non-comparable insurance-related gain and a decrease in debt loss expense were also factors. These factors were partially offset by due diligence and strategic planning costs and an increase in utility costs in remote markets.

**Earnings from operations (EBIT)** Earnings from operations increased \$4.6 million or 6.0% to \$82.0 million compared to \$77.4 million in 2012 as an improvement in gross profit rates and lower expenses more than offset the impact of lower sales. Excluding the non-comparable items related to due diligence and strategic planning costs the insurance gains and the asset impairment charge resulting from the store closures last year, earnings from operations increased 4.5% compared to last year. Trading profit from Canadian Operations increased \$4.7 million or 4.4% to \$111.2 million and was 10.9% as a percentage of sales compared to 10.2% in 2012. Excluding the impact of the non-comparable items, trading profit increased 3.4% and was 10.8% as a percentage of sales compared to 10.2% last year.

#### Canadian EBIT & Trading Profit Margins (% of sales)



(1) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. 2011 and previous years have not been restated for these accounting standard changes. See Accounting Standards Implemented in 2013 section for further information.

**Net Assets Employed** Net assets employed at January 31, 2014, increased 7.8% to \$314.8 million compared to \$291.9 million at January 31, 2013, as summarized in the following table:

(\$ in millions at the end of the fiscal year)	2013	2012	2011
Property and equipment	\$ 189.6	\$ 190.8	\$ 196.1
Inventory	130.6	124.2	131.3
Accounts receivable	59.1	60.0	66.6
Other assets	58.8	70.0	49.9
Liabilities	(123.3)	(153.1)	(128.4)
Net Assets Employed	\$ 314.8	\$ 291.9	\$ 315.5

Capital expenditures for the year included a new store, store replacements and major store renovation projects, staff housing improvements and energy-efficient refrigeration upgrades. The decrease in property and equipment in 2012 compared to 2011 is largely due to the store closures in 2012.

Inventory increased largely due to higher inventories in stores serviced by sealfit and winter road to take advantage of lower transportation costs. Expanded assortments in new and renovated stores were also a factor. Average inventory levels in 2013 were \$1.3 million or 1.0% higher than 2012, but \$2.8 million or 2.1% lower than 2011. The decrease compared to 2011 is due to store closures in 2012. Inventory turnover decreased slightly to 5.5 times compared to 5.7 times in 2012 but was equal to 2011.

Accounts receivable decreased \$0.9 million or 1.5% from 2012 and average accounts receivable were \$2.8 million or 4.6% lower than 2012. The decrease in accounts receivable is primarily due to a decrease in an insurance related accounts receivable resulting from stores destroyed by fire in 2011.

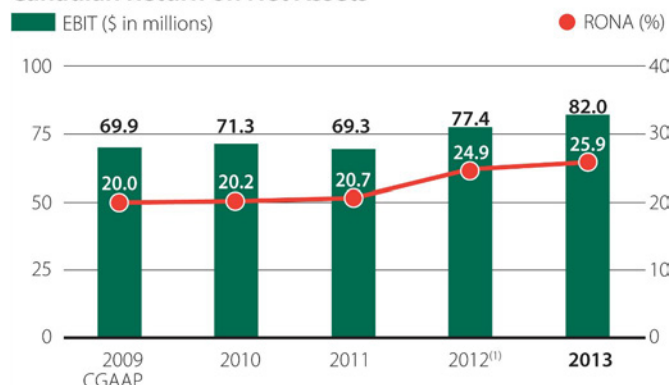
Other assets decreased \$11.2 million or 16.0% compared to last year but were up \$8.9 million or 17.8% compared to 2011. The decrease compared to 2012 is mainly due to a decrease in cash resulting from lower deposits in-transit at year-end and a decrease in intangible assets due to amortization partially offset by an increase in deferred tax assets. Deferred tax assets have increased compared to 2012 and 2011 mainly due to tax assets related to property and equipment and a decrease in deferred limited partnership earnings. Further information on deferred tax assets and deferred tax liabilities is provided in Note 9 to the consolidated financial statements. The increase in other assets compared to 2011 is also due to higher intangible assets related to the development of a transportation management system and an upgrade of the Company's financial management system in 2012.

Liabilities decreased \$29.8 million or 19.5% from 2012 and were down \$5.1 million or 4.0% compared to 2011 primarily due to a decrease in income tax payable and the defined benefit plan obligation. Income tax payable decreased \$15.8 million from 2012 due to the conversion from an income trust to a share corporation and the timing of income tax installment payments which resulted in the 2012 accrued income taxes being paid in 2013. Further information on the Conversion to a Share Corporation is provided on page 8. The defined benefit plan obligation decreased \$10.0 million to \$18.4 million compared to 2012 and decreased \$9.2 million compared to \$27.6 million in 2011 largely due to higher returns on plan assets and an increase in the discount rate used to calculate pension liabilities. Further information on post-employment benefits is provided in Note 12 to the consolidated financial statements. A decrease in trade accounts payable related to the timing of payments and lower incentive plan accruals compared to 2012 was also a factor.



**Return on Net Assets** The return on net assets employed for Canadian Operations improved to 25.9% from 24.9% in 2012 due to a 6.0% increase in EBIT partially offset by an increase in average net assets compared to last year as noted in the Net Assets Employed table.

### Canadian Return on Net Assets



(1) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. 2011 and previous years have not been restated for these accounting standard changes. See Accounting Standards Implemented in 2013 section for further information.

## International Operations

(Stated in U.S. dollars)

International Operations include Alaska Commercial Company ("AC"), Cost-U-Less ("CUL") and Pacific Alaska Wholesale ("PAW").

### FINANCIAL PERFORMANCE

International Operations results for the year are summarized by the key performance indicators used by management as follows:

#### Key Performance Indicators

(\$ in thousands)	2013	2012	2011
Sales	\$ 500,665	\$471,728	\$ 470,932
Same store sales % increase (decrease)	2.1%	(0.6)%	2.3%
Trading profit <sup>(1)</sup> (EBITDA)	\$ 26,192	\$ 27,273	\$ 28,133
Earnings from operations <sup>(1)</sup> (EBIT)	\$ 17,416	\$ 19,259	\$ 20,236
Return on net assets <sup>(1)</sup>	9.9%	12.1 %	13.6%

(1) See Non-GAAP Financial Measures section.

**Sales** International sales increased 6.1% to \$500.7 million compared to \$471.7 million in 2012, and were up 6.3% compared to 2011 driven by new store sales and same store sales growth in both AC and CUL stores. Same store sales increased 2.1% compared to a 0.6% decrease in 2012 and a 2.3% increase in 2011. Food sales accounted for 86.7% (87.1% in 2012) of total sales with the balance comprised of general merchandise at 12.2% (11.8% in 2012) and other sales, which consist primarily of fuel sales and service charge revenues, at 1.1% (1.1% in 2012).

Food sales increased 5.7% from 2012 and were up 6.8% compared to 2011. Same store food sales were up 1.9% compared to a 0.3% increase in 2012. Quarterly same store food sales increases were 1.6%, 2.0%, 2.3% and 1.5%.

General merchandise sales increased 9.3% from 2012 and were up 2.7% from 2011. On a same store basis, general merchandise sales were up 3.5% compared to a decrease of 6.8% in 2012. Quarterly same store general merchandise sales were up 2.3%, 0.9%, 3.6% and 6.7% compared to a 12.6% decrease in the fourth quarter last year.

New merchandise assortments, a strong in-stock position and better execution of promotional selling activities were leading factors contributing to the same store sales growth. In general merchandise, apparel sales in CUL stores and transportation sales in AC stores were the main driver for the sales increase. In Alaska, general merchandise also benefited from an increase in the Permanent Fund Dividend ("PFD"), regional native corporation dividends and a healthier commercial and sport fishing industry.

Other revenues, which consist of fuel and service charge revenue, were up 4.3% from 2012 and were up 7.7% from 2011 primarily due to fuel inflation.

**Sales Blend** The table below reflects the importance of food sales to the total sales of International Operations:

	2013	2012	2011
Food	86.7%	87.1%	86.3%
General merchandise	12.2%	11.8%	12.6%
Other	1.1%	1.1%	1.1%

**Same store sales** International Operations same store sales for the past three years are shown in the following table. General merchandise same store sales are significantly impacted by consumer spending on big-ticket durable goods that are largely influenced by the previously mentioned special payments, such as Permanent Fund and regional native corporation dividends, which can result in greater sales volatility.

#### Same store sales

(% change)	2013	2012	2011
Food	1.9%	0.3 %	2.9 %
General merchandise	3.5%	(6.8)%	(1.8)%
Total sales	2.1%	(0.6)%	2.3 %

**Gross Profit** Gross profit dollars increased 3.6% as sales growth more than offset a 63 basis point decrease in gross profit rate. The decrease in gross profit rate was largely due to lower rates in food resulting from the impact of new stores partially offset by lower markdowns in general merchandise.

**Selling, operating and administrative** Selling, operating and administrative expenses ("expenses") increased 6.0% over last year but were down 2 basis points as a percentage of sales. The increase in expenses is primarily due to new stores and higher utility costs partially offset by lower employee medical insurance costs arising from favourable claims experience.

**Earnings from operations (EBIT)** Earnings from operations decreased 9.6% to \$17.4 million compared to 2012 due to lower gross profit rates and higher expenses largely related to the new CUL store in Barbados. Trading profit decreased \$1.1 million or 4.0% to \$26.2 million and was 5.2% as a percentage of sales compared to 5.8% in 2012.

## International EBIT & Trading Profit Margins (% of sales)



**Net Assets Employed** International Operations net assets employed increased \$3.5 million or 2.1% to \$171.3 million compared to \$167.8 million in 2012 and were up \$27.9 million or 19.5% from 2011 as summarized in the following table:

### Net Assets Employed

(\$ in millions at the end of the fiscal year)	2013	2012	2011
Property and equipment	\$ 87.5	\$ 83.3	\$ 73.9
Inventory	61.4	63.1	54.5
Accounts receivable	10.3	10.1	9.9
Other assets	49.7	50.2	43.7
Liabilities	(37.6)	(38.9)	(38.6)
<b>Total</b>	<b>\$ 171.3</b>	<b>\$ 167.8</b>	<b>\$ 143.4</b>

Property and equipment increased due to a new convenience store in Nome, Alaska, store renovations, investments in solar power and energy-efficient refrigeration upgrades and the completion of construction of the new Cost-U-Less store in Barbados that opened on February 23, 2013.

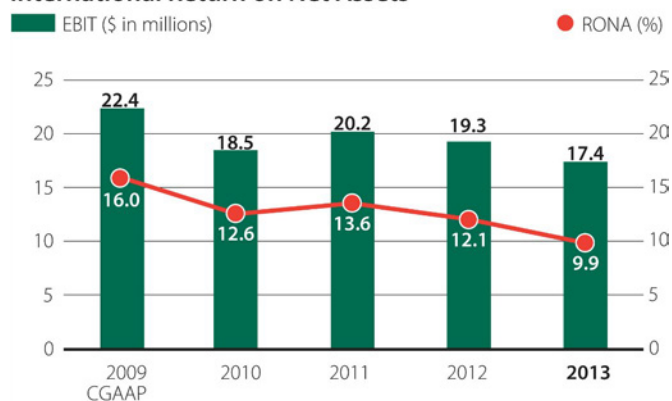
Inventories decreased 2.7% compared to last year but were up \$6.9 million or 12.7% from 2011 largely due to new stores. Average inventory levels in 2013 were \$5.4 million or 9.1% higher than 2012 and up \$8.1 million or 14.3% compared to 2011 mainly due to new stores. Inventory turnover was similar to last year at 5.8 times compared to 5.9 times in 2012.

Other assets decreased \$0.5 million or 1.0% compared to last year with lower cash balances and prepaid expenses at the end of the year slightly offset by an increase in deferred tax assets.

Liabilities decreased \$1.3 million compared to 2012 and decreased \$1.0 million compared to 2011 due to lower income tax payable and deferred income tax liabilities.

**Return on Net Assets** The return on net assets employed for International Operations decreased to 9.9% from 12.1% in 2012 due to lower EBIT and higher average net assets employed largely related to new stores as noted above.

## International Return on Net Assets



## Consolidated Liquidity and Capital Resources

The following table summarizes the major components of cash flow:

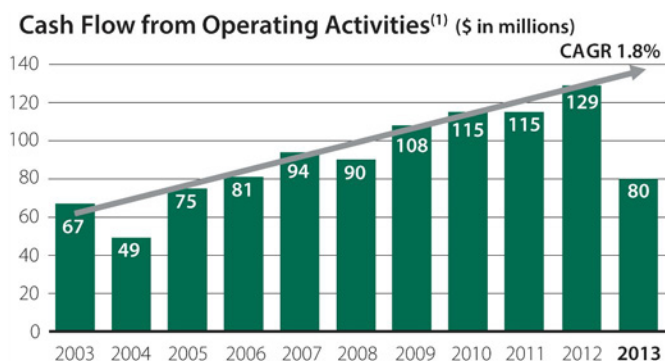
(\$ in thousands)	2013	2012	2011
Cash provided by (used in):			
Operating activities before taxes paid	\$ 132,031	\$ 144,475	\$ 121,664
Taxes paid	(51,995)	(15,483)	(6,195)
<b>Operating activities</b>	<b>80,036</b>	<b>128,992</b>	<b>115,469</b>
Investing activities	(42,386)	(48,781)	(45,948)
Financing activities	(53,972)	(68,520)	(73,768)
<b>Net change in cash</b>	<b>\$ (16,322)</b>	<b>\$ 11,691</b>	<b>\$ (4,247)</b>

**Cash from operating activities** Cash flow from operating activities decreased 38.0% to \$80.0 million. The change in cash flow from operating activities is primarily due to an increase in income tax paid in the year. Excluding the impact of income tax installments, cash flow from operating activities decreased by 8.6% to \$132.0 million. Changes in non-cash working capital negatively impacted cash flow from operating activities by \$10.4 million compared to an increase in cash flow of \$10.8 million in 2012 and a decrease in cash flow of \$3.0 million in 2011. The change in non-cash working capital is mainly due to the change in accounts payable, accounts receivable and inventories compared to the prior year as noted in the Canadian and International net assets employed on pages 12 and 14 respectively.

The Company paid income taxes of \$52.0 million compared to \$15.5 million in 2012 and \$6.2 million in 2011. Following the conversion to a share corporation on January 1, 2011 and the deferral of the payment of Canadian income taxes in the transition year in accordance with income tax legislation enacted November 21, 2011, the Company began paying Canadian income tax installments in 2012. The remaining balance of the accrued Canadian income taxes for 2012 of approximately \$19 million was paid in the first quarter of 2013 in addition to making the required Canadian monthly installments for income taxes related to the 2013 tax year. Further information on the Conversion to a Share Corporation is provided on page 8.

Cash flow from operating activities and unutilized credit 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 2014.

The compound annual growth rate ("CAGR") for cash flow from operating activities over the past 10 years is 1.8% as shown in the following graph:



(1) 2011, 2012, and 2013 are reported in accordance with IFRS. 2010 has been restated to IFRS. All other historical financial information was prepared in accordance with CGAAP and has not been restated to IFRS. In the 2010 fiscal year, North West Company Fund converted from an income trust to a share corporation effective January 1, 2011. See Conversion To A Share Corporation for further information.

As previously noted, the decrease in cash flow from operating activities in 2013 compared to 2012 is largely due to the payment of Canadian income taxes. Excluding the impact of taxes paid, cash flow from operating activities has increased 6.4% on a compound annual basis over the past 10 years.

**Cash used in investing activities** Net cash used in investing activities was \$42.4 million compared to \$48.8 million in 2012 and \$45.9 million in 2011. Net investing in Canadian Operations was \$28.0 million compared to \$31.7 million in 2012 and \$34.3 million in 2011. A summary of the Canadian Operations investing activities is included in net assets employed on page 12. Net investing in International Operations was \$14.4 million compared to \$17.1 million in 2012 and \$11.6 million in 2011. A summary of the International Operations investing activities is included in net assets employed on page 14.

The following table summarizes the number of stores and selling square footage under NWC's various retail banners at the end of the fiscal year:

	Number of Stores		Selling square footage	
	2013	2012	2013	2012
Northern	122	121	693,306	681,456
NorthMart	7	7	147,725	148,306
Quickstop	17	16	30,168	27,999
Giant Tiger	31	31	494,057	494,057
AC Value Centers	30	30	301,314	300,882
Cost-U-Less	13	12	369,281	336,138
Other Formats	6	6	45,716	45,716
Total at year-end	226	223	2,081,567	2,034,554

In the Canadian Operations, a new Northern store was opened in York Landing, Manitoba. Total selling square feet in Canada increased to 1,385,683 from 1,374,647 in 2012.

In the International Operations, a new Cost-U-Less store was opened in Barbados and a new convenience store was opened in Nome, Alaska. International selling square feet increased to 695,884 from 659,907 in 2012.

**Cash used in financing activities** Cash used in financing activities was \$54.0 million compared to \$68.5 million in 2012 and \$73.8 million in 2011. The decrease is primarily related to a change in amounts drawn on the loan facilities. Further information on the loan facilities is provided in the Sources of Liquidity section below.

**Shareholder Dividends / Unitholder Distributions** The Company paid dividends of \$54.2 million or \$1.12 per share, an increase of 7.7% compared to \$50.3 million or \$1.04 per share paid in 2012. In 2011, the Company paid \$50.8 million or \$1.05 per share, which includes the final special distribution under the income trust structure. A special distribution of \$0.09 per unit was paid February 18, 2011 to unitholders of record on December 31, 2010. The Fund's obligation to pay the \$0.09 per unit special distribution was assumed by the Company as part of the conversion to a share corporation (see Conversion to a Share Corporation on page 8). Further information on dividends is included in Note 19 to the consolidated financial statements.

The following table shows the quarterly cash dividends per share paid for the past three years:

	Dividends 2013	Dividends 2012	Dividends 2011
First Quarter	\$ 0.28	\$ 0.26	\$ 0.24
Second Quarter	0.28	0.26	0.24
Third Quarter	0.28	0.26	0.24
Fourth Quarter	0.28	0.26	0.24
Special distribution	—	—	0.09
Total	\$ 1.12	\$ 1.04	\$ 1.05

The payment of dividends on the Company's common shares is 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 were designated as eligible dividends in accordance with the provisions of the Canadian Income Tax Act.

The following table shows dividends and distributions paid in comparison to cash flow from operating activities for the past three years:

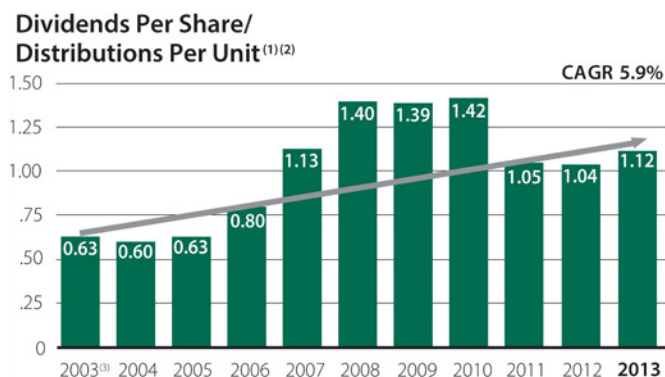
	2013	2012	2011 <sup>(1)</sup>
Dividends	\$ 54,229	\$ 50,320	\$ 50,797
Cash flow from operating activities	\$ 80,036	\$ 128,992	\$ 115,469
Taxes paid	51,995	15,483	6,195
Operating activities before taxes paid	\$ 132,031	\$ 144,475	\$ 121,664
Dividends as a % of cash flow from operating activities	67.8%	39.0%	44.0%
Dividends as a % of cash flow from operating activities before taxes paid	41.1%	34.8%	41.8%

(1) In 2011, the \$50,797 included dividends of \$46,443 and the final special distribution under the income trust structure of \$4,354.

The increase in dividends as a percentage of cash flow from operating activities to 67.8% compared to 2012 is largely due to the conversion to a share corporation and the timing of payment of Canadian income tax installments. Further information on income tax installments is

provided under cash from operating activities on page 14. Excluding the impact of income tax installments, dividends as a percentage of cash flow from operating activities before taxes paid was 41.1% in 2013 compared to 34.8% in 2012 and 41.8% in 2011.

The compound annual growth rate (CAGR) for dividends and distributions over the past 10 years is 5.9% as shown in the following graph:



(1) All per unit information has been restated to reflect the three-for-one unit split that occurred on September 20, 2006.

(2) From 2002 to 2010, amounts paid to unitholders were distributions from the Fund. The Fund converted to a share corporation effective January 1, 2011. The \$1.05 paid to shareholders in 2011 includes a \$0.09 per unit final distribution from the Fund paid by the Company as part of the conversion to a share corporation plus dividends of \$0.96 per share.

(3) The Fund paid a special distribution of \$0.11 per unit on a split adjusted basis.

The lower dividends paid in 2011 to 2013 compared to the distributions paid in 2010 is due to the conversion to a share corporation and the taxation of earnings of the Canadian Operations. Prior to the conversion to a share corporation, earnings from The North West Company LP flowed to the Fund on a pre-tax basis and were distributed to unitholders. While higher corporate taxes have reduced the Company's net earnings and cash available for dividends to shareholders, the after-tax impact on personal income is largely offset for taxable Canadian investors due to the dividend tax credit.

**Subsequent event - dividends** On March 12, 2014, the Board of Directors approved a quarterly dividend of \$0.29 per share to shareholders of record on March 31, 2014, to be paid on April 15, 2014. This is an increase of \$0.01 per share or 3.6% compared to the \$0.28 per share quarterly dividend paid in 2013. On an annual basis, the Company anticipates paying dividends of approximately \$1.16 per share in 2014 compared to \$1.12 per share in 2013.

**Post-employment benefits** The Company sponsors defined benefit and defined contribution pension plans covering the majority of Canadian employees. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan, which incorporated legislated changes, administrative practice, and added a defined contribution provision. Under the amended pension plan, all members who did not meet a qualifying threshold based on number of years in the pension plan and age were transitioned to the defined contribution pension plan effective January 1, 2011 and no longer accumulate years of service under the defined benefit pension plan. The defined benefit pension previously earned by the members transitioned to the defined contribution plan will continue to accrue in accordance with the provisions of the amended plan based on the member's current pensionable earnings. Members who met the required qualifying threshold elected between continuing to accrue a defined benefit pension and accruing a defined contribution benefit.

As a result of an increase in long-term interest rates and a higher than expected return on pension plan assets, the Company recorded

net actuarial gains on defined benefit pension plans of \$7.8 million net of deferred income taxes in other comprehensive income compared to net actuarial losses on defined benefit pension plans of \$1.3 million net of deferred income taxes in other comprehensive income in 2012 and net actuarial losses of \$15.3 million net of deferred income taxes in 2011. These gains and losses in other comprehensive income were immediately recognized in retained earnings. The actuarial gain in 2013 was due to an increase in the discount rate used to calculate pension liabilities from 4.25% in 2012 to 4.50% in 2013 and higher than expected return on pension plan assets. The actuarial loss in 2012 was due to a decrease in the discount rate used to calculate pension liabilities from 4.50% in 2011 to 4.25% in 2012. The net actuarial loss in 2011 was due to a decrease in the discount rate from 5.75% in 2010 to 4.50% in 2011 and lower than expected return on pension plan assets. The return on plan assets and the increase in the discount rate were the primary reasons for the decrease in the defined benefit plan obligation to \$18.4 million compared to \$28.4 million in 2012.

In 2014, the Company will be required to contribute approximately \$3.3 million to the defined benefit pension plans of which approximately \$1.5 million of this obligation may be settled by the issuance of a letter of credit in accordance with pension legislation. The cash contribution to the pension plan is expected to be approximately \$1.8 million in 2014 compared to \$3.8 million in 2013 and \$5.6 million in 2012. The actual amount of the contributions may be different from the estimate based on actuarial valuations, plan investment performance, volatility in discount rates, regulatory requirements and other factors. The Company also expects to contribute approximately \$2.8 million to the defined contribution pension plan and U.S. employees savings plan in 2014 compared to \$2.7 million in 2013 and \$2.4 million in 2012. Additional information regarding post-employment benefits is provided in Note 12 to the consolidated financial statements.

**Sources of liquidity** The Canadian Operations have available committed, extendible, revolving loan facilities of \$200.0 million that mature on December 31, 2018. 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 in International Operations. These loan facilities bear a floating interest rate based on Banker's Acceptances' rates plus stamping fees or the Canadian prime interest rate. At January 31, 2014, the Company had drawn \$63.6 million on these facilities (January 31, 2013 - \$52.5 million).

At January 31, 2014, the Canadian Operations have outstanding US\$70.0 million senior notes (January 31, 2013 - US\$70.0 million) that mature on June 15, 2014. The senior notes are secured by a floating charge on the assets of the Company and rank *pari passu* with the \$200.0 million Canadian Operations loan facilities and the US\$52.0 million loan facilities. The US\$70.0 million senior notes have been designated as a hedge against the U.S. dollar investment in the International Operations. Of this amount, US\$42.0 million of the senior notes are at a fixed interest rate of 6.55%. Interest on US\$28.0 million has been converted by an interest rate swap from fixed to floating rates at the three-month London Interbank Offered Rate (LIBOR) plus a spread. For more information on the senior notes and financial instruments, see Note 11 and Note 14 to the consolidated financial statements.

The International Operations have available a committed, revolving loan facility of US\$30 million 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 January 31, 2014, the International Operations had drawn US\$1.2 million on these facilities (January 31, 2013 - US\$0.7 million).

The Company's International Operations also have available committed, revolving loan facilities of US\$52.0 million that mature on December 31, 2018. 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 \$200.0 million loan facilities. These facilities bear interest at LIBOR plus a spread or the U.S. prime rate. At January 31, 2014, the Company had drawn US\$36.0 million (January 31, 2013 - US\$40.0 million) on these facilities.

The Company has begun the process of refinancing the US\$70 million senior notes and does not anticipate any difficulty in completing the refinancing however, economic conditions can change which may negatively impact the availability of credit, interest rates and the scope of financing covenants. For further information on risks related to refinancing, see liquidity risk in the risk management section on page 23.

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 January 31, 2014, the Company is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

### Interest Costs and Coverage

	2013	2012	2011
Coverage ratio	12.8	13.8	14.9
EBIT (\$ in millions)	\$ 100.1	\$ 96.6	\$ 89.3
Interest (\$ in millions)	\$ 7.8	\$ 7.0	\$ 6.0

The coverage ratio of earnings from operations ("EBIT") to interest expense has decreased to 12.8 times compared to 13.8 times in 2012 and 14.9 times in 2011. The increase in interest expense in 2013 and 2012 compared to 2011 is largely due to the implementation of the revised IAS 19r, Employee Benefits accounting standard which resulted in a change in the calculation of net interest on defined benefit plan obligations. The implementation of this standard required the restatement of certain 2012 comparative numbers including EBIT and interest. Further information on the impact of this change in accounting standard is provided in the Accounting Standards Implemented in 2013 section of this report or in Note 3 to the Company's consolidated financial statements. Additional information on interest expense is provided in Note 18 to the consolidated financial statements.

### Contractual Obligations and Other Commitments

Contractual obligations of the Company are listed in the chart below:

(\$ in thousands)	Total	0-1 Year	2-3 Years	4-5 Years	6 Years+
Long-term debt (including capital lease obligations)	\$182,862	\$ 77,800	\$ 1,427	\$103,635	\$ —
Operating leases	150,268	25,264	39,677	29,179	56,148
Other liabilities <sup>(1)</sup>	14,281	7,688	6,593	—	—
<b>Total</b>	<b>\$347,411</b>	<b>\$110,752</b>	<b>\$47,697</b>	<b>\$132,814</b>	<b>\$56,148</b>

(1) At year-end, the Company had additional long-term liabilities of \$24.9 million which included other liabilities, defined benefit plan obligations and deferred income tax liabilities. These have not been included as the timing and amount of the future payments are uncertain.

**Director and Officer Indemnification Agreements** The Company has agreements with its current and former directors, trustees, and officers to indemnify them against charges, costs, expenses, amounts paid in settlement and damages incurred from any lawsuit or any judicial, administrative or investigative proceeding in which they are sued as a result of their service. Due to the nature of these agreements, the Company cannot make a reasonable estimate of the maximum amount it could be required to pay to counterparties. The Company has also purchased directors', trustees' and officers' liability insurance. No amount has been recorded in the financial statements regarding these indemnification agreements.

**Other Indemnification Agreements** The Company provides indemnification agreements to counterparties for events such as intellectual property right infringement, loss or damage to property, claims that may arise while providing services, violation of laws or regulations, or as a result of litigation that might be suffered by the counterparties. The terms and nature of these agreements are based on the specific contract. The Company cannot make a reasonable estimate of the maximum amount it could be required to pay to counterparties. No amount has been recorded in the financial statements regarding these agreements.

**Giant Tiger Master Franchise Agreement** In 2002, the Company signed a 30-year Master Franchise Agreement with Giant Tiger Stores Limited, based in Ottawa, Ontario which granted the Company the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, Giant Tiger Stores Limited provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing food buying and distribution services to the stores. As a result of the closure of six stores during 2012, the Company has fallen below the minimum number of stores required to maintain its 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 or open new stores. Additional information on commitments, contingencies and guarantees is provided in Note 22 to the consolidated financial statements.

**Related Parties** The Company has a 50% ownership interest in a Canadian Arctic shipping company, Transport Nanuk Inc. and purchases freight handling and shipping services from Transport Nanuk Inc. and its subsidiaries. The purchases are based on market rates for these types of services in an arm's length transaction. Additional information on the Company's transactions with Transport Nanuk Inc. is included in Note 23 to the consolidated financial statements.

**Letters of Credit** In the normal course of business, the Company issues standby letters of credit in connection with defined benefit pension plans, purchase orders and performance guarantees. The aggregate potential liability related to letters of credit is approximately \$15 million (January 31, 2013 - \$14 million).

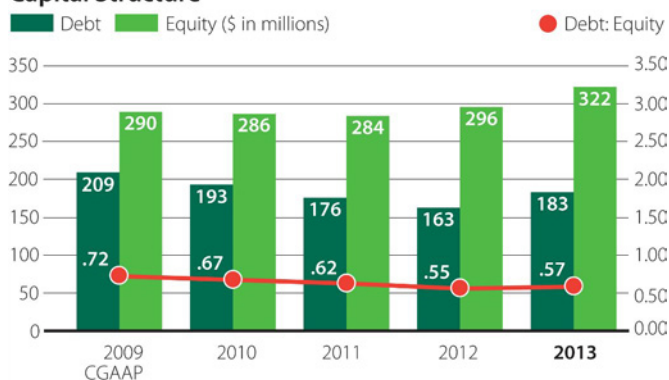
**Capital Structure** The Company's capital management objectives are to deploy capital to provide an appropriate total return to shareholders while maintaining a capital structure that provides the flexibility to take advantage of growth opportunities, maintain existing assets, meet obligations and financial covenants and enhance shareholder value. The capital structure of the Company consists of bank advances, long-term debt and shareholders' equity. The Company manages capital to optimize efficiency through an appropriate balance of debt and equity. In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation



pursuant to normal course issuer bids, issue additional shares, borrow additional funds, adjust the amount of dividends paid or refinance debt at different terms and conditions.

On a consolidated basis, the Company had \$182.9 million in debt and \$322.4 million in equity at the end of the year and a debt-to-equity ratio of 0.57:1 compared to 0.55:1 last year.

### Capital Structure



The capacity of the Company's capital structure is reflected in the preceding graph. Over the past five years, the Company's debt-to-equity ratio has improved from .72:1 to .57:1. Equity has increased \$32.5 million or 11.2% to \$322.4 million over the past five years and interest-bearing debt has decreased \$26.3 million or 12.6% to \$182.9 million compared to \$209.2 million in 2009. During this same time frame, the Company has made capital expenditures, including acquisitions, of \$238.5 million and has paid distributions and dividends of \$291.3 million. This reflects the Company's balanced approach of investing to sustain and grow the business while providing shareholders with an annual cash return.

Consolidated debt at the end of the year increased \$19.5 million or 11.9% to \$182.9 million compared to \$163.4 million in 2012, and was up \$7.0 million or 4.0% from \$175.9 million in 2011. As summarized in the table below, the increase in debt is due to higher amounts drawn on the Canadian Operations loan facilities and the impact of foreign exchange on the translation of U.S. denominated debt. The Company has US\$107.4 million in debt at January 31, 2014 (January 31, 2013 - US \$111.3 million) that is exposed to changes in foreign exchange rates when translated into Canadian dollars. The exchange rate used to translate U.S. denominated debt into Canadian dollars at January 31, 2014 was 1.1119 compared to 0.9992 at January 31, 2013 and 1.0052 at January 31, 2012. The change in the foreign exchange rate resulted in a \$12.1 million increase in debt compared to 2012 and an \$11.5 million increase compared to 2011. Average debt outstanding during the year excluding the foreign exchange impact increased \$12.0 million or 6.6% from 2012 and was down \$1.6 million or 0.8% compared to 2011. The debt outstanding at the end of the fiscal year is summarized as follows:

(\$ in thousands at the end of the fiscal year)	2013	2012	2011
Senior notes	\$ 77,576	\$ 69,461	\$ 69,626
Canadian revolving loan facilities	63,607	52,499	68,850
U.S. revolving loan facilities	41,330	40,686	36,187
Notes payable	210	388	659
Finance lease liabilities	139	320	570
<b>Total</b>	<b>\$ 182,862</b>	<b>\$ 163,354</b>	<b>\$ 175,892</b>

**Shareholder Equity** The Company has an unlimited number of authorized shares and had issued and outstanding shares at January 31, 2014 of 48,425,787 (48,388,721 as at January 31, 2013). The Company has a Share Option Plan that provides for the granting of options to certain officers and senior management. Each option is exercisable into one common share of the Company at a price specified in the option agreement. As at January 31, 2014, there were 1,423,074 options outstanding representing approximately 2.9% of the issued and outstanding shares. Further information on share options is provided in Note 13 and additional information on the Company's share capital is provided in Note 15 to the consolidated financial statements.

Book value per share, on a diluted basis, at the end of the year increased to \$6.63 compared to \$6.10 per share in 2012. Shareholders' equity increased \$26.2 million or 8.8% compared to 2012 due to higher net earnings, a \$7.8 million increase to retained earnings for net actuarial gains on the Company's defined benefit pension plan, a \$7.9 million increase for exchange differences on translation of foreign controlled subsidiaries partially offset by an increase in dividends to shareholders. Further information is provided in the statements of changes in shareholders' equity in the consolidated financial statements.

### QUARTERLY FINANCIAL INFORMATION

Historically, the Company's first quarter sales are the lowest and fourth quarter sales are the highest, reflecting consumer buying patterns. 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 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.

The following is a summary of selected quarterly financial information:

(\$ thousands)	Q1	Q2	Q3	Q4	Total
<b>Sales</b>					
2013	\$364,474	\$388,610	\$387,173	\$402,868	\$1,543,125
2012	\$365,517	\$383,843	\$377,664	\$386,622	\$1,513,646
<b>Trading profit (EBITDA)</b>					
2013	\$ 30,009	\$ 37,412	\$ 36,543	\$ 34,372	\$ 138,336
2012	\$ 29,746	\$ 36,435	\$ 35,611	\$ 31,925	\$ 133,717
<b>Earnings from operations (EBIT)</b>					
2013	\$ 20,544	\$ 28,023	\$ 26,876	\$ 24,617	\$ 100,060
2012	\$ 20,433	\$ 27,224	\$ 26,228	\$ 22,683	\$ 96,568
<b>Net earnings</b>					
2013	\$ 12,910	\$ 18,111	\$ 17,387	\$ 15,855	\$ 64,263
2012	\$ 13,238	\$ 17,962	\$ 17,172	\$ 15,516	\$ 63,888
<b>Earnings per share-basic</b>					
2013	\$ 0.27	\$ 0.37	\$ 0.36	\$ 0.33	\$ 1.33
2012	\$ 0.27	\$ 0.37	\$ 0.36	\$ 0.32	\$ 1.32
<b>Earnings per share-diluted</b>					
2013	\$ 0.27	\$ 0.37	\$ 0.36	\$ 0.32	\$ 1.32
2012	\$ 0.27	\$ 0.37	\$ 0.36	\$ 0.32	\$ 1.32



**Fourth Quarter Highlights** Fourth quarter consolidated sales increased 4.2% to \$402.9 million compared to \$386.6 million in the fourth quarter last year. Same store sales growth in food and general merchandise and new store sales in our International Operations more than offset the sales impact of the store closures in the Canadian Operations in the fourth quarter of 2012. Excluding the foreign exchange impact, sales increased 1.7% and were up 1.9%<sup>(1)</sup> on a same store basis. Food sales<sup>(1)</sup> increased 1.8% and were up 1.3% on a same store basis and general merchandise sales<sup>(1)</sup> increased 1.5% and were up 4.1% on a same store basis.

Gross profit dollars increased 4.7% due to sales growth and a 15 basis point increase in gross profit rate on a consolidated basis. The gross profit rate improvement was largely due to lower markdowns in general merchandise resulting from better balanced seasonal assortments.

Selling, operating and administrative expenses increased 3.8% compared to last year but were down 9 basis points as a percentage to sales. The increase in expenses is primarily due to expenses related to new stores in the International Operations and the impact of foreign exchange on the translation of U.S. denominated expenses. The impact of new store expenses was partially offset by lower employee medical insurance expenses in the International Operations and a decrease in debt loss expense in the Canadian Operations.

Earnings from Operations increased 8.5% to \$24.6 million compared to \$22.7 million in the fourth quarter last year as sales growth and an increase in gross profit rates more than offset higher expenses. Excluding the foreign exchange impact, earnings from operations increased 7.2% compared to last year.

Trading profit or earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 7.7% to \$34.4 million compared to \$31.9 million last year with both the Canadian Operations and International Operations contributing to the increase. Excluding the foreign exchange impact, trading profit increased 6.3% compared to last year and as a percentage to sales was 8.6% compared to 8.3% last year.

Interest expense increased \$0.7 million to \$2.1 million compared to \$1.4 million last year due to higher average debt in the quarter compared to last year, an increase in interest on defined benefit plan obligations and a decrease in capitalized interest.

Income tax expense increased \$0.9 million to \$6.7 million compared to \$5.8 million last year due to an increase in earnings and a higher effective tax rate. The increase in the consolidated effective tax rate to 29.7% compared to 27.2% in the quarter last year is due to the variability of income earned across the various tax jurisdictions.

Net earnings increased 2.2% to \$15.9 million and diluted earnings per share were flat to last year at \$0.32 per share.

Working capital decreased \$24.4 million or 21.4% compared to the fourth quarter last year largely due to an increase in the current portion of long-term debt. The increase in the current portion of long-term debt is due to the senior notes that mature June 15, 2014 compared to last year's current portion of debt, which included the International Operations loan facilities that were refinanced on December 9, 2013. Excluding the impact of the maturing debt, working capital increased \$13.2 million or 8.6% compared to last year largely due to an increase in inventories and lower income tax payable as a result of installments made in the year, partially offset by a lower cash position. The increase in inventories is due to higher inventories in stores serviced by sealift and winter roads in the Canadian Operations to take advantage of lower transportation costs and the impact of foreign exchange on the translation of U.S. denominated inventories.

Cash flow from operating activities in the quarter decreased \$4.9 million to \$46.5 million compared to cash flow from operating activities of \$51.4 million last year. The change in cash flow from operating activities is primarily due to an increase in income tax installments paid in the quarter. Excluding the impact of income tax installments, cash flow from operating activities decreased \$0.7 million or 1.4% compared to the fourth quarter last year due to the change in non-cash working capital largely related to the change in accounts payable in the quarter due to the timing of payments. The change in other non-cash items is mainly due to the change in other long-term liabilities compared to the prior year.

Cash used for investing activities in the quarter decreased to \$14.1 million compared to \$14.4 million last year. The decrease in the quarter is due to a decrease in intangible asset additions primarily related to the transportation management system and a difference in the timing of capital investments.

Cash used for financing activities in the quarter was \$45.8 million compared to \$39.3 million last year. The decrease in long-term debt in the quarter is due to the change in amounts drawn on the Company's revolving loan facilities compared to last year. The Company paid dividends of \$13.6 million, an increase of 7.8% compared to the fourth quarter last year.

Further information on the quarterly financial performance of the Company is provided in the interim MD&A available on the Company's website at [www.northwest.ca](http://www.northwest.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com).

## DISCLOSURE CONTROLS

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that decisions can be made regarding public disclosure. Based on an evaluation of the Company's disclosure controls and procedures, as required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Company's CEO and CFO have concluded that these controls and procedures were designed and operated effectively as of January 31, 2014.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is 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 International Financial Reporting Standards. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial reporting and may not prevent or detect misstatements. Furthermore, management is required to use judgment in evaluating controls and procedures. Based on an evaluation of the Company's internal controls over financial reporting using the framework published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"), 1992 as required by National Instrument 52-109, the Company's CEO and CFO have concluded that the internal controls over financial reporting were designed and operated effectively as of January 31, 2014. There have been no changes in the internal controls over financial reporting during the quarter and for the year ended January 31, 2014 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

(1) Excluding the foreign exchange impact.

## OUTLOOK

The Company's focus in 2014 will be on enhancing store sales and operations capability, recognizing this as a core, ongoing advantage. Productivity improvements, transportation efficiencies, improved shrink and loss controls, more finely tuned product and service offerings and capital reinvestment in high opportunity locations are key features of this focus. Within the various markets served by the Company, the consumer income environment is expected to range from flat in northern Canada and the southern island markets to modestly positive in Alaska and western Canada.

New store growth will be limited in 2014 as the Company continues to see favorable returns from optimizing existing market performance. Two new Giant Tiger locations are planned together with the possibility of smaller acquisitions. Upside to the business will be generated by the success of new merchandise and service programs and the maturation of new stores, specifically in Barbados. Downside exists with respect to margin pressure in Canada's retail food sector.

Net capital expenditures for 2014 are expected to be approximately \$55.0 million (2013 - \$42.4 million) reflecting the opening or acquisition of new stores, major store replacements and the final phase of a transportation management system which is expected to be fully deployed in 2014. Capital expenditures depend upon the completion of landlord negotiations and shipment of construction materials to remote markets and therefore, their actual amount and timing can fluctuate.

As previously noted, the Company paid the remaining balance of the Canadian accrued income taxes for 2012 of approximately \$19 million in the first quarter of 2013 in addition to making the required monthly installments for income taxes related to the 2013 tax year. The Company expects its Canadian monthly income tax installments to decrease in 2014 compared to 2013 based on a normalized level of taxable income in 2013 and the recognition of a portion of the deferred limited partnership income. Actual installments paid may vary from anticipated payments due to a variety of factors including changes in expected or actual earnings across various tax jurisdictions.

## RISK MANAGEMENT

The North West Company maintains an Enterprise Risk Management ("ERM") program which assists in identifying, evaluating and managing risks that may reasonably have an impact on the Company. An annual ERM assessment is completed to evaluate risks and the potential impact that the risks may have on the Company's ability to execute its strategies and achieve its objectives. The results of this assessment are presented to the Board of Directors who are accountable for providing oversight of the ERM program.

The North West Company is exposed to a number of risks in its business. The descriptions of the risks below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company deems immaterial, may also impair the operations of the Company. If any of such risks actually occur, the business, financial condition, liquidity and results of operations of the Company could be materially adversely affected. Readers of this MD&A are also encouraged to refer to the Key Performance Drivers and Capabilities and Outlook sections of this MD&A, as well as North West's Annual Information Form, which provides further information on the risk factors facing the Company. While the Company employs strategies to minimize these risks, these strategies do not guarantee that events or circumstances will not occur that could negatively impact the Company's financial condition and performance.

Careful consideration should be given to the risk factors which include, but are not limited to, the following:

**Business Model** The Company serves geographically diverse markets and sells a very wide range of products and services. Operational scale can be difficult to achieve and the complexity of the Company's business model is higher compared to more narrowly-focused or larger retailers. Management continuously assesses the strength of its customer value offer to ensure that specific markets, products and services are financially attractive. Considerable attention is also given to streamlining processes to simplify work across the Company. To the extent the Company is not successful in developing and executing its strategies, it could have an adverse effect on the financial condition and performance of the Company.

**Employee Development and Retention** Attracting, retaining and developing high caliber employees is essential to effectively managing our business, executing our strategies and meeting our objectives. Due to the vast geography and remoteness of the Company's markets, there is significant competition for talent and a limited number of qualified personnel, particularly at the store management level. The degree to which the Company is not successful in retaining and developing employees and establishing appropriate succession plans could lead to a lack of knowledge, skills and experience required to effectively run our operations and execute our strategies and could negatively affect financial performance. The Company's overall priority on building and sustaining store competency reflects the importance of mitigating against this risk. In addition to compensation programs and investments in staff housing that are designed to attract and retain qualified personnel, the Company also continues to implement and refine initiatives such as comprehensive store-based manager-in-training programs and the Company's in-depth leadership development program.

**Competition** The Company has a leading market position in a large percentage of the markets it serves. Sustaining and growing this position depends on our ability to continually improve customer satisfaction while identifying and pursuing new sales opportunities. We actively monitor competitive activity and we are proactive in enhancing our value offer elements, ranging from in-stock position to service and pricing. To the extent that the Company is not effective in responding to consumer trends or enhancing its value offer, it could have a negative impact on financial performance. Furthermore, the entrance of new competitors, an increase in competition, both local and outside the community, or the introduction of new products and services in the Company's markets could also negatively affect the Company's financial performance.

**Community Relations** A portion of the Company's sales are derived from communities and regions that restrict commercial land ownership and usage by non-indigenous or non-local owned businesses or which have enacted policies and regulations to support locally-owned businesses. We successfully operate within these environments through initiatives that promote positive community and customer relations. These include store lease arrangements with community-based development organizations and initiatives to recruit local residents into management positions and to incorporate community stakeholder advice into our business at all levels. To the extent the Company is not successful in maintaining these relations or is unable to renew lease agreements with community-based organizations, or is subject to punitive fees or operating restrictions, it could have an adverse effect on the Company's reputation and financial performance.

**Economic Environment** External factors which affect customer demand and personal disposable income, and over which the Company exercises no influence, include government fiscal health, general economic growth, changes in commodity prices, inflation, unemployment rates, personal debt levels, levels of personal disposable income, interest rates and foreign exchange rates. Changes in the inflation rate and foreign exchange rate are unpredictable and may impact the cost of merchandise and the prices charged to consumers which in turn could negatively impact sales and net earnings.

Our largest customer segments derive most of their income directly or indirectly from government infrastructure spending or direct payment to individuals in the form of social assistance, child tax benefits and old age security. While these tend to be stable sources of income, independent of economic cycles, a decrease in government income transfer payments to individuals, a recession, or a significant and prolonged decline in consumer spending could have an adverse effect on the Company's operations and financial performance.

Furthermore, customers in many of the Company's markets benefit from product cost subsidies through programs such as Nutrition North Canada ("NNC"), the U.S. Supplemental Nutrition Assistance Program ("SNAP") and the by-pass mail system in Alaska which contribute to lower living costs for eligible customers. A change in government policy could result in a reduction in financial support for these programs which would have a significant impact on the price of merchandise and consumer demand.

A major source of employment income in the remote markets the Company operates is generated from local government and spending on public infrastructure. This includes housing, schools, health care facilities, military facilities, roads and sewers. Local employment levels will fluctuate from year-to-year depending on the degree of infrastructure activity and a community's overall fiscal health. A similar fluctuating source of income is employment related to tourism and natural resource development. A significant or prolonged reduction in government transfers, spending on infrastructure projects, natural resource development and tourism spending would have a negative impact on consumer income which in turn could result in a decrease in sales and gross profit, particularly for more discretionary general merchandise items.

Management regularly monitors economic conditions and considers factors which can affect customer demand in making operating decisions and the development of strategic initiatives and long-range plans.

**Information Technology** The Company relies on information technology ("IT") to support the current and future requirements of the business. A significant loss of data or an impairment of data integrity, a failure or prolonged disruption in IT systems, or the failure to successfully upgrade legacy systems or implement new systems could have an adverse effect on the Company's operations, reputation and financial performance.

In 2014, the Company will implement the final phases of a transportation management system ("TMS"). Failure by the Company to successfully implement this system could cause disruption in the flow of merchandise to the stores, which could negatively affect the reputation and financial performance of the Company. Furthermore, the failure to integrate the TMS with other IT systems and implement appropriate processes to support the TMS may result in failing to capture planned efficiency and effectiveness gains. To help mitigate these risks, the Company engaged an implementation partner and instilled a strong governance structure and disciplined project management.

**Fuel and Utility Costs** Compared to other retailers, the Company is more exposed to fluctuations in the price of energy, particularly oil. Due to the vast geography and remoteness of the store network, expenses related to aviation fuel, diesel-generated electricity, and heating fuel costs are a more significant component of the Company's and its customers' expenses. To the extent that escalating fuel and utility costs cannot be offset by alternative energy sources, energy conservation practices or offsetting productivity gains, this may result in higher retail prices or lower operating margins which may affect the Company's financial performance. In this scenario, consumer retail spending will also be affected by higher household energy-related expenses.

**Income Taxes** In the ordinary course of business, the Company is routinely subject to audits by tax authorities. The Company regularly reviews its compliance with tax legislation, filing positions, the adequacy of its tax provisions and the potential for adverse outcomes. While the Company believes that its tax filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the tax authorities. If the final outcome differs materially from the tax provisions, the Company's income tax expense and its earnings could be affected positively or negatively in the period in which the outcome is determined.

**Laws, Regulations and Standards** The Company is subject to various laws, regulations and standards administered by federal, provincial and foreign regulatory authorities, including but not limited to income, commodity and other taxes, duties, currency repatriation, health and safety, employment standards, licensing requirements, product packaging and labeling regulations and zoning. New accounting standards and pronouncements or changes in accounting standards may also impact the Company's financial results.

These laws, regulations and standards and their interpretation by various courts and agencies are subject to change. In the course of complying with such changes, the Company may incur significant costs. Failure by the Company to fully comply with applicable laws, regulations and standards could result in financial penalties, assessments, sanctions or legal action that could have an adverse effect on the reputation and the financial performance of the Company.

The Company is also subject to various privacy laws and regulations regarding the protection of personal information of its customers and employees. Any failure in the protection of this information or non-compliance with laws or regulations could negatively affect the Company's reputation and financial performance.

**Environmental** The Company owns a large number of facilities and real estate, particularly in remote locations, and is subject to environmental risks associated with the contamination of such facilities and properties. The Company operates retail fuel outlets in a number of locations and uses fuel to heat stores and housing. Contamination resulting from gasoline and heating fuel is possible. The Company employs operating, training, monitoring and testing procedures to minimize the risk of contamination. The Company also operates refrigeration equipment in its stores and distribution centers which, if the equipment fails, could release gases that may be harmful to the environment. The Company has monitoring and preventative maintenance procedures to reduce the risk of this contamination occurring. Even with these risk mitigation policies and procedures, the Company could incur increased or unexpected costs related to environmental incidents and remediation activities, including litigation and regulatory compliance costs, all of which could have an adverse effect on the reputation and financial performance of the Company.

**Financial Services Business** The financial services operations are a part of the business of the Company. There is a risk of customer defaults on credit accounts, particularly following deterioration in the economy. The credit card industry is highly competitive and other credit card issuers may seek to expand or to enter the Company's markets. New federal, provincial and state laws, and amendments to existing laws, may be enacted to further regulate the credit card industry or to reduce finance charges or other fees or charges applicable to credit card accounts. Deterioration in the financial services business could have an adverse effect on the financial performance of the Company.

**Food and Product Safety** The Company is exposed to risks associated with food safety, product handling and general merchandise product defects. Food sales represent approximately 77% of total Company sales. A significant outbreak of a food-borne illness or increased public concerns with certain food products could have an adverse effect on the reputation and financial performance of the Company. The Company has food preparation, handling and storage procedures which help mitigate these risks. The Company also has product recall procedures in place in the event of a food-borne illness outbreak or product defect. The existence of these procedures does not eliminate the underlying risks and the ability of these procedures to mitigate risk in the event of a food-borne illness or product recall is dependent on their successful execution.

**Vendor and Third Party Service Partner Management** The Company relies on a broad base of manufacturers, suppliers, logistics service providers and operators of distribution facilities to provide goods and services. Events or disruptions affecting these suppliers outside of the Company's control could in turn result in delays in the delivery of merchandise to the stores and therefore negatively impact the Company's reputation and financial performance. A portion of the merchandise the Company sells is purchased offshore. Offshore sourcing could provide products that contain harmful or banned substances or do not meet the required standards. The Company uses offshore consolidators and sourcing agents to monitor product quality and reduce the risk of sub-standard products however, there is no certainty that these risks can be completely mitigated in all circumstances.

**Management of Inventory** Success in the retail industry depends on being able to select the right merchandise, in the correct quantities in proportion to the demand for such merchandise. A miscalculation of consumer demand for merchandise could result in having excess inventory for some products and missed sales opportunities for others which could have an adverse effect on operations and financial performance. Excess inventory may also result in higher markdowns or inventory shrinkage all of which could have an adverse effect on the financial performance of the Company.

**Litigation** In the normal course of business, the Company is subject to a number of claims and legal actions that may be made by its customers, suppliers and others. The Company records a provision for litigation claims if management believes the Company has liability for such claim or legal action. If management's assessment of liability or the amount of any such claim is incorrect, or the Company is unsuccessful in defending its position, any difference between the judgment or penalty amount and the provision would become an expense or a recovery in the period such claim was resolved.

**Post-Employment Benefits** The Company engages professional investment advisors to manage the assets in the defined benefit pension plans. The performance of the Company's pension plans and the plan funding requirements are impacted by the returns on plan assets, changes in the discount rate and regulatory funding

requirements. If capital market returns are below the level estimated by management, or if the discount rate used to value the liabilities of the plans decreases, the Company may be required to make contributions to its defined benefit pension plans in excess of those currently contemplated, which may have an adverse effect on the Company's financial performance.

The Company regularly monitors and assesses the performance of the pension plan assets and the impact of changes in capital markets, changes in plan member demographics, and other economic factors that may impact funding requirements, benefit plan expenses and actuarial assumptions. The Company makes cash contributions to the pension plan as required and also uses letters of credit to satisfy a portion of its funding obligations. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan and added a defined contribution plan. Under the amended pension plan, all members who did not meet a qualifying threshold based on number of years in the pension plan and age were transitioned to the defined contribution pension plan effective January 1, 2011 and no longer accumulate years of service under the defined benefit pension plan. Further information on post-employment benefits is provided on page 16 and in Note 12 to the consolidated financial statements.

**Insurance** The Company manages its exposure to certain risks through an integrated insurance program which combines an appropriate level of self-insurance and the purchase of various insurance policies. The Company's insurance program is based on various lines and limits of coverage. Insurance is arranged with financially stable insurance companies as rated by professional rating agencies. There is no guarantee that any given risk will be mitigated in all circumstances or that the Company will be able to continue to purchase this insurance coverage at reasonable rates.

**Climate** The Company's operations are exposed to extreme weather conditions ranging from blizzards to hurricanes, typhoons, cyclones and tsunamis which can cause loss of life, damage to or destruction of key stores and facilities, or temporary business disruptions. The stores located in the South Pacific, Caribbean and coastal areas of Alaska are also at risk of earthquakes which can result in loss of life and destruction of assets. Such losses could have an adverse effect on the operations and financial performance of the Company. Global warming conditions would also have a more pronounced effect, both positive and negative, on the Company's most northern latitude stores.

**Dependence on Key Facilities** There are six major distribution centres which are located in Winnipeg, Manitoba; Anchorage, Alaska; San Leandro, California; Port of Tacoma, Washington; and third party managed facilities in Edmonton, Alberta and Miami, Florida. In addition, the Company's Canadian Operations support office is located in Winnipeg, Manitoba and the International Operations has support offices in Anchorage, Alaska and Bellevue, Washington. A significant or prolonged disruption at any of these facilities due to fire, inclement weather or otherwise could have a material adverse effect on the financial performance of the Company.

**Geopolitical** Changes in the domestic or international political environment may impact the Company's ability to source and provide products and services. Acts of terrorism, riots, and political instability, especially in less developed markets, could have an adverse effect on the financial performance of the Company.

**Ethical Business Conduct** The Company has a Code of Business Conduct and Ethics policy which governs both employees and Directors. The Business Ethics Committee monitors compliance with the Code of Business Conduct and Ethics. The Company also has a Whistleblower Policy that provides direct access to members of the

Board of Directors. Unethical business conduct could negatively impact the Company's reputation and relationship with its customers, investors and employees, which in turn could have an adverse effect on the financial performance of the Company.

**Financial Risks** In the normal course of business, the Company is exposed to financial risks that have the potential to negatively impact its financial performance. The Company manages financial risk with oversight provided by the Board of Directors, who also approve specific financial transactions. The Company uses derivative financial instruments only to hedge exposures arising in respect of underlying business requirements and not for speculative purposes. These risks and the actions taken to minimize the risks are described below. Further information on the Company's financial instruments and associated risks are provided in Note 14 to the consolidated financial statements.

**Credit Risk** Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk primarily in relation to individual and commercial accounts receivable. The Company manages credit risk by performing regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not have any individual customer accounts greater than 10% of total accounts receivable.

**Liquidity Risk** Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company manages liquidity risk by maintaining adequate credit facilities to fund operating requirements and both planned sustaining and growth-related capital expenditures and regularly monitoring actual and forecasted cash flow and debt levels. At January 31, 2014, the Company had undrawn committed revolving loan facilities available of \$172.5 million (January 31, 2013 - \$144.1 million).

The Company has US\$70.0 million senior notes that mature on June 15, 2014. The Company has begun the process of refinancing the senior notes and does not anticipate any difficulty in completing the refinancing however, global economic conditions can change which may negatively impact the availability of credit, interest rates and covenants for companies seeking to refinance debt. To the extent that the Company cannot meet its obligations or refinance its debt when it comes due, or can only do so at an excessive cost, this may have a material adverse effect on the financial performance of the Company. For further information on loan facilities, see Note 11 to the consolidated financial statements.

**Currency Risk** Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily the U.S. dollar, through its net investment in International Operations and its U.S. dollar denominated borrowings. The Company manages its exposure to currency risk by hedging the net investment in foreign operations with a portion of U.S. dollar denominated borrowings as described in the Sources of Liquidity section on page 16. At January 31, 2014, the Company had US\$107.4 million in U.S. denominated debt compared to US\$111.3 million at January 31, 2013. Further information on the impact of foreign exchange rates on the translation of U.S. denominated debt is provided in the Capital Structure section on page 18.

The Company is also exposed to currency risk relating to the translation of International Operations earnings from U.S. dollars to Canadian dollars. In 2013, the average exchange rate used to translate U.S. denominated earnings from the International Operations was 1.0389 compared to 0.9976 last year. The Canadian dollar's depreciation

in 2013 compared to the U.S. dollar in 2012 positively impacted consolidated net earnings by \$0.4 million. In 2012, the average exchange rate of 0.9976 was slightly higher than the 0.9911 average exchange rate in 2011 which increased 2012 consolidated net earnings by \$0.1 million compared to 2011.

**Interest Rate Risk** Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its long-term borrowings. The Company manages exposure to interest rate risk by using a combination of interest rate swaps and a mixture of fixed and floating interest rate debt. Additional information regarding interest rate swaps is provided in Note 11 and Note 14 to the consolidated financial statements.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Judgment has been used in the application of accounting policy and to determine if a transaction should be recognized or disclosed in the financial statements while estimates and assumptions have been used to measure balances recognized or disclosed. These estimates, assumptions and judgments are based on management's historical experience, knowledge of current events, expectations of future outcomes and other factors that management considers reasonable under the circumstances. Certain of these estimates and assumptions require subjective or complex judgments by management about matters that are uncertain and changes in these estimates could materially impact the consolidated financial statements and disclosures. Management regularly evaluates the estimates and assumptions it uses and revisions are recognized in the period in which the estimates are reviewed and in any future periods affected. The areas that management believes involve a higher degree of judgment or complexity, or areas where the estimates and assumptions may have the most significant impact on the amounts recognized in the consolidated financial statements include the following:

**Valuation of Accounts Receivable** The Company records an allowance for doubtful accounts related to accounts receivable that may potentially be impaired. The allowance is based on the aging of the accounts receivable, our knowledge of our customers' financial condition, the current business environment and historical experience. A significant change in one or more of these factors could impact the estimated allowances for doubtful accounts recorded in the consolidated balance sheet and the provisions for debt loss recorded in the consolidated statement of earnings. Additional information on the valuation of accounts receivable is provided in Note 5 and the Credit Risk section in Note 14 to the consolidated financial statements.

**Valuation of Inventories** Retail inventories are stated at the lower of cost and net realizable value. Significant estimation or judgment is required in: (1) the determination of discount factors used to convert inventory to cost after a physical count at retail has been completed; (2) recognizing merchandise for which the customer's perception of value has declined and appropriately marking the retail value of the merchandise down to the perceived value; and (3) estimating inventory losses, or shrinkage, occurring between the last physical count and the balance sheet date.

Food inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is calculated in relation to historical gross margins and is reviewed on

a regular basis for reasonableness. General merchandise inventories counted at retail are converted to cost by applying average cost factors by merchandise category. These cost factors represent the average cost-to-retail ratio for each merchandise category based on beginning inventory and purchases made throughout the year.

Inventory shrinkage is estimated as a percentage of sales for the period from the date of the last physical inventory count to the balance sheet date. The estimate is based on historical experience and the most recent physical inventory results. To the extent that actual losses experienced vary from those estimated, both inventories and cost of sales may be impacted.

Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheet and a charge or credit to cost of sales in the consolidated statement of earnings. Additional information regarding inventories is provided in Note 6 to the consolidated financial statements.

**Post-Employment Benefits** The defined benefit plan obligations are accrued based on actuarial valuations which are dependent on assumptions determined by management. These assumptions include the discount rate used to calculate benefit plan obligations, the rate of compensation increase, retirement ages, and mortality rates. These assumptions are reviewed by management and the Company's actuaries.

The discount rate used to calculate benefit plan obligations and the rate of compensation increase are the most significant assumptions. The discount rate used to calculate benefit plan obligations and plan asset returns is based on market interest rates, as at the Company's measurement date of January 31, 2014 on a portfolio of Corporate AA bonds with terms to maturity that, on average, matches the terms of the defined benefit plan obligations. The discount rates used to measure the benefit plan obligations for fiscal 2013 and 2012 were 4.50% and 4.25% respectively. Management assumed the rate of compensation increase for fiscal 2013 and 2012 at 4%.

These assumptions may change in the future and may result in material changes in the defined benefit plan obligation on the Company's consolidated balance sheet, the defined benefit plan expense on the consolidated statement of earnings and the net actuarial gains or losses recognized in comprehensive income and retained earnings. Changes in financial market returns and interest rates could also result in changes to the funding requirements of the Company's defined benefit pension plans. Additional information regarding the Company's post-employment benefits is provided in Note 12 to the consolidated financial statements.

**Impairment of Long-lived Assets** The Company assesses the recoverability of values assigned to long-lived assets quarterly after considering potential impairment indicated by such factors as business and market trends, future prospects, current market value and other economic factors. If there is an indication of impairment, the recoverable amount of the asset, which is the higher of its fair value less costs of disposal and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For tangible and intangible assets excluding goodwill, judgment is required to determine the CGU based on the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. To the extent that the carrying value exceeds the estimated recoverable amount, an impairment charge is recognized in the consolidated statement of earnings in the period in which it occurs.

Various assumptions and estimates are used to determine the recoverable amount of a CGU. The Company determines fair value less costs of disposal using estimates such as market rental rates for comparable properties, property appraisals and capitalization rates. The Company determines value in use based on estimates and assumptions regarding future financial performance. The underlying estimates for cash flows include estimates for future sales, gross margin rates and store expenses, and are based upon the stores' past and expected future performance. Changes which may impact future cash flows include, but are not limited to, competition, general economic conditions and increases in operating costs that can not be offset by other productivity improvements. To the extent that management's estimates are not realized, future assessments could result in impairment charges that may have a significant impact on the Company's consolidated balance sheet and consolidated statement of earnings.

**Goodwill** Goodwill is not amortized but is subject to an impairment test annually or whenever indicators of impairment are detected. Judgment is required to determine the appropriate grouping of CGUs for the purpose of testing for impairment. Judgment is also required in evaluating indicators of impairment which would require an impairment test to be completed. Goodwill is allocated to CGUs that are expected to benefit from the synergies of the related business combination and represents the lowest level within the Company at which goodwill is monitored for internal management purposes, which is the Company's International Operations segment before aggregation.

The value of the goodwill was tested by means of comparing the recoverable amount of the operating segment to its carrying value. The recoverable amount is the greater of its value in use or its fair value less costs of disposal. To calculate the operating segment's value in use, the Company uses the capitalized earnings method. The product of maintainable earnings and a capitalization rate are used to determine the recoverable amount. The capitalization rate is based on the International Operations weighted-average cost of capital. Key assumptions in the capitalization rate include: equity risk premium, debt-to-equity ratio, pre-tax cost of debt capital and company specific risk premium. Fair value less costs of disposal may be determined using market trading multiples for comparative enterprises. To the extent that management's estimates are not realized, future assessments could result in impairment charges that may have a significant impact on the Company's consolidated balance sheet and consolidated statement of earnings.

The Company performed the annual goodwill impairment test in 2013 and determined that the recoverable amount of the International Operations segment exceeded its carrying value. No goodwill impairment was identified and management considers any reasonably foreseeable changes in key assumptions unlikely to produce a goodwill impairment.

**Income Taxes** Deferred tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Deferred income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and deferred income taxes requires management to use judgment regarding the interpretation and application of tax legislation in the various jurisdictions in which the Company operates. The calculation of deferred income tax assets and liabilities are also impacted by estimates of future financial results, expectations regarding the timing of reversal of temporary differences,



and assessing the possible outcome of audits of tax filings by the regulatory agencies.

Changes or differences in these estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts. Additional information on income taxes is provided in Note 9 to the consolidated financial statements.

## ACCOUNTING STANDARDS IMPLEMENTED IN 2013

The Company adopted the amendments to IFRS listed below effective February 1, 2013, as required by the International Accounting Standards Board ("IASB").

*Employee benefits* The revised IAS 19, *Employee Benefits* (IAS 19r) issued by the IASB eliminates the option to defer the recognition of actuarial gains and losses on defined benefit plans. It amended the calculation of plan assets and benefit obligations, streamlined the presentation of changes in defined benefit plans and required enhanced disclosure. The requirement to calculate the expected return on plan assets with the interest rate used to calculate the defined benefit plan obligation was the most significant for the Company. Implementation of this standard in these financial statements required restatement of certain of the 2012 comparative numbers. The impact for the year ended January 31, 2013 is a decrease in net earnings of \$1.3 million comprised of an increase to interest expense of \$1.2 million, an increase to selling, operating and administrative expense of \$0.6 million, and a deferred tax recovery of \$0.5 million. There was a corresponding increase in other comprehensive income of \$1.3 million. Financial information for 2011 and previous years have not been restated for these accounting standard changes as they were effective for the Company February 1, 2013 with retrospective adjustments as at February 1, 2012.

In addition to IAS 19r, the Company adopted 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 28r, *Investments in Associates and Joint Ventures*; IAS 1, *Presentation of Financial Statements*; and IFRS 13, *Fair Value Measurement*. These amendments had no significant impact on the Company's consolidated financial statements.

## FUTURE ACCOUNTING STANDARDS

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2014, and have not been applied in preparing these consolidated financial statements. Unless otherwise noted, the following revised standards and amendments are effective for the Company's annual periods beginning February 1, 2014.

*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 based on how an entity manages financial impairment, replacing the multiple classification options in IAS 39 with only two categories: amortized cost and fair value through profit or loss. Additional guidance was also issued on the classification and measurement of financial assets and liabilities and hedge accounting. The mandatory effective date of this standard has been deferred. The Company is currently assessing the potential impact of changes to this standard.

*Financial Instruments* Amendments to IFRS 7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation* are not expected to have any significant impact on the Company's consolidated financial statements.

*Levies* In May 2013, the IASB issued International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and applied retrospectively. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms a levy liability is recognized only when the triggering event specified in the legislation occurs. The Company is currently assessing the potential impact of these changes, if any.

*Offsetting Financial Assets and Liabilities* The amended IAS 32, *Financial Instruments: Presentation* clarifies the requirements that permit offsetting certain financial instruments. The Company is currently assessing the significance of these amendments to determine the potential impact, if any.

## NON-GAAP FINANCIAL 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:

### Reconciliation of Net Earnings to Trading Profit (EBITDA)

(\$ in thousands)	2013	2012	2011
Net earnings	\$ 64,263	\$ 63,888	\$ 57,961
Add:			
Amortization	38,276	37,149	36,572
Interest expense	7,784	6,979	6,026
Income taxes	28,013	25,701	25,322
Trading profit (EBITDA)	\$ 138,336	\$ 133,717	\$ 125,881

For trading profit information by business segment, see Note 4 "Segmented Information" in the notes to the consolidated financial statements.

**(2) Earnings From Operations (EBIT)** is not a recognized measure under IFRS. Management believes that EBIT is a useful 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:

### Reconciliation of Net Earnings to EBIT

(\$ in thousands)	2013	2012	2011
Net earnings	\$ 64,263	\$ 63,888	\$ 57,961
Add:			
Interest expense	7,784	6,979	6,026
Income taxes	28,013	25,701	25,322
Earnings from operations (EBIT)	\$ 100,060	\$ 96,568	\$ 89,309

For earnings from operations (EBIT) information by business segment, see Note 4 "Segmented Information" in the notes to the consolidated financial statements.

**(3) Return on Net Assets (RONA)** is not a recognized measure under IFRS. Management believes that RONA is a useful measure to evaluate the financial return on the net assets used in the business. RONA is calculated as earnings from operations (EBIT) for the year divided by average monthly net assets. The following table reconciles net assets used in the RONA calculation to IFRS measures reported in the audited consolidated financial statements as at January 31 for the following fiscal years:

(\$ in millions)	2013	2012	2011
Total assets	\$ 670.5	\$ 651.4	\$ 626.9
Less: Total liabilities	(348.1)	(355.1)	(343.2)
Add: Total long-term debt	182.9	163.4	175.9
Net Assets Employed	\$ 505.3	\$ 459.7	\$ 459.6

**(4) Return on Average Equity (ROE)** is not a recognized measure under IFRS. Management believes that ROE is a useful measure to evaluate the financial return on the amount invested by shareholders. ROE is calculated by dividing net earnings for the year by average monthly total shareholders' equity. There is no directly comparable IFRS measure for return on equity.

## GLOSSARY OF TERMS

**Basic earnings per share** Net earnings available to shareholders divided by the weighted-average number of shares outstanding during the period.

**Basis point** A unit of measure that is equal to 1/100th of one percent.

**CGAAP (Canadian generally accepted accounting principles)** The consolidated financial statements for the fiscal years 2009 and prior were prepared in accordance with Canadian generally accepted accounting principles as issued by the Canadian Institute of Chartered Accountants.

**Compound Annual Growth Rate (CAGR)** The compound annual growth rate is the year-over-year percentage growth rate over a given period of time.

**Control label or Private label** A brand or related trademark that is owned by the Company for use in connection with its own products and services.

**Debt loss** An expense resulting from the estimated loss on potentially uncollectible accounts receivable.

**Debt covenants** Restrictions written into banking facilities and senior notes and loan agreements that prohibit the Company from taking actions that may negatively impact the interests of the lenders.

**Debt-to-equity ratio** Provides information on the proportion of debt and equity the Company is using to finance its operations and is calculated as total debt divided by shareholders' equity.

**Diluted earnings per share** The amount of net earnings for the period available to shareholders divided by the weighted-average number of shares outstanding during the period including the impact of all potential dilutive outstanding shares at the end of the period.

**Earnings from operations (EBIT)** Net earnings before interest and income taxes provides an indication of the Company's performance prior to interest expense and income taxes. See Non-GAAP Financial Measures section.

**EBIT margin** EBIT divided by sales.

**Fair value** The amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

**Gross profit** Sales less cost of goods sold and inventory shrinkage.

**Gross profit rate** Gross profit divided by sales.

**Hedge** A risk management technique used to manage interest rate, foreign currency exchange or other exposures arising from business transactions.

**Interest coverage** Net earnings before interest and income taxes divided by interest expense.

**IFRS (International Financial Reporting Standards)** Effective for the 2011 fiscal year, the consolidated financial statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Comparative financial information for the year ended January 31, 2011 ("2010") previously reported in the consolidated financial statements prepared in accordance with CGAAP has been restated in accordance with the accounting policies and financial statement presentation adopted under IFRS.

**Return on equity** Net earnings divided by average shareholders' equity. See Non-GAAP Financial Measures section.

**Return on net assets** Net earnings before interest and income taxes divided by average net assets employed (total assets less accounts payable and accrued liabilities, income taxes payable, defined benefit plan obligations, deferred tax liabilities, and other long-term liabilities). See Non-GAAP Financial Measures section.

**Same store sales** Retail sales from stores that have been open more than 52 weeks in the periods being compared.

**Trading profit (EBITDA)** Net earnings before interest, income taxes, depreciation and amortization provides an indication of the Company's operational performance before allocating the cost of interest, income taxes and capital investments. See Non-GAAP Financial Measures section.

**Trading profit margin** Trading profit divided by sales.

**Working capital** Total current assets less total current liabilities.

**Year** The fiscal year ends on January 31. The 2013 year which ended January 31, 2014 had 365 days of operations. The 2012 year which ended January 31, 2013 had 366 days of operations as a result of February 29<sup>th</sup>. The 2011 year which ended January 31, 2012 had 365 days of operations. The 2010 year which ended January 31, 2011 had 365 days of operations. The 2009 year which ended January 31, 2010 had 365 days of operations.

# Eleven-Year Financial Summary

Fiscal Year <sup>(1)</sup> (\$ in thousands)	IFRS <sup>(2)</sup> 2013	IFRS <sup>(2)</sup> 2012	IFRS <sup>(2)</sup> 2011	2010	2009	2008
<b>Consolidated Statements of Earnings</b>						
Sales - Canadian Operations	\$ 1,022,985	\$ 1,043,050	\$ 1,028,396	\$ 978,662	\$ 921,621	\$ 899,263
Sales - International Operations	520,140	470,596	466,740	469,442	522,745	493,371
Sales - Total	1,543,125	1,513,646	1,495,136	1,448,104	1,444,366	1,392,634
Trading profit (EBITDA) <sup>(3)</sup> - Canadian Operations	111,225	106,510	97,998	98,781	96,599	90,606
Trading profit (EBITDA) <sup>(3)</sup> - International Operations	27,111	27,207	27,883	26,983	33,675	31,651
Trading profit (EBITDA) <sup>(3)</sup> - Total Operations	138,336	133,717	125,881	125,764	130,274	122,257
Amortization - Canadian Operations	29,258	29,155	28,745	27,511	26,727	24,501
Amortization - International Operations	9,018	7,994	7,827	7,981	8,423	7,553
Amortization - Total	38,276	37,149	36,572	35,492	35,150	32,054
Interest	7,784	6,979	6,026	6,077	5,470	8,307
Income tax provision	28,013	25,701	25,322	14,539	7,841	6,518
Net earnings	64,263	63,888	57,961	69,656	81,813	75,378
Cash flow from operating activities	80,036	128,992	115,469	114,564	107,973	90,178
Dividends/distributions paid during the year	54,229	50,320	50,797	68,700	67,245	67,730
Capital and intangible asset expenditures	43,207	51,133	46,376	37,814	45,294	46,118
Net change in cash	(16,322)	11,691	(4,247)	3,953	1,548	3,998
<b>Consolidated Balance Sheets</b>						
Current assets	\$ 299,071	\$ 303,896	\$ 295,836	\$ 284,789	\$ 285,843	\$ 285,088
Property and equipment	286,875	274,027	270,370	259,583	258,928	248,856
Other assets, intangible assets and goodwill	64,969	60,567	53,289	55,199	73,177	68,632
Deferred tax assets	19,597	12,904	7,422	17,017	5,852	6,597
Current liabilities	209,738	190,184	128,002	185,377	171,946	172,216
Long-term debt and other liabilities	138,334	164,960	215,206	144,736	161,928	162,547
Equity	322,440	296,250	283,709	286,475	289,926	274,410
<b>Consolidated Dollar Per Share/Unit (\$) <sup>(5)</sup></b>						
Net earnings - basic	\$ 1.33	\$ 1.32	\$ 1.20	\$ 1.45	\$ 1.71	\$ 1.58
Net earnings - diluted	1.32	1.32	1.19	1.44	1.69	1.56
Trading profit <sup>(3),(4)</sup>	2.86	2.76	2.60	2.61	2.73	2.56
Cash flow from operating activities <sup>(4)</sup>	1.65	2.67	2.39	2.38	2.26	1.89
Dividends/distributions paid during the year <sup>(4)</sup>	1.12	1.04	1.05	1.42	1.39	1.40
Equity at end of fiscal year (basic shares/units outstanding)	6.66	6.12	5.86	5.92	6.04	5.75
Market price at January 31	25.42	23.14	19.40	21.09	17.94	16.14
<b>Statistics at Year End</b>						
Number of stores - Canadian	178	177	183	184	180	178
Number of stores - International	48	46	46	46	46	43
Selling square feet (000's) end of year - Canadian Stores	1,386	1,375	1,466	1,445	1,423	1,396
Selling square feet (000's) end of year - International Stores	696	660	655	654	653	617
Sales per average selling square foot - Canadian	\$ 741	\$ 734	\$ 702	\$ 682	\$ 654	\$ 651
Sales per average selling square foot - International	\$ 767	\$ 716	\$ 713	\$ 718	\$ 752	\$ 723
Number of employees - Canadian Operations	4,839	4,768	5,233	5,301	5,358	5,408
Number of employees - International Operations	1,853	1,568	1,668	1,601	1,545	1,339
Average shares/units outstanding (000's)	48,413	48,384	48,378	48,180	47,799	47,718
Shares/Units outstanding at end of fiscal year (000's)	48,426	48,389	48,378	48,378	48,017	47,722
Shares/Units traded during the year (000's)	12,731	13,539	22,418	24,814	20,080	16,402
<b>Financial Ratios</b>						
Trading profit <sup>(3)</sup> (%)	9.0	8.8	8.4	8.7	9.0	8.8
Earnings from operations <sup>(3)</sup> (EBIT) (%)	6.5	6.4	6.0	6.2	6.6	6.5
Total return on net assets <sup>(3)</sup> (%)	20.0	20.6	18.5	17.9	18.7	19.8
Return on average equity <sup>(3)</sup> (%)	21.0	22.1	20.1	24.1	29.3	28.6
Debt-to-equity	.57:1	.55:1	.62:1	.67:1	.72:1	.78:1
Dividends/distributions as % of cash flow from operating activities	67.8	39.0	44.0	60.0	62.3	75.1
Inventory turnover (times)	5.6	5.8	5.7	5.6	5.6	5.8

(1) The fiscal year changed from the last Saturday in January to January 31 effective January 31, 2007. Each year includes 52 weeks of operations with the exception of 2003, which had 53 weeks of operations.

(2) The financial results for 2013, 2012 and 2011 are reported in accordance with IFRS. 2010 data has been restated to IFRS. All other financial information is presented in accordance with CGAAP and has not been restated to IFRS. Certain 2012 figures have been restated as required by the implementation of Employee Benefits IAS 19r. See Accounting Standards Implemented in 2013 section for further information.

Fiscal Year<sup>(1)</sup>

(\$ in thousands)

2007	2006	2005	2004	2003	
					<b>Consolidated Statements of Earnings</b>
\$ 852,773	\$ 769,633	\$ 689,340	\$ 629,822	\$ 615,661	Sales - Canadian Operations
211,717	175,291	160,313	158,871	167,059	Sales - International Operations
1,064,490	944,924	849,653	788,693	782,720	Sales - Total
87,410	81,730	70,561	62,629	57,663	Trading profit (EBITDA) <sup>(3)</sup> - Canadian Operations
19,147	14,639	14,941	13,977	15,163	Trading profit (EBITDA) <sup>(3)</sup> - International Operations
106,557	96,369	85,502	76,606	72,826	Trading profit (EBITDA) <sup>(3)</sup> - Total Operations
22,634	22,248	21,103	19,977	18,413	Amortization - Canadian Operations
4,316	3,924	3,910	3,928	3,988	Amortization - International Operations
26,950	26,172	25,013	23,905	22,401	Amortization - Total
7,465	6,844	6,120	5,761	6,299	Interest
9,151	9,693	11,479	9,675	8,396	Income tax provision
62,991	53,660	42,890	37,265	35,730	Net earnings
93,591	81,486	75,289	48,925	66,780	Cash flow from operating activities
54,667	38,702	30,317	29,105	30,639	Dividends/distributions paid during the year
44,409	30,136	24,833	22,323	33,273	Capital and intangible asset expenditures
(368)	212	10,450	(5,189)	6,176	Net change in cash
					<b>Consolidated Balance Sheets</b>
\$ 254,061	\$ 226,164	\$ 218,742	\$ 208,188	\$ 196,830	Current assets
223,397	189,599	182,108	186,104	192,395	Property and equipment
50,492	19,690	17,306	12,253	12,153	Other assets, intangible assets and goodwill
1,720	6,416	5,693	7,932	8,222	Deferred tax assets
134,899	122,783	95,467	88,284	83,140	Current liabilities
138,470	67,056	85,809	89,908	97,982	Long-term debt and other liabilities
256,301	252,030	242,573	236,285	228,478	Equity
					<b>Consolidated Dollar Per Share/Unit (\$)<sup>(5)</sup></b>
\$ 1.32	\$ 1.13	\$ 0.90	\$ 0.78	\$ 0.75	Net earnings - basic
1.31	1.12	0.89	0.77	0.74	Net earnings - diluted
2.24	2.03	1.79	1.60	1.52	Trading profit <sup>(3),(4)</sup>
1.96	1.71	1.58	1.02	1.40	Cash flow from operating activities <sup>(4)</sup>
1.13	0.80	0.63	0.60	0.63	Dividends/distributions paid during the year <sup>(4)</sup>
5.37	5.29	5.11	4.95	4.78	Equity at end of fiscal year (basic shares/units outstanding)
18.42	16.41	12.50	10.22	7.88	Market price at January 31
					<b>Statistics at Year End</b>
176	168	164	159	156	Number of stores - Canadian
44	32	27	25	25	Number of stores - International
1,368	1,226	1,157	1,093	1,106	Selling square feet (000's) end of year - Canadian Stores
639	311	272	255	254	Selling square feet (000's) end of year - International Stores
\$ 657	\$ 646	\$ 613	\$ 573	\$ 566	Sales per average selling square foot - Canadian
\$ 410	\$ 601	\$ 608	\$ 624	\$ 669	Sales per average selling square foot - International
5,359	5,833	5,175	4,830	4,552	Number of employees - Canadian Operations
1,502	806	732	692	736	Number of employees - International Operations
47,649	47,561	47,694	47,754	47,820	Average shares/units outstanding (000's)
47,701	47,625	47,463	47,700	47,799	Shares/Units outstanding at end of fiscal year (000's)
17,330	13,167	6,956	7,393	7,207	Shares/Units traded during the year (000's)
					<b>Financial Ratios</b>
10.0	10.2	10.1	9.7	9.3	Trading profit <sup>(3)</sup> (%)
7.5	7.4	7.1	6.7	6.4	Earnings from operations <sup>(3)</sup> (EBIT) (%)
21.0	19.7	16.6	14.8	14.1	Total return on net assets <sup>(3)</sup> (%)
24.9	21.7	18.0	16.2	16.0	Return on average equity <sup>(3)</sup> (%)
.62:1	.43:1	.46:1	.51:1	.56:1	Debt-to-equity
58.4	47.5	40.3	59.5	46.0	Dividends/distributions as % of cash flow from operating activities
5.3	5.1	4.6	4.2	4.1	Inventory turnover (times)

(3) See Non-GAAP financial measures on page 26.

(4) Based on average basic shares/units outstanding.

(5) Effective January 1, 2011, North West Company Fund converted to a share corporation called The North West Company Inc. The comparative information refers to units of the Fund. On September 20, 2006 the units were split on a three-for-one basis. All per unit information has been restated to reflect the three-for-one split except trading volume.

## Management's Responsibility for Financial Statements

The management of The North West Company Inc. is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements and all other information in the annual report. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain amounts that are based on the best estimates and judgment by management.

In order to meet its responsibility and ensure integrity of financial information, management has established a code of business ethics, and maintains appropriate internal controls and accounting systems. An internal audit function is maintained that is designed to provide reasonable assurance that assets are safeguarded, transactions are authorized and recorded and that the financial records are reliable.

Ultimate responsibility for financial reporting to shareholders rests with the Board of Directors. The Audit Committee of the Board of Directors, consisting of independent Directors, meets periodically with management and with the internal and external auditors to review the audit results, internal controls and accounting policies. Internal and external auditors have unlimited access to the Audit Committee. The Audit Committee meets separately with management and the external auditors to review the financial statements and other contents of the annual report and recommend approval by the Board of Directors. The Audit Committee also recommends the independent auditor for appointment by the shareholders.

PricewaterhouseCoopers LLP, an independent firm of auditors appointed by the shareholders, have completed their audit and submitted their report as follows.



Edward S. Kennedy  
PRESIDENT & CEO  
THE NORTH WEST COMPANY INC.



John D. King  
CHIEF FINANCIAL OFFICER  
THE NORTH WEST COMPANY INC.

April 9, 2014

## Independent Auditor's Report



To the Shareholders of The North West Company Inc.:

We have audited the accompanying consolidated financial statements of The North West Company Inc. and its subsidiaries, which comprise the consolidated balance sheets as at January 31, 2014 and January 31, 2013 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The North West Company Inc. and its subsidiaries as at January 31, 2014 and January 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.



CHARTERED ACCOUNTANTS  
WINNIPEG, CANADA

April 9, 2014



# Consolidated Balance Sheets

(\$ in thousands)	January 31, 2014	January 31, 2013
<b>CURRENT ASSETS</b>		
Cash	\$ 22,353	\$ 38,675
Accounts receivable (Note 5)	70,527	70,040
Inventories (Note 6)	198,856	187,200
Prepaid expenses	7,335	7,981
	<b>299,071</b>	<b>303,896</b>
<b>NON-CURRENT ASSETS</b>		
Property and equipment (Note 7)	286,875	274,027
Goodwill (Note 8)	29,424	26,162
Intangible assets (Note 8)	21,514	20,136
Deferred tax assets (Note 9)	19,597	12,904
Other assets (Note 10)	14,031	14,269
	<b>371,441</b>	<b>347,498</b>
<b>TOTAL ASSETS</b>	<b>\$ 670,512</b>	<b>\$ 651,394</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 128,999	\$ 130,501
Current portion of long-term debt (Note 11)	77,800	40,417
Income tax payable	2,939	19,266
	<b>209,738</b>	<b>190,184</b>
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt (Note 11)	105,062	122,937
Defined benefit plan obligation (Note 12)	18,417	28,431
Deferred tax liabilities (Note 9)	2,012	2,026
Other long-term liabilities	12,843	11,566
	<b>138,334</b>	<b>164,960</b>
<b>TOTAL LIABILITIES</b>	<b>348,072</b>	<b>355,144</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 15)	166,069	165,358
Contributed surplus	3,528	3,485
Retained earnings	145,762	128,224
Accumulated other comprehensive income	7,081	(817)
<b>TOTAL EQUITY</b>	<b>322,440</b>	<b>296,250</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 670,512</b>	<b>\$ 651,394</b>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors

"Gary J. Lukassen"

DIRECTOR

"H. Sanford Riley"

DIRECTOR

## Consolidated Statements of Earnings

(\$ in thousands, except per share amounts)	Year Ended January 31, 2014	Year Ended January 31, 2013
<b>SALES</b>	<b>\$ 1,543,125</b>	\$ 1,513,646
Cost of sales	<b>(1,088,071)</b>	(1,068,940)
Gross profit	<b>455,054</b>	444,706
Selling, operating and administrative expenses (Notes 16, 17)	<b>(354,994)</b>	(348,138)
Earnings from operations	<b>100,060</b>	96,568
Interest expense (Note 18)	<b>(7,784)</b>	(6,979)
Earnings before income taxes	<b>92,276</b>	89,589
Income taxes (Note 9)	<b>(28,013)</b>	(25,701)
<b>NET EARNINGS FOR THE YEAR</b>	<b>\$ 64,263</b>	\$ 63,888
<b>NET EARNINGS PER SHARE</b> (Note 20)		
Basic	<b>\$ 1.33</b>	\$ 1.32
Diluted	<b>\$ 1.32</b>	\$ 1.32
<b>WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)</b>		
Basic	<b>48,413</b>	48,384
Diluted	<b>48,657</b>	48,579

See accompanying notes to consolidated financial statements. Certain prior year figures have been restated as required by IAS 19r - see Note 3.

## Consolidated Statements of Comprehensive Income

(\$ in thousands)	Year Ended January 31, 2014	Year Ended January 31, 2013
<b>NET EARNINGS FOR THE YEAR</b>	<b>\$ 64,263</b>	\$ 63,888
Other comprehensive income/(expense), net of tax:		
<b>Items that may be reclassified to net earnings:</b>		
Exchange differences on translation of foreign controlled subsidiaries	<b>7,898</b>	(222)
<b>Items that will not be subsequently reclassified to net earnings:</b>		
Remeasurements of defined benefit plans (Note 12)	<b>7,804</b>	(1,335)
Remeasurements of defined benefit plan of equity investee	<b>(300)</b>	—
Total other comprehensive income, net of tax	<b>15,402</b>	(1,557)
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>\$ 79,665</b>	\$ 62,331

See accompanying notes to consolidated financial statements. Certain prior year figures have been restated as required by IAS 19r - see Note 3.

## Consolidated Statements of Changes in Shareholders' Equity

(\$ in thousands)	Share Capital	Contributed Surplus	Retained Earnings	AOCI <sup>(1)</sup>	Total
Balance at January 31, 2013	\$ 165,358	\$ 3,485	\$ 128,224	\$ (817)	\$ 296,250
Net earnings for the year	—	—	64,263	—	64,263
Other comprehensive income (Note 12)	—	—	7,804	7,898	15,702
Other comprehensive income of equity investee	—	—	(300)	—	(300)
Comprehensive income	—	—	71,767	7,898	79,665
Equity settled share-based payments	—	623	—	—	623
Dividends (Note 19)	—	—	(54,229)	—	(54,229)
Issuance of common shares	711	(580)	—	—	131
	711	43	(54,229)	—	(53,475)
<b>Balance at January 31, 2014</b>	<b>\$166,069</b>	<b>\$ 3,528</b>	<b>\$145,762</b>	<b>\$ 7,081</b>	<b>\$322,440</b>
Balance at January 31, 2012	\$ 165,133	\$ 3,180	\$ 115,991	\$ (595)	\$ 283,709
Net earnings for the year	—	—	63,888	—	63,888
Other comprehensive income (Note 12)	—	—	(1,335)	(222)	(1,557)
Comprehensive income	—	—	62,553	(222)	62,331
Equity settled share-based payments	—	471	—	—	471
Dividends (Note 19)	—	—	(50,320)	—	(50,320)
Issuance of common shares	225	(166)	—	—	59
	225	305	(50,320)	—	(49,790)
Balance at January 31, 2013	\$ 165,358	\$ 3,485	\$ 128,224	\$ (817)	\$ 296,250

(1) Accumulated Other Comprehensive Income

See accompanying notes to consolidated financial statements. Certain prior year figures have been restated as required by IAS 19r - see Note 3.

## Consolidated Statements of Cash Flows

(\$ in thousands)	Year Ended January 31, 2014	Year Ended January 31, 2013
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating activities</b>		
Net earnings for the year	\$ 64,263	\$ 63,888
Adjustments for:		
Amortization	38,276	37,149
Provision for income taxes (Note 9)	28,013	25,701
Interest expense (Note 18)	7,784	6,979
Equity settled share option expense (Note 13)	623	471
Taxes paid	(51,995)	(15,483)
Loss on disposal of property and equipment	164	1,978
	<b>87,128</b>	120,683
Change in non-cash working capital	(10,446)	10,764
Change in other non-cash items	3,354	(2,455)
Cash from operating activities	<b>80,036</b>	128,992
<b>Investing activities</b>		
Purchase of property and equipment (Note 7)	(39,596)	(42,236)
Intangible asset additions (Note 8)	(3,611)	(8,897)
Proceeds from disposal of property and equipment	821	2,352
Cash used in investing activities	<b>(42,386)</b>	(48,781)
<b>Financing activities</b>		
Increase / (Decrease) in long-term debt (Note 11)	6,895	(12,285)
Dividends (Note 19)	(54,229)	(50,320)
Interest paid	(6,769)	(5,974)
Issuance of common shares	131	59
Cash used in financing activities	<b>(53,972)</b>	(68,520)
<b>NET CHANGE IN CASH</b>	<b>(16,322)</b>	11,691
Cash, beginning of year	38,675	26,984
<b>CASH, END OF YEAR</b>	<b>\$ 22,353</b>	<b>\$ 38,675</b>

See accompanying notes to consolidated financial statements. Certain prior year figures have been restated as required by IAS 19r - see Note 3.

# Notes to Consolidated Financial Statements

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
JANUARY 31, 2014 AND 2013

## 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.

These consolidated financial statements have been approved for issue by the Board of Directors of the Company on April 9, 2014.

## 2. BASIS OF PREPARATION

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

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

- Derivative financial instruments (Note 14)
- Financial instruments designated at fair value (Note 14)
- Liabilities for share-based payment plans (Note 13)
- Defined benefit pension plan (Note 12)
- Assets and liabilities acquired in a business combination

The methods used to measure fair values are discussed further in the notes to these financial statements.

**(C) Functional and Presentation Currency** The presentation currency of the 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 accounting policies set out below have been applied to all years presented in these 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.

**(A) Basis of Consolidation** Subsidiaries are entities controlled, either directly or indirectly, by the Company. Control is established when

the Company has rights to an entity's variable returns, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases. The Company assesses control on an ongoing basis.

A joint arrangement can take the form of a joint operation or a joint venture. Joint ventures are those entities over which the Company has joint control, established by contractual agreement. The Company's 50% interest in the jointly controlled entity Transport Nanuk Inc. has been classified as a joint venture. Its results are included in the consolidated statements of earnings using the equity method of accounting. The consolidated financial statements include the Company's share of both earnings and other comprehensive income from the date that significant influence or joint control commences until the date that it ceases. Joint ventures are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share of net assets of the entity, less any impairment in value.

All significant inter-company amounts and transactions have been eliminated.

**(B) Business Combinations** Business combinations are accounted for using the acquisition method of accounting. The consideration transferred is measured at the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange. Acquisition costs incurred are expensed and included in selling, operating and administrative expenses. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with International Accounting Standard (IAS) 39 either in net earnings or as a change to other comprehensive income (OCI). If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date irrespective of the extent of any non-controlling interest. The excess of the cost of the acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of earnings.

**(C) Revenue Recognition** Revenue on the sale of goods is recorded at the time the sale is made to the customer, being when the significant risks and rewards of ownership have transferred to the customer, recovery of the consideration is probable, and the amount of revenue can be measured reliably. Sales are presented net of tax, returns and discounts and are measured at the fair value of the consideration received or receivable from the customer for the products sold or services supplied. Service charges on customer account receivables are accrued each month on balances outstanding at each account's billing date.

**(D) Inventories** Inventories are valued at the lower of cost and net realizable value. The cost of warehouse inventories is determined using the weighted-average cost method. The cost of retail inventories is determined primarily using the retail method of accounting for general merchandise inventories and the cost method of accounting for food inventories on a first-in, first-out basis. Cost includes the cost to purchase goods net of vendor

allowances plus other costs incurred in bringing inventories to their present location and condition. Net realizable value is estimated based on the amount at which inventories are expected to be sold, taking into consideration fluctuations in retail prices due to obsolescence, damage or seasonality.

Inventories are written down to net realizable value if net realizable value declines below carrying amount. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed.

**(E) Vendor Rebates** Consideration received from vendors related to the purchase of merchandise is recorded on an accrual basis as a reduction in the cost of the vendor's products and reflected as a reduction of cost of sales and related inventory when it is probable they will be received and the amount can be reliably estimated.

**(F) Property and Equipment** Property and equipment are stated at cost less accumulated amortization and any impairment losses. Cost includes any directly attributable costs, borrowing costs on qualifying construction projects, and the costs of dismantling and removing the items and restoring the site on which they are located. When major components of an item of property and equipment have different useful lives, they are accounted for as separate items. Amortization is calculated from the dates assets are available for use using the straight-line method to allocate the cost of assets less their residual values over their estimated useful lives as follows:

Buildings	3% – 8%
Leasehold improvements	5% – 20%
Fixtures and equipment	8% – 33%
Computer equipment	12% – 33%

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Assets under construction and land are not amortized.

**(G) Impairment**

*Impairment of non-financial assets* Tangible assets and definite life intangible assets are reviewed at each balance sheet date to determine whether events or conditions indicate that their carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs of disposal and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For tangible and intangible assets excluding goodwill, the CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

Goodwill and indefinite life intangible assets are not amortized but are subject to an impairment test annually and whenever indicators of impairment are detected. Goodwill is allocated to CGUs that are expected to benefit from the synergies of the related business combination and represents the lowest level within the Company at which goodwill is monitored for internal management purposes. The goodwill asset balance relates to the Company's acquired subsidiary, Cost-U-Less, and is allocated to the International Operations operating segment.

Any impairment charge is recognized in the consolidated statement of earnings in the period in which it occurs, to the extent that the carrying value exceeds its recoverable amount. Where an impairment loss other than an impairment loss on goodwill subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. Impairment charges on goodwill are not reversed.

*Impairment of financial assets* Financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at their original effective interest rate.

All impairment losses are recognized in the consolidated statement of earnings. An impairment loss, except an impairment loss related to goodwill, is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

**(H) Leases** Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are accounted for as operating leases. Assets leased under operating leases are not recorded on the consolidated balance sheets. Rental payments are recorded in selling, operating and administrative expenses in the consolidated statements of earnings. Lease incentives received are recognized as part of the total lease expense, over the term of the lease.

Leases in which the Company has substantially all of the risks and rewards of ownership are accounted for as finance leases. At commencement, finance leases are capitalized at the lower of the fair value of the leased property and the present value of minimum lease payments, and are recorded in property and equipment on the consolidated balance sheets. Finance lease liabilities are recorded in long-term debt and are reduced by the amount of the lease payment net of imputed interest (finance charges).

**(I) Borrowing Costs** Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of the respective asset until it is ready for its intended use. Qualifying assets are those assets that necessarily take a substantial period of time to prepare for their intended use. Borrowing costs are capitalized based on the Company's weighted-average cost of borrowing. All other borrowing costs are expensed as incurred.

**(J) Goodwill** Goodwill represents the excess of the consideration transferred over the fair value of the identifiable assets, including intangible assets, and liabilities of the acquiree at the date of acquisition. Goodwill is not amortized but is subject to an impairment test annually and whenever indicators of impairment are detected. Goodwill is carried at cost less accumulated impairment losses.



**(K) Intangible Assets** Intangible assets with finite lives are carried at cost less accumulated amortization and any impairment loss. Amortization is recorded on a straight-line basis over the term of the estimated useful life of the asset as follows:

Software	3 – 7 years
Non-compete agreements	3 – 5 years

Intangible assets with indefinite lives comprise the Cost-U-Less banner. This asset is not amortized but instead is tested for impairment annually or more frequently if indicators of impairment are identified.

**(L) Share-based Payment Transactions**

*Equity settled plans* Certain stock options settled in common shares are equity settled share-based payment plans. The fair value of these plans is determined using an option pricing model. The grant date fair values of this benefit is recognized as an employee expense over the vesting period, with corresponding increases in equity.

*Cash settled plans* Certain stock options, Restricted Share Units, Performance Share Units, Employee Share Purchase Plan and the Director Deferred Share Unit Plan are cash settled share-based payments. These plans are measured at fair value at each balance sheet date and a charge or recovery recognized through the consolidated statement of earnings over the vesting period. A corresponding adjustment is reflected in accounts payable and accrued liabilities or other long-term liabilities.

The value of the charges under both cash settled and equity settled plans are adjusted in the consolidated statement of earnings to reflect expected and actual levels of benefits vesting.

**(M) Foreign Currency Translation** The accounts of foreign operations have been translated into the presentation currency, Canadian dollars. Assets and liabilities are translated at the period-end exchange rate, and revenues and expenses at the average rate for the period. Foreign exchange gains or losses arising from the translation of the net investment in foreign operations and the portion of the U.S. denominated borrowings designated as a hedge against this investment are recorded in equity as other comprehensive income. Foreign exchange gains or losses recorded in accumulated other comprehensive income (AOCI) are recognized in net earnings when there is a reduction in the net investment in foreign operations.

Items included in the financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (functional currency). Transactions in foreign currencies are translated to the respective functional currencies at exchange rates approximating the rates in effect at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date.

**(N) Income Taxes** Income tax expense includes taxes payable on current earnings and changes in deferred tax balances. Current income tax expense is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

The Company accounts for deferred income taxes using the liability method of tax allocation. Under the liability method, deferred income tax assets and liabilities are determined based

on the temporary differences between the financial statement carrying values and tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be realized or settled. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects to settle the carrying amount of its assets and liabilities. A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and there is a legally enforceable right to offset the amounts.

Income tax expense is recognized in the consolidated statement of earnings, except to the extent that it relates to items recognized directly in other comprehensive income or in equity, in which case the related income tax expense is also recognized in other comprehensive income or in equity respectively.

**(O) Employee Benefits** The Company maintains either a defined benefit or defined contribution pension plan for the majority of its Canadian employees, and an employee savings plan for its U.S. employees. Other benefits include employee bonuses, employee share purchase plans and termination benefits.

*Defined Benefit Pension Plan* The actuarial determination of the defined benefit obligations for pension benefits uses the projected unit credit method prorated on services which incorporates management's best estimate of the discount rate, salary escalation, retirement rates, termination rates and retirement ages of employees. The discount rate used to value the defined benefit obligation is derived from a portfolio of high quality Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit plan obligations. Bonds included in the curve are denominated in the currency in which the benefits will be paid that have terms to maturity approximating the terms of the related pension liability.

The amount recognized in the consolidated balance sheet at each reporting date represents the present value of the defined benefit obligation, and is reduced by the fair value of plan assets. Any recognized asset or surplus is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions. To the extent that there is uncertainty regarding entitlement to the surplus, no asset is recorded. The Company's funding policy is in compliance with statutory regulations and amounts funded are deductible for income tax purposes.

The actuarially determined expense for current service is recognized annually in the consolidated statement of earnings. The actuarially determined net interest costs on the net defined benefit plan obligation are recognized in interest expense.

All actuarial remeasurements arising from defined benefit plans are recognized in full in the period in which they arise in the consolidated statement of other comprehensive income, and are immediately recognized in retained earnings. The effect of the asset ceiling is also recognized in other comprehensive income.

*Defined Contribution Pension Plans* The Company sponsors defined contribution pension plans for eligible employees where fixed contributions are paid into a registered plan. There is no

obligation for the Company to pay any additional amount into these plans. Contributions to the defined contribution pension plans are expensed as incurred.

*Short-term Benefits* An undiscounted liability is recognized for the amount expected to be paid under short-term incentive plans or employee share purchase plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Termination Benefits* Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the effect is significant, benefits are discounted to present value.

- (P) Provisions** A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.
- (Q) Financial Instruments** Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits related from the financial asset expire, or the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. On initial recognition, all financial instruments are classified into one of the following categories: fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments, available-for-sale, or other financial liabilities.

Financial instruments have been classified as follows:

- Cash is designated as loans and receivables
- Accounts receivable and financial assets included in other assets are classified as loans and receivables
- Long-term debt, accounts payable and accrued liabilities, and certain other liabilities are classified as other financial liabilities

Financial instruments are initially recognized at fair value plus transaction costs; subsequent measurement and recognition of changes in value depends on their initial classification. Financial instruments classified as FVTPL are subsequently measured at fair value, with changes in fair value recorded in net earnings. Loans and receivables are subsequently carried at amortized cost less impairment losses. Interest revenue, consisting primarily of service charge income on customer accounts receivable, is included in sales in the consolidated statement of earnings. Other financial liabilities are subsequently held at amortized cost. Interest expense relating to long-term debt is recorded using the effective interest rate method and included in the consolidated statement of earnings as interest expense.

The Company is exposed to financial risks associated with movements in interest rates and exchange rates. The Company may use derivative financial instruments to hedge these exposures. Qualifying hedge relationships are classified as either fair value hedges, cash flow hedges or as a hedge of a net

investment in foreign operations. Fair value hedges are those where the derivative financial instrument hedges a change in the fair value of the financial asset or liability due to movements in interest rates. The Company does not have any cash flow hedges. Net investment hedges use financial liabilities to counterbalance gains and losses arising on the retranslation of foreign operations.

To qualify for hedge accounting, the Company documents its risk management strategy, the relationship between the hedging instrument and the hedged item or transaction and the nature of the risks being hedged. The Company also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will likely be highly effective on an ongoing basis.

To the extent that a fair value hedging relationship is effective, a gain or loss arising from the hedged item adjusts its carrying value and is reflected in earnings, offset by a change in fair value of the underlying derivative. Any changes in fair value of derivatives that do not qualify for hedge accounting are reported in earnings. Changes in fair value relating to the interest rate swaps are included in interest expense.

The Company has designated a portion of the U.S. denominated debt as a hedge of its net investment in U.S. operations. To the extent that the hedging relationship is effective, the foreign exchange gains and losses arising from translation of this debt are included in other comprehensive income. These gains and losses are subsequently recognized in earnings when the hedged item affects earnings.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in other comprehensive income is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is transferred to the income statement for the period.

Embedded derivatives are components of hybrid instruments that include non-derivative host contracts. These are separated from their host contracts and recorded on the consolidated balance sheets at fair value when certain conditions are met. Changes in the fair value of embedded derivatives are recognized in earnings.

- (R) Cash** Cash comprises cash on hand and balances with banks.
- (S) Net Earnings Per Share** Basic net earnings per share are calculated by dividing the net earnings by the weighted-average number of common shares outstanding during the period. Diluted net earnings per share is determined by adjusting net earnings and the weighted-average number of common shares outstanding for the effects of all potentially dilutive shares, which comprise shares issued under the Share Option Plan and Deferred Share Unit Plan.
- (T) Use of Estimates, Assumptions & Judgment** The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies, the reported amounts of revenues and expenses during the reporting period and disclosure of contingent assets and liabilities in the consolidated financial statements and notes. Judgment has been used in the application of accounting policy and to determine if a transaction should be recognized or disclosed in these financial statements while estimates and assumptions have been used to measure balances recognized or disclosed.

Estimates, assumptions and judgments 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 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.

The areas that management believes involve a higher degree of judgment or complexity, or areas where the estimates and assumptions may have the most significant impact on the amounts recognized in the consolidated financial statements include the following:

- Allowance for doubtful accounts is estimated based on expected customer payment experience, and influenced by specific customer behavior and regional economic factors (Notes 5, 14)
- Inventories are remeasured based on the lower of cost and net realizable value (Note 6)
- Impairment of capital assets is influenced by judgment in determining indicators of impairment and estimates used to measure impairment losses, if any (Note 7)
- Goodwill and indefinite life intangible asset impairment is dependent on judgment used to identify indicators of impairment and estimates used to measure impairment losses, if any (Note 8)
- Income taxes have judgment applied to determine when tax losses, credits and provisions are recognized based on tax rules in various jurisdictions (Note 9)
- Defined benefit pension plan obligation and expense depends on assumptions used in the actuarial valuation (Note 12)

**(U) Share capital** Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

**(V) New Standards Implemented** The Company adopted the amendments to IFRS listed below effective February 1, 2013, as required by the IASB.

*Employee benefits* The revised IAS 19, *Employee Benefits* (IAS 19r) issued by the IASB eliminates the option to defer the recognition of actuarial gains and losses on defined benefit plans. It amended the calculation of plan assets and benefit obligations, streamlined the presentation of changes in defined benefit plans and required enhanced disclosure. The requirement to calculate the expected return on plan assets with the interest rate used to calculate the defined benefit plan obligation was the most significant for the Company. Implementation of this standard in these financial statements required restatement of the 2012 comparative numbers. The impact for the year ended January 31, 2013 is a decrease in net earnings of \$1,260 comprised of an increase to interest expense of \$1,170, an increase to selling, operating and administrative expense of \$550, and a deferred tax recovery of \$460. There was a corresponding increase in OCI of \$1,260.

In addition to IAS 19r, the Company adopted 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 28r, *Investments in Associates and Joint Ventures*; IAS 1, *Presentation of Financial Statements*; and IFRS 13, *Fair Value Measurement*. These amendments had no material impact on the Company's results from operations or financial condition. The Company did not have any significant new disclosure as a result of adopting these amendments.

**(W) 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, 2014, and have not been applied in preparing these consolidated financial statements. Unless otherwise noted, the following revised standards and amendments are effective for the Company's annual periods beginning February 1, 2014.

*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 based on how an entity manages financial impairment, replacing the multiple classification options in IAS 39 with only two categories: amortized cost and fair value through profit or loss. Additional guidance was also issued on the classification and measurement of financial assets and liabilities and hedge accounting. The mandatory effective date of this standard has been deferred. The Company is currently assessing the potential impact of changes to this standard.

*Financial Instruments* Amendments to IFRS 7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation* are not expected to have any significant impact on the Company's consolidated financial statements.

*Levies* In May 2013, the IASB issued International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and applied retrospectively. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms a levy liability is recognized only when the triggering event specified in the legislation occurs. The Company is currently assessing the potential impact of these changes, if any.

*Offsetting Financial Assets and Liabilities* The amended IAS 32, *Financial Instruments: Presentation* clarifies the requirements that permit offsetting certain financial instruments. The Company is currently assessing the significance of these amendments to determine the potential impact, if any.

## 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:

<b>Consolidated Statements of Earnings</b>		
Year Ended	January 31, 2014	January 31, 2013
<b>Sales</b>		
Canada	\$ 1,022,985	\$ 1,043,050
International	520,140	470,596
Consolidated	\$ 1,543,125	\$ 1,513,646
<b>Earnings before amortization, interest and income taxes</b>		
Canada	\$ 111,225	\$ 106,510
International	27,111	27,207
Consolidated	\$ 138,336	\$ 133,717
<b>Earnings from operations</b>		
Canada	\$ 81,967	\$ 77,355
International	18,093	19,213
Consolidated	\$ 100,060	\$ 96,568

	January 31, 2014	January 31, 2013
<b>Assets</b>		
Canada	\$ 438,299	\$ 444,848
International	232,213	206,546
Consolidated	\$ 670,512	\$ 651,394

International total assets includes goodwill of \$29,424 (January 31, 2013 - \$26,162).

### Supplemental information

Year Ended	January 31, 2014		January 31, 2013	
	Canada	Int'l	Canada	Int'l
Expenditure on property and equipment	\$ 26,242	\$ 13,354	\$ 25,128	\$ 17,108
Amortization	\$ 29,258	\$ 9,018	\$ 29,155	\$ 7,994

## 5. ACCOUNTS RECEIVABLE

	January 31, 2014	January 31, 2013
<b>Current:</b>		
Trade accounts receivable	\$ 71,763	\$ 72,162
Corporate and other accounts receivable	10,188	11,920
Less: allowance for doubtful accounts	(11,424)	(14,042)
	\$ 70,527	\$ 70,040
<b>Non-current:</b>		
Long-term receivable (Note 10)	\$ 2,517	\$ 2,626
	\$ 73,044	\$ 72,666

The carrying values of current accounts receivable are a reasonable approximation of their fair values. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above (Note 14).

Movements in the allowance for doubtful accounts for customer and commercial accounts receivables are as follows:

	January 31, 2014	January 31, 2013
<b>Current:</b>		
Balance, beginning of year	\$ (14,042)	\$ (13,606)
Net charge	(7,858)	(7,606)
Written off	10,476	7,170
Balance, end of year	\$ (11,424)	\$ (14,042)

## 6. INVENTORIES

Retail inventories are valued at the lower of cost and net realizable value. Valuing retail inventories requires the Company to use estimates related to: discount factors used to convert inventory to cost; future retail sales prices and reductions; and inventory losses during periods between the last physical count and the balance sheet date. Included in cost of sales for the year ended January 31, 2014, the Company recorded \$1,522 (January 31, 2013 - \$1,648) 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 year ended January 31, 2014 or 2013.

## 7. PROPERTY & EQUIPMENT

<b>January 31, 2014</b>	Land	Buildings	Leasehold improvements	Fixtures & equipment	Computer equipment	Construction in process	Total
<b>Cost</b>							
Balance, beginning of year	\$ 12,144	\$ 321,858	\$ 38,659	\$ 223,727	\$ 63,311	\$ 19,245	\$ 678,944
Additions	2,852	20,719	5,999	16,330	4,354	(10,658)	39,596
Disposals	(5)	(695)	(558)	(787)	(3,324)	—	(5,369)
Effect of movements in foreign exchange	701	9,042	1,476	6,593	986	533	19,331
<b>Total January 31, 2014</b>	<b>\$ 15,692</b>	<b>\$ 350,924</b>	<b>\$ 45,576</b>	<b>\$ 245,863</b>	<b>\$ 65,327</b>	<b>\$ 9,120</b>	<b>\$ 732,502</b>
<b>Accumulated amortization</b>							
Balance, beginning of year	\$ —	\$ 172,051	\$ 22,099	\$ 155,024	\$ 55,743	\$ —	\$ 404,917
Amortization expense	—	16,142	2,909	12,633	3,757	—	35,441
Disposals	—	(509)	(8)	(631)	(3,236)	—	(4,384)
Effect of movements in foreign exchange	—	3,755	798	4,295	805	—	9,653
<b>Total January 31, 2014</b>	<b>\$ —</b>	<b>\$ 191,439</b>	<b>\$ 25,798</b>	<b>\$ 171,321</b>	<b>\$ 57,069</b>	<b>\$ —</b>	<b>\$ 445,627</b>
<b>Net book value January 31, 2014</b>	<b>\$ 15,692</b>	<b>\$ 159,485</b>	<b>\$ 19,778</b>	<b>\$ 74,542</b>	<b>\$ 8,258</b>	<b>\$ 9,120</b>	<b>\$ 286,875</b>

<b>January 31, 2013</b>	Land	Buildings	Leasehold improvements	Fixtures & equipment	Computer equipment	Construction in process	Total
<b>Cost</b>							
Balance, beginning of year	\$ 12,179	\$ 301,354	\$ 41,831	\$ 211,549	\$ 61,667	\$ 17,162	\$ 645,742
Additions	—	21,847	954	15,592	1,738	2,105	42,236
Disposals	(8)	(928)	(4,062)	(3,146)	(48)	—	(8,192)
Effect of movements in foreign exchange	(27)	(415)	(64)	(268)	(46)	(22)	(842)
<b>Total January 31, 2013</b>	<b>\$ 12,144</b>	<b>\$ 321,858</b>	<b>\$ 38,659</b>	<b>\$ 223,727</b>	<b>\$ 63,311</b>	<b>\$ 19,245</b>	<b>\$ 678,944</b>
<b>Accumulated amortization</b>							
Balance, beginning of year	\$ —	\$ 158,017	\$ 20,348	\$ 145,054	\$ 51,953	\$ —	\$ 375,372
Amortization expense	—	14,885	3,003	12,078	3,855	—	33,821
Disposals	—	(693)	(1,217)	(1,925)	(28)	—	(3,863)
Effect of movements in foreign exchange	—	(158)	(35)	(183)	(37)	—	(413)
<b>Total January 31, 2013</b>	<b>\$ —</b>	<b>\$ 172,051</b>	<b>\$ 22,099</b>	<b>\$ 155,024</b>	<b>\$ 55,743</b>	<b>\$ —</b>	<b>\$ 404,917</b>
<b>Net book value January 31, 2013</b>	<b>\$ 12,144</b>	<b>\$ 149,807</b>	<b>\$ 16,560</b>	<b>\$ 68,703</b>	<b>\$ 7,568</b>	<b>\$ 19,245</b>	<b>\$ 274,027</b>

The Company reviewed its property and equipment for indicators of impairment. No assets were identified as impaired.

### Interest capitalized

Interest attributable to the construction of qualifying assets was capitalized using an average rate of 3.68% and 3.49% for the years ended January 31, 2014 and 2013 respectively. Interest capitalized included in additions amounted to \$192 (January 31, 2013 - \$506). Accumulated interest capitalized included in the cost total above amounted to \$889 (January 31, 2013 - \$697).

## 8. GOODWILL & INTANGIBLE ASSETS

### Goodwill

	January 31, 2014	January 31, 2013
Balance, beginning of year	\$ 26,162	\$ 26,319
Additions	291	—
Effect of movements in foreign exchange	2,971	(157)
Balance, end of year	\$ 29,424	\$ 26,162

### Goodwill Impairment Testing

The goodwill asset balance relates to the Company's acquired subsidiary, Cost-U-Less, and is allocated to the International Operations operating segment. The value of the goodwill was tested by means of

comparing the recoverable amount of the operating segment to its carrying value. The recoverable amount is the greater of its value in use or its fair value less costs of disposal. To calculate the operating segment's value in use, the Company uses the capitalized earnings method. The product of maintainable earnings and a capitalization rate are used to determine the recoverable amount. The capitalization rate is based on the International Operations weighted-average cost of capital. Key assumptions in the capitalization rate include: equity risk premium, debt-to-equity ratio, pre-tax cost of debt capital and company specific risk premium. Cash flow forecasts for the following financial year are used to calculate maintainable earnings, to which a terminal growth rate of 2% has been applied. The capitalization rate implies a post-tax discount rate of 10.6% (January 31, 2013 - 10.9%), which equates to a pre-tax rate of approximately 14.0% (January 31, 2013 - 14.5%). No impairment has been identified on goodwill, and management considers reasonably foreseeable changes in key assumptions are unlikely to produce a goodwill impairment.

### Intangible assets

January 31, 2014	Software	Cost-U-Less banner	Other	Total
<b>Cost</b>				
Balance, beginning of year	\$ 24,552	\$ 6,985	\$ 6,450	\$ 37,987
Additions	2,211	—	1,109	3,320
Write off of fully amortized assets	(1,545)	—	—	(1,545)
Effect of movements in foreign exchange	—	798	428	1,226
Total January 31, 2014	\$ 25,218	\$ 7,783	\$ 7,987	\$ 40,988
<b>Accumulated Amortization</b>				
Balance, beginning of year	\$ 13,926	\$ —	\$ 3,925	\$ 17,851
Amortization expense	1,891	—	944	2,835
Write off of fully amortized assets	(1,545)	—	—	(1,545)
Effect of movements in foreign exchange	—	—	333	333
Total January 31, 2014	\$ 14,272	\$ —	\$ 5,202	\$ 19,474
<b>Net book value January 31, 2014</b>	<b>\$ 10,946</b>	<b>\$ 7,783</b>	<b>\$ 2,785</b>	<b>\$ 21,514</b>

January 31, 2013	Software	Cost-U-Less banner	Other	Total
<b>Cost</b>				
Balance, beginning of year	\$ 15,868	\$ 7,027	\$ 8,123	\$ 31,018
Additions	8,684	—	213	8,897
Write off of fully amortized assets	—	—	(1,867)	(1,867)
Effect of movements in foreign exchange	—	(42)	(19)	(61)
Total January 31, 2013	\$ 24,552	\$ 6,985	\$ 6,450	\$ 37,987
<b>Accumulated Amortization</b>				
Balance, beginning of year	\$ 11,996	\$ —	\$ 4,402	\$ 16,398
Amortization expense	1,930	—	1,398	3,328
Write off of fully amortized assets	—	—	(1,867)	(1,867)
Effect of movements in foreign exchange	—	—	(8)	(8)
Total January 31, 2013	\$ 13,926	\$ —	\$ 3,925	\$ 17,851
<b>Net book value January 31, 2013</b>	<b>\$ 10,626</b>	<b>\$ 6,985</b>	<b>\$ 2,525</b>	<b>\$ 20,136</b>



## Work in process

As at January 31, 2014 the Company had incurred \$284 (January 31, 2013 - \$6,519) for intangible assets that were not yet available for use, and therefore not subject to amortization.

## Intangible Asset Impairment Testing

The Company determines the fair value of the Cost-U-Less banner using the Relief from Royalty approach. This method requires management to make long-term assumptions about future sales, terminal growth rates, royalty rates and discount rates. Sales forecasts for the following financial year together with medium and terminal growth rates ranging from 2% to 5% are used to estimate future sales, to which a royalty rate of 0.5% is applied. The present value of this royalty stream is compared to the carrying value of the asset. No impairment has been identified on intangible assets and management considers reasonably foreseeable changes in key assumptions are unlikely to produce an intangible asset impairment.

## 9. INCOMETAXES

The following are the major components of income tax expense:

Year Ended	January 31, 2014	January 31, 2013
<b>Current tax expense:</b>		
Current tax on earnings for the year	\$ 35,493	\$ 30,199
Withholding taxes	69	207
Under provision in prior years	223	740
	<b>\$ 35,785</b>	\$ 31,146
<b>Deferred tax expense:</b>		
Origination and reversal of temporary differences	\$ (7,781)	\$ (4,456)
Impact of change in tax rates	(9)	(48)
Under (over) provision in prior years	18	(941)
	<b>(7,772)</b>	(5,445)
Income taxes	<b>\$ 28,013</b>	\$ 25,701

Income tax expense varies from the amounts that would be computed by applying the statutory income tax rate to earnings before taxes for the following reasons:

Year Ended	January 31, 2014	January 31, 2013
Net earnings before income taxes	\$ 92,276	\$ 89,589
Combined statutory income tax rate	<b>28.4%</b>	28.2%
Expected income tax expense	<b>\$ 26,206</b>	\$ 25,264
<b>Increase (decrease) in income taxes resulting from:</b>		
Non-deductible expenses/non-taxable income	\$ (115)	\$ (183)
Unrecognized income tax losses	1,674	638
Withholding taxes	69	207
Impact of change in tax rates	(9)	(48)
Over provision in prior years	241	(201)
Other	(53)	24
Provision for income taxes	<b>\$ 28,013</b>	\$ 25,701
Income tax rate	<b>30.4%</b>	28.7%

Deferred tax assets of \$2,800 arising from certain foreign income tax losses were not recognized on the consolidated balance sheet. The income tax losses expire from 2022 - 2024.

Deferred income tax charged (credited) to other comprehensive income during the year is as follows:

Year Ended	January 31, 2014	January 31, 2013
<b>Net investment hedge:</b>		
Origination and reversal of temporary difference	\$ (1,057)	\$ 56
Impact of change in tax rates	1	6
	<b>\$ (1,056)</b>	\$ 62
<b>Defined benefit plan actuarial loss:</b>		
Origination and reversal of temporary difference	\$ 2,854	\$ (498)
Impact of change in tax rates	(5)	(27)
	<b>2,849</b>	(525)
<b>Investments:</b>		
Origination and reversal of temporary difference	\$ (47)	\$ —
	<b>\$ (47)</b>	\$ —
	<b>\$ 1,746</b>	\$ (463)

Income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

January 31, 2014	February 1, 2013	Taxes (charged) credited to net earnings	Taxes (charged) credited to OCI	Foreign exchange differences recognized in OCI	January 31, 2014
<b>Deferred tax assets:</b>					
Goodwill & intangible assets	\$ 418	\$ 70	\$ —	\$ (32)	<b>\$ 456</b>
Property & equipment	10,429	1,700	—	96	<b>12,225</b>
Inventory	1,614	154	—	118	<b>1,886</b>
Share-based compensation and long-term incentive plans	3,371	31	—	61	<b>3,463</b>
Defined benefit plan obligation	7,607	183	(2,849)	—	<b>4,941</b>
Accrued expenses not deductible for tax	4,174	78	—	338	<b>4,590</b>
Other	1,721	(222)	—	100	<b>1,599</b>
	<b>\$ 29,334</b>	<b>\$ 1,994</b>	<b>\$ (2,849)</b>	<b>\$ 681</b>	<b>\$ 29,160</b>
<b>Deferred tax liabilities:</b>					
Net investment hedge	\$ (1,241)	\$ —	\$ 1,056	\$ —	<b>\$ (185)</b>
Investment in jointly controlled entity	(1,149)	2	47	—	<b>(1,100)</b>
Deferred limited partnership earnings	(15,870)	5,731	—	—	<b>(10,139)</b>
Other	(196)	45	—	—	<b>(151)</b>
	<b>\$ (18,456)</b>	<b>\$ 5,778</b>	<b>\$ 1,103</b>	<b>\$ —</b>	<b>\$ (11,575)</b>
	<b>\$ 10,878</b>	<b>\$ 7,772</b>	<b>\$ (1,746)</b>	<b>\$ 681</b>	<b>\$ 17,585</b>

**Recorded on the consolidated balance sheet as follows:**

Year Ended	January 31, 2014	January 31, 2013
Deferred tax assets	<b>\$ 19,597</b>	\$ 12,904
Deferred tax liabilities	<b>(2,012)</b>	(2,026)
	<b>\$ 17,585</b>	\$ 10,878

January 31, 2013	February 1, 2012	Taxes (charged) credited to net earnings	Taxes (charged) credited to OCI	Foreign exchange differences recognized in OCI	January 31, 2013
<b>Deferred tax assets:</b>					
Goodwill & intangible assets	\$ 467	\$ (50)	\$ —	\$ 1	\$ 418
Property & equipment	8,089	2,337	—	3	10,429
Inventory	1,507	113	—	(6)	1,614
Share-based compensation and long-term incentive plans	1,693	1,678	—	—	3,371
Defined benefit plan obligation	7,366	(284)	525	—	7,607
Accrued expenses not deductible for tax	3,756	430	—	(12)	4,174
Other	898	821	—	2	1,721
	\$ 23,776	\$ 5,045	\$ 525	\$ (12)	\$ 29,334
<b>Deferred tax liabilities:</b>					
Net investment hedge	\$ (1,179)	\$ —	\$ (62)	\$ —	\$ (1,241)
Investment in jointly controlled entity	(1,086)	(63)	—	—	(1,149)
Deferred limited partnership earnings	(16,260)	390	—	—	(15,870)
Other	(269)	73	—	—	(196)
	\$ (18,794)	\$ 400	\$ (62)	\$ —	\$ (18,456)
	\$ 4,982	\$ 5,445	\$ 463	\$ (12)	\$ 10,878

**Recorded on the consolidated balance sheet as follows:**

Deferred tax assets	\$ 12,904
Deferred tax liabilities	(2,026)
	\$ 10,878

In assessing the recovery of deferred income tax assets, management considers whether it is probable that the deferred income tax assets will be realized. The recognition and measurement of the current and deferred tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations and in the assessment of the recoverability of deferred tax assets. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences are deductible.

Actual income taxes could vary from these estimates as a result of future events, including changes in income tax laws or the outcome of tax reviews by tax authorities and related appeals. To the extent the final outcome is different from the amounts initially recorded, such differences, which could be significant, will impact the tax provision in the period in which the outcome is determined.

No deferred tax has been recognized in respect of temporary differences associated with investments in subsidiaries where the Company is in a position to control the timing and reversal of the differences and it is probable that such differences will not reverse in the foreseeable future. The temporary differences associated with the Company's foreign subsidiaries are approximately \$60,000 at January 31, 2014 (January 31, 2013 – \$53,000).

## 10. OTHER ASSETS

	January 31, 2014	January 31, 2013
Investment in jointly controlled entity (Note 23)	\$ 8,223	\$ 8,590
Long-term receivable (Note 5)	2,517	2,626
Other	3,291	3,053
	\$ 14,031	\$ 14,269

## 11. LONG-TERM DEBT

	January 31, 2014	January 31, 2013
<b>Current:</b>		
Notes payable	\$ 148	\$ 199
Finance lease liabilities	76	250
Revolving loan facilities <sup>(2)</sup>	—	39,968
Senior notes <sup>(4)</sup>	77,576	—
	<b>\$ 77,800</b>	<b>\$ 40,417</b>
<b>Non-current</b>		
Revolving loan facilities <sup>(1)</sup>	\$ 1,302	\$ 718
Revolving loan facilities <sup>(2)</sup>	40,028	—
Revolving loan facilities <sup>(3)</sup>	63,607	52,499
Senior notes <sup>(4)</sup>	—	69,461
Notes payable	62	189
Finance lease liabilities	63	70
	<b>\$ 105,062</b>	<b>\$ 122,937</b>
<b>Total</b>	<b>\$ 182,862</b>	<b>\$ 163,354</b>

(1) This committed, revolving facility provides the Company with up to US\$30,000 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 January 31, 2014, the International Operations had drawn US\$1,171 (January 31, 2013 – US\$719) on this facility.

(2) On December 9, 2013, the Company completed the refinancing of the US\$52,000 loan facilities in the International Operations. The new, committed, revolving loan facilities mature December 31, 2018 and bear interest at LIBOR plus a spread. The loan facilities 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 \$200,000 Canadian Operations loan facilities. At January 31, 2014, the Company had drawn US\$36,000 (January 31, 2013 – US\$40,000) on these facilities.

(3) On December 9, 2013, the Company completed the refinancing of the \$170,000 loan facilities in the Canadian Operations. The new, increased, committed, revolving loan facilities provide the Company with up to \$200,000 for working capital requirements and general business purposes. The new facilities mature December 31, 2018 and 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.

(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 \$200,000 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 (January 31, 2013 – US\$28,000). The interest rate swaps mature June 15, 2014.

## 12. POST-EMPLOYMENT BENEFITS

The Company sponsors defined benefit and defined contribution pension plans covering the majority of Canadian employees. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan, which incorporated legislated changes, administrative practice, and added a defined contribution provision (the "Amended Plan"). Under the Amended Plan, all members as of December 31, 2011 who did not meet a qualifying threshold based on number of years in the pension plan and age were transitioned to the defined contribution pension plan effective January 1, 2011 and no longer accumulate years of service under the defined benefit pension plan. The defined benefit pension previously earned by members transitioned to the defined contribution plan, will continue to accrue in accordance with the terms of the plan based on the member's current pensionable earnings. Members who met the qualifying threshold on January 1, 2011, elected between accruing a defined contribution benefit and continuing to accrue a defined benefit pension in accordance with the provisions of the Amended Plan.

The defined benefit pension plans are based on years of service and final average salary. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes as at January 31, 2014 and January 31, 2013. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 2014. The next actuarial valuation is required as at January 1, 2017. The Company also sponsors an employee savings plan covering all U.S. employees with at least six months of service. Under the terms of the plan, the Company is obligated to make a 50% matching contribution up to 6% of eligible compensation.

During the year ended January 31, 2014, the Company contributed \$3,829 to its defined benefit pension plans (January 31, 2013 - \$5,583). During the year ended January 31, 2014, the Company contributed \$2,310 to its defined contribution pension plans (January 31, 2013 - \$2,001). The current best estimate of the Company's funding obligation for the defined benefit pension plans for the year commencing February 1, 2014 is \$3,288 of which approximately \$1,500 may be settled by the issuance of a letter of credit in accordance with pension legislation. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

## Movement in plan assets and defined benefit obligation

Information on the Company's defined benefit plans, in aggregate, is as follows:

	January 31, 2014	January 31, 2013
<b>Plan assets:</b>		
Fair value, beginning of year	\$ 65,139	\$ 57,893
Accrued interest on assets	2,771	2,630
Benefits paid	(3,726)	(4,441)
Plan administration costs	(530)	(550)
Employer contributions	3,829	5,583
Employee contributions	33	12
Return on assets greater than discount rate	7,911	4,012
Fair value, end of year	\$ 75,427	\$ 65,139
<b>Plan obligations:</b>		
Defined benefit obligation, beginning of year	\$ (93,570)	\$ (85,509)
Current service costs	(2,812)	(2,870)
Employee contributions	(33)	(12)
Interest on plan liabilities	(3,897)	(3,748)
Benefits paid	3,726	4,441
Actuarial remeasurement due to:		
Plan experience	563	(2,567)
Financial assumptions	4,011	(3,305)
Mortality assumptions	(1,832)	—
Defined benefit obligation, end of year	\$ (93,844)	\$ (93,570)
Plan deficit	\$ (18,417)	\$ (28,431)

The defined benefit obligation exceeds the fair value of plan assets as noted in the table. The decrease in the plan deficit is primarily due to an increase in plan assets attributed to asset returns. An increase in the discount rate used to measure plan liabilities was also a factor.

## Defined benefit obligation

The following significant actuarial assumptions were employed to measure the plan:

	January 31, 2014	January 31, 2013
Discount rate on plan liabilities	4.50%	4.25%
Rate of compensation increase	4.00%	4.00%
Discount rate on plan expense	4.25%	4.50%
Inflation assumption	2.00%	2.00%

The assumptions used are the best estimates chosen from a range of possible actuarial assumptions, which may not necessarily be borne out in practice.

The average life expectancy in years of a member who reaches normal retirement age of 65 is as follows:

	January 31, 2014	January 31, 2013
<b>Average life expectancies at age 65 for current pensioners:</b>		
Male	20.5	19.8
Female	22.8	22.1
<b>Average life expectancies at age 65 for current members aged 45:</b>		
Male	20.7	19.9
Female	22.6	21.8

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. Mortality assumptions have been based on 92% of the 1994 United Pensioners Mortality Table with projections using scale AA.

## Sensitivity of key assumption

The following table outlines the sensitivity of a 1% change in the discount rate used to measure the defined benefit plan obligation and cost for the defined benefit pension plans. The table reflects the impact on both the current service and interest cost expense components.

The sensitivity analysis provided in the key assumption table is hypothetical and should be used with caution. The sensitivities have been calculated independently of any changes in other assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Defined benefit plan obligation	Benefit plan cost
<b>Discount rate: 4.5%</b>		
Impact of: 1% increase	\$ (14,151)	\$ (1,015)
1% decrease	\$ 18,267	\$ 1,065

## Plan assets

The major categories of plan assets as a percentage of total plan assets are listed below. The pension plans have no direct investment in the shares of the Company.

	January 31, 2014	January 31, 2013
<b>Plan assets:</b>		
Equity securities	62%	62%
Debt securities	38%	33%
Other	—	5%
Total	100%	100%

## Governance and plan management

The Company's Pension Committees oversee the pension plans. These committees are responsible for assisting the Board of Directors to fulfill its governance responsibilities for the plans. The committees assist with plan administration, regulatory compliance, pension investment and monitoring responsibilities.

Plan assets are subject to the risk that changes in market prices, such as interest rates, foreign exchange and equity prices will affect their value. A Statement of Investment Policy and Procedures ("SIPP") guides the investing activity of the defined benefit pension plans to mitigate market risk. Assets are expected to achieve, over moving three to four-year periods, a return at least equal to a composite benchmark made up of passive investments in appropriate market indices. These indices are consistent with the policy allocation in the SIPP.

Periodically, an Asset-Liability Modeling study is done to update the policy allocation between liability hedging assets and return seeking assets. This is consistent with managing both the funded status of the defined benefit pension plans and the Company's long-term costs. It assists with adequately securing benefits and mitigating year-to-year fluctuations in the Company's cash contributions and pension expense. The defined benefit plans are subject to, and actively manage, the following specific market risks:

*Interest rate risk:* is managed by allocating a portion of plan investments to liability hedging assets, comprised of a passive universe bond fund.

*Currency risk:* is managed through asset allocation. A significant portion of plan assets are denominated in the same currency as plan obligations.

*Equity price risk:* The defined benefit pension plans are directly exposed to equity price risk on return seeking assets. Fair value or future cash flows will fluctuate due to changes in market prices because they may not be offset by changes in obligations. Investment management of plan assets is outsourced to independent managers.

## Statement of earnings and comprehensive income

The following pension expenses have been charged to the consolidated statement of earnings:

	January 31, 2014	January 31, 2013
<b>Employee costs (Note 17)</b>		
Defined benefit pension plan, current service costs included in post-employment benefits	\$ 2,812	\$ 2,870
Plan administration costs	530	550
Defined contribution pension plan	2,310	2,001
Savings plan for U.S. employees	434	411
	<b>\$ 6,086</b>	<b>\$ 5,832</b>
<b>Interest expense (Note 18)</b>		
Accrued interest on assets	\$ (2,771)	\$ (2,630)
Interest on plan liabilities	3,897	3,748
	<b>\$ 1,126</b>	<b>\$ 1,118</b>

The following amounts have been included in Other Comprehensive Income:

	January 31, 2014	January 31, 2013
<b>Current Year:</b>		
Return on assets greater than discount rate	\$ 7,911	\$ 4,012
Actuarial remeasurement due to:		
Plan experience	563	(2,567)
Financial assumptions	4,011	(3,305)
Mortality assumptions	(1,832)	—
Taxes on actuarial remeasurement in OCI	(2,849)	525
Net actuarial remeasurement recognized in OCI	<b>\$ 7,804</b>	<b>\$ (1,335)</b>
<b>Cumulative gains/losses recognized in OCI:</b>		
Cumulative gross actuarial remeasurement in OCI	\$ (10,593)	\$ (21,246)
Taxes on cumulative actuarial remeasurement in OCI	750	3,599
Total actuarial remeasurement recognized in OCI, net	<b>\$ (9,843)</b>	<b>\$ (17,647)</b>

The actual return on the plans assets is summarized as follows:

	January 31, 2014	January 31, 2013
Accrued interest on assets	\$ 2,771	\$ 2,630
Return on assets greater than discount rate	7,911	4,012
Actual return on plan assets	<b>\$ 10,682</b>	<b>\$ 6,642</b>

## 13. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Restricted Share Units (RSUs); Performance Share Units (PSUs); Share Options; Director Deferred Share Units (DSUs); 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.

The total expense relating to share-based payment plans for the year ended January 31, 2014 was \$8,934 (January 31, 2013 - \$8,440). 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:

	January 31, 2014	January 31, 2013
Accounts payable and accrued liabilities	\$ 7,688	\$ 7,437
Other long-term liabilities	6,593	5,506
Contributed surplus	1,959	1,916
Total	<b>\$ 16,240</b>	<b>\$ 14,859</b>



### Restricted Share Units and Performance Share Units

The Company has granted Restricted Share Units and Performance Share Units to officers and senior management.

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. The RSU account for each participant includes the value of dividends from the Company as if reinvested in additional RSUs. RSU 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.

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 RSUs and PSUs for the year ended January 31, 2014 are \$5,267 (January 31, 2013 - \$5,527).

### 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. 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 January 31, 2014. 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 year ended January 31, 2014 is \$1,934 (January 31, 2013 - \$1,288).

The fair values for options issued during the year were calculated based on the following assumptions:

	2013	2012
Fair value of options granted	\$ 3.28 to 4.46	\$ 3.35 to 4.62
Exercise price	\$ 23.21	\$ 21.86
Dividend yield	4.4%	4.7%
Annual risk-free interest rate	1.3% to 1.4%	1.6% to 1.7%
Expected share price volatility	26.0%	28.0%

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

	2013	2012
Dividend yield	4.4%	4.5%
Annual risk-free interest rate	1.0% to 1.6%	1.3% to 1.5%
Expected share price volatility	19.2% to 22.2%	20.9% to 25.8%

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 year:

Number of options outstanding	Declining Strike Price Options		Standard Options	
	2013	2012	2013	2012
Outstanding options, beginning of year	580,015	315,812	556,932	548,486
Granted	316,679	328,677	67,580	63,177
Exercised	—	—	(98,132)	(26,430)
Forfeited or cancelled	—	(64,474)	—	(28,301)
Outstanding options, end of year	896,694	580,015	526,380	556,932
Exercisable at end of year	—	—	132,301	59,165

Weighted-average exercise price	Declining Strike Price Options		Standard Options	
	2013	2012	2013	2012
Outstanding options, beginning of year	\$ 21.12	\$ 20.34	\$ 18.07	\$ 17.45
Granted	23.21	21.86	23.21	21.86
Exercised	—	—	16.09	15.25
Forfeited or cancelled	—	21.11	—	17.31
Outstanding options, end of year	\$ 21.86	\$ 21.12	\$ 19.10	\$ 18.07
Exercisable at end of year	\$ —	\$ —	\$ 17.11	\$ 15.25

#### Summary of options outstanding by grant year

Grant year	Range of exercise price	Outstanding		Exercisable		
		Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Options exercisable	Weighted-average exercise price
2009	\$ 15.25-17.18	140,437	5.4	\$ 15.25	68,900	\$ 15.25
2010	\$ 17.19-19.74	199,000	6.2	\$ 19.13	63,401	19.13
2011	\$ 19.94-21.24	340,296	4.5	\$ 20.40	NIL	N/A
2012	\$ 21.25-22.53	359,082	5.2	\$ 21.86	NIL	N/A
2013	\$ 22.54-23.21	384,259	6.2	\$ 23.21	NIL	N/A

#### Director Deferred Share Unit Plan

The Director DSU 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 DSU. Each deferred share unit entitles the holder to receive a share of the Company. The DSUs 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 DSUs, 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 DSUs.

Compensation expense is measured based on the fair market value at each reporting date. The DSU plan compensation recorded for the year ended January 31, 2014 is an expense of \$1,031 (January 31, 2013 – \$969). The total number of deferred share units outstanding at January 31, 2014 is 145,806 (January 31, 2013 – 136,685). There were 20,629 DSUs exercised during the year ended January 31, 2014 (January 31, 2013 – 4,698). These DSUs were settled in cash.

## 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 recorded for the year ended January 31, 2014 is \$702 (January 31, 2013 – \$656).

## Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company's operational cash flow is reasonably stable and predictable. This reflects the business risk profile of the majority of markets in which the Company operates and its product mix. Cash flow forecasts are produced regularly and reviewed against the Company's debt portfolio capacity and maturity profile to assist management in identifying future liquidity requirements. The Company's funding strategy is to ensure a mix of funding sources offering flexibility and cost effectiveness to match the business requirements.

The Company is financed by a combination of cash flow from operating activities, bank advances, senior notes and committed revolving loan facilities. At January 31, 2014, the Company had undrawn committed revolving loan facilities available of \$172,463 (January 31, 2013 - \$144,122) which mature in 2015 and 2018 (see Note 11).

The following table analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows or an estimation in respect of floating interest rate liabilities, and as a result may not agree to the amounts disclosed on the balance sheet.

	2014	2015	2016	2017	2018	2019+	Total
Accounts payable and accrued liabilities	\$ 128,999	—	—	—	—	—	\$ 128,999
Interest rate swap payable <sup>(1)</sup>	457	—	—	—	—	—	457
Current portion of long-term debt (Note 11)	79,893	—	—	—	—	—	79,893
Long-term debt (Note 11)	2,042	3,275	1,952	1,952	105,424	—	114,645
Operating leases (Note 21)	25,264	21,233	18,444	15,999	13,180	56,148	150,268
Total	\$ 236,655	24,508	20,396	17,951	118,604	56,148	\$ 474,262

(1) Based on variable pay interest. This will be partially offset by a fixed interest receipt.

## Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposures to credit risk arise primarily from holdings of cash and its customer and commercial accounts receivable.

To mitigate credit risk, the Company maintains deposits with financial institutions with minimum equivalent short-term credit ratings of "A1." The maximum exposure on cash is equal to the carrying amount of these instruments.

It is the Company's policy that customers who wish to trade on credit terms are subject to credit verification procedures including policies governing: credit approvals, limits, collections and fraud prevention. The Company provides impairment allowances for potentially uncollectible accounts receivable. Receivable balances are comprised of approximately forty thousand customers spread across a wide geography, substantially reducing the Company's risk through the diversity of its customer base. Further, receivables are centrally monitored on an ongoing basis with the result that the Company's exposure to individual customers is generally not significant. The maximum exposure net of impairment allowances is \$73,044 (January 31, 2013 - \$72,666). The Company does not have any individual customers greater than 10% of total accounts receivable. At January 31, 2014, the Company's gross maximum credit risk exposure is \$84,468 (January 31, 2013 - \$86,708). Of this amount, \$13,706 (January 31, 2013 - \$17,850) is more than 60 days past due.

## 14. FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks including liquidity risk, credit risk and market risk. The Company's overall risk management program focuses on minimizing potential adverse effects on financial performance.

The Company manages funding and financial risk management with oversight provided by the Board of Directors, who also approve specific financial transactions. The Company uses derivative financial instruments only to hedge exposures arising in respect of underlying business requirements and not for speculative purposes.

The Company has recorded an allowance against its maximum exposure to credit risk of \$11,424 (January 31, 2013 - \$14,042) which is based on historical payment records for similar financial assets.

As at January 31, 2014 and 2013, the Company has no significant credit risk related to derivative financial instruments.

## Market risk

(a) *Currency risk* The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Foreign exchange risk arises from U.S. dollar denominated borrowings and net investments in foreign operations.

Management is responsible for managing foreign currency risk. The Company's U.S. dollar net investment is exposed to foreign currency translation risk. A significant portion of this risk has been hedged with U.S. dollar denominated borrowings.

In respect of recognized foreign currency assets and liabilities, the Company has limited exposure. Procurement and related borrowing activity are generally conducted in currencies matching cash flows generated by underlying operations, providing an economic hedge without sophisticated treasury management. Short-term imbalances in foreign currency holdings are rectified by buying or selling at spot rates when necessary.

Management considers a 10% variation in the Canadian dollar relative to the U.S. dollar reasonably possible. Considering all major exposures to the U.S. dollar as described above, a 10% appreciation of the Canadian dollar against the U.S. dollar in the year-end rate would cause net income to decrease by approximately \$100. A 10% depreciation of the Canadian dollar against the U.S. dollar year-end rate would cause net income to increase by approximately \$100.

- (b) *Interest rate risk* Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its long-term borrowings. The Company manages exposure to interest rate risk by monitoring its blend of fixed and floating interest rates, and modifying this blend using interest rate swaps. Under the terms of the swaps, the Company receives fixed interest and pays floating rate interest at a fixed spread above three-month LIBOR. The goal of management is to manage the trade-off between obtaining the most beneficial effective rates of interest, while minimizing the impact of interest rate volatility on earnings.

Management considers a 100 basis point change in interest rates reasonably possible. Considering all major exposures to interest rates as described above, a 100 basis point increase in the risk-free rate would cause net income to decrease by approximately \$1,332. A 100 basis point decrease would cause net income to increase by approximately \$1,332.

- (c) *Accounting classifications and fair value estimation* The following table comprises the carrying amounts of the Company's financial instruments. Financial instruments are either carried at amortized cost using the effective interest rate method or fair value.

The Company uses a three-level hierarchy to categorize financial instruments carried at fair value as follows:

- Level 1 – Fair values measured using quoted prices (unadjusted) in active markets for identical instruments
- Level 2 – Fair values measured using directly or indirectly observable inputs, other than those included in Level 1
- Level 3 – Fair values measured using inputs that are not based on observable market data

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.

January 31, 2014	Assets (Liabilities) carried at amortized cost			Assets (Liabilities) carried at fair value	
	Maturity	Carrying amount	Fair value	Carrying amount	
Cash	Short-term	\$ 22,353	\$ 22,353	\$ —	
Accounts receivable	Short-term	70,527	70,527	—	
Other financial assets	Long-term	3,761	3,761	—	
Accounts payable and accrued liabilities	Short-term	(128,999)	(128,999)	—	
Financial derivative instruments <sup>(1)</sup>	Long-term	—	—	302	
Current portion of long-term debt <sup>(1)</sup>	Short-term	(78,102)	(77,994)	—	
Long-term debt	Long-term	(105,062)	(105,062)	—	

(1) These items total \$77,800 which comprise the carrying amount of debt presented as current (Note 11).

January 31, 2013	Assets (Liabilities) carried at amortized cost			Assets (Liabilities) carried at fair value	
	Maturity	Carrying amount	Fair value	Carrying amount	
Cash	Short-term	\$ 38,675	\$ 38,675	\$ —	
Accounts receivable	Short-term	70,040	70,040	—	
Other financial assets	Long-term	3,664	3,664	—	
Accounts payable and accrued liabilities	Short-term	(130,501)	(130,501)	—	
Financial derivative instruments <sup>(1)</sup>	Long-term	—	—	945	
Current portion of long-term debt	Short-term	(40,417)	(40,417)	—	
Long-term debt <sup>(1)</sup>	Long-term	(123,882)	(125,046)	—	

(1) These items total \$122,937 which comprise the carrying amount of debt presented as long-term (Note 11).

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 long-term debt with fixed interest rates 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.
- The derivative financial instruments have been measured using a generally accepted valuation technique. The pricing model incorporates current market measures for interest rates, credit spreads, volatility levels and other market-based pricing factors.

The portion of debt in an effective fair value hedging relationship and derivative financial instruments are classified as Level 2, as they are primarily derived from observable interest rates. There would be no significant effect on net income if one or more of the assumptions used to fair value these instruments were changed to other reasonably possible alternatives. No financial instruments have been classified as Level 1 or Level 3.

#### Financial derivative instruments

The Company holds interest rate swaps with a notional value of US \$28,000 (January 31, 2013 – US\$28,000) to hedge a portion of the fixed rate senior notes due in 2014. Under the terms of the swaps, the Company receives fixed interest and pays floating rate interest at a fixed spread above three-month LIBOR.

The following table summarizes the Company's outstanding financial derivative instruments at January 31:

January 31, 2014	Notional value	Interest rate	Fair value
Interest rate swaps in effective fair value hedging relationship	US\$28,000 (2012 - US\$28,000)	LIBOR plus 3.67%	\$ 302 (2012 - \$945)

#### Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate total return to shareholders while maintaining a capital structure that provides the flexibility to take advantage of the growth opportunities of the business, maintain existing assets, meet obligations and financial covenants and enhance shareholder value. The capital structure of the Company consists of bank advances, long-term debt and shareholders' equity. The Company manages capital to optimize efficiency through an appropriate balance of debt and equity. In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue additional shares, borrow additional funds, adjust the amount of dividends paid or refinance debt at different terms and conditions.

The Company's process and policies for managing capital are monitored by management and are reflected in the following measures:

(a) *Debt-to-equity ratio* At January 31, 2014, the debt-to-equity ratio was 0.57 compared to 0.55 last year. The debt-to-equity ratio is within the Company's objectives. The debt-to-equity ratio is calculated as follows:

	January 31, 2014	January 31, 2013
Current portion of long-term debt	\$ 77,800	\$ 40,417
Long-term debt	105,062	122,937
Total debt	\$ 182,862	\$ 163,354
Total equity	\$ 322,440	\$ 296,250
Debt-to-equity ratio	0.57	0.55

(b) *Financial covenants* As a result of borrowing agreements entered into by the Company, there are certain financial covenants that must be maintained. Financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. Compliance with financial covenants is reported quarterly to the Board of Directors. During the years ended January 31, 2014 and 2013, the Company is in compliance with all financial covenants. Other than the requirements imposed by these borrowing agreements and solvency tests imposed by the CBCA, the Company is not subject to any externally imposed capital requirements.

Capital management objectives are reviewed on an annual basis. The capital management objectives were substantially unchanged for the year ended January 31, 2014.

## 15. SHARE CAPITAL

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

	Shares	Consideration
Balance at January 31, 2013	48,388,721	\$ 165,358
Issued under option plans (Note 13)	37,066	\$ 711
Balance at January 31, 2014	48,425,787	\$ 166,069

## 16. EXPENSES BY NATURE

Year Ended	January 31, 2014	January 31, 2013
Employee costs (Note 17)	\$ 222,952	\$ 220,620
Amortization	38,276	37,149
Operating lease rentals	25,251	24,304
Foreign exchange (gain) / loss	(14)	106

## 17. EMPLOYEE COSTS

Year Ended	January 31, 2014	January 31, 2013
Wages, salaries and benefits including bonus	\$ 207,932	\$ 206,348
Post-employment benefits (Note 12)	6,086	5,832
Share-based compensation (Note 13)	8,934	8,440
<b>Included in the above are the following amounts in respect of key management compensation:</b>		
Wages, salaries and benefits including bonus	\$ 3,308	\$ 4,238
Post-employment benefit expense	978	646
Share-based compensation	5,245	5,234

Key management personnel are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel are comprised of the Board of Directors, Chief Executive Officer, and the four senior officers.

## 18. INTEREST EXPENSE

Year Ended	January 31, 2014	January 31, 2013
Interest on long-term debt	\$ 7,181	\$ 6,637
Fair value movement of derivative financial instruments in effective fair value hedging relationships	(3)	26
Net interest on defined benefit plan obligation	1,126	1,118
Interest income	(328)	(296)
Less: interest capitalized	(192)	(506)
<b>Interest expense</b>	<b>\$ 7,784</b>	<b>\$ 6,979</b>

## 19. DIVIDENDS

The following is a summary of the dividends recorded in retained earnings and paid in cash:

Year Ended	January 31, 2014	January 31, 2013
Dividends recorded in retained earnings and paid in cash	\$ 54,229	\$ 50,320
Dividends per share	\$ 1.12	\$ 1.04

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 year in which the dividends are approved by the Board of Directors.

On March 12, 2014, the Board of Directors declared a dividend of \$0.29 per common share to be paid on April 15, 2014 to shareholders of record as of the close of business on March 31, 2014.

## 20. NET EARNINGS PER SHARE

Basic net earnings per share is calculated based on the weighted-average shares outstanding during the year. The diluted net earnings per share takes into account the dilutive effect of all potential ordinary shares. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

(\$ and shares in thousands, except earnings per share)

Year Ended	January 31, 2014	January 31, 2013
<b>Diluted earnings per share calculation:</b>		
Net earnings for the year (numerator for diluted earnings per share)	\$ 64,263	\$ 63,888
Weighted-average shares outstanding (denominator for basic earnings per share)	48,413	48,384
Dilutive effect of share-based compensation	244	195
Denominator for diluted earnings per share	48,657	48,579
Basic earnings per share	\$ 1.33	\$ 1.32
Diluted earnings per share	\$ 1.32	\$ 1.32

## 21. OPERATING LEASE COMMITMENTS

The Company leases various retail stores, offices, warehouses and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. The future minimum lease payments are as follows:

Year Ended	January 31, 2014		January 31, 2013	
	Land and buildings	Other leases	Land and buildings	Other leases
Due within 1 year	\$ 24,514	\$ 750	\$ 22,739	\$ 751
Within 2 to 5 years inclusive	68,082	774	62,755	910
After 5 years	56,148	—	48,732	—



## 22. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### Commitments

In 2002, the Company signed a 30-year Master Franchise Agreement with Giant Tiger Stores Limited, based in Ottawa, Ontario which grants the Company the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, Giant Tiger Stores Limited provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing distribution services to the stores. As at January 31, 2014, the Company has opened 31 Giant Tiger stores.

As a result of store closures during the year ended January 31, 2013, the Company has fallen below the minimum number of stores required to maintain its 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 or open new stores.

### Guarantees

The Company has provided the following significant guarantees to third parties:

The Company has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased director and officer liability insurance. No amount has been recorded in the financial statements with respect to these indemnification agreements.

In the normal course of operations, the Company provides indemnification agreements to counterparties for various events such as intellectual property right infringement, loss or damages to property, claims that may arise while providing services, violation of laws or regulations, or as a result of litigation that might be suffered by the counterparties. The terms and nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. No amount has been recorded in the financial statements with respect to these indemnification agreements.

### Contingencies

In the ordinary course of business, the Company is subject to audits by taxation authorities. While the Company believes that its filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the taxation authorities. The Company regularly reviews the potential for adverse outcomes and the adequacy of its tax provisions. The Company believes that it has adequately provided for these matters. If the final outcome differs materially from the provisions, the Company's income tax expense and its earnings could be affected positively or negatively in the period in which the matters are resolved.

The Company is involved in various legal matters arising in the normal course of business. The occurrence of the confirming future events is not determinable or it is not possible to determine the amounts that may ultimately be assessed against the Company. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

## 23. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

The Company's principal operating 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 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 investment in jointly controlled entities comprises a 50% interest in a Canadian Arctic shipping company, Transport Nanuk Inc. At January 31, 2014, the Company's share of the net assets of its jointly controlled entity amount to \$7,985 (January 31, 2013 - \$7,970), comprised assets of \$9,096 (January 31, 2013 - \$9,355) and liabilities of \$1,111 (January 31, 2013 - \$1,385). During the year ended January 31, 2014 the Company purchased freight handling and shipping services from Transport Nanuk Inc. and its subsidiaries of \$6,783 (January 31, 2013 - \$6,517). The contract terms are based on market rates for these types of services on similar arm's length transactions.

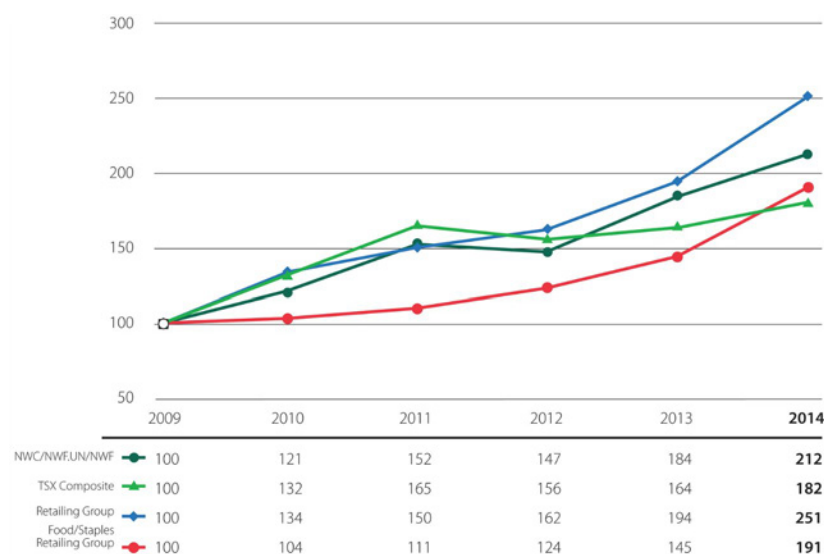
# Shareholder Information

Fiscal Year Quarter Ended	Share Price High	Share Price Low	Share Price Close	Volume	EPS <sup>1</sup>
<b>2013</b>	<b>\$29.00</b>	<b>\$22.34</b>	<b>\$25.42</b>	<b>12,731,441</b>	<b>\$1.32</b>
April 30, 2013	25.50	22.35	25.42	3,455,748	0.27
July 31, 2013	26.45	22.82	23.84	3,715,206	0.37
October 31, 2013	26.81	22.34	25.93	3,189,197	0.36
January 31, 2014	29.00	24.87	25.42	2,371,290	0.32
<b>2012</b>	<b>\$23.88</b>	<b>\$19.34</b>	<b>\$23.14</b>	<b>13,539,464</b>	<b>\$1.32</b>
April 30, 2012	22.54	19.34	22.24	5,115,051	0.27
July 31, 2012	22.47	20.20	21.57	2,997,845	0.37
October 31, 2012	23.62	21.01	23.40	2,175,850	0.36
January 31, 2013	23.88	21.56	23.14	3,250,718	0.32
<b>2011</b>	<b>\$22.50</b>	<b>\$17.85</b>	<b>\$19.40</b>	<b>22,417,768</b>	<b>\$1.19</b>
April 30, 2011	22.50	19.65	19.78	5,885,378	0.26
July 31, 2011	20.85	18.51	20.23	5,802,416	0.31
October 31, 2011	20.63	17.85	18.78	4,020,971	0.35
January 31, 2012	20.72	18.28	19.40	6,709,003	0.27

<sup>1</sup> Net earnings per share are on a diluted basis. Certain prior year figures have been restated as required by IAS 19r - See Note 3 to the Consolidated Financial Statements.

## Total Return Performance (% at January 31)

This chart illustrates the relative performance of shares/units of The North West Company Inc. and its predecessor, North West Company Fund, over the past five years. Effective January 1, 2011, North West Company Fund converted to a share corporation called The North West Company Inc. The index incorporates the reinvestment of dividends and income distributions.



## The North West Company Inc.

### Anticipated Dividend Dates\*

Record Date: March 31, 2014  
Payment Date: April 15, 2014

Record Date: June 30, 2014  
Payment Date: July 15, 2014

Record Date: September 30, 2014  
Payment Date: October 15, 2014

Record Date: December 31, 2014  
Payment Date: January 15, 2015

\*Dividends are subject to approval by the Board of Directors

2014 Annual General Meeting  
The Annual General Meeting of Shareholders of The North West Company Inc. will be held on Wednesday, June 11, 2014 at 11:30 am in the Muriel Richardson Auditorium, Winnipeg Art Gallery, 300 Memorial Boulevard, Winnipeg, Manitoba

### Transfer Agent and Registrar

CST Trust Company  
2001 University Street  
Suite 1600  
Montreal, QC  
Toll-free: 1 800 387 0825  
[www.canstockta.com](http://www.canstockta.com)

### Stock Exchange Listing

The Toronto Stock Exchange

### Stock Symbol NWC

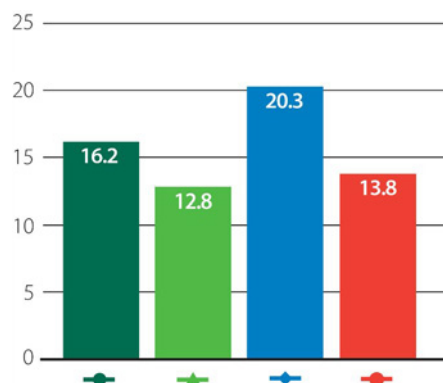
ISIN #: CA6632781093  
CUSIP #: 663278109

Number of shares issued and outstanding at January 31, 2014: 48,425,787

### Auditors

PricewaterhouseCoopers LLP

### Compound Annual Growth (%)



# Corporate Governance

Complete disclosure of The North West Company Inc's. corporate governance is provided in the Company's Management Information Circular, which is available on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com) or in the investor section of the Company's website at [www.northwest.ca](http://www.northwest.ca).

<b>Executives</b> Canadian Operations*	<b>Executives</b> International Operations*	<b>Directors*</b>
Edward S. Kennedy President & CEO	Edward S. Kennedy Chairman & CEO	H. Sanford Riley Chairman
Craig T. Gilpin Executive Vice-President & Chief Corporate Officer	Rex A. Wilhelm President & Chief Operating Officer	Edward S. Kennedy Frank J. Coleman <sup>1,2</sup>
John D. King Chief Financial Officer	John D. King Chief Financial Officer	Wendy F. Evans <sup>2,3</sup> Robert J. Kennedy <sup>1,3</sup>
Michael T. Beaulieu Vice-President, NWC Services	J. Robert Cain Vice-President, Logistics & Supply Chain Services	Violet (Vi) A. M. Konkle <sup>2,3</sup> Gary J. Lukassen <sup>1,2</sup>
David M. Chatyrbok Vice-President, Canadian Procurement & Marketing	Christie A. Frazier-Coleman Vice-President, Food Procurement & Marketing	Gary Merasty <sup>1,3</sup> Eric L. Stefanson <sup>1,2</sup>
Leanne Flewitt Vice-President, Merchandise Performance Services	Paulina Hiebert Vice-President, Legal & Corporate Secretary	Annette M. Verschuren <sup>2,3</sup>
Craig A. Foster Vice President, Human Resources	Thomas M. Kallio Vice-President & General Manager, Cost-U-Less	
Debbie A. Gillis Vice-President, Information Services	Scott A. McKay Vice-President, General Merchandise Procurement & Marketing	
Paulina Hiebert Vice-President, Legal & Corporate Secretary	Walter E. Pickett Vice-President & General Manager, Alaska Commercial Company	
Daniel G. McConnell Vice-President, Real Estate & Store Development	James W. Walker Vice-President & General Manager, Wholesale Operations	
Christine Reimer Vice-President, Canadian Sales & Operations		
Michael E. Sorobey Vice-President, Logistics & Supply Chain Services		

- Board Committees**
- 1 Governance & Nominating
  - 2 Audit
  - 3 Human Resources, Compensation, and Pension

For additional copies of this report or for general information about the Company, contact the Corporate Secretary:

The North West Company Inc.  
Gibraltar House, 77 Main Street  
Winnipeg, Manitoba Canada R3C 2R1  
T 204 934 1756 F 204 934 1317  
[investorrelations@northwest.ca](mailto:investorrelations@northwest.ca)  
[www.northwest.ca](http://www.northwest.ca)



\*as at April 9, 2014



Nor'Westers are associated with the vision, perseverance, and enterprising spirit of the original North West Company and Canada's early fur trade. We trace our roots to 1668, and the establishment of one of North America's early trading posts at Waskaganish on James Bay. Today, we continue to embrace this pioneering culture as true "frontier merchants."

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