

# The North West Company Inc.

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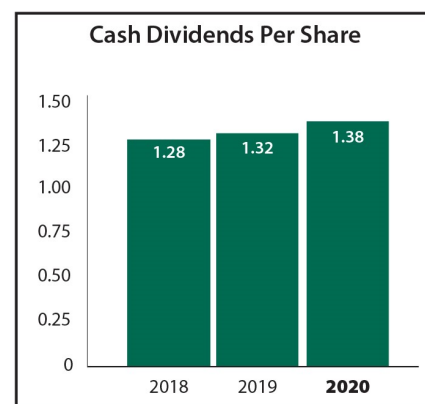
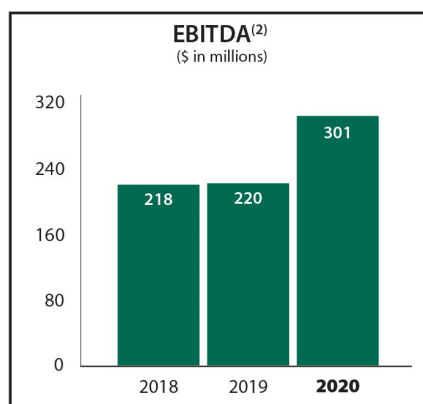
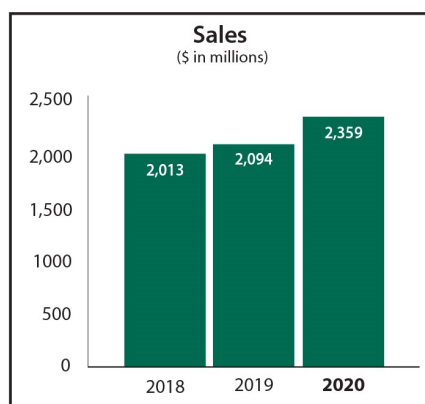
2020 Management's Discussion & Analysis



# Financial Highlights

All currency figures in this report are in Canadian dollars, unless otherwise noted

(\$ in thousands, except per share information)	Year Ended January 31, 2021	Year Ended January 31, 2020	Year Ended January 31, 2019
<b>RESULTS FOR THE YEAR</b>			
Sales	\$ 2,359,239	\$ 2,094,393	\$ 2,013,486
Same store sales % increase <sup>(1)</sup>	19.0 %	1.3 %	2.0 %
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) <sup>(2)</sup>	\$ 301,427	\$ 219,575	\$ 218,022
Earnings from operations (EBIT)	209,349	130,353	136,001
Net earnings	143,560	86,273	90,623
Net earnings attributable to The North West Company Inc.	139,874	82,724	86,739
Cash flow from operating activities <sup>(3)</sup>	338,718	161,117	155,725
<b>FINANCIAL POSITION</b>			
Total assets	\$ 1,191,168	\$ 1,215,536	\$ 1,149,861
Debt	281,422	410,965	366,757
Total equity	505,231	426,970	411,016
<b>FINANCIAL RATIOS</b>			
Debt-to-equity	.56:1	.96:1	.89:1
Return on net assets (RONA) <sup>(2)</sup>	22.4 %	13.5 %	15.3 %
Return on average equity (ROE) <sup>(2)</sup>	30.7 %	20.5 %	23.2 %
Sales blend: Food	76.4 %	75.2 %	74.7 %
General Merchandise and other	23.6 %	24.8 %	25.3 %
<b>PER SHARE (\$) - DILUTED</b>			
EBITDA <sup>(2)</sup>	\$ 6.09	\$ 4.45	\$ 4.44
Net earnings	2.82	1.68	1.77
Cash flow from operating activities	6.84	3.26	3.16
Market price: January 31	32.37	27.56	31.17
high	36.92	33.16	32.19
low	16.06	27.18	26.50



(1) All references to same store sales exclude the foreign exchange impact.

(2) See Non-GAAP Financial Measures section.

(3) See Consolidated Liquidity and Capital Resources.

# Annual Report

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## MANAGEMENT'S DISCUSSION & ANALYSIS

Unless otherwise stated, this Management's Discussion & Analysis ("MD&A") for The North West Company Inc. ("NWC") or its predecessor North West Company Fund ("NWF" or "Fund") and its subsidiaries (collectively, "North West Company", the "Company", "North West", or "NWC") is based on, and should be read in conjunction with the 2020 annual audited consolidated financial statements and accompanying notes. The Company's annual audited consolidated financial statements and accompanying notes for the year ended January 31, 2021 are in Canadian dollars, except where otherwise indicated, and are prepared in accordance with International Financial Reporting Standards ("IFRS").

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on April 7, 2021 and the information contained in this MD&A is current to April 7, 2021, unless otherwise stated.

## FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements about North West 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 anticipated impact of the COVID-19 pandemic on the Company's operations and the Company's related business continuity plans, the realization of expected savings from administrative cost reduction plans and possible future action by the Company.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally including the duration and the impact of the COVID-19 pandemic, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete capital projects, strategic transactions and integrate acquisitions, the Company's ability to realize benefits from investments in information technology ("IT") and systems, including IT system implementations, or unanticipated results from these initiatives and the Company's success in anticipating and managing the foregoing risks.

The reader is cautioned that the foregoing list of important factors is not exhaustive. Other risks are outlined in the Risk Management section of this MD&A, in the Risk Factors sections of the Annual Information Form and in our most recent consolidated financial statements, 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).

# Management's Discussion & Analysis

## OUR BUSINESS TODAY

The North West Company is a leading retailer to rural and developing small population communities in the following regions: northern Canada, rural Alaska, the South Pacific and the Caribbean. Our stores offer a broad range of products and services with an emphasis on food and a compelling value offer of being the best local shopping choice for everyday household and lifestyle needs.

North West's core strengths include: our ability to adapt to varied community preferences and priorities; our on-the-ground presence with hard-to-replicate operating skills, customer insights and facilities; our logistics capability in moving product to our markets; and, our ability to apply these strengths within complementary businesses.

North West has a rich enterprising legacy as one of the longest continuing retail enterprises in the world. The Company traces its roots back to 1668 and many of our stores in northern Canada have been in operation for over 200 years. In 2017, the Alaskan retail subsidiary, Alaska Commercial Company, celebrated its 150th anniversary.

Our stores in Alaska and northern Canada serve communities with populations ranging from 300 to 9,000. A typical store is 6,500 square feet in size and offers food, family apparel, housewares, appliances, outdoor products and services such as fuel, post offices, pharmacies, income tax return preparation, quick-service prepared food, prepaid card products, ATMs, cheque cashing and proprietary credit programs.

Growth at North West is driven by market share capture within existing locations and from applying our expertise and infrastructure to new product categories, markets and complementary businesses. The latter includes vertical investments in shipping and air cargo, wholesaling to independent stores, and retailing through mid-sized warehouse and supermarket format stores serving the South Pacific islands and the Caribbean.

A key strength and ongoing strategy of North West is our ability to seize unique community-by-community selling opportunities better than our competition. Flexible store models, store management selection and education, store-level merchandise ordering, community relations and enterprising incentive plans are all ingredients of our approach to sustain a leading market position. Our enterprising culture, our execution skills in general, and our logistics and selling skills specifically, are also essential components to meeting customer needs within each market we serve.

North West delivers its products and services through the following retail, wholesale and complimentary businesses:

### Canadian Operations

- **118 Northern** stores, offering a combination of food, financial services and general merchandise to remote northern Canadian communities;
- **5 NorthMart** stores, targeted at larger northern markets with an emphasis on an expanded selection of fresh foods, apparel and health products and services;
- **25 Quickstop** convenience stores, offering extended hours, ready-to-eat foods, fuel and related services in northern Canadian markets;
- **5 Giant Tiger ("GT")** junior discount stores, offering family fashion, household products and food in northern market locations;
- **2 Valu Lots** discount centers and direct-to-customer food distribution outlets for remote communities in Canada;
- **1 Solo Market** store, targeted at less remote, rural markets;
- **2 Pharmacy and Convenience** stores, stand-alone northern pharmacy and convenience store;
- **1 NWC Motorsports** dealership offering sales, service, parts and accessories for Ski-doo, Honda, Can-am and other premier brands;
- **Crescent Multi Foods ("CMF")**, a distributor of produce and fresh meats to independent grocery stores in Saskatchewan, Manitoba and northwestern Ontario;
- **North West Telepharmacy Solutions**, the leading provider of contract tele-pharmacist services to rural hospitals and health centres across Canada; and
- **Transport Nanuk Inc. and North Star Air Ltd. ("NSA")**, water and air-based transportation businesses, respectively, serving northern Canada.

### International Operations

- **27 Alaska Commercial Company ("AC")** stores, similar to Northern and NorthMart, offering a combination of food and general merchandise to communities across remote and rural regions of Alaska;
- **5 Quickstop** convenience stores within rural Alaska;
- **Pacific Alaska Wholesale ("PAW")**, a leading distributor to independent grocery stores, commercial accounts and individual households in rural Alaska;
- **12 Cost-U-Less ("CUL")** mid-size warehouse stores, offering discount food and general merchandise products to island communities in the South Pacific and the Caribbean; and
- **8 Riteway Food Markets, 1 Cash and Carry store and a significant wholesale operation (collectively "RTW")** in the British Virgin Islands.

## VISION

At North West our mission is to be a trusted provider of goods and services within harder-to-access, developing communities. Our vision is to help our customers live better by doing our job well, with their interests as our first priority. This starts with our customers' ability and desire to shop locally with us for the widest possible range of products and services that meet their everyday needs. We respond by being innovative, reliable, convenient, welcoming and adaptable, at the lowest local price, within what are typically higher cost environments. For our associates, we want to be a preferred, fulfilling place to work. For our investors, we want to deliver risk-adjusted, top-quartile total returns over the long term.

## PRINCIPLES

The way we work at North West is shaped by six core principles: *Customer Driven, Enterprising, Passion, Accountability, Trust, and Personal Balance.*

**Customer Driven** refers to looking through the eyes of our customers while recognizing our presence as a supportive community citizen.

**Enterprising** is our spirit of innovation, improvement and growth, reflected in our unrelenting focus on new and better products, services and processes.

**Passion** refers to how we value our work, our privileged community presence and the opportunity to find solutions that make a difference in our customers' lives.

**Accountability** is our management approach to getting work done through effective roles, tasks and resources.

**Trust** at North West means doing what you say you will do, with fairness, integrity, inclusion and respect.

**Personal Balance** is our commitment to sustaining ourselves and our organization, so that we work effectively and sustainably in our roles and for our customers and communities.

## STRATEGIES

The strategies at North West are aligned with a total return approach to investment performance. We aim to deliver top-quartile returns through an equal emphasis on growth and dividend yield with opportunities considered in terms of their growth potential and ability to sustain an attractive cash return within a lower business risk profile.

The Company develops strategies in multi-year cycles or shorter ones where conditions change, as during COVID-19. Strategies are regularly reviewed and adjusted at the senior management and board levels. The Company's overriding goal is to offer essential products and services that help our customers to live better and our business to grow within a wide range of economic conditions through the following priorities:

- managing business continuity, safety requirements and sales growth opportunities arising from COVID-19 – this became the Company's top priority from March onward;
- ensuring the way we work is "Pure Retail", with top store teams, lean processes and customer driven support from the rest of our organization;
- investing in product categories with the most market share upside;
- building a superior logistics capability with a focus on optimizing our air cargo capability to provide faster more reliable and lower cost service to our stores and customers in remote markets in Canada;

- completing the roll-out of next generation information technology for our stores and support offices that help optimize the unique elements of our business;
- identifying complimentary growth opportunities that leverage our core remote market capabilities and expertise; and
- ensuring that we are responsible towards stakeholder interests and inclusive of the diverse peoples and cultures that make up our workforce and the communities we are part of.

Our key initiatives together with the results for 2020 are as follows:

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### Initiative #1

#### COVID-19 Risks and Opportunities

This urgent, high priority work was focused on providing a safe, reliable service to our customers and employees, mitigating other risks and capturing sales opportunities.

#### Result

- Store safety and business continuity was exceptional with minimal employee COVID-19 cases and service disruptions;
- Across North West, our employees' actions embodied our Principles, especially within frontline and production roles; and
- Superior in-stock performance and enterprising responses to new opportunities delivered leading same store sales growth rates.

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### Initiative #2

#### Pure Retail/Top Store Teams

This initiative refers to people and processes in our stores and is focused on top store teams, lean processes, and customer-driven support throughout our organization. Our goal is to optimize store sales and net performance by creating more ability and freeing more time to get sales at store level.

#### Result

- Training center activity was curtailed and replaced by e-learning due to COVID-19 protocols;
- Over 180 "COVID-19 relief" employees were brought into stores to provide key role support;
- Store management turnover improvements exceeded targets, partially achieved because of COVID-19-related conditions; and
- A new weekly playbook that provides information on merchandising programs and operational tasks was successfully launched in Canadian stores.

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### Initiative #3

#### Investing in Food Pricing

This initiative focuses on investing in lower prices in product categories with the most market share upside.

#### Result

Price investments were made in approximately 20% of the Company's Northern stores in the first quarter, but the full testing and roll-out was delayed until 2021-2022 due to the impact of COVID-19-related factors and other priorities.

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#### Initiative #4

##### Building a Superior Logistics Capability

We recognize the unique importance of logistics to our business and we continue to build a superior capability in this area. Our focus is to optimize our air cargo to provide faster, more reliable and lower cost transportation service to our stores and customers in remote markets.

#### Result

- NSA's cargo aircraft utilization rates exceeded annual targets and delivered safe, consistent service to northern Canada stores and to external customers, all within a more demanding COVID-19 environment;
- "Next Gen" efficiency work progressed with the launch of the lighter pallet program, double-decker truck to plane loads and investments in store cargo receiving and handling; and
- NSA's cargo performance was partially offset by a decline in passenger revenues due to COVID-19-related travel restrictions.

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#### Initiative #5

##### Next Generation Merchandise and Store Systems ("Project Enterprise")

Project Enterprise is focused on implementing higher capability point-of-sale ("POS"), merchandise management ("MMS"), which includes pricing, promotions, category management and vendor revenue management, and workforce management ("WFM") systems. This initiative is expected to deliver improvements in pricing and margins, inventory and store staff productivity, aligned with the Company's "Top" strategies.

#### Result

The new POS system was installed in the remaining AC stores and has been installed in 18 Northern stores however, the Canadian roll-out could not be completed in 2020 due to COVID-19-related travel restrictions. This work will resume in the third quarter of 2021 and be completed in 2022. The supplier management component of MMS was implemented in Canada in the fourth quarter. The implementation of MMS in International Operations was planned for 2020 but is now deferred until 2021 due to COVID-19-related business priorities.

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#### Initiative #6

##### Support Office Administrative Cost Reduction

This initiative is focused on achieving \$17 million in administrative cost savings which can be reinvested in lower prices in the Company's Canadian retail business as outlined in Initiative #3.

#### Result

In the first quarter of 2020, the Company announced its plans to reduce administration costs in Canada. By the end of the year, the Company achieved its \$17 million annualized savings target.

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#### Initiative #7

##### Giant Tiger Transaction

This work is related to completing the sale of 36 of the Company's Giant Tiger stores to Giant Tiger Stores Limited and implementing reciprocal product supply and distribution agreements.

#### Result

On July 5, 2020, the Company completed the sale of 36 of its Giant Tiger stores to Giant Tiger Stores Limited which resulted in a pre-tax gain of \$24.7 million or \$20.0 million net of tax. Further information on the Giant Tiger Transaction is provided in the Consolidated Results financial performance review on page 6. The reciprocal supply agreements were implemented in 2020, which are expected to provide further upside in 2021.

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## KEY PERFORMANCE DRIVERS AND CAPABILITIES REQUIRED TO DELIVER RESULTS

**The financial capability to sustain the competitiveness of our core strengths and to pursue growth:** Our investment priorities center on our store management and front line people, lower costs to drive lower prices, next level technology and superior logistics.

**The ability to be a leading community store in every market we serve:** We want to connect with the customers and communities we serve in a highly valued way. It starts with being able to tailor our store formats, product/service mix, community support and store compensation, while still realizing the efficiencies of our size or the size of our alliance partners. Investing in relationships, embracing a broad range of products, services and store sizes, flexible technology platforms and "best practice" work processes, are required to achieve this goal.

**Our ability to build and maintain supportive community relations:** To preserve our community access we must be trusted, open, respectful, adaptable and socially helpful. Store leases and business licenses are often subject to community approval and depend on our track record in these areas and the perceived community and customer value of our retail store compared to other options.

**Our ability to develop highly capable store level employees and work practices:** Pure Retail store work must drive sales and efficiently enable our store-level personnel to manage the other key facets of their store. This enables our full potential to realize local selling opportunities, meet our customer service commitments and build and maintain positive community relationships. It recognizes that our store roles must be great jobs to offset other conditions that create challenges in attracting and retaining the best people. Related to this is our on-going ability to hire within-community and assist local associates to reach their full potential.

**Our ability to deliver merchandise and information through our unique store network:** The integration and build-out of our air cargo capability in northern Canada enables us to deliver and receive products faster, cheaper and more reliably compared to third-party providers. Similar advantages are possible through our investment in information technology.



# Consolidated Results

## 2020 Highlights

- Sales increased 12.6% to \$2.359 billion, our 21<sup>st</sup> consecutive year of top line growth.
- Same store sales<sup>(2)</sup> increased 19.0% driven by both food and general merchandise sales gains.
- The Company increased annual incentive plan payments to front-line managers by \$10.8 million and paid \$10.1 million in hourly premiums and one-time special payments to front-line associates to recognize their critical role in serving our customers.
- Donations increased \$5.5 million in response to greater community needs during COVID-19.
- EBITDA<sup>(1)</sup> increased 37.3%
- Debt-to-Equity decreased to 0.56 compared to 0.96 at January 31, 2020.
- Return on net assets<sup>(1)</sup> improved to 22.4% compared to 13.5% in 2019.
- Completed the sale of 36 Giant Tiger stores resulting in a pre-tax gain of \$24.7 million or \$20.0 million net of tax.
- Quarterly dividends increased \$0.03 per share or 9.1% to \$0.36 per share.
- The Company purchased 180,744 shares under a normal course issuer bid.

## FINANCIAL PERFORMANCE

Some of the key performance indicators used by management to assess results are summarized in the following table:

### Key Performance Indicators and Selected Annual Information

(\$ in thousands, except per share)	2020	2019	2018
Sales	<b>\$2,359,239</b>	\$ 2,094,393	\$ 2,013,486
Same store sales % increase <sup>(2)</sup>	<b>19.0 %</b>	1.3 %	2.0 %
EBITDA <sup>(1)</sup>	<b>\$ 301,427</b>	\$ 219,575	\$ 218,022
EBIT	<b>\$ 209,349</b>	\$ 130,353	\$ 136,001
Net earnings	<b>\$ 143,560</b>	\$ 86,273	\$ 90,623
Net earnings attributable to shareholders of the Company	<b>\$ 139,874</b>	\$ 82,724	\$ 86,739
Net earnings per share - diluted	<b>\$ 2.82</b>	\$ 1.68	\$ 1.77
Cash flow from operating activities <sup>(3)</sup>	<b>\$ 338,718</b>	\$ 161,117	\$ 155,725
Cash dividends per share	<b>\$ 1.38</b>	\$ 1.32	\$ 1.28
Total assets	<b>\$1,191,168</b>	\$ 1,215,536	\$ 1,149,861
Total long-term liabilities	<b>\$ 370,802</b>	\$ 594,482	\$ 541,907
Return on net assets <sup>(1)</sup>	<b>22.4 %</b>	13.5 %	15.3 %
Return on average equity <sup>(1)</sup>	<b>30.7 %</b>	20.5 %	23.2 %

(1) See Non-GAAP Financial Measures section.

(2) All references to same store sales exclude the foreign exchange impact.

(3) See Consolidated Liquidity and Capital Resources.

**Key Performance Factors** The following factors had a significant impact on the financial results in 2020 and are referred to throughout this analysis:

**COVID-19** As an essential service provider of food and everyday products and services, sales were positively impacted by COVID-19-related consumer spending changes in favor of in-community and at-home activities resulting from travel restrictions and restaurant closures, and were supported by enhanced government income support payments to individuals. The Company was able to maintain a good in-stock position by working with our vendor partners and leveraging our supply chain management and logistical expertise which helped ensure an adequate supply of essential products in the communities we serve. These factors were partially offset by periodic government mandated COVID-19-related community curfews and store closures. The impact of increased sales on earnings was partially offset by wage premiums and bonuses paid to front-line associates to recognize their critical role in serving our customers, and expenses related to the purchase of protective equipment and enhanced sanitation procedures.

**Giant Tiger Transaction** On July 5, 2020, the Company completed the sale of 36 of the Company's 46 Giant Tiger stores (the "Acquired Stores") to Giant Tiger Stores Limited ("GTSL") for cash consideration of \$45.0 million, subject to working capital adjustments, payable in installments on the second, third and fourth anniversaries of the transaction closing date and, subject to meeting certain profitability milestones, additional contingent consideration payable on the fourth and fifth anniversaries of the closing date of up to \$22.5 million. The Company recorded a promissory note receivable with a fair value of \$49.0 million comprised of the net present value of the installments and estimated additional contingent consideration. The Giant Tiger Transaction resulted in a pre-tax gain of \$24.7 million or \$20.0 million net of tax in the second quarter.

Of the remaining 10 GT locations, the Company (i) retained and operates five key stores in northern market locations, (ii) converted one store to a Valu Lots clearance center, and (iii) closed four stores in the third quarter of 2020. The Company recorded a \$9.4 million asset impairment and store closure provision in the first quarter substantially related to a reduction in the carrying amount of fixtures and equipment and right-of-use assets.

As part of the Giant Tiger Transaction, the Company and GTSL entered into product supply and distribution agreements related to the supply of food-related products by the Company to the Acquired Stores and the supply of certain general merchandise and food products by GTSL to the Company's northern Canada stores. These agreements enable buying efficiencies for both parties and will provide the Company with access to an expanded general merchandise assortment. Further information on the Giant Tiger Transaction is provided in Note 24 to the consolidated financial statements.

**Consolidated Sales** Sales for the year ended January 31, 2021 ("2020") increased 12.6% to \$2.359 billion compared to \$2.094 billion for the year ended January 31, 2020 ("2019"), and were up 17.2% compared to \$2.013 billion for the year ended January 31, 2019 ("2018"). The increase in sales compared to 2019 was driven by same store sales gains and the impact of new stores largely related to the re-opening of the Company's CUL store in St. Thomas, USVI which was destroyed by hurricane Irma in the third quarter of 2017. Sales were positively impacted by market share gains and COVID-19-related factors including consumer spending changes in favor of in-community and at-home activities, supported by enhanced government income transfers in many jurisdictions. The impact of foreign exchange on the translation of International Operations sales



was also a factor. Excluding the foreign exchange impact, sales increased 11.5% from 2019 and were up 15.0% from 2018. The increase in sales compared to 2018 is due to the factors previously noted. These factors were partially offset by lower sales in Giant Tiger stores resulting from the Giant Tiger Transaction.

On a same store basis, sales increased 19.0% compared to increases of 1.3% in 2019 and 2.0% in 2018 as shown in the following table.

#### Same Store Sales

(% change)	2020	2019	2018
Food	15.6 %	1.9 %	1.7 %
General merchandise (GM)	36.1 %	(1.1)%	3.2 %
Total food & GM sales	19.0 %	1.3 %	2.0 %

Food sales increased 14.4% from 2019, and were up 13.4% excluding the foreign exchange impact. Same store food sales increased 15.6% over last year with quarterly same store sales increases of 16.3%, 19.1%, 14.5% and 12.0% in the fourth quarter. Canadian food sales increased 11.0% and International food sales increased 17.1% excluding the foreign exchange impact.

General merchandise sales increased 11.4% compared to 2019 and were up 9.7% excluding the foreign exchange impact. Same store general merchandise sales increased 36.1% for the year with an increase of 12.0% in the first quarter followed by additional increases of 54.8%, 38.3% and 39.8% in the last three quarters. Canadian general merchandise sales increased 4.3% as same store sales gains of 37.5% were largely offset by the impact of the Giant Tiger Transaction. International general merchandise sales increased 31.5% excluding the foreign exchange impact led by same store sales gains and new stores.

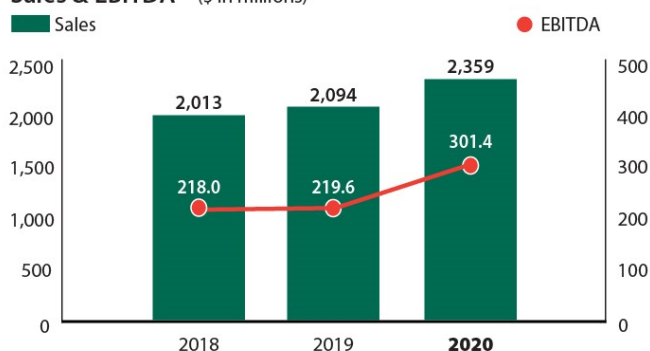
Other sales, which include airline revenue, financial services, fuel and pharmacy, decreased 0.2% compared to 2019 as gains in financial services and pharmacy sales were more than offset by lower passenger revenues in NSA and a decrease in fuel sales due to COVID-19 travel restrictions. Other sales increased 2.4% compared to 2018 mainly due to sales growth in pharmacy and financial services.

**Sales Blend** The table below shows the consolidated sales blend over the past three years:

	2020	2019	2018
Food	76.4 %	75.2 %	74.7 %
General merchandise and other	23.6 %	24.8 %	25.3 %

Canadian Operations accounted for 58.3% of total sales (60.7% in 2019 and 61.9% in 2018) while International Operations contributed 41.7% (39.3% in 2019 and 38.1% in 2018).

#### Sales & EBITDA<sup>(1)</sup> (\$ in millions)



(1) See Non-GAAP Financial Measures section.

**Gross Profit** Gross profit increased 16.6% to \$774.6 million compared to \$664.4 million last year driven by sales growth and a 111 basis point increase in gross profit rate. The gross profit rate increased to 32.8% compared to 31.7% last year primarily due to favourable changes in product sales blend and higher inventory turns contributing to lower markdowns and inventory shrinkage. These factors were partially offset by a higher blend of CUL sales which carry a lower gross profit rate consistent with a discount warehouse format and the impact of lower margin wholesale food sales as part of the Giant Tiger Transaction.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") of \$565.2 million increased \$31.2 million or 5.8% compared to last year but were down 154 basis points as a percentage of sales. This increase in Expenses is partially due to a \$9.4 million Giant Tiger asset impairment and store closure provision, \$18.9 million in higher share-based compensation costs and \$18.2 million in insurance-related gains last year offset by the impact of the \$24.7 million Giant Tiger Transaction gain and a \$5.3 million insurance-related gain this year (collectively "Non-Comparable Factors"). The increase in share-based compensation costs is substantially due to mark-to-market adjustments resulting from changes in the Company's share price. Further information on share-based compensation costs is provided in Note 14 and Note 18 to the consolidated financial statements.

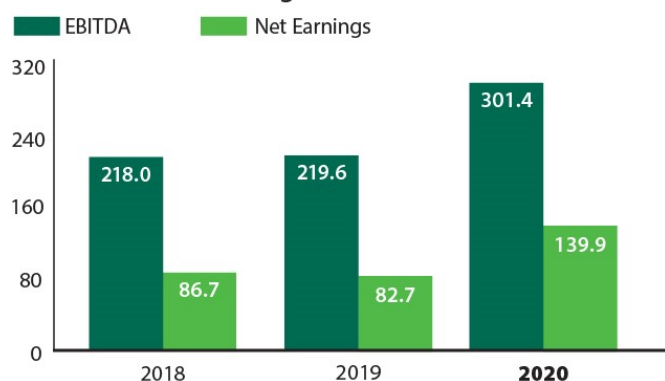
Excluding the impact of the Non-Comparable Factors, Expenses increased \$14.7 million or 2.7% to last year but were down 232 basis points as a percentage to sales as higher annual incentive plan costs, COVID-19-related expenses and corporate donations, were partially offset by lower Giant Tiger store expenses related to the Giant Tiger Transaction and Canadian administrative cost reductions, net of a \$5.0 million provision for support office employee severance costs. Annual incentive plan costs increased \$18.2 million of which \$10.8 million relates to front-line associates. COVID-19-related expenses of \$19.6 million includes \$10.1 million in wage premiums and a special one-time payment of 5% of wages to non-bonus eligible front-line associates in recognition of their contributions to serving our customers and \$9.5 million in other COVID-19-related expenses primarily related to additional employees recruited to provide support to stores during outbreaks, the purchase of protective equipment and enhanced sanitation procedures. Donations increased \$5.5 million in response to greater community needs during COVID-19. The impact of foreign exchange on the translation of International Operations expenses and higher insurance costs were also factors.

**Earnings from Operations (EBIT) and EBITDA<sup>(1)</sup>** Earnings from operations or earnings before interest and income taxes ("EBIT") increased 60.6% to \$209.3 million compared to \$130.4 million last year due to the sales, gross profit and Expense factors previously noted. Earnings before interest, income taxes, depreciation and amortization ("EBITDA<sup>(1)</sup>") increased 37.3% to \$301.4 million compared to \$219.6 million last year. Adjusted EBITDA<sup>(1)</sup>, which excludes the impact of the previously noted Non-Comparable Factors, increased \$98.4 million or 48.0% compared to last year driven by earnings gains in both Canadian and International Operations. Additional information on the financial performance of Canadian Operations and International Operations is provided on pages 9 and 11, respectively.

**Interest Expense** Interest expense decreased 19.8% to \$16.8 million compared to \$20.9 million last year. This decrease is due to lower average debt levels and lower interest rates. Average debt levels decreased 11.8% compared to last year mainly due to a decrease in amounts drawn on revolving loan facilities. The average cost of debt was 3.2% compared to 3.6% last year. Further information on interest expense is provided in Note 19 to the consolidated financial statements.

**Income Tax Expense** Income taxes increased to \$49.0 million compared to \$23.1 million last year and the effective tax rate for the year was 25.4% compared to 21.1% last year. The increase in income tax expense is due to higher earnings and a higher effective tax rate. The increase in the income tax rate is primarily due to the impact of non-deductible share-based compensation costs in Canadian Operations and the blend of earnings in International Operations across various tax rate jurisdictions. Further information on income tax expense, the effective tax rate and deferred tax assets and liabilities is provided in Note 10 to the consolidated financial statements.

### EBITDA<sup>(1)</sup> & Net Earnings<sup>(2)</sup> (\$ in millions)



(1) See Non-GAAP Financial Measures section.

(2) Net earnings attributable to shareholders of the Company.

**Net Earnings** Consolidated net earnings increased 66.4% to \$143.6 million compared to \$86.3 million last year. Net earnings attributable to shareholders of the Company were \$139.9 million compared to \$82.7 million last year and diluted earnings per share were \$2.82 per share compared to \$1.68 per share last year due to the factors previously noted. Excluding the impact of the previously noted Non-Comparable Factors, adjusted net earnings<sup>1</sup> increased \$69.5 million or 92.2% due to the sales, gross profit and expense factors that contributed to earnings gains in Canadian and International Operations. In 2020, the average exchange rate used to translate International Operations sales and expenses was 1.3390 compared to 1.3246 last year and 1.3041 in 2018.

The Canadian dollar's depreciation versus the U.S. dollar compared to 2019 had the following net impact on the 2020 results:

Sales.....increase of \$10.6 million or 1.1%  
 Earnings from operations.....increase of \$0.7 million  
 Net earnings.....increase of \$0.5 million  
 Diluted earnings per share.....increase of \$0.01 per share

**Total Assets** Consolidated total assets for the past three years is summarized in the following table:

(\$ in thousands)	2020	2019	2018
Total assets	\$ 1,191,168	\$ 1,215,536	\$ 1,149,861

Consolidated assets decreased \$24.4 million or 2.0% compared to 2019 but were up \$41.3 million or 3.6% compared to 2018. The decrease in consolidated assets compared to last year is primarily due to the net impact of the Giant Tiger Transaction and a decrease in accounts receivable and deferred tax assets. The Giant Tiger Transaction was the primary factor contributing to the decrease in inventories, property and equipment and right-of-use assets. These decreases were partially offset by the \$49.0 promissory note receivable resulting from the Giant Tiger Transaction. Further information on the change in current assets is provided in the working capital section below. The decrease in deferred tax assets is due to an increase in deferred income tax liabilities for income earned in the limited partnership in Canadian Operations. Further information on deferred tax assets is provided in the net assets employed section under Canadian Operations and in Note 10 to the consolidated financial statements. The increase in consolidated assets compared to 2018 is due to increases in property and equipment and cash and the promissory note receivable, partially offset by a decrease in inventories, right-of-use assets and deferred tax assets as previously noted. The impact of foreign exchange also contributed to the decrease in assets as the year-end exchange rate used to translate International Operations assets decreased to 1.2776 compared to 1.3224 last year and 1.3137 in 2018.

Consolidated working capital for the past three years is summarized in the following table:

(\$ in thousands)	2020	2019	2018
Current assets	\$ 396,860	\$ 399,593	\$ 376,297
Current liabilities	\$ (315,135)	\$ (194,084)	\$ (196,938)
Working capital	\$ 81,725	\$ 205,509	\$ 179,359

Working capital decreased \$123.8 million or 60.2% to \$81.7 million compared to 2019 and decreased \$97.6 million or 54.4% compared to 2018. Current assets decreased \$2.7 million or 0.7% compared to last year but were up \$20.6 million or 5.5% compared to 2018. The decrease in current assets compared to 2019 is primarily due to lower accounts receivable, mainly related to insurance claims, and lower inventories due to the Giant Tiger Transaction. A decrease in income tax receivable due to the realization of the income tax receivable from 2019 related to the accelerated tax depreciation on certain capital investments in Canada and the U.S. was also a factor. These factors were largely offset by an increase in cash. Further information on the increase in cash is provided in the consolidated statements of cash flows and the Liquidity and Capital Resources section.

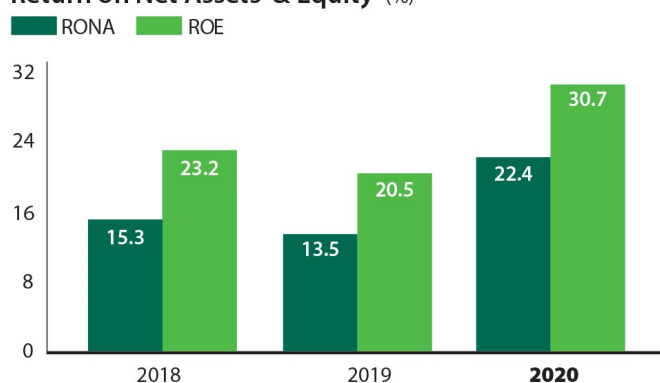
Current liabilities increased \$121.1 million or 62.4% compared to last year and were up \$118.2 million or 60.0% compared to 2018 substantially due to an \$88.6 million increase in the current portion of long-term debt related to US\$70.0 million senior notes that mature in June 2021. An increase in accounts payable and accrued

liabilities due to higher trade accounts payable and accrued annual incentive plan costs and the impact of foreign exchange on the translation of International Operations working capital were also factors. Further information on working capital for the Canadian Operations and International Operations is on page 10 and page 12, respectively.

Return on net assets employed increased to 22.4% compared to 13.5% in 2019 due to the 60.6% increase in EBIT and a decrease in net assets employed. Additional information on net assets employed for the Canadian Operations and International Operations is on page 10 and page 12, respectively. The adoption of IFRS 16 - *Leases* in 2019 had a significant negative impact on prior years return on net assets employed primarily due to the inclusion of \$127.9 million in right-of-use assets. Prior to IFRS 16 - *Leases*, return on net assets employed averaged 18.7% over the ten years from 2009 to 2018.

Return on average equity increased to 30.7% compared to 20.5% in 2019 due to a 66.4% increase in net earnings partially offset by higher average equity compared to last year. Further information on shareholders' equity is provided in the consolidated statements of changes in shareholders' equity in the consolidated financial statements.

### Return on Net Assets<sup>(1)</sup> & Equity<sup>(1)</sup> (%)



(1) See Non-GAAP Financial Measures section.

**Total Long-Term Liabilities** Consolidated total long-term liabilities for the past three years is summarized in the following table:

(\$ in thousands)	2020	2019	2018
Total long-term liabilities	\$ 370,802	\$ 594,482	\$ 541,907

Consolidated long-term liabilities decreased \$223.7 million or 37.6% to \$370.8 million compared to 2019 and were down \$171.1 million or 31.6% from 2018. The decrease in long-term liabilities compared to 2019 and 2018 is substantially due to lower long-term debt and lease liabilities. The decrease in long-term debt is due to an increase in the current portion of long-term debt related to US\$70.0 million senior notes that mature in June 2021 and the reduction in amounts outstanding in revolving loan facilities due to stronger earnings. The decrease in lease liabilities is largely due to the Giant Tiger Transaction. The impact of foreign exchange rates on the translation of U.S. denominated debt was also a factor. These factors were partially offset by an increase in defined benefit pension plan obligations compared to 2018 mainly related to a lower discount rate. Further information on long-term debt is included in the Consolidated Liquidity and Capital Resources section and in Note 12 to the consolidated financial statements. Additional information on lease liabilities and defined benefit pension plan obligations is provided in Note 8 and Note 13 respectively to the consolidated financial statements.

## Canadian Operations

### FINANCIAL PERFORMANCE

Canadian Operations results for the year are summarized by the key performance indicators used by management as follows:

#### Key Performance Indicators

(\$ in thousands)	2020	2019	2018
Sales	\$ 1,376,188	\$ 1,271,552	\$ 1,246,133
Same store sales % increase	22.3 %	0.3 %	0.9 %
EBITDA <sup>(1)</sup>	\$ 206,498	\$ 140,359	\$ 130,399
EBIT	\$ 144,141	\$ 77,376	\$ 72,822
Return on net assets <sup>(1)</sup>	26.3 %	12.3 %	12.6 %

(1) See Non-GAAP Financial Measures section.

**Sales** Canadian Operations sales increased \$104.6 million or 8.2% to \$1.376 billion compared to \$1.272 billion in 2019 and were up \$130.1 million or 10.4% compared to 2018 driven by exceptional same store sales gains in northern Canada partially offset by lower sales in GT stores as a result of the Giant Tiger Transaction and lower passenger-related revenue in NSA as a result of COVID-19 travel restrictions. The same store sales gains were driven by COVID-19-related consumer spending changes combined with various government income support programs and special settlement payments for individuals. A superior in-stock position and market share gains were also factors.

Same store sales increased 22.3% which is up from 0.3% in 2019 and 0.9% in 2018. Food sales accounted for 68.0% of total Canadian Operations sales compared to 66.3% last year. The balance was made up of general merchandise and other sales at 32.0% (33.7% in 2019). Other sales consist primarily of airline revenue, financial services revenue, fuel and pharmacy.

Food sales increased by 11.0% from 2019 and were up 13.3% compared to 2018 as sales gains in northern Canada stores and new wholesale food sales to Giant Tiger Stores Limited more than offset the impact of lower sales as a result of the Giant Tiger Transaction. Same store food sales increased 18.4% compared to 0.7% in 2019. On a quarterly basis same store food sales increased 15.8%, 23.3%, 18.4% and 15.7% respectively.

General merchandise sales increased 4.3% from 2019 and were up 5.7% compared to 2018 as strong same store sales growth in northern Canada more than offset lower sales in GT stores as a result of the Giant Tiger Transaction. Same store sales increased 37.5% compared to a 1.3% decrease in 2019 led by sales gains in motorized, electronics and home furnishings. On a quarterly basis, same store general merchandise sales increased 12.5%, 53.8%, 46.7% and 41.6%.

Other sales increased 0.5% from 2019 largely due to sales gains in financial services and pharmacy which more than offset lower passenger revenue in NSA as a result of COVID-19 travel restrictions. Other sales increased 3.4% compared to 2018 primarily due to pharmacy and financial services.

**Sales Blend** The table below shows the sales blend for the Canadian Operations over the past three years:

	2020	2019	2018
Food	68.0 %	66.3 %	66.3 %
General merchandise and other	32.0 %	33.7 %	33.7 %

**Same Store Sales** Canadian Operations same store sales for the past three years are shown in the following table. Over this period, same store sales gains in northern Canada stores each year were substantially offset by lower sales in GT stores due to greater discount food competition and lower seasonal general merchandise sales in 2019 and compared to 2018.

#### Same Store Sales

(% change)	2020	2019	2018
Food	18.4 %	0.7 %	0.4 %
General merchandise (GM)	37.5 %	(1.3)%	2.7 %
Total food & GM sales	22.3 %	0.3 %	0.9 %

**Gross Profit** Gross profit dollars increased by 16.0% driven by sales gains and a higher gross profit rate. The increase in gross profit rate was mainly due to changes in product sales blend and lower markdowns and inventory shrinkage due to improved sell-through. A higher gross profit rate in NSA and the impact of lower sales in Giant Tiger stores which have a lower gross profit structure consistent with a discount format were also factors. These factors were partially offset by food price reductions in northern Canada aimed at capturing more local spending dollars and the impact of lower margin wholesale food sales as part of the Giant Tiger Transaction.

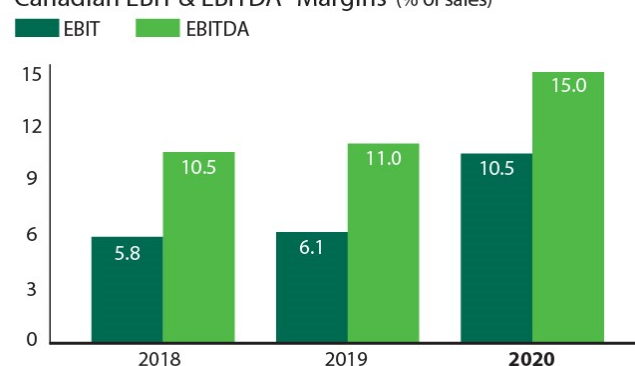
**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 0.4% from 2019 but were down 198 basis points as a percentage of sales. The increase in Expenses is partially due to a \$9.4 million Giant Tiger asset impairment and store closure provision, \$17.0 million in higher share-based compensation costs and \$7.5 million in insurance-related gains last year, offset by the impact of the \$24.7 million Giant Tiger Transaction gain and a \$5.3 million insurance-related gain this year (collectively "Non-Comparable Factors"). The increase in share-based compensation costs is substantially due to mark-to-market adjustments resulting from changes in the Company's share price.

Excluding the impact of the Non-Comparable Factors, Expenses decreased \$2.4 million or 0.7% to last year and were down 229 basis points as a percentage to sales as higher annual incentive plan costs, payments to front-line associates, corporate donations, insurance costs and COVID-19-related expenses, were more than offset by lower Giant Tiger store expenses related to the Giant Tiger Transaction and Canadian administrative cost reductions, net of a \$5.0 million provision for support office employee severance costs.

**Earnings from Operations (EBIT) and EBITDA<sup>(1)</sup>** Earnings from operations increased \$66.8 million or 86.3% to \$144.1 million compared to \$77.4 million in 2019 due to the sales, gross profit and Expense factors previously noted. Earnings from operations as a percentage of sales was 10.5% compared to 6.1% last year. EBITDA<sup>(1)</sup> increased \$66.1 million or 47.1% to \$206.5 million and was 15.0% as a percentage of sales compared to 11.0% in 2019. Adjusted EBITDA<sup>(1)</sup>, which excludes the Non-Comparable Factors previously noted, increased 51.5% driven by earnings gains in northern Canada. Improved earnings in NSA was also a factor as higher cargo volumes and better aircraft utilization more than offset the negative impact of lower passenger-related earnings due to COVID-19 travel restrictions,

net of \$5.9 million in Canada Emergency Wage Subsidy ("CEWS") and Ontario Remote Air Carrier Support Program ("RACSP") payments.

#### Canadian EBIT & EBITDA<sup>(1)</sup> Margins (% of sales)



(1) See Non-GAAP Financial Measures section.

**Net Assets Employed** Net assets employed decreased 9.0% to \$559.8 million compared to \$615.3 million last year and were down 4.8% compared to \$588.2 million in 2018 as summarized in the following table:

(\$ in millions at the end of the fiscal year)	2020	2019	2018
Property and equipment	\$ 357.5	\$ 367.2	\$ 358.0
Right-of-use assets	50.9	73.4	74.5
Inventories	127.4	148.0	145.8
Accounts receivable	73.4	83.6	73.3
Other assets	148.7	112.4	106.8
Liabilities	(198.1)	(169.3)	(170.2)
Net assets employed	\$ 559.8	\$ 615.3	\$ 588.2

The decrease in property and equipment and right-of-use assets compared to last year and 2018 was due to the Giant Tiger Transaction, partially offset by investments in northern Canada stores and the purchase of an ATR-72 500 aircraft which replaced a Basler aircraft. Store-based capital expenditures for the year, which were negatively impacted by COVID-19 travel restrictions, included the reconstruction of a warehouse in Iqaluit, Nunavut that was destroyed by fire in late 2018, the construction of a new store in Pelican Narrows, Saskatchewan and investments in stores, equipment replacements and staff housing.

Inventory decreased \$20.6 million compared to 2019 and was down \$18.4 million compared to 2018 primarily due to the sale of the Giant Tiger stores. Lower average inventories in northern Canada stores due to the faster sell-through of sealift and winter road inventories was also a factor. Average inventory levels in 2020 decreased \$24.4 million or 16.1% compared to 2019 and were down \$18.0 million or 12.4% compared to 2018. Inventory turnover was up to 7.4 times compared to 5.6 times last year and 5.8 times in 2018.

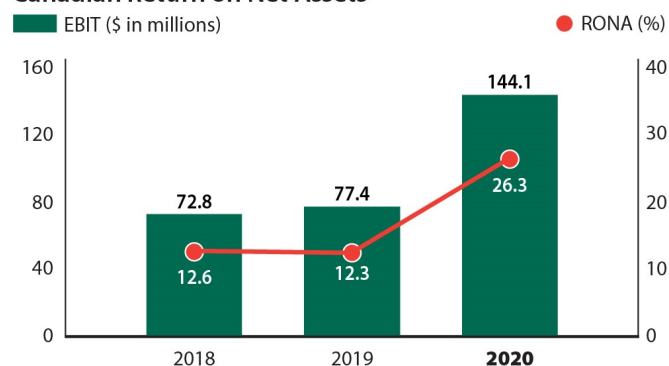
Accounts receivable decreased \$10.2 million or 12.2% compared to last year but were flat to 2018. The decrease compared to last year is mainly due to a reduction in insurance claim-related accounts receivable. Average accounts receivable decreased \$3.3 million or 4.5% compared to 2019 but were up \$2.3 million or 3.3% compared to 2018.

Other assets increased \$36.3 million or 32.3% compared to last year and were up \$41.8 million or 39.1% compared to 2018. This increase is primarily due to the \$49.0 million promissory note receivable from the Giant Tiger Transaction and higher cash, partially offset by a decrease in deferred tax assets. In 2020, the Company recorded a \$24.7 million deferred tax liability on earnings in Canadian Operations based on the year-end of the limited partnership. This deferred tax liability has been recorded as a reduction of deferred tax assets. The payment of cash taxes on these earnings will occur over the next 14 months. Further information on deferred tax assets and liabilities is provided in Note 10 to the consolidated financial statements and additional information on the payment of deferred taxes is provided in the Outlook section.

Liabilities increased \$28.8 million or 17.0% from 2019 and were up \$27.9 million or 16.4% compared to 2018. This increase is largely due to higher accrued annual incentive plan costs and higher trade accounts payable related to the timing of payments. These factors were partially offset by a decrease in the defined benefit plan obligation mainly due to changes in the discount rate. Further information on the defined benefit plan obligation is provided in Note 13 to the consolidated financial statements.

**Return on Net Assets (RONA)<sup>(1)</sup>** The return on net assets employed for Canadian Operations increased to 26.3% from 12.3% in 2019 due to an 86.3% increase in EBIT and a \$78.9 million or 12.6% decrease in average net assets compared to last year due to the factors previously noted.

### Canadian Return on Net Assets<sup>(1)</sup>



(1) See Non-GAAP Financial Measures section.

## International Operations

(Stated in U.S. dollars)

### FINANCIAL PERFORMANCE

International Operations results for the year are summarized by the key performance indicators used by management as follows:

#### Key Performance Indicators

(\$ in thousands)	2020	2019	2018
Sales	\$ 734,168	\$ 621,200	\$ 588,422
Same store sales % increase	13.6 %	3.5 %	4.2 %
EBITDA <sup>(1)</sup>	\$ 70,893	\$ 59,808	\$ 67,192
EBIT	\$ 48,699	\$ 39,995	\$ 48,447
Return on net assets <sup>(1)</sup>	16.9 %	15.5 %	20.2 %

(1) See Non-GAAP Financial Measures section.

**Sales** International sales increased 18.2% to \$734.2 million compared to \$621.2 million in 2019, and were up \$145.7 million or 24.8% compared to 2018 led by strong same store sales gains and the re-opening of our CUL store in St. Thomas, USVI. Sales were positively impacted by consumer spending changes, less travel outside communities, especially in Alaska, and COVID-19-related government income support payments within the United States, including the U.S. Territories served by CUL stores. These gains were partially offset by periodic government-mandated COVID-19-related store closures across different Caribbean countries, community curfews and weak economies in the British Virgin Islands, St. Maarten and Curacao. The closure of an AC store and convenience store in Barrow, Alaska on October 31, 2019, net of opening a smaller store in this market on November 1, 2019, and a decrease in the Alaska Permanent Fund Dividend ("PFD") to \$992 compared to \$1,606 in 2019 and 2018 also negatively impacted sales. Same store sales increased 13.6% compared to 3.5% in 2019 and 4.2% in 2018. Food sales accounted for 88.1% (88.9% in 2019) of total sales with the balance comprised of general merchandise and other sales at 11.9% (11.1% in 2019). Other sales consist primarily of fuel and financial services revenue.

Food sales increased 17.1% from 2019 and were up 24.2% compared to 2018. Same store food sales were up 11.5% on top of a 4.0% increase in 2019. Quarterly same store food sales increases were 17.1%, 12.6%, 9.6% and 7.5% in the fourth quarter.

General merchandise sales increased 31.5% from 2019 and were up 34.6% from 2018. On a same store basis, general merchandise sales were up 31.8% compared to a decrease of 0.7% in 2019 with strong sales gains from both AC and CUL stores. Quarterly same store general merchandise sales increased 9.5%, 58.4%, 21.0% and 35.2% in the fourth quarter led by sales gains in motorized, electronics, home furnishings and seasonal categories.

Other sales, which consist primarily of fuel sales and financial services revenue, were down 14.6% from 2019 and 17.8% from 2018 mainly due to lower fuel sales.



**Sales Blend** The table below shows the sales blend for the International Operations over the past three years:

	2020	2019	2018
Food	88.1 %	88.9 %	88.5 %
General merchandise and other	11.9 %	11.1 %	11.5 %

**Same Store Sales** International Operations same store sales for the past three years are shown in the following table. General merchandise same store sales are impacted by consumer spending on big-ticket durable goods that are largely influenced by special payments, such as government income support payments, the PFD and regional Native corporation dividends, which can result in greater sales volatility.

#### Same Store Sales

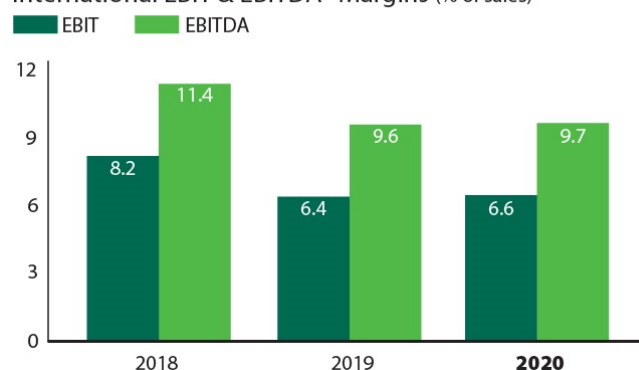
(% change)	2020	2019	2018
Food	11.5 %	4.0 %	4.0 %
General merchandise (GM)	31.8 %	(0.7)%	5.6 %
Total food & GM sales	13.6 %	3.5 %	4.2 %

**Gross Profit** Gross profit dollars increased 16.4% as higher sales more than offset a decrease in the gross profit rate. The decrease in the gross profit rate is mainly related to more challenging economic conditions in the British Virgin Islands and a higher blend of Cost-U-Less sales which carry a lower gross profit rate consistent with a discount warehouse format. These factors were partially offset by lower markdowns and inventory shrinkage as a result of improved sell-through.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 14.9% compared to last year but were down 63 basis points as a percentage of sales partially due to the impact of an \$8.0 million insurance-related gain last year and higher share-based compensation costs this year. Excluding the impact of the insurance gain and share-based compensation costs, Expenses increased 7.7% compared to last year due to the impact of new stores and higher annual incentive plan costs, COVID-19 wage premiums and a 5% of wages bonus paid to non-bonus eligible front-line and support office associates, insurance costs and COVID-19-related expenses. These factors were partially offset by \$3.6 million in support office restructuring and relocation costs last year.

**Earnings from Operations (EBIT) and EBITDA<sup>(1)</sup>** Earnings from operations increased \$8.7 million or 21.8% to \$48.7 million compared to 2019 due to the sales, gross profit and Expense factors previously noted. EBITDA<sup>(1)</sup> increased \$11.1 million or 18.5% to \$70.9 million and was 9.7% as a percentage of sales compared to 9.6% in 2019. Excluding the impact of the insurance gains and share-based compensation expense, adjusted EBITDA<sup>(1)</sup> increased 39.4%.

#### International EBIT & EBITDA<sup>(1)</sup> Margins (% of sales)



(1) See Non-GAAP Financial Measures section.

**Net Assets Employed** International Operations net assets employed of \$272.1 million decreased \$1.4 million or 0.5% compared to last year but were up \$21.1 million or 8.4% to 2018 as summarized in the following table:

(\$ in millions at the end of the fiscal year)	2020	2019	2018
Property and equipment	\$ 136.4	\$ 142.0	\$ 119.5
Right-of-use assets	45.8	41.2	40.6
Inventories	78.0	75.6	68.9
Accounts receivable	14.1	16.1	13.0
Other assets	67.8	48.7	56.6
Liabilities	(70.0)	(50.1)	(47.6)
Net assets employed	\$ 272.1	\$ 273.5	\$ 251.0

Property and equipment decreased \$5.6 million or 3.9% to last year as amortization exceeded lower investments mainly due to COVID-19-related travel restrictions but increased compared to 2018 mainly due to the reconstruction of the CUL store in St. Thomas, USVI that was completely destroyed by hurricane Irma in 2017. The increase in right-of-use assets compared to last year and 2018 is due to lease renewals.

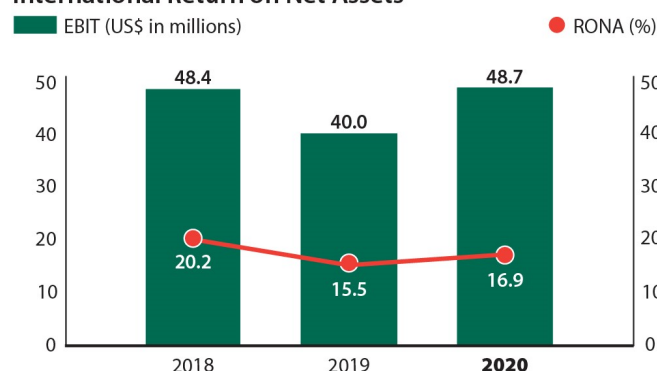
Inventories increased \$2.4 million or 3.2% compared to last year and were up \$9.1 million or 13.2% from 2018. The increase from 2018 is largely due to the re-opening of the St. Thomas CUL store. Average inventory levels in 2020 were up 7.2% compared to 2019 and were up 14.3% compared to 2018 mainly due to new stores. Inventory turnover improved to 6.6 times compared to 6.0 times in 2019 and 6.1 times in 2018.

Other assets increased \$19.1 million or 39.2% compared to last year and were up \$11.2 million or 19.8% compared to 2018 primarily due to higher cash balances.

Liabilities increased \$19.9 million or 39.7% compared to 2019 and were up \$22.4 million or 47.0% compared to 2018 substantially due to higher trade accounts payable related to the timing of payments, higher annual incentive plan costs and an increase in income tax payable.

**Return on Net Assets (RONA)<sup>(1)</sup>** The return on net assets employed for International Operations increased to 16.9% compared to 15.5% in 2019 due to a 21.8% increase in EBIT partially offset by an \$29.4 million or 11.4% increase in average net assets mainly due to the re-opening of the St. Thomas CUL store on November 1, 2019.

### International Return on Net Assets<sup>(1)</sup>



(1) See Non-GAAP Financial Measures section.

## Consolidated Liquidity and Capital Resources

The following table summarizes the major components of cash flow:

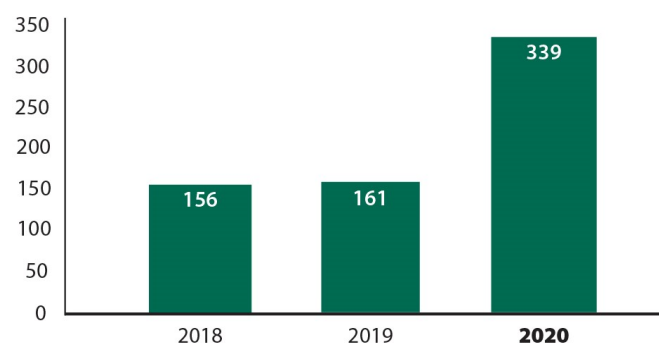
(\$ in thousands)	2020	2019	2018
Cash provided by (used in):			
Operating activities before change in non-cash working capital and other	\$ 271,652	\$ 197,021	\$ 177,833
Change in non-cash working capital	58,975	(28,670)	(20,824)
Change in other non-cash items	8,091	(7,234)	(1,284)
Operating activities	338,718	161,117	155,725
Investing activities	(66,900)	(104,272)	(80,793)
Financing activities	(227,060)	(67,236)	(62,357)
Effect of foreign exchange	(1,409)	130	713
Net change in cash	\$ 43,349	\$ (10,261)	\$ 13,288

**Cash from Operating Activities** Cash flow from operating activities increased \$177.6 million or 110.2% to \$338.7 million compared to 2019 due to a \$74.6 million increase in cash earnings to \$271.7 million and an increase in cash from the change in non-cash working capital and other non-cash items of \$103.0 million. The \$74.6 million increase in cash flow from operating activities before working capital and other items in 2020 compared to 2019 is mainly due to a \$57.3 million or 66.4% increase in net earnings, lower taxes paid due to timing of installments related to the limited partnership year-end, partially offset by the net impact of the Giant Tiger Transaction gain and store closure provision.

The change in non-cash working capital is primarily due to the change in inventories, accounts receivable and accounts payable and accrued liabilities compared to the prior years. Further information on working capital is provided in the Canadian and International net assets employed sections on pages 10 and 12, respectively. The change in other non-cash items is largely due to changes in other long-term liabilities, primarily related to share-based compensation and defined benefit pension obligation.

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

### Cash Flow from Operating Activities (\$ in millions)



**Cash Used in Investing Activities** Net cash used in investing activities was \$66.9 million compared to \$104.3 million in 2019 and \$80.8 million in 2018. This decrease is mainly due to lower investments in store-based property and equipment due to COVID-19 travel restrictions. Net investing in Canadian Operations was \$55.0 million net of \$5.3 million in insurance proceeds compared to \$63.2 million net of \$11.8 million in insurance proceeds in 2019 and \$69.2 million in 2018. A summary of the Canadian Operations investing activities is included in net assets employed on page 10. Investing in International Operations was \$11.9 million compared to \$41.1 million, net of \$5.5 million in insurance proceeds in 2019 and \$11.6 million, net of \$18.8 million in insurance proceeds in 2018. A summary of the International Operations investing activities is included in net assets employed on page 12.

The following table summarizes the number of stores and selling square footage under North West's various retail banners at the end of the fiscal year:

	Number of Stores		Selling square footage	
	2020	2019	2020	2019
Northern	118	117	693,389	689,051
NorthMart	5	5	128,185	116,156
Quickstop	30	28	41,024	38,509
Giant Tiger	5	46	90,470	754,523
Alaska Commercial	27	27	249,212	249,212
Cost-U-Less	12	12	344,695	344,695
Riteway Food Market	9	8	61,899	58,650
Other Formats	6	6	44,097	27,842
Total at year-end	212	249	1,652,971	2,278,638

In Canadian Operations, a Northern store and a Quickstop convenience store were opened. The decrease in the number of Giant Tiger stores is due to the sale of 36 stores and closure of four stores as part of the Giant Tiger Transaction as previously noted. Under Other Formats, one Giant Tiger store and a fur marketing branch were combined into one location and converted to a Valu Lots clearance center. Total selling square footage in Canada decreased 39.0% to 986,087 compared to 1,616,780 in 2019 due to the sale of Giant Tiger stores.



In International Operations, a QuickStop convenience store was opened in Alaska and a Riteway Food Market convenience store was opened in the British Virgin Islands. Total selling square footage increased to 666,884 compared to 661,858 last year due to the store openings.

**Cash Used in Financing Activities** Cash used in financing activities was \$227.1 million compared to cash used of \$67.2 million in 2019. The change compared to last year is largely due to a decrease in long-term debt net of the issuance of \$94.8 million (US\$70.0 million) senior notes, an increase in shareholder dividends and \$6.0 million for shares purchased under a normal course issuer bid. These factors were partially offset by a decrease in interest payments related to lower average debt levels and interest rates. Further information on dividends, the normal course issuer bid, interest and long-term debt is provided in the following sections.

**Shareholder Dividends** The Company paid dividends of \$67.3 million or \$1.38 per share compared to \$64.4 million or \$1.32 per share in 2019. Further information on dividends is included in Note 20 to the consolidated financial statements.

The following table shows the quarterly cash dividends per share paid for the past three years:

	2020	2019	2018
First Quarter	\$ 0.33	\$ 0.33	\$ 0.32
Second Quarter	0.33	0.33	0.32
Third Quarter	0.36	0.33	0.32
Fourth Quarter	0.36	0.33	0.32
Total	\$ 1.38	\$ 1.32	\$ 1.28

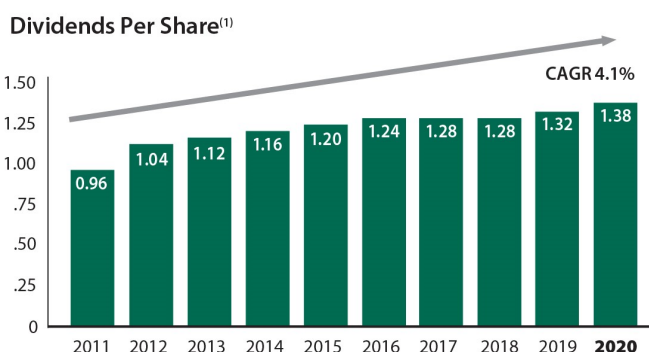
The payment of dividends on the Company's common shares is subject to the approval of the Board of Directors and is based on, among other factors, the financial performance of the Company, its current and anticipated future business needs and the satisfaction of solvency tests imposed by the Canada Business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

The following table shows dividends paid in comparison to cash flow from operating activities for the past three years:

	2020	2019	2018
Dividends	\$ 67,276	\$ 64,351	\$ 62,329
Cash flow from operating activities	\$ 338,718	\$ 161,117	\$ 155,725
Dividends as a % of cash flow from operating activities	19.9 %	39.9 %	40.0 %

Dividends as a percentage of cash flow from operating activities decreased compared to 2019 and 2018 as the increase in dividends was more than offset by the increase in cash flow from operating activities as previously noted.

The Company has a well established track record of increasing distributions and dividends whether structured as an income trust or as a share corporation. Since converting back to a share corporation on January 1, 2011, the dividend has increased at a compound annual growth rate ("CAGR") of 4.1% over the past nine years as shown in the following graph:



(1) North West Company Fund converted to a share corporation effective January 1, 2011. In addition to the \$0.96 per share dividend paid in 2011, the Company also paid a \$0.09 per unit final distribution from the Fund as part of the conversion to a share corporation.

On April 7, 2021, the Board of Directors approved a quarterly dividend of \$0.36 per share to shareholders of record on April 16, 2021 and to be paid on April 28, 2021.

**Normal Course Issuer Bid** On November 10, 2020, the Company received approval from the Toronto Stock Exchange to proceed with a Normal Course Issuer Bid ("NCIB"). Under the NCIB, the Company may acquire up to a maximum of 4,807,437 of its shares, or approximately 10% of its float for cancellation over the following 12 months. During the year ended January 31, 2021, the Company purchased 180,774 common shares having a book value of \$0.6 million for cash consideration of \$6.0 million. The excess of the purchase price over the book value of the shares of \$5.4 million 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, North West may, but is not required to, ask the designated broker to make purchases under the NCIB within specific parameters.

**Sources of Liquidity** In June 2020, the Company issued US\$70.0 million senior notes in two tranches; US\$35.0 million due June 16, 2027 with a fixed interest rate of 2.88% and US\$35.0 million due June 16, 2032 with a fixed interest rate of 3.09%. These senior notes are secured by certain assets of the Company and rank *pari passu* with the Company's other senior debt comprised of the \$300.0 million Canadian Operations loan facilities, the \$100.0 million senior notes, the US\$52.0 million loan facilities and the US\$70.0 million senior notes that mature June 16, 2021 (collectively "Senior Debt"). The proceeds from the issuance of the senior notes were used to reduce amounts drawn on the Company's revolving loan facilities in Canadian Operations and provide additional capacity for growth opportunities that may arise during the COVID-19 pandemic environment or to repay the US\$70.0 million senior notes when they mature on June 16, 2021.

At January 31, 2021, the Canadian Operations have outstanding US\$70.0 million senior notes (January 31, 2020 - US\$70.0 million) that mature June 16, 2021 and have a fixed interest rate of 3.27% on US\$55.0 million and a floating interest rate on US\$15.0 million based on U.S. LIBOR plus a spread, payable semi-annually. The Company also has outstanding \$100.0 million in senior notes (January 31, 2020 - \$100.0 million) that mature September 26, 2029 and have a fixed interest rate of 3.74%. The senior notes are secured by certain assets of the Company and rank *pari passu* with the Company's other Senior Debt. The Company has designated certain U.S. denominated debt as a hedge against the U.S. dollar investment in the International Operations. For more information on the senior notes and financial instruments, see Note 12 and Note 15 to the consolidated financial statements.

The Canadian Operations also have committed, revolving loan facilities of \$300.0 million that bear a floating rate of interest based on Bankers Acceptances rates plus a stamping fee and mature on September 26, 2022. These facilities are secured by certain assets of the Company and rank *pari passu* with the Company's other Senior Debt. At January 31, 2021, the Company had drawn \$NIL on these facilities (January 31, 2020 - \$176.7 million).

The Company has committed, revolving loan facilities of US\$52.0 million that bear interest at U.S. LIBOR plus a spread and mature on September 26, 2022. These facilities are secured by certain assets of the Company and rank *pari passu* with the Company's other Senior Debt. At January 31, 2021, the Company had drawn US\$NIL on these facilities (January 31, 2020 - US\$27.9 million).

The International Operations have a US\$40.0 million loan facility that bears a floating rate of interest based on U.S. LIBOR plus a spread. In February 2020, the Company extended the maturity date on this facility to February 2025. This facility is secured by certain assets of the International Operations. At January 31, 2021, the International Operations had drawn US\$NIL million on this facility (January 31, 2020 - US\$0.7 million).

The loan facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At January 31, 2021, the Company is in compliance with the financial covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

### Interest Costs and Coverage

	2020	2019	2018
Coverage ratio	12.5	6.2	6.9
EBIT (\$ in millions)	\$ 209.3	\$ 130.4	\$ 136.0
Interest (\$ in millions)	\$ 16.8	\$ 20.9	\$ 19.6

The coverage ratio of earnings from operations ("EBIT") to interest expense has increased to 12.5 times compared to 6.2 times in 2019 and 6.9 times in 2018 due to a \$4.1 million decrease in interest expense and a 60.6% increase in consolidated EBIT as previously noted. Additional information on interest expense is provided in Note 19 to the consolidated financial statements.

### Contractual Obligations and Other Commitments

Contractual obligations of the Company at January 31, 2021 are listed in the chart below:

(\$ in thousands)	Total	0-1 Year	2-3 Years	4-5 Years	6 Years+
Long-term debt	\$281,422	\$ 90,456	\$ 1,410	\$ 256	\$189,300
Lease payments	142,262	20,148	36,781	25,423	59,910
Other liabilities <sup>(1)</sup>	20,908	7,434	13,474	—	—
<b>Total</b>	<b>\$444,592</b>	<b>\$118,038</b>	<b>\$ 51,665</b>	<b>\$ 25,679</b>	<b>\$249,210</b>

(1) At year-end, the Company had additional long-term liabilities of \$57.2 million which include other liabilities, defined benefit plan obligations and deferred income tax liabilities. These liabilities have not been included as the timing and amount of the future payments are uncertain.

**Post-Employment Benefits** The Company sponsors defined benefit and defined contribution pension plans covering the majority of Canadian employees. The Company recorded net actuarial gains on defined benefit pension plans of \$3.7 million net of deferred income taxes in other comprehensive income. This compares to net actuarial losses on defined benefit pension plans of \$8.5 million in 2019 and gains of \$5.0 million in 2018. These gains and losses in other comprehensive income were immediately recognized in retained earnings. Actuarial gains and losses occur primarily due to changes in the discount rate used to calculate pension liabilities and returns on pension plan assets.

In 2021, the Company will be required to contribute approximately \$1.6 million to the defined benefit pension plans. In addition to the cash funding, a portion of the pension plan obligation may be settled by the issuance of a letter of credit in accordance with pension legislation. In 2020, the Company's cash contributions to the pension plan were \$1.6 million compared to \$3.5 million in 2019 and \$2.3 million in 2018. The actual amount of the contribution may be different from the estimate based on actuarial valuations, plan investment performance, volatility in discount rates, regulatory requirements and other factors. The Company also expects to contribute approximately \$5.0 million to the defined contribution pension plan and U.S. employees savings plan in 2021 compared to \$5.4 million in 2020 and \$5.3 million in 2019. Additional information regarding post-employment benefits is provided in Note 13 to the consolidated financial statements.

**Director and Officer Indemnification Agreements** The Company has agreements with its current and former directors, trustees, and officers to indemnify them against charges, costs, expenses, amounts paid in settlement and damages incurred from any lawsuit or any judicial, administrative or investigative proceeding in which they are sued as a result of their service. Due to the nature of these agreements, the Company cannot make a reasonable estimate of the maximum amount it could be required to pay to counterparties. The Company has also purchased directors', trustees' and officers' liability insurance. No amount has been recorded in the consolidated financial statements regarding these indemnification agreements.

**Other Indemnification Agreements** The Company provides indemnification agreements to counterparties for events such as intellectual property right infringement, loss or damage to property, claims that may arise while providing services, violation of laws or regulations, or as a result of litigation that might be suffered by the counterparties. The terms and nature of these agreements are based on the specific contract. The Company cannot make a reasonable estimate of the maximum amount it could be required to pay to counterparties. No amount has been recorded in the consolidated financial statements regarding these agreements.

Additional information on commitments, contingencies and guarantees is provided in Note 22 to the consolidated financial statements.

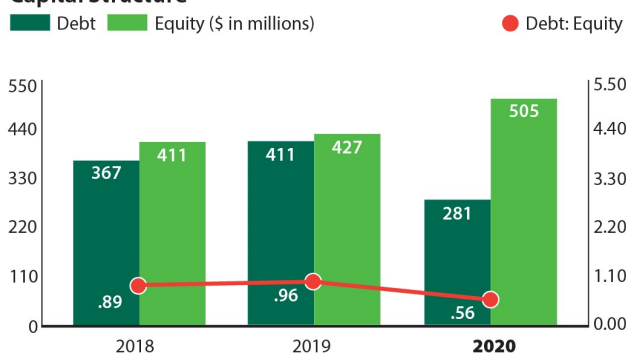
**Related Parties** The Company has a 50% ownership interest in a Canadian Arctic shipping company, Transport Nanuk Inc. and purchases freight handling and shipping services from Transport Nanuk Inc. and its subsidiaries. The purchases are based on market rates for these types of services in an arm's length transaction. Additional information on the Company's transactions with Transport Nanuk Inc. is included in Note 23 to the consolidated financial statements.

**Letters of Credit** In the normal course of business, the Company issues standby letters of credit in connection with defined benefit pension plans, purchase orders and performance guarantees. The aggregate potential liability related to letters of credit is approximately \$22.0 million (January 31, 2020 - \$21.0 million).

**Capital Structure** The Company's capital management objectives are to deploy capital to provide an appropriate total return to shareholders while maintaining a capital structure that provides the flexibility to take advantage of growth opportunities, maintain existing assets, meet obligations and financial covenants and enhance shareholder value. The capital structure of the Company consists of bank advances, long-term debt and shareholders' equity. The Company manages capital to optimize efficiency through an appropriate balance of debt and equity. In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue additional shares, borrow additional funds, adjust the amount of dividends paid or refinance debt at different terms and conditions.

The Company's capital structure over the past three years is summarized in the following graph.

### Capital Structure



On a consolidated basis, the Company had \$281.4 million in debt and \$505.2 million in equity at the end of the year and a debt-to-equity ratio of 0.56:1 compared to 0.96:1 last year. From 2018 to 2020, equity has increased \$94.2 million or 22.9% and debt has decreased \$85.3 million or 23.3%. During this same period, the Company has made capital expenditures, including acquisitions and net of insurance proceeds, of \$259.7 million and has paid dividends of \$194.0 million. This reflects the Company's balanced approach of investing to sustain and grow the business while providing shareholders with an annual cash return.

The debt outstanding at the end of the fiscal year is summarized as follows:

(CAD\$ in thousands at the end of the fiscal year)	2020	2019	2018
CAD\$ senior notes	\$ 100,000	\$ 100,000	\$ 100,000
US\$ senior notes	89,300	92,334	91,666
US\$ senior notes	89,300	—	—
Canadian loan facilities	—	176,716	134,791
U.S. loan facilities	—	37,893	36,700
Promissory note payable	2,822	4,022	3,600
<b>Total debt</b>	<b>\$ 281,422</b>	<b>\$ 410,965</b>	<b>\$ 366,757</b>

Consolidated debt at the end of the year decreased \$129.6 million or 31.5% to \$281.4 million compared to \$411.0 million in 2019, and was down \$85.3 million or 23.3% from \$366.8 million in 2018. The decrease in debt is primarily due to lower amounts drawn on the revolving loan facilities. The impact of foreign exchange on the translation of U.S. denominated debt was also a factor. The Company has US\$140.8 million in debt at January 31, 2021 (January 31, 2020 - US\$99.7 million, January 31, 2019 - US\$97.9 million) that is exposed to changes in foreign exchange rates when translated into Canadian dollars. The exchange rate used to translate U.S. denominated debt into Canadian dollars at January 31, 2021 was 1.2776 compared to 1.3224 at January 31, 2020 and 1.3137 at January 31, 2019. The change in the foreign exchange rate resulted in a \$6.3 million decrease in debt compared to 2019 and a \$5.1 million decrease compared to 2018. Average debt outstanding during the year excluding the foreign exchange impact decreased \$63.5 million or 16.8% from 2019 and was down \$16.9 million or 5.1% compared to 2018.

Lease liabilities at the end of the fiscal year are summarized as follows:

(CAD\$ in thousands at the end of the fiscal year)	2020	2019	2018
Current portion of lease liability	\$ 16,393	\$ 19,176	\$ 21,836
Non-current lease liabilities	104,226	119,928	118,112
<b>Total lease liabilities</b>	<b>\$ 120,619</b>	<b>\$ 139,104</b>	<b>\$ 139,948</b>

Lease liabilities decreased \$18.5 million or 13.3% to \$120.6 million compared to \$139.1 million in 2019 and were down \$19.3 million or 13.8% compared to \$139.9 million in 2018. The decrease compared to 2019 and 2018 is largely due to stores sold as part of the Giant Tiger Transaction partially offset by new store leases in both Canadian and International Operations. Further information on lease liabilities is provided in Note 8 to the consolidated financial statements.

**Shareholders' Equity** The Company has an unlimited number of authorized shares and had issued and outstanding shares at January 31, 2021 of 48,613,319 (January 31, 2020 - 48,750,929). The Company has a Share Option Plan that provides for the granting of options to certain officers and senior management. Each option is exercisable into one common share of the Company at a price specified in the option agreement. At January 31, 2021, there were 2,052,638 options outstanding representing 4.2% of the issued and outstanding shares. In addition to share options, there were 322,910 in Performance Share Units ("PSU") that may be settled by the issuance of shares based on meeting certain performance criteria and 314,829 in Director Deferred Share Units ("DDSU") that may be settled by the issuance of shares. Further information on share options, PSUs and DDSUs is provided in Note 14 to the consolidated financial statements.

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

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 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 7, 2021 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 January 31, 2021, there were 16,379,039 Variable Voting Shares, representing 33.7% of the total shares issued and outstanding. Further information on the Company's share capital is provided in Note 16 to the consolidated financial statements.

Book value per share attributable to shareholders, on a diluted basis, at the end of the year increased to \$9.92 per share compared to \$8.38 per share in 2019. Total shareholders' equity increased \$78.3 million or 18.3% compared to 2019 primarily due to an increase in retained earnings and contributed surplus. Further information is provided in the consolidated statements of changes in shareholders' equity in the consolidated financial statements.

## QUARTERLY FINANCIAL INFORMATION

Historically, the Company's first quarter sales are the lowest and fourth quarter sales are the highest, reflecting consumer buying patterns. 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. In 2020, the decrease in sales in the third and fourth quarter compared to the first two quarters of the year is primarily due to the Giant Tiger Transaction. Net earnings generally follow higher sales, but can be dependent on changes in merchandise sales blend, promotional activity in key sales periods, variability in share-based compensation costs related to changes in the Company's share price and other factors which can affect net earnings.

The following is a summary of selected quarterly financial information:

(\$ thousands)	Q1	Q2	Q3	Q4	Total
<b>Sales</b>					
2020	\$ 592,569	\$ 648,504	\$ 552,975	\$ 565,191	\$ 2,359,239
2019	\$ 494,529	\$ 527,282	\$ 519,521	\$ 553,061	\$ 2,094,393
<b>EBITDA<sup>(1)</sup></b>					
2020	\$ 43,373	\$ 110,929	\$ 75,715	\$ 71,410	\$ 301,427
2019	\$ 58,248	\$ 51,615	\$ 59,279	\$ 50,433	\$ 219,575
<b>Earnings from operations (EBIT)</b>					
2020	\$ 19,471	\$ 87,830	\$ 52,934	\$ 49,114	\$ 209,349
2019	\$ 37,033	\$ 29,596	\$ 36,990	\$ 26,734	\$ 130,353
<b>Net earnings</b>					
2020	\$ 12,254	\$ 62,560	\$ 35,914	\$ 32,832	\$ 143,560
2019	\$ 26,225	\$ 17,947	\$ 24,838	\$ 17,263	\$ 86,273
<b>Net earnings attributable to shareholders of the Company</b>					
2020	\$ 11,274	\$ 61,929	\$ 34,611	\$ 32,060	\$ 139,874
2019	\$ 25,124	\$ 17,155	\$ 24,101	\$ 16,344	\$ 82,724
<b>Earnings per share-basic</b>					
2020	\$ 0.23	\$ 1.27	\$ 0.71	\$ 0.66	\$ 2.87
2019	\$ 0.52	\$ 0.35	\$ 0.49	\$ 0.34	\$ 1.70
<b>Earnings per share-diluted</b>					
2020	\$ 0.23	\$ 1.25	\$ 0.71	\$ 0.63	\$ 2.82
2019	\$ 0.51	\$ 0.35	\$ 0.49	\$ 0.33	\$ 1.68

(1) See Non-GAAP Financial Measures section.

# Fourth Quarter Highlights

## CONSOLIDATED RESULTS FOURTH QUARTER

### Key Performance Indicators and Selected Fourth Quarter Information

(\$ in thousands, except per share)	2020	2019	2018
Sales	\$ 565,191	\$ 553,061	\$ 532,483
Same store sales % increase <sup>(2)</sup>			
Food	12.0 %	1.5 %	4.6 %
General Merchandise	39.8 %	(1.7)%	2.0 %
Total	16.8 %	0.8 %	4.0 %
Gross profit	\$ 187,873	\$ 169,154	\$ 165,321
Selling, operating and administrative expenses	(138,759)	(142,420)	(142,075)
EBITDA <sup>(1)</sup>	71,410	50,433	44,290
EBIT	49,114	26,734	23,246
Interest expense	(3,448)	(5,632)	(5,328)
Income taxes	(12,834)	(3,839)	(3,953)
Net earnings	32,832	17,263	13,965
Net earnings attributable to shareholders of the Company	32,060	16,344	13,068
Net earnings per share - basic	0.66	0.34	0.27
Net earnings per share - diluted	\$ 0.63	\$ 0.33	\$ 0.27

(1) See Non-GAAP Financial Measures section.

(2) All references to same store sales exclude the foreign exchange impact.

**Consolidated Fourth Quarter Sales** Sales for the quarter increased 2.2% to \$565.2 million as strong same store sales gains were largely offset by lower sales in Giant Tiger stores related to the previously announced sale of 36 stores which was completed on July 5, 2020 and the closure of five stores in the third quarter (the "Giant Tiger Transaction"). Further information on the Giant Tiger Transaction is provided in the annual Consolidated Results section on page 6 and in Note 24 to the consolidated financial statements. Excluding the foreign exchange impact, consolidated sales increased 2.4% and were up 16.8%<sup>(2)</sup> on a same store basis. Food sales<sup>(2)</sup> increased 4.4% and were up 12.0% on a same store basis and general merchandise sale<sup>(2)</sup> decreased 4.7% due to the Giant Tiger Transaction but were up 39.8% on a same store basis. Similar to the first three quarters of the year, sales were driven by market share gains and COVID-19-related factors including consumer spending changes in favor of in-community and at-home activities, supported by enhanced government income support payments to individuals in many of the jurisdictions in which the Company operates. Lower food prices in northern Canada stores and strong in-stock conditions also contributed to capturing a higher share of consumer spending.

**Gross Profit** Gross profit increased 11.1% driven by sales gains and a 266 basis point rate increase compared to last year. The increase in gross profit rate was primarily due to favourable changes in product sales blend and higher inventory turns contributing to lower markdowns and inventory shrinkage. These factors were partially offset by a higher blend of CUL sales which carry a lower gross profit rate consistent with CUL's discount warehouse format and the impact of lower margin wholesale food sales as part of the Giant Tiger Transaction.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") decreased \$3.7 million compared to last year and were down 120 basis points as a percentage to sales. The decrease in Expenses related to the Giant Tiger Transaction and lower Canadian administration costs was largely offset by an increase in annual incentive plan costs, the impact of COVID-19-related expenses and higher share-based compensation costs. COVID-19-related expenses of \$5.8 million include \$3.5 million in wage premiums and a special one-time payment of 5% of wages to non-bonus eligible front-line in recognition of their contributions to serving our customers and \$2.3 million in other COVID-19-related expenses primarily related to temporary workers to provide additional support during outbreaks, the purchase of protective equipment and enhanced sanitation procedures. A \$2.7 million increase in share-based compensation costs primarily due to mark-to-market adjustments resulting from changes in the Company's share price was also a factor. These factors were partially offset by insurance-related gains of \$5.3 million this year compared to \$3.2 million last year.

**Earnings from operations and EBITDA<sup>(1)</sup>** Earnings from operations or earnings before interest and taxes ("EBIT") increased \$22.4 million to \$49.1 million compared to \$26.7 million last year and earnings before interest, income taxes, depreciation and amortization ("EBITDA<sup>(1)</sup>") increased \$21.0 million to \$71.4 million due to the sales, gross profit and Expense factors previously noted. Adjusted EBITDA<sup>(1)</sup>, which excludes share-based compensation costs and insurance-related gains, increased \$21.6 million compared to last year and as a percentage to sales was 12.2% compared to 8.6%.

**Interest Expense** Interest expense decreased 38.8% to \$3.4 million compared to \$5.6 million last year. The decrease in interest expense is mainly due to lower average debt levels related to a reduction in amounts drawn on revolving loan facilities. Further information on debt is provided in Note 12 to the consolidated financial statements. Lower costs of borrowing were also a factor.

**Income Tax Expense** Income tax expense was \$12.8 million compared to \$3.8 million last year and the consolidated effective tax rate was 28.1% compared to 18.2%. The increase in income tax expense is due to higher earnings and a higher effective tax rate. The increase in the income tax rate was primarily due to the blend of earnings in International Operations across various tax rate jurisdictions. The impact of non-tax deductible share-based compensation costs in Canadian Operations was also a factor.

**Net Earnings** Consolidated net earnings increased \$15.6 million to \$32.8 million. Net earnings attributable to shareholders were \$32.1 million and diluted earnings per share were \$0.63 per share compared to \$0.33 per share last year due to the factors noted above. Adjusted net earnings<sup>(1)</sup>, which excludes the impact of the after-tax share-based compensation costs and after-tax insurance-related gains, increased \$15.3 million compared to last year driven by earnings gains in Canadian Operations and International Operations resulting from the factors previously noted.

## CANADIAN OPERATIONS FOURTH QUARTER

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

### Key Performance Indicators

(\$ in thousands)	2020	2019	2018
Sales	\$ 328,429	\$ 333,213	\$ 324,348
Same store sales % increase			
Food	15.7 %	1.6 %	1.5 %
General Merchandise	41.6 %	(2.0)%	1.9 %
Total	21.2 %	0.7 %	1.6 %
EBITDA <sup>(1)</sup>	\$ 53,391	\$ 34,401	\$ 28,839
EBIT	\$ 38,444	\$ 17,642	\$ 13,858

(1) See Non-GAAP Financial Measures section.

**Sales** Canadian Operations sales decreased 1.4% to \$328.4 million compared to \$333.2 million in the fourth quarter last year as strong same store sales gains were more than offset by divested stores as a result of the Giant Tiger Transaction. Same store sales increased 21.2% driven by market share gains and COVID-19-related consumer spending changes combined with various income support programs for individuals. These factors were partially offset by periodic COVID-19-related community curfews and store closures. Food sales increased 2.4% and were up 15.7% on a same store basis due to the factors previously noted. General merchandise sales decreased 13.9% from the fourth quarter last year due to the Giant Tiger Transaction but were up 41.6% on a same store basis led by strong sales gains in motorized, home furnishings and electronics categories.

**Gross Profit** Gross profit increased 12.1% driven by sales gains and a higher gross profit rate. The change in gross profit rate is primarily due to changes in product sales blend and lower markdowns and inventory shrinkage due to improved sell-through. A higher gross profit rate in North Star Air ("NSA") and the impact of lower sales in Giant Tiger stores which have a lower gross profit structure consistent with a discount format were also factors. These factors were partially offset by food price reductions in northern Canada aimed at capturing more local spending dollars and the impact of lower margin wholesale food sales as part of the Giant Tiger Transaction.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") decreased 8.3% and were down 191 basis points as a percentage to sales compared to the fourth quarter last year due to the impact of three-months less operations as a result of the Giant Tiger Transaction, savings from the Winnipeg support office cost reductions announced in the first quarter and the impact of a \$5.3 million insurance-related gain this year compared to a \$3.2 million insurance-related gain last year. These factors were partially offset by higher annual incentive plan costs, COVID-19-related wage premiums and payments to non-bonus eligible front-line and support office employees and a \$2.1 million increase in share-based compensation costs.

**Canadian Earnings from Operations (EBIT)** Canadian fourth quarter earnings from operations increased to \$38.4 million compared to \$17.6 million last year and EBITDA<sup>(1)</sup> increased 55.2% to \$53.4 million compared to \$34.4 million in the same quarter last year due to the sales, gross profit and Expense factors previously noted. Adjusted EBITDA<sup>(1)</sup>, which excludes the impact of the share-based compensation costs and insurance-related gains, increased \$19.0 million compared to last year driven by sales gains in northern Canada, improved earnings in NSA and the impact of the Giant Tiger Transaction. NSA EBITDA<sup>(1)</sup> increased compared to last year as higher cargo volumes and better aircraft utilization more than offset the negative impact of lower passenger-related earnings, net of \$2.3 million in Canada Emergency Wage Subsidy ("CEWS") payments and Ontario Remote Air Carrier Support Program ("RACSP") payments.

## INTERNATIONAL OPERATIONS FOURTH QUARTER

(Stated in U.S. dollars)

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

### Key Performance Indicators

(\$ in thousands)	2020	2019	2018
Sales	\$ 183,929	\$ 167,002	\$ 156,159
Same store sales % increase			
Food	7.5 %	1.3 %	9.9 %
General Merchandise	35.2 %	(0.4)%	2.2 %
Total	10.7 %	1.1 %	9.0 %
EBITDA <sup>(1)</sup>	\$ 14,199	\$ 12,212	\$ 11,415
EBIT	\$ 8,492	\$ 6,939	\$ 6,878

(1) See Non-GAAP Financial Measures section.

**Sales** International Operations fourth quarter sales increased 10.1% to \$183.9 million compared to \$167.0 million in the fourth quarter last year driven by same store sales growth of 10.7%. Food sales increased 7.4% and were up 7.5% on a same store basis and general merchandise sales increased 34.2% and were up 35.2% on a same store basis. Sales were positively impacted by COVID-19-related consumer spending changes and government income support payments within the United States, including U.S. Territories served by CUL. Strong in-stock conditions and market share gains were also factors. These factors were partially offset by periodic government-mandated COVID-19-related store closures across different Caribbean countries and weak economies in the British Virgin Islands, Curacao and St. Maarten.

**Gross Profit** Gross profit increased 11.7% compared to the fourth quarter last year driven by sales gains and an increase in the gross profit rate. The higher gross profit rate is due to changes in product sales blend and lower markdowns and inventory shrinkage due to improved sell-through. These factors were partially offset by a higher blend of Cost-U-Less sales which have a lower gross profit rate consistent with a discount warehouse format.

**Selling, Operating and Administrative Expenses** Selling, operating and administrative expenses ("Expenses") increased 9.8% compared to last year primarily due to higher annual incentive plan costs, COVID-19-related expenses and an increase in insurance costs. These factors were partially offset by \$0.9 million in support office restructuring and relocation costs last year.



**Earnings From Operations ("EBIT") and EBITDA<sup>(1)</sup>** Earnings from operations were \$8.5 million compared to \$6.9 million in the fourth quarter last year and EBITDA<sup>(1)</sup> increased to \$14.2 million compared to \$12.2 million last year due to the sales, gross profit and Expense factors previously noted.

## CONSOLIDATED CASH FLOWS FOURTH QUARTER

The following table summarizes the major components of the fourth quarter cash flow:

(\$ in thousands)	2020	2019	2018
Operating activities	<b>\$ 106,660</b>	\$ 48,320	\$ 55,029
Investing activities	<b>(11,904)</b>	(19,218)	(13,337)
Financing activities	<b>(81,765)</b>	(53,035)	(58,934)
Effect of foreign exchange	<b>(1,167)</b>	125	(256)
Net change in cash	<b>11,824</b>	(23,808)	(17,498)
Cash, beginning of period	<b>59,712</b>	51,995	55,946
Cash, end of year	<b>\$ 71,536</b>	\$ 28,187	\$ 38,448

### Cash From Operating Activities

The following table summarizes the major components of the cash flow from operating activities in the fourth quarter:

(\$ in thousands)	2020	2019	2018
Net earnings for the period	<b>\$ 32,832</b>	\$ 17,263	\$ 13,965
Adjustments for:			
Amortization	<b>22,296</b>	23,699	21,044
Provision for income taxes	<b>12,834</b>	3,839	3,953
Interest expense	<b>3,448</b>	5,632	5,328
Equity settled share-based compensation	<b>1,545</b>	1,251	1,029
Insurance proceeds, property and equipment	<b>(5,306)</b>	(2,276)	—
Taxes paid	<b>(4,223)</b>	(5,327)	(8,996)
Loss/(gain) on disposal of property and equipment	<b>596</b>	(357)	(395)
Operating activities before change in non-cash working capital and other	<b>64,022</b>	43,724	35,928
Change in non-cash working capital	<b>37,118</b>	5,379	19,359
Change in other non-cash items	<b>5,520</b>	(783)	(258)
Cash from operating activities	<b>\$ 106,660</b>	\$ 48,320	\$ 55,029

**Cash from Operating Activities** Cash flow from operating activities increased \$58.3 million or 120.7% to \$106.7 million compared to the fourth quarter of 2019 due to a \$20.3 million increase in cash earnings to \$64.0 million and the change in non-cash working capital and other non-cash items.

The change in non-cash working capital is primarily due to the change in inventories, accounts receivable and trade accounts payable and accrued liabilities compared to the prior year. The change in other non-cash items is largely due to changes in accrued share-based compensation and defined benefit pension obligation.

### Cash Used in Investing Activities

The following table summarizes the major components of the cash flow used in investing activities in the fourth quarter:

(\$ in thousands)	2020	2019	2018
Purchase of property and equipment	<b>\$ (18,180)</b>	\$ (26,563)	\$ (28,903)
Intangible asset additions	<b>226</b>	(4,430)	(1,279)
Proceeds from disposal of property and equipment	<b>744</b>	661	1,286
Insurance proceeds, property and equipment	<b>5,306</b>	11,114	15,559
Cash used in investing activities	<b>\$ (11,904)</b>	\$ (19,218)	\$ (13,337)

**Cash Used in Investing Activities** Net cash used in the fourth quarter for investing activities was \$11.9 million compared to \$19.2 million in 2019 and \$13.3 million in 2018. Net investing activities include insurance proceeds of \$5.3 million in 2020 compared to \$11.1 million in 2019 and \$15.6 million in 2018. Investing activities in the quarter include the completion of a new store in Pelican Narrows, Saskatchewan and investments in property and equipment for stores and staff housing. The decrease in investing activities compared to 2019 is mainly due to the impact of COVID-19 travel restrictions.

## Cash Used in Financing Activities

The following table summarizes the major components of the cash flow used in financing activities in the fourth quarter:

(\$ in thousands)	2020	2019	2018
Net decrease in long-term debt	\$ (49,781)	\$ (22,135)	\$ (28,262)
Payment of lease liabilities, principal	(4,496)	(6,178)	(5,920)
Payment of lease liabilities, interest	(1,088)	(1,396)	(1,438)
Dividends	(17,528)	(16,089)	(15,587)
Dividends to non-controlling interests	(2,214)	(3,427)	(3,761)
Interest paid	(644)	(3,810)	(3,966)
Common shares purchased and cancelled	(6,014)	—	—
Cash used in financing activities	\$ (81,765)	\$ (53,035)	\$ (58,934)

**Cash Used in Financing Activities** Cash used in the fourth quarter for financing activities increased to \$81.8 million compared to cash used of \$53.0 million in 2019 and \$58.9 million in 2018. The change compared to the fourth quarter last year is primarily due to a decrease in long-term debt of \$49.8 million compared to a decrease of \$22.1 million last year. In addition, there was \$6.0 million in shares purchased under the normal course issuer bid initiated in the quarter which contributed to the increase in cash used in financing activities. These factors were partially offset by a \$3.2 million decrease in interest payments compared to the prior year.

## CEO TRANSITION

On April 7, 2021, the Board of Directors announced that Edward Kennedy, President & CEO will be retiring effective August 1, 2021 after 30 years at North West of which 25 years were as President & CEO. Following a robust succession planning process, Dan McConnell will be appointed President & CEO effective August 1, 2021. Mr. McConnell has been with North West for 19 years with a range of senior executive responsibilities, most recently as President, International Retail.

## DISCLOSURE CONTROLS

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that decisions can be made regarding public disclosure. Based on an evaluation of the Company's disclosure controls and procedures, as required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Company's CEO and CFO have concluded that these controls and procedures were designed and operated effectively as of January 31, 2021.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

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 statements for external purposes in accordance with International Financial Reporting Standards. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial reporting and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become ineffective because of changes in conditions or the degree of compliance with policies and procedures may deteriorate. Furthermore, management is required to use judgment in evaluating controls and procedures. Based on an evaluation of the Company's internal controls over financial reporting using the Internal Control - Integrated Framework published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"), 2013, the Company's CEO and CFO have concluded that the internal controls over financial reporting were designed and operated effectively as at January 31, 2021. There have been no changes in the internal controls over financial reporting for the year ended January 31, 2021 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

## OUTLOOK

The Company's near-term consumer outlook remains highly influenced by the COVID-19 pandemic. While the Company foresees revenue to remain above average through the duration of COVID-19 based on its role as an essential service and an ongoing shift in consumer spending in favour of the Company's product and service offering, there is downside risk to this outlook related to increased outbreaks of COVID-19, the timing of broad vaccine distribution and economic challenges within tourism-dependent countries which do not have strong government income support programs such as the British Virgin Islands and St. Maarten. The Company is monitoring the COVID-19 situation on a daily basis and adjusting people practices as appropriate, as well as product sourcing and distribution requirements. As a relied-upon provider of everyday needs to many remote communities, the Company is committed to ensuring continuity of service throughout this challenging period.

The impact of the Giant Tiger Transaction and transition to reduced COVID-19 risk conditions is expected to result in lower sales compared to last year. On an annualized basis, the Giant Tiger Transaction is expected to result in lower sales, net of wholesale food sales to the sold Giant Tiger stores, of approximately \$200.0 million but have a positive impact on earnings from operations of approximately \$10.0 million. The timing and size of the sales impact of lower COVID-19 transmission and health risk conditions is much more difficult to estimate. Based on the current vaccine and variant situation, combined with the Company's initiatives to retain market share gains from 2020, it is expected that earnings in 2021 will be meaningfully above pre-pandemic (2019) levels but likely below 2020.

Beyond the duration of COVID-19's material impact, positive and negative, on the Company's business, the medium and longer-term outlook for the Company is favourable based on our lower pricing and cost positions, our emphasis on decentralized execution capability, the resiliency of our everyday essential product and service focus, augmented by opportunistic investments, and customer relationships reinforced during COVID-19. Northern Canada's outlook in particular, is buoyed by different forms of ongoing government income support payments for individuals and investment in Indigenous communities and the northern economy in general. Even with the economic uncertainty in the Caribbean, the Company believes there will be opportunities to grow market share organically and through acquisitions.

In 2020, the Company recorded after-tax insurance related gains of \$4.5 million compared to \$13.9 million in 2019. The settlement of 2018 fire insurance claims and the receipt of payments are expected to result in further insurance-related earnings gains in 2021 however, the amount and timing of these gains is uncertain. Global insurance market conditions are becoming more challenging as insurance companies are limiting their capacity for underwriting risks in certain geographic areas such as the Caribbean and northern Canada or in sectors such as the aviation industry. These factors are expected to continue to result in higher insurance costs; and, changes in self-insured retention levels may result in greater earnings volatility in the event of future losses. To help mitigate future losses, the Company has completed resiliency upgrades to facilities and enhanced preventative measures in all higher risk areas of its business as well as containing increasing insurance costs through higher self-insured retention levels.

In 2020, the Company recorded a \$24.7 million deferred tax liability on earnings in Canadian Operations based on the year-end of the limited partnership. The payment of taxes on these earnings will occur over the next 14 months. In addition, the Company expects that its Canadian monthly income tax installments will increase in 2021 based on its taxable income in 2020. These income tax payments will reduce cash flow from operating activities in 2021.

In 2021, the Company expects that capital expenditures will be in the \$75 million range (2020 - \$66.9 million), net of expected recoveries on the settlement of fire insurance claims, with upside for further growth investments. On the downside, the timing and amount of store-based capital expenditures will continue to be impacted by COVID-19-related travel restrictions in at least the first half of 2021, in addition to other delays that can occur with remote location capital projects.

## RISK MANAGEMENT

The mandate of the Board of Directors includes ensuring that processes are in place to identify and manage the principle risks of the business, including environmental and climate-related risks, for which the Board has delegated primary responsibility to the Audit Committee. The North West Company maintains an Enterprise Risk Management ("ERM") program which assists in identifying, evaluating and managing risks that may reasonably have an impact on the Company. Management is accountable for completing an annual ERM assessment to evaluate risks and the potential impact that the risks may have on the Company's financial performance and ability to execute its strategies and achieve its objectives. The results of this annual assessment and quarterly updates are presented to the Audit Committee and reported to the Board of Directors. The principle risks, including environmental and climate-related risks, and the related mitigation strategies are incorporated into the Company's strategic planning process.

The North West Company is exposed to a number of risks in its business. The descriptions of the risks below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company deems immaterial, may also impair the operations of the Company. If any of such risks actually occur, the business, financial condition, liquidity and results of operations of the Company could be materially adversely affected. Readers of this MD&A are also encouraged to refer to the Key Performance Drivers and Capabilities Required to Deliver Results and Outlook sections of this MD&A, as well as North West's Annual Information Form, which provides further information on the risk factors facing the Company. While the Company employs strategies to minimize these risks, these strategies do not guarantee that events or circumstances will not occur that could negatively impact the Company's financial condition and performance.

Careful consideration should be given to the risk factors which include, but are not limited to, the following:

**Pandemic** A pandemic outbreak of a contagious disease could result in a widespread health crisis that could have an adverse effect on the Company's operations and financial condition. A pandemic could impact the health and wellness of the Company's employees and customers which could negatively impact the Company's ability to operate its business. A pandemic may also result in the temporary closure of the Company's stores, distribution facilities, airline or support offices and could result in interruptions to the Company's supply chain, including reduced availability of product or the temporary closure of suppliers and transportation companies that are critical to the operation of the business. Furthermore, a pandemic could result in an economic downturn, restrictions on travel and trade, disruptions to financial markets and negatively impact the availability and cost of capital, which in turn could have an adverse impact on the Company's financial results and condition.

On March 11, 2020, the World Health Organization declared the rapidly spreading novel coronavirus ("COVID-19") a pandemic. This contagious disease outbreak has resulted in material disruption to businesses globally and significant economic uncertainty. In response, governments worldwide have enacted emergency measures to both combat the spread of the virus and stabilize economic conditions. Most of the Company's products and services are considered to be essential by the applicable government authorities. As such, the Company's focus is on business continuity and safety plans to help mitigate the health impact of COVID-19 on employees and customers. This includes the implementation of physical spacing, including the installation of plexiglass barriers at checkouts, and enhanced sanitation protocols in stores, distribution

centers and support offices. The Company is also continuing to work closely with governments, suppliers and communities to help ensure the uninterrupted flow of merchandise and continuous operation of our stores. COVID-19 is a rapidly changing situation and the Company continues to adjust and adapt its operations as required and has increased communications with our customers and community leaders to help understand their expectations and protocols.

The food and everyday products the Company provides are essential, non-discretionary services in the communities we serve. The Company has business continuity plans and safety protocols, including a cross-functional steering committee who are accountable for monitoring the impact of COVID-19 and mitigating the risk posed to employees, customers and the business however, there can be no assurance that these plans and protocols will be sufficient to minimize the impact.

The future impact of COVID-19 is uncertain and the Company is not able to reliably forecast the severity and duration of the impact on the economy, the financial markets, the availability of capital and on the Company's employees, customers, and suppliers, including the possible temporary closure of stores or interruptions to the Company's supply chain. Although the Company foresees continued demand for the products and services it provides based on its role as an essential service, the full impact of COVID-19 is not determinable at this time and there can be no assurance that COVID-19 will not have an adverse impact on the Company's operations and financial condition. Further information on the potential impact of COVID-19 is provided in the Outlook section.

**Employee Development and Retention** Attracting, retaining and developing high caliber employees is essential to effectively managing our business, executing our strategies and meeting our objectives. Due to the vast geography, small size and remoteness of the Company's individual markets, there is an ongoing need for capable staffing, particularly at the store management level. The degree to which the Company is not successful in retaining and developing employees and establishing appropriate succession plans could lead to a lack of knowledge, skills and experience required to effectively run our operations and execute our strategies and could negatively affect financial performance. The Company's overall priority on building and sustaining store people capability reflects the importance of mitigating this risk. In addition to compensation programs and investments in staff housing that are designed to attract and retain qualified personnel, the Company also continues to implement and refine initiatives such as comprehensive store-based manager-in-training programs as part of the Pure Retail initiative as described in the strategy section under Initiative #2.

In addition to employee development and retention risks related to the Company's retail operations, these risks also impact the Company's airline operations. Transport Canada issued new Canadian Airline Regulations ("CAR") with respect to pilot fatigue and flight duty times on December 12, 2018. The implementation of these new regulations are being phased in from December 2020 to December 2022 based on the type of aircraft.

These regulations may result in an increase in the number of pilots required by NSA which may result in higher recruitment and compensation costs and have a negative impact on the Company's financial performance. NSA is continuing to assess the impact of the new regulations on the business. Changes to flight schedules, operating schedules, fatigue management systems and employee recruiting, compensation and training programs are expected to help mitigate the impacts of the new regulations and employee development and retention risk.

**Business Model** The Company sells a broad range of products and services across geographically and culturally diverse markets.

Operational scale can be difficult to achieve and the complexity of the Company's business model is higher compared to more narrowly-focused or larger retailers. Management continuously assesses the strength of its customer value offer to ensure that specific markets, products and services are financially attractive. The Company's Pure Retail initiative is focused on simplifying work across the Company, with a focus on stores. To the extent the Company is not successful in developing and executing its strategies, it could have an adverse effect on the financial condition and performance of the Company.

**Competition** The Company has a leading market position in a large percentage of the markets it serves. Sustaining and growing this position depends on our ability to continually improve customer satisfaction while identifying and pursuing new sales opportunities. We actively monitor competitive activity and we are proactive in enhancing our value offer elements, ranging from in-stock position to service and pricing. To the extent that the Company is not effective in responding to consumer trends or enhancing its value offer, it could have a negative impact on financial performance. Furthermore, the entry of new competitors, an increase in competition, both local and outside the community, a significant expansion of E-Commerce, or the introduction of new products and services in the Company's markets could also negatively affect the Company's financial performance.

**Community Relations** A portion of the Company's sales are derived from communities and regions that restrict commercial land ownership and usage by non-indigenous or non-local owned businesses or which have enacted policies and regulations to support locally-owned businesses. We successfully operate within these environments through initiatives that promote positive community and customer relations. These include store lease arrangements with community-based development organizations and initiatives to recruit local residents into management positions and to incorporate community stakeholder advice into our business at all levels. Further information on community relations is provided under Corporate Social Responsibility and Sustainable Development on page 29. To the extent the Company is not successful in maintaining these relations or is unable to renew lease agreements with community-based organizations, or is subject to punitive fees or operating restrictions, it could have an adverse effect on the Company's reputation and financial performance.

**Information Technology** The Company relies on information technology ("IT") to support the current and future requirements of the business. A significant or prolonged disruption in the Company's current IT systems could negatively impact day-to-day operations of the business which could adversely affect the Company's financial performance and reputation.

The Company is in the process of completing the implementation of new point-of-sale and merchandise management systems which are described further in the strategy section under Initiative #5, Project Enterprise. In 2021, the Company will be implementing the merchandise management system in International Operations as part of Project Enterprise. The failure to successfully upgrade legacy systems, or to migrate from legacy systems to new IT systems, could have an adverse effect on the Company's operations, reputation and financial performance. There is also a risk that the anticipated benefits, cost savings or operating efficiencies related to upgrading or implementing new IT systems may not be realized which could adversely affect the Company's operations, financial performance or reputation. To help mitigate these risks, the Company uses a combination of specialized internal and external IT resources as well as a strong governance structure

and disciplined project management.

The Company also depends on accurate and reliable information from its IT systems for decision-making and operating the business. As the volume of data and the complexity and integration of IT systems increases, there is a greater risk of errors in data or misinterpretation of the data which could negatively impact decision making and in turn, have an adverse effect on the Company's financial performance.

**Cyber-security** The Company relies on the integrity and continuous availability of its IT systems. In the ordinary course of business, the Company collects, processes, transmits and retains confidential and personal information (collectively "Confidential Information") regarding the Company and its customers, employees and suppliers. The Company's IT systems are exposed to the risks of "cyber-attack", including viruses that can disrupt, paralyze or prevent access to IT systems or result in unauthorized access to Confidential Information.

The Company has implemented security software and measures, including monitoring, testing and employee training, to prevent unauthorized access to its IT systems and Confidential Information, and to reduce the likelihood of disruptions. Cyber-attacks are constantly evolving and are becoming more frequent and sophisticated in nature and there is a risk that the Company's security measures may be breached or unauthorized access may not be detected on a timely basis. Furthermore, employee error, faulty password management or malfeasance may result in unauthorized access to IT systems and Confidential Information. Any prolonged failure relating to IT system availability, breaches of IT system security, a significant loss of data, an impairment of data integrity or unauthorized access to Confidential Information, could adversely affect the financial performance, operations and reputation of the Company and may result in regulatory enforcement actions or litigation.

**Logistics and Supply Chain** The Company relies on a complex and elongated outbound supply chain due to the remoteness of the Company's stores. The delivery of merchandise to a substantial portion of the Company's stores involves multiple carriers and multiple modes of transportation including trucks, trains, aircraft, ships and barges through various ports and transportation hubs. The Company's reputation and financial performance can be negatively impacted by supply chain events or disruptions outside of the Company's control, including changes in foreign and domestic regulations which increase the cost of transportation; the quality of transportation infrastructure such as roads, ports and airports; labour disruptions at transportation companies; the impact of a pandemic, including COVID-19, that reduces or restricts transportation to the communities the Company serves; or the consolidation, financial difficulties or bankruptcy of transportation companies. To help mitigate these risks, the Company owns an airline, North Star Air Ltd., and has an investment in Transport Nanuk Inc., an arctic shipping company, which provides the Company with greater control over key components of our logistics network and service to our stores in northern Canada.

**Climate Change, Natural Disasters and Fire** The Company's operations are exposed to extreme weather conditions ranging from blizzards to hurricanes, typhoons and cyclones which can cause loss of life, damage to or destruction of key stores and facilities, or temporary business disruptions. The stores located in the South Pacific, Caribbean and coastal areas of Alaska are also at risk of earthquakes and tsunamis which can result in loss of life and destruction of assets. The destruction of assets and the impact on the local economy resulting from these types of extreme weather conditions, particularly where more than one location is impacted, could have a material adverse effect on the operations and financial condition and performance of the Company. Severe weather conditions can also have a negative impact on NSA's operations by disrupting the transportation of merchandise and passengers.

The impact of warmer ocean water temperatures has increased the risk of frequency, severity and duration of hurricanes and typhoons especially in the northeastern Caribbean. Collectively the stores in this region have sales of \$349 million and assets of \$153 million for the year-ended January 31, 2021. In 2017, islands in this region were devastated by two category five hurricanes which resulted in the destruction of the Company's CUL store in St. Thomas and three RTW stores and significantly damaged a CUL store in St. Maarten. Rebuilding has significantly increased resiliency to future hurricanes, however, certain markets remain exposed to this risk.

The Company completed a specific climate-related risk management assessment of its stores in the northeastern Caribbean and upgraded its most hurricane-vulnerable stores to improve the building construction to a category five hurricane resiliency level. These improvements help mitigate the impact of hurricanes on the Company's stores however, there can be no certainty that the damage from hurricanes will not include significant damage to or loss of stores and warehouses. In addition, hurricanes can result in significant damage to or destruction of important infrastructure, including residences, which in turn may result in people relocating from an island. Any prolonged reduction in population in the communities the Company operates in could have a material impact on the financial performance of the Company.

Longer-term global warming conditions would also have a more pronounced effect, both positive and negative, on the Company's most northern latitude stores. On the downside, global warming will result in rising sea levels, which will cause flooding, and melting permafrost which could damage or destroy the Company's stores, warehouses and housing. The Company operates in 71 communities in northern Canada and 16 communities in Alaska that are potentially exposed to changes in permafrost. Collectively these stores have sales of \$779 million and assets of \$302 million for the year ended January 31, 2021. Rising sea levels and melting permafrost would also have the same negative impact on our customers which, combined with the potential damage to our facilities, could have a material adverse effect on the Company's operations, financial condition and performance. The Company has in-depth knowledge of and expertise in construction in northern markets and continues to incorporate new engineering and construction techniques in designing buildings and facilities to help mitigate the impact of changing permafrost conditions and minimize damage to the permafrost.

The Company relies upon the availability of winter roads to 40 communities in northern Canada. Global warming conditions may shorten or eliminate the availability of winter roads which would result in higher transportation costs to these remote locations. To the extent that higher transportation costs cannot be offset by other cost reductions or passed on through higher prices, this may result in lower operating margins which may have an adverse effect on the Company's financial performance. This risk related to the availability of winter roads is partially mitigated by the utilization of the Company's wholly-owned airline to transport merchandise to its stores.

On the upside, global warming could result in higher economic growth in the Company's northern markets and would reduce some operating costs such as enabling the Company to use lower-cost sealift year-round to transport merchandise to the Company's stores compared to higher cost air transportation.

The Company's stores in northern Canada and Alaska are exposed to the risk of wild fires and other fire related losses. In many of the Company's remote northern markets, there is limited fire fighting equipment and capability. In the event of a fire, there is a high risk of a complete loss of the building, equipment and inventory. In 2018, the Company had three fires in northern Canada which destroyed one store and significantly damaged two other stores. Two of the fires were caused by electrical malfunction and one was arson-related. The Company was able to re-open the stores with reduced selling square footage and a limited merchandise assortment while reconstruction and repairs were being completed. The Company completed an independent review of its fire mitigation policies and procedures to identify opportunities to improve fire prevention in its northern Canada stores and has upgraded facilities to reduce the risk of fire-related losses.

In addition to the risk mitigation activities previously noted, the Company also maintains insurance to help mitigate the impact of losses however, there can be no assurance that one or more large claims or that any given loss will be mitigated in all circumstances. Further information on insurance risk is provided below.

**Economic Environment** External factors which affect customer demand and personal disposable income, and over which the Company exercises no influence, include government fiscal health, general economic growth, changes in commodity prices, inflation, unemployment rates, personal debt levels, levels of personal disposable income, interest rates and foreign exchange rates. Changes in inflation rates and foreign exchange rates are unpredictable and may impact the cost of merchandise and the prices charged to consumers which in turn could negatively impact sales and net earnings.

Our largest customer segments derive most of their income directly or indirectly from government infrastructure spending or direct payment to individuals in the form of social assistance, child care benefits and old age security. While these tend to be stable sources of income, independent of economic cycles, a decrease in government income transfer payments to individuals, a recession, or a significant and prolonged decline in consumer spending could have an adverse effect on the Company's operations and financial performance.

Furthermore, customers in many of the Company's markets benefit from product cost subsidies through programs, such as Nutrition North Canada ("NNC"), the U.S. Supplemental Nutrition Assistance Program ("SNAP") and the by-pass mail system in Alaska, which contribute to lower living costs for eligible customers. A change in government policy could result in a reduction in financial support for these programs which would have a significant impact on the price of merchandise and consumer demand and could have an adverse effect on the Company's operations and financial

condition.

A major source of employment income in the remote markets where the Company operates is generated from local government and spending on public infrastructure. This includes housing, schools, health care facilities, military facilities, roads and sewers. Local employment levels will fluctuate from year-to-year depending on the degree of infrastructure activity and a community's overall fiscal health. A similar fluctuating source of income is employment related to tourism and natural resource development. A significant or prolonged reduction in government transfers, spending on infrastructure projects, natural resource development and tourism spending would have a negative impact on consumer income which in turn could result in a decrease in sales and gross profit, particularly for more discretionary general merchandise items.

Management regularly monitors economic conditions and considers factors which can affect customer demand in making operating decisions and the development of strategic initiatives and long-range plans.

**Fuel and Utility Costs** Compared to other retailers, the Company is more exposed to fluctuations in the price of energy, particularly oil. Due to the vast geography and remoteness of the store network, expenses related to aviation fuel, diesel-generated electricity and heating fuel costs are a more significant component of the Company's and its customers' expenses. To the extent that escalating fuel and utility costs cannot be offset by alternative energy sources, energy conservation practices or offsetting productivity gains, this may result in higher retail prices or lower operating margins which may affect the Company's financial performance. In this scenario, consumer retail spending could also be negatively affected by higher household energy-related expenses which could have an adverse effect on the Company's financial performance.

**Environmental** The Company owns a large number of facilities and real estate, particularly in remote locations, and is subject to environmental risks associated with the contamination of such facilities and properties. The Company operates retail fuel outlets in a number of locations and uses fuel to heat stores and housing. The Company also has aviation fuel storage containers and operates aviation fuel dispensing equipment. Contamination resulting from gasoline, heating and aviation fuel is possible. The Company employs operating, training, monitoring and testing procedures to minimize the risk of contamination. The Company also operates refrigeration equipment in its stores and distribution centres which, if the equipment fails, could release gases that may be harmful to the environment. The Company has monitoring and preventative maintenance procedures to reduce the risk of this contamination occurring. Even with these risk mitigation policies and procedures, the Company could incur increased or unexpected costs related to environmental incidents and remediation activities, including litigation and regulatory compliance costs, all of which could have an adverse effect on the reputation and financial performance of the Company.

**Laws, Regulations and Standards** The Company is subject to various laws, regulations and standards administered by federal, provincial and foreign regulatory authorities, including but not limited to income, commodity and other taxes, securities laws, duties, currency repatriation, health and safety, employment standards and minimum wage laws, Payment Card Industry ("PCI") standards, anti-money laundering ("AML") regulations, licensing requirements, product packaging and labeling regulations and zoning laws. New accounting standards and pronouncements or changes in accounting standards may also impact the Company's

financial results.

These laws, regulations and standards and their interpretation by various courts and agencies are subject to change. In the course of complying with such changes, the Company may incur significant costs. Failure by the Company to fully comply with applicable laws, regulations and standards could result in financial penalties, assessments, sanctions, loss of operating licenses or legal action that could have an adverse effect on the reputation and the financial performance of the Company.

The Company is also subject to various privacy laws and regulations regarding the protection of personal information of its customers and employees. Any failure in the protection of this information or non-compliance with laws or regulations could negatively affect the Company's reputation and financial performance.

A portion of the Company's sales and net earnings are derived from financial services and pharmacy operations, which are subject to laws, regulations and standards. Changes in legislation regarding financial services fees, including but not limited to ATM, pre-paid Visa card and cheque-cashing fees and fees earned on customer accounts receivable, could have an adverse impact on the Company's financial performance if other fees or offsetting cost reductions cannot be implemented. In Canada, on-going prescription drug reform and changes in dispensing fees could have an adverse effect on the Company's financial performance if other fees or offsetting cost reductions cannot be implemented.

The airline industry is also subject to extensive legal, regulatory and administrative controls and oversight, including airline safety standards. Failure by the Company to comply with these laws, regulations and standards could result in the loss of operating licenses and could have an adverse effect on the Company's financial performance and reputation.

Furthermore, changes in legislation, including carbon taxes and the implementation of other greenhouse gas reduction initiatives and regulations related to transitioning to a low-carbon and more climate resilient future, could result in additional costs which could have a negative impact on the Company's financial performance if the Company is not able to fully pass on these additional costs to its customers or identify other offsetting cost reductions and efficiencies.

**Income Taxes** In the ordinary course of business, the Company is subject to audits by tax authorities. The Company regularly reviews its compliance with tax legislation, filing positions, the adequacy of its tax provisions and the potential for adverse outcomes. While the Company believes that its tax filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the tax authorities. If the final outcome differs materially from the tax provisions, the Company's income tax expense and its earnings could be affected positively or negatively in the period in which the outcome is determined.

**Food, Drug, Product and Service Safety** The Company is exposed to risks associated with food and drug safety, product handling and general merchandise product defects. The Company also operates pharmacies and provides tele-pharmacy services and is subject to risks associated with errors made through medication dispensing or patient services and consultation. Food sales represent approximately 75% of total Company sales. A significant outbreak of a food-borne illness or increased public concerns with certain food products could have an adverse effect on the reputation and financial performance of the Company and could lead to unforeseen liabilities from legal claims. The Company has food preparation, handling, dispensing and storage procedures which help mitigate these risks.

The Company also has product recall procedures in place in the event of a food-borne illness outbreak or product defect. The existence of these procedures does not eliminate the underlying risks and the ability of these procedures to mitigate risk in the event of a food-borne illness or product recall is dependent on their successful execution.

**Social** Social and political issues raise public awareness, perspectives and actions through protests and/or media campaigns. Issues that may relate to the Company's business include, but are not limited to food security, minimum wages, Indigenous rights, diversity and inclusion, local and ethical sourcing, nutritional labelling and the environment. Ineffective action or inaction on these matters could adversely affect the Company's reputation or financial performance.

**Insurance** The Company manages its exposure to certain risks through an integrated insurance program which combines an appropriate level of self-insurance and the purchase of various insurance policies. The Company's insurance program is based on various lines and limits of coverage and is arranged with financially stable insurance companies as rated by professional rating agencies. Global insurance market conditions are more challenging as insurance companies limit their capacity for underwriting risks in certain geographic areas such as the Caribbean and northern Canada or in sectors such as aviation. Insurance companies that do provide coverage in these areas are requiring significantly higher insurance premiums and higher self-insured retention levels from companies. These factors are expected to continue to result in higher insurance costs; and, changes in self-insured retention levels may result in greater earnings volatility in the event of future losses. There can be no assurance that the Company's insurance program will be sufficient to cover one or more large claims, or that any given risk will be mitigated in all circumstances. There can also be no assurance that the Company will be able to continue to purchase insurance coverage at reasonable rates or maintain its self-insured retention levels. To the extent that the Company's insurance policies do not provide sufficient coverage for a loss, it could have an adverse impact on the Company's operating results and financial condition.

**Vendor and Third Party Service Partner Management** The Company relies on a broad base of manufacturers, suppliers and operators of distribution facilities to provide goods and services. Events, such as a pandemic, or disruptions affecting these suppliers outside of the Company's control could in turn result in delays in the delivery of merchandise to the stores and therefore negatively impact the Company's reputation and financial performance. A portion of the merchandise the Company sells is purchased offshore. Offshore sourcing could provide products that contain harmful or banned substances or do not meet the required standards. The Company uses offshore consolidators and sourcing agents to monitor product quality and reduce the risk of sub-standard products however, there is no certainty that these risks can be completely mitigated in all circumstances.

NSA also relies upon suppliers and third party service partners for specialized aviation parts and aircraft maintenance services. A prolonged disruption affecting the supply of parts or provision of maintenance services could negatively impact the availability of aircraft to service the Company's customers, or result in higher than anticipated costs, which could have an adverse effect on the Company's financial performance and reputation.



**Litigation and Casualty Losses** In the normal course of business, the Company is subject to a number of claims and legal actions that may be made by its customers, suppliers and others. The Company records a provision for litigation claims if management believes the Company has liability for such claim or legal action. If management's assessment of liability or the amount of any such claim is incorrect, or the Company is unsuccessful in defending its position, any difference between the final judgment amount and the provision would become an expense or a recovery in the period such claim was resolved.

Consistent with risks inherent in the aviation industry, NSA could be subject to large liability claims arising out of major accidents or disasters involving aircraft which can result in serious injury, death or destruction of property. Accidents and disasters may occur from factors outside of the Company's control such as severe weather, lightning strikes, wind shear and bird strikes. Any such accident or disaster could have a material adverse effect on the Company's reputation, results from operations and financial condition.

**Post-Employment Benefits** The Company engages professional investment advisors to manage the assets in the defined benefit pension plans. The performance of the Company's pension plans and the plan funding requirements are impacted by the returns on plan assets, changes in the discount rate and regulatory funding requirements. If capital market returns are below the level estimated by management or if the discount rate used to value the liabilities of the plans decreases, the Company may be required to make contributions to its defined benefit pension plans in excess of those currently contemplated, which may have an adverse effect on the Company's financial performance.

The Company regularly monitors and assesses the performance of the pension plan assets and the impact of changes in capital markets, changes in plan member demographics, and other economic factors that may impact funding requirements, benefit plan expenses and actuarial assumptions. The Company makes cash contributions to the pension plan as required and also uses letters of credit to satisfy a portion of its funding obligations. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan and added a defined contribution plan. Under the amended pension plan, all members who did not meet a qualifying threshold based on number of years in the pension plan and age were transitioned to the defined contribution pension plan effective January 1, 2011 and no longer accumulate years of service under the defined benefit pension plan. Further information on post-employment benefits is provided on page 30 and in Note 13 to the consolidated financial statements.

**Management of Inventory** Success in the retail industry depends on being able to select the right merchandise, in the correct quantities in proportion to the demand for such merchandise. A miscalculation of consumer demand for merchandise could result in having excess inventory for some products and missed sales opportunities for others which could have an adverse effect on operations and financial performance. Excess inventory may also result in higher markdowns or inventory shrinkage all of which could have an adverse effect on the financial performance of the Company.

**Dependence on Key Facilities** There are five major distribution centres which are located in Winnipeg, Manitoba; Anchorage, Alaska; San Leandro, California; Port of Tacoma, Washington; and a third party managed facility in Fort Lauderdale, Florida. In addition, the Company's Canadian Operations support office is located in Winnipeg, Manitoba, NSA's support office is located in Thunder Bay, Ontario and the International Operations has support offices in Anchorage, Alaska and Boca Raton, Florida. A significant or prolonged disruption at any of these facilities due to fire, inclement weather or otherwise could have a material adverse effect on the financial performance of the Company.

**Geopolitical** Changes in the domestic or international political environment may impact the Company's ability to source and provide products and services. Acts of terrorism, riots, and political instability, especially in less developed markets, could have an adverse effect on the financial performance of the Company.

**Ethical Business Conduct** The Company has a Code of Business Conduct and Ethics policy which governs both employees and Directors. The Company also has a Whistleblower Policy that provides direct access to members of the Board of Directors. Unethical business conduct could negatively impact the Company's reputation and relationship with its customers, investors and employees, which in turn could have an adverse effect on the financial performance of the Company.

**Financial Risks** In the normal course of business, the Company is exposed to financial risks that have the potential to negatively impact its financial performance. The Company manages financial risk with oversight provided by the Board of Directors, who also approve specific financial transactions. The Company uses derivative financial instruments only to hedge exposures arising in respect of underlying business requirements and not for speculative purposes. These risks and the actions taken to minimize the risks are described below. Further information on the Company's financial instruments and associated risks are provided in Note 15 to the consolidated financial statements.

**Credit Risk** Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk primarily in relation to individual and commercial accounts receivable. The Company manages credit risk by performing regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not have any individual customer accounts greater than 10% of total accounts receivable.

**Liquidity Risk** Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company manages liquidity risk by maintaining adequate credit facilities to fund operating requirements, pension plan contributions and planned sustaining and growth-related capital expenditures, and regularly monitoring actual and forecasted cash flow and debt levels. At January 31, 2021, the Company had undrawn committed revolving loan facilities available of \$400.3 million (January 31, 2020 - \$189.8 million).

**Currency Risk** Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily the U.S. dollar, through its net investment in International Operations and its U.S. dollar denominated borrowings. The Company manages its exposure to currency risk by hedging the net investment in foreign operations with a portion of U.S. dollar denominated borrowings as described in the Sources of Liquidity section. At January 31, 2021, the Company had US\$140.8 million in U.S. denominated debt compared to US\$99.7 million at January 31, 2020 and US\$97.9 million at January 31, 2019. Further information on the impact of foreign exchange rates on the translation of U.S. denominated debt is provided in the Capital Structure section.

The Company is also exposed to currency risk relating to the translation of International Operations earnings to Canadian dollars. In 2020, the average exchange rate used to translate U.S. denominated earnings from the International Operations was 1.3390 compared to 1.3246 last year. The Canadian dollar's depreciation in 2020 compared to the U.S. dollar in 2019 positively impacted consolidated net earnings by \$0.5 million. In 2019, the average exchange rate was 1.3246 compared to 1.3041 in 2018 which resulted in an increase in 2019 consolidated net earnings of \$0.7 million compared to 2018.

**Interest Rate Risk** Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its long-term borrowings. The Company manages exposure to interest rate risk through a combination of fixed and floating interest rate debt and may use interest rate swaps. Further information on long-term debt is provided in Note 12 to the consolidated financial statements. As at January 31, 2021, the Company had no outstanding interest rate swaps.

## CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABLE DEVELOPMENT

The North West Company opened its first store in 1668 as a trading post in the Cree Nation of Waskaganish in northern Canada and many of our stores in northern Canada and Alaska have been in operation for over 200 years. Our continuing presence in the communities we serve is based on sustainable practices that reflect our adaptability and respect for the social license and underlying trust we must earn.

The Company's social responsibility and sustainability objectives are framed under the following four pillars:

- Stronger Communities;
- Better Quality of Life for our Customers;
- Empowered Employees; and
- Respect for the Environment.

A brief description of each pillar is as follows:

**Stronger Communities** We are committed to provide significant, meaningful social benefit to the diverse communities we serve. We believe that building strong, healthy and inclusive relationships through listening and collaboration is an approach that adds value for both the community and the Company in areas such as employment, capital investment and sponsorship.

**Better Quality of Life for our Customers** We are committed to provide reliable access to everyday products and services that meet the lifestyle needs of our customers and that are as affordable as possible. In addition, we advocate for inclusive policies and programs that improve the quality of life for the people and communities we serve. This goes to the heart of community and cultural sustainability and to our role in providing socio-economic benefits in the communities we serve.

**Empowered Employees** We are committed to enhance employee satisfaction and effectiveness through our Company values of customer service, trust, enterprising ideas, passion for what we do, accountability and personal balance. We strive to provide our diverse and talented employees with the best job experiences and opportunities, beginning with key roles in our stores.

**Respect for the Environment** We are committed to minimize our environmental footprint in a way that accommodates the conflicting realities of remote, costly-to-serve geographies populated by lower-income communities. We look for innovation across our business from efficient building design to eco-friendly energy alternatives and limiting product packaging and waste.

The Board of Directors are accountable for overseeing the Company's Corporate Social Responsibility and Sustainable Development initiatives which are integrated within the Company's risk management and strategic planning process. In addition to the information provided on climate change and environmental risk factors previously noted under Risk Management, further information on the Sustainability Report is available on the Company's website at [www.northwest.ca](http://www.northwest.ca).

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Judgment has been used in the application of accounting policy and to determine if a transaction should be recognized or disclosed in the consolidated financial statements while estimates and assumptions have been used to measure balances recognized or disclosed. These estimates, assumptions and judgments are based on management's historical experience, knowledge of current events, expectations of future outcomes and other factors that management considers reasonable under the circumstances. Certain of these estimates and assumptions require subjective or complex judgments by management about matters that are uncertain and changes in these estimates could materially impact the consolidated financial statements and disclosures. Management regularly evaluates the estimates and assumptions it uses and revisions are recognized in the period in which the estimates are reviewed and in any future periods affected. The areas that management believes involve a higher degree of judgment or complexity, or areas where the estimates and assumptions may have the most significant impact on the amounts recognized in the consolidated financial statements include the following:

**Valuation of Accounts Receivable** The Company records an allowance for doubtful accounts related to trade accounts receivable that may potentially be impaired. The Company recognizes loss allowances for expected credit losses ("ECL's") on accounts receivable. The change in ECL's is recognized in net earnings and reflected as an allowance against accounts receivable. The Company uses historical trends, timing of recoveries and management's judgment as to whether current economic and credit conditions are such that actual losses are likely to differ from historical trends. A significant change in one or more of these factors could impact the estimated allowances for doubtful accounts recorded in the consolidated balance sheets and the provisions for debt loss recorded in the consolidated statement of earnings. Additional information on the valuation of accounts receivable is provided in Note 5 and the Credit Risk section in Note 15 to the consolidated financial statements.

**Valuation of Inventories** Inventories are stated at the lower of cost and net realizable value. Significant estimation is required in: (1) the determination of margin factors used to convert inventory to cost; (2) recognizing merchandise for which the customer's perception of value has declined and appropriately marking the retail value of the merchandise down to the perceived value; and (3) estimating inventory losses, or shrinkage, occurring between the last physical count and the balance sheet date.

Inventory shrinkage is estimated as a percentage of sales for the period from the date of the last physical inventory count to the balance sheet date. The estimate is based on historical experience and the most recent physical inventory results. To the extent that actual losses experienced vary from those estimated, both inventories and cost of sales may be impacted.

Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheets and a charge or credit to cost of sales in the consolidated statements of earnings. Additional information regarding inventories is provided in Note 6 to the consolidated financial statements.

**Post-Employment Benefits** The defined benefit plan obligations are accrued based on actuarial valuations which are dependent on assumptions determined by management. These assumptions include the discount rate used to calculate benefit plan obligations, the rate of compensation increase, retirement ages and mortality rates. These assumptions are reviewed by management and the Company's actuaries.

The discount rate used to calculate benefit plan obligations and the rate of compensation increase are the most significant assumptions. The discount rate used to calculate benefit plan obligations and plan asset returns is based on market interest rates, as at the Company's measurement date of January 31, 2021 on a portfolio of Corporate AA bonds with terms to maturity that, on average, matches the terms of the defined benefit plan obligations. The discount rate used to measure the benefit plan obligations for fiscal 2020 was 2.72% compared to 2.75% in 2019 and 3.75% in 2018. Management assumed a rate of compensation increase of 4.0% for fiscal 2018, 2019 and 2020.

These assumptions may change in the future and may result in material changes in the defined benefit plan obligation on the Company's consolidated balance sheets, the defined benefit plan expense on the consolidated statements of earnings and the net actuarial gains or losses recognized in comprehensive income and retained earnings. Changes in financial market returns and interest rates could also result in changes to the funding requirements of the Company's defined benefit pension plans. Additional information regarding the Company's post-employment benefits, including the sensitivity of a 100 basis point change in the discount rate, is provided in Note 13 to the consolidated financial statements.

**Amortization of Long-lived Assets and Right-of-Use Assets** The Company makes estimates about the expected useful lives of long-lived assets, including right-of-use assets and aircraft, the expected residual values of the assets and the most appropriate method to reflect the realization of the assets future economic benefit. This includes using judgment to determine which asset components constitute a significant cost in relation to the total cost of an asset. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes in expected useful lives or residual values, changes to maintenance programs and changes in utilization of the aircraft. Estimates and assumptions are evaluated at least annually and any adjustments are accounted for as a change in estimate, on a prospective basis, through amortization expense in the Company's consolidated statements of earnings.

**Business Combinations** The Company accounts for business combinations using the acquisition method of accounting which requires the acquired assets and assumed liabilities to be recorded at their estimated fair values. Judgment is required to determine the fair value of the assets and liabilities with the most significant judgment and assumptions required to determine the estimated fair values of intangible assets, particularly trade names.

The Company uses the royalty relief method to determine the fair value of the trade name intangible assets. This technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates and anticipated average income tax rates.

**Impairment of Long-lived Assets** The Company assesses the recoverability of values assigned to long-lived assets after considering potential impairment indicated by such factors as business and market trends, future prospects, current market value and other economic factors. Judgment is used to determine if a triggering event has occurred requiring an impairment test to be completed. If there is an indication of impairment, the recoverable amount of the asset, which is the higher of its fair value less costs of disposal and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For tangible and intangible assets excluding goodwill, judgment is required to determine the CGU based on the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. To the extent that the carrying value exceeds the estimated recoverable amount, an impairment charge is recognized in the consolidated statements of earnings in the period in which it occurs.

Various assumptions and estimates are used to determine the recoverable amount of a CGU. The Company determines fair value less costs of disposal using estimates such as market rental rates for comparable properties, property appraisals and capitalization rates. The Company determines value in use based on estimates and assumptions regarding future financial performance. The underlying estimates for cash flows include estimates for future sales, gross margin rates and store expenses, and are based upon the stores' past and expected future performance. Changes which may impact future cash flows include, but are not limited to, competition, general economic conditions and increases in operating costs that cannot be offset by other productivity improvements. To the extent that management's estimates are not realized, future assessments could result in impairment charges that may have a significant impact on the Company's consolidated balance sheets and consolidated statements of earnings.

**Goodwill** Goodwill is not amortized but is subject to an impairment test annually or whenever indicators of impairment are detected. Judgment is required to determine the appropriate grouping of CGUs for the purpose of testing for impairment. Judgment is also required in evaluating indicators of impairment which would require an impairment test to be completed. Goodwill is allocated to CGUs that are expected to benefit from the synergies of the related business combination and represents the lowest level within the Company at which goodwill is monitored for internal management purposes, which is both the Company's Canadian Operations and International Operations segments before aggregation.

The value of the goodwill was tested by means of comparing the recoverable amount of the operating segment to its carrying value. The recoverable amount is the greater of its value in use or its fair value less costs of disposal. The operating segment's recoverable amount was based on fair value less costs of disposal. A range of fair values was estimated by inferring enterprise values from the product of financial performance and comparable trading multiples. Values assigned to the key assumptions represent management's best estimates and have been based on data from both external and internal sources. Key assumptions used in the estimation of enterprise value include: budgeted financial performance, selection of market trading multiples and costs to sell. To the extent that management's estimates are not realized, future assessments could result in impairment charges that may have a significant impact on the Company's consolidated balance sheets and consolidated statements of earnings.

The Company performed the annual goodwill impairment test in 2020 and determined that the recoverable amount exceeded its carrying value. No goodwill impairment was identified and management considers any reasonably foreseeable changes in key assumptions unlikely to produce a goodwill impairment.

**Income and Other Taxes** Deferred tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Deferred income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and deferred income taxes requires management to use judgment regarding the interpretation and application of tax legislation in the various jurisdictions in which the Company operates. The calculation of deferred income tax assets and liabilities is also impacted by estimates of future financial results, expectations regarding the timing of reversal of temporary differences, and assessing the possible outcome of audits of tax filings by the regulatory agencies.

Changes or differences in these estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statements of earnings and may result in cash payments or receipts. Additional information on income taxes is provided in Note 10 to the consolidated financial statements.

**Leases** The values of right-of-use assets and lease liabilities are measured based on whether renewal options are reasonably certain of being exercised and an estimate of the incremental borrowing rate specific to each leased asset if the interest rate in the lease is not readily determined. The incremental borrowing rate for the Canadian and International Operations is determined based on the applicable corporate bond yield curve with an adjustment that reflects the security.

**Promissory Note Receivable** This financial asset includes management's estimate of the fair value of contingent consideration receivable for the sale of its Giant Tiger stores. Additional information on the promissory note receivable is included in Notes 15 and 24 to the consolidated financial statements.

**COVID-19** The COVID-19 pandemic has resulted in material disruption to business globally and significant economic uncertainty. In response, governments worldwide have enacted emergency measures to both combat the spread of the virus and stabilize economic conditions. The COVID-19 economic environment in which we operate is uncertain and subject to volatility. The Company is unable to reliably forecast the severity and duration of the impact of COVID-19 on the economy, the Company's customers, suppliers and employees, and consequently, its impact on the future financial results and condition of the Company, including its estimates, assumptions and judgments.

## FUTURE ACCOUNTING STANDARDS

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

## NON-GAAP FINANCIAL MEASURES

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.

**(1) Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA), 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.

### Reconciliation of consolidated net earnings to EBITDA and adjusted EBITDA

(\$ in thousands)	Fourth Quarter		Year-to-Date	
	2020	2019	2020	2019
Net earnings	\$ 32,832	\$ 17,263	\$ 143,560	\$ 86,273
Add:				
Amortization	22,296	23,699	92,078	89,222
Interest expense	3,448	5,632	16,808	20,948
Income taxes	12,834	3,839	48,981	23,132
EBITDA	\$ 71,410	\$ 50,433	\$ 301,427	\$ 219,575
Gain on partial insurance settlement	(5,306)	(3,205)	(5,306)	(18,170)
Share-based compensation expense	2,871	190	22,495	3,550
Gain on disposition of Giant Tiger stores	—	—	(24,712)	—
Giant Tiger asset impairment and store closure provision	—	—	9,411	—
Adjusted EBITDA	\$ 68,975	\$ 47,418	\$ 303,315	\$ 204,955

For EBITDA information by business segment, see Note 4 to the consolidated financial statements.

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

(\$ in thousands)	Fourth Quarter		Year-to-Date	
	2020	2019	2020	2019
Net earnings	\$ 32,832	\$ 17,263	\$ 143,560	\$ 86,273
Gain on partial insurance settlement, net of tax	(4,460)	(2,340)	(4,460)	(13,887)
Share-based compensation expense, net of tax	2,106	305	18,855	2,991
Gain on disposition of Giant Tiger stores, net of tax	—	—	(19,991)	—
Giant Tiger asset impairment and store closure provision, net of tax	—	—	6,874	—
Adjusted Net Earnings	\$ 30,478	\$ 15,228	\$ 144,838	\$ 75,377

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

Certain share-based compensation costs are presented as liabilities on the Company's consolidated balance sheets. The Company is exposed to market price fluctuations in its share price through these share-based compensation costs. These liabilities are recorded at fair value at each reporting date based on the market price of the Company's shares at the end of each reporting period with the changes in fair value recorded in selling, operating and administrative expenses. Further information on share-based compensation is provided in Note 14 and Note 18 to the consolidated financial statements.

Further information on the gain on the disposition of Giant Tiger stores and the Giant Tiger asset impairment and store closure expense is provided in the Canadian Operations section and in Note 24 to the consolidated financial statements.

**(2) Return on Net Assets (RONA)** is not a recognized measure under IFRS. Management believes that RONA is a useful measure to evaluate the financial return on the net assets used in the business. RONA is calculated as earnings from operations (EBIT) for the year divided by average monthly net assets. The following table reconciles net assets used in the RONA calculation to IFRS measures reported in the consolidated financial statements as at January 31 for the following fiscal years:

(\$ in millions)	2020	2019
Total assets	\$ 1,191.2	\$ 1,215.5
Less: Total liabilities	(685.9)	(788.6)
Add: Total long-term debt and lease liabilities	402.0	550.1
Net Assets Employed	\$ 907.3	\$ 977.0

**(3) Return on Average Equity (ROE)** is not a recognized measure under IFRS. Management believes that ROE is a useful measure to evaluate the financial return on the amount invested by shareholders. ROE is calculated by dividing net earnings for the year by average monthly total shareholders' equity. There is no directly comparable IFRS measure for return on equity.

## GLOSSARY OF TERMS

**AC** Alaska Commercial Company store banner.

**Basic earnings per share** Net earnings attributable to shareholders of The North West Company Inc. divided by the weighted-average number of shares outstanding during the period.

**Basis point** A unit of measure that is equal to 1/100th of one percent.

**Book value per share** Equity attributable to shareholders of The North West Company Inc. divided by the number of shares, basic or diluted, outstanding at the end of the year.

**CGAAP (Canadian generally accepted accounting principles)** The consolidated financial statements for the fiscal years 2009 and prior were prepared in accordance with Canadian generally accepted accounting principles as issued by the Canadian Institute of Chartered Accountants.

**Compound Annual Growth Rate ("CAGR")** The compound annual growth rate is the year-over-year percentage growth rate over a given period of time.

**Conversion to a Share Corporation** On January 1, 2011, the North West Company Fund (the "Fund") completed a conversion to a corporation named The North West Company Inc. (the "Company") by way of a plan of arrangement under section 192 of the Canada Business Corporations Act. The details of the conversion and the Arrangement are contained in the management information circular dated April 29, 2010 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).

The MD&A contains references to "shareholders", "shares" and "dividends" which were previously referred to as "unitholders", "units" and "distributions" under the Fund.

**CUL** Cost-U-Less store banner.

**Debt covenants** Restrictions written into banking facilities, senior notes and loan agreements that prohibit the Company from taking actions that may negatively impact the interests of the lenders.

**Debt loss** An expense resulting from the estimated loss on potentially uncollectible accounts receivable.

**Debt-to-equity ratio** Provides information on the proportion of debt and equity the Company is using to finance its operations and is calculated as total debt divided by shareholders' equity.

**Diluted earnings per share** The amount of net earnings for the period attributable to shareholders of The North West Company Inc. divided by the weighted-average number of shares outstanding during the period including the impact of all potential dilutive outstanding shares at the end of the period.

**EBIT (Earnings From Operations)** Net earnings before interest and income taxes provides an indication of the Company's performance prior to interest expense and income taxes.

**EBIT margin** EBIT divided by sales.

**EBITDA** Net earnings before interest, income taxes, depreciation and amortization provides an indication of the Company's operational performance before allocating the cost of interest, income taxes and capital investments. See Non-GAAP Financial Measures section.

**EBITDA margin** EBITDA divided by sales.

**Fair value** The amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

**Gross profit** Sales less cost of goods sold and inventory shrinkage.

**Gross profit rate** Gross profit divided by sales.

**GT** Giant Tiger store banner.

**Hedge** A risk management technique used to manage interest rate, foreign currency exchange or other exposures arising from business transactions.

**Interest coverage** Net earnings before interest and income taxes divided by interest expense.

**IFRS (International Financial Reporting Standards)** Effective for the 2011 fiscal year, the consolidated financial statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Comparative financial information for the year ended January 31, 2011 ("2010") previously reported in the consolidated financial statements prepared in accordance with CGAAP has been restated in accordance with the accounting policies and financial statement presentation adopted under IFRS. Further information on the transition to IFRS and the impact on the Company's consolidated financial statements is provided in the 2011 Annual Financial Report available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).

**NSA** North Star Air Ltd., a regional airline providing cargo and passenger services.

**Return on Average Equity ("ROE")** Net earnings divided by average shareholders' equity. See Non-GAAP Financial Measures section.

**Return on Net Assets ("RONA")** Net earnings before interest and income taxes divided by average net assets employed (total assets less accounts payable and accrued liabilities, income taxes payable, defined benefit plan obligations, deferred tax liabilities, and other long-term liabilities). See Non-GAAP Financial Measures section.

**RTW** Roadtown Wholesale Trading Ltd. collectively consisting of the Riteway Food Markets banner, a Cash and Carry store and a significant wholesale operation.

**Same store sales** Retail food and general merchandise sales from stores that have been open more than 52 weeks in the periods being compared, excluding the impact of foreign exchange. Total same store sales consists of retail food and general merchandise sales and excludes other sales.

**Working capital** Total current assets less total current liabilities.

**Year** The fiscal year ends on January 31. Each fiscal year has 365 days of operations with the exception of a "leap year" which has 366 days of operations as a result of February 29. The following table summarizes the fiscal year:

<b>Fiscal Year</b>	<b>Year-ended</b>	<b>Fiscal Year</b>	<b>Year-ended</b>
2020	January 31, 2021	2014	January 31, 2015
2019	January 31, 2020	2013	January 31, 2014
2018	January 31, 2019	2012	January 31, 2013
2017	January 31, 2018	2011	January 31, 2012
2016	January 31, 2017	2010	January 31, 2011
2015	January 31, 2016	2009	January 31, 2010



# Eleven-Year Financial Summary

Fiscal Year (\$ in thousands)	2020	2019	2018 <sup>(1)</sup>	2017 <sup>(1)</sup>	2016
<b>Consolidated Statements of Earnings</b>					
Sales - Canadian Operations	\$ 1,376,188	\$ 1,271,552	\$ 1,246,133	\$ 1,199,473	\$ 1,125,330
Sales - International Operations	983,051	822,841	767,353	785,649	718,763
Sales - Total	2,359,239	2,094,393	2,013,486	1,985,122	1,844,093
EBITDA <sup>(2)</sup> - Canadian Operations	206,498	140,359	130,399	112,393	109,736
EBITDA <sup>(2)</sup> - International Operations	94,929	79,216	87,623	57,231	56,762
EBITDA <sup>(2)</sup> - Total Operations	301,427	219,575	218,022	169,624	166,498
Amortization - Canadian Operations	62,357	62,983	57,577	39,796	35,291
Amortization - International Operations	29,721	26,239	24,444	15,857	13,076
Amortization - Total	92,078	89,222	82,021	55,653	48,367
Interest	16,808	20,948	19,640	10,145	7,220
Income taxes	48,981	23,132	25,738	34,135	33,835
Net earnings attributable to shareholders of the Company	139,874	82,724	86,739	67,154	77,076
Cash flow from operating activities	338,718	161,117	155,725	141,419	126,024
Dividends/distributions paid during the year	67,276	64,351	62,329	62,315	60,169
Capital and intangible asset expenditures	75,244	121,605	103,219	122,035	77,745
Net change in cash	43,349	(10,261)	13,288	(5,083)	(7,000)
<b>Consolidated Balance Sheets</b>					
Current assets	\$ 396,860	\$ 399,593	\$ 376,297	\$ 335,003	\$ 327,938
Property and equipment	531,794	555,075	514,946	469,993	358,121
Right-of-use assets	107,766	127,870	127,794	—	—
Promissory note receivable	49,020	—	—	—	—
Other assets, intangible assets and goodwill	98,440	104,765	96,119	91,502	86,909
Deferred tax assets	7,288	28,233	34,705	34,450	32,853
Current liabilities	315,135	194,084	196,938	171,212	152,244
Long-term debt and other liabilities	370,802	594,482	541,907	377,580	285,792
Total Equity	505,231	426,970	411,016	382,156	367,785
<b>Consolidated Dollar Per Share/Unit (\$)<sup>(4)</sup></b>					
Net earnings - basic	\$ 2.87	\$ 1.70	\$ 1.78	\$ 1.38	\$ 1.59
Net earnings - diluted	2.82	1.68	1.77	1.36	1.57
EBITDA <sup>(2),(3)</sup>	6.18	4.50	4.47	3.48	3.43
Cash flow from operating activities <sup>(3)</sup>	6.95	3.30	3.19	2.91	2.60
Dividends/distributions paid during the year <sup>(3)</sup>	1.38	1.32	1.28	1.28	1.24
Equity (basic shares/units outstanding end of year)	10.39	8.76	8.43	7.60	7.57
Market price at January 31	32.37	27.56	31.17	29.14	29.28
<b>Statistics at Year End<sup>(4)</sup></b>					
Number of stores - Canadian	159	198	193	188	185
Number of stores - International	53	51	52	51	47
Selling square feet (000's) end of year - Canadian Stores	986	1,617	1,571	1,552	1,518
Selling square feet (000's) end of year - International Stores	667	662	669	668	676
Sales per average selling square foot - Canadian	\$ 1,057	\$ 798	\$ 798	\$ 781	\$ 755
Sales per average selling square foot - International	\$ 1,479	\$ 1,236	\$ 1,148	\$ 1,169	\$ 1,063
Number of employees - Canadian Operations	4,735	5,587	5,672	5,915	5,715
Number of employees - International Operations	2,204	2,046	2,253	2,119	1,882
Average shares/units outstanding (000's)	48,758	48,751	48,697	48,680	48,524
Shares/Units outstanding at end of fiscal year (000's)	48,613	48,751	48,751	48,690	48,542
Shares/Units traded during the year (000's)	60,827	45,013	46,269	38,836	49,189
<b>Financial Ratios</b>					
EBITDA <sup>(2)</sup> (%)	12.8	10.5	10.8	8.5	9.0
Earnings from operations (EBIT) (%)	8.9	6.2	6.8	5.7	6.4
Total return on net assets <sup>(2)</sup> (%)	22.4	13.5	15.3	16.7	20.1
Return on average equity <sup>(2)</sup> (%)	30.7	20.5	23.2	18.3	21.8
Debt-to-equity	.56:1	.96:1	.89:1	.82:1	.62:1
Dividends/distributions as % of cash flow from operating activities	19.9	39.9	40.0	44.1	47.7
Inventory turnover (times per year)	7.1	5.8	6.0	6.0	6.1

(1) IFRS 16 - Leases was applied retrospectively with restatement of certain prior year figures as described in Accounting Standard Changes Implemented in 2019 as disclosed in the 2019 Annual Report. Amounts prior to 2018 have not been restated for IFRS 16. Certain 2017 amounts have been restated upon the adoption of IFRS 15. Amounts prior to 2017 have not been restated for IFRS 15.

(2) See Non-GAAP Financial Measures on page 32.

2015	2014	2013	2012	2011	2010	Fiscal Year (\$ in thousands)
<b>Consolidated Statements of Earnings</b>						
\$1,089,898	\$1,042,168	\$1,022,985	\$1,043,050	\$1,028,396	\$ 978,662	Sales - Canadian Operations
706,137	582,232	520,140	470,596	466,740	469,442	Sales - International Operations
1,796,035	1,624,400	1,543,125	1,513,646	1,495,136	1,448,104	Sales - Total
98,276	100,896	111,225	106,510	97,998	98,781	EBITDA <sup>(2)</sup> - Canadian Operations
53,071	36,942	27,111	27,207	27,883	26,983	EBITDA <sup>(2)</sup> - International Operations
151,347	137,838	138,336	133,717	125,881	125,764	EBITDA <sup>(2)</sup> - Total Operations
31,781	30,302	29,258	29,155	28,745	27,511	Amortization - Canadian Operations
12,245	10,070	9,018	7,994	7,827	7,981	Amortization - International Operations
44,026	40,372	38,276	37,149	36,572	35,492	Amortization - Total
6,210	6,673	7,784	6,979	6,026	6,077	Interest
31,332	27,910	28,013	25,701	25,322	14,539	Income taxes
69,779	62,883	64,263	63,888	57,961	69,656	Net earnings attributable to shareholders of the Company
132,987	115,086	79,473	128,992	115,469	114,564	Cash flow from operating activities
58,210	56,180	54,229	50,320	50,797	68,700	Dividends/distributions paid during the year
75,983	52,329	43,207	51,133	46,376	37,814	Capital and intangible asset expenditures
8,114	6,776	(16,322)	11,691	(4,247)	3,953	Net change in cash
<b>Consolidated Balance Sheets</b>						
\$ 335,581	\$ 315,840	\$ 299,071	\$ 303,896	\$ 295,836	\$ 284,789	Current assets
345,881	311,692	286,875	274,027	270,370	259,583	Property and equipment
—	—	—	—	—	—	Right-of-use assets
—	—	—	—	—	—	Promissory note receivable
83,293	68,693	64,969	60,567	53,289	55,199	Other assets, intangible assets and goodwill
29,040	28,074	19,597	12,904	7,422	17,017	Deferred tax assets
155,501	146,275	209,738	190,184	128,002	185,377	Current liabilities
280,682	248,741	138,334	164,960	215,206	144,736	Long-term debt and other liabilities
357,612	329,283	322,440	296,250	283,709	286,475	Total equity
<b>Consolidated Dollar Per Share/Unit (\$)<sup>(4)</sup></b>						
\$ 1.44	\$ 1.30	\$ 1.33	\$ 1.32	\$ 1.20	\$ 1.45	Net earnings - basic
1.43	1.29	1.32	1.32	1.19	1.44	Net earnings - diluted
3.12	2.85	2.86	2.76	2.60	2.61	EBITDA <sup>(2),(3)</sup>
2.74	2.38	1.64	2.67	2.39	2.38	Cash flow from operating activities <sup>(3)</sup>
1.20	1.16	1.12	1.04	1.05	1.42	Dividends/distributions paid during the year <sup>(3)</sup>
7.37	6.80	6.66	6.12	5.86	5.92	Equity (basic shares/units outstanding at end of year)
30.53	26.56	25.42	23.14	19.40	21.09	Market price at January 31
<b>Statistics at Year End<sup>(4)</sup></b>						
181	178	178	177	183	184	Number of stores - Canadian
47	47	48	46	46	46	Number of stores - International
1,463	1,422	1,386	1,375	1,466	1,445	Selling square feet (000's) end of year - Canadian Stores
676	676	696	660	655	654	Selling square feet (000's) end of year - International Stores
\$ 756	\$ 742	\$ 741	\$ 734	\$ 702	\$ 682	Sales per average selling square foot - Canadian
\$ 1,045	\$ 849	\$ 767	\$ 716	\$ 713	\$ 718	Sales per average selling square foot - International
5,482	4,921	4,839	4,768	5,233	5,301	Number of employees - Canadian Operations
1,896	1,726	1,853	1,568	1,668	1,601	Number of employees - International Operations
48,509	48,432	48,413	48,384	48,378	48,180	Average shares/units outstanding (000's)
48,523	48,497	48,426	48,389	48,378	48,378	Shares/Units outstanding at end of fiscal year (000's)
35,631	24,080	17,623	17,831	22,418	24,814	Shares/Units traded during the year (000's)
<b>Financial Ratios</b>						
8.4	8.5	9.0	8.8	8.4	8.7	EBITDA <sup>(2)</sup> (%)
6.0	6.0	6.5	6.4	6.0	6.2	Earnings from operations (EBIT) (%)
19.5	18.4	20.0	20.6	18.5	17.9	Total return on net assets <sup>(2)</sup> (%)
20.6	19.3	21.0	22.1	20.1	24.1	Return on average equity <sup>(2)</sup> (%)
.63:1	.61:1	.57:1	.55:1	.62:1	.67:1	Debt-to-equity
43.8	48.8	68.2	39.0	44.0	60.0	Dividends/distributions as % of cash flow from operating activities
6.2	5.7	5.6	5.8	5.7	5.6	Inventory turnover (times per year)

(3) Based on average basic shares/units outstanding.

(4) Effective January 1, 2011, North West Company Fund converted to a share corporation called The North West Company Inc. The comparative information refers to units of the Fund.



Nor'Westers are associated with the vision, perseverance, and enterprising spirit of the original North West Company and Canada's early fur trade. We trace our roots to 1668, and the establishment of one of North America's early trading posts at Waskaganish on James Bay. Today, we continue to embrace this pioneering culture as true "frontier merchants."

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