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# THE NORTH WEST COMPANY INC.

*Report to Shareholders*

*Quarterly Period Ended July 31, 2023*



## 2023 SECOND QUARTER REPORT TO SHAREHOLDERS

### Report to Shareholders

The North West Company Inc. reports its results for the second quarter ended July 31, 2023. Sales increased 6.8% to \$618.1 million led by same store sales gains and the impact of foreign exchange on the translation of International Operations sales. Excluding the foreign exchange impact, sales increased 5.4% compared to last year and were up 4.7%<sup>1</sup> on a same store basis.

Second quarter net earnings increased 17.5% to \$38.0 million compared to \$32.4 million last year and net earnings attributable to shareholders were \$36.8 million or \$0.76 per share compared to \$0.64 per share last year on a diluted earnings per share basis as sales gains and an increase in gross profit rate offset higher expenses.

The Board of Directors has approved a quarterly dividend of \$0.39 per share, an increase of \$0.01 or 2.6% per share, to shareholders of record on September 29, 2023.

On behalf of the Board of Directors:



Brock Bulbuck  
Chair of the Board



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 2023 second quarter unaudited interim period condensed consolidated financial statements for the period ended July 31, 2023 ("Interim Condensed Consolidated Financial Statements") and the audited annual consolidated financial statements and accompanying notes included in the 2022 Annual Report.

(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:

(\$ in thousands, except per share)	Three Months Ended	
	July 31, 2023	July 31, 2022
Sales	\$ 618,095	\$ 578,874
Same store sales % <sup>(1)</sup>		
Food	4.7 %	(1.3)%
General Merchandise	4.7 %	(18.8)%
Total	4.7 %	(4.1)%
Gross profit	\$ 204,444	\$ 184,057
Selling, operating and administrative expenses	149,758	137,962
EBITDA <sup>(2)</sup>	80,108	70,444
Earnings from operations (EBIT)	54,686	46,095
Interest expense	4,612	3,429
Income taxes	12,029	10,295
Net earnings	38,045	32,371
Net earnings attributable to shareholders of the Company	36,777	31,395
Net earnings per share - basic	0.77	0.66
Net earnings per share - diluted	0.76	0.64

**Sales** Second quarter consolidated sales increased 6.8% to \$618.1 million led by same store sales gains, mainly due to higher inflation, and the impact of foreign exchange on the translation of International Operations sales. The impact of new stores in Canadian and International Operations and an increase in other sales in Canadian Operations largely related to higher airline revenue were also factors. These factors were partially offset by the loss of our store in Fox Lake, Alberta on May 5, 2023 due to wild fire and the closure of our Cost-U-Less store in Curacao, Netherlands early in the first quarter this year. The exchange rate used for the translation of International Operations sales increased to 1.3342 compared to 1.2864 last year. Excluding the foreign exchange impact, consolidated sales increased 5.4%, with food sales increasing 5.0% and general merchandise and other sales increasing 6.8% compared to last year. On a same store basis, sales increased 4.7%<sup>1</sup> compared to the second quarter last year led by a 7.2% increase in same store sales in Canadian Operations driven by food and general merchandise sales gains. A 1.3% same store sales increase in International Operations was also a factor.

**Gross Profit** Gross profit increased 11.1% driven by sales gains and a 128 basis point increase in gross profit rate compared to last year. The increase in gross profit rate was largely due to changes in sales blend and a higher pass through of cost inflation in retail prices compared to last year. An increase in the airline gross profit rate in Canadian Operations resulting from higher third party cargo and charter passenger business was also a factor.

(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 \$11.8 million or 8.6% compared to last year and were up 40 basis points as a percentage to sales. The increase in Expenses is mainly due to cost inflation impacts including higher staff costs and fuel-based utility expenses, the impact of foreign exchange on the translation of International Operations Expenses, new store expenses and an increase in depreciation. A \$3.7 million expense resulting from the write-off of assets in our Fox Lake, Alberta store that was destroyed by a wild fire was also a factor. These factors were partially offset by a \$2.7 million decrease in share-based compensation costs primarily due to mark-to-market adjustments resulting from changes in the Company's share price. Further information on share-based compensation is provided in Note 14 to the Interim Condensed Consolidated Financial Statements. Excluding the Fox Lake store asset write-off and share-based compensation, Expenses increased \$10.8 million or 7.9% compared to last year largely due to cost inflation and the impact of new stores previously noted.

**Earnings From Operations** Earnings from operations (EBIT) increased 18.6% to \$54.7 million compared to \$46.1 million last year and earnings before interest, income taxes, depreciation and amortization ("EBITDA<sup>2</sup>") increased to \$80.1 million compared to \$70.4 million last year due to the gross profit and Expense factors previously noted. Adjusted EBITDA<sup>2</sup>, which excludes share-based compensation costs and the asset write-off of the Fox Lake store destroyed by wild fire, increased \$10.7 million or 14.7% to \$83.3 million compared to \$72.6 million last year and as a percentage to sales was 13.5% compared to 12.6% last year.

**Interest Expense** Interest expense increased to \$4.6 million compared to \$3.4 million last year mainly due to higher borrowing costs. Further information on interest expense is provided in Note 12 to the Company's Interim Condensed Consolidated Financial Statements.

**Income Tax Expense** Income tax expense increased to \$12.0 million compared to \$10.3 million last year due to higher earnings as the consolidated effective tax rate was 24.0% compared to 24.1% last year.

**Net Earnings** Net earnings increased 17.5% to \$38.0 million compared to \$32.4 million last year. Net earnings attributable to shareholders were \$36.8 million and diluted earnings per share were \$0.76 per share compared to \$0.64 per share last year. Adjusted net earnings<sup>2</sup>, which excludes the after-tax impact of the share-based compensation costs and the asset write-off related to the loss of the Fox Lake store, increased \$6.1 million or 17.9% compared to last year due to the gross profit, Expense and interest factors previously noted.

**Comprehensive Income** Comprehensive income was \$31.0 million compared to \$31.5 million last year as the impact of higher net earnings was more than offset by the change in foreign exchange impact 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, 2023 Information:

(\$ in thousands, except per share)	Year-to-date	
	July 31, 2023	July 31, 2022
Sales	\$ 1,211,659	\$ 1,130,890
Same store sales % <sup>(1)</sup>		
Food	3.4 %	0.6 %
General Merchandise	(1.2)%	(17.5)%
Total	2.8 %	(2.4)%
Gross profit	\$ 389,373	\$ 360,097
Selling, operating and administrative expenses	300,919	272,571
EBITDA <sup>(2)</sup>	139,060	135,389
Earnings from operations (EBIT)	88,454	87,526
Interest expense	9,104	6,452
Income taxes	19,108	20,542
Net earnings	60,242	60,532
Net earnings attributable to shareholders of the Company	57,671	58,775
Net earnings per share - basic	1.21	1.23
Net earnings per share - diluted	1.19	1.21

**Sales** Year-to-date sales increased 7.1% to \$1.212 billion largely due to same store sales gains in Canadian Operations, the impact of foreign exchange on the translation of International Operations sales and new store sales. Excluding the foreign exchange impact, consolidated sales increased 5.2% compared to last year with food sales increasing 4.2% and general merchandise and other sales increasing 8.7%. The increase in general merchandise and other sales was mainly due to an increase in airline revenue and higher general merchandise sales in Canadian Operations. These factors were partially offset by lower general merchandise sales in International Operations. Same store sales were up 2.8%<sup>1</sup> compared to last year as a 3.4% increase in food sales more than offset a 1.2% decrease in general merchandise sales as the impact of higher cost inflation has resulted in changes in sales blend as consumers allocated more of their spending to food and reduced purchases of general merchandise.

**Gross Profit** Gross profit increased 8.1% due to the impact of higher sales and a 30 basis point increase in the gross profit rate. The increase in gross profit rate was primarily due to changes in sales blend and a higher pass through of cost inflation in retail prices compared to last year. Higher airline gross profit from third party cargo and charter passenger business was also a factor. These factors were partially offset by higher markdowns and inventory shrink compared to last year.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased \$28.3 million or 10.4% and were up 74 basis points as a percentage to sales. The increase in Expenses is largely due to cost inflation impacts including higher staff costs and fuel-based utility expenses, the impact of foreign exchange on the translation of International Operations Expenses, new store expenses, an increase in depreciation and the \$3.7 million asset write-off from the loss of our store in Fox Lake, Alberta that was destroyed by wild fire. These factors were partially offset by a \$1.6 million decrease in share-based compensation costs. Excluding the share-based compensation and Fox Lake wild fire-related loss, Expenses increased \$26.2 million or 9.8% compared to last year primarily due to the cost inflation, foreign exchange and new store factors previously noted.

(1) Excluding the foreign exchange impact

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

**Earnings From Operations** Earnings from operations (EBIT) increased to \$88.5 million compared to \$87.5 million last year and earnings before interest, income taxes, depreciation and amortization ("EBITDA<sup>(1)</sup>") increased to \$139.1 million compared to \$135.4 million last year due to the sales, gross profit and Expense factors noted above. Adjusted EBITDA<sup>(2)</sup>, which excludes the impact of share-based compensation and the Fox Lake fire loss, increased \$5.8 million or 4.1% to \$147.1 million compared to \$141.3 million last year and as a percentage to sales was 12.1% compared to 12.5% last year.

**Interest Expense** Interest expense increased to \$9.1 million compared to \$6.5 million last year due to higher borrowing costs combined with higher average debt.

**Income Tax Expense** Income tax expense decreased \$1.4 million to \$19.1 million due to lower earnings and a decrease in the consolidated effective tax rate to 24.1% compared to 25.3% last year. Changes in the effective tax rate can occur as a result of various factors, including the taxation of items such as share-based compensation and insurance related gains, changes in tax estimates and the blend of earnings across the various tax rate jurisdictions.

**Net Earnings** Net earnings decreased 0.5% to \$60.2 million compared to \$60.5 million last year. Net earnings attributable to shareholders were \$57.7 million and diluted earnings per share were \$1.19 per share compared to \$1.21 per share last year due to the factors noted above. Adjusted net earnings<sup>(2)</sup>, which excludes the impact of share-based compensation and the Fox Lake fire loss, increased \$1.0 million or 1.5% compared to last year.

**Comprehensive Income** Comprehensive income decreased \$14.8 million to \$56.2 million compared to \$71.0 million last year due to the remeasurement of defined benefit pension plan assets and liabilities which resulted in a net actuarial gain of \$9.5 million last year and the impact of foreign exchange on the translation of the International Operations which resulted in a loss of \$4.0 million this year compared to a gain of \$1.0 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:

(\$ in thousands)	Three Months Ended	
	July 31, 2023	July 31, 2022
Sales	\$ 347,353	\$ 323,315
Same store sales %		
Food	6.5 %	(2.6)%
General Merchandise	10.6 %	(20.3)%
Total	7.2 %	(6.0)%
EBITDA <sup>(2)</sup>	\$ 52,084	\$ 45,321
Earnings from operations (EBIT)	35,260	28,740

**Sales** Canadian Operations sales increased 7.4% to \$347.4 million compared to \$323.3 million in the second quarter last year driven by a 7.2% same store sales gain, the impact of new stores and an increase in airline revenue. These factors were partially offset by the loss of our store in Fox Lake, Alberta that was destroyed by wild fire. Food sales increased 6.3% mainly due to higher inflation. General merchandise and other sales increased 9.8% due to general merchandise same store sales gains and an increase in other sales largely related to higher airline revenue from third party cargo volumes and higher passenger revenues compared to last year. Other sales were also impacted by higher retail fuel and pharmacy sales. On a same store basis, food sales increased 6.5% and general merchandise sales increased 10.6% compared to last year. Sales were positively impacted by government income support payments, including the Grocery Rebate paid to individuals to help mitigate higher cost of living.

**Gross Profit** Gross profit increased 12.7% driven by higher sales and an increase in gross profit rate primarily related to changes in sales blend as previously noted, a higher pass through of cost inflation in retail prices compared to last year and an increase in airline gross profit.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 9.3% and were up 44 basis points as a percentage to sales compared to last year mainly due to the \$3.7 million Fox Lake fire loss and cost inflation impacts including higher staff costs and fuel-based utility expenses. These factors were partially offset by a \$2.3 million decrease in share-based compensation costs due to mark-to-market adjustments resulting from changes in the Company's share price.

**Earnings From Operations** Earnings from operations (EBIT) increased \$6.5 million or 22.7% to \$35.3 million compared to \$28.7 million last year and EBITDA<sup>2</sup> increased to \$52.1 million compared to \$45.3 million last year due to the impact of the sales, gross profit and Expense factors previously noted. Adjusted EBITDA<sup>2</sup>, which excludes the impact of share-based compensation costs and the Fox Lake fire loss, increased \$8.2 million or 17.3% to \$55.3 million compared to \$47.1 million last year.

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

## 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:

(\$ in thousands)	Three Months Ended	
	July 31, 2023	July 31, 2022
Sales	\$ 202,927	\$ 198,663
Same store sales % increase		
Food	2.4 %	0.4 %
General Merchandise	(9.0)%	(15.3)%
Total	1.3 %	(1.3)%
EBITDA <sup>(2)</sup>	\$ 20,971	\$ 19,546
Earnings from operations (EBIT)	14,523	13,505

**Sales** International Operations sales increased 2.1% to \$202.9 million compared to \$198.7 million in the second quarter last year due to a 1.3% gain in same store sales and the impact of new stores in Alaska. These factors were partially offset by the impact of the closure of a Cost-U-Less store in Curacao, Netherlands early in the first quarter this year and the impact of lower Supplemental Nutrition Assistance Program ("SNAP") benefits within Alaska and the U.S. Territories served by Cost-U-Less compared to last year. Food sales increased 3.3% and were up 2.4% on a same store basis compared to last year but general merchandise sales decreased 7.6% and were down 9.0% on a same store basis compared to last year as the impact of higher inflation continued to result in a shift in consumer spending from general merchandise to food.

**Gross Profit** Gross profit increased 4.6% compared to last year due to higher sales and an increase in the gross profit rate largely related to changes in sales blend and a higher pass through of freight and merchandise cost inflation in retail prices compared to last year partially offset by higher markdowns and inventory shrink.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 3.7% compared to last year mainly due to inflationary cost pressures, including higher staff costs and fuel-based utility costs. These factors were partially offset by lower annual incentive plan expenses and share-based compensation costs.

**Earnings From Operations** Earnings from operations (EBIT) increased \$1.0 million or 7.5% to \$14.5 million compared to \$13.5 million in the second quarter last year and EBITDA<sup>2</sup> increased 7.3% to \$21.0 million compared to \$19.5 million last year due to the sales, gross profit and Expense factors previously noted.

(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 0.50:1 compared to 0.48:1 last year.

Working capital increased \$48.6 million compared to last year substantially due to an increase in inventories, accounts receivable, and cash, partially offset by higher accounts payable and accrued liabilities. The impact of foreign exchange on the translation of the International Operations balance sheet was also a large factor contributing to the increase in working capital as the exchange rate at July 31, 2023 was 1.3210 compared to 1.2796 at July 31, 2022. The \$43.2 million increase in inventories is mainly due to the impact of higher cost inflation, particularly in food, and an increase in general merchandise inventories in Canadian Operations. The increase in general merchandise inventories in Canadian Operations is primarily in categories such as transportation, specifically snow machines, ATV's, boats and motors, and home furnishings and appliances that were impacted by supply chain disruptions last year. Higher inventories in other categories such as apparel and seasonal categories were also a factor but to a lesser extent. The change in accounts receivable is due to an increase in the current portion of the promissory note receivable and timing of collection on accounts. The increase in accounts payable is mainly related to the timing of payments.

### Share Capital

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

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

Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the Canada Transportation Act "CTA"). An issued and outstanding Variable Voting Share is converted into one Common Voting Share automatically and without any further act of the Company or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the CTA. Further information on the Company's Variable Voting Shares and Common Voting Shares is provided in the April 5, 2023 Management Information Circular which is available on the Company's website at [www.northwest.ca](http://www.northwest.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com).

At July 31, 2023, there were 16,652,080 (July 31, 2022 - 14,213,371) Variable Voting Shares, representing 34.9% (July 31, 2022 - 29.7%) of the total shares issued and outstanding. Further information on the Company's share capital is provided in Note 7 to the Company's Interim Condensed Consolidated Financial Statements.

### Outstanding Shares

The weighted-average basic shares outstanding for the quarter decreased to 47,830,000 shares compared to 47,940,000 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 48,504,000 shares compared to 48,714,000 shares last year. The decrease in fully diluted shares outstanding compared to last year is due to shares purchased under the Company's NCIB net of 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, 2022, the TSX approved the renewal of the NCIB. The maximum number of shares that can be purchased under the NCIB over the next 12 months is 4,740,895 which is approximately 10% of the Company's public float at October 31, 2022. The NCIB will be made in accordance with applicable regulations and the requirements of the TSX. 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. During six months ended July 31, 2023 the Company purchased 153,998 (July 31, 2022 - 48,009) common shares for cash consideration of \$5.0 million (July 31, 2022 - \$1.7 million) with the excess of the purchase price over the book value of the shares charged to retained earnings. All shares purchased were cancelled. Further information on share capital and the NCIB is provided in Note 7 to the Company's Interim Condensed Consolidated Financial Statements.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

(\$ in thousands)	Three Months			Six Months		
	Ended July 31, 2023	Three Months Ended July 31, 2022	Change	Ended July 31, 2023	Six Months Ended July 31, 2022	Change
Cash flows from (used in):						
Operating activities	\$ 59,334	\$ 37,282	\$ 22,052	\$ 68,795	\$ 37,322	\$ 31,473
Investing activities	(14,657)	(13,860)	(797)	(27,785)	(26,805)	(980)
Financing activities	(47,481)	(20,599)	(26,882)	(24,219)	1,120	(25,339)
Effect of changes in foreign exchange rates on cash	(1,082)	(157)	(925)	(599)	152	(751)
Net change in cash	\$ (3,886)	\$ 2,666	\$ (6,552)	\$ 16,192	\$ 11,789	\$ 4,403

**Operating Activities** Cash from operating activities in the quarter increased \$22.1 million compared to the second quarter last year and increased \$31.5 million for the year-to-date, largely due to the change in non-cash working capital compared to last year. The \$14.1 million change in non-cash working capital in the quarter and the \$27.1 million change for the year-to-date, is primarily related to the change in inventories, accounts receivable and accounts payable and accrued liabilities compared to the prior year. The change in taxes paid compared to last year due to the timing of income tax installments was also a factor.

**Investing Activities** Cash used in investing activities in the quarter was \$14.7 million compared to \$13.9 million last year and for the year-to-date increased \$1.0 million to \$27.8 million compared to \$26.8 million last year. The purchase of property and equipment in the quarter and for the year-to-date included investments in stores, fixtures and equipment. Further information on planned capital expenditures is included in the Outlook section.

**Financing Activities** Cash used in financing activities in the quarter increased to \$47.5 million compared to \$20.6 million last year largely due to changes in long-term debt related to amounts drawn on revolving loan facilities. An increase in shares purchased under the Company's NCIB to \$5.0 million compared to \$1.7 million last year was also a factor. For the year-to-date, cash used in financing activities was \$24.2 million compared to cash from financing activities of \$1.1 million last year mainly due to the changes in long-term debt and share purchases as previously noted. 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.

## Sources of Liquidity

Canadian Operations have \$400.0 million in committed, revolving loan facilities that bear a floating rate of interest based on Bankers Acceptances rates plus a stamping fee or the Canadian prime interest rate. At July 31, 2023, the Company had drawn \$119.6 million on these facilities (July 31, 2022 - \$85.9 million). The Canadian Operations also have committed, revolving loan facilities of US\$52.0 million that bear interest at SOFR plus a spread. At July 31, 2023, the Company had drawn US\$NIL on these facilities (July 31, 2022 - US\$NIL). These loan facilities mature March 1, 2027 and are secured by certain assets of the Company on a *pari passu* basis with the Company's senior notes.

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 \$400.0 million Canadian Operations loan facilities and the US\$52.0 million loan facilities.

International Operations have a US\$50.0 million committed, revolving loan facility which matures January 25, 2028. This loan facility bears a floating rate of interest based on SOFR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. At July 31, 2023, the Company had drawn US\$10.9 million on these facilities (July 31, 2022 - US\$14.2 million).

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, 2023, lease liabilities reflect a weighted-average risk-free rate of 4.0% (July 31, 2022 – 3.7%) and weighted-average remaining lease term of 10.5 years (July 31, 2022 – 9.9 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, a leverage test and a minimum net worth test. At July 31, 2023, 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 2023.

## SHAREHOLDER DIVIDENDS

The Board of Directors declared a quarterly dividend of \$0.39 per share, an increase of \$0.01 or 2.6% per share, to shareholders of record on September 29, 2023, to be paid on October 13, 2023.

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 new Northern store in Wasagamack, MB on June 19, 2023 which replaces a smaller Northern store located on an island adjacent to the community.

## 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 strives to deliver sustainable, total returns through earnings growth and dividends with a commitment to disciplined capital allocation, cash flow optimization and downside risk management. These priorities are integrated within our three-year business plan which includes the following:

1. Striving for operational excellence in all facets of our business with a priority on ensuring in-stock availability on essential products that our customers rely on and reducing costs to help offset the impact of higher cost inflation and provide value to our customers;
2. Investing to grow our business through store openings in new and existing markets, store renovations, expanded product categories and services, including pursuing wholesale and B-to-B opportunities, consistent with our core capability as an essential everyday products and service provider in remote markets;
3. Building a superior logistics and supply chain capability with an ongoing focus on optimizing our transportation mix and air cargo capability to provide faster, more reliable and lower cost service to our stores and customers in remote markets;
4. Optimizing our IT infrastructure including the implementation of next generation information technology for our stores and support offices that deliver efficiencies and more streamlined processes and drive improvements in category management, pricing, data analytics and inventory management; and
5. Delivering on the priorities aligned within our Environmental, Social and Governance ("ESG") framework including ensuring that we attract, develop and retain top talent that is inclusive of the diverse peoples and cultures that are represented within the communities we serve and that we are responsible towards communities and other stakeholder interests.

Further information on the Company's strategy is provided in the 2022 Annual Report.

## OUTLOOK

The near-term outlook continues to be influenced by inflationary cost pressures and there is uncertainty related to the economy and the impact of inflation and labour shortages. The Company expects to have a more normalized gross profit rate as it laps the negative impact of the ramp up in inflation on the gross profit rate last year however, there is uncertainty as the impact of inflation may also result in changes in sales blend and a lower gross profit rate if the full impact of inflationary cost increases is not passed through in retail prices. Uncertainty regarding the economy, particularly within tourism-dependent countries and countries that do not have strong government income support programs for individuals is difficult to forecast however, the resiliency of the Company's essential everyday product and service offering is expected to help mitigate some of this uncertainty. The Canadian Operations are also currently being affected by the wild fires in northern Canada. The impact of wild fires is unpredictable and can result in the destruction of property and infrastructure, temporary evacuations and the extended relocation of community members to larger rural and urban centers during the period of rebuilding. As previously noted, these wild fires resulted in the loss of the Company's store in Fox Lake, Alberta in the second quarter and continue to cause the evacuations of certain communities and supply chain disruptions in other communities. The Company maintains insurance in excess of self-insurance retention levels to help mitigate the impact of fire-related losses and has a track record of resuming operations in temporary facilities when stores have been destroyed, however there can be no assurance that any given loss will be fully mitigated.

Capital expenditures, net of expected proceeds from the promissory note receivable, are expected to be in the \$125 million range in 2023 compared to \$106.8 million in 2022. The timing and amount of store-based capital expenditures in 2023 are expected to continue to be impacted by the availability of building materials and labour shortages, in addition to other delays that can occur with remote location capital projects.

Beyond the duration of the current environment as previously noted, the medium and longer-term outlook for the Company is favourable based on the expected impact of government transfer payments and higher infrastructure spending in Indigenous communities, the resiliency of our essential everyday product and service value offer and the upside expected from enhancing our core capabilities to deliver operational excellence and sustainable earnings growth aligned with our strategic priorities.

## RISK FACTORS AND ENTERPRISE RISK MANAGEMENT

Information on risk factors inherent within the business and enterprise risk management are included in the Company's 2022 Annual Report and 2022 Annual Information Form, which are hereby incorporated by reference. These documents are available on the Company's website at [www.northwest.ca](http://www.northwest.ca) or on Sedar at [www.sedar.com](http://www.sedar.com). Those risks and risk management strategies remain unchanged.

## QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected quarterly financial information:

### Operating Results - Consolidated

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	92 days	92 days	89 days	89 days	92 days	92 days	92 days	92 days
	2023	2022	2023	2022	2022	2021	2022	2021
(\$ in millions, except per share)								
<b>Sales</b>	\$ 618.1	\$ 578.9	\$ 593.6	\$ 552.0	\$ 635.2	\$ 579.0	\$ 586.7	\$ 553.7
<b>EBITDA<sup>(1)</sup></b>	<b>80.1</b>	70.4	59.0	64.9	73.5	73.0	69.8	78.6
<b>Earnings from operations</b>	<b>54.7</b>	46.1	33.8	41.4	47.8	49.6	45.0	56.1
<b>Net earnings</b>	<b>38.0</b>	32.4	22.2	28.2	35.1	35.6	30.2	39.2
<b>Net earnings attributable to shareholders of the Company</b>	<b>36.8</b>	31.4	20.9	27.4	33.9	34.6	29.5	38.7
<b>Net earnings per share:</b>								
<b>Basic</b>	<b>0.77</b>	0.66	0.44	0.57	0.71	0.72	0.61	0.81
<b>Diluted</b>	<b>0.76</b>	0.64	0.43	0.57	0.69	0.71	0.61	0.79
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>83.3</b>	72.6	63.8	68.7	77.3	67.1	73.2	78.2
<b>Adjusted net earnings<sup>(1)</sup></b>	<b>40.0</b>	34.0	26.1	31.2	38.1	32.3	32.8	38.4

(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, 2023 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

## ACCOUNTING STANDARDS AND AMENDMENTS

The significant accounting policies are set out in the Company's 2022 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.

In September 2022, the IASB issued amendments to IFRS 16, *Leases* (IFRS 16) related to sale leaseback transactions for lessees. The amendments require that subsequent remeasurement of the lease liability does not result in a gain or loss that relates to the right of use asset the lessee retains. The amendments are effective for periods beginning on or after January 1, 2024, with early adoption permitted.

The Company does not expect adoption of this standard to have a material impact on the Company's consolidated financial statements.

There are no further IFRS or IFRIC interpretations that are either newly effective or 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** 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 earnings from operations (EBIT) to EBITDA and adjusted EBITDA:

(\$ in thousands)	Consolidated			
	Second Quarter		Year-to-Date	
	2023	2022	2023	2022
Earnings from operations (EBIT)	\$ 54,686	\$ 46,095	\$ 88,454	\$ 87,526
Add: Amortization	25,422	24,349	50,606	47,863
EBITDA	\$ 80,108	\$ 70,444	\$ 139,060	\$ 135,389
Adjusted for:				
Fox Lake wild fire asset write-off <sup>(1)</sup>	3,694	—	3,694	—
Share-based compensation expense <sup>(2)</sup>	(471)	2,180	4,363	5,917
Adjusted EBITDA	\$ 83,331	\$ 72,624	\$ 147,117	\$ 141,306

(\$ in thousands)	Canada	
	Second Quarter	
	2023	2022
Earnings from operations (EBIT)	\$ 35,260	\$ 28,740
Add: Amortization	16,824	16,581
EBITDA	\$ 52,084	\$ 45,321
Adjusted for:		
Fox Lake wild fire asset write-off <sup>(1)</sup>	3,694	—
Share-based compensation expense <sup>(2)</sup>	(483)	1,818
Adjusted EBITDA	\$ 55,295	\$ 47,139

(\$ in thousands)	International (Stated in U.S. dollars)	
	Second Quarter	
	2023	2022
Earnings from operations (EBIT)	\$ 14,523	\$ 13,505
Add: Amortization	6,448	6,041
EBITDA	\$ 20,971	\$ 19,546
Adjusted for:		
Share-based compensation expense <sup>(2)</sup>	15	281
Adjusted EBITDA	\$ 20,986	\$ 19,827

(1) On May 5, 2023, the Company's store in Fox Lake, Alberta was destroyed by wild fire which resulted in a write-off of assets.

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



**Reconciliation of consolidated net earnings to adjusted net earnings:**

(\$ in thousands)	Consolidated			
	Second Quarter		Year-to-Date	
	2023	2022	2023	2022
Net earnings	\$ 38,045	\$ 32,371	\$ 60,242	\$ 60,532
Adjusted for:				
Fox Lake wild fire asset write-off, net of tax <sup>(1)</sup>	2,551	—	2,551	—
Share-based compensation expense, net of tax <sup>(2)</sup>	(559)	1,589	3,301	4,589
Adjusted net earnings	\$ 40,037	\$ 33,960	\$ 66,094	\$ 65,121

(1) On May 5, 2023, the Company's store in Fox Lake, Alberta was destroyed by wild fire which resulted in a write-off of assets.

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

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.

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Unless otherwise stated, this Management's Discussion & Analysis ("MD&A") is based on the financial information included in the Company's 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 12, 2023.

## **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), ongoing business strategies or prospects, the Company's intentions regarding a normal course issuer bid, the potential impact of a pandemic on the Company's operations, supply chain and the Company's related business continuity plans, the realization of cost savings from 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 changes in economic conditions, political and market factors in North America and internationally. These factors include, but are not limited to, changes in inflation, interest and foreign exchange rates, the Company's ability to maintain an effective supply chain, 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 and realize benefits from capital projects, E-Commerce investments, strategic transactions and the integration of 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 that the foregoing list of important factors is not exhaustive. Other risks are outlined in the Risk Management section of the 2022 Annual Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular, material change reports and news releases. 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](http://www.sedar.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).

## Consolidated Balance Sheets

(unaudited, \$ in thousands)	July 31, 2023	July 31, 2022	January 31, 2023
<b>CURRENT ASSETS</b>			
Cash	\$ 75,001	\$ 61,215	\$ 58,809
Accounts receivable (Note 5)	123,252	108,788	113,798
Inventories (Note 6)	326,816	283,590	293,835
Prepaid expenses	16,343	14,307	8,402
	<b>541,412</b>	<b>467,900</b>	<b>474,844</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment	606,939	555,513	606,310
Right-of-use assets	109,542	102,979	102,632
Promissory note receivable	4,257	25,847	26,299
Goodwill	49,924	48,705	50,431
Intangible assets	29,726	32,601	30,694
Deferred tax assets	21,303	22,616	21,707
Other assets	22,325	22,847	23,973
	<b>844,016</b>	<b>811,108</b>	<b>862,046</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,385,428</b>	<b>\$ 1,279,008</b>	<b>\$ 1,336,890</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 225,944	\$ 199,000	\$ 225,481
Current portion of long-term debt (Note 9)	264	256	268
Current portion of lease liabilities (Note 10)	18,655	18,484	18,644
Income tax payable (Note 13)	4,425	6,654	4,213
	<b>249,288</b>	<b>224,394</b>	<b>248,606</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt (Note 9)	326,571	293,932	289,782
Lease liabilities (Note 10)	101,049	94,685	93,833
Defined benefit plan obligation (Note 19)	18,244	16,849	18,232
Deferred tax liabilities	13,419	13,764	14,311
Other long-term liabilities	19,858	22,792	24,226
	<b>479,141</b>	<b>442,022</b>	<b>440,384</b>
<b>TOTAL LIABILITIES</b>	<b>728,429</b>	<b>666,416</b>	<b>688,990</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 7)	177,238	176,640	176,091
Contributed surplus	7,967	9,691	13,017
Retained earnings	424,083	386,990	407,182
Accumulated other comprehensive income	29,215	23,217	32,931
Equity attributable to The North West Company Inc.	638,503	596,538	629,221
Non-controlling interests	18,496	16,054	18,679
<b>TOTAL EQUITY</b>	<b>656,999</b>	<b>612,592</b>	<b>647,900</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 1,385,428</b>	<b>\$ 1,279,008</b>	<b>\$ 1,336,890</b>

See accompanying notes to unaudited condensed consolidated financial statements.

## Consolidated Statements of Earnings

	Three Months Ended July 31, 2023	Three Months Ended July 31, 2022	Six Months Ended July 31, 2023	Six Months Ended July 31, 2022
<small>(unaudited, \$ in thousands, except per share amounts)</small>				
<b>SALES</b>	<b>\$ 618,095</b>	\$ 578,874	<b>\$ 1,211,659</b>	\$ 1,130,890
Cost of sales	<b>(413,651)</b>	(394,817)	<b>(822,286)</b>	(770,793)
Gross profit	<b>204,444</b>	184,057	<b>389,373</b>	360,097
Selling, operating and administrative expenses (Notes 11, 17)	<b>(149,758)</b>	(137,962)	<b>(300,919)</b>	(272,571)
Earnings from operations	<b>54,686</b>	46,095	<b>88,454</b>	87,526
Interest expense (Note 12)	<b>(4,612)</b>	(3,429)	<b>(9,104)</b>	(6,452)
Earnings before income taxes	<b>50,074</b>	42,666	<b>79,350</b>	81,074
Income taxes (Note 13)	<b>(12,029)</b>	(10,295)	<b>(19,108)</b>	(20,542)
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 38,045</b>	\$ 32,371	<b>\$ 60,242</b>	\$ 60,532
<b>NET EARNINGS ATTRIBUTABLE TO</b>				
The North West Company Inc.	<b>\$ 36,777</b>	\$ 31,395	<b>\$ 57,671</b>	\$ 58,775
Non-controlling interests	<b>1,268</b>	976	<b>2,571</b>	1,757
<b>TOTAL NET EARNINGS</b>	<b>\$ 38,045</b>	\$ 32,371	<b>\$ 60,242</b>	\$ 60,532
<b>NET EARNINGS PER SHARE</b>				
Basic	<b>\$ 0.77</b>	\$ 0.66	<b>\$ 1.21</b>	\$ 1.23
Diluted	<b>\$ 0.76</b>	\$ 0.64	<b>\$ 1.19</b>	\$ 1.21
<b>WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)</b>				
Basic	<b>47,830</b>	47,940	<b>47,799</b>	47,921
Diluted	<b>48,504</b>	48,714	<b>48,483</b>	48,697

See accompanying notes to unaudited condensed consolidated financial statements.

## Consolidated Statements of Comprehensive Income

(unaudited, \$ in thousands)	<b>Three Months Ended July 31, 2023</b>	Three Months Ended July 31, 2022	<b>Six Months Ended July 31, 2023</b>	Six Months Ended July 31, 2022
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 38,045</b>	\$ 32,371	<b>\$ 60,242</b>	\$ 60,532
Other comprehensive income/(loss), net of tax:				
<b>Items that may be reclassified to net earnings:</b>				
Exchange differences on translation of foreign controlled subsidiaries	(7,023)	(884)	(3,997)	961
<b>Items that will not be subsequently reclassified to net earnings:</b>				
Remeasurements of defined benefit plans (Note 19)	—	—	—	9,513
Total other comprehensive income/(loss), net of tax	(7,023)	(884)	(3,997)	10,474
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 31,022</b>	\$ 31,487	<b>\$ 56,245</b>	\$ 71,006
<b>OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO</b>				
The North West Company Inc.	\$ (6,515)	\$ (800)	\$ (3,716)	\$ 10,380
Non-controlling interests	(508)	(84)	(281)	94
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)</b>	<b>\$ (7,023)</b>	\$ (884)	<b>\$ (3,997)</b>	\$ 10,474
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>				
The North West Company Inc.	\$ 30,262	\$ 30,595	\$ 53,955	\$ 69,155
Non-controlling interests	760	892	2,290	1,851
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 31,022</b>	\$ 31,487	<b>\$ 56,245</b>	\$ 71,006

See accompanying notes to unaudited condensed consolidated financial statements.

## Consolidated Statements of Changes in Shareholders' Equity

(unaudited, \$ in thousands)	Share Capital	Contributed Surplus	Retained Earnings	AOCI <sup>(1)</sup>	Total	Non-Controlling Interests	Total Equity
Balance at January 31, 2023	\$ 176,091	\$ 13,017	\$ 407,182	\$ 32,931	\$ 629,221	\$ 18,679	\$ 647,900
Net earnings for the period	—	—	57,671	—	57,671	2,571	60,242
Other comprehensive loss	—	—	—	(3,716)	(3,716)	(281)	(3,997)
Comprehensive income/(loss)	—	—	57,671	(3,716)	53,955	2,290	56,245
Shares purchased and cancelled (Note 7)	(557)	—	(4,443)	—	(5,000)	—	(5,000)
Equity settled share-based payments, net of tax	(51)	(4,393)	—	—	(4,444)	—	(4,444)
Dividends (Note 8)	—	—	(36,327)	—	(36,327)	(2,473)	(38,800)
Issuance of shares (Note 7)	1,755	(657)	—	—	1,098	—	1,098
	1,147	(5,050)	(40,770)	—	(44,673)	(2,473)	(47,146)
<b>Balance at July 31, 2023</b>	<b>\$ 177,238</b>	<b>\$ 7,967</b>	<b>\$ 424,083</b>	<b>\$ 29,215</b>	<b>\$ 638,503</b>	<b>\$ 18,496</b>	<b>\$ 656,999</b>
Balance at January 31, 2022	\$ 173,081	\$ 12,530	\$ 355,674	\$ 22,350	\$ 563,635	\$ 16,569	\$ 580,204
Net earnings for the period	—	—	58,775	—	58,775	1,757	60,532
Other comprehensive income	—	—	9,513	867	10,380	94	10,474
Comprehensive income	—	—	68,288	867	69,155	1,851	71,006
Shares purchased and cancelled (Note 7)	(173)	—	(1,488)	—	(1,661)	—	(1,661)
Equity settled share-based payments, net of tax	(204)	(731)	—	—	(935)	—	(935)
Dividends (Note 8)	—	—	(35,484)	—	(35,484)	(2,366)	(37,850)
Issuance of shares (Note 7)	3,936	(2,108)	—	—	1,828	—	1,828
	3,559	(2,839)	(36,972)	—	(36,252)	(2,366)	(38,618)
Balance at July 31, 2022	\$ 176,640	\$ 9,691	\$ 386,990	\$ 23,217	\$ 596,538	\$ 16,054	\$ 612,592

(1) Accumulated Other Comprehensive Income

See accompanying notes to unaudited condensed consolidated financial statements.

## Consolidated Statements of Cash Flows

	Three Months Ended July 31, 2023	Three Months Ended July 31, 2022	Six Months Ended July 31, 2023	Six Months Ended July 31, 2022
(unaudited, \$ in thousands)				
<b>CASH FROM (USED IN):</b>				
<b>Operating activities</b>				
Net earnings for the period	\$ 38,045	\$ 32,371	\$ 60,242	\$ 60,532
Adjustments for:				
Amortization (Note 17)	25,422	24,349	50,606	47,863
Provision for income taxes (Note 13)	12,029	10,295	19,108	20,542
Interest expense (Note 12)	4,612	3,429	9,104	6,452
Equity settled share-based compensation, net of tax (Note 14)	(4,736)	1,618	(4,444)	(935)
Taxes paid	(10,276)	(17,100)	(19,472)	(27,780)
(Gain)/Loss on disposal of property and equipment	522	(37)	531	(24)
	<b>65,618</b>	54,925	<b>115,675</b>	106,650
Change in non-cash working capital	(4,958)	(19,017)	(42,938)	(69,993)
Change in other non-cash items	(1,326)	1,374	(3,942)	665
Cash from operating activities	<b>59,334</b>	37,282	<b>68,795</b>	37,322
<b>Investing activities</b>				
Purchase of property and equipment	(28,338)	(20,897)	(38,621)	(32,841)
Intangible asset additions	(1,498)	(2,897)	(4,436)	(3,899)
Proceeds from disposal of property and equipment	179	134	272	135
Proceeds from promissory note receivable	15,000	9,800	15,000	9,800
Cash used in investing activities	<b>(14,657)</b>	(13,860)	<b>(27,785)</b>	(26,805)
<b>Financing activities</b>				
Net increase/(decrease) in long-term debt (Note 9)	(12,277)	12,111	38,142	57,857
Payment of lease liabilities, principal	(5,328)	(7,768)	(10,148)	(12,386)
Payment of lease liabilities, interest	(1,188)	(1,032)	(2,276)	(2,048)
Dividends (Note 8)	(18,175)	(17,735)	(36,327)	(35,484)
Dividends to non-controlling interests (Note 8)	(2,473)	(2,366)	(2,473)	(2,366)
Interest paid	(3,462)	(2,333)	(7,235)	(4,620)
Net issuance of common shares	422	(15)	1,098	1,828
Common shares purchased and cancelled (Note 7)	(5,000)	(1,461)	(5,000)	(1,661)
Cash (used in)/from financing activities	<b>(47,481)</b>	(20,599)	<b>(24,219)</b>	1,120
<b>Effect of foreign exchange rates on cash</b>	<b>(1,082)</b>	(157)	<b>(599)</b>	152
<b>NET CHANGE IN CASH</b>	<b>(3,886)</b>	2,666	<b>16,192</b>	11,789
Cash, beginning of period	78,887	58,549	58,809	49,426
<b>CASH, END OF PERIOD</b>	<b>\$ 75,001</b>	\$ 61,215	<b>\$ 75,001</b>	\$ 61,215

See accompanying notes to unaudited 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 12, 2023.

### 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 2022 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 2022 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 2022 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.

**Standards and Amendments** In September 2022, the IASB issued amendments to IFRS 16, *Leases* (IFRS 16) related to sale leaseback transactions for lessees. The amendments require that subsequent remeasurement of the lease liability does not result in a gain or loss that relates to the right of use asset the lessee retains. The amendments are effective for periods beginning on or after January 1, 2024, with early adoption permitted.

The Company does not expect adoption of this standard to have a material impact on the Company's consolidated financial statements.

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

**Use of Estimates** The preparation of the condensed 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 condensed 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 condensed 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 condensed consolidated financial statements and notes. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and in any future periods affected.

Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have the most significant effect on the amounts recognized in the condensed consolidated financial statements include: allowance for doubtful accounts, valuation of 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, measurement of income taxes, measurement of contingent consideration, valuation of 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:

<b>Consolidated Statements of Earnings</b>					
	<b>Three Months</b>	Three Months	<b>Six Months</b>	Six Months	
	<b>Ended</b>	Ended	<b>Ended</b>	Ended	
	<b>July 31, 2023</b>	July 31, 2022	<b>July 31, 2023</b>	July 31, 2022	
<b>Sales</b>					
<b>Canada</b>					
Food	\$ 235,935	\$ 221,850	\$ 464,616	\$ 439,039	
General merchandise and other	111,418	101,465	224,455	199,567	
Canada	\$ 347,353	\$ 323,315	\$ 689,071	\$ 638,606	
<b>International</b>					
Food	\$ 245,703	\$ 229,384	\$ 477,411	\$ 444,032	
General merchandise and other	25,039	26,175	45,177	48,252	
International	\$ 270,742	\$ 255,559	\$ 522,588	\$ 492,284	
Consolidated	\$ 618,095	\$ 578,874	\$ 1,211,659	\$ 1,130,890	
<b>Earnings before amortization, interest and income taxes</b>					
Canada	\$ 52,084	\$ 45,321	\$ 90,757	\$ 88,814	
International	28,024	25,123	48,303	46,575	
Consolidated	\$ 80,108	\$ 70,444	\$ 139,060	\$ 135,389	
<b>Earnings from operations</b>					
Canada	\$ 35,260	\$ 28,740	\$ 57,339	\$ 56,321	
International	19,426	17,355	31,115	31,205	
Consolidated	\$ 54,686	\$ 46,095	\$ 88,454	\$ 87,526	

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 4. SEGMENTED INFORMATION (continued)

#### Supplemental information

	July 31, 2023	July 31, 2022	January 31, 2023
<b>Assets</b>			
Canada <sup>(1)</sup>	\$ 873,718	\$ 809,601	\$ 841,543
International <sup>(1)</sup>	511,710	469,407	495,347
Consolidated	\$ 1,385,428	\$ 1,279,008	\$ 1,336,890

(1) Canadian total assets includes goodwill of \$11,025 (July 31, 2022 – \$11,025; January 31, 2023 – \$11,025); International total assets includes goodwill of \$38,899 (July 31, 2022 – \$37,680; January 31, 2023 – \$39,406).

	Three Months Ended		Three Months Ended		Six Months Ended		Six Months Ended	
	July 31, 2023		July 31, 2022		July 31, 2023		July 31, 2022	
	Canada	International	Canada	International	Canada	International	Canada	International
Purchase of property and equipment	\$ 15,950	\$ 12,388	\$ 14,920	\$ 5,977	\$ 23,314	\$ 15,307	\$ 23,598	\$ 9,243
Amortization	\$ 16,824	\$ 8,598	\$ 16,581	\$ 7,768	\$ 33,418	\$ 17,188	\$ 32,493	\$ 15,370

### 5. ACCOUNTS RECEIVABLE

	July 31, 2023	July 31, 2022	January 31, 2023
Trade accounts receivable	\$ 90,050	\$ 72,614	\$ 92,573
Corporate and other accounts receivable	45,107	47,094	32,610
Less: allowance for doubtful accounts	(11,905)	(10,920)	(11,385)
Total	\$ 123,252	\$ 108,788	\$ 113,798

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, 2023, the Company recorded \$838 (three months ended July 31, 2022 – \$688) 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, 2023, the Company recorded \$2,096 (six months ended July 31, 2022 - \$2,487) 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, 2023 or 2022.

## 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.

<b>July 31, 2023</b>	<b>Shares</b>	<b>Consideration</b>
Balance at January 31, 2023	47,750,605	\$ 176,323
Purchased and cancelled <sup>(1)</sup>	(153,998)	(557)
Issued under share-based compensation plans (Note 14)	91,788	1,755
<b>Balance at July 31, 2023</b>	<b>47,688,395</b>	<b>\$ 177,521</b>
Shares held in trust, January 31, 2023	(65,522)	\$ (232)
Purchased for future settlement of PSUs	(110,000)	(392)
Released for settlement of PSUs (Note 14)	95,036	341
<b>Shares held in trust, July 31, 2023</b>	<b>(80,486)</b>	<b>\$ (283)</b>
<b>Issued and outstanding, net of shares held in trust, July 31, 2023<sup>(2)</sup></b>	<b>47,607,909</b>	<b>\$ 177,238</b>
July 31, 2022		
Balance at January 31, 2022	47,878,650	\$ 173,110
Purchased and cancelled <sup>(1)</sup>	(48,009)	(173)
Issued under share-based compensation plans (Note 14)	102,224	3,936
<b>Balance at July 31, 2022</b>	<b>47,932,865</b>	<b>\$ 176,873</b>
Shares held in trust, January 31, 2022	(8,371)	\$ (29)
Purchased for future settlement of PSUs	(87,000)	(311)
Released for settlement of PSUs (Note 14)	29,849	107
<b>Shares held in trust, July 31, 2022</b>	<b>(65,522)</b>	<b>\$ (233)</b>
<b>Issued and outstanding, net of shares held in trust, July 31, 2022</b>	<b>47,867,343</b>	<b>\$ 176,640</b>

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

(2) At July 31, 2023 there were 16,652,080 (July 31, 2022 - 14,213,371) Variable Voting Shares representing 34.9% (July 31, 2022 - 29.7%) of the total shares issued and outstanding.

#### Normal Course Issuer Bid

On November 10, 2022, the Company received approval from the Toronto Stock Exchange to renew the Normal Course Issuer Bid ("NCIB"). Under the NCIB, the Company may acquire up to a maximum of 4,740,895 of its shares, or approximately 10% of its float for cancellation over the following 12 months. During the six months ended July 31, 2023, the Company purchased 153,998 common shares having a book value of \$557 for cash consideration of \$5,000. During the six months ended July 31, 2022, the Company purchased 48,009 common shares having a book value of \$173 for cash consideration of \$1,661. The excess of the purchase price over the book value of the shares of \$4,443 (July 31, 2022 - \$1,488) 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.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 8. DIVIDENDS

	<b>Six Months Ended July 31, 2023</b>	Six Months Ended July 31, 2022
Dividends recorded in equity and paid in cash	\$ <b>38,800</b>	\$ 37,850
Less: Dividends paid to non-controlling interests	<b>(2,473)</b>	(2,366)
Shareholder dividends	\$ <b>36,327</b>	\$ 35,484
Dividends per share	\$ <b>0.76</b>	\$ 0.74

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 20).

### 9. LONG-TERM DEBT

	<b>July 31, 2023</b>	July 31, 2022	January 31, 2023
<b>Current:</b>			
Promissory note payable <sup>(6)</sup>	\$ <b>264</b>	\$ 256	\$ 268
<b>Non-current:</b>			
Revolving loan facility <sup>(1)</sup>	\$ <b>14,386</b>	\$ 18,172	\$ —
Revolving loan facilities <sup>(2)</sup>	—	—	—
Revolving loan facilities <sup>(3)</sup>	<b>119,628</b>	85,882	96,032
Senior notes <sup>(4)</sup>	<b>92,293</b>	89,366	93,483
Senior notes <sup>(5)</sup>	<b>100,000</b>	100,000	100,000
Promissory note payable <sup>(6)</sup>	<b>264</b>	512	267
	<b>\$ 326,571</b>	\$ 293,932	\$ 289,782
Total	<b>\$ 326,835</b>	\$ 294,188	\$ 290,050

(1) The committed, revolving U.S. loan facility provides the International Operations with up to US\$50,000 (July 31, 2022 – US\$40,000) for working capital requirements and general business purposes. This facility matures January 25, 2028, bears a floating rate of interest based on SOFR plus a spread and is secured by certain accounts receivable and inventories of the International Operations. As at July 31, 2023, the International Operations had drawn US\$10,890 (July 31, 2022 – US\$14,201; January 31, 2023 – US\$NIL) on this facility.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 9. LONG-TERM DEBT (continued)

(2) The US\$52,000 loan facilities mature March 1, 2027 and bear interest at SOFR 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 \$400,000 Canadian Operations loan facilities. At July 31, 2023, the Company had drawn US\$NIL (July 31, 2022 – US\$NIL; January 31, 2023 – US\$NIL) on these facilities.

(3) These committed, revolving loan facilities provide the Company's Canadian Operations with up to \$400,000 for working capital and general business purposes. The 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 US\$52,000 loan facilities. These facilities mature March 1, 2027 and bear a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate.

(4) 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 \$400,000 Canadian Operations loan facilities, the \$100,000 senior notes and the US\$52,000 loan facilities.

(5) 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 \$400,000 Canadian Operations loan facilities, the US\$70,000 senior notes due in 2027 and 2032 and the US\$52,000 loan facilities.

(6) Promissory note 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, 2023, lease liabilities reflect a weighted-average risk-free rate of 4.0% (July 31, 2022 – 3.7%; January 31, 2023 - 3.8%) and weighted-average remaining lease term of 10.5 years (July 31, 2022 – 9.9 years; January 31, 2023 – 9.8 years).

### 11. EMPLOYEE COSTS

	Three Months Ended July 31, 2023	Three Months Ended July 31, 2022	Six Months Ended July 31, 2023	Six Months Ended July 31, 2022
Wages, salaries and benefits including bonus	\$ 81,952	\$ 75,841	\$ 163,300	\$ 148,532
Post-employment benefits	2,189	2,265	4,640	4,954
Share-based compensation (Note 14)	(471)	2,180	4,363	5,917

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 12. INTEREST EXPENSE

	<b>Three Months Ended July 31, 2023</b>	Three Months Ended July 31, 2022	<b>Six Months Ended July 31, 2023</b>	Six Months Ended July 31, 2022
Interest on long-term debt	\$ 3,631	\$ 2,537	\$ 7,224	\$ 4,677
Interest on lease liabilities	1,188	1,032	2,276	2,048
Net interest on defined benefit plan obligation	132	177	265	353
Interest imputed on promissory note receivable	(253)	(291)	(477)	(563)
Interest capitalized	(86)	(26)	(184)	(63)
Total	\$ 4,612	\$ 3,429	\$ 9,104	\$ 6,452

### 13. INCOME TAXES

The estimated effective income tax rate for the three months ended July 31, 2023 is 24.0% (three months ended July 31, 2022 – 24.1%) and for the six months ended July 31, 2023 is 24.1% (six months ended July 31, 2022 – 25.3%). 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, 2023 was a recovery of \$471 (three months ended July 31, 2022 – expense of \$2,180) and for the six months ended July 31, 2023 was an expense of \$4,363 (six months ended July 31, 2022 – expense of \$5,917). 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:

	<b>July 31, 2023</b>	July 31, 2022	January 31, 2023
Accounts payable and accrued liabilities	\$ 2,223	\$ 4,406	\$ 4,793
Other long-term liabilities	9,817	12,737	12,552
Contributed surplus	9,045	7,890	11,217
Total	\$ 21,085	\$ 25,033	\$ 28,562

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 14. SHARE-BASED COMPENSATION (continued)

#### Performance Share Units

The Company has granted Performance Share Units to officers and senior management. Each PSU entitles the participant to receive either a cash payment equal to the market value of the number of notional units granted or one share of the Company for each notional unit granted at the end of the vesting period based on the achievement of specific performance based criteria. The PSU account for each participant includes the value of dividends from the Company as if reinvested in additional PSUs. PSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. Compensation expense is measured based on the grant date fair market value of the award and recognized over the vesting period based on the estimated total compensation to be paid. Compensation costs related to the PSUs for the three months ended July 31, 2023 are \$1,136 (three months ended July 31, 2022 – \$1,624) and for the six months ended July 31, 2023 are \$3,146 (six months ended July 31, 2022 - \$3,409).

Equity settled PSUs are redeemed with shares transferred from a trust established for this plan or by issuing shares from treasury. There were 193,525 PSUs (six months ended July 31, 2022 – 60,993 PSUs) partially settled by releasing 95,036 shares (six months ended July 31, 2022 – 29,849 shares) from the employee trust. There were no PSUs (six months ended July 31, 2022 – 55,903) partially settled by releasing shares issued from treasury (six months ended July 31, 2022 – 27,748).

The total number of PSUs outstanding at July 31, 2023 that may be settled in treasury shares is 309,662 (July 31, 2022 – 283,713).

#### 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 9.1% of the Company's issued and outstanding shares at July 31, 2023. Fair value of the Company's options is determined using an option pricing model. Share options granted vest on a graduated basis over four years and are exercisable over a period of seven years. The share option compensation costs recorded for the three months ended July 31, 2023 are a recovery of \$1,050 (three months ended July 31, 2022 – expense of \$43) and for the six months ended July 31, 2023 are an expense of \$143 (six months ended July 31, 2022 - expense of \$1,040).



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 14. SHARE-BASED COMPENSATION (continued)

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

	July 31, 2023	July 31, 2022
Fair value of options granted	\$ 6.05	\$ 5.19
Exercise price	\$ 39.05	\$ 35.83
Dividend yield	4.2 %	4.2%
Annual risk-free interest rate	2.7 %	2.2%
Expected share price volatility	24.6 %	24.1%

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

	July 31, 2023	July 31, 2022
Dividend yield	4.7 %	4.3 %
Annual risk-free interest rate	4.7 %	2.9 %
Expected share price volatility	18.4% to 19.5%	18.9 % to 24.0%

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.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 14. SHARE-BASED COMPENSATION (continued)

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, 2023	July 31, 2022	July 31, 2023	July 31, 2022
Outstanding options, beginning of period	301,683	589,588	1,383,056	1,274,837
Granted	—	—	211,484	223,283
Exercised	(111,214)	(268,274)	(218,804)	(98,782)
Outstanding options, end of period	190,469	321,314	1,375,736	1,399,338
Exercisable at end of period	190,469	318,548	733,476	659,104

Weighted-average exercise price	Declining Strike Price Options		Standard Options	
	July 31, 2023	July 31, 2022	July 31, 2023	July 31, 2022
Outstanding options, beginning of period	\$ 31.71	\$ 31.06	\$ 31.22	\$ 30.13
Granted	—	—	39.05	35.83
Exercised	26.28	28.27	28.72	27.86
Outstanding options, end of period	\$ 32.40	\$ 31.53	\$ 32.82	\$ 31.20
Exercisable at end of period	\$ 27.67	\$ 27.46	\$ 30.31	\$ 29.19

Options outstanding at July 31, 2023 have an exercise price range of \$27.67 to \$39.05 and a weighted-average remaining contractual life of 4.0 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, 2023 are a recovery of \$633 (three months ended July 31, 2022 – expense of \$339) and for the six months ended July 31, 2023 are an expense of \$521 (six months ended July 31, 2022 - expense of \$842). The total number of DDSUs outstanding at July 31, 2023 are 250,933 (July 31, 2022 – 317,897). There were 52,214 DDSUs exercised during the six months ended July 31, 2023 (July 31, 2022 - 18,743) of which 25,000 units were settled in cash. The DDSUs exercised during six months ended July 31, 2022 were settled in cash.

## 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, 2023 are a recovery of \$110 (three months ended July 31, 2022 – recovery of \$16) and for six months ended July 31, 2023 are a recovery of \$50 (six months ended July 31, 2022 - expense of \$1).

#### 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, 2023 are \$186 (three months ended July 31, 2022 – \$190) and for the six months ended July 31, 2023 are \$603 (six months ended July 31, 2022 - \$625).

## 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, 2023 are set out below:

	Activity	Country of Organization	Proportion of voting rights held by:	
			Company	Subsidiary
NWC GP Inc.	General Partner	Canada	100 %	
North West Company Holdings Inc.	Holding Company	Canada	100 %	
The North West Company LP	Retailing	Canada	100 %	(less one unit)
NWC (U.S.) Holdings Inc.	Holding Company	United States		100 %
The North West Company (International) Inc.	Retailing	United States		100 %
Roadtown Wholesale Trading Ltd.	Retailing	British Virgin Islands		77 %
North Star Air Ltd.	Airline	Canada		100 %

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

### 17. EXPENSES BY NATURE

	Three Months Ended July 31, 2023	Three Months Ended July 31, 2022	Six Months Ended July 31, 2023	Six Months Ended July 31, 2022
Employee costs (Note 11)	\$ 83,670	\$ 80,286	\$ 172,303	\$ 159,403
Amortization	25,422	24,349	50,606	47,863
Operating lease rentals	1,526	1,813	2,890	3,157

## 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, 2023. 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	\$ 75,001	\$ 75,001
Accounts receivable	Short-term	123,252	123,252
Promissory note receivable	Long-term	4,257	4,257
Other financial assets	Long-term	1,794	1,794
Accounts payable and accrued liabilities	Short-term	(223,721)	(223,721)
Current portion of long-term debt	Short-term	(264)	(264)
Long-term debt	Long-term	(326,571)	(302,535)

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 for the three months ended April 30, 2022 and the Company recorded a net actuarial gain of \$9,513, net of tax. This actuarial gain was recorded in other comprehensive income and recognized immediately in retained earnings and was primarily due to a change in the discount rate used to measure the defined benefit obligation, partially offset by lower than expected investment returns. The discount rate used to determine the benefit obligation for the defined benefit pension plan was 4.6%.

There was no actuarial remeasurement during the three months ended July 31, 2023 and July 31, 2022.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 20. SUBSEQUENT EVENTS

#### Dividends

On September 12, 2023, the Board of Directors declared a dividend of \$0.39 per share payable October 13, 2023 to shareholders of record on September 29, 2023.