



THE NORTH WEST COMPANY INC.

2012 FOURTH QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. reports its results for the fourth quarter ended January 31, 2013. Sales decreased 2.8% to \$386.6 million compared to the fourth quarter last year primarily due to weaker performance from general merchandise categories and the impact of previously announced store closures. Sales excluding the foreign exchange impact were down 1.9% and were down 1.2%¹ on a same store basis.

Fourth quarter net earnings were \$15.8 million, an increase of 17.3% compared to last year's fourth quarter net earnings of \$13.5 million. This improvement was primarily due to greater operating and margin efficiency. Diluted earnings per share were \$0.32 compared to \$0.27 per share last year.

The Board of Directors has approved a quarterly dividend of \$0.28 per share, an increase of \$0.02 per share or 7.7% to shareholders of record on March 28, 2013.

On behalf of the Board of Directors:

H. Sanford Riley
Chairman

Edward S. Kennedy
President and Chief Executive Officer

Management's Discussion & Analysis

The following Management's Discussion & Analysis should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the period ended January 31, 2013 and the audited annual consolidated financial statements and accompanying notes included in the 2011 Annual Financial Report.

CONSOLIDATED RESULTS

Quarter

Fourth quarter consolidated sales decreased 2.8% to \$386.6 million compared to \$397.6 million in 2011 primarily due to weaker performance from general merchandise categories and the impact of previously announced store closures. Excluding the foreign exchange impact, sales decreased 1.9% and were down 1.2%¹ on a same store basis. Food sales¹ decreased 0.3% but were up 0.6% on a same store basis and general merchandise sales¹ decreased 7.3% and were down 6.8% on a same store basis.

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

	2012	2011
Food	74.0%	72.9%
General merchandise	22.4%	23.6%
Other*	3.6%	3.5%

* Other sales include gas, fur and service charge revenues

¹ Excluding the foreign exchange impact

Earnings from Operations² increased 8.3% to \$22.8 million compared to \$21.1 million in the fourth quarter last year due to gross profit rate improvements and lower selling, operating and administrative expenses. The gross profit rate improvement is primarily due to the availability of special item buys, favourable product mix changes, and reduction in product waste within perishable food categories. Selling, operating and administrative expenses decreased 2.4% compared to last year due in part to lower incentive plan expenses in the International Operations and were up 8 basis point as a percentage to sales. Excluding the foreign exchange impact, earnings from operations increased 9.2% compared to last year.

Trading profit² or earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 4.7% to \$32.1 million compared to \$30.6 million last year as gains within Canadian Operations more than offset a decrease in the International Operations. Excluding the foreign exchange impact, trading profit increased \$1.7 million or 5.5% and was 8.3% as a percentage to sales compared to 7.7% last year.

Interest expense decreased \$0.5 million to \$1.1 million due in part to the impact of lower average debt in the quarter and an increase in the capitalization of interest on construction projects. Further information on interest expense is provided in Note 10 to the 2012 fourth quarter unaudited interim condensed consolidated financial statements.

Income tax expense was flat to last year as higher earnings in the Canadian Operations were partially offset by lower income tax rates and the impact of income earned across the various tax jurisdictions in the International Operations. The consolidated effective tax rate in the quarter was 27.2% compared to 30.6% last year.

Net earnings increased 17.3% to \$15.8 million and diluted earnings per share increased to \$0.32 compared to \$0.27 per share last year largely due to earnings growth in the Canadian Operations and lower income tax rates.

The Company recorded an actuarial gain of \$2.5 million, net of deferred income tax, in other comprehensive income resulting from an increase in the discount rate and a higher than expected return on pension plan assets in the quarter. Further information on employee future benefits is provided in Note 13 to the 2012 fourth quarter unaudited interim condensed consolidated financial statements.

Year

Sales for the year increased 1.2% to \$1.514 billion compared to \$1.495 billion in 2011 as food sales growth more than offset soft general merchandise sales and the impact of previously announced store closures. Sales were positively impacted by one extra day of sales as a result of February 29 and the foreign exchange on the conversion of U.S. denominated sales. Excluding the foreign exchange impact, sales increased 1.0% and were up 0.5%¹ on a same store basis. Food sales¹ increased 1.6% and were up 1.4% on a same store basis. General merchandise sales¹ decreased 2.2% and were down 3.1% on a same store basis.

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

	2012	2011
Food	76.8%	76.4%
General merchandise	19.5%	20.2%
Other*	3.7%	3.4%

* Other sales include gas, fur and service charge revenues

Earnings from Operations increased 8.7% to \$97.1 million compared to \$89.3 million last year as sales growth and gross profit rate improvements more than offset higher selling, operating and administrative expenses. Selling, operating and administrative expenses increased 2.6% compared to last year and were up 31 basis points as a percentage to sales. This increase was due in part to higher share-based compensation costs related to an increase in

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

share price compared to last year. Additional information on share-based compensation is provided in Note 12 to the 2012 fourth quarter unaudited interim condensed consolidated financial statements. Higher insurance and pension costs and a loss on the disposition of stores closed in the Canadian Operations combined with increases in utility and employee medical insurance costs in the International Operations also contributed to the increase in expenses. Trading profit² increased 6.7% to \$134.3 million compared to \$125.9 million last year and was 8.9% as a percentage to sales compared to 8.4% last year.

Income taxes increased to \$26.2 million compared to \$25.3 million last year as a result of earnings growth partially offset by lower income tax rates. The consolidated effective tax rate decreased to 28.7% compared to 30.4% last year largely due to lower income tax rates in Canada.

Net earnings increased 12.4% to \$65.1 million and diluted earnings per share increased to \$1.34 compared to \$1.19 per share last year.

CANADIAN OPERATIONS

Canadian Operations sales for the quarter decreased 2.0% to \$269.9 million from \$275.4 million last year and were down 1.0% on a same store basis. The decrease in sales is largely due to lower general merchandise sales and the impact of previously announced store closures. Food sales decreased 0.4% but were up 0.7% on a same store basis, building on a 5.6% same store food sales increase in the fourth quarter last year. Food sales in northern markets continued to deliver sales growth and more than offset weaker sales performance in less remote stores. Food inflation resulting from higher commodity costs net of Nutrition North Canada freight subsidies was under 1% in the quarter. General merchandise sales decreased 6.2% from last year and were down 5.4% on a same store basis largely due to our inability to offset weaker demand in apparel and electronics categories.

Gross profit dollars increased 3.2% due to gross profit rate improvement resulting from the availability of special item buys, favourable product mix changes and a reduction in product waste within perishable food categories. These gross profit rate improvements were partially offset by higher markdowns to clear underperforming general merchandise categories. Selling, operating and administrative expenses increased 1.2% and increased 18 basis points as a percentage to sales due in part to an increase in stock-based compensation.

Canadian trading profit increased 13.0% to \$27.8 million compared to \$24.6 million last year and was 10.3% to sales compared to 8.9% of sales in the fourth quarter last year.

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International sales decreased 1.7% to \$117.6 million compared to \$119.7 million in the fourth quarter last year and were down 1.7% on a same store basis due to very poor general merchandise sales and generally soft food sales. Food sales increased 0.1% and were up 0.3% on a same store basis. General merchandise sales decreased 11.8% and were down 12.6% on a same store basis largely due to lower customer spending on electronics, transportation and furniture compared to last year, combined with weak Christmas sales.

Gross profit dollars were down 7.1% due to the sales decrease and a lower gross profit rate. Gross profit rates were down compared to the strong rate improvement in the fourth quarter last year and were impacted by markdowns to permanently clear general merchandise in preparation for repositioning store assortments in certain key markets. Selling, operating and administrative expenses decreased 2.7% and were down 25 basis points as a percent to sales mainly due to lower incentive plan costs.

Trading profit decreased to \$4.3 million compared to \$5.9 million last year and as a percent to sales was 3.7% compared to 4.9% in the fourth quarter last year.

FINANCIAL CONDITION

Financial Ratios

The Company's debt-to-equity ratio at the end of the quarter was 0.55:1 compared to 0.62:1 last year. The improvement in the debt-to-equity ratio is due to an increase in earnings and lower debt levels as a result of positive cash flow as noted in the liquidity and capital resources section below.

Working capital decreased \$54.1 million or 32.2% compared to the fourth quarter last year largely due to the increase in the current portion of long-term debt. The increase in the current portion of long-term debt is due to the International Operations loan facilities that mature December 31, 2013. Excluding the impact of the maturing loan facilities, working capital decreased \$14.1 million or 8.4% compared to last year largely due to an increase in accounts payable and income tax payable related to the timing of payments.

Outstanding Shares

The weighted-average basic shares outstanding for the quarter were 48,389,000 shares compared to 48,378,000 shares last year. The increase in basic shares outstanding is due to share options exercised. Further information on the share option plan is provided in Note 5 and Note 12 to the 2012 fourth quarter unaudited interim condensed consolidated financial statements. The weighted-average fully diluted shares outstanding for the quarter were 48,590,000 compared to 48,518,000 shares last year. The increase in the fully diluted shares outstanding compared to last year is due to options granted under the Share Option Plan and shares granted under the Director Deferred Share Unit Plan.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

\$ in thousands	Three Months January 31, 2013	Three Months January 31, 2012	Change	Twelve Months January 31, 2013	Twelve Months January 31, 2012	Change
Cash flows from (used in):						
Operating Activities	\$ 51,369	\$ 52,880	\$ (1,511)	\$ 128,992	\$ 115,469	\$ 13,523
Investing Activities	(14,360)	(17,111)	2,751	(48,781)	(45,948)	(2,833)
Financing Activities	(39,289)	(42,766)	3,477	(68,520)	(73,768)	5,248
Net change in cash	\$ (2,280)	\$ (6,997)	\$ 4,717	\$ 11,691	\$ (4,247)	\$ 15,938

Cash flow from operating activities in the quarter decreased \$1.5 million or 2.9% to \$51.4 million from \$52.9 million last year. The decrease is largely due to the change in non-cash working capital related to the change in accounts receivable and accounts payable in the quarter compared to the prior year. For the year-to-date, cash flow from operating activities increased \$13.5 million or 11.7% to \$129.0 million largely due to higher net earnings and the changes in non-cash working capital partially offset by an increase in income tax payments. Following the conversion to a share corporation on January 1, 2011 and the deferral of the payment of Canadian income taxes in the 2011 transition year in accordance with income tax legislation enacted November 21, 2011, the Company has begun paying income tax installments in 2012. Further information on income tax installments is provided in the outlook section below.

Cash used for investing activities in the quarter decreased to \$14.4 million compared to \$17.1 million last year due to a difference in the timing of capital investments. For the year, net capital expenditures increased 6.2% to \$48.8 million due to an increase in intangible assets largely related to the Company's investment in a transportation management system and an upgrade to its financial management system. Capital expenditures for

the year also included a new Cost-U-Less store in Barbados that opened February 23, 2013, major store replacement projects, investments in staff housing, and equipment replacements. Total capital expenditures of \$51.1 million excluding dispositions were below the \$60 million estimated for the year due to delays in finalizing store transactions and the impact on shipping construction materials to remote markets by sea and winter road. Net capital expenditures for 2013 are projected to be approximately \$50 million. Further information on planned capital expenditures is included in the Outlook section below.

Cash used in financing activities in the quarter was \$39.3 million compared to \$42.8 million last year. The change in long-term debt in the quarter is largely due to the change in the amounts drawn on the Company's Canadian revolving loan facilities compared to last year. The Company paid dividends of \$12.6 million, an increase of 8.4% compared to the fourth quarter last year.

Cash used in financing activities for the year was \$68.5 million compared to \$73.8 million last year. The decrease is mainly related to a change in the amounts drawn on the loan facilities and the repayment of a US\$3.9 million note payable in the prior year. Further information on long-term debt is provided in Note 8 to the 2012 fourth quarter unaudited interim condensed consolidated financial statements.

For the year, the Company paid dividends of \$50.3 million compared to \$50.8 million last year. The prior year payment included dividends of \$46.4 million and the final special distribution from The North West Company Fund ("Fund") of \$4.4 million which was paid by the Company subsequent to the conversion of the Fund to a share corporation on January 1, 2011.

Sources of Liquidity

The Canadian Operations have available committed, extendible, revolving loan facilities of \$170.0 million that mature on December 31, 2015. These facilities are secured by a floating charge on the assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the US\$52.0 million loan facilities. At January 31, 2013, the Company had drawn \$52.5 million on these facilities (January 31, 2012 – \$68.9 million).

The International Operations have available a committed, revolving loan facility of US\$30.0 million that matures October 31, 2015 and is secured by certain accounts receivable and inventories of the International Operations. At January 31, 2013, the Company had drawn US\$0.7 million on these facilities (January 31, 2012 – US\$NIL).

The International Operations also have available committed, revolving loan facilities of US\$52.0 million that mature on December 31, 2013. These facilities are secured by a floating charge against the assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the \$170.0 million loan facilities. At January 31, 2013, the Company had drawn US\$40.0 million on these facilities (January 31, 2012 – US\$36.0 million). The Company does not anticipate any difficulty in securing financing to satisfy its maturing loan facilities however, economic conditions can change which may negatively impact the availability of credit, interest rates and the scope of financing covenants.

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, 2013, the Company is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

Cash flow from operating activities and unutilized capacity available on existing loan facilities are expected to be sufficient to fund operating requirements, pension plan contributions, sustaining and planned growth-related capital expenditures as well as anticipated dividends during 2013.

SHAREHOLDER DIVIDENDS

The Board of Directors of the Company declared a quarterly dividend of \$0.28 per share, an increase of \$0.02 per share or 7.7%, to shareholders of record on March 28, 2013, to be paid on April 15, 2013.

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

QUARTERLY HIGHLIGHTS

- A new Cost-U-Less store opened in Welches St. Thomas, Barbados on February 23, 2013.
- Six underperforming Giant Tiger stores were closed on December 22, 2012.

OUTLOOK

Continued work on merchandise productivity is expected to provide margin upside within remote markets served by the Company's Alaskan, northern Canada and Cost-U-Less stores. Food inflation is forecasted to be in the 1.5% – 2.5% range with the potential for higher increases within international markets. Overall, consumer incomes and spending momentum is expected to be flat to modestly higher over 2012, depending on the degree of improvement within the natural resource and tourism sectors. The Company's Giant Tiger stores are expected to come under food gross margin pressure due to an increase in competition from existing retailers and new entrants forecasted in 2013. Offsetting gains are expected from lower perishable product waste, improved general merchandise inventory productivity, lower markdowns and the closure of underperforming stores in fiscal 2012.

Net capital expenditures for 2013 are expected to be approximately \$50 million (2012 – \$48.8 million) reflecting the opening and acquisition of new stores, major store replacement projects, energy efficiency projects, and the final phase of a transportation management system. Actual expenditures depend upon the completion of negotiations and shipment of construction materials to remote markets and therefore, the actual amount and timing of expenditures can fluctuate as it has over the past few years.

Following the conversion to a share corporation on January 1, 2011 and the deferral of the payment of Canadian income taxes in the 2011 transition year in accordance with income tax legislation enacted November 21, 2011, the Company began paying Canadian income tax installments in 2012. The Company will pay the remaining balance of the accrued income taxes for 2012 of approximately \$19 million in the first quarter of 2013. The Company expects its Canadian monthly income tax instalments to increase in 2013 based on a normalized level of taxable income in 2012 and the recognition of a portion of the deferred taxable income from the transition year.

QUARTERLY RESULTS OF OPERATIONS

In 2012, the first quarter had 90 days of operations compared to 89 days of operations in 2011 as a result of February 29. The following is a summary of selected quarterly financial information.

Operating Results – Consolidated

(\$ in millions)	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	92 days 2012	92 days 2011	92 days 2012	92 days 2011	92 days 2012	92 days 2011	90 days 2012	89 days 2011
Sales	\$386.6	\$397.6	\$377.7	\$378.4	\$383.8	\$372.9	\$365.5	\$346.3
Trading profit	32.1	30.6	35.7	34.5	36.6	32.4	29.9	28.4
Net earnings	15.8	13.5	17.5	17.0	18.3	15.0	13.6	12.4
Net earnings per share:								
Basic	0.33	0.28	0.36	0.35	0.38	0.31	0.28	0.26
Diluted	0.32	0.27	0.36	0.35	0.38	0.31	0.28	0.26

Historically, the Company's first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting the holiday selling period. Weather conditions are often extreme and can affect sales in any quarter. Net earnings are historically lower in the first quarter due to lower sales. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to reduce excess inventories.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company in order to provide reasonable assurance that all material information relating to the Company is made known to management in a timely manner so that appropriate decisions can be made regarding public disclosure. Management is also responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be designed effectively can only provide reasonable assurance of achieving the control objectives. Additionally, management is necessarily required to use judgment in evaluating controls and procedures. There have been no changes in the internal controls over financial reporting during the quarter ended January 31, 2013 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

ACCOUNTING STANDARDS IMPLEMENTED IN 2012

The Company adopted the amendments to IFRS listed below effective February 1, 2012, as required by the International Accounting Standards Board (IASB). These amendments had no material impact on the Company's results from operations or financial condition.

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments help financial statement users evaluate financial risks that may be associated with these transfers. The Company's capital management activities do not involve the transfer of financial assets.

Income Taxes The IASB issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. The Company does not have any investment property measured at fair value.

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2013, and have not been applied in preparing the 2012 fourth quarter unaudited interim condensed consolidated financial statements. The following revised standards and amendments are effective for the Company's annual periods beginning February 1, 2013.

Employee Benefits The revised IAS 19, *Employee Benefits* issued by the IASB eliminates the option to defer the recognition of actuarial gains and losses on defined benefit plans. It amends the calculation of plan assets and benefit obligations, streamlines the presentation of changes in defined benefit plans and requires enhanced disclosure. The requirement to calculate the expected return on assets with the interest rate used to calculate the defined benefit plan obligation is the most significant for the Company. The Company will adopt this standard for its fiscal year beginning February 1, 2013. The implementation of this standard in the Company's 2013 financial statements will require the restatement of the 2012 comparative numbers with an estimated decrease in net earnings of approximately \$1.260 million comprised of an increase to interest expense of \$1.170 million, an increase to selling, operating and administrative expenses of \$0.550 million and a deferred tax recovery of \$0.460 million.

In addition to IAS 19, the Company will implement the following standards and amendments effective February 1, 2013: IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements*; IFRS 12, *Disclosure of Interests In Other Entities*; IAS 12, *Income Taxes*; IAS 1, *Presentation of Financial Statements*; IFRS 13, *Fair Value Measurement*; IAS 32, *Financial Instruments*. The adoption of these standards is not expected to have a significant impact on the consolidated financial statements.

NON-GAAP MEASURES

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

A reconciliation of consolidated net earnings to trading profit or EBITDA is provided below:

(\$ in thousands)	Fourth Quarter		Year	
	2012	2011	2012	2011
Net earnings	\$ 15,831	\$ 13,501	\$ 65,148	\$ 57,961
Add: Amortization	9,242	9,542	37,149	36,572
Interest expense	1,076	1,615	5,809	6,026
Income taxes	5,914	5,952	26,161	25,322
Trading profit	<u>\$ 32,063</u>	<u>\$ 30,610</u>	<u>\$ 134,267</u>	<u>\$ 125,881</u>

For trading profit information by business segment, see Note 4, Segmented Information, in the Notes to the unaudited interim condensed consolidated financial statements.

(2) Earnings From Operations/Earnings Before Interest and Income Taxes (EBIT) is not a recognized measure under IFRS. Management believes that in addition to net earnings, EBIT is a useful supplemental measure as it provides investors with an indication of the performance of the consolidated operations and/or business segments, prior to interest expense and income taxes. Investors should be cautioned however, that EBIT should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBIT may differ from other companies and may not be comparable to measures used by other companies. A reconciliation of consolidated net earnings to EBIT is provided below:

(\$ in thousands)	Fourth Quarter		Year	
	2012	2011	2012	2011
Net earnings	\$ 15,831	\$ 13,501	\$ 65,148	\$ 57,961
Add: Interest expense	1,076	1,615	5,809	6,026
Income taxes	5,914	5,952	26,161	25,322
Earnings from operations	<u>\$ 22,821</u>	<u>\$ 21,068</u>	<u>\$ 97,118</u>	<u>\$ 89,309</u>

For earnings from operations information by business segment, see Note 4, Segmented Information, in the Notes to the unaudited interim condensed consolidated financial statements.

Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the unaudited interim condensed consolidated financial statements and notes to the unaudited interim condensed consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to March 14, 2013.

Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions and integrate acquisitions 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 the 2011 Annual Financial Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

CONSOLIDATED BALANCE SHEETS

(unaudited, \$ in thousands)	January 31 2013	January 31 2012
CURRENT ASSETS		
Cash	\$ 38,675	\$ 26,984
Accounts receivable	70,040	76,539
Inventories (Note 6)	187,200	186,124
Prepaid expenses	7,981	6,189
	303,896	295,836
NON-CURRENT ASSETS		
Property and equipment	274,027	270,370
Goodwill	26,162	26,319
Intangible assets	20,136	14,620
Deferred tax assets	12,904	7,422
Other assets	14,269	12,350
	347,498	331,081
TOTAL ASSETS	\$ 651,394	\$ 626,917
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 130,501	\$ 122,349
Current portion of long-term debt (Note 8)	40,417	629
Income tax payable (Note 11)	19,266	5,024
	190,184	128,002
NON-CURRENT LIABILITIES		
Long-term debt (Note 8)	122,937	175,263
Defined benefit plan obligation (Note 13)	28,431	27,616
Deferred tax liabilities	2,026	2,440
Other long-term liabilities	11,566	9,887
	164,960	215,206
TOTAL LIABILITIES	355,144	343,208
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	165,358	165,133
Contributed surplus	3,485	3,180
Retained earnings	128,224	115,991
Accumulated other comprehensive income	(817)	(595)
TOTAL EQUITY	296,250	283,709
TOTAL LIABILITIES & EQUITY	\$ 651,394	\$ 626,917

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited, \$ in thousands, except per share amounts)	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012	Twelve Months Ended January 31, 2013	Twelve Months Ended January 31, 2012
SALES	\$ 386,622	\$ 397,570	\$ 1,513,646	\$ 1,495,136
Cost of sales	(271,948)	(282,356)	(1,068,940)	(1,067,153)
Gross profit	114,674	115,214	444,706	427,983
Selling, operating and administrative expenses (Note 9)	(91,853)	(94,146)	(347,588)	(338,674)
Earnings from operations	22,821	21,068	97,118	89,309
Interest expense (Note 10)	(1,076)	(1,615)	(5,809)	(6,026)
Earnings before income taxes	21,745	19,453	91,309	83,283
Provision for income taxes (Note 11)	(5,914)	(5,952)	(26,161)	(25,322)
NET EARNINGS FOR THE PERIOD	\$ 15,831	\$ 13,501	\$ 65,148	\$ 57,961
NET EARNINGS PER SHARE				
Basic	\$ 0.33	\$ 0.28	\$ 1.35	\$ 1.20
Diluted	\$ 0.32	\$ 0.27	\$ 1.34	\$ 1.19
Weighted-Average Number of Shares Outstanding (000's)				
Basic	48,389	48,378	48,384	48,378
Diluted	48,590	48,518	48,579	48,525

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, \$ in thousands)	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012	Twelve Months Ended January 31, 2013	Twelve Months Ended January 31, 2012
NET EARNINGS FOR THE PERIOD	\$ 15,831	\$ 13,501	\$ 65,148	\$ 57,961
Other comprehensive income/(expense):				
Exchange differences on translation of foreign controlled subsidiaries, net of tax	6	356	(222)	293
Actuarial gains (losses) on defined benefit plans, net of tax (Note 13)	2,484	(1,735)	(2,595)	(15,266)
Total other comprehensive income, net of tax	2,490	(1,379)	(2,817)	(14,973)
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 18,321	\$ 12,122	\$ 62,331	\$ 42,988

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, \$ in thousands)	Share Capital	Contributed Surplus	Retained Earnings	AOCI ⁽¹⁾	Total
Balance at January 31, 2012	\$ 165,133	\$ 3,180	\$ 115,991	\$ (595)	\$ 283,709
Net earnings for the period	-	-	65,148	-	65,148
Other comprehensive income (Note 13)	-	-	(2,595)	(222)	(2,817)
Comprehensive income for the period	-	-	62,553	(222)	62,331
Equity settled share-based payments (Note 12)	-	471	-	-	471
Dividends (Note 7)	-	-	(50,320)	-	(50,320)
Issuance of common shares	225	(166)	-	-	59
	225	305	(50,320)	-	(49,790)
Balance at January 31, 2013	\$ 165,358	\$ 3,485	\$ 128,224	\$ (817)	\$ 296,250
Balance at January 31, 2011	\$ 165,133	\$ 2,491	\$ 119,739	\$ (888)	\$ 286,475
Net earnings for the period	-	-	57,961	-	57,961
Other comprehensive income (Note 13)	-	-	(15,266)	293	(14,973)
Comprehensive income for the period	-	-	42,695	293	42,988
Equity settled share-based payments (Note 12)	-	689	-	-	689
Dividends (Note 7)	-	-	(46,443)	-	(46,443)
	-	689	(46,443)	-	(45,754)
Balance at January 31, 2012	\$ 165,133	\$ 3,180	\$ 115,991	\$ (595)	\$ 283,709

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, \$ in thousands)	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012	Twelve Months Ended January 31, 2013	Twelve Months Ended January 31, 2012
CASH PROVIDED BY (USED IN)				
Operating activities				
Net earnings for the period	\$ 15,831	\$ 13,501	\$ 65,148	\$ 57,961
Adjustments for:				
Amortization	9,242	9,542	37,149	36,572
Provision for income taxes (Note 11)	5,914	5,952	26,161	25,322
Interest expense (Note 10)	1,076	1,615	5,809	6,026
Equity settled share option expense (Note 12)	78	36	471	689
Taxes paid	(2,924)	(1,585)	(15,483)	(6,195)
Gain (loss) on disposal of property and equipment	(198)	(25)	1,978	438
	29,019	29,036	121,233	120,813
Change in non-cash working capital	21,298	23,391	10,764	(2,989)
Change in other non-cash items	1,052	453	(3,005)	(2,355)
Cash from operating activities	51,369	52,880	128,992	115,469
Investing activities				
Purchase of property and equipment	(13,813)	(16,583)	(42,236)	(45,565)
Intangible asset additions	(2,450)	(556)	(8,897)	(811)
Proceeds from disposal of property and equipment	1,903	28	2,352	428
Cash from investing activities	(14,360)	(17,111)	(48,781)	(45,948)
Financing activities				
Decrease in long-term debt	(24,488)	(28,660)	(12,285)	(13,360)
Repayments of long-term debt	-	-	-	(3,676)
Dividends / distributions (Note 7)	(12,581)	(11,611)	(50,320)	(50,797)
Interest paid	(2,220)	(2,495)	(5,974)	(5,935)
Issuance of common shares	-	-	59	-
Cash from financing activities	(39,289)	(42,766)	(68,520)	(73,768)
NET CHANGE IN CASH	(2,280)	(6,997)	11,691	(4,247)
Cash, beginning of period	40,955	33,981	26,984	31,231
CASH, END OF PERIOD	\$ 38,675	\$ 26,984	\$ 38,675	\$ 26,984

See accompanying notes to condensed consolidated financial statements

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

JANUARY 31, 2013 AND 2012

1. ORGANIZATION

The North West Company Inc. (NWC or the Company) is a corporation amalgamated under the Canada Business Corporations Act (CBCA) and governed by the laws of Canada. The Company, through its subsidiaries, is a leading retailer of food and everyday products and services. The address of its registered office is 77 Main Street, Winnipeg, Manitoba.

The Company has two reportable geographical segments, Canada and International. The International segment consists of wholly owned subsidiaries operating in the continental United States, Caribbean and South Pacific. The Company's business follows a seasonal pattern where historically the first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting consumer holiday buying patterns.

These unaudited interim period condensed consolidated financial statements ("condensed consolidated financial statements") have been approved for issue by the Board of Directors of the Company on March 14, 2013.

2. BASIS OF PREPARATION

(A) **Statement of Compliance** These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB).

These condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes included in The North West Company Inc.'s 2011 Annual Financial Report which have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

- Derivative financial instruments
- Financial instruments designated at fair value
- Share-based payment plans
- Defined benefit pension plan

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

JANUARY 31, 2013 AND 2012

3. SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, the significant accounting policies are set out in the Company's 2011 audited annual consolidated financial statements. These policies have been applied to all periods presented in these condensed consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

Accounting Standards Implemented in Current Year The Company adopted the amendments to IFRS listed below effective February 1, 2012, as required by the IASB. These amendments had no material impact on the Company's results from operations or financial condition.

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments help financial statement users evaluate financial risks that may be associated with these transfers. The Company's capital management activities do not involve the transfer of financial assets.

Income Taxes The IASB issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. The Company does not have any investment property measured at fair value.

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, 2013, and have not been applied in preparing these consolidated financial statements. The following revised standards and amendments are effective for the Company's annual periods beginning February 1, 2013.

Employee benefits The revised IAS 19, *Employee Benefits* issued by the IASB eliminates the option to defer the recognition of actuarial gains and losses on defined benefit plans. It amends the calculation of plan assets and benefit obligations, streamlines the presentation of changes in defined benefit plans and requires enhanced disclosure. The requirement to calculate the expected return on plan assets with the interest rate used to calculate the defined benefit plan obligation is the most significant for the Company. The Company will adopt this standard for its fiscal year beginning February 1, 2013. The implementation of this standard in the Company's 2013 financial statements will require the restatement of the 2012 comparative numbers with an estimated decrease in net earnings of \$1,260 comprised of an increase to interest expense of \$1,170, an increase to selling, operating and administrative expenses of \$550 and a deferred tax recovery of \$460.

In addition to IAS 19, the Company will implement the following standards and amendments effective February 1, 2013: IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements*; IFRS 12, *Disclosure of Interests In Other Entities*; IAS 12, *Income Taxes*; IAS 1, *Presentation of Financial Statements*; IFRS 13, *Fair Value Measurement*; IAS 32, *Financial Instruments*. The adoption of these standards is not expected to have a significant impact on the consolidated financial statements.

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

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

Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have the most significant effect on the amounts recognized in the condensed consolidated financial statements include impairment of assets, goodwill and indefinite life intangible asset impairment, income taxes, and defined benefit plan obligations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
JANUARY 31, 2013 AND 2012

4. SEGMENTED INFORMATION

The Company is a retailer of food and everyday products and services in two geographical segments, Canada and International. The International segment consists of wholly owned subsidiaries operating in the continental United States, Caribbean and South Pacific. The financial information for these business segments are 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 Statement of Earnings:

	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012	Twelve Months Ended January 31, 2013	Twelve Months Ended January 31, 2012
Sales				
Canada	\$ 269,871	\$ 275,350	\$ 1,043,050	\$ 1,028,396
International	116,751	122,220	470,596	466,740
Consolidated	\$ 386,622	\$ 397,570	\$ 1,513,646	\$ 1,495,136
Earnings before amortization, interest and income taxes				
Canada	\$ 27,770	\$ 24,569	\$ 107,060	\$ 97,998
International	4,293	6,041	27,207	27,883
Consolidated	\$ 32,063	\$ 30,610	\$ 134,267	\$ 125,881
Earnings from operations				
Canada	\$ 20,538	\$ 17,128	\$ 77,905	\$ 69,253
International	2,283	3,940	19,213	20,056
Consolidated	\$ 22,821	\$ 21,068	\$ 97,118	\$ 89,309

Supplemental Information:

	January 31, 2013	January 31, 2012
Assets		
Canada	\$ 444,848	\$ 443,956
International ⁽¹⁾	206,546	182,961
Consolidated	\$ 651,394	\$ 626,917

(1) International total assets includes goodwill of \$26,162 (January 31, 2012 – \$26,319)

	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012	Twelve Months Ended January 31, 2013	Twelve Months Ended January 31, 2012
Expenditure on property and equipment				
Canada	\$ 7,751	\$ 14,313	\$ 25,128	\$ 33,952
International	6,062	2,270	17,108	11,613
Consolidated	\$ 13,813	\$ 16,583	\$ 42,236	\$ 45,565
Amortization				
Canada	\$ 7,232	\$ 7,441	\$ 29,155	\$ 28,745
International	2,010	2,101	7,994	7,827
Consolidated	\$ 9,242	\$ 9,542	\$ 37,149	\$ 36,572

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
JANUARY 31, 2013 AND 2012

5. SHARE CAPITAL

Authorized – The Company has an unlimited number of shares.

	Shares	Consideration
Balance at January 31, 2012	48,378,000	\$ 165,133
Issued under option plans (Note 12)	10,721	225
Balance at January 31, 2013	48,388,721	\$ 165,358

6. INVENTORIES

Included in inventories recognized as an expense for the three months ended January 31, 2013, the Company recorded \$338 (three months ended January 31, 2012 – \$419) for the write-down of inventories as a result of net realizable value being lower than cost. For the twelve months ended January 31, 2013, the Company recorded \$1,648 (twelve months ended January 31, 2012 – \$1,851) 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 twelve months ended January 31, 2013 or 2012.

7. DIVIDENDS

	January 31, 2013	January 31, 2012
Dividends recorded in retained earnings	\$ 50,320	\$ 46,443
Special distribution paid February 18, 2011 to unitholders of record on December 31, 2010	–	4,354
Dividends/distributions paid in cash	\$ 50,320	\$ 50,797
Dividends/distributions per share	\$ 1.04	\$ 1.05

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 condensed consolidated financial statements in the period in which the dividends are approved by the Board of Directors.

On January 1, 2011, the North West Company Fund (the “Fund”) was reorganized by way of a plan of arrangement under section 192 of the CBCA into a corporation named The North West Company Inc. The Fund’s obligation to pay the special distribution of \$0.09 per unit or \$4,354 was assumed by The North West Company Inc. as part of the reorganization. The declaration of distributions from the Fund was subject to the terms of the Fund’s Declaration of Trust and the discretion of the Board of Trustees.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
JANUARY 31, 2013 AND 2012

8. LONG-TERM DEBT

	January 31, 2013	January 31, 2012
Current		
Revolving loan facilities ⁽¹⁾	\$ 39,968	\$ –
Notes payable	199	268
Finance lease liabilities	250	361
	\$ 40,417	\$ 629
Non-current		
Revolving loan facilities ⁽¹⁾	\$ –	\$ 36,187
Revolving loan facilities ⁽²⁾	52,499	68,850
Senior notes ⁽³⁾	69,461	69,626
Revolving loan facilities ⁽⁴⁾	718	–
Notes payable	189	391
Finance lease liabilities	70	209
	122,937	175,263
Total	\$ 163,354	\$ 175,892

(1) The US\$52,000 committed, revolving loan facilities mature December 31, 2013 and bear interest at LIBOR plus a spread. The loan facilities are secured by a floating first charge against the assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the \$170,000 Canadian Operations loan facilities. At January 31, 2013, the Company had drawn US\$40,000 (January 31, 2012 – US\$36,000) on this facility.

(2) Canadian Operations have an extendible, committed, revolving loan facility of \$170,000 for working capital requirements and general business purposes. This facility, which matures on December 31, 2015, is secured by a floating charge against the assets of the Company and ranks *pari passu* with the US\$70,000 senior notes and the US\$52,000 loan facilities in International Operations. These facilities bear a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate.

(3) The US\$70,000 senior notes mature on June 15, 2014 and bear interest at a rate of 6.55%, payable semi-annually. The notes are secured by a floating charge against the assets of the Company and rank *pari passu* with the \$170,000 Canadian Operations loan facilities and the US\$52,000 loan facilities in International Operations. The Company has entered into interest rate swaps resulting in floating interest costs on US\$28,000 of its senior notes (January 31, 2012 – US\$28,000). The interest rate swaps mature June 15, 2014.

(4) In October 2012, the Company completed the refinancing of the committed, revolving loan facility of US\$20,000 that matured on October 31, 2012. The new committed, revolving loan facility provides the Company with up to US\$30,000 for working capital requirements and general business purposes. This facility, which matures October 31, 2015, bears a floating rate of interest based on LIBOR plus a spread and is secured by a charge against certain accounts receivable and inventories of the International Operations. At January 31, 2013, the Company had drawn US\$719 (January 31, 2012 – US\$NIL) on these facilities.

9. EMPLOYEE COSTS

	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012	Twelve Months Ended January 31, 2013	Twelve Months Ended January 31, 2012
Wages, salaries and benefits including bonus	\$ 54,634	\$ 55,602	\$ 206,348	\$ 201,761
Retirement benefit expense	\$ 1,224	\$ 1,007	\$ 5,282	\$ 4,406
Share-based compensation (Note 12)	\$ 1,672	\$ 1,288	\$ 8,440	\$ 4,726

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
JANUARY 31, 2013 AND 2012

10. INTEREST EXPENSE

	Three Months Ended January 31, 2013	Three Months Ended January 31, 2012	Twelve Months Ended January 31, 2013	Twelve Months Ended January 31, 2012
Interest on borrowings	\$ 1,411	\$ 1,762	\$ 6,637	\$ 6,484
Fair value movement of financial instruments in effective fair value hedging relationships	1	9	26	(10)
Expected return on pension plan assets	(995)	(897)	(3,800)	(3,777)
Interest on pension plan liabilities	889	869	3,748	3,734
Other interest income	(77)	(56)	(296)	(244)
Less: interest capitalized	(153)	(72)	(506)	(161)
Interest expense	\$ 1,076	\$ 1,615	\$ 5,809	\$ 6,026

11. INCOME TAXES

An estimated weighted-average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to the respective interim period pre-tax income of each jurisdiction. The estimated effective income tax rate for the twelve months ended January 31, 2013 was 28.7% (January 31, 2012 - 30.4%). The decrease primarily reflects the impact of reductions in the Canadian substantively enacted statutory income tax rates as at January 31, 2013.

12. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Restricted Share Units (RSU's); Performance Share Units (PSU's); Share Options; Director Deferred Share Units (DSU's); 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 three months ended January 31, 2013 was \$1,672 (three months ended January 31, 2012 – \$1,288) and for the twelve months ended January 31, 2013 was \$8,440 (twelve months ended January 31, 2012 – \$4,726). The carrying amount of the Company's share-based compensation arrangements including RSU, PSU, share option and DSU plans are recorded on the consolidated balance sheets as follows:

	January 31, 2013	January 31, 2012
Accounts payable and accrued liabilities	\$ 7,437	\$ 4,611
Other long-term liabilities	5,506	3,207
Contributed surplus	1,916	1,611
Total	\$ 14,859	\$ 9,429

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
JANUARY 31, 2013 AND 2012

12. SHARE-BASED COMPENSATION (continued)

Performance Share Units and Restricted Share Units

The Company has granted Performance Share Units (PSU's) and Restricted Share Units (RSU's) 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 shares granted at the end of the vesting period, based on factors related to 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 PSU's. PSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. 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.

Each RSU entitles the participant to receive a cash payment equal to the market value of the number of notional shares granted at the end of the vesting period. This plan was discontinued in July 2011. All outstanding grants are scheduled to vest no later than January 31, 2014. The RSU account for each participant includes the value of dividends from the Company as if reinvested in additional RSU's. RSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. 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.

Compensation expense related to the RSU's and PSU's for the three months ended January 31, 2013 is \$1,272 (three months ended January 31, 2012 – \$826) and for the twelve months ended January 31, 2013 is \$5,527 (twelve months ended January 31, 2012 – \$2,981).

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 option's exercise price or to exercise the option at the strike price specified at the grant date. Each option is exercisable into one share of the Company at the price specified in the terms of the option, or the employee may elect 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 share-based compensation is recognized in net earnings over the vesting period.

The maximum number of shares available for issuance is a fixed number set at 4,354,020, representing 9% of the Company's issued and outstanding shares at January 31, 2013. Fair value of these 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 expense recorded for the three months ended January 31, 2013 is \$226 (three months ended January 31, 2012 – \$214) and for the twelve months ended January 31, 2013 is \$1,288 (twelve months ended January 31, 2012 – \$867).

The following continuity schedule reconciles the movement in outstanding options during the year ended January 31:

	Declining Strike Price Options		Standard Options	
	2012	2011	2012	2011
Outstanding options, beginning of period	315,812	–	548,486	509,200
Granted	328,677	315,812	63,177	56,186
Exercised	–	–	(26,430)	–
Forfeited or cancelled	(64,474)	–	(28,301)	(16,900)
Outstanding options, end of period	580,015	315,812	556,932	548,486
Exercisable at end of period	–	–	59,165	–

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
JANUARY 31, 2013 AND 2012

12. SHARE-BASED COMPENSATION (continued)

The following continuity schedule discloses weighted-average exercise price for issued and outstanding options during the year:

	Declining Strike Price Options		Standard Options	
	2012	2011	2012	2011
Outstanding options, beginning of period	\$ 20.34	\$ –	\$ 17.45	\$ 17.10
Granted	21.86	20.62	21.86	20.62
Exercised	–	–	15.25	–
Forfeited or cancelled	21.11	–	17.31	16.92
Outstanding options, end of period	\$ 21.12	\$ 20.34	\$ 18.07	\$ 17.45
Exercisable at end of period	\$ –	\$ –	\$ 15.25	\$ –

Options outstanding at January 31, 2013 have an exercise price in the range of \$15.25 to \$21.86 and a weighted-average remaining contractual life of 6.2 years. The fair values for all options granted during the year were calculated based on the following assumptions:

	2012	2011
Fair value of options granted	\$ 3.35 to \$4.62	\$ 3.61 to 4.74
Exercise price	\$ 21.86	\$ 20.62
Dividend yield	4.7%	4.5%
Annual risk-free interest rate	1.7%	2.7%
Expected share price volatility	28.0%	29.2%

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

	2012	2011
Dividend yield	4.5%	5.4%
Annual risk-free interest rate	1.4%	1.2%
Expected share price volatility	23.7%	27.7%

The expected dividend yield is estimated based on the quarterly dividend rate and the closing share price on the date the options are measured. 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.

Director Deferred Share Unit Plan

The Director Deferred Share Unit Plan (DSU) is available for independent Directors. Participants are credited with deferred share units based on the portion of fees each participant elects to allocate to the DSU. Each deferred share unit entitles the holder to receive a share of the Company. The deferred share units 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 deferred share units, 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, in consideration for the surrender by the participant to the Company the right to receive shares from exercising the deferred share units.

Compensation expense is measured based on the fair market value at each reporting date. The deferred share unit plan compensation recorded for the three months ended January 31, 2013 is an expense of \$57 (three months ended January 31, 2012 – \$150) and for the twelve months ended January 31, 2013 is an expense of \$969 (twelve months ended January 31, 2012 – \$288). The total number of deferred share units outstanding at January 31, 2013 is 136,685 (January 31, 2012 – 118,262). There were no deferred share units exercised during the three months ended January 31, 2013 (three months ended January 31, 2012 – NIL) and 4,698 deferred share units exercised during the twelve months ended January 31, 2013 (twelve months ended January 31, 2012 – 37,236). The deferred share units exercised were settled in cash. The liability for the deferred share unit plan is recorded in accounts payable and accrued liabilities on the Company's consolidated balance sheets.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
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12. SHARE-BASED COMPENSATION (continued)

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 expense recorded for the three months ended January 31, 2013 is \$117 (three months ended January 31, 2012 – \$98) and for the twelve months ended January 31, 2013 is \$656 (twelve months ended January 31, 2012 – \$590).

13. EMPLOYEE FUTURE BENEFITS

A remeasurement of the defined benefit plan assets and liabilities is performed periodically. During the three months ended January 31, 2013 the Company recorded net actuarial gains on defined benefit plans of \$2,484 (three months ended January 31, 2012 – losses of \$1,735) net of deferred income taxes in other comprehensive income. The actuarial gains in the quarter were due to an increase in the discount rate and higher than expected returns on plan assets.

During the twelve months ended January 31, 2013 the Company recorded net actuarial losses on defined benefit plans of \$2,595 (twelve months ended January 31, 2012 – losses of \$15,266) net of deferred income taxes in other comprehensive income. The net actuarial losses in the year were due to a decrease in discount rates, partially offset by higher than expected returns on assets.

The discount rate used to determine the benefit obligation for the defined benefit pension plan at January 31, 2013 was 4.25% (January 31, 2012 – 4.5%).

The benefit obligations and plan assets for the Company's pension and other post-retirement plans were as follows:

	January 31, 2013	January 31, 2012
Present value of defined benefit obligations	\$ (93,570)	\$ (85,509)
Fair value of plan assets	65,139	57,893
Defined benefit plan obligation, funded status	\$ (28,431)	\$ (27,616)

14. SEASONALITY

The Company's business follows a seasonal pattern where historically the first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting consumer holiday buying patterns. As a result, a disproportionate amount of total revenues and earnings are typically earned in the fourth quarter. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to reduce excess inventories. Net earnings are historically lower in the first quarter due to lower sales and fixed costs such as rent and overhead that apply uniformly throughout the year.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
JANUARY 31, 2013 AND 2012

15. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

The Company's principal subsidiaries are set out below:

	Activity	Country of Organization	Proportion of voting rights held by:	
			Company	Subsidiary
NWC GP Inc.	General Partner	Canada	100%	
North West Company Holdings Inc.	Holding Company	Canada	100%	
The North West Company LP	Retailing	Canada	100% (less one unit)	
NWC (U.S.) Holdings Inc.	Holding Company	United States		100%
The North West Company (International) Inc.	Retailing	United States		100%
The North West Finance Company Cooperatie U.A.	Finance Company	Netherlands		100%

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

16. SUBSEQUENT EVENTS

On March 14, 2013 the Board of Directors declared a dividend of \$0.28 per common share payable April 15, 2013 to shareholders of record on March 28, 2013.

17. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.