THE NORTH WEST COMPANY INC.

Report to Shareholders

Quarterly Period Ended July 31, 2018

2018 SECOND QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. reports its results for the second quarter ended July 31, 2018. Sales decreased 2.2% to $503.8 million compared to the second quarter last year and were down 0.7% excluding the impact of foreign exchange. Store closures related to hurricanes in the Caribbean in the third quarter last year negatively impacted sales in the quarter by approximately $23.0 million and more than offset sales from the acquisition of North Star Air Ltd ("NSA"), new stores in Canadian Operations and general merchandise same store sales gains.

Second quarter net earnings decreased 20.0% to $18.6 million and net earnings attributable to shareholders were $17.6 million or $0.36 per share compared to $0.46 per share last year on a diluted earnings per share basis. This decrease is largely due to a $6.5 million increase in share-based compensation costs mainly resulting from mark-to-market adjustments on stock options related to an increase in share price in the quarter. The impact of the hurricane-related store closures was also a factor. Excluding the impact of share-based compensation option expense and NSA acquisition costs last year, adjusted net earnings[2] decreased 5.4%.

The Board of Directors has approved a quarterly dividend of $0.32 per share to shareholders of record on September 28, 2018.

On behalf of the Board of Directors:

H. Sanford Riley	Edward S. Kennedy
Chairman	President and Chief Executive Officer

Management's Discussion & Analysis

The following Management's Discussion & Analysis should be read in conjunction with the Company's 2018 second quarter unaudited interim period condensed consolidated financial statements for the period ended July 31, 2018 and the audited annual consolidated financial statements and accompanying notes included in the 2017 Annual Report.

CONSOLIDATED RESULTS

Quarter

Second Quarter consolidated sales decreased 2.2% to $503.8 million as store closures related to hurricanes in the Caribbean in the third quarter last year negatively impacted sales in the quarter by approximately $23.0 million and more than offset sales from the acquisition of North Star Air Ltd ("NSA"), new stores in Canadian Operations and general merchandise same store sales gains. Excluding the foreign exchange impact, consolidated sales decreased 0.7% but were up 1.0% [1] on a same store basis. Food sales[1] decreased 4.4% but were up 0.3% on a same store basis and general merchandise sales[1] increased 5.6% and were up 4.2% on a same store basis.

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

Gross profit increased 0.5% as an 87 basis point increase in the gross profit rate more than offset the impact of lower sales. The increase in the gross profit rate was mainly due to a change in product sales blend. Selling, operating and administrative expenses increased 4.8% and were up 179 basis points as a percentage to sales. This increase was primarily due to a $6.5 million increase in share-based compensation expenses, NSA expenses and new stores in Canadian Operations. These factors were partially offset by the impact of the hurricane-related store closures. The increase in share-based compensation costs was largely due to an option expense of $3.6 million compared to an option expense recovery of $1.0 million last year. A substantial portion of the options granted are accounted for as a liability and are re-measured based on the share price at each quarterly reporting date. The increase in option expense this quarter was due to an increase in the share price in the quarter this year compared to a decrease in the share price in the second quarter last year. Changes in share-based compensation in 2018 will begin to mitigate most of the expense volatility inherent in the legacy share-based compensation plans as the performance share units and options granted under these legacy plans are exercised or expire. Further information on share-based compensation expense is provided in Note 10 and Note 13 to the 2018 second quarter unaudited interim period condensed consolidated financial statements.

Earnings from operations decreased 16.2% to $27.8 million compared to $33.2 million last year and earnings before interest, income taxes, depreciation and amortization (EBITDA[2]) decreased $4.9 million or 10.3% to $42.4 million due to the factors previously noted. The hurricane-related store closures negatively impacted EBITDA[2] in the quarter by approximately $1.6 million. Excluding the impact of the share-based compensation option expense and the NSA acquisition related costs last year, adjusted EBITDA[2] was down 1.9% compared to last year and as a percentage to sales was flat at 9.1% compared to last year.

Income tax expense decreased $1.5 million to $6.1 million and the consolidated effective tax rate was flat compared to last year at 24.7%. An increase in the effective tax rate related to the impact of higher non-deductible share-based compensation costs in Canadian Operations was offset by lower U.S. federal corporate tax rates implemented as part of U.S. tax reform and the blend of earnings in International Operations across the various tax rate jurisdictions.

Net earnings decreased 20.0% to $18.6 million. Net earnings attributable to shareholders were $17.6 million and diluted earnings per share were $0.36 per share compared to $0.46 per share last year due to the factors noted above. Excluding the impact of share-based compensation option expense and the NSA acquisition related expenses, adjusted net earnings[2] decreased 5.4% due to the impact of the hurricane-related store closures.

Comprehensive income increased to $20.2 million compared to $11.2 million last year as lower net earnings was more than offset by the impact of foreign exchange on the translation of International Operations financial statements. The change in foreign exchange rates resulted in a gain of $1.6 million compared to a loss of $12.0 million last year.

Year-to-Date

Sales for the year decreased 3.1% to $969.5 million compared to $1.0 billion in 2017 as the hurricane-related store closures negatively impacted sales by approximately $46.9 million and more than offset sales from the acquisition of NSA and new stores. Excluding the foreign exchange impact, sales decreased 1.0% but were up 0.4%[1] on a same store basis. Food sales[1] decreased 5.2% and were flat to last year on a same store basis. General merchandise sales[1] increased 3.2% and were up 2.1% on a same store basis with all banners contributing to the sales gains.

Gross profit decreased 0.5% as lower sales more than offset an 85 basis point increase in the gross profit rate. The increase in the gross profit rate is largely due to product sales blend changes. Selling, operating and administrative expenses decreased 1.9% but were up 34 basis points as a percentage to sales. The decrease in expenses is mainly due to one-time acquisition related costs of $6.3 million largely related to stamp duties paid to the Government of the British Virgin Islands ("BVI") last year and the impact of the hurricane-related store closures and lower share-based compensation costs this year. These factors were partially offset by NSA expenses and new stores in Canadian Operations.

Earnings from operations increased 7.0% to $53.4 million compared to $49.9 million last year and EBITDA[2] increased 5.9% to $82.0 million compared to $77.4 million last year due to the factors previously noted. Excluding the impact of the acquisition costs and share-based option expense, adjusted EBITDA[2] decreased 3.7% substantially due to the impact of the hurricane-related store closures which negatively impacted EBITDA[2] by approximately $3.6 million.

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

Interest expense increased $1.9 million to $6.3 million due to an increase in long-term debt largely related to the financing of the Roadtown Wholesale Trading Ltd. ("RTW") and NSA acquisitions and higher interest rates. Further information on long-term debt and interest expense is provided in Note 9 and Note 11 respectively to the 2018 second quarter unaudited interim period condensed consolidated financial statements.

Income tax expense decreased $3.3 million to $9.9 million and the consolidated effective tax rate was 21.0% compared to 29.0% last year. The decrease in the effective tax rate is primarily due to the impact of non-tax deductible acquisition costs last year and the reduction in the U.S. federal corporate income tax rate from 35.0% to 21.0% effective January 1, 2018 as part of U.S. tax reform. Further information on income tax expense is provided in Note 12 to the 2018 second quarter unaudited interim period condensed consolidated financial statements.

Net earnings increased 15.1% to $37.2 million. Net earnings attributable to shareholders of the Company were $35.4 million and diluted earnings per share were $0.72 per share compared to $0.63 per share last year due to the factors noted above. Excluding the impact of share-based compensation option expense and the acquisition costs, adjusted net earnings[2] decreased 8.3% as the contribution from the RTW and NSA acquisitions and earning gains in northern Canada were more than offset by the impact of the hurricane related store closures in International Operations and food discount pricing pressures in our Giant Tiger stores.

Comprehensive income increased to $43.2 million compared to $26.3 million last year due to the increase in net earnings and the impact of foreign exchange on the translation of International Operations financial statements. The change in foreign exchange rates resulted in a gain of $6.0 million compared to a loss of $6.0 million last year.

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

CANADIAN OPERATIONS

Canadian Operations sales increased 4.7% to $314.4 million compared to $300.1 million in the second quarter last year due to the impact of the NSA acquisition on June 15, 2017, new stores and same store sales gains of 0.5%. Food sales increased 0.6% but were down 0.4% on a same store basis as sales gains in northern Canada were more than offset by the impact of food price discounting in southern markets. General merchandise sales increased 7.4% from last year and were up 3.7% on a same store basis with all banners contributing to the sales gains.

Gross profit dollars increased 5.3% driven by sales gains and an improvement in the gross profit rate. The increase in gross profit rate was mainly due to sales blend changes and improved airline gross profit. Selling, operating and administrative expenses were up 12.1% and 188 basis points as a percentage to sales compared to last year mainly due to higher share-based compensation costs. Substantially all of the $6.5 million increase in consolidated share-based compensation costs is recorded in Canadian Operations based on the location of the employees that participate in these programs. The impact of the NSA acquisition and new stores were also factors.

Canadian earnings from operations decreased 21.4% to $16.1 million compared to $20.4 million last year and EBITDA[2] decreased 11.7% to $26.8 million compared to $30.3 million last year due to the factors previously noted. EBITDA[2] as a percentage to sales was 8.5% compared to 10.1% last year. Excluding the impact of the share-based compensation expense and NSA acquisition costs last year, adjusted EBITDA[2] was up 0.1% compared to last year and as a percentage to sales was 9.5% compared to 10.0% last year. The increase in adjusted EBITDA[2] driven by earnings growth in NSA was offset by soft results in our retail business due in part to the impact of fire evacuations in northern Canada and costs related to one-time payments made to reclassified store roles.

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International Operations sales decreased 10.6% to $145.6 million compared to $163.0 million in the second quarter last year as same store sales growth of 2.1% was more than offset by the impact of the hurricane-related store closures in the Caribbean that occurred last year. A community decision to restrict the sale of liquor in an Alaska Commercial ("AC") store and the closure of a Cost-U-Less ("CUL") store in Kauai, Hawaii in the first quarter this year were also factors. Food sales decreased 11.6% but were up 1.6% on a same store basis with all banners contributing to the sales gains led by RTW stores. General merchandise sales decreased 2.0% due to the hurricane related store closures but were up 6.5% on a same store basis driven by sales gains in AC stores.

Gross profit dollars decreased 6.2% compared to last year as the impact of lower sales more than offset an improvement in the gross profit rate mainly related to changes in sales mix. Selling, operating and administrative expenses decreased 6.2% due to the impact of the store closures but were up 112 basis points as a percentage to sales due in part to a higher insurance costs in CUL stores and an increase in share-based compensation costs.

In September 2017, the Company's CUL stores in St. Maarten and St. Thomas and the RTW operations in the British Virgin Islands ("BVI") were significantly impacted by the category five hurricanes Irma and Maria. A CUL Store in St. Thomas and three RTW stores in the BVI require complete reconstruction and are expected to re-open over the next 15 months. A CUL store in St. Maarten was re-opened for limited service on November 17, 2017 and was fully operational on September 1, 2018. The hurricane related store closures negatively impacted sales and EBITDA[2] in the quarter by approximately $17.7 million and $1.2 million respectively. Insurance proceeds are expected to be sufficient to cover repair and reconstruction costs. The Company also has business interruption insurance that will help mitigate the earnings impact of the store closures however, the settlement of these claims is expected to take approximately 6 to 9 months to complete. The settlement of the hurricane related claims and the receipt of payments are expected to result in insurance-related gains in the consolidated statements of earnings in subsequent periods.

Earnings from operations decreased $0.6 million or 6.1% to $9.1 million compared to $9.6 million in the second quarter last year and EBITDA[2] decreased 6.2% to $12.0 million compared to $12.7 million last year due to the factors noted above. EBITDA[2] as a percentage to sales was 8.2% compared to 7.8% in the second quarter last year.

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

FINANCIAL CONDITION

Financial Ratios

The Company's debt-to-equity ratio at the end of the second quarter was 0.93:1 compared to 0.83:1 last year due in part to higher debt related to investments in aircraft in the second half of 2017 to expand the number of stores serviced by NSA.

Working capital increased $6.0 million or 3.0% compared to the second quarter last year mainly due to an increase in inventories in new stores and stores serviced by sealift in Canadian Operations and a decrease in income tax payable related to the timing of income tax installments. The impact of changes in the foreign exchange rate used to translate International Operations balance sheets was also a factor. The exchange rate used to convert U.S. denominated International Operations balance sheets into Canadian dollars at July 31, 2018 was 1.3030 compared to 1.2478 last year. These factors were partially offset by an increase in accounts payable related to the timing of payments.

Outstanding Shares

The weighted-average basic shares outstanding for the quarter were 48,691,000 shares compared to 48,681,000 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 49,139,000 shares compared to 49,243,000 shares last year. The decrease in fully diluted shares outstanding compared to last year is due to a redemption of director deferred share units partially offset by options granted under the Share Option Plan and shares granted under the Director Deferred Share Unit Plan. Further information on the Share Option Plan and the Director Deferred Share Unit Plan is provided in Note 7 and Note 13 to the Company's 2018 second quarter unaudited interim period condensed consolidated financial statements. Further information on the Company's share capital is provided in Note 7 to the Company's 2018 second quarter unaudited interim period condensed consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

$ in thousands	**Three Months Ended July 31, 2018**	Three Months Ended July 31, 2017	Change	**Six Months Ended July 31, 2018**	Six Months Ended July 31, 2017	Change
Cash flows provided by (used in):						
Cash from operating activities	**$ 45,206**	$ 41,809	$ 3,397	**$ 60,622**	$ 62,821	$ (2,199)
Cash used in investing activities	**(24,913)**	(56,567)	31,654	**(40,933)**	(91,340)	50,407
Cash provided by/(used in) financing activities	**(7,766)**	24,363	(32,129)	**8,962**	54,885	(45,923)
Effect of changes in foreign exchange rates on cash	**240**	(2,283)	2,523	**767**	(1,312)	2,079
Net change in cash	**$ 12,767**	$ 7,322	$ 5,445	**$ 29,418**	$ 25,054	$ 4,364

Cash flow from operating activities in the quarter increased $3.4 million to $45.2 million compared to cash flow from operating activities of $41.8 million last year. This increase is primarily due to the change in non-cash working capital related to an increase in accounts payable and accrued liabilities partially offset by an increase in inventories and accounts receivable. The change in accounts payable is largely related to the timing of payment cycles for trade payables and an increase in inventories mainly due to new stores and additional inventory in stores serviced by sealift in Canadian Operations. For the year-to-date, cash flow from operating activities decreased $2.2 million to $60.6 million as the increase in net earnings was more than offset by the change in non-cash working capital related to accounts payable and accrued liabilities and inventories as previously noted.

Cash used for investing activities in the quarter decreased to $24.9 million compared to $56.6 million last year due to the acquisition of NSA in the second quarter last year. The purchase of property and equipment in the quarter, which is largely related to investments in Top Markets, aircraft hangar facilities and staff housing, decreased compared to the second quarter last year mainly due to the purchase of an aircraft that was made subsequent to the NSA acquisition. The increase in intangible assets in the quarter is related to the timing of expenditures for the implementation of a new point-of-sale and merchandise management system. On a year-to-date basis, cash used in investing activities decreased $50.4 million due to the acquisitions of RTW and NSA last year and the purchase of an aircraft as previously noted. Further information on the RTW and NSA acquisitions is provided in Note 18 to the Company's 2018 second quarter unaudited interim period condensed consolidated financial statements. Further information on planned capital expenditures is included in the Outlook section.

Cash used in financing activities in the quarter was $7.8 million compared to cash provided from financing activities of $24.4 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 largely related to the acquisition of NSA last year. For the year-to-date, cash provided by financing activities decreased $45.9 million compared to last year mainly due to the acquisitions of RTW and NSA. Further information on long-term debt is provided in the Sources of Liquidity section and in Note 9 to the Company's 2018 second quarter unaudited interim period condensed consolidated financial statements.

Sources of Liquidity

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

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 July 31, 2018, the Company had drawn $135.6 million on these facilities (July 31, 2017 - $183.6 million; January 31, 2018 - $91.1 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 July 31, 2018, the Company had drawn US$27.9 million on these facilities (July 31, 2017 - US$27.9 million; January 31, 2018 - US$27.9 million).

The International Operations have a US$40.0 million committed, revolving loan facility for working capital and general business purposes. This loan facility, which matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At July 31, 2018, the Company had drawn US$NIL on these facilities (July 31, 2017 - US$6.0 million; January 31, 2018 - US$1,444).

The loan facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At July 31, 2018, the Company is in compliance with the financial covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants. Further information on the Company's long-term debt and loan facilities is provided in Note 9 to the Company's 2018 second quarter unaudited interim period 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 2018.

SHAREHOLDER DIVIDENDS

The Board of Directors declared a quarterly dividend of $0.32 per share to shareholders of record on September 28, 2018, to be paid on October 15, 2018.

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

- The Company's 42nd Giant Tiger Store was opened in Steinbach, Manitoba on May 5th, 2018.

- On May 18th, 2018 a new permanent store in Shamattawa, Manitoba opened replacing a temporary facility that had been operating since September, 2016 when the Company's existing store was destroyed by fire.

- A new Northern Store was opened in Garden Hill, Manitoba on June 20, 2018 as part of the Top Markets initiative, replacing a store that was located on an island adjacent to Garden Hill.

- Convenience stores were acquired in Norway House, Manitoba and Inuvik, Northwest Territories.

STRATEGY

The Company is focused on building a stronger store network with more products and services that help our customers to live better and our business to grow within all economic environments. From an investor standpoint, 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. Ensuring that the way we work is "Pure Retail", with top store teams, lean processes, and customer driven store-centric support from the rest of our organization.
2. Managing 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.
3. Investing in new retail markets through acquisitions primarily in the Caribbean region and store openings in western Canada (Giant Tiger).
4. Implementing "Project Enterprise", an initiative to implement next generation merchandise and store systems. Project Enterprise is focused on new, higher capability point-of-sale ("POS"), merchandise management ("MMS"), which includes pricing, promotions, category management and vendor revenue management, and workforce management ("WFM") systems.
5. Investing to build a superior air logistics capability, with a focus on providing faster, more reliable and lower cost service to our stores and customers in remote markets.

Further information on the Company's strategy is provided in the 2017 Annual Report.

OUTLOOK

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

The short-term consumer income outlook is stable to positive and aligns with the Company's lower risk product and service focus, augmented by opportunistic investments. Northern Canada's economic outlook is positive for 2018 with a noticeable ramp-up in resource development, housing and capital projects. The western Canadian retail environment is important for our Giant Tiger business and we expect cost and price inflation to be larger factors through the balance of this year and a net positive on our margins compared to the pricing challenges we faced in 2017.

Economic conditions in Alaska are expected to continue to recover from depressed conditions over the past two years led by stronger commercial fishing, more oil and gas activity and public infrastructure projects. The impact of lower corporate income tax rates as a result of U.S. tax reform will continue to have a positive impact on net earnings in International Operations in 2018. CUL market prospects vary significantly from island to island and overall. In the Caribbean, post-hurricane construction activity will help to offset tourism downturns in the BVI, USVI and St. Maarten over the next two years while fiscally stable islands, like Cayman, are poised to take advantage of a strong U.S. travel economy. Guam's near term prospects remain clouded by geo-political factors (North Korea) but are attractive over the next five years as significant military base construction and personnel deployment is completed.

Net capital expenditures for 2018 are expected to be in the $103.0 million range (2017 - $165.9 million) reflecting investments in aircraft, hangar facilities, major store replacements, store renovations, fixtures, equipment, staff housing and store-based warehouse expansions under the Company's Top Markets and Top Categories initiatives; the opening of three Giant Tiger stores and the completion of "New Store Experience" upgrades in GT stores. The Company will also continue to invest in implementing new information systems as described under the strategy section. The expected expenditures include approximately $16.0 million in hurricane-related construction costs which the Company expects to recover through insurance proceeds.

In 2019, the Company expects that sustaining capital expenditures, including sustaining investments in aircraft, will be in the $60.0 million range plus approximately $16.0 million in hurricane-related capital expenditures which are expected to be recovered through insurance. Store-based capital expenditures can be impacted by the completion of landlord negotiations, shipment of construction materials to remote markets, and weather-related delays and therefore their actual amount and timing can fluctuate.

QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected quarterly financial information:

Operating Results - Consolidated

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	92 days	92 days	89 days	89 days	92 days	92 days	92 days	92 days
($ in millions)	2018	2017	2018	2017	2017	2016	2017	2016
Sales	**$ 503.8**	$ 515.2	$ 465.7	$ 485.8	$ 489.8	$ 480.6	$ 479.3	$ 464.0
EBITDA[2]	**42.4**	47.3	39.5	30.1	46.6	38.9	45.6	51.1
Earnings from operations	**27.8**	33.2	25.6	16.7	32.2	26.5	31.8	39.1
Net earnings	**18.6**	23.3	18.6	9.1	16.3	15.0	21.0	27.9
Net earnings attributable to shareholders of the Company	**17.6**	22.7	17.8	8.4	15.5	15.0	20.6	27.9
Net earnings per share:								
Basic	**0.37**	0.47	0.36	0.17	0.32	0.31	0.42	0.57
Diluted	**0.36**	0.46	0.36	0.17	0.31	0.30	0.42	0.57

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.

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

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 July 31, 2018 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

ACCOUNTING STANDARDS IMPLEMENTED IN 2018

The Company adopted the amended IFRS 9, *Financial Instruments,* IFRS 15, *Revenue from Contracts with Customers* and the amended IFRS 2, *Share-based payments* effective February 1, 2018, as required by the IASB.

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

Classification and measurement. IFRS 9 uses a single approach to determine measurement of financial assets by both cash flow characteristics and how an entity manages financial impairment, replacing the multiple classification options in IAS 39 with three categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

The Company implemented the new requirements for classification and measurement, including impairment, retrospectively with any cumulative effects of initial application recorded in opening retained earnings. The adoption of IFRS 9 did not result in any measurement adjustments to financial assets and liabilities. The adoption of IFRS 9 did result in certain classification changes, as summarized in the table below.

Asset/Liability	Classification under IAS 39	New Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Other financial assets	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	Amortized cost
Long-term debt	Financial liabilities at amortized cost	Amortized cost

Financial assets are not reclassified subsequent to their initial recognition, unless the Company identifies changes in its business model requiring reassessment. Financial assets are subsequently measured at amortized cost if both of the following conditions are met and they are not designated as FVTPL:

- financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment. Measurement gains or losses are recognized in net earnings in the period when the asset is decrecognized or impaired.

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

"Expected credit loss" impairment model. The Company applied a new forward-looking lifetime expected credit loss ("ECL") impairment model to its accounts receivable. The change in ECL's is recognized in earnings and reflected as an allowance against accounts receivable. The Company adopted the practical expedient to determine ECL's using a provision matrix based on historical trends, timing of recoveries and management's judgment as to whether current economic and credit conditions are such that actual losses are likely to differ from historical trends. Certain receivables are also individually assessed for specific impairment. Adoption of the revised ECL based provision matrix did not result in any measurement adjustment to the Company's accounts receivable.

New general hedge accounting standard. Amendments to IFRS 9 align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize effectiveness, however it will provide more strategies that may be used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The Company's net investment hedging relationship meets the new hedging requirements and did not result in any measurement adjustments. The Company's financial risk management strategies are disclosed in Note 14 Financial Instruments in the Company's 2017 Annual Audited Consolidated Financial Statements.

Revenue Recognition The IFRS 15, *Revenue from Contracts with Customers* standard contains a comprehensive model which specifies the criteria and timing for recognizing revenue, and also requires additional disclosures in the notes to the financial statements. The core principle of the standard is that revenue is recognized to depict the transfer of promised goods or services to the customer at an amount that reflects the consideration to which the Company is entitled. A contract based five step analysis of transactions is used to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced.

Revenue on the sale of goods and services is recorded at the time the sale is made or service is rendered to the customer. Sales are presented net of tax, returns and discounts and are measured at the fair value of the consideration received or receivable from the customer for the products sold or services supplied. Service charges on customer accounts receivable are accrued each month on balances outstanding at each account's billing date.

The Company adopted the standard retrospectively with the restatement of comparative periods. As a result of these changes certain commissions and service fees previously included in selling, operating and administrative expenses are now presented in sales and cost of sales. These changes had no impact on earnings from operations, EBITDA[2], net earnings or retained earnings previously reported. The impact of this change on the comparative period is as follows:

	Three Months Ended July 31, 2017 (Previously Reported)	IFRS 15 Amendment	**Three Months Ended July 31, 2017 (Revised)**	Six Months Ended July 31, 2017 (Previously Reported)	IFRS 15 Amendment	**Six Months Ended July 31, 2017 (Revised)**
SALES	$ 507,873	$ 7,311	**$ 515,184**	$ 984,695	$ 16,278	**$ 1,000,973**
Cost of sales	(355,312)	2,592	**(352,720)**	(692,863)	4,668	**(688,195)**
Gross profit	152,561	9,903	**162,464**	291,832	20,946	**312,778**
Selling, operating and administrative expenses	(119,369)	(9,903)	**(129,272)**	(241,900)	(20,946)	**(262,846)**
Earnings from operations	$ 33,192	$ —	**$ 33,192**	$ 49,932	$ —	**$ 49,932**

The adoption of IFRS 15 did not have any impact on the consolidated balance sheets, statements of comprehensive income, statements of changes in shareholders' equity or statements of cash flows.

Share-based payments The amendments to IFRS 2, *Share-based payments* are in relation to the classification and measurement of share-based payment transactions; specifically, accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based transactions. The adoption of these amendments did not result in any measurement adjustments to the liability for share-based payments.

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, 2019, and have not been applied in preparing the Company's 2018 second quarter unaudited interim period condensed consolidated financial statements.

Leases IFRS 16, *Leases* replaces the current guidance in IAS 17 for operating and finance lease accounting. This standard requires lessees to recognize a lease liability representing the obligation for future lease payments and a right-of-use asset in the consolidated balance sheets for substantially all lease contracts, initially measured at the present value of unavoidable lease payments. Under the new standard the Company will recognize new right-of-use assets and lease liabilities for its operating leases of land, building and equipment. In addition, the nature and timing of leasing expenses will change as operating lease expenses are replaced by a depreciation charge for right-of-use assets and interest expense on lease liabilities. On transition the Company can either apply the standard using a retrospective approach or a modified retrospective approach with optional practical expedients. The Company plans to apply IFRS 16 initially on February 1, 2019 and has not yet determined which transition approach to apply. As a result, the Company has not yet quantified the impact on its reported assets and liabilities since it will depend on the transition method chosen.

The implementation of this accounting standard will have a material impact on the consolidated financial statements. The Company continues to execute its detailed implementation plan. The portfolio of leases has been identified and the leasing information required to support the change in the accounting standard has been summarized for each lease. Information technology, processes and controls are being modified and developed to support the implementation. The Company is continuing to evaluate the impact of this accounting standard on its consolidated financial statements, technology, processes and internal controls.

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

There are no other IFRS or IFRIC interpretations 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)	Second Quarter 2018	2017	Year-to-Date 2018	2017
Net earnings	**$ 18,620**	$ 23,261	**$ 37,201**	$ 32,332
Add: Amortization	**14,614**	14,112	**28,554**	27,487
Interest expense	**3,107**	2,306	**6,318**	4,408
Income taxes	**6,097**	7,625	**9,897**	13,192
EBITDA	**$ 42,438**	$ 47,304	**$ 81,970**	$ 77,419
Add: Acquisition costs	**—**	579	**—**	6,344
Share-based compensation option expense / (recovery)	**3,593**	(967)	**1,922**	3,346
Adjusted EBITDA	**$ 46,031**	$ 46,916	**$ 83,892**	$ 87,109

For EBITDA information by business segment, see Note 4 to the Company's 2018 second quarter unaudited interim period condensed consolidated financial statements.

Reconciliation of consolidated net earnings to adjusted net earnings:

($ in thousands)	Second Quarter 2018	2017	Year-to-Date 2018	2017
Net earnings	**$ 18,620**	$ 23,261	**$ 37,201**	$ 32,332
Add: Acquisition costs, net of tax	**—**	423	**—**	6,188
Share-based compensation option expense / (recovery), net of tax	**2,880**	(967)	**1,209**	3,346
Adjusted net earnings	**$ 21,500**	$ 22,717	**$ 38,410**	$ 41,866

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

The Company is exposed to market price fluctuations in its share price through share-based compensation costs. Accrued share-based compensation is presented as a liability on the Company's consolidated balance sheets. This liability is recorded at fair value at each reporting date based on the market price 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.

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Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the Company's 2018 second quarter unaudited interim period condensed consolidated financial statements and notes to the unaudited interim period condensed consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to September 6, 2018.

Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, capital expenditures, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete 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 2017 Annual Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

Consolidated Balance Sheets

(unaudited, $ in thousands)	**July 31, 2018**	July 31, 2017	January 31, 2018
CURRENT ASSETS			
Cash	**$ 54,578**	$ 55,297	$ 25,160
Accounts receivable (Note 5)	**80,412**	77,475	80,765
Inventories (Note 6)	**229,700**	219,780	222,072
Prepaid expenses	**12,140**	10,622	7,006
Income tax receivable (Note 12)	**1,158**	—	—
	377,988	363,174	335,003
NON-CURRENT ASSETS			
Property and equipment	**488,974**	427,857	469,993
Goodwill	**43,276**	41,521	41,231
Intangible assets	**37,919**	35,358	37,628
Deferred tax assets	**31,305**	32,380	34,450
Other assets	**11,586**	11,343	12,643
	613,060	548,459	595,945
TOTAL ASSETS	**$ 991,048**	$ 911,633	$ 930,948
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	**$ 170,872**	$ 156,554	$ 170,166
Current portion of long-term debt (Note 9)	**900**	—	—
Income tax payable (Note 12)	**—**	6,319	1,046
	171,772	162,873	171,212
NON-CURRENT LIABILITIES			
Long-term debt (Note 9)	**365,907**	313,121	313,549
Defined benefit plan obligation	**34,903**	35,929	34,095
Deferred tax liabilities	**2,238**	2,433	6,468
Other long-term liabilities	**21,548**	18,124	23,468
	424,596	369,607	377,580
TOTAL LIABILITIES	**596,368**	532,480	548,792
SHAREHOLDERS' EQUITY			
Share capital (Note 7)	**172,855**	172,340	172,619
Contributed surplus	**3,421**	2,665	2,570
Retained earnings	**186,084**	175,954	181,844
Accumulated other comprehensive income	**18,909**	14,818	12,918
Equity attributable to The North West Company Inc.	**381,269**	365,777	369,951
Non-controlling interests	**13,411**	13,376	12,205
TOTAL EQUITY	**394,680**	379,153	382,156
TOTAL LIABILITIES & EQUITY	**$ 991,048**	$ 911,633	$ 930,948

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Earnings

(unaudited, $ in thousands, except per share amounts)	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017[1]	Six Months Ended July 31, 2018	Six Months Ended July 31, 2017[1]
SALES	**$ 503,796**	$ 515,184	**$ 969,526**	$ 1,000,973
Cost of sales	**(340,528)**	(352,720)	**(658,262)**	(688,195)
Gross profit	**163,268**	162,464	**311,264**	312,778
Selling, operating and administrative expenses (Notes 10, 16)	**(135,444)**	(129,272)	**(257,848)**	(262,846)
Earnings from operations	**27,824**	33,192	**53,416**	49,932
Interest expense (Note 11)	**(3,107)**	(2,306)	**(6,318)**	(4,408)
Earnings before income taxes	**24,717**	30,886	**47,098**	45,524
Income taxes (Note 12)	**(6,097)**	(7,625)	**(9,897)**	(13,192)
NET EARNINGS FOR THE PERIOD	**$ 18,620**	$ 23,261	**$ 37,201**	$ 32,332
NET EARNINGS ATTRIBUTABLE TO				
The North West Company Inc.	**$ 17,644**	$ 22,720	**35,402**	31,106
Non-controlling interests	**976**	541	**1,799**	1,226
TOTAL NET EARNINGS	**$ 18,620**	$ 23,261	**$ 37,201**	$ 32,332
NET EARNINGS PER SHARE				
Basic	**$ 0.37**	$ 0.47	**$ 0.73**	$ 0.64
Diluted	**$ 0.36**	$ 0.46	**$ 0.72**	$ 0.63
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)				
Basic	**48,691**	48,681	**48,691**	48,673
Diluted	**49,139**	49,243	**49,145**	49,232

(1) Certain prior period figures have been reclassified as described in Note 3.

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

(unaudited, $ in thousands)		Three Months Ended July 31, 2018		Three Months Ended July 31, 2017		Six Months Ended July 31, 2018		Six Months Ended July 31, 2017
NET EARNINGS FOR THE PERIOD	**$**	**18,620**	$	23,261	**$**	**37,201**	$	32,332
Other comprehensive income/(loss), net of tax:								
Items that may be reclassified to net earnings:								
Exchange differences on translation of foreign controlled subsidiaries		**1,564**		(12,018)		**5,991**		(6,034)
Total other comprehensive income/(loss), net of tax		**1,564**		(12,018)		**5,991**		(6,034)
COMPREHENSIVE INCOME FOR THE PERIOD	**$**	**20,184**	$	11,243	**$**	**43,192**	$	26,298
OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO								
The North West Company Inc.	**$**	**1,564**	$	(12,018)	**$**	**5,991**	$	(6,034)
Non-controlling interests		**—**		—		**—**		—
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	**$**	**1,564**	$	(12,018)	**$**	**5,991**	$	(6,034)
COMPREHENSIVE INCOME ATTRIBUTABLE TO								
The North West Company Inc.	**$**	**19,208**	$	10,702	**$**	**41,393**	$	25,072
Non-controlling interests		**976**		541		**1,799**		1,226
TOTAL COMPREHENSIVE INCOME	**$**	**20,184**	$	11,243	**$**	**43,192**	$	26,298

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, 2018	$ 172,619	$ 2,570	$ 181,844	$ 12,918	$ 369,951	$ 12,205	$ 382,156
Net earnings for the period	—	—	35,402	—	35,402	1,799	37,201
Other comprehensive income	—	—	—	5,991	5,991	—	5,991
Comprehensive income	—	—	35,402	5,991	41,393	1,799	43,192
Acquisition of non-controlling interests	—	—	—	—	—	(400)	(400)
Equity settled share-based payments (Note 13)	—	1,087	—	—	1,087	—	1,087
Dividends (Note 8)	—	—	(31,162)	—	(31,162)	(193)	(31,355)
Issuance of shares (Note 7)	236	(236)	—	—	—	—	—
	236	851	(31,162)	—	(30,075)	(593)	(30,668)
Balance at July 31, 2018	**$ 172,855**	**$ 3,421**	**$ 186,084**	**$ 18,909**	**$ 381,269**	**$ 13,411**	**$ 394,680**
Balance at January 31, 2017	$ 168,283	$ 2,647	$ 176,003	$ 20,852	$ 367,785	$ —	$ 367,785
Net earnings for the period	—	—	31,106	—	31,106	1,226	32,332
Other comprehensive income	—	—	—	(6,034)	(6,034)	—	(6,034)
Comprehensive income/(loss)	—	—	31,106	(6,034)	25,072	1,226	26,298
Acquisition of subsidiary with non-controlling interest (Note 18)	—	—	—	—	—	12,150	12,150
Equity settled share-based payments (Note 13)	—	75	—	—	75	—	75
Dividends (Note 8)	—	—	(31,155)	—	(31,155)	—	(31,155)
Issuance of shares (Note 7)	4,057	(57)	—	—	4,000	—	4,000
	4,057	18	(31,155)	—	(27,080)	12,150	(14,930)
Balance at July 31, 2017	$ 172,340	$ 2,665	$ 175,954	$ 14,818	$ 365,777	$ 13,376	$ 379,153

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited, $ in thousands)	**Three Months Ended July 31, 2018**	Three Months Ended July 31, 2017	**Six Months Ended July 31, 2018**	Six Months Ended July 31, 2017
CASH PROVIDED BY (USED IN)				
Operating activities				
Net earnings for the period	**$ 18,620**	$ 23,261	**$ 37,201**	$ 32,332
Adjustments for:				
Amortization	**14,614**	14,112	**28,554**	27,487
Provision for income taxes (Note 12)	**6,097**	7,625	**9,897**	13,192
Interest expense (Note 11)	**3,107**	2,306	**6,318**	4,408
Equity settled share option expense (Note 13)	**1,046**	36	**1,087**	75
Taxes paid	**(6,443)**	(9,314)	**(14,049)**	(16,268)
Loss on disposal of property and equipment	**17**	22	**963**	470
	37,058	38,048	**69,971**	61,696
Change in non-cash working capital	**6,234**	932	**(9,395)**	(848)
Change in other non-cash items	**1,914**	2,829	**46**	1,973
Cash from operating activities	**45,206**	41,809	**60,622**	62,821
Investing activities				
Purchase of property and equipment	**(23,005)**	(27,415)	**(37,713)**	(38,132)
Business acquisitions (Note 18)	**—**	(28,934)	**(400)**	(51,789)
Intangible asset additions	**(1,957)**	(312)	**(5,006)**	(1,518)
Proceeds from disposal of property and equipment	**49**	94	**2,186**	99
Cash used in investing activities	**(24,913)**	(56,567)	**(40,933)**	(91,340)
Financing activities				
Net increase in long-term debt (Note 9)	**10,647**	42,704	**46,030**	89,710
Dividends (Note 8)	**(15,581)**	(15,579)	**(31,162)**	(31,155)
Dividends to non-controlling interests (Note 8)	**—**	—	**(193)**	—
Interest paid	**(2,832)**	(2,762)	**(5,713)**	(3,670)
Cash provided by/(used in) financing activities	**(7,766)**	24,363	**8,962**	54,885
Effect of foreign exchange rates on cash	**240**	(2,283)	**767**	(1,312)
NET CHANGE IN CASH	**12,767**	7,322	**29,418**	25,054
Cash, beginning of period	**41,811**	47,975	**25,160**	30,243
CASH, END OF PERIOD	**$ 54,578**	$ 55,297	**$ 54,578**	$ 55,297

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. In 2017, the Company acquired the majority of the outstanding shares of Roadtown Wholesale Trading Ltd., operating primarily as Riteway Food Markets in the British Virgin Islands. The Company also acquired 100% of the outstanding common shares of North Star Air Ltd., a Thunder Bay based airline providing cargo and passenger services within northwestern Ontario, Canada. See Note 18 for further information on these business acquisitions. The address of its registered office is 77 Main Street, Winnipeg, Manitoba.

The Company has two reportable geographical segments, Canada and International. The International segment consists 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 September 6, 2018.

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 2017 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 13)
- Defined benefit pension plan
- Assets and liabilities acquired in a business combination (Note 18)

The methods used to measure fair values are discussed further in the notes to the Company's 2017 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 2017 Annual Audited Consolidated Financial Statements. These policies have been applied to all periods presented in these condensed consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances, except for the adoption of IFRS 9, IFRS 15 and IFRS 2 described below.

New Standards Implemented The Company adopted the amended IFRS 9, *Financial Instruments,* IFRS 15, *Revenue from Contracts with Customers* and the amended IFRS 2, *Share-based payments* effective February 1, 2018, as required by the IASB.

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

Classification and measurement. IFRS 9 uses a single approach to determine measurement of financial assets by both cash flow characteristics and how an entity manages financial impairment, replacing the multiple classification options in IAS 39 with three categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

The Company implemented the new requirements for classification and measurement, including impairment, retrospectively with any cumulative effects of initial application recorded in opening retained earnings. The adoption of IFRS 9 did not result in any measurement adjustments to financial assets and liabilities. The adoption of IFRS 9 did result in certain classification changes, as summarized in the table below.

Asset/Liability	Classification under IAS 39	New Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Other financial assets	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	Amortized cost
Long-term debt	Financial liabilities at amortized cost	Amortized cost

Financial assets are not reclassified subsequent to their initial recognition, unless the Company identifies changes in its business model requiring reassessment. Financial assets are subsequently measured at amortized cost if both of the following conditions are met and they are not designated as FVTPL:

- financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment. Measurement gains or losses are recognized in net earnings in the period when the the asset is decrecognized or impaired.

"Expected credit loss" impairment model. The Company applied a new forward-looking lifetime expected credit loss ("ECL") impairment model to its accounts receivable. The change in ECL's is recognized in earnings and reflected as an allowance against accounts receivable. The Company adopted the practical expedient to determine ECL's using a provision matrix based on historical trends, timing of recoveries and management's judgment as to whether current economic and credit conditions are such that actual losses are likely to differ from historical trends. Certain receivables are also individually assessed for specific impairment. Adoption of the revised ECL based provision matrix resulted in an insignificant measurement adjustment to the Company's accounts receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New general hedge accounting standard. Amendments to IFRS 9 align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize effectiveness, however, it will provide more strategies that may be used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The Company's net investment hedging relationship meets the new hedging requirements and did not result in any measurement adjustments. The Company's financial risk management strategies are disclosed in Note 14 Financial Instruments in the Company's 2017 Annual Audited Consolidated Financial Statements.

Revenue Recognition The IFRS 15, *Revenue from Contracts with Customers* standard contains a comprehensive model which specifies the criteria and timing for recognizing revenue, and also requires additional disclosures in the notes to the financial statements. The core principle of the standard is that revenue is recognized to depict the transfer of promised goods or services to the customer at an amount that reflects the consideration to which the Company is entitled. A contract based five step analysis of transactions is used to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced.

Revenue on the sale of goods and services is recorded at the time the sale is made or service is rendered to the customer. Sales are presented net of tax, returns and discounts and are measured at the fair value of the consideration received or receivable from the customer for the products sold or services supplied. Service charges on customer accounts receivable are accrued each month on balances outstanding at each account's billing date.

The Company adopted the standard retrospectively with the restatement of comparative periods. As a result of these changes certain commissions and service fees previously included in selling, operating and administrative expenses are now presented in sales and cost of sales. These changes had no impact on earnings from operations, net earnings or retained earnings previously reported. The impact of this change on the comparative period is as follows:

	Three Months Ended July 31, 2017 (Previously Reported)	IFRS 15 Amendment	**Three Months Ended July 31, 2017 (Revised)**	Six Months Ended July 31, 2017 (Previously Reported)	IFRS 15 Amendment	**Six Months Ended July 31, 2017 (Revised)**
SALES	$ 507,873	$ 7,311	**$ 515,184**	$ 984,695	$ 16,278	**$ 1,000,973**
Cost of sales	(355,312)	2,592	**(352,720)**	(692,863)	4,668	**(688,195)**
Gross profit	152,561	9,903	**162,464**	291,832	20,946	**312,778**
Selling, operating and administrative expenses	(119,369)	(9,903)	**(129,272)**	(241,900)	(20,946)	**(262,846)**
Earnings from operations	$ 33,192	$ —	**$ 33,192**	$ 49,932	$ —	**$ 49,932**

The adoption of IFRS 15 did not have any impact on the consolidated balance sheets, statements of comprehensive income, statements of changes in shareholders' equity or statements of cash flows.

Share-based payments The amendments to IFRS 2, *Share-based payments* are in relation to the classification and measurement of share-based payment transactions, specifically, accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based transactions. The adoption of these amendments did not result in any measurement adjustments to the liability for share-based payments.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Standards and Amendments The following new standards, and amendments to standards and interpretations, are not yet effective for the year ending January 31, 2019, and have not been applied in preparing these condensed consolidated financial statements.

Leases IFRS 16, *Leases* replaces the current guidance in IAS 17 for operating and finance lease accounting. This standard requires lessees to recognize a lease liability representing the obligation for future lease payments and a right-of-use asset in the consolidated balance sheets for substantially all lease contracts, initially measured at the present value of unavoidable lease payments. Under the new standard the Company will recognize new right-of-use assets and lease liabilities for its operating leases of land, buildings and equipment. In addition, the nature and timing of leasing expenses will change as operating lease expenses are replaced by a depreciation charge for right-of-use assets and interest expense on lease liabilities. On transition the Company can either apply the standard using a retrospective approach or a modified retrospective approach with optional practical expedients. The Company plans to apply IFRS 16 initially on February 1, 2019 and has not yet determined which transition approach to apply. As a result, the Company has not yet quantified the impact on its reported assets and liabilities since it will depend on the transition method chosen.

The implementation of this accounting standard will have a material impact the consolidated financial statements. The Company continues to execute its detailed implementation plan. The portfolio of leases has been identified and the leasing information required to support the change in the accounting standard has been summarized for each lease. Information technology, processes and controls are being modified and developed to support the implementation. The Company is continuing to evaluate the impact of this accounting standard on its consolidated financial statements, technology, processes and internal controls.

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

There are no other IFRS or IFRIC interpretations 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, impairment of long-lived assets, goodwill and indefinite life intangible asset impairment, income taxes, defined benefit plan obligations, and business combinations.

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 July 31, 2018	Three Months Ended July 31, 2017	**Six Months Ended July 31, 2018**	Six Months Ended July 31, 2017
Sales(1)				
Canada				
Food	**$ 211,084**	$ 209,904	**$ 409,421**	$ 410,508
General merchandise and other	**103,297**	90,238	**198,919**	170,468
Canada	**$ 314,381**	$ 300,142	**$ 608,340**	$ 580,976
International				
Food	**$ 168,859**	$ 193,782	**$ 323,474**	$ 379,247
General merchandise and other	**20,556**	21,260	**37,712**	40,750
International	**$ 189,415**	$ 215,042	**$ 361,186**	$ 419,997
Consolidated	**$ 503,796**	$ 515,184	**$ 969,526**	$ 1,000,973
Earnings before amortization, interest and income taxes				
Canada	**$ 26,751**	$ 30,302	**$ 53,717**	$ 50,217
International	**15,687**	17,002	**28,253**	27,202
Consolidated	**$ 42,438**	$ 47,304	**$ 81,970**	$ 77,419
Earnings from operations				
Canada	**$ 16,068**	$ 20,435	**$ 32,915**	$ 31,195
International	**11,756**	12,757	**20,501**	18,737
Consolidated	**$ 27,824**	$ 33,192	**$ 53,416**	$ 49,932

(1) Prior period sales figures have been reclassified as described in Note 3

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENTED INFORMATION (continued)

Supplemental information

	July 31, 2018	July 31, 2017	January 31, 2018
Assets			
Canada [(1)]	**$ 657,493**	$ 589,366	$ 634,399
International [(1)]	**333,555**	322,267	296,549
Consolidated	**$ 991,048**	$ 911,633	$ 930,948

(1) Canadian total assets includes goodwill of $6,730 (July 31, 2017 –$6,524; January 31, 2018 – $6,730). International total assets includes goodwill of $36,546 (July 31, 2017 – $34,997; January 31, 2018 – $34,501).

	Three Months Ended July 31, 2018		Three Months Ended July 31, 2017		**Six Months Ended January 31, 2018**		Six Months Ended January 31, 2017	
	Canada	**International**	Canada	International	**Canada**	**International**	Canada	International
Purchase of property and equipment	**$ 19,063**	**$ 3,942**	$ 21,968	$ 5,447	**$ 31,432**	**$ 6,281**	$ 30,430	$ 7,702
Amortization	**$ 10,683**	**$ 3,931**	$ 9,867	$ 4,245	**$ 20,802**	**$ 7,752**	$ 19,022	$ 8,465

5. ACCOUNTS RECEIVABLE

	July 31, 2018	July 31, 2017	January 31, 2018
Trade accounts receivable	**$ 82,982**	$ 76,795	$ 80,374
Corporate and other accounts receivable	**14,759**	15,926	16,322
Less: allowance for doubtful accounts	**(17,329)**	(15,246)	(15,931)
Total	**$ 80,412**	$ 77,475	$ 80,765

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 July 31, 2018, the Company recorded $372 (three months ended July 31, 2017 – $251) for the write-down of period end inventories as a result of net realizable value being lower than cost. For the six months ended July 31, 2018 the Company recorded $847 (six months ended July 31, 2017 - $688) for the write-down of period end inventories as a result of net realizable value being lower than cost. There was no reversal of inventories written down previously that are no longer estimated to sell below cost during the six months ended July 31, 2018 or 2017.

7. SHARE CAPITAL

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

July 31, 2018	**Shares**	**Consideration**
Balance at January 31, 2018	**48,690,212**	**$ 172,619**
Issued under option plans (Note 13)	**7,777**	**236**
Balance at July 31, 2018	**48,697,989**	**$ 172,855**

July 31, 2017		
Balance at January 31, 2017	48,542,514	$ 168,283
Issued for acquisition of Roadtown Wholesale Trading Ltd. (Note 18)	133,944	4,000
Issued under option plans (Note 13)	4,909	57
Balance at July 31, 2017	48,681,367	$ 172,340

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

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

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

8. DIVIDENDS

		Six Months Ended July 31, 2018		Six Months Ended July 31, 2017
Dividends recorded in equity and paid in cash	**$**	**31,355**	$	31,155
Less: Dividends paid to non-controlling interests		**(193)**		—
Shareholder dividends	**$**	**31,162**	$	31,155
Dividends per share	**$**	**0.64**	$	0.64

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

	July 31, 2018	July 31, 2017	January 31, 2018
Current:			
Promissory Note Payable(8)	**$ 900**	$ —	$ —
	$ 900	$ —	$ —
Non-current:			
Revolving loan facilities (1)	**$ —**	$ 7,456	$ 1,776
Revolving loan facilities (2)	**36,401**	34,859	34,365
Revolving loan facilities (3)	**135,633**	183,615	91,108
Revolving loan facilities (4)	**—**	—	—
Revolving loan facilities (5)	**282**	—	540
Senior notes (6)	**90,891**	87,191	85,760
Senior notes (7)	**100,000**	—	100,000
Promissory Note Payable(8)	**2,700**	—	—
	$ 365,907	$ 313,121	$ 313,549
Total	**$ 366,807**	$ 313,121	$ 313,549

(1) The committed, revolving U.S. loan facility provides the International Operations with up to US$40,000 for working capital requirements and general business purposes. This facility matures October 31, 2020, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At July 31, 2018, the International Operations had drawn US$NIL (July 31, 2017 – US$5,975; January 31, 2018 – US$1,444) on this facility.

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 July 31, 2018, the Company had drawn US$27,936 (July 31, 2017 – US$27,936; January 31, 2018 – 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) The Promissory Note Payable in the amount of $3,600 is non-interest bearing, has annual principal payments of $900 and is secured by certain assets of the Company.

10. EMPLOYEE COSTS

	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017	**Six Months Ended July 31, 2018**	Six Months Ended July 31, 2017
Wages, salaries and benefits including bonus	**$ 71,682**	$ 72,979	**$ 140,023**	$ 137,477
Post employment benefits	**2,197**	2,003	**4,416**	4,076
Share-based compensation (Note 13)	**6,746**	207	**5,934**	7,045

11. INTEREST EXPENSE

	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017	Six Months Ended July 31, 2018	Six Months Ended July 31, 2017
Interest on long-term debt	**$ 2,973**	$ 2,110	**$ 6,031**	$ 3,952
Net interest on defined benefit plan obligation	**291**	331	**582**	661
Less: interest capitalized	**(157)**	(135)	**(295)**	(205)
Interest expense	**$ 3,107**	$ 2,306	**$ 6,318**	$ 4,408

12. INCOME TAXES

The estimated effective income tax rate for the three months ended July 31, 2018 is 24.7% (three months ended July 31, 2017 – 24.7%) and for the six months ended July 31, 2018 is 21.0% (six months ended July 31, 2017 – 29.0%). The Company estimates its effective income tax rate on a weighted-average basis by determining the income tax rate applicable to each taxing jurisdiction and applying it to its pre-tax earnings. Changes in the effective income tax rate primarily reflect new corporate tax legislation enacted in the United States which reduced the federal corporate tax rate from 35% to 21% effective January 1, 2018 and also changes in earnings of the Company's subsidiaries across various tax jurisdictions and the impact of non-tax deductible items.

13. SHARE-BASED COMPENSATION

The Company offers the following share-based payment 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 July 31, 2018 is $6,746 (three months ended July 31, 2017 – $207) and for the six months ended July 31, 2018 is $5,934 (six months ended July 31, 2017 – $7,045). 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:

	July 31, 2018	July 31, 2017	January 31, 2018
Accounts payable and accrued liabilities	**$ 13,316**	$ 14,832	$ 14,164
Other long-term liabilities	**12,168**	12,790	14,188
Contributed surplus	**1,852**	1,096	1,001
Total	**$ 27,336**	$ 28,718	$ 29,353

13. 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 July 31, 2018 are $1,778 (three months ended July 31, 2017 – $777) and for the six months ended July 31, 2018 are $2,471 (six months ended July 31, 2017 – $2,074).

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 July 31, 2018. Fair value of the Company's options is determined using an option pricing model. Share options granted vest on a graduated basis over four to five years and are exercisable over a period of seven years. The share option compensation costs recorded for the three months ended July 31, 2018 are an expense of $3,593 (three months ended July 31, 2017 – recovery of $967) and for the six months ended July 31, 2018 are $1,922 (six months ended July 31, 2017 – $3,346).

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

		2018		2017
Fair value of options granted	**$**	**2.86**		$3.12 to $4.30
Exercise price	**$**	**27.77**	$	32.40
Dividend yield		**4.3%**		4.2%
Annual risk-free interest rate		**2.1%**		1.2%
Expected share price volatility		**19.2%**		21.6%

13. SHARE-BASED COMPENSATION (continued)

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

	2018	2017
Dividend yield	**4.3%**	4.2%
Annual risk-free interest rate	**2.1% to 2.2%**	1.3% to 1.7%
Expected share price volatility	**13.5% to 19.8%**	18.8% to 21.3%

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

The following continuity schedules reconcile the movement in outstanding options during the six months ended July 31:

Number of options outstanding	**Declining Strike Price Options**		**Standard Options**	
	2018	2017	**2018**	2017
Outstanding options, beginning of period	**2,464,940**	2,082,892	**454,177**	442,642
Granted	**—**	425,164	**372,992**	63,843
Exercised	**(215,026)**	—	**(42,456)**	(16,855)
Forfeited or cancelled	**(22,794)**	(28,117)	**(173,159)**	—
Outstanding options, end of period	**2,227,120**	2,479,939	**611,554**	489,630
Exercisable at end of period	**917,761**	801,715	**197,467**	237,026

Weighted-average exercise price	**Declining Strike Price Options**		**Standard Options**	
	2018	2017	**2018**	2017
Outstanding options, beginning of period	**$ 26.18**	$ 24.81	**$ 24.28**	$ 23.21
Granted	**—**	32.40	**27.77**	32.40
Exercised	**17.84**	—	**20.61**	22.71
Forfeited or cancelled	**23.04**	25.40	**27.84**	—
Outstanding options, end of period	**$ 26.73**	$ 26.10	**$ 25.65**	$ 24.43
Exercisable at end of period	**$ 23.63**	$ 19.49	**$ 20.81**	$ 20.67

Options outstanding at July 31, 2018 have an exercise price range of $19.11 to $32.40 and a weighted-average remaining contractual life of 3.9 years.

13. 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 measured based on the fair market value at each reporting date. 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 cost recorded for the three months ended July 31, 2018 is $1,179 (three months ended July 31, 2017 – $275) and for the six months ended July 31, 2018 is $994 (six months ended July 31, 2017 – $1,057). The total number of DDSUs outstanding at July 31, 2018 is 257,961 (July 31, 2017 – 238,014). There were 21,186 DDSUs exercised in cash during the six months ended July 31, 2018 (six months ended July 31, 2017 – NIL).

Executive Deferred Share Unit Plan

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 cost recorded for the three months ended July 31, 2018 is an expense of $60 (three months ended July 31, 2017 – recovery of $30) and for the six months ended July 31, 2018 is an expense of $25 (six months ended July 31, 2017 – expense of $38).

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 cost recorded for the three months ended July 31, 2018 is $136 (three months ended July 31, 2017 – $152) and for the six months ended July 31, 2018 is $522 (six months ended July 31, 2017 – $530).

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14. SEASONALITY

The Company's business follows a seasonal pattern where historically the first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting consumer holiday buying patterns. 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.

15. SUBSIDIARIES AND JOINT VENTURES

The Company's principal operating subsidiaries at July 31, 2018 are set out below:

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

16. EXPENSES BY NATURE

	Three Months Ended July 31, 2018	Three Months Ended July 31, 2017	**Six Months Ended July 31, 2018**	Six Months Ended July 31, 2017
Employee costs (Note 10)	**$ 80,625**	$ 75,189	**$ 150,373**	$ 148,598
Amortization	**14,614**	14,112	**28,554**	27,487
Operating lease rentals	**8,134**	8,796	**17,860**	16,542

17. FINANCIAL INSTRUMENTS

Accounting classifications and fair value estimation

The following table comprises the carrying amounts of the Company's financial instruments at July 31, 2018. 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	$ 54,578	$ 54,578
Accounts receivable	Short-term	80,412	80,412
Other financial assets	Long-term	1,224	1,224
Accounts payable and accrued liabilities	Short-term	(170,872)	(170,872)
Current portion of long-term debt	Short-term	(900)	(900)
Long-term debt	Long-term	(365,907)	(361,517)

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

18. Business Acquisitions

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

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

This acquisition was completed to gain access to a new market, consistent with the Company's overall Caribbean growth plans. The acquisition was accounted for using the acquisition method. For the six months ended July 31, 2017, the impact on net earnings was a decrease of $402. The net loss of $402 includes $5,765 in acquisition costs substantially related to stamp duty paid to the Government of the British Virgin Islands. These acquisition costs are included in selling, operating and administrative expenses in the consolidated statements of earnings. On February 9, 2017, accounts payable and accrued liabilities includes a $7,470 (US$5,676) dividend payable to RTW shareholders declared prior to the acquisition. This dividend was paid subsequent to the closing of the acquisition and was fully funded by the cash acquired.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. Business Acquisitions (continued)

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

(unaudited, $ in thousands)		June 15, 2017
CURRENT ASSETS		
Cash	$	2,406
Accounts receivable		5,258
Inventories		1,053
Prepaid expenses		1,852
	$	10,569
NON-CURRENT ASSETS		
Property and equipment	$	28,547
Goodwill		3,459
		32,006
TOTAL ASSETS	$	42,575
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$	(7,547)
Deferred tax liability		(4,273)
NET IDENTIFIABLE ASSETS & CONSIDERATION		30,755
Less: cash acquired		(2,406)
NET CASH FLOW FOR BUSINESS ACQUISITION	$	28,349

This acquisition was completed to allow the Company to deliver faster, more consistent service to our customers. The acquisition was accounted for using the acquisition method. For the three months ended July 31, 2018 the impact on sales was an increase of $11,634 (three months ended July 31, 2017 – $4,900) and for the six months ended July 31, 2018 was an increase of $24,177 (six months ended July 31, 2017 – $4,900). For the three months ended July 31, 2018 the impact on earnings from operations was an increase of $1,960 (three months ended July 31, 2017 – $49) and for the six months ended July 31, 2018 the impact on earnings from operations was an increase of $1,111 (six months ended July 31, 2018 – $49).

19. SUBSEQUENT EVENTS

On September 6, 2018, the Board of Directors declared a dividend of $0.32 per share payable October 15, 2018 to shareholders of record on September 28, 2018.