THE NORTH WEST COMPANY INC.

2012 SECOND QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. reports its results for the second quarter ended July 31, 2012. Sales increased 2.9% to $383.8 million compared to the second quarter last year led by food sales growth in our Canadian Operations. Sales excluding the foreign exchange impact were up 1.3% and increased 1.5%[1] on a same store basis.

Second quarter net earnings were $18.3 million, an increase of 21.6% compared to last year's second quarter earnings of $15.0 million. Diluted earnings per share were $0.38 compared to $0.31 per share last year.

The Board of Directors has approved a quarterly dividend of $0.26 per share to shareholders of record on September 28, 2012.

On behalf of the Board of Directors:

H. Sanford Riley
Chairman

Edward S. Kennedy
President and Chief Executive Officer

Management's Discussion & Analysis

The following management discussion and analysis should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the period ended July 31, 2012 and the audited annual consolidated financial statements and accompanying notes included in the 2011 Annual Financial Report.

CONSOLIDATED RESULTS

Quarter

Second quarter consolidated sales increased 2.9% to $383.8 million compared to $372.9 million in 2011 led by food sales growth in our Canadian Operations. Excluding the foreign exchange impact, sales increased 1.3% and were up 1.5%[1] on a same store basis. Food sales[1] increased 1.4% and were up 2.0% on a same store basis and general merchandise sales[1] decreased 1.0% and were down 0.8% on a same store basis.

The table below shows the second quarter sales blend for the past two years:

	2012	2011
Food	**77.5%**	77.2%
General merchandise	**18.9%**	19.5%
Other*	**3.6%**	3.3%

* Other sales include gas, fur and service charge revenues

[1] Excluding the foreign exchange impact

Earnings from Operations[2] increased 16.9% to $27.4 million compared to $23.4 million in the second quarter last year as sales growth and gross profit rate improvements more than offset higher selling, operating and administrative expenses. Product assortment reviews, special buys, higher in-stock rates and continued improvements in fresh categories profitability were the leading factors contributing to the increase in gross profit rates. Selling, operating and administrative expenses increased 3.1% compared to last year and were up 3 basis points as a percentage to sales due in part to higher staff costs, insurance expense, and utility and employee medical insurance costs in the International Operations partially offset by an insurance related gain in the Canadian Operations. Trading profit[2] or earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 12.8% to $36.6 million compared to $32.4 million last year. Excluding the foreign exchange impact and the insurance related gain, trading profit increased $2.8 million or 8.6% and was 9.3% as a percentage to sales compared to 8.7% last year.

Income tax expense increased 9.2% to $7.5 million compared to $6.9 million in the second quarter last year as higher earnings were partially offset by lower income tax rates in the Canadian Operations. The consolidated effective tax rate in the quarter was 29.2% compared to 31.5% last year.

Net earnings increased 21.6% to $18.3 million and diluted earnings per share increased to $0.38 compared to $0.31 per share last year due to earnings growth in Canadian Operations and lower income tax rates in Canada.

Year-to-Date

Year-to-date sales increased 4.2% to $749.4 million compared to $719.2 million in 2011. Sales growth was positively impacted by the foreign exchange on the conversion of U.S. denominated sales and one extra day of sales as a result of February 29. The average exchange rate used to convert U.S. denominated sales and expenses from the International Operations was 3.7% higher at 1.006 compared to 0.970 last year. Excluding the foreign exchange impact, sales increased 3.0% and were up 2.5%[1] on a same store basis. Food sales[1] increased 2.6% and were up 2.6% on a same store basis. General merchandise sales[1] increased 2.9% and were up 2.4% on a same store basis.

The table below shows the year-to-date sales blend for the past two years:

	2012	2011
Food	**77.6%**	77.8%
General merchandise	**18.5%**	18.6%
Other*	**3.9%**	3.6%

* Other sales include gas, fur and service charge revenues

Earnings from Operations increased 12.0% to $47.9 million compared to $42.8 million last year as sales growth and gross profit rate improvements offset higher selling, operating and administrative expenses. Selling, operating and administrative expenses increased 5.4% compared to last year and were up 26 basis points as a percentage to sales. The increase in selling, operating and administrative expenses is due in part to higher share-based compensation costs mainly related to an increase in share price compared to last year. Additional information on share-based compensation is provided in Note 12 to the 2012 second quarter unaudited interim condensed consolidated financial statements. Higher insurance expense, pension costs in Canada and utility and employee medical insurance costs in the International Operations also contributed to the increase in expenses. Trading profit [2] increased 9.3% to $66.5 million compared to $60.8 million last year. Excluding the foreign exchange impact and the insurance related gains this year and last year, trading profit increased $5.2 million or 8.7% and was 8.7% as a percentage to sales compared to 8.3% last year.

[2] See Non-GAAP Measures Section of Management's Discussion & Analysis

Income taxes increased to $13.0 million compared to $12.4 million last year as a result of earnings growth partially offset by lower income tax rates. The consolidated effective tax rate decreased to 29.0% compared to 31.0% last year largely due to lower income tax rates in Canada.

Net earnings increased 15.9% to $31.8 million and diluted earnings per share increased to $0.66 compared to $0.57 per share last year. The impact of foreign exchange on the conversion of U.S. denominated earnings in our International Operations increased diluted earnings per share by $0.01 per share.

CANADIAN OPERATIONS

Canadian sales for the quarter increased 1.7% to $262.8 million from $258.5 million last year and were up 2.2% on a same store basis. Food sales increased 1.7% and were up 3.0% on a same store basis. Food sales growth in northern markets, due in part to higher in-stock rates, more than offset lower sales in less remote stores. Food inflation resulting from higher commodity costs net of Nutrition North Canada freight subsidies was approximately 1.8% in the quarter. General merchandise sales decreased 0.5% from last year and were down 0.3% on a same store basis as a sales decrease in northern markets was partially offset by sales gains in less remote stores. Improved Giant Tiger sales in apparel categories was more than offset by lower sales in big-ticket categories such as home furnishings and electronics in northern markets. The Company closed its store in Wemindji, Quebec in the quarter. The Wemindji store closure combined with the impact of three stores destroyed by fire and two stores closed in 2011 was the primary reason for the lower sales growth rate compared to the same store sales growth.

Gross profit dollars increased 6.2% due to sales gains and an improvement in gross profit rate. Special buys, more focused product assortments, improved perishable department profitability from better execution in the north and reduced pricing pressure in southern markets, all contributed to the gross margin rate improvement. Selling, operating and administrative expenses increased 1.4% but were down 7 basis points as a percentage to sales. Higher incentive plan costs reflective of the improvement in earnings, partially offset by an insurance related gain was the leading factor contributing to the increase.

Canadian trading profit increased 16.4% to $28.6 million compared to $24.6 million last year. Excluding the insurance gain in the quarter, trading profit increased 12.4% and was 10.5% to sales compared to 9.5% to sales in the second quarter last year.

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International sales increased 0.4% to $118.9 million compared to $118.4 million in the second quarter last year but were down 0.2% on a same store basis as food sales growth was more than offset by weaker general merchandise sales. Food sales increased 0.8% and were up 0.2% on a same store basis. General merchandise sales decreased 3.0% and were down 2.8% on a same store basis. Discretionary spending continues to be impacted by stress on consumer income related to seasonal employment levels and high energy-related living expenses. Our wholesale business delivered another quarter of sales growth as they continue to recapture market share.

Gross profit dollars were up 0.5% largely as a result of sales growth. Selling, operating and administrative expenses increased 1.8% and were up 30 basis points as a percent to sales due in part to higher utility costs, and employee medical insurance.

Trading profit decreased 3.1% to $7.8 million compared to $8.1 million last year and as a percent to sales was 6.6% compared to 6.8% in the second quarter last year.

FINANCIAL CONDITION

Financial Ratios

The Company's debt-to-equity ratio at the end of the quarter was 0.66:1 compared to 0.65:1 last year. The debt-to-equity ratio at January 31, 2012 was 0.62:1.

Working capital increased 86.0% or $82.8 million compared to the second quarter last year largely due to the decrease in the current portion of long-term debt. The decrease in the current portion of long-term debt is due to the Canadian Operations loan facilities that were refinanced on December 5, 2011. Excluding the impact of the maturing loan facilities, working capital increased $10.0 million or 5.8% compared to last year.

Outstanding Shares

The weighted-average basic shares outstanding for the quarter were 48,380,000 shares compared to 48,378,000 shares last year. The increase in basic shares outstanding is due to share options exercised during the quarter. Further information on the share option plan is provided in Note 5 and Note 12 to the 2012 second quarter unaudited interim condensed consolidated financial statements. The weighted-average fully diluted shares outstanding for the quarter were 48,562,000 compared to 48,538,000 shares last year. The increase in the fully diluted shares outstanding compared to last year is due to options granted under the Share Option Plan and shares granted under the Director Deferred Share Unit Plan.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

$ in thousands	**Three Months July 31, 2012**	Three Months July 31, 2011	Change	**Six Months July 31, 2012**	Six Months July 31, 2011	Change
Cash flows from (used in):						
Operating Activities	**$ 35,280**	$ 40,093	$ (4,813)	**$ 47,848**	$ 51,708	$ (3,860)
Investing Activities	**(11,750)**	(9,802)	(1,948)	**(19,718)**	(18,779)	(939)
Financing Activities	**(15,702)**	(26,669)	10,967	**(13,280)**	(27,480)	14,200
Net change in cash	**$ 7,828**	$ 3,622	$ 4,206	**$ 14,850**	$ 5,449	$ 9,401

Cash flow from operating activities in the quarter decreased $4.8 million to $35.3 million from $40.1 million last year. The decrease is largely due to the change in non-cash working capital related to the change in inventory and accounts payable in the quarter compared to the prior year. For the year-to-date, cash flow from operating activities decreased $3.9 million or 7.5% to $47.8 million compared to last year largely due to an increase in income tax payments and the change in other non-cash items. Following the conversion to a share corporation on January 1, 2011 and the deferral of the payment of Canadian income taxes in the 2011 transition year in accordance with income tax legislation enacted November 21, 2011, the Company has begun paying income tax instalments in 2012.

Cash used for investing activities in the quarter increased to $11.8 million compared to $9.8 million last year due to a difference in the timing of capital investments. For the year-to-date, net capital expenditures increased 5.0% to $19.7 million reflecting the Company's planned increase in expenditures. Net capital expenditures for 2012 are projected to be in the range of $55 million to $65 million (2011 – $45.1 million). Further information on planned capital expenditures is included in the Outlook section on page 6.

Cash used in financing activities in the quarter was $15.7 million compared to $26.7 million last year. The change in long-term debt in the quarter is largely due to the change in the amounts drawn on the Company's Canadian revolving loan facilities compared to last year.

On a year-to-date basis, cash used in financing activities was $13.3 million compared to $27.5 million last year mainly related to an increase in the amounts drawn on the loan facilities and the repayment of a US$3.9 million note payable in the prior year. Further information on long-term debt is provided in Note 9 to the 2012 second quarter unaudited interim condensed consolidated financial statements.

In the first half of the year, the Company paid dividends of $25.2 million compared to $27.6 million last year. The prior year payment included dividends of $23.2 million and the final special distribution from The North West Company Fund ("Fund") of $4.4 million which was paid by the Company subsequent to the conversion of the Fund to a share corporation on January 1, 2011.

Sources of Liquidity

The International Operations have available a committed, revolving loan facility of US$20.0 million that matures October 31, 2012 and is secured by a floating charge against certain accounts receivable and inventories of the International Operations. At July 31, 2012, the Company had drawn US$3.5 million on these facilities (July 31, 2011 – US$0.1 million).

The Company has, subject to the completion of a definitive agreement and customary closing conditions, refinanced the International Operations revolving loan facility that matures October 31, 2012. The new increased, committed, revolving loan facility, which will be provided by the lender of the existing facility, provides the Company with a US$30 million revolving loan facility for working capital requirements and general business purposes. This facility, which matures October 31, 2015, will be secured by certain accounts receivable and inventories of the International Operations and will bear a floating interest rate based on LIBOR plus a spread.

The International Operations also have available committed, revolving loan facilities of US$52.0 million that mature on December 31, 2013. These facilities are secured by a floating charge against the assets of the Company and rank *pari passu* with the US$70.0 million senior notes and the $170.0 million loan facilities. At July 31, 2012, the Company had drawn US$42.0 million on these facilities (July 31, 2011 – US$48.0 million).

The Canadian Operations have available committed, extendible, revolving loan facilities of $170.0 million that mature on December 31, 2015. These facilities are secured by a floating charge on the assets of the Company and rank *pari passu* with the US$70.0 million senior notes and the US$52.0 million loan facilities. At July 31, 2012, the Company had drawn $74.6 million on these facilities (July 31, 2011 – $76.3 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 July 31, 2012, the Company is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

Cash flow from operating activities and unutilized capacity available on existing loan facilities are expected to be sufficient to fund operating requirements, pension plan contributions, sustaining and planned growth-related capital expenditures as well as anticipated dividends during 2012.

SHAREHOLDER DIVIDENDS

The Board of Directors of the Company declared a quarterly dividend of $0.26 per share to shareholders of record on September 28, 2012, payable on October 15, 2012.

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

QUARTLERLY HIGHLIGHTS

The Company announced on September 5, 2012 that it has begun to air freight products directly to Baffin Island from its main Winnipeg distribution centre. The savings from this initiative are expected to exceed $600,000 and will be passed on to its customers through price reductions of 15% or more on 175 key products sold in the Company's Baffin Island Northern and NorthMart stores.

OUTLOOK

Economic conditions in northern Canada and Alaska should continue to be impacted by lower new investment in mineral exploration and government spending constraint. In the southern island economies consumer spending growth is modest with gains driven from opening price points and compelling value. Giant Tiger performance improvement will continue to be a focus in the second half with stronger seasonal apparel assortments and expense management expected to help drive performance.

Higher share-based compensation costs, insurance costs and utility and employee medical insurance expenses in International Operations are expected to continue to impact earnings for the remainder of 2012.

Net capital expenditures for 2012 are projected to be in the range of $55 million to $65 million (2011 – $45.1 million) reflecting the opening and acquisition of new stores, major replacement store projects, energy conservation projects, staff housing renovations, corporate information systems upgrades and the implementation of a transportation management system. The investments in staff housing and the transportation management system, which are the result of our "More Growth In Store" focus, account for approximately $11 million of the projected capital expenditures. The remaining increase in projected capital spending in 2012 compared to prior years is due to a larger than usual number of northern store replacement projects caused by fire losses over the past 18 months and agreements being reached with First Nation communities. Actual year-to-year expenditures depend upon the completion of negotiations and shipment of construction materials to remote markets and therefore, the actual amount and timing of expenditures can fluctuate as it has over the past few years. In 2013, capital spending is expected to return to an average of $40 million to $50 million per year.

QUARTERLY RESULTS OF OPERATIONS

In 2012, the first quarter had 90 days of operations compared to 89 days of operations in 2011 as a result of February 29. The following is a summary of selected quarterly financial information which is prepared in accordance with IFRS.

Operating Results – Consolidated

($ in millions)	Second Quarter 92 days 2012	Second Quarter 92 days 2011	First Quarter 90 days 2012	First Quarter 89 days 2011	Fourth Quarter 92 days 2011	Fourth Quarter 92 days 2010	Third Quarter 92 days 2011	Third Quarter 92 days 2010
Sales	$383.8	$372.9	$365.5	$346.3	$397.6	$374.5	$378.4	$367.3
Trading profit	36.6	32.4	29.9	28.4	30.6	31.0	34.5	34.2
Net earnings	18.3	15.0	13.6	12.4	13.5	9.2	17.0	22.4
Net earnings per share:								
Basic	0.38	0.31	0.28	0.26	0.28	0.19	0.35	0.47
Diluted	0.38	0.31	0.28	0.26	0.27	0.19	0.35	0.46

Historically, the Company's first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting the holiday selling period. Weather conditions are often extreme and can affect sales in any quarter. Net earnings are historically lower in the first quarter due to lower sales. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to reduce excess inventories.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company in order to provide reasonable assurance that all material information relating to the Company is made known to management in a timely manner so that appropriate decisions can be made regarding public disclosure. Management is also responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be designed effectively can only provide reasonable assurance of achieving the control objectives. Additionally, management is necessarily required to use judgment in evaluating controls and procedures. There have been no changes in the internal controls over financial reporting during the quarter ended July 31, 2012 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

ACCOUNTING STANDARDS IMPLEMENTED IN 2012

The Company adopted the amendments to IFRS listed below effective February 1, 2012, as required by the International Accounting Standards Board (IASB). These amendments had no material impact on the Company's results from operations or financial condition.

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments help financial statement users evaluate financial risks that may be associated with these transfers. The Company's capital management activities do not involve the transfer of financial assets.

Income Taxes The IASB issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. The Company does not have any investment property measured at fair value.

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

Information on new and amended accounting standards that may impact the Company's financial statements in future periods is included in the Company's 2011 Annual Financial Report.

NON-GAAP MEASURES

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

A reconciliation of consolidated net earnings to trading profit or EBITDA is provided below:

	Second Quarter		Year-to-Date	
($ in thousands)	**2012**	2011	**2012**	2011
Net earnings	**$ 18,277**	$ 15,035	**$ 31,830**	$ 27,460
Add: Amortization	**9,211**	9,000	**18,524**	18,002
Interest expense	**1,548**	1,474	**3,107**	2,971
Income taxes	**7,536**	6,899	**12,995**	12,362
Trading profit	**$ 36,572**	$ 32,408	**$ 66,456**	$ 60,795

For trading profit information by business segment, see Note 4, Segmented Information, in the Notes to the unaudited interim condensed consolidated financial statements.

(2) Earnings From Operations/Earnings Before Interest and Income Taxes (EBIT) is not a recognized measure under IFRS. Management believes that in addition to net earnings, EBIT is a useful supplemental measure as it provides investors with an indication of the performance of the consolidated operations and/or business segments, prior to interest expense and income taxes. Investors should be cautioned however, that EBIT should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBIT may differ from other companies and may not be comparable to measures used by other companies. A reconciliation of consolidated net earnings to EBIT is provided below:

	Second Quarter		Year-to-Date	
($ in thousands)	**2012**	2011	**2012**	2011
Net earnings	**$ 18,277**	$ 15,035	**$ 31,830**	$ 27,460
Add: Interest expense	**1,548**	1,474	**3,107**	2,971
Income taxes	**7,536**	6,899	**12,995**	12,362
Earnings from operations	**$ 27,361**	$ 23,408	**$ 47,932**	$ 42,793

For earnings from operations information by business segment, see Note 4, Segmented Information, in the Notes to the unaudited interim condensed consolidated financial statements.

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Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the unaudited interim condensed Consolidated Financial Statements and Notes to the unaudited interim condensed Consolidated Financial Statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to September 6, 2012.

Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions and integrate acquisitions and the Company's success in anticipating and managing the foregoing risks. The reader is cautioned that the foregoing list of important factors is not exhaustive. Other risks are outlined in the Risk Management section of the 2011 Annual Financial Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

CONSOLIDATED BALANCE SHEETS

(unaudited, $ in thousands)		**July 31 2012**		July 31 2011		January 31 2012
CURRENT ASSETS						
Cash	**$**	**41,834**	$	36,680	$	26,984
Accounts receivable		**70,360**		70,047		76,539
Inventories (Note 6)		**189,562**		185,537		186,124
Prepaid expenses		**9,234**		8,386		6,189
		310,990		300,650		295,836
NON-CURRENT ASSETS						
Property and equipment		**272,773**		257,177		270,370
Goodwill		**26,220**		24,973		26,319
Intangible assets		**13,777**		15,356		14,620
Deferred tax assets		**10,065**		15,990		7,422
Other assets		**13,125**		10,990		12,350
		335,960		324,486		331,081
TOTAL ASSETS	**$**	**646,950**	$	625,136	$	626,917
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	**$**	**117,452**	$	117,359	$	122,349
Current portion of long-term debt (Note 9)		**4,054**		76,998		629
Income tax payable (Note 7)		**10,400**		10,013		5,024
		131,906		204,370		128,002
NON-CURRENT LIABILITIES						
Long-term debt (Note 9)		**186,451**		112,539		175,263
Provisions		**4,111**		3,867		4,016
Defined benefit plan obligation		**25,746**		7,678		27,616
Deferred tax liabilities		**2,401**		2,447		2,440
Other long-term liabilities		**5,868**		4,654		5,871
		224,577		131,185		215,206
TOTAL LIABILITIES		**356,483**		335,555		343,208
SHAREHOLDERS' EQUITY						
Share capital (Note 5)		**165,306**		165,133		165,133
Contributed surplus		**3,332**		2,859		3,180
Retained earnings		**122,663**		123,978		115,991
Accumulated other comprehensive income		**(834)**		(2,389)		(595)
TOTAL EQUITY		**290,467**		289,581		283,709
TOTAL LIABILITIES & EQUITY	**$**	**646,950**	$	625,136	$	626,917

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited, $ in thousands, except per share amounts)	**Three Months Ended July 31, 2012**	Three Months Ended July 31, 2011	**Six Months Ended July 31, 2012**	Six Months Ended July 31, 2011
SALES	**$ 383,843**	$ 372,945	**$ 749,360**	$ 719,207
Cost of sales	**(269,346)**	(265,008)	**(531,506)**	(515,183)
Gross profit	**114,497**	107,937	**217,854**	204,024
Selling, operating and administrative expenses (Note 10)	**(87,136)**	(84,529)	**(169,922)**	(161,231)
Earnings from operations	**27,361**	23,408	**47,932**	42,793
Interest expense (Note 11)	**(1,548)**	(1,474)	**(3,107)**	(2,971)
Earnings before income taxes	**25,813**	21,934	**44,825**	39,822
Provision for income taxes (Note 7)	**(7,536)**	(6,899)	**(12,995)**	(12,362)
NET EARNINGS FOR THE PERIOD	**$ 18,277**	$ 15,035	**$ 31,830**	$ 27,460
NET EARNINGS PER SHARE				
Basic	**$ 0.38**	$ 0.31	**$ 0.66**	$ 0.57
Diluted	**$ 0.38**	$ 0.31	**$ 0.66**	$ 0.57
Weighted-Average Number of Shares Outstanding (000's)				
Basic	**48,380**	48,378	**48,379**	48,378
Diluted	**48,562**	48,538	**48,557**	48,540

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, $ in thousands)	**Three Months Ended July 31, 2012**	Three Months Ended July 31, 2011	**Six Months Ended July 31, 2012**	Six Months Ended July 31, 2011
NET EARNINGS FOR THE PERIOD	**$ 18,277**	$ 15,035	**$ 31,830**	$ 27,460
Other comprehensive income/(expense):				
Exchange differences on translation of foreign controlled subsidiaries, net of tax	**537**	89	**(239)**	(1,501)
Total other comprehensive income, net of tax	**537**	89	**(239)**	(1,501)
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 18,814**	$ 15,124	**$ 31,591**	$ 25,959

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, $ in thousands)	Share Capital	Contributed Surplus	Retained Earnings	AOCI(1)	Total
Balance at January 31, 2012	$ 165,133	$ 3,180	$ 115,991	$ (595)	$ 283,709
Net earnings for the period	–	–	31,830	–	31,830
Other comprehensive income	–	–	–	(239)	(239)
Comprehensive income for the period	–	–	31,830	(239)	31,591
Equity settled share-based payments (Note 12)	–	266	–	–	266
Dividends (Note 8)	–	–	(25,158)	–	(25,158)
Issuance of common shares	173	(114)	–	–	59
	173	152	(25,158)	–	(24,833)
Balance at July 31, 2012	**$ 165,306**	**$ 3,332**	**$ 122,663**	**$ (834)**	**$ 290,467**
Balance at January 31, 2011	$ 165,133	$ 2,491	$ 119,739	$ (888)	$ 286,475
Net earnings for the period	–	–	27,460	–	27,460
Other comprehensive income	–	–	–	(1,501)	(1,501)
Comprehensive income for the period	–	–	27,460	(1,501)	25,959
Equity settled share-based payments (Note 12)	–	368	–	–	368
Dividends (Note 8)	–	–	(23,221)	–	(23,221)
	–	368	(23,221)	–	(22,853)
Balance at July 31, 2011	$ 165,133	$ 2,859	$ 123,978	$ (2,389)	$ 289,581

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, $ in thousands)	**Three Months Ended July 31, 2012**	Three Months Ended July 31, 2011	**Six Months Ended July 31, 2012**	Six Months Ended July 31, 2011
CASH PROVIDED BY (USED IN)				
Operating activities				
Net earnings for the period	**$ 18,277**	$ 15,035	**$ 31,830**	$ 27,460
Adjustments for:				
Amortization	**9,211**	9,000	**18,524**	18,002
Provision for income taxes (Note 7)	**7,536**	6,899	**12,995**	12,362
Interest expense (Note 11)	**1,548**	1,474	**3,107**	2,971
Equity settled share option expense (Note 12)	**91**	188	**266**	368
Taxes paid	**(4,701)**	(2,119)	**(8,951)**	(2,415)
Loss on disposal of property and equipment	**217**	437	**180**	473
	32,179	30,914	**57,951**	59,221
Change in non-cash working capital	**4,471**	9,287	**(6,575)**	(7,430)
Change in other non-cash items	**(1,370)**	(108)	**(3,528)**	(83)
Cash from operating activities	**35,280**	40,093	**47,848**	51,708
Investing activities				
Purchase of property and equipment	**(11,808)**	(10,024)	**(19,967)**	(19,121)
Proceeds from disposal of property and equipment	**58**	222	**249**	342
Cash from investing activities	**(11,750)**	(9,802)	**(19,718)**	(18,779)
Financing activities				
Increase / (decrease) in long-term debt	**(711)**	(12,880)	**14,887**	6,501
Repayments of long-term debt	**–**	–	**–**	(3,676)
Dividends / distributions (Note 8)	**(12,580)**	(11,610)	**(25,158)**	(27,575)
Interest paid	**(2,470)**	(2,179)	**(3,068)**	(2,730)
Issuance of common shares	**59**	–	**59**	–
Cash from financing activities	**(15,702)**	(26,669)	**(13,280)**	(27,480)
NET CHANGE IN CASH	**7,828**	3,622	**14,850**	5,449
Cash, beginning of period	**34,006**	33,058	**26,984**	31,231
CASH, END OF PERIOD	**$ 41,834**	$ 36,680	**$ 41,834**	$ 36,680

See accompanying notes to condensed consolidated financial statements

1. ORGANIZATION

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

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

These unaudited interim period condensed consolidated financial statements ("condensed consolidated financial statements") have been approved for issue by the Board of Directors of the Company on September 6, 2012.

2. BASIS OF PREPARATION

(A) **Statement of Compliance** These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB).

These condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes included in The North West Company Inc.'s 2011 Annual Financial Report which have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

- Derivative financial instruments
- Financial instruments designated at fair value
- Share-based payment plans
- Defined benefit pension plan

(C) **Functional and Presentation Currency** The presentation currency of the condensed consolidated financial statements is Canadian dollars, which is the Company's functional currency. All financial information is presented in Canadian dollars, unless otherwise stated, and has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, the significant accounting policies are set out in the Company's 2011 audited annual consolidated financial statements. These policies have been applied to all periods presented in these condensed consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

Accounting Standards Implemented in Current Year The Company adopted the amendments to IFRS listed below effective February 1, 2012, as required by the IASB. These amendments had no material impact on the Company's results from operations or financial condition.

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments help financial statement users evaluate financial risks that may be associated with these transfers. The Company's capital management activities do not involve the transfer of financial assets.

Income Taxes The IASB issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. The Company does not have any investment property measured at fair value.

($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements and notes.

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

Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have the most significant effect on the amounts recognized in the condensed consolidated financial statements include impairment of assets, goodwill and indefinite life intangible asset impairment, income taxes, and defined benefit plan obligations.

4. SEGMENTED INFORMATION

The Company is a retailer of food and everyday products and services in two geographical segments, Canada and International. The International segment consists of wholly owned subsidiaries operating in the continental United States, Caribbean and South Pacific. The financial information for these business segments are regularly reviewed by the Company's President and Chief Executive Officer to assess performance and make decisions about the allocation of resources.

The following key information is presented by geographic segment:

Consolidated Statement of Earnings:

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011	**Six Months Ended July 31, 2012**	Six Months Ended July 31, 2011
Sales				
Canada	**$ 262,847**	$ 258,473	**$ 514,833**	$ 495,334
International	**120,996**	114,472	**234,527**	223,873
Consolidated	**$ 383,843**	$ 372,945	**$ 749,360**	$ 719,207
Earnings before amortization, interest and income taxes				
Canada	**$ 28,602**	$ 24,574	**$ 51,900**	$ 46,944
International	**7,970**	7,834	**14,556**	13,851
Consolidated	**$ 36,572**	$ 32,408	**$ 66,456**	$ 60,795
Earnings from operations				
Canada	**$ 21,406**	$ 17,454	**$ 37,386**	$ 32,714
International	**5,955**	5,954	**10,546**	10,079
Consolidated	**$ 27,361**	$ 23,408	**$ 47,932**	$ 42,793

($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

4. SEGMENTED INFORMATION (continued)

Supplemental Information:

	July 31, 2012	July 31, 2011	January 31, 2012
Assets			
Canada	**$ 449,986**	$ 451,527	$ 443,956
International(1)	**196,964**	173,609	182,961
Consolidated	**$ 646,950**	$ 625,136	$ 626,917

(1) International total assets includes goodwill of $26,220 (July 31, 2011 - $24,973; January 31, 2012 – $26,319)

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011	**Six Months Ended July 31, 2012**	Six Months Ended July 31, 2011
Expenditure on property and equipment				
Canada	**$ 7,210**	$ 7,343	**$ 14,233**	$ 15,824
International	**4,598**	2,681	**5,734**	3,297
Consolidated	**$ 11,808**	$ 10,024	**$ 19,967**	$ 19,121
Amortization				
Canada	**$ 7,196**	$ 7,120	**$ 14,514**	$ 14,230
International	**2,015**	1,880	**4,010**	3,772
Consolidated	**$ 9,211**	$ 9,000	**$ 18,524**	$ 18,002

5. SHARE CAPITAL

Authorized – The Company has an unlimited number of shares.

	Shares	**Consideration**
Balance at January 31, 2012	**48,378,000**	**$ 165,133**
Issued under option plans (note 12)	**8,063**	**173**
Balance at July 31, 2012	**48,386,063**	**165,306**
Balance at July 31, 2011	48,378,000	$ 165,133

6. INVENTORIES

Included in inventories recognized as an expense for the three months ended July 31, 2012, the Company recorded $311 (three months ended July 31, 2011 - $600) for the write-down of inventories as a result of net realizable value being lower than cost. For the six months ended July 31, 2012, the Company recorded $831 (six months ended July 31, 2011 - $993) for the write-down of inventories as a result of net realizable value being lower than cost. There was no reversal of inventories written down previously that are no longer estimated to sell below cost during the six months ended July 31, 2012 or 2011.

7. INCOME TAXES

An estimated weighted average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to the respective interim period pre-tax income of each jurisdiction. The estimated effective income tax rate for the three and six months ended July 31, 2012 was 29% (July 31, 2011 - 31%). The decreases primarily reflect the impact of reductions in the Canadian substantively enacted statutory income tax rates as at July 31, 2012.

($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

8. DIVIDENDS

		July 31, 2012		July 31, 2011
Dividends recorded in retained earnings	**$**	**25,158**	$	23,221
Special distribution paid February 18, 2011 to unitholders of record on December 31, 2010		**–**		4,354
Dividends/distributions paid in cash	**$**	**25,158**	$	27,575
Dividends/distributions per share	**$**	**0.52**	$	0.57

The payment of dividends on the Company's common shares is subject to the approval of the Board of Directors and is based upon, among other factors, the financial performance of the Company, its current and anticipated future business needs, and the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends. Dividends are recognized as a liability in the condensed consolidated financial statements in the period in which the dividends are approved by the Board of Directors.

On January 1, 2011, the North West Company Fund (the "Fund") was reorganized by way of a plan of arrangement under section 192 of the CBCA into a corporation named The North West Company Inc. The Fund's obligation to pay the special distribution of $0.09 per unit or $4,354 was assumed by The North West Company Inc. as part of the reorganization. The declaration of distributions from the Fund was subject to the terms of the Fund's Declaration of Trust and the discretion of the Board of Trustees.

9. LONG-TERM DEBT

		July 31, 2012		July 31, 2011		January 31, 2012
Current						
Bank advances (1)	**$**	**3,504**	$	72	$	–
Revolving loan facilities (2)		–		76,267		–
Notes payable (3)		**267**		255		268
Finance lease liabilities		**283**		404		361
	$	**4,054**	$	76,998	$	629
Non-current						
Senior notes(4)	**$**	**69,492**	$	65,917	$	69,626
Revolving loan facilities (2)		**74,578**		–		68,850
Revolving loan facilities (5)		**42,059**		45,782		36,187
Notes payable (3)		**255**		497		391
Finance lease liabilities		**67**		343		209
		186,451		112,539		175,263
Total	**$**	**190,505**	$	189,537	$	175,892

(1) The committed, revolving loan facility of US$20,000 matures on October 31, 2012. This facility bears a floating rate of interest and is secured by a charge against certain accounts receivable and inventories of the International Operations. At July 31, 2012, the Company had drawn US$3,500 (July 31, 2011 – US$76; January 31, 2012 – US$NIL) on this facility.

(2) In December 2011, the Company completed the refinancing of the Canadian Operations extendible, committed, revolving loan facilities of $140,000 that matured on December 31, 2011. The new committed, extendible, revolving loan facilities provide the Company with a $170,000 revolving loan facility for working capital requirements and general business purposes. This facility, which matures on December 31, 2015 is secured by a floating charge against the assets of the Company and rank *pari passu* with the US$70,000 senior notes and the US$52,000 loan facilities in International Operations. These facilities bear a floating interest rate based on Bankers Acceptances rates plus stamping fees or the Canadian prime interest rate.

(3) Notes payable in the amount of US$522 bear interest at a rate of U.S. prime plus 1% and have annual principal payments of US$267.

(4) The US$70,000 senior notes mature on June 15, 2014 and bear interest at a rate of 6.55%, payable semi-annually. The notes are secured by a floating charge against the assets of the Company and rank *pari passu* with the $170,000 Canadian Operations loan facilities and the US$52,000 loan facilities in International Operations. The Company has entered into interest rate swaps resulting in floating interest costs on US$28,000 of its senior notes (July 31, 2011 – US$28,000; January 31, 2012 – US$28,000). The interest rate swaps mature June 15, 2014.

(5) The US$52,000 committed, revolving loan facilities mature December 31, 2013 and bear interest at LIBOR plus a spread. The loan facilities are secured by a floating first charge against the assets of the Company and rank *pari passu* with the US$70,000 senior notes and the $170,000 Canadian Operations loan facilities. At July 31, 2012, the Company had drawn US$42,000 (July 31, 2011 – US$48,000; January 31, 2012 – US$36,000) on this facility.

($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

10. EMPLOYEE COSTS

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011	**Six Months Ended July 31, 2012**	Six Months Ended July 31, 2011
Wages, salaries and benefits including bonus	**$ 53,145**	$ 50,182	**$ 101,318**	$ 97,637
Retirement benefit expense	**$ 1,307**	$ 1,031	**$ 2,818**	$ 2,268
Share-based compensation (Note 12)	**$ 1,636**	$ 1,766	**$ 4,170**	$ 2,545

11. INTEREST EXPENSE

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011	**Six Months Ended July 31, 2012**	Six Months Ended July 31, 2011
Interest on borrowings	**$ 1,717**	$ 1,543	**$ 3,379**	$ 3,090
Fair value movement of financial instruments in effective fair value hedging relationships	**2**	(11)	**19**	7
Expected return on pension plan assets	**(935)**	(960)	**(1,870)**	(1,920)
Interest on pension plan liabilities	**953**	955	**1,906**	1,910
Other interest income	**(75)**	(53)	**(140)**	(116)
Less: interest capitalized	**(114)**	–	**(187)**	–
Interest expense	**$ 1,548**	$ 1,474	**$ 3,107**	$ 2,971

12. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Restricted Share Units; Performance Share Units; Share Options; Director Deferred Share Units; and an Employee Share Purchase Plan. The Company discontinued its Unit Purchase Loan Plan effective January 31, 2011. The purpose of these plans is to directly align the interests of the participants and the shareholders of the Company by providing compensation that is dependent on the performance of the Company's common shares.

The total expense relating to share-based payment plans for the three months ended July 31, 2012 was $1,636 (three months ended July 31, 2011 - $1,766) and for the six months ended July 31, 2012 was $4,170 (six months ended July 31, 2011 - $2,545). The carrying amount of the Company's share-based compensation arrangements including RSU, PSU, share option and DSU plans are recorded on the consolidated balance sheets as follows:

	July 31, 2012	July 31, 2011	January 31, 2012
Accounts payable and accrued liabilities	**$ 5,818**	$ 5,442	$ 4,611
Other long-term liabilities	**3,388**	1,988	3,207
Contributed surplus	**1,762**	1,290	1,611
Total	**$ 10,968**	$ 8,720	$ 9,429

($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

12. SHARE-BASED COMPENSATION (continued)

Performance Share Units and Restricted Share Units

The Company has granted Performance Share Units (PSU's) and Restricted Share Units (RSU's) to officers and senior management.

Each PSU entitles the participant to receive a cash payment equal to the market value of the number of notional shares granted at the end of the vesting period, based on factors related to the achievement of specific performance based criteria. The PSU account for each participant includes the value of dividends from the Company as if reinvested in additional PSU's. PSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. The associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period factoring in the probability of the performance criteria being met during that period.

Each RSU entitles the participant to receive a cash payment equal to the market value of the number of notional shares granted at the end of the vesting period. This plan was discontinued in July 2011. All outstanding grants are scheduled to vest no later than January 31, 2014. The RSU account for each participant includes the value of dividends from the Company as if reinvested in additional RSU's. RSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. The associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period.

Compensation expense related to the RSU's and PSU's for the three months ended July 31, 2012 is $1,166 (three months ended July 31, 2011 - $1,030) and for the six months ended July 31, 2012 is $2,546 (six months ended July 31, 2011 - $1,577).

Share Option Plan

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

The maximum number of shares available for issuance is a fixed number set at 4,354,020, representing 9% of the Company's issued and outstanding shares at July 31, 2012. Fair value of these options is determined using an option pricing model. Share options granted vest on a graduated basis over five years and are exercisable over a period of seven to ten years. The share option compensation expense recorded for the three months ended July 31, 2012 is $233 (three months ended July 31, 2011 - $188) and for the six months ended July 31, 2012 is $619 (six months ended July 31, 2011 - $368).

The following continuity schedule reconciles the movement in outstanding options during the six month period ended:

	Declining Strike Price Options		**Standard Options**	
	2012	2011	**2012**	2011
Outstanding options, beginning of period	**315,812**	–	**548,486**	509,200
Granted	**328,677**	315,812	**63,177**	56,186
Exercised	**–**	–	**(18,231)**	–
Forfeited or cancelled	**(53,950)**	–	**(16,534)**	(16,900)
Outstanding options, end of period	**590,539**	315,812	**576,898**	548,486
Exercisable at end of period	**–**	–	**67,364**	–

($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

12. SHARE-BASED COMPENSATION (continued)

The following continuity schedule discloses weighted-average exercise price for issued and outstanding options during the six month period ended July 31:

	Declining Strike Price Options		Standard Options	
	2012	2011	**2012**	2011
Outstanding options, beginning of period	**$ 20.34**	$ –	**$ 17.45**	$ 17.10
Granted	**21.86**	20.62	**21.86**	20.62
Exercised	**–**	–	**15.25**	–
Forfeited or cancelled	**21.11**	–	**17.30**	16.92
Outstanding options, end of period	**$ 21.12**	$ 20.34	**$ 18.02**	$ 17.45
Exercisable at end of period	**–**	–	**15.25**	–

Options outstanding at July 31, 2012 have an exercise price in the range of $15.25 to $21.86 and a weighted-average remaining contractual life of 6.7 years. The fair values for all options granted during the six month period ended July 31 were calculated based on the following assumptions:

	2012	**2011**
Fair value of options granted	**$ 3.35 to $4.62**	$ 3.61 to 4.74
Exercise price	**$ 21.86**	$ 20.62
Dividend yield	**4.7%**	4.5%
Annual risk-free interest rate	**1.7%**	2.7%
Expected share price volatility	**28.0%**	29.2%

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

	2012	**2011**
Dividend yield	**4.7%**	4.5%
Annual risk-free interest rate	**1.3%**	2.7%
Expected share price volatility	**26.4%**	29.2%

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

Director Deferred Share Unit Plan

The Director Deferred Share Unit Plan (DSU) is available for independent Directors. Participants are credited with deferred share units based on the portion of fees each participant elects to allocate to the DSU. Each deferred share unit entitles the holder to receive a share of the Company. The deferred share units are exercisable by the holder at any time but no later than December 31 of the first calendar year commencing after the holder ceases to be a Director. A participant may elect at the time of exercise of any deferred share units, subject to the consent of the Company, to have the Company pay an amount in cash equal to the aggregate current market value of the shares, determined based on the closing price of the shares on the TSX on the trading day preceding the exercise date, in consideration for the surrender by the participant to the Company the right to receive shares from exercising the deferred share units.

Compensation expense is measured based on the fair market value at each reporting date. The deferred share unit plan compensation recorded for the three months ended July 31, 2012 is an expense of $137 (three months ended July 31, 2011 –$452) and for the six months ended July 31, 2012 is $578 (six months ended July 31, 2011 - $209). The total number of deferred share units outstanding at July 31, 2012 is 133,165 (July 31, 2011 – 109,987). There were no deferred share units exercised during the three months ended July 31, 2012 (three months ended July 31, 2011 – 28,656) and no deferred share units exercised during the six months ended July 31, 2012 (six months ended July 31, 2011 – 37,236). The deferred share units exercised in the prior year were settled in cash. The liability for the deferred share unit plan is recorded in accounts payable and accrued liabilities on the Company's consolidated balance sheets.

($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

12. SHARE-BASED COMPENSATION (continued)

Employee Share Purchase Plan

The Employee Share Purchase Plan provides participants with the opportunity to acquire an ownership interest in the Company. The Company contributes an additional 33% of the amount invested, subject to a maximum annual contribution of 2% of the participants' base salary. The plan is administered by a trustee who uses the funds received to purchase shares on the TSX on behalf of the participating employees. These shares are registered in the name of the plan trustee on behalf of the participants. The Company's contribution to the plan is recorded as compensation expense. The employee share purchase plan compensation expense recorded for the three months ended July 31, 2012 is $100 (three months ended July 31, 2011 – $96) and for the six months ended July 31, 2012 is $427 (six months ended July 31, 2011 - $391).

13. SEASONALITY

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

14. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

The Company's principal subsidiaries are set out below:

			Proportion of voting rights held by:	
	Activity	**Country of Organization**	**Company**	**Subsidiary**
NWC GP Inc.	General Partner	Canada	100%	
North West Company Holdings Inc.	Holding Company	Canada	100%	
The North West Company LP	Retailing	Canada	100% (less one share)	
NWC (U.S.) Holdings Inc.	Holding Company	United States		100%
The North West Company (International) Inc.	Retailing	United States		100%
The North West Finance Company Cooperatie U.A.	Finance Company	Netherlands		100%

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

15. SUBSEQUENT EVENTS

On September 6, 2012 the Board of Directors declared a dividend of $0.26 per common share payable October 15, 2012 to shareholders of record on September 28, 2012.