THE NORTH WEST COMPANY INC.

Report to Shareholders

Quarterly Period Ended July 31, 2021

2021 SECOND QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. reports its results for the second quarter ended July 31, 2021. Sales decreased 12.9% to $565.1 million compared to the second quarter last year due to the sale and closure of most of the Company's Giant Tiger stores last year (the "Giant Tiger Transaction"), the negative impact of foreign exchange on the translation of International Operations sales and lower same stores sales compared to the exceptional COVID-19-related sales gains last year. Excluding the foreign exchange impact, sales decreased 10.0% compared to last year but were only down 4.8%[1] on a same store basis compared to a 25.4% increase in same store sales last year as the continuing impact of COVID-19-related factors including in-community spending and income support for individuals provided by different jurisdictions within which the Company operates was less than last year. Although same store sales were down compared to the strong sales gains last year, they were up 21.4% compared to the second quarter of 2019.

Second quarter net earnings decreased to $42.4 million compared to $62.6 million last year but were up $24.5 million or 136.3% compared to the second quarter of 2019. Net earnings attributable to shareholders were $41.9 million or $0.86 per share compared to $1.25 per share last year on a diluted earnings per share basis but were up compared to $0.35 per share two years ago. The decrease compared to last year is substantially due to the $20.0 million after-tax gain on the Giant Tiger Transaction last year partially offset by changes in share-based compensation costs (collectively "Non-Comparable Factors"). Adjusted net earnings[2], which excludes the impact of the Non-Comparable Factors, decreased $5.8 million or 11.5% compared to the exceptionally strong earnings last year due to the impact of lower sales and the negative impact of foreign exchange on the translation of International Operations net earnings but were up $24.0 million or 116.0% compared to the second quarter of 2019.

The Board of Directors has approved a quarterly dividend of $0.37 per share, an increase of $0.01 or 2.8% per share, to shareholders of record on September 30, 2021.

On behalf of the Board of Directors:

H. Sanford Riley
Chairman

Daniel G. McConnell
President and Chief Executive Officer

Management's Discussion & Analysis

The following Management's Discussion & Analysis should be read in conjunction with the Company's 2021 second quarter unaudited interim period condensed consolidated financial statements for the period ended July 31, 2021 ("Interim Condensed Consolidated Financial Statements") and the audited annual consolidated financial statements and accompanying notes included in the 2020 Annual Report. The first quarter of 2021 had 89 days of operations compared to 90 days of operations in the first quarter of 2020 as a result of February 29. The estimated impact of this extra day has been deducted from the reported year-to-date same store sales.

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

Second Quarter Highlights

CONSOLIDATED RESULTS SECOND QUARTER

Key Performance Indicators and Selected Second Quarter Information:

	Three Months Ended	
($ in thousands, except per share)	**July 31, 2021**	July 31, 2020
Sales	**$ 565,109**	$ 648,504
Same store sales %(1)		
Food	**(2.1)%**	19.1 %
General Merchandise	**(16.7)%**	54.8 %
Total	**(4.8)%**	25.4 %
Gross profit	**$ 189,699**	$ 217,460
Selling, operating and administrative expenses	**131,237**	129,630
EBITDA(2)	**81,100**	110,929
EBIT	**58,462**	87,830
Interest expense	**3,240**	4,353
Income taxes	**12,822**	20,917
Net earnings	**42,400**	62,560
Net earnings attributable to shareholders of the Company	**41,850**	61,929
Net earnings per share - basic	**0.86**	1.27
Net earnings per share - diluted	**0.86**	1.25

Sales Second quarter consolidated sales decreased 12.9% to $565.1 million mainly due to the impact of the sale and closure of the Company's Giant Tiger stores last year net of the impact of wholesale food sales to the sold Giant Tiger stores, the negative impact of foreign exchange on the translation of International Operations sales and lower same store sales compared to the exceptional COVID-19-related sales gains last year. The Company completed the sale of 36 Giant Tiger stores on July 5, 2020 and closed four stores in the third quarter last year (the "Giant Tiger Transaction"). Further information on the Giant Tiger Transaction is provided under Canadian Operations. The exchange rate used for the translation of International Operations sales in the quarter was 1.2285 compared to 1.3674 last year. Excluding the foreign exchange impact, consolidated sales decreased 10.0%, with food sales decreasing 6.2% and general merchandise sales decreasing 35.7% mainly due to the Giant Tiger Transaction. On a same store basis, sales remained strong with a decrease of only 4.8%[1] compared to a 25.4% increase in the second quarter last year, but were up 21.4% compared to the second quarter of 2019, as the continuing impact of COVID-19-related factors including in-community spending and income support for individuals was less than last year. Food same store sales were down only 2.1% compared to a 19.1% increase last year, as same store sales gains in International Operations were more than offset by lower sales in Canadian Operations, but were up 17.6% compared to the second quarter of 2019. General merchandise same store sales were down 16.7% compared to a 54.8% same store sales gain last year driven by the previously noted COVID-19-related factors but were up 44.8% compared to 2019.

Gross Profit Gross profit decreased 12.8% due to the impact of lower sales partially offset by a 4 basis point increase in gross profit rate compared to last year. The increase in gross profit rate was primarily due to favourable changes in product sales blend and lower markdowns and inventory shrinkage with gross profit rate improvement in Canada largely offset by a lower gross profit rate in International Operations.

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

Selling, Operating and Administrative Expenses Selling, operating and administrative expenses ("Expenses") increased $1.6 million or 1.2% compared to last year and were up 323 basis points as a percentage to sales largely due to the Non-Comparable Factors which included a $24.7 million pre-tax gain on the Giant Tiger Transaction in the second quarter last year partially offset by changes in share-based compensation costs. Share-based compensation costs decreased $6.7 million primarily due to mark-to-market adjustments resulting from changes in the Company's share price. Excluding the Non-Comparable Factors, Expenses decreased $16.4 million and were down 40 basis points as a percentage to sales primarily due to lower store expenses related to the Giant Tiger Transaction and a decrease in COVID-19-related expenses. COVID-19 expenses related to wage increases for front-line associates, the purchase of protective equipment and enhanced sanitation procedures were $1.2 million in the quarter compared to $6.5 million last year. A decrease in Expenses related to the impact of foreign exchange on the translation of International Operations Expenses and lower annual incentive plan costs were also factors.

Earnings From Operations Earnings from operations decreased to $58.5 million compared to $87.8 million last year and earnings before interest, income taxes, depreciation and amortization ("EBITDA[2]") decreased to $81.1 million compared to $110.9 million last year but were up $28.9 million and $29.5 million respectively compared to 2019. The decrease compared to the exceptional earnings last year is due to the impact of the Non-Comparable Factors and lower sales as previously noted. Adjusted EBITDA[2], which excludes the Non-Comparable Factors, decreased $11.9 million compared to last year and as a percentage to sales was 14.9% compared to 14.8% last year due to the sales, gross profit and Expense factors previously noted, but was up $30.4 million or 56.7% compared to 2019.

Interest Expense Interest expense decreased to $3.2 million compared to $4.4 million last year substantially due to lower average debt. Further information on long-term debt is provided in Note 9 to the Company's Interim Condensed Consolidated Financial Statements.

Income Tax Expense Income tax expense was $12.8 million compared to $20.9 million last year and the consolidated effective tax rate was 23.2% compared to 25.1%. This rate decrease was primarily due to the impact of non-tax deductible share-based compensation costs and the blend of earnings in International Operations across the various tax rate jurisdictions.

Net Earnings Net earnings decreased $20.2 million to $42.4 million but were up $24.5 million or 136.3% compared to the second quarter of 2019. Net earnings attributable to shareholders were $41.9 million and diluted earnings per share were $0.86 per share compared to $1.25 per share last year due to the factors noted above but were up compared to $0.35 per share two years ago. Adjusted net earnings[2], which excludes the after-tax impact of the Non-Comparable Factors, decreased $5.8 million compared to the exceptionally strong net earnings last year due to the factors previously noted and the negative impact of foreign exchange on the translation of International Operations net earnings but were up $24.0 million or 116.0% compared to the second quarter of 2019.

Comprehensive Income Comprehensive income decreased to $44.5 million compared to $56.7 million last year due to lower net earnings noted above partially offset by the impact of foreign exchange on the translation of International Operations.

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

Year-To-Date Highlights

CONSOLIDATED RESULTS

Key Performance Indicators and Selected Year-To-Date July 31, 2021 Information:

($ in thousands, except per share)		Year-to-date **July 31, 2021**		July 31, 2020
Sales	**$**	**1,116,097**	$	1,241,073
Same store sales %[(1)]				
Food		**(0.9)%**		17.7 %
General Merchandise		**(0.2)%**		33.6 %
Total		**(0.8)%**		20.5 %
Gross profit	**$**	**372,271**	$	401,616
Selling, operating and administrative expenses		**257,497**		294,315
EBITDA[(2)]		**159,769**		154,302
EBIT		**114,774**		107,301
Interest expense		**6,703**		9,363
Income taxes		**25,383**		23,124
Net earnings		**82,688**		74,814
Net earnings attributable to shareholders of the Company		**81,506**		73,203
Net earnings per share - basic		**1.68**		1.50
Net earnings per share - diluted		**1.66**		1.48

Sales Year-to-date sales decreased 10.1% to $1.116 billion mainly due to lower sales in Giant Tiger stores resulting from the Giant Tiger Transaction and the negative impact of foreign exchange on the translation of International Operations sales. The exchange rate used for the translation of International Operations sales decreased to 1.2430 compared to 1.3731 last year. Excluding the foreign exchange impact, consolidated sales decreased 7.2% with food sales decreasing 5.6% and general merchandise sales decreasing 25.2% due to the impact of the Giant Tiger Transaction net of the impact of wholesale food sales to the sold Giant Tiger stores. Same store sales remained strong and were only down 0.8%[1] compared to a 20.5% increase last year. Food sales[1] decreased 0.9% on a same store basis compared to a 17.7% increase last year and general merchandise same store sales[1] decreased 0.2% compared to a 33.6% increase last year as the continuing impact of COVID-19-related in-community consumer spending and various income transfer and support programs for individuals was less than last year.

Gross Profit Gross profit decreased 7.3% as the impact of lower sales was partially offset by a 99 basis point increase in the gross profit rate primarily related to product sales blend changes and lower markdowns and inventory shrinkage. The impact of selling or closing most of the Company's Giant Tiger stores, which have a lower gross profit structure consistent with a discount format, net of the impact of lower margin wholesale food sales as part of the Giant Tiger Transaction, was also a factor.

Selling, Operating and Administrative Expenses Selling, operating and administrative expenses ("Expenses") decreased $36.8 million or 12.5% and were down 64 basis points as a percentage to sales largely due to lower store expenses related to the Giant Tiger Transaction, a decrease in COVID-19-related expenses and the impact of foreign exchange on the translation of International Operations expenses. The impact of a $5.0 million provision for support office employee severance costs in the first quarter last year was also a factor. COVID-19 expenses related to wage increases for front-line associates, the purchase of protective equipment and enhanced sanitation procedures were $2.7 million this year compared to $11.3 million last year. The impact of Non-Comparable Factors, which includes a decrease of $3.1 million in share-based compensation costs due to mark-to-market adjustments, an $8.6 million insurance-related gain this year and a $9.4 million Giant Tiger store closure provision and a $24.7 million gain related to the Giant Tiger Transaction last year, also contributed to the decrease in Expenses.

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

Earnings From Operations Earnings from operations increased to $114.8 million compared to $107.3 million last year and earnings before interest, income taxes, depreciation and amortization ("EBITDA[2]") increased to $159.8 million compared to $154.3 million last year and were up $48.1 million or 72.3% and $49.9 million or 45.4% respectively compared to 2019 due to the sales, gross profit and Expense factors noted above. Adjusted EBITDA[2], which excludes the impact of the Non-Comparable Factors, increased $9.0 million or 6.0% compared to last year due to the factors previously noted and was up $61.1 million or 61.9% compared to 2019.

Interest Expense Interest expense decreased to $6.7 million compared to $9.4 million last year substantially due to lower average debt. Further information on long-term debt is provided in Note 9 to the Company's Interim Condensed Consolidated Financial Statements and in the Liquidity and Capital Resources section.

Income Tax Expense Income tax expense increased $2.3 million to $25.4 million due to higher earnings, partially offset by a decrease in the consolidated effective tax rate to 23.5% compared to 23.6% last year.

Net Earnings Net earnings increased $7.9 million or 10.5% to $82.7 million and were up $38.5 million or 87.2% compared to 2019. Net earnings attributable to shareholders were $81.5 million and diluted earnings per share were $1.66 per share compared to $1.48 per share last year due to the factors noted above. These factors were partially offset by the negative impact of foreign exchange on the translation of International Operations net earnings as the average exchange rate was 1.2430 compared to 1.3731 last year. Adjusted net earnings[2], which excludes the impact of the Non-Comparable Factors, increased $11.1 million compared to last year and was up $46.8 million or 130.8% compared to 2019 driven by earnings gains in Canadian Operations and International Operations.

Comprehensive Income Comprehensive income increased $12.5 million to $90.0 million compared to $77.5 million last year due to a $7.9 million increase in net earnings described above and the remeasurement of defined benefit pension plan assets and liabilities which resulted in a net actuarial gain of $10.4 million compared to no adjustment last year. These factors were partially offset by the impact of foreign exchange on the translation of the International Operations financial statements which resulted in a loss of $3.1 million compared to a gain of $2.7 million last year.

(1) Excluding the foreign exchange impact

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

CANADIAN OPERATIONS SECOND QUARTER

Canadian Operations results for the second quarter are summarized by the following key performance indicators:

Key Performance Indicators:

	Three Months Ended	
($ in thousands)	**July 31, 2021**	July 31, 2020
Sales	**$ 323,362**	$ 386,848
Same store sales %		
Food	**(5.9)%**	23.3 %
General Merchandise	**(18.6)%**	53.8 %
Total	**(8.7)%**	30.0 %
EBITDA(2)	**$ 55,023**	$ 80,786
EBIT	**39,476**	65,198

Sales Canadian Operations sales decreased 16.4% to $323.4 million compared to $386.8 million in the second quarter last year due to the impact of stores divested as a result of the Giant Tiger Transaction and lower same store sales compared to the exceptional COVID-19-related sales gains last year. Further information on the Giant Tiger Transaction is provided below. Same store sales remained strong only decreasing 8.7% compared to a 30.0% increase last year and were up 24.6% compared to the second quarter of 2019 as the continuing impact of COVID-19-related in-community consumer spending and various income transfer and support programs for individuals was less than last year. The impact of forest fire-related evacuations and store closures in eight communities were also a factor. Food sales decreased 13.2% and general merchandise sales decreased 42.7% compared to last year due to the Giant Tiger Transaction. On a same store basis, food sales were down 5.9% and general merchandise sales decreased 18.6% due to the COVID-19 and fire-related factors previously noted but were up 20.1% and 47.4% respectively compared to 2019.

Gross Profit Gross profit decreased 14.9% as the impact of a higher gross profit rate was more than offset by lower sales. The change in gross profit rate is primarily due to changes in product sales blend, lower markdowns and inventory shrinkage due to improved sell-through. The impact of selling or closing most of the Company's Giant Tiger stores, which have a lower gross profit structure consistent with a discount format was also a factor. These factors were partially offset by the impact of lower margin wholesale food sales as part of the Giant Tiger Transaction.

Selling, Operating and Administrative Expenses Selling, operating and administrative expenses ("Expenses") increased 6.0% and were up 531 basis points as a percentage to sales compared to last year largely due to the impact of the Non-Comparable Factors which includes a $24.7 million gain resulting from the Giant Tiger Transaction last year and a $6.8 million decrease in share-based compensation costs. Excluding the Non-Comparable Factors, Expenses decreased $13.3 million mainly due to two-months less Giant Tiger store operations this year compared to last year as a result of the Giant Tiger Transaction, lower COVID-19-related expenses and a decrease in annual incentive plan costs.

Earnings From Operations Earnings from operations decreased to $39.5 million compared to $65.2 million last year and EBITDA[2] decreased to $55.0 million compared to $80.8 million last year largely due to the impact of the Non-Comparable Factors previously noted but were up $22.6 million and $22.5 million respectively compared to 2019. Adjusted EBITDA[2], which excludes the impact of the Non-Comparable Factors, decreased $7.9 million compared to last year but was up $23.3 million compared to 2019. The decrease compared to last year is mainly due to lower same store sales as previously noted partially offset by higher earnings in North Star Air ("NSA"). NSA EBITDA[2] increased due to higher third-party cargo revenues and improved passenger-related earnings compared to last year. In the quarter, NSA received $1.7 million in subsidies under the Ontario Remote Air Carrier Support Program ("RACSP") to ensure continued operation of passenger service into remote communities for the period January to June this year compared to $1.9 million in Canada Emergency Wage Subsidy ("CEWS") payments received in the second quarter last year.

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

Giant Tiger Transaction On July 5, 2020, the Company completed the sale of 36 of the Company's 46 Giant Tiger stores (the "Acquired Stores") to Giant Tiger Stores Limited ("GTSL"). Of the remaining 10 stores, the Company (i) retained and operates five key stores in northern market locations, (ii) converted one store to a Valu Lots clearance center, and (iii) closed four stores in the third quarter of 2020. In the second quarter of 2020, the Company recorded a pre-tax gain of $24.7 million or $20.0 million net of tax. Further information on the Giant Tiger Transaction is provided in Note 20 to the Company's Interim Condensed Consolidated Financial Statements.

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

INTERNATIONAL OPERATIONS SECOND QUARTER (stated in U.S. dollars)

International Operations results for the second quarter are summarized by the following key performance indicators:

Key Performance Indicators:

	Three Months Ended	
($ in thousands)	**July 31, 2021**	July 31, 2020
Sales	**$ 196,786**	$ 191,359
Same store sales % increase		
Food	**3.0 %**	12.6 %
General Merchandise	**(11.7)%**	58.4 %
Total	**1.1 %**	17.2 %
EBITDA(2)	**$ 21,223**	$ 22,015
EBIT	**15,444**	16,529

Sales International Operations sales increased 2.8% to $196.8 million compared to $191.4 million in the second quarter last year led by sales gains in the Pacific and Caribbean, partially due to an increase in tourism in the US Virgin Islands, and an increase in wholesale food sales in Alaska related to the USDA Farmers to Families Food Box Program. Income support payments through the American Rescue Plan within Alaska and the U.S. Territories served by Cost-U-Less ("CUL") were also a factor. Same store sales remained strong, increasing 1.1% on top of a 17.2% increase last year due to the factors previously noted and were up 16.7% compared to the second quarter of 2019. Food sales increased 4.6% and were up 3.0% on a same store basis which is on top of a 12.6% same store sales increase last year. General merchandise sales decreased 10.2% and were down 11.7% on a same store basis compared to a 58.4% same store sales increase in the second quarter last year driven by COVID-19-related government income support payments and the early issuance of a $992 Permanent Fund Dividend ("PFD") payment to Alaska residents in the second quarter last year. Food and general merchandise same store sales have remained strong over a two year period with increases of 14.3% and 38.6% respectively compared to 2019.

Gross Profit Gross profit increased 1.6% compared to last year as the impact of sales gains was partially offset by a decrease in the gross profit rate. The change in gross profit rate is due to the impact of lower gross profit rate USDA Food Box Program sales in Alaska, a higher blend of CUL sales which have a lower gross profit rate consistent with a discount warehouse format and an increase in promotional activity in certain markets.

Selling, Operating and Administrative Expenses Selling, operating and administrative expenses ("Expenses") increased 5.1% compared to last year mainly due to higher store employee costs, an increase in employee medical costs and support office recruiting and relocation costs. These factors were partially offset by lower COVID-19-related expenses and annual incentive plan costs compared to last year.

Earnings From Operations Earnings from operations decreased $1.1 million or 6.6% to $15.4 million compared to $16.5 million in the second quarter last year and EBITDA[2] decreased to $21.2 million compared to $22.0 million last year as the sales gains were more than offset by the gross profit and Expense factors as previously noted but were up $5.9 million and $6.9 million respectively compared to 2019. The impact of share-based compensation on adjusted EBITDA was not significant.

(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 0.49:1 compared to 0.78:1 last year.

Working capital increased $80.2 million or 73.2% compared to the second quarter last year primarily due to a decrease in the current portion of long-term debt related to $93.8 million in senior notes which matured and were repaid June 16, 2021. Further information on the repayment of the senior notes is provided in the Liquidity and Capital Resources section. Excluding the impact of the current portion of long-term debt last year related to the senior notes, working capital decreased $13.6 million or 6.7% compared to last year. This decrease is largely due to lower cash and increases in accounts payable and accrued liabilities and income tax payable mainly related to the timing of payments. These factors were partially offset by an increase in inventories, mainly in northern Canada, compared to much lower inventory levels last year resulting from the COVID-19-related sales and stock-up shopping.

Outstanding Shares

The weighted-average basic shares outstanding for the quarter decreased to 48,382,000 shares compared to 48,766,000 shares last year due to shares purchased under the Company's Normal Course Issuer Bid ("NCIB"). The weighted-average fully diluted shares outstanding for the quarter were 49,163,000 shares compared to 49,390,000 shares last year. The decrease in fully diluted shares outstanding compared to last year is due to the NCIB and redemptions under the Director Deferred Share Unit Plan partially offset by the dilutive impact of share based compensation. Further information on share capital and share-based compensation plans is provided in Note 7 and Note 14 respectively to the Company's Interim Condensed Consolidated Financial Statements.

Normal Course Issuer Bid

On November 10, 2020, the Company received approval from the Toronto Stock Exchange to proceed with a Normal Course Issuer Bid ("NCIB"). Under the NCIB, the Company may acquire up to a maximum of 4,807,437 of its shares, or approximately 10% of its float for cancellation over the following 12 months. During the six-months ended July 31, 2021, the Company purchased 390,136 common shares having a book value of $1.4 million for cash consideration of $13.6 million. The excess of the purchase price over the book value of the shares of $12.2 million was charged to retained earnings. All shares purchased were cancelled. At July 31, 2021, a total of 4,236,527 shares remain available for repurchase under the NCIB. Further information on share capital and the NCIB is provided in Note 7 to the Company's Interim Condensed Consolidated Financial Statements.

In connection with the NCIB, the Company has established an automatic securities purchase plan (the "Plan") with its designated broker to facilitate the purchase of shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its shares due to regulatory restrictions or self-imposed blackout periods. Under the Plan, before entering a self-imposed blackout period, the Company may, but is not required to, ask the designated broker to make purchases under the NCIB within specific parameters.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

($ in thousands)	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Change	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020	Change
Cash flows from (used in):						
Cash from operating activities	**$ 87,156**	$ 85,928	$ 1,228	**$ 97,659**	$ 175,808	$ (78,149)
Cash used in investing activities	**(29,675)**	(13,366)	(16,309)	**(33,309)**	(39,822)	6,513
Cash used in financing activities	**(49,341)**	(52,687)	3,346	**(71,477)**	(90,974)	19,497
Effect of changes in foreign exchange rates on cash	**241**	(17)	258	**(773)**	266	(1,039)
Net change in cash	**$ 8,381**	$ 19,858	$ (11,477)	**$ (7,900)**	$ 45,278	$ (53,178)

Cash From Operating Activities Cash from operating activities in the quarter increased $1.2 million to $87.2 million compared to $85.9 million last year as increases in taxes paid were more than offset by the favourable change in non-cash working capital. The increase in taxes paid is due to the impact of the Limited Partnership structure and the timing of installments in Canadian Operations. The favourable change in non-cash working capital is primarily related to changes from accounts payable and accrued liabilities, accounts receivable and inventories compared to the prior year.

For the year-to-date, cash from operating activities decreased to $97.7 million compared to $175.8 million last year mainly due to the unfavourable change in non-cash working capital and taxes paid. The change in non-cash working capital is substantially related to a change in inventories, accounts payable and accrued liabilities and accounts receivable compared to the prior year. The increase in inventories is mainly due to a return to more normalized inventory levels this year, particularly in northern Canada, compared to the significant COVID-19-related sell-through last year. The change in accounts receivable is largely related to a decrease in payments collected on accounts compared to the prior year. The change in accounts payable is related to higher annual incentive plan payments accrued for the 2020 fiscal year that were paid this year and the timing of payments on trade accounts payable. The increase in taxes paid is due to the timing of installments in Canadian Operations as previously noted.

Cash Used In Investing Activities Cash used in investing activities in the quarter increased to $29.7 million compared to $13.4 million last year. The purchase of property and equipment in the quarter included the purchase of an ATR-72 500 series aircraft and investments in stores, fixtures and equipment. For the year-to-date, cash used in investing activities decreased to $33.3 million compared to $39.8 million last year and included investments in property and equipment as previously noted. These expenditures were partially offset by $8.6 million in insurance proceeds received on the partial settlement of the 2018 fire-related insurance claims. Further information on planned capital expenditures is included in the Outlook section.

Cash Used In Financing Activities Cash used in financing activities in the quarter was $49.3 million compared to cash used in financing activities of $52.7 million last year substantially due to changes in long-term debt and $8.3 million in shares purchased under the Company's NCIB. The 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 repayment of the US$70.0 million (CAD$85.4 million) senior notes that matured on June 16, 2021 compared to US$70.0 million (CAD$94.8 million) senior notes that were issued in the second quarter last year the proceeds from which were used to reduce amounts outstanding on the Company's revolving loan facilities. Further information on long-term debt is provided in the Sources of Liquidity section and in Note 9 to the Company's Interim Condensed Consolidated Financial Statements. For the year-to-date, cash used in financing activities was $71.5 million compared to $91.0 million used in financing activities last year substantially due to the change in long-term debt and purchases under the NCIB previously noted.

Sources of Liquidity

The Company has outstanding $100.0 million 3.74% senior notes that mature September 26, 2029, US$35.0 million 2.88% senior notes that mature on June 16, 2027 and US$35.0 million 3.09% senior notes that mature on June 16, 2032. These senior notes are secured by a floating charge on 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 and the US$52.0 million loan facilities. The Company had US$70.0 million senior notes mature on June 16, 2021 which were repaid through amounts drawn on the Company's revolving loan facilities in Canadian Operations.

Canadian Operations 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 or the Canadian prime interest rate. 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, 2021, the Company had drawn $77.8 million on these facilities (July 31, 2020 - $43.5 million).

The Company also has committed, revolving loan facilities of US$52.0 million that bear interest at U.S. LIBOR plus a spread. These facilities mature September 26, 2022 and are secured by certain assets of the Company on a *pari passu* basis with the Company's other senior debt. At July 31, 2021, the Company had drawn US$NIL on these facilities (July 31, 2020 - 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 February 12, 2025, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At July 31, 2021, the Company had drawn US$1.3 million on these facilities (July 31, 2020 - US$NIL).

The Company's lease liabilities are discounted at its incremental borrowing rate, generally calculated from applicable Canadian and U.S. corporate bond yields. At July 31, 2021, lease liabilities reflect a weighted-average risk-free rate of 3.7% (July 31, 2020 – 3.6%) and weighted-average remaining lease term of 9.9 years (July 31, 2020 – 9.7 years).

The loan facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At July 31, 2021, 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 Interim Condensed Consolidated Financial Statements.

Cash flow from operating activities and unutilized capacity available on existing loan facilities are expected to be sufficient to fund operating requirements, maturing debt obligations, pension plan contributions, planned sustaining and growth-related capital expenditures as well as anticipated dividends during 2021.

SHAREHOLDER DIVIDENDS

The Board of Directors declared a quarterly dividend of $0.37 per share, an increase of $0.01 or 2.8% per share, to shareholders of record on September 30, 2021, to be paid on October 15, 2021.

Dividend payments are subject to the approval of the Board of Directors and are 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 opened a wellness-focused concept store in Iqaluit, Nunavut on July 8, 2021 which includes better-for-you groceries, Booster Juice, a full pharmacy, optical services and other health products.

- The Alaska Commercial Company delivered 900,000 pounds of produce, dairy and meat to 115 communities throughout Alaska in connection with the USDA Farmers to Families Food Box Program.

- North Star Air purchased an ATR-72 500 series aircraft which increases the number of owned ATR aircraft to four. The aircraft is being configured for cargo and is expected to be operational late in the fourth quarter of 2021.

STRATEGY

The Company is focused on building an expanded range of essential products and services that help our customers to live better and that sustain and grow our business in a socially responsible manner, within all economic conditions. For investors, 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 are set out below:

1. In the short-term, our priority is on continuing to provide a safe shopping environment for our customers and employees while meeting the sales opportunities presented by Covid-19-related shopping demands.
2. Medium-term priority work includes new levels of social impact commitments, completing the multi-year roll-out of next generation merchandise and store systems and the addition of air cargo capacity.
3. Longer-term initiatives are focussed on talent and culture, new store and e-commerce expansion in Alaska, food market share gains in northern Canada through lower food prices and complementary business growth through organic investments and acquisitions.

Further information on the Company's strategy is provided in the 2020 Annual Report.

OUTLOOK

The Company's near-term consumer outlook remains highly influenced by the COVID-19 pandemic and the ongoing COVID-19 uncertainties makes sales forecasting difficult. The transition to reduced COVID-19 risk conditions is expected to result in lower sales in the second half of 2021 compared to last year but higher sales on a same store basis than 2019 based on the Company's role as an essential service and an anticipated retention of consumer spending in favour of the Company's in-community product and service offering. Government transfers to Indigenous communities and income support payments are also expected to cushion the impact of a post-COVID-19 effect. It is expected that earnings in the second half of 2021 will be below 2020 but above pre-pandemic (2019) levels however there is uncertainty to this outlook related to outbreaks of COVID-19 variants and the impact on supply chain, the availability of merchandise and inflation, the take-up of broad vaccine distribution and the timing of economic recoveries particularly within tourism-dependent countries which do not have strong government income support programs such as the British Virgin Islands and St. Maarten.

Beyond the duration of COVID-19's material impact, positive and negative, on the Company's business, the medium and longer-term outlook for the Company is favourable based on investments in lower pricing and support office cost reductions from 2020, the expected impact of higher infrastructure spending and income transfers as noted above, our emphasis on decentralized execution capability, the resiliency of our everyday essential product and service focus, augmented by opportunistic investments, and customer relationships and in-community shopping patterns established during COVID-19. The Company also continues to assess acquisition and other business venture opportunities within its different businesses and retail divisions.

In the first quarter of 2021, the Company recorded after-tax insurance related gains of $7.1 million compared to $4.5 million in the 2020 fiscal year. The final settlement of 2018 fire insurance claims and the receipt of payments are expected to result in further insurance-related earnings gains in 2021, however, the amount and timing of these gains is uncertain.

In 2020, the Company recorded a $24.7 million deferred tax liability on earnings in Canadian Operations based on the year-end of the limited partnership. The payment of taxes on these earnings will occur over the next nine months. In addition, the Company expects that its Canadian monthly income tax installments will increase in 2021 based on its taxable income in 2020. These income tax payments will reduce cash flow from operating activities in 2021.

In 2021, the Company expects that capital expenditures will be in the $90 million range (2020 - $66.9 million), net of expected recoveries on the settlement of fire insurance claims, with upside for further growth investments. The timing and amount of store-based capital expenditures are expected to continue to be impacted by COVID-19-related travel restrictions and the availability of building materials in the second half of 2021, in addition to other delays that can occur with remote location capital projects.

RISK FACTORS AND ENTERPRISE RISK MANAGEMENT

Information on risk factors inherent within the business and enterprise risk management are included in the Company's 2020 Annual Report and 2020 Annual Information Form, which are hereby incorporated by reference. These documents are available on the Company's website at *www.northwest.ca* or on Sedar at *www.sedar.com*.

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	90 days	92 days	92 days	92 days	92 days
($ in millions, except per share)	2021	2020	2021	2020	2020	2019	2020	2019
Sales	**$ 565.1**	$ 648.5	$ 551.0	$ 592.6	$ 565.2	$ 553.1	$ 553.0	$ 519.5
EBITDA(1)	**81.1**	110.9	78.7	43.4	71.4	50.4	75.7	59.3
Earnings from operations	**58.5**	87.8	56.3	19.5	49.1	26.7	52.9	37.0
Net earnings	**42.4**	62.6	40.3	12.3	32.8	17.3	35.9	24.8
Net earnings attributable to shareholders of the Company	**41.9**	61.9	39.7	11.3	32.1	16.3	34.6	24.1
Net earnings per share:								
Basic	**0.86**	1.27	0.82	0.23	0.66	0.34	0.71	0.49
Diluted	**0.86**	1.25	0.80	0.23	0.63	0.33	0.71	0.49
Adjusted EBITDA(1)	**84.1**	95.9	75.7	59.8	69.0	47.4	83.6	58.8
Adjusted net earnings(1)	**44.7**	50.5	37.9	24.6	30.5	15.2	42.8	24.3

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

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There have been no changes in the internal controls over financial reporting during the quarter ended July 31, 2021 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

ACCOUNTING STANDARDS IMPLEMENTED IN 2021

The significant accounting policies are set out in the Company's 2020 Annual Audited Consolidated Financial Statements. These policies have been applied to all periods presented in these Interim Condensed Consolidated Financial Statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

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

NON-GAAP MEASURES

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

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

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

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

Reconciliation of consolidated net earnings to EBITDA and adjusted EBITDA:

($ in thousands)	Second Quarter 2021	2020	2019	Year-to-Date 2021	2020	2019
Net earnings	**$ 42,400**	$ 62,560	$ 17,947	**$ 82,688**	$ 74,814	$ 44,172
Add: Amortization	**22,638**	23,099	22,019	**44,995**	47,001	43,234
Interest expense	**3,240**	4,353	5,146	**6,703**	9,363	10,182
Income taxes	**12,822**	20,917	6,503	**25,383**	23,124	12,275
EBITDA	**$ 81,100**	$ 110,929	$ 51,615	**$ 159,769**	$ 154,302	$ 109,863
Adjusted for:						
Insurance gains	**—**	—	(4,309)	**(8,632)**	—	(14,965)
Share-based compensation expense[1]	**2,966**	9,703	6,330	**8,647**	11,754	3,810
Gain on disposition of Giant Tiger stores	**—**	(24,712)	—	**—**	(24,712)	—
Giant Tiger asset impairment and store closure provision	**—**	—	—	**—**	9,411	—
Adjusted EBITDA	**$ 84,066**	$ 95,920	$ 53,636	**$ 159,784**	$ 150,755	$ 98,708

(1) Further information on share-based compensation expense is provided in Note 11 and Note 14 to the Company's Interim Condensed Consolidated Financial Statements.

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

Reconciliation of consolidated net earnings to adjusted net earnings:

($ in thousands)	Second Quarter 2021	2020	2019	Year-to-Date 2021	2020	2019
Net earnings	**$ 42,400**	$ 62,560	$ 17,947	**$ 82,688**	$ 74,814	$ 44,172
Adjusted for:						
Insurance gains, net of tax	**—**	—	(3,148)	**(7,123)**	—	(11,547)
Share-based compensation expense, net of tax	**2,348**	7,970	5,921	**7,091**	9,853	3,190
Gain on disposition of Giant Tiger stores, net of tax	**—**	(19,991)	—	**—**	(19,991)	—
Giant Tiger asset impairment and store closure provision, net of tax	**—**	—	—	**—**	6,874	—
Adjusted net earnings	**$ 44,748**	$ 50,539	$ 20,720	**$ 82,656**	$ 71,550	$ 35,815

The Company recorded gains on the partial settlement of insurance claims. These gains were due to the difference between the replacement cost of the assets destroyed and their book value.

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

Further information on the gain on the disposition of Giant Tiger stores and the Giant Tiger asset impairment and store closure expense is provided in the Canadian Operations section and in Note 20 to the Company's Interim Condensed Consolidated Financial Statements.

****

Unless otherwise stated, this Management's Discussion & Analysis ("MD&A") is based on the financial information included in the Company's Interim Condensed Consolidated Financial Statements and notes to the Interim Condensed Consolidated Financial statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to September 8, 2021.

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, the Company's intentions regarding a normal course issuer bid, the anticipated impact of the COVID-19 pandemic on the Company's operations and the Company's related business continuity plans, the realization of expected savings from administrative cost reduction plans 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 including the duration and the impact of the COVID-19 pandemic, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete capital projects, strategic transactions and integrate acquisitions, the Company's ability to realize benefits from investments in information technology ("IT") and systems, including IT system implementations or unanticipated results from these initiatives and the Company's success in anticipating and managing the foregoing risks.

The reader is cautioned 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 2020 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, 2021	July 31, 2020	January 31, 2021
CURRENT ASSETS			
Cash	**$ 63,636**	$ 73,465	$ 71,536
Accounts receivable (Note 5)	**96,464**	96,746	91,443
Inventories (Note 6)	**246,099**	218,040	226,962
Prepaid expenses	**13,241**	15,351	6,919
	419,440	403,602	396,860
NON-CURRENT ASSETS			
Property and equipment	**535,148**	542,971	531,794
Right-of-use assets	**105,449**	108,622	107,766
Promissory note receivable (Note 20)	**39,754**	48,468	49,020
Goodwill	**47,377**	50,120	48,263
Intangible assets	**34,616**	40,488	36,151
Deferred tax assets	**8,876**	18,749	7,288
Other assets	**13,342**	12,146	14,026
	784,562	821,564	794,308
TOTAL ASSETS	**$ 1,204,002**	$ 1,225,166	$ 1,191,168
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	**$ 201,525**	$ 180,973	$ 205,202
Current portion of long-term debt (Note 9)	**1,149**	94,933	90,456
Current portion of lease liabilities (Note 10)	**17,654**	17,342	16,393
Income tax payable (Note 13)	**9,371**	825	3,084
	229,699	294,073	315,135
NON-CURRENT LIABILITIES			
Long-term debt (Note 9)	**267,183**	276,669	190,966
Lease liabilities (Note 10)	**100,277**	104,411	104,226
Defined benefit plan obligation (Note 19)	**25,517**	41,738	38,446
Deferred tax liabilities	**12,014**	9,698	12,488
Other long-term liabilities	**24,858**	21,365	24,676
	429,849	453,881	370,802
TOTAL LIABILITIES	**659,548**	747,954	685,937
SHAREHOLDERS' EQUITY			
Share capital (Note 7)	**174,144**	174,798	174,213
Contributed surplus	**9,721**	12,411	13,394
Retained earnings	**326,930**	252,271	282,088
Accumulated other comprehensive income	**18,873**	22,900	21,605
Equity attributable to The North West Company Inc.	**529,668**	462,380	491,300
Non-controlling interests	**14,786**	14,832	13,931
TOTAL EQUITY	**544,454**	477,212	505,231
TOTAL LIABILITIES & EQUITY	**$ 1,204,002**	$ 1,225,166	$ 1,191,168

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Earnings

(unaudited, $ in thousands, except per share amounts)	**Three Months Ended July 31, 2021**	Three Months Ended July 31, 2020	**Six Months Ended July 31, 2021**	Six Months Ended July 31, 2020
SALES	**$ 565,109**	$ 648,504	**$ 1,116,097**	$ 1,241,073
Cost of sales	**(375,410)**	(431,044)	**(743,826)**	(839,457)
Gross profit	**189,699**	217,460	**372,271**	401,616
Selling, operating and administrative expenses (Notes 11, 17, 20)	**(131,237)**	(129,630)	**(257,497)**	(294,315)
Earnings from operations	**58,462**	87,830	**114,774**	107,301
Interest expense (Note 12)	**(3,240)**	(4,353)	**(6,703)**	(9,363)
Earnings before income taxes	**55,222**	83,477	**108,071**	97,938
Income taxes (Note 13)	**(12,822)**	(20,917)	**(25,383)**	(23,124)
NET EARNINGS FOR THE PERIOD	**$ 42,400**	$ 62,560	**$ 82,688**	$ 74,814
NET EARNINGS ATTRIBUTABLE TO				
The North West Company Inc.	**$ 41,850**	$ 61,929	**$ 81,506**	$ 73,203
Non-controlling interests	**550**	631	**1,182**	1,611
TOTAL NET EARNINGS	**$ 42,400**	$ 62,560	**$ 82,688**	$ 74,814
NET EARNINGS PER SHARE				
Basic	**$ 0.86**	$ 1.27	**$ 1.68**	$ 1.50
Diluted	**$ 0.86**	$ 1.25	**$ 1.66**	$ 1.48
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)				
Basic	**48,382**	48,766	**48,452**	48,758
Diluted	**49,163**	49,390	**49,229**	49,378

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income

(unaudited, $ in thousands)	**Three Months Ended July 31, 2021**	Three Months Ended July 31, 2020	**Six Months Ended July 31, 2021**	Six Months Ended July 31, 2020
NET EARNINGS FOR THE PERIOD	**$ 42,400**	$ 62,560	**$ 82,688**	$ 74,814
Other comprehensive income/(loss), net of tax:				
Items that may be reclassified to net earnings:				
Exchange differences on translation of foreign controlled subsidiaries	**2,073**	(5,839)	**(3,059)**	2,734
Items that will not be subsequently reclassified to net earnings:				
Remeasurements of defined benefit plans (Note 19)	**—**	—	**10,373**	—
Total other comprehensive income/(loss), net of tax	**2,073**	(5,839)	**7,314**	2,734
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 44,473**	$ 56,721	**$ 90,002**	$ 77,548
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO				
The North West Company Inc.	**$ 1,845**	$ (5,315)	**$ 7,641**	$ 2,585
Non-controlling interests	**228**	(524)	**(327)**	149
TOTAL OTHER COMPREHENSIVE INCOME	**$ 2,073**	$ (5,839)	**$ 7,314**	$ 2,734
COMPREHENSIVE INCOME ATTRIBUTABLE TO				
The North West Company Inc.	**$ 43,695**	$ 56,614	**$ 89,147**	$ 75,788
Non-controlling interests	**778**	107	**855**	1,760
TOTAL COMPREHENSIVE INCOME	**$ 44,473**	$ 56,721	**$ 90,002**	$ 77,548

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, 2021	$ 174,213	$ 13,394	$ 282,088	$ 21,605	$ 491,300	$ 13,931	$ 505,231
Net earnings for the period	—	—	81,506	—	81,506	1,182	82,688
Other comprehensive income/(loss)	—	—	10,373	(2,732)	7,641	(327)	7,314
Comprehensive income/(loss)	—	—	91,879	(2,732)	89,147	855	90,002
Shares Purchased and cancelled (Note 7)	(1,398)	—	(12,178)	—	(13,576)	—	(13,576)
Equity settled share-based payments, net of tax	(29)	(3,160)	—	—	(3,189)	—	(3,189)
Dividends (Note 8)	—	—	(34,859)	—	(34,859)	—	(34,859)
Issuance of shares (Note 7)	1,358	(513)	—	—	845	—	845
	(69)	(3,673)	(47,037)	—	(50,779)	—	(50,779)
Balance at July 31, 2021	**$ 174,144**	**$ 9,721**	**$ 326,930**	**$ 18,873**	**$ 529,668**	**$ 14,786**	**$ 544,454**
Balance at January 31, 2020	$ 173,681	$ 8,650	$ 211,252	$ 20,315	$ 413,898	$ 13,072	$ 426,970
Net earnings for the period	—	—	73,203	—	73,203	1,611	74,814
Other comprehensive income	—	—	—	2,585	2,585	149	2,734
Comprehensive income	—	—	73,203	2,585	75,788	1,760	77,548
Equity settled share-based payments	—	3,969	—	—	3,969	—	3,969
Dividends (Note 8)	—	—	(32,184)	—	(32,184)	—	(32,184)
Issuance of shares (Note 7)	1,117	(208)	—	—	909	—	909
	1,117	3,761	(32,184)	—	(27,306)	—	(27,306)
Balance at July 31, 2020	$ 174,798	$ 12,411	$ 252,271	$ 22,900	$ 462,380	$ 14,832	$ 477,212

(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, 2021	Three Months Ended July 31, 2020	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020
CASH FROM (USED IN):				
Operating activities				
Net earnings for the period	**$ 42,400**	$ 62,560	**$ 82,688**	$ 74,814
Adjustments for:				
Amortization	**22,638**	23,099	**44,995**	47,001
Provision for income taxes (Note 13)	**12,822**	20,917	**25,383**	23,124
Interest expense (Note 12)	**3,240**	4,353	**6,703**	9,363
Equity settled share-based compensation, net of tax (Note 14)	**82**	2,851	**(3,189)**	3,969
Insurance proceeds, property and equipment	**—**	—	**(8,632)**	—
Taxes paid	**(17,468)**	(2,264)	**(27,045)**	(5,773)
(Gain)/loss on disposal of property and equipment	**—**	(12)	**(35)**	112
Gain on disposition of Giant Tiger stores (Note 20)	**—**	(24,712)	**—**	(24,712)
Giant Tiger asset impairment & store closure provision (Note 20)	**—**	—	**—**	9,411
	63,714	86,792	**120,868**	137,309
Change in non-cash working capital	**24,713**	(1,712)	**(23,606)**	35,288
Change in other non-cash items	**(1,271)**	848	**397**	3,211
Cash from operating activities	**87,156**	85,928	**97,659**	175,808
Investing activities				
Purchase of property and equipment	**(28,338)**	(13,044)	**(39,526)**	(37,093)
Intangible asset additions	**(1,337)**	(1,264)	**(2,460)**	(3,680)
Proceeds from disposal of property and equipment	**—**	942	**45**	951
Insurance proceeds, property and equipment	**—**	—	**8,632**	—
Cash used in investing activities	**(29,675)**	(13,366)	**(33,309)**	(39,822)
Financing activities				
Net increase/(decrease) in long-term debt (Note 9)	**70,273**	(122,969)	**78,407**	(135,195)
Debt (repayment)/issuance (Note 9)	**(85,393)**	94,808	**(85,393)**	94,808
Payment of lease liabilities, principal	**(4,764)**	(4,952)	**(9,931)**	(10,207)
Payment of lease liabilities, interest	**(1,075)**	(1,354)	**(2,170)**	(2,759)
Dividends (Note 8)	**(17,405)**	(16,096)	**(34,859)**	(32,184)
Interest paid	**(2,814)**	(3,033)	**(4,800)**	(6,346)
Net issuance of common shares	**182**	909	**845**	909
Common shares purchased and cancelled (Note 7)	**(8,345)**	—	**(13,576)**	—
Cash used in financing activities	**(49,341)**	(52,687)	**(71,477)**	(90,974)
Effect of foreign exchange rates on cash	**241**	(17)	**(773)**	266
NET CHANGE IN CASH	**8,381**	19,858	**(7,900)**	45,278
Cash, beginning of period	**55,255**	53,607	**71,536**	28,187
CASH, END OF PERIOD	**$ 63,636**	$ 73,465	**$ 63,636**	$ 73,465

See accompanying notes to condensed consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

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

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

These unaudited interim period condensed consolidated financial statements (condensed consolidated financial statements) have been approved for issue by the Board of Directors of the Company on September 8, 2021.

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 2020 Annual Report which have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

- Liabilities for share-based payment plans (Note 14)
- Defined benefit pension plan (Note 19)
- Assets and liabilities acquired in a business combination

The methods used to measure fair values are discussed further in the notes to the Company's 2020 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 2020 Annual Audited Consolidated Financial Statements. These policies have been applied to all periods presented in these condensed consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

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

Use of Estimates The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies, the reported amounts of revenues and expenses during the reporting period and disclosure of contingent assets and liabilities in the consolidated financial statements and notes. Judgment has been used in the application of accounting policy and to determine if a transaction should be recognized or disclosed in these consolidated financial statements while estimates and assumptions have been used to measure balances recognized or disclosed.

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

Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have the most significant effect on the amounts recognized in the condensed consolidated financial statements include: allowance for doubtful accounts, inventories, amortization of property and equipment, determination of lease term, estimate of incremental borrowing rate of each leased asset, impairment of long-lived assets, goodwill and indefinite life intangible asset impairment, income taxes, measurement of contingent consideration, promissory note receivable and defined benefit plan obligations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENTED INFORMATION

The Company is a retailer of food and everyday products and services in two geographical segments, Canada and International. The Canadian segment consists of subsidiaries operating retail stores and complimentary businesses to serve northern Canada. The International segment consists largely of subsidiaries operating retail stores 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, 2021	Three Months Ended July 31, 2020	**Six Months Ended July 31, 2021**	Six Months Ended July 31, 2020
Sales				
Canada				
Food	**$ 223,426**	$ 257,521	**$ 441,100**	$ 496,984
General merchandise and other	**99,936**	129,327	**202,727**	237,939
Canada	**$ 323,362**	$ 386,848	**$ 643,827**	$ 734,923
International				
Food	**$ 213,728**	$ 227,370	**$ 419,152**	$ 449,818
General merchandise and other	**28,019**	34,286	**53,118**	56,332
International	**$ 241,747**	$ 261,656	**$ 472,270**	$ 506,150
Consolidated	**$ 565,109**	$ 648,504	**$ 1,116,097**	$ 1,241,073
Earnings before amortization, interest and income taxes				
Canada	**$ 55,023**	$ 80,786	**$ 109,568**	$ 101,449
International	**26,077**	30,143	**50,201**	52,853
Consolidated	**$ 81,100**	$ 110,929	**$ 159,769**	$ 154,302
Earnings from operations				
Canada	**$ 39,476**	$ 65,198	**$ 78,884**	$ 69,404
International	**18,986**	22,632	**35,890**	37,897
Consolidated	**$ 58,462**	$ 87,830	**$ 114,774**	$ 107,301

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENTED INFORMATION (continued)

Supplemental information

	July 31, 2021	July 31, 2020	January 31, 2021
Assets			
Canada [(1)]	**$ 770,525**	$ 748,233	$ 754,162
International [(1)]	**433,477**	476,933	437,006
Consolidated	**$ 1,204,002**	$ 1,225,166	$ 1,191,168

(1) Canadian total assets includes goodwill of $11,025 (July 31, 2020 – $11,025; January 31, 2021 – $11,025); International total assets includes goodwill of $36,352 (July 31, 2020 – $39,095; January 31, 2021 – $37,238).

	Three Months Ended July 31, 2021		Three Months Ended July 31, 2020		**Six Months Ended July 31, 2021**		Six Months Ended July 31, 2020	
	Canada	**International**	Canada	International	**Canada**	**International**	Canada	International
Purchase of property and equipment	**$ 25,610**	**$ 2,728**	$ 11,828	$ 1,216	**$ 32,593**	**$ 6,933**	$ 35,203	$ 1,890
Amortization	**$ 15,547**	**$ 7,091**	$ 15,588	$ 7,511	**$ 30,684**	**$ 14,311**	$ 32,045	$ 14,956

5. ACCOUNTS RECEIVABLE

	July 31, 2021	July 31, 2020	January 31, 2021
Trade accounts receivable	**$ 76,530**	$ 71,686	$ 82,213
Corporate and other accounts receivable	**31,105**	35,695	20,360
Less: allowance for doubtful accounts	**(11,171)**	(10,635)	(11,130)
Total	**$ 96,464**	$ 96,746	$ 91,443

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, 2021, the Company recorded $529 (three months ended July 31, 2020 – $204) 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, 2021, the Company recorded $1,589 (six months ended July 31, 2020 - $741) 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, 2021 or 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. SHARE CAPITAL

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

July 31, 2021	**Shares**	**Consideration**
Balance at January 31, 2021	**48,613,319**	**$ 174,213**
Purchased and cancelled[(1)]	**(390,136)**	**(1,398)**
Issued under share-based compensation plans (Note 14)	**38,892**	**1,358**
Balance at July 31, 2021	**48,262,075**	**$ 174,173**
Shares held in trust, January 31, 2021	**—**	**—**
Purchased for future settlement of PSUs	**(85,000)**	**(304)**
Released for settlement of PSUs (Note 14)	**76,629**	**275**
Shares held in trust, July 31, 2021	**(8,371)**	**(29)**
Issued and outstanding, net of shares held in trust, July 31, 2021	**48,253,704**	**174,144**
July 31, 2020		
Balance at January 31, 2020	48,750,929	$ 173,681
Issued under share-based compensation plans (Note 14)	38,387	1,117
Balance at July 31, 2020	48,789,316	$ 174,798

(1) Variable voting shares and common voting shares purchased pursuant to NCIB program. The Company records shares repurchased on a transaction date basis.

Normal Course Issuer Bid

On November 10, 2020, the Company received approval from the Toronto Stock Exchange to proceed with a Normal Course Issuer Bid ("NCIB"). Under the NCIB, the Company may acquire up to a maximum of 4,807,437 of its shares, or approximately 10% of its float for cancellation over the following 12 months. During the six months ended July 31, 2021, the Company purchased 390,136 common shares having a book value of $1,398 for cash consideration of $13,576. The excess of the purchase price over the book value of the shares of $12,178 was charged to retained earnings. All shares purchased were cancelled.

In connection with the NCIB, the Company has established an automatic securities purchase plan with its designated broker to facilitate the purchase of shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its shares due to regulatory restrictions or self-imposed blackout periods. Under the plan, before entering a self-imposed blackout period, the Company may, but is not required to, ask the designated broker to make purchases under the NCIB within specific parameters.

8. DIVIDENDS

		Three Months Ended July 31, 2021		Three Months Ended July 31, 2020
Dividends recorded in equity and paid in cash	**$**	**34,859**	$	32,184
Dividends per share	**$**	**0.72**	$	0.66

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 (Note 21).

9. LONG-TERM DEBT

		July 31, 2021		July 31, 2020		January 31, 2021
Current:						
Senior notes (4)	**$**	**—**	$	93,765	$	89,300
Promissory notes payable (8)		**1,149**		1,168		1,156
	$	**1,149**	$	94,933	$	90,456
Non-current:						
Revolving loan facility (1)	**$**	**1,601**	$	—	$	—
Revolving loan facilities (2)		**—**		37,470		—
Revolving loan facilities (3)		**77,763**		43,461		—
Senior notes (5)		**87,070**		93,765		89,300
Senior notes (6)		**100,000**		100,000		100,000
Revolving loan facility (7)		**—**		—		—
Promissory notes payable (8)		**749**		1,973		1,666
	$	**267,183**	$	276,669	$	190,966
Total	**$**	**268,332**	$	371,602	$	281,422

(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 February 12, 2025, bears a floating rate of interest based on U.S. LIBOR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. As at July 31, 2021, the International Operations had drawn US$1,283 (July 31, 2020 - US$NIL; January 31, 2021 - US$NIL) on this facility.

(2) The US$52,000 loan facilities mature September 26, 2022 and bear interest at U.S. LIBOR plus a spread. These committed loan facilities are secured by certain assets of the Company and rank *pari passu* with the $100,000 senior notes, the US$70,000 senior notes due in 2027 and 2032 and the $300,000 Canadian Operations loan facilities. At July 31, 2021, the Company had drawn US$NIL (July 31, 2020 – US$27,936; January 31, 2021 - US$NIL) on these facilities.

9. LONG-TERM DEBT (continued)

(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 $100,000 senior notes, the US$70,000 senior notes due in 2027 and 2032 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 US$70,000 senior notes matured June 16, 2021 and were repaid. These notes had 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 were secured by certain assets of the Company and ranked *pari passu* with the $300,000 Canadian Operations loan facilities, the $100,000 senior notes, the US$70,000 senior notes due in 2027 and 2032 and the US$52,000 loan facilities.

(5) In June 2020, the Company issued US$70,000 senior notes. These US$70,000 senior notes comprise US$35,000 due June 16, 2027 with a fixed interest rate of 2.88% and US$35,000 due June 16, 2032 with a fixed interest rate of 3.09%. 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.

(6) 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 due in 2027 and 2032 and the US$52,000 loan facilities.

(7) The Canadian and International Operations have revolving loan facilities to meet working capital requirements and for general business purposes. These facilities bear a floating rate of interest and are secured by certain assets of the Company.

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

10. LEASE LIABILITIES

The Company's lease liabilities are discounted at its incremental borrowing rate, generally calculated from applicable Canadian and U.S. corporate bond yields. At July 31, 2021, lease liabilities reflect a weighted-average risk-free rate of 3.7% (July 31, 2020 – 3.6%; January 31, 2021 - 3.7%) and weighted-average remaining lease term of 9.9 years (July 31, 2020 – 9.7 years; January 31, 2021 - 10.2 years).

11. EMPLOYEE COSTS

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	**Six Months Ended July 31, 2021**	Six Months Ended July 31, 2020
Wages, salaries and benefits including bonus	**$ 75,581**	$ 86,901	**$ 150,761**	$ 176,126
Post-employment benefits	**2,447**	2,313	**5,654**	4,920
Share-based compensation (Note 14)	**2,966**	9,703	**8,647**	11,754

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. INTEREST EXPENSE

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020
Interest on long-term debt	**$ 2,219**	$ 2,808	**$ 4,625**	$ 6,212
Interest on lease liabilities	**1,072**	1,356	**2,167**	2,761
Net interest on defined benefit plan obligation	**254**	267	**508**	537
Interest imputed on promissory note receivable (Note 20)	**(277)**	—	**(544)**	—
Interest capitalized	**(28)**	(78)	**(53)**	(147)
Interest expense	**$ 3,240**	$ 4,353	**$ 6,703**	$ 9,363

13. INCOME TAXES

The estimated effective income tax rate for the three months ended July 31, 2021 is 23.2% (three months ended July 31, 2020 – 25.1%) and for the six months ended July 31, 2021 is 23.5% (six months ended July 31, 2020 – 23.6%). The Company estimates its effective income tax rate on a weighted-average basis by determining the income tax rate applicable to each taxing jurisdiction and applying it to its pre-tax earnings.

14. SHARE-BASED COMPENSATION

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

The total expense relating to share-based payment plans for the three months ended July 31, 2021 is an expense of $2,966 (three months ended July 31, 2020 – $9,703) and for the six months ended July 31, 2021 an expense of $8,647 (six months ended July 31, 2020 - $11,754). 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, 2021	July 31, 2020	January 31, 2021
Accounts payable and accrued liabilities	**$ 9,446**	$ 11,187	$ 7,434
Other long-term liabilities	**14,267**	11,694	13,474
Contributed surplus	**7,342**	10,842	11,825
Total	**$ 31,055**	$ 33,723	$ 32,733

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE-BASED COMPENSATION (continued)

Performance Share Units
The Company has granted Performance Share Units to officers and senior management. Each PSU entitles the participant to receive 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, 2021 are $1,138 (three months ended July 31, 2020 – $3,301) and for the six months ended July 31, 2021 are $3,148 (six months ended July 31, 2020 - $4,679).

PSUs are redeemed with shares transferred from a trust established for this plan or issuing shares from treasury. There were 155,490 PSUs partially settled by releasing 76,629 shares (Note 7) from the employee trust during the six months ended July 31, 2021 (six months ended July 31, 2020 - NIL) and a further 12,158 shares issued from treasury (six months ended July 31, 2020 – 11,401).

The total number of PSUs outstanding at July 31, 2021 that may be settled in treasury shares is 232,589 (July 31, 2020 – 313,820).

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

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

The maximum number of shares available for issuance is a fixed number set at 4,354,020, representing 9.0% of the Company's issued and outstanding shares at July 31, 2021. 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, 2021 are an expense of $658 (three months ended July 31, 2020 – $4,216) and for the six months ended July 31, 2021 are an expense of $2,897 (six months ended July 31, 2020 - $4,678).

14. SHARE-BASED COMPENSATION (continued)

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

	July 31, 2021	July 31, 2020
Fair value of options granted	**$ 4.67**	$ 2.70
Exercise price	**$ 35.51**	$ 29.23
Dividend yield	**4.1 %**	4.5%
Annual risk-free interest rate	**1.1 %**	0.4%
Expected share price volatility	**25.2 %**	24.1%

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

	July 31, 2021	July 31, 2020
Dividend yield	**4.0 %**	4.4 %
Annual risk-free interest rate	**0.5 %**	0.3 %
Expected share price volatility	**15.6% to 37.2%**	18.7% to 45.4%

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	
	July 31, 2021	July 31, 2020	July 31, 2021	July 31, 2020
Outstanding options, beginning of period	**815,272**	1,919,959	**1,237,366**	899,854
Granted	**—**	—	**286,085**	465,403
Exercised	**(96,510)**	(290,360)	**(32,383)**	(13,081)
Forfeited or cancelled	**—**	(13,915)	**(127,204)**	(57,367)
Outstanding options, end of period	**718,762**	1,615,684	**1,363,864**	1,294,809
Exercisable at end of period	**578,612**	1,195,797	**551,061**	310,033

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE-BASED COMPENSATION (continued)

Weighted-average exercise price	Declining Strike Price Options		Standard Options	
	July 31, 2021	July 31, 2020	**July 31, 2021**	July 31, 2020
Outstanding options, beginning of period	**$ 30.15**	$ 27.34	**$ 28.51**	$ 28.01
Granted	**—**	—	**35.49**	29.23
Exercised	**25.32**	18.99	**28.14**	25.39
Forfeited or cancelled	**—**	31.28	**30.88**	28.01
Outstanding options, end of period	**$ 30.68**	$ 28.03	**$ 29.76**	$ 28.48
Exercisable at end of period	**$ 26.72**	$ 26.93	**$ 28.27**	$ 27.88

Options outstanding at July 31, 2021 have an exercise price range of $21.11 to $35.51 and a weighted-average remaining contractual life of 4.1 years.

Director Deferred Share Unit Plan

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

Compensation expense is initially measured at the time of the grant. Subsequent changes in the fair value of the DDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The DDSU plan compensation costs recorded for the three months ended July 31, 2021 are $1,000 (three months ended July 31, 2020 – $1,893) and for the six months ended July 31, 2021 are $1,858 (six months ended July 31, 2020 - $1,752). The total number of DDSUs outstanding at July 31, 2021 is 332,531 (July 31, 2020 – 353,083). There were 8,521 DDSUs exercised in cash during the period ended July 31, 2021 (July 31, 2020 - NIL).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE-BASED COMPENSATION (continued)

Executive Deferred Share Unit Plan

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

Total compensation expense is measured at the time of the grant. Subsequent changes in the fair value of the EDSUs based on changes in the market value of the Company's shares are recognized at each reporting date. The EDSU plan compensation costs recorded for the three months ended July 31, 2021 are $25 (three months ended July 31, 2020 – $121) and for six months ended July 31, 2021 are $80 (six months ended July 31, 2020 – $92).

Employee Share Purchase Plan

The Employee Share Purchase Plan provides participants with the opportunity to acquire an ownership interest in the Company. The Company contributes an additional 33% of the amount invested, subject to a maximum annual contribution of 2% of the participants' base salary. The plan is administered by a trustee who uses the funds received to purchase shares on the TSX on behalf of the participating employees. These shares are registered in the name of the plan trustee on behalf of the participants. The Company’s contribution to the plan is recorded as compensation expense. The employee share purchase plan compensation costs recorded for the three months ended July 31, 2021 are $145 (three months ended July 31, 2020 – $172) and for the six months ended July 31, 2021 are $664 (six months ended July 31, 2020 - $553).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. SEASONALITY

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

16. SUBSIDIARIES AND JOINT VENTURES

The Company's principal operating subsidiaries at July 31, 2021 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 %
Roadtown Wholesale Trading Ltd.	Retailing	British Virgin Islands		77 %
North Star Air Ltd.	Airline	Canada		100 %

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

17. EXPENSES BY NATURE

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	**Six Months Ended July 31, 2021**	Six Months Ended July 31, 2020
Employee costs (Note 11)	**$ 80,994**	$ 98,917	**$ 165,062**	$ 192,800
Amortization	**22,638**	23,099	**44,995**	47,001
Operating lease rentals	**1,235**	1,717	**2,759**	3,590
Gain on partial insurance settlement (1)	**—**	—	**(8,632)**	—
Gain on disposition of Giant Tiger stores (2)	**—**	(24,712)	**—**	(24,712)

(1) The Company recorded a gain due to the partial settlement of an insurance claim for the period ended July 31, 2021. This gain was due to the difference between the replacement cost of the assets destroyed and their net book values.
(2) The Company recorded a gain on the disposition of 36 of its Giant Tiger Stores. See Note 20.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. FINANCIAL INSTRUMENTS

Accounting classifications and fair value estimation

The following table comprises the carrying amounts of the Company's financial instruments at July 31, 2021. 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	$ 63,636	$ 63,636
Accounts receivable	Short-term	96,464	96,464
Promissory note receivable (Note 20)	Long-term	39,754	39,754
Other financial assets	Long-term	1,363	1,363
Accounts payable and accrued liabilities	Short-term	(192,079)	(192,079)
Current portion of long-term debt	Short-term	(1,149)	(1,149)
Long-term debt	Long-term	(267,183)	(271,393)

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, excluding debt with fixed interest rates, approximates their carrying values due to their immediate or short-term period to maturity. Any differences between fair value and book values of short-term financial instruments are considered to be insignificant.
- The fair value of debt with fixed interest rates 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.
- The carrying value of the promissory note receivable is a reasonable approximation of fair value. The fair value when recognized was estimated by calculating the present value of the future expected cash flows using an effective interest rate derived from comparable debt issuances.

19. POST-EMPLOYMENT BENEFITS

A remeasurement of the defined benefit pension plan assets and liabilities was performed at April 30, 2021. During the three months ended April 30, 2021, the Company recorded a net actuarial gain on its defined benefit plan obligation of $10,373 (three months ended April 30, 2020 - $NIL) in other comprehensive income, which was recognized immediately in retained earnings.

This remeasurement was primarily due to a change in the discount rate used to measure the defined benefit obligation. The discount rate used to determine the benefit obligation for the defined benefit pension plan at April 30, 2021 was 3.30% (January 31, 2021 - 2.72%).

There were no further actuarial remeasurements during the three months ended July 31, 2021 and July 31, 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. DISPOSITION & STORE CLOSURE PROVISION

On July 5, 2020, the Company sold 36 of its 46 Giant Tiger stores (the "Acquired Stores") to Giant Tiger Stores Limited. The estimated consideration has been recorded as an unsecured, non-interest bearing promissory note. The fair value of the promissory note is comprised of the net present value of the cash installments and estimated additional contingent consideration, discounted using an interest rate specific to the counterparty. The cash installments are payable on the second, third and fourth anniversaries of the transaction closing date and, subject to meeting certain profitability milestones, the additional contingent cash consideration is payable on the fourth and fifth anniversaries of the closing date. As at July 31, 2021 the promissory note receivable has a fair value of $49,563, of which $9,809 has been reclassified to accounts receivable.

For the six-months ended July 31, 2020 the Company recognized a pre-tax gain on sale of $24,712 ($19,991, net of tax) in selling operating and administrative expenses.

Giant Tiger Asset Impairment Charge & Store Closure Provision

For the six-months ended July 31, 2020, the Company recorded an asset impairment and store closure provision of $9,411, of which $5,451 remains accrued at July 31, 2021. The store closure provision in the prior year was included in selling, operating and administrative expenses in the consolidated statements of earnings, and was applied to reduce the carrying amount of fixtures and equipment and right-of-use assets and to increase accrued liabilities on the consolidated balance sheets.

21. SUBSEQUENT EVENTS

Dividends

On September 8, 2021, the Board of Directors declared a dividend of $0.37 per share payable October 15, 2021 to shareholders of record on September 30, 2021.