More growth in store...

THE NORTH WEST COMPANY INC. 2010

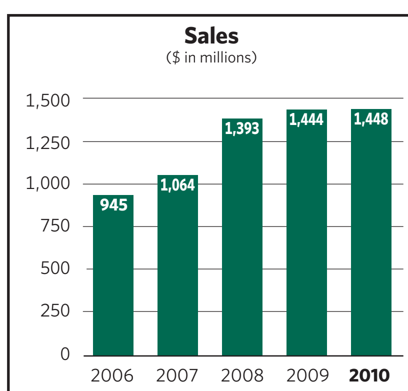
Management's Discussion & Analysis

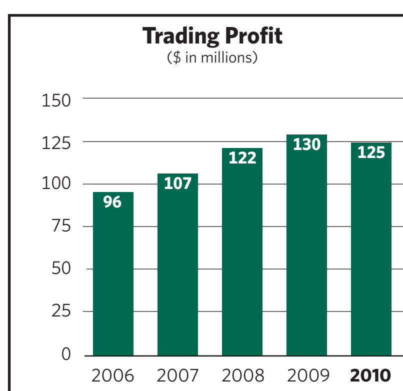
THE NORTH WEST COMPANY INC.

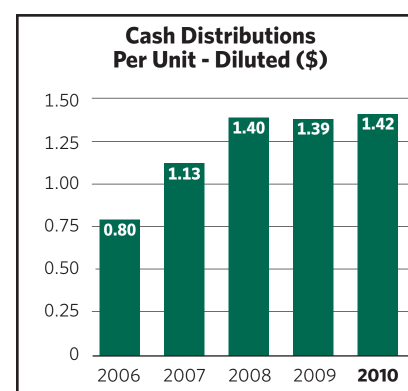
Financial Highlights

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

($ in thousands, except per share information)	**Year Ended January 31, 2011**	Year Ended January 31, 2010	Year Ended January 31, 2009
RESULTS FOR THE YEAR			
Sales	**$ 1,448,104**	$ 1,444,366	$ 1,392,634
Same store sales % increase [1]	**2.7%**	0.1%	2.7%
Trading profit [2] (earnings before interest, income taxes and amortization)	**$ 125,302**	$ 130,274	$ 122,257
Earnings before interest and income taxes [2] (EBIT)	**89,810**	95,124	90,203
Net earnings	**76,594**	81,813	75,378
Cash flow from operations [2]	**113,076**	116,486	106,324
FINANCIAL POSITION			
Total assets	**$ 620,482**	$ 623,800	$ 609,173
Total debt	**192,596**	209,170	213,026
Total equity	**302,497**	289,926	274,410
FINANCIAL RATIOS			
Debt-to-equity	**.64:1**	.72:1	.78:1
Return on net assets [3]	**17.5%**	18.7%	19.8%
Return on average equity	**25.8%**	29.3%	28.6%
Sales blend: Food	**76.0%**	77.0%	75.0%
General Merchandise	**20.0%**	20.0%	22.0%
Other	**4.0%**	3.0%	3.0%
PER SHARE ($) - DILUTED [4]			
Trading profit	**$ 2.58**	$ 2.69	$ 2.52
Net earnings	**1.58**	1.69	1.56
Cash flow from operations	**2.33**	2.40	2.20
Market price - January 31	**21.09**	17.94	16.14
- high	**23.00**	19.60	19.99
- low	**17.02**	14.88	13.00







1 Same store sales, excluding the foreign exchange impact, on an equivalent year basis

2 See Non-GAAP measures section on page 26

3 Earnings before interest and income taxes as a percent of average net assets employed

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 the units of the Fund. All per unit information has been restated to reflect the three-for-one unit split that occurred on September 20, 2006

Management's Discussion & Analysis

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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 the financial information included in the Consolidated Financial Statements and Notes to the Consolidated Financial Statements on pages 30 to 47 which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are in Canadian dollars. The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on April 6, 2011 and the information contained in this MD&A is current to April 6, 2011, 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, dividends, debt levels, financial capacity, access to capital, and liquidity), ongoing 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 this MD&A and in the Risk Factors sections of the Annual Information Form. 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*.

Management's Discussion & Analysis

OUR BUSINESS TODAY

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

North West's core strengths include our ability to adapt our product mix to each market we serve; our logistics expertise in moving product to, and operating stores within, remote or difficult-to-serve locations; our knowledge in serving indigenous and lower-income customers; and our ability to apply these strengths to serve customers within complementary niche 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 with many of our stores in northern Canada and Alaska having continuously served their communities for over 200 years. Today these northern stores operate in communities with populations from 500 to 7,000. A typical store is 7,500 square feet in size and offers food, family apparel, housewares, appliances, outdoor products and services such as post offices, income tax return preparation, quick-service prepared food, commercial business sales, money transfers and cheque cashing.

Growth at North West has come from market share expansion within existing locations and from applying our expertise and infrastructure to new markets and complementary businesses. These include wholesaling to independent stores, opening Giant Tiger junior discount stores in rural communities and urban neighbourhoods in western Canada, and our late 2007 acquisition of Cost-U-Less, Inc. ("CUL"), a chain of mid-size warehouse format stores serving the South Pacific and the Caribbean.

Adapting to unique local lifestyles, cultures and selling opportunities better than our competition is a key strength and ongoing strategy for North West. Store development flexibility, store management selection and learning programs, store-level merchandise ordering, community relations and profit-sharing incentive plans are all ingredients of the model we have built to support this strategy. We believe that continued, efficient enhancement of our localization skills, is an essential component in meeting the customer needs within each market we serve.

North West delivers its products and services through the following retail banners and wholesale businesses, in two reporting segments:

Canadian Operations

- **126 Northern** stores, offering a combination of food, financial services and general merchandise to remote northern Canadian communities;
- **34 Giant Tiger** junior discount stores, offering family fashion, household products and food to urban neighbourhoods and larger rural centres in western Canada;
- **7 NorthMart** stores, targeted at larger northern markets with an emphasis on an expanded selection of fresh foods, fashion and health products and services;
- **12 Quickstop** convenience stores, offering ready-to-eat foods, petroleum products and related services;
- **1 Valu Lots** clearance center;
- **1 Solo Market** test store, targeted at less remote, rural markets;
- **1 Drug Store** a stand-alone pharmacy and convenience store combination;
- **Crescent Multi Foods (CMF)**, a distributor of produce and fresh meats to independent grocery stores in Saskatchewan, Manitoba and northwestern Ontario;
- **2 North West Company Fur Marketing** outlets, trading in wild furs and offering Aboriginal handicrafts and authentic Canadian heritage products; and
- **The Inuit Art Marketing Service**, Canada's largest distributor of Inuit art.

International Operations

- **30 AC Value Centers**, stores similar to Northern and NorthMart, offering a combination of food and general merchandise to communities across remote and rural regions of Alaska;
- **3 Quickstop** convenience stores;
- **Pacific Alaska Wholesale** (formerly ***Frontier Expeditors*** and ***SPAN Alaska***), a leading distributor to independent grocery stores and individual households in rural Alaska;
- **12 Cost-U-Less (CUL)**, mid-sized warehouse stores, offering discount food and general merchandise products to island communities in the South Pacific and the Caribbean; and
- **1 Island Fresh Supermarket**, neighborhood store offering convenience with an emphasis on fresh and prepared foods.

VISION

At North West our vision is to be a leading community retailer within underserved and less developed markets. We want to maximize our customers' desire and ability to shop with us by being a trusted local store. We do this by being more accessible, more flexible, friendlier and the lowest local cost. For our investors, we want to deliver superior, top-quartile 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 is our practice of always looking through the eyes of our customers while recognizing our stores' unique role as a supportive community citizen.

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

Passion refers to our connection to our work, our role as a community store and our opportunity to do great things at North West.

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

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

Personal Balance is our commitment to sustaining ourselves and our organization, so that we work effectively for our customers and communities over the long term.

STRATEGIES

The Company's long-range plans ("LRP") are developed in multi-year cycles and are reviewed and adjusted on an annual basis or as required at the senior management and board levels. 2009 was the start of a LRP cycle and included an in-depth assessment of North West's past performance, opportunity gaps within each business segment, and new business growth potential.

As a result of our 2009 LRP work, we identified operational excellence as the first priority within our existing retail network, themed as "More Growth in Store". This finding and subsequent direction-setting is based on gaps that we see within our current store base which, if effectively addressed, will deliver attractive financial returns over the next three years and set the foundation for accelerated new market, product and service growth over the long term.

The strategic rationale for this approach fully considered our past successes and unrealized opportunities. Over the past five years, food market share and margin rates increased through better sourcing, through more store-branded products that offered a value alternative to national brands and by building on our store-level capability with training, new technology and best practices. Our food growth strategy was augmented by opportunistically pursuing complimentary everyday products and services. These included financial services, post offices, fuel and pharmacies. New store growth was achieved by acquiring independent stores in northern Canada and Alaska, through Giant Tiger store expansion in western Canada and through our acquisition of CUL in late 2007.

While our business successfully developed beyond our core northern markets and merchandise mix, resources and executive attention were stretched. The effect was that other, high potential elements within our business were left without the necessary degree of investment and leadership.

The specific areas we have highlighted for attention further protect, grow and optimize the performance of our food business, which accounts for 76% of our sales base. Following is an update on the LRP strategic initiatives, including those that specifically focus on the importance of our food business:

Initiative #1

Improve perishable food performance gaps

This initiative is a comprehensive reworking of products, processes and technology required to improve the performance of categories that attract higher activity costs and require more complex executions. These include Produce, Meat, Chilled and Frozen Food.

Result

The emphasis in 2010 was on the Produce category. A thorough review of Produce item profitability led to the testing and then introduction of new assortment guidelines and lower-waste, pre-packaged items in the majority of stores in the second half of the year. For the year, Produce gross profit rate improved 347 basis points or 9.6% in Canadian Operations. Fourth quarter produce gross profit was up 12.5% at all stores that rolled out the full program changes.

In 2011, product waste ("shrink*") benchmarking, enabled by new tracking technology, will be completed and store-specific targets will be set. A pre-cut, pre-packaged counter-ready fresh Meat program was tested in 28 Giant Tiger, Northern and NorthMart stores in 2010. The roll-out of this program will take place in the second half of 2011 and is expected to be a key performance driver. Dairy ordering enhancements will be the third perishable margin improvement initiative completed in 2011.

Initiative #2

Optimize in-stock position

While the number one potential for customer satisfaction and margin improvement lies within our perishable categories, driving sales at North West depends on improving our in-stock position. A core element of each banner's value offer is convenience, which in turn is driven by in-stock performance. This initiative focuses on improving in-stock rates through technology enabled tracking and ordering processes. During 2010 these processes were designed and tested in the first half of the year and then rolled out in the third quarter.

Result

Tracking of 2010 in-stock performance improvements began late in the third quarter. The emphasis was on the highest volume items that our customers expected us to be in-stock on every day. By year-end, in-stock performance on these items had improved by 630 basis points to 89%. This represents approximately $2.1 million in additional sales on an annualized basis.

In 2011, the in-stock initiative will target the same level of improvements across approximately 30% more high volume items in our food categories. "Direct–to-store" vendor ordering will be streamlined, and improved reporting of this important segment of our food business will be implemented by the end of the first quarter. This is expected to deliver more accurate inventory cost and margin controls while reducing store ordering time. Work will also begin on the initial phase of automated food replenishment for our northern banners similar to what is currently in place for our Giant Tiger stores. This will be followed by larger-scale reworking of store space allocations in 2012.

* Shrink is defined as lost sales due to damage, expiration-date, theft or any other occurrence that makes a product non-sellable.

Initiative #3

Ensure store teams stability

With such a diverse store network, our employees, especially at store level, have always made the difference at North West. Through our assessment, we identified a critical need to solidify our store teams so that they stay together longer in specific locations, deepening customer and community relationships, and building their business. For this to happen consistently, we are revamping recruitment, retention and store work processes to ensure we attract and retain highly productive, capable store personnel in key roles.

This initiative specifically addresses the opportunity to optimize overall store performance by ensuring that a highly capable store team is in place and secure within each store location for an average time of at least three years. Similar to other "More Growth in Store" work, the first half of the year was spent assessing store capability and stability and then creating action plans to bridge the gaps. The goal for fiscal 2010 was to establish teams that met our stability and capability criteria in one third of our stores.

Result

By year-end 80% of the targeted first third of stores had fully met the stability criteria set for them. This result fell short of the goal due to a change in assessment criteria that increased the capability requirement for specific positions. As well, two key new management positions were added to the structure of most northern Canada banner stores and these positions were not completely filled at year-end.

The goal in 2011 is to complete the outstanding position recruitments and individual transfers related to 2010 work and to achieve our stability targets for the next 25%-35% of stores. This task will require a larger recruitment effort to offset expected normal attrition, new management positions added to store structures and other turnover.

Initiative #4

Be "priced right"

We consider improved price management to be a strategic opportunity at North West, especially in our more remote banners. Market-based pricing is more difficult due to limited local shopping options in many of these locations, and this requires a deeper, more sophisticated understanding of consumer purchase behaviour relative to price.

Result

In 2010, this initiative focused on accurate and timely competitive price checking and price adjusting, coupled with the testing of new, lower pricing approaches in several Alaska and northern Canada markets. A major project under this initiative was to establish and deliver price reductions on nutritious perishable foods qualifying for higher freight subsidies under a new Canadian federal government program ("Nutrition North") that took effect on April 1, 2011. The price changes that directly resulted from this program and additional reductions from lower negotiated freight costs will be passed directly onto our customers.

In 2011 we will continue to drive down costs that can be invested in lower pricing to further attract customers to shop locally with us. The net effect of this on pricing for the entire year is uncertain due to expected higher food cost inflation. On a relative basis however, the cost reduction stance we are taking is expected to increase food unit or tonnage sales.

Initiative #5

Build our supply chain advantage

North West is a major shipper of merchandise and other freight into the remote markets that we serve. This creates an opportunity to work more collaboratively with our transportation partners to fully leverage our knowledge and forecasted volumes. The outcomes we expect from this strategy are improved delivery service within a more productive and lower cost transportation network.

Result

In 2010 our outbound logistics network in Canada was thoroughly reviewed to determine specific improvement opportunities. Over the next three years these opportunities will include, the design and implementation of a transportation management system to track merchandise throughout the outbound supply chain and provide management with the necessary tools to proactively manage our diverse network of carriers, investment in additional refrigerated transportation and storage space, and a change to new, more efficient network and routing configurations. We expect to be able to reduce our supply chain costs by approximately 10% over this time frame with the freight related savings reinvested in lower retail prices.

Initiative #6

Cascade our leadership principles into practices

We consider our leadership principles, in action, to be the foundation for great, sustainable performance across all levels of our organization. From our cashiers to our buyers and store managers, we recognize the potential for measurable, effective practices that reflect these principles and align our work. Our work in 2010 carried forward this commitment to making leadership at North West deeper and more effective.

Result

Our customer-driven principle was demonstrated by a renewed store work program that applies to all management-level employees. One of the most effective enhancements was to include customer in-home interviews during the store work program. Dozens of interviews have captured new insight into customer lifestyles and buying behaviour and have given our head office employees important insights into how we can provide a better offer to our customers.

Throughout 2010 and in early 2011, leadership practice teaching cascaded through to our managers including store management. This was a major undertaking that included over 300 participants. Success is being measured by follow-up surveys on usage and effectiveness of the practices. The early indicators are very positive with the practices being viewed as effective management tools that are aligned with our core principles.

2011 will be an important year of continued practicing of our principles. Our starting advantage is that the Company's entire management team has been through our leadership sessions and is now working with a consistent set of principles and practices.

Beyond our "More Growth in Store" emphasis over the next three to five years, we will continue to pursue growth investments in related markets, products and services. Recent examples were our expansion into pharmacies and health care, and the acquisition of CUL. Going forward, we will keep learning from and nurturing these ventures while ensuring that their risk/return profile is close to that of our more established retail business base and that resources are not diverted from our key LRP strategies. We will continue to carefully assess the long-term potential of any major new business, product or service, and the probability of achieving threshold returns on a sustainable and consistent basis. Across this work we continue to emphasize new ideas, clear principles, execution, and the ability to track performance.

The strategies at North West reflect our total return approach to performance. We place an equal emphasis on growth and income yield in delivering top quartile total returns to investors. Investment opportunities, as noted above, are considered in terms of their ability to sustain an attractive current cash return in addition to growth prospects.

KEY PERFORMANCE DRIVERS AND CAPABILITIES TO DELIVER RESULTS

The ability to protect and enhance the performance of northern store locations Our stores in Alaska and northern Canada represent the highest potential for improved performance and customer satisfaction. We believe that the focus on food quality, pricing and productivity within our new LRP strategies will be the best way to achieve these improvements.

The financial capability to sustain the competitiveness of our existing store base and to pursue growth Our sustaining investments include capital investment in energy-efficient equipment, replacement stores and technology. Non-capital expenditures are centred on improvements to our in-store capabilities through more in-depth training programs and the ongoing investment in our LRP work.

The ability to be a leading community store in every market we serve This depends on our ability to tailor our store formats, product/service mix, community support and store associate employment offer, while still realizing the scale efficiencies of our size or the size of our alliance partners. A broad range of products, services and store sizes, combined with flexible technology platforms and "best practice" work processes, are all required to give us the ability to achieve this goal.

The ability to successfully add new stores Our new store opening success depends on finding viable locations, willing sellers of independent stores or chains, and being able to integrate and accelerate their full contribution potential. Other success factors include achieving product sourcing, operating and transportation cost savings, while building strong, entrepreneurial store teams.

Our ability to achieve best-selling practices and build supportive community relations Enhancing store stability and capability is an ongoing priority that aligns with our goal of being a trusted local store. We continually invest in recruiting, retention and best practice work methods. We modify store processes to fully leverage our technology, specifically in the areas of communications, merchandise ordering, staff scheduling and training. This recognizes the important role played by our managers and other key store-level personnel and the reality that remoteness, employment competition from other local sectors and other conditions of our markets creates challenges in attracting and keeping talented people. Related to this is our ongoing ability to develop local management and to foster positive community relationships, especially within the indigenous markets we serve.

Our ability to reduce costs across all of our store banners, improve competitiveness and create more time and skill at store level to order and sell merchandise A key goal is to shift more staff time and skill towards ordering and selling merchandise tailored to the unique markets we serve, while reducing costs in the non-selling facets of store work. Productivity opportunities include labour scheduling, energy usage and inventory shrinkage. We have developed alliances with other non-competing retailers to provide sales and distribution services for certain products and services where we do not have the scale to achieve a lower cost structure on our own. For example, under our alliance with *Dufresne Furniture and Appliances* of Winnipeg, Dufresne manages product assortment, marketing and distribution for the furniture and appliance categories in our Northern and NorthMart store banners. This has given us access to expertise and buying power and has allowed us to reduce inventories. Our new store banners and recent acquisitions have further enabled us to achieve cost efficiencies in direct importing, freight consolidation and general administration expenses while enabling us to share our specialized retail knowledge and ideas among our retail, wholesale and support service groups.

CONVERSION TO A SHARE CORPORATION

On June 10, 2010, unitholders of the North West Company Fund (the "Fund") voted and approved the reorganization of the Fund, by way of a plan of arrangement under section 192 of the *Canada Business Corporations Act* ("CBCA") into a corporation pursuant to an amended and restated arrangement agreement dated November 29, 2010 between the Fund, and various subsidiaries of the Fund (the Arrangement). On January 1, 2011, the Fund completed its conversion to a corporation named The North West Company Inc. Through the Arrangement, unitholders of the Fund received one common share of the Company for each unit of the Fund held. In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund.

Upon conversion to a share corporation, the units of the Fund were delisted from the Toronto Stock Exchange and the trading of the common shares of the Company commenced under the symbol "NWF". 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* or on SEDAR at *www.sedar.com*.

The conversion was accounted for as a continuity of interests and as such the carrying amounts of the assets, liabilities and unitholders' equity in the consolidated financial statements of the Fund immediately before the conversion was the same as the carrying values of the Company immediately after the conversion. The comparative amounts in this MD&A and in the consolidated financial statements are those of the Fund. The MD&A and consolidated financial statements contain references to "shareholders", "shares" and "dividends" which were previously referred to as "unitholders", "units" and "distributions" under the Fund.

As a result of the conversion to a share corporation, the earnings from The North West Company LP that previously flowed to the Fund on a pre-tax basis will now be subject to income taxes commencing January 1, 2011 at a combined federal and provincial tax rate of approximately 30%. While higher corporate taxes will reduce the Company's net earnings and cash available for dividends to shareholders, the after-tax impact on personal income is largely offset for taxable investors benefiting from the dividend tax credit.

Consolidated Results

2010 Highlights

- Sales increased to $1.448 billion, our eleventh consecutive year of sales growth.
- Same store sales increase of 2.7% led by strong food sales growth in northern Canada and Alaska.
- Cash flow from operating activities increased 2.7% to $110.9 million.
- Cash distributions increased 2.2% to $1.42 in 2010 and have increased 11.5% on a compound annual basis over the past 10 years.
- Return on average equity was 25.8%.
- Total returns to shareholders were 26.5% for the year and were 19.1% on a compound annual basis over the past five years.
- North West Company Fund converted to a share corporation called The North West Company Inc. on January 1, 2011. The common shares of The North West Company Inc. trade on the TSX under the symbol "NWF".

FINANCIAL PERFORMANCE

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

Key Performance Indicators

($ in thousands, except per share/unit)	**2010**	2009	2008
Sales	**$ 1,448,104**	$ 1,444,366	$ 1,392,634
Same store sales % increase[1]	**2.7%**	0.1%	2.7%
Trading profit[2]	**$ 125,302**	$ 130,274	$ 122,257
EBIT[2]	**$ 89,810**	$ 95,124	$ 90,203
Net earnings	**$ 76,594**	$ 81,813	$ 75,378
Net earnings per share/unit —basic	**$ 1.59**	$ 1.71	$ 1.58
Net earnings per share/unit —diluted	**$ 1.58**	$ 1.69	$ 1.56
Cash distributions in the year	**$ 1.42**	$ 1.39	$ 1.40
Total assets	**$ 620,482**	$ 623,800	$ 609,173
Total long-term liabilities	**$ 132,608**	$ 161,928	$ 162,547
Return on net assets[3]	**17.5%**	18.7%	19.8%
Return on average equity	**25.8%**	29.3%	28.6%

1 All references to same store sales excludes the foreign exchange impact
2 See Non-GAAP measures section on page 26
3 Earnings before interest and income taxes as a percentage of average net assets employed

Consolidated Sales Sales for the year ending January 31, 2011 ("2010") increased 0.3% to $1.448 billion compared to $1.444 billion for the year ending January 31, 2010 ("2009"), and were up 4.0% compared to $1.393 billion for the year ending January 31, 2009 ("2008"). Excluding the foreign exchange impact, sales increased 3.6% from 2009 and were up 6.1% from 2008. On a same store basis, sales increased 2.7% compared to increases of 0.1% in 2009 and 2.7% in 2008.

Food sales decreased 0.8% from 2009, but were up 3.0% excluding the foreign exchange impact led by strong same store sales growth in our northern Canada and Alaska stores. Same store food sales increased 2.9% over last year with quarterly same store increases of 3.8%, 2.6%, 2.8% and 2.5% in the fourth quarter. Canadian food sales increased 6.0% and International food sales were down 1.9% excluding the foreign exchange impact.

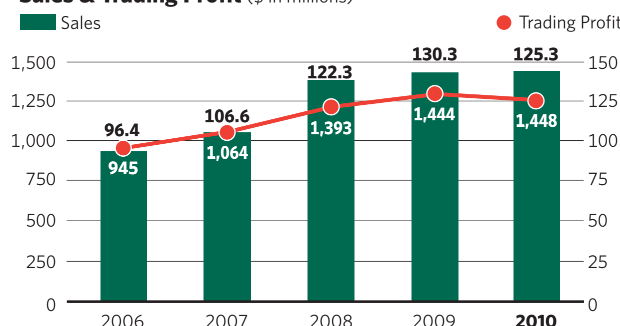
General merchandise sales increased 2.4% compared to 2009 and were up 4.6% excluding the foreign exchange impact. Same store general merchandise sales increased by 1.8% for the year with quarterly increases of 6.9%, 0.6%, and 1.9% in the first to third quarter respectively, but decreased 0.8% in the fourth quarter. General merchandise sales growth in our northern Canada and Alaska stores, driven in part by public infrastructure spending and renewed natural resource investment in the north, contributed to the sales gains in the first three quarters. The general merchandise sales decrease in the fourth quarter was mainly due to weaker sales performance in our discount banners.

Other revenue, which includes fuel, fur and service charge revenue, increased 12.9% compared to 2009 largely due to higher gas prices.

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

	2010	2009	2008
Food	**76.4%**	77.2%	74.6%
General merchandise	**20.3%**	19.8%	22.2%
Other	**3.3%**	3.0%	3.2%

Canadian Operations accounted for 67.6% of total sales (63.8% in 2009 and 64.6% in 2008) while International Operations contributed 32.4% (36.2% in 2009 and 35.4% in 2008).



Cost of sales, selling and administrative Cost of sales, selling and administrative expenses ("expenses") increased 0.7% to $1.323 billion and increased 37 basis points as a percentage of sales compared to last year. The increase in expenses is due to new and non-comparable store expenses, more aggressive promotional pricing, higher staff costs, pension expense in Canadian Operations and costs associated with the conversion to a share corporation. Partially offsetting these increases was the impact of a stronger Canadian dollar on the translation of International Operations expenses and a property insurance related gain.

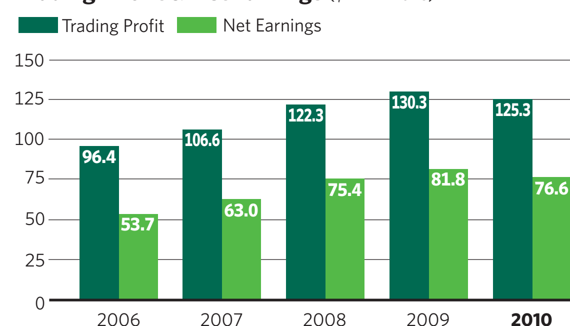
Amortization Amortization expense increased $0.3 million or 1.0% to $35.5 million from 2009 due in part to amortization of new stores.

Interest expense Interest expense increased 7.4% to $5.9 million compared to $5.5 million last year. The impact of higher interest rates during the year increased the average cost of borrowing to 2.7% compared to 2.4% in 2009 which more than offset lower average debt levels compared to 2009.

Income tax expense The provision for income taxes decreased 6.4% from $7.8 million to $7.3 million, for an effective tax rate of 8.8% in 2010 compared to 8.8% in 2009. The decrease related to lower earnings in the International Operations was partially offset by an increase in income taxes in Canadian Operations as a result of the conversion to a share corporation. The earnings from The North West Company LP that previously flowed to the Fund on a pre-tax basis were subject to income taxes at a combined federal and provincial tax rate of approximately 30% commencing January 1, 2011. See Conversion to a Share Corporation on page 6 for further information.

In the ordinary course of business, the Company is subject to ongoing audits by taxation authorities. 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 taxation authorities. The Company regularly reviews the potential for adverse outcomes and the adequacy of its tax provisions. The Company believes that it has adequately provided for these matters. 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 matters are resolved.

A more detailed explanation of the income tax provision and future tax assets is provided in Note 14 to the consolidated financial statements.



Net earnings Consolidated net earnings decreased 6.4% to $76.6 million or $1.58 per share on a diluted basis compared to $81.8 million or $1.69 per unit in 2009 but was up $1.2 million compared to $75.4 million or $1.56 per unit on a diluted basis in 2008. The decrease in net earnings is due to lower earnings in International Operations. Additional information on the financial performance of Canadian Operations and International Operations is included on page 9 and page 11 respectively. In 2010, the Canadian dollar was on average stronger than the U.S. dollar compared to 2009. The Canadian dollar's appreciation versus the U.S. dollar in 2009 had the following net impact on the 2010 results:

Sales ....decrease of $45.9 million or 3.2%
Trading profit ....decrease of $2.6 million
Net earnings..decrease of $1.2 million

Total Assets Consolidated assets decreased 0.5% to $620.5 million compared to $623.8 million in 2009 but were up 1.9% compared to $609.2 million in 2008. The decrease in consolidated assets is largely due to the impact of the stronger Canadian dollar compared to last year. The increase in consolidated assets compared to 2008 is mainly due to new stores.

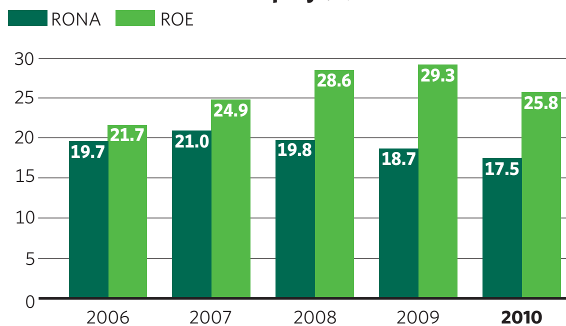
Consolidated working capital for the past three years is summarized in the following table:

($ in thousands)	**2010**	2009	2008
Current assets	**$ 289,303**	$ 285,843	$ 285,088
Current liabilities	**$ (185,377)**	$ (171,946)	$ (172,216)
Working capital	**$ 103,926**	$ 113,897	$ 112,872

Working capital of $103.9 million decreased $10.0 million or 8.8% compared to 2009 and was down $8.9 million or 7.9% compared to 2008. The decrease in working capital is largely due to the current portion of long-term debt of $68.3 million compared to $56.3 million in 2009 and $49.3 million in 2008. Additional information on working capital for the Canadian and International Operations is included under operational net assets employed on page 10 and page 12 respectively.

Return on net assets employed decreased to 17.5% from 18.7% in 2009, and return on equity decreased to 25.8% from 29.3% in 2009. Return on net assets decreased due to lower earnings before interest and taxes in International Operations and higher average net assets. The increase in average net assets is related to planned increases in inventories in stores serviced by sea and the earlier receipt of fall seasonal merchandise, and higher than planned inventories in our distribution centers during the first half of the year. Return on equity decreased due to lower net earnings.

Return on Net Assets & Equity (%)



Total long-term liabilities Consolidated long-term liabilities decreased $29.3 million or 18.1% to $132.6 million from 2009 and were down 18.4% from 2008. The decrease in long-term liabilities from 2009 and 2008 is largely due to an increase in the current portion of long-term debt related to the Canadian Operations credit facility that matures December 31, 2011 and the impact of the stronger Canadian dollar on the translation of U.S. denominated debt. Further information on long-term debt is included in the sources of liquidity and capital structure sections on page 13 and page 14 respectively.

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)	**2010**	2009	2008
Sales	**$ 978,662**	$ 921,621	$ 899,263
Same store sales % increase	**4.1%**	1.1%	1.9%
Trading profit[1]	**$ 98,319**	$ 96,599	$ 90,606
EBIT[1]	**$ 70,808**	$ 69,872	$ 66,105
Return on net assets	**19.6%**	20.0%	20.9%

1 See Non-GAAP measures section on page 26

Sales Canadian Operations sales increased $57.0 million or 6.2% to $978.7 million compared to $921.6 million in 2009, and were up $79.4 million or 8.8% compared to 2008. Same store sales increased 4.1% compared to a 1.1% increase in 2009. Food sales accounted for 71.8% (72.0% in 2009) of total Canadian sales. The balance was made up of general merchandise sales at 23.7% (23.8% in 2009) and other sales, which consists primarily of fuel sales and service charge revenue at 4.5% (4.2% in 2009).

Food sales increased by 6.0% over 2009 and were up 12.2% compared to 2008. Same store food sales increased 4.6% compared to 4.4% in 2009. Same store food sales, led by strong sales growth in our northern stores, had quarterly increases of 6.9%, 4.7%, 4.2% and 2.7%. Food sales increased in all categories with grocery, tobacco, chilled foods, and pharmacy categories contributing the largest gains. Food sales growth in urban markets and less remote locations, while positive for the year, was negatively impacted by increased promotional price discounting particularly in the second half of the year. Net inflation was approximately 1.3% driven by a combination of product cost inflation and higher fuel-related transportation costs.

General merchandise sales increased 5.6% from 2009 but were down 0.5% compared to 2008. Same store sales increased 2.6% compared to a decrease of 7.7% in 2009. On a quarterly basis, same store sales increased 9.3%, 1.8% and 1.5% in the first three quarters but were down 0.3% in the fourth quarter. Higher discretionary income in the north, due in part to government infrastructure spending and natural resource development, positively impacted sales in electronics, home furnishings, and transportation categories.

Other revenues, which include fuel, fur and service charge revenue, were up 13.2% from 2009 and increased 9.7% over 2008. The increase in other revenues is largely due to higher oil prices.

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

	2010	2009	2008
Food	**71.8%**	72.0%	69.6%
General merchandise	**23.7%**	23.8%	25.9%
Other	**4.5%**	4.2%	4.5%

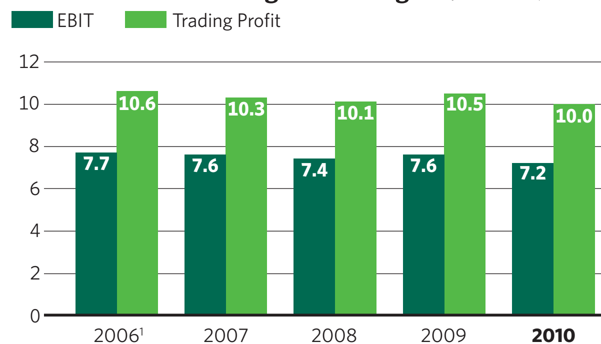
Same Store Sales Canadian Operations have consistently achieved top-quartile same store food sales reflecting the Company's local market position as an everyday product and service provider. Same store general merchandise sales have been more volatile because they are heavily weighted to big-ticket durable goods that depend upon customers' discretionary income. Same store sales for the past three years are shown in the following table:

Same Store Sales

(% change)	**2010**	2009	2008
Food	**4.6%**	4.4%	5.8%
General merchandise	**2.6%**	(7.7%)	(7.8%)
Total sales	**4.1%**	1.1%	1.9%

Profitability Gross profit dollars for Canadian Operations increased by 4.9% as sales growth more than offset a 38 basis point decrease in gross profit rates. Gross profit rates were negatively impacted by higher distribution costs related to the new Edmonton facility and market-driven price reductions in urban markets. Operating expenses increased 6.2% from 2009 but were flat as a percentage of sales compared to last year. Higher staff costs, due in part to an increase in pension expense and incremental administrative costs associated with our LRP initiative combined with costs related to the conversion to a share corporation, were the main factors contributing to the increase. Pension expense increased $2.3 million or 90.9% over last year due to lower interest related discount rates and costs related to the conversion to a share corporation were approximately $1 million. Partially offsetting these costs was a property insurance-related gain. Trading profit from Canadian Operations increased 1.8% or $1.7 million to $98.3 million and was 10.0% as a percentage of sales compared to 10.5% in 2009.

Canadian EBIT & Trading Profit Margins (% of sales)



1 EBIT and Trading Profit Margins on an equivalent year basis

Operational Net Assets Employed Operational net assets employed at January 31, 2011, decreased 0.7% to $326.9 million compared to $329.3 million at January 31, 2010, as summarized in the following table:

Operational Net Assets Employed

($ millions at the end of the fiscal year)	**2010**	2009	2008
Property and equipment	**$ 186.4**	$ 183.8	$ 173.9
Inventory	**126.2**	122.3	120.1
Accounts receivable	**61.1**	61.7	57.5
Other assets	**39.0**	41.4	34.7
Liabilities	**(85.8)**	(79.9)	(76.9)
Total	**$ 326.9**	$ 329.3	$ 309.3

Property and equipment balances increased reflecting the opening of new stores, convenience stores and pharmacies, store renovation projects, staff housing renovations, corporate information systems upgrades and the completion of a major head office renovation project.

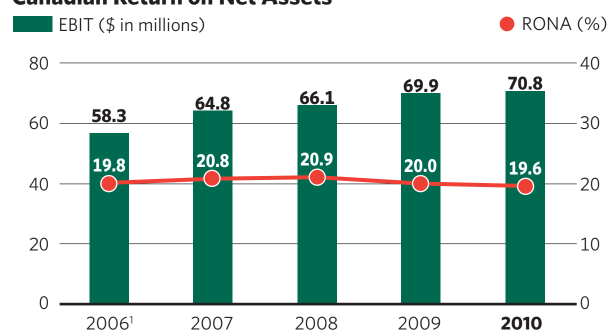
Inventory increased primarily due to new stores and an increase in food inventories in stores serviced by sea to take advantage of lower transportation costs compared to air freight. Average inventory levels in 2010 were $5.1 million higher than 2009 and $12.0 million higher than 2008 due to new stores, higher food inventories in stores serviced by sea and winter road, the new Edmonton distribution center that opened late in the fourth quarter of 2009 and the earlier flow of fall seasonal merchandise to remote stores. Inventory turnover improved to 5.2 times from 5.1 times in 2009 due to higher sales.

Accounts receivable decreased $0.6 million or 1.0% from 2009. Average accounts receivable were $4.6 million or 8.5% higher than 2009 due to an increase in sales in big-ticket categories such as electronics, home furnishings and transportation.

Other assets decreased $2.4 million or 5.8% largely due to a decrease in cash and deposits-in-transit. The increase in liabilities over the prior year is due to higher trade accounts payable and an increase in the amount of the special distribution payable.

Return on Net Assets The return on net assets employed for Canadian Operations decreased to 19.6% from 20.0% in 2009 due to the impact of higher average net assets compared to last year.

Canadian Return on Net Assets



1 EBIT and Return on net assets on an equivalent year basis

International Operations

(Stated in U.S. dollars)

International Operations include Alaska Commercial Company (“AC”), Cost-U-Less (“CUL”) and Pacific Alaska Wholesale (“PAW”).

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)	**2010**	2009	2008
Sales	**$ 457,590**	$ 464,167	$ 454,636
Same store sales %	**(0.2%)**	(2.1%)	6.9%
Trading profit[1]	**$ 26,302**	$ 29,902	$ 29,165
EBIT[1]	**$ 18,522**	$ 22,422	$ 22,205
Return on net assets	**12.6%**	16.0%	17.2%

1 See Non-GAAP measures section on page 26

Sales International sales decreased 1.4% to $457.6 million compared to $464.2 million in 2009, and were up 0.6% compared to 2008 as strong sales in our Alaska stores were more than offset by sales decreases in our CUL stores and PAW business. Same store sales decreased 0.2% compared to a 2.1% decrease in 2009. Food sales accounted for 85.9% (86.4% in 2009) of total sales with the balance comprised of general merchandise at 13.1% (12.8% in 2009) and other sales, which consists primarily of fuel sales and service charge revenues, at 1.0% (0.8% in 2009).

Food sales decreased 1.9% from 2009, but were up 3.5% compared to 2008. Same store food sales were down 0.1% compared to a 0.6% increase in 2009. Food sales started the year with quarterly same store sales decreases of 1.7% and 1.0%, but improved in the back half of the year with increases of 0.1% and 2.1%. Food sales in our PAW business, which were significantly below last year, were negatively impacted by customer reactions to shipping disruptions relating to the consolidation of our distribution and information systems that occurred early in the year. Adverse economic conditions in our CUL markets, particularly in tourism dependent locations, and an increase in market-driven promotional pricing activity also negatively impacted food sales and margins throughout the year with signs of a modest recovery only coming late in the fourth quarter. Partially offsetting the impact of the PAW business and CUL stores, were strong food sales in our Alaska markets driven by improved in-stock performance, higher customer income tax refunds, regional native corporation dividends, and an improved fishing economy compared to last year. The impact of federal infrastructure spending in Alaska was also a factor contributing to the sales gains.

General merchandise sales increased 0.7% from 2009 but were down 15.3% from 2008. On an annual basis, general merchandise same store sales were down 1.0% compared to a decrease of 15.6% in 2009. General merchandise same store sales were down 1.0%, 3.6%, 3.0% in the first, second and fourth quarter respectively with the third quarter generating a 3.5% increase over 2009. The continuing impact of difficult economic conditions in our CUL markets and the resulting impact on discretionary income was the leading factor contributing to the general merchandise sales performance largely offsetting the strong general merchandise sales in Alaska. The Permanent Fund Dividend (“PFD”) paid to qualifying Alaska residents was $1,281 compared to $1,305 last year but was down significantly from the $3,269 paid in 2008. The reduction in the PFD from 2008 to 2010 was a leading factor contributing to the sales decrease from 2008 to 2010.

Other revenues, which consist of fuel and service charge revenue, were up $0.8 million or 20.3% from 2009 and were up 12.6% from 2008 primarily due to higher oil prices.

Sales Blend The table below reflects the importance of food sales to the total sales of the International Operations:

	2010	2009	2008
Food	**85.9%**	86.4%	83.6%
General merchandise	**13.1%**	12.8%	15.5%
Other	**1.0%**	0.8%	0.9%

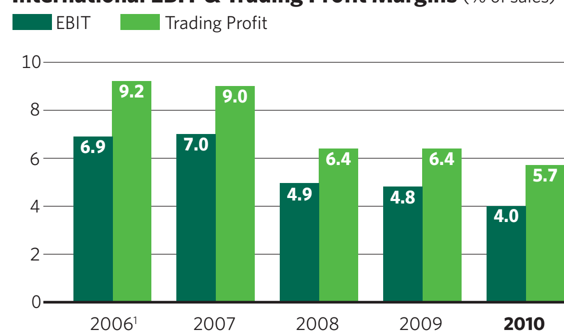
Same store sales for the past three years are shown in the following table:

Same Store Sales

(% change)	**2010**	2009	2008
Food	**(0.1%)**	0.6%	7.3%
General merchandise	**(1.0%)**	(15.6%)	5.1%
Total sales	**(0.2%)**	(2.1%)	6.9%

Profitability Gross profit dollars decreased 2.6% from 2009 due to lower sales performance and a 32 basis point decrease in gross profit rate. The decrease in gross profit rate was partially due to more market-driven promotional pricing at CUL and targeted price reductions in stable food categories to build market share in Alaska. Operating expenses increased 2.4% over last year and were up 77 basis points as a percentage of sales largely due to the decrease in sales. Higher staff costs and a 13.8% increase in utility costs in southern island markets contributed to the increase in operating expenses over the prior year. Partially offsetting the increase in operating expenses was a decrease in incentive plan expenses related to the lower earnings performance. Trading profit decreased 12.0% to $26.3 million compared to $29.9 million in 2009 and as a percentage of sales was 5.7% compared to 6.4% last year.

International EBIT & Trading Profit Margins (% of sales)



1 Equivalent year basis excluding $1.4 million IRS housing benefit assessment

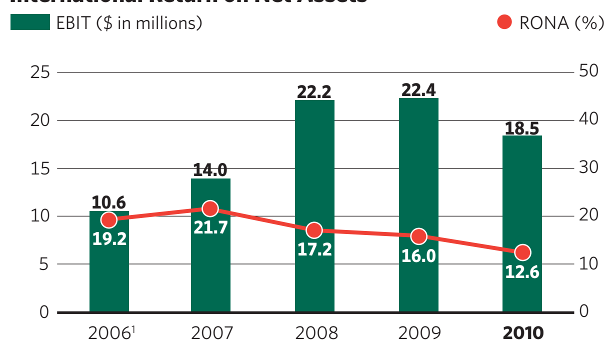
Operational Net Assets Employed

($ millions at the end of the fiscal year)	2010	2009	2008
Property and equipment	**$ 69.9**	$ 70.6	$ 60.7
Inventory	**50.7**	52.2	49.9
Accounts receivable	**9.1**	9.4	8.9
Other assets	**20.1**	12.7	14.8
Liabilities	**(30.7)**	(31.3)	(30.0)
Total	**$ 119.1**	$ 113.6	$ 104.3

International Operational net assets employed increased $5.5 million or 4.8% from 2009 and were up $14.8 million or 14.2% from 2008 due in part to new stores. Inventories at the end of the year decreased from 2009 as a result of inventory rebalancing initiatives implemented in the second half of the year. Average inventory levels in 2010 were $2.9 million higher than 2009 and $4.4 million higher than 2008 due largely to new stores. Inventory turnover decreased to 6.3 times in 2010 compared to 6.8 times in 2009 mainly due to higher average inventories. The increase in other assets is due to higher cash balances at the end of the year.

Return on Net Assets The return on net assets employed for International Operations decreased to 12.6% from 16.0% in 2009 due to lower EBIT and the impact of higher average net assets compared to last year.

International Return on Net Assets



1 Equivalent year basis excluding $1.4 million IRS housing benefit assessment

Consolidated Liquidity and Capital Resources

The following table summarizes the major components of cash flow:

($ in thousands fiscal year)	2010	2009	Change
Cash flows from (used in):			
Operating activities	**$ 110,911**	$ 107,973	$ 2,938
Investing activities	**$ (35,995)**	$ (59,372)	$ 23,377
Financing activities	**$ (70,963)**	$ (47,053)	$ (23,910)
Net change in cash	**$ 3,953**	$ 1,548	$ 2,405

Cash from operating activities Cash flow from operating activities increased $2.9 million to $110.9 million from $108.0 million in 2009. Changes in non-cash working capital negatively impacted cash flow from operating activities by $0.1 million compared to a decrease in cash flow of $6.7 million in 2009. The change in non-cash working capital is largely due to the change in accounts receivable, inventories and accounts payable as noted in the Canadian and International operational net assets employed on pages 10 and 12 respectively.

Cash used in investing activities Net cash used in investing activities was $36.0 million compared to $59.4 million in 2009. Net investing in Canadian Operations was $29.0 million ($39.6 million in 2009). A summary of the Canadian Operations investing activities is included in operational net assets employed on page 10. Net investing in International Operations was $7.0 million compared to $19.8 million in 2009. Investing activities in the International Operations included a major store renovation, energy conservation projects and equipment replacements. The decrease in investing activities from the prior year is due in part to the $12.2 million acquisition of the retail mall and store in Sitka, Alaska in 2009 (see Note 22 to the consolidated financial statements).

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

	Number of Stores		Selling square footage	
	2010	2009	**2010**	2009
Northern	**126**	127	**703,414**	720,773
NorthMart	**7**	7	**148,306**	148,306
Quickstop	**15**	15	**26,566**	28,571
Giant Tiger	**34**	31	**544,175**	509,078
AC Value Centers	**30**	29	**294,597**	290,403
Cost-U-Less	**12**	12	**336,138**	336,138
Other Formats	**6**	5	**45,716**	42,841
Total at year end	**230**	226	**2,098,912**	2,076,110

In our Canadian Operations, new stores included one Quickstop convenience store, a Northern store, three Giant Tiger stores and one pharmacy included in Other Formats. Two smaller Northern banner stores were closed in Fort St. James, BC and Wawa, Ontario. Total selling square feet in Canada increased to 1,445,291 from 1,423,329 in 2009.

In our International Operations, one AC Value Center was opened and one Quickstop in Bethel, Alaska was closed. International selling square feet increased to 653,621 from 652,781 in 2009.

Net capital expenditures for 2011 are projected to be approximately $50 million ($36.0 million in 2010) reflecting the opening and acquisition of new stores, store renovation and energy conservation projects, pharmacy openings and acquisitions, and store point-of-sale and corporate system upgrades.

Cash used in financing activities Cash used in financing activities was $71.0 million compared to $47.1 million in 2009. The decrease in bank advances is due to lower borrowings in the International Operations. Repayments of loans granted to officers under the Company's Unit Purchase Loan Plan ("UPLP") were $6.4 million compared to $4.9 million in 2009. The UPLP was discontinued January 31, 2011 and all of the loans were repaid. Long-term debt, net of repayments, decreased $8.4 million due largely to a reduction in the amount outstanding on the Canadian Operations revolving loan facilities. The $20.4 million increase in long-term debt, net of repayments, in 2009 was related to the private placement issuance of US$70.0 million 6.55% senior notes, the net proceeds of which were used to repay the US$39.0 million senior notes which matured on June 15, 2009, to reduce bank debt and for general corporate purposes.

Employee future benefits The Company sponsors defined benefit and defined contribution pension plans covering the majority of Canadian employees. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan, which incorporated legislated changes, administrative practice, and added a defined contribution provision. 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. The defined benefit pension previously earned by the members transitioned to the defined contribution plan will continue to accrue in accordance with the provisions of the amended plan based on the member's current pensionable earnings. Members who met the required qualifying threshold elected between continuing to accrue a defined benefit pension and accruing a defined contribution benefit. Additional information regarding employee future benefits is provided in Note 17 to the consolidated financial statements.

In 2011, the Company expects to contribute approximately $3.0 million to the defined benefit pension plan compared to $4.8 million in 2010. The actual amount of the contributions may be different from the estimate based on actuarial valuations, market performance and regulatory requirements. The Company also expects to contribute approximately $1.7 million to the defined contribution pension plan in 2011.

Sources of liquidity The Canadian Operations have available extendible, committed, revolving loan facilities of $140.0 million that mature on December 31, 2011. These facilities are secured by a floating first 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. These facilities bear interest at Bankers' Acceptance rates plus stamping fees or the Canadian prime rate. At January 31, 2011, the Company had drawn $67.4 million (January 31, 2010 – $72.9 million) on these facilities. The Company has started the process of refinancing the $140.0 million loan facility. The Company does not anticipate any difficulty in securing financing to satisfy its maturing long-term debt however, economic conditions continue to be volatile and this may negatively impact the availability of credit, interest rates and the scope of financing covenants. For further information on risks related to refinancing, see liquidity risk in the risk management section on page 20.

At January 31, 2011, the Canadian Operations have outstanding US$70.0 million senior notes (January 31, 2010 – US$70.0 million) that mature on June 15, 2014. The senior notes are secured by a floating first charge on the assets of the Company and rank pari passu with the $140.0 million loan facilities and the US$52.0 million loan facilities. The US$70.0 million senior notes have been designated as a hedge against the U.S. dollar investment in the self-sustaining International Operations. Of this amount, US$42.0 million of the senior notes are at a fixed interest rate of 6.55%. Interest on US$28.0 million has been converted by an interest rate swap from fixed to floating rates at the three-month London Interbank Offered Rate (LIBOR) plus a spread. For more information on the senior notes and financial instruments see Note 9 and Note 20 to the consolidated financial statements.

The Company's International Operations have available committed, revolving loan facilities of US$52.0 million that mature on December 31, 2013. These facilities are secured by a floating first charge against the assets of the Company and rank pari passu with the US$70.0 million senior notes and the $140.0 million loan facilities. These facilities bear interest at LIBOR plus a spread or the U.S. prime rate. At January 31, 2011, the Company had drawn US$50.0 million (January 31, 2010 – US$52.0 million) on these facilities.

In January 2011, the Company refinanced the US$15.0 million demand, revolving loan facility in its International Operations. The new committed, revolving loan facility of US$20.0 million matures on October 31, 2012. This facility bears interest at LIBOR plus a spread and is secured by a charge against certain accounts receivable and inventories of the International Operations. At January 31, 2011, the International Operations had drawn US$NIL (January 31, 2010 – US$293) on the facility.

The coverage ratio of EBIT to interest decreased to 15.3 times from 17.3 times in 2009. The coverage ratio decreased due to lower EBIT and the impact of higher interest rates.

Interest Costs and Coverage

	2010	2009	2008
Coverage ratio	**15.3**	17.3	10.9
EBIT ($ in millions)	**$ 89.8**	$ 95.1	$ 90.2
Interest ($ in millions)	**$ 5.9**	$ 5.5	$ 8.3

The bank credit 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, 2011, the Company is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

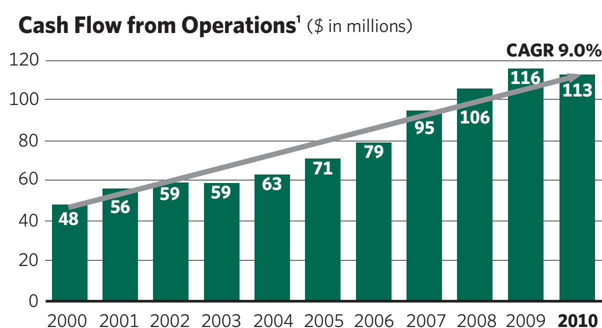
Contractual Obligations and Other Commitments

Contractual obligations of the Company are listed in the chart below:

($ in thousands)	Total	0-1 Year	2-3 Years	4-5 Years	6 Years+
Long-term debt (including capital lease obligations)	$ 192,596	$ 68,257	$ 51,433	$ 69,702	$ 3,204
Operating leases	145,582	21,953	38,082	27,491	58,056
Other long-term liabilities	5,516	395	2,726	193	2,202
Total	$ 343,694	$ 90,605	$ 92,241	$ 97,386	$ 63,462

Cash flow from operations and unutilized credit available on existing credit facilities are expected to be sufficient to fund operating requirements, including working capital, pension plan contributions, sustaining and planned growth-related capital expenditures as well as anticipated dividends during 2011.

The compound annual growth rate (CAGR) for cash flow from operations over the past 10 years is 9.0% as shown in the following graph:



1 See Non-GAAP measures section on page 26

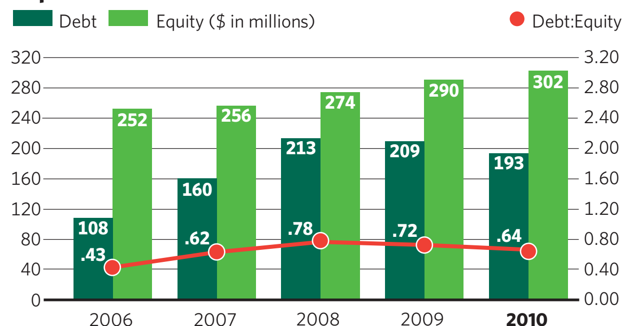
Director and Officer Indemnification Agreements The Company has agreements with its current and former directors, trustees, and officers to indemnify them against charges, costs, expenses, amounts paid in settlement and damages incurred from any lawsuit or any judicial, administrative or investigative 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 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 financial statements regarding these agreements.

Giant Tiger Master Franchise Agreement In 2002, the Company signed a 30-year Master Franchise Agreement with *Giant Tiger Stores Limited*, based in Ottawa, Ontario which grants the Company the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, Giant Tiger Stores Limited provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing distribution services to the stores. The Company's exclusivity right requires that a minimum number of Giant Tiger stores be opened each year, based on an expected roll-out of 72 stores over the term of the agreement. As at January 31, 2011, the Company has opened 34 Giant Tiger stores and is in compliance with the terms of the agreement. Additional information on commitments, contingencies and guarantees is provided in Note 18 to the consolidated financial statements.

Capital Structure

On a consolidated basis, the Company had $192.6 million in debt and $302.5 million in equity at the end of the year and a debt-to-equity ratio of .64:1 compared to .72:1 last year. The decrease in the debt-to-equity ratio from last year is due in part to the strengthening Canadian dollar and the impact on the translation of U.S. denominated debt.



The strength of the Company's capital structure is reflected in the preceding chart. Over the past five years, the Company's debt-to-equity ratio has ranged from .43:1 to .78:1, while annual cash distributions to unitholders have ranged from $0.80 to $1.42 over the same period. Equity has increased $50.5 million or 20.0% to $302.5 million over the past five years and interest-bearing debt has increased to $192.6 million from $107.5 million in 2006.

Loans receivable from officers and selected senior management under the unit purchase loan plan ("UPLP") of $6.4 million at the beginning of the year were repaid during the year as the program was discontinued at January 31, 2011. These loans, which were recorded as a reduction of equity, were non-interest bearing and repayable from the after-tax distributions or if the officer sold the units or left the Company. Share-based medium and long-term incentive plans were introduced in 2008 as a replacement for loans granted under the UPLP. The share-based incentive plans include restricted share units, performance share units and options. Further information on security-based compensation is provided in Note 19 to the consolidated financial statements.

Consolidated debt at January 31, 2011 decreased $16.6 million or 7.9% to $192.6 million compared to $209.2 million in 2009, and was down $20.4 million or 9.6% from $213.0 million in 2008. The decrease in debt is due in part to the impact of the stronger Canadian dollar on the translation of U.S. denominated debt. The exchange rate used to translate U.S. denominated debt into Canadian dollars was 1.0022 at January 31, 2011 compared to 1.0650 at January 31, 2010, and 1.2364 at January 31, 2009. The impact of the stronger Canadian dollar resulted in a $7.9 million decrease in long-term debt from 2009 and a $29.5 million decrease from 2008. The Company's U.S. denominated debt decreased to US$125.8 million compared to US$129.0 million in 2009, but was up compared to US$99.3 million in 2008. The decrease in U.S. denominated debt compared to 2009 was due to a lower amount outstanding under the US$52 million loan facilities and principle payments on the notes payable and capital lease obligation. The increase in U.S denominated debt compared to 2008 was largely due to the US$70.0 million 6.55% senior notes issued in 2009, the proceeds of which were used to repay the remaining US$39.0 million of the US$65.0 million 5.89% senior notes that matured on June 15, 2009 and to reduce amounts outstanding under the revolving loans. Average debt outstanding during the year excluding the foreign exchange impact decreased $5.4 million or 2.4% from 2009. The debt outstanding at the end of the fiscal year is summarized as follows:

Debt

($ in thousands at the end of the fiscal year)	**2010**	2009	2008
Senior notes	**$ 69,199**	$ 73,481	$ 48,411
Canadian revolving loan facilities	**67,445**	72,853	90,031
U.S revolving loan facilities	**50,110**	55,380	64,293
Notes payable	**4,850**	5,567	1,799
Capital leases	**992**	1,577	2,518
Bank advances	**–**	312	5,974
Total	**$ 192,596**	$ 209,170	$ 213,026

Shareholder Equity The Company has an unlimited number of authorized shares and had issued and outstanding shares at January 31, 2011 of 48,378,000 (48,378,000 units as at January 31, 2010). Further information on the Company's capital is provided in Note 11 to the consolidated financial statements.

Book value per share, on a diluted basis, at the end of the year increased to $6.24 compared to $6.12 per unit in 2009. Book equity was positively impacted by an increase in retained earnings of $6.4 million ($15.1 million in 2009) after distributions of $70.2 million ($66.8 million in 2009).

Unitholder Distributions The Fund paid distributions of $68.7 million or $1.42 per unit compared to $67.2 million or $1.39 per unit paid in 2009. The following table shows the quarterly cash distributions per unit paid for the past three years:

	2010	2009	2008
First Quarter	**$ 0.34**	$ 0.32	$ 0.32
Second Quarter	**0.34**	0.32	0.32
Third Quarter	**0.34**	0.34	0.32
Fourth Quarter	**0.34**	0.34	0.32
Special	**0.06**	0.07	0.12
Total	**$ 1.42**	$ 1.39	$ 1.40

The determination to declare and make payable distributions from the Fund was subject to the terms of the Fund's Declaration of Trust and the discretion of the Board of Trustees. The Fund's distribution policy was to make distributions to unitholders equal to the taxable income of the Fund. The taxable income of the Fund was primarily based on an allocation of the taxable income of The North West Company LP less Fund expenses. In addition to the quarterly distributions, a special year end distribution was declared to unitholders if the taxable income of the Fund exceeded the cumulative distributions for the year. A special distribution of $0.09 per unit was paid February 18, 2011 to unitholders of record on December 31, 2010 ($0.06 per unit was paid February 19, 2010 to unitholders of record on December 31, 2009). The Fund's obligation to pay the $0.09 per unit special distribution was assumed by the Company as part of the conversion to a share corporation (see Conversion to a Share Corporation on page 6). Further information on distributions is included in Note 23 to the consolidated financial statements.

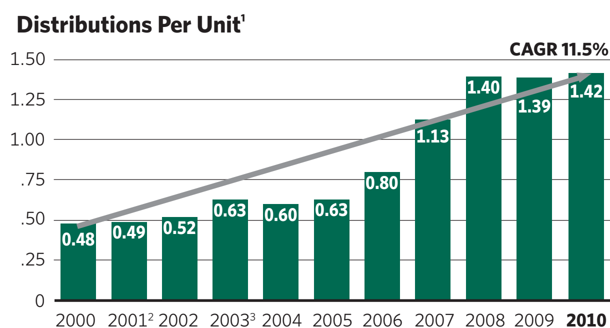
The following table shows distributions paid in comparison to cash flow from operations and cash flow from operating activities for the past three years:

	2010	2009	2008
Distributions	**$ 68,700**	$ 67,245	$ 67,730
Cash flow from operations [1]	**$ 113,076**	$ 116,486	$ 106,324
Distributions as a % of cash flow from operations	**60.8%**	57.7%	63.7%
Cash flow from operating activities	**$ 110,911**	$ 107,973	$ 90,178
Distributions as a % of cash flow from operating activities	**61.9%**	62.3%	75.1%

1 See Non-GAAP measures section on page 26

The compound annual growth rate (CAGR) for distributions over the past 10 years is 11.5% as shown in the following graph:

Distributions Per Unit[1]



1 All per unit information has been restated to reflect the three-for-one unit split that occurred on September 20, 2006

2 The Fund issued 4,305,000 additional units on a split adjusted basis

3 The Fund paid a special distribution of $0.11 per unit on a split adjusted basis

Shareholder Dividends The Company anticipates paying dividends of approximately $0.96 annually or $0.24 per quarter in 2011. The payment of dividends on the Company's common shares will be subject to the approval of the Board of Directors and will be 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 CBCA for the declaration of dividends.

QUARTERLY FINANCIAL INFORMATION

Historically, the Company's first quarter sales are the lowest and fourth quarter sales are the highest, reflecting consumer buying patterns. Weather conditions are often more extreme compared to other retailers and can affect sales in any quarter. Net earnings generally follow higher sales, but can be dependent on 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.

The following is a summary of selected quarterly financial information:

($ thousands)	Q1	Q2	Q3	Q4	Total
Sales					
2010	$ 340,133	$ 366,205	$ 367,285	$ 374,481	$ 1,448,104
2009	$ 345,621	$ 367,469	$ 360,764	$ 370,512	$ 1,444,366
Trading profit					
2010	$ 28,193	$ 32,142	$ 34,107	$ 30,860	$ 125,302
2009	$ 27,548	$ 34,318	$ 36,062	$ 32,346	$ 130,274
Net earnings					
2010	$ 17,251	$ 19,926	$ 22,143	$ 17,274	$ 76,594
2009	$ 16,133	$ 20,483	$ 24,970	$ 20,227	$ 81,813
Earnings per share/unit—basic					
2010	$ 0.36	$ 0.41	$ 0.46	$ 0.36	$ 1.59
2009	$ 0.34	$ 0.43	$ 0.52	$ 0.42	$ 1.71
Earnings per share/unit—diluted					
2010	$ 0.36	$ 0.41	$ 0.45	$ 0.36	$ 1.58
2009	$ 0.33	$ 0.43	$ 0.51	$ 0.42	$ 1.69

Fourth Quarter Highlights Fourth quarter consolidated sales increased 1.1% to $374.5 million compared to $370.5 million in 2009. Excluding the foreign exchange impact, sales increased 2.8% and were up 1.7%[1] on a same store basis. Northern markets remained strong in the quarter with sales[1] in our northern Canada and Alaska stores up 4.3% on a same store basis. Our discount banners faced continued food pricing pressure and were down 1.9% on a same store basis. Consolidated food sales[1] increased 2.8% and were up 2.5% on a same store basis. General merchandise sales[1] increased 1.5% but were down 0.8% on a same store basis.

Cost of sales, selling and administrative expenses increased 1.6% to $343.6 million and increased 49 basis points as a percentage to sales compared to the fourth quarter of 2009. More aggressive promotional pricing and higher distribution and pension expenses in our Canadian Operations were major factors contributing to the increase. Partially offsetting these increases were lower incentive plan expenses and the impact of a stronger average Canadian dollar on the translation of U.S. denominated International Operations expenses compared to last year.

Trading profit decreased 4.6% to $30.9 million compared to $32.3 million in the fourth quarter last year. Overall lower gross profit rates and higher expenses in Canadian Operations were the leading factors contributing to this decrease. Excluding the foreign exchange impact, trading profit decreased 3.9% and was 8.3% as a percentage to sales compared to 8.8% last year.

Income taxes increased to $3.0 million from $1.9 million in the fourth quarter last year largely due to the taxation of Canadian Operations earnings effective January 1, 2011 as a result of the conversion to a share corporation. See Conversion to a Share Corporation on page 6 for further information.

Net earnings decreased 14.6% to $17.3 million and diluted earnings per share decreased to $0.36 compared to $0.42 per unit last year. The increase in income taxes in the Canadian Operations as a result of the conversion to a share corporation negatively impacted diluted earnings per share by approximately $0.02 per share.

Working capital decreased 8.8% or $10.0 million compared to the fourth quarter last year largely due to the current portion of long term debt related to the $67.4 million outstanding on the credit facility in Canadian Operations which matures December 31, 2011 compared to the US$52.0 million credit facility in International Operations that was refinanced in November 2010. Excluding the impact of the maturing credit facilities, working capital increased $2.1 million or 1.2% compared to last year.

Cash flow from operating activities in the quarter increased $16.0 million or 42.5% to $53.7 million from $37.7 million last year. The increase in cash flow from operating activities is due to the change in non-cash working capital largely related to a decrease in accounts receivable and an increase in accounts payable in the quarter compared to the prior year. The impact of the earlier flow of fall and seasonal inventory in the second quarter this year compared to the third and fourth quarter last year was also a factor. Cash flow from operations[2] decreased 10.7% to $28.7 million largely due to lower earnings.

Cash used for investing activities in the quarter increased to $12.6 million compared to $11.7 million last year due to a difference in the timing of capital investments. Cash used for investing activities during the year was $36.0 million compared to $59.4 million in 2009. The decrease is largely due to the $15.4 million acquisition of a store and two pharmacy and health service businesses last year.

Cash used for financing activities in the quarter was $38.7 million compared to $35.0 million last year. The change in bank advances is due to a reduction in the amount outstanding under the International Operations credit facility. Repayments received on loans issued to officers under the Unit Purchase Loan Plan ("UPLP") were $0.1 million in the quarter compared to $3.0 million last year. The UPLP was discontinued as of January 31, 2011 and all of the loans have been repaid. The Company, on behalf of the Fund, paid distributions of $16.4 million consistent with the fourth quarter last year. The change in long-term debt in the quarter is largely due to a decrease in the amount drawn on the Canadian Operations revolving credit facility.

Further information on the quarterly financial performance of the Company is provided in the interim MD&A available on the Company's website at *www.northwest.ca* or on SEDAR at *www.sedar.com.*

1 Excluding the foreign exchange impact 2 See Non-GAAP measures section on page 26

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. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. 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, 2011.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is 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 Canadian generally accepted accounting principles. 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. Based on an evaluation of the Company's internal controls over financial reporting using the framework published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework") as required by National Instrument 52-109, the Company's CEO and CFO have concluded that the internal controls over financial reporting were designed and operated effectively as of January 31, 2011. There have been no changes in the internal controls over financial reporting during the year ended January 31, 2011 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

OUTLOOK

Economic conditions and personal income growth in northern Canada and Alaska are expected to remain favourable and this is expected to contribute to same store sales gains from our banners in these markets in 2011. More intense retail food competition in Western Canada is expected to continue to impact same store sales at Giant Tiger. Sales at CUL are continuing to improve as we cycle through the poor performance that occurred last year. The poor wholesale sales performance in our International Operations is starting to level off and should start to rebound in the later part of the first quarter as we recapture business that was affected by shipping disruptions related to the consolidation of our distribution centers and information systems in the first quarter last year.

Our LRP work related to improving in-stock performance, perishable food profitability and store management stability are expected to deliver sales and margin gains during the year. The implementation of a new federal subsidy program ("Nutrition North") for nutritious perishable food sold in northern Canada will result in lower transportation costs for most qualifying communities. This is expected to have a deflationary impact on sales within the eligible food categories in our Northern and NorthMart stores but will also present an opportunity to grow our tonnage volume.

As a result of changes in taxation legislation with respect to certain income trusts such as the Fund and the subsequent conversion of the Fund to a share corporation on January 1, 2011, the earnings from The North West Company LP that previously flowed to the Fund on a pre-tax basis will now be subject to income taxes at a combined federal and provincial tax rate of approximately 30% in 2011 which, on a comparable basis, will result in lower net earnings in 2011 compared to 2010. On a consolidated basis, the effective tax rate is estimated to be approximately 32% however the actual effective tax rate will be impacted by the income earned across the various tax jurisdictions.

RISK MANAGEMENT

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 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:

Retail Industry and Economic Environment External factors which affect customer demand, and over which the Company exercises no influence, include general economic growth, inflation, interest rates, personal debt levels, unemployment rates and levels of personal disposable income. In an economic downturn, discounting by major retailers may result in more out-shopping by consumers from the Company's markets, which may negatively impact sales and gross profit. Changes in the inflation rate 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. Although our core customer is a lower income shopper with relatively stable income sources, a recession or significant and prolonged decline in consumer spending could have an adverse effect on the financial condition

and results of operations. 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.

Consumer Income Our largest customer segment derives most of its income directly or indirectly from government infrastructure spending or direct payment to individuals in the form of social assistance, food subsidy programs, child tax benefits and old age security. These tend to be stable sources of income, independent of economic cycles. A major source of employment income is generated from local government and spending on infrastructure projects. This includes new housing, schools, healthcare facilities, military facilities, roads and sewers. Local employment levels will fluctuate from year-to-year depending on a community's fiscal health, especially near the end of the government budget year. A similar fluctuating source of income is employment related to tourism and natural resource development and extraction activities. 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.

Competition We have a leading market position in a large percentage of the markets we serve. 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. The entrance of new competitors or an increase in competition in the Company's markets could negatively impact sales and 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, initiatives to recruit local residents into management positions, encourage indigenous or Aboriginal participation on our Board of Directors, and direct investment in the Company by locally-owned entities. To the extent the Company is not successful in maintaining positive community and customer relations in these locations, it could have an adverse effect on sales and financial performance.

Employee Development and Retention Retaining and developing high calibre employees is essential to effectively managing our business, executing our strategies and meeting our objectives. Due to the vast geography and remoteness of the Company's markets, there is significant competition for talent and a limited number of experienced personnel, 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. In 2010, the Company began work on the store stability initiative. This initiative, which is part of the long-range plan, is focused on having all stores reach a targeted level of capability and stability within three years. In addition to compensation programs 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 and the Company's in-depth leadership development program. These types of programs are long term change management investments that continue to be refined.

Food Safety The Company is exposed to risks associated with food safety and product handling. Food sales represent approximately 76% 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 financial condition and results of operations. The Company has food preparation, handling 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 however, the existence of these procedures does not eliminate the underlying risks.

Energy Costs Compared to other retailers, the Company is more exposed to fluctuations in the price of energy, particularly oil. Due to the vast geography of the store network, transportation costs are a significant component of the Company's expenses. The majority of stores are inaccessible by all-weather roads and as a result, stores are serviced by different modes of transportation including sealift, barge, trucks via winter roads, rail and air. In addition to transportation costs, heating costs also comprise a relatively large portion of the general overhead costs. To the extent that escalating fuel and utility costs cannot be offset by energy conservation practices or offsetting productivity gains, they may result in lower margins or higher retail prices. Consumer spending, especially on discretionary items, may also be adversely effected.

Income Taxes The Company accounts for income taxes using the liability method of tax allocation. Under the liability method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax base of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax or liabilities are expected to be realized or settled. The provision for income taxes is recorded in the Company at applicable statutory rates.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. 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. The Company

regularly reviews the potential for adverse outcomes and the adequacy of its tax provisions. The Company believes that it has adequately provided for these matters. 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 matters are resolved.

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 gasoline dispensing units in a number of locations and also uses fuel to heat stores and housing. Contamination resulting from gasoline and heating fuel is possible. The Company employs monitoring and testing procedures to minimize the risk of contamination. The Company also operates refrigeration equipment in its stores and distribution centers 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 business, financial condition and results of operations.

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. Insurance is arranged with financially stable insurance companies as rated by the professional rating agencies. There is no guarantee that any given risk will be mitigated in all circumstances or that the Company will be able to continue to purchase this insurance coverage at reasonable rates.

Climate Weather conditions can play a significant role in the operation of the stores of the Company's operating subsidiaries. These weather conditions can range from blizzards to hurricanes and cyclones, and can cause loss of life, damage to and destruction of key stores. Such losses may have an adverse effect on the financial condition and results of operations. As well, any global warming conditions would have a more pronounced effect, both positive and negative, on the Company's most northern latitude stores. The stores located in the South Pacific, Caribbean and coastal areas of Alaska are also at risk from hurricanes, cyclones, typhoons, earthquakes and tsunamis which can result in loss of life and destruction of assets.

Information Technology The Company relies on information technology ("IT") to support the current and future requirements of the business. IT systems are relied upon to provide essential information to management for decision making. Any significant failure or disruption in IT systems, or the failure to successfully upgrade legacy systems or implement new systems could have an adverse effect on the financial condition and results of operations.

Laws, Regulations and Standards The Company is subject to various laws and regulations administered by federal, provincial and foreign regulatory authorities, including but not limited to taxes, duties, currency repatriation, zoning, health and safety, employment standards and licensing requirements. New accounting standards and pronouncements or changes in accounting standards, including the transition to International Financial Reporting 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, or legal action that could have an adverse effect on the business, financial condition or results of operations.

Management of Inventory Success in the retail industry is dependent upon the ability to manage merchandise inventories 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. Excess inventory may result in higher markdowns or inventory shrinkage all of which could have an adverse effect on the financial condition and results of operations.

Vendor and Service Partner Management The Company relies on a broad base of manufacturers and suppliers to provide goods and services. Events 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 results of operations. 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.

Ethical Business Conduct The Company has a Code of Conduct Policy which governs both employees and Directors. The Business Ethics Committee monitors compliance with the Code of Conduct policy. The Company also has a Vendor Information Manual which outlines the Company's expectations for the ethical conduct of its vendors. 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 condition and results of operations.

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 could have an adverse effect on the financial condition and results of operations.

Employee Future 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. 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, employee future benefit plan expenses and actuarial assumptions. 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 condition and results of operations.

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. These risks and the actions taken to minimize the risks are described below. See Note 20 to the consolidated financial statements for additional information on the Company's financial instruments and associated risks.

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 and sustaining and growth-related capital expenditures and regularly monitoring actual and forecasted cash flow and debt levels. At January 31, 2011, the Company's Canadian Operations has a $140.0 million credit facility that matures on December 31, 2011. The Company has started the process of refinancing this credit facility. Global economic conditions continue to result in uncertainty and volatility in the credit markets which may negatively impact the availability of credit, interest rates and covenants for Companies seeking to refinance debt. To the extent the Company cannot meet its obligations or refinance its debt when it comes due, or can do so only at an excessive cost, this may have an adverse effect on the financial condition and results of operations. For further information on credit facilities see Note 8 and Note 9 to the consolidated financial statements.

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 self-sustaining International Operations and its U.S. dollar denominated borrowings. The Company manages its exposure to currency risk by hedging the net investment in self-sustaining foreign operations with a portion of U.S. dollar denominated borrowings. The Company is also exposed to currency risk relating to the translation of International Operations earnings from U.S. dollars to Canadian dollars. During 2010, the Canadian dollar was on average stronger than the U.S. dollar compared to 2009. In 2009, the Canadian dollar was on average weaker than the U.S. dollar compared to 2008. The stronger Canadian dollar in 2010 decreased the translation of U.S. denominated net earnings from International Operations by $1.2 million compared to an increase in the translation of net earnings of $0.6 million in 2009 compared to 2008.

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 by using a combination of interest rate swaps and a mixture of fixed and floating interest rate debt. Additional information regarding interest rate swaps is provided in Note 9 and Note 20 to the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions 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. Actual results could differ from these estimates as confirming events occur. The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the consolidated financial statements.

Valuation of Accounts Receivable The Company records an allowance for doubtful accounts related to accounts receivable that may potentially be impaired. The allowance is based on the aging of the accounts receivable, our knowledge of our customers' financial condition, the current business environment and historical experience. A significant change in one or more of these factors could impact the estimated allowances for doubtful accounts recorded in the consolidated balance sheet and the provisions for debt loss recorded in the consolidated statement of earnings and retained earnings.

Valuation of Inventories Retail inventories are stated at the lower of cost and net realizable value. Significant estimation or judgment is required in the determination of: (1) discount factors used to convert inventory to cost after a physical count at retail has been completed; (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.

Food inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness. General merchandise inventories counted at retail are converted to cost by applying average cost factors by merchandise category. These cost factors represent the average cost-to-retail ratio for each merchandise category based on beginning inventory and purchases made throughout the year.

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 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 sheet and a charge or credit to cost of sales in the consolidated statement of earnings and retained earnings. Additional information regarding inventories is provided in Note 4 to the consolidated financial statements.

Employee Future Benefits The cost and accrued benefit plan obligations of the Company's defined benefit pension plans 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 expected long-term rate of return on plan assets, 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, the expected long-term rate of return on plan assets and the rate of compensation increase are the three most significant assumptions. The discount rate used to calculate benefit plan obligations is based on market interest rates, as at the Company's measurement date of January 31, 2011 on a portfolio of Corporate AA bonds with terms to maturity that, on average, matches the terms of the accrued benefit plan obligations. The discount rates used to measure the benefit plan obligations for fiscal 2010 and 2009 were 5.8% and 6.0% respectively. The expected long-term rate of return on plan assets is based on historical returns, the asset mix and current investment yields. The expected long-term rate of return on plan assets for fiscal 2010 and 2009 is 6.5%. Management assumed the rate of compensation increase for fiscal 2010 and 2009 at 4%.

These assumptions may change in the future and may result in material changes in the accrued employee future benefit asset on the Company's consolidated balance sheet and the benefit plan expense on the consolidated statement of earnings 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 employee future benefits is provided in Note 17 to the consolidated financial statements.

Impairment of Long-lived Assets The Company periodically 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. In performing its review of recoverability, management estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying value of the asset, an impairment loss would be recognized based on the excess of the carrying value of the asset over the fair market value calculated using discounted future cash flows. 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 unrecoverable increases in operating costs. 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 sheet and consolidated statement of earnings and retained earnings.

Goodwill Goodwill is not amortized but is assessed for impairment at the reporting unit level at least annually. The potential for goodwill impairment is determined by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment test must be undertaken. A goodwill impairment loss is recorded when the carrying value of goodwill exceeds the implied fair value of the reporting unit and is recognized as an expense in the period the impairment is determined. The process of determining fair value requires management to make estimates and assumptions including, but not limited to, future sales, gross profit rates, earnings, capital investment, discount rates, weighted average cost of capital and growth rates. These estimates and assumptions are subject to change in the future due to changes in competitive and economic market conditions or changes in business strategies. 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 sheet and consolidated statement of earnings and retained earnings.

The Company performed the annual goodwill impairment test in 2010 and it was determined that the fair value of the reporting unit exceeded its carrying value and therefore, no goodwill impairment was identified.

Income Taxes Future income 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. Future 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 future income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment regarding the financial statement carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances. The future income tax assets and liabilities are also impacted by the interpretation of income tax legislation across various jurisdictions, expectations about future operating results and the timing of reversal of temporary differences, and possible audits of tax filings by the regulatory agencies.

Changes or differences in these estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts. Additional information on income taxes is provided in Note 14 to the consolidated financial statements.

Security-based Compensation Security-based compensation awards are measured and recognized using a fair value based method. Security-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as an expense over the vesting period. Determining the fair value of security-based compensation awards requires judgement regarding the estimation of the expected volatility of the Company's shares and the number of awards expected to be forfeited. The security-based compensation cost for awards that are dependent upon performance conditions is based on management's best estimates of the outcome of the performance conditions. To the extent that actual results differ from management's estimates, security-based compensation expense recorded on the Company's consolidated statement of earnings and retained earnings may be significantly impacted. Additional information on security-based compensation is provided in Note 19 to the consolidated financial statements.

ACCOUNTING STANDARDS IMPLEMENTED IN 2010

In 2010, the Company implemented the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

Business Combinations CICA HB 1582, Business Combinations, together with CICA HB 1601, Consolidated Financial Statements, and CICA 1602, Non-Controlling Interest, were adopted for business combinations for which the acquisition date is on or after February 1, 2010. These new standards align Canadian generally accepted accounting principles for business combinations and consolidated financial statements with International Financial Reporting Standards (IFRS). The changes require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of the items such as non-controlling interests and contingent consideration. In addition, business acquisition costs including transaction costs and restructuring costs are expensed rather than capitalized. Early adoption facilitated the harmonization of the accounting treatments of business combinations for the year ended January 31, 2011 under both Canadian GAAP and IFRS.

FUTURE ACCOUNTING STANDARDS

The Canadian Accounting Standards Board requires all publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies are also required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian generally accepted accounting principles (Canadian GAAP) to IFRS is applicable for the Company's first quarter beginning February 1, 2011 when the Company will prepare unaudited interim period consolidated financial statements in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, including restated 2010 comparative figures and required reconciliations prepared in accordance with IFRS 1, *First-Time Adoption of International Financial Reporting Standards.*

Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. The adoption of IFRS will have an impact on the Company's accounting, financial statements and disclosures, information systems, internal controls over financial reporting and disclosure controls and procedures. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings in the transitional balance sheet. The International Accounting Standards Board (IASB) is continuing to work on new accounting standards or changes to previously issued accounting standards. The Company continues to monitor the changes to accounting standards proposed by the IASB and assess the impact of those changes.

The Company has a project team led by the CFO and is supported by a project manager and a combination of internal and external resources. The team reports to senior management and the Audit Committee of the Board of Directors on a quarterly basis. The Board of Directors has been provided education with respect to IFRS and its effects on the Company. The IFRS conversion project consists of four main phases: Phase One – Project Plan and Scope; Phase Two – Detailed Impact Assessment; Phase Three – Conversion Plan; and Phase Four – Policy Selection and Implementation.

To date the Company has completed Phases One to Three and substantially completed Phase Four. Specifically, these phases were comprised of:

- Diagnostic assessment of the financial statement components that will be impacted, priority ranking of those differences identified, and delegation of project work to team members.

  Status: All work streams were identified and delegated to members of the project team.

- Comprehensive analysis of the major differences between Canadian GAAP and IFRS applicable to the Company.

  Status: All work streams have been completed, reviewed by the CFO, and summarized for the Audit Committee.

- Identification and preliminary selection of accounting policy alternatives, transition elections and exemptions available under IFRS.

  Status: Preliminary conclusions on accounting policies and transition elections were reviewed and will be finalized prior to the end of the first quarter of 2011. When finalizing accounting policy choices the Company considers, among other factors: which policy best reflects the business and comparability to organizations in the same or similar industry; minimizing the impact on earnings volatility and income tax; and the cost of initial conversion and ongoing compliance. The final selection of accounting policies, transition elections and exemptions and the finalization of IFRS compliant financial statements and notes are all subject to the approval of the Company's Audit Committee and Board of Directors.

- Identification and implementation of changes to accounting and reporting systems, disclosure controls and procedures, and internal controls over financial reporting.

  Status: The Company has completed its preliminary unaudited transitional balance sheet and financial statements for each of the quarters in 2010 based on the detailed information provided below. Our external auditors are in the process of completing their examination of our adjustments. The Company expects no material changes to its internal controls or disclosure controls and procedures on adoption of IFRS.

- Operational changes to finance and business processes including: budgeting, compliance with lending agreements, performance targets on incentive programs, training and taxation.

  Status: Required operational and reporting changes have been communicated and agreed with each of the functional areas. Process and workflow modifications were completed by the end of 2010. The implementation of IFRS is expected to have an impact on certain financial measures used in calculating the Company's financial covenants under its loan facilities and senior notes. The Company's loan facilities and senior notes provide for the opportunity to revise covenants to reflect the impact of IFRS. The Company is in discussions with its lenders on how to administer the impact of IFRS on its covenants. Income tax accounting impacts have been identified and quantified, however the impacts of the IFRS conversion on the Company's tax compliance process is still being assessed.

Differences between Canadian GAAP and IFRS that will result in modifications to the financial statements have been identified. Based on the work completed to date, the differences that were expected to have the most significant impact on the Company's financial statements and an analysis thereof are summarized below. These differences are categorized as Initial and Post Adoption Accounting Differences and Transition Adjustments: First Time Adoption of IFRS. This information is provided to enable our stakeholders to obtain a better understanding of

the areas that are expected to have the greatest impact on the Company and is not a comprehensive analysis of all changes that may result upon the adoption of IFRS.

Readers are cautioned that the disclosed impacts of IFRS are unaudited estimates and may be subject to change. Until the Company has finalized its accounting policies and the transition exemptions and elections, the impact of IFRS on the Company's future financial position cannot be precisely quantified; however, such impacts may be material upon final determination.

Initial and Post Adoption Accounting Differences

Employee benefits IAS 19, *Employee Benefits* permits an entity to make an accounting policy choice regarding the treatment of actuarial gains and losses. These choices include deferred recognition using the corridor method or immediate recognition in either equity through other comprehensive income or net earnings. Under Canadian GAAP the Company applied the corridor method. In 2010, the IASB issued an exposure draft which would essentially eliminate the choices regarding the treatment of actuarial gains and losses and require them to be recorded directly in equity through other comprehensive income. The Company expects to recognize actuarial gains and losses on its defined benefit pension plans through other comprehensive income.

Impairment IAS 36, *Impairment of Assets* uses a one-step impairment test whereby long-lived and finite life intangible asset carrying values are compared directly to their fair value. Fair value under IFRS is based on the greater of value in use and fair value less costs to sell. Under IFRS, impairment of assets must be assessed at a more detailed level whenever there is an indication of impairment. This may result in more frequent impairment of assets under IFRS given the smaller size of the cash generating unit being evaluated. The Company has determined its cash generating units to be used for the purpose of goodwill impairment testing and determined there is no goodwill impairment on transition to IFRS. The Company has completed a preliminary determination of its cash generating units and an evaluation of the events that may indicate potential impairment or reversal of impairment of long-lived assets. The Company does not expect the implementation of this standard to have a significant impact at the transition date however, for the reasons given above, the future impact of this standard may result in more frequent impairment of assets and greater volatility in the statement of earnings.

Share-based Payments IFRS 2, *Share-based Payments* requires that cash-settled awards granted to employees be measured at the grant date and each subsequent reporting period using a fair value model. This differs from Canadian GAAP whereby cash settled awards are measured using the intrinsic value which is based on the market price of the Company's shares at the end of the reporting period. The impact of accounting for these awards at fair value is not expected to be significant.

Provisions IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* requires contractual liabilities and decommissioning obligations to be classified as provisions, and are calculated using a risk-free discount rate. This requirement may result in the recognition of a different amount than under Canadian GAAP. The net effect of the change in discount rate on transition to IFRS is not expected to be significant.

Borrowing Costs IAS 23, *Borrowing Costs* requires entities to capitalize borrowing costs directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset. Under Canadian GAAP the Company does not capitalize borrowing costs. The impact of this change is not expected to be significant.

Income Taxes Changes to tax reporting will be predominantly caused by adjustments to the accounting basis of assets and liabilities under IFRS and differing tax rates applicable to mutual fund trusts. At February 1, 2010, North West Company was structured as an income trust. Upon transition the tax assets and liabilities must be calculated using the highest marginal tax rate of North West Company Fund which is 46.4%. This is expected to result in an increase to deferred tax assets of approximately $9.2 million at the February 1, 2010 transition date. A significant portion of the increase in deferred tax assets will reverse through the statement of earnings as deferred tax expense in the 2010 fourth quarter comparative numbers in the IFRS financial statements as a result of the conversion to a share corporation and the application of corporate tax rates used to calculate deferred tax assets. Together with the tax effect of other IFRS transition adjustments, the total increase to deferred income tax assets on transition is expected to approximate $15.2 million with a corresponding increase in retained earnings. IFRS also requires that all deferred taxes be disclosed as non-current assets or non-current liabilities.

Hedging The requirements for achieving hedge accounting may differ under IFRS from those under Canadian GAAP, depending on the nature of the risk being hedged. The Company has hedged the fair value of a portion of its floating rate debt. The Company has also hedged the foreign exchange exposure from its net investment in self-sustaining foreign operations. The Company has completed its review of these hedging relationships and expects the accounting treatment to remain the same under IFRS.

Leases IFRS does not have specific quantitative guidelines to determine whether the risks and rewards of ownership of the leased asset have been transferred. Under IFRS, leased assets are assessed qualitatively to determine the classification of leases between operating and finance leases. The qualitative considerations for the classification of leases were reviewed at the transition date and the Company does not expect the adoption of this standard to be significant.

Transition Adjustments: First Time Adoption of IFRS

IFRS 1 – First-time Adoption of International Financial Reporting Standards IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for retrospective application of the standards. The Company expects to apply the following IFRS 1 exemptions upon adoption:

Employee benefits A first time adopter must either recalculate its actuarial gains and losses at changeover in accordance with the requirements of IAS 19, *Employee Benefits* or immediately recognize all cumulative actuarial gains and losses through opening retained earnings. The Company expects to elect the latter and has engaged its external actuaries to quantify the adjustment to retained earnings in accordance with IAS 19. The Company estimates this adjustment will result in a decrease in retained earnings of $26.1 million excluding the related income tax effect.

Cumulative translation account IFRS 1 provides the option to reclassify all cumulative translation differences at the transition date from other comprehensive income to retained earnings. The Company expects to use this election and reset all cumulative translation differences to zero on transition. At January 31, 2010, the Company had unrealized gains on translation of financial statements from a self-sustaining operation in U.S. dollar functional currency to Canadian dollar reporting currency of $4.1 million, which will result in an increase to retained earnings.

Fair value as deemed cost A choice is available between: measuring property and equipment at either its fair value at the date of transition and using those values as deemed cost; or using amortized historical cost determined in accordance with IAS 16, *Property, Plant and Equipment.* The Company expects to selectively apply this exemption on transition, resulting in an estimated increase in assets and retained earnings of $2.8 million, excluding the related tax impact.

Business combinations IFRS 3, *Business Combinations* may be applied retrospectively, effectively restating all business combinations in accordance with IFRS or by restating business combinations after a selected date. An entity may also elect to apply this standard prospectively from the date of transition. We expect to apply IFRS 3 prospectively from the date of transition. A consequential impact of this election is that goodwill arising on business combinations prior to the date of transition will not be adjusted from the carrying value previously determined under Canadian GAAP.

The following unaudited table shows the expected impacts of the conversion from Canadian GAAP to IFRS on the Company's opening transitional balance sheet as at February 1, 2010 after applying the optional elections and mandatory exemptions described above:

Preliminary Reconciliation of the IFRS Transition Balance Sheet

(unaudited, $ in thousands)		CDN GAAP	Adjustments	**IFRS**
CURRENT ASSETS			**February 1, 2010**	
Cash		27,278	-	**27,278**
Accounts receivable		71,767	-	**71,767**
Inventories		177,877	-	**177,877**
Prepaid expenses		4,786	-	**4,786**
Future income taxes	(a)	4,135	(4,135)	**-**
		285,843	(4,135)	**281,708**
NON-CURRENT ASSETS				
Property and equipment	(b)	258,928	3,099	**262,027**
Other assets	(c)	26,252	(15,139)	**11,113**
Intangible assets		18,332	-	**18,332**
Goodwill		28,593	-	**28,593**
Future income taxes	(a)	5,852	19,374	**25,226**
		337,957	7,334	**345,291**
TOTAL ASSETS		623,800	3,199	**626,999**
CURRENT LIABILITES				
Bank Advances		312	-	**312**
Accounts payable and accrued liabilities		113,407	-	**113,407**
Income tax payable		1,888	-	**1,888**
Current portion of long-term debt		56,339	-	**56,339**
		171,946	-	**171,946**
NON-CURRENT LIABILITIES				
Long-term debt		152,519	-	**152,519**
Provisions	(d)	-	3,616	**3,616**
Employee future benefits	(c)	-	10,957	**10,957**
Other long-term liabilities	(d)	9,409	(3,001)	**6,408**
		161,928	11,572	**173,500**
TOTAL LIABILITIES		333,874	11,572	**345,446**
CONSOLIDATED LIABILITIES & EQUITY				
Capital		165,133	-	**165,133**
Unit purchase loan plan		(6,428)	-	**(6,428)**
Contributed surplus		1,569	-	**1,569**
Retained earnings	(f)	125,525	(4,246)	**121,279**
Accumulated other comprehensive income	(e)	4,127	(4,127)	**-**
TOTAL EQUITY		289,926	(8,373)	**281,553**
TOTAL LIABILITIES & EQUITY		623,800	3,199	**626,999**

(a) Under IFRS, all future income taxes are reported as non-current assets or liabilities and will be referred to as deferred taxes. The $19.4 million adjustment to future income taxes is comprised of the following:
- $4.1 million reclassification of future income tax assets from current assets to non-current assets.
- $9.2 million increase in future tax assets related to the revaluation of existing temporary differences by applying the top marginal tax rate of North West Company Fund in Canada (see income taxes on page 24 for further information).
- $6.1 million increase in future tax assets due to the recognition of other temporary differences on transition to IFRS largely related to the liability for employee future benefits (see c below).

(b) An IFRS 1 election is expected to be made to record certain property on transition at fair value, resulting in an increase of $2.8 million. There is also a $0.3 million increase resulting from a measurement difference on our asset retirement obligation (see d).

(c) At the date of transition, the Company expects to elect under IFRS 1 to recognize all cumulative actuarial gains and losses in retained earnings. The effect is to eliminate the employee future benefit asset of $15.1 million recorded under Canadian GAAP and to record a liability for employee future benefits of $11.0 million.

(d) Under IFRS, asset retirement obligations are classified as provisions and changes in the discount rate used to measure the liability result in its revaluation. Under Canadian GAAP, only changes to the estimate resulting in increases in the liability are discounted at the current interest rate. The Company anticipates these changes will result in the reclassification of our existing liability of $3.1 million and a measurement adjustment of $0.5 million.

(e) IFRS 1 provides the option to reclassify all cumulative translation differences at the transition date from accumulated other comprehensive income to retained earnings. The Company expects to use this election and reset the $4.1 million cumulative translation difference to zero on transition.

(f) Under IFRS 1, most changes to the February 1, 2010 transitional balance sheet are applied retrospectively through opening retained earnings. The adjustments described above, if applied, result in a consequential reduction in retained earnings of $4.2 million.

Anticipated Impacts of the Adoption of IFRS on Consolidated Statement of Earnings

For the year ended January 31, 2011 the Company reported net earnings of $76.6 million and diluted earnings per share of $1.58 under Canadian GAAP. Under IFRS, the Company estimates that it will report net earnings of approximately $69.5 million and diluted earnings per share of $1.43 for the same period. The decrease in net earnings reported under IFRS is primarily due to the Company's conversion to a share corporation and the application of corporate tax rates used to calculate deferred tax assets. This difference is more fully described under income taxes on page 24.

The Company's IFRS convergence plan continues to be on target to meet the changeover date.

NON-GAAP MEASURES

(1) Trading Profit (EBITDA) is not a recognized measure under Canadian GAAP. 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 GAAP 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:

Reconciliation of Net Earnings to Trading Profit

($ in thousands)	**2010**	2009	2008
Net earnings	**$ 76,594**	$ 81,813	$ 75,378
Add: Amortization	**35,492**	35,150	32,054
Interest expense	**5,875**	5,470	8,307
Income taxes	**7,341**	7,841	6,518
Trading profit	**$ 125,302**	$ 130,274	$ 122,257

For trading profit information by business segment, see Note 16 "Segmented Information" in the notes to the consolidated financial statements on page 41

(2) Earnings Before Interest and Income Taxes (EBIT) is not a recognized measure under Canadian GAAP. Management believes that EBIT is a useful 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 GAAP as an indicator of the Company's performance. The Company's method of calculating EBIT may differ and may not be comparable to measures used by other companies. A reconciliation of consolidated net earnings to EBIT is provided below:

Reconciliation of Net Earnings to EBIT

($ in thousands)	**2010**	2009	2008
Net earnings	**$ 76,594**	$ 81,813	$ 75,378
Add: Interest expense	**5,875**	5,470	8,307
Income taxes	**7,341**	7,841	6,518
EBIT	**$ 89,810**	$ 95,124	$ 90,203

For EBIT information by business segment, see Note 16 "Segmented Information" in the notes to the consolidated financial statements on page 41

(3) Cash Flow from Operations is not a recognized measure under Canadian GAAP. Management believes that in addition to net earnings, cash flow from operations is a useful supplemental measure as it provides investors with an indication of the Company's ability to generate cash flows to fund its cash requirements, including dividends and capital investment. Investors should be cautioned, however, that cash flow from operations should not be construed as an alternative to net earnings as a measure of profitability or the statement of cash flows. The Company's method of calculating cash flow from operations may differ from other companies and may not be comparable to measures used by other companies. A reconciliation of consolidated cash flow from operating activities to cash flow from operations is provided below:

Reconciliation of Cash Flow from Operating Activities to Cash Flow from Operations

($ in thousands)	**2010**	2009	2008
Cash flow from operating activities	**$ 110,911**	$ 107,973	$ 90,178
Non-cash items: Change in other non-cash items	**2,068**	1,834	(1,396)
Change in non-cash working capital	**97**	6,679	17,542
Cash flow from operations	**$ 113,076**	$ 116,486	$106,324

GLOSSARY OF TERMS

Basic earnings per share Net earnings available to shareholders 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.

Cash flow from operations Provides an indication of the Company's ability to generate cash flows to fund its cash requirements, including distributions and capital investment. See Non-GAAP measures on page 26.

Control label or Private label A brand or related trademark that is owned by the Company for use in connection with its own products and services.

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

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

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

Diluted earnings per share The amount of net earnings for the period available to shareholders 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 Net earnings before interest and income taxes provides an indication of the Company's performance prior to interest expense and income taxes. See Non-GAAP measures on page 26.

EBIT margin EBIT 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.

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.

Return on equity Net earnings divided by average shareholder equity.

Return on net assets Net earnings before interest and income taxes divided by average net assets employed (average total assets less accounts payable and accrued liabilities, income taxes payable and asset retirement obligations).

Same store sales Retail sales from stores that have been open more than 52 weeks in the periods being compared.

Trading profit (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 measures on page 26.

Trading profit margin Trading profit divided by sales.

Working capital Total current assets less total current liabilities.

Year The fiscal year ends on January 31. The 2010 year which ended January 31, 2011 had 365 days of operations. The 2009 year which ended January 31, 2010 had 365 days of operations. The 2008 year which ended January 31, 2009 had 366 days of operations as a result of the February 29 leap year. The 2007 year which ended January 31, 2008 had 365 days of operations. The 2006 year which ended January 31, 2007 has 368 days of operations as a result of the Company adopting a fixed fiscal year end of January 31 compared to the last Saturday in January used in prior years.

Nor'Westers are associated with the vision, perseverance, and enterprising spirit of the voyageurs who pushed past limits to further our Company's growth during the 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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