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# THE NORTH WEST COMPANY INC.

*Report to Shareholders*

*Quarterly Period Ended July 31, 2017*



## 2017 SECOND QUARTER REPORT TO SHAREHOLDERS


### Report to Shareholders

The North West Company Inc. reports its results for the second quarter ended July 31, 2017. Sales increased 10.3% to \$507.9 million compared to the second quarter last year due to the acquisition of Roadtown Wholesale Trading Ltd. ("RTW") and same store food sales growth. Consolidated sales, excluding the impact of foreign exchange, increased 8.5% and were up 1.7%<sup>1</sup> on a same store basis.

Second quarter net earnings increased 41.6% to \$23.3 million and diluted earnings per share attributable to shareholders were \$0.46 per share compared to \$0.34 per share last year led by acquisition related earnings growth and lower share-based compensation costs. These factors were partially offset by North Star Air Ltd. ("NSA") acquisition costs. Excluding the impact of share-based compensation option expenses and NSA acquisition related costs, adjusted net earnings<sup>2</sup> increased 15.9%.

The Board of Directors has approved a quarterly dividend of \$0.32 per share to shareholders of record on September 29, 2017.

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 2017 second quarter unaudited interim period condensed consolidated financial statements for the period ended July 31, 2017 and the audited annual consolidated financial statements and accompanying notes included in the 2016 Annual Report.

### CONSOLIDATED RESULTS

#### Quarter

Second quarter consolidated sales increased 10.3% to \$507.9 million due to the acquisition of Roadtown Wholesale Trading Ltd. ("RTW") in the British Virgin Islands and same store food sales gains. The acquisition of NSA in Canadian Operations was also a factor. Excluding the foreign exchange impact, consolidated sales increased 8.5% and were up 1.7%<sup>1</sup> on a same store basis. Food sales<sup>1</sup> increased 8.9% and were up 1.9% on a same store basis. General merchandise sales<sup>1</sup> increased 1.9% and were up 0.8% on a same store basis.

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

	2017	2016
Food	80.7%	80.2%
General merchandise	15.7%	17.0%
Other*	3.6%	2.8%

\* Other sales includes fuel, fur, tele-pharmacy, airline revenue and financial service charge revenues

(1) Excluding the foreign exchange impact

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

Earnings from operations increased 23.1% to \$33.2 million compared to \$27.0 million last year. Gross profit dollars were up 11.6% driven by the acquisition of RTW, sales growth and a 36 basis point increase in the gross profit rate compared to last year. The increase in the gross profit rate is mainly due to product sales blend changes. Selling, operating and administrative expenses increased 8.8% but were down 33 basis points as a percentage to sales. This increase was primarily due to the new stores acquired as part of the RTW acquisition, NSA expenses and new stores in Canadian Operations. These costs were partially offset by lower share-based compensation costs. Further information on the acquisitions of RTW and NSA is provided in Note 17 to the 2017 second quarter unaudited interim period condensed consolidated financial statements. The decrease in share-based compensation costs was largely due to option expense recovery of \$1.0 million compared to an expense of \$3.2 million last year. A substantial portion of the options granted are accounted for as a liability and are re-measured based on the share price at each quarterly reporting date. The lower option expense this quarter was due to a decrease in the share price in the quarter this year compared to an increase in the share price in the second quarter last year. Further information on share-based compensation expense is provided in Note 9 and Note 12 to the 2017 second quarter unaudited interim period condensed consolidated financial statements.

Earnings before interest, income taxes, depreciation and amortization (EBITDA<sup>2</sup>) increased \$8.4 million or 21.7% to \$47.3 million largely due to the acquisition of RTW and lower share-based compensation costs as noted above. Excluding the impact of the share-based compensation option expense and the NSA acquisition related costs, adjusted EBITDA<sup>2</sup> was up 11.6% compared to last year and as a percentage to sales was 9.2% compared to 9.1% last year.

Income tax expense decreased \$1.1 million to \$7.6 million and the consolidated effective tax rate was 24.7% compared to 34.7% last year. The decrease in the effective tax rate is substantially due to the impact of lower non-deductible share-based compensation costs in Canadian Operations and the blend of earnings in International Operations across the various tax rate jurisdictions.

Net earnings increased 41.6% to \$23.3 million and diluted earnings per share were \$0.46 per share compared to \$0.34 per share last year due to the factors noted above. Excluding the impact of share-based compensation option expense and the NSA acquisition related expenses, adjusted net earnings<sup>2</sup> increased 15.9%.

Comprehensive income decreased to \$11.2 million compared to \$12.1 million last year as the increase in net earnings was more than offset by the impact of foreign exchange on the translation of International Operations financial statements. The change in foreign exchange rates resulted in a loss of \$12.0 million compared to a gain of \$4.9 million last year.

## Year-to-Date

Sales for the year increased 9.5% to \$984.7 million compared to \$899.5 million in 2016 due to the acquisition of RTW and same store sales gains. Excluding the foreign exchange impact, sales increased 8.0% and were up 1.8%<sup>1</sup> on a same store basis. Food sales<sup>1</sup> increased 8.7% and were up 2.0% on a same store basis led by food sales growth in both Canadian and International Operations. General merchandise sales<sup>1</sup> increased 2.1% and were up 1.3% on a same store basis led by higher sales across northern markets.

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

	2017	2016
Food	<b>81.4%</b>	80.6%
General merchandise	<b>15.3%</b>	16.4%
Other*	<b>3.3%</b>	3.0%

\* Other sales includes fuel, fur, tele-pharmacy, airline revenue and financial service revenues

Earnings from operations decreased 5.0% to \$49.9 million compared to \$52.6 million last year. Gross profit dollars increased 11.3% due to sales growth, the impact of foreign exchange and a 48 basis point increase in the gross profit rate. The increase in the gross profit rate is largely due to product sales blend changes. Selling, operating and administrative expenses increased 15.3% and were up 126 basis points as a percentage to sales. The increase in expenses is mainly due to the new stores acquired as part of the RTW acquisition, NSA expenses and one-time acquisition related costs of \$6.3 million largely related to stamp duties paid to the Government of the British Virgin Islands. Higher amortization expense and share-based compensation costs were also factors.

(1) Excluding the foreign exchange impact

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

Earnings before interest, income taxes, depreciation and amortization (EBITDA<sup>2</sup>) increased 1.2% to \$77.4 million compared to \$76.5 million last year. Excluding the impact of the one-time acquisition related costs and share-based compensation option expense, adjusted EBITDA<sup>2</sup> was up 11.1% compared to last year and as a percentage to sales was 8.8% compared to 8.7% last year.

Interest expense increased \$0.8 million to \$4.4 million due to an increase in long-term debt used to finance the RTW and NSA acquisitions, capital investments in Top Markets and higher interest rates. Further information on long-term debt and interest expense is provided in Note 8 and Note 10 respectively to the 2017 second quarter unaudited interim period condensed consolidated financial statements.

Net earnings decreased 5.5% to \$32.3 million compared to \$34.2 million last year and diluted earnings per share were \$0.63 per share compared to \$0.70 per share due to the factors noted above. Excluding the impact of acquisition expenses and share-based compensation option expense, adjusted net earnings<sup>2</sup> increased 15.9%.

## **CANADIAN OPERATIONS**

Canadian Operations sales increased 3.6% to \$293.7 million compared to \$283.5 million last year driven by the impact of the NSA acquisition, new stores and same store sales growth of 1.3%. Food sales increased 1.8% and were up 1.4% on a same store basis and general merchandise sales increased 2.3% from last year and were up 0.9% on a same store basis as sales gains in northern markets more than offset softer sales in urban and rural markets. Food inflation in the quarter was nominal with freight related inflation in northern markets largely offset by deflation in urban and rural markets.

Gross profit dollars increased 3.7% driven by sales growth and a modest improvement in the gross profit rate related to sales blend changes. Selling, operating and administrative expenses decreased 1.8% compared to last year and were down 137 basis points as a percentage to sales. The decrease in expenses was largely due to lower share-based compensation costs partially offset by the impact of the NSA acquisition and higher than usual costs related to the closure of our Price Chopper store which is being converted into a Giant Tiger store.

Canadian EBITDA<sup>2</sup> increased 24.0% to \$30.3 million compared to \$24.4 million last year primarily due to the decrease in share-based compensation costs. EBITDA as a percentage to sales was 10.3% compared to 8.6% last year. Excluding the impact of the share-based compensation option expense and NSA acquisition costs, adjusted EBITDA<sup>2</sup> was up 8.3% compared to last year and as a percentage to sales was 10.2% compared 9.8% to last year.

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

International Operations sales increased 18.8% to \$162.3 million compared to \$136.6 million in the second quarter last year led by the acquisition of RTW and same store sales growth of 2.5%. Food sales increased 21.3% and were up 2.8% on a same store basis with both Alaska Commercial ("AC") and Cost-U-Less ("CUL") stores contributing to the same store sales increase. General merchandise sales increased 0.3% and were up 0.3% on a same store basis as sales gains in AC stores were largely offset by softer sales in CUL stores.

Gross profit dollars increased 24.4% compared to last year due to the acquisition of RTW and higher same store sales. Selling, operating and administrative expenses increased 28.5% and were up 164 basis points as a percentage to sales largely due to the acquisition of RTW stores.

EBITDA<sup>2</sup> increased 15.8% to \$12.8 million compared to \$11.1 million last year largely due to the impact of the RTW acquisition and as a percentage to sales was 7.9% compared to 8.1% in the second quarter last year.

(1) Excluding the 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 second quarter was 0.83:1 compared to 0.70:1 last year largely due to higher debt related to the acquisition of RTW and NSA.

Working capital increased \$6.6 million or 3.4% compared to the second quarter last year largely due to net working capital in RTW and NSA. Further information on the working capital impact of the RTW and NSA acquisitions is provided in Note 17 to the 2017 second quarter unaudited interim period condensed consolidated financial statements.

### Outstanding Shares

The weighted-average basic shares outstanding for the quarter were 48,681,000 shares compared to 48,523,000 shares last year. The increase in basic shares outstanding is due to shares issued in connection with the acquisition of RTW and share options exercised. The weighted-average fully diluted shares outstanding for the quarter were 49,243,000 shares compared to 48,983,000 shares last year. The increase in fully diluted shares outstanding compared to last year is due to shares issued in connection with the acquisition of RTW, 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 2017 second quarter unaudited interim period condensed consolidated financial statements.

On June 14, 2017, the Company's Common Shares were replaced by Variable Voting Shares and Common Voting Shares. The two classes of shares have equivalent rights except for voting rights. Holders of Variable Voting Shares are entitled to one vote per share except where (i) the number of outstanding Variable Voting Shares exceeds 25% of the total number of all issued and outstanding Variable Voting Shares and Common Voting Shares, or (ii) the total number of votes cast by or on behalf of the holders of Variable Voting Shares at any meeting on any matter on which a vote is to be taken exceeds 25% of the total number of votes cast at such meeting. Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the Canada Transportation Act). Further information on the Company's share capital is provided in Note 6 to the Company's 2017 second 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	Three Months	Change	Six Months	Six Months	Change
	Ended	Ended		Ended	Ended	
	July 31, 2017	July 31, 2016		July 31, 2017	July 31, 2016	
Cash flows provided by (used in):						
Operating activities	\$ 41,809	\$ 43,397	\$ (1,588)	\$ 62,821	\$ 49,775	\$ 13,046
Investing activities	(56,567)	(22,973)	(33,594)	(91,340)	(33,275)	(58,065)
Financing activities	24,363	(12,678)	37,041	54,885	(9,702)	64,587
Effect of foreign exchange on cash	(2,283)	309	(2,592)	(1,312)	(938)	(374)
Net change in cash	\$ 7,322	\$ 8,055	\$ (733)	\$ 25,054	\$ 5,860	\$ 19,194

Cash flow from operating activities in the quarter decreased \$1.6 million to \$41.8 million compared to cash flow from operating activities of \$43.4 million last year. This decrease is primarily due to the change in non-cash working capital related to a decrease in accrued liabilities largely due to share-based compensation compared to last year. These factors were partially offset by higher net earnings. For the year-to-date, cash flow from operating activities increased \$13.0 million or 26.2% to \$62.8 million largely due to the change in non-cash working capital related to a decrease in inventory and accounts receivable.

Cash used for investing activities in the quarter increased to \$56.6 million compared to \$23.0 million last year due to the acquisition of NSA and the subsequent purchase of an airplane to expand the number of stores serviced by NSA. Investments related to the Company's Top Markets initiative and the implementation of a new point-of-sale and merchandise management system were also factors. On a year-to-date basis, cash used for investing activities increased \$58.1 million to \$91.3 million primarily due to the acquisition of NSA and RTW. Further information on planned capital expenditures is included in the Outlook section.

Cash provided by financing activities in the quarter was \$24.4 million compared to cash used in financing activities of \$12.7 million last year. The net change in long-term debt in the quarter is related to changes in amounts drawn on the Company's revolving loan facilities largely related to the NSA acquisition. Further information on long-term debt is provided in the Sources of Liquidity section and in Note 8 to the Company's 2017 second quarter unaudited interim period condensed consolidated financial statements.

## Sources of Liquidity

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 U.S. LIBOR plus a spread payable semi-annually. The senior notes are secured by certain assets of the Company and rank *pari passu* with the \$300.0 million Canadian Operations loan facilities and the US\$52.0 million loan facilities.

The Canadian Operations also have committed, revolving loan facilities that provide up to \$300.0 million for working capital and general business purposes. The facilities mature on April 29, 2021, are secured by certain assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the US\$52.0 million loan facilities. At July 31, 2017, the Company had drawn \$183.6 million on these facilities (July 31, 2016 - \$149.5 million).

The Company's committed, revolving loan facilities of US\$52.0 million mature April 29, 2021 and bear interest at U.S. LIBOR plus a spread. These facilities are secured by certain assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the \$300.0 million Canadian Operations loan facilities. At July 31, 2017, the Company had drawn US\$27.9 million on these facilities (July 31, 2016 - US\$NIL).

The Canadian Operations also have a \$2.4 million revolving loan facility to meet NSA's working capital requirements and for general business purposes. This facility bears a floating rate of interest and is secured by the assets of NSA. At July 31, 2017, the Company had drawn \$NIL on this facility.

The International Operations have a US\$40.0 million committed, revolving loan facility for working capital and general business purposes. This loan facility, which matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At July 31, 2017, the Company had drawn US\$6.0 million (July 31, 2016 - US\$NIL) on this facility.

The International Operations also have a US\$1.5 million revolving loan facility to meet RTW's working capital requirements and general business purposes. This facility bears a floating rate of interest based on a U.S. dollar base rate plus a spread and is secured by certain assets of RTW. At July 31, 2017, the Company had drawn US\$NIL on this facility.

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 July 31, 2017, 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 2017 second quarter unaudited interim period condensed consolidated financial statements.

Cash flow from operating activities and unutilized capacity available on existing loan facilities are expected to be sufficient to fund operating requirements, pension plan contributions, planned sustaining and growth-related capital expenditures as well as anticipated dividends during 2017.

## Senior Notes and Loan Facilities Financing

The Company will be, subject to the completion of a definitive agreement and customary closing conditions, issuing \$100.0 million in senior notes the proceeds of which will be used for general corporate purposes and to reduce the amount drawn on the \$300.0 million loan facilities in Canadian Operations. These new senior notes, which will mature on September 26, 2029, will be secured by a floating charge on certain assets of the Company and will rank *pari passu* with the \$300.0 million loan facilities, the US\$52.0 million loan facilities and the US\$70.0 million senior notes. The new senior notes will bear a fixed rate of interest at 3.74% payable on a semi-annual basis. The Company also will, subject to the completion of a definitive agreement and customary closing conditions, extend the maturity of the \$300.0 million and the US\$52.0 million loan facilities to September 26, 2022. The issuance of the senior notes and the extension of the loan facilities maturity is expected to close on or before September 26, 2017.

## SHAREHOLDER DIVIDENDS

The Board of Directors declared a quarterly dividend of \$0.32 per share to shareholders of record on September 29, 2017, to be paid on October 16, 2017.

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

## OTHER HIGHLIGHTS

- A new Distribution Center and support office was opened at Ted Stevens International Airport in Anchorage, Alaska on May 1<sup>st</sup>, 2017. The proximity of this location to AC's outbound air carriers is expected to provide faster, more efficient shipping to the Company's rural Alaskan stores.
- On June 14<sup>th</sup>, 2017 the Company's shareholders approved a variable voting share structure to comply with Canadian ownership rules for airlines under the Canada Transportation Act.
- On June 15<sup>th</sup>, 2017, the Company closed its previously announced acquisition of North Star Air Ltd. for an estimated purchase price of \$31.3 million.
- New Giant Tiger stores were opened in Red Deer, Alberta on June 24<sup>th</sup>, 2017 and Prince Albert, Saskatchewan on July 15<sup>th</sup>, 2017.
- A store was acquired in Kiana, Alaska on July 10<sup>th</sup>, 2017 and converted to the Company's AC banner.

## HURRICANE IRMA IMPACT

The Company operates 12 stores in the islands directly impacted by Hurricane Irma and the damage caused by this current event is still being assessed. The Company is aware that its Cost-U-Less store located in St. Maarten has been significantly damaged and will not be operational for an indeterminate length of time. The Company's store in St. Croix, USVI is largely undamaged. The extent of damage to the Cost-U-Less store located in St. Thomas, USVI and the nine stores and wholesale business in the British Virgin Islands is still being determined but is expected to be less significant than St. Maarten. At this point the Company believes its insurance coverage will be adequate to cover expected costs and losses, including loss of business.

## STRATEGY

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

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

1. Managing investment in the Company's "Top Markets", our largest and highest sales and profit potential locations, so that sustaining capital is better balanced with new products and services while allocating more selling space to "Top Categories" which offer the highest everyday convenience and service value to our customers.
2. Investing in new retail markets through acquisitions primarily in the Caribbean region and store openings in western Canada (GT).
3. Investing to build a superior logistics capability, with a focus on providing faster, more reliable and lower cost service to our stores and customers in northern Canada.
4. Completing "Project Enterprise", an initiative to implement new work force management, point-of-sale and merchandise management systems. This project is expected to deliver gains in pricing, more effective promotions, inventory management and store productivity, all aligned with the Company's "Top" strategies.
5. Ensuring that the way we work is customer driven and store-centric through more responsive and effective support to the Company's selling activities.

Further information on the Company's strategy is provided in the 2016 Annual Report.

## OUTLOOK

As noted under the strategy section, the Company's principal focus continues to be led by its Top Markets and Top Categories initiatives. The successful execution of this work is expected to enable the Company to capture market share and sales at a higher rate than general consumer income growth, while focusing on lower-risk products and services. Priority work in 2017 will include implementing post-acquisition plans for RTW and NSA, with an emphasis on growing each business to their full potential under the Company's ownership.

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

Net capital expenditures for 2017, exclusive of the RTW and NSA acquisitions, are expected to be in the \$130.0 million range (2016 - \$77.7 million). The increase in expected capital expenditures is due to the purchase of additional aircraft and investments in hangar and distribution facilities to support NSA providing cargo service to the Company's stores in northern Canada in our continuing efforts to improve the quality of service to our customers. In addition to these investments, the Company is also implementing new information systems as described under the strategy section and investing in major store replacements, store renovations and investments in fixtures, equipment, staff housing and store-based warehouse expansions as part of the Company's Top Markets initiative, the opening of four Giant Tiger stores as well as the completion of "New Store Experience" upgrades in two 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

(\$ in millions)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	92 days	92 days	89 days	90 days	92 days	92 days	92 days	92 days
	2017	2016	2017	2016	2016	2015	2016	2015
<b>Sales</b>	\$ 507.9	\$ 460.6	\$ 476.8	\$ 439.0	\$ 480.6	\$ 475.2	\$ 464.0	\$ 458.0
<b>EBITDA<sup>2</sup></b>	<b>47.3</b>	38.9	30.1	37.6	38.9	35.1	51.1	43.1
<b>Earnings from operations</b>	<b>33.2</b>	27.0	16.7	25.6	26.5	23.4	39.1	32.0
<b>Net earnings</b>	<b>23.3</b>	16.4	9.1	17.8	15.0	15.2	27.9	20.7
<b>Net earnings per share:</b>								
<b>Basic</b>	<b>0.47</b>	0.34	0.17	0.37	0.31	0.31	0.57	0.43
<b>Diluted</b>	<b>0.46</b>	0.34	0.17	0.36	0.30	0.31	0.57	0.43

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

### DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Management has limited the scope of the design of internal controls over financial reporting and disclosure controls and procedures to exclude the controls, policies and procedures of Roadtown Wholesale Trading Ltd. ("RTW") operating primarily as Riteway Food Markets in the British Virgin Islands and North Star Air Ltd ("NSA"). RTW and NSA were acquired February 9, 2017 and June 15, 2017 respectively and their operating results have been included in the unaudited interim period condensed consolidated financial statements for the period ended July 31, 2017. The scope limitation is due to the time required for the Company to assess disclosure controls & procedures and internal controls over financial reporting at both RTW and NSA in a manner consistent with its other operations. This limitation is in accordance with Section 3.3 of National Instrument 52-109, *Certification of Disclosure in Issuer's Annual and Interim Filings*, which allows an issuer to limit its design of internal controls over financial reporting and disclosure controls and procedures of a company acquired not more than 365 days before the end of the financial period to which the certificate relates. Since the date of acquisition the impact on sales was an increase of \$61.2 million and the impact on net earnings was a decrease of \$0.5 million. The net loss of \$0.5 million includes \$6.2 million in acquisition costs, net of tax, substantially related to stamp duty paid to the Government of the British Virgin Islands. Further financial information on the acquisitions of RTW and NSA is included in Note 17 to the 2017 second quarter unaudited interim period condensed consolidated financial statements.

There have been no changes in the internal controls over financial reporting during the quarter ended July 31, 2017 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

(1) Excluding the foreign exchange impact

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

## ACCOUNTING STANDARDS IMPLEMENTED IN 2017

The Company adopted amendments to IAS 7, *Statement of Cash Flows* and amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses* effective February 1, 2017, as required by the IASB.

The IAS 7 amendments provides guidance on the disclosure of liabilities that form part of an entity's financing activities. The amendments had no material impact on the condensed consolidated financial statements and the Company is assessing the impact on its annual disclosure.

The IAS 12 amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. These amendments had no impact on the condensed consolidated financial statements and no changes are expected to the Company's annual consolidated financial statements.

## 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, 2018, and have not been applied in preparing the Company's 2017 second quarter unaudited interim period condensed consolidated financial statements. The Company is currently assessing the potential impacts of changes to these standards.

**Financial Instruments** The amended IFRS 9, *Financial Instruments* is a multi-phase project with the goal of improving and simplifying financial instrument reporting. Additional guidance was issued on:

- New requirements for the classification and measurement of financial assets and liabilities. 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
- A single forward-looking "expected credit loss" impairment model
- New general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize effectiveness, however it will provide more strategies that may be used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship

These changes are effective for the Company's financial year ending January 31, 2019 and will be applied retrospectively.

**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. A contract based five step analysis of transactions is used to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced. It is effective for the Company's financial year ending January 31, 2019 and will be applied retrospectively.

**Leases** IFRS 16, *Leases* replaces the current guidance in IAS 17 for operating and finance lease accounting. This standard requires lessees to recognize a lease liability representing the obligation for future lease payments and a right-of-use asset in the consolidated balance sheets for substantially all lease contracts, initially measured at the present value of unavoidable lease payments. These changes are effective for the Company's financial year ending January 31, 2020, with early adoption permitted provided IFRS 15, *Revenue from Contracts with Customers* is also applied. The Company continues to evaluate the effect this standard will have on its consolidated financial statements and expects the impact to be material. Under the new standard the Company will recognize new assets and liabilities for its operating leases of property and equipment. In addition, the nature and timing of leasing expenses will change as operating lease expenses are replaced by a depreciation charge for right-of-use assets and interest expense on lease liabilities.

**Share-based payments** In June 2016, the IASB issued amendments to IFRS 2, *Share-based payments* in relation to the classification and measurement of share-based payment transactions; specifically, accounting for cash-settled share-based transactions, share-based payment transactions with a net settlement feature and modifications of share-based payment transactions that change classification from cash-settled to equity-settled. These amendments are applicable for the Company's financial year ending January 31, 2019.

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

## NON-GAAP MEASURES

The Company uses the following non-GAAP financial measures: earnings before interest, income taxes, depreciation and amortization (EBITDA), adjusted EBITDA and adjusted net earnings. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

**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.

**Adjusted EBITDA and Adjusted Net Earnings** Adjusted EBITDA and adjusted net earnings are not recognized measures under IFRS. Management uses these non-GAAP financial measures to exclude the impact of certain income and expenses that must be recognized under IFRS. The excluded amounts are either subject to volatility in the Company's share price or may not necessarily be reflective of the Company's underlying operating performance. These factors can make comparisons of the Company's 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.

These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to the other financial measures determined in accordance with IFRS.

### Reconciliation of consolidated net earnings to EBITDA and adjusted EBITDA:

(\$ in thousands)	Second Quarter		Year-to-Date	
	2017	2016	2017	2016
Net earnings	\$ 23,261	\$ 16,423	\$ 32,332	\$ 34,217
Add: Amortization	14,112	11,903	27,487	23,930
Interest expense	2,306	1,810	4,408	3,567
Income taxes	7,625	8,721	13,192	14,783
EBITDA	\$ 47,304	\$ 38,857	\$ 77,419	\$ 76,497
Add: Acquisition costs	579	—	6,344	—
Share-based compensation option expense	(967)	3,184	3,346	1,905
Adjusted EBITDA	\$ 46,916	\$ 42,041	\$ 87,109	\$ 78,402

For EBITDA information by business segment, see Note 4 to the Company's 2017 second quarter unaudited interim period condensed consolidated financial statements.

## Reconciliation of consolidated net earnings to adjusted net earnings:

(\$ in thousands)	Second Quarter		Year-to-Date	
	2017	2016	2017	2016
Net earnings	\$ 23,261	\$ 16,423	\$ 32,332	\$ 34,217
Add: Acquisition costs, net of tax	423	—	6,188	—
Share-based compensation option expense	(967)	3,184	3,346	1,905
Adjusted net earnings	\$ 22,717	\$ 19,607	\$ 41,866	\$ 36,122

Acquisition costs were incurred to complete the North Star Air Ltd. and Roadtown Wholesale Trading Ltd. transactions. They are comprised of stamp duty, external legal fees and other costs all of which are included in selling, operating and administrative expenses.

The Company is exposed to market price fluctuations in its share price through share-based compensation costs. Accrued share-based compensation is presented as a liability on the Company's consolidated balance sheets. This liability is recorded at fair value at each reporting date based on the market price of the Company's shares at the end of each reporting period with the changes in fair value recorded in selling, operating and administrative expenses.

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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 2017 second 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 September 7, 2017.

### Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, capital expenditures, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete capital projects, strategic transactions and integrate acquisitions, the Company's ability to realize benefits from investments in information technology ("IT") and systems, including IT system implementations or unanticipated results from these initiatives and the Company's success in anticipating and managing the foregoing risks. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other risks are outlined in the Risk Management section of the 2016 Annual Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

Additional information on the Company, including our Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).

## Consolidated Balance Sheets

(unaudited, \$ in thousands)

	July 31, 2017	July 31, 2016	January 31, 2017
<b>CURRENT ASSETS</b>			
Cash	\$ 55,297	\$ 43,103	\$ 30,243
Accounts receivable	77,475	74,485	78,931
Inventories (Note 5)	219,780	209,396	213,217
Prepaid expenses	10,622	10,230	5,547
	<b>363,174</b>	337,214	327,938
<b>NON-CURRENT ASSETS</b>			
Property and equipment	427,857	341,221	358,121
Goodwill	41,521	37,714	37,752
Intangible assets	35,358	32,789	35,394
Deferred tax assets	32,380	35,644	32,853
Other assets	11,343	11,799	13,763
	<b>548,459</b>	459,167	477,883
<b>TOTAL ASSETS</b>	<b>\$ 911,633</b>	\$ 796,381	\$ 805,821
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 156,554	\$ 141,316	\$ 146,639
Income tax payable (Note 11)	6,319	2,228	5,605
	<b>162,873</b>	143,544	152,244
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt (Note 8)	313,121	240,549	229,266
Defined benefit plan obligation (Note 18)	35,929	48,139	34,078
Deferred tax liabilities	2,433	2,357	2,661
Other long-term liabilities	18,124	18,600	19,787
	<b>369,607</b>	309,645	285,792
<b>TOTAL LIABILITIES</b>	<b>532,480</b>	453,189	438,036
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 6)	172,340	167,910	168,283
Contributed surplus	2,665	2,706	2,647
Retained earnings	175,954	151,542	176,003
Accumulated other comprehensive income	14,818	21,034	20,852
Equity attributable to The North West Company Inc.	<b>365,777</b>	343,192	367,785
Non-controlling interests	13,376	—	—
<b>TOTAL EQUITY</b>	<b>379,153</b>	343,192	367,785
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 911,633</b>	\$ 796,381	\$ 805,821

See accompanying notes to condensed consolidated financial statements.

## Consolidated Statements of Earnings

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016
(unaudited, \$ in thousands, except per share amounts)				
<b>SALES</b>	<b>\$ 507,873</b>	\$ 460,567	<b>\$ 984,695</b>	\$ 899,541
Cost of sales	<b>(355,312)</b>	(323,876)	<b>(692,863)</b>	(637,249)
Gross profit	<b>152,561</b>	136,691	<b>291,832</b>	262,292
Selling, operating and administrative expenses (Notes 9, 15)	<b>(119,369)</b>	(109,737)	<b>(241,900)</b>	(209,725)
Earnings from operations	<b>33,192</b>	26,954	<b>49,932</b>	52,567
Interest expense (Note 10)	<b>(2,306)</b>	(1,810)	<b>(4,408)</b>	(3,567)
Earnings before income taxes	<b>30,886</b>	25,144	<b>45,524</b>	49,000
Income taxes (Note 11)	<b>(7,625)</b>	(8,721)	<b>(13,192)</b>	(14,783)
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 23,261</b>	\$ 16,423	<b>\$ 32,332</b>	\$ 34,217
<b>NET EARNINGS ATTRIBUTABLE TO</b>				
The North West Company Inc.	<b>\$ 22,720</b>	\$ 16,423	<b>31,106</b>	34,217
Non-controlling interests	<b>541</b>	—	<b>1,226</b>	—
<b>TOTAL NET EARNINGS</b>	<b>\$ 23,261</b>	\$ 16,423	<b>\$ 32,332</b>	\$ 34,217
<b>NET EARNINGS PER SHARE</b>				
Basic	<b>\$ 0.47</b>	\$ 0.34	<b>\$ 0.64</b>	\$ 0.71
Diluted	<b>\$ 0.46</b>	\$ 0.34	<b>\$ 0.63</b>	\$ 0.70
<b>WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)</b>				
Basic	<b>48,681</b>	48,523	<b>48,673</b>	48,523
Diluted	<b>49,243</b>	48,983	<b>49,232</b>	48,980

See accompanying notes to condensed consolidated financial statements.

## Consolidated Statements of Comprehensive Income

(unaudited, \$ in thousands)	<b>Three Months Ended July 31, 2017</b>	Three Months Ended July 31, 2016	<b>Six Months Ended July 31, 2017</b>	Six Months Ended July 31, 2016
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 23,261</b>	\$ 16,423	<b>\$ 32,332</b>	\$ 34,217
Other comprehensive income/(loss), net of tax:				
<b>Items that may be reclassified to net earnings:</b>				
Exchange differences on translation of foreign controlled subsidiaries	<b>(12,018)</b>	4,895	<b>(6,034)</b>	(9,384)
<b>Items that will not be subsequently reclassified to net earnings:</b>				
Remeasurements of defined benefit plans (Note 18)	—	(9,255)	—	(9,255)
Total other comprehensive income/(loss), net of tax	<b>(12,018)</b>	(4,360)	<b>(6,034)</b>	(18,639)
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 11,243</b>	\$ 12,063	<b>\$ 26,298</b>	\$ 15,578
<b>OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO</b>				
The North West Company Inc.	<b>\$ (12,018)</b>	\$ (4,360)	<b>\$ (6,034)</b>	\$ (18,639)
Non-controlling interests	—	—	—	—
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)</b>	<b>\$ (12,018)</b>	\$ (4,360)	<b>\$ (6,034)</b>	\$ (18,639)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>				
The North West Company Inc.	<b>\$ 10,702</b>	\$ 12,063	<b>\$ 25,072</b>	\$ 15,578
Non-controlling interests	<b>541</b>	—	<b>1,226</b>	—
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 11,243</b>	\$ 12,063	<b>\$ 26,298</b>	\$ 15,578

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 <sup>(1)</sup>	Total	Non-Controlling Interests	Total Equity
Balance at January 31, 2017	\$ 168,283	\$ 2,647	\$ 176,003	\$ 20,852	\$ 367,785	\$ —	\$ 367,785
Net earnings for the period	—	—	31,106	—	31,106	1,226	32,332
Other comprehensive income	—	—	—	(6,034)	(6,034)	—	(6,034)
Comprehensive income	—	—	31,106	(6,034)	25,072	1,226	26,298
Equity settled share-based payments	—	75	—	—	75	—	75
Dividends (Note 7)	—	—	(31,155)	—	(31,155)	—	(31,155)
Issuance of shares (Note 6)	4,057	(57)	—	—	4,000	—	4,000
Acquisition of subsidiary with non-controlling interests (Note 17)	—	—	—	—	—	12,150	12,150
	4,057	18	(31,155)	—	(27,080)	12,150	(14,930)
<b>Balance at July 31, 2017</b>	<b>\$ 172,340</b>	<b>\$ 2,665</b>	<b>\$ 175,954</b>	<b>\$ 14,818</b>	<b>\$ 365,777</b>	<b>\$ 13,376</b>	<b>\$ 379,153</b>
Balance at January 31, 2016	\$ 167,910	\$ 2,620	\$ 156,664	\$ 30,418	\$ 357,612	\$ —	\$ 357,612
Net earnings for the period	—	—	34,217	—	34,217	—	34,217
Other comprehensive loss	—	—	(9,255)	(9,384)	(18,639)	—	(18,639)
Comprehensive income/(loss)	—	—	24,962	(9,384)	15,578	—	15,578
Equity settled share-based payments	—	86	—	—	86	—	86
Dividends (Note 7)	—	—	(30,084)	—	(30,084)	—	(30,084)
	—	86	(30,084)	—	(29,998)	—	(29,998)
Balance at July 31, 2016	\$ 167,910	\$ 2,706	\$ 151,542	\$ 21,034	\$ 343,192	\$ —	\$ 343,192

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements.



## Consolidated Statements of Cash Flows

(unaudited, \$ in thousands)	<b>Three Months Ended July 31, 2017</b>	Three Months Ended July 31, 2016	<b>Six Months Ended July 31, 2017</b>	Six Months Ended July 31, 2016
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating activities</b>				
Net earnings for the period	\$ 23,261	\$ 16,423	\$ 32,332	\$ 34,217
Adjustments for:				
Amortization	14,112	11,903	27,487	23,930
Provision for income taxes (Note 11)	7,625	8,721	13,192	14,783
Interest expense (Note 10)	2,306	1,810	4,408	3,567
Equity settled share option expense (Note 12)	36	44	75	86
Taxes paid	(9,314)	(9,656)	(16,268)	(19,740)
Loss on disposal of property and equipment	22	97	470	891
	<b>38,048</b>	29,342	<b>61,696</b>	57,734
Change in non-cash working capital	932	9,312	(848)	(11,349)
Change in other non-cash items	2,829	4,743	1,973	3,390
Cash from operating activities	<b>41,809</b>	43,397	<b>62,821</b>	49,775
<b>Investing activities</b>				
Purchase of property and equipment	(27,415)	(17,384)	(38,132)	(27,244)
Business acquisitions (Note 17)	(28,934)	—	(51,789)	—
Intangible asset additions	(312)	(5,601)	(1,518)	(6,055)
Proceeds from disposal of property and equipment	94	12	99	24
Cash used in investing activities	<b>(56,567)</b>	(22,973)	<b>(91,340)</b>	(33,275)
<b>Financing activities</b>				
Net increase in long-term debt (Note 8)	42,704	4,036	89,710	22,779
Dividends (Note 7)	(15,579)	(15,042)	(31,155)	(30,084)
Interest paid	(2,762)	(1,672)	(3,670)	(2,397)
Cash provided by/(used in) financing activities	<b>24,363</b>	(12,678)	<b>54,885</b>	(9,702)
<b>Effect of changes in foreign exchange rates on cash</b>	<b>(2,283)</b>	309	<b>(1,312)</b>	(938)
<b>NET CHANGE IN CASH</b>	<b>7,322</b>	8,055	<b>25,054</b>	5,860
Cash, beginning of period	47,975	35,048	30,243	37,243
<b>CASH, END OF PERIOD</b>	<b>\$ 55,297</b>	\$ 43,103	<b>\$ 55,297</b>	\$ 43,103

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 September 7, 2017.

### 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 2016 Annual Report which have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

- Liabilities for share-based payment plans (Note 12)
- Defined benefit pension plan
- Assets and liabilities acquired in a business combination (Note 17)

The methods used to measure fair values are discussed further in the notes to the Company's 2016 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 2016 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.

**New Standards Implemented** The Company adopted amendments to IAS 7, *Statement of Cash Flows* and amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses* effective February 1, 2017, as required by the IASB.

The IAS 7 amendments provide guidance on the disclosure of liabilities that form part of an entity's financing activities. The amendments had no material impact on the condensed consolidated financial statements and the Company is assessing the impact on its annual disclosure.

The IAS 12 amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. These amendments had no impact on the condensed consolidated financial statements and no changes are expected to the Company's annual consolidated financial statements.

**Future Standards and Amendments** The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2018, and have not been applied in preparing these condensed consolidated financial statements. The Company is currently assessing the potential impacts of changes to these standards.

**Financial Instruments** The amended IFRS 9, *Financial Instruments* is a multi-phase project with the goal of improving and simplifying financial instrument reporting. Additional guidance was issued on:

- New requirements for the classification and measurement of financial assets and liabilities. 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
- A single forward-looking "expected credit loss" impairment model
- New general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize effectiveness, however it will provide more strategies that may be used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship

These changes are effective for the Company's financial year ending January 31, 2019 and will be applied retrospectively.

**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. A contract based five step analysis of transactions is used to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced. It is effective for the Company's financial year ending January 31, 2019 and will be applied retrospectively.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Leases** IFRS 16, *Leases* replaces the current guidance in IAS 17 for operating and finance lease accounting. This standard requires lessees to recognize a lease liability representing the obligation for future lease payments and a right-of-use asset in the consolidated balance sheets for substantially all lease contracts, initially measured at the present value of unavoidable lease payments. These changes are effective for the Company's financial year ending January 31, 2020, with early adoption permitted provided IFRS 15, *Revenue from Contracts with Customers* is also applied. The Company continues to evaluate the effect this standard will have on its consolidated financial statements and expects the impact to be material. Under the new standard the Company will recognize new assets and liabilities for its operating leases of property and equipment. In addition, the nature and timing of leasing expenses will change as operating lease expenses are replaced by a depreciation charge for right-of-use assets and interest expense on lease liabilities.

**Share-based payments** In June 2016, the IASB issued amendments to IFRS 2, *Share-based payments* in relation to the classification and measurement of share-based payment transactions; specifically, accounting for cash-settled share-based transactions, share-based payment transactions with a net settlement feature and modifications of share-based payment transactions that change classification from cash-settled to equity-settled. These amendments are applicable for the Company's financial year ending January 31, 2019.

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

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

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

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

## 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 July 31, 2017	Three Months Ended July 31, 2016	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016
<b>Sales</b>				
Canada	\$ 293,671	\$ 283,465	\$ 566,412	\$ 549,346
International	214,202	177,102	418,283	350,195
Consolidated	\$ 507,873	\$ 460,567	\$ 984,695	\$ 899,541
<b>Earnings before amortization, interest and income taxes</b>				
Canada	\$ 30,302	\$ 24,446	\$ 50,217	\$ 49,282
International	17,002	14,411	27,202	27,215
Consolidated	\$ 47,304	\$ 38,857	\$ 77,419	\$ 76,497
<b>Earnings from operations</b>				
Canada	\$ 20,435	\$ 15,723	\$ 31,195	\$ 31,831
International	12,757	11,231	18,737	20,736
Consolidated	\$ 33,192	\$ 26,954	\$ 49,932	\$ 52,567

#### Supplemental information

	July 31, 2017	July 31, 2016	January 31, 2017
<b>Assets</b>			
Canada <sup>(1)</sup>	\$ 589,366	\$ 524,509	\$ 529,807
International <sup>(1)</sup>	322,267	271,872	276,014
Consolidated	\$ 911,633	\$ 796,381	\$ 805,821

(1) Canadian total assets includes goodwill of \$6,524 (July 31, 2016 - \$NIL; January 31, 2017 - \$3,271). International total assets includes goodwill of \$34,997 (July 31, 2016 - \$37,714; January 31, 2017 - \$34,481).

	Three Months Ended July 31, 2017		Three Months Ended July 31, 2016		Six Months Ended July 31, 2017		Six Months Ended July 31, 2016	
	Canada	International	Canada	International	Canada	International	Canada	International
Purchase of property and equipment	\$ 21,968	\$ 5,447	\$ 15,141	\$ 2,243	\$ 30,430	\$ 7,702	\$ 23,752	\$ 3,492
Amortization	\$ 9,867	\$ 4,245	\$ 8,723	\$ 3,180	\$ 19,022	\$ 8,465	\$ 17,451	\$ 6,479

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. INVENTORIES

Included in cost of sales for the three months ended July 31, 2017, the Company recorded \$251 (three months ended July 31, 2016 – \$210) for the write-down of period end inventories as a result of net realizable value being lower than cost. For the six months ended July 31, 2017 the Company recorded \$688 (six months ended July 31, 2016- \$750) 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 six months ended July 31, 2017 or 2016.

### 6. SHARE CAPITAL

**Authorized** – The Company has an unlimited number of Common Voting Shares and Variable Voting Shares.

	Shares	Consideration
Balance at January 31, 2017	48,542,514	\$ 168,283
Issued for acquisition of Roadtown Wholesale Trading Ltd. (Note 17)	133,944	4,000
Issued under option plans (Note 12)	4,909	57
<b>Balance at July 31, 2017</b>	<b>48,681,367</b>	<b>\$ 172,340</b>
Balance at January 31, 2016	48,523,341	\$ 167,910
Issued under option plans (Note 12)	—	—
Balance at July 31, 2016	48,523,341	\$ 167,910

On June 14, 2017, the Company's Common Shares were replaced by Variable Voting Shares and Common Voting Shares. The two classes of shares have equivalent rights as shareholders except for voting rights. Holders of Variable Voting Shares are entitled to one vote per share except where (i) the number of outstanding Variable Voting Shares exceeds 25% of the total number of all issued and outstanding Variable Voting Shares and Common Voting Shares, or (ii) the total number of votes cast by or on behalf of the holders of Variable Voting Shares at any meeting on any matter on which a vote is to be taken exceeds 25% of the total number of votes cast at such meeting.

If either of the above-noted thresholds is surpassed at any time, the vote attached to each Variable Voting Share will decrease automatically without further act or formality. Under the circumstances described in paragraph (i) above, the Variable Voting Shares as a class cannot carry more than 25% of the total voting rights attached to the aggregate number of issued and outstanding Variable Voting Shares and Common Voting Shares of the Company. Under the circumstances described in paragraph (ii) above, the Variable Voting Shares as a class cannot, for a given Shareholders' meeting, carry more than 25% of the total number of votes cast at the meeting.

Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the Canada Transportation Act). An issued and outstanding Variable Voting Share is converted into one Common Voting Share automatically and without any further act of the Company or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the Canada Transportation Act.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 7. DIVIDENDS

	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016
Dividends paid in cash	\$ 31,155	\$ 30,084
Dividends per share	\$ 0.64	\$ 0.62

The payment of dividends on the Company's 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

	July 31, 2017	July 31, 2016	January 31, 2017
<b>Current:</b>			
Revolving loan facilities	—	—	—
	\$ —	\$ —	\$ —
<b>Non-current:</b>			
Revolving loan facilities <sup>(1)</sup>	\$ 7,456	\$ —	\$ 11,887
Revolving loan facilities <sup>(2)</sup>	34,859	—	—
Revolving loan facilities <sup>(3)</sup>	183,615	149,454	126,344
Revolving loan facilities <sup>(4)</sup>	—	—	—
Revolving loan facilities <sup>(5)</sup>	—	—	—
Senior notes <sup>(6)</sup>	87,191	91,095	91,035
	\$ 313,121	\$ 240,549	\$ 229,266
Total	\$ 313,121	\$ 240,549	\$ 229,266

(1) The committed, revolving U.S. loan facility provides the International Operations with up to US\$40,000 for working capital requirements and general business purposes. This facility matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At July 31, 2017, the International Operations had drawn US\$5,975 (July 31, 2016 – US\$NIL) on this facility.

(2) The US\$52,000 loan facilities mature April 29, 2021 and bear interest at U.S. LIBOR plus a spread. These loan facilities are secured by certain assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the \$300,000 Canadian Operations loan facilities. At July 31, 2017, the Company had drawn US\$27,936 (July 31, 2016 – US\$NIL) on these facilities.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(3) These committed, revolving loan facilities provide the Company's Canadian Operations with up to \$300,000 for working capital and general business purposes. The facilities mature April 29, 2021 and are secured by certain assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the US\$52,000 loan facilities. These facilities bear a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate.

(4) The revolving U.S. loan facility provides the International Operations with up to US\$1,500 for Roadtown Wholesale Trading Ltd.'s (RTW) working capital requirements and general business purposes. This facility bears a floating rate of interest based on a U.S. dollar base rate plus a spread and is secured by certain assets of RTW. At July 31, 2017, the Company had drawn US\$NIL on this facility.

(5) The Canadian Operations also have a \$2,375 revolving loan facility to meet North Star Air Ltd.'s (NSA) working capital requirements and for general business purposes. This facility bears a floating rate of interest and is secured by the assets of NSA. At July 31, 2017, the Company had drawn \$NIL on this facility.

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

### 9. EMPLOYEE COSTS

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016
Wages, salaries and benefits including bonus	\$ 72,979	\$ 62,433	\$ 137,477	\$ 121,818
Post employment benefits	2,003	1,780	4,076	3,723
Share-based compensation (Note 12)	207	5,476	7,045	4,717

### 10. INTEREST EXPENSE

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016
Interest on long-term debt	\$ 2,117	\$ 1,532	\$ 3,966	\$ 2,983
Net interest on defined benefit plan obligation	331	330	661	659
Interest income	(7)	(25)	(14)	(48)
Less: interest capitalized	(135)	(27)	(205)	(27)
Interest expense	\$ 2,306	\$ 1,810	\$ 4,408	\$ 3,567



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 11. INCOME TAXES

The estimated effective income tax rate for the three months ended July 31, 2017 is 24.7% (three months ended July 31, 2016 – 34.7%) and for the six months ended July 31, 2017 is 29.0% (six months ended July 31, 2016 - 30.2%). The Company estimates its effective income tax rate on a weighted-average basis by determining the income tax rate applicable to each taxing jurisdiction and applying it to its pre-tax earnings. Changes in the effective income tax rate primarily reflect changes in earnings of the Company's subsidiaries across various tax jurisdictions and the impact of non-tax deductible items.

### 12. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Performance Share Units (PSUs); Share Options; Director Deferred Share Units (DDSU); Executive Deferred Share Units (EDSU) 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 shares.

The total expense relating to share-based payment plans for the three months ended July 31, 2017 is \$207 (three months ended July 31, 2016 – \$5,476) and for the six months ended July 31, 2017 is \$7,045 (six months ended July 31, 2016 - \$4,717). The carrying amount of the Company's share-based compensation arrangements including PSU, share option, DDSU and EDSU plans are recorded on the consolidated balance sheets as follows:

	July 31, 2017	July 31, 2016	January 31, 2017
Accounts payable and accrued liabilities	\$ 14,832	\$ 9,845	\$ 10,844
Other long-term liabilities	12,790	12,896	13,624
Contributed surplus	1,096	1,137	1,078
Total	\$ 28,718	\$ 23,878	\$ 25,546

#### 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 July 31, 2017 are \$777 (three months ended July 31, 2016 – \$1,050) and for the six months ended July 31, 2017 are \$2,074 (six months ended July 31, 2016 - \$1,595).

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 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 8.9% of the Company's issued and outstanding shares at July 31, 2017. 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 years. The share option compensation cost recorded for the three months ended July 31, 2017 is a recovery of \$967 (three months ended July 31, 2016 – expense of \$3,184) and for the six months ended July 31, 2017 is an expense of \$3,346 (six months ended July 31, 2016 - expense of \$1,905).

The fair values for options issued were calculated based on the assumptions below.

	2017	2016
Fair value of options granted	<b>\$3.12 to \$4.30</b>	\$2.80 to \$3.88
Exercise price	<b>\$32.40</b>	\$28.81
Dividend yield	<b>4.2%</b>	3.9%
Annual risk-free interest rate	<b>1.2%</b>	0.5% to 0.7%
Expected share price volatility	<b>21.6%</b>	19.8%

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

	2017	2016
Dividend yield	<b>4.2%</b>	4.1%
Annual risk-free interest rate	<b>1.3% to 1.7%</b>	0.5% to 0.7%
Expected share price volatility	<b>18.8% to 21.3%</b>	19.2% to 22.8%

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.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following continuity schedules reconcile the movement in outstanding options during the six months ended July 31:

Number of options outstanding	Declining Strike Price Options		Standard Options	
	2017	2016	2017	2016
Outstanding options, beginning of period	2,082,892	1,659,664	442,642	400,045
Granted	425,164	454,057	63,843	68,564
Exercised	—	—	(16,855)	—
Forfeited or cancelled	(28,117)	—	—	—
Outstanding options, end of period	2,479,939	2,113,721	489,630	468,609
Exercisable at end of period	801,715	516,260	237,026	231,744

Weighted-average exercise price	Declining Strike Price Options		Standard Options	
	2017	2016	2017	2016
Outstanding options, beginning of period	\$ 24.81	\$ 23.67	\$ 23.21	\$ 21.86
Granted	32.40	28.81	32.40	28.81
Exercised	—	—	22.71	—
Forfeited or cancelled	25.40	—	—	—
Outstanding options, end of period	\$ 26.10	\$ 24.77	\$ 24.43	\$ 22.88
Exercisable at end of period	\$ 19.49	\$ 19.22	\$ 20.67	\$ 19.95

Options outstanding at July 31, 2017 have an exercise price range of \$17.19 to \$32.40 and a weighted-average remaining contractual life of 4.2 years.

### Director Deferred Share Unit Plan

This plan is available for independent Directors. Participants are credited with deferred share units for the amount of the annual equity retainer and fees each participant elects to allocate to the DDSU plan. Each deferred share unit entitles the holder to receive a share of the Company. The DDSUs are exercisable by the holder at any time but no later than December 31 of the first calendar year commencing after the holder ceases to be a Director. A participant may elect at the time of exercise of any DDSUs, subject to the consent of the Company, to have the Company pay an amount in cash equal to the aggregate current market value of the shares, determined based on the closing price of the shares on the TSX on the trading day preceding the exercise date. This cash payment is in consideration for the surrender by the participant to the Company the right to receive shares from exercising the DDSUs. Effective December 2016, the Plan was amended for those DDSUs credited to participants for the portion of the annual cash retainer and fees each participant elects to allocate to the Plan. The holder of these DDSUs is entitled to receive at the time of exercise, 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.

Compensation expense is measured based on the fair market value at each reporting date. Subsequent changes in the fair value of the DDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The DDSU plan compensation cost recorded for the three months ended July 31, 2017 is \$275 (three months ended July 31, 2016 – \$1,057) and for the six months ended July 31, 2017 is \$1,057 (six months ended July 31, 2016 – \$684.) The total number of DDSUs outstanding at July 31, 2017 is 238,014 (July 31, 2016 – 202,753). There were no DDSUs exercised during the six months ended July 31, 2017 and 2016.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### **Executive Deferred Share Unit Plan**

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

Total compensation expense is measured at the time of the grant. Subsequent changes in the fair value of the EDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The EDSU plan compensation cost recorded for the three months ended July 31, 2017 is a recovery of \$30 (three months ended July 31, 2016 – expense of \$63) and for the six months ended July 31, 2017 is an expense of \$38 (six months ended July 31, 2016 - expense of \$43).

### **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 July 31, 2017 is \$152 (three months ended July 31, 2016 – \$122) and for the six months ended July 31, 2017 is \$530 (six months ended July 31, 2016 - \$490).

## **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 at July 31, 2017 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%
Roadtown Wholesale Trading Ltd.	Retailing	British Virgin Islands		76%
North Star Air Ltd.	Airline	Canada		100%

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

### 15. EXPENSES BY NATURE

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016
Employee costs	\$ 75,189	\$ 69,689	\$ 148,598	\$ 130,258
Amortization	14,112	11,903	27,487	23,930
Operating lease rentals	8,796	7,431	16,542	14,974
Other income	(7,417)	(6,853)	(16,445)	(15,532)

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 16. FINANCIAL INSTRUMENTS

#### Accounting classifications and fair value estimation

The following table comprises the carrying amounts of the Company's financial instruments at July 31, 2017. 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	\$ 55,297	\$ 55,297
Accounts receivable	Short-term	77,475	77,475
Other financial assets	Long-term	1,473	1,473
Accounts payable and accrued liabilities	Short-term	(156,554)	(156,554)
Long-term debt	Long-term	(313,121)	(313,921)

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. This is considered a level 2 fair value estimate.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 17. Business Acquisition

On February 9, 2017, the Company acquired 76% of the outstanding common shares of Roadtown Wholesale Trading Ltd. (RTW), operating primarily as Riteway Food Markets in the British Virgin Islands (BVI). RTW is the leading retailer in BVI with seven retail outlets, two Cash and Carry stores and a wholesale operation. Based on the Company's closing share price on that date, the purchase price was \$35,593 (US\$27,044). This was comprised of cash consideration of \$31,593 (US\$24,004) financed through existing loan facilities and the issuance of 133,944 shares, in accordance with the form of consideration elected to be received by RTW shareholders. The preliminary purchase price allocation based on management's current best estimates of fair value using information available as at the date of authorization of these condensed consolidated financial statements is as follows:

(unaudited, \$ in thousands)	February 9, 2017
<b>CURRENT ASSETS</b>	
Cash	\$ 8,738
Accounts receivable	2,647
Inventories	12,432
Prepaid expenses	616
	<u>\$ 24,433</u>
<b>NON-CURRENT ASSETS</b>	
Property and equipment	\$ 34,574
Goodwill	2,085
Intangible assets	909
	<u>37,568</u>
<b>TOTAL ASSETS</b>	<u>\$ 62,001</u>
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ (14,258)
<b>NET IDENTIFIABLE ASSETS</b>	47,743
Less: non-controlling interests	(12,150)
<b>CONSIDERATION</b>	\$ 35,593
Less: cash acquired	(8,738)
Less: share consideration	(4,000)
<b>NET CASH FLOW FOR BUSINESS ACQUISITION</b>	<u>\$ 22,855</u>

This acquisition was completed to gain access to a new market, consistent with the Company's overall Caribbean growth plans. The acquisition was accounted for using the acquisition method. Since the date of acquisition the impact on sales was an increase of \$56,249 and the impact on net earnings was a decrease of \$402. The net loss of \$402 includes \$5,765 in acquisition costs substantially related to stamp duty paid to the Government of the British Virgin Islands. These acquisition costs are included in selling, operating and administrative expenses in the consolidated statements of earnings. On February 9<sup>th</sup>, 2017, accounts payable and accrued liabilities includes a \$7,470 (US\$5,676) dividend payable to RTW shareholders declared prior to the acquisition. This dividend was paid subsequent to the closing of the acquisition and was fully funded by the cash acquired.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On June 15<sup>th</sup>, 2017, the Company acquired 100% of the outstanding common shares of North Star Air Ltd. (NSA). NSA is a Thunder Bay based airline, providing cargo and passenger services within northwestern Ontario, Canada. The purchase price was \$31,340, subject to working capital adjustments, and was financed through existing loan facilities. The preliminary purchase price allocation based on management's current best estimates of fair value using information available as at the date of authorization of these condensed consolidated financial statements is as follows:

(unaudited, \$ in thousands)	June 15, 2017
<b>CURRENT ASSETS</b>	
Cash	\$ 2,406
Accounts receivable	5,258
Inventories	1,053
Prepaid expenses	1,852
	<u>\$ 10,569</u>
<b>NON-CURRENT ASSETS</b>	
Property and equipment	\$ 29,192
Goodwill	3,253
	<u>32,445</u>
<b>TOTAL ASSETS</b>	<u>\$ 43,014</u>
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ (7,288)
Deferred tax liability	(4,386)
	<u>(11,674)</u>
<b>NET IDENTIFIABLE ASSETS &amp; CONSIDERATION</b>	<u>31,340</u>
Less: cash acquired	(2,406)
<b>NET CASH FLOW FOR BUSINESS ACQUISITION</b>	<u>\$ 28,934</u>

This acquisition was completed to allow the Company to deliver faster, more consistent service to our customers. The acquisition was accounted for using the acquisition method. Since the date of acquisition the impact on sales was an increase of \$4,900 and the impact on net earnings was a decrease of \$78. The net loss of \$78 includes \$423 in acquisition costs, net of tax. Acquisition costs are included in selling, operating and administrative expenses in the consolidated statements of earnings.

The allocations above are based on the Company's best estimates and are currently considered preliminary. The Company has one year from the date of each acquisition to finalize the fair value of net tangible assets, goodwill and intangible assets and therefore these amounts are subject to change.



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 18. POST EMPLOYMENT BENEFITS

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

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

The defined benefit obligation and fair value of plan assets for the Company's pension and other post-retirement plans were as follows:

	July 31, 2016
Defined benefit obligation	\$ (127,992)
Fair value of plan assets	79,853
Defined benefit plan obligation, funded status	\$ (48,139)

### 19. SUBSEQUENT EVENTS

On September 7, 2017, the Board of Directors declared a dividend of \$0.32 per share payable October 16, 2017 to shareholders of record on September 29, 2017.