



THE NORTH WEST COMPANY INC. 2018

# Annual Information Form

YEAR ENDED JANUARY 31, 2019

APRIL 10, 2019



# Annual Information Form

Unless otherwise indicated, all information provided in this Annual Information Form ("AIF") is as at January 31, 2019.

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# Glossary of Terms and Abbreviations

The following terms in this Annual Information Form have the meanings set forth below:

**"AC"** means the Alaska Commercial Company banner;

**"AIF"** means the Annual Information Form;

**"ATM"** - Automated Teller Machine;

**"Basic Earnings per Share"** or **"Basic EPS"** are calculated by dividing the net earnings attributable to the shareholders of The North West Company Inc. by the weighted-average number of common shares outstanding during the period;

**"Basis Point"** means unit of measure that is equal to 1/100<sup>th</sup> of one percent;

**"Board" or "Board of Directors"** means the Board of Directors of The North West Company Inc.;

**"BVI"** means British Virgin Islands;

**"CBCA"** means the *Canada Business Corporations Act*;

**"Canadian Operations"** means the Company's retail stores offering food and everyday consumer goods and services to rural communities and urban neighbourhoods in northern and western Canada. It also includes the Company's wholesale and distribution operations in Canada;

**"CUL"** means the Cost-U-Less banner;

**"Company"** and **"North West"**, **"we"**, **"us"** and **"our"** refers to The North West Company Inc. and/or its subsidiaries, and where such references are made prior to January 1, 2011, its predecessors the Fund and/or its subsidiaries;

**"Debt Covenants"** means restrictions written into banking facilities and senior notes and loan agreements that prohibit the Company from taking certain actions that may negatively impact the interest of its lenders;

**"Diluted Earnings per Share"** or **"Diluted EPS"** is determined by adjusting net earnings and the weighted-average number of common shares outstanding for the effects of all potentially dilutive shares, which comprise shares issued under the Share Option Plan and Director Deferred Share Unit Plan;

**"Earnings Before Interest, Income Taxes, Depreciation and Amortization"** or **"EBITDA"** means net earnings before interest, income taxes, depreciation and amortization. It provides an indication of the Company's performance before allocating the cost of interest, income tax and capital investments;

**"Earnings From Operations"** or **"EBIT"** means net earnings before interest and income taxes. It provides an indication of the Company's performance prior to interest expense and income taxes;

**"Fair Value"** is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act;

**"Fund"** means North West Company Fund, and/or its subsidiaries. Prior to January 1, 2011, the business operated under an income trust structure;

**"Gross Profit"** means sales less cost of goods sold and inventory shrinkage;

**"Gross Profit Rate"** means gross profit divided by sales;

**"Hedge"** is a risk management technique used to manage interest rates, foreign currency exchange or other exposures arising from business transactions;

**"IFRS"** means International Financial Reporting Standards, as issued by the International Accounting Standards Board. For the 2011 fiscal year, the consolidated financial statements were prepared in accordance with IFRS. Comparative financial information for the year ended January 31, 2011 ("2010") previously reported in the consolidated financial statements and prepared in accordance with Canadian GAAP, was restated to IFRS;

**"International Operations"** means the Company's retail stores which offer food and everyday consumer goods and services to rural communities and urban neighbourhoods in Alaska, the South Pacific and the Caribbean. It also includes the Company's wholesale and distribution operations outside of Canada;

**"IT"** - Information Technology;

**"LIBOR"** - London Interbank Offered Rate;

**"LRP"** - Long-Range Plans;

**"MD&A"** - Management Discussion & Analysis;

**"NSA"** means North Star Air Ltd., a regional airline providing cargo and passenger services;

**"Nutrition North Canada"** or **"NNC"** - is a Canadian federal product cost subsidy program for nutritious perishable food sold in northern Canada;

**"POS"** means Point-of-Sale System;

**"RTW"** means the Roadtown Wholesale Trading Ltd. collectively consisting of the Riteway Food Markets banner, a Cash and Carry store and a significant wholesale operation;

**"SEDAR"** refers to the System for Electronic Document Analysis and Retrieval of the Canadian Securities Administrators;

**"Senior Notes"** has the meaning set out in "Capital Structure: Debt - Canadian Operations";

**"TMS"** - Transportation Management System;

**"TNI"** - Transport Nanuk Inc.;

**"TSX"** refers to the Toronto Stock Exchange;

**"US\$" - United States dollars;**

**"WFM"** means Workforce Management System;

**"Working Capital"** means total current assets less total current liabilities; and

**"Year"** means the Company's fiscal year which ends on January 31. The years ended January 31, 2017, January 31, 2013 and January 31, 2009 respectively had 366 days due to the February 29 leap year. All other fiscal years referenced herein have 365 days.

## Presentation of our Financial Information

Financial information in this Annual Information Form ("AIF") has been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. All financial information is presented in Canadian dollars, unless otherwise stated, and has been rounded to the nearest thousand.

Additional financial information is provided in the 2018 Annual Financial Report available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).

## Forward-looking Statements

This AIF 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), ongoing business strategies or prospects, and possible future action by the Company.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete capital projects, strategic transactions and integrate acquisitions, the Company's ability to realize benefits from investments in 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 cautioned that the foregoing list of important factors is not exhaustive. Other risks are outlined in the section entitled "Description of the Business - Risk Factors" in this AIF, under the heading "Risk Management" in our Annual Report and in our most recent consolidated financial statements, management information circular, material change reports and news releases. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company is under no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Additional information on the Company 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).

## The North West Company Inc.

The North West Company Inc. ("North West" or the "Company") is a corporation amalgamated under the Canada Business Corporations Act ("CBCA") and governed by the laws of Canada. Operations commenced in 1987 when the Company's predecessor purchased 178 stores comprising the Northern Stores Division of the Hudson's Bay Company. Today, it is a leading retailer to rural and remote communities and urban neighborhood markets in northern Canada, western Canada, rural Alaska, the South Pacific and the Caribbean.

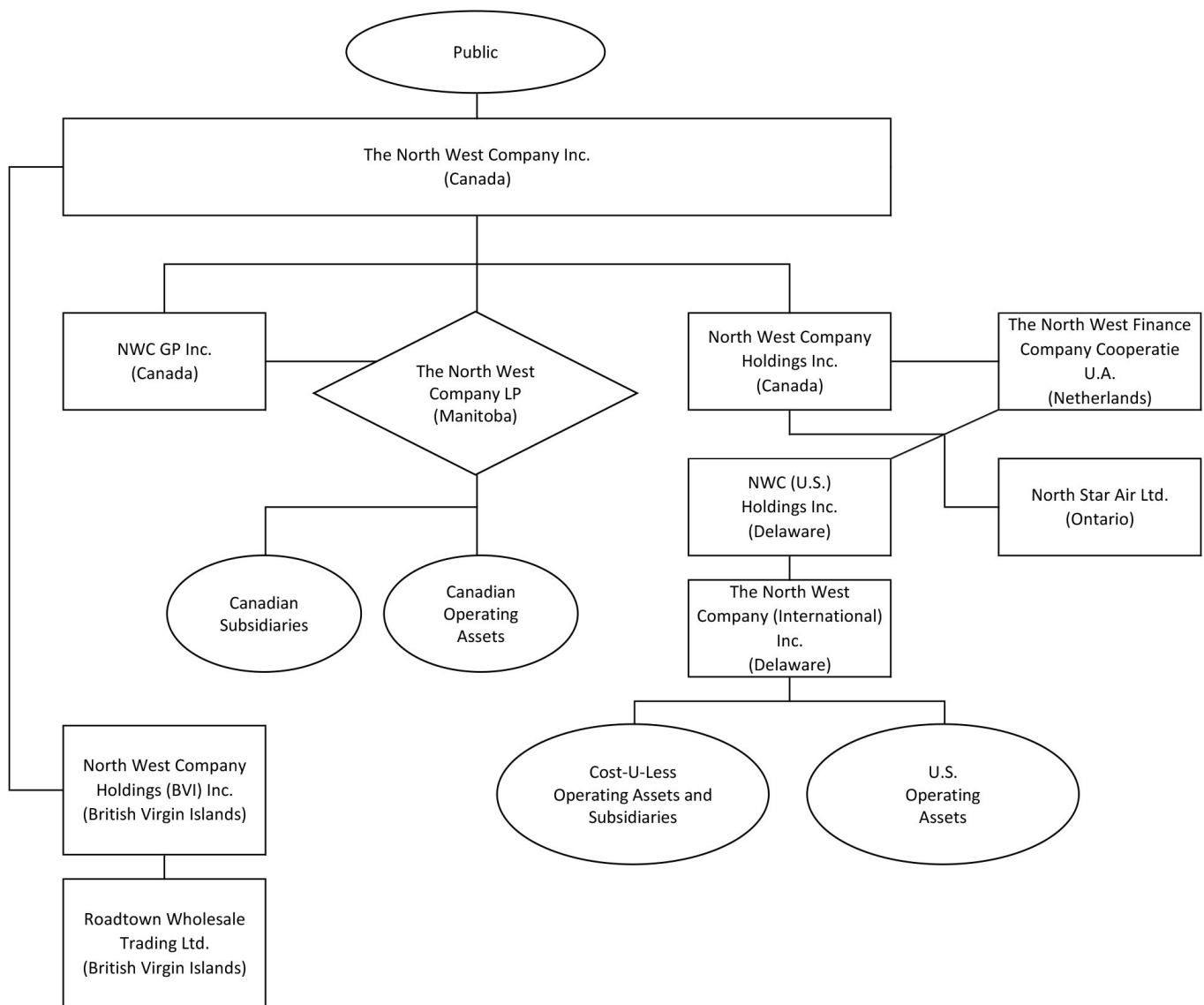
North West is the successor to the North West Company Fund (the "Fund"), following the completion of the reorganization of the Fund from an income trust structure to a corporate structure by way of a court-approved plan of arrangement under section 192 of the CBCA (the "Plan of Arrangement"). Under the Plan of Arrangement unitholders of the Fund received one common share of the Company for each trust unit held. Consequently, unitholders of the Fund became common shareholders of the Company and the Fund and NWCTrust were liquidated and dissolved. Accordingly, references to The North West Company Inc. or the Company in this AIF for the periods prior to January 1, 2011 are references to the Fund and/or its subsidiaries.

The head office of the Company is located at Gibraltar House, 77 Main Street, Winnipeg, Manitoba, R3C 2R1.

Copies of the AIF, as well as the Company's 2018 Annual Report can be obtained at [www.sedar.com](http://www.sedar.com) or on the Company's corporate website at [www.northwest.ca](http://www.northwest.ca).

# Intercorporate Relationships

The chart below illustrates on a simplified basis, the corporate structure of the Company as at January 31, 2019. In each case the Company controls each subsidiary listed below, either directly or indirectly.



## General Development of the Business - Overview

The North West Company is a leading retailer to rural and remote communities and urban neighborhood markets in northern Canada, western Canada, rural Alaska, the South Pacific and the Caribbean. Its stores offer a broad range of products and services with an emphasis on food. The Company's mission is to be a trusted provider of goods and services within hard-to-access and less developed markets. Its vision is to help people live better in these communities by doing its job well, with their interests as its first priority. This starts with its customers' ability and desire to shop locally for the widest possible range of products and services to meet their everyday needs.

The strategies at North West are aligned with a total return approach to investment performance. The delivery of top-quartile total returns through an equal emphasis on growth and dividend yield is a key long-term objective of the Company, just as it has been a key feature of the Company's performance over the past 32 years.

The Company has a rich enterprising legacy as one of the longest continuing retail enterprises in the world. The history of the Company dates back to 1668 with the establishment of one of North America's early trading posts at Waskaganish on James Bay. This store was the first of many fur-trading outlets established by the Hudson's Bay Company throughout what is now northern Canada. In 1821, the Hudson's Bay Company merged with its rival, The North West Company. Over time, the original fur-trading outlets diversified their product lines eventually operating as the Northern Stores Division of the Hudson's Bay Company. In 1987, a group of private investors partnered with management and employees to purchase the Northern Stores Division of the Hudson's Bay Company and operate it as Northern Stores Inc. The Company's name was subsequently changed to The North West Company Inc., its shares were listed on the Winnipeg and Toronto Stock Exchanges and a public offering was made in 1992.

In 1992, the Company acquired Alaska Commercial Company which served remote markets in rural Alaska. Alaska Commercial Company traces its roots back to the Russian-American Company, a semi-official colonial trading company chartered by Tsar Paul in 1799. In January 2017, Alaska Commercial Company celebrated its 150th anniversary of service to rural Alaska, dating back to the purchase of Alaska from Russia in 1867, and its 25<sup>th</sup> year under The North West Company's ownership.

In 1997, the Company was reorganized into an income trust pursuant to a Plan of Arrangement whereby the outstanding shares of The North West Company Inc. were exchanged on a one-for-one basis for trust units of the North West Company Fund.

In 2002, the Company signed a 30-year Master Franchise Agreement ("MFA") with Giant Tiger Stores Limited, granting it the exclusive right to open Giant Tiger stores in western Canada. In 2015, the MFA was amended to extend its term to July 31, 2040 and affirm the Company's exclusive right to open and operate Giant Tiger stores, subject to meeting a minimum store opening commitment. At January 31, 2019, the Company owns 44 Giant Tiger stores and is in compliance with the minimum store opening commitment. Under the agreement, Giant Tiger Stores Limited provides product sourcing, merchandising, systems and administration support in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing food buying and distribution services to these stores.

In 2007, the Company acquired Cost-U-Less, Inc., a U.S. public company traded on the Nasdaq Capital Market. Through this acquisition, the Company operates a chain of mid-size warehouse format stores serving islands in the South Pacific and Caribbean.

On January 1, 2011, the North West Company Fund converted from an income trust to a corporation called The North West Company Inc. pursuant to a Plan of Arrangement.

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 the BVI with eight retail outlets, one Cash and Carry store and a significant wholesale operation.

On June 15, 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 acquisition was completed to gain efficiencies in its logistics network and enable faster, more consistent delivery of merchandise to its stores in northern Canada. The Company's shareholders approved a variable voting share structure to comply with Canadian ownership rules for airlines under the Canada Transportation Act.



# General Development of the Business - Three Year History

The Company's strategies are developed in multi-year cycles and are reviewed and adjusted as required at the senior management and Board levels. The focus is on the following areas: optimizing sales through Pure Retail disciplines; investing in our physical store network, building stronger logistics and data links to our stores and identifying growth opportunities.

The Company's key priorities are summarized below:

- **Pure Retail** refers to top store teams, lean processes, and customer-driven, store centric support throughout our organization. The goal is to optimize store sales and net performance by creating more ability and freeing up more time to get sales at store level;
- **Investing in Top Markets and Top Categories** prioritizes our largest and highest potential categories and store locations;
- **Building a Superior Logistics Capability** recognizes the unique importance of logistics to our business, we continue to invest in building a superior capability in this area, with a focus on providing faster, more reliable and lower cost transportation service to our stores and customers in remote markets;
- **Next Generation Merchandise and Store Systems ("Project Enterprise")** is focused on implementing new, higher capability point-of-sale ("POS"), merchandise management ("MMS") which includes pricing, promotions, category management and vendor revenue management, and workforce management ("WFM") systems. This initiative is expected to deliver improvements in pricing and margin management, inventory management and store staff productivity, all aligned with the company's "Top" strategies; and
- **Identifying complimentary growth opportunities** is focused on identifying and evaluating opportunities in complimentary businesses which leverage our core capabilities and market presence.

The following is an update on the strategic initiatives and key business developments over the past three fiscal years ending January 31:

## DEVELOPMENTS FOR 2018

### (1) Pure Retail

Eliminated 297,000 hours in low-value work compared to a target of 250,000 on an annualized basis. The hours saved were reinvested in getting sales through merchandising and execution at store level which contributed to a 2.0% increase in same store sales led by a 3.2% sales gain in general merchandise and a 1.7% increase in same store food sales. Sales gains as noted under the Top Markets and Top Categories initiative below were also a key contributor to the sales growth. Top Store teams work did not achieve its key role retention targets and this will be a priority focus in 2019.

### (2) Investing in Top Markets and Top Categories

Seven convenience stores and a pharmacy were opened in northern Canada. Four Top Market store replacements and remodels were completed as planned for a total of 23 projects completed under this initiative. Overall, Top Markets have met financial projections and have delivered above average sales growth. Top Market investments are expected to continue to roll-out at a pace of 3-5 stores per year over 2019-2021, with continuous learnings from prior investments.

Top Categories sales, which include convenience and fresh food, big-ticket and health products and services, were up 4.1% compared to last year. Convenience food was the largest dollar growth contributor with an increase of 4.7% followed by big-ticket motorized and home furnishings sales which were up 10.7% compared to last year.

### (3) Building a Superior Logistics Capability

North Star Air exceeded revenue targets but operating margin performance was \$6.0 million below target mainly due to excessive aircraft downtime resulting from delays by third-party maintenance providers, higher than planned use of back-up leased aircraft and unplanned ramp-up costs related to building in-house aircraft maintenance capability.

### (4) Next Generation Merchandise and Store Systems ("Project Enterprise")

The development of custom financial services functionality was completed and POS was piloted in 5 stores in northern Canada. The POS roll-out is expected to be completed in Alaska stores in the fourth quarter of 2019 and approximately 40% of northern Canada stores by the end of the year with the remainder completed in 2020. The pricing component of the MMS was implemented in Canadian Operations in February 2018 and the category and supplier management components are expected to be implemented in the third quarter of 2019. The implementation of MMS in International Operations is planned for 2020.

### (5) Identifying Complimentary Growth Opportunities

This work was slowed in 2018 to enable other priority initiatives but will continue into 2019.

## DEVELOPMENTS FOR 2018 - BUSINESS HIGHLIGHTS

In Canadian Operations, a "Top Markets" project was completed in Garden Hill, Manitoba replacing a store that was located on an island and a new permanent store was opened in Shamattawa, Manitoba replacing a temporary facility that had served the community following a fire in September, 2016. A Top Market store remodel was completed in Pangniirtung, Nunavut. Giant Tiger stores were opened in Steinbach, Winnipeg, and Saskatoon. New convenience stores were opened in Pond Inlet, Gjoa Haven, Igloolik, Nauyasat and Cape Dorset, Nunavut featuring a significantly lower-cost, pre-built modular design and were shipped to these markets on sealift by the Company's shipping joint venture. New convenience stores were acquired in Norway House, Manitoba and Inuvik, Northwest Territories and a new pharmacy was acquired in Cambridge Bay, Nunavut. NSA's Thompson, Manitoba air base was complemented on September 14, 2018. The facility consists of hangar, distribution, maintenance and office space and services NSA's northern Manitoba and Nunavut cargo networks.

In the International Operations, the Company's Cost-U-Less store in St. Maarten was fully re-opened on September 1, 2018. This store was extensively damaged by hurricane Irma in the third quarter of 2017 and had partially re-opened in November 2017. Two RTW stores also damaged by hurricane Irma were reopened in October 2018. The Company's Island Fresh store in Chalan Pago, Guam was converted into a Cost-U-Less Express store on January 5, 2019.

## DEVELOPMENTS FOR 2017

### (1) Pure Retail

This initiative was launched late in the fourth quarter of 2017 and will be reported on throughout 2018. Key performance indicators will be hours and dollars of time freed up, people capability gains and profitable sales increases.

### (2) Investing in Top Markets and Top Categories

Top convenience categories represented the biggest Top Category opportunity in 2017. Convenience sales were up over 12% on a comparable stores basis, led by food service growth. Big-ticket sales were a second priority and delivered mixed results with motorized sales increasing 5.1% and furniture sales were down 2.9%. Improved inventory flow and consumer financing enabled the motorized gains while the loss of a large contract sale affected furniture performance. Excluding the low margin contract sale, furniture sales were up 4.9%. The third Top Category focus was produce and meat which combined were up 0.7%. Sales in these categories were negatively impacted by supply issues for certain case-ready meat products and the full-year deflationary impact of the Nutrition North Subsidy implemented in 18 stores in October 2016.

Top Markets featured three major store remodels for a total of 19 completed under this program. Overall, Top Markets have met financial projections and have delivered above average sales growth. Top Market investments are expected to roll-out at a pace of 3-5 stores per year over 2018-2020, with continuous learnings from prior investments.

### (3) Investing in New Markets and Businesses

We completed the integration of RTW, the leading retail and wholesale distribution business in the British Virgin Islands, which was acquired early in the first quarter. RTW exceeded performance expectations helped by the reinvestment of cost synergy savings into lower prices and exceptional resiliency following the devastating effects of Hurricanes Irma and Maria.

Stores were acquired in Nain, Newfoundland and Kiana, Alaska and converted to the Company's Quickstop and AC banners respectively. Four Giant Tiger stores were opened during the year, increasing the number of GT stores to 41. New GT store performance did not meet expectations, due in part to more intensive discount food competition and longer time to store maturation.

### (4) Next Generation Merchandise and Store Systems ("Project Enterprise")

In 2017, the first phase of workforce management ("WFM") systems was implemented in all stores and point-of-sale ("POS") systems was implemented in Cost-U-Less stores. The development of custom financial services functionality for northern Canada and Alaska stores delayed the POS pilot in these stores to the second quarter of 2018, with planned completion in 2019. The pricing component of MMS was implemented in Canadian Operations in February 2018 with the remaining components expected to be fully implemented in Canadian and International Operations in the second half of 2018. Total project investment is forecasted at \$34 million over 2016 to 2019, with 80% of the annualized benefits beginning in early 2019.

## (5) Building a Superior Logistics Capability

In June 2017, the Company completed the acquisition of North Star Air Ltd. ("NSA"), a regional airline providing cargo and passenger services within northwestern Ontario. The acquisition provides the Company with greater control over a key component of our logistics network and has enabled faster and more consistent delivery of merchandise to our stores. Through the back half of 2017, NSA expanded its fleet capacity to handle NWC freight in other regions of Canada. In 2018, we will continue to expand NSA's service to communities we serve in northern Canada.

## DEVELOPMENTS FOR 2017 - BUSINESS HIGHLIGHTS

In Canadian Operations, "Top Markets" projects were completed in Baker Lake, NU, Inukjuak, QC and Kuujuaaraapik, QC. Giant Tiger stores were opened in Red Deer, AB, Prince Albert, SK and Winnipeg, MB and a new Quickstop convenience store was opened in Nain, NL. A temporary store was opened in Brochet, MB after our store was destroyed by fire. The Company entered into a distribution agreement with Metro Inc., a leading eastern Canadian food retailer and distribution company to purchase grocery products primarily for sale in eastern stores. The Company acquired North Star Air Ltd. (NSA), a Thunder Bay based airline, providing cargo and passenger services within northwestern Ontario, Canada. The acquisition will enable the Company to deliver faster, more consistent service to its customers.

In the International Operations, the Company acquired 76% ownership of Roadtown Wholesale Trading Ltd. (RTW). RTW operates eight retail outlets, one Cash and Carry store and one wholesale operation serving the British Virgin Islands ("BVI"). A new distribution center and support office was opened at Ted Stevens International Airport in Anchorage, AK providing faster, more efficient shipping to the Company's rural Alaskan stores. A store was acquired in Kiana, AK and converted to the Company's AC banner.

In September 2017, the Company issued \$100.0 million senior notes, the proceeds of which were used for general corporate purposes and to reduce amounts outstanding on the \$300.0 million loan facilities. These senior notes mature September 26, 2029 and have a fixed interest rate of 3.74%. The notes are secured by certain assets of the Company and rank *pari passu* with the Company's other senior debt comprised of the \$300.0 million Canadian Operations loan facilities, the US\$70.0 million senior notes and the US\$52.0 million loan facilities.

In September 2017, the Company also extended the maturity of the \$300.0 million loan facilities and US\$52.0 million loan facilities from April 29, 2021 to September 26, 2022. These facilities are secured by certain assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the \$100.0 million senior notes. These facilities bear a floating interest rate based on Bankers Acceptances rates plus stamping fees, the Canadian prime interest rate or U.S. LIBOR plus a spread.

During the year, the Company launched "Health Happy", a program that expands the range of healthy food products by 300 to 800 items depending on the size of the store. These products promote lower consumption of sugar, salt and fat, and are comparably priced to national brands.

The Company also launched an initiative to translate store signs and shelf labels into more than 30 indigenous languages and dialects across approximately 80 food categories. This impacts more than 150 stores, and recognizes the importance of language in helping to sustain the indigenous cultures in the communities we serve. Shelf labels also have QR codes that can be scanned with a mobile device to provide customers with an audio translation.

**Hurricane Irma and Maria Impacts** In September 2017, the Company's CUL stores in St. Maarten and St. Thomas, and the RTW operations in the BVI were impacted by hurricanes Irma and Maria. These category five hurricanes had a devastating impact on the people and infrastructure on these and other islands in the Caribbean. Infrastructure repairs are ongoing and the timelines for completing this work and the impact on the economy is currently indeterminable. The following is a summary of the impact on our operations:

- Our 36,089 square foot store in St. Maarten sustained significant damage. The store partially reopened in November 2017 offering a limited assortment of grocery and general merchandise and is expected to be fully operational in the second half of 2018 when the repairs are completed.
- In St. Thomas, USVI, a complete rebuild of the 42,535 square foot store is required and is expected to be completed in 2019.
- In the BVI, six of our nine RTW stores, including our largest supermarket and our Cash and Carry store are operational. These stores represent approximately 80% of total selling square footage. The three impacted stores are expected to re-open in 12 to 18 months.

These store closures negatively impacted sales and EBITDA for the year by approximately US\$35.1 million and US\$4.1 million respectively. On an annualized basis, these stores represent approximately US\$92.0 million in sales and US\$6.6 million in EBITDA.

The timelines for completing the repair and reconstruction of our stores will depend on many factors including the state of public infrastructure and the availability of building materials and qualified trades people. The Company expects that its insurance proceeds will be sufficient to cover the repair and reconstruction costs. The company also has business interruption insurance that will help mitigate the earnings impact of the store closures however, the settlement of the business interruption claim is expected to take approximately 12 to 15 months to complete. The settlement of these claims and the receipt of payments are expected to result in insurance-related gains in the consolidated statements of earnings.

## DEVELOPMENTS FOR 2016

### (1) Top Markets

Five planned Top Markets projects were completed on schedule, including three that were finished in February 2017. This brought the number of completed projects to 16 as part of a multi-year investment plan. Performance results continued to be positive overall with two exceptions: markets that have been economically challenged and staff costs related to expanded service in three stores. Staff costs were restructured throughout the year and were back in-line by the fourth quarter. The time horizon for the remaining Top Markets projects has been extended to the end of 2020 based on higher maintenance capital requirements per project and the need to balance Top Market resources against other attractive opportunities over this time period.

### (2) Top Categories

The Company's Top Category focus has been on fresh and prepared food, packaged convenience products, health products and services and "big ticket" categories of furniture, appliances and motorized. In 2016, Top Categories benefited from learnings in the prior year and delivered sales and profit growth that were close to or above target. Baby products and financial services were two areas that fell short of plan. Price investments in both categories did not drive sufficient market share growth and further refinements will be part of the Company's plans for Top Categories in 2017.

### (3) Top People

Major gains were made in promoting internal candidates into Store and Department Management training positions. This helped to offset shortfalls in external recruiting and created a new, more sustainable career path for associates best suited to the unique communities served by North West. Work was also completed on a new flexible benefit program for Canadian associates and a new compensation plan for most of the Company's International Operations.

Store staffing structures in northern Canada were successfully modified by the fourth quarter to cost effectively deliver the Company's Top Markets and Top Category initiatives.

### (4) Replace Legacy Merchandise and Store Systems ("Project Enterprise")

Project scoping was completed in the first half of 2016 including custom functionality requirements. Workforce management and point-of-sale systems were in pilot by year-end. Workforce management is scheduled to be completed for the balance of stores in 2017 and the roll-out of the point-of-sale systems is expected to be completed in 2018. Project investment is forecasted at \$34 million over 2016 to 2018, with fully annualized benefits beginning in mid 2018.

### (5) New Market and Complimentary Business Growth

Acquired a full-service pharmacy in Fort Smith, Northwest Territories. Opened three Giant Tiger stores and one QuickStop convenience store. Subsequent to year-end completed the acquisition of Roadtown Wholesale Trading Ltd. (RTW), the leading retail and wholesale distribution business in the British Virgin Islands.

### (6) Customer Driven and Store Centric

The Company continued to refine and embed Store Connect, a web-based platform that provides stores with an easy to use, standardized tool for reporting service issues, communicating customer requests and identifying sales opportunities. "Get Sales" and "Get (cost) Savings" were focus areas in 2016, together with identifying and resolving systemic issues. Reporting visibility ensured clear accountability within support groups and contributed to high store satisfaction ratings for Store Connect.

## DEVELOPMENTS FOR 2016 - BUSINESS HIGHLIGHTS

In Canadian Operations, "Top Markets" projects were completed in Waskaganish, Quebec, Pikangikum, Ontario and Arviat, Nunavut. Giant Tiger stores were opened in Sioux Lookout, Ontario, Wetaskiwin, Alberta, Weyburn, Saskatchewan and a new Quickstop convenience store was opened in Garden Hill, Manitoba. A pharmacy and convenience store was acquired in Fort Smith, Northwest Territories, increasing the total number of retail pharmacies in Canada to 16. The Company completed five Giant Tiger "New Store Experience" renovations. On October 1, 2016, the Nutrition North Canada subsidy program was expanded affecting 21 of the communities served by the Company in Ontario, Manitoba, Saskatchewan and Alberta.

In the International Operations, the Company entered into definitive purchase agreements to acquire majority ownership of Roadtown Wholesale Trading Ltd. (RTW). RTW operates eight retail outlets, one Cash and Carry store, and one wholesale operation serving the British Virgin Islands.

In March 2016, the Company completed the refinancing of the \$200.0 million loan facilities maturing December 31, 2018 which bore a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate. The new increased, committed, revolving loan facilities provide the Company's Canadian Operations with up to \$300.0 million 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\$70.0 million senior notes and the US\$52.0 million loan facilities in International Operations. These facilities bear a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate.

In March 2016, the Company also completed the refinancing of the US\$52.0 million loan facilities maturing December 31, 2018 which bore interest at U.S. LIBOR plus a spread. The new committed, revolving loan facilities in the International Operations mature April 29, 2021 and bear interest at U.S. LIBOR plus a spread. These loan facilities are secured by certain assets of the Company and rank pari passu with the US\$70.0 million senior notes and the \$300.0 million Canadian Operations loan facilities.

## Description of the Business - General

The North West Company is a leading retailer of food and everyday consumer goods and services to rural and remote communities and urban neighborhoods in Canada, Alaska, the South Pacific and the Caribbean and the business is summarized under either Canadian Operations or International Operations.

The Company believes in a strong local identity. Local assortment is tailored to the size and need of the individual market. Food offerings consist of perishable and non-perishable products including groceries, dairy, produce, meat, convenience foods, food service, home meal replacement, health and beauty aids, paper products and cleaning supplies. Our general merchandise assortment is broad, and includes family apparel, housewares, sporting goods, toys, furniture, appliances, home entertainment, snowmobiles, all-terrain vehicles (ATVs), boats and outboard motors. The Company also offers other everyday products and services such as gasoline, pharmacy and financial services such as cheque cashing, ATMs and prepaid card products. Our business is focused on developing efficient sustainable processes to provide the widest possible range of products and services our customers require to help them live better and to provide these products and services on a consistent and reliable basis.

Additional financial information on the Company's Canadian and International Operations is provided in the Company's 2018 annual MD&A, which is incorporated by reference.

## CANADIAN OPERATIONS

The Canadian Operations operate retail stores primarily through its Canadian subsidiary, The North West Company LP. With 62% of consolidated revenue, Canada is the largest market for the Company. Its network of stores generated \$1.2 billion in revenues and \$114.2 million in EBITDA for the year ended January 31, 2019. The banners and formats that comprise our Canadian Operations at January 31, 2019 are described below.

### NORTHERN CANADA STORES

Banner	# of Locations	Format
Northern	117	Combination of food, financial services and general merchandise stores in remote communities
Quickstop	22	Convenience stores offering extended hours, ready-to-eat foods, fuel and related services
NorthMart	5	Expanded fresh foods, apparel and health products and services in larger northern markets

These stores are located across the Canadian north. Communities vary in size from small remote settlements to larger regional centres. Populations range from approximately 300 to 8,000 people. The average store has approximately 6,000 square feet of selling space and features a broad assortment of food, general merchandise and services, including financial services, proprietary credit programs and income tax preparation.

Selected Northern and NorthMart stores feature an expanded assortment of products and services that include convenience foods such as a Tim Hortons, Pizza Hut, Burger King or KFC outlet. Expanded services may include pharmacies, fuel sales and post offices.

### WESTERN CANADA STORES

Banner	# of Locations	Format
Giant Tiger	44	Junior discount stores offering food, family fashion and household products

In 2002, the Company signed a 30 year Master Franchise Agreement ("MFA") with Giant Tiger Stores Limited, granting the Company the exclusive right to open Giant Tiger stores in western Canada. In 2015, the MFA was amended to extend its term to July 31, 2040 and affirm the Company's territorial exclusivity in western Canada, subject to minimum store opening obligations. These stores are located in urban neighborhoods and larger rural centres and have on average, 16,400 square feet of selling space. Giant Tiger stores offer a selection of food, family apparel, trend-right fashion apparel and general merchandise in a convenient, easy-to-shop environment.

Under the MFA, Giant Tiger Stores Limited provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing food buying and distribution services to these stores. At January 31, 2019, the Company owns 44 Giant Tiger stores and is in compliance with the minimum store opening commitment

### NORTH STAR AIR LTD.

On June 15, 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 through its hubs in Pickle Lake, Red Lake, Sioux Lookout and Kapuskasing, Ontario and Thompson, Manitoba. The acquisition was completed to gain efficiencies in our logistics network and enable the Company to provide faster, more consistent delivery of merchandise to our stores in northern Canada that are generally inaccessible by all-weather road. NSA's current fleet comprises 16 aircraft, including four Basler BT-67, eight Pilatus PC-12, three ATR 72 and a Dash 8. These aircraft have been selected for their ability to deliver cargo, fuel and passengers to the Canadian north on a cost efficient basis.

## OTHER - CANADA

Banner	# of Locations	Format
Fur Marketing	1	Trading in furs from trappers and offering Indigenous crafts and authentic Canadian heritage products
Valu Lots	1	Discount center and direct-to-customer food distribution outlet for remote communities
Solo Market	1	Full service grocery and pharmacy serving a road accessible northern community
Drug Stores	2	Stand-alone pharmacy and convenience stores in northern markets

The Company also operates complementary businesses that apply its unique heritage and knowledge of the north. These include:

- Crescent Multi foods, a distributor of produce and fresh meats, serving the Company's stores and third-party customers in Saskatchewan, Manitoba and northwestern Ontario;
- Amdocs, a physician services provider to remote northern communities;
- North West Telepharmacy Solutions, a leading provider of contract tele-pharmacist services across Canada; and
- A 50% ownership interest in Transport Nanuk Inc., a Canadian shipping company serving communities in the eastern Arctic.

## INTERNATIONAL OPERATIONS

The Company's International Operations operate primarily through its U.S. subsidiary, The North West Company (International) Inc., its Cost-U-Less ("CUL") operating subsidiaries and Roadtown Wholesale Trading Ltd. The International Operations comprise 38% of consolidated revenue. Its network of stores together with its wholesale operations generated \$767.4 million in revenues and \$75.1 million in EBITDA for the year-ended January 31, 2019. The banners and formats that comprise our International Operations at January 31, 2019 are described below.

### RURAL ALASKA

Banner	# of Locations	Format
Alaska Commercial	27	Combination of food and general merchandise offered to remote and rural regions
Quickstop	5	Convenience stores offering extended hours, ready-to-eat foods and related services

These retail stores are located in the remote and rural regions of Alaska whose populations range from approximately 375 to 9,000 people. The average selling square footage of the Alaska Commercial Company stores is approximately 10,000 square feet. These stores offer a broad assortment of food and general merchandise similar to the Northern and NorthMart stores in Canada. In 2017, the Alaskan retail subsidiary Alaska Commercial Company celebrated its 150<sup>th</sup> anniversary.

The Company's International Operations also operate Pacific Alaska Wholesale, a complimentary business that provides wholesale food and general merchandise to independent grocery stores, commercial accounts and individual households in rural Alaska.

### SOUTH PACIFIC ISLANDS AND CARIBBEAN

Banner	# of Locations	Format
Cost-U-Less	11	Mid-size warehouse format stores offering discount food and general merchandise
Riteway Food Markets	8	Leading retail and wholesale operation in the BVI
Cost-U-Less Express	1	Convenient neighbourhood food store emphasizing fresh and prepared foods

The CUL stores are mid-sized warehouse style retail stores located in the South Pacific and Caribbean serving communities ranging from 37,000 to 285,000 people. RTW is the leading retailer in the BVI with seven retail outlets, one Cash and Carry store and a significant wholesale operation. The CUL and RTW stores offer a variety of U.S. and other branded food and general merchandise, in addition to merchandise purchased locally. The average selling square footage of the CUL and RTW stores is approximately 28,400 square feet and 9,000 square feet respectively. Cost-U-Less Express is a neighbourhood store in Guam offering convenience products with an emphasis on fresh and prepared foods.

## DISTRIBUTION AND INFRASTRUCTURE

The Company's Canadian Operations include a distribution centre in Winnipeg, Manitoba. AC operates a distribution centre in the Port of Tacoma, Washington and a distribution centre in Anchorage, Alaska. CUL operates a distribution centre in San Leandro, California and uses third party facilities in both Florida and California. RTW operates a wholesale facility in Tortolla, BVI and uses third party facilities in Florida.

Due to the vast geography of the store network, transportation is an important element of operations. In Canada, 104 stores are inaccessible by all-weather roads. All of the Alaska Commercial Company stores are serviced by air or water transportation. Eleven CUL stores, the RTW retail and wholesale operations and the Cost-U-Less Express rely on air and long-haul water transportation. All available modes of transportation including seafair, long-haul water transportation, barge, trucks including via winter roads, rail and air are used. In addition to owning NSA, the Company also has a 50% ownership interest in Transport Nanuk Inc. ("TNI"), a Canadian shipping company servicing the eastern Arctic and purchases freight handling and shipping services from TNI and its subsidiaries.

The Company operates 245 stores of which 137 are owned and the remaining stores are located in leased facilities. The Company also has a significant investment in staff housing in northern Canada which is required due to the limited availability of third party rental units and low vacancy rates across the north.

The Company's Canadian Operations source both food and general merchandise through its head office in Winnipeg, Manitoba from distributors and manufacturers located primarily in Canada and the United States. In the International Operations, the Company's buying offices in Bellevue, Washington and Tortolla, BVI source food and general merchandise predominantly from U.S. distributors and manufacturers. In addition to suppliers in Canada and the United States, the Company also sources a portion of its general merchandise from China and some merchandise is purchased from regional or local suppliers serving the CUL and RTW markets.

In 2019, the Company announced it will relocate our International store operations support office from Bellevue, Washington to Anchorage, Alaska and south Florida. This relocation is expected to be completed by the end of the second quarter of 2019 and will result in our International Operations executives and store support teams being closer to the markets they serve.

## REAL ESTATE AND STORE DEVELOPMENT

Real estate and store development services required to support North West's network of retail, distribution and administrative facilities is managed by Company employees. The Company uses both internal and external resources in the construction, development and maintenance of its properties.

## FINANCIAL SERVICES

Customers are offered convenient, local access to a variety of financial services. Northern, NorthMart and Alaska Commercial Company stores each offer a proprietary, revolving credit card for day-to-day purchases within its stores, similar to those offered by major department store chains. An extended payment program is also available to finance larger purchases at the stores. In addition to revolving credit, these stores also offer financial services such as prepaid card products, ATMs, cheque cashing, debit card cash withdrawal, cash transfer, bill payment, personal income tax preparation, money order and gift card services.

Day-to-day credit decisions are centralized at the Company's head office, freeing up store manager time for the marketing of products and services. The store manager's knowledge of the local economic conditions and their personal acquaintances with their customers continue to provide valuable input into the credit decision process. A central credit management system helps ensure consistency in the application of credit verification procedures, including policies governing: credit approvals, limits, collections and fraud prevention. It also allows for the continuous monitoring of account activity and balances at the head office so that credit specialists can provide advice to store managers. The Company does not have any individual customer accounts greater than 10% of total accounts receivable and provides an impairment allowance for potentially uncollectible accounts receivable.

## CUSTOMERS

The Company operates the majority of its stores in remote Canadian and Alaskan communities. The Company's largest customer segment in these remote markets is largely dependent on government transfer payments in the form of social assistance, child care benefits, old age security, and supplemental nutrition assistance programs. A major source of employment income in these remote markets is generated from local government and spending on public infrastructure. This includes housing, schools, health care facilities, military facilities, roads and sewers. Income levels are also influenced by activities such as fishing, resource exploration, pipeline construction, tourism and hydroelectricity development and related construction activity. Income levels of CUL and RTW customers range from lower-income to affluent. In several CUL markets, the economy is dependent on tourism, resource development and government subsidies. In the British Virgin Islands, served by our RTW banner, the economy is highly dependent on tourism.

The Company also operates stores in urban and less remote communities, primarily in western Canada. The economies of these communities are more diverse and income levels are generally higher than those of the more remote locations. Major sources of employment are in manufacturing, government services, transportation, health care, tourism and natural resources.



## STORES AND OTHER FACILITIES

The table below sets out the number of stores, location of stores by region and whether the stores are owned or leased as at January 31, 2019.

	Owned	Leased	Total
<b>CANADA</b>			
Alberta	3	12	15
Newfoundland/Labrador	6	—	6
Manitoba	21	27	48
Northwest Territories	17	4	21
Nunavut	31	6	37
Ontario	8	15	23
Quebec	15	2	17
Saskatchewan	11	15	26
<b>Total Canada</b>	<b>112</b>	<b>81</b>	<b>193</b>
<b>INTERNATIONAL</b>			
Alaska	17	15	32
California	—	1	1
Caribbean	7	6	13
South Pacific	1	5	6
<b>Total International</b>	<b>25</b>	<b>27</b>	<b>52</b>
<b>Total</b>	<b>137</b>	<b>108</b>	<b>245</b>

The table below sets out the number of stores and selling square footage under our various retail formats as at January 31, 2019 .

Banner	Number of Stores		Selling SQF	
	2018	2017	2018	2017
Northern	117	119	686,256	688,583
Quickstop	22	16	31,246	23,193
NorthMart	5	6	106,968	134,210
Giant Tiger	44	41	720,523	672,794
Other formats	5	6	25,833	33,136
<b>Total Canada</b>	<b>193</b>	<b>188</b>	<b>1,570,826</b>	<b>1,551,916</b>
Alaska Commercial	27	27	269,893	269,893
Quickstop	5	5	11,810	11,810
Cost-U-Less	11	12	315,725	318,191
Riteway Food Markets	8	6	58,650	54,712
Other formats	1	1	13,230	13,230
<b>Total International</b>	<b>52</b>	<b>51</b>	<b>669,308</b>	<b>667,836</b>
<b>Total</b>	<b>245</b>	<b>239</b>	<b>2,240,134</b>	<b>2,219,752</b>

Selling areas of stores in remote communities in Canada and Alaska range in size from 900 square feet to 14,600 square feet. In regional, urban and rural communities in Canada and Alaska, selling areas range from 3,000 square feet to 35,000 square feet. In the CUL stores, selling areas range from 19,500 square feet to 35,500 square feet. The Company owns employee residences and staff houses, which are typically located adjacent to the more remote store locations.

## COMPETITION

In the vast majority of the northern and remote communities that it serves, the Company's stores are the leading providers of food, everyday and seasonal general merchandise and financial services. It has established a leading competitive position supported by high barriers to entry. Local competition consists of stores operated by independent store owners and local co-operatives, some of which are associated with regional or national buying groups. The strength of independent store competition varies considerably depending on the management skills, financial strength and scale of local operators. Additionally, the commitment of local staff to the store and to customer relationships, and the ability to maintain consistent standards are other key factors influencing their success. In Canada, all of the communities in which the Company operates have access to on-line mail order services such as those provided by Amazon, Wal-Mart, Costco and smaller regional and specialized competitors. In the International Operations, this type of competition is generally more intense and includes on-line mail-order sales from retailers such as Amazon, Safeway, Wal-Mart and Costco. The CUL stores face equally highly competitive discount and grocery retailers such as Wal-Mart, Costco and Kmart. RTW is the leading retailer in the BVI and faces competition from local independent store owners.

The Company's Giant Tiger and CUL stores also face direct competition from non-independent stores in varying degrees, depending on the specific market location. These include traditional department stores, big box retailers, discount department stores and specialty stores. Giant Tiger stores are located in larger rural and urban Canadian markets and compete against major discount chains, food stores and department store formats. The competitive intensity in Canadian urban markets is continuing to increase with the expansion of No Frills, FreshCo, Save on Foods, Dollarama and other retailers. Competition in CUL markets includes local, national and international grocery store chains and other warehouse clubs and discount retailers.

## INVESTING ACTIVITIES

Net cash used in investing activities was \$80.8 million compared to \$165.9 million in 2017 and \$77.7 million in 2016. The decrease is mainly due to the acquisition of RTW and NSA in 2017 and the \$18.8 million in insurance proceeds received in 2018 related to insurance claims on the Company's stores destroyed in the hurricanes. Net investing in Canadian Operations was \$69.2 million compared to \$121.4 million in 2017 and \$63.3 million in 2016. Net investing in International Operations was \$11.6 million, net of \$18.8 million in insurance proceeds, compared to \$44.5 million, net of \$7.0 million in insurance proceeds in 2017 and \$14.4 million in 2016.

Additional information on the Company's capital expenditures is included in the Company's MD&A and Consolidated Annual Audited Financial Statements for the fiscal year ended January 31, 2019, which are filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.northwest.ca](http://www.northwest.ca).

## MANAGEMENT SALES AND OPERATIONS

Each store employs a full-time manager who has the primary accountability to monitor daily operations, maximize selling opportunities and safeguard the Company's assets. All stores have direct access to sales and operations support, procurement and marketing, logistics, accounting, finance, legal, human resources, information technology, store development and real estate services provided by its support offices located in Winnipeg, Manitoba; Anchorage, Alaska; Bellevue, Washington; and Tortolla, BVI.

The Company's Canadian and International retail operations report in to their respective President. A team of Vice-Presidents and Directors are accountable for the execution of corporate strategies, policies and programs at store level along with supporting specialist teams.

## EMPLOYEES

At January 31, 2019, the Company employed 7,925 people, including 2,253 in its International Operations. Of these, approximately one third are indigenous and of the indigenous employees, approximately 223 hold managerial positions. The Company is active in the recruitment of indigenous people for positions in stores, corporate offices and distribution centres.

Training and development of employees is a major focus of the Company with a particular emphasis on building highly capable, thoroughly trained store teams. The sales and operations teams for Canadian and International Operations, together with support from Human Resources Training and Development, are accountable for providing training on best practices to the store managers and their teams and for ensuring compliance with operational standards. The Company is continuing to invest in developing training programs and is building greater store level capability and execution through the Manager-In-Training and the Department Manager-in-Training programs. These programs provide training to potential store managers and department managers on store operating processes, standards and policies, community relations, and the Company's management systems prior to them managing a store or a department within a store.

## INTANGIBLE PROPERTIES

The Company protects its trademarks and the design presentations associated with the trademarks which are material to the business.

## SEASONALITY

The Company's business follows a seasonal pattern where historically, the first quarter sales are the lowest and fourth quarter sales are the highest, reflecting consumer buying patterns. Due to the remote location of many of the Company's stores, weather conditions are often more extreme compared to other retailers and can affect sales in any quarter. Net earnings generally follow higher sales, but can be dependent on changes in merchandise sales blend, promotional activity in key sales periods, variability in share-based compensation costs related to changes in the Company's share price and other factors which can affect net earnings.

The following table is a summary of selected quarterly financial information for the past two fiscal years:

(\$ in millions)	Fiscal 2018				Fiscal 2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	\$ 532.5	\$ 511.5	\$ 503.8	\$ 465.7	\$ 497.2	\$ 487.0	\$ 515.2	\$ 485.8
EBITDA	36.9	70.5	42.4	39.5	46.6	45.6	47.3	30.1
Earnings from operations	21.6	54.9	27.8	25.6	32.2	31.8	33.2	16.7
Net earnings	13.9	39.5	18.6	18.6	16.3	21.0	23.3	9.1
Net earnings attributable to shareholders of the Company	13.0	38.3	17.6	17.8	15.4	20.6	22.7	8.4
Basic EPS	0.27	0.78	0.37	0.36	0.32	0.42	0.47	0.17
Diluted EPS	0.27	0.78	0.36	0.36	0.31	0.42	0.46	0.17

## REORGANIZATION - CONVERSION TO A SHARE CORPORATION

Effective January 2011, the Fund completed a Plan of Arrangement which resulted in the conversion from an income trust structure into a dividend paying publicly traded corporation named The North West Company Inc. Unitholders of the Fund received, for each unit of the Fund held, one common share of The North West Company Inc. On the same date, units of the Fund were delisted from the Toronto Stock Exchange and trading of the common shares of the Company on the Toronto Stock Exchange commenced under the symbol "NWF". On May 2, 2011, the Company commenced trading its common shares under the symbol "NWC". This symbol is more reflective of the Company's corporate identity and is consistent with the trading symbol of the Company prior to converting to an income trust in 1997.

Further details respecting the nature of this reorganization are set forth in the Company's Management Information Circular dated April 29, 2010, and in the Company's AIF for the year ended January 31, 2011 which is filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.northwest.ca](http://www.northwest.ca).

## ENVIRONMENT

The Company is subject to environmental regulations pursuant to federal, provincial and state legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances handled. A breach of such legislation may result in the imposition of fines and penalties. The Company has operating, training, monitoring and testing procedures and also retains environmental consulting engineers to help ensure compliance with applicable environmental laws. The Company believes it is in substantial compliance with applicable environmental laws and regulations.

## Description of the Business - Risk Factors

The mandate of the Board of Directors includes ensuring that processes are in place to identify and manage the principle risks of the business for which the Board has delegated primary responsibility to the Audit Committee. The North West Company maintains an Enterprise Risk Management ("ERM") program which assists in identifying, evaluating and managing risks that may reasonably have an impact on the Company. Management is accountable for completing an annual ERM assessment to evaluate risks and the potential impact that the risks may have on the Company's financial performance and ability to execute its strategies and achieve its objectives. The results of this annual assessment and quarterly updates are presented to the Audit Committee and reported to the Board of Directors. The principle risks and related mitigation strategies are incorporated into the Company's strategic planning process.

The North West Company is exposed to a number of risks in its business. The descriptions of the risks below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company deems immaterial, may also impair the operations of the Company. If any of such risks actually occur, the business, financial condition, liquidity and results of operations of the Company could be materially adversely affected. While the Company employs strategies to minimize these risks, these strategies do not guarantee that events or circumstances will not occur that could negatively impact the Company's financial condition and performance. Readers of this AIF are also encouraged to refer to the Company's Annual Management's Discussion and Analysis which provides further information on the risk factors facing the Company and our most recent consolidated financial statements, management information circular, quarterly reports, material change reports and news releases.

## **EMPLOYEE DEVELOPMENT AND RETENTION**

Attracting, retaining and developing high caliber employees is essential to effectively managing our business, executing our strategies and meeting our objectives. Due to the vast geography, small size and remoteness of the Company's markets, there is an ongoing need for capable staffing, particularly at the store management level. The degree to which the Company is not successful in retaining and developing employees and establishing appropriate succession plans could lead to a lack of knowledge, skills and experience required to effectively run our operations and execute our strategies and could negatively affect financial performance. The Company's overall priority on building and sustaining store people capacity reflects the importance of mitigating against this risk. In addition to compensation programs and investments in staff housing that are designed to attract and retain qualified personnel, the Company also continues to implement and refine initiatives such as comprehensive store-based manager-in-training programs as part of the Pure Retail initiative. In March 2019, the Company opened a training center in Winnipeg, Manitoba which will facilitate the delivery of its comprehensive training programs on a more consistent basis.

In addition to employee development and retention risks related to the Company's retail operations, these risks also impact the Company's airline operations. Transport Canada has issued new Canadian Airline Regulations ("CAR") with respect to pilot fatigue and flight duty times on December 12, 2018. The implementation of these new regulations is based on the type of aircraft and take effect in December 2020 and December 2022 for NSA.

These regulations may result in an increase in the number of pilots required by NSA which, combined with an existing global shortage of pilots, may result in higher recruitment and compensation costs and a negative impact on the Company's financial performance. NSA is continuing to assess the impact of the new regulations on the business. Changes to flight schedules, operating schedules, fatigue management systems and employee recruiting, compensation and training programs are expected to help mitigate the impacts of the new regulations and employee development and retention risk.

## **BUSINESS MODEL**

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

## **COMPETITION**

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

## **COMMUNITY RELATIONS**

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

## INFORMATION TECHNOLOGY

The Company relies on information technology ("IT") to support the current and future requirements of the business. A significant or prolonged disruption in the Company's current IT systems could negatively impact day-to-day operations of the business which could adversely affect the Company's financial performance and reputation.

The Company is in the process of completing the implementation of new point-of-sale, workforce management and merchandise management systems which are described further in Developments for 2018. In 2019, the Company will be upgrading its financial reporting software. The failure to successfully upgrade legacy systems, or to migrate from legacy systems to the new IT systems, could have an adverse effect on the Company's operations, reputation and financial performance. There is also a risk that the anticipated benefits, cost savings or operating efficiencies related to upgrading or implementing new IT systems may not be realized which could adversely affect the Company's operations, financial performance or reputation. To help mitigate these risks, the Company uses a combination of specialized internal and external IT resources as well as a strong governance structure and disciplined project management.

The Company also depends on accurate and reliable information from its IT systems for decision-making and operating the business. As the volume of data and the complexity and integration of IT systems increases, there is a greater risk of errors in data or misinterpretation of the data which could negatively impact decision making and in turn, have an adverse effect on the Company's financial performance.

## CYBER-SECURITY

The Company relies on the integrity and continuous availability of its IT systems. In the ordinary course of business, the Company collects, processes, transmits and retains confidential and personal information (collectively "Confidential Information") regarding the Company and its customers, employees and suppliers. The Company's IT systems are exposed to the risks of "cyber-attack", including viruses that can disrupt or paralyze IT systems or result in unauthorized access to Confidential Information.

The Company has implemented security software and measures, including monitoring, testing and employee training, to prevent unauthorized access to its IT systems and Confidential Information, and to reduce the likelihood of disruptions. Cyber-attacks are constantly evolving and are becoming more frequent and sophisticated in nature and there is a risk that the Company's security measures may be breached or unauthorized access may not be detected on a timely basis. Furthermore, employee error, faulty password management or malfeasance may result in unauthorized access to IT systems and Confidential Information. Any prolonged failure relating to IT system availability, breaches of IT system security, a significant loss of data, an impairment of data integrity or unauthorized access to Confidential Information, could adversely affect the financial performance, operations and reputation of the Company and may result in regulatory enforcement actions or litigation.

## LOGISTICS AND SUPPLY CHAIN

The Company relies on a complex and elongated outbound supply chain due to the remoteness of the Company's stores. The delivery of merchandise to a substantial portion of the Company's stores involves multiple carriers and multiple modes of transportation including trucks, trains, aircraft, ships and barges through various ports and transportation hubs. The Company's reputation and financial performance can be negatively impacted by supply chain events or disruptions outside of the Company's control, including changes in foreign and domestic regulations which increase the cost of transportation; the quality of transportation infrastructure such as roads, ports and airports; labour disruptions at transportation companies; or the consolidation, financial difficulties or bankruptcy of transportation companies. To help mitigate these risks, the Company acquired North Star Air Ltd. in 2017 and has an investment in Transport Nanuk Inc., an arctic shipping company, which provides the Company with greater control over key components of our logistics network and service to our stores in northern Canada.

## CLIMATE CHANGE, NATURAL DISASTERS AND FIRE

The Company's operations are exposed to extreme weather conditions ranging from blizzards to hurricanes, typhoons and cyclones which can cause loss of life, damage to or destruction of key stores and facilities, or temporary business disruptions. The stores located in the South Pacific, Caribbean and coastal areas of Alaska are also at risk of earthquakes and tsunamis which can result in loss of life and destruction of assets. The destruction of assets and the impact on the local economy resulting from these types of extreme weather conditions, particularly where more than one location is impacted, could have a material adverse effect on the operations and financial condition and performance of the Company. Severe weather conditions can also have a negative impact on NSA's operations by disrupting the transportation of merchandise and passengers.

The impact of warmer ocean water temperatures has increased the risk of frequency, severity and duration of hurricanes and typhoons. In 2017, islands in the Caribbean were devastated by two category five hurricanes which resulted in the destruction of four of the Company's stores and significantly damaged a CUL store in St. Maarten. Rebuilding will significantly increase resiliency to future hurricanes however, certain markets remain exposed to this risk. Further information on the impact of these hurricanes is provided in the International Operations financial performance section.

The Company completed an assessment of its stores in the Caribbean and is in the process of upgrading its most hurricane-vulnerable stores to improve the building construction, where practical, to a category five hurricane resiliency level. These improvements should help mitigate the impact of hurricanes on the Company's stores however, there can be no certainty that the damage from hurricanes will not be severe including significant damage to or loss of stores and warehouses.

Longer-term global warming conditions would also have a more pronounced effect, both positive and negative, on the Company's most northern latitude stores. On the downside, global warming will result in rising sea levels, which will cause flooding, and melting permafrost which could damage or destroy the Company's stores, warehouses and housing. The Company has 71 stores in northern Canada and 16 stores in Alaska that are potentially exposed to changes in permafrost. Rising sea levels and melting permafrost would also have the same negative impact on our customers which, combined with the potential damage to our facilities, could have a material adverse effect on the Company's operations, financial condition and performance. The Company has in-depth knowledge of and expertise in construction in northern markets and continues to incorporate new engineering and construction techniques in designing buildings and facilities to help mitigate the impact of changing permafrost conditions.

The Company relies upon the availability of winter roads to 40 communities in northern Canada. Global warming conditions may shorten or eliminate the availability of winter roads which would result in higher transportation costs to these remote locations. To the extent that higher transportation costs cannot be offset by other cost reductions or passed on through higher prices, this may result in lower operating margins which may have an adverse effect on the Company's financial performance. This risk related to the availability of winter roads is partially mitigated by the acquisition of NSA and the utilization of the Company's wholly-owned airline to transport merchandise to its stores.

On the upside, global warming could result in higher economic growth in the Company's northern markets and would reduce some operating costs such as enabling the Company to use lower-cost searift year-round to transport merchandise to the Company's stores compared to higher cost air transportation.

The Company's stores in northern Canada and Alaska are exposed to the risk of wild fires and other fire related losses. In many of the Company's remote northern markets, there is limited fire fighting equipment and capability. In the event of a fire there is a high risk of a complete loss of the building, equipment and inventory. In 2018, the Company had three fires in northern Canada which destroyed one store and significantly damaged two other stores. Two of the fires were caused by electrical malfunction and one was arson-related. The Company was able to re-open the stores with reduced selling square footage and a limited merchandise assortment while reconstruction and repairs are being completed. The Company has fire risk mitigation policies and procedures and is undertaking an independent review to identify opportunities to improve fire prevention in its northern stores, which are expected to be largely implemented by the end of 2019.

In addition to the risk mitigation activities previously noted, the Company also maintains insurance to help mitigate the impact of losses however, there can be no assurance that one or more large claims or that any given loss will be mitigated in all circumstances. Further information on insurance risk is provided below.

## **ECONOMIC ENVIRONMENT**

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

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

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

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

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

## FUEL AND UTILITY COSTS

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

## ENVIRONMENTAL

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

## LAWS, REGULATIONS AND STANDARDS

The Company is subject to various laws, regulations and standards administered by federal, provincial and foreign regulatory authorities, including but not limited to income, commodity and other taxes, securities laws, duties, currency repatriation, health and safety, employment standards and minimum wage laws, Payment Card Industry ("PCI") standards, anti-money laundering ("AML") regulations, licensing requirements, product packaging and labeling regulations and zoning laws. New accounting standards and pronouncements or changes in accounting standards may also impact the Company's financial results.

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

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

A portion of the Company's sales and net earnings are derived from financial services and pharmacy operations, which are subject to laws, regulations and standards. Changes in legislation regarding financial services fees, including but not limited to ATM, prepaid Visa card and cheque-cashing fees and fees earned on customer accounts receivable, could have an adverse impact on the Company's financial performance if other fees or offsetting cost reductions cannot be implemented. In Canada, on-going prescription drug reform and changes in dispensing fees could have an adverse effect on the Company's financial performance if other fees or offsetting cost reductions cannot be implemented.

The airline industry is also subject to extensive legal, regulatory and administrative controls and oversight, including airline safety standards. Failure by the Company to comply with these laws, regulations and standards could result in the loss of operating licenses and could have an adverse effect on the Company's financial performance and reputation.

Furthermore, changes in legislation, including carbon taxes and the implementation of other greenhouse gas reduction initiatives and regulations related to transitioning to a low-carbon and more climate resilient future, could result in additional costs which could have a negative impact on the Company's financial performance if the Company is not able to fully pass on these additional costs to its customers or identify other offsetting cost reductions and efficiencies.

## INCOME TAXES

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

## FOOD AND PRODUCT SAFETY

The Company is exposed to risks associated with food safety, product handling and general merchandise product defects. The Company also operates pharmacies and provides tele-pharmacy services and is subject to risks associated with errors made through medication dispensing or patient consultation. Food sales represent approximately 75% of total Company sales. A significant outbreak of a food-borne illness or increased public concerns with certain food products could have an adverse effect on the reputation and financial performance of the Company and could lead to unforeseen liabilities from legal claims. The Company has food preparation, handling, dispensing and storage procedures which help mitigate these risks. The Company also has product recall procedures in place in the event of a food-borne illness outbreak or product defect. The existence of these procedures does not eliminate the underlying risks and the ability of these procedures to mitigate risk in the event of a food-borne illness or product recall is dependent on their successful execution.

## INSURANCE

The Company manages its exposure to certain risks through an integrated insurance program which combines an appropriate level of self-insurance and the purchase of various insurance policies. The Company's insurance program is based on various lines and limits of coverage and is arranged with financially stable insurance companies as rated by professional rating agencies. There can be no assurance that the Company's insurance program will be sufficient to cover one or more large claims, or that any given risk will be mitigated in all circumstances. There can also be no assurance that the Company will be able to continue to purchase insurance coverage at reasonable rates. To the extent that the Company's insurance policies do not provide sufficient coverage for a loss, it could have an adverse impact on the Company's operating results and financial condition.

## VENDOR AND THIRD PARTY SERVICE PARTNER MANAGEMENT

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

NSA also relies upon suppliers and third party service partners for specialized aviation parts and aircraft maintenance services. A prolonged disruption affecting the supply of parts or provision of maintenance services could negatively impact the availability of aircraft to service the Company's customers, or result in higher than anticipated costs, which could have an adverse effect on the Company's financial performance and reputation.

## MANAGEMENT OF INVENTORY

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

## LITIGATION AND CASUALTY LOSSES

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

Consistent with risks inherent in the aviation industry, NSA could be subject to large liability claims arising out of major accidents or disasters involving aircraft which can result in serious injury, death or destruction of property. Accidents and disasters may occur from factors outside of the Company's control such as severe weather, lightning strikes, wind shear and bird strikes. Any such accident or disaster could have a material adverse effect on the Company's reputation, results from operations and financial condition.



## POST-EMPLOYMENT BENEFITS

The Company engages professional investment advisors to manage the assets in the defined benefit pension plans. The performance of the Company's pension plans and the plan funding requirements are impacted by the returns on plan assets, changes in the discount rate and regulatory funding requirements. If capital market returns are below the level estimated by management or if the discount rate used to value the liabilities of the plans decreases, the Company may be required to make contributions to its defined benefit pension plans in excess of those currently contemplated, which may have an adverse effect on the Company's financial performance.

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

## DEPENDENCE ON KEY FACILITIES

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

## GEOPOLITICAL

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

## ETHICAL BUSINESS CONDUCT

The Company has a Code of Business Conduct and Ethics policy which governs both employees and Directors. The Company also has a Whistleblower Policy that provides direct access to members of the Board of Directors. Unethical business conduct could negatively impact the Company's reputation and relationship with its customers, investors and employees, which in turn could have an adverse effect on the financial performance of the Company.

## FINANCIAL RISKS

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

## CREDIT RISK

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

## LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company manages liquidity risk by maintaining adequate credit facilities to fund operating requirements, pension plan contributions and planned sustaining and growth-related capital expenditures, and regularly monitoring actual and forecasted cash flow and debt levels. At January 31, 2019, the Company had undrawn committed revolving loan facilities available of \$231.5 million (January 31, 2018 - \$266.6 million).

## CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily the U.S. dollar, through its net investment in International Operations and its U.S. dollar denominated borrowings. The Company manages its exposure to currency risk by hedging the net investment in foreign operations with a portion of U.S. dollar denominated borrowings. At January 31, 2019, the Company had US\$97.9 million in U.S. denominated debt compared to US\$99.4 million at January 31, 2018.

The Company is also exposed to currency risk relating to the translation of International Operations earnings to Canadian dollars. In 2018, the average exchange rate used to translate U.S. denominated earnings from the International Operations was 1.3041 compared to 1.2930 last year. The Canadian dollar's appreciation in 2018 compared to the U.S. dollar in 2017 positively impacted consolidated net earnings by \$0.4 million. In 2017, the average exchange rate was 1.2930 compared to 1.3169 in 2016 which resulted in a decrease in 2017 consolidated net earnings of \$0.5 million compared to 2016.

## INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its long-term borrowings. The Company manages exposure to interest rate risk through a combination of fixed and floating interest rate debt and may use interest rate swaps. Further information on long-term debt is provided in Note 11 to the consolidated financial statements. As at January 31, 2019 the Company had no outstanding interest rate swaps.

# Corporate Social Responsibility & Sustainable Development

The North West Company opened its first store in 1668 as a trading post in the Cree Nation of Waskaganish in northern Canada and many of our stores in northern Canada and Alaska have been in operation for over 200 years. Our continuing presence in the communities we serve is based on sustainable practices that reflect our adaptability and respect for the social license and underlying trust we must earn.

The Company has recently framed its social responsibility and sustainability objectives under the following four pillars which are part of the Company's Sustainability Roadmap:

- Stronger Communities;
- Better Quality of Life for our Customers;
- Empowered Employees; and
- Respect for the Environment.

A brief description of each pillar is as follows:

**Stronger Communities** We are committed to provide significant, meaningful social benefit to the communities we serve. We believe that building strong, healthy relationships through listening and collaboration is an approach that adds value for both the community and the Company in areas such as employment, capital investment and sponsorship.

**Better Quality of Life for our Customers** We are committed to provide reliable access to everyday products and services that meet the lifestyle needs of our customers and that are as affordable as possible. In addition, we advocate for policies and programs that improve the quality of life for the people and communities we serve. This goes to the heart of community and cultural sustainability and to our role in providing socio-economic benefits in the communities we serve.

**Empowered Employees** We are committed to enhance employee satisfaction and effectiveness through our Company values of customer service, trust, enterprising ideas, passion for what we do, accountability and personal balance. We strive to provide our diverse and talented employees with the best job experiences and opportunities, beginning with key roles in our stores.

**Respect for the Environment** We are committed to minimize our environmental footprint in a way that accommodates the conflicting realities of remote, costly-to-serve geographies populated by lower-income communities. We look for innovation across our business from efficient building design to eco-friendly energy alternatives and limiting product packaging and waste.

The Board of Directors are accountable for overseeing the Company's Corporate Social Responsibility and Sustainable Development initiatives which are integrated within the Company's risk management and strategic planning process. In addition to the information provided on climate change and environmental risk factors previously noted under Risk Management, further information on the Company's Sustainability Roadmap is available on the Company's website at [www.northwest.ca](http://www.northwest.ca).

# Dividends and Distributions

## GENERAL

Past dividend practices at the Company are aligned with a total return approach to investment performance. The Company aims to deliver top quartile returns through an equal emphasis on growth and income yield. The Company has paid dividends or distributions for 31 consecutive years. In 2018, the Company paid dividends of \$0.32 per share on a quarterly basis or \$1.28 per share for the year. The payment of dividends on the Company's common shares is subject to the discretion of the Board of Directors, and will vary 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 CBCA for the declaration of dividends and other conditions existing at such future time.

The Company currently pays quarterly dividends to shareholders on the 15<sup>th</sup> day of April, July, September and January, or the first business day following the 15<sup>th</sup>. The record date for any dividend is on or about the last business day of the month preceding the dividend date, or such other day as may be determined by the Board of Directors. In accordance with stock exchange rules, an ex-dividend date occurs two trading days prior to the record date to permit time for settlement of trades of securities and dividends must be declared a minimum of seven trading days before the record date.

## DIVIDEND HISTORY

The following table shows the quarterly cash dividend per common share declared and paid by the Company for the past three fiscal years.

QUARTER	2018 (\$/share)	2017 (\$/share)	2016 (\$/share)
First Quarter	\$ 0.32	\$ 0.32	\$ 0.31
Second Quarter	0.32	0.32	0.31
Third Quarter	0.32	0.32	0.31
Fourth Quarter	0.32	0.32	0.31
<b>Total</b>	<b>\$ 1.28</b>	<b>\$ 1.28</b>	<b>\$ 1.24</b>

The dividends paid were designated as eligible dividends in accordance with the provisions of the Canadian Income Tax Act.

# Capital Structure

## DESCRIPTION

The Company's objectives in managing capital are to deploy capital to provide an appropriate total return to shareholders while maintaining a capital structure that provides the flexibility to take advantage of the growth opportunities of the business, maintain existing assets, meet obligations and financial covenants and enhance shareholder value. The capital structure of the Company consists of debt and shareholders' equity.

## DEBT

The Canadian Operations have committed, revolving loan facilities of \$300.0 million that bear a floating rate of interest based on Bankers Acceptances rates plus a stamping fee and mature on September 26, 2022. These facilities are secured by certain assets of the Company and rank *pari passu* with the Company's other senior debt. At January 31, 2019, the Company had drawn \$134.8 million on these facilities (January 31, 2018 - \$91.1 million).

The Company has outstanding \$100.0 million senior notes (January 31, 2018 - \$100.0 million) that mature September 26, 2029 and have a fixed interest rate of 3.74%. The notes are secured by certain assets of the Company and rank *pari passu* with the Company's other senior debt comprised of the \$300.0 million Canadian Operations loan facilities, the US\$70.0 million senior notes and the US\$52.0 million loan facilities.

The Canadian Operations also have US\$70.0 million senior notes that mature on June 16, 2021. The senior notes have a fixed interest rate of 3.27% on US\$55.0 million and a floating interest rate on US\$15.0 million based on U.S. LIBOR plus a spread, payable semi-annually. The senior notes are secured by certain assets of the Company and rank *pari passu* with the Company's other senior debt. The US\$70.0 million senior notes have been designated as a hedge against the U.S. dollar investment in the International Operations.

The Company has committed, revolving loan facilities of US\$52.0 million loan facilities that bear interest at U.S. LIBOR plus a spread and mature on September 26, 2022. These loan facilities are secured by certain assets of the Company and rank *pari passu* with the Company's other senior debt. At January 31, 2019, the Company had drawn US\$27.9 million (January 31, 2018 - US\$27.9 million).

The International Operations have an available, committed, revolving loan facility of US\$40.0 million for working capital and general business purposes that matures October 31, 2020. This facility 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 January 31, 2019, the Company had drawn US\$NIL on this facility (January 31, 2018 - US\$1.4 million).

## SHAREHOLDERS' EQUITY

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.

The Company is authorized to issue an unlimited number of shares. As at January 31, 2019, there were 36,450,591 common voting shares and 12,300,338 variable voting shares issued and outstanding. The total shares outstanding of 48,750,929 is an increase of 60,717 shares from January 31, 2018.

The rights, privileges, restrictions and conditions attached to the common shares of the Company are:

- (i) Voting Rights - The holders of the Company's shares are entitled to one vote per share at all meetings of the shareholders of the Company.
- (ii) Dividends - The holders of the Company's shares are entitled to receive any dividend declared by the Board on shares. See "Dividends and Distributions".
- (iii) Rights Upon Dissolution - In the event of liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of the Company's shares are entitled to receive, after payment of all liabilities of the Company, the remaining assets and property of the Company.

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 for US\$27.0 million. In the first quarter of 2017, the Company issued 133,944 common shares as partial consideration for this acquisition in accordance with the form of consideration elected to be received by RTW shareholders. These shares were held in escrow by CST Trust Company pursuant to the terms of an escrow agreement until March 24, 2017.

The Company has a Share Option Plan that provides for the granting of options to certain officers and senior management. Options confer upon the holder a right to purchase one common share at a specific price described when the option is issued. 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 January 31, 2019. During fiscal 2018, 698,093 options were exercised resulting in the issuance of 60,717 common shares. As at January 31, 2019, there were 2,398,063 options outstanding, a decrease of 521,054 options from January 31, 2018.

The Company also has a Director Deferred Share Unit Plan (DDSU) 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.

The total number of DDSUs outstanding at January 31, 2019 is 270,277 (January 31, 2018 – 249,108). There were 21,186 DDSUs exercised in cash during the twelve months ended January 31, 2019 (twelve months ended January 31, 2018 – NIL)

## Market for Securities

### DESCRIPTION

The Company's common shares are listed and posted for trading on the TSX under the symbol "NWC". The following table provides trading information for the common shares for the period from February 1, 2018 to January 31, 2019 as reported by the TSX.

Month	High (\$)	Low (\$)	Close (\$)	Volume
February	29.18	27.01	27.41	4,959,690
March	28.76	26.50	27.03	4,351,282
April	28.10	26.75	27.61	3,159,364
May	28.70	27.43	28.06	2,884,854
June	30.10	27.70	29.32	4,039,406
July	30.90	29.30	29.72	3,517,847
August	29.90	28.52	28.87	2,296,193
September	30.41	28.03	28.12	3,010,500
October	29.01	27.03	28.70	4,013,141
November	30.41	28.41	29.44	2,951,453
December	32.07	28.54	31.42	5,577,470
January	32.19	30.70	31.17	5,507,866

### ESCROWED SECURITIES

To the Company's knowledge, no securities of the Company were held in escrow as at January 31, 2019.

# Directors and Executives of the Company

The name, jurisdiction of residence, position held at April 10, 2019 and principal occupation for each of our directors and executives are set out below. The term of office of each director expires at the next annual meeting of the Company.

## DIRECTORS

Name and Jurisdiction of Residence	Position with North West	Principal Occupation
<b>H. Sanford Riley<sup>(1)</sup></b> Winnipeg, Manitoba, Canada	Chair of the Board & Director (Director since 2003)	President and Chief Executive Officer, Richardson Financial Group Limited
<b>Brock Bulbuck, CPA, CA<sup>(2)(4)</sup></b> Winnipeg, Manitoba, Canada	Director (Director since 2018)	Chief Executive Officer, Boyd Group Income Fund
<b>Deepak Chopra, FCPA, FCGA<sup>(2)(4)</sup></b> Toronto, Ontario, Canada	Director (Director since 2018)	Corporate Director
<b>Frank J. Coleman<sup>(2)(3)</sup></b> Corner Brook, Newfoundland and Labrador, Canada	Director (Director since 1999)	President and Chief Executive Officer, Coleman Group of Companies
<b>Wendy F. Evans<sup>(3)(4)</sup></b> Toronto, Ontario, Canada	Chair, Governance and Nominating Committee and Director (Director since 2005)	President, Evans and Company Consultants Inc.
<b>Stewart Glendinning<sup>(2)(3)</sup></b> Ocean Ridge, Florida, USA	Director (Director since 2014)	Executive Vice President and CFO Tyson Foods, Inc.
<b>Edward S. Kennedy<sup>(1)</sup></b> Winnipeg, Manitoba, Canada	President & CEO (Director since 1996)	President & Chief Executive Officer, The North West Company Inc.
<b>Robert J. Kennedy<sup>(3)(4)</sup></b> Winnipeg, Manitoba, Canada	Chair, Human Resources, Compensation and Pension Committee and Director (Director since 2003)	Chief Executive Officer, WiBand Communications Corporation
<b>Annalisa King<sup>(2)(4)</sup></b> Vancouver, British Columbia, Canada	Director (Director since 2014)	Corporate Director
<b>Violet (Vi) A.M. Konkle<sup>(3)(4)</sup></b> Fenwick, Ontario, Canada	Director (Director since 2014)	Corporate Director
<b>Eric L. Stefanson, FCPA, FCA<sup>(2)(3)</sup></b> Winnipeg, Manitoba, Canada	Chair, Audit Committee and Director (Director since 2012)	Corporate Director
<b>Victor Tootoo, CPA, CGA<sup>(2)(4)</sup></b> Iqaluit, Nunavut, Canada	Director (Director since 2015)	Vice President, NVision Insight Group

(1) The Chair of the Board is not a member of any Board Committee, but attends all meetings in an ex-officio capacity. The President and Chief Executive Officer is not a member of any Board Committee, but attends these meetings as an invited guest.

(2) Member of the Audit Committee.

(3) Member of the Governance and Nominating Committee.

(4) Member of the Human Resources, Compensation and Pension Committee.

Each of the directors listed have held their respective positions and offices with the same, predecessor or associated firms or organizations as their principal occupation for the past five years, except as follows:

**Brock Bulbuck** is the Chief Executive Officer of Boyd Group Income Fund. He has been CEO since 2010, but since joining Boyd in 1993, Mr. Bulbuck has served in many senior leadership roles and has played a leading role in the overall development and growth of the business. In his current leadership role at Boyd, he has overall responsibility for the affairs of Boyd, including strategy, operations and performance. In addition to his executive management position at Boyd, Mr. Bulbuck also serves on the Board of Trustees of Boyd Group Income Fund. He is also a past Chairperson of the Winnipeg Football Club Board of Directors, a past member of the Canadian Football League Board of Governors and a current Director of the Pan Am Clinic Foundation. Mr. Bulbuck has a Bachelor of Commerce (Honors) degree from the University of Manitoba and is a Chartered Professional Accountant.

**Deepak Chopra** most recently served as President and Chief Executive Officer of Canada Post Corporation from February 2011 to March 2018. Mr. Chopra has more than 30 years of global experience in the financial services, technology, retail and logistics & supply-chain industries. Prior to that he worked for Pitney Bowes Inc., a NYSE-traded technology company known for postage meters, mail automation and location intelligence services, for more than 20 years. He served as President of Pitney Bowes Canada and Latin America from 2006 to 2010. He held a number of increasingly senior executive roles in Europe, Asia Pacific and Middle East regions. He has previously served on the boards of Canada Post Corporation, Purolator Holdings Ltd., SCI Group, the Canada Post Community Foundation and the Toronto Region Board of Trade. Mr. Chopra is a Fellow of the Institute of Chartered Professional Accountants of Canada.

**Stewart Glendinning** has been the Executive Vice President and Chief Financial Officer of Tyson Foods since 2017. Prior to that he worked with Molson Coors Brewing Company beginning in 2005 where he held the positions of (i) Chief Financial Officer, Molson Coors UK, (ii) Global Chief Financial Officer Molson Coors Brewing Company, (iii) President and Chief Executive Officer, Molson Coors UK, (iv) President and Chief Executive Officer, Molson Coors Canada, and (v) President and Chief Executive Officer of Molson Coors International. Before joining Molson Coors, Mr. Glendinning worked with KPMG and The Hackett Group, both professional services companies where he held various senior audit and consulting roles, working with a broad array of multinational clients. He has also served with various organizations within the U.S. Naval Reserve.

**Annalisa King** is the former Senior Vice President and Chief Financial Officer of Best Buy Canada Ltd., serving in this position from 2008 through 2016. Prior to that, Ms. King was Senior Vice President of Business Transformation for Maple Leaf Foods Inc. She has also held senior positions, primarily in finance, throughout her career at consumer packaged goods companies, Kraft and Pillsbury Canada. Ms. King is a director of Saputo Inc., First Capital Realty Inc., and Templeton DOC General Partnership Ltd. Ms. King is also a director, and Chair of the Governance Committee for the Vancouver Airport Authority. Ms. King obtained her ICD.D designation from the Institute of Corporate Directors in 2013, and obtained fellowship from the National Association of Corporate Directors in 2018.

**Violet (Vi) A.M. Konkle** is the past President and Chief Executive Officer of The Brick Ltd. Prior to joining The Brick in 2010 as President of Business Support; she held a number of positions with Walmart Canada, including Chief Operating Officer and Chief Customer Officer. Ms. Konkle also held a number of senior executive positions with Loblaw Companies Ltd., including Executive Vice President, Atlantic Wholesale Division. Ms. Konkle is a director of Boyd Group Income Fund, Bailey Metal Products and Elswood Investment Corporation. She is also on the advisory Board of Longo's Fruit Markets Inc. and the advisory Board of Abarta (a privately held Pittsburgh-based company). She is a past director of Dare Foods, The Brick Ltd., Trans Global Insurance, the Canadian Chamber of Commerce and Habitat for Humanity. Ms. Konkle obtained her ICD.D designation from the Institute of Corporate Directors in 2014.

**Victor Tootoo** is the President of NVision Insight Group, which specializes in empowering Indigenous communities and works with all levels of government and Inuit organizations in Northern Canada. He is also President of Northern Allied Nunavut Travel Inc., a travel management company which caters to corporations in northern Canada; President of AV Nunavut Fuels Inc., which purchases and distributes fuel to northern Canada; President of Kivallingmiut and Auyuitiq Aviation, which provides helicopter and charter services in northern Canada; and President of Nahanni Nunavut Construction, which provides civil project management and general contractor services. Prior to launching his commercial career, Mr. Tootoo held numerous positions with various governments in the north. Mr. Tootoo holds a Chartered Professional Accountants designation, and also attended Assiniboine Community College where he obtained a Diploma in Business Administration.

## EXECUTIVES

Name and Jurisdiction of Residence	Principal Occupation with North West
<b>Edward S. Kennedy</b> Winnipeg, Manitoba, Canada	President & Chief Executive Officer (Executive since 1989)
<b>Craig T. Gilpin</b> Winnipeg, Manitoba, Canada	Executive Vice-President & Chief Corporate Officer (Executive since 2010)
<b>John D. King, CPA, CA, CMA</b> Winnipeg, Manitoba, Canada	Executive Vice-President & Chief Financial Officer (Executive since 2006)
<b>Daniel G. McConnell</b> Winnipeg, Manitoba, Canada	President, International Retail (Executive since 2008)
<b>Gary Merasty</b> Winnipeg, Manitoba, Canada	Executive Vice-President, Chief Development Officer (Executive since 2018)
<b>Toby A. Noiles</b> Winnipeg, Manitoba, Canada	Executive Vice-President, Canadian Food Procurement & Marketing (Executive since 2018)
<b>Alex S. Yeo</b> Winnipeg, Manitoba, Canada	President, Canadian Retail (Executive since 2018)
<b>Michael T. Beaulieu</b> Winnipeg, Manitoba, Canada	Vice-President, Canadian Sales & Operations, Northern Canada Retail, Central Division (Executive since 2013)
<b>Steven J. Boily</b> Winnipeg, Manitoba, Canada	Vice-President, Information Services (Executive since 2016)
<b>J. Robert Cain</b> Seattle, Washington, USA	Vice-President, Logistics & Distribution (International Operations) (Executive since 2000)
<b>David M. Chatyrbok</b> Winnipeg, Manitoba, Canada	Vice-President, Canadian Sales & Operations, Northern Canada Retail, NorthMart/Major Markets Division (Executive since 2009)
<b>Leanne G. Flewitt</b> Winnipeg, Manitoba, Canada	Vice-President, Logistics & Distribution (Canadian Operations) (Executive since 2013)
<b>Kyle A. Hill</b> Winnipeg, Manitoba, Canada	Vice-President of Strategy and Special Projects (Executive since 2018)
<b>Matt D. Johnson</b> Winnipeg, Manitoba, Canada	Vice-President, Cost-U-Less Food Procurement & Marketing (Executive since 2014)
<b>Laurie J. Kaminsky</b> Winnipeg, Manitoba, Canada	Vice-President, NWC Health Products & Services (Executive since 2014)
<b>Frank W. Kelner</b> Thunder Bay, Ontario, Canada	President, North Star Air Ltd. (Executive since 2017)
<b>Thomas J. Meilleur</b> Thunder Bay, Ontario, Canada	Vice-President, North Star Air Ltd. (Executive since 2017)
<b>Beth Millard-Hales</b> Winnipeg, Manitoba, Canada	Vice-President, Human Resources (Effective April 27, 2018)
<b>Walter E. Pickett</b> Eagle River, Alaska, USA	Vice-President & General Manager, Alaska Commercial Company (Executive since 2005)
<b>Glenn R. Revet</b> Regina, Saskatchewan, Canada	Vice-President, Sales & Operations, Giant Tiger (Executive since 2015)



Name and Jurisdiction of Residence	Principal Occupation with North West
<b>Chris J. Santschi</b> Winnipeg, Manitoba, Canada	Vice-President, Canadian Sales & Operations, Northern Canada Retail, National Division (Executive since 2017)
<b>Michael C. Scott</b> Winnipeg, Manitoba, Canada	Vice-President, General Merchandise Procurement & Marketing (Executive since 2017)
<b>Jeffrey B. Stout</b> Thunder Bay, Ontario, Canada	Vice-President, North Star Air Ltd. (Executive since 2017)
<b>Amanda E. Sutton</b> Winnipeg, Manitoba, Canada	Vice-President, Legal & Corporate Secretary (Executive since 2017)
<b>Jim W. Walker</b> Anchorage, Alaska, USA	Vice-President & General Manager, Wholesale Operations (International Operations) (Executive since 2008)

All of the executives have held their present positions with the Company during the past five years, except as follows:

**Craig T. Gilpin** joined the Company in March 2010 as Executive Vice-President and Chief Corporate Officer. He was promoted to the position of Executive Vice-President and Chief Operating Officer in May 2014, and assumed his current role in December 2017. Prior to joining the Company Mr. Gilpin held the position of President, Operations, Sobeys Ontario since 2004. Prior to joining Sobeys, Mr. Gilpin worked for 17 years in various senior roles with A&P Canada.

**John D. King** joined the Company in 1994 and has held a number of different roles within the Finance department. Mr. King was promoted to the position of Executive Vice-President and Chief Financial Officer in May 2014. Prior to his current role, he had been the Company's Chief Financial Officer since June 2010 and previously held the positions of Vice-President, Finance and Vice-President, Finance and Secretary.

**Daniel G. McConnell** joined the Company in 2002 and has held various roles within the Real Estate and Store Development department including Executive Vice-President and Chief Development Officer and Vice-President, Real Estate and Store Development. Mr. McConnell was promoted to the position of President, International Retail in December 2017.

**Gary Merasty** joined the Company in 2018 as Executive Vice-President & Chief Development Officer, accountable for Real Estate, Construction, Community Relations, Health Products & Services and new venture development. He brings years of diverse political and business leadership experience gained from senior roles within northern enterprises, Indigenous ventures and as a Grand Chief and Member of Parliament, combined with his tenure of seven years on the Company's Board of Directors. Mr. Merasty is originally from the Peter Ballantyne Cree Nation community of Pelican Narrows in northeastern Saskatchewan.

**Toby A. Noiles** joined the Company in 2018 as Executive Vice-President, Canadian Food Procurement & Marketing. Ms. Noiles was previously a Senior Vice-President at Safeway U.S.A and Sam's Club, and also Chief Merchandising Officer at two e-commerce retailers.

**Alex S. Yeo** joined the Company in 2018 as President, Canadian Retail. He brings a diverse set of experiences to the Company, having previously held senior roles at McDonald's in both Singapore and China. Prior to joining the Company Mr. Yeo was consulting on digital and operations transformations at McKinsey Canada.

**Michael T. Beaulieu** joined the Company in 1993 as a Management Associate. He advanced to Store Manager and to Regional Store Management positions before joining Procurement and Marketing as a Director. In January 2013, Mr. Beaulieu was promoted to Vice-President, NWC Services and in December 2016 was appointed to Vice-President, Canadian Sales & Operations, Northern Canada Retail, Central Division.

**Steven J. Boily** joined the Company in March 2016 as Vice-President, Information Services, bringing with him over 20 years of broad IT experience. Mr. Boily has held a number of progressively senior IT roles with various retailers including Chief Information Officer at United Farmers of Alberta, in addition to senior IT roles with both Canadian Tire and Hudson's Bay Company.

**David M. Chatyrbok** joined the Company in June 2000 and held various management positions, including Senior Category Manager and Director within the procurement and marketing division during this time. In March 2007, Mr. Chatyrbok was promoted to Vice-President of Marketing for the Alaska Commercial Company and in March 2009 was promoted to Vice-President, Grocery, Procurement & Marketing for the Company. In December 2016, Mr. Chatyrbok was appointed to Vice-President, Canadian Sales & Operations, Northern Canada Retail, NorthMart/Major Markets Division.

**Leanne G. Flewitt** joined the Company in May 1993 as Associate Buyer in the Food Marketing group. Ms. Flewitt progressed through roles in Procurement and Marketing and Supply Chain, holding the positions of Inventory Manager, Category Manager, Senior Category Manager, Project Business Lead and Director of Supply Chain Services. She had previously held the roles of Vice-President, Merchandise Performance Services and Vice-President, Project Enterprise before assuming her current role as Vice-President, Logistics & Distribution (Canadian Operations).

**Kyle A. Hill** joined the Company in December 2018 as Vice-President of Strategy and Special Projects. Prior to joining the Company, Mr. Hill was the Executive Director of Teach For Canada from 2014 to 2018 and a Project Leader at the Boston Consulting Group from 2011 to 2014. Mr. Hill has a PhD in Physics from the University of Oxford and previous work experiences at Google and NASA.

**Matt D. Johnson** returned to the Company in 2014 as Vice-President, Fresh/Food Service Procurement & Marketing and assumed his current role in January 2019. Mr. Johnson had previously been with the Company as a Meat Assistant Category Manager and over six years progressed to Category Manager Meat/Seafood/Deli/Food Service. In 2010, Mr. Johnson joined Price Chopper in upstate New York and was promoted to the position of Vice-President, Meat Merchandising. Prior to joining the Company Mr. Johnson had most recently been with Ahold USA.

**Laurie J. Kaminsky** joined the Company in 2010 as Senior Manager Retail Pharmacy. In 2011, she became Director, Pharmacy Retail and Hospital. In September 2014, Ms. Kaminsky was promoted to Vice-President, NWC Health Products & Services. Prior to joining the Company, Ms. Kaminsky had 20 years of experience in retail pharmacy management, most recently with Walmart Canada.

**Frank W. Kelner** joined the Company in 2017 as President/CEO of North Star Air Ltd. Prior to 2017, Mr. Kelner was the CEO and majority owner of NSA. Mr. Kelner brings with him over 30 years of aviation experience including over 15,000 flying hours and a successful track record of building new businesses, including present-day Wasaya Airways and Levaero Aviation.

**Thomas J. Meilleur** joined the Company in 2017 as Vice-President, North Star Air Ltd. with the NSA acquisition. Prior to joining NSA in his current capacity in 2012, Mr. Meilleur was President/CEO of NAC Air and has held a number of operations and management positions with Austin Airways, Air Ontario (present day Air Canada Jazz) and Wasaya Airways.

**Beth Millard-Hales** joined the Company in August 2015 as Director, Employee Relations. In 2016, Ms. Millard-Hales' accountabilities were expanded to include the Training and Development team. She was promoted to Vice-President, Human Resources in April 2018. Ms. Millard-Hales came to North West with more than 20 years of diverse HR experience, including an Executive Human Resources role with a fashion retailer in the U.K. with 13,000 employees in stores worldwide.

**Glenn R. Revet** joined the Company in February 2015 as Vice-President, Canadian Sales and Operations, Giant Tiger. Prior to joining the Company Mr. Revet held progressively senior roles with Wal-Mart Canada and most recently Loblaw Companies Ltd. where he was a Senior Director supporting Real Canadian Superstores.

**Chris J. Santschi** joined the Company in January 2017 as Vice-President, Canadian Sales & Operations, Northern Canada Retail, National Division. Prior to joining the Company Mr. Santschi spent the past six years with Sears Canada, where he worked as a Director with the western Canadian store operations team and also as a District Manager overseeing corporate stores in Manitoba, Saskatchewan and northern Ontario. His retail operations background also includes store operations roles with WMI International, Winners/Homesense and FGL Sports.

**Michael C. Scott** joined the Company as Vice-President of General Merchandise in May 2017 bringing a combination of operations, sales and marketing skills with strong governance experience across different industry sectors, including traditional retail, omni-channel retail, wholesale and technology. Prior to joining the Company, Mr. Scott worked for Ben Moss Jewelers and also held leadership roles with Palliser Furniture in the EQ3 division and Gemini Fashions of Canada.

**Jeffrey B. Stout** joined the Company in 2017 as Vice-President, NSA Commercial Operations, bringing a combination of aviation sales, finance and operational insight to the Company. Prior to the acquisition, Mr. Stout had previously been with NSA as a dispatcher and was promoted to Operations Centre Manager in 2014.

**Amanda E. Sutton** joined the Company in September 2017 as Vice-President, Legal and Corporate Secretary after being employed as Senior Legal Counsel at The Wawanesa Mutual Insurance Company. Prior to joining Wawanesa, Amanda was the Vice-President and General Counsel at Trimac Transportation Ltd., a publicly-traded company, Trimac Equipment Leasing Inc. and TMS (GP) Inc. Ms. Sutton also worked in the corporate departments of two top-tier Canadian based international business law firms.

As at January 31, 2019, the foregoing directors and officers, as a group, beneficially owned, directly or indirectly, or exercise control or direction over 712,432 common shares or approximately 1.5% of the issued and outstanding common shares of the Company. The information as to shares beneficially owned, not being with our knowledge, has been furnished by the respective individuals.

As at January 31, 2019, based on public filings, there were no shareholders who beneficially owned, or controlled or directed, directly or indirectly, more than 10.0% of the Company's issued and outstanding common shares.

## **CORPORATE CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

Other than as noted in the declarations set forth below, no Director or executive of the Company is, or has been within the past 10 years, a director or executive officer or promoter of any other company that, while such person was acting in that capacity:

- (i) was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days;
- (ii) was subject to an event that resulted, after the person ceased to be a director or executive officer, in the issuer being the subject of a cease trade order or similar order or an order denying statutory exemption; or
- (iii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

No Director or executive of the Company has, within the 10 years preceding the date hereof, been subject to any penalties or sanctions imposed by a court relating to securities legislation or by any securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that would be likely to be considered important to a reasonable investor making an investment decision.

No Director or executive is, or has become, within the 10 years preceding the date hereof, bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

# Audit Committee

## DESCRIPTION

The Audit Committee is appointed annually by the Company's Board of Directors. The responsibilities and duties of the Audit Committee are set out in the Audit Committee Mandate attached hereto as Appendix A. The following table sets out the name of each of the current members of our Audit Committee, whether such member is independent and financially literate, as those terms are defined in National Instrument 52-110 *Audit Committees*. It also summarizes the relevant education and experience of each member.

Name	Independent	Financially Literate	Relevant Education and Experience
Eric L. Stefanson, FCPA, FCA	✓	✓	Mr. Stefanson was the managing partner of the Central Canada Region for BDO Canada LLP Chartered Accountants and Advisors from 2004 to 2009. He also held various positions with Assante Canada, including the position of Chief Financial Officer from 2001 to 2004. Mr. Stefanson was a member of the Legislative Assembly of Manitoba from 1990 to 2000, and held various portfolios, including the position of Finance Minister and Chair of the Treasury Board from 1993 to 1999. Mr. Stefanson was a Winnipeg City councillor from 1982 to 1989 and served as Deputy Mayor. He is currently a director of People Corporation (Chair of the Audit Committee). He was a member of the Board of Directors of Via Rail Canada from 2007 to 2016 (serving as the Chair of the Audit Committee and as Interim Chairman). Mr. Stefanson is the former Chair of the Audit Committee for FWS Holdings Ltd., the former Chair of the Investment Committee of the Winnipeg Civic Employee's Benefit Program, the former Chair of the Audit Committee for the Winnipeg Foundation and the former Chair of the Board for the Health Sciences Centre Foundation. In 2000, Mr. Stefanson received the Icelandic Order of the Falcon from the President of Iceland. In 2013, Mr. Stefanson was the recipient of the Lifetime Achievement Award from the Institute of Chartered Accountants in Manitoba.
Brock Bulbuck, CPA, CA	✓	✓	Mr. Bulbuck is the Chief Executive Officer of Boyd Group Income Fund. He has been CEO since 2010, but since joining Boyd in 1993, Mr. Bulbuck has served in many senior leadership roles and has played a leading role in the overall development and growth of the business. In his current leadership role at Boyd, he has overall responsibility for the affairs of Boyd, including strategy, operations and performance. In addition to his executive management position at Boyd, Mr. Bulbuck also serves on the Board of Trustees of Boyd Group Income Fund. He is also a past Chairperson of the Winnipeg Football Club Board of Directors, a past member of the Canadian Football League Board of Governors and a current Director of the Pan Am Clinic Foundation. Mr. Bulbuck has a Bachelor of Commerce (Honors) degree from the University of Manitoba and is a Chartered Professional Accountant.
Deepak Chopra, FCPA, FCGA	✓	✓	Mr. Chopra most recently served as President and Chief Executive Officer of Canada Post Corporation from February 2011 to March 2018. Mr. Chopra has more than 30 years of global experience in the financial services, technology, retail and logistics & supply-chain industries. Prior to that he worked for Pitney Bowes Inc., a NYSE-traded technology company known for postage meters, mail automation and location intelligence services, for more than 20 years. He served as President of Pitney Bowes Canada and Latin America from 2006 to 2010. He held a number of increasingly senior executive roles in Europe, Asia Pacific and Middle East regions. He has previously served on the boards of Canada Post Corporation, Purolator Holdings Ltd., SCI Group, the Canada Post Community Foundation and the Toronto Region Board of Trade. Mr. Chopra is a Fellow of the Institute of Chartered Professional Accountants of Canada.
Frank J. Coleman	✓	✓	President and Chief Executive Officer of the Coleman Group of Companies since 1991. This includes retail food, retail furniture and clothing operations throughout the Province of Newfoundland and Labrador. He is a past director of the Distribution Council of Canada, The Canadian Federation of Independent Grocers, Emera Newfoundland and Labrador Holdings Incorporated, Fishery Products Ltd., and Newfoundland Power (a subsidiary of Fortis). He is currently the Honorary Lieutenant Col. of the Royal Newfoundland Regiment Battalion 2.
Stewart Glendinning	✓	✓	Executive Vice President and Chief Financial Officer of Tyson Foods since 2017. Prior to that he worked with Molson Coors Brewing Company beginning in 2005 where he held the positions of (i) Chief Financial Officer, Molson Coors UK, (ii) Global Chief Financial Officer Molson Coors Brewing Company, (iii) President and Chief Executive Officer, Molson Coors UK, (iv) President and Chief Executive Officer, Molson Coors Canada, and (v) President and Chief Executive Officer of Molson Coors International. Before joining Molson Coors, Mr. Glendinning worked with KPMG and The Hackett Group, both professional services companies where he held various senior audit and consulting roles, working with a broad array of multinational clients. He has also served with various organizations within the U.S. Naval Reserve.

Name	Independent	Financially Literate	Relevant Education and Experience
Annalisa King	✓	✓	Former Senior Vice President and Chief Financial Officer of Best Buy Canada Ltd., serving in this position from 2008 through 2016. Prior to that, Ms. King was Senior Vice President of Business Transformation for Maple Leaf Foods Inc. She has also held senior positions, primarily in finance, throughout her career at consumer packaged goods companies, Kraft and Pillsbury Canada. Ms. King is a director of Saputo Inc., First Capital Realty Inc., and Templeton DOC General Partnership Ltd. Ms. King is also a director, and Chair of the Governance Committee for the Vancouver Airport Authority. Ms. King obtained her ICD.D designation from the Institute of Corporate Directors in 2013, and obtained fellowship from the National Association of Corporate Directors in 2018.
Victor Tootoo, CPA, CGA	✓	✓	President of NVision Insight Group, which specializes in empowering Indigenous communities and works with all levels of government and Inuit organizations in northern Canada. He is also President of Northern Allied Nunavut Travel Inc., a travel management company which caters to corporations in Northern Canada; President of AV Nunavut Fuels Inc., which purchases and distributes fuel to northern Canada; President of Kivallingmiut and Auyuitiq Aviation, which provides helicopter and charter services in northern Canada; and President of Nahanni Nunavut Construction, which provides civil project management and general contractor services. Prior to launching his commercial career, Mr. Tootoo held numerous positions with various governments in the north. Mr. Tootoo holds a Chartered Professional Accountants designation, and also attended Assiniboine Community College where he obtained a Diploma in Business Administration.

## EXTERNAL AUDIT SERVICES

Fees paid to the external auditors, PricewaterhouseCoopers LLP, by the Company and its subsidiaries for professional services rendered during fiscal 2018 and 2017 are summarized in the table below.

Fee type (\$ in thousands)	2018	2017
Audit Fees	\$ 452	\$ 447
Audit-Related Fees	31	19
Tax Fees	211	44
<b>Total</b>	<b>\$ 694</b>	<b>\$ 510</b>

## AUDIT FEES

Audit fees were paid for professional services rendered by the auditors for the audit of the Company's annual financial statements or services provided in connection with statutory and regulatory filings or engagements, and the review of the Company's interim financial statements.

## AUDIT-RELATED FEES

Audit related fees include charges related to professional services for store audit procedures, review of procedures for the Company, confirmation on compliance with debt covenants, due diligence, completion of procedures required by contract and advice on new accounting standards.

## TAX FEES

Tax related fees include professional services for tax compliance services and advice, commodity tax consultation, reorganizations, acquisitions and other tax-related matters. The increase in tax fees in 2018 is due to a non-recurring engagement to provide tax advice and compliance services related to U.S. tax reform.

## PRE-APPROVAL POLICIES AND PROCEDURES

As part of the Company's governance structure, the Audit Committee annually approves the terms of the external auditor's engagement. To further ensure the independence of the auditors is not compromised, the Audit Committee also pre-approves all engagements of the auditors for non-audit related services in accordance with its pre-approval policy.

## Interest of Experts

The only persons who are named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, under National Instrument 51-102, *Continuous Disclosure* by the Company during, or relating to, the Company's most recently completed financial year, and whose profession or business gives authority to the statement, report or valuation made by the person or the Company, is PricewaterhouseCoopers LLP, Chartered Professional Accountants.

PricewaterhouseCoopers LLP have prepared an independent auditor's report dated April 10, 2019 in respect of the Company's consolidated financial statements as at January 31, 2019 and January 31, 2018 and for the years then ended. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Chartered Professional Accountants of Manitoba Code of Professional Conduct.

## Conflicts of Interest

No director or officer of the Company, or any associate or affiliate of the foregoing persons, has any substantial interest, direct or indirect, in any material transaction with the Company for the period February 1, 2018 to January 31, 2019.

## Legal Proceedings

Management is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against the Company or its respective subsidiaries which would be material to a purchaser of common shares, see "Risk Factors - Litigation".

## Interest of Management and Others in Material Transactions

Management is not aware of any Director or executive of the Company, or other insider of the Company, or any associate or affiliate of the foregoing persons who has any substantial interest, direct or indirect, in any material transaction since the commencement of the Company's most recently completed financial year or in any proposed transaction.

## Transfer Agent and Registrar

The transfer agent and registrar of the Company is AST Trust Company (Canada). Its principal office is located at 2001 Robert-Bourassa Blvd, Suite 1600, Montreal, QC, H3A 2A6, and its mailing address is P.O.Box 700, Station B, Montreal, QC, H3B 3K3.

## Material Contracts

There were no material contracts entered into by the Company during the most recently completed financial year, other than those entered into in the ordinary course of business.

A copy of the foregoing documents may be examined during normal business hours at the office of the Company located at Gibraltar House, 77 Main Street, Winnipeg, Manitoba, R3C 2R1 and are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Additional Information

Additional information, including Director and executive remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, is contained in the Company's Management Information Circular to be issued in connection with the Annual General and Special Meeting of Shareholders to be held on June 12, 2019 in Winnipeg, Manitoba.

Additional information relating to the Company and additional financial information is provided in the Company's Consolidated Financial Statements and Management's Discussion and Analysis for the year ended January 31, 2019 and the Company's 2018 Annual Report, all of which are available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.northwest.ca](http://www.northwest.ca).

Copies of the information referred to in this section, and well as the AIF, can be obtained by writing to the Corporate Secretary, The North West Company Inc., Gibraltar House, 77 Main Street, Winnipeg, Manitoba, R3C 2R1.

# Appendix A - Audit Committee Mandate

The Audit Committee (the "Committee") of The North West Company Inc. ("North West") is established in order to assist the Board of Directors of North West (the "Board") in its oversight activities, including overseeing the work of North West's external auditor as set out below.

## 1. Purpose

The primary purpose of the Committee is to assist the Board in fulfilling its responsibilities of oversight and supervision of:

- (a) the integrity of North West's accounting and financial reporting practices and procedures;
- (b) the adequacy of North West's internal accounting and disclosure controls and procedures;
- (c) the quality and integrity of North West's consolidated annual and quarterly financial statements;
- (d) the independence and performance of North West's external auditor;
- (e) compliance by North West with legal and regulatory requirements in regard to financial reporting and disclosure that North West is subject to;
- (f) the performance of the internal audit function and ensuring processes are in place to ensure the independence of the internal audit function; and
- (g) the implementation of appropriate systems and processes to identify and manage North West's principle risks.

## 2. Composition

- (a) The Committee will be comprised of a minimum of three directors who are "independent" directors within the meaning of Multilateral Instrument 52-110 Audit Committee (the "Policy"). Any Committee member, who, for any reason, is no longer independent, immediately ceases to be a Committee member;
- (b) All Committee members will be "financially literate" or will become financially literate within the time limits as set out in the Policy. "Financially literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by North West's consolidated financial statements; and
- (c) Committee members will be appointed and removed by the Board. The Committee Chairperson will be appointed by the Board.

## 3. Reports

The Committee shall report to the Board on a regular basis, including prior to the public disclosure by North West of its quarterly and annual financial results. The reports of the Committee shall include any issues of which the Committee is aware with respect to the quality or integrity of North West's consolidated financial statements, its compliance with legal and regulatory requirements, and the performance and independence of North West's external auditor.

## 4. Responsibilities

Subject to the powers and duties of the Board, and with the requirement that the Committee provides timely summary reports to the Board on its activities, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board:

### A. Financial Statements and Other Financial Information

The Committee shall:

- (a) review North West's consolidated interim unaudited financial statements and annual audited financial statements and related documents, prior to any public disclosure of such information;

- (b) following a review with management and the external auditor of such annual and interim consolidated financial statements and related documents including the auditor's report thereon, recommend to the Board the approval of such financial statements and related documents;
- (c) review with management and/or the external auditor all critical accounting policies and practices used as well as significant management estimates and judgments and any changes in accounting policies or financial reporting requirements that may affect North West's consolidated financial statements;
- (d) review with management and/or the external auditor the treatment in the financial statements of any significant transactions, and other potentially difficult matters;
- (e) review with management and the external auditor all matters required to be communicated to the Committee under generally accepted auditing standards;
- (f) review and recommend to the Board for approval, other annual and quarterly financial reporting documents, including management's discussion and analysis, earnings press releases, Annual Information Form, and Annual Report of North West prior to any disclosure to the public;
- (g) review with management and the external auditor any material off-balance sheet financing mechanisms, transactions or obligations of North West;
- (h) review a summary provided by North West's management, of the status of any material existing, pending or threatened litigation, claims and assessments respecting North West and its subsidiaries;
- (i) review with management and the external auditor any correspondence with securities regulators or commissions which raise material issues regarding North West's financial statements or accounting policies; and
- (j) review in advance and approve, any communications regarding material financial matters between North West and any applicable securities regulators or commissions.

## **B. Financial Reporting Control Systems**

The Committee shall:

- (a) in consultation with management, the external auditor and the officer or employee responsible for the internal audit function, review, evaluate and assess the adequacy, integrity and effectiveness of North West's consolidated financial reporting processes, management information systems, and internal controls and discuss significant financial risk, exposures and the steps management has taken to monitor, control and report such exposures;
- (b) review guidelines and policies with respect to identifying and managing the principle financial risks inherent in North West's business and operations, and review the processes that are implemented by management to manage and monitor those risks;
- (c) submit to the Board, any recommendations that the Committee may have from time to time (through its own inquiries or through those of advisors retained by the Committee) with respect to financial reporting, accounting procedures and policies and internal controls;
- (d) ensure that due diligence processes and controls in connection with certification of North West's annual and interim filings are in place, monitoring their continued effectiveness, and ensure that such filings are in a form that permits their certification;
- (e) review any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal controls made to the Committee by the CEO and CFO during their certification process for forms filed with applicable securities regulators;
- (f) review with management and/or the external auditor any related party transactions (as defined under International Financial Reporting Standards);
- (g) review the management representation letter to the external auditor;
- (h) review reports obtained from the external auditor regarding the overall control environment and the adequacy of accounting system controls;
- (i) review any new appointments to Vice President positions of North West and its subsidiaries with financial reporting responsibilities;



- (j) satisfy itself that adequate procedures are in place for the review of North West's disclosure of North West's financial information extracted or derived from North West's consolidated financial statements, and periodically assess the adequacy of those procedures;
- (k) establish procedures for the receipt, retention, and treatment of confidential, anonymous concerns received from employees of North West or its subsidiaries regarding questionable accounting, internal accounting controls, or auditing matters;
- (l) review and approve North West's (and its respective subsidiaries) hiring policies regarding employees and former employees of the present and former external auditor of North West; and
- (m) review annually North West's property and liability insurance policies (other than Director and Officer Liability Insurance), and satisfy itself that adequate insurance programs are in place.

### **C. Disclosure Controls**

The Committee shall:

- (a) satisfy itself that management has developed and implemented a system of disclosure controls to ensure that North West meets its continuous disclosure obligations;
- (b) receive regular reports from management on the functioning of the disclosure compliance system, including any significant instances of non-compliance with such system, in order to satisfy itself that such system may be reasonably relied upon; and
- (c) review any disclosures concerning any weaknesses or any deficiencies in the design or operation of disclosure controls made to the Committee by the CEO and CFO during their certification process for forms filed with applicable securities regulators.

### **D. Internal Audit**

The Committee shall:

- (a) review and concur with any appointment or dismissal of the senior internal audit officer or employee;
- (b) review the performance and ensure processes are in place for the independence of the internal audit function;
- (c) meet separately with the senior internal audit officer or employee to discuss any matters that the Committee or auditor believe should be discussed in private;
- (d) review and approve the proposed annual corporate internal audit plan, including assessment of major risks, areas of focus, responsibilities and objectives, and staffing; and
- (e) receive quarterly reports from internal audit on (a) the progress on the internal audit plan, including any significant changes to it; (b) significant internal audit findings, including issues as to the adequacy of internal control over financial reporting and any procedures implemented in light of significant control deficiencies; and (c) any significant internal fraud issues.

### **E. External Auditor**

The Committee shall:

- (a) obtain confirmation from the external auditor that it will be accountable to, and report directly to, the Committee;
- (b) review and approve the external auditor's annual audit plan;
- (c) meet with North West's external auditor on a regular basis in the absence of management, and discuss in private with the external auditor matters affecting the conduct of their audit and other corporate matters;
- (d) review regularly the performance, qualifications, independence and remuneration of North West's external auditor, as well as the competence and responsiveness of the individual partners assigned to North West's account;
- (e) recommend to the Board each year the remuneration of, and the retention or replacement of the external auditor to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for North West, and annually approve the terms of such engagement;

- (f) if there is a plan to change the external auditor, review all issues related to the change and the steps planned for an orderly transition;
- (g) oversee the work of the external auditor engaged for the purpose of preparing or issuing an audit report or performing other services;
- (h) discuss with North West's external auditor the quality and not just the acceptability of North West's accounting principles and policies;
- (i) relay its expectations to North West's external auditor from time to time including its expectation that (i) any disagreements of a material nature with management be brought to the attention of the Committee, (ii) any irregularities in the financial information be reported to the Committee; and (iii) the external auditor discloses any conflict of interest that may arise in their engagement; and
- (j) pre-approve all non-audit services to be provided to North West or its subsidiary entities by its external auditor to obtain assurance that the performance of such services will not compromise the independence of the external auditor. The Committee may delegate to the Chairperson of the Committee authority to pre-approve non-audit services in satisfaction of this requirement. The pre-approval of non-audit services by the Chairperson of the Committee must be presented to the full Committee at its first scheduled meeting following such pre-approval.

#### **F. Enterprise Risk Management**

The Committee shall:

- (a) review North West's processes for identifying, assessing and managing risk and North West's external and internal risk exposures;
- (b) at least annually, obtain from management a report identifying and addressing North West's exposure to principle risks, and the steps management has taken to monitor and control such exposures;
- (c) oversee risks that may have a material impact on North West's financial statements; and
- (d) provide regular reports and recommendations to the Board with respect to any outcomes, findings and issues arising in connection therewith.

#### **G. Other**

The Committee shall assess the performance of the CFO and report their views to the CEO, in conjunction with the CEO's annual performance review of the CFO.

### **5. Structure**

- (a) The Board shall appoint one of the Committee members to act as Chairperson of the Committee.
- (b) The Committee will appoint the Corporate Secretary of North West as secretary of the Committee, who will keep minutes of all meetings. In absence of the Corporate Secretary, the Committee will appoint an acting secretary who will keep minutes of the meeting.
- (c) The Committee will meet as many times as is necessary to carry out its responsibilities but in no event will the Committee meet less than quarterly each year. Meetings will be at the call of the Chairperson. Notwithstanding the foregoing, the external auditor of North West or any member of the Committee may call a meeting of the Committee. The Committee may hold a meeting by telephone conference call.
- (d) No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that if the number of members of the Committee is an even number one half of the number of members plus one shall constitute a quorum.
- (e) Any member of the Committee may be removed or replaced at any time by the Board or shall cease to be a member of the Committee as soon as such member ceases to be a director. Subject to the foregoing, each member of the Committee shall hold such office until the next annual meeting of shareholders.

- (f) The external auditor of North West shall be entitled to receive notice of every meeting of the Committee to attend and be heard thereat.
- (g) The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedure in all respects of such meeting shall be determined by the Committee, unless otherwise provided for in North West's bylaws, or otherwise determined by resolution of the Board.
- (h) Members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.

## **6. Chairperson of the Committee**

The Chairperson of the Committee (the "Chairperson") is responsible for the effective functioning of the Committee.

## **7. Independent Advice**

In discharging its mandate, the Committee shall have the authority to retain and receive advice from independent legal, accounting or other advisors at the expense of North West, as required to fulfill its duties, and to set and pay the compensation for such advisors.

## **8. Evaluation**

The Committee shall:

- (a) regularly review and assess the adequacy of its Mandate, and recommend any proposed changes to the Governance and Nominating Committee, for recommendation to the Board for approval; and
- (b) participate in a regular performance evaluation of the Committee, the results of which will be reviewed by the Governance and Nominating Committee, and the Board.

Approved by the Board of Directors: Effective March 12, 2015.



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

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