
THE NORTH WEST COMPANY INC.

Report to Shareholders

Quarterly Period Ended January 31, 2020



2019 FOURTH QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. reports its results for the fourth quarter ended January 31, 2020. Sales increased 3.9% to \$553.1 million compared to the fourth quarter last year and were up 4.1% excluding the impact of foreign exchange, led by same store food sales gains and the impact of new stores.

Fourth quarter net earnings increased \$3.3 million or 23.6% to \$17.3 million and net earnings attributable to shareholders were \$16.3 million or \$0.33 per share compared to \$0.27 per share last year on a diluted earnings per share basis. This increase is due to the impact of a \$5.2 million decrease in share-based compensation costs and \$3.2 million in insurance related gains. These factors were offset by poor performance in Giant Tiger stores, the impact of the previously announced support office restructuring and relocation expenses in International Operations and higher depreciation and insurance costs. Adjusted net earnings², which excludes the impact of the share-based compensation and insurance related gains, decreased \$4.1 million or 21.2% compared to last year largely due to the impact of GT store results and International support office restructuring costs previously noted. Excluding the Giant Tiger results and the impact of the International support office restructuring costs, adjusted net earnings decreased \$1.5 million or 7.5% mainly due to higher depreciation and insurance costs.

The Board of Directors has approved a quarterly dividend of \$0.33 per share to shareholders of record on March 31, 2020.

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 2019 fourth quarter unaudited interim period condensed consolidated financial statements for the period ended January 31, 2020 ("Interim Condensed Consolidated Financial Statements") and the audited annual consolidated financial statements and accompanying notes included in the 2018 Annual Report.

Adoption of IFRS 16 Leases

The Company adopted IFRS 16 *Leases* ("IFRS 16") effective February 1, 2019 using the full retrospective approach and as a result, comparative figures have been restated to conform with IFRS 16. Further information on the adoption of IFRS 16 *Leases* is provided in the Accounting Standards Implemented in 2019 section of this Management's Discussion and Analysis.

CONSOLIDATED RESULTS

Quarter

Fourth quarter consolidated sales increased 3.9% to \$553.1 million led by same store food sales gains and the impact of new store sales largely driven by the November 1, 2019 re-opening of the Company's Cost-U-Less store in St. Thomas, USVI which was destroyed by hurricane Irma in the third quarter of 2017. Excluding the foreign exchange impact, consolidated sales increased 4.1% and were up 0.8%¹ on a same store basis. Food sales¹ increased 5.2% and were up 1.5% on a same store basis led by sales gains in northern Canada and Alaska stores ("northern markets"). General merchandise sales¹ increased 0.7% but were down 1.7% on a same store basis as sales gains in northern markets were more than offset by lower sales in Giant Tiger ("GT") stores.

(1) Excluding the foreign exchange impact

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

Gross profit increased 2.3% driven by higher sales as the gross profit rate decreased 46 basis points compared to last year. The decrease in gross profit rate was mainly due to increased promotional pricing, largely in Giant Tiger markets, and a higher blend of Cost-U-Less sales which carry a lower gross profit rate consistent with a discount warehouse format. North Star Air's ("NSA") loss of a Basler aircraft due to an accident in December 2019, which resulted in significantly higher operating costs related to substitute leased aircraft, was also a factor.

Selling, operating and administrative expenses ("Expenses") increased 0.2% but were down 93 basis points to last year as a percentage to sales as a \$5.2 million decrease in share-based compensation costs and the impact of \$3.2 million in insurance gains were offset by higher expenses partially related to new stores, the impact of support office restructuring costs in International Operations, and higher depreciation and insurance costs. Further information on share-based compensation costs is provided in Note 11 and Note 14 to the Interim Condensed Consolidated Financial Statements. The \$3.2 million in insurance gains includes a \$0.9 million insurance gain related to the settlement of the Basler aircraft insurance claim. This gain was more than offset by the increase in leased aircraft costs previously noted. The increase in depreciation is mainly due to the implementation of new merchandise management and store technology, the impact of capital investments in stores and higher right-of-use asset depreciation. Excluding the impact of the share-based compensation costs, insurance gains, and support office restructuring costs, Expenses increased \$7.6 million or 43 basis points as a percentage to sales partially due to the impact of new stores and higher depreciation and insurance expense.

Earnings from operations increased \$3.5 million or 15.0% to \$26.7 million compared to \$23.2 million last year and earnings before interest, income taxes, depreciation and amortization (EBITDA²) increased \$6.1 million or 13.9% to \$50.4 million due to the gross profit and Expense factors previously noted. Adjusted EBITDA², which excludes the impact of share-based compensation costs and the insurance-related gains, decreased \$2.3 million or 4.6% compared to last year and as a percentage to sales was 8.6% compared to 9.3% last year as sales gains and improvements in gross profit were more than offset by the Expense factors noted above and lower earnings in GT stores. GT EBITDA² in the quarter decreased \$2.4 million or 86.1% compared to last year. Further information on Giant Tiger stores is provided in the Subsequent Events section. Excluding the Giant Tiger results and impact of the International support office restructuring costs, adjusted EBITDA² increased \$1.3 million or 2.7% mainly due to earnings gains in northern Canada and Alaska, partially offset by lower earnings in Pacific region stores.

Income tax expense was \$3.8 million compared to \$4.0 million last year and the consolidated effective tax rate was 18.2% compared to 22.1%. This rate decrease was primarily due to the impact of non-taxable share-based compensation costs in Canadian Operations and the blend of earnings in International Operations across the various tax rate jurisdictions.

Net earnings increased \$3.3 million or 23.6% to \$17.3 million. Net earnings attributable to shareholders were \$16.3 million and diluted earnings per share were \$0.33 per share compared to \$0.27 per share last year due to the factors noted above. Adjusted net earnings², which excludes the impact of the after-tax insurance-related gains and share-based compensation costs, decreased 21.2% compared to last year due to the Expense factors previously noted and lower earnings in GT stores. Excluding the Giant Tiger results and the impact of the International support office restructuring costs, adjusted net earnings decreased \$1.5 million or 7.5% mainly due to higher depreciation and insurance costs as previously noted.

Comprehensive income decreased to \$16.3 million compared to \$20.3 million last year substantially due to the remeasurement of defined benefit plans partially offset by the increase in net earnings noted above. Further information on defined benefit plans is provided in Note 19 to the Interim Condensed Consolidated Financial Statements.

Year

Sales for the year increased 4.0% to \$2.094 billion led by same store sales gains, the impact of foreign exchange on the translation of International Operations sales and new stores. Excluding the foreign exchange impact, consolidated sales increased 3.2% and were up 1.3%¹ on a same store basis. Food sales¹ increased 3.6% and were up 1.9% on a same store basis and general merchandise sales¹ increased 1.5% but were down 1.1% on a same store basis.

Gross profit increased 3.7% due to higher sales partially offset by a 9 basis point decrease in the gross profit rate. Selling, operating and administrative expenses ("Expenses") increased 5.8% and were up 44 basis points as a percentage to sales. This increase in Expenses is largely due to the impact of foreign exchange on the translation of International Operations expenses, new stores, the previously announced office restructuring costs of \$4.8 million and higher depreciation and insurance costs of \$7.2 million and \$4.8 million respectively. The impact of \$18.2 million in insurance gains this year compared to \$20.1 million in insurance gains last year was also a

(1) Excluding the foreign exchange impact

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

factor. These factors were partially offset by a \$7.7 million decrease in share-based compensation costs. Excluding the impact of the insurance gains, share-based compensation costs and office restructuring and relocation costs, Expenses increased 5.9% and were up 47 basis points as a percentage to sales due to the impact of new stores, higher insurance expense and foreign exchange on the translation of International Operations expenses.

Earnings from operations decreased 4.2% to \$130.4 million compared to \$136.0 million last year and earnings before interest, income taxes, depreciation and amortization (EBITDA²) increased \$1.6 million or 0.7% to \$219.6 million. Adjusted EBITDA², which excludes the impact of the insurance-related gains and share-based compensation, decreased \$4.2 million or 2.0% compared to last year as earnings gains in northern markets and improved earnings in NSA were more than offset by the Expense factors previously noted and poor GT store performance. Excluding the GT results and impact of the International support office restructuring costs, adjusted EBITDA² increased \$10.1 million or 5.1% due to earnings gains in northern Canada and Alaska together with improved earnings in NSA.

Income tax expense decreased \$2.6 million to \$23.1 million and the consolidated effective tax rate was 21.1% compared to 22.1% last year. This rate decrease was mainly due to the impact of non-taxable share-based compensation costs in Canadian Operations and the blend of earnings in International Operations across the various tax rate jurisdictions.

Net earnings decreased \$4.4 million or 4.8% to \$86.3 million. Net earnings attributable to shareholders were \$82.7 million and diluted earnings per share were \$1.68 per share compared to \$1.77 per share last year due to the factors noted above. Adjusted net earnings², which excludes the impact of the insurance-related gains and share-based compensation, decreased 10.6% compared to last year as gross profit gains were more than offset by higher Expenses and GT store performance. Excluding the GT results and impact of the International support office restructuring costs, adjusted net earnings² increased \$2.0 million or 2.3%.

Comprehensive income decreased \$24.7 million to \$78.6 million compared to \$103.3 million last year due to lower net earnings of \$4.4 million described above, a decrease in the foreign exchange gain on the translation of the International Operations financial statements and a remeasurement of defined benefit pension plans. The change in foreign exchange rates resulted in a gain of \$0.8 million compared to a gain of \$7.8 million last year. The remeasurement of defined benefit pension plan assets and liabilities resulted in a net actuarial loss of \$8.5 million compared to a gain of \$5.0 million last year.

CANADIAN OPERATIONS

Canadian Operations sales increased 2.7% to \$333.2 million compared to \$324.3 million in the fourth quarter last year and were up 0.7% on a same store basis. Food sales increased 3.6% and were up 1.6% on a same store basis and general merchandise sales increased 0.5% from last year but were down 2.0% on a same store basis as sales gains in northern Canada were offset by lower sales in Giant Tiger ("GT") stores. Sales in northern Canada stores continued to be positively impacted by general economic conditions and infrastructure projects. GT sales were negatively impacted by discount food competition, higher product shrink and markdowns and weaker than expected seasonal general merchandise sales.

Gross profit increased 2.5% driven by sales gains partially offset by a 9 basis point decrease in the gross profit rate compared to last year. The change in gross profit rate is mainly due to lower margins in GT related to the factors previously described and the higher use of leased aircraft in NSA due to the loss of an owned Basler aircraft in December 2019 from an accident. Extended down-time related to scheduled major component maintenance on an ATR aircraft was also a factor.

Selling, operating and administrative expenses ("Expenses") decreased 1.3% and were down 111 basis points as a percentage to sales compared to last year due to the impact of lower share-based compensation costs and \$3.2 million in insurance-related gains. These factors were partially offset by the impact of new stores and higher insurance costs. The \$3.2 million in insurance gains includes a \$0.9 million insurance gain related to the settlement of a Basler insurance claim. This gain was more than offset by the increase in leased aircraft costs previously noted.

Canadian earnings from operations increased 27.3% to \$17.6 million compared to \$13.9 million last year due to higher gross profit and lower Expenses as previously noted. EBITDA² increased 19.3% to \$34.4 million compared to \$28.8 million last year and as a percentage to sales was 10.3% compared to 8.9% last year due to the factors previously noted. Adjusted EBITDA², which excludes the impact of the insurance gains and share-based compensation, decreased 6.1% compared to last year and as a percentage to sales was 9.5% compared to 10.3% last year due to lower earnings in GT stores compared to last year. Excluding Giant Tiger, adjusted EBITDA² increased 1.0% compared to last year.

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

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International Operations sales increased 6.9% to \$167.0 million compared to \$156.2 million in the fourth quarter last year led by same store sales growth of 1.1% and the impact of the re-opening of our Cost-U-Less store in St. Thomas, USVI which was destroyed by Hurricane Irma in September 2017. These gains were partially offset by the impact of the closure of an AC store and a convenience store in Barrow, Alaska on October 31, 2019 as a result of the expiration of the lease, net of the impact of opening of a smaller store in this market on November 1. The early issuance of the February 2019 SNAP benefit payment in January last year due to the U.S. government shut-down at that time was also a factor. Food sales increased 7.8% and were up 1.3% on a same store basis with all banners contributing to the sales gains. General merchandise sales increased 1.3% but were down 0.4% on a same store basis.

Gross profit increased 3.5% compared to last year driven by sales gains, partially offset by a decrease in the gross profit rate related to a higher blend of Cost-U-Less sales which have a lower gross profit rate consistent with a discount warehouse format. An increase in promotional pricing activity in certain Caribbean markets was also a factor.

Selling, operating and administrative expenses ("Expenses") increased 4.0% compared to last year primarily due to initial months of new stores operating costs, higher depreciation and insurance costs and \$0.9 million costs associated with the previously announced restructuring and relocation of the Company's buying office in Bellevue, Washington to Anchorage, Alaska and southern Florida this year. These factors were partially offset by lower incentive plan costs.

Earnings from operations were \$6.9 million compared to \$6.9 million in the fourth quarter last year and EBITDA² increased to \$12.2 million compared to \$11.4 million last year due to the sales and expense factors noted above.

FINANCIAL CONDITION

Financial Ratios

The Company's debt-to-equity ratio at the end of the fourth quarter was 0.96:1 compared to 0.89:1 last year.

Working capital increased \$26.2 million or 14.6% compared to the fourth quarter last year mainly due to an increase in accounts receivable partially related to insurance claims and an increase in inventories related to new stores in International Operations and higher inventories in stores serviced by sealift in Canadian Operations. These factors were partially offset by lower cash balances in International Operations.

Outstanding Shares

The weighted-average basic shares outstanding for the quarter were 48,751,000 shares compared to 48,709,000 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 49,395,000 shares compared to 49,169,000 shares last year. The increase in fully diluted shares outstanding compared to last year is due to options granted under the Share Option Plan, shares granted under the Director Deferred Share Unit Plan and shares granted under the Performance Share Unit plan that may be treasury settled. Further information on share capital, the Share Option Plan and the Director Deferred Share Unit Plan is provided in Note 7 and Note 14 to the Company's Interim Condensed Consolidated Financial Statements.

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

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

\$ in thousands	Three Months		Change	Twelve Months		Change
	Ended	Ended		Ended	Ended	
	January 31, 2020	January 31, 2019 ⁽¹⁾		January 31, 2020	January 31, 2019 ⁽¹⁾	
Cash flows provided by (used in):						
Cash from operating activities	\$ 48,320	\$ 55,029	\$ (6,709)	\$ 161,117	\$ 155,725	\$ 5,392
Cash used in investing activities	(19,218)	(13,337)	(5,881)	(104,272)	(80,793)	(23,479)
Cash used in financing activities	(53,035)	(58,934)	5,899	(67,236)	(62,357)	(4,879)
Effect of changes in foreign exchange rates on cash	125	(256)	381	130	713	(583)
Net change in cash	\$ (23,808)	\$ (17,498)	\$ (6,310)	\$ (10,261)	\$ 13,288	\$ (23,549)

(1) The Company has adopted IFRS 16 *Leases* (IFRS 16) effective February 1, 2019 using the full retrospective approach and as a result, comparative figures have been restated to conform with IFRS 16. See the Accounting Standards Implemented in 2019 section of this Management's Discussion and Analysis for further information.

Cash flow from operating activities in the quarter decreased \$6.7 million to \$48.3 million compared to cash flow from operating activities of \$55.0 million last year as the increase in net earnings was more than offset by the change in non-cash working capital. The change in non-cash working capital is primarily related to the change in inventories and accounts receivable compared to the prior year. For the year, cash flow from operating activities increased \$5.4 million to \$161.1 million mainly due to an increase in amortization, a decrease in insurance proceeds for property and equipment and lower taxes paid. These factors were partially offset by the change in non-cash working capital as previously noted and the change in other non-cash items mainly due to the change in long-term liabilities related to share-based compensation.

Cash used in investing activities in the quarter increased to \$19.2 million compared to \$13.3 million last year and for the year, cash used in investing activities, net of insurance proceeds, increased to \$104.3 million compared to \$80.8 million last year. Investments in property, equipment and intangible assets were largely related to investments in store and warehouse replacements resulting from hurricane and fire-related damage, store renovations in TopMarkets and the implementation of new information systems as described in the strategy section. The purchase of retail stores in Barrow, Alaska, Bethel, Alaska and a pharmacy in Rankin Inlet, Nunavut were also factors. Further information on planned capital expenditures is included in the Outlook section.

Cash flow used in financing activities in the quarter was \$53.0 million compared to \$58.9 million last year. The net change in long-term debt in the quarter is due to changes in amounts drawn on the Company's revolving loan facilities. Cash used in financing activities for the year increased to \$67.2 million compared to \$62.4 million last year mainly due to an increase in interest payments related to higher debt levels. Further information on long-term debt is provided in the Sources of Liquidity section and in Note 9 and Note 12 to the Company's Interim Condensed Consolidated Financial Statements.

Sources of Liquidity

The Company has outstanding \$100.0 million in senior notes that mature September 26, 2029 and have a fixed interest rate of 3.74%. The notes are secured by certain assets of the Company and rank *pari passu* with the Company's other senior debt comprised of the \$300.0 million Canadian Operations loan facilities, the US\$70.0 million senior notes and the US\$52.0 million loan facilities.

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

The Canadian Operations also have committed, revolving loan facilities of \$300.0 million that bear a floating rate of interest based on Bankers Acceptances rates plus a stamping fee. These facilities mature September 26, 2022 and are secured by certain assets of the Company on a *pari passu* basis with the Company's other senior debt. At January 31, 2020, the Company had drawn \$176.7 million on these facilities (January 31, 2019 - \$134.8 million).

The Company has committed, revolving loan facilities of US\$52.0 million that bear interest at U.S. LIBOR plus a spread. These facilities mature September 26, 2022 and are secured by certain assets of the Company on a *pari passu* basis with the Company's other senior debt. At January 31, 2020, the Company had drawn US\$27.9 million on these facilities (January 31, 2019 - US\$27.9 million).

The International Operations have a US\$40.0 million committed, revolving loan facility for working capital and general business purposes. This loan facility, which matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At January 31, 2020, the Company had drawn US\$0.7 million on these facilities (January 31, 2019 - US\$NIL million). On February 12, 2020, the Company completed the refinancing of the US\$40.0 million loan facility. The new US\$40.0 million loan facility, which matures February 12, 2025, 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.

The Company's lease liabilities are discounted at its incremental borrowing rate, generally calculated from applicable Canadian and U.S. corporate bond yields. At January 31, 2020, lease liabilities reflect a weighted-average risk-free rate of 3.8% (January 31, 2019 - 4.1%) and weighted-average remaining lease term of 9.7 years (January 31, 2019 - 10.0 years).

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, 2020, 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 9 to the Interim Condensed Consolidated Financial Statements.

Cash flow from operating activities and unutilized capacity available on existing loan facilities are expected to be sufficient to fund operating requirements, pension plan contributions, planned sustaining and growth-related capital expenditures as well as anticipated dividends during 2020.

SHAREHOLDER DIVIDENDS

The Board of Directors declared a quarterly dividend of \$0.33 per share to shareholders of record on March 31, 2020, to be paid on April 15, 2020.

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

OTHER HIGHLIGHTS

- A Cost-U-Less store in St Thomas, USVI was re-opened on November 1, 2019 after being completely destroyed by hurricane Irma in the third quarter of 2017.
- A new store in Barrow, Alaska was acquired, remodeled and opened on November 1, 2019, replacing a larger store and a small convenience outlet which were closed on October 31, 2019 as a result of the expiration of the lease.
- A new Giant Tiger store opened in Meadow Lake, Saskatchewan on November 23, 2019.
- A new Motorsports store and repair shop opened in Iqaluit, Nunavut on November 29, 2019.
- A new convenience store opened in Puvirnituq, Quebec on January 2, 2020.

SUBSEQUENT EVENTS

Giant Tiger

On March 12, 2020, the Company and Giant Tiger Stores Limited (“GTSL”) announced they have entered into a definitive asset purchase agreement (the “GTSL Transaction”) for GTSL to acquire 34 of the Company’s 46 Giant Tiger stores (the “Acquired Stores”) for cash consideration of \$45 million payable in \$15 million installments on the second, third and fourth anniversaries of the transaction closing date and, subject to meeting certain profitability milestones, total contingent consideration payable of up to \$22.5 million. Upon closing of the transaction, the Company expects to recognize a pre-tax gain ranging from approximately \$20 million to \$24 million subject to certain working capital adjustments and finalization of the purchase price including the estimation of the contingent consideration.

Of the remaining 12 GT locations, the Company will: (i) retain and operate five key stores in northern market locations, (ii) convert one store to a Valu-Lots clearance center and (iii) close six stores in the second and third quarter of 2020. The closed stores are expected to result in a provision of approximately \$9 million, which will be recorded in the first quarter of 2020. The Acquired Stores and closed stores had annualized sales of \$295 million, an EBIT loss of \$8.6 million and EBITDA of \$0.3 million for the year-ended January 31, 2020.

As a part of the GTSL Transaction, the Company will enter into product supply and distribution agreements with GTSL related to the supply of food-related product by the Company to the Acquired Stores and certain general merchandise and food-related products by GTSL to the Company’s northern stores. These agreements will enable buying and distribution efficiencies for both parties and will provide the Company access to a stronger, expanded general merchandise assortment.

The completion of the GTSL Transaction is subject to the satisfaction of customary closing conditions and is expected to occur in the second quarter of 2020.

Support Office Cost Reduction

On March 12, 2020, the Company announced that it will be reducing administration costs in its Canadian Operations by approximately \$17 million on an annualized basis and that it expects to record a provision of approximately \$5 million in the first quarter of 2020, related primarily to employee severance costs. This cost reduction will largely take effect in the first and second quarters of 2020 and is partially related to recent and ongoing technology investments and the impact of the previously noted GTSL Transaction and related product supply and distribution agreements. The Company plans to re-focus on the core store selling activities in northern Canada and invest in lower retail food pricing to help drive market share growth in this region, beginning with an approximately \$10 million in annualized pricing investment over the next 12-18 months.

STRATEGY

The Company is focused on building a stronger store network with more essential products and services that help our customers to live better and our business to grow within all economic environments. The Company is committed to delivering sustainable, superior total returns with a commitment to downside risk management, disciplined allocation of capital, cash flow optimization and dividend growth.

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

1. In the short-term, our priority is on completing the GTSL Transaction and the Canadian Operations administration cost reductions while beginning to invest in lower food pricing in our northern Canada stores.
2. Other priority work for 2020 and 2021 includes optimizing NSA, our air cargo business, and our shift to a more decentralized operation structure in our International Operations, to be followed by our Canadian business, so that more decisions are made within and closer to the different banners, regions, communities and customers that we serve.
3. Prioritize investment in the Company's "Top Markets", our largest and highest sales and profit potential locations, so that sustaining capital is better balanced with new products and services while allocating more selling space to "Top Categories" which offer the highest everyday convenience and service value to our customers.
4. Complete the roll-out of next generation merchandise and store systems that help optimize the unique elements of our remote retailing business.
5. As the core retail and logistics work is achieved we will begin to put more focus on complimentary growth opportunities that leverage our core remote market capabilities and expertise.

Further information on the Company's strategy is provided in the 2018 Annual Report.

OUTLOOK

The near-term consumer outlook is clouded by the COVID-19 situation. There are no current outbreaks in regions served by the Company however we expect to see softening in tourism-dependent markets like the Caribbean. The Company is monitoring the COVID-19 situation on a daily basis and adjusting people practices as appropriate as well as product sourcing and distribution requirements. As a relied-upon provider of everyday needs to many remote communities, the Company is committed to ensuring continuity of service throughout this challenging period.

The medium and longer term outlook in the Company's core non-urban markets is favourable and aligns with our lower risk product and service focus, augmented by opportunistic investments. Northern Canada's outlook in particular, is buoyed by ongoing government investment within Indigenous communities, resource development, and other public sector capital projects.

A third owned ATR aircraft will be added to NSA's fleet in the second quarter of 2020. This will add redundancy capacity and reduce reliance on more expensive, chartered planes as well as providing more opportunity to grow NSA's third party cargo business. Last year's two Basler aircraft accidents will result in significantly higher insurance expenses for NSA in 2020, within a generally higher cost insurance environment. Actions are underway to mitigate this cost impact and to ensure that NSA has the optimum, fleet model configuration for its scope of business.

The relocation of our International store operations support office from Bellevue, Washington to Anchorage, Alaska and southern Florida to locate our executives and store support teams closer to the markets they serve is complete and is expected to contribute to better market insights and execution. The closure of our main store in Barrow is expected to be partially mitigated by the opening of a smaller store in the community but may negatively impact earnings growth in Alaska over the next three quarters.

In 2019, the Company recorded after-tax insurance related gains of \$13.9 million compared to \$15.4 million in 2018. The settlement of fire insurance claims and the receipt of payments are expected to result in further insurance-related earnings gains in 2020 however, the amount and timing of these gains is uncertain. These gains will be offset by higher insurance costs primarily in Canada and the Caribbean. Global insurance market conditions are becoming more challenging as insurance companies are limiting their capacity for underwriting risks in certain geographic areas such as the Caribbean and northern Canada or in sectors such as the aviation industry. Insurance companies that do provide coverage in these areas require significantly higher insurance premiums and higher self-insured retention levels from companies. These factors are expected to continue to result in higher insurance costs; and, changes in self-insured retention levels may result in greater earnings volatility in the event of future losses. To help mitigate future losses, the Company has completed upgrades on its facilities in the Caribbean to increase resiliency to a category 5 hurricane level as well as undertaken fire prevention audits and upgrading facilities to help reduce the risk of fire related losses in its stores in northern Canada.

In 2020, the Company expects that capital expenditures, including investments in aircraft capacity, will be in the \$70.0 million range (2019 - \$104.3 million) net of expected recoveries on the settlement of fire insurance claims. The timing and amount of 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 - Consolidated¹

(\$ in millions)	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	92 days	92 days	92 days	92 days	92 days	92 days	89 days	89 days
	2019	2018	2019	2018	2019	2018	2019	2018
Sales	\$ 553.1	\$ 532.5	\$ 519.5	\$ 511.5	\$ 527.3	\$ 503.8	\$ 494.5	\$ 465.7
EBITDA²	50.4	44.3	59.3	77.6	51.6	49.6	58.2	46.5
Earnings from operations	26.7	23.2	37.0	56.5	29.6	29.4	37.0	26.9
Net earnings	17.3	14.0	24.8	39.5	17.9	18.6	26.2	18.5
Net earnings attributable to shareholders of the Company	16.3	13.1	24.1	38.3	17.2	17.7	25.1	17.7
Net earnings per share:								
Basic	0.34	0.27	0.49	0.78	0.35	0.37	0.52	0.36
Diluted	0.33	0.27	0.49	0.78	0.35	0.36	0.51	0.36
Adjusted EBITDA²	47.4	49.7	58.8	57.4	53.6	56.3	45.1	45.7
Adjusted net earnings²	15.2	19.3	24.3	23.7	20.7	23.8	15.1	17.5

(1) The Company has adopted IFRS 16 *Leases* (IFRS 16) effective February 1, 2019 using the full retrospective approach and restated 2018 in its interim condensed consolidated financial statements.

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

Restated Selected Financial Information - 2018

The following table compares quarterly results for 2018 previously reported in accordance with IAS 17 *Leases* with the restated amounts under IFRS 16:

(\$ in millions)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2018	2018	2018	2018	2018	2018	2018	2018
	As reported	As restated	As reported	As restated	As reported	As restated	As reported	As restated
Sales	\$ 465.7	\$ 465.7	\$ 503.8	\$ 503.8	\$ 511.5	\$ 511.5	\$ 532.5	\$ 532.5
EBITDA²	39.5	46.5	42.4	49.6	70.5	77.6	36.9	44.3
Earnings from operations	25.6	26.9	27.8	29.4	54.9	56.5	21.6	23.2
Net earnings	18.6	18.5	18.6	18.6	39.5	39.5	13.9	14.0
Net earnings attributable to shareholders of the Company	17.8	17.7	17.6	17.7	38.3	38.3	13.0	13.1
Net earnings per share:								
Basic	0.36	0.36	0.37	0.37	0.78	0.78	0.27	0.27
Diluted	0.36	0.36	0.36	0.36	0.78	0.78	0.27	0.27
Adjusted EBITDA²	38.7	45.7	49.1	56.3	50.3	57.4	42.3	49.7
Adjusted net earnings²	17.6	17.5	23.8	23.8	23.7	23.7	19.3	19.3

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

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There have been no changes in the internal controls over financial reporting during the quarter ended January 31, 2020 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

ACCOUNTING STANDARDS IMPLEMENTED IN 2019

The significant accounting policies are set out in the Company's 2018 Annual Audited Consolidated Financial Statements. These policies have been applied to all periods presented in these interim 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, except for the adoption of IFRS 16 as described below.

New Standards Implemented The Company adopted the amended IFRS 16 *Leases* with a date of initial application of February 1, 2019 using the full retrospective approach. The Company recorded the cumulative effects of initial application in opening retained earnings as at February 1, 2018, the beginning of the comparative period, and restated its results for the three and twelve months ended January 31, 2019. The Company has also restated its consolidated balance sheets as at January 31, 2019 and February 1, 2018.

This standard requires lessees to recognize a lease liability representing the obligation for future lease payments and a right-of-use asset in the consolidated balance sheets for substantially all lease contracts, initially measured at the present value of unavoidable lease payments. Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of the lease liability. Lease payment liabilities do not include variable lease payments that are not based on an index or rate.

Prior to the adoption of IFRS 16, substantially all leases were classified as operating leases based on the Company's assessment that a significant portion of the risks and rewards of ownership were retained by the lessor. Lease payments were recorded in selling, operating and administrative expenses in the consolidated statements of earnings.

Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for its leases of land, buildings and equipment. The nature and timing of leasing expenses have changed as operating lease expenses were replaced by an amortization charge for right-of-use assets and interest expense on lease liabilities. IFRS 16 also changed the presentation of cash flows relating to leases in the Company's consolidated statements of cash flows, but did not cause a difference in the amount of cash transferred between the lease parties.

In applying IFRS 16, the Company has applied the following practical expedients:

Definition of a lease Previously, the Company determined whether an arrangement is or contains a lease under IAS 17. On transition to IFRS 16, the Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases.

Short term leases The Company has elected to apply the recognition exemptions to certain short-term leases.

Significant accounting policy for leases applicable from February 1, 2018 is as follows:

At contract inception, the Company assesses whether a contract is, or contains a lease and recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove or restore the underlying asset, less any lease incentives received.

Subsequent to initial measurement, the Company applies the cost model. Right-of-use assets are subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of their useful life or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. Right-of-use assets may also be reduced by impairment losses and adjusted for remeasurements of the lease liability, as applicable.

The lease liability is initially measured at the present value of the lease payments unpaid at the commencement date using the interest rate implicit in the lease or the Company's incremental borrowing rate. Lease payments are comprised of fixed payments including in-substance fixed payments, variable lease payments based on an index or rate, amounts expected to be payable under residual value guarantees and the exercise price under a purchase option that the Company is reasonably certain to exercise and certain early termination costs. The period over which the lease payments are discounted is the reasonably certain lease term, which may include lease renewal options. Generally, the Company uses its incremental borrowing rate as the discount rate.

Each lease payment is apportioned between the repayment of the lease liability and a finance cost. The finance cost is recognized in interest expense in the consolidated statements of earnings using the effective rate interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in lease term, a change in the assessment of an option to purchase the right-of-use asset or a change in an expected residual value guarantee.

The Company has elected not to recognize right-of-use assets and lease liabilities for certain short-term leases that have a lease term of 12 months or less and leases of low-value assets. Variable lease payments that do not depend on an index or rate are also expensed as incurred. The Company recognizes these lease payments as an expense on a straight-line basis in selling, operating and administrative expenses in the consolidated statements of earnings.

Impacts on consolidated financial statements The following tables summarize the impacts of adopting IFRS 16 on the Company's consolidated financial statements.

Consolidated Statement of Earnings - Three months ended January 31, 2019

(unaudited, \$ in thousands)	Three Months Ended January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	Three Months Ended January 31, 2019 (Restated)
SALES	\$ 532,483	\$ —	\$ 532,483
Cost of sales	(367,162)	—	(367,162)
Gross profit	165,321	—	165,321
Selling, operating and administrative expenses	(143,732)	1,657 (1)	(142,075)
Earnings from operations	21,589	1,657	23,246
Interest expense	(3,890)	(1,438) (2)	(5,328)
Earnings before income taxes	17,699	219	17,918
Income taxes	(3,796)	(157) (3)	(3,953)
NET EARNINGS FOR THE YEAR	\$ 13,903	\$ 62	\$ 13,965
NET EARNINGS ATTRIBUTABLE TO:			
The North West Company Inc.	\$ 13,006	\$ 62	\$ 13,068
Non-controlling interests	897	—	897
TOTAL NET EARNINGS	\$ 13,903	\$ 62	\$ 13,965
NET EARNINGS PER SHARE			
Basic	\$ 0.27	\$ —	\$ 0.27
Diluted	\$ 0.27	\$ —	\$ 0.27

(1) Additional amortization on right-of-use assets less previously recorded operating lease rental expense

(2) Interest expense on lease liabilities

(3) Impact of adjustments to deferred tax assets and liabilities

Consolidated Statement of Earnings - Twelve months ended January 31, 2019

(unaudited, \$ in thousands)	Twelve Months Ended January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	Twelve Months Ended January 31, 2019 (Restated)
SALES	\$ 2,013,486	\$ —	\$ 2,013,486
Cost of sales	(1,372,943)	—	(1,372,943)
Gross profit	640,543	—	640,543
Selling, operating and administrative expenses	(510,635)	6,093 (1)	(504,542)
Earnings from operations	129,908	6,093	136,001
Interest expense	(13,965)	(5,675) (2)	(19,640)
Earnings before income taxes	115,943	418	116,361
Income taxes	(25,311)	(427) (3)	(25,738)
NET EARNINGS FOR THE YEAR	\$ 90,632	\$ (9)	\$ 90,623
NET EARNINGS ATTRIBUTABLE TO			
The North West Company Inc.	\$ 86,748	\$ (9)	\$ 86,739
Non-controlling interests	3,884	—	3,884
TOTAL NET EARNINGS	\$ 90,632	(9)	\$ 90,623
NET EARNINGS PER SHARE			
Basic	\$ 1.78	\$ —	\$ 1.78
Diluted	\$ 1.77	\$ —	\$ 1.77

(1) Additional amortization on right-of-use assets less previously recorded operating lease rental expense

(2) Interest expense on lease liabilities

(3) Impact of adjustments to deferred tax assets and liabilities

Condensed Consolidated Balance Sheet - January 31, 2019

(unaudited, \$ in thousands)	January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	January 31, 2019 (Restated)
CURRENT ASSETS	\$ 376,829	\$ (532) (1)	\$ 376,297
NON-CURRENT ASSETS			
Property and equipment	514,946	—	514,946
Right-of-use assets	—	127,794 (2)	127,794
Goodwill	45,203	—	45,203
Intangible assets	39,199	—	39,199
Deferred tax assets	32,909	1,796 (3)	34,705
Other assets	13,835	(2,118) (1)	11,717
	646,092	127,472	773,564
TOTAL ASSETS	\$ 1,022,921	\$ 126,940	\$ 1,149,861
CURRENT LIABILITIES	\$ 176,881	\$ 20,057 (4)	\$ 196,938
NON-CURRENT LIABILITIES			
Long-term debt	365,857	—	365,857
Long-term lease liabilities	—	118,112 (4)	118,112
Defined benefit plan obligation	28,969	—	28,969
Deferred tax liabilities	9,007	(612) (3)	8,395
Other long-term liabilities	21,103	(529) (5)	20,574
	424,936	116,971	541,907
TOTAL LIABILITIES	601,817	137,028	738,845
SHAREHOLDERS' EQUITY			
Share capital	173,681	—	173,681
Contributed surplus	3,530	—	3,530
Retained earnings	211,191	(9,823) (6)	201,368
Accumulated other comprehensive income	20,132	(265)	19,867
Equity attributable to The North West Company Inc.	408,534	(10,088)	398,446
Non-controlling interests	12,570	—	12,570
TOTAL EQUITY	421,104	(10,088)	411,016
TOTAL LIABILITIES & EQUITY	\$ 1,022,921	\$ 126,940	\$ 1,149,861

(1) Prepaid rent removed and incorporated into lease liability calculation

(2) Capitalization of right-of-use assets less both tenant inducements and step-lease accruals which have been incorporated into right-of-use asset and lease liability calculation

(3) Deferred tax impact of transition adjustments

(4) Recognition of lease liabilities less tenant inducements

(5) Removal of tenant inducements and step-lease accruals incorporated into right-of-use asset and lease liability calculation

(6) Cumulative after tax impact of differences described above on retained earnings

Condensed Consolidated Balance Sheet - February 1, 2018

(unaudited, \$ in thousands)	January 31, 2018 (Previously Reported)	Impact: Adoption of IFRS 16	February 1, 2018 (Restated)
CURRENT ASSETS	\$ 335,003	\$ (23) (1)	\$ 334,980
NON-CURRENT ASSETS			
Property and equipment	469,993	—	469,993
Right-of-use assets	—	115,844 (2)	115,844
Goodwill	41,231	—	41,231
Intangible assets	37,628	—	37,628
Deferred tax assets	34,450	2,145 (3)	36,595
Other assets	12,643	(1,845) (1)	10,798
	595,945	116,144	712,089
TOTAL ASSETS	\$ 930,948	\$ 116,121	\$ 1,047,069
CURRENT LIABILITIES	\$ 171,212	\$ 21,702 (4)	\$ 192,914
NON-CURRENT LIABILITIES			
Long-term debt	313,549	—	313,549
Long-term lease liability	—	105,541 (4)	105,541
Defined benefit plan obligation	34,095	—	34,095
Deferred tax liabilities	6,468	(607) (3)	5,861
Other long-term liabilities	23,468	(701) (5)	22,767
	377,580	104,233	481,813
TOTAL LIABILITIES	548,792	125,935	674,727
SHAREHOLDERS' EQUITY			
Share capital	172,619	—	172,619
Contributed surplus	2,570	—	2,570
Retained earnings	181,844	(9,814) (6)	172,030
Accumulated other comprehensive income	12,918	—	12,918
Equity attributable to The North West Company Inc.	369,951	(9,814)	360,137
Non-controlling interest	12,205	—	12,205
TOTAL EQUITY	382,156	(9,814)	372,342
TOTAL LIABILITIES & EQUITY	\$ 930,948	\$ 116,121	\$ 1,047,069

(1) Prepaid rent removed and incorporated into lease liability calculation

(2) Capitalization of right-of-use assets less both tenant inducements and step-lease accruals which have been incorporated into right-of-use asset and lease liability calculation

(3) Deferred tax impact of transition adjustments

(4) Recognition of lease liabilities less tenant inducements

(5) Removal of tenant inducements and step-lease accruals incorporated into right-of-use asset and lease liability calculation

(6) Cumulative after tax impact of differences described above on retained earnings

Condensed Consolidated Statements of Cash Flow - Three months ended January 31, 2019

(unaudited, \$ in thousands)	Three Months Ended January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	Three Months Ended January 31, 2019 (Restated)
CASH PROVIDED BY (USED IN)			
Operating activities			
Net earnings for the period	\$ 13,903	\$ 62 (1)	\$ 13,965
Adjustments for:			
Amortization	15,323	5,721 (2)	21,044
Provision for income taxes	3,796	157	3,953
Interest expense	3,890	1,438 (3)	5,328
Equity settled share option expense	1,029	—	1,029
Gain on partial insurance settlement	—	—	—
Taxes paid	(8,996)	—	(8,996)
Loss on disposal of property and equipment	(443)	48 (4)	(395)
	28,502	7,426	35,928
Change in non-cash working capital	19,427	(68)	19,359
Change in other non-cash items	(258)	—	(258)
Cash from operating activities	47,671	7,358	55,029
Investing activities			
Cash used in investing activities	(13,337)	—	(13,337)
Financing activities			
Net increase in long-term debt	(28,262)	—	(28,262)
Payment of lease liabilities, principal	—	(5,920) (5)	(5,920)
Payment of lease liabilities, interest	—	(1,438) (6)	(1,438)
Dividends	(15,587)	—	(15,587)
Dividends to non-controlling interests	(3,761)	—	(3,761)
Interest paid	(3,966)	—	(3,966)
Cash from used in financing activities	(51,576)	(7,358)	(58,934)
Effect of foreign exchange rates on cash	(256)	—	(256)
NET CHANGE IN CASH	(17,498)	—	(17,498)
Cash, beginning of period	55,946	—	55,946
CASH, END OF PERIOD	\$ 38,448	\$ —	\$ 38,448

(1) See Consolidated Statements of Earnings - January 31, 2019 for a description of IFRS 16 adjustments that impact net earnings for period

(2) Amortization of right-of-use assets

(3) Interest expense on lease liabilities

(4) Loss on leases terminated in period

(5) Payment of lease liabilities

(6) Interest paid on lease liabilities

Condensed Consolidated Statements of Cash Flow - Twelve months ended January 31, 2019

(unaudited, \$ in thousands)	Twelve Months Ended January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	Twelve Months Ended January 31, 2019 (Restated)
CASH PROVIDED BY (USED IN)			
Operating activities			
Net earnings for the period	\$ 90,632	\$ (9) (1)	\$ 90,623
Adjustments for:			
Amortization	59,435	22,586 (2)	82,021
Provision for income taxes	25,311	427	25,738
Interest expense	13,965	5,675 (3)	19,640
Equity settled share option expense	2,022	—	2,022
Gain on partial insurance settlement	(16,955)	—	(16,955)
Taxes paid	(26,446)	—	(26,446)
Loss on disposal of property and equipment	1,232	(42) (4)	1,190
	149,196	28,637	177,833
Change in non-cash working capital	(20,792)	(32)	(20,824)
Change in other non-cash items	(1,284)	—	(1,284)
Cash from operating activities	127,120	28,605	155,725
Investing activities			
Cash used in investing activities	(80,793)	—	(80,793)
Financing activities			
Net increase in long-term debt	44,785	—	44,785
Payment of lease liabilities, principal	—	(22,930) (5)	(22,930)
Payment of lease liabilities, interest	—	(5,675) (6)	(5,675)
Dividends	(62,329)	—	(62,329)
Dividends to non-controlling interests	(3,954)	—	(3,954)
Interest paid	(12,254)	—	(12,254)
Cash from used in financing activities	(33,752)	(28,605)	(62,357)
Effect of foreign exchange rates on cash	713	—	713
NET CHANGE IN CASH	13,288	—	13,288
Cash, beginning of period	25,160	—	25,160
CASH, END OF PERIOD	\$ 38,448	\$ —	\$ 38,448

(1) See Consolidated Statements of Earnings - January 31, 2019 for a description of IFRS 16 adjustments that impact net earnings for period

(2) Amortization of right-of-use assets

(3) Interest expense on lease liabilities

(4) Loss on leases terminated in period

(5) Payment of lease liabilities

(6) Interest paid on lease liabilities

New Standards Implemented (continued) Effective February 1, 2019, the Company adopted IFRIC *Interpretation 23* and also adopted amendments to the following standards: IFRS 3 *Business Combinations*; IAS 12 *Income Taxes*; IAS 23 *Borrowing Costs*; and IAS 19 *Employee Benefits* as required by the IASB. A summary of these changes is as follows:

- IFRIC *Interpretation 23* provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments;
- IFRS 3 *Business Combinations* clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12 *Income Taxes* specifies that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits (i.e. in net earnings, other comprehensive income or equity);
- IAS 23 *Borrowing Costs* clarifies that specific borrowings to finance the construction of a qualifying asset should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed; and
- IAS 19 *Employee Benefits* amendments require a company to update its assumptions for the remainder of the reporting period after a plan change. Amendments have also been included clarifying the effect of a plan amendment on the asset ceiling.

The adoption of these amendments did not have a material impact on the Company.

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, 2020, and have not been applied in preparing the Company's Interim Condensed Consolidated Financial Statements.

Definition of Material In May 2017, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments clarified the definition of material. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make. The amendments are effective for the Company on February 1, 2020 and are required to be applied prospectively. The implementation of these amendments is not expected to have a significant impact on the Company.

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

NON-GAAP MEASURES

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

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

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

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

Reconciliation of consolidated net earnings to EBITDA and adjusted EBITDA:

(\$ in thousands)	Fourth Quarter		Year-to-Date	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Net earnings	\$ 17,263	\$ 13,965	\$ 86,273	\$ 90,623
Add: Amortization	23,699	21,044	89,222	82,021
Interest expense	5,632	5,328	20,948	19,640
Income taxes	3,839	3,953	23,132	25,738
EBITDA	\$ 50,433	\$ 44,290	\$ 219,575	\$ 218,022
Less: Insurance gains ⁽²⁾	(3,205)	—	(18,170)	(20,053)
Share-based compensation expense ⁽³⁾	190	5,413	3,550	11,204
Adjusted EBITDA	\$ 47,418	\$ 49,703	\$ 204,955	\$ 209,173

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in the Accounting Standard Changes Implemented in 2019 section.

(2) The Company's 2018 insurance gains for the year have been updated to include a \$3.1 million gain in Canadian Operations. This amount had previously been excluded from adjusted EBITDA because it was comparable to an insurance gain recorded in the third quarter of 2017.

(3) Share-based compensation expense includes all share-based compensation as indicated in Note 11 and Note 14 to the Company's Interim Condensed Consolidated Financial Statements. In prior quarters, the adjustment for share-based compensation only included stock options. This change has been made on a comparative basis.

For EBITDA information by business segment, see Note 4 to the Company's Interim Condensed Consolidated Financial Statements.

Reconciliation of consolidated net earnings to adjusted net earnings:

(\$ in thousands)	Fourth Quarter		Year-to-Date	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Net earnings	\$ 17,263	\$ 13,965	\$ 86,273	\$ 90,623
Less: Insurance gains, net of tax ⁽²⁾	(2,340)	—	(13,887)	(15,439)
Add: Share-based compensation expense, net of tax ⁽³⁾	305	5,365	2,991	9,138
Adjusted net earnings	\$ 15,228	\$ 19,330	\$ 75,377	\$ 84,322

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in the Accounting Standard Changes Implemented in 2019 section.

(2) The Company's 2018 insurance gains for the year, net of tax have been updated to include a \$2.3 million gain in its Canadian Operations. This amount had previously been excluded from adjusted net earnings because it was comparable to an insurance gain recorded in the third quarter of 2017.

(3) Share-based compensation expense includes the after-tax impact of all share-based compensation as indicated in Note 11 and Note 14 to the Company's Interim Condensed Consolidated Financial Statements. In prior quarters, the adjustment for share-based compensation only included stock options. This change has been made on a comparative basis.

The Company recorded gains on fire, hurricane Irma and aircraft related insurance claims. These gains were due to the difference between the replacement cost of the assets destroyed and their book value and also for the recovery of business interruption losses on hurricane claims.

Certain share-based compensation costs are presented as liabilities on the Company's consolidated balance sheets. The Company is exposed to market price fluctuations in its share price through these share-based compensation costs. These liabilities are recorded at fair value at each reporting date based on the market price of the Company's shares at the end of each reporting period with the changes in fair value recorded in selling, operating and administrative expenses. Further information on share-based compensation is provided in Note 11 and Note 14 to the Company's Interim Condensed Consolidated Financial Statements.

Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the Company's Interim Condensed Consolidated Financial Statements and notes to the 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 12, 2020.

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, including the closing of the GTSL Transaction which is subject to commercial risks and closing conditions that are outside the control of the Company, such as various third party consents which may cause the GTSL Transaction to not close on the terms and conditions negotiated or at all. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete capital projects, strategic transactions and integrate acquisitions, the Company's ability to realize benefits from investments in information technology ("IT") and systems, including IT system implementations or unanticipated results from these initiatives and the Company's success in anticipating and managing the foregoing risks. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other risks are outlined in the Risk Management section of the 2018 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 Sheet

(unaudited, \$ in thousands)	January 31, 2020	January 31, 2019 ⁽¹⁾	February 1, 2018 ⁽¹⁾
CURRENT ASSETS			
Cash	\$ 28,187	\$ 38,448	\$ 25,160
Accounts receivable (Note 5)	104,869	90,323	80,765
Inventories (Note 6)	248,040	236,317	222,072
Prepaid expenses	12,375	11,209	6,983
Income tax receivable (Note 13)	6,122	—	—
	399,593	376,297	334,980
NON-CURRENT ASSETS			
Property and equipment	555,075	514,946	469,993
Right-of-use assets (Note 3, 10)	127,870	127,794	115,844
Goodwill	49,569	45,203	41,231
Intangible assets	41,608	39,199	37,628
Deferred tax assets	28,233	34,705	36,595
Other assets	13,588	11,717	10,798
	815,943	773,564	712,089
TOTAL ASSETS	\$ 1,215,536	\$ 1,149,861	\$ 1,047,069
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 173,058	\$ 173,947	\$ 168,683
Current portion of long-term debt (Note 9)	1,850	900	—
Current portion of lease liabilities (Note 3, 10)	19,176	21,836	23,185
Income tax payable (Note 13)	—	255	1,046
	194,084	196,938	192,914
NON-CURRENT LIABILITIES			
Long-term debt (Note 9)	409,115	365,857	313,549
Lease liabilities (Note 3, 10)	119,928	118,112	105,541
Defined benefit plan obligation (Note 11, 19)	40,138	28,969	34,095
Deferred tax liabilities	8,750	8,395	5,861
Other long-term liabilities	16,551	20,574	22,767
	594,482	541,907	481,813
TOTAL LIABILITIES	788,566	738,845	674,727
SHAREHOLDERS' EQUITY			
Share capital (Note 7)	173,681	173,681	172,619
Contributed surplus	8,650	3,530	2,570
Retained earnings	211,252	201,368	172,030
Accumulated other comprehensive income	20,315	19,867	12,918
Equity attributable to The North West Company Inc.	413,898	398,446	360,137
Non-controlling interests	13,072	12,570	12,205
TOTAL EQUITY	426,970	411,016	372,342
TOTAL LIABILITIES & EQUITY	\$ 1,215,536	\$ 1,149,861	\$ 1,047,069

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3.

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Earnings

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019 ⁽¹⁾	Twelve Months Ended January 31, 2020	Twelve Months Ended January 31, 2019 ⁽¹⁾
(unaudited, \$ in thousands, except per share amounts)				
SALES	\$ 553,061	\$ 532,483	\$ 2,094,393	\$ 2,013,486
Cost of sales	(383,907)	(367,162)	(1,429,995)	(1,372,943)
Gross profit	169,154	165,321	664,398	640,543
Selling, operating and administrative expenses (Notes 11, 17)	(142,420)	(142,075)	(534,045)	(504,542)
Earnings from operations	26,734	23,246	130,353	136,001
Interest expense (Note 12)	(5,632)	(5,328)	(20,948)	(19,640)
Earnings before income taxes	21,102	17,918	109,405	116,361
Income taxes (Note 13)	(3,839)	(3,953)	(23,132)	(25,738)
NET EARNINGS FOR THE PERIOD	\$ 17,263	\$ 13,965	\$ 86,273	\$ 90,623
NET EARNINGS ATTRIBUTABLE TO				
The North West Company Inc.	\$ 16,344	\$ 13,068	\$ 82,724	\$ 86,739
Non-controlling interests	919	897	3,549	3,884
TOTAL NET EARNINGS	\$ 17,263	\$ 13,965	\$ 86,273	\$ 90,623
NET EARNINGS PER SHARE				
Basic	\$ 0.34	\$ 0.27	\$ 1.70	\$ 1.78
Diluted	\$ 0.33	\$ 0.27	\$ 1.68	\$ 1.77
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)				
Basic	48,751	48,709	48,751	48,697
Diluted	49,395	49,169	49,375	49,144

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3.

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

(unaudited, \$ in thousands)	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019 ⁽¹⁾	Twelve Months Ended January 31, 2020	Twelve Months Ended January 31, 2019 ⁽¹⁾
NET EARNINGS FOR THE PERIOD	\$ 17,263	\$ 13,965	\$ 86,273	\$ 90,623
Other comprehensive income/(loss), net of tax:				
Items that may be reclassified to net earnings:				
Exchange differences on translation of foreign controlled subsidiaries	586	1,406	828	7,784
Items that will not be subsequently reclassified to net earnings:				
Remeasurements of defined benefit plans (Note 19)	(1,474)	4,952	(8,456)	4,952
Remeasurements of defined benefit plans of equity investee	(33)	(24)	(33)	(24)
Total other comprehensive income/(loss), net of tax	(921)	6,334	(7,661)	12,712
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 16,342	\$ 20,299	\$ 78,612	\$ 103,335
OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO				
The North West Company Inc.	\$ (1,269)	\$ 5,499	\$ (8,041)	\$ 11,877
Non-controlling interests	348	835	380	835
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	\$ (921)	\$ 6,334	\$ (7,661)	\$ 12,712
COMPREHENSIVE INCOME ATTRIBUTABLE TO				
The North West Company Inc.	\$ 15,075	\$ 18,567	\$ 74,683	\$ 98,616
Non-controlling interests	1,267	1,732	3,929	4,719
TOTAL COMPREHENSIVE INCOME	\$ 16,342	\$ 20,299	\$ 78,612	\$ 103,335

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3.

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	Non-Controlling Interests	Total Equity
Balance at January 31, 2019, previously reported	\$ 173,681	\$ 3,530	\$ 211,191	\$ 20,132	\$ 408,534	\$ 12,570	\$ 421,104
Impact of change in accounting policy ⁽²⁾	—	—	(9,823)	(265)	(10,088)	—	(10,088)
Restated balance at January 31, 2019 ⁽²⁾	173,681	3,530	201,368	19,867	398,446	12,570	411,016
Net earnings for the period	—	—	82,724	—	82,724	3,549	86,273
Other comprehensive income/(loss) (Note 19)	—	—	(8,456)	448	(8,008)	380	(7,628)
Other comprehensive loss of equity investee	—	—	(33)	—	(33)	—	(33)
Comprehensive income	—	—	74,235	448	74,683	3,929	78,612
Equity settled share-based payments (Note 14)	—	5,120	—	—	5,120	—	5,120
Dividends (Note 8)	—	—	(64,351)	—	(64,351)	(3,427)	(67,778)
	—	5,120	(64,351)	—	(59,231)	(3,427)	(62,658)
Balance at January 31, 2020	\$ 173,681	\$ 8,650	\$ 211,252	\$ 20,315	\$ 413,898	\$ 13,072	\$ 426,970
Balance at January 31, 2018, previously reported	\$ 172,619	\$ 2,570	\$ 181,844	\$ 12,918	\$ 369,951	\$ 12,205	\$ 382,156
Impact of change in accounting policy ⁽²⁾	—	—	(9,814)	—	(9,814)	—	(9,814)
Restated balance at February 1, 2018 ⁽²⁾	172,619	2,570	172,030	12,918	360,137	12,205	372,342
Restated net earnings for the period ⁽²⁾	—	—	86,739	—	86,739	3,884	90,623
Other comprehensive income	—	—	4,952	6,949	11,901	835	12,736
Other comprehensive loss of equity investee	—	—	(24)	—	(24)	—	(24)
Restated comprehensive income ⁽²⁾	—	—	91,667	6,949	98,616	4,719	103,335
Acquisition of subsidiary with non-controlling interests	—	—	—	—	—	(400)	(400)
Equity settled share-based payments (Note 14)	—	2,022	—	—	2,022	—	2,022
Dividends (Note 8)	—	—	(62,329)	—	(62,329)	(3,954)	(66,283)
Issuance of shares (Note 7)	1,062	(1,062)	—	—	—	—	—
	1,062	960	(62,329)	—	(60,307)	(4,354)	(64,661)
Balance at January 31, 2019, as restated ⁽²⁾	\$ 173,681	\$ 3,530	\$ 201,368	\$ 19,867	\$ 398,446	\$ 12,570	\$ 411,016

(1) Accumulated Other Comprehensive Income

(2) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3.

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Cash Flows

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019 ⁽¹⁾	Twelve Months Ended January 31, 2020	Twelve Months Ended January 31, 2019 ⁽¹⁾
(unaudited, \$ in thousands)				
CASH PROVIDED BY (USED IN)				
Operating activities				
Net earnings for the period	\$ 17,263	\$ 13,965	\$ 86,273	\$ 90,623
Adjustments for:				
Amortization	23,699	21,044	89,222	82,021
Provision for income taxes (Note 13)	3,839	3,953	23,132	25,738
Interest expense (Note 12)	5,632	5,328	20,948	19,640
Equity settled share-based compensation (Note 14)	1,251	1,029	5,120	2,022
Insurance proceeds, property and equipment	(2,276)	—	(7,790)	(16,955)
Taxes paid	(5,327)	(8,996)	(19,916)	(26,446)
(Gain)/loss on disposal of property and equipment	(357)	(395)	32	1,190
	43,724	35,928	197,021	177,833
Change in non-cash working capital	5,379	19,359	(28,670)	(20,824)
Change in other non-cash items	(783)	(258)	(7,234)	(1,284)
Cash from operating activities	48,320	55,029	161,117	155,725
Investing activities				
Purchase of property and equipment	(26,563)	(28,903)	(111,305)	(93,555)
Business acquisitions	—	—	—	(400)
Intangible asset additions	(4,430)	(1,279)	(10,300)	(9,664)
Proceeds from disposal of property and equipment	661	1,286	705	4,033
Insurance proceeds, property and equipment	11,114	15,559	16,628	18,793
Cash used in investing activities	(19,218)	(13,337)	(104,272)	(80,793)
Financing activities				
Net increase (decrease) in long-term debt (Note 9)	(22,135)	(28,262)	43,018	44,785
Payment of lease liabilities, principal	(6,178)	(5,920)	(21,834)	(22,930)
Payment of lease liabilities, interest	(1,396)	(1,438)	(5,560)	(5,675)
Dividends (Note 8)	(16,089)	(15,587)	(64,351)	(62,329)
Dividends to non-controlling interests (Note 8)	(3,427)	(3,761)	(3,427)	(3,954)
Interest paid	(3,810)	(3,966)	(15,082)	(12,254)
Cash used in financing activities	(53,035)	(58,934)	(67,236)	(62,357)
Effect of foreign exchange rates on cash	125	(256)	130	713
NET CHANGE IN CASH	(23,808)	(17,498)	(10,261)	13,288
Cash, beginning of period	51,995	55,946	38,448	25,160
CASH, END OF PERIOD	\$ 28,187	\$ 38,448	\$ 28,187	\$ 38,448

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3. 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, Canada.

The Company has two reportable geographical segments, Canada and International. The International segment consists largely 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 12, 2020.

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 2018 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, as applicable:

- Liabilities for share-based payment plans (Note 14)
- 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 2018 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 2018 Annual Audited Consolidated Financial Statements. These policies have been applied to all periods presented in these interim 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, except for the adoption of IFRS 16 as described below.

New Standards Implemented The Company adopted the amended IFRS 16 *Leases* with a date of initial application of February 1, 2019 using the full retrospective approach. The Company recorded the cumulative effects of initial application in opening retained earnings as at February 1, 2018, the beginning of the comparative period, and restated its results for the three and twelve months ended January 31, 2019. The Company has also restated its consolidated balance sheets as at January 31, 2019 and February 1, 2018.

This standard requires lessees to recognize a lease liability representing the obligation for future lease payments and a right-of-use asset in the consolidated balance sheets for substantially all lease contracts, initially measured at the present value of unavoidable lease payments. Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of the lease liability. Lease payment liabilities do not include variable lease payments that are not based on an index or rate.

Prior to the adoption of IFRS 16, substantially all leases were classified as operating leases based on the Company's assessment that a significant portion of the risks and rewards of ownership were retained by the lessor. Lease payments were recorded in selling, operating and administrative expenses in the consolidated statements of earnings.

Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for its leases of land, buildings, equipment and aircraft. The nature and timing of leasing expenses have changed as operating lease expenses were replaced by an amortization charge for right-of-use assets and interest expense on lease liabilities. IFRS 16 also changed the presentation of cash flows relating to leases in the Company's consolidated statements of cash flows, but did not cause a difference in the amount of cash transferred between the lease parties.

In applying IFRS 16, the Company has applied the following practical expedients:

Definition of a lease Previously, the Company determined whether an arrangement is or contains a lease under IAS 17. On transition to IFRS 16, the Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases.

Short-term leases The Company has elected to apply the recognition exemptions to certain short-term leases.

Significant accounting policy for leases applicable from February 1, 2018 is as follows:

At contract inception, the Company assesses whether a contract is, or contains a lease and recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove or restore the underlying asset, less any lease incentives received.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent to initial measurement, the Company applies the cost model. Right-of-use assets are subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of their useful life or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. Right-of-use assets may also be reduced by impairment losses and adjusted for remeasurements of the lease liability, as applicable.

The lease liability is initially measured at the present value of the lease payments unpaid at the commencement date using the interest rate implicit in the lease or the Company's incremental borrowing rate. Lease payments are comprised of fixed payments including in-substance fixed payments, variable lease payments based on an index or rate, amounts expected to be payable under residual value guarantees and the exercise price under a purchase option that the Company is reasonably certain to exercise and certain early termination costs. The period over which the lease payments are discounted is the reasonably certain lease term, which may include lease renewal options. Generally, the Company uses its incremental borrowing rate as the discount rate.

Each lease payment is apportioned between the repayment of the lease liability and a finance cost. The finance cost is recognized in interest expense in the consolidated statements of earnings using the effective rate interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in lease term, a change in the assessment of an option to purchase the right-of-use asset or a change in an expected residual value guarantee.

The Company has elected not to recognize right-of-use assets and lease liabilities for certain short-term leases that have a lease term of 12 months or less and leases of low-value assets. Variable lease payments that do not depend on an index or rate are also expensed as incurred. The Company recognizes these lease payments as an expense on a straight-line basis in selling, operating and administrative expenses in the consolidated statements of earnings.

Impacts on consolidated financial statements The following tables summarize the impacts of adopting IFRS 16 on the Company's consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3(a) Consolidated Statement of Earnings - Three Months Ended January 31, 2019

(unaudited, \$ in thousands)	Three Months Ended January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	Three Months Ended January 31, 2019 (Restated)
SALES	\$ 532,483	\$ —	\$ 532,483
Cost of sales	(367,162)	—	(367,162)
Gross profit	165,321	—	165,321
Selling, operating and administrative expenses	(143,732)	1,657 (1)	(142,075)
Earnings from operations	21,589	1,657	23,246
Interest expense	(3,890)	(1,438) (2)	(5,328)
Earnings before income taxes	17,699	219	17,918
Income taxes	(3,796)	(157) (3)	(3,953)
NET EARNINGS FOR THE YEAR	\$ 13,903	\$ 62	\$ 13,965
NET EARNINGS ATTRIBUTABLE TO			
The North West Company Inc.	\$ 13,006	\$ 62	\$ 13,068
Non-controlling interests	897	—	897
TOTAL NET EARNINGS	\$ 13,903	\$ 62	\$ 13,965
NET EARNINGS PER SHARE			
Basic	\$ 0.27	\$ —	\$ 0.27
Diluted	\$ 0.27	\$ —	\$ 0.27

(1) Additional amortization on right-of-use assets less previously recorded operating lease rental expense

(2) Interest expense on lease liabilities

(3) Impact of adjustments to deferred tax assets and liabilities

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3(b) Consolidated Statement of Earnings - Twelve Months Ended January 31, 2019

(unaudited, \$ in thousands)	Twelve Months Ended January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	Twelve Months Ended January 31, 2019 (Restated)
SALES	\$ 2,013,486	\$ —	\$ 2,013,486
Cost of sales	(1,372,943)	—	(1,372,943)
Gross profit	640,543	—	640,543
Selling, operating and administrative expenses	(510,635)	6,093 (1)	(504,542)
Earnings from operations	129,908	6,093	136,001
Interest expense	(13,965)	(5,675) (2)	(19,640)
Earnings before income taxes	115,943	418	116,361
Income taxes	(25,311)	(427) (3)	(25,738)
NET EARNINGS FOR THE YEAR	\$ 90,632	\$ (9)	\$ 90,623
NET EARNINGS ATTRIBUTABLE TO			
The North West Company Inc.	\$ 86,748	\$ (9)	\$ 86,739
Non-controlling interests	3,884	—	3,884
TOTAL NET EARNINGS	\$ 90,632	\$ (9)	\$ 90,623
NET EARNINGS PER SHARE			
Basic	\$ 1.78	\$ —	\$ 1.78
Diluted	\$ 1.77	\$ —	\$ 1.77

(1) Additional amortization on right-of-use assets less previously recorded operating lease rental expense

(2) Interest expense on lease liabilities

(3) Impact of adjustments to deferred tax assets and liabilities

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3(c) Condensed Consolidated Balance Sheet - January 31, 2019

(unaudited, \$ in thousands)	January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	January 31, 2019 (Restated)
CURRENT ASSETS	\$ 376,829	\$ (532) (1)	\$ 376,297
NON-CURRENT ASSETS			
Property and equipment	514,946	—	514,946
Right-of-use assets	—	127,794 (2)	127,794
Goodwill	45,203	—	45,203
Intangible assets	39,199	—	39,199
Deferred tax assets	32,909	1,796 (3)	34,705
Other assets	13,835	(2,118) (1)	11,717
	646,092	127,472	773,564
TOTAL ASSETS	\$ 1,022,921	\$ 126,940	\$ 1,149,861
CURRENT LIABILITIES	\$ 176,881	\$ 20,057 (4)	\$ 196,938
NON-CURRENT LIABILITIES			
Long-term debt	365,857	—	365,857
Long-term lease liabilities	—	118,112 (4)	118,112
Defined benefit plan obligation	28,969	—	28,969
Deferred tax liabilities	9,007	(612) (3)	8,395
Other long-term liabilities	21,103	(529) (5)	20,574
	424,936	116,971	541,907
TOTAL LIABILITIES	601,817	137,028	738,845
SHAREHOLDERS' EQUITY			
Share capital	173,681	—	173,681
Contributed surplus	3,530	—	3,530
Retained earnings	211,191	(9,823) (6)	201,368
Accumulated other comprehensive income	20,132	(265)	19,867
Equity attributable to The North West Company Inc.	408,534	(10,088)	398,446
Non-controlling interests	12,570	—	12,570
TOTAL EQUITY	421,104	(10,088)	411,016
TOTAL LIABILITIES & EQUITY	\$ 1,022,921	\$ 126,940	\$ 1,149,861

(1) Prepaid rent removed and incorporated into lease liability calculation

(2) Capitalization of right-of-use assets less both tenant inducements and step-lease accruals which have been incorporated into right-of-use asset and lease liability calculation

(3) Deferred tax impact of transition adjustments

(4) Recognition of lease liabilities less tenant inducements

(5) Removal of tenant inducements and step-lease accruals incorporated into right-of-use asset and lease liability calculation

(6) Cumulative after tax impact of differences described above on retained earnings

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3(d) Condensed Consolidated Balance Sheet - February 1, 2018

(unaudited, \$ in thousands)	January 31, 2018 (Previously Reported)	Impact: Adoption of IFRS 16	February 1, 2018 (Restated)
CURRENT ASSETS	\$ 335,003	\$ (23) (1)	\$ 334,980
NON-CURRENT ASSETS			
Property and equipment	469,993	—	469,993
Right-of-use assets	—	115,844 (2)	115,844
Goodwill	41,231	—	41,231
Intangible assets	37,628	—	37,628
Deferred tax assets	34,450	2,145 (3)	36,595
Other assets	12,643	(1,845) (1)	10,798
	595,945	116,144	712,089
TOTAL ASSETS	\$ 930,948	\$ 116,121	\$ 1,047,069
CURRENT LIABILITIES	\$ 171,212	\$ 21,702 (4)	\$ 192,914
NON-CURRENT LIABILITIES			
Long-term debt	313,549	—	313,549
Long-term lease liability	—	105,541 (4)	105,541
Defined benefit plan obligation	34,095	—	34,095
Deferred tax liabilities	6,468	(607) (3)	5,861
Other long-term liabilities	23,468	(701) (5)	22,767
	377,580	104,233	481,813
TOTAL LIABILITIES	548,792	125,935	674,727
SHAREHOLDERS' EQUITY			
Share capital	172,619	—	172,619
Contributed surplus	2,570	—	2,570
Retained earnings	181,844	(9,814) (6)	172,030
Accumulated other comprehensive income	12,918	—	12,918
Equity attributable to The North West Company Inc.	369,951	(9,814)	360,137
Non-controlling interest	12,205	—	12,205
TOTAL EQUITY	382,156	(9,814)	372,342
TOTAL LIABILITIES & EQUITY	\$ 930,948	\$ 116,121	\$ 1,047,069

(1) Prepaid rent removed and incorporated into lease liability calculation

(2) Capitalization of right-of-use assets less both tenant inducements and step-lease accruals which have been incorporated into right-of-use asset and lease liability calculation

(3) Deferred tax impact of transition adjustments

(4) Recognition of lease liabilities less tenant inducements

(5) Removal of tenant inducements and step-lease accruals incorporated into right-of-use asset and lease liability calculation

(6) Cumulative after tax impact of differences described above on retained earnings

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3(e) Condensed Consolidated Statement of Cash Flows - Three Months Ended January 31, 2019

(unaudited, \$ in thousands)	Three Months Ended January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	Three Months Ended January 31, 2019 (Restated)
CASH PROVIDED BY (USED IN)			
Operating activities			
Net earnings for the period	\$ 13,903	\$ 62 (1)	\$ 13,965
Adjustments for:			
Amortization	15,323	5,721 (2)	21,044
Provision for income taxes	3,796	157	3,953
Interest expense	3,890	1,438 (3)	5,328
Equity settled share option expense	1,029	—	1,029
Gain on partial insurance settlement	—	—	—
Taxes paid	(8,996)	—	(8,996)
Loss on disposal of property and equipment	(443)	48 (4)	(395)
	28,502	7,426	35,928
Change in non-cash working capital	19,427	(68)	19,359
Change in other non-cash items	(258)	—	(258)
Cash from operating activities	47,671	7,358	55,029
Investing activities			
Cash used in investing activities	(13,337)	—	(13,337)
Financing activities			
Net increase in long-term debt	(28,262)	—	(28,262)
Payment of lease liabilities, principal	—	(5,920) (5)	(5,920)
Payment of lease liabilities, interest	—	(1,438) (6)	(1,438)
Dividends	(15,587)	—	(15,587)
Dividends to non-controlling interests	(3,761)	—	(3,761)
Interest paid	(3,966)	—	(3,966)
Cash from used in financing activities	(51,576)	(7,358)	(58,934)
Effect of foreign exchange rates on cash	(256)	—	(256)
NET CHANGE IN CASH	(17,498)	—	(17,498)
Cash, beginning of period	55,946	—	55,946
CASH, END OF PERIOD	\$ 38,448	\$ —	\$ 38,448

(1) See note 3(a) for a description of IFRS 16 adjustments that impact net earnings for period

(2) Amortization of right-of-use assets

(3) Interest expense on lease liabilities

(4) Loss on leases terminated in period

(5) Payment of lease liabilities

(6) Interest paid on lease liabilities

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3(f) Condensed Consolidated Statement of Cash Flows - Twelve Months Ended January 31, 2019

(unaudited, \$ in thousands)	Twelve Months Ended January 31, 2019 (Previously Reported)	Impact: Adoption of IFRS 16	Twelve Months Ended January 31, 2019 (Restated)
CASH PROVIDED BY (USED IN)			
Operating activities			
Net earnings for the period	\$ 90,632	\$ (9) (1)	\$ 90,623
Adjustments for:			
Amortization	59,435	22,586 (2)	82,021
Provision for income taxes	25,311	427	25,738
Interest expense	13,965	5,675 (3)	19,640
Equity settled share option expense	2,022	—	2,022
Gain on partial insurance settlement	(16,955)	—	(16,955)
Taxes paid	(26,446)	—	(26,446)
Loss on disposal of property and equipment	1,232	(42) (4)	1,190
	149,196	28,637	177,833
Change in non-cash working capital	(20,792)	(32)	(20,824)
Change in other non-cash items	(1,284)	—	(1,284)
Cash from operating activities	127,120	28,605	155,725
Investing activities			
Cash used in investing activities	(80,793)	—	(80,793)
Financing activities			
Net increase in long-term debt	44,785	—	44,785
Payment of lease liabilities, principal	—	(22,930) (5)	(22,930)
Payment of lease liabilities, interest	—	(5,675) (6)	(5,675)
Dividends	(62,329)	—	(62,329)
Dividends to non-controlling interests	(3,954)	—	(3,954)
Interest paid	(12,254)	—	(12,254)
Cash from used in financing activities	(33,752)	(28,605)	(62,357)
Effect of foreign exchange rates on cash	713	—	713
NET CHANGE IN CASH	13,288	—	13,288
Cash, beginning of period	25,160	—	25,160
CASH, END OF PERIOD	\$ 38,448	\$ —	\$ 38,448

(1) See note 3(a) for a description of IFRS 16 adjustments that impact net earnings for period

(2) Amortization of right-of-use assets

(3) Interest expense on lease liabilities

(4) Loss on leases terminated in period

(5) Payment of lease liabilities

(6) Interest paid on lease liabilities

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards Implemented (continued) Effective February 1, 2019, the Company adopted IFRIC *Interpretation 23* and also adopted amendments to the following standards: IFRS 3 *Business Combinations*; IAS 12 *Income Taxes*; IAS 23 *Borrowing Costs*; and IAS 19 *Employee Benefits* as required by the IASB. A summary of these changes is as follows:

- IFRIC *Interpretation 23* provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments;
- IFRS 3 *Business Combinations* clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12 *Income Taxes* specifies that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits (i.e. in net earnings, other comprehensive income or equity);
- IAS 23 *Borrowing Costs* clarifies that specific borrowings to finance the construction of a qualifying asset should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed; and
- IAS 19 *Employee Benefits* amendments require a company to update its assumptions for the remainder of the reporting period after a plan change. Amendments have also been included clarifying the effect of a plan amendment on the asset ceiling.

The adoption of these amendments did not have a material impact on the Company.

Future Standards and Amendments The following new standards, and amendments to standards and interpretations, are not yet effective for the year ending January 31, 2020, and have not been applied in preparing these condensed consolidated financial statements.

Definition of Material In May 2017, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments clarified the definition of material. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make. The amendments are effective for the Company on February 1, 2020 and are required to be applied prospectively. The implementation of these amendments is not expected to have a significant impact on the Company.

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

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, amortization of property and equipment, determination of lease term, estimate of incremental borrowing rate of each leased asset, impairment of long-lived 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 Canadian segment consists of subsidiaries operating retail stores and complimentary businesses to serve northern and western Canada. The International segment consists largely of subsidiaries operating in the continental United States, Caribbean and South Pacific. Financial information for these business segments is regularly reviewed by the Company's President and Chief Executive Officer to assess performance and make decisions about the allocation of resources.

The following key information is presented by geographic segment:

Consolidated Statements of Earnings

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019	Twelve Months Ended January 31, 2020	Twelve Months Ended January 31, 2019
Sales				
Canada				
Food	\$ 212,452	\$ 205,123	\$ 842,916	\$ 825,668
General merchandise and other	120,761	119,225	428,636	420,465
Canada	\$ 333,213	\$ 324,348	\$ 1,271,552	\$ 1,246,133
International				
Food	\$ 194,050	\$ 182,399	\$ 731,756	\$ 679,215
General merchandise and other	25,798	25,736	91,085	88,138
International	\$ 219,848	\$ 208,135	\$ 822,841	\$ 767,353
Consolidated	\$ 553,061	\$ 532,483	\$ 2,094,393	\$ 2,013,486
Earnings before amortization, interest and income taxes⁽¹⁾				
Canada	\$ 34,401	\$ 28,839	\$ 140,359	\$ 130,399
International	16,032	15,451	79,216	87,623
Consolidated	\$ 50,433	\$ 44,290	\$ 219,575	\$ 218,022
Earnings from operations⁽¹⁾				
Canada	\$ 17,642	\$ 13,858	\$ 77,376	\$ 72,822
International	9,092	9,388	52,977	63,179
Consolidated	\$ 26,734	\$ 23,246	\$ 130,353	\$ 136,001

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENTED INFORMATION (continued)

Supplemental information

	January 31, 2020	January 31, 2019 ⁽²⁾
Assets		
Canada ⁽¹⁾	\$ 787,392	\$ 757,842
International ⁽¹⁾	428,144	392,019
Consolidated	\$ 1,215,536	\$ 1,149,861

(1) Canadian total assets includes goodwill of \$11,025 (January 31, 2019 – \$8,357); International total assets includes goodwill of \$38,544 (January 31, 2019 – \$36,846).

(2) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3.

	Three Months Ended		Three Months Ended		Twelve Months Ended		Twelve Months Ended	
	January 31, 2020		January 31, 2019		January 31, 2020		January 31, 2019	
	Canada	International	Canada	International	Canada	International	Canada	International
Purchase of property and equipment	\$ 14,120	\$ 12,443	\$ 19,857	\$ 9,046	\$ 67,828	\$ 43,477	\$ 68,639	\$ 24,916
Amortization ⁽¹⁾	\$ 16,759	\$ 6,940	\$ 14,981	\$ 6,063	\$ 62,983	\$ 26,239	\$ 57,577	\$ 24,444

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3.

5. ACCOUNTS RECEIVABLE

	January 31, 2020	January 31, 2019
Trade accounts receivable	\$ 81,925	\$ 85,872
Corporate and other accounts receivable	34,782	22,412
Less: allowance for doubtful accounts	(11,838)	(17,961)
Total	\$ 104,869	\$ 90,323

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

6. INVENTORIES

Included in cost of sales for the three months ended January 31, 2020, the Company recorded \$181 (three months ended January 31, 2019 – \$298) for the write-down of period end inventories as a result of net realizable value being lower than cost. For the twelve months ended January 31, 2020 the Company recorded \$1,036 (twelve months ended January 31, 2019 - \$1,522) 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 twelve months ended January 31, 2020 or 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. SHARE CAPITAL

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

January 31, 2020	Shares	Consideration
Balance at January 31, 2019	48,750,929	\$ 173,681
Issued under option plans (Note 14)	—	—
Balance at January 31, 2020	48,750,929	\$ 173,681
January 31, 2019		
Balance at January 31, 2018	48,690,212	\$ 172,619
Issued under option plans (Note 14)	60,717	1,062
Balance at January 31, 2019	48,750,929	\$ 173,681

The Company's share capital is comprised of Variable Voting Shares and Common Voting Shares. The two classes of shares have equivalent rights as shareholders except for voting rights. Holders of Variable Voting Shares are entitled to one vote per share except where (i) the number of outstanding Variable Voting Shares exceeds 49% of the total number of all issued and outstanding Variable Voting Shares and Common Voting Shares, or (ii) the total number of votes cast by or on behalf of the holders of Variable Voting Shares at any meeting on any matter on which a vote is to be taken exceeds 49% of the total number of votes cast at such meeting.

If either of the above-noted thresholds is surpassed at any time, the vote attached to each Variable Voting Share will decrease automatically without further act or formality. Under the circumstances described in paragraph (i) above, the Variable Voting Shares as a class cannot carry more than 49% of the total voting rights attached to the aggregate number of issued and outstanding Variable Voting Shares and Common Voting Shares of the Company. Under the circumstances described in paragraph (ii) above, the Variable Voting Shares as a class cannot, for a given Shareholders' meeting, carry more than 49% of the total number of votes cast at the meeting.

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

Effective June 12, 2019, the Company amended the rights of its shares to align them with the CTA, as amended by the provisions of the Transportation Modernization Act (Canada). The purpose of these amendments is to increase the permitted level of foreign ownership allowed in respect of Canadian air service provided from 25% to 49%, subject to certain restrictions.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDENDS

	Twelve Months Ended January 31, 2020	Twelve Months Ended January 31, 2019
Dividends recorded in equity and paid in cash	\$ 67,778	\$ 66,283
Less: Dividends paid to non-controlling interests	(3,427)	(3,954)
Shareholder dividends	\$ 64,351	\$ 62,329
Dividends per share	\$ 1.32	\$ 1.28

The payment of dividends on the Company's 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.

9. LONG-TERM DEBT

	January 31, 2020	January 31, 2019
Current:		
Revolving loan facility ⁽¹⁾	\$ 950	\$ —
Promissory note payable ⁽⁸⁾	900	900
	\$ 1,850	\$ 900
Non-current:		
Revolving loan facility ⁽¹⁾	\$ —	\$ —
Revolving loan facilities ⁽²⁾	36,943	36,700
Revolving loan facilities ⁽³⁾	176,716	134,791
Revolving loan facility ⁽⁴⁾	—	—
Revolving loan facility ⁽⁵⁾	—	—
Senior notes ⁽⁶⁾	92,334	91,666
Senior notes ⁽⁷⁾	100,000	100,000
Promissory notes payable ⁽⁸⁾	3,122	2,700
	\$ 409,115	\$ 365,857
Total	\$ 410,965	\$ 366,757

(1) The committed, revolving U.S. loan facility provides the International Operations with up to US\$40,000 for working capital requirements and general business purposes. This facility matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. As at January 31, 2020, the International Operations had drawn US\$719 (January 31, 2019 - US\$NIL). See Note 20 Subsequent Events.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. LONG-TERM DEBT (continued)

(2) The US\$52,000 loan facilities mature September 26, 2022 and bear interest at U.S. LIBOR plus a spread. These loan facilities are secured by certain assets of the Company and rank *pari passu* with the US\$70,000 senior notes, the \$100,000 senior notes and the \$300,000 Canadian Operations loan facilities. At January 31, 2020, the Company had drawn US\$27,936 (January 31, 2019 – US\$27,936) on these facilities.

(3) These committed, revolving loan facilities provide the Company's Canadian Operations with up to \$300,000 for working capital and general business purposes. These facilities mature September 26, 2022, are secured by certain assets of the Company and rank *pari passu* with the US\$70,000 senior notes, the \$100,000 senior notes and the US\$52,000 loan facilities. These facilities bear a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate.

(4) The revolving U.S. loan facility provides the International Operations with up to US\$1,500 for Roadtown Wholesale Trading Ltd.'s (RTW) working capital requirements and general business purposes. This facility bears a floating rate of interest based on a U.S. dollar base rate plus a spread and is secured by certain assets of RTW.

(5) Canadian Operations have a \$2,375 revolving loan facility to meet North Star Air Ltd.'s (NSA) working capital requirements and for general business purposes. This facility bears a floating rate of interest and is secured by the assets of NSA.

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

(7) The \$100,000 senior notes mature September 26, 2029, have a fixed interest rate of 3.74%, are secured by certain assets of the Company and rank *pari passu* with the \$300,000 Canadian Operations loan facilities, the US\$70,000 senior notes and the US\$52,000 loan facilities.

(8) Promissory notes payable are non-interest bearing, have annual principal payments of \$900 and are secured by certain assets of the Company.

10. LEASES

The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3. The Company's lease liabilities are discounted at its incremental borrowing rate, generally calculated from applicable Canadian and U.S. corporate bond yields. At January 31, 2020, lease liabilities reflect a weighted-average risk-free rate of 3.8% (January 31, 2019 – 4.1%) and weighted-average remaining lease term of 9.7 years (January 31, 2019 – 10.0 years).

11. EMPLOYEE COSTS

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019	Twelve Months Ended January 31, 2020	Twelve Months Ended January 31, 2019
Wages, salaries and benefits including bonus ⁽¹⁾	\$ 81,646	\$ 80,045	\$ 309,541	\$ 296,053
Post-employment benefits	2,308	1,844	8,902	8,299
Share-based compensation (Note 14)	190	5,413	3,550	11,204

(1) Figures for the three and twelve months ended January 31, 2019 have been reclassified. See Note 21.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. INTEREST EXPENSE

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019 ⁽¹⁾	Twelve Months Ended January 31, 2020	Twelve Months Ended January 31, 2019 ⁽¹⁾
Interest on long-term debt	\$ 4,043	\$ 3,648	\$ 14,558	\$ 13,177
Interest on lease liabilities	1,396	1,438	5,560	5,675
Net interest on defined benefit plan obligation	255	289	1,025	1,162
Less: interest capitalized	(62)	(47)	(195)	(374)
Interest expense	\$ 5,632	\$ 5,328	\$ 20,948	\$ 19,640

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3.

13. INCOME TAXES

The estimated effective income tax rate for the three months ended January 31, 2020 is 18.2% (three months ended January 31, 2019, as restated – 22.1%) and for the twelve months ended January 31, 2020 is 21.1% (twelve months ended January 31, 2019, as restated – 22.1%). 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.

14. SHARE-BASED COMPENSATION

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

The total expense relating to share-based payment plans for the three months ended January 31, 2020 was \$190 (three months ended January 31, 2019 – \$5,413) and for the twelve months ended January 31, 2020 was \$3,550 (twelve months ended January 31, 2019 – \$11,204). The carrying amount of the Company's share-based compensation arrangements including PSU, share option, DDSU and EDSU plans are recorded on the consolidated balance sheets as follows:

	January 31, 2020	January 31, 2019
Accounts payable and accrued liabilities	\$ 11,080	\$ 13,998
Other long-term liabilities	10,225	14,273
Contributed surplus	7,081	1,961
Total	\$ 28,386	\$ 30,232

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE-BASED COMPENSATION (continued)

Performance Share Units

The Company has granted Performance Share Units to officers and senior management. Each PSU entitles the participant to receive either a cash payment equal to the market value of the number of notional units granted or one share of the Company for each notional unit 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 based on the grant date fair market value of the award. The compensation expense is recognized over the vesting period factoring in the probability of the performance criteria being met.

Compensation costs related to the PSUs for the three months ended January 31, 2020 are \$826 (three months ended January 31, 2019 – \$832) and for the twelve months ended January 31, 2020 are \$5,216 (twelve months ended January 31, 2019 – \$4,097). The total number of PSUs outstanding at January 31, 2020 that may be settled in shares is 408,474 (January 31, 2019 – 170,310). There were no PSUs exercised in shares during the twelve months ended January 31, 2020 (twelve months ended January 31, 2019 – NIL).

Share Option Plan

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

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

The maximum number of shares available for issuance is a fixed number set at 4,354,020, representing 8.9% of the Company's issued and outstanding shares at January 31, 2020. Fair value of the Company's options is determined using an option pricing model. Share options granted vest on a graduated basis over four to five years and are exercisable over a period of seven years. The share option compensation costs recorded for the three months ended January 31, 2020 are a recovery of \$419 (three months ended January 31, 2019 – expense of \$3,550) and for the twelve months ended January 31, 2020 are a recovery of \$2,786 (twelve months ended January 31, 2019 – expense of \$4,510).

The fair values for options issued were calculated based on the assumptions below.

	January 31, 2020	January 31, 2019
Fair value of options granted	\$2.69	\$2.86
Exercise price	\$28.11 to \$30.01	\$27.77
Dividend yield	4.3%	4.3%
Annual risk-free interest rate	1.5%	2.1%
Expected share price volatility	19.3%	19.2%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE-BASED COMPENSATION (continued)

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

	January 31, 2020	January 31, 2019
Dividend yield	4.9%	4.1%
Annual risk-free interest rate	1.4% to 2.0%	1.8%
Expected share price volatility	11.7% to 17.9%	15.9% to 19.5%

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 twelve months ended January 31:

Number of options outstanding	Declining Strike Price Options		Standard Options	
	January 31, 2020	January 31, 2019	January 31, 2020	January 31, 2019
Outstanding options, beginning of period	1,967,723	2,464,940	430,340	454,177
Granted	—	—	499,311	372,992
Exercised	(15,985)	(474,423)	(2,295)	(223,670)
Forfeited or cancelled	(31,779)	(22,794)	(27,502)	(173,159)
Outstanding options, end of period	1,919,959	1,967,723	899,854	430,340
Exercisable at end of period	1,055,151	658,364	114,517	16,253

Weighted-average exercise price	Declining Strike Price Options		Standard Options	
	January 31, 2020	January 31, 2019	January 31, 2020	January 31, 2019
Outstanding options, beginning of period	\$ 27.36	\$ 26.18	\$ 27.83	\$ 24.28
Granted	—	—	28.17	27.77
Exercised	24.26	20.09	27.77	20.52
Forfeited or cancelled	30.26	23.04	27.90	27.84
Outstanding options, end of period	\$ 27.34	\$ 27.36	\$ 28.01	\$ 27.83
Exercisable at end of period	\$ 21.40	\$ 20.91	\$ 27.17	\$ 24.27

Options outstanding at January 31, 2020 have an exercise price range of \$18.58 to \$32.40 and a weighted-average remaining contractual life of 3.5 years.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE-BASED COMPENSATION (continued)

Director Deferred Share Unit Plan

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

Compensation expense is initially measured at the time of the grant. Subsequent changes in the fair value of the DDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The DDSU plan compensation costs recorded for the three months ended January 31, 2020 are a recovery of \$370 (three months ended January 31, 2019 – expense of \$833) and for the twelve months ended January 31, 2020 are an expense of \$346 (twelve months ended January 31, 2019 – expense of \$1,752). The total number of DDSUs outstanding at January 31, 2020 is 318,227 (January 31, 2019 – 270,277). There were no DDSUs exercised in cash during the year ended January 31, 2020 (January 31, 2019 – 21,186).

Executive Deferred Share Unit Plan

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

Total compensation expense is measured at the time of the grant. Subsequent changes in the fair value of the EDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The EDSU plan compensation costs recorded for the three months ended January 31, 2020 are a recovery \$5 (three months ended January 31, 2019 – expense of \$52) and for the twelve months ended January 31, 2020 are a recovery \$32 (twelve months ended January 31, 2019 – expense of \$62).

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 costs recorded for the three months ended January 31, 2020 are \$158 (three months ended January 31, 2019 – \$146) and for the twelve months ended January 31, 2020 are \$806 (twelve months ended January 31, 2019 – \$783).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. 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. 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.

16. SUBSIDIARIES AND JOINT VENTURES

The Company's principal operating subsidiaries at January 31, 2020 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%
Roadtown Wholesale Trading Ltd.	Retailing	British Virgin Islands		77%
North Star Air Ltd.	Airline	Canada		100%

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

17. EXPENSES BY NATURE

	Three Months Ended January 31, 2020	Three Months Ended January 31, 2019 ⁽¹⁾	Twelve Months Ended January 31, 2020	Twelve Months Ended January 31, 2019 ⁽¹⁾
Employee costs (Note 11) ⁽³⁾	\$ 84,144	\$ 87,302	\$ 321,993	\$ 315,556
Amortization	23,699	21,044	89,222	82,021
Operating lease rentals	1,524	1,610	7,180	7,357
Insurance gain ⁽²⁾	(3,205)	—	(18,170)	(20,053)

(1) The Company has applied IFRS 16 retrospectively with restatement of the comparative period financial statements as described in Note 3.

(2) The Company recorded gains on insurance claims. These gains were due to the difference between the replacement cost of the assets destroyed and their book value for both fire and hurricane claims, and also for the recovery of business interruption losses on hurricane claims.

(3) Figures for the three and twelve months ended January 31, 2019 have been reclassified. See Note 21.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. FINANCIAL INSTRUMENTS

Accounting classifications and fair value estimation

The following table comprises the carrying amounts of the Company's financial instruments at January 31, 2020. 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	\$ 28,187	\$ 28,187
Accounts receivable	Short-term	104,869	104,869
Other financial assets	Long-term	1,281	1,281
Accounts payable and accrued liabilities	Short-term	(173,058)	(173,058)
Current portion of long-term debt	Short-term	(1,850)	(1,850)
Current portion of lease liabilities	Short-term	(19,176)	(19,176)
Long-term debt	Long-term	(409,115)	(416,295)
Lease liabilities	Long-term	(119,928)	(119,928)

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. POST-EMPLOYMENT BENEFITS

A remeasurement of the defined benefit pension plan assets and liabilities is assessed at each reporting period. During the three months ended January 31, 2020, the Company recorded actuarial losses, net of tax, on its defined benefit plan obligation of \$1,474 (three months ended January 31, 2019 - actuarial gains of \$4,952) in other comprehensive income, which was recognized immediately in retained earnings. During the twelve months ended January 31, 2020, the Company recorded actuarial losses, net of tax, on its defined benefit plan obligation of \$8,456 (twelve months ended January 31, 2019 - actuarial gains of \$4,952) in other comprehensive income, which was recognized immediately in retained earnings.

The discount rate used to determine the benefit obligation for the defined benefit pension plan at January 31, 2020 was 2.75% (January 31, 2019 - 3.75%).

The defined benefit obligation and fair value of plan assets for the Company's pension and other post-retirement plans were as follows:

	January 31, 2020	January 31, 2019
Defined benefit obligation	\$ (135,260)	\$ (114,634)
Fair value of plan assets	95,122	85,665
Defined benefit plan obligation, funded status	\$ (40,138)	\$ (28,969)

20. SUBSEQUENT EVENTS

International Loan Facility Refinancing

On February 12, 2020, the Company refinanced the US\$40,000 loan facility in the International Operations that originally matured October 31, 2020. The new US\$40,000 committed, revolving loan facility, which matures February 12, 2025, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventory of the International Operations.

Dividends

On March 12, 2020, the Board of Directors declared a dividend of \$0.33 per share payable April 15, 2020 to shareholders of record on March 31, 2020.

Giant Tiger

On March 12, 2020, the Company and Giant Tiger Stores Limited (GTSL) announced they have entered into a definitive asset purchase agreement (the GTSL Transaction) for GTSL to acquire 34 of the Company's 46 Giant Tiger stores (the "Acquired Stores") for cash consideration of \$45 million, payable in \$15 million installments on the second, third and fourth anniversaries of the transaction closing date and, subject to meeting certain profitability milestones, total contingent consideration payable of up to \$22.5 million. Upon closing of the transaction the Company expects to recognize a pre-tax gain ranging from \$20 million to \$24 million subject to certain working capital adjustments and finalization of the purchase price, including an estimate of the contingent consideration due. Of the remaining 12 GT locations, the Company will: (i) retain and operate five key stores in northern markets locations, (ii) convert one store to a Valu-Lots clearance center and (iii) close six stores in the second and third quarter of 2020. The closed stores are expected to result in a provision of approximately \$9 million, which will be recorded in the first quarter of 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. SUBSEQUENT EVENTS (continued)

As a part of the GTSL Transaction, the Company will enter into product supply and distribution agreements with GTSL related to the supply of food-related product by the Company to the Acquired Stores and certain general merchandise and food-related products by GTSL to the Company's northern Canada stores. These agreements will enable buying and distribution efficiencies for both parties and will provide the Company access to an expanded general merchandise assortment.

The completion of the GTSL Transaction is subject to the satisfaction of customary closing conditions and is expected to occur in the second quarter of 2020.

Support Office Cost Reduction

On March 12, 2020, the Company announced that it will be reducing administration costs in its Canadian Operations and that it expects to record a provision related to employee severance costs of approximately \$5 million in the first quarter of 2020.

21. PRIOR YEAR FIGURES

Certain prior year figures have been reclassified to conform with the presentation adopted in the current year.