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# THE NORTH WEST COMPANY INC.

*Management's Discussion & Analysis*

*Quarterly Period Ended July 31, 2024*



## 2024 SECOND QUARTER REPORT TO SHAREHOLDERS

### Report to Shareholders

The North West Company Inc. reports its results for the second quarter ended July 31, 2024. Sales increased 4.6% to \$646.5 million led by same store sales gains and the impact of new stores. Excluding the foreign exchange impact, sales increased 3.8% compared to last year and were up 4.3%<sup>1</sup> on a same store basis.

Second quarter net earnings decreased 3.0% to \$36.9 million compared to very strong net earnings of \$38.0 million last year. Net earnings attributable to shareholders were \$35.3 million or \$0.73 per share compared to \$0.76 per share last year on a diluted earnings per share basis as sales gains and an increase in gross profit rate were more than offset by higher expenses and the impact of a higher effective income tax rate mainly related to the impact of the Global Minimum Tax - Pillar Two.

The Board of Directors has approved a quarterly dividend of \$0.40 per share, an increase of \$0.01 or 2.6% per share, to shareholders of record on September 30, 2024.

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 2024 second quarter unaudited interim period condensed consolidated financial statements for the period ended July 31, 2024 ("Condensed Consolidated Financial Statements") and the audited annual consolidated financial statements and accompanying notes included in the 2023 Annual Report. The year-to-date of 2024 has one extra day of operations compared to 2023 as a result of February 29. The estimated impact of the extra day has been deducted from the same store sales reported for the year-to-date 2024.

(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, 2024	July 31, 2023
Sales	\$ 646,487	\$ 618,095
Same store sales % <sup>(1)</sup>		
Food	4.6 %	4.7 %
General Merchandise	1.9 %	4.7 %
Total	4.3 %	4.7 %
Gross profit	\$ 219,756	\$ 204,444
Selling, operating and administrative expenses	164,875	149,758
EBITDA <sup>(2)</sup>	83,413	80,108
Earnings from operations ("EBIT")	54,881	54,686
Interest expense	4,348	4,612
Income taxes	13,636	12,029
Net earnings	36,897	38,045
Net earnings attributable to shareholders of the Company	35,300	36,777
Net earnings per share - basic	0.74	0.77
Net earnings per share - diluted	0.73	0.76

**Sales** Second quarter consolidated sales increased 4.6% to \$646.5 million compared to \$618.1 million last year driven by same store sales gains, the impact of foreign exchange on the translation of International Operations sales and new stores. Excluding the foreign exchange impact, consolidated sales increased 3.8%, with food sales increasing 3.9% and general merchandise and other sales increasing 3.4% compared to last year. On a same store basis, sales increased 4.3%<sup>1</sup> compared to the second quarter last year led by a 6.8%<sup>1</sup> increase in same store sales in Canadian Operations. A 0.9%<sup>1</sup> increase in same store sales in International Operations was also a factor.

**Gross Profit** Gross profit increased 7.5% to \$219.8 million compared to \$204.4 million last year due to sales gains and a 91 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, including a lower blend of wholesale food sales, and a decrease in markdowns. An increase in gross profit in Canadian Operations resulting from higher third party cargo and passenger business in North Star Air was also a factor.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased \$15.1 million or 10.1% compared to last year and were up 127 basis points as a percentage to sales. The increase in Expenses is mainly due to cost inflation impacts, including higher wage costs, an increase in depreciation, the impact of foreign exchange on the translation of International Operations Expenses and higher vessel repairs incurred through our investment in Transport Nanuk Inc. ("TNI") in Canadian Operations. The impact of a \$5.5 million increase in share-based compensation costs primarily due to adjustments from changes in the Company's share price partially offset by a \$3.7 million loss on our Fox Lake, Alberta store that was destroyed by wild fire in the second quarter last year (collectively "Non-Comparable Expenses<sup>2)</sup> were also factors. Further information on share-based compensation is provided in Note 14 to the Company's Condensed Consolidated Financial Statements.

(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 0.4% to \$54.9 million compared to \$54.7 million last year and earnings before interest, income taxes, depreciation and amortization ("EBITDA<sup>(1)</sup>") increased 4.1% to \$83.4 million compared to \$80.1 million last year due to the sales, gross profit and Expense factors previously noted. A \$1.8 million decrease in earnings from our investment in TNI compared to last year resulting from an increase in vessel repairs, that also temporarily delayed the start of the sealift shipping season, combined with lower International shipping rates, was also a factor. Adjusted EBITDA<sup>(2)</sup>, which excludes the Non-Comparable Expenses, increased 6.1% to \$88.4 million compared to \$83.3 million last year and as a percentage to sales was 13.7% compared to 13.5% last year.

**Interest Expense** Interest expense decreased 5.7% to \$4.3 million compared to \$4.6 million last year mainly due to lower average debt. Further information on interest expense is provided in Note 12 to the Company's Condensed Consolidated Financial Statements.

**Income Tax Expense** Income tax expense increased to \$13.6 million compared to \$12.0 million last year due to higher earnings and an increase in the effective tax rate to 27.0% compared to 24.0% last year. The increase in the effective tax rate is largely due to the impact of The Global Minimum Tax Act ("GMTA") – Pillar Two legislation included in Bill C-69 that was enacted in Canada on June 20, 2024, but is effective as of the beginning of the Company's fiscal year. This legislation implements the Pillar Two global minimum tax regime developed by the Organisation for Economic Co-operation and Development ("OECD") which applies a minimum effective tax rate of 15% on income earned in each jurisdiction in which the Company operates. The Company operates retail stores in the Cayman Islands, Barbados and British Virgin Islands jurisdictions which are impacted by the GMTA - Pillar Two legislation resulting in a \$1.0 million increase in income tax expense and a 198 basis point increase in the effective tax rate in the quarter.

**Net Earnings** Net earnings decreased 3.0% to \$36.9 million compared to very strong net earnings of \$38.0 million last year. Net earnings attributable to shareholders were \$35.3 million and diluted earnings per share were \$0.73 per share compared to \$0.76 per share last year. Adjusted net earnings<sup>(2)</sup>, which excludes the after-tax impact of the Non-Comparable Expenses, increased \$0.6 million or 1.6% to \$40.7 million compared to \$40.0 million last year due to the gross profit, Expense and GMTA - Pillar Two income tax expense factors previously noted.

**Comprehensive Income** Comprehensive income increased to \$39.6 million compared to \$31.0 million last year as the impact of the change in foreign exchange on the translation of International Operations more than offset lower net earnings.

(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, 2024 Information:

(\$ in thousands, except per share)	Year-to-date	
	July 31, 2024	July 31, 2023
Sales	\$ 1,264,006	\$ 1,211,659
Same store sales % <sup>(1)</sup>		
Food	4.2 %	3.4 %
General Merchandise	2.9 %	(1.2)%
Total	4.1 %	2.8 %
Gross profit	\$ 419,385	\$ 389,373
Selling, operating and administrative expenses	324,682	300,919
EBITDA <sup>(2)</sup>	151,321	139,060
Earnings from operations (EBIT)	94,703	88,454
Interest expense	8,673	9,104
Income taxes	21,978	19,108
Net earnings	64,052	60,242
Net earnings attributable to shareholders of the Company	60,827	57,671
Net earnings per share - basic	1.27	1.21
Net earnings per share - diluted	1.26	1.19

**Sales** Year-to-date sales increased 4.3% to \$1.264 billion mainly driven by same store sales gains, the impact of foreign exchange on the translation of International Operations sales and new stores. The impact of one extra day of sales in the first quarter as a result of February 29<sup>th</sup> was also a factor. The exchange rate used for the translation of International Operations sales increased to 1.3613 compared to 1.3439 last year. Excluding the foreign exchange impact, consolidated sales increased 3.9% compared to last year with food sales increasing 3.9% and general merchandise and other sales increasing 3.8%. The increase in general merchandise and other sales was mainly due to higher general merchandise sales in Canadian Operations partially offset by lower general merchandise sales in International Operations. Same store sales were up 4.1%<sup>1</sup> compared to last year with a 4.2% increase in food sales and a 2.9% increase in general merchandise sales.

**Gross Profit** Gross profit increased 7.7% due to the impact of higher sales and a 104 basis point increase in the gross profit rate. The increase in gross profit rate was primarily due to changes in sales blend, including a lower blend of wholesale food sales, and a greater pass through of vendor cost inflation in retail prices compared to last year. An increase in gross profit in Canadian Operations resulting from higher third party cargo and passenger business in North Star Air and a decrease in markdowns were also factors.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased \$23.8 million or 7.9% and were up 85 basis points as a percentage to sales. The increase in Expenses is largely due to cost inflation impacts including higher staff costs, an increase in depreciation and the impact of foreign exchange on the translation of International Operations Expenses.

(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 7.1% to \$94.7 million compared to \$88.5 million last year and earnings before interest, income taxes, depreciation and amortization ("EBITDA<sup>2</sup>") increased 8.8% to \$151.3 million compared to \$139.1 million last year due to the sales, gross profit and Expense factors previously noted. Adjusted EBITDA<sup>2</sup>, which excludes the impact of the Non-Comparable Expenses<sup>2</sup>, increased \$12.1 million or 8.2% to \$159.2 million compared to \$147.1 million last year and as a percentage to sales was 12.6% compared to 12.1% last year.

**Interest Expense** Interest expense decreased 4.7% to \$8.7 million compared to \$9.1 million last year mainly due to lower average debt.

**Income Tax Expense** Income tax expense increased \$2.9 million to \$22.0 million due to the impact of higher earnings and an increase in the consolidated effective tax rate to 25.5% compared to 24.1% last year. The increase in the effective tax rate is mainly due to the impact of GMTA – Pillar Two legislation as previously noted. The impact of changes in the blend of earnings across the various tax rate jurisdictions, the taxation of items such as share-based compensation and changes in tax estimates and tax legislation are also factors.

**Net Earnings** Net earnings increased 6.3% to \$64.1 million compared to \$60.2 million last year. Net earnings attributable to shareholders were \$60.8 million and diluted earnings per share were \$1.26 per share compared to \$1.19 per share last year due to the factors previously noted. Adjusted net earnings<sup>2</sup>, which excludes the impact of the Non-Comparable Expenses, increased \$4.0 million or 6.0% to \$70.1 million compared to \$66.1 million last year.

**Comprehensive Income** Comprehensive income increased \$19.5 million to \$75.7 million compared to \$56.2 million last year primarily due to higher net earnings and the impact of foreign exchange on the translation of the International Operations which resulted in a gain of \$9.6 million this year compared to a loss of \$4.0 million last year. The remeasurement of defined benefit pension plan assets and liabilities, which resulted in a net actuarial gain of \$2.0 million this year, was also a factor.

(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, 2024	July 31, 2023
Sales	\$ 366,645	\$ 347,353
Same store sales %		
Food	7.6 %	6.5 %
General Merchandise	2.7 %	10.6 %
Total	6.8 %	7.2 %
EBITDA <sup>(2)</sup>	\$ 55,575	\$ 52,084
Earnings from operations (EBIT)	36,688	35,260

**Sales** Canadian Operations sales increased 5.6% to \$366.6 million compared to \$347.4 million in the second quarter last year due to a 6.8% same store sales gain and the impact of new stores. Food sales increased 6.1% as same store sales gains were partially offset by lower wholesale sales. General merchandise and other sales increased 4.3% compared to last year primarily due to general merchandise same store sales gains. Higher pharmacy and retail fuel sales and an increase in airline revenues were also factors. On a same store basis, food sales increased 7.6% and general merchandise sales increased 2.7% compared to last year. Sales were positively impacted by increased consumer demand arising from First Nations Drinking Water Settlement payments to individuals however, the volume of these payments in the second quarter relative to the total settlement remains low. Increased consumer demand in certain communities from First Nations Child and Family Services and Jordan's Principle programs that help provide greater access to nutritious food was also a factor. These factors were partially offset by higher sales in the second quarter last year resulting from the impact of government inflation relief payments, including the Grocery Rebate, paid to individuals to help mitigate higher cost of living.

**Gross Profit** Gross profit increased 9.6% driven by higher sales and an increase in gross profit rate primarily related to changes in sales blend, including the impact of lower wholesale food sales and lower markdowns compared to the second quarter last year. An increase in airline gross profit resulting from higher third party cargo and passenger business in North Star Air was also a factor.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 11.7% and were up 154 basis points as a percentage to sales compared to last year mainly due to cost inflation impacts and higher depreciation. The impact of the previously noted higher vessel repair costs in TNI and the Non-Comparable Expenses were also factors. Excluding the impact of TNI and the Non-Comparable Expense factors, Expenses increased 85 basis points as a percentage of sales compared to last year.

**Earnings From Operations** Earnings from operations (EBIT) increased \$1.4 million or 4.0% to \$36.7 million compared to \$35.3 million last year and EBITDA<sup>2</sup> increased 6.7% to \$55.6 million compared to \$52.1 million last year due to the impact of the sales, gross profit and Expense factors, including the \$1.8 million lower earnings in TNI, previously noted. Adjusted EBITDA<sup>2</sup>, which excludes the impact of the Non-Comparable Expenses, increased \$4.4 million or 7.9% to \$59.7 million compared to \$55.3 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, 2024	July 31, 2023
Sales	\$ 204,488	\$ 202,927
Same store sales %		
Food	1.0 %	2.4 %
General Merchandise	(0.2)%	(9.0)%
Total	0.9 %	1.3 %
EBITDA <sup>(2)</sup>	\$ 20,356	\$ 20,971
Earnings from operations (EBIT)	13,310	14,523

**Sales** International Operations sales increased 0.8% to \$204.5 million compared to \$202.9 million in the second quarter last year as a 0.9% increase in same store sales and the impact of new stores in Alaska was partially offset by lower wholesale sales. Food sales increased 1.1% and were up 1.0% on a same store basis compared to last year however, general merchandise sales decreased 2.5% and were down 0.2% on a same store basis compared to last year. Sales were negatively impacted by weaker economic conditions in tourism-dependent markets in Alaska and the South Pacific. A weaker start to the commercial fishing season also negatively impacted some stores in Alaska. These factors also contributed to consumers shifting more of their spending on food and reducing spending on discretionary general merchandise.

**Gross Profit** Gross profit increased 1.5% compared to last year due to the impact of higher sales and a modest increase in the gross profit rate mainly related to changes in sales blend including the impact of lower wholesale sales.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 4.8% compared to last year largely due to higher staff costs, an increase in depreciation and a \$0.7 million increase in share-based compensation costs compared to last year.

**Earnings From Operations** Earnings from operations ("EBIT") decreased \$1.2 million or 8.4% to \$13.3 million compared to \$14.5 million in the second quarter last year and EBITDA<sup>2</sup> decreased 2.9% to \$20.4 million compared to \$21.0 million last year due to the sales, gross profit and Expense factors previously noted. Adjusted EBITDA<sup>2</sup>, which excludes the impact of share-based compensation costs, was \$21.0 million, the same as last year.

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

## FINANCIAL CONDITION

### Financial Ratios

The Company's debt-to-equity ratio at the end of the second quarter decreased to 0.43:1 compared to 0.50:1 last year.

Working capital increased \$8.4 million compared to last year mainly due to an increase in cash, prepaid expenses and lower accounts payable. These factors were partially offset by lower accounts receivable largely related to collections on trade accounts receivable. The impact of foreign exchange on the translation of the International Operations balance sheet was also a factor as the exchange rate at July 31, 2024 was 1.3825 compared to 1.3210 at July 31, 2023. The increase in prepaid expenses is mainly due 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 10, 2024 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, 2024, there were 18,888,843 (July 31, 2023 - 16,652,080) Variable Voting Shares, representing 39.5% (July 31, 2023 - 34.9%) of the total shares issued and outstanding. Further information on the Company's share capital is provided in Note 7 to the Condensed Consolidated Financial Statements.

### Outstanding Shares

The weighted-average basic shares outstanding for the quarter decreased to 47,759,000 shares compared to 47,830,000 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 48,453,000 shares compared to 48,504,000 shares last year. The decrease in fully diluted shares outstanding compared to last year is due to shares purchased under the Company's NCIB and a decrease in director deferred share units outstanding. Further information on share capital and director deferred share units is provided in Note 7 and Note 14 respectively to the Condensed Consolidated Financial Statements.

## Normal Course Issuer Bid

On November 15, 2023, 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 4,733,380 which is approximately 10% of the Company's public float at November 9, 2023. 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 the six months ended July 31, 2024 the Company repurchased no common shares. During the six months ended July 31, 2023, the Company purchased 153,998 common shares for cash consideration of \$5.0 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 Condensed Consolidated Financial Statements.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

(\$ in thousands)	Three Months		Three Months		Six Months		Six Months	
	Ended	Three Months	Ended	Change	Ended	Six Months	Ended	Change
	July 31, 2024	July 31, 2023			July 31, 2024	July 31, 2023		
Cash flows from (used in):								
Operating activities	\$ 48,174	\$ 59,334	\$ (11,160)	\$	\$ 96,698	\$ 68,795	\$ 27,903	
Investing activities	(21,584)	(14,657)	(6,927)		(39,097)	(27,785)	(11,312)	
Financing activities	(21,549)	(47,481)	25,932		(25,392)	(24,219)	(1,173)	
Effect of changes in foreign exchange rates on cash	373	(1,082)	1,455		1,426	(599)	2,025	
Net change in cash	\$ 5,414	\$ (3,886)	\$ 9,300	\$	\$ 33,635	\$ 16,192	\$ 17,443	

**Operating Activities** Cash from operating activities in the quarter decreased \$11.2 million compared to the second quarter last year substantially due to the change in non-cash working capital compared to last year. The change in non-cash working capital in the quarter and for the year-to-date is mainly related to the changes in accounts receivable, inventories and accounts payable and accrued liabilities compared to the prior year. The change in prepaid expenses compared to last year was also a factor.

**Investing Activities** Cash used in investing activities in the quarter increased to \$21.6 million compared to \$14.7 million last year and for the year-to-date was \$39.1 million compared to \$27.8 million last year. The increase in investing activities in the quarter and for the year-to-date is due to the purchase of property and equipment, including 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 was \$21.5 million compared to \$47.5 million last year and for the year-to-date was \$25.4 million compared to \$24.2 million last year primarily due to changes in long-term debt related to amounts drawn on revolving loan facilities. Further information on long-term debt is provided in the Sources of Liquidity section and in Note 9 to the Condensed Consolidated Financial Statements. A \$5.0 million decrease in shares purchased under the NCIB compared to the second quarter last year was also a factor.

## Sources of Liquidity

Canadian Operations have \$400.0 million in committed, revolving loan facilities that bear a floating rate of interest based on the Canadian Overnight Repo Rate Average or the Canadian prime interest rate. At July 31, 2024, the Company had drawn \$111.0 million on these facilities (July 31, 2023 - \$119.6 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, 2024, the Company had drawn US\$NIL on these facilities (July 31, 2023 - 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, 2024, the Company had drawn US\$8.6 million on these facilities (July 31, 2023 - US\$10.9 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, 2024, lease liabilities reflect a weighted-average risk-free rate of 4.4% (July 31, 2023 - 4.0%) and weighted-average remaining lease term of 10.2 years (July 31, 2023 - 10.5 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 and a leverage test. At July 31, 2024, 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 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 2024.

## SHAREHOLDER DIVIDENDS

The Board of Directors declared a quarterly dividend of \$0.40 per share, an increase of \$0.01 or 2.6% per share, to shareholders of record on September 30, 2024, to be paid on October 15, 2024.

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

- A QuickStop convenience store was opened in Grassy Narrows, Ontario on June 1, 2024.
- On August 14, 2024, Canadian Grocer announced that The North West Company has been chosen as a recipient of an Impact Award in the Diversity, Equity and Inclusion category for its Indigenous Procurement Strategy.

## 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, refined merchandise assortments and 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 for our stores and support offices to deliver efficiencies and more streamlined processes and drive improvements in category management, pricing, data analytics, forecasting, replenishment and inventory management; and
5. Delivering on the priorities aligned within our Environmental, Social and Governance ("ESG") framework developed around People, Planet and Partnerships. This includes 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 the planet, the communities we serve and other stakeholder interests.

Collectively these priorities are referred to as *"The Next 100"*, which is focused on driving operational excellence, expanding our capabilities and pursuing value for our customers, our employees, and our shareholders. The initiatives within the Next 100 program noted above leverage the power of data through new tools and analytics, and will be enabled by investments in technology and training which will help sustain the benefits of this work in the years to come. The Next 100 touches on every aspect of our business and aims to drive annualized incremental EBIT, which is expected to start later this year and continue to accelerate through 2025 and 2026, as our initiatives reach maturity. As we lay the groundwork for these improvements and operationalize these initiatives, we anticipate incurring one-time costs including professional fees and other expenses in advance of the incremental EBIT being realized and these expenses will be highlighted in our reporting as they occur.

Further information on the Company's strategy is provided in the 2023 Annual Report.

## OUTLOOK

The near-term outlook continues to be influenced by uncertainty related to the economy and the impact of inflation, particularly in tourism-dependent countries and countries that do not have strong government income support programs for individuals within our International Operations however, the resiliency of the Company's essential everyday product and service offering is expected to help mitigate some of this uncertainty. In addition, the near-term outlook is expected to be impacted by the following:

- The Canadian Operations are expected to continue to be impacted by increased consumer demand arising from the First Nations Drinking Water Settlement which is comprised of approximately \$2 billion in payments to individuals and impacted First Nations and \$6 billion to support construction, upgrading, operation and maintenance of water infrastructure on First Nations land. This settlement impacts approximately 30 communities served by the Company's stores representing a portion of the total settlement. Payments are being distributed to individuals who filed their claim early however, the volume of payments issued continues to be low relative to the total settlement. It is expected that these settlement payments will be issued through the remainder of 2024, with a higher weighting in the later part of the year, and in 2025 however, the amount and timing of the payments impacting the communities served by the Company's stores is uncertain.
- On July 20, 2024, the Government of Canada enacted The Global Minimum Tax Act ("GMTA") – Pillar Two legislation included in Bill C-69. This legislation, which is effective for the Company's fiscal year beginning February 1, 2024, applies a minimum income tax rate of 15% in each tax jurisdiction in which the Company operates. Based on our current assessment, the estimated tax under the GMTA - Pillar Two legislation is expected to increase the Company's effective tax rate by approximately 125 basis points on an annualized basis. Further information on this legislation is provided under Accounting Standards and Amendments and in Note 3 to the Condensed Consolidated Financial Statements.
- In the second half of 2024, the Company expects to incur one-time costs for professional fees and other expenses related to the Next 100 initiatives as outlined in the Strategy section. These one-time costs, which are expected to continue into 2025 as the initiatives under the Next 100 are operationalized, are anticipated to be more than offset by the annualized incremental EBIT of the initiatives however, the costs will be incurred before the full annualized benefits are achieved. Further information on these one-time costs and the expected benefits will be provided in our quarterly reports.

On July 5, 2020, the Company sold 36 of its 46 Giant Tiger stores to Giant Tiger Stores Limited for cash consideration of \$45.0 million payable in \$15.0 million installments on the second, third and fourth anniversaries of the transaction closing date, and up to \$22.5 million in contingent consideration based on achieving certain financial measures in 2024 and 2025. The total consideration recorded by the Company at the time of the transaction included \$12.5 million in estimated contingent consideration in accordance with IFRS 9 - *Financial Instruments*. The amount of consideration is dependent on achieving certain financial measures which may result in the actual amount of contingent consideration being higher or lower than the amount estimated by the Company, including the possibility of no further consideration owing if certain financial measures are not met. The determination of the amount of the contingent consideration is expected to be finalized by the fourth quarter of 2025. Further information is provided in Note 20 to the Company's Condensed Consolidated Financial Statements.

Beyond the near-term outlook previously noted, the medium and longer-term outlook for the Company is favourable based on 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 Next 100 work. The impact of Government of Canada transfer and settlement payments and higher infrastructure and services spending is expected to benefit Indigenous people in the communities we serve. On October 24, 2023 the Federal Court of Canada approved the final settlement agreement of \$23.3 billion in compensation to be paid to individuals impacted by First Nations Child and Family Services programs and other services. Based on the information available, each claimant is expected to receive a minimum payment of approximately \$40,000 with additional amounts paid based on individual circumstances. While the timing of these compensation payments is uncertain, the Company does not expect the payments to be distributed until late 2025 or 2026.

In addition to the First Nations Child and Family Services compensation payments to individuals, on July 11, 2024, the Government of Canada announced that it has reached an agreement to provide \$47.8 billion to be disbursed over 10 years for the long-term reform of the First Nations Child and Family Services program and approach for Jordan's Principle which is expected to provide ongoing services and benefits for Indigenous children, youth, young adults and families. This agreement builds on the previous agreement-in-principle to provide \$20 billion in funding over five years. The agreement is subject to final approvals and a motion with the Canadian Human Rights Tribunal to seek the end of its oversight over the First Nations Child and Family Services Program.

Capital expenditures, net of \$15.0 million in proceeds from the promissory note receivable, are expected to be in the \$130.0 million range in 2024 compared to \$107.7 million, net of \$15.0 million in proceeds from the promissory note receivable in 2023. The timing and amount of store-based capital expenditures in 2024 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.

## **RISK FACTORS AND ENTERPRISE RISK MANAGEMENT**

Information on risk factors inherent within the business and enterprise risk management are included in the Company's 2023 Annual Report and 2023 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.sedarplus.com](http://www.sedarplus.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

(\$ in millions, except per share)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	92 days	92 days	90 days	89 days	92 days	92 days	92 days	92 days
	2024	2023	2024	2023	2023	2022	2023	2022
<b>Sales</b>	\$ 646.5	\$ 618.1	\$ 617.5	\$ 593.6	\$ 643.1	\$ 635.2	\$ 616.9	\$ 586.7
<b>EBITDA<sup>(1)</sup></b>	<b>83.4</b>	80.1	67.9	59.0	79.1	73.5	83.0	69.8
<b>Earnings from operations</b>	<b>54.9</b>	54.7	39.8	33.8	51.7	47.8	55.7	45.0
<b>Net earnings</b>	<b>36.9</b>	38.0	27.2	22.2	36.0	35.1	38.0	30.2
<b>Net earnings attributable to shareholders of the Company</b>	<b>35.3</b>	36.8	25.5	20.9	34.5	33.9	37.2	29.5
<b>Net earnings per share:</b>								
<b>Basic</b>	<b>0.74</b>	0.77	0.53	0.44	0.72	0.71	0.78	0.61
<b>Diluted</b>	<b>0.73</b>	0.76	0.53	0.43	0.71	0.69	0.77	0.61
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>88.4</b>	83.3	70.8	63.8	83.7	77.3	87.2	73.2
<b>Adjusted net earnings<sup>(1)</sup></b>	<b>40.7</b>	40.0	29.4	26.1	39.5	38.1	41.4	32.8

(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 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, 2024 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

## ACCOUNTING STANDARDS AND AMENDMENTS

The material accounting policies are set out in the Company's 2023 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.

**New Standards Implemented** In October 2022, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements*, which specifies that covenants whose compliance is assessed after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The Company adopted these amendments this year and determined there was no impact on the consolidated financial statements.

The principal components of the Government of Canada's Global Minimum Tax ("GMT") - Pillar Two legislation were enacted into law on June 20, 2024, and follow the Pillar Two model rules from the Organisation for Economic Co-operation and Development ("OECD"). These rules were developed by the OECD and were designed to ensure that large, multinational enterprises would be subject to a minimum effective tax rate of 15% in each jurisdiction they operate. The Company operates retail stores in the Cayman Islands, Barbados and British Virgin Islands jurisdictions which are impacted by the Global Minimum Tax - Pillar Two legislation. GMT top up tax of \$1,000 has been included in the Company's income taxes (Note 13).

In May 2023, the IASB issued amendments to IAS 12 - *Income Taxes* which introduced a mandatory temporary exception from the recognition and disclosure of deferred taxes related to the implementation of Pillar Two model rules. The Company adopted this amendment during the second quarter of 2024 and has applied the exception to recognizing and disclosing information regarding Pillar Two deferred income tax assets and liabilities.

**Future Standards and Amendments** In April 2024, the IASB issued IFRS 18 - *Presentation and Disclosure in Financial Statements* to improve the comparability of the financial performance of similar entities. The standard replaces IAS 1 and primarily impacts the statements of earnings where companies will be required to present separate categories of income and expense for operating, investing and financing activities. IFRS 18 will also require management-defined performance measures to be explained and included in a separate note within the consolidated financial statements. The standard is effective for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and requires retrospective application. The Company is currently assessing the impact of the new standard.

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 earnings from operations (EBIT) to EBITDA and adjusted EBITDA:

(\$ in thousands)	Consolidated			
	Second Quarter		Year-to-Date	
	2024	2023	2024	2023
Earnings from operations (EBIT)	\$ 54,881	\$ 54,686	\$ 94,703	\$ 88,454
Add: Amortization	28,532	25,422	56,618	50,606
EBITDA	\$ 83,413	\$ 80,108	\$ 151,321	\$ 139,060
Adjusted for:				
Fox Lake wildfire asset write-off <sup>(1)</sup>	—	3,694	—	3,694
Share-based compensation expense <sup>(2)</sup>	5,014	(471)	7,900	4,363
Adjusted EBITDA	\$ 88,427	\$ 83,331	\$ 159,221	\$ 147,117

(\$ in thousands)	Canadian	
	Second Quarter	
	2024	2023
Earnings from operations (EBIT)	\$ 36,688	\$ 35,260
Add: Amortization	18,887	16,824
EBITDA	\$ 55,575	\$ 52,084
Adjusted for:		
Fox Lake wildfire asset write-off <sup>(1)</sup>	—	3,694
Share-based compensation expense <sup>(2)</sup>	4,104	(483)
Adjusted EBITDA	\$ 59,679	\$ 55,295

(\$ in thousands)	International (Stated in U.S. dollars)	
	Second Quarter	
	2024	2023
Earnings from operations (EBIT)	\$ 13,310	\$ 14,523
Add: Amortization	7,046	6,448
EBITDA	\$ 20,356	\$ 20,971
Adjusted for:		
Share-based compensation expense <sup>(2)</sup>	666	15
Adjusted EBITDA	\$ 21,022	\$ 20,986

(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 Condensed Consolidated Financial Statements.

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

(\$ in thousands)	Consolidated			
	Second Quarter		Year-to-Date	
	2024	2023	2024	2023
Net earnings	\$ 36,897	\$ 38,045	\$ 64,052	\$ 60,242
Adjusted for:				
Fox Lake wildfire asset write-off, net of tax <sup>(1)</sup>	—	2,551	—	2,551
Share-based compensation expense, net of tax <sup>(2)</sup>	3,776	(559)	6,039	3,301
Adjusted net earnings	\$ 40,673	\$ 40,037	\$ 70,091	\$ 66,094

(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 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 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 Condensed Consolidated Financial Statements and notes to the 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 4, 2024.

## **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, the anticipated impact of The Next 100 strategic priorities 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 2023 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.sedarplus.com](http://www.sedarplus.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).