

THE NORTH WEST COMPANY INC. 2017

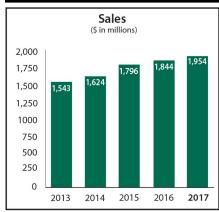
# **Annual Report**

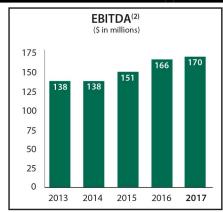


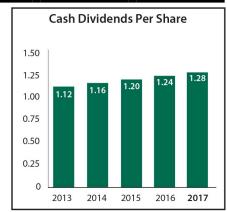
# **Financial Highlights**

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

	Year Ended			Year Ended		Year Ended
(\$ in thousands, except per share information)	Janu	ary 31, 2018	January 31, 2017		Jan	uary 31, 2016
RESULTS FOR THE YEAR						
Sales	\$	1,953,743	\$	1,844,093	\$	1,796,035
Same store sales % increase (1)		1.2%		1.3%		3.8%
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (2)	\$	169,624	\$	166,498	\$	151,347
Earnings from operations (EBIT)		113,971		118,131		107,321
Net earnings		69,691		77,076		69,779
Net earnings attributable to The North West Company Inc.		67,154		77,076		69,779
Cash flow from operating activities (3)		141,419		126,024		132,987
FINANCIAL POSITION						
Total assets	\$	930,948	\$	805,821	\$	793,795
Total debt		313,549		229,266		225,489
Total equity		382,156		367,785		357,612
FINANCIAL RATIOS						
Debt-to-equity		.82:1		.62:1		.63:1
Return on net assets (RONA) (2)		16.7%		20.1%		19.5%
Return on average equity (ROE) (2)		18.3%		21.8%		20.6%
Sales blend: Food		79.2%		79.6%		79.3%
General Merchandise		16.6%		17.5%		17.6%
Other		4.2%		2.9%		3.1%
PER SHARE (\$) - DILUTED						
EBITDA (2)	\$	3.44	\$	3.40	\$	3.10
Net earnings		1.36		1.57		1.43
Cash flow from operating activities		2.87		2.57		2.73
Market price: January 31		29.14		29.28		30.53
high		33.75		33.15		30.53
low		28.45		24.08		23.41







- (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.

# **Annual Report**

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#### MANAGEMENT'S DISCUSSION & ANALYSIS

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 2017 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, 2018 are in Canadian dollars, except where otherwise indicated, and are prepared in accordance with International Financial Reporting Standards ("IFRS").

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on April 11, 2018 and the information contained in this MD&A is current to April 11, 2018, 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 forwardlooking 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 forwardlooking statements whether as a result of new information, future events or otherwise.

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

### **President & CEO Message**

At North West we're dedicated to making lives better for our customers. This extends to community well-being and our commitment to deliver a leading net social benefit. In 2017, these principles were seen in countless interactions and through some major climate events, discussed further below, which demonstrated how deeply we value what we do on behalf of the customers and communities we serve.

2017 began with significant investments that reflected the range of growth and performance opportunities we've developed over several years. Early in the first guarter we completed three Top Market investments, bringing the total number of investments to 19 under this program. These stores, like all Top Markets, provide us with attractive upside for products, services and share expansion within our most important locations. The results confirm this is a compelling initiative, provided that the maintenance capital component is well managed.

We also completed an important acquisition in the first quarter, and announced a second one that closed in June. The first was Roadtown Wholesale Trading Ltd. ("RTW"), the leading retailer and wholesale distributer in the British Virgin Islands ("BVI"). Our access to the BVI market was the product of ten years experience in the Caribbean region building our consumer and social benefit offer. Post-acquisition, it was reinforced by passing cost synergy savings through to RTW customers consistent with our pre-acquisition community commitments, and by the exceptional support role our stores played in the devastating aftermath of hurricanes Irma and Maria.

The second acquisition was our move into northern air transportation through the purchase of North Star Air ("NSA"), a smaller, high performing regional cargo and passenger airline based in Thunder Bay, Ontario. This decision fit strongly within our long-term logistics planning. NSA enables North West to innovate and deliver a higher level of air service to our stores and communities than could be achieved within the incumbent, third-party carrier structure. More specifically, NSA gives us the ability to bring more reliability, speed and frequency to our supply chain at equal or lower cost.

We recognized that NSA was a profitable, well-run airline and that it is now a guickly growing one, requiring capital and other resources as capacity and routes are added. Most of NSA's new volumes will be NWC freight, mitigating the risk of this expansion.

Our major systems initiative, Project Enterprise, was in full build mode last year. This is a \$34 million project to replace old buying and store IT platforms with new, better functionality. We're on budget and slightly behind schedule with the main financial benefits targeted for 2019. As we ramp up implementation in 2018, process change risks will be closely managed. Our edge is the tremendous interest of our people to fully leverage the best technology tools made available to them through Project Enterprise.

Top Categories is a multi-year initiative that prioritizes attractive selling opportunities. Many come under the umbrella of highly convenient, local shopping products and services, ranging from transactional financial services to pharmacy and prepared food. We are shifting more selling space and skill into convenience and we are generating superior returns that are less volatile than even our core food-at-home categories. We will keep refining our models but we know enough of what works best to accelerate new convenience space investment in 2018, including lower-cost modular stores.

Innovation in our community support work stood out in 2018 with the launch of "Health Happy", an expanded focus on bringing more relevant healthy food education and product options into our stores. Indigenous language promotion was another key development area, as we added translations to products and QR label codes to enable oral pronunciation. These will be refined further in 2018 as part of an overall commitment to acting on significant community and broader social priorities that matter to

Our 2017 financial performance reflected success in our key strategies, offset by external challenges we faced. Led by our northern businesses in Alaska and Canada and the contribution from RTW, consolidated EBITDA was up 1.9% to a record \$170 million. On the negative side we temporarily lost approximately US\$92 million in annualized sales and US\$6.6 million in EBITDA due to store damage caused by hurricanes Irma and Maria.

Our Giant Tiger stores performed poorly within a highly competitive food pricing environment. We are addressing this through an intense focus on lowering product costs and shifting key selling space to higher margin hard and soft lines.

Through 2018 I expect our carry-forward priorities and capital allocations to significantly benefit from 2017 learnings. With few exceptions, we are in position to solidify and move faster on higher return core and complimentary businesses and to minimize the impact of less attractive ones.

"Pure Retail" will be a new focus that puts our store roles first, recognizing how vital they are to our success. The early efforts on Pure Retail have been energizing, with a priority on streamlining, stopping or removing low value work from stores so that we free more precious time to develop store associates and get sales. Other new work in 2018 will be the rebuild of our Caribbean stores destroyed or damaged by last year's hurricanes and tests of profitable e-commerce platforms geared to our different banner and customer types.

2017 was a year of significant planned investments which will help shape our growth for years to come. The year also stood out for other reasons, notably the extensive wildfires in northern Manitoba and two hurricanes which hit the Caribbean. In these situations our store teams showed remarkable resiliency, courage and dedication as they recovered their stores and served their customers and communities amidst extremely trying personal times. Their task was far beyond the high standards that we expect and appreciate from each other every day at North West. Through their actions they inspired and reinforced the values that are at the heart of our sustainability and growth.

Thank you to our investors, customers, communities, suppliers and other stakeholders for your genuine interest and support. Together we are North West.

**Edward S. Kennedy** President & CEO April 17, 2018

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### Chairman's Message

On behalf of the Board of The North West Company, I am pleased to report on the Board's work over the past year and our perspective on a number of the more strategic issues and opportunities looking forward.

2017 was, unquestionably, a year that had "Dickensian" qualities - it was the best of times and the worst of times. On one hand, we completed two significant acquisitions which will have a profound and positive impact on the Company for years to come. On the other hand, we faced the challenges of serious forest fires in northern Manitoba which put many of our most important communities at grave risk and two Category 5 hurricanes which decimated St. Maarten, the British Virgin Islands, and St. Thomas in the U.S. Virgin Islands and impaired our store assets in these markets.

From the Board's perspective, the acquisition of RTW in the British Virgin Islands provides North West with more scale in the region and more opportunity to demonstrate our unique and positive fit as a valued retailer within smaller Caribbean islands. It was also immediately and significantly accretive to earnings. The purchase of North Star Air enables us to vertically integrate a key component of our "delivered to the customer" business proposition in the North, in turn providing much better service and higher financial returns. It also positions North West to play a unique end-to-end e-commerce role in remote markets.

These acquisitions, combined with a number of IT and new store-related investments in our existing businesses, resulted in the most aggressive capital program in our history. Throughout, the Board has applied the same proven criterion, evaluating expenditures on their strategic importance and their risk-adjusted rate of expected return, aligned with maintaining a lower level of business volatility and superior cash flow generation. This discipline, as we have said on a number of occasions, has been essential to providing stable total returns to shareholders, including maintenance of a strong and growing dividend. While time will determine the ultimate success of our 2017 capital spending, we are confident that the quality of these investments measures up to our standards.

As commented on by our CEO Edward Kennedy and elsewhere, the dangers that natural disasters presented last year were met with extraordinary efforts by our associates who worked tirelessly, alongside the citizens of the affected communities, to provide continuing service during, and immediately after, these most perilous of situations. The Board cannot express in adequate words how much we appreciate their everyday work and, especially in times of upheaval or stress, how proud we are of all of them.

The way in which North West listens to, anticipates and responds to community and customer conditions says a lot about the culture of the Company and the social benefit we have consistently provided for so many years. Our retailing is at a distinctly human scale. We treat each market according to its unique requirements and tailor our efforts accordingly. At the same time, we are able to marshal the resources, scale benefits and management practices that allow us to succeed, both for our customers and our shareholders.

We have spoken in previous reports about our concerns for the indigenous communities in which we operate and the unique challenges they face. Your Board recognizes that, as the largest private sector employer of indigenous people in Canada and of native people in Alaska, and as a major commercial presence throughout most of the other territories and countries that we serve, we need to play a bigger advocacy role in encouraging governments and others to address the many problems that we see every day in the communities we serve - which we intend to do in the years ahead. Our priority is to determine where our own practices need to change and then where we can most effectively play a public role, recognizing that any support we give must be seen as credible and constructive. Initially, this will lead us to areas that we know best - food pricing and availability, income inequality, health and housing - but we know that the issue is more deeply rooted in society and that we must encourage the identification and eradication of discriminatory attitudes which underlie many of the problems which we see.

You will note that we have asked shareholders to approve an increase in the maximum number of Directors from 12 to 13. This is part of an organized plan to refresh our Board in advance of the anticipated retirement of several Directors over the next three years. This year, we were very pleased to welcome Brock Bulbuck, Chief Executive Officer of Boyd Group Income Fund and Deepak Chopra, former President and Chief Executive Officer of Canada Post, to our Board. These individuals bring a diversity of skills and perspectives to our deliberations and they will be fully engaged in the affairs of the Company by the time some of our longer tenured Directors retire.

One of the reasons we have two new Directors this year is that Gary Merasty, who has been a Director of The North West Company since 2011, stepped down as Director in April in order to assume a senior executive position with the Company. While losing Gary as a Director is significant, we believe it is far outweighed by the contributions that he can make as a member of our senior management team.

On behalf of the Board, I would like to welcome Brock and Deepak to our Board and to thank Gary for his service and to wish him the very best in his new role with the Company.

I want to close by restating the Board's admiration and appreciation for the efforts of our management team, and of all NorWester's, in what was one of the most demanding and momentous years in our history.

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**H. Sanford Riley** Chairman, Board of Directors April 17, 2018



# **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 capability in moving product to, remote or difficult-toreach 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, celebrated 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 vertical investments in shipping and air cargo, wholesaling to independent stores, opening Giant Tiger junior discount stores in rural communities and urban neighbourhoods in western Canada, and retailing through mid-sized warehouse and supermarket 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, wholesale and complimentary businesses:

#### Canadian Operations(1)

- 119 Northern stores, offering a combination of food, financial services and general merchandise to remote northern Canadian
- **6 NorthMart** stores, targeted at larger northern markets with an emphasis on an expanded selection of fresh foods, apparel and health products and services;
- 16 Quickstop convenience stores, offering extended hours, ready-to-eat foods, fuel and related services in northern Canadian
- 41 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 Tim Hortons stand-alone franchise restaurant located in a northern market;
- 1 Wally's Drug Store, a stand-alone northern pharmacy and convenience store;
- 2 North West Company Fur Marketing outlets, trading in furs and offering Indigenous handicrafts and authentic Canadian heritage products;
- 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, the leading provider of contract tele-pharmacist services to rural hospitals and health centres across Canada; and
- Transport Nanuk Inc. and North Star Air Ltd. ("NSA"), water and air-based transportation businesses, respectively, serving northern Canada.

#### International Operations(1)

- 27 Alaska Commercial Company ("AC") stores, similar to Northern and NorthMart, offering a combination of food and general merchandise to communities across remote and rural regions of Alaska;
- **5 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;
- 12 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;
- 1 Island Fresh IGA Supermarket neighborhood food store in Guam, offering convenience with an emphasis on fresh and prepared foods; and
- 5 Riteway Food Markets, 1 Cash and Carry store and a significant wholesale operation (collectively "RTW") in the British Virgin Islands.
- Store count at January 31, 2018 and does not include convenience "Store within a Store" services such as post offices, pharmacies or branded food services

#### **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 risk-adjusted, 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

**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 dividend 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 multiyear 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
- investing in our physical store network, local selling capability and community relations;
- expanding into new retail markets primarily in the Caribbean and Giant Tiger store openings in western Canada;
- building a stronger logistics capability; and
- investing in new information technology for our stores and support offices.

Our key priorities are detailed further below together with the results for 2017:

#### Initiative #1 **Pure Retail**

"Pure Retail" refers to top store teams, lean processes, and customerdriven, store centric support throughout our organization. The goal is to optimize store sales and net performance by creating more ability and freeing more time to get sales at store level.

#### Result

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

#### Initiative #2

#### Investing in Top Markets and Top Categories

This initiative prioritizes our largest and highest potential categories and store locations.

#### Result

Top convenience categories represented the biggest Top Category opportunity in 2017. Convenience sales were up over 12.0% on a comparable stores basis, led by food service growth. Big-ticket sales were a second priority and delivered mixed results with motorized sales increasing 5.1% but furniture sales were down 2.9%. Improved inventory flow and consumer financing enabled the motorized gains while the loss of a large contract sale affected furniture performance. Excluding the low margin contract sale, furniture sales were up 4.9%. The third Top Category focus was produce and meat which combined were up 0.7%. Sales in these categories were negatively impacted by supply issues for certain case-ready meat products and the full year deflationary impact of the Nutrition North Subsidy implemented in 18 stores in October 2016.

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

#### Initiative #3

#### **Investing in New Markets and Businesses**

This initiative is focused on growing our retail business in new locations as well as pursuing greenfield and acquisition opportunities in complimentary businesses which uniquely leverage our capabilities and market presence.

#### Result

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

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

#### Initiative #4

### Next Generation Merchandise and Store Systems ("Project

Project Enterprise is focused on implementing new, higher capability point-of-sale ("POS"), merchandise management ("MMS"), which includes pricing, promotions, category management and vendor revenue management, and workforce management ("WFM") systems. This initiative is expected to deliver improvements in pricing and margin management, inventory management and store staff productivity, all aligned with the Company's "Top" strategies.

#### Result

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

#### Initiative #5 **Building a superior logistics capability**

Recognizing the unique importance of logistics to our business, we continue to invest in building a superior capability in this area, with a focus on providing faster, more reliable and lower cost transportation service to our stores and customers in remote markets.

#### Result

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

#### **KEY PERFORMANCE DRIVERS AND** CAPABILITIES REQUIRED TO DELIVER RESULTS

The ability to protect and enhance the performance of our "Top" Markets and Categories: Our Top Markets and Categories offer the highest potential for market share growth, improved productivity and customer satisfaction. We believe that the effective execution of our Top strategy will deliver higher and more consistent returns and will lead to new growth ideas that can be applied across all stores.

The financial capability to sustain the competitiveness of our core strengths and to pursue growth: Our investment priorities center on next level technology, 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 Pure Retail improvements to our in-store capabilities through improved store structures, processes, compensation, recruiting and training.

The ability to be a leading community store in every market we serve: This depends on connecting with the customers and communities we serve in a highly valued way. 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 being a trusted, open, respectful, adaptable and a socially helpful organization. Obtaining or renewing store leases and business licenses is often subject to community approval and 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 ability to develop highly capable store level employees and work practices: Enhancing store execution and capability as part of our Pure Retail strategies recognizes the important role of executable work processes that drive sales and enable our managers and other key store-level personnel to actively manage the other key facets of their store. This enables a store's full potential to realize local selling opportunities, meet our customer service commitments and build and maintain positive community relationships. It also recognizes that our store roles must be great jobs that offset remoteness, employment competition from other local sectors and other market conditions that create challenges in attracting and retaining the best 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:** A key goal of our Pure Retail initiative 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. Pure Retail is expected to "free" significant hours of lower value store time through process change in 2018 and through technology tools like our new WFM and POS systems.

#### **BUSINESS ACQUISITIONS**

#### Roadtown Wholesale Trading Ltd. ("RTW")

On February 9, 2017, the Company acquired 76% of the outstanding common shares of Roadtown Wholesale Trading Ltd. operating primarily as Riteway Food Markets in the British Virgin Islands ("BVI"). RTW is the leading retailer in BVI with eight retail outlets, one Cash and Carry store and a significant wholesale operation. This acquisition was completed to gain access to a new market, consistent with the Company's overall Caribbean growth plans.

Based on the Company's closing share price on that date, the purchase price was \$35.6 million (US\$27.0 million) comprised of cash consideration of \$31.6 million (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 Company incurred one-time acquisition related costs of \$5.8 million (US\$4.3 million) largely due to stamp duties paid to the Government of the BVI. The financial results for RTW are included in International Operations.

#### North Star Air Ltd. ("NSA")

On June 15, 2017, the Company acquired 100% of the outstanding common shares of North Star Air Ltd. NSA is a Thunder Bay based airline, providing cargo and passenger services within northwestern Ontario, Canada. This acquisition was completed to gain efficiencies in our logistics network and enable the Company to provide faster, more consistent delivery of merchandise to our stores in northern Canada. The purchase price was \$30.8 million and was financed through existing loan facilities. The financial results for NSA are included in Canadian Operations.

Further information on the acquisition of RTW and NSA is provided in Note 24 to the 2017 consolidated financial statements.

### **Consolidated Results**

#### 2017 Highlights

- Sales increased to \$1.954 billion, our 18th consecutive year of top
- Same store sales increased 1.2% driven by food sales.
- EBITDA<sup>(2)</sup> increased 1.9%.
- Total returns to shareholders were 3.7% for the year and were 9.5% on a compound annual basis over the past five years.
- On February 9, 2017, the Company acquired 76% of the shares of Roadtown Wholesale Trading Ltd.
- On June 15, 2017, the Company acquired 100% of the shares of North Star Air Ltd.
- $One \,Quick stop\,convenience\,store\,and\,four\,Giant\,Tiger\,stores\,were$ opened in Canadian Operations and one AC store was opened in International Operations.

#### 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)	<b>2017</b> 2016				16 2015		
Sales	\$	1,953,743	\$	1,844,093	\$	1,796,035	
Same store sales % increase <sup>(1)</sup>		1.2%	Ď	1.3%		3.8%	
EBITDA <sup>(2)</sup>	\$	169,624	\$	166,498	\$	151,347	
EBIT	\$	113,971	\$	118,131	\$	107,321	
Net earnings	\$	69,691	\$	77,076	\$	69,779	
Net earnings attributable to shareholders of the Company	\$	67,154	\$	77,076	\$	69,779	
Net earnings per share - diluted	\$	1.36	\$	1.57	\$	1.43	
Cash flow from operating activities <sup>(3)</sup>	\$	141,419	\$	126,024	\$	132,987	
Cash dividends per share	\$	1.28	\$	1.24	\$	1.20	
Total assets	\$	930,948	\$	805,821	\$	793,795	
Total long-term liabilities	\$	377,580	\$	285,792	\$	280,682	
Return on net assets(2)	16.7%		20.1%	19.5%			
Return on average equity(2)		18.3%	, D	21.8%		20.6%	

- (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, 2018 ("2017") increased 5.9% to \$1.954 billion compared to \$1.844 billion for the year ended January 31, 2017 ("2016"), and were up 8.8% compared to \$1.796 billion for the year ended January 31, 2016 ("2015"). The increase in sales in 2017 was driven by the acquisition of RTW and NSA, same store food sales growth and the impact of new stores in Canadian Operations. These factors were partially offset by hurricane-related store closures in International Operations and the negative impact of foreign exchange on the translation of International Operations sales. Further information on the impact of the hurricane-related store closures is included in International Operations on page 13. Excluding the foreign exchange impact, sales increased 6.3% from 2016 and were up 8.7% from 2015. On a same store basis, sales increased 1.2% compared to increases of 1.3% in 2016 and 3.8% in 2015.

Food sales increased 5.3% from 2016, and were up 5.4% excluding the foreign exchange impact with both Canadian and International Operations contributing to the sales gains. Same store food sales increased 1.3% over last year with quarterly same store increases of 2.1%, 1.9% and 0.8% in the first three quarters but sales were flat to last year in the fourth guarter. Canadian food sales increased 1.0% and International food sales increased 13.2% excluding the foreign exchange impact.

General merchandise sales increased 0.7% compared to 2016 and were up 1.6% excluding the foreign exchange impact led by sales growth in our Canadian Operations. Same store general merchandise sales increased 0.7% for the year with increases of 1.9% and 0.8% in the first and second quarters respectively, a decrease of 1.2% in the third quarter, followed by an increase of 1.3% in the fourth quarter. Canadian general merchandise sales increased 3.5% led by same store sales growth in northern markets and the impact of new stores in rural and urban markets. International general merchandise sales decreased 5.7% excluding the foreign exchange impact as lower sales in Cost-U-Less markets, mainly due to the hurricane-related store closures, more than offset an increase in sales in Alaskan markets.

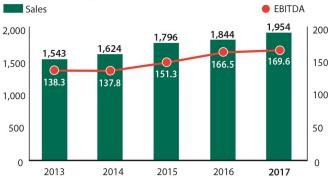
Other sales, which includes airline revenue, fuel sales, fur sales, tele-pharmacy revenue and financial service charge revenue, increased 54.5% compared to 2016 substantially due to the acquisition of NSA.

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

	2017	2016	2015
Food	79.2%	79.6%	79.3%
General merchandise	16.6%	17.5%	17.6%
Other	4.2%	2.9%	3.1%

Canadian Operations accounted for 60.0% of total sales (61.0% in 2016 and 60.7% in 2015) while International Operations contributed 40.0% (39.0% in 2016 and 39.3% in 2015).

Sales & EBITDA (\$ in millions)



Gross Profit Gross profit increased 8.2% to \$586.1 million compared to \$541.5 million last year due to sales growth and a 64 basis points increase in the gross profit rate. The gross profit rate increased to 30.0% from 29.4% last year largely due to sales blend changes across the various jurisdictions, sales growth in higher margin food service and perishable categories, and lower general merchandise inventory shrink and markdowns in northern Canada stores.

Selling, Operating and Administrative Expenses Selling, operating and administrative expenses ("Expenses") increased 11.5% to \$472.1 million and were up 120 basis points as a percentage of sales compared to last year. This increase in Expenses is primarily due to the acquisition of RTW and NSA, one-time acquisition related costs of \$6.3 million largely related to stamp duties paid to the Government of the British Virgin Islands, and new stores in Canadian Operations. Higher incentive plan expenses and an increase in amortization expense mainly related to capital investments in Top Markets and aircraft were also factors. These factors were partially offset by the impact of hurricane-related store closures and a gain on the settlement of a fire insurance claim in Canadian Operations.

Earnings from Operations (EBIT) Earnings from operations or earnings before interest and income taxes ("EBIT") decreased 3.5% to \$114.0 million compared to \$118.1 million last year as the positive impact of the RTW and NSA acquisitions and earnings improvements in northern Canada were more than offset by the \$6.3 million in onetime acquisition costs and the impact of the hurricane-related store closures. Earnings before interest, income taxes, depreciation and amortization ("EBITDA") increased 1.9% to \$169.6 million compared to last year. Excluding the impact of the one-time acquisition related costs and share-based compensation option expense, adjusted EBITDA<sup>2</sup> was up \$9.8 million or 5.8% compared to last year and as a percentage to sales was flat at 9.2% compared to last year.

**Interest Expense** Interest expense increased 40.5% to \$10.1 million compared to \$7.2 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 28.6% compared to last year largely due to the RTW and NSA acquisitions. The average cost of borrowing was 3.1% compared to 2.7% 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 0.9% to \$34.1 million compared to \$33.8 million last year and the effective tax rate for the year was 32.9% compared to 30.5% last year. The increase in income tax expense is due to the impact of a one-time income tax expense related to U.S. tax reform partially offset by lower pre-tax earnings and changes in earnings of the Company's subsidiaries across various tax jurisdictions. The most significant impact of the change in U.S. tax legislation was a reduction in the federal corporate income tax rate from 35.0% to 21.0% effective January 1, 2018 and the implementation of a one-time transition tax on undistributed earnings in foreign subsidiaries. These changes resulted in an estimated income tax expense of \$5.8 million comprised of \$1.8 million for the remeasurement of deferred tax assets and liabilities and \$4.0 million for the transition tax on undistributed earnings in certain of the Company's foreign subsidiaries. The \$4.0 million transition tax is payable over eight years in accordance with the legislation. The estimated impact of the change in U.S. tax legislation may require further adjustment as additional information and interpretations from the U.S. Department of the Treasury becomes available. 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<sup>(1)</sup> (\$ in millions)



(1) Net earnings attributable to shareholders of the Company

**Net Earnings** Consolidated net earnings decreased 9.6% to \$69.7 million compared to \$77.1 million last year. Net earnings attributable to shareholders of the Company was \$67.2 million and diluted earnings per share was \$1.36 per share compared to \$1.57 per share last year due to the factors previously noted. Excluding the impact of acquisition expenses, share-based compensation option expense and the one-time U.S. tax reform expense, adjusted net earnings² increased \$5.0 million or 6.3%. Additional information on the financial performance of Canadian Operations and International Operations is included on page 11 and page 12 respectively. In 2017, the average exchange rate used to translate International Operations sales and expenses was 1.2930 compared to 1.3169 last year and 1.2971 in 2015.

The Canadian dollar's appreciation versus the U.S. dollar compared to 2016 had the following net impact on the 2017 results:

Sales	decrease of \$14.5 million or 1.8%
Earnings from operations	decrease of \$0.8 million
Net earnings	decrease of \$0.5 million
Diluted earnings per share	decrease of \$0.01 per share

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

(\$ in thousands)	2017	2016	2015
Total assets	\$ 930,948	\$ 805,821	\$ 793,795

Consolidated assets increased \$125.1 million or 15.5% compared to 2016 and were up \$137.2 million or 17.3% compared to 2015. The increase in consolidated assets compared to last year and 2015 is predominately due to the acquisition of RTW and NSA which, on a combined basis, resulted in an increase of \$104.6 million in total assets. Further information on the assets acquired is provided in Note 24 to the consolidated financial statements. In addition to the acquisitions, higher capital expenditures on property and equipment related to additional aircraft and investments in hangar and distribution facilities to support NSA in providing cargo service to more of the Company's stores in northern Canada, new stores, major store renovations, equipment replacements and staff housing renovations as part of our Top Markets initiative were also factors. Intangible assets increased compared to last year and 2015 largely due to the purchase of new point-of-sale, merchandise management and workforce management system software. These factors were partially offset by the impact of foreign exchange as the year-end exchange rate used to translate International Operations assets decreased to 1.2301 compared to 1.3030 last year and 1.4080 in 2015.

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

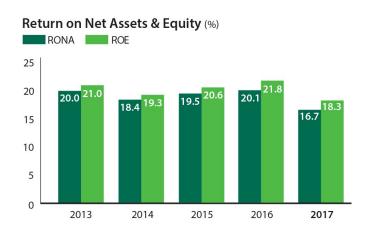
(\$ in thousands)	2017	2016	2015
Current assets	\$ 335,003	\$ 327,938	\$ 335,581
Current liabilities	\$ (171,212)	\$ (152,244)	\$ (155,501)
Working capital	\$ 163,791	\$ 175,694	\$ 180,080

Working capital decreased \$11.9 million or 6.8% to \$163.8 million compared to 2016 and decreased \$16.3 million or 9.0% compared to 2015. Current assets increased \$7.1 million or 2.2% compared to last year but were down \$0.6 million compared to 2015 due to the acquisitions and new stores in Canadian Operations partially offset by a decrease in cash. The decrease in cash is largely due to dividends paid by International Operations to Canadian Operations which were used to reduce amounts drawn on the Company's revolving loan facilities. Current liabilities increased \$19.0 million or 12.5% compared to last year and were up \$15.7 million or 10.1% compared to 2015 mainly due

to the acquisitions. Higher accrued incentive plan and share-based compensation costs were also a factor. These factors were partially offset by the impact of foreign exchange on the translation of International Operations working capital.

Return on net assets employed decreased to 16.7% compared to 20.1% in 2016 due to a 3.5% decrease in EBIT and an increase in net assets employed. Additional information on net assets employed for the Canadian Operations and International Operations is on page 12 and page 13 respectively.

Return on average equity decreased to 18.3% compared to 21.8% in 2016 due to a 9.6% decrease in net earnings and 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.



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

(\$ in thousands)	201	7	2016	2015
Total long-term liabilities	\$ 377,58	5 \$	285,792	\$ 280,682

Consolidated long-term liabilities increased \$91.8 million or 32.1% to \$377.6 million compared to 2016 and were up \$96.9 million or 34.5% from 2015. The increase in long-term liabilities compared to 2016 and 2015 is primarily due to an increase in long-term debt largely related to the RTW and NSA acquisitions and investments in property and equipment as noted under the total assets section. These increases were partially offset by 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 16 and page 17 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)	2017			2016	2015		
Sales	\$ 1,171,621		\$1,125,330		\$1	,089,898	
Same store sales % increase		0.9%		1.7%		3.1%	
EBITDA (1)	\$	112,393	\$	109,736	\$	98,276	
EBIT	\$	72,597	\$	74,445	\$	66,495	
Return on net assets (1)		17.2%		20.7%		20.4%	

(1) See Non-GAAP Financial Measures section.

**Sales** Canadian Operations sales increased \$46.3 million or 4.1% to \$1.172 billion compared to \$1.125 billion in 2016 and were up \$81.7 million or 7.5% compared to 2015 due to the acquisition of NSA, the impact of new stores and same store sales growth. Same store sales increased 0.9% compared to increases of 1.7% in 2016 and 3.1% in 2015. Food sales accounted for 72.3% (74.6% in 2016) of total Canadian Operations sales. The balance was made up of general merchandise sales at 21.1% (21.2% in 2016) and other sales, which consists primarily of airline revenue, fuel sales, fur sales, tele-pharmacy revenue and service charge revenue at 6.6% (4.2% in 2016).

Food sales increased by 1.0% from 2016 and were up 4.7% compared to 2015 as sales gains in northern markets more than offset the impact of lower sales in southern markets due in part to more intensive price discounting. Same store food sales increased 0.8% compared to 2.0% in 2016. On a quarterly basis, same store food sales had increases of 1.5%, 1.4% and 0.7% in the first three quarters but decreased 0.8% in the fourth quarter. Food deflation was a factor as price discounting in southern markets more than offset the impact of freight related inflation in northern markets.

General merchandise sales increased 3.5% from 2016 and 6.5% compared to 2015 led by same store sales growth in all of our banners and the impact of new stores. Same store sales increased 1.2% compared to a 0.6% increase in 2016. On a quarterly basis, same store general merchandise sales increased 3.3% and 0.9% in the first and second quarters respectively, decreased 1.7% in the third quarter, followed by an increase of 2.3% in the fourth quarter.

Other sales increased 63.0% from 2016 and were up 57.4% over 2015 primarily due to the acquisition of NSA.

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

	2017	2016	2015
Food	72.3%	74.6%	74.2%
General merchandise	21.1%	21.2%	21.3%
Other	6.6%	4.2%	4.5%

**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)	2017	2016	2015
Food	0.8%	2.0%	4.0%
General merchandise	1.2%	0.6%	0.3%
Total sales	0.9%	1.7%	3.1%

**Gross Profit** Gross profit dollars for Canadian Operations increased by 3.8% as sales growth more than offset a decrease in the gross profit rate. The lower gross profit rate was mainly due to higher third party freight costs in northern markets and the impact of price discounting in southern markets. These factors were partially offset by lower inventory shrinkage and markdowns in general merchandise.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 5.4% from 2016 and were up 32 basis points as a percentage of sales. The increase in Expenses is primarily due to the acquisition of NSA, the ramp-up costs related to expanding this business, and one-time acquisition related costs. The impact of new stores and higher incentive plan costs largely related to share-based compensation costs were also factors. Further information on share-based compensation costs is provided in Note 13 to the consolidated financial statements. These factors were partially offset by a gain related to the settlement of a fire insurance claim.

**Earnings from Operations (EBIT)** Earnings from operations decreased \$1.8 million or 2.5% to \$72.6 million compared to \$74.4 million in 2016 as the positive impact of higher sales and gross profit were more than offset by higher Expenses as previously noted. Earnings from operations as a percentage of sales was 6.2% compared to 6.6% last year. EBITDA from Canadian Operations increased \$2.7 million or 2.4% to \$112.4 million and was 9.6% as a percentage of sales compared to 9.8% in 2016.

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



Net Assets Employed Net assets employed at January 31, 2018 increased 21.8% to \$454.2 million compared to \$372.9 million at January 31, 2017, and was up 31.0% compared to \$346.8 million at January 31, 2016 as summarized in the following table:

#### **Net Assets Employed**

(\$ in millions at the end of the fiscal year)	2017	2016		2015
Property and equipment	\$ 332.3	\$ 247.1	\$	225.5
Inventories	138.4	130.3		125.7
Accounts receivable	66.8	65.9		65.2
Other assets	96.8	82.8		84.8
Liabilities	(180.1)	(153.2)		(154.4)
Net assets employed	\$ 454.2	\$ 372.9	\$	346.8

Capital expenditures for the year included the \$30.8 million acquisition of NSA and additional investments in aircraft, hangar and distribution facilities to support NSA in providing cargo service to more of the Company's stores in northern Canada. Other capital expenditures included the opening of five new stores, Top Markets investments related to major store renovation projects, new equipment, staff housing improvements, energy-efficient lighting and refrigeration upgrades and "New Store Experience" renovations in two Giant Tiger stores.

Inventory increased \$8.1 million compared to 2016 and was up \$12.7 million compared to 2015 mainly due to new stores and a higher investment in inventory in stores serviced by sealift and winter road to take advantage of lower transportation costs. Average inventory levels in 2017 increased \$2.9 million or 2.2% compared to 2016 and were up \$9.3 million or 7.3% compared to 2015. Inventory turnover was flat to last year at 6.0 times and was down slightly compared to 6.1 times in 2015.

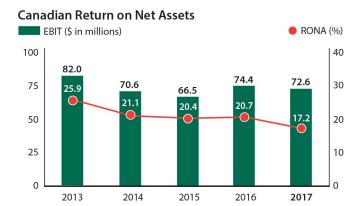
Accounts receivable were up \$0.9 million to last year and up \$1.6 million or 2.5% compared to 2015 as new NSA accounts receivable were partially offset by a decrease in fire insurance claim-related accounts receivable. Average accounts receivable were \$2.7 million or 4.3% higher than 2016 and up \$5.0 million or 8.3% compared to 2015. The increase in average accounts receivable is due in part to NSA and higher motorized merchandise sales.

Other assets increased \$14.0 million or 16.9% compared to last year and were up \$12.0 million or 14.2% compared to 2015. This increase is largely due to higher intangible assets related to new pointof-sale, merchandise management and workforce management system software as part of Project Enterprise and an increase in goodwill related to the NSA acquisition. An increase in net deferred tax assets primarily related to property and equipment and decrease in deferred limited partnership earnings was also a factor.

Liabilities increased \$26.9 million or 17.6% from 2016 and were up \$25.7 million or 16.6% compared to 2015. This increase is largely due to the NSA acquisition, higher trade accounts payable related to the timing of payment cycles and accrued share-based compensation

Further information on the assets and liabilities of NSA is provided in Note 24 to the consolidated financial statements.

**Return on Net Assets** The return on net assets employed for Canadian Operations decreased to 17.2% from 20.7% in 2016 due to a 2.5% decrease in EBIT and a \$62.2 million or 17.3% increase in average net assets compared to last year.



### **International Operations**

(Stated in U.S. dollars)

#### **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)	2017	2016 20			2015	
Sales	\$ 604,889	\$	545,799	\$ 544,397		
Same store sales % increase	1.8%		0.4%		5.2%	
EBITDA <sup>(1)</sup>	\$ 44,262	\$	43,049	\$	40,991	
EBIT	\$ 31,999	\$	33,173	\$	31,475	
Return on net assets (1)	15.8%		19.2%		18.1%	

(1) See Non-GAAP Financial Measures section.

**Sales** International sales increased 10.8% to \$604.9 million compared to \$545.8 million in 2016, and were up \$60.5 million or 11.1% compared to 2015 led by the acquisition of RTW and same store sales growth in AC stores. These sales gains were partially offset by the impact of store closures in the Caribbean due to the hurricanes that occurred in the third quarter. Further information about the impact of the hurricanes is provided below. Same store sales increased 1.8% compared to 0.4% in 2016 and 5.2% in 2015. Food sales accounted for 89.5% (87.6% in 2016) of total sales with the balance comprised of general merchandise at 9.9% (11.6% in 2016) and other sales, which consists primarily of fuel sales and service charge revenue at 0.6% (0.8% in 2016).

Food sales increased 13.2% from 2016 and were up 14.1% compared to 2015. Same store food sales were up 2.3% compared to a 1.0% increase in 2016 with both AC and CUL contributing to the sales increase. Quarterly same store food sales increases were 3.0%, 2.8%, 1.2% and 2.0% in the fourth quarter.

General merchandise sales decreased 5.7% from 2016 and were down 8.7% from 2015. On a same store basis, general merchandise sales were down 1.4% compared to a decrease of 3.9% in 2016. Quarterly same store general merchandise sales decreased 3.8% in the first quarter with increases of 0.3% and 0.5% in the second and third quarters respectively and a decrease of 2.8% in the fourth quarter as same store sales growth in AC stores was more than offset by lower sales in CUL stores.

Sales in the Caribbean were negatively impacted by the hurricanes that occurred in the third quarter and continuing logistics disruptions related to shipping port capacity and reduced cargo container availability that impacted store in-stock rates. Sales in AC stores rebounded after a challenging 2016 which was impacted by deteriorated economic conditions and a 50.7% decrease in the Permanent Fund Dividend ("PFD"). The PFD was \$1,100 this year compared to \$1,022 in 2016 and \$2,072 in 2015.

Other sales, which consists of fuel sales and service charge revenue, were down 11.3% from 2016 and 16.0% from 2015 due to a decrease in fuel sales from the closure of a small Quickstop Convenience store in Kodiak, Alaska.

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

	2017	2016	2015
Food	89.5%	87.6%	87.1%
General merchandise	9.9%	11.6%	12.0%
Other	0.6%	0.8%	0.9%

**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 PFD and regional native corporation dividends, which can result in greater sales volatility.

#### Same Store Sales

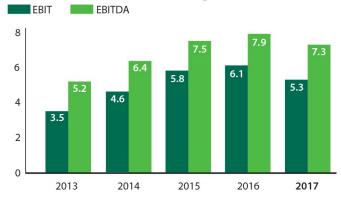
(% change)	2017	2016	2015
Food	2.3 %	1.0 %	5.4%
General merchandise	(1.4)%	(3.9)%	3.9%
Total sales	1.8 %	0.4 %	5.2%

**Gross Profit** Gross profit dollars increased 18.6% driven by sales growth and an increase in the gross profit rate. The increase in the gross profit rate is due to the blend of sales across the various jurisdictions partially offset by price investments in certain AC stores.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 25.3% compared to last year and were up 266 basis points as a percentage of sales largely due to RTW stores and one-time acquisition costs of \$4.3 million predominately related to stamp duties paid to the Government of the British Virgin Islands. These factors were partially offset by the hurricane-related store closures.

**Earnings from Operations (EBIT)** Earnings from operations decreased \$1.2 million or 3.5% to \$32.0 million compared to 2016 as the positive impact of the RTW acquisition was more than offset by the one-time acquisition costs and the impact of the hurricane-related store closures. EBITDA increased \$1.2 million or 2.8% to \$44.3 million and was 7.3% as a percentage of sales compared to 7.9% in 2016.

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



**Net Assets Employed** International Operations net assets employed increased \$24.0 million or 14.0% to last year and were up \$27.9 million or 16.6% to 2015 as summarized in the following table:

#### **Net Assets Employed**

(\$ in millions at the end of the fiscal year)	2017	2016	2015
Property and equipment	\$ 111.9	\$ 85.2	\$ 85.5
Inventories	68.0	63.6	61.1
Accounts receivable	11.3	10.0	10.0
Other assets	49.8	53.1	51.1
Liabilities	(45.3)	(40.2)	(39.9)
Net assets employed	\$ 195.7	\$ 171.7	\$ 167.8

Substantially all of the increase in net assets employed compared to last year and 2015 is due to the acquisition of RTW. Further information on the assets and liabilities of RTW is provided in Note 24 to the consolidated financial statements. The increase in property and equipment related to the RTW acquisition was partially offset by the \$5.4 million write-off of store assets destroyed in the hurricanes.

Inventories increased \$4.4 million compared to last year and were up \$6.9 million or 11.3% from 2015 as the addition of RTW inventories was partially offset by a reduction in inventory due to the hurricane-related store closures. Average inventory levels in 2017 were up 9.1% compared to 2016 and were up 8.9% compared to 2015 and inventory turnover was down slightly to 6.1 times compared to 6.2 times last year and in 2015.

Other assets decreased \$3.3 million or 6.2% compared to last year and were down \$1.3 million compared to 2015 primarily due to lower cash balances and deferred tax assets partially offset by an increase in goodwill and intangible assets related to RTW.

Other liabilities increased \$5.1 million or 12.7% compared to 2016 and were up \$5.4 million or 13.5% compared to 2015 mainly due to an increase in trade accounts payable related to the RTW acquisition and the impact of accrued transition income tax expense related to U.S. tax reform.

**Hurricanes Irma and Maria Impact** In September 2017, the Company's CUL stores in St. Maarten and St. Thomas, and the RTW operations in the British Virgin Islands ("BVI") were impacted by hurricanes Irma and Maria. These category five hurricanes had a devastating impact on the people and infrastructure on these and other islands in the Caribbean. Infrastructure repairs are ongoing and the timelines for completing this work and the impact on the economy is currently indeterminable.

A CUL store in St. Maarten partially re-opened in November 2017 and is expected to be fully operational in the second half of 2018. A

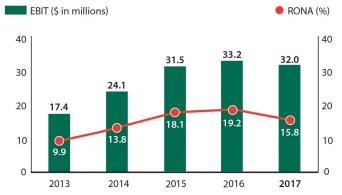
CUL store in St. Thomas, USVI, and three RTW stores in the BVI require complete reconstruction. Two of the RTW stores are expected to open in the second half of 2018 while the CUL store in St. Thomas and the remaining RTW store are expected to re-open in 2019. The timelines for completing the repair and reconstruction of these stores will depend on many factors including the state of public infrastructure and the availability of building materials and qualified trades people.

The hurricane related store closures negatively impacted sales and EBITDA by approximately \$35.1 million and \$4.1 million respectively. On an annualized basis, these stores represent approximately \$92.0 million in sales and \$6.6 million in EBITDA. In addition, the Company may incur certain ongoing expenses that are expected to be recovered through business interruption insurance.

The Company expects that its insurance proceeds will be sufficient to cover repair and reconstruction costs. The Company also has business interruption insurance that will help mitigate the earnings impact of the store closures however, the settlement of the business interruption claim is expected to take approximately 12 to 15 months to complete. The settlement of these claims and the receipt of payments are expected to result in insurance-related gains in the consolidated statements of earnings in subsequent periods.

Return on Net Assets The return on net assets employed for International Operations decreased to 15.8% compared to 19.2% in 2016 due to a 3.5% decrease in EBIT and a \$29.0 million increase 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)	2017	2016	2015
Cash provided by (used in):			
Operating activities before change in non-cash working capital and other	\$134,222	\$ 132,351	\$ 121,424
Change in non-cash working capital	2,271	(10,799)	5,904
Change in other non-cash items	4,926	4,472	5,659
Operating activities	141,419	126,024	132,987
Investing activities	(165,861)	(77,682)	(75,813)
Financing activities	19,928	(54,398)	(50,174)
Effect of foreign exchange	(569)	(944)	1,114
Net change in cash	\$ (5,083)	\$ (7,000)	\$ 8,114

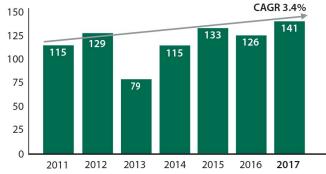
**Cash from Operating Activities** Cash flow from operating activities increased \$15.4 million or 12.2% to \$141.4 million compared to 2016 and was up \$8.4 million or 6.3% compared to 2015. The increase in cash flow from operating activities is mainly due to the change in non-cash working capital which positively impacted cash flow from operating activities by \$2.3 million this year compared to a decrease in cash flow of \$10.8 million in 2016 and an increase in cash flow of \$5.9 million in 2015. The change in non-cash working capital is primarily due to the change in inventories, accounts receivable 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 12 and 13 respectively.

The \$12.8 million increase in cash flow from operating activities before working capital and other items in 2017 compared to 2015 is due in part to higher amortization and interest expense partially offset by an increase in taxes paid due to the timing of income tax installments.

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 2018.

Since converting back to a share corporation on January 1, 2011, the compound annual growth rate ("CAGR") for cash flow from operating activities is 3.4% as shown in the following graph:

#### Cash Flow from Operating Activities<sup>(1)</sup> (\$ in millions)



(1) 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

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 \$165.9 million compared to \$77.7 million in 2016 and \$75.8 million in 2015. The increase is mainly due to the acquisition of RTW and NSA partially offset by \$7.0 million in insurance proceeds received on the write-off of store assets destroyed in the hurricanes. Net investing in Canadian Operations was \$121.4 million compared to \$63.3 million in 2016 and \$68.1 million in 2015. A summary of the Canadian Operations investing activities is included in net assets employed on page 12. Net investing in International Operations was \$44.5 million compared to \$14.4 million in 2016 and \$7.7 million in 2015. A summary of the International Operations investing activities is included in net assets employed on page 13.

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 o	f Stores	Selling squa	re footage
	2017	2016	2017	2016
Northern	119	120	688,583	701,112
NorthMart	6	6	134,210	134,387
Quickstop	21	21	35,003	36,552
Giant Tiger	41	37	672,794	611,324
Alaska Commercial	27	27	269,893	278,742
Cost-U-Less	12	13	318,191	369,281
Riteway Food Market	6	_	54,712	_
Other Formats	7	8	46,366	62,254
Total at year-end	239	232	2,219,752	2,193,652

In Canadian Operations, one Quickstop convenience store and four Giant Tiger stores were opened, one Northern store in Fort Nelson, BC was closed, and the Price Chopper store under Other Formats was converted to a Giant Tiger store. Total selling square footage in Canada increased to 1,551,916 from 1,517,840 in 2016 as a result of the new stores.

In International Operations, an AC store was opened in Kiana, Alaska and a Quickstop convenience store in Kodiak, Alaska and an AC store in St. Paul, Alaska were closed. Total selling square footage decreased to 667,836 compared to 675,812 last year as the impact of the two AC store closures and the CUL hurricane-related store closures more than offset the square footage added from the acquisition of RTW.

**Cash From/(Used in) Financing Activities** Cash provided by financing activities was \$19.9 million compared to cash used in financing activities of \$54.4 million in 2016 and \$50.2 million in 2015. The change compared to last year is due to the issuance of \$100.0 million in senior notes which was used to reduce amounts drawn on the Company's revolving loan facilities. This change in long-term debt was partially offset by an increase in dividends and interest. Further information on dividends, interest and the loan facilities is provided in the following sections.

**Shareholder Dividends** The Company paid dividends of \$62.3 million or \$1.28 per share, an increase of 3.6% compared to \$60.2 million or \$1.24 per share paid in 2016. 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:

	2017	2016	2015
First Quarter	\$ 0.32	\$ 0.31	\$ 0.29
Second Quarter	0.32	0.31	0.29
Third Quarter	0.32	0.31	0.31
Fourth Quarter	0.32	0.31	0.31
Total	\$ 1.28	\$ 1.24	\$ 1.20

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.

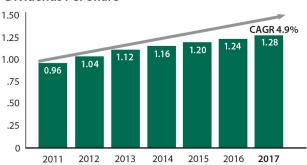
The following table shows dividends paid in comparison to cash flow from operating activities for the past three years:

	2017	2016	2015
Dividends	\$ 62,315	\$ 60,169	\$ 58,210
Cash flow from operating activities	\$ 141,419	\$ 126,024	\$132,987
Dividends as a % of cash flow from operating activities	44.1%	47.7%	43.8%

Dividends as a percentage of cash flow from operating activities has averaged 45.2% over the past three years.

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 4.9% over the past six years as shown in the following graph:

#### Dividends Per Share(1)



(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, 2018, the Board of Directors approved a quarterly dividend of \$0.32 per share to shareholders of record on March 29, 2018, to be paid on April 16, 2018.

**Post-Employment Benefits** The Company sponsors defined benefit and defined contribution pension plans covering the majority of Canadian employees. The Company recorded net actuarial gains on defined benefit pension plans of \$1.2 million net of deferred income taxes in other comprehensive income. This compares to net actuarial gains on defined benefit pension plans of \$2.4 million net of deferred income taxes in other comprehensive income in 2016 and net actuarial gains of \$4.6 million net of deferred income taxes in 2015. These gains in other comprehensive income were immediately recognized in retained earnings. Actuarial gains and losses occur primarily due to changes in the discount rate used to calculate pension liabilities and returns on pension plan assets.

In 2018, the Company will be required to contribute approximately \$1.7 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. In 2017, the Company's cash contributions to the pension plan were \$3.5 million compared to \$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 \$4.2 million to the defined contribution pension plan and U.S. employees savings plan in 2018 compared to \$3.1 million in 2017 and \$3.5 million in 2016. Additional information regarding post-employment benefits is provided in Note 12 to the consolidated financial statements.

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

At January 31, 2018, the Canadian Operations have outstanding US\$70.0 million senior notes (January 31, 2017 - 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 Company's other senior debt. The Company has designated certain U.S. denominated debt 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.

The Canadian Operations also have committed, revolving loan facilities of \$300.0 million that bear a floating rate of interest based on Bankers Acceptances rates plus a stamping fee. In September 2017, the maturity date was extended from April 29, 2021 to September 26, 2022. These facilities are secured by certain assets of the Company and rank pari passu with the Company's other senior debt. At January 31, 2018, the Company had drawn \$91.1 million on these facilities (January 31, 2017 - \$126.3 million).

The Company has committed, revolving loan facilities of US\$52.0 million that bear interest at U.S. LIBOR plus a spread. In September 2017, the maturity date was extended from April 29, 2021 to September 26, 2022. These facilities are secured by certain assets of the Company and rank pari passu with the Company's other senior debt. At January 31, 2018, the Company had drawn US\$27.9 million on these facilities (January 31, 2017 - 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, 2018, the International Operations had drawn US\$1.4 million on this facility (January 31, 2017 - US\$9.1 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, 2018, 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

	2017	2016	2015
Coverage ratio	11.3	16.4	17.3
EBIT (\$ in millions)	\$ 114.0	\$ 118.1	\$ 107.3
Interest (\$ in millions)	\$ 10.1	\$ 7.2	\$ 6.2

The coverage ratio of earnings from operations ("EBIT") to interest expense has decreased to 11.3 times compared to 16.4 times in 2016 largely due to a \$2.9 million increase in interest expense and a decrease in consolidated EBIT as previously noted. 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)	\$313,549	\$ —	\$ 1,776	\$211,773	\$100,000
Operating leases	174,708	31,279	43,681	27,310	72,438
Other liabilities (1)	28,352	14,164	14,188		
Total	\$516,609	\$ 45,443	\$59,645	\$ 239,083	\$172,438

 $(1) At year-end, the Company had additional long-term liabilities of \$46.0 \, million$ 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** The Company has a Master Franchise Agreement (MFA) with Giant Tiger Stores Limited, based in Ottawa, Ontario, which grants the Company the exclusive right to open Giant Tiger stores in western Canada, subject to meeting a minimum store opening commitment. 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,

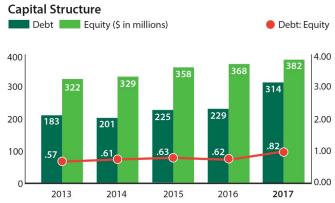
owning, operating and providing food buying and distribution services to the stores. At January 31, 2018, the Company owns 41 Giant Tiger stores and is in compliance with the minimum store opening commitment. The agreement expires July 31, 2040. Additional information on commitments, contingencies and 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 \$22 million (January 31, 2017 - \$16 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 \$313.5 million in debt and \$382.2 million in equity at the end of the year and a debt-to-equity ratio of 0.82:1 compared to 0.62:1 last year.



The Company's capital structure is summarized in the preceding graph. Over the past four years, the Company's debt-to-equity ratio has ranged from .57:1 to .82:1. Equity has increased \$59.7 million or 18.5% to \$382.2 million over the past four years and interest-bearing debt has increased \$130.7 million or 71.5% to \$313.5 million compared to \$182.9 million in 2013. From 2013 to 2017, the Company has made capital expenditures, including acquisitions, of \$422.5 million and has paid dividends of \$291.1 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 \$84.3 million or 36.8% to \$313.5 million compared to \$229.3 million in 2016, and was up \$88.1 million or 39.1% from \$225.5 million in 2015. The increase in debt is due to the issuance of \$100.0 million senior notes and higher amounts drawn on the revolving loan facilities largely resulting from the acquisition of RTW and NSA. This increase was partially offset by the impact of foreign exchange on the translation of U.S. denominated debt. The Company has US\$99.4 million in debt at January 31, 2018 (January 31, 2017 - US\$79.1 million, January 31, 2016 - US\$75.6 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, 2018 was 1.2301 compared to 1.3030 at January 31, 2017 and 1.4080 at January 31, 2016. The change in the foreign exchange rate resulted in a \$7.2 million decrease in debt compared to 2016 and a \$17.7 million decrease compared to 2015. Average debt outstanding during the year excluding the foreign exchange impact increased \$68.1 million or 32.3% from 2016 and was up \$93.1 million or 50.1% compared to 2015. The debt outstanding at the end of the fiscal year is summarized as follows:

(\$ in thousands at the end of the fiscal year)	2017	2016	2015	
CAD\$ senior notes	\$ 100,000	\$ -	\$ —	
US\$ senior notes	85,760	91,035	98,350	
Canadian revolving loan facilities	91,648	126,344	119,193	
U.S. revolving loan facilities	36,141	11,887	7,946	
Total	\$ 313,549	\$ 229,266	\$ 225,489	

**Shareholders' Equity** The Company has an unlimited number of authorized shares and had issued and outstanding shares at January 31, 2018 of 48,690,212 (January 31, 2017 - 48,542,514). 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, 2018, there were 2,919,117 options outstanding representing approximately 6.0% of the issued and outstanding shares. Further information on share options is provided in Note 13 to the consolidated financial statements.

On June 14, 2017, the Company's Common Shares were replaced by Variable Voting Shares and Common Voting Shares. The two classes of shares have equivalent rights except for voting rights. Holders of Variable Voting Shares are entitled to one vote per share except where (i) the number of outstanding Variable Voting Shares exceeds 25% of the total number of all issued and outstanding Variable Voting Shares and Common Voting Shares, or (ii) the total number of votes cast by or on behalf of the holders of Variable Voting Shares at any meeting on any matter on which a vote is to be taken exceeds 25% of the total number of votes cast at such meeting. Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the Canada Transportation Act). At January 31, 2018 there were 12,557,051 Variable Voting Shares, representing 25.8% of the total shares issued and outstanding. Further 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 decreased to \$7.50 per share compared to \$7.51 per share in 2016. Total shareholders' equity increased \$14.4 million or 3.9% compared to 2016 as shares issued in connection with the acquisition of RTW and the related impact of non-controlling interests more than offset the impact of lower net earnings and an increase in dividends. Further information is provided in the consolidated statements of changes in shareholders' equity in the consolidated financial statements.

#### **QUARTERLY FINANCIAL INFORMATION**

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, variability in share-based compensation costs related to changes in the Company's share price and other factors which can affect net earnings.

The following is a summary of selected quarterly financial information:

(\$ thousands)		Q1		Q2		Q3		Q4 <sup>(1)</sup>		Total
Sales										
2017	\$ 4	476,822	\$	507,873	\$4	479,292	\$4	489,756	\$1	1,953,743
2016	\$ 4	438,974	\$.	460,567	\$4	463,959	\$4	480,593	\$1	1,844,093
EBITDA										
2017	\$	30,115	\$	47,304	\$	45,612	\$	46,593	\$	169,624
2016	\$	37,640	\$	38,857	\$	51,140	\$	38,861	\$	166,498
Earnings from	n o	peration	ıs (l	EBIT)						
2017	\$	16,740	\$	33,192	\$	31,824	\$	32,215	\$	113,971
2016	\$	25,613	\$	26,954	\$	39,082	\$	26,482	\$	118,131
Net earnings										
2017	\$	9,071	\$	23,261	\$	21,034	\$	16,325	\$	69,691
2016	\$	17,794	\$	16,423	\$	27,865	\$	14,994	\$	77,076
Net earnings	att	tributabl	e t	o shareh	old	ers of th	e C	ompany		
2017	\$	8,386	\$	22,720	\$	20,648	\$	15,400	\$	67,154
2016	\$	17,794	\$	16,423	\$	27,865	\$	14,994	\$	77,076
Earnings per	sh	are-basio	:							
2017	\$	0.17	\$	0.47	\$	0.42	\$	0.32	\$	1.38
2016	\$	0.37	\$	0.34	\$	0.57	\$	0.31	\$	1.59
Earnings per	sh	are-dilut	ed							
2017	\$	0.17	\$	0.46	\$	0.42	\$	0.31	\$	1.36
2016	\$	0.36	\$	0.34	\$	0.57	\$	0.30	\$	1.57

(1) Fourth Quarter Subsequent Event The Company reported its fourth quarter unaudited interim period condensed consolidated financial statements on March 15, 2018. On April 2, 2018, the U.S. Department of the Treasury and the Internal Revenue Service issued notice 2018-26 providing additional guidance on H.R. 1, the Tax Cuts and Jobs Act ("U.S. Tax Reform") including the calculation of the Deemed Repatriation Transition Tax ("transition tax"). As a result of this additional guidance, the Company recorded an additional estimated transition tax of \$1.9 million on accumulated undistributed earnings in foreign subsidiaries in its annual audited consolidated financial statements for the year ended January 31, 2018. This adjustment increased income tax expense and decreased net earnings by \$1.9 million (US\$1.5 million) from the amounts previously reported in the fourth quarter unaudited interim consolidated financial statements for both the fourth quarter and the year ended January 31, 2018. The impact of the \$1.9 million increase in income tax expense has been included in the quarterly financial information table above and reflected in the fourth quarter highlights that follow.

Fourth Quarter Highlights Fourth quarter consolidated sales increased 1.9% to \$489.8 million due to the acquisition of RTW in International Operations and NSA in Canadian Operations. Same store sales gains in International Operations were also a factor. These gains were partially offset by store closures related to hurricanes in the Caribbean and the impact of foreign exchange on the translation of International Operations sales. Excluding the foreign exchange impact, consolidated sales increased 4.2% and were up 0.3%<sup>2</sup> on a same store basis. Food sales<sup>2</sup> increased 1.2% but were flat to last year on a same store basis. General merchandise sales<sup>2</sup> increased 1.8% and were up 1.3% on a same store basis.

Gross profit dollars were up 3.8% driven by the acquisition related sales growth and a 56 basis point increase in gross profit rate compared to last year. The increase in gross profit rate is mainly due to sales blend changes across the various jurisdictions.

Selling, operating and administrative expenses ("Expenses") decreased 0.2% and were down 51 basis points as a percentage to sales as expenses related to the RTW and NSA acquisitions and new stores in Canadian Operations were more than offset by the impact of lower share-based compensation costs and hurricane-related store closures.

The decrease in share-based compensation costs of \$9.2 million was largely due to an option expense recovery of \$2.8 million this year compared to an option expense of \$4.6 million last year. A substantial portion of the options granted are accounted for as a liability and are re-measured based on the share price at each quarterly reporting date. The lower option expense this quarter was due to a decrease in the share price in the quarter this year compared to an increase in the share price in the fourth quarter last year.

Earnings from operations ("EBIT") increased \$5.7 million or 21.6% to \$32.2 million compared to \$26.5 million last year due to the impact of the RTW and NSA acquisitions and lower share-based compensation previously noted. These gains were partially offset by the impact of the hurricane-related store closures.

Earnings before interest, income taxes, depreciation and amortization (EBITDA<sup>3</sup>) increased \$7.7 million or 19.9% to \$46.6 million. Excluding the impact of the share option expense, adjusted EBITDA<sup>3</sup> was up 0.7% compared to last year and as a percentage to sales was 8.9% compared to 9.0% last year.

Interest expense increased \$1.3 million to \$3.1 million due to an increase in long-term debt largely related to the financing of the RTW and NSA acquisitions and higher interest rates.

Income tax expense increased \$3.1 million to \$12.8 million and the consolidated effective tax rate was 44.0% compared to 39.3% last year. The increase in the effective tax rate is due to the impact of onetime income tax expense related to U.S. tax reform. These changes resulted in an income tax expense of \$5.8 million for the remeasurement of deferred tax assets and liabilities and the transition tax on undistributed earnings in certain of the Company's foreign subsidiaries. These factors more than offset the impact of changes in earnings of the Company's subsidiaries across various tax jurisdictions and the change in non-taxable share-based compensation costs in Canadian Operations compared to last year.

Net earnings increased 8.9% to \$16.3 million. Net earnings attributable to shareholders of the Company were \$15.4 million and diluted earnings per share were \$0.31 per share compared to \$0.30 per share last year due to the factors noted above. Excluding the impact of share-based compensation option expense and the one-time tax expense related to U.S. tax reform, adjusted net earnings<sup>3</sup> decreased 1.3%.

<sup>(2)</sup> Excluding the foreign exchange impact.

<sup>(3)</sup> See Non-GAAP Financial Measures Section in the 2017 fourth quarter report to shareholders.

Working capital decreased \$11.9 million compared to the fourth quarter last year as the impact of the net working capital in RTW and NSA was more than offset by higher trade accounts payable and accrued expenses in Canadian Operations largely related to timing of payments and an increase in accrued incentive plan costs. Changes in the foreign exchange rate used to translate International Operations balance sheets was also a factor. The exchange rate used to convert U.S. denominated International Operations balance sheets into Canadian dollars at January 31, 2018 was 1.2301 compared to 1.3030 last year.

Cash flow from operating activities in the quarter increased \$4.0 million to \$55.5 million compared to cash flow from operating activities of \$51.5 million last year. This increase is primarily due to higher net earnings and a decrease in taxes paid due to timing of installments. These positive impacts were partially offset by the change in non-cash working capital largely due to the change in inventory and accounts receivable compared to last year.

Cash used for investing activities in the quarter increased to \$40.0 million compared to \$23.8 million last year due to the purchase of aircraft and equipment to expand the number of stores serviced by NSA. Investments related to the implementation of a new point-of-sale and merchandise management system were also factors.

Cash used in financing activities in the quarter was \$42.9 million compared to \$44.5 million last year. The net change in long-term debt in the quarter is due to a decrease in amounts drawn on the Company's revolving loan facilities.

Further information on the quarterly financial performance of the Company is provided in the interim MD&A available on the Company's website at <a href="https://www.northwest.ca">www.northwest.ca</a> or on SEDAR at <a href="https://www.sedar.com">www.sedar.com</a>.

#### 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, 2018.

## 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 Internal Control - Integrated Framework published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"), 2013, the Company's CEO and CFO have concluded that the internal controls over financial reporting were designed and operated effectively as at January 31, 2018.

Management has limited the scope of the design of internal controls over financial reporting and disclosure controls and procedures to exclude the controls, policies and procedures of Roadtown Wholesale Trading Ltd. ("RTW") operating primarily as Riteway Food Markets in the British Virgin Islands and North Star Air Ltd. ("NSA"). RTW and NSA were acquired February 9, 2017 and June 15, 2017 respectively and their operating results have been included in the 2017 annual consolidated financial statements for the period ended January 31, 2018. The scope limitation is due to the time required for the Company to assess disclosure controls & procedures and internal controls over financial reporting at both RTW and NSA in a manner consistent with its other operations. This limitation is in accordance with Section 3.3 of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings, which allows an issuer to limit its design of internal controls over financial reporting and disclosure controls and procedures of a company acquired not more than 365 days before the end of the financial period to which the certificate relates.

Other than as described above, there have been no changes in the internal controls over financial reporting for the year ended January 31, 2018 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting. The assessment of the design of internal controls over financial reporting and disclosure controls and procedures for RTW and NSA are on track for completion by the first and second quarters of 2018, respectively.

Since the date of the RTW and NSA acquisitions, the impact on sales was an increase of \$133.5 million and the impact on net earnings was an increase of \$6.4 million. The net earnings increase of \$6.4 million includes \$6.2 million in acquisition costs, net of tax, substantially related to stamp duty paid to the Government of the British Virgin Islands. Further financial information on the acquisition of RTW and NSA is included in Note 24 to the annual consolidated financial statements.

#### **OUTLOOK**

As noted under the Strategy section, the Company's principal focus continues to be on its store network, people, products and facilities. The successful execution of this enables the Company to capture market share and sales at a higher rate, while focusing on lower-risk products and services. Priority work in 2018 will include implementing hurricane recovery plans in the Caribbean and post-acquisition plans for RTW and NSA, with an emphasis on growing these regions and businesses to their full potential.

The short-term consumer income outlook is stable to positive and aligns with the Company's lower risk product and service focus, augmented by opportunistic investments. Northern Canada is seeing more mining development activity, public infrastructure investment and spending on indigenous programming which is expected to continue over the next two to five years. The western Canadian retail environment is important for our Giant Tiger business and we expect to face ongoing low food inflation and price competition within this region combined with modest growth in competitive selling space.

Economic conditions in Alaska are expected to recover modestly from depressed conditions over the past two years led by stronger commercial fishing and more oil and gas activity. The impact of lower corporate income tax rates as a result of U.S. tax reform will have a positive impact on net earnings in International Operations starting in 2018

CUL market prospects vary significantly from island to island and overall, with the exception of the islands impacted by hurricanes Irma and Maria, are expected to be comparable to 2017. As previously noted in the International Operations section, it is uncertain how long it will take for major infrastructure repairs to be completed on these islands and what the economic impacts will be over the medium term as the rebuilding efforts continue.

Net capital expenditures for 2018 are expected to be in the \$108.0 million range (2017 - \$165.9 million) reflecting investments in aircraft and major store replacements, store renovations, fixtures, equipment, staff housing and store-based warehouse expansions under the Company's Top Markets and Top Categories initiatives; the opening of three Giant Tiger stores and the completion of "New Store Experience" upgrades in GT stores. The Company will also continue to invest in implementing new information systems as described under the strategy section. Finally, expenditures include approximately \$21.0 million in hurricane-related construction costs which the Company expects to recover through insurance proceeds. The receipt of insurance proceeds on the reconstruction and the settlement of business interruption insurance claims are expected to result in insurance-related gains in the consolidated statements of earnings in subsequent periods.

In 2019, the Company expects that sustaining capital expenditures, including sustaining investments in aircraft, will be in the range of \$60.0 million plus approximately \$12.0 million in hurricane-related capital expenditures which are expected to be recovered through insurance. 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.

#### **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-intraining programs as part of the Pure Retail initiative.

Transport Canada has proposed new regulations with respect to pilot fatigue and flight duty times. The proposed regulations are currently under review and are expected to be finalized in 2018 with implementation over the following 1-5 years. Depending on the content of the finalized regulations, there may be an increase in the number of pilots required by NSA. An existing global shortage of pilots may result in an inability to attract and retain a sufficient number of qualified pilots to meet its operational requirements. In addition to pilots, the inability to attract and retain personnel with the required aviation industry expertise at a reasonable cost could have a negative impact on the Company's financial performance and reputation.

**Business Model** The Company serves geographically diverse markets and sells a very wide range of products and services. Operational scale can be difficult to achieve and the complexity of the Company's business model is higher compared to more narrowly-focused or larger retailers. Management continuously assesses the strength of its customer value offer to ensure that specific markets, products and services are financially attractive. The Company's Pure Retail initiative

is focused on 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.

**Information Technology and Cyber Security** 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, workforce management and merchandise management systems which are described further in the strategy section under Initiative #4, Project Enterprise. The failure to successfully upgrade legacy systems, or to migrate from legacy systems to the new IT systems, could have an adverse effect on the Company's operations, reputation and financial performance. There is also a risk that the anticipated benefits, cost savings or operating efficiencies related to upgrading or implementing new IT systems may not be realized which could adversely affect the Company's financial performance or reputation. To help mitigate these risks, the Company uses a combination of specialized internal and external IT resources as well as a strong governance structure and disciplined project management.

The Company also relies on the integrity and continuous availability of its IT systems. These IT systems are exposed to the risks of "cyber-attack", including viruses that can paralyze IT systems or result in unauthorized access to private customer information or confidential Company information.

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

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

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

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

Global warming conditions would also have a more pronounced effect, both positive and negative, on the Company's most northern latitude stores.

**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 and could have an adverse effect on the Company's operations and financial condition.

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

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

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

**Environmental** The Company owns a large number of facilities and real estate, particularly in remote locations, and is subject to environmental risks associated with the contamination of such facilities and properties. The Company operates retail fuel outlets in a number of locations and uses fuel to heat stores and housing. The Company also has aviation fuel storage containers and operates aviation fuel

dispensing equipment. Contamination resulting from gasoline, heating and aviation fuel is possible. The Company employs operating, training, monitoring and testing procedures to minimize the risk of contamination. The Company also operates refrigeration equipment in its stores and distribution centres which, if the equipment fails, could release gases that may be harmful to the environment. The Company has monitoring and preventative maintenance procedures to reduce the risk of this contamination occurring. Even with these risk mitigation policies and procedures, the Company could incur increased or unexpected costs related to environmental incidents and remediation activities, including litigation and regulatory compliance costs, all of which could have an adverse effect on the reputation and financial performance of the Company.

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

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

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

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

**Food and Product Safety** The Company is exposed to risks associated with food safety, product handling and general merchandise product defects. The Company also operates pharmacies and provides telepharmacy services and is subject to risks associated with errors made through medication dispensing or patient consultation. 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 and could lead to unforeseen liabilities from legal claims. The Company has food preparation, handling, dispensing and storage procedures which help mitigate these risks.

The Company also has product recall procedures in place in the event of a food-borne illness outbreak or product defect. The existence of these procedures does not eliminate the underlying risks and the ability of these procedures to mitigate risk in the event of a food-borne illness or product recall is dependent on their successful execution.

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

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

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

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

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

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

Company's financial performance.

The Company regularly monitors and assesses the performance of the pension plan assets and the impact of changes in capital markets, changes in plan member demographics, and other economic factors that may impact funding requirements, benefit plan expenses and actuarial assumptions. The Company makes cash contributions to the pension plan as required and also uses letters of credit to satisfy a portion of its funding obligations. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan and added a defined contribution plan. Under the amended pension plan, all members who did not meet a qualifying threshold based on number of years in the pension plan and age were transitioned to the defined contribution pension plan effective January 1, 2011 and no longer accumulate years of service under the defined benefit pension plan. Further information on post-employment benefits is provided on page 15 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 and is arranged with financially stable insurance companies as rated by professional rating agencies. There can be no assurance that the Company's insurance program will be sufficient to cover one or more large claims, or that any given risk will be mitigated in all circumstances. There can also be no assurance that the Company will be able to continue to purchase insurance coverage at reasonable rates. To the extent that the Company's insurance policies do not provide sufficient coverage for a loss, it could have an adverse impact on the Company's operating results and financial condition.

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

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

**Ethical Business Conduct** The Company has a Code of Business Conduct and Ethics policy which governs both employees and Directors. The 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, pension plan contributions and planned sustaining and growth-related capital expenditures, and regularly monitoring actual and forecasted cash flow and debt levels. At January 31, 2018, the Company had undrawn committed revolving loan facilities available of \$266.6 million (January 31, 2017 - \$264.7 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 16. At January 31, 2018, the Company had US\$99.4 million in U.S. denominated debt compared to US\$79.1 million at January 31, 2017 and US\$75.6 million at January 31, 2016. 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 17

The Company is also exposed to currency risk relating to the translation of International Operations earnings to Canadian dollars. In 2017, the average exchange rate used to translate U.S. denominated earnings from the International Operations was 1.2930 compared to 1.3169 last year. The Canadian dollar's appreciation in 2017 compared to the U.S. dollar in 2016 negatively impacted consolidated net earnings by \$0.5 million. In 2016, the average exchange rate was 1.3169 compared to 1.2971 in 2015 which resulted in an increase in 2016 consolidated net earnings of \$0.4 million compared to 2015.

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. In 2017, the Company issued \$100.0 million in senior notes which mature September 26, 2029 and have a fixed interest rate of 3.74%. The proceeds of the senior notes were used to reduce amounts outstanding on the \$300.0 million revolving loan facilities which have a floating rate of interest. Further information on long-term debt is provided in Note 11 to the consolidated financial statements. As at January 31, 2018, 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** 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, 2018 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 2017 was 3.5% compared to 4.0% in 2016 and 2015. Management assumed a rate of compensation increase of 4.0% for fiscal 2017 - 2015.

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, including the sensitivity of a 100 basis point change in the discount rate, is provided in Note 12 to the consolidated financial statements.

Amortization of Long-lived Assets The Company makes estimates about the expected useful lives of long-lived assets, including aircraft, the expected residual values of the assets and the most appropriate method to reflect the realization of the assets future economic benefit. This includes using judgment to determine which asset components constitute a significant cost in relation to the total cost of an asset. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes in expected useful lives or residual values, changes to maintenance programs and changes in utilization of the aircraft. Estimates and assumptions are evaluated at least annually and any adjustments are accounted for as a change in estimate, on a prospective basis, through amortization expense in the Company's consolidated statement of earnings.

**Business Combinations** The Company's accounts for business combinations using the acquisition method of accounting which requires the acquired assets and assumed liabilities to be recorded at their estimated fair values. Judgment is required to determine the fair value of the assets and liabilities with the most significant judgment and assumptions required to determine the estimated fair values of intangible assets, particularly trade names.

The Company uses the royalty relief method to determine the fair value of the trade name intangible assets. This technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates and anticipated average income tax rates.

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 2017 and determined that the recoverable amount 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 2017

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

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

The IAS 12 amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. These amendments had no impact on the 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, 2018, and have not been applied in preparing these consolidated financial statements.

**Financial Instruments** The amended IFRS 9, *Financial Instruments* is a multi-phase project with the goal of improving and simplifying financial instrument reporting. The Company will adopt IFRS 9 on February 1, 2018. The standard establishes new principles for:

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

The Company does not believe that either the new classification requirements or the new hedge accounting requirement will have a material impact on its accounting for financial instruments. Under IFRS 9, the Company's financial assets and financial liabilities will be classified and measured at amortized cost. The Company's net investment hedging relationship meets the new hedging requirements.

The Company will apply a new forward-looking lifetime expected credit loss ("ECL") impairment model to its accounts receivable based on historical trends, timing of recoveries and management's judgment. The change in ECL's will be recognized in earnings and reflected as an allowance against accounts receivable. In accordance with the transitional provisions of IFRS 9 which requires retrospective application without restatement (modified retrospective approach), the initial measurement difference is an adjustment to retained earnings. This adjustment is not expected to be significant.

**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. The Company will adopt this standard effective February 1, 2018. The impact of adopting this standard on reported earnings is not expected to be significant.

**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; specifically, accounting for cash-settled share-based transactions, share-based payment transactions with a net settlement feature and modifications of share-based payment transactions that change classification from cash-settled to equity settled. The Company will adopt IFRS 2 on February 1, 2018. As a practical simplification, the amendments can be applied prospectively. The Company does not expect a material impact on its consolidated financial statements as a result of these changes.

**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. 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 right of use assets and lease liabilities for its operating leases of land, buildings and equipment. In addition, the nature and timing of leasing expenses will change as straight line operating lease expenses are replaced by a depreciation charge for right-of-use assets and interest expense on lease liabilities.

On transition the Company can either apply the standard using a retrospective approach or a modified retrospective approach with optional practical expedients. The Company plans to apply IFRS 16 initially on February 1, 2019 and has not yet determined which transition approach to apply. As a result, the Company has not yet quantified the impact on its reported assets and liabilities since it will depend on the transition method chosen. The Company is continuing to analyze the impact of this change on its leases, including the impacts on our accounting system, processes and internal controls.

**Annual Improvements** In December 2017, the IASB issued amendments to IFRS 3, *Business Combinations*; IAS 12, *Income Taxes* and IAS 23, *Borrowing Costs*. These amendments are effective for the Company February 1, 2019. The Company is currently assessing the potential impacts of these amendments.

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

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

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

(\$ in thousands)	2017	2016	2015
Net earnings	\$ 69,691	\$ 77,076	\$ 69,779
Add:			
Amortization	55,653	48,367	44,026
Interest expense	10,145	7,220	6,210
Income taxes	34,135	33,835	31,332
EBITDA	\$ 169,624	\$ 166,498	\$ 151,347
Add:			
Acquisition costs	6,344	_	_
Share-based compensation option expense	2,886	2,510	5,408
Adjusted EBITDA	\$ 178,854	\$ 169,008	\$ 156,755

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

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

(\$ in thousands)	2017	2016	2015
Net earnings	\$ 69,691	\$ 77,076	\$ 69,779
Add:			
Acquisition costs, net of tax	6,188	_	_
Share-based compensation option expense	2,886	2,510	5,408
U.S. Tax reform transition and deferred tax expense	5,835	_	
Adjusted Net Earnings	\$ 84,600	\$ 79,586	\$ 75,187

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

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

U.S. tax reform transition and deferred tax expense were incurred due to new corporate tax legislation enacted in December 2017. They comprise a one-time transition tax on undistributed accumulated earnings in foreign owned subsidiaries and also the re-measurement of deferred tax assets and liabilities.

(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)	2017	2016	2015
Total assets	\$ 930.9	\$ 805.8	\$ 793.8
Less: Total liabilities	(548.8)	(438.0)	(436.2)
Add: Total long-term debt	313.5	229.3	225.5
Net Assets Employed	\$ 695.6	\$ 597.1	\$ 583.1

(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**

**AC** Alaska Commercial Company store banner.

**Basic earnings per share** Net earnings attributable to shareholders of The North West Company Inc. 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.

**Book value per share** Equity attributable to shareholders of The North West Company Inc. divided by the number of shares, basic or diluted, outstanding at the end of the year.

**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.

**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 <a href="https://www.northwest.ca">www.northwest.ca</a> or on SEDAR at <a href="https://www.sedar.com">www.sedar.com</a>.

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

**CUL** Cost-U-Less store banner.

**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 attributable to shareholders of The North West Company Inc. 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.

**GT** Giant Tiger store banner.

**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. 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 <a href="https://www.sedar.com">www.sedar.com</a> or on the Company's website at <a href="https://www.northwest.ca">www.northwest.ca</a>.

**NSA** North Star Air Ltd. A regional airline providing cargo and passenger services.

**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.

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

**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	Fiscal Year	Year-ended
2017	January 31, 2018	2011	January 31, 2012
2016	January 31, 2017	2010	January 31, 2011
2015	January 31, 2016	2009	January 31, 2010
2014	January 31, 2015	2008	January 31, 2009
2013	January 31, 2014	2007	January 31, 2008
2012	January 31, 2013	2006	January 31, 2007

# **Eleven-Year Financial Summary**

Fiscal Year <sup>(1)</sup>								
(\$ in thousands )	2017	2016		2015		2014		2013
Consolidated Statements of Earnings								
Sales - Canadian Operations	1,171,621	\$ 1,125,330	\$1	,089,898	\$1	,042,168	\$1,	022,985
Sales - International Operations	782,122	718,763		706,137		582,232		520,140
Sales - Total	1,953,743	1,844,093	1	,796,035	1	,624,400	1,	543,125
EBITDA <sup>(3)</sup> - Canadian Operations	112,393	109,736		98,276		100,896		111,225
EBITDA <sup>(3)</sup> - International Operations	57,231	56,762		53,071		36,942		27,111
EBITDA <sup>(3)</sup> - Total Operations	169,624	166,498		151,347		137,838		138,336
Amortization - Canadian Operations	39,796	35,291		31,781		30,302		29,258
Amortization - International Operations	15,857	13,076		12,245		10,070		9,018
Amortization - Total	55,653	48,367		44,026		40,372		38,276
Interest	10,145	7,220		6,210		6,673		7,784
Income taxes	34,135	33,835		31,332		27,910		28,013
Net earnings attributable to shareholders of the Company	67,154	 77,076		69,779		62,883		64,263
Cash flow from operating activities	141,419	126,024		132,987		115,086		79,473
Dividends/distributions paid during the year	62,315	60,169		58,210		56,180		54,229
Capital and intangible asset expenditures	122,035	77,745		75,983		52,329		43,207
Net change in cash	(5,083)	(7,000)		8,114		6,776		(16,322)
Consolidated Balance Sheets								
Current assets	\$ 335,003	\$ 327,938	\$	335,581	\$	315,840	\$	299,071
Property and equipment	469,993	358,121		345,881		311,692		286,875
Other assets, intangible assets and goodwill	91,502	86,909		83,293		68,693		64,969
Deferred tax assets	34,450	32,853		29,040		28,074		19,597
Current liabilities	171,212	152,244		155,501		146,275		209,738
Long-term debt and other liabilities	377,580	285,792		280,682		248,741		138,334
Total Equity	382,156	367,785		357,612		329,283		322,440
Consolidated Dollar Per Share/Unit (\$) <sup>(5)</sup>								
Net earnings - basic	\$ 1.38	\$ 1.59	\$	1.44	\$	1.30	\$	1.33
Net earnings - diluted	1.36	1.57		1.43		1.29		1.32
EBITDA <sup>(3),(4)</sup>	3.48	3.43		3.12		2.85		2.86
Cash flow from operating activities <sup>(4)</sup>	2.91	2.60		2.74		2.38		1.64
Dividends/distributions paid during the year <sup>(4)</sup>	1.28	1.24		1.20		1.16		1.12
Equity (basic shares/units outstanding end of year)	7.60	7.57		7.37		6.80		6.66
Market price at January 31	29.14	 29.28		30.53		26.56		25.42
Statistics at Year End								
Number of stores - Canadian	188	185		181		178		178
Number of stores - International	51	47		47		47		48
Selling square feet (000's) end of year - Canadian Stores	1,552	1,518		1,463		1,422		1,386
Selling square feet (000's) end of year - International Stores	668	676		676		676		696
Sales per average selling square foot - Canadian	\$ 763	\$ 755	\$	756	\$	742	\$	741
Sales per average selling square foot - International	\$ 1,164	\$ 1,063	\$	1,045	\$	849	\$	767
Number of employees - Canadian Operations	5,915	5,715		5,482		4,921		4,839
Number of employees - International Operations	2,119	1,882		1,896		1,726		1,853
Average shares/units outstanding (000's)	48,680	48,524		48,509		48,432		48,413
Shares/Units outstanding at end of fiscal year (000's)	48,690	48,542		48,523		48,497		48,426
Shares/Units traded during the year (000's)  Financial Ratios	38,836	 49,189		35,631		24,080		17,623
EBITDA(3) (%)	8.7	9.0		8.4		8.5		9.0
Earnings from operations (EBIT) (%)	5.8	6.4		6.0		6.0		6.5
Total return on net assets <sup>(3)</sup> (%)	16.7	20.1		19.5		18.4		20.0
Return on average equity <sup>(3)</sup> (%)	18.3	21.8		20.6		19.3		21.0
Debt-to-equity	.82:1	.62:1		.63:1		.61:1		.57:1
Dividends/distributions as % of cash flow from operating activities	44.1	47.7		43.8		48.8		68.2
Inventory turnover (times per year)	6.0	6.1		6.2		5.7		5.6
(i) The Control of Con	(2) The finance	 ulta for 2000	_	0.2		5.7		5.0

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

<sup>(2)</sup> The financial results for 2009 to 2007 are reported in accordance with CGAAP and have not been restated to IFRS.

						(0)		(2)	_	(2)	<b>-</b> 114 (9)
2012		2011		2010	C	GAAP <sup>(2)</sup>	C	GAAP <sup>(2)</sup>	C	GAAP <sup>(2)</sup>	Fiscal Year <sup>(1)</sup>
 2012		2011		2010		2009		2008		2007	(\$ in thousands )
1 0 42 0 5 0	Ċ1	020 206	,	070.662	_	021 621	_	000 262	,	052.772	Consolidated Statements of Earnings
\$ 1,043,050	\$1		\$	978,662		921,621		899,263		852,773	Sales - Canadian Operations
470,596	1	466,740	1	469,442		522,745		493,371		211,717	Sales - International Operations
1,513,646		,495,136		,448,104	- 1	,444,366	١,	392,634	- 1	,064,490	Sales - Total
106,510		97,998		98,781		96,599		90,606		87,410	EBITDA <sup>(3)</sup> - Canadian Operations
27,207		27,883		26,983		33,675		31,651		19,147	EBITDA(3) - International Operations
 133,717	_	125,881		125,764		130,274		122,257		106,557	EBITDA <sup>(3)</sup> - Total Operations
29,155		28,745		27,511		26,727		24,501		22,634	Amortization - Canadian Operations
7,994		7,827		7,981		8,423		7,553		4,316	Amortization - International Operations
37,149		36,572		35,492		35,150		32,054		26,950	Amortization - Total
6,979		6,026		6,077		5,470		8,307		7,465	Interest
25,701		25,322		14,539		7,841		6,518		9,151	Income taxes
 63,888		57,961		69,656		81,813		75,378		62,991	Net earnings attributable to shareholders of the Company
128,992		115,469		114,564		107,973		90,178		93,591	Cash flow from operating activities
50,320		50,797		68,700		67,245		67,730		54,667	Dividends/distributions paid during the year
51,133		46,376		37,814		45,294		46,118		44,409	Capital and intangible asset expenditures
 11,691	_	(4,247)		3,953		1,548		3,998		(368)	Net change in cash
											Consolidated Balance Sheets
\$ 303,896	\$		\$	284,789		285,843	\$	285,088	\$	254,061	Current assets
274,027		270,370		259,583		258,928		248,856		223,397	Property and equipment
60,567		53,289		55,199		73,177		68,632		50,492	Other assets, intangible assets and goodwill
12,904		7,422		17,017		5,852		6,597		1,720	Deferred tax assets
190,184		128,002		185,377		171,946		172,216		134,899	Current liabilities
164,960		215,206		144,736		161,928		162,547		138,470	Long-term debt and other liabilities
 296,250		283,709		286,475		289,926		274,410		256,301	Total equity
											Consolidated Dollar Per Share/Unit (\$) <sup>(5)</sup>
\$ 1.32	\$	1.20	\$	1.45	\$	1.71	\$	1.58	\$	1.32	Net earnings - basic
1.32		1.19		1.44		1.69		1.56		1.31	Net earnings - diluted
2.76		2.60		2.61		2.73		2.56		2.24	EBITDA <sup>(3),(4)</sup>
2.67		2.39		2.38		2.26		1.89		1.96	Cash flow from operating activities <sup>(4)</sup>
1.04		1.05		1.42		1.39		1.40		1.13	Dividends/distributions paid during the year <sup>(4)</sup>
6.12		5.86		5.92		6.04		5.75		5.37	Equity (basic shares/units outstanding at end of year)
 23.14		19.40		21.09		17.94		16.14		18.42	Market price at January 31
											Statistics at Year End
177		183		184		180		178		176	Number of stores - Canadian
46		46		46		46		43		44	Number of stores - International
1,375		1,466		1,445		1,423		1,396		1,368	Selling square feet (000's) end of year - Canadian Stores
660		655		654		653		617		639	Selling square feet (000's) end of year - International Stores
\$	\$	702	\$	682	\$	654	\$	651	\$	657	Sales per average selling square foot - Canadian
\$	\$	713	\$	718	\$	752	\$	723	\$	410	Sales per average selling square foot - International
4,768		5,233		5,301		5,358		5,408		5,359	Number of employees - Canadian Operations
1,568		1,668		1,601		1,545		1,339		1,502	Number of employees - International Operations
48,384		48,378		48,180		47,799		47,718		47,649	Average shares/units outstanding (000's)
48,389		48,378		48,378		48,017		47,722		47,701	Shares/Units outstanding at end of fiscal year (000's)
17,831		22,418		24,814		20,080		16,402		17,330	Shares/Units traded during the year (000's)
,		,						,		,	Financial Ratios
8.8		0 /		0.7		0.0		0.0		100	EBITDA <sup>(3)</sup> (%)
6.4		8.4 6.0		8.7 6.2		9.0 6.6		8.8 6.5		10.0 7.5	Earnings from operations (EBIT) (%)
											Total return on net assets <sup>(3)</sup> (%)
20.6		18.5		17.9		18.7		19.8		21.0	
22.1		20.1		24.1 67:1		29.3		28.6		24.9	Return on average equity(3) (%)
.55:1		.62:1		.67:1		.72:1		.78:1		.62:1	Debt-to-equity
39.0 5.8		44.0 5.7		60.0 5.6		62.3 5.6		75.1 5.8		58.4 5.3	Dividends/distributions as % of cash flow from operating activities Inventory turnover (times per year)
5.0		٥./		٥.0		٥.٠		ں.ں		ر.ر	inventory turnover (times per year)

<sup>(3)</sup> See Non-GAAP financial measures on page 27.

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

<sup>(5)</sup> 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-forone split except trading volume.

#### Management's Responsibility for Financial Statements

The management of The North West Company Inc. is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements and all other information in the annual report. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain amounts that are based on the best estimates and judgment by management.

In order to meet its responsibility and ensure integrity of financial information, management has established a code of business ethics, and maintains appropriate internal controls and accounting systems. An internal audit function is maintained that is designed to provide reasonable assurance that assets are safeguarded, transactions are authorized and recorded and that the financial records are reliable.

 $Ultimate\ responsibility\ for\ financial\ reporting\ to\ shareholders\ rests$ with the Board of Directors. The Audit Committee of the Board of Directors, consisting of independent Directors, meets periodically with management and with the internal and external auditors to review the audit results, internal controls and the selection and consistent application of appropriate accounting policies. Internal and external auditors have unlimited access to the Audit Committee. The Audit Committee meets separately with management and the external auditors to review the financial statements and other contents of the annual report and recommend approval by the Board of Directors. The Audit Committee also recommends the independent auditor for appointment by the shareholders.

PricewaterhouseCoopers LLP, an independent firm of auditors appointed by the shareholders, have completed their audit and submitted their report as follows.

Edward S. Kennedy PRESIDENT & CEO

THE NORTH WEST COMPANYINC.

Idvact Kenner

John D. King, CPA, CA, CMA **EXECUTIVE VICE-PRESIDENT &** CHIEF FINANCIAL OFFICER THE NORTH WEST COMPANYINC.

April 11, 2018

#### Independent Auditor's Report



To the Shareholders of The North West Company Inc;

We have audited the accompanying consolidated financial statements of The North West Company Inc. and its subsidiaries, which comprise the consolidated balance sheets as at January 31, 2018 and January 31, 2017 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The North West Company Inc. and its subsidiaries as at January 31, 2018 and January 31, 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Pricewaterhouse Coopers LLP

CHARTERED PROFESSIONAL ACCOUNTANTS WINNIPEG, CANADA

April 11, 2018

### **Consolidated Balance Sheets**

(\$ in thousands)	January 31, 2	January 31, 2017		
CURRENT ASSETS				
Cash	\$ 25,	160	\$	30,243
Accounts receivable (Note 5)	80,	765		78,931
Inventories (Note 6)	222	072		213,217
Prepaid expenses	7,	,006		5,547
	335	003		327,938
NON-CURRENT ASSETS				
Property and equipment (Note 7)	469	993		358,121
Goodwill (Note 8)	41,	231		37,752
Intangible assets (Note 8)	37	628		35,394
Deferred tax assets (Note 9)	34	450		32,853
Other assets (Note 10)	12	643		13,763
	595	945		477,883
TOTAL ASSETS	\$ 930	948	\$	805,821
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 170,	166	\$	146,639
Income tax payable (Note 9)	1,	046		5,605
	171,	212		152,244
NON-CURRENT LIABILITIES				
Long-term debt (Note 11)	313	549		229,266
Defined benefit plan obligation (Note 12)	34	.095		34,078
Deferred tax liabilities (Note 9)	6	468		2,661
Other long-term liabilities	23	468		19,787
	377	580		285,792
TOTAL LIABILITIES	548	792		438,036
SHAREHOLDERS' EQUITY				
Share capital (Note 15)	172	619		168,283
Contributed surplus	2	570		2,647
Retained earnings	181,	844		176,003
Accumulated other comprehensive income	12,	918		20,852
Equity attributable to The North West Company Inc.	369	951		367,785
Non-controlling interests	12	205		
TOTAL EQUITY	382	156		367,785
TOTAL LIABILITIES & EQUITY	\$ 930,	948	\$	805,821

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors

"Eric L. Stefanson, FCPA, FCA"

DIRECTOR

"H. Sanford Riley"

DIRECTOR

## **Consolidated Statements of Earnings**

		ear Ended		ar Ended
(\$ in thousands, except per share amounts)	January	31, 2018	January	31, 2017
SALES	\$ 1	1,953,743	\$ 1	,844,093
Cost of sales	(1	1,367,657)	(1	,302,596)
Gross profit		586,086		541,497
Selling, operating and administrative expenses (Notes 16, 17)		(472,115)		(423,366)
Earnings from operations		113,971		118,131
Interest expense (Note 18)		(10,145)		(7,220)
Earnings before income taxes		103,826		110,911
Income taxes (Note 9)		(34,135)		(33,835)
NET EARNINGS FOR THE YEAR	\$	69,691	\$	77,076
			'	
NET EARNINGS ATTRIBUTABLE TO				
The North West Company Inc.		67,154		77,076
Non-controlling interests		2,537		_
TOTAL NET EARNINGS		69,691		77,076
NET EARNINGS PER SHARE (Note 20)				
Basic	\$	1.38	\$	1.59
Diluted	\$	1.36	\$	1.57
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)				
Basic		48,680		48,524
Diluted		49,275		48,964

See accompanying notes to consolidated financial statements.

## **Consolidated Statements of Comprehensive Income**

(\$ in thousands)	Ye January	Year Ended January 31, 2017		
NET EARNINGS FOR THE YEAR	\$	69,691	\$	77,076
Other comprehensive income/(loss), net of tax:				
Items that may be reclassified to net earnings:				
Exchange differences on translation of foreign controlled subsidiaries		(7,934)		(9,566)
Items that will not be subsequently reclassified to net earnings:				
Remeasurements of defined benefit plans (Note 12)		1,175		2,413
Remeasurements of defined benefit plan of equity investee		(173)		19
Total other comprehensive loss, net of tax		(6,932)		(7,134)
COMPREHENSIVE INCOME FOR THE YEAR	\$	62,759	\$	69,942
OTHER COMPREHENSIVE LOSS ATTRIBUTABLE TO  The North West Company Inc.  Non-controlling interests	\$	(6,932) —	\$	(7,134) —
TOTAL OTHER COMPREHENSIVE LOSS	\$	(6,932)	\$	(7,134)
COMPREHENSIVE INCOME ATTRIBUTABLE TO				
The North West Company Inc.	\$	60,222	\$	69,942
Non-controlling interests		2,537		
TOTAL OTHER COMPREHENSIVE INCOME	\$	62,759	\$	69,942

See accompanying notes to consolidated financial statements.

## **Consolidated Statements of Changes in Shareholders' Equity**

(\$ in thousands)	Share Capital	Cor	ntributed Surplus	Retained Earnings	AOCI <sup>(1)</sup>	Total	Non- Controlling Interests	Total Equity
Balance at January 31, 2017	\$ 168,283	\$	2,647	\$ 176,003	\$ 20,852	\$ 367,785	\$ —	\$ 367,785
Net earnings for the year	_		_	67,154	_	67,154	2,537	69,691
Other comprehensive income/(loss)	_		_	1,175	(7,934)	(6,759)	_	(6,759)
Other comprehensive income of equity investee	_		_	(173)	_	(173)	_	(173)
Comprehensive income			_	68,156	(7,934)	60,222	2,537	62,759
Acquisition of subsidiary with non- controlling interests (Note 24)	_		_	_	_	_	12,150	12,150
Equity settled share-based payments	_		259	_	_	259	_	259
Dividends (Note 19)	_		_	(62,315)	_	(62,315)	(2,482)	(64,797)
Issuance of common shares (Note 15)	4,336		(336)	_		4,000	_	4,000
	4,336		(77)	(62,315)		(58,056)	9,668	(48,388)
Balance at January 31, 2018	\$172,619	\$	2,570	\$181,844	\$12,918	\$369,951	\$ 12,205	\$382,156
Balance at January 31, 2016	\$ 167,910	\$	2,620	\$ 156,664	\$ 30,418	\$ 357,612	\$ —	\$ 357,612
Net earnings for the year	_		_	77,076	_	77,076	_	77,076
Other comprehensive income	_		_	2,413	(9,566)	(7,153)	_	(7,153)
Other comprehensive loss of equity investee	_		_	19	_	19	_	19
Comprehensive income	_		_	79,508	(9,566)	69,942	_	69,942
Equity settled share-based payments	_		168	_	_	168	_	168
Dividends (Note 19)	_		_	(60,169)	_	(60,169)	_	(60,169)
Issuance of common shares (Note 15)	373		(141)	_	_	232	_	232
	373		27	(60,169)		(59,769)		(59,769)
Balance at January 31, 2017	\$ 168,283	\$	2,647	\$ 176,003	\$ 20,852	\$ 367,785	\$	\$ 367,785

<sup>(1)</sup> Accumulated Other Comprehensive Income

See accompanying notes to consolidated financial statements.

## **Consolidated Statements of Cash Flows**

	Year Ended	Year Ended		
(\$ in thousands)	January 31, 2018	January 31, 2017		
CASH PROVIDED BY (USED IN)				
Operating activities				
Net earnings for the year	\$ 69,691	\$ 77,076		
Adjustments for:				
Amortization (Note 7, 8)	55,653	48,367		
Provision for income taxes (Note 9)	34,135	33,835		
Interest expense (Note 18)	10,145	7,220		
Equity settled share option expense (Note 13)	259	168		
Taxes paid	(36,213)	(35,430)		
Loss on disposal of property and equipment	552	1,115		
	134,222	132,351		
Change in non-cash working capital	2,271	(10,799)		
Change in other non-cash items	4,926	4,472		
Cash from operating activities	141,419	126,024		
Investing activities				
Purchase of property and equipment (Note 7)	(114,948)	(66,180)		
Business acquisitions (Note 24)	(51,204)	_		
Intangible asset additions (Note 8)	(7,087)	(11,565)		
Proceeds from disposal of property and equipment	370	63		
Proceeds from interim insurance settlement on	7.000			
property and equipment (Note 7)	7,008			
Cash used in investing activities	(165,861)	(77,682)		
Financing activities	100.000			
Debt issuance (Note 11)	100,000	11.567		
Net (decrease)/increase in long-term debt (Note 11)	(9,092)	11,567		
Dividends (Note 19)	(62,315)	(60,169)		
Dividends to non-controlling interests (Note 19)	(2,482)			
Interest paid	(6,183)	(6,028)		
Issuance of common shares (Note 15)		232		
Cash from/(used) in financing activities	19,928	(54,398)		
Effect of changes in foreign exchange rates on cash	(569)	(944)		
NET CHANGE IN CASH	(5,083)	(7,000)		
Cash, beginning of year	30,243	37,243		
CASH, END OF YEAR	\$ 25,160	\$ 30,243		

See accompanying notes to consolidated financial statements.

# **Notes to Consolidated Financial Statements**

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) **JANUARY 31, 2018 AND 2017** 

### 1. ORGANIZATION

The North West Company Inc. (NWC or the Company) is a corporation amalgamated under the Canada Business Corporations Act (CBCA) and governed by the laws of Canada. The Company, through its subsidiaries, is a leading retailer to rural and remote communities and urban neighbourhoods in the following regions: northern Canada, western Canada, rural Alaska, the South Pacific and the Caribbean. These regions comprise two reportable operating segments: Canadian Operations and International Operations.

In 2017, the Company acquired 76% of the outstanding shares of Roadtown Wholesale Trading Ltd. (RTW), operating primarily as Riteway Food Markets in the British Virgin Islands. The Company also acquired 100% of the outstanding common shares of North Star Air Ltd., a Thunder Bay based airline providing cargo and passenger services within northwestern Ontario, Canada. See Note 24 for a discussion of these acquisitions.

The address of its registered office is 77 Main Street, Winnipeg, Manitoba. These consolidated financial statements have been approved for issue by the Board of Directors of the Company on April 11, 2018.

### 2. BASIS OF PREPARATION

- (A) Statement of Compliance These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).
- (B) Basis of Measurement The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for the following which are measured at fair value, as applicable:
  - Liabilities for share-based payment plans (Note 13)
  - Defined benefit pension plan (Note 12)
  - Assets and liabilities acquired in a business combination (Note 24)

The methods used to measure fair values are discussed further in the notes to these financial statements.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied to all years presented in these consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

(A) Basis of Consolidation Subsidiaries are entities controlled, either directly or indirectly, by the Company. Control is established when the Company has rights to an entity's variable returns, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases. The Company assesses control on an ongoing basis.

Net Earnings or loss and each component of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interests. comprehensive income is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance on consolidation.

A joint arrangement can take the form of a joint operation or a joint venture. Joint ventures are those entities over which the Company has joint control of the rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. The Company's 50% interest in Transport Nanuk Inc. has been classified as a joint venture. Its results are included in the consolidated statements of earnings using the equity method of accounting. The consolidated financial statements include the Company's share of both earnings and other comprehensive income from the date that significant influence or joint control commences until the date that it ceases. Joint ventures are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share of net assets of the entity, less any impairment in value.

All significant inter-company amounts and transactions have been eliminated.

**Business Combinations** Business combinations are accounted for using the acquisition method of accounting. consideration transferred is measured at the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange. Acquisition costs incurred are expensed and included in selling, operating and administrative expenses. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with International Accounting Standard (IAS) 39 either in net earnings or as a change to other comprehensive income (OCI). If the contingent consideration is classified as equity, it will not be remeasured and settlement is accounted for within equity.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date irrespective of the extent of any non-controlling interest. The excess of the cost of the acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of earnings.

Non-controlling interests are measured either at fair value or their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

- (C) Revenue Recognition Revenue on the sale of goods is recorded at the time the sale is made to the customer, being when the significant risks and rewards of ownership have transferred to the customer, recovery of the consideration is probable, and the amount of revenue can be measured reliably. Sales are presented net of tax, returns and discounts and are measured at the fair value of the consideration received or receivable from the customer for the products sold or services supplied. Service charges on customer account receivables are accrued each month on balances outstanding at each account's billing date.
- (D) Inventories Inventories are valued at the lower of cost and net realizable value. The cost of warehouse inventories is determined using the weighted-average cost method. The cost of retail inventories is determined primarily using the retail method of accounting for general merchandise inventories and the cost method of accounting for food inventories on a first-in, first-out basis. Cost includes the cost to purchase goods net of vendor allowances plus other costs incurred in bringing inventories to their present location and condition. Net realizable value is estimated based on the amount at which inventories are expected to be sold, taking into consideration fluctuations in retail prices due to obsolescence, damage or seasonality.

Inventories are written down to net realizable value if net realizable value declines below carrying amount. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed.

- (E) Vendor Rebates Consideration received from vendors related to the purchase of merchandise is recorded on an accrual basis as a reduction in the cost of the vendor's products and reflected as a reduction of cost of sales and related inventory when it is probable they will be received and the amount can be reliably estimated.
- (F) Property and Equipment Property and equipment are stated at cost less accumulated amortization and any impairment losses. Cost includes any directly attributable costs, borrowing costs on qualifying construction projects, and the costs of dismantling and removing the items and restoring the site on which they are located. When major components of an item of property and equipment have different useful lives, they are accounted for as separate items. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Assets under construction and land are not amortized. Amortization is calculated from the dates assets are available for use using the straight-line method to allocate the cost of assets less their residual values over their estimated useful

Estimated useful lives of Property and Equipment are as follows:

3% - 8%
3% - 20%
3.3% - 20%
8% - 20%
12% - 33%

Major aircraft maintenance overhaul expenditures, including labour, are capitalized and depreciated over the expected life of the maintenance cycle. Any remaining carrying value, if any, is derecognized when the major maintenance overhaul occurs. All other costs associated with maintenance of aircraft fleet assets are charged to the statement of earnings as incurred.

#### (G) Impairment

Impairment of non-financial assets Tangible assets and definite life intangible assets are reviewed at each balance sheet date to determine whether events or conditions indicate that their carrying amount may not be recoverable. If any such indication exists, 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, the CGU is 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. CGU's may comprise individual stores or groups of stores.

Goodwill and indefinite life intangible assets are not amortized but are subject to an impairment test annually and whenever indicators of impairment are detected. 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. The goodwill asset balance largely relates to the Company's acquired subsidiary, Cost-U-Less, and is allocated to the International Operations operating

Any impairment charge is recognized in the consolidated statement of earnings in the period in which it occurs, to the extent that the carrying value exceeds its recoverable amount. Where an impairment loss other than an impairment loss on goodwill subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. Impairment charges on goodwill are not reversed.

Impairment of financial assets Financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at their original effective interest rate.

All impairment losses are recognized in the consolidated statement of earnings. An impairment loss, except an impairment loss related to goodwill, is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(H) Leases Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are accounted for as operating leases. Assets leased under operating leases are not recorded on the consolidated balance sheets. Rental payments are recorded in selling, operating and administrative expenses in the consolidated statements of earnings. Lease incentives received are recognized as part of the total lease expense, over the term of the lease.

Leases in which the Company has substantially all of the risks and rewards of ownership are accounted for as finance leases. At commencement, finance leases are capitalized at the lower of the fair value of the leased property and the present value of minimum lease payments, and are recorded in property and equipment on the consolidated balance sheets. Finance lease liabilities are recorded in long-term debt and are reduced by the amount of the lease payment net of imputed interest (finance charges).

- **Borrowing Costs** Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of the respective asset until it is ready for its intended use. Qualifying assets are those assets that necessarily take a substantial period of time to prepare for their intended use. Borrowing costs are capitalized based on the Company's weighted-average cost of borrowing. All other borrowing costs are expensed as incurred.
- (J) Goodwill Goodwill represents the excess of the consideration transferred over the fair value of the identifiable assets, including intangible assets, and liabilities of the acquiree at the date of acquisition. Goodwill is not amortized but is subject to an impairment test annually and whenever indicators of impairment are detected. Goodwill is carried at cost less accumulated impairment losses.
- **(K) Intangible Assets** Intangible assets with finite lives are carried at cost less accumulated amortization and any impairment loss. Amortization is recorded on a straight-line basis over the term of the estimated useful life of the asset as follows:

Software 3 - 7 years Non-compete agreements 3 - 5 vears

Intangible assets with indefinite lives comprise the Cost-U-Less and RTW banners. These assets are not amortized but instead tested for impairment annually or more frequently if indicators of impairment are identified.

#### (L) Share-based Payment Transactions

Equity settled plans Certain stock options settled in common shares are equity settled share-based payment plans. The fair value of these plans is determined using an option pricing model. The grant date fair values of this benefit is recognized as an employee expense over the vesting period, with corresponding increases in equity.

Cash settled plans Certain stock options, Performance Share Units, Executive Deferred Share Unit Plan and the Director Deferred Share Unit Plan are cash settled share-based payments. These plans are measured at fair value at each balance sheet date and a charge or recovery recognized through the consolidated statement of earnings over the vesting period. A corresponding adjustment is reflected in accounts payable and accrued liabilities or other long-term liabilities.

The value of the charges under both cash settled and equity settled plans are adjusted in the consolidated statement of earnings to reflect expected and actual levels of benefits vesting.

(M) Foreign Currency Translation The accounts of foreign operations have been translated into the presentation currency, Canadian dollars. Assets and liabilities are translated at the periodend exchange rate, and revenues and expenses at the average rate for the period. Foreign exchange gains or losses arising from the translation of the net investment in foreign operations and the portion of the U.S. denominated borrowings designated as a hedge against this investment are recorded in equity as other comprehensive income. Foreign exchange gains or losses recorded in accumulated other comprehensive income (AOCI) arerecognized in net earnings when there is a reduction in the net investment in foreign operations.

Items included in the financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (functional currency). Transactions in foreign currencies are translated to the respective functional currencies at exchange rates approximating the rates in effect at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date.

(N) Income Taxes Income tax expense includes taxes payable on current earnings and changes in deferred tax balances. Current income tax expense is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

The Company accounts for deferred income taxes using the liability method of tax allocation. Under the liability method. deferred income tax assets and liabilities are determined based on the temporary differences between the financial statement carrying values and tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be realized or settled. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects to settle the carrying amount of its assets and liabilities. A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and there is a legally enforceable right to offset the amounts.

Income tax expense is recognized in the consolidated statement of earnings, except to the extent that it relates to items recognized directly in other comprehensive income or in equity, in which case the related income tax expense is also recognized in other comprehensive income or in equity respectively.

(O) Employee Benefits The Company maintains either a defined benefit or defined contribution pension plan for the majority of its Canadian employees, and an employee savings plan for its U.S. employees. Other benefits include employee bonuses, employee share purchase plans and termination benefits.

Defined Benefit Pension Plan The actuarial determination of the defined benefit obligations for pension benefits uses the projected unit credit method prorated on services which incorporates management's best estimate of the discount rate, salary escalation, retirement rates, termination rates and retirement ages of employees. The discount rate used to value the defined benefit obligation is derived from a portfolio of high quality Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit plan obligations. Bonds included in the curve are denominated in the currency in which the benefits will be paid that have terms to maturity approximating the terms of the related pension liability.

The amount recognized in the consolidated balance sheet at each reporting date represents the present value of the defined benefit obligation, and is reduced by the fair value of plan assets. Any recognized asset or surplus is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions. To the extent that there is uncertainty regarding entitlement to the surplus, no asset is recorded. The Company's funding policy is in compliance with statutory regulations and amounts funded are deductible for income tax purposes.

The actuarially determined expense for current service is recognized annually in the consolidated statement of earnings. The actuarially determined net interest costs on the net defined benefit plan obligation are recognized in interest expense.

All actuarial remeasurements arising from defined benefit plans are recognized in full in the period in which they arise in the consolidated statement of comprehensive income, and are immediately recognized in retained earnings. The effect of the asset ceiling is also recognized in other comprehensive income.

Defined Contribution Pension Plans The Company sponsors defined contribution pension plans for eligible employees where fixed contributions are paid into a registered plan. There is no obligation for the Company to pay any additional amount into these plans. Contributions to the defined contribution pension plans are expensed as incurred.

Short-term Benefits An undiscounted liability is recognized for the amount expected to be paid under short-term incentive plans or employee share purchase plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination Benefits Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If the effect is significant, benefits are discounted to present value.

- (P) Provisions A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.
- (Q) Financial Instruments Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits related from the financial asset expire, or the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. On initial recognition, all financial instruments are classified into one of the following categories: financial assets or liabilities at fair value through profit or loss (FVTPL), loans and receivables, held-tomaturity investments, available-for-sale financial assets, or financial liabilities at amortized cost.

Financial instruments have been classified as follows:

- Cash is designated as loans and receivables
- Accounts receivable and financial assets included in other assets are classified as loans and receivables
- Long-term debt, accounts payable and accrued liabilities, and certain other liabilities are classified as financial liabilities at amortized cost

Financial instruments are initially recognized at fair value (plus transaction costs for financial instruments at amortized cost); subsequent measurement and recognition of changes in value depends on their initial classification. Financial instruments classified as FVTPL are subsequently measured at fair value, with changes in fair value recorded in net earnings. Loans and receivables are subsequently carried at amortized cost less impairment losses. Interest revenue, consisting primarily of service charge income on customer accounts receivable, is included in sales in the consolidated statement of earnings. Financial liabilities at amortized cost are subsequently held at amortized cost. Interest expense relating to long-term debt is recorded using the effective interest rate method and included in the consolidated statement of earnings as interest expense.

The Company is exposed to financial risks associated with movements in foreign exchange rates. The Company uses a net investment hedge to counterbalance gains and losses arising on the retranslation of foreign operations with gains and losses on a financial liability.

To qualify for hedge accounting, the Company documents its risk management strategy, the relationship between the hedging instrument and the hedged item or transaction and the nature of the risks being hedged. The Company also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will likely be highly effective on an ongoing basis.

To the extent that a fair value hedging relationship is effective, a gain or loss arising from the hedged item adjusts its carrying value and is reflected in earnings, offset by a change in fair value of the underlying derivative. Any changes in fair value of derivatives that do not qualify for hedge accounting are reported in earnings.

The Company has designated certain U.S. denominated debt as a hedge of its net investment in U.S. operations. To the extent that the hedging relationship is effective, the foreign exchange gains and losses arising from translation of this debt are included in other comprehensive income. These gains and losses are subsequently recognized in earnings when the hedged item affects earnings.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in other comprehensive income is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is transferred to the consolidated statements of earnings for the period.

Embedded derivatives are components of hybrid instruments that include non-derivative host contracts. These are separated from their host contracts and recorded on the consolidated balance sheets at fair value when certain conditions are met. Changes in the fair value of embedded derivatives are recognized in earnings.

- (R) Cash Cash comprises cash on hand and balances with banks.
- (S) Net Earnings Per Share Basic net earnings per share are calculated by dividing the net earnings by the weighted-average number of common shares outstanding during the period. Diluted net earnings per share is determined by adjusting net earnings and the weighted-average number of common shares outstanding for the effects of all potentially dilutive shares, which comprise shares issued under the Share Option Plan and Director Deferred Share Unit Plan.
- (T) Dividends Dividends declared and payable to the Company's shareholders are recognized as a liability in the consolidated balance sheets in the period in which distributions are declared.
- (U) Use of Estimates, Assumptions & Judgment The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies, the reported amounts of revenues and expenses during the reporting period and disclosure of contingent assets and liabilities in the consolidated financial statements and notes. Judgment has been used in the application of accounting policy and to determine if a transaction should be recognized or disclosed in these financial statements while estimates and assumptions have been used to measure balances recognized or disclosed.

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

are recognized in the period in which the estimates are reviewed and in any future periods affected.

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:

- Allowance for doubtful accounts is estimated based on expected customer payment experience, and influenced by specific customer behavior and regional economic factors (Notes 5, 14)
- Inventories are remeasured based on the lower of cost and net realizable value (Note 6)
- Amortization methods for property and equipment, including aircraft, are based on management's estimate of the most appropriate method to reflect the pattern of an asset's future economic benefit. This includes judgment of what asset components constitute a significant cost in relation to the total cost of an asset (Note 7)
- Impairment of long-lived assets is influenced by judgment in determining indicators of impairment and estimates used to measure impairment losses, if any (Note 7)
- Recognition of identifiable assets and liabilities acquired in a business combination requires judgment as to their fair value (Note 24)
- Goodwill and indefinite life intangible asset impairment is dependent on judgment used to identify indicators of impairment and estimates used to measure impairment losses, if any (Notes 8, 24)
- Income taxes have judgment applied to determine when tax losses, credits and provisions are recognized based on tax rules in various jurisdictions (Note 9)
- Defined benefit pension plan obligation and expense depends on assumptions used in the actuarial valuation (Note 12)
- (V) Share capital Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.
- (W) New Standards Implemented The Company adopted amendments to IAS 7, Statement of Cash Flows and IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses effective February 1, 2017 as required by the IASB.

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

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

(X) Future Standards and Amendments A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2018, and have not been applied in preparing these consolidated financial statements.

Financial Instruments The amended IFRS 9, Financial Instruments is a multi-phase project with the goal of improving and simplifying financial instrument reporting. The Company will adopt IFRS 9 February 1, 2018. The standard establishes new principles for:

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

The Company does not believe that either the new classification requirements or the new hedge accounting requirement will have a material impact on its accounting for financial instruments. Under IFRS 9 the Company's financial assets and financial liabilities will be classified and measured at amortized cost. The Company's net investment hedging relationship meets the new hedging requirements.

The Company will apply a new forward-looking lifetime expected credit loss ("ECL") impairment model to its accounts receivable based on historical trends, timing of recoveries and management's judgment. The change in ECL's will be recognized in earnings and reflected as an allowance against accounts receivable. In accordance with the transitional provisions of IFRS 9 which requires retrospective application without restatement (modified retrospective approach), the initial measurement difference is an adjustment to retained earnings. This adjustment is not expected to be significant.

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 contractbased five step analysis is used to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced. The Company will adopt this standard effective February 1, 2018. The impact of adopting this standard on reported earnings is not expected to be significant.

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; specifically, accounting for cash-settled share-based transactions, sharebased payment transactions with a net settlement feature and modifications of share-based payment transactions that change classification from cash-settled to equity settled. The Company will adopt IFRS 2 February 1, 2018. As a practical simplification, the amendments can be applied prospectively. The Company does not expect a material impact on its consolidated financial statements as a result of these changes.

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. 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 right of use assets and lease liabilities for its operating leases of land, buildings and equipment. In addition, the nature and timing of leasing expenses will change as straight line operating lease expenses are replaced by a depreciation charge for right-of-use assets and interest expense on lease liabilities.

On transition the Company can either apply the standard using a retrospective approach or a modified retrospective approach with optional practical expedients. The Company plans to apply IFRS 16 initially on February 1, 2019 and has not yet determined which transition approach to apply. As a result, the Company has not yet quantified the impact on its reported assets and liabilities since it will depend on the transition method chosen. The Company is continuing to analyze the impact of this change on its leases, including the impacts on our accounting system, processes and internal controls.

Annual Improvements In December 2017, the IASB issued amendments to IFRS 3. Business Combinations: IAS 12. Income Taxes and IAS 23, Borrowing Costs. These amendments are effective for the Company February 1, 2019. The Company is currently assessing the potential impacts of these amendments.

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.

#### 4. SEGMENTED INFORMATION

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

The following key information is presented by geographic segment:

#### **Consolidated Statements of Earnings**

Consolidated Statements of Earnings											
Year Ended	January 3	1, 2018	January	31, 2017							
Sales											
Canada	\$ 1,1	171,621	\$	1,125,330							
International		782,122		718,763							
Consolidated	\$ 1,9	<b>\$ 1,953,743</b> \$									
Earnings before amorti	zation, interest an	d income	taxes								
Canada	\$ 1	112,393	\$	109,736							
International		57,231		56,762							
Consolidated	\$ 1	169,624	\$	166,498							
Earnings from operatio	ns										
Canada	\$	72,597	\$	74,445							
International		41,374		43,686							
Consolidated	\$ 1	113,971	\$	118,131							

	January 31, 2018	January 31, 2017
Assets		
Canada	\$ 634,399	\$ 529,807
International	296,549	276,014
Consolidated	\$ 930,948	\$ 805,821

Canadian total assets includes goodwill of \$6,730 (January 31, 2017 – \$3,271). International total assets includes goodwill of \$34,501 (January 31, 2017 – \$34,481).

### Supplemental information

Year Ended	January	31, 2018	January	/ 31, 2017
	Canada	Int'l	Canada	Int'l
Purchase of property and equipment	\$ 92,313	\$ 22,635	\$ 53,701	\$ 12,479
Amortization	\$ 39,796	\$15,857	\$ 35,291	\$ 13,076

## 5. ACCOUNTS RECEIVABLE

	January 31, 2018	January 31, 2017
Trade accounts receivable	\$ 80,374	\$ 76,122
Corporate and other accounts receivable	16,322	17,193
Less: allowance for doubtful accounts	(15,931)	(14,384)
	\$ 80,765	\$ 78,931

The carrying values of accounts receivable are a reasonable approximation of their fair values. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Credit risk for trade accounts receivable is discussed in Note 14. Corporate and other accounts receivable have a lower risk profile relative to trade accounts receivable because they are largely due from government or corporate entities.

Movements in the allowance for doubtful accounts for customer and commercial accounts receivables are as follows:

	January	31, 2018	January	31, 2017
Balance, beginning of year	\$	(14,384)	\$	(12,383)
Net charge		(9,972)		(9,425)
Written off		8,425		7,424
Balance, end of year	\$	(15,931)	\$	(14,384)

## 6. INVENTORIES

Retail inventories are valued at the lower of cost and net realizable value. Valuing retail inventories requires the Company to use estimates related to: adjusting to cost inventories valued at retail; future retail sales prices and reductions; and inventory losses during periods between the last physical count and the balance sheet date. Included in cost of sales for the year ended January 31, 2018, the Company recorded \$1,335 (January 31, 2017 – \$1,129) for the write-down of inventories as a result of net realizable value being lower than cost. There was no reversal of inventories written down previously that are no longer estimated to sell below cost during the year ended January 31, 2018 or 2017.

## 7. PROPERTY & EQUIPMENT

January 31, 2018	Land	Buildings	easehold vements	Fixtures & equipment	Aircraft	mputer ipment	truction process	Total
Cost								
Balance, beginning of year	\$ 16,367	\$ 442,041	\$ 69,735	\$ 309,155	\$ _	\$ 74,298	\$ 11,607	\$ 923,203
Additions through business acquisitions (Note 24)	975	27,760	32	6,249	26,332	1,773	_	63,121
Additions	308	15,937	7,253	22,439	55,198	2,317	11,496	114,948
Disposals	_	(8,531)	(2,056)	(9,623)	_	(240)	_	(20,450)
Effect of movements in foreign exchange	(549)	(8,256)	(1,190)	(6,067)	_	(896)	(511)	(17,469)
Total January 31, 2018	\$ 17,101	\$ 468,951	\$ 73,774	\$ 322,153	\$ 81,530	\$ 77,252	\$ 22,592	\$1,063,353
Accumulated amortization								
Balance, beginning of year	\$ _	\$ 246,054	\$ 37,952	\$ 216,196	\$ _	\$ 64,880	\$ _	\$ 565,082
Amortization expense	_	20,997	5,184	18,299	2,541	3,640		50,661
Disposals	_	(4,813)	(931)	(6,552)	_	(224)	_	(12,520)
Effect of movements in foreign exchange		(3,428)	(748)	(5,135)		(552)		(9,863)
Total January 31, 2018	\$ 	\$ 258,810	\$ 41,457	\$ 222,808	\$ 2,541	\$ 67,744	\$ 	\$ 593,360
Net book value January 31, 2018	\$ 17,101	\$ 210,141	\$ 32,317	\$ 99,345	\$ 78,989	\$ 9,508	\$ 22,592	\$ 469,993

January 31, 2017	Land	Buildings		easehold vements	Fixtures & equipment	Aircraft	mputer uipment	truction process	Total
Cost									
Balance, beginning of year	\$ 16,935	\$ 417,182	\$	64,055	\$ 294,922	\$ _	\$ 77,142	\$ 17,075	\$ 887,311
Additions	120	35,478		7,803	23,949	_	4,186	(5,356)	66,180
Disposals	_	(1,407	)	(500)	(2,533)	_	(6,025)	_	(10,465)
Effect of movements in foreign exchange	(688)	(9,212	)	(1,623)	(7,183)		(1,005)	(112)	(19,823)
Total January 31, 2017	\$ 16,367	\$ 442,041	\$	69,735	\$ 309,155	\$ _	\$ 74,298	\$ 11,607	\$ 923,203
Accumulated amortization									
Balance, beginning of year	\$ _	\$ 232,202	\$	34,811	\$ 207,004	\$ _	\$ 67,413	\$ _	\$ 541,430
Amortization expense	_	18,944		4,584	15,846	_	4,277	_	43,651
Disposals	_	(920	)	(472)	(1,968)	_	(5,927)	_	(9,287)
Effect of movements in foreign exchange	_	(4,172	)	(971)	(4,686)	_	(883)	_	(10,712)
Total January 31, 2017	\$ 	\$ 246,054	\$	37,952	\$ 216,196	\$ _	\$ 64,880	\$ 	\$ 565,082
Net book value January 31, 2017	\$ 16,367	\$ 195,987	\$	31,783	\$ 92,959	\$ _	\$ 9,418	\$ 11,607	\$ 358,121

The Company reviews its property and equipment for indicators of impairment. During the year the Company wrote-off assets with a net book value of \$7,008 due to the impact of hurricanes in the Caribbean which were reimbursed by insurance proceeds. No assets were identified as impaired at January 31, 2018 and 2017.

## Interest capitalized

Interest attributable to the construction of qualifying assets was capitalized using an average rate of 3.4% and 3.1% for the years ended January 31, 2018 and 2017 respectively. Interest capitalized in additions amounted to \$502 (January 31, 2017 – \$338). Accumulated interest capitalized in the cost total above amounted to \$2,278 (January 31, 2017 – \$1,776).

## 8. GOODWILL & INTANGIBLE ASSETS

#### Goodwill

	January	31, 2018	January 31, 201				
Balance, beginning of year Additions	\$	37,752 5,544	\$	37,260 3,271			
Effect of movements in foreign exchange		(2,065)		(2,779)			
Balance, end of year	\$	41,231	\$	37,752			

#### **Goodwill Impairment Testing**

A goodwill asset balance of \$34,501 (January 31, 2017 - \$34,481) relates to acquisition of subsidiaries by the Company's International Operations and 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 recoverable amount was estimated from the product of financial performance and trading multiples observed for comparable public companies. Values assigned to the key assumptions represent management's best estimates and have been based on data from both external and internal sources. This fair value measurement was categorized as a Level 3 fair value measurement based on the inputs in the valuation technique used. Key assumptions used in the estimation of enterprise value are as follows:

- Financial performance was measured with actual and budgeted earnings based on sales and expense growth specific to each store and the Company's administrative offices. Financial budgets and forecasts are approved by senior management and consider historical sales volume and price growth;
- The ratio of enterprise value to financial performance was determined using a range of market trading multiples from comparable companies;
- Costs to sell have been estimated as a fixed percentage of enterprise value. This is consistent with the approach of an independent market participant.

A goodwill asset balance of \$6,730 (January 31, 2017 – \$3,271) relates to acquisitions by the Company's Canadian Operations. The recoverable amount of the operating segment has also been determined on the basis of fair value less costs to sell.

No impairment has been identified on goodwill, and management considers reasonably foreseeable changes in key assumptions are unlikely to produce a goodwill impairment.

### Intangible assets

January 31, 2018	Software	Store	banners		Other	Total
Cost						
Balance, beginning of year	\$ 47,605	\$	9,121	\$	9,981	\$ 66,707
Additions	7,057	7	909		30	7,996
Effect of movements in foreign exchange		-	(569)	,	(194)	(763)
Total January 31, 2018	\$ 54,662	2 \$	9,461	\$	9,817	\$ 73,940
Accumulated Amortization						
Balance, beginning of year	\$ 24,837	7 \$	_	\$	6,476	\$ 31,313
Amortization expense	4,434	ļ	_		558	4,992
Effect of movements in foreign exchange		-			7	7
Total January 31, 2018	\$ 29,271	\$	_	\$	7,041	\$ 36,312
Net book value January 31, 2018	\$ 25,391	\$	9,461	\$	2,776	\$ 37,628

#### Intangible assets

January 31, 2017	Software	Software Store banners		Other		Total
Cost						
Balance, beginning of year	\$ 41,030	\$	9,856	\$	8,364	\$ 59,250
Additions	6,575		_		1,719	8,294
Effect of movements in foreign exchange	_		(735)		(102)	 (837)
Total January 31, 2017	\$ 47,605	\$	9,121	\$	9,981	\$ 66,707
Accumulated Amortization						
Balance, beginning of year	\$ 20,590	\$	_	\$	6,050	\$ 26,640
Amortization expense	4,247		_		469	4,716
Effect of movements in foreign exchange	_				(43)	(43)
Total January 31, 2017	\$ 24,837	\$	_	\$	6,476	\$ 31,313
Net book value January 31, 2017	\$ 22,768	\$	9,121	\$	3,505	\$ 35,394

## Work in process

As at January 31, 2018, the Company had incurred \$11,762 (January 31, 2017 – \$10,402) for intangible assets that were not yet available for use, and therefore not subject to amortization.

## **Intangible Asset Impairment Testing**

The Company determines the fair value of the store banners using the Relief from Royalty approach. This method requires management to  $make \,long\text{-}term\, assumptions\, about\, future\, sales, terminal\, growth\, rates,$ royalty rates and discount rates. Sales forecasts for the following financial year together with medium and terminal growth rates rangingfrom 2% to 5% are used to estimate future sales, to which a royalty rate of 0.5% is applied. The present value of this royalty stream is compared to the carrying value of the asset. No impairment has been identified on intangible assets and management considers reasonably foreseeable changes in key assumptions are unlikely to produce an intangible asset impairment.

## 9. INCOMETAXES

The following are the major components of income tax expense:

Year Ended	January 31, 2018	January 31, 2017
Current tax expense:		
Current tax on earnings for the year	\$ 35,985	\$ 37,903
Withholding taxes	991	1,401
Over provision in prior years	(354)	(87)
	\$ 36,622	\$ 39,217
Deferred tax expense:		
Origination and reversal of temporary differences	\$ (4,723)	\$ (5,546)
Impact of change in tax rates	1,791	(23)
Under provision in prior years	445	187
	(2,487)	(5,382)
Income taxes	\$ 34,135	\$ 33,835

Income tax expense varies from the amounts that would be computed by applying the statutory income tax rate to earnings before taxes for the following reasons:

Year Ended	January 31, 2018	January 31, 2017
Net earnings before income taxes	\$103,826	\$110,911
Combined statutory income tax rate	26.5%	28.9%
Expected income tax expense	\$ 27,561	\$ 32,007
Increase (decrease) in income	taxes resulting from:	
Non-deductible expenses/ non-taxable income	\$ (330)	\$ (292)
Unrecognized income tax losses	76	215
Withholding taxes	991	1,401
Impact of change in tax rates	1,791	(23)
Transition tax	4,008	_
Under provision in prior years	91	100
Other	(53)	427
Provision for income taxes	\$ 34,135	\$ 33,835
Income tax rate	32.9%	30.5%

Changes in the combined statutory income tax rate primarily reflect changes in earnings of the Company's subsidiaries across various tax jurisdictions. In December 2017 new corporate tax legislation was enacted in the United States which reduced the federal corporate tax rate from 35% to 21% effective January 1, 2018. There was also a one-time transition tax introduced on undistributed accumulated earnings in foreign owned subsidiaries. These changes resulted in an estimated income tax expense of \$5,835, comprised of \$1,827 for the re-measurement of deferred tax assets and liabilities and \$4,008 for transition tax related to certain of the Company's subsidiaries. The estimated impact of the change in U.S. tax legislation may require further adjustment as additional information and interpretations from the U.S. Department of the Treasury becomes available.

Deferred tax assets of \$4,200 arising from certain foreign income tax losses were not recognized on the consolidated balance sheets. The income tax losses expire from 2022 – 2036.

Deferred income tax charged (credited) to other comprehensive income during the year is as follows:

Year Ended	January 31,	January 31, 2017			
Defined benefit plan actuarial gain / (loss):					
Origination and reversal of temporary difference	\$	430	\$	875	
Impact of change in tax rates		(12)		(12)	
	\$	418	\$	863	
Investments:					
Origination and reversal of temporary difference	\$	(27)	\$		
	\$	(27)	\$		
	\$	391	\$	863	

Income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

January 31, 2018	February	y 1, 2017	credite	charged) ed to net earnings	Taxes (c credited		ŀ	quired in ousiness inations	adju	Other stments	January	31, 2018
Deferred tax assets:												
Goodwill & intangible assets	\$	672	\$	(672)	\$	_	\$	_	\$	_	\$	_
Property & equipment		15,971		1,781		_		_		(92)		17,660
Inventory		2,477		(401)		_		_		(83)		1,993
Share-based compensation and long-term incentive plans		3,746		276		_		_		(19)		4,003
Defined benefit plan obligation		9,182		472		(418)		_		_		9,236
Accrued expenses not deductible for tax		4,464		286		_		_		(147)		4,603
Other		(912)		1,330				_		(6)		412
	\$	35,600	\$	3,072	\$	(418)	\$	_	\$	(347)	\$	37,907
Deferred tax liabilities:									'		'	
Goodwill & intangible assets	\$	(1,077)	\$	393	\$	_	\$	_	\$	41	\$	(643
Property & equipment		_		(1,817)		_		(4,272)		77		(6,012)
Net investment hedge		(97)		_		_		_		97		_
Investment in joint venture		(1,370)		234		27		_		_		(1,109)
Deferred limited partnership earnings		(2,597)		2,597		_		_		_		_
Other		(267)		(1,992)				(1)		99		(2,161)
	\$	(5,408)	\$	(585)	\$	27	\$	(4,273)	\$	314	\$	(9,925)
	\$	30,192	\$	2,487	\$	(391)	\$	(4,273)	\$	(33)	\$	27,982

## Recorded on the consolidated balance sheet as follows:

Year Ended	January 31, 2018	January	31, 2017
Deferred tax assets	\$ 34,450	\$	32,853
Deferred tax liabilities	(6,468)		(2,661)
	\$ 27,982	\$	30,192

January 31, 2017	February	y 1, 2016	credite	charged) ed to net earnings	Taxes (c		iired in usiness nations	adju	Other stments	January	y 31, 2017
Deferred tax assets:											
Goodwill & intangible assets	\$	721	\$	(49)	\$	_	\$ _	\$	_	\$	672
Property & equipment		13,742		2,391		_	_		(162)		15,971
Inventory		2,146		459		_	_		(128)		2,477
Share-based compensation and long-term incentive plans		3,851		(58)		_	_		(47)		3,746
Defined benefit plan obligation		9,106		939		(863)	_		_		9,182
Accrued expenses not deductible for tax		4,889		(160)		_	_		(265)		4,464
Other		102		(1,038)			_		24		(912)
	\$	34,557	\$	2,484	\$	(863)	\$ _	\$	(578)	\$	35,600
Deferred tax liabilities:											
Goodwill & intangible assets	\$	(973)	\$	(178)	\$	_	\$ _	\$	74	\$	(1,077)
Net investment hedge		(53)		_		_	_		(44)		(97)
Investment in joint venture		(1,391)		21		_	_		_		(1,370)
Deferred limited partnership earnings		(5,647)		3,050		_	_		_		(2,597)
Other		(83)		5			_		(189)		(267)
	\$	(8,147)	\$	2,898	\$		\$	\$	(159)	\$	(5,408)
	\$	26,410	\$	5,382	\$	(863)	\$ _	\$	(737)	\$	30,192

In assessing the recovery of deferred income tax assets, management considers whether it is probable that the deferred income tax assets will be realized. The recognition and measurement of the current and deferred tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations and in the assessment of the recoverability of deferred tax assets. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences are deductible.

Actual income taxes could vary from these estimates as a result of future events, including changes in income tax laws or the outcome of tax reviews by tax authorities and related appeals. To the extent the final outcome is different from the amounts initially recorded, such differences, which could be significant, will impact the tax provision in the period in which the outcome is determined.

No deferred tax has been recognized in respect of temporary differences between the carrying value and tax value of investments in subsidiaries. The Company is in a position to control the timing and reversal of these differences and believes it is probable that they will not reverse in the foreseeable future. The temporary differences associated with the Company's foreign subsidiaries are approximately \$103,736 at January 31, 2018 (January 31, 2017 - \$96,278).

## 10. OTHER ASSETS

	January 31, 2018	January 31, 2017		
Investment in joint venture (Note 23)	\$ 9,294	\$ 9,930		
Other	3,349	3,833		
	\$ 12,643	\$ 13,763		

#### 11. LONG-TERM DEBT

	January 31, 2018	January 31, 2017
Current:		
Revolving loan facilities		
	\$ —	\$ —
Non-current		
Revolving loan facilities (1)	\$ 1,776	\$ 11,887
Revolving loan facilities (2)	34,365	_
Revolving loan facilities (3)	91,108	126,344
Revolving loan facilities (4)	_	_
Revolving loan facilities (5)	540	_
Senior notes (6)	85,760	91,035
Senior notes (7)	100,000	
	\$ 313,549	\$ 229,266
Total	\$ 313,549	\$ 229,266

- (1) The committed, revolving U.S. loan facility provides the International Operations with up to US\$40,000 for working capital requirements and general business purposes. This facility matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At January 31, 2018, the International Operations had drawn US\$1,444 (January 31, 2017 – US \$9,122) on this facility.
- (2) In September 2017, the Company extended the maturity date of the US\$52,000 loan facilities. These facilities mature September 22, 2022 and bear interest at U.S. LIBOR plus a spread. These loan facilities are secured by certain assets of the Company and rank pari passu with the US\$70,000 senior notes, the \$100,000 senior notes and the \$300,000 Canadian Operations loan facilities. At January 31, 2018, the Company had drawn US\$27,936 (January 31, 2017 - US\$NIL) on these facilities.
- (3) These committed, revolving loan facilities provide the Company's Canadian Operations with up to \$300,000 for working capital and general business purposes. In September 2017, the Company extended the maturity date of these facilities to September 26, 2022. These facilities are secured by certain assets of the Company and rank pari passu with the US\$70,000 senior notes, the \$100,000 senior notes and the US\$52,000 loan facilities. These facilities bear a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate.
- (4) The revolving U.S. loan facility provides the International Operations with up to US\$1,500 for Roadtown Wholesale Trading Ltd.'s (RTW) working capital requirements and general business purposes. This facility bears a floating rate of interest based on a U.S. dollar base rate plus a spread and is secured by certain assets of RTW. At January 31, 2018, the Company had drawn US\$NIL on this facility.
- (5) The Canadian Operations also have a \$2,375 revolving loan facility to meet North Star Air Ltd's. (NSA) working capital requirements and for general business purposes. This facility bears a floating rate of interest and is secured by the assets of NSA.

- (6) The US\$70,000 senior notes mature on June 16, 2021, have a fixed interest rate of 3.27% on US\$55,000 and a floating interest rate on US \$15,000 based on U.S. LIBOR plus a spread. The senior notes are secured by certain assets of the Company and rank pari passu with the \$300,000 Canadian Operations loan facilities, the \$100,000 senior notes and the US\$52,000 loan facilities.
- (7) In September 2017, the Company issued \$100,000 senior notes maturing September 26, 2029. These senior notes have a fixed interest rate of 3.74%, are secured by certain assets of the Company and rank pari passu with the \$300,000 Canadian Operations loan facilities, the US\$70,000 senior notes and the US\$52,000 loan facilities.

### 12. POST-EMPLOYMENTBENEFITS

The Company sponsors defined benefit and defined contribution pension plans covering the majority of Canadian employees. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan, which incorporated legislated changes, administrative practice, and added a defined contribution provision (the "Amended Plan"). Under the Amended Plan, all members as of December 31, 2011 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. The defined benefit pension previously earned by members transitioned to the defined contribution plan, will continue to accrue in accordance with the terms of the plan based on the member's current pensionable earnings. Members who met the qualifying threshold on January 1, 2011, elected between accruing a defined contribution benefit and continuing to accrue a defined benefit pension in accordance with the provisions of the Amended Plan.

The defined benefit pension plans are based on years of service and final average salary. The Company uses actuarial reports prepared by independent actuaries for accounting purposes as at January 31, 2018 and January 31, 2017. The accrued pension benefits and funding requirements were last determined by actuarial valuation as at December 31, 2016. The next actuarial valuation is required as at December 31, 2017. The Company also sponsors an employee savings plan covering all U.S. employees with at least six months of service. Under the terms of the plan, the Company is obligated to make a 50% matching contribution up to 6% of eligible compensation.

During the year ended January 31, 2018, the Company contributed \$3,487 to its defined benefit pension plans (January 31, 2017 – \$1,501). During the year ended January 31, 2018, the Company contributed \$3,129 to its defined contribution pension plans (January 31, 2017 - \$2,890). The current best estimate of the Company's funding obligation for the defined benefit pension plans for the year commencing February 1, 2018 is \$1,700. 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 actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

## Movement in plan assets and defined benefit obligation

Information on the Company's defined benefit plans, in aggregate, is as follows:

	January 3	January 31, 2018		31, 2017
Plan assets:				
Fair value, beginning of year	\$	78,280	\$	76,429
Accrued interest on assets		3,075		2,987
Benefits paid		(4,612)		(5,040)
Plan administration costs		(388)		(405)
Employer contributions		3,487		1,501
Employee contributions		9		9
Return on assets greater than discount rate		4,486		2,799
Fair value, end of year	\$	84,337	\$	78,280
Plan obligations:				
Defined benefit obligation, beginning of year	\$ (	112,358)	\$	(110,282)
Current service costs		(3,387)		(3,273)
Employee contributions		(9)		(9)
Interest on plan liabilities		(4,397)		(4,311)
Benefits paid		4,612		5,040
Actuarial remeasurement due to:				
Plan experience		6,599		477
Financial assumptions		(9,492)		
Defined benefit obligation, end of year	\$ (	118,432)	\$	(112,358)
Plan deficit	\$	(34,095)	\$	(34,078)

The defined benefit obligation exceeds the fair value of plan assets as noted in the table. While the plans are not considered fully funded for financial reporting purposes, registered plans are funded in accordance with the applicable statutory funding rules and regulations governing the particular plans.

## Defined benefit obligation

The following actuarial assumptions were employed to measure the

	January 31, 2018	January 31, 2017
Discount rate on plan liabilities	3.5%	4.0%
Rate of compensation increase	4.0%	4.0%
Discount rate on plan expense	4.0%	4.0%
Inflation assumption	2.0%	2.0%

The assumptions used are the best estimates chosen from a range of possible actuarial assumptions, which may not necessarily be borne out in practice. The weighted-average duration of the defined benefit obligation at the end of the reporting period is 17.1 years (January 31, 2017 - 17.8 years).

The average life expectancy in years of a member who reaches normal retirement age of 65 is as follows:

	January 31, 2018	January 31, 2017
Average life expectancies at	age 65 for current per	nsioners:
Male	21.3	21.2
Female	23.8	23.6
Average life expectancies at a	age 65 for current me	mbers aged 45:
Male	22.5	22.3
Female	24.9	24.6

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. For the years ended January 31, 2018 and 2017, mortality assumptions have been estimated at 106% of the base mortality rates in the CPM2014PRIV table based on pension size and industry classification.

#### Sensitivity of key assumption

The following table outlines the sensitivity of a 1% change in the discount rate used to measure the defined benefit plan obligation and cost for the defined benefit pension plans. The table reflects the impact on both the current service and interest cost expense components.

The sensitivity analysis provided in the key assumption table is hypothetical and should be used with caution. The sensitivities have been calculated independently of any changes in other assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

		Defined benefit plan obligation	Benefit plan cost
Discount rate	e:		
Impact of:	1% increase	\$ (17,686)	\$ (965)
	1% decrease	\$ 22,825	\$ 889

#### Plan assets

The major categories of plan assets as a percentage of total plan assets are listed below. The pension plans have no direct investment in the shares of the Company.

	January 31, 2018	January 31, 2017
Plan assets:		
Canadian equities (pooled)	17%	23%
Global equities (pooled)	41%	40%
Real estate equities (pooled)	9%	_
Debt securities	33%	37%
Total	100%	100%

## Governance and plan management

The Company's Pension Committees oversee the pension plans. These committees are responsible for assisting the Board of Directors to fulfill its governance responsibilities for the plans. The committees assist with plan administration, regulatory compliance, pension investment and monitoring responsibilities.

Plan assets are subject to the risk that changes in market prices, such as interest rates, foreign exchange and equity prices will affect their value. A Statement of Investment Policy and Procedures (SIPP) guides the investing activity of the defined benefit pension plans to mitigate market risk. Assets are expected to achieve, over moving three to four-year periods, a return at least equal to a composite benchmark made up of passive investments in appropriate market indices. These indices are consistent with the policy allocation in the SIPP.

Periodically, an Asset-Liability Modeling study is done to update the policy allocation between liability hedging assets and return seeking assets. This is consistent with managing both the funded status of the defined benefit pension plans and the Company's long-term costs. It assists with adequately securing benefits and mitigating yearto-year fluctuations in the Company's cash contributions and pension expense. The defined benefit plans are subject to, and actively manage, the following specific market risks:

Interest rate risk: is managed by allocating a portion of plan investments to liability hedging assets, comprised of a passive universe bond fund.

Currency risk: is managed through asset allocation. A significant portion of plan assets are denominated in the same currency as plan obligations.

Equity price risk: The defined benefit pension plans are directly exposed to equity price risk on return seeking assets. Fair value or future cash flows will fluctuate due to changes in market prices because they may not be offset by changes in obligations. Investment management of plan assets is outsourced to independent managers.

## Statement of earnings and comprehensive income

The following pension expenses have been charged to the consolidated statement of earnings:

	January 3	1, 2018	January 31, 201		
Employee costs (Note 17)					
Defined benefit pension plan, current service costs included in post-employment benefits	\$	3,387	\$	3,273	
Plan administration costs		388		405	
Defined contribution pension plan		3,129		2,890	
Savings plan for U.S. employees		1,168		592	
	\$	8,072	\$	7,160	
Interest expense (Note 18)	,				
Accrued interest on assets	\$	(3,075)	\$	(2,987)	
Interest on plan liabilities		4,397		4,311	
	\$	1,322	\$	1,324	

The following amounts have been included in other comprehensive income:

	January 3	31, 2018	January	31, 2017
Current Year:				
Return on assets greater than discount rate	\$	4,486	\$	2,799
Actuarial remeasurement due to:				
Plan experience		6,599		477
Financial assumptions		(9,492)		_
Taxes on actuarial remeasurement in OCI		(418)		(863)
Net actuarial remeasurement recognized in OCI	\$	1,175	\$	2,413
Cumulative gains/losses recogniz	ed in OCI:			
Cumulative gross actuarial remeasurement in OCI	\$	(15,834)	\$	(17,427)
Taxes on cumulative actuarial remeasurement in OCI		2,194		2,612
Total actuarial remeasurement recognized in OCI, net	\$	(13,640)	\$	(14,815)

The actual return on the plans assets is summarized as follows:

	January 3	1, 2018	January 31, 201		
Accrued interest on assets	\$	3,075		\$	2,987
Return on assets greater than discount rate		4,486			2,799
Actual return on plan assets	\$	7,561		\$	5,786

## 13. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans:  $Performance \, Share \, Units \, (PSUs); Share \, Options; Director \, Deferred \, Share \, Contract \, C$ Units (DDSUs); Executive Deferred Share Units (EDSUs) and an Employee Share Purchase Plan. The purpose of these plans is to directly align the interests of the participants and the shareholders of the Company by providing compensation that is dependent on the performance of the Company's common shares.

The total expense relating to share–based payment plans for the year ended January 31, 2018 was \$8,820 (January 31, 2017 - \$7,053). The carrying amount of the Company's share-based compensation arrangements including PSU, share option, DDSU and EDSU plans are recorded on the consolidated balance sheets as follows:

	January 31, 2018	January 31, 2017
Accounts payable and accrued liabilities	\$ 14,164	\$ 10,844
Other long-term liabilities	14,188	13,624
Contributed surplus	1,001	1,078
Total	\$ 29,353	\$ 25,546

#### **Performance Share Units**

The Company has granted Performance Share Units to officers and senior management. Each PSU entitles the participant to receive a cash payment equal to the market value of the number of notional units granted at the end of the vesting period based on the achievement of specific performance based criteria. The PSU account for each participant includes the value of dividends from the Company as if reinvested in additional PSUs. PSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. Compensation expense is measured initially based on the fair market value of the Company's shares at the grant date and subsequently adjusted for additional shares granted based on the reinvestment of notional dividends and the market value of the shares at the end of each reporting period. The associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period factoring in the probability of the performance criteria being met during that period. Compensation costs related to the PSUs for the year ended January 31, 2018 are \$4,048 (January 31, 2017 – \$3,017).

#### **Director Deferred Share Unit Plan**

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

Compensation expense is measured at the time of the grant. Subsequent changes in the fair value of the DDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The DDSU plan compensation recorded for the year ended January 31, 2018 is an expense of \$1,047 (January 31, 2017 – \$712). The total number of deferred share units outstanding at January 31, 2018 is 249,108 (January 31, 2017 – 212,166). There were no DDSUs exercised during the years ended January 31, 2018 and January 31, 2017.

## **Executive Deferred Share Unit Plan**

The EDSU plan was implemented to assist executive management to meet the Company's minimum share ownership guidelines. This plan provides for the granting of deferred share units to those executives who elect to receive a portion of their annual short-term incentive payment in EDSUs, subject to plan limits. Effective April 2016, participants will be credited with EDSUs based on the amount of their annual short-term incentive payment allocated to the plan and the fair market value of the Company's shares. The EDSUs are exercisable at any time after the executive ceases to be an employee of the Company, but no later than December 31 of the first calendar year commencing after the holder ceased to be an employee. Each EDSU entitles the holder to a cash payment equal to the market value of the

equivalent number of the Company's shares, determined based on their closing price on the TSX on the trading day preceding the exercise date.

Total compensation expense is measured at the time of the grant. Subsequent changes in the fair value of the EDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The EDSU plan compensation recorded for the year ended January 31, 2018 is an expense of \$28 (January 31, 2017 – \$35).

#### **Share Option Plan**

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

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

The maximum number of shares available for issuance is a fixed number set at 4,354,020, representing 8.9% of the Company's issued and outstanding shares at January 31, 2018. Fair value of the Company's options is determined using an option pricing model. Share options granted vest on a graduated basis over five years and are exercisable over a period of seven to ten years. The share option compensation cost recorded for the year ended January 31, 2018 is \$2,886 (January 31, 2017 – \$2,510).

The fair values for options issued during the year were calculated based on the following assumptions:

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

The assumptions used to measure options at the balance sheet dates are as follows:

	2017	2016
Dividend yield	4.4%	4.2%
Annual risk-free interest rate	1.8% to 2.1%	0.8% to 1.1%
Expected share price volatility	16.6% to 20.5%	19.7% to 23.3%

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

The following continuity schedules reconcile the movement in outstanding options during the year:

Number of options outstanding	Declining Strike Pr	rice Options	Standard Options		
	2017	2016	2017	2016	
Outstanding options, beginning of year	2,082,892	1,659,664	442,642	400,045	
Granted	441,269	454,057	63,843	68,564	
Exercised	(28,527)	(30,829)	(16,855)	(25,967)	
Forfeited or cancelled	(30,694)		(35,453)		
Outstanding options, end of year	2,464,940	2,082,892	454,177	442,642	
Exercisable at end of year	773,188	485,431	237,026	205,958	

The weighted-average share price on the dates options were exercised during the year was \$31.65 (January 31, 2017 – \$29.88).

Weighted-average exercise price	Declining Strike P	Standard Options		
	2017	2016	2017	2016
Outstanding options, beginning of year	\$ 24.81	\$ 23.67	\$ 23.21	\$ 21.86
Granted	32.34	28.81	32.40	28.81
Exercised	21.68	21.95	22.71	17.20
Forfeited or cancelled	26.36		26.31	
Outstanding options, end of year	\$ 26.18	\$ 24.81	\$ 24.28	\$ 23.21
Exercisable at end of year	\$ 19.52	\$ 18.47	\$ 20.67	\$ 20.29

## Summary of options outstanding by grant year

	Outstanding				Exercisable				
Grant year		Range of exercise price	Number outstanding	Weighted-average remaining contractual years	Weighted-a exercis		Options exercisable	Weighted-a exercis	verage e price
2010	\$	19.11-19.11	106,700	2.2	\$	19.11	106,700	\$	19.11
2011	\$	17.19-21.24	252,469	0.5	\$	17.77	252,469	\$	17.77
2012	\$	18.04-22.53	306,865	1.2	\$	19.34	306,865	\$	19.34
2013	\$	19.87-24.00	342,421	2.2	\$	21.21	224,631	\$	21.21
2014	\$	21.98-25.21	358,661	3.2	\$	23.18	119,549	\$	23.18
2015	\$	23.86-27.22	546,365	4.2	\$	24.73	NIL		N/A
2016	\$	26.55-30.60	500,524	5.2	\$	28.52	NIL		N/A
2017	\$	29.45-32.40	505,112	6.4	\$	32.35	NIL		N/A

#### **Employee Share Purchase Plan**

The Employee Share Purchase Plan provides participants with the opportunity to acquire an ownership interest in the Company. The Company contributes an additional 33% of the amount invested, subject to a maximum annual contribution of 2% of the participants' base salary. The plan is administered by a trustee who uses the funds received to purchase shares on the TSX on behalf of the participating employees. These shares are registered in the name of the plan trustee on behalf of the participants.

The Company's contribution to the plan is recorded as compensation expense. The employee share purchase plan compensation recorded for the year ended January 31, 2018 is \$811 (January 31, 2017 – \$779).

#### 14. FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks including liquidity risk, credit risk and market risk. The Company's overall risk management program focuses on minimizing potential adverse effects on financial performance.

The Company manages funding and financial risk management 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.

#### 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's operational cash flow is reasonably stable and predictable. This reflects the business risk profile of the majority of markets in which the Company operates and its product mix. Cash flow forecasts are produced regularly and reviewed against the Company's debt portfolio capacity and maturity profile to assist management in identifying future liquidity requirements. The Company's funding strategy is to ensure a mix of funding sources offering flexibility and cost effectiveness to match the business requirements.

The Company is financed by a combination of cash flow from operating activities, bank advances, senior notes and committed revolving loan facilities. At January 31, 2018, the Company had undrawn committed revolving loan facilities available of \$266,322 (January 31, 2017 – \$264,657) which mature in 2020 and 2022 (Note 11).

The following table analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows or an estimation in respect of floating interest rate liabilities, and as a result may not agree to the amounts disclosed on the balance sheet.

	2018	2019	2020	2021	2022	2023+	Total
Accounts payable and accrued liabilities	\$ 170,166	_	_	_	_	_ \$	170,166
Long-term debt (Note 11)	9,938	9,938	11,714	94,415	132,055	125,514	383,574
Operating leases (Note 21)	31,279	25,132	18,549	15,076	12,234	72,438	174,708
Total	\$ 211,383	35,070	30,263	109,491	144,289	197,952	728,448

#### 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's exposures to credit risk arise primarily from holdings of cash and its customer and commercial accounts receivable.

To mitigate credit risk, the Company maintains deposits with financial institutions with minimum equivalent short-term credit ratings of "A1." The maximum exposure on cash is equal to the carrying amount of these instruments.

It is the Company's policy that customers who wish to trade on credit terms are subject to credit verification procedures including policies governing: credit approvals, limits, collections and fraud prevention. The Company provides impairment allowances for potentially uncollectible accounts receivable. Receivable balances are comprised of approximately forty thousand customers spread across a wide geography, substantially reducing the Company's risk through the diversity of its customer base. Further, receivables are centrally monitored on an ongoing basis with the result that the Company's exposure to individual customers is generally not significant. The maximum exposure net of impairment allowances is \$80,765 (January 31, 2017 - \$78,931). The Company does not have any individual customers greater than 10% of total accounts receivable. At January 31, 2018, the Company's gross maximum credit risk exposure is \$96,696 (January 31, 2017 – \$93,315). Of this amount, \$16,427 (January 31, 2017 – \$15,444) is more than 60 days past due. The Company has recorded an allowance against its maximum exposure to credit risk of \$15,931 (January 31, 2017 - \$14,384) which is based on historical payment records for similar financial assets.

As at January 31, 2018 and 2017, the Company has no significant credit risk related to derivative financial instruments.

### Market risk

(a) Currency risk The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Foreign exchange risk arises from U.S. dollar denominated borrowings and net investments in foreign operations.

Management is responsible for managing foreign currency risk. The Company's U.S. dollar net investment is exposed to foreign currency translation risk. A significant portion of this risk has been hedged with U.S. dollar denominated borrowings.

In respect of recognized foreign currency assets and liabilities, the Company has limited exposure. Procurement and related borrowing activity are generally conducted in currencies matching cash flows generated by underlying operations, providing an economic hedge without sophisticated treasury management. Short-term imbalances in foreign currency holdings are rectified by buying or selling at spot rates when necessary.

Management considers a 10% variation in the Canadian dollar relative to the U.S. dollar reasonably possible. Considering all major exposures to the U.S. dollar as described above, a 10% appreciation of the Canadian dollar against the U.S. dollar in the year-end rate would cause net earnings to decrease by approximately \$100. A 10% depreciation of the Canadian dollar against the U.S. dollar year-end rate would cause net earnings to increase by approximately \$100.

(b) Interest rate risk Interest rate risk is the risk that the fair value of 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 monitoring its blend of fixed and floating interest rates, and may modify this blend using interest rate swaps. The goal of management is to manage the trade-off between obtaining the most beneficial effective rates of interest, while minimizing the impact of interest rate volatility on earnings.

Management considers a 100 basis point change in interest rates reasonably possible. Considering all major exposures to interest rates as described above, a 100 basis point increase in the risk-free rate would cause net earnings to decrease by approximately \$1,141. A 100 basis point decrease would cause net earnings to increase by approximately \$1,141.

(c) Accounting classifications and fair value estimation The following table comprises the carrying amounts of the Company's financial instruments. Financial instruments are either carried at amortized cost using the effective interest rate method or fair value.

The Company uses a three-level hierarchy to categorize financial instruments carried at fair value as follows:

- Level 1 Fair values measured using quoted prices (unadjusted) in active markets for identical instruments
- Level 2 Fair values measured using directly or indirectly observable inputs, other than those included in Level 1
- Level 3 Fair values measured using inputs that are not based on observable market data

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

January 31, 2018	Assets (Liabilitie amortized		
	Maturity	Carrying amount	Fair value
Cash	Short-term	\$ 25,160	\$ 25,160
Accounts receivable	Short-term	80,765	80,765
Other financial assets	Long-term	1,197	1,197
Accounts payable and accrued liabilities	Short-term	(170,166)	(170,166)
Long-term debt	Long-term	(313,549)	(310,737)

January 31, 2017	Assets (Liabilities) carried at amortized cost			
	Maturity	Carrying amount	Fair value	
Cash	Short-term	\$ 30,243	\$ 30,243	
Accounts receivable	Short-term	78,931	78,931	
Other financial assets	Long-term	1,582	1,582	
Accounts payable and accrued liabilities	Short-term	(146,639)	(146,639)	
Long-term debt	Long-term	(229,266)	(230,067)	

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

- The fair value of short-term financial instruments approximates their carrying values due to their immediate or short-term period to maturity. Any differences between fair value and book values of short-term financial instruments are considered to be insignificant.
- The fair value of long-term debt with fixed interest rates is estimated by discounting the expected future cash flows using the current risk-free interest rate on an instrument with similar terms adjusted for an appropriate risk premium. This is considered a level 2 fair value estimate.

## Capital management

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

The Company's process and policies for managing capital are monitored by management and are reflected in the following measures:

(a) Debt-to-equity ratio At January 31, 2018, the debt-to-equity ratio was 0.82 compared to 0.62 last year. The debt-to-equity ratio is within the Company's objectives. The debt-to-equity ratio is calculated as follows:

	January 31, 2018		January	31, 2017
Current portion of long-term debt	\$	_	\$	_
Long-term debt		313,549		229,266
Total debt	\$	313,549	\$	229,266
Total equity	\$	382,156	\$	367,785
Debt-to-equity ratio		0.82		0.62

(b) Financial covenants As a result of borrowing agreements entered into by the Company, there are certain financial covenants that must be maintained. Financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. Compliance with financial covenants is reported quarterly to the Board of Directors. During the years ended January 31, 2018 and 2017, the Company is in compliance with all financial covenants. Other than the requirements imposed by these borrowing agreements and solvency tests imposed by the CBCA, the Company is not subject to any externally imposed capital requirements.

Capital management objectives are reviewed on an annual basis. The capital management objectives were substantially unchanged for the year ended January 31, 2018.

#### 15. SHARE CAPITAL

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

	Shares	Cons	ideration
Balance at January 31, 2017	48,542,514	\$	168,283
Issued for acquisition of RTW (Note 24)	133,944		4,000
Issued under option plans (Note 13)	13,754		336
Balance at January 31, 2018	48,690,212	\$	172,619
Balance at January 31, 2016	48,523,341	\$	167,910
Issued under option plans (Note 13)	19,173		373
Balance at January 31, 2017	48,542,514	\$	168,283

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

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

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

At January 31, 2018 shares outstanding of 48,690,212 included 12,557,051 Variable Voting Shares, representing 25.8% of the total shares issued and outstanding.

## **16. EXPENSES BY NATURE**

Year Ended	January 31, 2018	January 31, 2017
Employee costs (Note 17)	\$ 296,417	\$ 260,891
Amortization	55,653	48,367
Operating lease rentals	35,394	30,207
Other income	(31,604)	(30,168)

## 17. EMPLOYEE COSTS

Year Ended	January 31, 2018	January 31, 2017				
Wages, salaries and benefits including bonus	\$ 279,525	\$ 246,678				
Post-employment benefits (Note 12	2) 8,072	7,160				
Share-based compensation (Note 13)	8,820	7,053				
Included in the above are the foll management compensation:	Included in the above are the following amounts in respect of key management compensation:					
Wages, salaries and benefits including bonus	\$ 4,603	\$ 3,957				
Post-employment benefit expense	1,160	1,145				
Share-based compensation	5,314	3,913				

Key management personnel are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel are comprised of the Board of Directors, Chief Executive Officer and the senior officers of the Company.

## **18. INTEREST EXPENSE**

Year Ended	January 31, 2018	January 31, 2017
Interest on long-term debt	\$ 9,363	\$ 6,326
Net interest on defined benefit plan obligation	1,322	1,324
Interest income	(38)	(92)
Less: interest capitalized	(502)	(338)
Interest expense	\$ 10,145	\$ 7,220

## 19. DIVIDENDS

The following is a summary of the dividends recorded in shareholders' equity and paid in cash:

Year Ended	January 31, 2018	January 31, 2017
Dividends recorded in equity and paid in cash	\$ 64,797	\$ 60,169
Less: Dividends paid to non- controlling interests	(2,482)	_
Shareholder dividends	\$ 62,315	\$ 60,169
Dividends per share	\$ 1.28	\$ 1.24

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

On March 15, 2018, the Board of Directors declared a dividend of \$0.32 per common share to be paid on April 16, 2018 to shareholders of record as of the close of business on March 29, 2018.

## **20. NET EARNINGS PER SHARE**

Basic net earnings per share is calculated based on the weighted-average shares outstanding during the year. The diluted net earnings per share takes into account the dilutive effect of all potential ordinary shares. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

(\$ and shares in thousands, except earnings per share)

Year Ended	January 31, 2018	January 3	31, 2017
Diluted earnings per share calculation:			
Net earnings for the year (numerator for diluted earnings per share)	\$ 67,154	\$	77,076
Weighted-average shares outstanding (denominator for basic earnings per share)	48,680		48,524
Dilutive effect of share-based compensation	595		440
Denominator for diluted earnings per share	49,275		48,964
Basic earnings per share	\$ 1.38	\$	1.59
Diluted earnings per share	\$ 1.36	\$	1.57

## 21. OPERATING LEASE COMMITMENTS

The Company leases various retail stores, offices, warehouses and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. The future minimum lease payments are as follows:

Year Ended	January 31, 2	<b>January 31, 2018</b> January 31, 2017			
	Land and buildings	Other leases	Land and buildings	Other leases	
Due within 1 year	\$ 29,620	\$ 1,659	\$ 29,030	\$ 861	
Within 2 to 5 years inclusive	69,692	1,299	73,889	978	
After 5 years	72,438	_	69,339	_	

## 22. COMMITMENTS, CONTINGENCIES AND GUARANTEES

#### Commitments

The Company has a Master Franchise Agreement (MFA) with Giant Tiger Stores Limited, based in Ottawa, Ontario which grants the Company the exclusive right to open Giant Tiger stores in western Canada, subject to meeting a minimum store opening commitment. 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 distribution services to the stores. As at January 31, 2018, the Company owns 41 Giant Tiger stores and is in compliance with the minimum store opening commitment. The agreement expires July 31, 2040.

## **Contingencies**

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

The Company is involved in various legal matters arising in the normal course of business. The occurrence of the confirming future events is not determinable or it is not possible to determine the amounts that may ultimately be assessed against the Company. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

## Guarantees

The Company has provided the following guarantees to third parties:

The Company has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased director and officer liability insurance. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

In the normal course of operations, the Company provides indemnification agreements to counterparties for various events such as intellectual property right infringement, loss or damages 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 indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

## 23. SUBSIDIARIES AND JOINT VENTURES

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

## Proportion of voting rights held by:

	Activity	Country of Organization	Company	Subsidiary
NWC GP Inc.	General Partner	Canada	100%	
North West Company Holdings Inc.	Holding Company	Canada	100%	
The North West Company LP	Retailing	Canada	100%	(less one unit)
NWC (U.S.) Holdings Inc.	Holding Company	United States		100%
The North West Company (International) Inc.	Retailing	United States		100%
The North West Finance Company Cooperatie U.A.	Finance Company	Netherlands	99%	1%
Roadtown Wholesale Trading Ltd.	Retailing	British Virgin Islands		76%
North Star Air Ltd.	Airline	Canada		100%

The investment in joint venture comprises a 50% interest in a Canadian Arctic shipping company, Transport Nanuk Inc. At January 31, 2018, the Company's share of the net assets of its joint venture amount to \$9,294 (January 31, 2017 – \$9,930) comprised assets of \$10,925 (January 31, 2017 – \$11,137) and liabilities of \$1,631 (January 31, 2017 – \$1,207). During the year ended January 31, 2018, the Company purchased freight handling and shipping services from Transport Nanuk Inc. and its subsidiaries of \$7,806 (January 31, 2017 – \$8,217). The contract terms are based on market rates for these types of services on similar arm's length transactions.

## 24. BUSINESS ACQUISITION

On February 9, 2017, the Company acquired 76% of the outstanding common shares of Roadtown Wholesale Trading Ltd. (RTW), operating primarily as Riteway Food Markets in the British Virgin Islands (BVI). RTW is the leading retailer in BVI with eight retail outlets, a Cash and Carry store and a significant wholesale operation. Based on the Company's closing share price on that date, the purchase price was \$35,593 (US\$27,044). This was comprised of cash consideration of \$31,593 (US\$24,004) financed through existing loan facilities and the issuance of 133,944 common shares, in accordance with the form of consideration elected to be received by RTW shareholders. The purchase price allocation based on management's best estimate of the acquisition date fair values of assets acquired and liabilities assumed is as follows:

	February 9, 2	2017
CURRENT ASSETS		
Cash	\$ 8	3,738
Accounts receivable	2	2,647
Inventories	12	2,432
Prepaid expenses		616
	\$ 24	1,433
NON-CURRENT ASSETS		
Property and equipment	\$ 34	1,574
Goodwill	2	2,085
Intangible assets		909
	37	7,568
TOTAL ASSETS	\$ 62	2,001
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ (14	1,258)
NET IDENTIFIABLE ASSETS	47	7,743
Less: non-controlling interests	(12	2,150)
CONSIDERATION	\$ 35	5,593
Less: cash acquired	3)	3,738)
Less: share consideration	(4	1,000)
NET CASH FLOW FOR BUSINESS ACQUISITION	\$ 22	2,855

This acquisition was completed to gain access to a new market, consistent with the Company's overall Caribbean growth plans. The acquisition was accounted for using the acquisition method. Since the date of acquisition the impact on sales was an increase of \$105,270 and the impact on net earnings was an increase of \$5,417. The net earnings of \$5,417 includes \$5,765 in acquisition costs substantially related to stamp duty paid to the Government of the British Virgin Islands. These acquisition costs are included in selling, operating and administrative expenses in the consolidated statements of earnings. On February 9, 2017, accounts payable and accrued liabilities includes a \$7,470 (US\$5,676) dividend payable to RTW shareholders declared prior to the acquisition. This dividend was paid subsequent to the closing of the acquisition and was fully funded by the cash acquired.

## 24. BUSINESS ACQUISITION (continued)

On June 15, 2017, the Company acquired 100% of the outstanding common shares of North Star Air Ltd. (NSA). NSA is a Thunder Bay based airline, providing cargo and passenger services within northwestern Ontario, Canada. The purchase price was \$30,755, subject to working capital adjustments, and was financed through existing loan facilities. The preliminary purchase price allocation based on management's best estimate of the acquisition date fair values of assets acquired and liabilities assumed is as follows:

	June 15, 201
CURRENT ASSETS	
Cash	\$ 2,40
Accounts receivable	5,25
Inventories	1,05
Prepaid expenses	1,85
	\$ 10,56
NON-CURRENT ASSETS	
Property and equipment	\$ 28,54
Goodwill	3,45
	32,00
TOTAL ASSETS	\$ 42,57
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ (7,54
Deferred tax liability	(4,27
NET IDENTIFIABLE ASSETS & CONSIDERATION	30,75
Less: cash acquired	(2,40
NET CASH FLOW FOR BUSINESS ACQUISITION	\$ 28,34

This acquisition was completed to allow the Company to deliver faster, more consistent service to our customers. The acquisition was accounted for using the acquisition method. Since the date of acquisition the impact on sales was an increase of \$28,194 and the impact on net earnings was an increase of \$943. The net earnings of \$943 includes \$423 in acquisition costs, net of tax. Acquisition costs are included in selling, operating and administrative expenses in the consolidated statements of earnings.

In the fourth quarter of 2017, the Company revised its fair value estimates updated the NSA purchase price allocation based on the final settlement of working capital adjustments. The result was to decrease the purchase price by \$585 with a corresponding decrease in assets acquired of \$439 and an increase in current liabilities of \$146.

The Company has one year from the date of acquisition to finalize the fair value of net tangible assets, goodwill and intangible assets and therefore these amounts are subject to change.

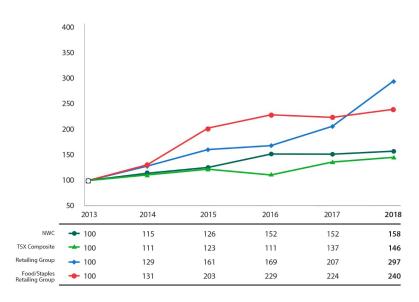
## **Shareholder Information**

Fiscal Year Quarter Ended	Share Price High	Share Price Low	Share Price Close	Volume	EPS <sup>1</sup>
2017	\$33.75	\$28.45	\$29.14	38,835,538	\$1.36
April 30, 2017	32.28	28.78	32.20	10,508,104	0.17
July 31, 2017	33.75	29.68	30.54	8,949,833	0.46
October 31, 2017	32.00	29.37	31.48	8,193,983	0.42
January 31, 2018	32.90	28.45	29.17	11,183,618	0.31
2016	\$33.15	\$24.08	\$29.28	49,189,285	\$1.57
April 30, 2016	33.15	27.56	27.89	13,914,839	0.36
July 31, 2016	31.13	27.70	30.50	9,094,678	0.34
October 31, 2016	30.89	24.58	25.60	11,714,391	0.57
January 31, 2017	30.23	24.08	29.28	14,465,377	0.30
2015	\$30.53	\$23.41	\$30.53	35,630,567	\$1.43
April 30, 2015	26.80	24.27	24.76	7,604,165	0.32
July 31, 2015	27.98	23.41	27.51	11,004,187	0.37
October 31, 2015	29.90	26.15	29.00	8,843,138	0.43
January 31, 2016	30.53	26.20	30.53	8,179,077	0.31

<sup>1</sup> Net earnings per share are on a diluted basis.

### Total Return Performance (% at January 31)

This chart illustrates the relative performance of shares of The North West Company Inc. over the past five years. The index incorporates the reinvestment of dividends.



## The North West Company Inc. Anticipated Dividend Dates\*

Record Date: March 29, 2018 Payment Date: April 16, 2018

Record Date: June 29, 2018 Payment Date: July 16, 2018

Record Date: September 28, 2018 Payment Date: October 15, 2018

Record Date: December 31, 2018 Payment Date: January 15, 2019

\*Dividends are subject to approval by the Board of Directors

The 2018 Annual General and Special Meeting of Shareholders of The North West Company Inc. will be held on Wednesday, June 13, 2018 at 11:30 a.m. in the Muriel Richardson Auditorium, Winnipeg Art Gallery, 300 Memorial Boulevard, Winnipeg, Manitoba

## **Transfer Agent and Registrar**

AST Trust Company (Canada) 2001 Robert-Bourassa Blvd. Suite 1600 Montreal, QC

Toll-free: 1 800 387 0825 www.astfinancial.com/ca-en

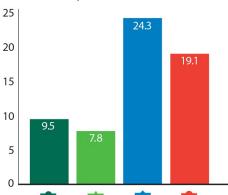
Stock Exchange Listing
The Toronto Stock Exchange

Stock Symbol NWC ISIN #: CA6632781093 CUSIP #: 663278109

Number of shares issued and outstanding at January 31, 2018: 48,690,212

Auditors
PricewaterhouseCoopers LLP

## Five Year Compound Annual Growth (%)



Corporate Governance
Complete disclosure of The North West Company Inc's. corporate governance is provided in the Company's Management Information Circular, which is available on the Canadian Securities Administrators' website at <a href="https://www.sedar.com">www.sedar.com</a> or in the investor section of the Company's website at www.northwest.ca.

EXECUTIVES	EXECUTIVES	BOARD OF DIRECTORS
Edward S. Kennedy President and Chief Executive Officer	Brett D. Marchand Vice-President, Logistics & Distribution,	H. Sanford Riley, Chairman
	Canada	Brock Bulbuck <sup>2, 3</sup>
Craig T. Gilpin Executive Vice-President and	Tom Meilleur Vice-President, North Star Air Ltd.	Deepak Chopra, FCPA, FCGA
Chief Corporate Officer		Frank J. Coleman 1,2
John D. King CPA, CA, CMA Executive Vice-President and	Beth Millard-Hales* Vice-President, Human Resources	Wendy F. Evans 1,3
Chief Financial Officer		Stewart Glendinning <sup>2,3</sup>
Daniel G. McConnell President, International Retail	Walter E. Pickett Vice-President and General Manager,	Edward S. Kennedy
	Alaska Commercial Company	Robert J. Kennedy <sup>1,3</sup>
Michael T. Beaulieu Vice-President, Canadian Sales & Operations	Glenn R. Revet Vice-President, Sales and Operations,	Annalisa King <sup>2, 3</sup>
Northern Canada Retail, Central Division	Giant Tiger	Violet (Vi) A. M. Konkle <sup>2,3</sup>
Steven J. Boily	Chris J. Santschi	Eric L. Stefanson, FCPA, FCA 1, 2
Vice-President, Information Services	Vice-President, Canadian Sales and Operations, Northern Canada Retail, National Division	Victor Tootoo, CPA, CGA <sup>2, 3</sup>
J. Robert Cain	Michael C. Scott	
Vice-President, Logistics and Distribution	Vice-President, General Merchandise	
(International Operations)	Procurement & Marketing	BOARD COMMITTEES
David M. Chatyrbok	Jeff Stout	1 Governance & Nominating
Vice-President, Canadian Sales & Operations,	Vice-President, North Star Air Ltd.	2 Audit
Northern Canada Retail, NorthMart/Major Markets Division		3 Human Resources, Compensation, and Pension
Leanne G. Flewitt	Amanda E. Sutton	For additional copies of this report or for
Vice-President, Project Enterprise	Vice-President, Legal and Corporate Secretary	general information about the Company, contact the Corporate Secretary:
Matt D. Johnson	James W. Walker	
Vice-President, International Food	Vice-President and General Manager,	The North West Company Inc.
Procurement and Marketing	Wholesale Operations (International	Gibraltar House, 77 Main Street
	Operations)	Winnipeg, Manitoba Canada R3C 2R1 T 204 934 1756 F 204 934 1317
Laurie J. Kaminsky	Rex A. Wilhelm	board@northwest.ca
Vice-President, NWC Health Products	Vice-Chairman, NWCI	Company Website: www.northwest.ca
and Services	(International Operations)	THE
Frank Kelner		NORTH WEST
President, North Star Air Ltd.		MORTH WEST
		INOVIU MESI

<sup>\*</sup> effective April 27, 2018

COMPANY



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."

Gibraltar House, 77 Main Street Winnipeg, Manitoba Canada R3C 2R1 T 204 934 1756 F 204 934 1317 Toll -free 1 800 563 0002 investorrelations@northwest.ca www.northwest.ca