THE NORTH WEST COMPANY INC.

Report to Shareholders

Quarterly Period Ended July 31, 2015

2015 SECOND QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. reports its results for the second quarter ended July 31, 2015. Sales increased 11.9% to $448.7 million compared to the second quarter last year led by strong same store sales growth and the impact of foreign exchange on the translation of International Operations sales. Consolidated sales, excluding the impact of foreign exchange, increased 6.2% and were up 5.6%[1] on a same store basis.

Second quarter net earnings increased 7.6% to $18.1 million and diluted earnings per share were $0.37 per share compared to $0.35 per share last year led by net earnings growth in International Operations and the impact of foreign exchange. Excluding the impact of foreign exchange, net earnings increased 2.1% compared to last year.

The Board of Directors has approved a quarterly dividend of $0.31 per share, an increase of $0.02 or 6.9% per share, to shareholders of record on September 30, 2015.

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 period condensed consolidated financial statements for the period ended July 31, 2015 and the audited annual consolidated financial statements and accompanying notes included in the 2014 Annual Report.

CONSOLIDATED RESULTS

Quarter

Second quarter consolidated sales increased 11.9% to $448.7 million driven by same store sales gains across all banners and the impact of foreign exchange on the translation of International Operations sales. Excluding the foreign exchange impact, consolidated sales increased 6.2% and were up 5.6%[1] on a same store basis. Food sales[1] increased 7.3% and were up 6.3% on a same store basis with all banners contributing to the sales growth. General merchandise sales[1] increased 4.3% and were up 2.5% on a same store basis as sales growth in International Operations and our rural and urban markets in Canada more than offset lower sales in more remote northern Canada markets.

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

	2015	2014
Food	**79.9%**	78.7%
General merchandise	**17.1%**	17.8%
Other*	**3.0%**	3.5%

* Other sales includes fuel, fur and financial service charge revenues

(1) Excluding foreign exchange impact
(2) See Non-GAAP Measures Section of Management's Discussion & Analysis

Earnings from operations[2] increased 7.0% to $28.2 million compared to $26.3 million in the second quarter last year. Gross profit dollars were up 13.9% driven by sales, the impact of foreign exchange and a 53 basis point increase in the gross profit rate compared to last year. The increase in the gross profit rate is largely due to product sales blend changes and special buys. Selling, operating and administrative expenses increased 16.0% and were up 81 basis points as a percentage to sales. The expense increase was substantially due to the impact of foreign exchange on the translation of International Operations expenses and higher incentive plan costs primarily related to an 11.1% increase in share price in the quarter compared to a 1.0% decrease last year. The change in share price resulted in a $3.0 million increase to share-based compensation costs compared to last year. Further information on share-based compensation costs is provided in Note 9 and Note 12 to the 2015 second quarter unaudited interim period condensed consolidated financial statements. Excluding the impact of foreign exchange, earnings from operations increased 1.9% to last year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA[2]) increased 6.5% to $38.8 million led by strong EBITDA growth in the International Operations and the impact of foreign exchange. Excluding the impact of foreign exchange, EBITDA was up 2.0% compared to last year and as a percentage to sales was 8.8% compared to 9.1% last year.

Income tax expense increased $1.0 million to $8.6 million and the consolidated effective tax rate was 32.1% compared to 31.1% last year primarily due to the impact of non-deductible share-based compensation costs in the Canadian Operations.

Net earnings increased $1.3 million or 7.6% to $18.1 million and diluted earnings per share was $0.37 per share compared to $0.35 per share last year as net earnings growth in International Operations and the impact of foreign exchange more than offset lower net earnings in the Canadian Operations. Excluding the impact of foreign exchange, net earnings increased 2.1% compared to last year.

Year-to-Date

Year-to-date sales increased 11.0% to $862.8 million compared to $777.4 million in 2014 led by same store sales growth and the positive impact of foreign exchange on the translation of International Operations sales. Excluding the foreign exchange impact, sales increased 5.7% and were up 5.3%[1] on a same store basis. Food sales[1] increased 6.5% and were up 5.6% on a same store basis. General merchandise sales[1] increased 5.4% and were up 3.8% on a same store basis.

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

	2015	2014
Food	**80.1%**	79.0%
General merchandise	**16.7%**	17.1%
Other*	**3.2%**	3.9%

* Other sales includes fuel, fur and financial service revenues

Earnings from operations increased 11.9% to $51.9 million compared to $46.3 million last year. Gross profit dollars increased 11.9% due to sales growth, the impact of foreign exchange and a 24 basis point increase in the gross profit rate. Selling, operating and administrative expenses increased 11.9% and were up 19 basis points as a percentage to sales due to the impact of foreign exchange on the translation of International Operations expenses and higher incentive plan costs largely related to an increase in share price. Excluding the impact of foreign exchange, earnings from operations increased 6.9% compared to last year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA)[2] increased 9.9% to $73.2 million compared to $66.6 million last year. Excluding the impact of foreign exchange, EBITDA increased 5.5% and as a percentage to sales was consistent with last year at 8.6%.

Interest expense decreased $0.9 million or 23.9% largely due to the refinancing of the senior notes in the second quarter last year.

Income taxes increased 16.6% to $15.1 million compared to $13.0 million last year due to higher earnings and an increase in the effective tax rate largely due to the impact of non-deductible share-based compensation costs in the Canadian Operations. The consolidated effective tax rate was 30.9% compared to 30.5% last year.

(1) Excluding foreign exchange impact
(2) See Non-GAAP Measures Section of Management's Discussion & Analysis

Net earnings increased 14.5% to $33.8 million compared to $29.5 million last year and diluted earnings per share were $0.69 per share compared to $0.61 per share last year due to higher net earnings in the International Operations and the impact of foreign exchange. Excluding the impact of foreign exchange, net earnings increased 9.3% compared to last year.

CANADIAN OPERATIONS

Canadian Operations sales increased 6.4% to $277.4 million compared to $260.8 million last year and were up 4.8% on a same store basis. Food sales increased 7.6% and were up 5.6% on a same store basis with all banners contributing to the increase. Food inflation was approximately 4.5% in the quarter. General merchandise sales increased 5.0% from last year and were up 2.0% on a same store basis as sales gains in rural and urban markets more than offset lower sales in northern markets related to the Company's Top Categories initiative to reallocate selling space to products and services with higher upside potential. The increase in the monthly Universal Child Care Benefit by the Government of Canada, which was retroactive to January and paid to recipients in July, contributed to the sales growth in all Canadian banners.

Gross profit dollars increased 9.3% driven by sales growth and an increase in the gross profit rate. The improvement in the gross profit rate is due to product sales blend changes, special buys and higher food margins in Giant Tiger markets as retailers have started to pass through cost increases. Selling, operating and administrative expenses increased 13.7% compared to last year and were up 157 basis points as a percentage to sales. The increase in expenses was largely due to higher share-based compensation costs related to an increase in the Company's share price in the quarter. Higher store-based staff costs were also a factor.

Canadian EBITDA(2) decreased 2.6% to $26.3 million compared to $27.0 million last year primarily due to the impact of share-based compensation costs. EBITDA as a percentage to sales was 9.5% compared to 10.4% last year.

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International Operations sales increased 5.9% to $137.3 million compared to $129.7 million in the second quarter last year and were up 7.2% on a same store basis. A continuing improvement in the Cost-U-Less ("CUL") economic environment and market share gains in key locations in Alaska were the leading factors contributing to this strong sales performance. Food sales increased 6.6% and were up 7.6% on a same store basis with both banners contributing to the sales growth. General merchandise sales increased 1.6% and were up 4.7% on a same store basis largely due to higher sales in big-ticket categories. The same store sales gain was partially offset by the impact of the closure of a store in Kodiak, Alaska last year.

Gross profit dollars increased 7.5% compared to last year driven by sales growth and an improvement in the gross profit rate largely due to favourable product sales blend changes. Selling, operating and administrative expenses increased 4.4% but were down 28 basis points as a percentage to sales. The increase in expenses was due to the impact of a net gain on the sale of a store in Kodiak, Alaska last year and higher incentive plan costs related to earnings improvement and an increase in share price. These factors were partially offset by lower utility costs in CUL markets.

EBITDA(2) increased 16.5% to $10.1 million compared to $8.6 million last year. Excluding the gain on the sale of the Kodiak store last year, EBITDA increased 22.8% and as a percentage to sales was 7.3% compared to 6.3% in the second quarter last year.

(1) Excluding foreign exchange impact
(2) See Non-GAAP Measures Section of Management's Discussion & Analysis

FINANCIAL CONDITION

Financial Ratios

The Company's debt-to-equity ratio at the end of the quarter was 0.67:1 compared to 0.65:1 last year. The debt-to-equity ratio at January 31, 2015 was 0.61:1.

Working capital increased $7.9 million or 4.1% compared to the second quarter last year due to an increase in cash and accounts receivable partially offset by an increase in accounts payable largely related to the impact of foreign exchange on the translation of International Operations working capital. The exchange rate used to translate International Operations assets and liabilities into Canadian dollars at July 31, 2015 was 1.3047 compared to 1.0890 at July 31, 2014. The decrease in inventories related to the clearance of discontinued general merchandise inventory in the northern Canada stores more than offset the impact of foreign exchange on the translation of International Operations inventories.

Outstanding Shares

The weighted-average basic shares outstanding for the quarter were 48,502,000 shares compared to 48,431,000 shares last year. The increase in basic shares outstanding is due to share options exercised. The weighted-average fully diluted shares outstanding for the quarter were 48,775,000 shares compared to 48,721,000 shares last year. The increase in 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. Further information on the Share Option Plan and the Director Deferred Share Unit Plan is provided in Note 6 and Note 12 to the Company's 2015 second quarter unaudited interim period condensed consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

$ in thousands	**Three Months ended July 31, 2015**	Three Months ended July 31, 2014	Change	**Six Months ended July 31, 2015**	Six Months ended July 31, 2014	Change
Cash flows provided by (used in):						
Operating Activities	**$ 28,494**	30,176	$ (1,682)	**$ 40,236**	35,802	$ 4,434
Investing Activities	**(12,930)**	(15,100)	2,170	**(22,308)**	(20,202)	(2,106)
Financing Activities	**(1,790)**	(16,109)	14,319	**(7,052)**	(3,491)	(3,561)
Net change in cash	**$ 13,774**	$ (1,033)	$ 14,807	**$ 10,876**	$12,109	$ (1,233)

Cash flow from operating activities in the quarter decreased $1.7 million to $28.5 million compared to cash flow from operating activities of $30.2 million last year. The decrease is due to higher income tax installments and the change in non-cash working capital largely due to the timing-related change in accounts receivable and accounts payable compared to the prior year. For the year-to-date, cash flow from operating activities increased $4.4 million or 12.4% to $40.2 million largely due to an increase in net earnings.

Cash used for investing activities in the quarter decreased to $12.9 million compared to $15.1 million last year due to the timing of capital expenditures. On a year-to-date basis, cash used for investing activities increased $2.1 million to $22.3 million largely due to investments in major store renovations, store replacements, fixtures and equipment related to the Top Markets initiative described under the Strategy section. Further information on planned capital expenditures is included in the Outlook section.

Cash used in financing activities in the quarter decreased to $1.8 million compared to $16.1 million last year. For the year-to-date, cash used in financing activities increased $3.6 million to $7.1 million. The net change in long-term debt is related to changes in amounts drawn on the Company's revolving loan facilities compared to last year. Further information on long-term debt is provided in the Sources of Liquidity section and in Note 8 to the Company's 2015 second quarter unaudited interim period condensed consolidated financial statements.

Sources of Liquidity

The Canadian Operations have available committed, revolving loan facilities of $200.0 million that mature on December 31, 2018. These facilities are secured by certain assets of the Company and rank *pari passu* with the US$70.0 million senior notes and the US$52.0 million loan facilities in the International Operations. At July 31, 2015, the Company had drawn $102.8 million on these facilities (July 31, 2014 - $88.9 million).

The Canadian Operations have US$70.0 million senior notes that mature on June 16, 2021. The senior notes have a fixed interest rate of 3.27% on US$55.0 million and a floating interest rate on US$15.0 million based on US LIBOR plus a spread payable semi-annually. The senior notes are secured by certain assets of the Company and rank *pari passu* with the $200.0 million Canadian Operations loan facilities and the US$52.0 million loan facilities in the International Operations.

The International Operations have available committed, revolving loan facilities of US$52.0 million that mature on December 31, 2018. These facilities are secured by certain assets of the Company and rank *pari passu* with the US$70.0 million senior notes and the $200.0 million Canadian Operations loan facilities. At July 31, 2015, the Company had drawn US$24.0 million on these facilities (July 31, 2014 - US$34.0 million).

In the quarter, the Company completed the previously announced refinancing of the US$30.0 million loan facility in the International Operations. The new committed, revolving loan facility provides the International Operations with up to US$40.0 million for working capital and general corporate purposes. The new loan facility, which matures October 31, 2020, bears a floating rate of interest based on US LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At July 31, 2015, the Company had drawn US$1.9 million on these facilities (July 31, 2014 - US$6.1 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 July 31, 2015, the Company is in compliance with the financial covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants. Further information on the Company's long-term debt and loan facilities is provided in Note 8 to the Company's 2015 second quarter unaudited interim period condensed consolidated financial statements.

Cash flow from operating activities, including working capital efficiencies from the clearance of discontinued general merchandise inventory in the Canadian operations, 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 2015.

SHAREHOLDER DIVIDENDS

The Board of Directors declared a quarterly dividend of $0.31 per share, an increase of $0.02 or 6.9% per share, to shareholders of record on September 30, 2015, to be paid on October 15, 2015.

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.

OTHER HIGHLIGHTS

- "Top Market" projects were completed late in the quarter in the Nunavut communities of Rankin Inlet, Pond Inlet, Clyde River and Hall Beach.

- A pharmacy was opened in the Fort Simpson, Northwest Territories Northern store on June 1, 2015, increasing the total number of retail pharmacies in Canada to 13.

- The Master Franchise Agreement ("MFA") with Giant Tiger Stores Limited was amended to extend the MFA term to July 31, 2040 and re-established the Company's territorial exclusivity in western Canada, subject to minimum store opening obligations.

STRATEGY

The Company's strategies are founded on helping make our customers' lives better. From an investor standpoint, the Company is committed to delivering sustainable, superior total returns based on a commitment to downside risk management, the disciplined allocation of capital, cash flow optimization and dividend growth.

The Company's current operating strategies focus on capturing market share and improving earnings before interest, income taxes, depreciation and amortization (EBITDA[(2)]) growth within a modest growth economic environment over the next three to five years:

1. Accelerating investment in the Company's "Top Markets" - our largest and highest sales and profit potential locations, which began in the second half of 2014. This is expected to generate higher same store earnings growth and will require more investment in store recruiting and training expense, combined with annual capital spending in the $65 million range until 2018, with some offset from working capital efficiencies.
2. Focusing on "Top Categories", across all stores, which offer the highest everyday convenience and service value to our customers and which can be delivered in a superior way by the Company while right sizing under-performing, low upside categories.
3. Ensuring that the way we work is customer driven and store-centric through more responsive and effective support to the Company's selling activities.
4. Ensuring that the Company continues to invest in innovative digital and physical logistics solutions that provide a superior link to our remote markets.
5. Selectively investing in new market growth through store acquisitions and new Giant Tiger store openings.

Further information on the Company's strategy is provided in the 2014 Annual Report.

(1) Excluding foreign exchange impact
(2) See Non-GAAP Measures Section of Management's Discussion & Analysis

OUTLOOK

As noted under the strategy section, the Company's principal focus is on its Top Markets and Top Categories initiatives. The successful execution of this work is expected to enable North West to capture market share and sales at a higher rate than general consumer income growth, while focusing on lower-risk products and services.

By region and banner, the outlook remains positive for Cost-U-Less in both the Caribbean and Pacific regions, spurred by an accelerating recovery in tourism spending and lower energy costs. In Alaska, spending momentum is more uncertain based on the pressure of lower oil royalties at the state level and less visibility on utility rate reductions. Upside exists from a higher projected Permanent Fund Dividend paid to Alaskan residents in the third quarter. The western Canadian retail environment continues to favour Giant Tiger's discount position in the market. Combined with higher store operating standards and more pricing flexibility, the outlook for Giant Tiger remains positive in 2015. In northern Canada, the Company's Top Markets and Top Categories work is just starting to make a positive difference to results amidst generally soft economic conditions. A positive factor over the next 12 months will be the higher Universal Child Care Benefit ("UCCB") payments that started in July.

Net capital expenditures for 2015 are expected to be $70.0 million plus or minus ten percent (2014 - $50.3 million), reflecting major store replacements, store renovations and investments in fixtures, equipment, staff housing and store-based warehouse expansions as part of the Company's Top Markets initiative. In 2015, the Company expects to complete 11 stores under the Top Markets initiative in northern Canada with most openings weighted to the third quarter. The Company also plans to open two Giant Tiger stores and complete "New Store Experience" upgrades in six Giant Tiger stores. Store-based capital expenditures can be impacted by the completion of landlord negotiations, shipment of construction materials to remote markets, and weather-related delays and therefore, their actual amount and timing can fluctuate.

QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected quarterly financial information:

Operating Results - Consolidated

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	92 days	92 days	89 days	89 days	92 days	92 days	92 days	92 days
($ in millions)	2015	2014	2015	2014	2014	2013	2014	2013
Sales	**$ 448.7**	$ 401.1	$ 414.0	$ 376.3	$ 433.5	$ 402.9	$ 413.5	$ 387.2
EBITDA	**38.8**	36.4	34.4	30.2	33.4	34.4	37.8	36.5
Earnings from operations	**28.2**	26.3	23.7	20.0	23.2	24.6	27.9	26.9
Net earnings	**18.1**	16.9	15.7	12.7	15.0	15.9	18.4	17.4
Net earnings per share:								
Basic	**0.38**	0.35	0.32	0.26	0.31	0.33	0.38	0.36
Diluted	**0.37**	0.35	0.32	0.26	0.31	0.32	0.37	0.36

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 changes in merchandise sales blend, markdown activity in key sales periods to reduce excess inventories and other factors which can affect net earnings.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company in order to provide reasonable assurance that all material information relating to the Company is made known to management in a timely manner so that appropriate decisions can be made regarding public disclosure. Management is also responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be designed effectively can only provide reasonable assurance of achieving the control objectives. Additionally, management is necessarily required to use judgment in evaluating controls and procedures. Management used the Internal Control - Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission as the control framework in designing its internal controls over financial reporting. There have been no changes in the internal controls over financial reporting during the quarter ended July 31, 2015 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2016, and have not been applied in preparing the Company's 2015 second quarter unaudited interim period condensed consolidated financial statements:

Revenue Recognition In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The new standard will be applied retrospectively and is available for early adoption. 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 the Company is entitled to. The Company is currently assessing the potential impact this new standard will have on its consolidated financial statements.

At its meeting on April 28, 2015, the IASB tentatively decided to defer the effective date of IFRS 15 to fiscal years beginning on or after January 1, 2018.

Presentation of Financial Statements In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*. The amendments provide guidance on the application of judgment in the preparation of financial statements and disclosure and are effective for the Company's financial year ending January 31, 2017. The Company is currently assessing the potential impact of changes to this standard.

Financial Instruments The amended IFRS 9, *Financial Instruments* is a multi-phase project with the goal of improving and simplifying financial instrument reporting. 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. Additional guidance was also issued on the classification and measurement of financial assets and liabilities, hedge accounting and a single forward-looking expected loss impairment model. In July 2014, the IASB issued the complete version of IFRS 9 which is effective for the Company's financial year ending January 31, 2019, will be applied retrospectively and is available for early adoption. The Company is currently assessing the potential impact of changes to this standard.

NON-GAAP MEASURES

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

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

	Second Quarter		Year-to-Date	
($ in thousands)	**2015**	2014	**2015**	2014
Net earnings	**$ 18,125**	$ 16,850	**$ 33,824**	$ 29,529
Add: Amortization	**10,566**	10,048	**21,324**	20,266
Interest expense	**1,488**	1,902	**2,934**	3,854
Income taxes	**8,583**	7,593	**15,116**	12,964
EBITDA	**$ 38,762**	$ 36,393	**$ 73,198**	$ 66,613

For EBITDA information by business segment, see Note 4, Segmented Information, in the notes to the Company's 2015 second quarter unaudited interim period 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:

	Second Quarter		Year-to-Date	
($ in thousands)	**2015**	2014	**2015**	2014
Net earnings	**$ 18,125**	$ 16,850	**$ 33,824**	$ 29,529
Add: Interest expense	**1,488**	1,902	**2,934**	3,854
Income taxes	**8,583**	7,593	**15,116**	12,964
Earnings from operations	**$ 28,196**	$ 26,345	**$ 51,874**	$ 46,347

For earnings from operations information by business segment, see Note 4, Segmented Information, in the notes to the Company's 2015 second quarter unaudited interim period condensed consolidated financial statements.

Management uses these and other non-GAAP financial measures to exclude the impact of certain income and expenses that must be recognized under GAAP as the excluded amounts are not necessarily reflective of the Company's underlying operating performance and can make comparisons of 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.

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Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the Company's 2015 second quarter unaudited interim period condensed consolidated financial statements and notes to the unaudited interim period condensed consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to September 10, 2015.

Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, capital expenditures, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions and integrate acquisitions and the Company's success in anticipating and managing the foregoing risks. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other risks are outlined in the Risk Management section of the 2014 Annual Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

Consolidated Balance Sheets

(unaudited, $ in thousands)	**July 31, 2015**	July 31, 2014	January 31, 2015
CURRENT ASSETS			
Cash	**$ 40,005**	$ 34,462	$ 29,129
Accounts receivable	**75,777**	65,924	72,506
Inventories (Note 5)	**209,227**	210,567	204,812
Prepaid expenses	**11,731**	10,891	9,393
	336,740	321,844	315,840
NON-CURRENT ASSETS			
Property and equipment	**314,694**	285,472	311,692
Goodwill	**34,526**	28,818	33,653
Intangible assets	**23,508**	21,266	22,485
Deferred tax assets	**29,400**	20,435	28,074
Other assets	**11,870**	10,965	12,555
	413,998	366,956	408,459
TOTAL ASSETS	**$ 750,738**	$ 688,800	$ 724,299
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	**$ 133,636**	$ 126,729	$ 142,788
Current portion of long-term debt (Note 8)	**18**	210	6,271
Income tax payable (Note 11)	**1,324**	1,048	1,170
	134,978	127,987	150,229
NON-CURRENT LIABILITIES			
Long-term debt (Note 8)	**227,718**	208,541	195,125
Defined benefit plan obligation	**38,306**	19,063	36,556
Deferred tax liabilities	**2,264**	1,844	2,392
Other long-term liabilities	**9,411**	8,948	10,714
	277,699	238,396	244,787
TOTAL LIABILITIES	**412,677**	366,383	395,016
SHAREHOLDERS' EQUITY			
Share capital (Note 6)	**167,927**	166,182	167,460
Contributed surplus	**2,662**	3,652	2,831
Retained earnings	**146,246**	147,203	140,527
Accumulated other comprehensive income	**21,226**	5,380	18,465
TOTAL EQUITY	**338,061**	322,417	329,283
TOTAL LIABILITIES & EQUITY	**$ 750,738**	$ 688,800	$ 724,299

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Earnings

(unaudited, $ in thousands, except per share amounts)	**Three Months Ended July 31, 2015**	Three Months Ended July 31, 2014	**Six Months Ended July 31, 2015**	Six Months Ended July 31, 2014
SALES	**$ 448,736**	$ 401,127	**$ 862,774**	$ 777,384
Cost of sales	**(316,637)**	(285,178)	**(612,792)**	(554,003)
Gross profit	**132,099**	115,949	**249,982**	223,381
Selling, operating and administrative expenses (Note 9)	**(103,903)**	(89,604)	**(198,108)**	(177,034)
Earnings from operations	**28,196**	26,345	**51,874**	46,347
Interest expense (Note 10)	**(1,488)**	(1,902)	**(2,934)**	(3,854)
Earnings before income taxes	**26,708**	24,443	**48,940**	42,493
Income taxes (Note 11)	**(8,583)**	(7,593)	**(15,116)**	(12,964)
NET EARNINGS FOR THE PERIOD	**$ 18,125**	$ 16,850	**$ 33,824**	$ 29,529
NET EARNINGS PER SHARE				
Basic	**$ 0.38**	$ 0.35	**$ 0.70**	$ 0.61
Diluted	**$ 0.37**	$ 0.35	**$ 0.69**	$ 0.61
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)				
Basic	**48,502**	48,431	**48,500**	48,428
Diluted	**48,775**	48,721	**48,773**	48,719

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

(unaudited, $ in thousands)	Three Months Ended July 31, 2015	Three Months Ended July 31, 2014	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014
NET EARNINGS FOR THE PERIOD	**$ 18,125**	$ 16,850	**$ 33,824**	$ 29,529
Other comprehensive income/(loss), net of tax:				
Items that may be reclassified to net earnings:				
Exchange differences on translation of foreign controlled subsidiaries	**7,293**	(635)	**2,786**	(1,701)
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 25,418**	$ 16,215	**$ 36,610**	$ 27,828

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(unaudited, $ in thousands)	Share Capital	Contributed Surplus	Retained Earnings	AOCI [1]	Total
Balance at January 31, 2015	$ 167,460	$ 2,831	$ 140,527	$ 18,465	$ 329,283
Net earnings for the period	—	—	33,824	—	33,824
Other comprehensive income	—	—	25	2,761	2,786
Comprehensive income	—	—	33,849	2,761	36,610
Equity settled share-based payments	—	40	—	—	40
Dividends (Note 7)	—	—	(28,130)	—	(28,130)
Issuance of common shares (Note 6)	467	(209)	—	—	258
	467	(169)	(28,130)	—	(27,832)
Balance at July 31, 2015	**$167,927**	**$ 2,662**	**$146,246**	**$ 21,226**	**$338,061**
Balance at January 31, 2014	$ 166,069	$ 3,528	$ 145,762	$ 7,081	$ 322,440
Net earnings for the period	—	—	29,529	—	29,529
Other comprehensive income/(loss)	—	—	—	(1,701)	(1,701)
Comprehensive income/(loss)	—	—	29,529	(1,701)	27,828
Equity settled share-based payments	—	178	—	—	178
Dividends (Note 7)	—	—	(28,088)	—	(28,088)
Issuance of common shares (Note 6)	113	(54)	—	—	59
	113	124	(28,088)	—	(27,851)
Balance at July 31, 2014	$ 166,182	$ 3,652	$ 147,203	$ 5,380	$ 322,417

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited, $ in thousands)	**Three Months Ended July 31, 2015**	Three Months Ended July 31, 2014	**Six Months Ended July 31, 2015**	Six Months Ended July 31, 2014
CASH PROVIDED BY (USED IN)				
Operating activities				
Net earnings for the period	**$ 18,125**	$ 16,850	**$ 33,824**	$ 29,529
Adjustments for:				
Amortization	**10,566**	10,048	**21,324**	20,266
Provision for income taxes (Note 11)	**8,583**	7,593	**15,116**	12,964
Interest expense (Note 10)	**1,488**	1,902	**2,934**	3,854
Equity settled share option expense (Note 12)	**54**	80	**40**	178
Taxes paid	**(10,000)**	(6,498)	**(20,961)**	(16,035)
Loss/(Gain) on disposal of property and equipment	**111**	(727)	**23**	(583)
	28,927	29,248	**52,300**	50,173
Change in non-cash working capital	**(2,350)**	890	**(13,335)**	(14,025)
Change in other non-cash items	**1,917**	38	**1,271**	(346)
Cash from operating activities	**28,494**	30,176	**40,236**	35,802
Investing activities				
Purchase of property and equipment	**(11,442)**	(15,571)	**(19,890)**	(20,336)
Intangible asset additions	**(1,490)**	(1,311)	**(2,556)**	(1,687)
Proceeds from disposal of property and equipment	**2**	1,782	**138**	1,821
Cash used in investing activities	**(12,930)**	(15,100)	**(22,308)**	(20,202)
Financing activities				
Net change in long-term debt (Note 8)	**13,720**	76,697	**23,117**	103,990
Repayments of long-term debt (Note 8)	**—**	(75,950)	**—**	(75,950)
Dividends (Note 7)	**(14,065)**	(14,045)	**(28,130)**	(28,088)
Interest paid	**(1,660)**	(2,811)	**(2,297)**	(3,502)
Issuance of common shares	**215**	—	**258**	59
Cash used in financing activities	**(1,790)**	(16,109)	**(7,052)**	(3,491)
NET CHANGE IN CASH	**13,774**	(1,033)	**10,876**	12,109
Cash, beginning of period	**26,231**	35,495	**29,129**	22,353
CASH, END OF PERIOD	**$ 40,005**	$ 34,462	**$ 40,005**	$ 34,462

See accompanying notes to condensed consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 September 10, 2015.

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 annual audited consolidated financial statements and the accompanying notes included in The North West Company Inc.'s 2014 Annual 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 (Note 15)
- Liabilities for share-based payment plans (Note 12)
- Defined benefit pension plan
- Assets and liabilities acquired in a business combination

The methods used to measure fair values are discussed further in the notes to the Company's 2014 annual audited consolidated financial statements.

(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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are set out in the Company's 2014 annual audited 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.

Future Standards and Amendments The following new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2016, and have not been applied in preparing these condensed consolidated financial statements:

Revenue Recognition In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The new standard will be applied retrospectively and is available for early adoption. 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. The Company is currently assessing the potential impact this new standard will have on its consolidated financial statements.

At its meeting on April 28, 2015, the IASB tentatively decided to defer the effective date of IFRS 15 to fiscal years beginning on or after January 1, 2018.

Presentation of Financial Statements In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*. The amendments provide guidance on the application of judgment in the preparation of financial statements and disclosure and are effective for the Company's financial year ending January 31, 2017. The Company is currently assessing the potential impact of changes to this standard.

Financial Instruments The amended IFRS 9, *Financial Instruments* is a multi-phase project with the goal of improving and simplifying financial instrument reporting. 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. Additional guidance was also issued on the classification and measurement of financial assets and liabilities, hedge accounting and a single forward-looking expected loss impairment model. The IASB issued the complete version of IFRS 9 in July 2014. It is effective for the Company's financial year ending January 31, 2019, will be applied retrospectively and is available for early adoption. The Company is currently assessing the potential impact of changes to this standard.

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: allowance for doubtful accounts, inventories, 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

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. 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

	Three Months Ended July 31, 2015	Three Months Ended July 31, 2014	**Six Months Ended July 31, 2015**	Six Months Ended July 31, 2014
Sales				
Canada	**$ 277,421**	$ 260,773	**$ 531,923**	$ 501,974
International	**171,315**	140,354	**330,851**	275,410
Consolidated	**$ 448,736**	$ 401,127	**$ 862,774**	$ 777,384
Earnings before amortization, interest and income taxes				
Canada	**$ 26,292**	$ 26,995	**$ 50,664**	$ 50,781
International	**12,470**	9,398	**22,534**	15,832
Consolidated	**$ 38,762**	$ 36,393	**$ 73,198**	$ 66,613
Earnings from operations				
Canada	**$ 18,566**	$ 19,396	**$ 35,189**	$ 35,613
International	**9,630**	6,949	**16,685**	10,734
Consolidated	**$ 28,196**	$ 26,345	**$ 51,874**	$ 46,347

Supplemental information

	July 31, 2015	July 31, 2014	January 31, 2015
Assets			
Canada	**$ 473,078**	$ 454,764	$ 455,032
International [1]	**277,660**	234,036	269,267
Consolidated	**$ 750,738**	$ 688,800	$ 724,299

(1) International total assets includes goodwill of $34,526 (July 31, 2014 - $28,818; January 31, 2015 - $33,653).

	Three Months Ended July 31, 2015		Three Months Ended July 31, 2014		**Six Months Ended July 31, 2015**		Six Months Ended July 31, 2014	
	Canada	**International**	Canada	International	**Canada**	**International**	Canada	International
Purchase of property and equipment	**$ 9,545**	**$ 1,897**	$ 12,003	$ 3,568	**$ 17,373**	**$ 2,517**	$ 15,295	$ 5,041
Amortization	**$ 7,726**	**$ 2,840**	$ 7,599	$ 2,449	**$ 15,475**	**$ 5,849**	$ 15,168	$ 5,098

5. INVENTORIES

Included in cost of sales for the three months ended July 31, 2015, the Company recorded $654 (three months ended July 31, 2014 – $332) for the write-down of period end inventories as a result of net realizable value being lower than cost. For the six months ended July 31, 2015, the Company recorded $943 (six months ended July 31, 2014 – $896) for the write-down of period end 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 six months ended July 31, 2015 or 2014.

6. SHARE CAPITAL

Authorized – The Company has an unlimited number of shares.

	Shares	Consideration
Balance at January 31, 2015	**48,497,199**	**$ 167,460**
Issued under option plans (Note 12)	**17,613**	**467**
Balance at July 31, 2015	**48,514,812**	**$ 167,927**

Balance at January 31, 2014	48,425,787	$ 166,069
Issued under option plans (Note 12)	5,446	113
Balance at July 31, 2014	48,431,233	$ 166,182

7. DIVIDENDS

	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014
Dividends paid in cash	**$ 28,130**	$ 28,088
Dividends per share	**$ 0.58**	$ 0.58

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 period in which they are approved by the Board of Directors.

8. LONG-TERM DEBT

	July 31, 2015	July 31, 2014	January 31, 2015
Current:			
Notes payable	**$ —**	$ 133	$ 72
Finance lease liabilities	**18**	77	55
Revolving loan facilities (1)	**—**	—	6,144
	$ 18	$ 210	$ 6,271
Non-current:			
Revolving loan facilities (1)	**$ 2,474**	$ 6,618	$ —
Revolving loan facilities (2)	**31,313**	37,026	27,977
Revolving loan facilities (3)	**102,826**	88,871	78,367
Senior notes (4)	**91,105**	76,003	88,779
Finance lease liabilities	**—**	23	2
	$ 227,718	$ 208,541	$ 195,125
Total	**$ 227,736**	$ 208,751	$ 201,396

(1) In July 2015, the Company completed the refinancing of the US$30,000 loan facility maturing October 31, 2015. The new increased, 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 July 31, 2015, the International Operations had drawn US$1,896 (July 31, 2014 – US$6,077; January 31, 2015 – US$4,831) on this facility.

(2) The US$52,000 committed, revolving loan facilities in the International Operations mature December 31, 2018 and bear interest at 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 and the $200,000 Canadian Operations loan facilities. At July 31, 2015, the Company had drawn US$24,000 (July 31, 2014 – US$34,000; January 31, 2015 – US$22,000) on these facilities.

(3) These committed, revolving loan facilities provide the Company's Canadian Operations with up to $200,000 for working capital and general business purposes. The facilities mature December 31, 2018 and are secured by certain assets of the Company and rank *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.

(4) The Company refinanced the US$70,000 senior notes that matured on June 15, 2014. The maturing senior notes had a fixed interest rate of 6.55% on US$42,000 and a floating interest rate based on US LIBOR plus a spread on US$28,000. The new US$70,000 senior notes, which 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 US LIBOR plus a spread. The new senior notes are secured by certain assets of the Company and rank *pari passu* with the $200,000 Canadian Operations loan facilities and the US$52,000 loan facilities in the International Operations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. EMPLOYEE COSTS

	Three Months Ended July 31, 2015	Three Months Ended July 31, 2014	**Six Months Ended July 31, 2015**	Six Months Ended July 31, 2014
Wages, salaries and benefits including bonus	**$ 58,841**	$ 53,592	**$ 114,606**	$ 105,586
Post employment benefits	**1,800**	1,532	**3,651**	3,301
Share-based compensation (Note 12)	**4,423**	1,459	**4,751**	2,200

10. INTEREST EXPENSE

	Three Months Ended July 31, 2015	Three Months Ended July 31, 2014	**Six Months Ended July 31, 2015**	Six Months Ended July 31, 2014
Interest on long-term debt	**$ 1,312**	$ 1,585	**$ 2,578**	$ 3,395
Fair value movement of derivative financial instruments in effective fair value hedging relationships	**—**	164	**—**	173
Net interest on defined benefit plan obligation	**312**	195	**624**	390
Interest income	**(54)**	(32)	**(80)**	(68)
Less: interest capitalized	**(82)**	(10)	**(188)**	(36)
Interest expense	**$ 1,488**	$ 1,902	**$ 2,934**	$ 3,854

11. INCOME TAXES

The estimated effective income tax rate for the three months ended July 31, 2015 is 32.1% (three months ended July 31, 2014 – 31.1%) and for the six months ended July 31, 2015 is 30.9% (six months ended July 31, 2014 – 30.5%). The Company estimates its effective income tax rate on a weighted-average basis by determining the income tax rate applicable to each taxing jurisdiction and applying it to its pre-tax earnings. Changes in the effective income tax rate primarily reflect changes in earnings of the Company's subsidiaries across various tax jurisdictions.

12. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Performance Share Units (PSUs); Share Options; Director Deferred Share Units (DSUs); 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The total expense relating to share-based payment plans for the three months ended July 31, 2015 is $4,423 (three months ended July 31, 2014 - $1,459) and for the six months ended July 31, 2015 is $4,751 (six months ended July 31, 2014 – $2,200). The carrying amount of the Company's share-based compensation arrangements including PSU, share option and DSU plans are recorded on the consolidated balance sheets as follows:

	July 31, 2015	July 31, 2014	January 31, 2015
Accounts payable and accrued liabilities	**$ 11,257**	$ 8,203	$ 9,526
Other long-term liabilities	**3,193**	2,781	4,485
Contributed surplus	**1,093**	2,083	1,262
Total	**$ 15,543**	$ 13,067	$ 15,273

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 three months ended July 31, 2015 are $1,196 (three months ended July 31, 2014 – $594) and for the six months ended July 31, 2015 are $1,885 (six months ended July 31, 2014 – $993).

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 9% of the Company's issued and outstanding shares at July 31, 2015. 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 three months ended July 31, 2015 are $2,073 (three months ended July 31, 2014 – $332) and for the six months ended July 31, 2015 are $1,595 (six months ended July 31, 2014 – $392).

The fair values for options issued during the six months ended July 31 were calculated based on the following assumptions:

	2015	2014
Fair value of options granted	**$ 2.17 to 3.42**	$ 3.14 to 4.43
Exercise price	**$ 25.63**	$ 24.79
Dividend yield	**4.6%**	4.6%
Annual risk-free interest rate	**0.4% to 0.7%**	1.1% to 1.6%
Expected share price volatility	**19.9%**	23.7%

The assumptions used to measure cash settled options at July 31 were as follows:

	2015	2014
Dividend yield	**4.2%**	4.8%
Annual risk-free interest rate	**0.4% to 0.9%**	1.1% to 1.8%
Expected share price volatility	**16.4% to 19.3%**	19.0% to 24.3%

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 six months ended July 31:

Number of options outstanding	**Declining Strike Price Options**		**Standard Options**	
	2015	2014	**2015**	2014
Outstanding options, beginning of period	**1,207,995**	896,694	**391,876**	526,380
Granted	**491,096**	355,795	**81,461**	36,631
Exercised	**(24,517)**	—	**(29,737)**	(9,201)
Forfeited or cancelled	**—**	—	**(30,155)**	—
Outstanding options, end of period	**1,674,574**	1,252,489	**413,445**	553,810
Exercisable at end of period	**238,485**	94,703	**190,087**	280,987

Weighted-average exercise price	Declining Strike Price Options		Standard Options	
	2015	2014	**2015**	2014
Outstanding options, beginning of period	**$ 22.79**	$ 21.86	**$ 20.88**	$ 19.10
Granted	**25.63**	24.79	**25.63**	24.79
Exercised	**21.24**	—	**19.59**	16.21
Forfeited or cancelled	**—**	—	**22.52**	—
Outstanding options, end of period	**$ 23.64**	$ 22.75	**$ 21.77**	$ 19.53
Exercisable at end of period	**$ 18.65**	$ 20.62	**$ 19.30**	$ 17.38

Options outstanding at July 31, 2015 have an exercise price range of $15.25 to $25.63 and a weighted-average remaining contractual life of 5 years.

Director Deferred Share Unit Plan

The Director DSU Plan 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 DSU entitles the holder to receive a share of the Company. The DSUs 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 DSUs, 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 DSUs.

Compensation expense is measured based on the fair market value at each reporting date. The DSU plan compensation recorded for the three months ended July 31, 2015 is $1,029 (three months ended July 31, 2014 – $413) and for the six months ended July 31, 2015 is $822 (six months ended July 31, 2014 – $315). The total number of DSUs outstanding at July 31, 2015 is 188,226 (July 31, 2014 – 167,552). There were 7,636 DSUs exercised during the six months ended July 31, 2015 (six months ended July 31, 2014 – NIL).

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 three months ended July 31, 2015 is $125 (three months ended July 31, 2014 – $120) and for the six months ended July 31, 2015 is $449 (six months ended July 31, 2014 – $500).

13. 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.

14. 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%

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

15. FINANCIAL INSTRUMENTS

Accounting classifications and fair value estimation

The following table comprises the carrying amounts of the Company's financial instruments. All of the Company's financial instruments are carried at amortized cost using the effective interest rate method.

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.

		Assets (Liabilities) carried at amortized cost	
	Maturity	Carrying amount	Fair value
Cash	Short-term	$ 40,005	$ 40,005
Accounts receivable	Short-term	75,777	75,777
Other financial assets	Long-term	1,336	1,336
Accounts payable and accrued liabilities	Short-term	(133,636)	(133,636)
Current portion of long-term debt	Short-term	(18)	(18)
Long-term debt	Long-term	(227,718)	(229,318)

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 debt with fixed interest rates in an effective fair value hedging relationship 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 for the Company's credit profile.

16. SUBSEQUENT EVENTS

On September 10, 2015, the Board of Directors declared a dividend of $0.31 per common share payable October 15, 2015 to shareholders of record on September 30, 2015.