
THE NORTH WEST COMPANY INC.

Management's Discussion & Analysis

Quarterly Period Ended July 31, 2017



2017 SECOND QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

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

Second quarter net earnings increased 41.6% to \$23.3 million and diluted earnings per share attributable to shareholders were \$0.46 per share compared to \$0.34 per share last year led by acquisition related earnings growth and lower share-based compensation costs. These factors were partially offset by North Star Air Ltd. ("NSA") acquisition costs. Excluding the impact of share-based compensation option expenses and NSA acquisition related costs, adjusted net earnings² increased 15.9%.

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

On behalf of the Board of Directors:



H. Sanford Riley
Chairman



Edward S. Kennedy
President and Chief Executive Officer

Management's Discussion & Analysis

The following Management's Discussion & Analysis should be read in conjunction with the Company's 2017 second quarter unaudited interim period condensed consolidated financial statements for the period ended July 31, 2017 and the audited annual consolidated financial statements and accompanying notes included in the 2016 Annual Report.

CONSOLIDATED RESULTS

Quarter

Second quarter consolidated sales increased 10.3% to \$507.9 million due to the acquisition of Roadtown Wholesale Trading Ltd. ("RTW") in the British Virgin Islands and same store food sales gains. The acquisition of NSA in Canadian Operations was also a factor. Excluding the foreign exchange impact, consolidated sales increased 8.5% and were up 1.7%¹ on a same store basis. Food sales¹ increased 8.9% and were up 1.9% on a same store basis. General merchandise sales¹ increased 1.9% and were up 0.8% on a same store basis.

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

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

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

(1) Excluding the foreign exchange impact

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

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

Earnings before interest, income taxes, depreciation and amortization (EBITDA²) increased \$8.4 million or 21.7% to \$47.3 million largely due to the acquisition of RTW and lower share-based compensation costs as noted above. Excluding the impact of the share-based compensation option expense and the NSA acquisition related costs, adjusted EBITDA² was up 11.6% compared to last year and as a percentage to sales was 9.2% compared to 9.1% last year.

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

Net earnings increased 41.6% to \$23.3 million and diluted earnings per share were \$0.46 per share compared to \$0.34 per share last year due to the factors noted above. Excluding the impact of share-based compensation option expense and the NSA acquisition related expenses, adjusted net earnings² increased 15.9%.

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

Year-to-Date

Sales for the year increased 9.5% to \$984.7 million compared to \$899.5 million in 2016 due to the acquisition of RTW and same store sales gains. Excluding the foreign exchange impact, sales increased 8.0% and were up 1.8%¹ on a same store basis. Food sales¹ increased 8.7% and were up 2.0% on a same store basis led by food sales growth in both Canadian and International Operations. General merchandise sales¹ increased 2.1% and were up 1.3% on a same store basis led by higher sales across northern markets.

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

	2017	2016
Food	81.4%	80.6%
General merchandise	15.3%	16.4%
Other*	3.3%	3.0%

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

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

(1) Excluding the foreign exchange impact

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

Earnings before interest, income taxes, depreciation and amortization (EBITDA²) increased 1.2% to \$77.4 million compared to \$76.5 million last year. Excluding the impact of the one-time acquisition related costs and share-based compensation option expense, adjusted EBITDA² was up 11.1% compared to last year and as a percentage to sales was 8.8% compared to 8.7% last year.

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

Net earnings decreased 5.5% to \$32.3 million compared to \$34.2 million last year and diluted earnings per share were \$0.63 per share compared to \$0.70 per share due to the factors noted above. Excluding the impact of acquisition expenses and share-based compensation option expense, adjusted net earnings² increased 15.9%.

CANADIAN OPERATIONS

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

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

Canadian EBITDA² increased 24.0% to \$30.3 million compared to \$24.4 million last year primarily due to the decrease in share-based compensation costs. EBITDA as a percentage to sales was 10.3% compared to 8.6% last year. Excluding the impact of the share-based compensation option expense and NSA acquisition costs, adjusted EBITDA² was up 8.3% compared to last year and as a percentage to sales was 10.2% compared 9.8% to last year.

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

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

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

EBITDA² increased 15.8% to \$12.8 million compared to \$11.1 million last year largely due to the impact of the RTW acquisition and as a percentage to sales was 7.9% compared to 8.1% in the second quarter last year.

(1) Excluding the foreign exchange impact

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

FINANCIAL CONDITION

Financial Ratios

The Company's debt-to-equity ratio at the end of the second quarter was 0.83:1 compared to 0.70:1 last year largely due to higher debt related to the acquisition of RTW and NSA.

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

Outstanding Shares

The weighted-average basic shares outstanding for the quarter were 48,681,000 shares compared to 48,523,000 shares last year. The increase in basic shares outstanding is due to shares issued in connection with the acquisition of RTW and share options exercised. The weighted-average fully diluted shares outstanding for the quarter were 49,243,000 shares compared to 48,983,000 shares last year. The increase in fully diluted shares outstanding compared to last year is due to shares issued in connection with the acquisition of RTW, options granted under the Share Option Plan and shares granted under the Director Deferred Share Unit Plan. Further information on the Share Option Plan and the Director Deferred Share Unit Plan is provided in Note 6 and Note 12 to the Company's 2017 second quarter unaudited interim period condensed consolidated financial statements.

On June 14, 2017, the Company's Common Shares were replaced by Variable Voting Shares and Common Voting Shares. The two classes of shares have equivalent rights except for voting rights. Holders of Variable Voting Shares are entitled to one vote per share except where (i) the number of outstanding Variable Voting Shares exceeds 25% of the total number of all issued and outstanding Variable Voting Shares and Common Voting Shares, or (ii) the total number of votes cast by or on behalf of the holders of Variable Voting Shares at any meeting on any matter on which a vote is to be taken exceeds 25% of the total number of votes cast at such meeting. Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the Canada Transportation Act). Further information on the Company's share capital is provided in Note 6 to the Company's 2017 second quarter unaudited interim period condensed consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

\$ in thousands	Three Months	Three Months	Change	Six Months	Six Months	Change
	Ended	Ended		Ended	Ended	
	July 31, 2017	July 31, 2016		July 31, 2017	July 31, 2016	
Cash flows provided by (used in):						
Operating activities	\$ 41,809	\$ 43,397	\$ (1,588)	\$ 62,821	\$ 49,775	\$ 13,046
Investing activities	(56,567)	(22,973)	(33,594)	(91,340)	(33,275)	(58,065)
Financing activities	24,363	(12,678)	37,041	54,885	(9,702)	64,587
Effect of foreign exchange on cash	(2,283)	309	(2,592)	(1,312)	(938)	(374)
Net change in cash	\$ 7,322	\$ 8,055	\$ (733)	\$ 25,054	\$ 5,860	\$ 19,194

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

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

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

Sources of Liquidity

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

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

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

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

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

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

The loan facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At July 31, 2017, the Company is in compliance with the financial covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants. Further information on the Company's long-term debt and loan facilities is provided in Note 8 to the Company's 2017 second quarter unaudited interim period condensed consolidated financial statements.

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

Senior Notes and Loan Facilities Financing

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

SHAREHOLDER DIVIDENDS

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

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

OTHER HIGHLIGHTS

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

HURRICANE IRMA IMPACT

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

STRATEGY

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

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

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

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

OUTLOOK

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

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

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

QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected quarterly financial information:

Operating Results - Consolidated

(\$ in millions)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	92 days	92 days	89 days	90 days	92 days	92 days	92 days	92 days
	2017	2016	2017	2016	2016	2015	2016	2015
Sales	\$ 507.9	\$ 460.6	\$ 476.8	\$ 439.0	\$ 480.6	\$ 475.2	\$ 464.0	\$ 458.0
EBITDA²	47.3	38.9	30.1	37.6	38.9	35.1	51.1	43.1
Earnings from operations	33.2	27.0	16.7	25.6	26.5	23.4	39.1	32.0
Net earnings	23.3	16.4	9.1	17.8	15.0	15.2	27.9	20.7
Net earnings per share:								
Basic	0.47	0.34	0.17	0.37	0.31	0.31	0.57	0.43
Diluted	0.46	0.34	0.17	0.36	0.30	0.31	0.57	0.43

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

(1) Excluding the foreign exchange impact

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

ACCOUNTING STANDARDS IMPLEMENTED IN 2017

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

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

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

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2018, and have not been applied in preparing the Company's 2017 second quarter unaudited interim period condensed consolidated financial statements. The Company is currently assessing the potential impacts of changes to these standards.

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

- New requirements for the classification and measurement of financial assets and liabilities. IFRS 9 uses a single approach to determine measurement of a financial asset by both cash flow characteristics and how an entity manages financial impairment, replacing the multiple classification options in IAS 39 with three categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss
- A single forward-looking "expected credit loss" impairment model
- New general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize effectiveness, however it will provide more strategies that may be used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship

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

Revenue Recognition In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The IFRS 15 standard contains a comprehensive model which specifies the criteria and timing for recognizing revenue, and also requires additional disclosures in the notes to the financial statements. The core principle of the standard is that revenue is recognized at an amount that reflects the consideration to which the Company is entitled. A contract based five step analysis of transactions is used to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced. It is effective for the Company's financial year ending January 31, 2019 and will be applied retrospectively.

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

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

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

NON-GAAP MEASURES

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

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

Adjusted EBITDA and Adjusted Net Earnings Adjusted EBITDA and adjusted net earnings are not recognized measures under IFRS. Management uses these non-GAAP financial measures to exclude the impact of certain income and expenses that must be recognized under IFRS. The excluded amounts are either subject to volatility in the Company's share price or may not necessarily be reflective of the Company's underlying operating performance. These factors can make comparisons of the Company's financial performance between periods more difficult. The Company may exclude additional items if it believes that doing so will result in a more effective analysis and explanation of the underlying financial performance. The exclusion of these items does not imply that they are non-recurring.

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

Reconciliation of consolidated net earnings to EBITDA and adjusted EBITDA:

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

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

Reconciliation of consolidated net earnings to adjusted net earnings:

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

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

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

Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the Company's 2017 second quarter unaudited interim period condensed consolidated financial statements and notes to the unaudited interim period condensed consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to September 7, 2017.

Forward-Looking Statements

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

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