# THE NORTH WEST COMPANY INC.

*Report to Shareholders*

*Quarterly Period Ended Oct 31, 2015*

## 2015 THIRD QUARTER REPORT TO SHAREHOLDERS

### Report to Shareholders

The North West Company Inc. reports its results for the third quarter ended October 31, 2015. Sales increased 10.8% to $458.0 million compared to the third quarter last year led by food same store sales growth and the impact of foreign exchange on the translation of International Operations sales. Consolidated sales, excluding the impact of foreign exchange, increased 3.6% and were up 2.7%[1] on a same store basis.

Third quarter net earnings increased 12.8% to $20.7 million and diluted earnings per share were $0.43 per share compared to $0.37 per share last year led by net earnings growth in International Operations and the impact of foreign exchange. Excluding the impact of foreign exchange, net earnings increased 5.2% compared to last year.

The Board of Directors has approved a quarterly dividend of $0.31 per share to shareholders of record on December 31, 2015.

On behalf of the Board of Directors:

H. Sanford Riley
Chairman

Edward S. Kennedy
President and Chief Executive Officer

### Management's Discussion & Analysis

The following Management's Discussion & Analysis should be read in conjunction with the Company's third quarter unaudited interim period condensed consolidated financial statements for the period ended October 31, 2015 and the audited annual consolidated financial statements and accompanying notes included in the 2014 Annual Report.

## CONSOLIDATED RESULTS

### Quarter

Third quarter consolidated sales increased 10.8% to $458.0 million driven by food same store sales gains and the impact of foreign exchange on the translation of International Operations sales. Excluding the foreign exchange impact, consolidated sales increased 3.6% and were up 2.7%[1] on a same store basis. Food sales[1] increased 4.5% and were up 3.8% on a same store basis with all banners contributing to the sales growth. General merchandise sales[1] increased 0.1% but were down 1.7% on a same store basis as sales growth from International Operations was more than offset by weaker seasonal sales performance in Canada.

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

| | **2015** | 2014 |
|---|---|---|
| Food | **80.2%** | 79.0% |
| General merchandise | **16.8%** | 17.7% |
| Other* | **3.0%** | 3.3% |

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

(1) Excluding foreign exchange impact
(2) See Non-GAAP Measures Section of Management's Discussion & Analysis

Earnings from operations[2] increased 14.9% to $32.0 million compared to $27.9 million in the third quarter last year. Gross profit dollars were up 12.8% driven by sales growth, the impact of foreign exchange and a 54 basis point increase in the gross profit rate compared to last year. The increase in the gross profit rate was largely due to product sales blend changes and lower markdowns on general merchandise. Selling, operating and administrative expenses increased 12.2% and were up 29 basis points as a percentage to sales. The expense increase was largely due to the impact of foreign exchange on the translation of International Operations expenses and higher incentive plan costs primarily related to a 5.4% increase in share price in the quarter compared to a 2.9% decrease last year. The change in share price was the principle reason for a $3.0 million increase to share-based compensation expenses compared to last year. Further information on share-based compensation expenses is provided in Note 9 and Note 12 to the 2015 third quarter unaudited interim period condensed consolidated financial statements. The impact of higher incentive plan costs was partially offset by head office employee restructuring expenses in the third quarter last year. Excluding the impact of foreign exchange, earnings from operations increased 7.2% to last year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA[2]) increased 13.9% to $43.1 million led by strong EBITDA growth in International Operations and the impact of foreign exchange. Excluding the impact of foreign exchange, EBITDA increased 6.7% compared to last year and as a percentage to sales was 9.5% compared to 9.2% last year.

Income tax expense increased $1.6 million to $9.7 million due to higher earnings in International Operations and the impact of foreign exchange. The consolidated effective tax rate was 31.9% compared to 30.5% last year primarily due to the impact of non-deductible share-based compensation expenses in the Canadian Operations.

Net earnings increased $2.3 million or 12.8% to $20.7 million and diluted earnings per share were $0.43 per share compared to $0.37 per share last year as net earnings growth in International Operations and the impact of foreign exchange more than offset modestly lower net earnings in the Canadian Operations. Excluding the impact of foreign exchange, net earnings increased 5.2% compared to last year.

## Year-to-Date

Year-to-date sales increased 10.9% to $1.321 billion compared to $1.191 billion in 2014 led by same store sales growth and the impact of foreign exchange on the translation of International Operations sales. Excluding the foreign exchange impact, sales increased 5.0% and were up 4.4%[1] on a same store basis. Food sales[1] increased 5.8% and were up 5.0% on a same store basis with all banners contributing to the sales growth. General merchandise sales[1] increased 3.5% and were up 1.9% on a same store basis.

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

| | **2015** | 2014 |
|---|---|---|
| Food | **80.1%** | 79.0% |
| General merchandise | **16.8%** | 17.3% |
| Other* | **3.1%** | 3.7% |

* Other sales includes fuel, fur and financial service revenues

Earnings from operations increased $9.7 million to $83.9 million compared to $74.2 million last year. Gross profit dollars increased 12.2% due to sales growth, the impact of foreign exchange and a 34 basis point increase in the gross profit rate. Selling, operating and administrative expenses increased 12.0% and were up 22 basis points as a percentage to sales due to the impact of foreign exchange on the translation of International Operations expenses and higher incentive plan costs largely related to an increase in share price. These factors were partially offset by head office employee reduction expenses last year. Excluding the impact of foreign exchange, earnings from operations increased 7.0% compared to last year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA)[2] increased 11.4% to $116.3 million compared to $104.4 million last year. Excluding the impact of foreign exchange, EBITDA increased 5.9% and as a percentage to sales was consistent with last year at 8.9%.

(1) Excluding foreign exchange impact
(2) See Non-GAAP Measures Section of Management's Discussion & Analysis

Interest expense decreased $0.8 million or 14.6% largely due to the refinancing of the senior notes in the second quarter last year. Further information on interest expense is provided in Note 10 to the 2015 third quarter unaudited interim period condensed consolidated financial statements.

Income taxes increased 18.0% to $24.8 million compared to $21.1 million last year due to higher earnings in International Operations and the impact of foreign exchange. The increase in the consolidated effective tax rate to 31.3% compared to 30.5% last year is largely due to the impact of non-deductible share-based compensation expenses in the Canadian Operations.

Net earnings increased 13.9% to $54.6 million compared to $47.9 million last year and diluted earnings per share were $1.12 per share compared to $0.98 per share last year due to higher net earnings in International Operations and the impact of foreign exchange. Excluding the impact of foreign exchange, net earnings increased 7.7% compared to last year.

## CANADIAN OPERATIONS

Canadian Operations sales increased 3.3% to $272.1 million compared to $263.3 million last year and were up 2.0% on a same store basis. Food sales increased 4.8% and were up 3.4% on a same store basis with all banners contributing to the increase. Food inflation was approximately 4.0% in the quarter. General merchandise sales decreased 1.2% from last year and were down 3.3% on a same store basis largely due to weaker seasonal sales performance and the Company's Top Categories initiative to improve inventory productivity by reallocating selling space to products and services with longer-term upside potential in northern markets.

Gross profit dollars increased 6.1% driven by sales growth and an increase in the gross profit rate. The improvement in the gross profit rate is due to product sales blend changes, higher food margins in Giant Tiger markets as retailers continue to pass through cost increases and lower general merchandise markdowns in northern markets. Selling, operating and administrative expenses increased 8.2% compared to last year and were up 107 basis points as a percentage to sales. The increase in expenses was largely due to higher incentive plan expenses and share-based compensation expenses related to an increase in the Company's share price in the quarter partially offset by head office employee restructuring expenses last year.

Canadian EBITDA(2) increased 1.2% to $27.1 million compared to $26.8 million last year as sales growth and margin improvement were offset by the impact of share-based compensation expenses and head office employee restructuring expenses last year. EBITDA as a percentage to sales was 9.9% compared to 10.2% last year.

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

International Operations sales increased 4.0% to $141.3 million compared to $135.9 million in the third quarter last year and were up 4.2% on a same store basis. Continued improvement in the Cost-U-Less ("CUL") economic environment, a higher Permanent Fund Dividend ("PFD") and market share gains in key locations in Alaska were the leading factors contributing to this strong sales performance. The PFD paid to qualifying residents in Alaska increased 10.0% to $2,072 compared to $1,884 last year. Strong execution of PFD sales events in AC, supported by solid merchandise programs in both AC and CUL stores also contributed to the sales growth. Food sales increased 4.0% and were up 4.3% on a same store basis with both banners contributing to the sales growth. General merchandise sales increased 4.5% and were up 3.5% on a same store basis largely due to higher sales in big-ticket categories.

Gross profit dollars increased 6.4% compared to last year driven by sales growth and an improvement in the gross profit rate largely due to favourable product sales blend changes. Selling, operating and administrative expenses increased 0.9% but were down 61 basis points as a percentage to sales. Expenses were well controlled overall, with higher incentive plan costs related to earnings improvement and an increase in share price largely offset by lower utility costs in CUL markets.

EBITDA(2) increased 21.4% to $12.3 million compared to $10.1 million last year and as a percentage to sales was 8.7% compared to 7.4% in the third quarter last year.

(1) Excluding foreign exchange impact
(2) See Non-GAAP Measures Section of Management's Discussion & Analysis

## FINANCIAL CONDITION

### Financial Ratios

The Company's debt-to-equity ratio at the end of the third quarter was 0.64:1 compared to 0.65:1 last year. The debt-to-equity ratio at January 31, 2015 was 0.61:1.

Working capital decreased $6.4 million or 3.3% compared to the third quarter last year due to an increase in accounts payable and accrued liabilities partially offset by an increase in customer accounts receivable largely related to higher big-ticket sales. The increase in accounts payable and accrued liabilities is related to the impact of foreign exchange on the translation of the International Operations and an increase in accrued share-based compensation and incentive plan expenses. The exchange rate used to translate the International Operations assets and liabilities into Canadian dollars at October 31, 2015 was 1.3083 compared to 1.1275 at October 31, 2014 and 1.2717 at January 31, 2015. A decrease in inventories related to the clearance of discontinued general merchandise inventory in the northern Canada stores largely offset an increase in inventories due to the impact of foreign exchange on the translation of International Operations inventories.

### Outstanding Shares

The weighted-average basic shares outstanding for the quarter were 48,516,000 shares compared to 48,431,000 shares last year. The increase in basic shares outstanding is due to share options exercised. The weighted-average fully diluted shares outstanding for the quarter were 48,802,000 shares compared to 48,740,000 shares last year. The increase in fully diluted shares outstanding compared to last year is due to options granted under the Share Option Plan and shares granted under the Director Deferred Share Unit Plan. Further information on the Share Option Plan and the Director Deferred Share Unit Plan is provided in Note 6 and Note 12 to the Company's 2015 third quarter unaudited interim period condensed consolidated financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

| $ in thousands | **Three Months Ended October 31, 2015** | Three Months Ended October 31, 2014 | Change | **Nine Months Ended October 31, 2015** | Nine Months Ended October 31, 2014 | Change |
|---|---|---|---|---|---|---|
| Cash flows provided by (used in): | | | | | | |
| Operating activities | **$ 41,068** | $ 23,995 | $ 17,073 | **$ 81,304** | $ 59,797 | $ 21,507 |
| Investing activities | **(22,546)** | (12,112) | (10,434) | **(44,854)** | (32,314) | (12,540) |
| Financing activities | **(24,620)** | (13,296) | (11,324) | **(31,672)** | (16,787) | (14,885) |
| Net change in cash | **$ (6,098)** | $ (1,413) | $ (4,685) | **$ 4,778** | $ 10,696 | $ (5,918) |

Cash flow from operating activities in the quarter increased $17.1 million to $41.1 million compared to cash flow from operating activities of $24.0 million last year. The increase is due to the timing of income tax installments and the change in non-cash working capital largely due to the change in accounts receivable and accounts payable compared to the prior year. For the year-to-date, cash flow from operating activities increased $21.5 million or 36.0% to $81.3 million largely due to an increase in net earnings and change in non-cash working capital.

Cash used for investing activities in the quarter increased to $22.5 million compared to $12.1 million last year due to accelerated capital expenditures as part of the Company's "Top-Markets" initiative. On a year-to-date basis, cash used for investing activities increased $12.5 million to $44.9 million largely due to investments in major store renovations, store replacements, fixtures and equipment related to this initiative which is described in the Strategy section. Further information on planned capital expenditures is included in the Outlook section.

Cash used in financing activities in the quarter increased to $24.6 million compared to $13.3 million last year. For the year-to-date, cash used in financing activities increased $14.9 million to $31.7 million. The net change in long-term debt in the quarter and for the year-to-date is related to changes in amounts drawn on the Company's revolving loan facilities compared to last year. Further information on long-term debt is provided in the Sources of Liquidity section and in Note 8 to the Company's 2015 third quarter unaudited interim period condensed consolidated financial statements.

### Sources of Liquidity

The Canadian Operations have available committed, revolving loan facilities of $200.0 million that mature on December 31, 2018. These facilities are secured by certain assets of the Company and rank *pari passu* with the US$70.0 million senior notes and the US$52.0 million loan facilities in the International Operations. At October 31, 2015, the Company had drawn $108.1 million on these facilities (October 31, 2014 - $99.9 million).

The Canadian Operations have US$70.0 million senior notes that mature on June 16, 2021. The senior notes have a fixed interest rate of 3.27% on US$55.0 million and a floating interest rate on US$15.0 million based on US LIBOR plus a spread payable semi-annually. The senior notes are secured by certain 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 in the International Operations.

The International Operations have available committed, revolving loan facilities of US$52.0 million that mature on December 31, 2018. These facilities are secured by certain assets of the Company and rank *pari passu* with the US$70.0 million senior notes and the $200.0 million Canadian Operations loan facilities. At October 31, 2015, the Company had drawn US$10.0 million on these facilities (October 31, 2014 - US$30.0 million).

In July 2015, the Company completed the refinancing of the US$30.0 million loan facility in the International Operations. The new committed, revolving loan facility provides the International Operations with up to US$40.0 million for working capital and general corporate purposes. The new loan facility, which matures October 31, 2020, bears a floating rate of interest based on US LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At October 31, 2015, the Company had drawn US$5.0 million on these facilities (October 31, 2014 - US$1.3 million).

The loan facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At October 31, 2015, the Company is in compliance with the financial covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants. Further information on the Company's long-term debt and loan facilities is provided in Note 8 to the Company's 2015 third quarter unaudited interim period condensed consolidated financial statements.

Cash flow from operating activities and unutilized capacity available on existing loan facilities are expected to be sufficient to fund operating requirements, pension plan contributions, sustaining and planned growth-related capital expenditures as well as anticipated dividends during 2015.

## SHAREHOLDER DIVIDENDS

The Board of Directors declared a quarterly dividend of $0.31 per share to shareholders of record on December 31, 2015, to be paid on January 15, 2016.

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

## OTHER HIGHLIGHTS

- "Top Market" projects were completed in Cross Lake and Oxford House, Manitoba.
- A Giant Tiger ("GT") store opened on August 29 in Swan River, Manitoba increasing our GT banner store count to 33.
- GT New Store Experience ("NSE") upgrades were completed in Regina, Saskatchewan and Calgary, Alberta. Financial services were added to both stores and pharmacy services were added to the Regina store.
- The Company launched "Healthy Horizons," a private foundation that will promote and fund programs which improve the well-being of youth through education, nutrition and active lifestyles.

## STRATEGY

The Company's strategies are founded on a strong store network with better product and service solutions that in turn, help our customers live better. From an investor standpoint, the Company is committed to delivering sustainable, superior total returns based on a commitment to downside risk management, the disciplined allocation of capital, cash flow optimization and dividend growth.

The Company's current operating strategies focus on capturing market share and improving earnings before interest, income taxes, depreciation and amortization (EBITDA[(2)]) growth within a modest growth economic environment over the next three to five years:

1. Accelerating investment in the Company's "Top Markets" - our largest and highest sales and profit potential locations, which began in the second half of 2014. This is expected to generate higher same store earnings growth and will require more investment in store recruiting and training expense, combined with annual capital spending in the $65 million range until 2018, with some offset from working capital efficiencies.
2. Focusing on "Top Categories" across all stores, which offer the highest everyday convenience and service value to our customers and which can be delivered in a superior way by the Company while right sizing under-performing, low upside categories.
3. Ensuring that the way we work is customer driven and store-centric through more responsive and effective support to the Company's selling activities.
4. Ensuring that the Company continues to invest in innovative digital and physical logistics solutions that provide a superior link to our remote markets.
5. Selectively investing in new market growth through store acquisitions and new Giant Tiger store openings.

Further information on the Company's strategy is provided in the 2014 Annual Report.

(1) Excluding foreign exchange impact
(2) See Non-GAAP Measures Section of Management's Discussion & Analysis

## OUTLOOK

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

By region and banner, the outlook remains positive for Cost-U-Less in both the Caribbean and Pacific regions spurred by tourism and lower energy costs. Despite a strong performance from our Alaskan division in the Third Quarter, the economic picture heading into 2016 is uncertain in this market due to the effect of lower oil royalties on the State of Alaska. The western Canada retail environment is important for our GT business and we anticipate lower inflation within this region in 2016 compared to 2015 with modest growth in competitive selling space. GT is expected to also benefit from NSE store upgrades. In northern Canada, the Company's Top Markets and Top Categories work will roll forward with refinements to existing work and an acceleration of the best performing categories from 2015. Externally, the higher Universal Child Care Benefit ("UCCB") payments that started in July are expected to increase further under the new federal government together with higher federal government investment in northern infrastructure and Nutrition North.

Net capital expenditures for 2015 are expected to be approximately $70.0 million (2014 - $50.3 million), reflecting major store replacements, store renovations and investments in fixtures, equipment, staff housing and store-based warehouse expansions as part of the Company's Top Markets initiative. In 2015, the Company has completed eight stores under the Top Markets initiative in northern Canada with three openings expected in the fourth quarter. The Company also plans to open one more Giant Tiger store this year as well as complete "New Store Experience" upgrades in four Giant Tiger stores. Store-based capital expenditures can be impacted by the completion of landlord negotiations, shipment of construction materials to remote markets, and weather-related delays and therefore, their actual amount and timing can fluctuate.

## QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected quarterly financial information:

### Operating Results - Consolidated

| | Third Quarter | | Second Quarter | | First Quarter | | Fourth Quarter | |
|---|---|---|---|---|---|---|---|---|
| | 92 days | 92 days | 92 days | 92 days | 89 days | 89 days | 92 days | 92 days |
| ($ in millions) | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2014 | 2013 |
| **Sales** | **$ 458.0** | $ 413.5 | $ 448.7 | $ 401.1 | $ 414.0 | $ 376.3 | $ 433.5 | $ 402.9 |
| **EBITDA** | **43.1** | 37.8 | 38.8 | 36.4 | 34.4 | 30.2 | 33.4 | 34.4 |
| **Earnings from operations** | **32.0** | 27.9 | 28.2 | 26.3 | 23.7 | 20.0 | 23.2 | 24.6 |
| **Net earnings** | **20.7** | 18.4 | 18.1 | 16.9 | 15.7 | 12.7 | 15.0 | 15.9 |
| **Net earnings per share:** | | | | | | | | |
| **Basic** | **0.43** | 0.38 | 0.38 | 0.35 | 0.32 | 0.26 | 0.31 | 0.33 |
| **Diluted** | **0.43** | 0.37 | 0.37 | 0.35 | 0.32 | 0.26 | 0.31 | 0.32 |

Historically, the Company's first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting the holiday selling period. Weather conditions are often extreme and can affect sales in any quarter. Net earnings generally follow higher sales but can be dependent on changes in merchandise sales blend, markdown activity in key sales periods to reduce excess inventories and other factors which can affect net earnings.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company in order to provide reasonable assurance that all material information relating to the Company is made known to management in a timely manner so that appropriate decisions can be made regarding public disclosure. Management is also responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be designed effectively can only provide reasonable assurance of achieving the control objectives. Additionally, management is necessarily required to use judgment in evaluating controls and procedures. Management used the Internal Control - Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission as the control framework in designing its internal controls over financial reporting. There have been no changes in the internal controls over financial reporting during the quarter ended October 31, 2015 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

## FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2016, and have not been applied in preparing the Company's 2015 third quarter unaudited interim period condensed consolidated financial statements:

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

***Presentation of Financial Statements*** In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*. The amendments provide guidance on the application of judgment in the preparation of financial statements and disclosure and are effective for the Company's financial year ending January 31, 2017. The Company is currently assessing the potential impact of changes to this standard.

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

## NON-GAAP MEASURES

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

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

| | Third Quarter | | Year-to-Date | |
|---|---|---|---|---|
| ($ in thousands) | **2015** | 2014 | **2015** | 2014 |
| Net earnings | **$ 20,749** | $ 18,401 | **$ 54,573** | $ 47,930 |
| Add: Amortization | **11,062** | 9,934 | **32,386** | 30,200 |
| Interest expense | **1,535** | 1,381 | **4,469** | 5,235 |
| Income taxes | **9,730** | 8,088 | **24,846** | 21,052 |
| EBITDA | **$ 43,076** | $ 37,804 | **$ 116,274** | $ 104,417 |

For EBITDA information by business segment, see Note 4, Segmented Information, in the notes to the Company's 2015 third quarter unaudited interim period condensed consolidated financial statements.

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

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

| | Third Quarter | | Year-to-Date | |
|---|---|---|---|---|
| ($ in thousands) | **2015** | 2014 | **2015** | 2014 |
| Net earnings | **$ 20,749** | $ 18,401 | **$ 54,573** | $ 47,930 |
| Add: Interest expense | **1,535** | 1,381 | **4,469** | 5,235 |
| Income taxes | **9,730** | 8,088 | **24,846** | 21,052 |
| Earnings from operations (EBIT) | **$ 32,014** | $ 27,870 | **$ 83,888** | $ 74,217 |

For earnings from operations information by business segment, see Note 4, Segmented Information, in the notes to the Company's 2015 third quarter unaudited interim period condensed consolidated financial statements.

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

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Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the Company's 2015 third quarter unaudited interim period condensed consolidated financial statements and notes to the unaudited interim period condensed consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to December 10, 2015.

**Forward-Looking Statements**

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, capital expenditures, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions and integrate acquisitions and the Company's success in anticipating and managing the foregoing risks. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other risks are outlined in the Risk Management section of the 2014 Annual Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

# Consolidated Balance Sheets

| (unaudited, $ in thousands) | **October 31, 2015** | October 31, 2014 | January 31, 2015 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash | **$ 33,907** | $ 33,049 | $ 29,129 |
| Accounts receivable | **74,068** | 66,975 | 72,506 |
| Inventories (Note 5) | **227,179** | 225,394 | 204,812 |
| Prepaid expenses | **8,741** | 9,537 | 9,393 |
| | **343,895** | 334,955 | 315,840 |
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | **325,323** | 291,586 | 311,692 |
| Goodwill | **34,622** | 29,837 | 33,653 |
| Intangible assets | **24,733** | 20,828 | 22,485 |
| Deferred tax assets | **29,258** | 21,809 | 28,074 |
| Other assets | **13,663** | 12,603 | 12,555 |
| | **427,599** | 376,663 | 408,459 |
| **TOTAL ASSETS** | **$ 771,494** | $ 711,618 | $ 724,299 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable and accrued liabilities | **$ 153,314** | $ 136,674 | $ 142,788 |
| Current portion of long-term debt (Note 8) | **6** | 1,588 | 6,271 |
| Income tax payable (Note 11) | **2,242** | 545 | 1,170 |
| | **155,562** | 138,807 | 150,229 |
| **NON-CURRENT LIABILITIES** | | | |
| Long-term debt (Note 8) | **219,037** | 212,453 | 195,125 |
| Defined benefit plan obligation | **39,259** | 19,770 | 36,556 |
| Deferred tax liabilities | **2,470** | 2,035 | 2,392 |
| Other long-term liabilities | **10,941** | 9,241 | 10,714 |
| | **271,707** | 243,499 | 244,787 |
| **TOTAL LIABILITIES** | **427,269** | 382,306 | 395,016 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital (Note 6) | **168,045** | 166,188 | 167,460 |
| Contributed surplus | **2,705** | 3,697 | 2,831 |
| Retained earnings | **151,956** | 151,559 | 140,527 |
| Accumulated other comprehensive income | **21,519** | 7,868 | 18,465 |
| **TOTAL EQUITY** | **344,225** | 329,312 | 329,283 |
| **TOTAL LIABILITIES & EQUITY** | **$ 771,494** | $ 711,618 | $ 724,299 |

See accompanying notes to condensed consolidated financial statements.

# Consolidated Statements of Earnings

| (unaudited, $ in thousands, except per share amounts) | **Three Months Ended October 31, 2015** | Three Months Ended October 31, 2014 | **Nine Months Ended October 31, 2015** | Nine Months Ended October 31, 2014 |
|---|---|---|---|---|
| **SALES** | **$ 458,049** | $ 413,512 | **$ 1,320,823** | $ 1,190,896 |
| Cost of sales | **(323,769)** | (294,513) | **(936,561)** | (848,516) |
| Gross profit | **134,280** | 118,999 | **384,262** | 342,380 |
| Selling, operating and administrative expenses (Note 9) | **(102,266)** | (91,129) | **(300,374)** | (268,163) |
| Earnings from operations | **32,014** | 27,870 | **83,888** | 74,217 |
| Interest expense (Note 10) | **(1,535)** | (1,381) | **(4,469)** | (5,235) |
| Earnings before income taxes | **30,479** | 26,489 | **79,419** | 68,982 |
| Income taxes (Note 11) | **(9,730)** | (8,088) | **(24,846)** | (21,052) |
| **NET EARNINGS FOR THE PERIOD** | **$ 20,749** | $ 18,401 | **$ 54,573** | $ 47,930 |
| | | | | |
| **NET EARNINGS PER SHARE** | | | | |
| Basic | **$ 0.43** | $ 0.38 | **$ 1.13** | $ 0.99 |
| Diluted | **$ 0.43** | $ 0.37 | **$ 1.12** | $ 0.98 |
| **WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)** | | | | |
| Basic | **48,516** | 48,431 | **48,505** | 48,429 |
| Diluted | **48,802** | 48,740 | **48,790** | 48,726 |

See accompanying notes to condensed consolidated financial statements.

# Consolidated Statements of Comprehensive Income

| (unaudited, $ in thousands) | **Three Months Ended October 31, 2015** | Three Months Ended October 31, 2014 | **Nine Months Ended October 31, 2015** | Nine Months Ended October 31, 2014 |
|---|---|---|---|---|
| **NET EARNINGS FOR THE PERIOD** | **$ 20,749** | $ 18,401 | **$ 54,573** | $ 47,930 |
| Other comprehensive income, net of tax: | | | | |
| **Items that may be reclassified to net earnings:** | | | | |
| Exchange differences on translation of foreign controlled subsidiaries | **293** | 2,488 | **3,079** | 787 |
| **COMPREHENSIVE INCOME FOR THE PERIOD** | **$ 21,042** | $ 20,889 | **$ 57,652** | $ 48,717 |

See accompanying notes to condensed consolidated financial statements.

# Consolidated Statements of Changes in Shareholders' Equity

| (unaudited, $ in thousands) | Share Capital | Contributed Surplus | Retained Earnings | AOCI [1] | Total |
|---|---|---|---|---|---|
| Balance at January 31, 2015 | $ 167,460 | $ 2,831 | $ 140,527 | $ 18,465 | $ 329,283 |
| Net earnings for the period | — | — | 54,573 | — | 54,573 |
| Other comprehensive income | — | — | 25 | 3,054 | 3,079 |
| Comprehensive income | — | — | 54,598 | 3,054 | 57,652 |
| Equity settled share-based payments | — | 201 | — | — | 201 |
| Dividends (Note 7) | — | — | (43,169) | — | (43,169) |
| Issuance of common shares (Note 6) | 585 | (327) | — | — | 258 |
| | 585 | (126) | (43,169) | — | (42,710) |
| **Balance at October 31, 2015** | **$168,045** | **$ 2,705** | **$151,956** | **$ 21,519** | **$344,225** |
| | | | | | |
| Balance at January 31, 2014 | $ 166,069 | $ 3,528 | $ 145,762 | $ 7,081 | $ 322,440 |
| Net earnings for the period | — | — | 47,930 | — | 47,930 |
| Other comprehensive income | — | — | — | 787 | 787 |
| Comprehensive income | — | — | 47,930 | 787 | 48,717 |
| Equity settled share-based payments | — | 229 | — | — | 229 |
| Dividends (Note 7) | — | — | (42,133) | — | (42,133) |
| Issuance of common shares (Note 6) | 119 | (60) | — | — | 59 |
| | 119 | 169 | (42,133) | — | (41,845) |
| Balance at October 31, 2014 | $ 166,188 | $ 3,697 | $ 151,559 | $ 7,868 | $ 329,312 |

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements.

# Consolidated Statements of Cash Flows

| (unaudited, $ in thousands) | **Three Months Ended October 31, 2015** | Three Months Ended October 31, 2014 | **Nine Months Ended October 31, 2015** | Nine Months Ended October 31, 2014 |
|---|---|---|---|---|
| **CASH PROVIDED BY (USED IN)** | | | | |
| **Operating activities** | | | | |
| Net earnings for the period | **$ 20,749** | $ 18,401 | **$ 54,573** | $ 47,930 |
| Adjustments for: | | | | |
| Amortization | **11,062** | 9,934 | **32,386** | 30,200 |
| Provision for income taxes (Note 11) | **9,730** | 8,088 | **24,846** | 21,052 |
| Interest expense (Note 10) | **1,535** | 1,381 | **4,469** | 5,235 |
| Equity settled share option expense (Note 12) | **161** | 51 | **201** | 229 |
| Taxes paid | **(3,179)** | (9,524) | **(24,140)** | (25,559) |
| Loss/(Gain) on disposal of property and equipment | **(1)** | 188 | **22** | (395) |
| | **40,057** | 28,519 | **92,357** | 78,692 |
| Change in non-cash working capital | **370** | (3,835) | **(12,965)** | (17,860) |
| Change in other non-cash items | **641** | (689) | **1,912** | (1,035) |
| Cash from operating activities | **41,068** | 23,995 | **81,304** | 59,797 |
| **Investing activities** | | | | |
| Purchase of property and equipment | **(20,433)** | (12,003) | **(40,323)** | (32,339) |
| Intangible asset additions | **(2,126)** | (154) | **(4,682)** | (1,841) |
| Proceeds from disposal of property and equipment | **13** | 45 | **151** | 1,866 |
| Cash used in investing activities | **(22,546)** | (12,112) | **(44,854)** | (32,314) |
| **Financing activities** | | | | |
| Net change in long-term debt (Note 8) | **(8,698)** | 1,286 | **14,419** | 105,276 |
| Repayments of long-term debt (Note 8) | **—** | — | **—** | (75,950) |
| Dividends (Note 7) | **(15,039)** | (14,045) | **(43,169)** | (42,133) |
| Interest paid | **(883)** | (537) | **(3,180)** | (4,039) |
| Issuance of common shares | **—** | — | **258** | 59 |
| Cash used in financing activities | **(24,620)** | (13,296) | **(31,672)** | (16,787) |
| **NET CHANGE IN CASH** | **(6,098)** | (1,413) | **4,778** | 10,696 |
| Cash, beginning of period | **40,005** | 34,462 | **29,129** | 22,353 |
| **CASH, END OF PERIOD** | **$ 33,907** | $ 33,049 | **$ 33,907** | $ 33,049 |

See accompanying notes to condensed consolidated financial statements.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. ORGANIZATION

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

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

These unaudited interim period condensed consolidated financial statements (condensed consolidated financial statements) have been approved for issue by the Board of Directors of the Company on December 10, 2015.

## 2. BASIS OF PREPARATION

**(A) Statement of Compliance** These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board (IASB). These condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements and the accompanying notes included in The North West Company Inc.'s 2014 Annual Report which have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

The methods used to measure fair values are discussed further in the notes to the Company's 2014 annual audited consolidated financial statements.

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are set out in the Company's 2014 annual audited consolidated financial statements. These policies have been applied to all periods presented in these condensed consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

**Future Standards and Amendments** The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2016, and have not been applied in preparing these condensed consolidated financial statements:

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

***Presentation of Financial Statements*** In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*. The amendments provide guidance on the application of judgment in the preparation of financial statements and disclosure and are effective for the Company's financial year ending January 31, 2017. The Company is currently assessing the potential impact of changes to this standard.

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

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

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

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. SEGMENTED INFORMATION

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

The following key information is presented by geographic segment:

**Consolidated Statements of Earnings**

| | **Three Months Ended October 31, 2015** | Three Months Ended October 31, 2014 | **Nine Months Ended October 31, 2015** | Nine Months Ended October 31, 2014 |
|---|---|---|---|---|
| **Sales** | | | | |
| Canada | **$ 272,114** | $ 263,299 | **$ 804,037** | $ 765,273 |
| International | **185,935** | 150,213 | **516,786** | 425,623 |
| Consolidated | **$ 458,049** | $ 413,512 | **$ 1,320,823** | $ 1,190,896 |
| **Earnings before amortization, interest and income taxes** | | | | |
| Canada | **$ 27,070** | $ 26,757 | **$ 77,734** | $ 77,538 |
| International | **16,006** | 11,047 | **38,540** | 26,879 |
| Consolidated | **$ 43,076** | $ 37,804 | **$ 116,274** | $ 104,417 |
| **Earnings from operations** | | | | |
| Canada | **$ 19,146** | $ 19,204 | **$ 54,335** | $ 54,817 |
| International | **12,868** | 8,666 | **29,553** | 19,400 |
| Consolidated | **$ 32,014** | $ 27,870 | **$ 83,888** | $ 74,217 |

**Supplemental information**

| | **October 31, 2015** | October 31, 2014 | January 31, 2015 |
|---|---|---|---|
| **Assets** | | | |
| Canada | **$ 487,071** | $ 468,381 | $ 455,032 |
| International [(1)] | **284,423** | 243,237 | 269,267 |
| Consolidated | **$ 771,494** | $ 711,618 | $ 724,299 |

(1) International total assets includes goodwill of $34,622 (October 31, 2014 - $29,837; January 31, 2015 - $33,653).

| | **Three Months Ended October 31, 2015** | | Three Months Ended October 31, 2014 | | **Nine Months Ended October 31, 2015** | | Nine Months Ended October 31, 2014 | |
|---|---|---|---|---|---|---|---|---|
| | **Canada** | **International** | Canada | International | **Canada** | **International** | Canada | International |
| Purchase of property and equipment | **$ 18,499** | **$ 1,934** | $ 8,739 | $ 3,264 | **$ 35,872** | **$ 4,451** | $ 24,034 | $ 8,305 |
| Amortization | **$ 7,924** | **$ 3,138** | $ 7,553 | $ 2,381 | **$ 23,399** | **$ 8,987** | $ 22,721 | $ 7,479 |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 5. INVENTORIES

Included in cost of sales for the three months ended October 31, 2015, the Company recorded $240 (three months ended October 31, 2014 – $576) for the write-down of period end inventories as a result of net realizable value being lower than cost. For the nine months ended October 31, 2015, the Company recorded $1,183 (nine months ended October 31, 2014 – $1,472) for the write-down of period end inventories as a result of net realizable value being lower than cost. There was no reversal of inventories written down previously that are no longer estimated to sell below cost during the nine months ended October 31, 2015 or 2014.

## 6. SHARE CAPITAL

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

| | **Shares** | **Consideration** |
|---|---|---|
| Balance at January 31, 2015 | **48,497,199** | **$ 167,460** |
| Issued under option plans (Note 12) | **21,701** | **585** |
| **Balance at October 31, 2015** | **48,518,900** | **$ 168,045** |

| | | |
|---|---|---|
| Balance at January 31, 2014 | 48,425,787 | $ 166,069 |
| Issued under option plans (Note 12) | 5,710 | 119 |
| Balance at October 31, 2014 | 48,431,497 | $ 166,188 |

## 7. DIVIDENDS

| | **Nine Months Ended October 31, 2015** | Nine Months Ended October 31, 2014 |
|---|---|---|
| Dividends paid in cash | **$ 43,169** | $ 42,133 |
| Dividends per share | **$ 0.89** | $ 0.87 |

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

## 8. LONG-TERM DEBT

| | **October 31, 2015** | October 31, 2014 | January 31, 2015 |
|---|---|---|---|
| **Current:** | | | |
| Notes payable | **$ —** | $ 100 | $ 72 |
| Finance lease liabilities | **6** | 70 | 55 |
| Revolving loan facilities (1) | **—** | 1,418 | 6,144 |
| | **$ 6** | $ 1,588 | $ 6,271 |
| **Non-current:** | | | |
| Revolving loan facilities (1) | **$ 6,482** | $ — | $ — |
| Revolving loan facilities (2) | **13,083** | 33,825 | 27,977 |
| Revolving loan facilities (3) | **108,109** | 99,941 | 78,367 |
| Senior notes (4) | **91,363** | 78,678 | 88,779 |
| Finance lease liabilities | **—** | 9 | 2 |
| | **$ 219,037** | $ 212,453 | $ 195,125 |
| Total | **$ 219,043** | $ 214,041 | $ 201,396 |

(1) In July 2015, the Company completed the refinancing of the US$30,000 loan facility maturing October 31, 2015. The new increased, committed, revolving U.S. loan facility provides the International Operations with up to US$40,000 for working capital requirements and general business purposes. This facility matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At October 31, 2015, the International Operations had drawn US$4,955 (October 31, 2014 – US$1,257; January 31, 2015 – US$4,831) on this facility.

(2) The US$52,000 committed, revolving loan facilities in the International Operations mature December 31, 2018 and bear interest at U.S. LIBOR plus a spread. These loan facilities are secured by certain assets of the Company and rank *pari passu* with the US$70,000 senior notes and the $200,000 Canadian Operations loan facilities. At October 31, 2015, the Company had drawn US$10,000 (October 31, 2014 – US$30,000; January 31, 2015 – US$22,000) on these facilities.

(3) These committed, revolving loan facilities provide the Company's Canadian Operations with up to $200,000 for working capital and general business purposes. The facilities mature December 31, 2018 and are secured by certain assets of the Company and rank *pari passu* with the US$70,000 senior notes and the US$52,000 loan facilities in International Operations. These facilities bear a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate.

(4) The Company refinanced the US$70,000 senior notes that matured on June 15, 2014. The maturing senior notes had a fixed interest rate of 6.55% on US$42,000 and a floating interest rate based on US LIBOR plus a spread on US$28,000. The new US$70,000 senior notes, which mature on June 16, 2021, have a fixed interest rate of 3.27% on US$55,000 and a floating interest rate on US$15,000 based on U.S. LIBOR plus a spread. The new senior notes are secured by certain assets of the Company and rank *pari passu* with the $200,000 Canadian Operations loan facilities and the US$52,000 loan facilities in the International Operations.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 9. EMPLOYEE COSTS

| | **Three Months Ended October 31, 2015** | Three Months Ended October 31, 2014 | **Nine Months Ended October 31, 2015** | Nine Months Ended October 31, 2014 |
|---|---|---|---|---|
| Wages, salaries and benefits including bonus | **$ 60,068** | $ 55,701 | **$ 174,674** | $ 161,287 |
| Post employment benefits | **1,730** | 1,463 | **5,381** | 4,764 |
| Share-based compensation (Note 12) | **3,719** | 764 | **8,470** | 2,964 |

## 10. INTEREST EXPENSE

| | **Three Months Ended October 31, 2015** | Three Months Ended October 31, 2014 | **Nine Months Ended October 31, 2015** | Nine Months Ended October 31, 2014 |
|---|---|---|---|---|
| Interest on long-term debt | **$ 1,269** | $ 1,276 | **$ 3,847** | $ 4,671 |
| Fair value movement of derivative financial instruments in effective fair value hedging relationships | **—** | — | **—** | 173 |
| Net interest on defined benefit plan obligation | **313** | 194 | **937** | 584 |
| Interest income | **(14)** | (34) | **(94)** | (102) |
| Less: interest capitalized | **(33)** | (55) | **(221)** | (91) |
| Interest expense | **$ 1,535** | $ 1,381 | **$ 4,469** | $ 5,235 |

## 11. INCOME TAXES

The estimated effective income tax rate for the three months ended October 31, 2015 is 31.9% (three months ended October 31, 2014 – 30.5%) and for the nine months ended October 31, 2015 is 31.3% (nine months ended October 31, 2014 – 30.5%). The Company estimates its effective income tax rate on a weighted-average basis by determining the income tax rate applicable to each taxing jurisdiction and applying it to its pre-tax earnings. Changes in the effective income tax rate primarily reflect changes in earnings of the Company's subsidiaries across various tax jurisdictions.

## 12. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: 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 three months ended October 31, 2015 is $3,719 (three months ended October 31, 2014 - $764) and for the nine months ended October 31, 2015 is $8,470 (nine months ended October 31, 2014 – $2,964). The carrying amount of the Company's share-based compensation arrangements including PSU, share option and DSU plans are recorded on the consolidated balance sheets as follows:

| | **October 31, 2015** | October 31, 2014 | January 31, 2015 |
|---|---|---|---|
| Accounts payable and accrued liabilities | **$ 13,882** | $ 8,128 | $ 9,526 |
| Other long-term liabilities | **3,534** | 3,313 | 4,485 |
| Contributed surplus | **1,136** | 2,127 | 1,262 |
| Total | **$ 18,552** | $ 13,568 | $ 15,273 |

**Performance Share Units**

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

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

Compensation costs related to the PSUs for the three months ended October 31, 2015 are $1,419 (three months ended October 31, 2014 – $671) and for the nine months ended October 31, 2015 are $3,304 (nine months ended October 31, 2014 – $1,664).

**Share Option Plan**

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

The fair value of the Declining Strike Price Options is remeasured at the reporting date and recognized both in net earnings and as a liability over the vesting period. The grant date fair value of the Standard Options is recognized in net earnings and contributed surplus over the vesting period.

The maximum number of shares available for issuance is a fixed number set at 4,354,020, representing 9% of the Company's issued and outstanding shares at October 31, 2015. Fair value of the Company's options is determined using an option pricing model. Share options granted vest on a graduated basis over five years and are exercisable over a period of seven to ten years. The share option compensation cost recorded for the three months ended October 31, 2015 are $1,788 (three months ended October 31, 2014 – $7) and for the nine months ended October 31, 2015 are $3,383 (nine months ended October 31, 2014 – $399).

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | **2015** | 2014 |
|---|---|---|
| Fair value of options granted | **$ 2.17 to $ 3.42** | $ 3.14 to $ 4.43 |
| Exercise price | **$ 25.63** | $ 24.79 |
| Dividend yield | **4.6%** | 4.6% |
| Annual risk-free interest rate | **0.4% to 0.7%** | 1.1% to 1.6% |
| Expected share price volatility | **19.9%** | 23.7% |

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

| | **2015** | 2014 |
|---|---|---|
| Dividend yield | **4.3%** | 5.0% |
| Annual risk-free interest rate | **0.6% to 0.9%** | 1.0% to 1.6% |
| Expected share price volatility | **17.4% to 19.4%** | 18.0% to 20.0% |

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

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

| **Number of options outstanding** | **Declining Strike Price Options** | | **Standard Options** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Outstanding options, beginning of period | **1,207,995** | 896,694 | **391,876** | 526,380 |
| Granted | **491,096** | 355,795 | **81,461** | 36,631 |
| Exercised | **(39,427)** | — | **(29,737)** | (11,600) |
| Forfeited or cancelled | **—** | (23,466) | **(30,155)** | (2,100) |
| Outstanding options, end of period | **1,659,664** | 1,229,023 | **413,445** | 549,311 |
| Exercisable at end of period | **223,575** | 94,703 | **190,267** | 278,768 |

| Weighted-average exercise price | Declining Strike Price Options | | Standard Options | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Outstanding options, beginning of period | **$ 22.79** | $ 21.86 | **$ 20.88** | $ 19.10 |
| Granted | **25.63** | 24.79 | **25.63** | 24.79 |
| Exercised | **21.14** | — | **19.59** | 17.13 |
| Forfeited or cancelled | **—** | 22.88 | **22.52** | 19.11 |
| Outstanding options, end of period | **$ 23.67** | $ 22.75 | **$ 21.77** | $ 19.52 |
| Exercisable at end of period | **$ 18.66** | $ 18.73 | **$ 19.30** | $ 17.37 |

Options outstanding at October 31, 2015 have an exercise price range of $15.25 to $25.63 and a weighted-average remaining contractual life of 4.8 years.

**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 DSU 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 cost recorded for the three months ended October 31, 2015 is $377 (three months ended October 31, 2014 – recovery of $39) and for the nine months ended October 31, 2015 is $1,199 (nine months ended October 31, 2014 – $276). The total number of DSUs outstanding at October 31, 2015 is 176,256 (October 31, 2014 – 170,908). There were 22,895 DSUs exercised during the nine months ended October 31, 2015 (nine months ended October 31, 2014 – NIL).

**Employee Share Purchase Plan**

The Employee Share Purchase Plan provides participants with the opportunity to acquire an ownership interest in the Company. The Company contributes an additional 33% of the amount invested, subject to a maximum annual contribution of 2% of the participants' base salary. The plan is administered by a trustee who uses the funds received to purchase shares on the TSX on behalf of the participating employees. These shares are registered in the name of the plan trustee on behalf of the participants. The Company's contribution to the plan is recorded as compensation expense. The employee share purchase plan compensation cost recorded for the three months ended October 31, 2015 is $135 (three months ended October 31, 2014 – $125) and for the nine months ended October 31, 2015 is $584 (nine months ended October 31, 2014 – $625).

## 13. SEASONALITY

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 14. SUBSIDIARIES AND JOINT VENTURES

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

| | | | Proportion of voting rights held by: | |
|---|---|---|---|---|
| | Activity | Country of Organization | Company | Subsidiary |
| NWC GP Inc. | General Partner | Canada | 100% | |
| North West Company Holdings Inc. | Holding Company | Canada | 100% | |
| The North West Company LP | Retailing | Canada | 100% (less one unit) | |
| NWC (U.S.) Holdings Inc. | Holding Company | United States | | 100% |
| The North West Company (International) Inc. | Retailing | United States | | 100% |
| The North West Finance Company Cooperatie U.A. | Finance Company | Netherlands | 99% | 1% |

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

## 15. FINANCIAL INSTRUMENTS

### Accounting classifications and fair value estimation

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

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

| | | Assets (Liabilities) carried at amortized cost | |
|---|---|---|---|
| | Maturity | Carrying amount | Fair value |
| Cash | Short-term | $ 33,907 | $ 33,907 |
| Accounts receivable | Short-term | 74,068 | 74,068 |
| Other financial assets | Long-term | 1,437 | 1,437 |
| Accounts payable and accrued liabilities | Short-term | (153,314) | (153,314) |
| Current portion of long-term debt | Short-term | (6) | (6) |
| Long-term debt | Long-term | (219,037) | (221,137) |

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

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

## 16. SUBSEQUENT EVENTS

On December 10, 2015, the Board of Directors declared a dividend of $0.31 per common share payable January 15, 2016 to shareholders of record on December 31, 2015.