

# **WE ARE** ***NORTH WEST***

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THE NORTH WEST COMPANY INC. 2016

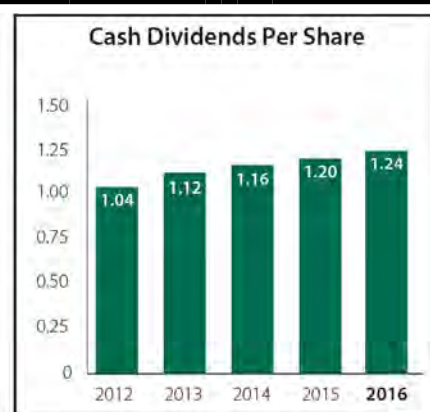
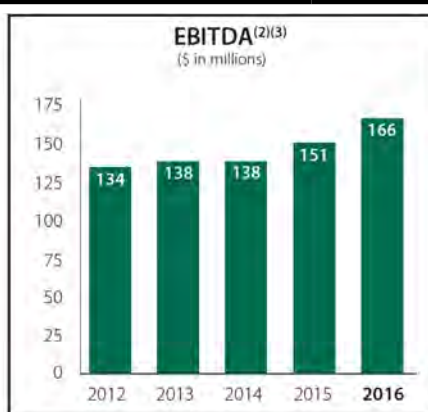
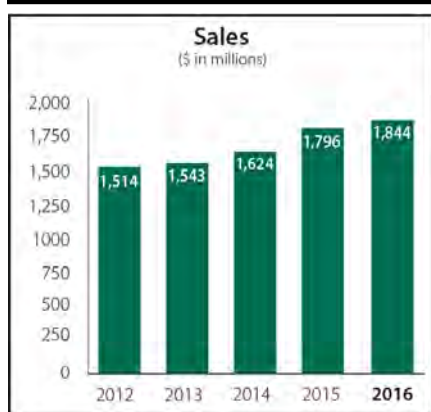
## Management's Discussion & Analysis



# Financial Highlights

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

(\$ in thousands, except per share information)	Year Ended January 31, 2017	Year Ended January 31, 2016	Year Ended January 31, 2015
<b>RESULTS FOR THE YEAR</b>			
Sales	\$ 1,844,093	\$ 1,796,035	\$ 1,624,400
Same store sales % increase <sup>(1)</sup>	1.3%	3.8%	2.4%
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) <sup>(2)</sup>	\$ 166,498	\$ 151,347	\$ 137,838
Earnings from operations (EBIT)	118,131	107,321	97,466
Net earnings	77,076	69,779	62,883
Cash flow from operating activities <sup>(4)</sup>	126,024	132,987	115,086
<b>FINANCIAL POSITION</b>			
Total assets	\$ 805,821	\$ 793,795	\$ 724,299
Total debt	229,266	225,489	201,396
Total equity	367,785	357,612	329,283
<b>FINANCIAL RATIOS</b>			
Debt-to-equity	.62:1	.63:1	.61:1
Return on net assets (RONA) <sup>(2)</sup>	20.1%	19.5%	18.4%
Return on average equity (ROE) <sup>(2)</sup>	21.8%	20.6%	19.3%
Sales blend: Food	79.6%	79.3%	78.2%
General Merchandise	17.5%	17.6%	18.3%
Other	2.9%	3.1%	3.5%
<b>PER SHARE (\$) - DILUTED</b>			
EBITDA <sup>(2)</sup>	\$ 3.40	\$ 3.10	\$ 2.83
Net earnings	1.57	1.43	1.29
Cash flow from operating activities	2.57	2.73	2.36
Market price: January 31	29.28	30.53	26.56
high	33.15	30.53	26.74
low	24.08	23.41	21.93



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

(2) See Non-GAAP Financial Measures section.

(3) Certain 2012 figures have been restated as required by the implementation of IAS 19r *Employee Benefits*. See the 2013 annual audited consolidated financial statements or annual report for further information.

(4) See Consolidated Liquidity and Capital Resources.

# Management's Discussion & Analysis

## TABLE OF CONTENTS

### **Management's Discussion & Analysis**

Forward-Looking Statements	2
Our Business Today	3
Vision, Principles and Strategies	4
Key Performance Drivers and Capabilities to Deliver Results	5
Consolidated Results Financial Performance	6
Canadian Operations Financial Performance	8
International Operations Financial Performance	10
Consolidated Liquidity and Capital Resources	11
Quarterly Financial Information	15
Disclosure Controls	16
Internal Controls over Financial Reporting	16
Outlook and Subsequent Event	17
Risk Management	17
Critical Accounting Estimates	21
Accounting Standards Implemented in 2016	22
Future Accounting Standards	22
Non-GAAP Financial Measures	23
Glossary of Terms	24
Eleven-Year Financial Summary	25

Unless otherwise stated, this Management's Discussion & Analysis ("MD&A") for The North West Company Inc. ("NWC") or its predecessor North West Company Fund ("NWF" or "Fund") and its subsidiaries (collectively, "North West Company", the "Company", "North West", or "NWC") is based on, and should be read in conjunction with the 2016 annual audited consolidated financial statements and accompanying notes. The Company's annual audited consolidated financial statements and accompanying notes for the year ended January 31, 2017 are in Canadian dollars, except where otherwise indicated, and are prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on April 11, 2017 and the information contained in this MD&A is current to April 11, 2017, unless otherwise stated.

## Forward-Looking Statements

This MD&A contains forward-looking statements about North West including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, 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 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 cautioned that the foregoing list of important factors is not exhaustive. Other risks are outlined in the Risk Management section of this MD&A, in the Risk Factors sections of the Annual Information Form and in our most recent consolidated financial statements, management information circular, material change reports and news releases. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

# Management's Discussion & Analysis

## OUR BUSINESS TODAY

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

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

North West has a rich enterprising legacy as one of the longest continuing retail enterprises in the world. The Company traces its roots back to 1668 and many of our stores in northern Canada have been in operation for over 200 years. In 2017, the Alaskan retail subsidiary, Alaska Commercial Company, will celebrate its 150th anniversary.

Today these northern stores serve communities with populations ranging from 300 to 9,000. A typical store is 6,500 square feet in size and offers food, family apparel, housewares, appliances, outdoor products and services such as fuel, post offices, pharmacies, income tax return preparation, quick-service prepared food, commercial business sales, prepaid card products, ATMs, cheque cashing and proprietary credit programs.

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

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

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

### Canadian Operations<sup>(1)</sup>

- **120 Northern** stores, offering a combination of food, financial services and general merchandise to remote northern Canadian communities;
- **6 NorthMart** stores, targeted at larger northern markets with an emphasis on an expanded selection of fresh foods, apparel and health products and services;
- **15 Quickstop** convenience stores, offering extended hours, ready-to-eat foods, fuel and related services in northern Canadian markets;
- **37 Giant Tiger ("GT")** junior discount stores, offering family fashion, household products and food to urban neighbourhoods and larger rural centers in western Canada;
- **1 Valu Lots** discount center and direct-to-customer food distribution outlet for remote communities in Canada;
- **1 Solo Market** store, targeted at less remote, rural markets;
- **1 Price Chopper** store, a discount food store offering a selection of fresh food and grocery;
- **1 Tim Hortons** stand-alone franchise restaurant located in a northern market;
- **1 Wally's Drug Store**, a stand-alone pharmacy and convenience store;
- **2 North West Company Fur Marketing** outlets, trading in furs and offering Indigenous handicrafts and authentic Canadian heritage products; and
- **Crescent Multi Foods ("CMF")**, a distributor of produce and fresh meats to independent grocery stores in Saskatchewan, Manitoba and northwestern Ontario.
- **North West Telepharmacy Solutions**, a provider of contract tele-pharmacist services across Canada.

### International Operations<sup>(1)</sup>

- **27 AC Value Centers** stores similar to Northern and NorthMart, offering a combination of food and general merchandise to communities across remote and rural regions of Alaska;
- **6 Quickstop** convenience stores within rural Alaska;
- **Pacific Alaska Wholesale ("PAW")**, a leading distributor to independent grocery stores, commercial accounts and individual households in rural Alaska;
- **13 Cost-U-Less ("CUL")** mid-sized warehouse stores, offering discount food and general merchandise products to island communities in the South Pacific and the Caribbean; and
- **1 Island Fresh IGA Supermarket** neighborhood food store in Guam, offering convenience with an emphasis on fresh and prepared foods.
- **9 Riteway Food Markets and a significant wholesale operation** in the British Virgin Islands were acquired February 9, 2017.

(1) Store count does not include convenience "Store within a Store" services such as post offices or branded food service kiosks.

## VISION

At North West our mission is to be a trusted provider of goods and services within hard-to-access and less developed markets. Our vision is to help people live better in these communities by doing our job well, with their interests as our first priority. This starts with our customers' ability and desire to shop locally with us for the widest possible range of products and services that meet their everyday needs. We respond by being more innovative, reliable, convenient, locally adaptable, welcoming and by having the lowest local price, enabled by lean, innovative processes. For our associates, we want to be a preferred, fulfilling place to work. For our investors, we want to deliver superior, top-quartile total returns over the long term.

## PRINCIPLES

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

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

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

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

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

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

**Personal Balance** is our commitment to sustaining ourselves and our organization, so that we work effectively and sustainably in our roles and for our customers and communities.

## STRATEGIES

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

The Company's Long-Range Plans ("LRP") are developed in multi-year cycles and are reviewed and adjusted as required at the senior management and board levels. The current LRP focus is on the following areas: achieving further gains in operating standards and efficiency; investing in our physical store network, local selling capability and community relations; and building stronger logistics and data links to our stores.

Our key priorities are detailed further below together with the results for 2016:

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### Initiative #1

#### Top Markets

Invest in our largest, highest potential markets to drive above average sales and profit growth through larger, updated store facilities with more room for growth categories, supported by highly capable store teams and strong community relations.

#### Result

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 through 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.

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### Initiative #2

#### Top Categories

Capture market share by focusing on products with the highest everyday convenience and service value to our customers and which can be delivered in a superior way by North West.

#### Result

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.

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### Initiative #3

#### Top People

This initiative is focused on optimizing overall store performance through highly capable store teams supported by effective recruitment and training programs.

#### Result

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.

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#### Initiative #4

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

Project Enterprise is focused on replacing our point-of-sale, merchandise management and workforce management systems. This project is expected to deliver improvements in pricing and promotions, more effective inventory management and store productivity gains, all aligned with the Company's "Top" strategies.

##### Result

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 the 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 late 2018.

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#### Initiative #5

##### New Market and Complimentary Business Growth

Invest in new markets and complimentary businesses through acquisitions and store openings.

##### Result

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.

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#### Initiative #6

##### Customer Driven and Store Centric

Ensuring that how we work at North West, what we refer to as our "Management System," is customer driven and store centered.

##### Result

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.

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## KEY PERFORMANCE DRIVERS AND CAPABILITIES REQUIRED TO DELIVER RESULTS

### The ability to protect and enhance the performance of our "Top

**"Markets:** Our Top Markets offer the highest potential for market share growth, improved productivity and customer satisfaction. We believe that the effective execution of our Top Markets strategy will deliver higher returns, even within muted economic conditions, and will generate solid ideas that can be applied across all stores.

### The financial capability to sustain the competitiveness of our existing store base and to pursue growth:

Our investment priorities center on our superior logistics, Top Categories and Top Markets while applying higher payback learnings in areas such as energy-efficiency and technology to all stores. Non-capital expenditures are centered on Top People improvements to our in-store capabilities through improved store structures, compensation, recruiting and training.

### The ability to be a leading community store in every market we

**serve:** This depends on our ability to engage individual customers and the community at large in highly constructive ways. It starts with being able to locally tailor our store formats, product/service mix, community support and store associate employment offer, while still realizing the scale efficiencies of our size or the size of our alliance partners. Investing in relationships, a broad range of products, services and store sizes, flexible technology platforms and "best practice" work processes, are all required to achieve this goal.

### Our ability to build and maintain supportive community

**relations:** Our ongoing community presence depends on our ability to be a trusted, open, respectful and adaptable organization. Renewing store leases, especially when the landlord is a community development entity, depends on our track record of solid store operations, our positive community relations and the perceived community and customer value of our retail store compared to other options. Our approach is to reflect community priorities first and invest in local causes, with community development and healthy living being two examples. We facilitate regular meetings with community and regional leadership to build constructive relationships and to ensure that information and ideas are shared on a proactive basis.

### Our ability to attract, retain and develop highly capable store level employees and work practices:

Enhancing store stability and capability as part of our Top People strategies recognizes the important role played by our managers and other key store-level personnel. These positions are instrumental in realizing local selling opportunities, meeting our customer service commitments and building and maintaining positive community relationships. It also recognizes that remoteness, employment competition from other local sectors and other conditions in our markets create challenges in attracting and retaining people. Related to this is our on-going ability to hire locally and assist local associates to reach their full potential.

### Our ability to reduce costs across all of our store banners, improve competitiveness and create more time and skill at store level to sell merchandise:

An ongoing goal within our stores is to shift more staff time and skill towards selling merchandise tailored to the unique markets we serve, while reducing costs in the non-selling facets of store work. Productivity opportunities include TMS, labour scheduling, energy usage and inventory shrinkage reduction. We have developed alliances with other non-competing retailers to provide development and distribution services for certain products and services where we do not have adequate scale.

# Consolidated Results

## 2016 Highlights

- Sales increased to \$1.844 billion, our 17<sup>th</sup> consecutive year of sales growth.
- Same store sales increased 1.3% driven by food sales.
- EBITDA<sup>(2)</sup> increased 10.0%.
- Return on average equity was 21.8% driven by a 10.5% increase in net earnings and has averaged 21.0% over the past five years.
- Return on net assets improved 60 basis points to 20.1%.
- Total returns to shareholders were 0.3% for the year and were 13.7% on a compound annual basis over the past five years.
- One Quickstop convenience store and three Giant Tiger stores were opened in Canadian Operations.
- A pharmacy and convenience store was acquired in Fort Smith, NWT.

## FINANCIAL PERFORMANCE

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

### Key Performance Indicators and Selected Annual Information

(\$ in thousands, except per share)	2016	2015	2014
Sales	\$ 1,844,093	\$ 1,796,035	\$ 1,624,400
Same store sales % increase <sup>(1)</sup>	1.3%	3.8%	2.4%
EBITDA <sup>(2)</sup>	\$ 166,498	\$ 151,347	\$ 137,838
EBIT	\$ 118,131	\$ 107,321	\$ 97,466
Net earnings	\$ 77,076	\$ 69,779	\$ 62,883
Net earnings per share - diluted	\$ 1.57	\$ 1.43	\$ 1.29
Cash flow from operating activities <sup>(3)</sup>	\$ 126,024	\$ 132,987	\$ 115,086
Cash dividends per share	\$ 1.24	\$ 1.20	\$ 1.16
Total assets	\$ 805,821	\$ 793,795	\$ 724,299
Total long-term liabilities	\$ 285,792	\$ 280,682	\$ 248,741
Return on net assets <sup>(2)</sup>	20.1%	19.5%	18.4%
Return on average equity <sup>(2)</sup>	21.8%	20.6%	19.3%

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

(2) See Non-GAAP Financial Measures section.

(3) See Consolidated Liquidity and Capital Resources.

**Consolidated Sales** Sales for the year ended January 31, 2017 ("2016") increased 2.7% to \$1.844 billion compared to \$1.796 billion for the year ended January 31, 2016 ("2015"), and were up 13.5% compared to \$1.624 billion for the year ended January 31, 2015 ("2014"). The increase in sales in 2016 was driven by same store food sales growth across all of our banners, the impact of new stores in Canadian Operations and the positive impact of foreign exchange on the translation of International Operations sales. Excluding the foreign exchange impact, sales increased 2.3% from 2015 and were up 6.8% from 2014. On a same store basis, sales increased 1.3% compared to increases of 3.8% in 2015 and 2.4% in 2014.

Food sales increased 3.1% from 2015, and were up 2.7% excluding the foreign exchange impact with both Canadian and International Operations contributing to the sales gains. Same store food sales increased 1.7% over last year with quarterly same store increases of 2.8%, 0.9%, 1.4% and 1.6% in the fourth quarter. Canadian food sales increased 3.7% and International food sales increased 0.8% excluding the foreign exchange impact.

General merchandise sales increased 1.7% compared to 2015 and were up 1.6% excluding the foreign exchange impact led by sales growth in our Canadian Operations. Same store general merchandise sales decreased 0.4% for the year with decreases of 2.0%, 0.9% and 0.5% in the first, second and third quarter respectively followed by an increase of 1.3% in the fourth quarter. Canadian general merchandise sales increased 3.0% led by sales growth in rural and urban markets and the impact of new stores. International general merchandise sales decreased 3.2% excluding the foreign exchange impact due to lower sales in Alaskan markets.

Other revenue, which includes fuel sales, fur sales, tele-pharmacy revenue and service charge revenue, decreased 3.5% compared to 2015 largely due to the closure of the Company's Inuit Art Marketing Service in late 2015.

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

	2016	2015	2014
Food	79.6%	79.3%	78.2%
General merchandise	17.5%	17.6%	18.3%
Other	2.9%	3.1%	3.5%

Canadian Operations accounted for 61.0% of total sales (60.7% in 2015 and 64.2% in 2014) while International Operations contributed 39.0% (39.3% in 2015 and 35.8% in 2014).

### Sales & EBITDA (\$ in millions)



(1) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. See the 2013 annual audited consolidated financial statements for further information.

**Gross Profit** Gross profit increased 3.6% to \$541.5 million compared to \$522.6 million last year due to sales growth and a 26 basis points increase in the gross profit rate. Gross profit rate increased to 29.4% from 29.1% last year largely due to food sales growth in higher margin food service and perishable categories.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 1.9% to \$423.4 million but were down 16 basis points as a percentage of sales compared to last year. This increase in Expenses is largely due to higher store-based employee costs, an increase in amortization costs mainly related to capital investments in Top Markets and new stores in Canadian Operations. The impact of foreign exchange on the translation of International Operations expenses was also a factor. These factors were partially offset by lower short-term incentive plan expenses and share-based compensation costs. Further information on share-based compensation costs and employee costs is provided in Note 13 and Note 17 to the consolidated financial statements.

**Earnings from Operations (EBIT)** Earnings from operations or earnings before interest and income taxes ("EBIT") increased 10.1% to \$118.1 million compared to \$107.3 million last year as sales growth, an increase in the gross profit rate and the impact of foreign exchange more than offset higher Expenses. Excluding the foreign exchange impact, earnings from operations increased \$9.6 million or 9.8% compared to last year. Earnings before interest, income taxes, depreciation and amortization ("EBITDA") increased 10.0% to \$166.5 million compared to last year. Excluding the foreign exchange impact, EBITDA increased 9.7% and was 9.1% as a percentage of sales compared to 8.5% last year.

**Interest Expense** Interest expense increased 16.3% to \$7.2 million compared to \$6.2 million last year. The increase in interest expense is due to higher average debt levels and higher average cost of borrowing compared to last year. Average debt levels increased 10.0% compared to last year and the average cost of borrowing was 2.7% compared to 2.5% last year. Further information on interest expense is provided in Note 18 to the consolidated financial statements.

**Income Tax Expense** The provision for income taxes increased 8.0% to \$33.8 million compared to \$31.3 million last year and the effective tax rate for the year was 30.5% compared to 31.0% last year. The increase in income tax expense is due to higher earnings, a \$1.3 million non-comparable withholding tax on dividends from subsidiaries and the blend of earnings in International Operations across various tax rate jurisdictions. Further information on income tax expense, the effective tax rate and deferred tax assets and liabilities is provided in Note 9 to the consolidated financial statements.

#### EBITDA & Net Earnings (\$ in millions)



(1) Certain 2012 figures have been restated as required by the implementation of *Employee Benefits* IAS 19r. See the 2013 annual audited consolidated financial statements for further information.

**Net Earnings** Consolidated net earnings increased 10.5% to \$77.1 million compared to \$69.8 million last year and diluted earnings per share was \$1.57 per share compared to \$1.43 per share last year with both Canadian Operations and International Operations contributing to the net earnings growth. Excluding the impact of foreign exchange and the non-comparable withholding tax, net earnings increased 12.1% compared to last year. Additional information on the financial performance of Canadian Operations and International Operations is included on page 8 and page 10 respectively. In 2016, the average exchange rate used to translate International Operations sales and expenses increased to 1.3169 compared to 1.2971 last year and 1.1148 in 2014.

The Canadian dollar's depreciation versus the U.S. dollar compared to 2015 had the following net impact on the 2016 results:

Sales.....increase of \$10.8 million or 1.5%  
 Earnings from operations.....increase of \$0.7 million  
 Net earnings.....increase of \$0.4 million  
 Diluted earnings per share.....increase \$0.01 per share

**Total Assets** Consolidated total assets for the past three years is summarized in the following table:

(\$ in thousands)	2016	2015	2014
Total assets	\$ 805,821	\$ 793,795	\$ 724,299

Consolidated assets increased \$12.0 million or 1.5% compared to 2015 and were up \$81.5 million or 11.3% compared to 2014. The increase in consolidated assets compared to last year and 2014 is largely due to higher property and equipment and intangible assets. Property and equipment increased \$12.2 million or 3.5% compared to last year and was up \$46.4 million or 14.9% compared to 2014 due to investments in new stores, major store renovations, equipment replacements and staff housing renovations as part of our Top Markets initiative. Intangible assets increased compared to last year and 2014 largely due to the purchase of new point-of-sale, merchandise management system and workforce management system software, and the investment in upgrading the transportation management system. Deferred tax assets increased \$3.8 million compared to last year mainly due to an increase in tax assets related to property and equipment and a decrease in the tax liability related to the deferred limited partnership earnings. These factors were partially offset by lower cash as noted under working capital below and the impact of foreign exchange. The year-end exchange rate used to translate the International Operations assets decreased to 1.3030 compared to 1.4080 last year but was up from 1.2717 in 2014.

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

(\$ in thousands)	2016	2015	2014
Current assets	\$ 327,938	\$ 335,581	\$ 315,840
Current liabilities	\$ (152,244)	\$ (155,501)	\$ (146,275)
Working capital	\$ 175,694	\$ 180,080	\$ 169,565

Working capital decreased \$4.4 million or 2.4% to \$175.7 million compared to 2015 but increased \$6.1 million or 3.6% compared to 2014. The decrease in current assets compared to last year is largely due to a \$7.0 million or 18.8% decrease in cash primarily related to the timing of deposits in-transit. Partially offsetting this decrease is higher inventories in Canadian Operations related to new stores and an increase in inventory in stores serviced by sealift to take advantage of lower transportation costs. The decrease in current liabilities compared to last year is due to a \$5.5 million decrease in accounts payable and accrued liabilities largely related to lower short-term incentive plan costs this year and the impact of software costs accrued at year-end last year. The impact of foreign exchange on the translation of International Operations working capital was also a factor. The increase in working capital compared to 2014 is mainly due to higher inventories as noted above.

Return on net assets employed improved to 20.1% compared to 19.5% in 2015 primarily due to a 10.1% increase in earnings before interest and taxes. Additional information on net assets employed for the Canadian Operations and International Operations is on page 9 and page 11 respectively.

Return on average equity increased to 21.8% compared to 20.6% in 2015 due to a 10.5% increase in net earnings partially offset by higher average equity compared to last year. Further information on shareholders' equity is provided in the consolidated statements of changes in shareholders' equity in the consolidated financial statements.

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



(1) Certain 2012 figures have been restated as required by the implementation of IAS 19r *Employee Benefits*. See the 2013 annual audited consolidated financial statements for further information.

**Total Long-Term Liabilities** Consolidated total long-term liabilities for the past three years is summarized in the following table:

(\$ in thousands)	2016	2015	2014
Total long-term liabilities	\$ 285,792	\$ 280,682	\$ 248,741

Consolidated long-term liabilities increased \$5.1 million or 1.8% to \$285.8 million compared to 2015 and were up \$37.1 million or 14.9% from 2014. The increase in long-term liabilities compared to 2015 and 2014 is primarily due to an increase in long-term debt largely related to the investment in property, equipment and intangible assets noted under the total assets section and the impact of foreign exchange rates on the translation of U.S. denominated debt. Further information on long-term debt is included in the Sources of Liquidity and Capital Structure sections on page 13 and page 14 respectively and in Note 11 to the consolidated financial statements.

## Canadian Operations

### FINANCIAL PERFORMANCE

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

#### Key Performance Indicators

(\$ in thousands)	2016	2015	2014
Sales	\$ 1,125,330	\$ 1,089,898	\$ 1,042,168
Same store sales % increase	1.7%	3.1%	1.3%
EBITDA <sup>(1)</sup>	\$ 109,736	\$ 98,276	\$ 100,896
EBIT	\$ 74,445	\$ 66,495	\$ 70,594
Return on net assets <sup>(1)</sup>	20.7%	20.4%	21.1%

(1) See Non-GAAP Financial Measures section.

**Sales** Canadian Operations sales increased \$35.4 million or 3.3% to \$1.125 billion compared to \$1.090 billion in 2015 and were up \$83.2 million or 8.0% compared to 2014. Same store sales increased 1.7% compared to increases of 3.1% in 2015 and 1.3% in 2014. Food sales accounted for 74.6% (74.2% in 2015) of total Canadian Operations sales. The balance was made up of general merchandise sales at 21.2% (21.3% in 2015) and other sales, which consists primarily of fuel sales, fur sales, tele-pharmacy revenue and service charge revenue at 4.2% (4.5% in 2015).

Food sales increased by 3.7% from 2015 and were up 9.7% compared to 2014. Same store food sales increased 2.0% compared to 4.0% in 2015. Same store food sales had quarterly increases of 3.7%, 0.9%, 1.6% and 2.0% in the fourth quarter. Food sales were up in most categories led by convenience, food service, deli, meat and produce categories. Food inflation for the year was in the 2% range largely driven by higher commodity costs for produce and meat in the first half of the year partially offset by nominal inflation in the back half of the year.

General merchandise sales increased 3.0% from 2015 and 5.4% compared to 2014 led by sales gains in our urban and rural markets. Same store sales increased 0.6% compared to a 0.3% increase in 2015. On a quarterly basis, same store sales decreased 2.8% in the first quarter but increased 0.1%, 3.1% and 1.7% in last three quarters of the year.

Other sales were down 3.4% from 2015 and decreased 6.8% over 2014. The decrease in other revenues is largely due to the closure of the Company's Inuit Art Marketing Service in late 2015.

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

	2016	2015	2014
Food	74.6%	74.2%	73.4%
General merchandise	21.2%	21.3%	21.7%
Other	4.2%	4.5%	4.9%

**Same Store Sales** Canadian Operations same store sales for the past three years are shown in the following table. Food sales tend to be impacted by changes in commodity costs, transportation costs and promotional pricing.

#### Same Store Sales

(% change)	2016	2015	2014
Food	2.0%	4.0%	1.8 %
General merchandise	0.6%	0.3%	(0.5)%
Total sales	1.7%	3.1%	1.3 %

**Gross Profit** Gross profit dollars for Canadian Operations increased by 4.5% driven by sales growth and an increase in the gross profit rate largely related to food sales growth in higher margin food service and perishable categories. This gross profit rate improvement was partially offset by competitive food pricing pressure and higher markdowns in seasonal general merchandise categories in urban markets.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 2.7% from 2015 but were down 15 basis points as a percentage of sales. The increase in Expenses is due in part to higher store-based employee costs related to new roles to support our Top Categories initiative, new stores and higher amortization costs mainly related to capital investments in our Top Markets. These factors were partially offset by lower short-term incentive plan expenses and share-based compensation costs. Further information on share-based compensation costs is provided in Note 13 to the consolidated financial statements.

**Earnings from Operations (EBIT)** Earnings from operations increased \$8.0 million or 12.0% to \$74.4 million compared to \$66.5 million in 2015 as the positive impact of higher sales and gross profit more than offset higher Expenses as previously noted. Earnings from operations as a percentage of sales was 6.6% compared to 6.1% last year. EBITDA from Canadian Operations increased \$11.5 million or 11.7% to \$109.7 million and was 9.8% as a percentage of sales compared to 9.0% in 2015.

#### Canadian EBIT & EBITDA Margins (% of sales)



(1) Certain 2012 figures have been restated as required by the implementation of IAS 19r *Employee Benefits*. See 2013 annual audited consolidated financial statements for further information.

**Net Assets Employed** Net assets employed at January 31, 2017 increased 7.5% to \$372.9 million compared to \$346.8 million at January 31, 2016, and was up 19.3% compared to \$312.5 million at January 31, 2015 as summarized in the following table:

#### Net Assets Employed

(\$ in millions at the end of the fiscal year)	2016	2015	2014
Property and equipment	\$ 247.1	\$ 225.5	\$ 198.5
Inventories	130.3	125.7	127.3
Accounts receivable	65.9	65.2	59.2
Other assets	82.8	84.8	70.0
Liabilities	(153.2)	(154.4)	(142.5)
Net assets employed	\$ 372.9	\$ 346.8	\$ 312.5

Capital expenditures for the year included five new stores and Top Markets investments related to major store renovation projects, new equipment, staff housing improvements and energy-efficient lighting and refrigeration upgrades. In addition to these projects, the Company also completed "New Store Experience" upgrades in five Giant Tiger stores.

Inventory increased compared to 2015 mainly due to new stores and a greater investment in inventory in stores serviced by sealift to take advantage of lower transportation costs. Average inventory levels in 2016 increased \$6.4 million or 5.0% compared to 2015 but were down \$3.8 million or 2.8% compared to 2014. The increase compared to 2015 is largely due to new stores and higher inventory in stores serviced by sealift as previously noted. Inventory turnover decreased slightly to 6.0 times compared to 6.1 times in 2015 and 5.4 times in 2014.

Accounts receivable were up \$0.7 million to last year and up \$6.7 million or 11.3% compared to 2014. Average accounts receivable were \$2.3 million or 3.9% higher than 2015 and up \$6.3 million or 11.1% compared to 2014. The increase in accounts receivable is due in part to higher furniture and motorized merchandise sales.

Other assets decreased \$2.0 million or 2.4% compared to last year but were up \$12.8 million or 18.3% compared to 2014. The decrease to last year is largely due to lower cash balances in stores and deposits in-transit partially offset by an increase in intangible assets related to new point-of-sale, merchandise management system and workforce management system software. The increase in other assets compared to 2014 is largely due to intangible assets as previously noted and an increase in net deferred tax assets primarily related to property and equipment and deferred limited partnership earnings.

Liabilities decreased \$1.2 million or 0.8% from 2015 but were up \$10.7 million or 7.5% compared to 2014. The increase compared to 2014 is largely due to higher trade accounts payable related to the timing of payment cycles and accrued share-based compensation costs.

**Return on Net Assets** The return on net assets employed for Canadian Operations increased to 20.7% from 20.4% in 2015 due to a 12.0% increase in EBIT partially offset by a \$33.4 million or 10.3% increase in average net assets compared to last year.

### Canadian Return on Net Assets



(1) Certain 2012 figures have been restated as required by the implementation of IAS 19r Employee Benefits. See 2013 annual audited consolidated financial statements for further information.

## International Operations

(Stated in U.S. dollars)

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

### FINANCIAL PERFORMANCE

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

#### Key Performance Indicators

(\$ in thousands)	2016	2015	2014
Sales	\$ 545,799	\$ 544,397	\$ 522,275
Same store sales % increase	0.4%	5.2%	4.7%
EBITDA <sup>(1)</sup>	\$ 43,049	\$ 40,991	\$ 33,240
EBIT	\$ 33,173	\$ 31,475	\$ 24,105
Return on net assets <sup>(1)</sup>	19.2%	18.1%	13.8%

(1) See Non-GAAP Financial Measures section.

**Sales** International sales increased 0.3% to \$545.8 million compared to \$544.4 million in 2015, and were up \$23.5 million or 4.5% compared to 2014 driven by same store sales growth in CUL stores. Same store sales increased 0.4% compared to 5.2% in 2015 and 4.7% in 2014. Food sales accounted for 87.6% (87.1% in 2015) of total sales with the balance comprised of general merchandise at 11.6% (12.0% in 2015) and other sales, which consists primarily of fuel sales and service charge revenue, at 0.8% (0.9% in 2015).

Food sales increased 0.8% from 2015 and were up 5.4% compared to 2014. Same store food sales were up 1.0% compared to a 5.4% increase in 2015 with both AC and CUL contributing to the sales increase. Quarterly same store food sales increases were 1.2% in the first quarter followed by 1.0% in the second and third quarters and 0.8% in the fourth quarter.

General merchandise sales decreased 3.2% from 2015 and were down 0.3% from 2014. On a same store basis, general merchandise sales were down 3.9% compared to an increase of 3.9% in 2015. Quarterly same store general merchandise sales increased 1.4% in the first quarter with decreases of 4.6%, 11.2% and 0.3% in the second, third and fourth quarters respectively. Quarterly same store sales growth in CUL stores was more than offset by lower sales in AC stores.

Sales in AC stores were negatively impacted by deteriorated economic conditions, limited government infrastructure spending and a 50.7% decrease in the Permanent Fund Dividend ("PFD") to \$1,022 compared to \$2,072 in 2015. The negative impact of the Zika virus on tourism in the Caribbean was a factor that contributed to lower sales growth in CUL markets compared to 2015.

Other sales, which consists of fuel sales and service charge revenue, were down 5.3% from 2015 and 13.6% from 2014 due to fuel price deflation.

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

	2016	2015	2014
Food	87.6%	87.1%	86.8%
General merchandise	11.6%	12.0%	12.2%
Other	0.8%	0.9%	1.0%

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

#### Same Store Sales

(% change)	2016	2015	2014
Food	1.0 %	5.4%	4.7%
General merchandise	(3.9)%	3.9%	4.8%
Total sales	0.4 %	5.2%	4.7%

**Gross Profit** Gross profit dollars increased 0.5% driven by sales growth and a slight increase in the gross profit rate.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") decreased 0.9% compared to last year and were down 23 basis points as a percentage of sales largely due to lower incentive plan costs and fuel-related utility expenses.

**Earnings from Operations (EBIT)** Earnings from operations increased \$1.7 million or 5.4% to \$33.2 million compared to 2015 due to the increase in gross profit and lower Expenses. EBITDA increased \$2.1 million or 5.0% to \$43.0 million and was 7.9% as a percentage of sales compared to 7.5% in 2015.

## International EBIT & EBITDA Margins (% of sales)



**Net Assets Employed** International Operations net assets employed increased \$3.9 million or 2.3% to last year but were flat to 2014 as summarized in the following table:

### Net Assets Employed

(\$ in millions at the end of the fiscal year)	2016	2015	2014
Property and equipment	\$ 85.2	\$ 85.5	\$ 89.0
Inventories	63.6	61.1	60.9
Accounts receivable	10.0	10.0	10.5
Other assets	53.1	51.1	51.4
Liabilities	(40.2)	(39.9)	(40.2)
Net assets employed	\$ 171.7	\$ 167.8	\$ 171.6

Property and equipment decreased as amortization more than offset capital asset additions related to equipment upgrades and minor store renovation projects.

Inventories increased \$2.5 million compared to last year and were up \$2.7 million from 2014. Average inventory levels in 2016 were down 0.2% compared to 2015 but were up \$1.0 million or 1.5% compared to 2014 mainly due to higher food inventory in distribution centers. Inventory turnover was flat to last year at 6.2 times and was up slightly compared to 6.1 times in 2014.

Other assets increased \$2.0 million compared to last year and were up \$1.7 million compared to 2014 primarily due to higher cash balances partially offset by a decrease in deferred tax assets.

**Return on Net Assets** The return on net assets employed for International Operations improved to 19.2% compared to 18.1% in 2015 due to a 5.4% increase in EBIT and a 0.5% decrease in average net assets employed.

## International Return on Net Assets



## Consolidated Liquidity and Capital Resources

The following table summarizes the major components of cash flow:

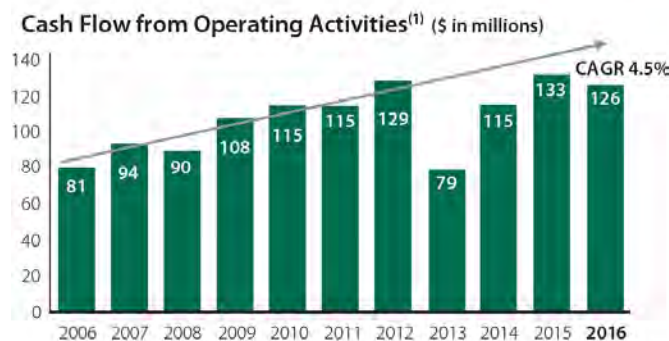
(\$ in thousands)	2016	2015	2014
Cash provided by (used in):			
Operating activities before taxes paid	\$ 161,454	\$ 163,646	\$ 147,967
Taxes paid	(35,430)	(30,659)	(32,881)
Operating activities	126,024	132,987	115,086
Investing activities	(77,682)	(75,813)	(50,312)
Financing activities	(54,398)	(50,174)	(58,950)
Effect of foreign exchange	(944)	1,114	952
Net change in cash	\$ (7,000)	\$ 8,114	\$ 6,776

**Cash from Operating Activities** Cash flow from operating activities decreased \$7.0 million or 5.2% to \$126.0 million compared to 2015 but was up \$10.9 million or 9.5% compared to 2014. The decrease in cash flow from operating activities is largely due to the change in non-cash working capital and an increase in taxes paid partially offset by higher net earnings and an increase in amortization. The change in non-cash working capital negatively impacted cash flow from operating activities by \$10.8 million compared to an increase in cash flow of \$5.9 million in 2015 and an increase in cash flow of \$9.2 million in 2014. The change in non-cash working capital is primarily due to the change in inventories and accounts payable and accrued expenses compared to the prior year. Further information on working capital is provided in the Canadian and International net assets employed section on pages 9 and 11 respectively.

The change in income taxes paid was due to higher earnings, the timing of income tax installments and the recognition of a portion of the deferred limited partnership income related to the conversion to a share corporation on January 1, 2011. Excluding the impact of taxes paid, cash flow from operating activities decreased \$2.2 million or 1.3% compared to 2015.

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

The compound annual growth rate ("CAGR") for cash flow from operating activities over the past 10 years is 4.5% as shown in the following graph:



(1) 2011 to 2015 are reported in accordance with IFRS. 2010 has been restated to IFRS. All other historical financial information was prepared in accordance with CGAAP and has not been restated to IFRS. In the 2010 fiscal year, North West Company Fund converted from an income trust to a share corporation effective January 1, 2011. See Conversion to a Share Corporation in glossary of terms for further information.

The decrease in cash flow from operating activities in 2013 is largely due to the payment of Canadian income taxes related to the conversion to a share corporation.

**Cash Used in Investing Activities** Net cash used in investing activities was \$77.7 million compared to \$75.8 million in 2015 and \$50.3 million in 2014. Net investing in Canadian Operations was \$63.3 million compared to \$68.1 million in 2015 and \$39.5 million in 2014 reflecting investments related to the Top Markets initiative and work started on the implementation of new point-of-sale, merchandise management and workforce management software as part of Project Enterprise. A summary of the Canadian Operations investing activities is included in net assets employed on page 9. Net investing in International Operations was \$14.4 million compared to \$7.7 million in 2015 and \$10.8 million in 2014. A summary of the International Operations investing activities is included in net assets employed on page 11.

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

	Number of Stores		Selling square footage	
	2016	2015	2016	2015
Northern	120	121	701,112	707,382
NorthMart	6	6	134,387	134,387
Quickstop	21	20	36,552	34,379
Giant Tiger	37	34	611,324	554,529
AC Value Centers	27	27	278,742	278,742
Cost-U-Less	13	13	369,281	369,281
Other Formats	8	7	62,254	60,409
<b>Total at year-end</b>	<b>232</b>	<b>228</b>	<b>2,193,652</b>	<b>2,139,109</b>

In the Canadian Operations, one Quickstop convenience store and three Giant Tiger stores were opened and one Northern store was closed due to fire. Under Other Formats, the Company acquired a pharmacy and convenience store in Fort Smith, Northwest Territories. Total selling square footage in Canada increased to 1,517,840 from 1,463,488 in 2015 as a result of the new stores.

There was no change in the number of stores in the International Operations but the selling square footage increased to 675,812 compared to 675,621 last year due to a store renovation.

**Cash Used in Financing Activities** Cash used in financing activities was \$54.4 million compared to \$50.2 million in 2015 and \$59.0 million in 2014. The change compared to last year is due to an increase in dividends and interest paid partially offset by the change in long-term debt related to amounts drawn on the loan facilities. Further information on dividends, interest and the loan facilities is provided in the following sections.

**Shareholder Dividends** The Company paid dividends of \$60.2 million or \$1.24 per share, an increase of 3.4% compared to \$58.2 million or \$1.20 per share paid in 2015. Further information on dividends is included in Note 19 to the consolidated financial statements.

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

	Dividends	Dividends	Dividends
	2016	2015	2014
First Quarter	\$ 0.31	\$ 0.29	\$ 0.29
Second Quarter	0.31	0.29	0.29
Third Quarter	0.31	0.31	0.29
Fourth Quarter	0.31	0.31	0.29
<b>Total</b>	<b>\$ 1.24</b>	<b>\$ 1.20</b>	<b>\$ 1.16</b>

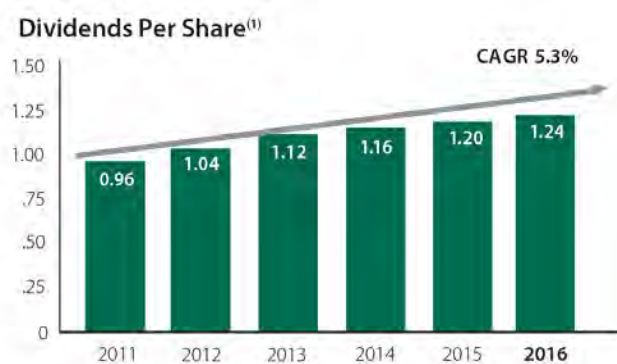
The payment of dividends on the Company's common shares is subject to the approval of the Board of Directors and is based on, among other factors, the financial performance of the Company, its current and anticipated future business needs and the satisfaction of solvency tests imposed by the Canada Business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

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

	2016	2015	2014
Dividends	\$ 60,169	\$ 58,210	\$ 56,180
Cash flow from operating activities	\$ 126,024	\$ 132,987	\$ 115,086
Taxes paid	35,430	30,659	32,881
Operating activities before taxes paid	\$ 161,454	\$ 163,646	\$ 147,967
Dividends as a % of cash flow from operating activities	47.7%	43.8%	48.8%
Dividends as a % of cash flow from operating activities before taxes paid	37.3%	35.6%	38.0%

The increase in dividends as a percentage of cash flow from operating activities to 47.7% compared to 43.8% in 2015 is largely due to the timing of payment of Canadian income tax installments. Further information on income tax installments is provided under cash from operating activities on page 11. Excluding the impact of income tax installments, dividends as a percentage of cash flow from operating activities before taxes paid was 37.3% compared to 35.6% in 2015 and 38.0% in 2014.

Since converting back to a share corporation on January 1, 2011, the Company has increased its dividend each year with a compound annual growth rate ("CAGR") of 5.3% over the past five years as shown in the following graph:



(1) North West Company Fund converted to a share corporation effective January 1, 2011. In addition to the \$0.96 per share dividend paid in 2011, the Company also paid a \$0.09 per unit final distribution from the Fund as part of the conversion to a share corporation.

**Subsequent Event - Dividends** On March 15, 2017 the Board of Directors approved a quarterly dividend of \$0.32 per share to shareholders of record on March 31, 2017, to be paid on April 17, 2017.

**Post-Employment Benefits** The Company sponsors defined benefit and defined contribution pension plans covering the majority of Canadian employees. As a result of an increase in long-term interest rates, the Company recorded net actuarial gains on defined benefit pension plans of \$2.4 million net of deferred income taxes in other comprehensive income. This compares to net actuarial gains on defined benefit pension plans of \$4.6 million net of deferred income taxes in other comprehensive income in 2015 and net actuarial losses on defined benefit pension plans of \$12.0 million net of deferred income taxes in 2014. These gains and losses in other comprehensive income were immediately recognized in retained earnings. The net actuarial gain in 2016 was due to higher returns on pension plan assets. The gain in 2015 was primarily due to an increase in the discount rate used to calculate pension liabilities from 3.5% in 2014 to 4.0% in 2015. The actuarial loss in 2014 was due to a decrease in the discount rate from 4.5% in 2013 to 3.5% in 2014.

In 2017, the Company will be required to contribute approximately \$2.6 million to the defined benefit pension plans. In addition to the cash funding, a portion of the pension plan obligation may be settled by the issuance of a letter of credit in accordance with pension legislation. The Company's cash contributions to the pension plan was \$1.5 million in 2016 and \$1.6 million in 2015. The actual amount of the contribution may be different from the estimate based on actuarial valuations, plan investment performance, volatility in discount rates, regulatory requirements and other factors. The Company also expects to contribute approximately \$3.6 million to the defined contribution pension plan and U.S. employees savings plan in 2017 compared to \$3.5 million in 2016 and \$3.2 million in 2015. Additional information regarding post-employment benefits is provided in Note 12 to the consolidated financial statements.

**Sources of Liquidity** In March 2016, the Company completed the refinancing of the \$200.0 million loan facilities in the Canadian Operations maturing December 31, 2018. The new increased committed revolving loan facilities provide up to \$300.0 million for general business purposes and mature on April 29, 2021. These facilities are secured by certain assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the US\$52.0 million loan facilities. These loan facilities bear a floating interest rate based on Banker's Acceptances' rates plus stamping fees or the Canadian prime interest rate. At January 31, 2017, the Company had drawn \$126.3 million on these facilities (January 31, 2016 - \$119.2 million).

At January 31, 2017, the Canadian Operations have outstanding US\$70.0 million senior notes (January 31, 2016 - US\$70.0 million). The senior notes, which mature June 16, 2021, 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 \$200.0 million Canadian Operations loan facilities and the US\$52.0 million loan facilities. The US\$70.0 million senior notes have been designated as a hedge against the U.S. dollar investment in the International Operations. For more information on the senior notes and financial instruments, see Note 11 and Note 14 to the consolidated financial statements.

In March 2016, the Company completed the refinancing of the US\$52.0 million loan facilities maturing December 31, 2018. The new committed revolving loan facilities of US\$52.0 million mature on April 29, 2021. 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 loan facilities. These facilities bear interest at U.S. LIBOR plus a spread or the U.S. prime rate. At January 31, 2017, the Company had not drawn on these facilities (January 31, 2016 - US\$NIL).

The International Operations have a US\$40.0 million loan facility which matures October 31, 2020 and bears a floating rate of interest based on U.S. LIBOR plus a spread. This facility is secured by certain accounts receivable and inventories of the International Operations. At January 31, 2017, the International Operations had drawn US\$9.1 million on this facility (January 31, 2016 - US\$5.6 million).

The loan facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At January 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.

#### Interest Costs and Coverage

	2016	2015	2014
Coverage ratio	16.4	17.3	14.6
EBIT (\$ in millions)	\$ 118.1	\$ 107.3	\$ 97.5
Interest (\$ in millions)	\$ 7.2	\$ 6.2	\$ 6.7

The coverage ratio of earnings from operations ("EBIT") to interest expense has decreased to 16.4 times compared to 17.3 times in 2015 largely due to a \$1.0 million increase in interest expense. The improvement in the ratio compared to 2014 is due to higher EBIT. Additional information on interest expense is provided in Note 18 to the consolidated financial statements.

## Contractual Obligations and Other Commitments

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

(\$ in thousands)	Total	0-1 Year	2-3 Years	4-5 Years	6 Years+
Long-term debt (including capital lease obligations)	\$229,266	\$ —		\$229,266	
Operating leases	174,097	29,891	46,471	28,396	69,339
Other liabilities <sup>(1)</sup>	24,468	10,844	13,624	—	—
<b>Total</b>	<b>\$427,831</b>	<b>\$ 40,735</b>	<b>\$60,095</b>	<b>\$257,662</b>	<b>\$ 69,339</b>

(1) At year-end, the Company had additional long-term liabilities of \$42.0 million which included other liabilities, defined benefit plan obligations and deferred income tax liabilities. These have not been included as the timing and amount of the future payments are uncertain.

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

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

**Giant Tiger Master Franchise Agreement** In 2002, the Company signed a 30-year Master Franchise Agreement ("MFA") with Giant Tiger Stores Limited, based in Ottawa, Ontario, which granted the Company the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, Giant Tiger Stores Limited provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing food buying and distribution services to the stores. In 2015, the MFA was amended to extend the term to July 31, 2040 subject to meeting a minimum store opening commitment. At January 31, 2017, the Company is in compliance with the minimum store opening commitment. Additional information on commitments, contingencies and guarantees is provided in Note 22 to the consolidated financial statements.

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

**Letters of Credit** In the normal course of business, the Company issues standby letters of credit in connection with defined benefit pension plans, purchase orders and performance guarantees. The aggregate potential liability related to letters of credit is approximately \$16 million (January 31, 2016 - \$13 million).

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

On a consolidated basis, the Company had \$229.3 million in debt and \$367.8 million in equity at the end of the year and a debt-to-equity ratio of 0.62:1 compared to 0.63:1 last year.

## Capital Structure



The capacity of the Company's capital structure is reflected in the preceding graph. Over the past five years, the Company's debt-to-equity ratio has ranged from .55:1 to .63:1. Equity has increased \$71.5 million or 24.1% to \$367.8 million over the past five years and interest-bearing debt has increased \$65.9 million or 40.3% to \$229.3 million compared to \$163.4 million in 2012. During this same time frame, the Company has made capital expenditures, including acquisitions, of \$300.4 million and has paid dividends of \$279.1 million. This reflects the Company's balanced approach of investing to sustain and grow the business while providing shareholders with an annual cash return.

Consolidated debt at the end of the year increased \$3.8 million or 1.7% to \$229.3 million compared to \$225.5 million in 2015, and was up \$27.9 million or 13.8% from \$201.4 million in 2014. As summarized in the following table, the increase in debt is due to higher amounts drawn on the Canadian Operations loan facilities and the impact of foreign exchange on the translation of U.S. denominated debt. The Company has US\$79.1 million in debt at January 31, 2017 (January 31, 2016 - US\$75.6 million, January 31, 2015 - US\$96.9 million) that is exposed to changes in foreign exchange rates when translated into Canadian dollars. The exchange rate used to translate U.S. denominated debt into Canadian dollars at January 31, 2017 was 1.3030 compared to 1.4080 at January 31, 2016 and 1.2717 at January 31, 2015. The change in the foreign exchange rate resulted in a \$8.3 million decrease in debt compared to 2015 and a \$2.5 million increase compared to 2014. Average debt outstanding during the year excluding the foreign exchange impact increased \$25.0 million or 13.5% from 2015 and was up \$18.5 million or 9.6% compared to 2014. The debt outstanding at the end of the fiscal year is summarized as follows:

(\$ in thousands at the end of the fiscal year)	2016	2015	2014
Senior notes	\$ 91,035	\$ 98,350	\$ 88,779
Canadian revolving loan facilities	126,344	119,193	78,367
U.S. revolving loan facilities	11,887	7,946	34,121
Notes payable	—	—	72
Finance lease liabilities	—	—	57
<b>Total</b>	<b>\$ 229,266</b>	<b>\$ 225,489</b>	<b>\$ 201,396</b>

**Shareholder Equity** The Company has an unlimited number of authorized shares and had issued and outstanding shares at January 31, 2017 of 48,542,514 (January 31, 2016 - 48,523,341). The Company has a Share Option Plan that provides for the granting of options to certain officers and senior management. Each option is exercisable into one common share of the Company at a price specified in the option agreement. At January 31, 2017, there were 2,525,534 options outstanding representing approximately 5.2% of the issued and outstanding shares. Further information on share options is provided in Note 13 and additional information on the Company's share capital is provided in Note 15 to the consolidated financial statements.

Book value per share, on a diluted basis, at the end of the year increased to \$7.51 per share compared to \$7.33 per share in 2015. Shareholders' equity increased \$10.2 million or 2.8% compared to 2015 largely due to net earnings of \$77.1 million partially offset by a \$7.2 million decrease in accumulated other comprehensive income primarily related to the foreign exchange impact on the translation of International Operations financial statements and dividends to shareholders of \$60.2 million. Further information is provided in the consolidated statements of changes in shareholders' equity in the consolidated financial statements.

## QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly financial information:

(\$ thousands)	Q1	Q2	Q3	Q4	Total
<b>Sales</b>					
2016	\$ 438,974	\$ 460,567	\$ 463,959	\$ 480,593	\$ 1,844,093
2015	\$ 414,038	\$ 448,736	\$ 458,049	\$ 475,212	\$ 1,796,035
<b>EBITDA</b>					
2016	\$ 37,640	\$ 38,857	\$ 51,140	\$ 38,861	\$ 166,498
2015	\$ 34,436	\$ 38,762	\$ 43,076	\$ 35,073	\$ 151,347
<b>Earnings from operations (EBIT)</b>					
2016	\$ 25,613	\$ 26,954	\$ 39,082	\$ 26,482	\$ 118,131
2015	\$ 23,678	\$ 28,196	\$ 32,014	\$ 23,433	\$ 107,321
<b>Net earnings</b>					
2016	\$ 17,794	\$ 16,423	\$ 27,865	\$ 14,994	\$ 77,076
2015	\$ 15,699	\$ 18,125	\$ 20,749	\$ 15,206	\$ 69,779
<b>Earnings per share-basic</b>					
2016	\$ 0.37	\$ 0.34	\$ 0.57	\$ 0.31	\$ 1.59
2015	\$ 0.32	\$ 0.38	\$ 0.43	\$ 0.31	\$ 1.44
<b>Earnings per share-diluted</b>					
2016	\$ 0.36	\$ 0.34	\$ 0.57	\$ 0.30	\$ 1.57
2015	\$ 0.32	\$ 0.37	\$ 0.43	\$ 0.31	\$ 1.43

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

**Fourth Quarter Highlights** Fourth quarter consolidated sales increased 1.1% to \$480.6 million with both Canadian and International Operations contributing to the sales gains. New stores sales growth in Canadian Operations was also a factor. Excluding the foreign exchange impact, consolidated sales increased 2.5% and were up 1.5%<sup>1</sup> on a same store basis. Food sales<sup>1</sup> increased 2.6% and were up 1.6% on a same store basis. General merchandise sales<sup>1</sup> increased 3.2% and were up 1.3% on a same store basis led by sales growth in Canadian Operations.

Gross profit dollars were up 3.1% driven by sales growth and a 56 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 ("Expenses") increased 1.0% but were down 2 basis points as a percentage of sales. This increase was largely due to new stores, higher amortization costs mainly related to capital investments in Top Markets and higher share-based compensation costs. These factors were partially offset by lower short-term incentive plan expenses.

Earnings from operations increased 13.0% to \$26.5 million compared to \$23.4 million in the fourth quarter last year as sales growth and an increase in the gross profit rate more than offset the impact of higher Expenses. Excluding the impact of foreign exchange, earnings from operations increased 17.3% to last year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA<sup>(2)</sup>) increased 10.8% to \$38.9 million as EBITDA growth in Canadian Operations more than offset lower EBITDA in International Operations. Excluding the foreign exchange impact, EBITDA was up 13.8% compared to last year and as a percentage to sales was 8.2% compared to 7.4% last year.

Income tax expense increased \$3.2 million to \$9.7 million and the consolidated effective tax rate was 39.3% compared to 29.9% last year. The increase in the effective tax rate is due to a \$1.3 million non-comparable withholding tax on dividends from subsidiaries, the impact of non-deductible share-based compensation expenses in Canadian Operations and the blend of earnings in International Operations across the various tax rate jurisdictions.

Net earnings decreased 1.4% to \$15.0 million and diluted earnings per share were \$0.30 per share compared to \$0.31 per share last year largely due to the increase in income tax expense in the Canadian Operations noted above. Excluding the impact of foreign exchange and the non-comparable withholding tax, net earnings increased 11.3%.

Working capital decreased \$4.4 million or 2.4% compared to the fourth quarter last year due to decreases in cash largely related to the timing of deposits and lower accounts payable and accrued liabilities related to a decrease in short-term incentive plan costs.

Cash flow from operating activities in the quarter decreased \$0.8 million to \$51.5 million compared to cash flow from operating activities of \$52.3 million last year. The decrease is largely due to the change in accounts payable and accrued liabilities compared to the prior year.

Cash used for investing activities in the quarter decreased to \$23.8 million compared to \$31.0 million last year largely due to a decrease in intangible asset additions related to the purchase of point-of-sale, workforce management and merchandise management software last year.

Cash used in financing activities in the quarter was \$44.5 million compared to \$18.5 million last year primarily due to the change in long-term debt related to amounts drawn on the Company's revolving loan facilities compared to last year.

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

## DISCLOSURE CONTROLS

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that decisions can be made regarding public disclosure. Based on an evaluation of the Company's disclosure controls and procedures, as required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Company's CEO and CFO have concluded that these controls and procedures were designed and operated effectively as of January 31, 2017.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial reporting and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become ineffective because of changes in conditions or the degree of compliance with policies and procedures may deteriorate. Furthermore, management is required to use judgment in evaluating controls and procedures. Based on an evaluation of the Company's internal controls over financial reporting using the framework published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"), 2013 as required by National Instrument 52-109, the Company's CEO and CFO have concluded that the internal controls over financial reporting were designed and operated effectively as of January 31, 2017. There have been no changes in the internal controls over financial reporting during the quarter and for the year ended January 31, 2017 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

(1) Excluding the foreign exchange impact.

(2) See Non-GAAP Financial Measures Section.

## 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 North West to capture market share and sales at a higher rate than general consumer income growth, while focusing on lower-risk products and services.

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 impact rural Alaska. Northern Canada is seeing more monthly income from the new Child Care Benefit payments and will gain further if 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 Roadtown Wholesale Trading Ltd. acquisition noted below under subsequent events, are expected to be in the \$80.0 million range (2016 - \$77.7 million), reflecting major store replacements, store renovations and investments in fixtures, equipment, staff housing and store-based warehouse expansions as part of the Company's Top Markets initiative, the opening of four Giant Tiger stores as well as the completion of "New Store Experience" upgrades in two stores. In addition to these investments, the Company is also implementing new information systems as described under the strategy section. 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.

## SUBSEQUENT EVENT

On February 9, 2017, the Company acquired 76% of the outstanding common shares of Roadtown Wholesale Trading Ltd. (RTW), operating primarily as Riteway Food Markets in the British Virgin Islands (BVI). RTW is the leading retailer in BVI with seven retail outlets, two Cash and Carry stores and a significant wholesale operation. The purchase price was US\$27.0 million consisting of cash consideration of US\$24.0 million financed through existing loan facilities and the issuance of 133,944 common shares in accordance with the form of consideration elected to be received by RTW shareholders. The decrease in the purchase price from the US\$32.0 million previously announced is due to price adjustments primarily related to working capital and new store construction costs. RTW is expected to contribute approximately US \$5.0 million of annualized net income to North West. In the first quarter of 2017, the Company expects to incur acquisition related costs of approximately US\$5.0 million, which include stamp duties payable to the Government of the British Virgin Islands.

## RISK MANAGEMENT

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

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

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

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

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

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

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

**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.

**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.

In 2016, the Company began the implementation of a new point-of-sale and merchandise management system. 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 affect the Company's 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 relies on the integrity and continuous availability of its IT systems. IT systems are exposed to the risks of "cyber attack", including viruses that can paralyze IT systems or unauthorized access to confidential Company information or customer information. Any failure relating to IT system availability or security, or a significant loss of data or an impairment of data integrity, could adversely affect the financial performance and reputation of the Company.

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

Our largest customer segments derive most of their income directly or indirectly from government infrastructure spending or direct payment to individuals in the form of social assistance, child 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.

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 will also be affected by higher household energy-related expenses.

**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.

**Environmental** The Company owns a large number of facilities and real estate, particularly in remote locations, and is subject to environmental risks associated with the contamination of such facilities and properties. The Company operates retail fuel outlets in a number of locations and uses fuel to heat stores and housing. Contamination resulting from gasoline and heating fuel is possible. The Company employs operating, training, monitoring and testing procedures to minimize the risk of contamination. The Company also operates refrigeration equipment in its stores and distribution 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, duties, currency repatriation, health and safety, employment standards, licensing requirements, product packaging and labeling regulations and zoning. New accounting standards and pronouncements or changes in accounting standards may also impact the Company's financial results.

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

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

**Food and Product Safety** The Company is exposed to risks associated with food safety, product handling and general merchandise product defects. Food sales represent approximately 80% of total Company sales. A significant outbreak of a food-borne illness or increased public concerns with certain food products could have an adverse effect on the reputation and financial performance of the Company. The Company has food preparation, handling and storage procedures which help mitigate these risks. The Company also has product recall procedures in place in the event of a food-borne illness outbreak or product defect. The existence of these procedures does not eliminate the underlying risks and the ability of these procedures to mitigate risk in the event of a food-borne illness or product recall is dependent on their successful execution.

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

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

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

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

The Company regularly monitors and assesses the performance of the pension plan assets and the impact of changes in capital markets, changes in plan member demographics, and other economic factors that may impact funding requirements, benefit plan expenses and actuarial assumptions. The Company makes cash contributions to the pension plan as required and also uses letters of credit to satisfy a portion of its funding obligations. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan and added a defined contribution plan. Under the amended pension plan, all members who did not meet a qualifying threshold based on number of years in the pension plan and age were transitioned to the defined contribution pension plan effective January 1, 2011 and no longer accumulate years of service under the defined benefit pension plan. Further information on post-employment benefits is provided on page 13 and in Note 12 to the consolidated financial statements.

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

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

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

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

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

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

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

**Liquidity Risk** Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company manages liquidity risk by maintaining adequate credit facilities to fund operating requirements and both planned sustaining and growth-related capital expenditures and regularly monitoring actual and forecasted cash flow and debt levels. At January 31, 2017, the Company had undrawn committed revolving loan facilities available of \$264.7 million (January 31, 2016 - \$188.9 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 as described in the Sources of Liquidity section on page 13. At January 31, 2017, the Company had US\$79.1 million in U.S. denominated debt compared to US\$75.6 million at January 31, 2016 and US\$96.8 million at January 31, 2015. Further information on the impact of foreign exchange rates on the translation of U.S. denominated debt is provided in the Capital Structure section on page 14.

The Company is also exposed to currency risk relating to the translation of International Operations earnings to Canadian dollars. In 2016, the average exchange rate used to translate U.S. denominated earnings from the International Operations was 1.3169 compared to 1.2971 last year. The Canadian dollar's depreciation in 2016 compared to the U.S. dollar in 2015 positively impacted consolidated net earnings by \$0.4 million. In 2015, the average exchange rate was 1.2971 compared to 1.1148 in 2014 which resulted in an increase in 2015 consolidated net earnings of \$3.8 million compared to 2014.

**Interest Rate Risk** Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its long-term borrowings. The Company manages exposure to interest rate risk by using a combination of fixed and floating interest rate debt and may use interest rate swaps. As at January 31, 2017 the Company had no outstanding interest rate swaps.

## CRITICAL ACCOUNTING ESTIMATES

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

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

**Valuation of Inventories** Retail inventories are stated at the lower of cost and net realizable value. Significant estimation is required in: (1) the determination of discount factors used to convert inventory to cost after a physical count at retail has been completed; (2) recognizing merchandise for which the customer's perception of value has declined and appropriately marking the retail value of the merchandise down to the perceived value; (3) estimating inventory losses, or shrinkage, occurring between the last physical count and the balance sheet date; and (4) the impact of vendor rebates on cost.

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

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

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

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

The discount rate used to calculate benefit plan obligations and the rate of compensation increase are the most significant assumptions. The discount rate used to calculate benefit plan obligations and plan asset returns is based on market interest rates, as at the Company's measurement date of January 31, 2017 on a portfolio of Corporate AA bonds with terms to maturity that, on average, matches the terms of the defined benefit plan obligations. The discount rate used to measure the benefit plan obligations for fiscal 2016 and 2015 was 4.0%. Management assumed the rate of compensation increase for fiscal 2016 and 2015 at 4.0%.

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

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

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

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

The value of the goodwill was tested by means of comparing the recoverable amount of the operating segment to its carrying value. The recoverable amount is the greater of its value in use or its fair value less costs of disposal. The operating segment's recoverable amount was based on fair value less costs of disposal. A range of fair values was estimated by inferring enterprise values from the product of financial performance and comparable trading multiples. Values assigned to the key assumptions represent management's best estimates and have been based on data from both external and internal sources. Key assumptions used in the estimation of enterprise value include: budgeted financial performance, selection of market trading multiples and costs to sell. To the extent that management's estimates are not realized, future assessments could result in impairment charges that may have a significant impact on the Company's consolidated balance sheets and consolidated statements of earnings.

The Company performed the annual goodwill impairment test in 2016 and determined that the recoverable amount of the International Operations segment exceeded its carrying value. No goodwill impairment was identified and management considers any reasonably foreseeable changes in key assumptions unlikely to produce a goodwill impairment.

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

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

## ACCOUNTING STANDARDS IMPLEMENTED IN 2016

The Company adopted amendments to IAS 1, *Presentation of Financial Statements* effective February 1, 2016, as required by the IASB. The amendments provided guidance on the application of judgment in the preparation of financial statements and disclosure including: materiality, order of notes to consolidated financial statements and disclosure of accounting policies. It also clarified the aggregation and disaggregation of items presented in the financial statements. The amendments had no material impact on the consolidated financial statements.

## FUTURE ACCOUNTING STANDARDS

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2017, and have not been applied in preparing these 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 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, will be applied retrospectively and are available for early adoption.

**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 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, will be applied retrospectively and is available for early adoption.

**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.

**Deferred tax** In January 2016, the IASB issued amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*. The 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 are applicable for the Company's financial year ending January 31, 2018.

**Cash flows** In January 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows* to improve disclosures regarding changes in financing liabilities. These amendments are applicable for the Company's financial year ending January 31, 2018.

**Share based payment** 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. These amendments are applicable for the Company's financial year ending January 31, 2019.

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

## NON-GAAP FINANCIAL MEASURES

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

### Reconciliation of Net Earnings to EBITDA

(\$ in thousands)	2016	2015	2014
Net earnings	\$ 77,076	\$ 69,779	\$ 62,883
Add:			
Amortization	48,367	44,026	40,372
Interest expense	7,220	6,210	6,673
Income taxes	33,835	31,332	27,910
EBITDA	\$ 166,498	\$ 151,347	\$ 137,838

For EBITDA information by business segment, see Note 4 to the consolidated financial statements.

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

(\$ in millions)	2016	2015	2014
Total assets	\$ 805.8	\$ 793.8	\$ 724.3
Less: Total liabilities	(438.0)	(436.2)	(395.0)
Add: Total long-term debt	229.3	225.5	201.4
Net Assets Employed	\$ 597.1	\$ 583.1	\$ 530.7

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

## GLOSSARY OF TERMS

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

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

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

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

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

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

The MD&A contains references to "shareholders", "shares" and "dividends" which were previously referred to as "unitholders", "units" and "distributions" under the Fund.

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

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

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

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

**EBIT (Earnings From Operations)** Net earnings before interest and income taxes provides an indication of the Company's performance prior to interest expense and income taxes.

**EBIT margin** EBIT divided by sales.

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

**EBITDA margin** EBITDA divided by sales.

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

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

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

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

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

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

**Return on Average Equity ("ROE")** Net earnings divided by average shareholders' equity. See Non-GAAP Financial Measures section.

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

**Same store sales** Retail food and general merchandise sales from stores that have been open more than 52 weeks in the periods being compared, excluding the impact of foreign exchange.

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

**Year** The fiscal year ends on January 31. Each fiscal year has 365 days of operations with the exception of a "leap year" which has 366 days of operations as a result of February 29. The following table summarizes the fiscal year:

Fiscal Year	Year-ended
2016	January 31, 2017
2015	January 31, 2016
2014	January 31, 2015
2013	January 31, 2014
2012	January 31, 2013
2011	January 31, 2012
2010	January 31, 2011
2009	January 31, 2010
2008	January 31, 2009
2007	January 31, 2008
2006	January 31, 2007

# Eleven-Year Financial Summary

Fiscal Year <sup>(1)</sup> (\$ in thousands)	IFRS <sup>(2)</sup> 2016	IFRS <sup>(2)</sup> 2015	IFRS <sup>(2)</sup> 2014	IFRS <sup>(2)</sup> 2013	IFRS <sup>(2)</sup> 2012
<b>Consolidated Statements of Earnings</b>					
Sales - Canadian Operations	1,125,330	\$ 1,089,898	\$1,042,168	\$1,022,985	\$1,043,050
Sales - International Operations	718,763	706,137	582,232	520,140	470,596
Sales - Total	1,844,093	1,796,035	1,624,400	1,543,125	1,513,646
EBITDA <sup>(3)</sup> - Canadian Operations	109,736	98,276	100,896	111,225	106,510
EBITDA <sup>(3)</sup> - International Operations	56,762	53,071	36,942	27,111	27,207
EBITDA <sup>(3)</sup> - Total Operations	166,498	151,347	137,838	138,336	133,717
Amortization - Canadian Operations	35,291	31,781	30,302	29,258	29,155
Amortization - International Operations	13,076	12,245	10,070	9,018	7,994
Amortization - Total	48,367	44,026	40,372	38,276	37,149
Interest	7,220	6,210	6,673	7,784	6,979
Income taxes	33,835	31,332	27,910	28,013	25,701
Net earnings	77,076	69,779	62,883	64,263	63,888
Cash flow from operating activities	126,024	132,987	115,086	79,473	128,992
Dividends/distributions paid during the year	60,169	58,210	56,180	54,229	50,320
Capital and intangible asset expenditures	77,745	75,983	52,329	43,207	51,133
Net change in cash	(7,000)	8,114	6,776	(16,322)	11,691
<b>Consolidated Balance Sheets</b>					
Current assets	\$ 327,938	\$ 335,581	\$ 315,840	\$ 299,071	\$ 303,896
Property and equipment	358,121	345,881	311,692	286,875	274,027
Other assets, intangible assets and goodwill	86,909	83,293	68,693	64,969	60,567
Deferred tax assets	32,853	29,040	28,074	19,597	12,904
Current liabilities	152,244	155,501	146,275	209,738	190,184
Long-term debt and other liabilities	285,792	280,682	248,741	138,334	164,960
Equity	367,785	357,612	329,283	322,440	296,250
<b>Consolidated Dollar Per Share/Unit (\$) <sup>(5)</sup></b>					
Net earnings - basic	\$ 1.59	\$ 1.44	\$ 1.30	\$ 1.33	\$ 1.32
Net earnings - diluted	1.57	1.43	1.29	1.32	1.32
EBITDA <sup>(3),(4)</sup>	3.43	3.12	2.85	2.86	2.76
Cash flow from operating activities <sup>(4)</sup>	2.60	2.74	2.38	1.64	2.67
Dividends/distributions paid during the year <sup>(4)</sup>	1.24	1.20	1.16	1.12	1.04
Equity (basic shares/units outstanding end of year)	7.57	7.37	6.80	6.66	6.12
Market price at January 31	29.28	30.53	26.56	25.42	23.14
<b>Statistics at Year End</b>					
Number of stores - Canadian	185	181	178	178	177
Number of stores - International	47	47	47	48	46
Selling square feet (000's) end of year - Canadian Stores	1,518	1,463	1,422	1,386	1,375
Selling square feet (000's) end of year - International Stores	676	676	676	696	660
Sales per average selling square foot - Canadian	\$ 755	\$ 756	\$ 742	\$ 741	\$ 734
Sales per average selling square foot - International	\$ 1,063	\$ 1,045	\$ 849	\$ 767	\$ 716
Number of employees - Canadian Operations	5,715	5,482	4,921	4,839	4,768
Number of employees - International Operations	1,882	1,896	1,726	1,853	1,568
Average shares/units outstanding (000's)	48,524	48,509	48,432	48,413	48,384
Shares/Units outstanding at end of fiscal year (000's)	48,542	48,523	48,497	48,426	48,389
Shares/Units traded during the year (000's)	49,189	35,631	24,080	17,623	17,831
<b>Financial Ratios</b>					
EBITDA <sup>(3)</sup> (%)	9.0	8.4	8.5	9.0	8.8
Earnings from operations (EBIT) (%)	6.4	6.0	6.0	6.5	6.4
Total return on net assets <sup>(3)</sup> (%)	20.1	19.5	18.4	20.0	20.6
Return on average equity <sup>(3)</sup> (%)	21.8	20.6	19.3	21.0	22.1
Debt-to-equity	.62:1	.63:1	.61:1	.57:1	.55:1
Dividends/distributions as % of cash flow from operating activities	47.7	43.8	48.8	68.2	39.0
Inventory turnover (times per year)	6.1	6.2	5.7	5.6	5.8

(1) The fiscal year changed from the last Saturday in January to January 31 effective January 31, 2007.

(2) The financial results for 2016 to 2011 are reported in accordance with IFRS. 2010 data has been restated to IFRS. All other financial information is presented in accordance with CGAAP and has not been restated to IFRS. Certain 2012 figures have been restated as required by the implementation of Employee Benefits IAS 19r. See 2013 Annual Report for further information.

IFRS <sup>(2)</sup>	IFRS <sup>(2)</sup>					Fiscal Year <sup>(1)</sup>
2011	2010	2009	2008	2007	2006	(\$ in thousands)
<b>Consolidated Statements of Earnings</b>						
\$1,028,396	\$ 978,662	\$ 921,621	\$ 899,263	\$ 852,773	\$ 769,633	Sales - Canadian Operations
466,740	469,442	522,745	493,371	211,717	175,291	Sales - International Operations
1,495,136	1,448,104	1,444,366	1,392,634	1,064,490	944,924	Sales - Total
97,998	98,781	96,599	90,606	87,410	81,730	EBITDA <sup>(3)</sup> - Canadian Operations
27,883	26,983	33,675	31,651	19,147	14,639	EBITDA <sup>(3)</sup> - International Operations
125,881	125,764	130,274	122,257	106,557	96,369	EBITDA <sup>(3)</sup> - Total Operations
28,745	27,511	26,727	24,501	22,634	22,248	Amortization - Canadian Operations
7,827	7,981	8,423	7,553	4,316	3,924	Amortization - International Operations
36,572	35,492	35,150	32,054	26,950	26,172	Amortization - Total
6,026	6,077	5,470	8,307	7,465	6,844	Interest
25,322	14,539	7,841	6,518	9,151	9,693	Income taxes
57,961	69,656	81,813	75,378	62,991	53,660	Net earnings
115,469	114,564	107,973	90,178	93,591	81,486	Cash flow from operating activities
50,797	68,700	67,245	67,730	54,667	38,702	Dividends/distributions paid during the year
46,376	37,814	45,294	46,118	44,409	30,136	Capital and intangible asset expenditures
(4,247)	3,953	1,548	3,998	(368)	212	Net change in cash
<b>Consolidated Balance Sheets</b>						
\$ 295,836	\$ 284,789	\$ 285,843	\$ 285,088	\$ 254,061	\$ 226,164	Current assets
270,370	259,583	258,928	248,856	223,397	189,599	Property and equipment
53,289	55,199	73,177	68,632	50,492	19,690	Other assets, intangible assets and goodwill
7,422	17,017	5,852	6,597	1,720	6,416	Deferred tax assets
128,002	185,377	171,946	172,216	134,899	122,783	Current liabilities
215,206	144,736	161,928	162,547	138,470	67,056	Long-term debt and other liabilities
283,709	286,475	289,926	274,410	256,301	252,030	Equity
<b>Consolidated Dollar Per Share/Unit (\$)<sup>(5)</sup></b>						
\$ 1.20	\$ 1.45	\$ 1.71	\$ 1.58	\$ 1.32	\$ 1.13	Net earnings - basic
1.19	1.44	1.69	1.56	1.31	1.12	Net earnings - diluted
2.60	2.61	2.73	2.56	2.24	2.03	EBITDA <sup>(3),(4)</sup>
2.39	2.38	2.26	1.89	1.96	1.71	Cash flow from operating activities <sup>(4)</sup>
1.05	1.42	1.39	1.40	1.13	0.80	Dividends/distributions paid during the year <sup>(4)</sup>
5.86	5.92	6.04	5.75	5.37	5.29	Equity (basic shares/units outstanding at end of year)
19.40	21.09	17.94	16.14	18.42	16.41	Market price at January 31
<b>Statistics at Year End</b>						
183	184	180	178	176	168	Number of stores - Canadian
46	46	46	43	44	32	Number of stores - International
1,466	1,445	1,423	1,396	1,368	1,226	Selling square feet (000's) end of year - Canadian Stores
655	654	653	617	639	311	Selling square feet (000's) end of year - International Stores
\$ 702	\$ 682	\$ 654	\$ 651	\$ 657	\$ 646	Sales per average selling square foot - Canadian
\$ 713	\$ 718	\$ 752	\$ 723	\$ 410	\$ 601	Sales per average selling square foot - International
5,233	5,301	5,358	5,408	5,359	5,833	Number of employees - Canadian Operations
1,668	1,601	1,545	1,339	1,502	806	Number of employees - International Operations
48,378	48,180	47,799	47,718	47,649	47,561	Average shares/units outstanding (000's)
48,378	48,378	48,017	47,722	47,701	47,625	Shares/Units outstanding at end of fiscal year (000's)
22,418	24,814	20,080	16,402	17,330	13,167	Shares/Units traded during the year (000's)
<b>Financial Ratios</b>						
8.4	8.7	9.0	8.8	10.0	10.2	EBITDA <sup>(3)</sup> (%)
6.0	6.2	6.6	6.5	7.5	7.4	Earnings from operations (EBIT) (%)
18.5	17.9	18.7	19.8	21.0	19.7	Total return on net assets <sup>(3)</sup> (%)
20.1	24.1	29.3	28.6	24.9	21.7	Return on average equity <sup>(3)</sup> (%)
.62:1	.67:1	.72:1	.78:1	.62:1	.43:1	Debt-to-equity
44.0	60.0	62.3	75.1	58.4	47.5	Dividends/distributions as % of cash flow from operating activities
5.7	5.6	5.6	5.8	5.3	5.1	Inventory turnover (times per year)

(3) See Non-GAAP financial measures on page 23.

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

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



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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