

THE NORTH WEST COMPANY INC.

2011 THIRD QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. reports its results for the third quarter ended October 31, 2011 prepared under International Financial Reporting Standards (“IFRS”). Sales increased 3.0% to \$378.4 million compared to the third quarter last year. Sales excluding the foreign exchange impact were up 4.0% and increased 3.4%¹ on a same store basis. Strong food sales across all of our banners continued to be the leading factor contributing to the sales growth.

Third quarter net earnings were \$17.0 million compared to last year’s IFRS restated third quarter earnings of \$22.4 million. Diluted earnings per share were \$0.35 compared to \$0.46 per unit last year. The conversion to a share corporation effective January 1, 2011 and the resulting increase in income tax expense accounted for this difference, negatively impacting diluted earnings per share by approximately \$0.11 per share.

The Board of Directors has approved a quarterly dividend of \$0.24 per share to shareholders of record on December 30, 2011.

On behalf of the Board of Directors:



H. Sanford Riley
Chairman



Edward S. Kennedy
President and Chief Executive Officer

Management’s Discussion & Analysis

The Canadian Accounting Standards Board requires that all publicly accountable enterprises prepare interim and annual financial statements using International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Accordingly, The North West Company Inc. (the “Company”) has prepared its unaudited interim condensed consolidated financial statements for the period ended October 31, 2011 using IFRS. All comparative figures for 2010 that were previously reported in the consolidated financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) have been restated to conform with the accounting policies and financial statement presentation adopted under IFRS. For further information on the transition to IFRS and its impact on the Company’s financial statements refer to Note 16 in the 2011 third quarter unaudited interim condensed consolidated financial statements and Note 16 in the Company’s 2011 first quarter unaudited interim period condensed consolidated financial statements.

The following management discussion and analysis should be read in conjunction with the Company’s unaudited interim condensed consolidated financial statements for the period ended October 31, 2011 and the audited annual consolidated financial statements and accompanying notes included in the 2010 Annual Financial Report. The Company’s October 31, 2011 unaudited interim condensed consolidated financial statements and the accompanying notes form part of the first annual audited consolidated financial statements to be prepared in accordance with IFRS for the year ending January 31, 2012.

¹ Excluding the foreign exchange impact

CONSOLIDATED RESULTS

Quarter

Third quarter consolidated sales increased 3.0% to \$378.4 million compared to \$367.3 million in 2010. Excluding the foreign exchange impact, sales increased 4.0% and were up 3.4%¹ on a same store basis. Strong food sales growth across all of our banners combined with general merchandise sales increases in our northern banners in Canada and Alaska, more than offset lower general merchandise sales in our Giant Tiger and Cost-U-Less banners. Food sales¹ increased 4.7% and were up 4.0% on a same store basis. General merchandise sales¹ increased 1.6% and were up 1.1% on a same store basis.

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

	2011	2010
Food	77.2%	76.8%
General merchandise	19.5%	19.9%
Other*	3.3%	3.3%

* Other sales include gas, fur and service charge revenues

Earnings from operations of \$25.4 million were flat to last year as the increase in sales was offset by higher selling, operating and administrative expenses and lower earnings from the Company's Canadian Arctic shipping investment compared to its record third quarter earnings last year. On a year-to-date basis earnings from this investment are consistent with last year. Excluding the foreign exchange and shipping investment impact, earnings from operations increased 4.5% from the third quarter last year. Trading profit² or earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 0.8% to \$34.5 million compared to \$34.2 million last year. Excluding the foreign exchange and shipping investment impact, trading profit increased \$1.4 million or 4.2% and was 9.4% as a percentage to sales compared to 9.3% last year.

Income tax expense increased to \$7.0 million compared to \$1.4 million in the third quarter last year largely due to the taxation of Canadian Operations earnings as a result of the conversion to a share corporation on January 1, 2011 (see Conversion to a Share Corporation on page 7 for further information). Prior to the conversion to a share corporation, a substantial portion of the earnings from The North West Company LP flowed to North West Company Fund on a pre-tax basis and were ultimately distributed to unitholders. There was no current income tax payable by the Fund on these distributions. The consolidated effective tax rate for the quarter was 29.2% reflecting the taxation of Canadian earnings and higher earnings in the International Operations.

Net earnings decreased 24.1% to \$17.0 million and diluted earnings per share decreased to \$0.35 compared to \$0.46 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 \$0.11 per share.

As a result of volatile capital markets and changes in long-term interest rates, a re-measurement of the defined benefit pension plan assets and liabilities was performed at October 31, 2011. The Company recorded an increase in defined benefit plan obligations of \$18.4 million, an increase in deferred tax assets of \$4.9 million, and net actuarial losses of \$13.5 million as a charge to other comprehensive income. The charge to other comprehensive income was immediately recognized in retained earnings at October 31, 2011. The net actuarial loss is due to a significant decrease in the discount rate used to calculate pension liabilities and lower than expected returns on pension plan assets. The Company continues to monitor the impact of market conditions on its defined benefit pension plan obligations.

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

Year-to-Date

Year-to-date sales increased 2.2% to \$1.098 billion compared to \$1.074 billion in 2010. Sales growth was partially offset by the negative impact of foreign exchange on the conversion of U.S. denominated sales. The average exchange rate used to convert U.S. denominated sales and expenses from the International Operations was 5.0% lower at 0.981 compared to 1.033 last year. Excluding the foreign exchange impact, sales increased 4.0% and were up 2.6%¹ on a same store basis. Food sales¹ increased 4.5% and were up 3.3% on a same store basis. General merchandise sales¹ increased 1.5% and were flat on a same store basis due to weaker performance in the first quarter.

Earnings from operations decreased 0.1% to \$68.2 million compared to \$68.3 million last year as higher selling, operating and administrative expenses offset the impact of higher sales. Excluding the foreign exchange impact, earnings from operations increased 1.1%. Trading profit² increased 0.5% to \$95.3 million compared to \$94.8 million last year. Excluding the foreign exchange impact, trading profit increased \$1.6 million or 1.7% and was 8.7% as a percentage to sales compared to 8.9% last year.

Income taxes increased to \$19.4 million compared to \$3.4 million last year largely due to the taxation of Canadian Operations earnings as a result of the conversion to a share corporation. The consolidated effective tax rate was 30.4% reflecting the taxation of Canadian earnings and higher earnings in the International Operations.

Net earnings decreased 26.5% to \$44.5 million and diluted earnings per share decreased to \$0.92 compared to \$1.25 per unit last year. The increase in income taxes in the Canadian Operations as a result of the conversion to a share corporation was the largest factor, negatively impacting diluted earnings per share by approximately \$0.31 per share. The impact of a stronger Canadian dollar on the conversion of U.S. denominated earnings in our International Operations decreased diluted earnings per share by \$0.01 per share.

CANADIAN OPERATIONS

Canadian sales for the quarter increased 4.8% to \$257.7 million from \$246.0 million last year and were up 4.3% on a same store basis. Food sales increased 5.6% and were up 4.9% on a same store basis. Food sales were up in all banners with northern markets qualifying for the Nutrition North Canada (NNC) freight subsidy also delivering sales growth in spite of the deflationary impact of the NNC subsidy. Food inflation resulting from higher commodity costs net of NNC freight subsidies was approximately 2.0% in the quarter. General merchandise sales increased 2.6% from last year and were up 2.5% on a same store basis as strong sales growth in northern banners offset a weak back to school sales performance in our Giant Tiger stores. Home furnishings, electronics and transportation categories accounted for the majority of the sales gains, more than offsetting weaker apparel sales performance.

Gross profit dollars increased 4.7% driven by sales gains as gross profit rates were flat for the quarter. Selling, operating and administrative expenses increased 7.0% and were up 47 basis points as a percentage to sales. The increase is partially due to higher staff costs, expenses related to new stores and the lower earnings from the investment in the Arctic shipping company as previously noted.

Canadian trading profit increased 0.4% to \$26.5 million compared to \$26.4 million last year and was 10.3% to sales compared to 10.7% of sales in the third quarter last year. Excluding the shipping investment impact, trading profit increased 3.9% and was 10.6% to sales.

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International sales increased 2.4% to \$120.5 million compared to \$117.7 million in the third quarter last year and were up 1.5% on a same store basis as food sales growth and strong general merchandise sales increases in Alaska (AC) stores more than offset weaker general merchandise sales performance at Cost-U-Less (CUL). Food sales increased 2.9% and were up 2.4% on a same store basis with both AC and CUL stores contributing to the increase. General merchandise same store sales were down 4.1% in the quarter reflecting lower discretionary spending in CUL. The general merchandise sales decrease in CUL was partially offset by strong big-ticket sales in AC driven in part by the Permanent Fund Dividend (PFD) and other settlement payments. The PFD paid to qualifying residents in Alaska was \$1,174 compared to \$1,281 last year. Sales in our wholesale business continue to improve after a weak sales performance in 2010.

Gross profit dollars were up 5.5% as a result of sales growth and improved gross profit rates. The rate improvement was due to less promotional discount pricing pressure compared to last year in a number of key markets. The increase in food gross profit rates was partially offset by higher markdowns to general merchandise. Selling, operating and administrative expenses increased 5.3% and were up 60 basis points as a percent to sales. Rising utility expenses caused by higher fuel prices and higher incentive plan expenses reflecting the improved performance were the leading factors contributing to the increase.

Trading profit increased 5.2% to \$8.0 million compared to \$7.6 million last year and as a percent to sales was 6.6% compared to 6.5% in the third quarter last year.

FINANCIAL CONDITION

Financial Ratios

The Company's debt-to-equity ratio at the end of the quarter was 0.72:1 compared to 0.73:1 last year. The debt-to-equity ratio at January 31, 2011 was 0.67:1. The decrease in the debt to equity ratio compared to last year is due to a reduction in long-term debt related to the repayment of a US\$3.9 million note payable and lower amounts drawn on the Company's loan facilities as noted in the liquidity and capital resources section below. The impact of lower long-term debt was partially offset by the \$13.5 million charge to retained earnings through other comprehensive income related to the net actuarial losses previously noted.

Working capital decreased 31.3% or \$43.8 million compared to the third quarter last year largely due to the increase in the current portion of long term debt. The increase in the current portion of long-term debt is due to the \$88.2 million outstanding on the loan facility in Canadian Operations which matures December 31, 2011 compared to the \$53.0 million loan facility in International Operations that was refinanced in November 2010. Excluding the impact of these maturing loan facilities, working capital decreased \$8.6 million or 4.5% compared to last year due largely to the increase in income tax payable in the Canadian Operations as a result of the conversion to a share corporation.

Outstanding Shares

The weighted average basic shares outstanding for the quarter were 48,378,000 compared to 48,176,000 units last year. The increase is due to the termination of the Unit Purchase Loan Plan as the units previously pledged as security for the loans were deducted from the issued and outstanding units of North West Company Fund (the "Fund") to determine the basic units outstanding. The weighted average fully diluted shares outstanding for the quarter were 48,509,000 compared to 48,498,000 units last year. The increase in the fully diluted shares outstanding is due to shares granted under the Director Deferred Share Unit Plan and options granted under the Share Option Plan.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

\$ in thousands	Three Months October 31, 2011	Three Months October 31, 2010	Change	Nine Months October 31, 2011	Nine Months October 31, 2010	Change
Cash flows from (used in):						
Operating Activities	\$ 10,626	\$ 29,666	\$ (19,040)	\$ 62,334	\$ 60,435	\$ 1,899
Investing Activities	(9,803)	(9,468)	(335)	(28,582)	(23,460)	(5,122)
Financing Activities	(3,522)	(28,078)	24,556	(31,002)	(35,484)	4,482
Net change in cash	\$ (2,699)	\$ (7,880)	\$ 5,181	\$ 2,750	\$ 1,491	\$ 1,259

Cash flow from operating activities in the quarter decreased \$19.0 million to \$10.6 million from \$29.7 million last year. This decrease is due to the change in non-cash working capital largely related to the flow of fall and seasonal inventory in the third quarter this year compared to the second quarter last year. Cash flow from operations² increased 1.1% to \$32.6 million compared to \$32.3 million last year due to the change in income taxes compared to last year. As a result of the conversion to a share corporation, the Company is accruing Canadian income tax expense throughout the year which will be paid in the first quarter of 2012. In 2012, Canadian income tax instalments will be paid on a monthly basis. For the year-to-date, cash flow from operating activities increased 3.1% to \$62.3 million compared to \$60.4 million last year largely due to the change in non-cash working capital related to accounts payable and inventories and the change in income taxes compared to the prior year.

Cash used for investing activities in the quarter increased to \$9.8 million compared to \$9.5 million last year due to a difference in the timing of capital investments. On a year-to-date basis, cash used in investing activities increased 21.8% to \$28.6 million. Net capital expenditures for 2011 are projected to be in the \$54 million range (2010 - \$36.0 million) reflecting the opening and acquisition of new stores, store renovation and energy conservation projects, pharmacy acquisitions and openings, staff housing renovations, and store point-of-sale system upgrades.

Cash used for financing activities in the quarter was \$3.5 million compared to \$28.1 million last year. The change in long-term debt in the quarter is largely due to an increase in the amount drawn on the Canadian Operations revolving loan facility compared to last year due in part to the flow of fall and seasonal inventory in the third quarter this year compared to the second quarter last year.

The Company paid dividends of \$11.6 million compared to distributions from the Fund of \$16.5 million in the third quarter last year. The decrease in the amount paid to shareholders is due to the conversion to a share corporation and the taxation of earnings in the Canadian Operations. While higher corporate income taxes will reduce the Company's net earnings available for dividends to shareholders, the after-tax impact on personal income is largely offset for taxable investors benefiting from the dividend tax credit.

On a year-to-date basis, cash used for financing activities was \$31.0 million compared to \$35.5 million last year due to an increase in the amount drawn on loan facilities and a decrease in dividends as explained above as well as the repayment of a US\$3.9 million note payable.

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 charge on the assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the US\$52.0 million loan facilities. At October 31, 2011, the Company had drawn \$88.2 million on these facilities (October 31, 2010 – \$87.1 million).

On December 5, 2011, the Company completed the previously announced refinancing of its \$140.0 million loan facilities in the Canadian Operations. The new committed, extendible, revolving loan facilities, which are provided by the lenders of the existing facilities, provide the Company with a \$170.0 million revolving loan facility for working capital requirements and general business purposes. These facilities, which mature on December 31, 2015, will be secured by a floating charge on the assets of the Company and rank *pari passu* with the US\$70.0 million senior notes and the US\$52.0 million loan facilities. The new loan facilities will bear a floating interest rate based on banker's acceptances plus a negotiated spread or the Canadian prime interest rate.

The 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 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. At October 31, 2011, the Company had drawn US\$44.0 million on these facilities (October 31, 2010 – US\$52.0 million).

The International Operations also have available a committed, revolving loan facility of US\$20.0 million that matures October 31, 2012 and is secured by a floating charge against certain accounts receivable and inventories of the International Operations. At October 31, 2011, the Company had US\$1.2 million drawn on these facilities (October 31, 2010 – US\$0.4 million).

The loan facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At October 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.

Cash flow from operations and funds available on existing loan facilities are expected to be sufficient to fund operating requirements, sustaining and growth-related capital expenditures, as well as all dividends for the year.

SHAREHOLDER DIVIDENDS

The Board of Directors of the Company declared a quarterly dividend of \$0.24 per share to shareholders of record on December 30, 2011, payable on January 16, 2012.

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

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. See Conversion to a Share Corporation below for further information.

CONVERSION TO A SHARE CORPORATION

On January 1, 2011, the North West Company Fund (the “Fund”) completed its previously announced conversion to a corporation named The North West Company Inc. (the “Company”) by way of a plan of arrangement under section 192 of the CBCA. Unitholders of the Fund received one common share of the Company for each unit of the Fund held. Upon conversion, the Company assumed all of the covenants and obligations of the Fund and the common shares of the Company began trading on the Toronto Stock Exchange under the symbol “NWC”. 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 restated to conform with IFRS. 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.

OUTLOOK

The Company’s strategic focus continues to be on four “More Growth in Store” initiatives: in-stock performance, perishable food profitability, supply chain improvements and store management stability. Progress on each of these work streams is delivering returns to the business and helping to offset performance challenges within our Giant Tiger and Cost-U-Less store banners.

Fourth quarter sales trends have accelerated in Canada but have slowed slightly in our International division. Cost pressures related to special projects and performance incentive payments are expected to dampen earnings growth through to year end. Deflationary pricing related to the pass through of nutritious food subsidies in northern Canada will continue to be a significant benefit to customers and should result in higher unit sales.

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 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 31% however the actual effective tax rate will be impacted by the income earned across the various tax jurisdictions.

In the first three quarters of 2010, while organized as an income trust, the deferred tax assets and liabilities of The North West Company LP were calculated using 46.4%, the highest marginal tax rate of the Fund. Upon conversion to a share corporation in the fourth quarter of 2010, the deferred tax assets and liabilities are calculated using substantively enacted corporate income tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be realized or settled of approximately 27%. The reduction in the tax rates used to calculate deferred tax assets and liabilities from 46.4% to approximately 27% will result in incremental income tax expense of approximately \$10 million in the 2010 fourth quarter comparative numbers.

QUARTERLY RESULTS OF OPERATIONS

In 2011, the quarters have the same number of days of operations as 2010. The following is a summary of selected quarterly financial information which is prepared in accordance with IFRS except for the 2009 information which was prepared in accordance with Canadian GAAP (CGAAP).

Operating Results-Consolidated

(\$ in millions)	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	CGAAP
	92 days	92 days	92 days	92 days	89 days	89 days	92 days	92 days
	2011	2010	2011	2010	2011	2010	2010	2009
Sales	\$378.4	\$367.3	\$372.9	\$366.2	\$346.3	\$340.1	\$374.5	\$370.5
Trading profit	34.5	34.2	32.4	32.2	28.4	28.3	31.0	32.3
Net earnings	17.0	22.4	15.0	20.2	12.4	17.8	9.2	20.2
Net earnings per share:								
Basic	0.35	0.47	0.31	0.42	0.26	0.37	0.19	0.42
Diluted	0.35	0.46	0.31	0.42	0.26	0.37	0.19	0.42

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company in order to provide reasonable assurance that all material information relating to the Company is made known to management in a timely manner so that appropriate decisions can be made regarding public disclosure. Management is also responsible for establishing and maintaining internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be designed effectively can only provide reasonable assurance of achieving the control objectives. Additionally, management is necessarily required to use judgment in evaluating controls and procedures. There have been no changes in the internal controls over financial reporting during the quarter ended October 31, 2011 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As required by the Canadian Accounting Standards Board, the Company has adopted IFRS and accordingly the unaudited interim condensed consolidated financial statements for the period ending October 31, 2011 and the corresponding 2010 comparative figures have been prepared in accordance with IFRS and IAS 34, *Interim Financial Reporting*. A reconciliation of the 2010 financial statements prepared under Canadian generally accepted principles to IFRS and other reconciliations required under IFRS 1, First-time Adoption of International Financial Reporting Standards is included in Note 16 to the consolidated financial statements. The IFRS 1 reconciliations for the 2011 first quarter, for year-ended January 31, 2011 and for the opening IFRS balance sheet at February 1, 2010 are included in Note 16 of the Company's April 30, 2011 unaudited interim condensed consolidated financial statements.

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

The Company is currently assessing the impact of the following accounting standards that are applicable in future periods:

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments are applicable to the Company's financial year beginning February 1, 2012.

Consolidated Financial Statements The IASB issued IFRS 10, *Consolidated Financial Statements* replacing portions of IAS 27, *Consolidated and Separate Financial Statements* addressing consolidation and superseding SIC-12 in its entirety. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard is effective for the Company's financial year beginning February 1, 2013.

Joint Arrangements The IASB issued IFRS 11, *Joint Arrangements* superseding IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non Monetary Contributions by Venturers*. IFRS 11 establishes principles for determining the type of joint arrangement by assessing the rights and obligations in an arrangement and provides guidance for financial reporting activities required by entities that have an interest in a jointly controlled arrangement. This standard is effective for the Company's financial year beginning February 1, 2013.

Disclosure of Interests in Other Entities The IASB issued IFRS 12, *Disclosure of Interests in Other Entities* requiring extensive disclosures relating to a company's interest in subsidiaries, associates and certain other arrangements. IFRS 12 enables financial statement users to evaluate the nature and risks associated with these interests and evaluate their nature and their effect on its own financial performance. This standard is effective for the Company's financial year beginning February 1, 2013.

Employee benefits The IASB has revised IAS 19 *Employee benefits* to eliminate the option to defer the recognition of actuarial gains and losses, enhance the guidance around measurement of plan assets and benefit obligations, and streamline the presentation of changes in assets and liabilities arising from defined benefit plans including enhanced disclosure requirements. This standard is effective for the Company's financial year beginning February 1, 2013.

Income Taxes The IASB has issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. The Company does not expect this change to have a significant effect on its consolidated financial statements.

Financial Instruments The IASB has issued a new standard which will eventually replace IAS 39, *Financial Instruments: Recognition and Measurement*. The development of IFRS 9, *Financial Instruments* is a multi-phase project with a goal of improving and simplifying financial instrument reporting. IFRS 9 uses a single approach to determine measurement of a financial asset based on how an entity manages financial impairment, replacing the multiple classification options in IAS 39. This standard is effective for the Company's financial year beginning February 1, 2013.

Presentation of Financial Statements The IASB has amended IAS 1 *Presentation of Financial Statements* to enhance the presentation of Other Comprehensive Income (OCI). These amendments require the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. These amendments are applicable for the Company's financial year beginning February 1, 2013.

Fair Value Measurement IFRS 13 *Fair Value Measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. This standard is effective for the Company's financial year beginning February 1, 2013.

NON-GAAP MEASURES

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

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

(\$ in thousands)	Third Quarter		Year-to-Date	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net earnings	\$ 17,000	\$ 22,409	\$ 44,460	\$ 60,490
Add: Amortization	9,028	8,795	27,030	26,466
Interest expense	1,440	1,625	4,411	4,467
Income taxes	<u>7,008</u>	<u>1,386</u>	<u>19,370</u>	<u>3,360</u>
Trading profit	<u>\$ 34,476</u>	<u>\$ 34,215</u>	<u>\$ 95,271</u>	<u>\$ 94,783</u>

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

(2) **Cash Flow from Operations** is not a recognized measure under IFRS. Management believes that, in addition to cash flow from operating activities, 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 distributions and capital investments. Investors should be cautioned, however, that cash flow from operations should not be construed as an alternative to cash flow from operating activities or net earnings as a measure of profitability. 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:

(\$ in thousands)	Third Quarter		Year-to-Date	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Cash flow from operating activities	\$ 10,626	\$ 29,666	\$ 62,334	\$ 60,435
Non-cash items:				
Change in other non-cash items	2,980	2,473	3,063	5,283
Change in non-cash working Capital	19,007	114	26,550	22,416
Cash flow from operations	<u>\$ 32,613</u>	<u>\$ 32,253</u>	<u>\$ 91,947</u>	<u>\$ 88,134</u>

Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the unaudited interim condensed Consolidated Financial Statements and Notes to the unaudited interim condensed Consolidated Financial Statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to December 8, 2011.

Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, distributions, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions and integrate acquisitions and the Company's success in anticipating and managing the foregoing risks. The reader is cautioned that the foregoing list of important factors is not exhaustive. Other risks are outlined in the Risk Management section of the 2010 Annual Financial Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited, \$ in thousands)	October 31 2011	October 31 2010	January 31 2011
CURRENT ASSETS			
Cash	\$ 33,981	\$ 28,769	\$ 31,231
Accounts receivable	69,897	68,943	70,180
Inventories (Note 6)	202,063	198,020	177,019
Prepaid expenses	7,271	7,000	6,359
	313,212	302,732	284,789
NON-CURRENT ASSETS			
Property and equipment	261,641	256,904	259,583
Goodwill	26,013	26,675	26,241
Intangible assets	14,828	17,585	17,147
Deferred tax assets	22,164	28,856	17,017
Other assets	12,914	12,106	11,811
	337,560	342,126	331,799
TOTAL ASSETS	\$ 650,772	\$ 644,858	\$ 616,588
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 111,411	\$ 107,886	\$ 116,773
Current portion of long-term debt (Note 9)	89,960	54,258	68,257
Income tax payable (Note 7)	15,583	540	347
	216,954	162,684	185,377
NON-CURRENT LIABILITIES			
Long-term debt (Note 9)	113,198	162,666	124,339
Provisions	3,938	3,741	3,784
Defined benefit plan obligation (Note 10)	25,568	10,277	9,000
Deferred tax liabilities	2,888	1,416	2,587
Other long-term liabilities	5,064	4,937	5,026
	150,656	183,037	144,736
TOTAL LIABILITIES	367,610	345,721	330,113
SHAREHOLDERS' EQUITY			
Share capital (Note 5)	165,133	165,133	165,133
Unit purchase loan plan (Note 13)	—	(136)	—
Contributed surplus	3,144	2,263	2,491
Retained earnings	115,836	132,422	119,739
Accumulated other comprehensive income	(951)	(545)	(888)
TOTAL EQUITY	283,162	299,137	286,475
TOTAL LIABILITIES & EQUITY	\$ 650,772	\$ 644,858	\$ 616,588

See accompanying notes to condensed consolidated financial statements, including Note 16 which reconciles amounts previously reported under Canadian generally accepted accounting principles (Canadian GAAP) to International Financial Reporting Standards (IFRS)

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited, \$ in thousands, except per share amounts)	Three Months Ended October 31, 2011	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
SALES	\$ 378,359	\$ 367,285	\$ 1,097,566	\$ 1,073,623
Cost of sales	(269,614)	(262,773)	(784,797)	(767,994)
Gross profit	108,745	104,512	312,769	305,629
Selling, operating and administrative expenses	(83,297)	(79,092)	(244,528)	(237,312)
Earnings from operations	25,448	25,420	68,241	68,317
Interest expense (Note 12)	(1,440)	(1,625)	(4,411)	(4,467)
Earnings before income taxes	24,008	23,795	63,830	63,850
Provision for income taxes (Note 7)	(7,008)	(1,386)	(19,370)	(3,360)
NET EARNINGS FOR THE PERIOD	\$ 17,000	\$ 22,409	\$ 44,460	\$ 60,490
NET EARNINGS PER SHARE				
Basic	\$ 0.35	\$ 0.47	\$ 0.92	\$ 1.26
Diluted	\$ 0.35	\$ 0.46	\$ 0.92	\$ 1.25
Weighted-Average Number of Shares Outstanding (000's)				
Basic	48,378	48,176	48,378	48,155
Diluted	48,509	48,498	48,521	48,490

See accompanying notes to condensed consolidated financial statements, including Note 16 which reconciles amounts previously reported under Canadian GAAP to IFRS

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, \$ in thousands)	Three Months Ended October 31, 2011	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
NET EARNINGS FOR THE PERIOD	\$ 17,000	\$ 22,409	\$ 44,460	\$ 60,490
Other comprehensive income/(expense):				
Exchange differences on translation of foreign controlled subsidiaries, net of tax	1,438	(84)	(63)	(545)
Actuarial losses on defined benefit plans, net of tax	(13,531)	–	(13,531)	–
Total other comprehensive income, net of tax	(12,093)	(84)	(13,594)	(545)
COMPREHENSIVE INCOME	\$ 4,907	\$ 22,325	\$ 30,866	\$ 59,945

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, \$ in thousands)	Capital	Unit Purchase Loan Plan	Contributed Surplus	Retained Earnings	AOI ⁽¹⁾	Total
Balance at January 31, 2011	\$ 165,133	\$ –	\$ 2,491	\$ 119,739	\$ (888)	\$ 286,475
Net earnings	–	–	–	44,460	–	44,460
Other comprehensive income, net of tax	–	–	–	(13,531)	(63)	(13,594)
Comprehensive income	–	–	–	30,929	(63)	30,866
Share-based compensation adjustment	–	–	653	–	–	653
Dividends (Note 8)	–	–	–	(34,832)	–	(34,832)
	–	–	653	(34,832)	–	(34,179)
Balance at October 31, 2011	\$ 165,133	\$ –	\$ 3,144	\$ 115,836	\$ (951)	\$ 283,162
Balance at February 1, 2010	\$ 165,133	\$ (6,428)	\$ 1,569	\$ 121,279	\$ –	\$ 281,553
Net earnings	–	–	–	60,490	–	60,490
Other comprehensive income, net of tax	–	–	–	–	(545)	(545)
Comprehensive income	–	–	–	60,490	(545)	59,945
Share-based compensation adjustment	–	–	694	–	–	694
Dividends (Note 8)	–	–	–	(49,347)	–	(49,347)
UPLP repayment	–	6,292	–	–	–	6,292
	–	6,292	694	(49,347)	–	(42,361)
Balance at October 31, 2010	\$ 165,133	\$ (136)	\$ 2,263	\$ 132,422	\$ (545)	\$ 299,137

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements, including Note 16 which reconciles amounts previously reported under Canadian GAAP to IFRS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, \$ in thousands)	Three Months Ended October 31, 2011	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
CASH PROVIDED BY (USED IN)				
Operating activities				
Net earnings for the period	\$ 17,000	\$ 22,409	\$ 44,460	\$ 60,490
Adjustments for:				
Amortization	9,028	8,795	27,030	26,466
Provision for income taxes (Note 7)	7,008	1,386	19,370	3,360
Interest expense (Note 12)	1,440	1,625	4,411	4,467
Share option expense (Note 13)	285	169	653	505
Taxes paid	(2,195)	(2,266)	(4,610)	(7,137)
Amortization of deferred financing costs	57	54	170	162
(Gain) / Loss on disposal of property and equipment	(10)	81	463	(179)
	32,613	32,253	91,947	88,134
Change in non-cash working capital	(19,007)	(114)	(26,550)	(22,416)
Change in other non-cash items	(2,980)	(2,473)	(3,063)	(5,283)
Cash from operating activities	10,626	29,666	62,334	60,435
Investing activities				
Purchase of property and equipment (Note 4)	(9,861)	(9,539)	(28,982)	(24,540)
Proceeds from disposal of property and equipment	58	71	400	1,080
Cash from investing activities	(9,803)	(9,468)	(28,582)	(23,460)
Financing activities				
Increase / (decrease) in long-term debt	8,799	(15,390)	15,300	13,660
Repayments of long-term debt	–	268	(3,676)	–
Dividends / distributions (Note 8)	(11,611)	(16,449)	(39,186)	(52,251)
Repayments of Unit Purchase Loan Plan (Note 13)	–	4,042	–	6,292
Interest paid	(710)	(549)	(3,440)	(3,185)
Cash from financing activities	(3,522)	(28,078)	(31,002)	(35,484)
NET CHANGE IN CASH	(2,699)	(7,880)	2,750	1,491
Cash, beginning of period	36,680	36,649	31,231	27,278
CASH, END OF PERIOD	\$ 33,981	\$ 28,769	\$ 33,981	\$ 28,769

See accompanying notes to condensed consolidated financial statements, including Note 16 which reconciles amounts previously reported under Canadian GAAP to IFRS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OCTOBER 31, 2011 AND 2010

1. ORGANIZATION

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

On January 1, 2011, North West Company Fund (NWF or the Fund) was reorganized by way of a plan of arrangement under section 192 of the 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). The purpose of the Arrangement was to convert the Fund from an income trust into a publicly traded share corporation. Under the Arrangement, unitholders received one common share of the Company for each trust unit of the Fund that was held. In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund.

The Company is considered to be a continuation of the Fund following the continuity of interests method of accounting. This method recognizes the Company as the successor entity to the Fund and accordingly, these unaudited interim period condensed consolidated financial statements (condensed consolidated financial statements) reflect the financial position, financial performance and cash flows as if the Company had always carried on the business formerly carried on by the Fund. In these and future financial statements, the Company refers to common shares, shareholders and dividends which were formerly referred to as units, unitholders and distributions under the Fund.

These condensed consolidated financial statements have been approved for issue by the Board of Directors of the Company on December 8, 2011.

2. BASIS OF PREPARATION

(A) **Statement of Compliance** These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB) and using the accounting policies the Company expects to adopt in its annual consolidated financial statements as at and for the financial year ending January 31, 2012.

These condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes included in The North West Company Inc.'s 2010 Annual Financial Report. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported financial position, financial performance and cash flows of the Company together with supplemental annual disclosures, is included in Notes 4 and 16 of the Company's first quarter 2011 unaudited interim period condensed consolidated financial statements.

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

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OCTOBER 31, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are set out in the Company's first quarter 2011 unaudited interim period condensed consolidated financial statements. These policies have been applied to all periods presented in these condensed consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

Future Standards and Amendments A number of new standards, and amendments to standards and interpretations are not yet effective for the year ending January 31, 2012 and have not been applied in preparing these condensed consolidated financial statements. The Company is currently assessing the impact of the following standards that may apply in future periods:

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments are applicable to the Company's financial year beginning February 1, 2012.

Consolidated Financial Statements The IASB issued IFRS 10, *Consolidated Financial Statements* replacing portions of IAS 27, *Consolidated and Separate Financial Statements* addressing consolidation and superseding SIC-12 in its entirety. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard is effective for the Company's financial year beginning February 1, 2013.

Joint Arrangements The IASB issued IFRS 11, *Joint Arrangements* superseding IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non Monetary Contributions by Venturers*. IFRS 11 establishes principles for determining the type of joint arrangement by assessing the rights and obligations in an arrangement and provides guidance for financial reporting activities required by entities that have an interest in a jointly controlled arrangement. This standard is effective for the Company's financial year beginning February 1, 2013.

Disclosure of Interests in Other Entities The IASB issued IFRS 12, *Disclosure of Interests in Other Entities* requiring extensive disclosures relating to a company's interest in subsidiaries, associates and certain other arrangements. IFRS 12 enables financial statement users to evaluate the nature and risks associated with these interests and evaluate their effect on its own financial performance. This standard is effective for the Company's financial year beginning February 1, 2013.

Employee benefits The IASB has revised IAS 19 *Employee benefits* to eliminate the option to defer the recognition of actuarial gains and losses, enhance the guidance around measurement of plan assets and benefit obligations, and streamline the presentation of changes in assets and liabilities arising from defined benefit plans including enhanced disclosure requirements. This standard is effective for the Company's financial year beginning February 1, 2013.

Income Taxes The IASB has issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. The Company does not expect this change to have a significant effect on its consolidated financial statements.

Financial Instruments The IASB has issued a new standard which will eventually replace IAS 39, *Financial Instruments: Recognition and Measurement*. The development of IFRS 9, *Financial Instruments* is a multi-phase project with a goal of improving and simplifying financial instrument reporting. IFRS 9 uses a single approach to determine measurement of a financial asset based on how an entity manages financial impairment, replacing the multiple classification options in IAS 39. This standard is effective for the Company's financial year beginning February 1, 2013.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OCTOBER 31, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Presentation of Financial Statements – The IASB has amended IAS 1 *Presentation of Financial Statements* to enhance the presentation of Other Comprehensive Income (OCI). These amendments require the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. These amendments are applicable for the Company's financial year beginning February 1, 2013.

Fair Value Measurement IFRS 13 – *Fair Value Measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. This standard is effective for the Company's financial year beginning February 1, 2013.

4. SEGMENTED INFORMATION

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

The following key information is presented by geographic segment:

Condensed Consolidated Statement of Earnings:

	Three Months Ended October 31, 2011	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
Sales				
Canada	\$ 257,712	\$ 245,999	\$ 753,046	\$ 720,791
International	120,647	121,286	344,520	352,832
Consolidated	\$ 378,359	\$ 367,285	\$ 1,097,566	\$ 1,073,623
Earnings before amortization, interest and income taxes				
Canada	\$ 26,485	\$ 26,381	\$ 73,429	\$ 73,607
International	7,991	7,834	21,842	21,176
Consolidated	\$ 34,476	\$ 34,215	\$ 95,271	\$ 94,783
Earnings from operations				
Canada	\$ 19,411	\$ 19,567	\$ 52,125	\$ 53,137
International	6,037	5,853	16,116	15,180
Consolidated	\$ 25,448	\$ 25,420	\$ 68,241	\$ 68,317

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
OCTOBER 31, 2011 AND 2010

4. SEGMENTED INFORMATION (continued)

Supplemental Information:

	October 31, 2011	October 31, 2010
Assets		
Canada	\$ 466,414	\$ 459,479
International ⁽¹⁾	184,358	185,379
Consolidated	\$ 650,772	\$ 644,858

(1) International total assets includes goodwill of \$26,013 (October 31, 2010 - \$26,675).

	Three Months Ended October 31, 2011	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
Expenditure on property and equipment				
Canada	\$ 7,790	\$ 7,356	\$ 23,614	\$ 18,660
International	2,071	2,183	5,368	5,880
Consolidated	\$ 9,861	\$ 9,539	\$ 28,982	\$ 24,540
Amortization				
Canada	\$ 7,074	\$ 6,814	\$ 21,304	\$ 20,470
International	1,954	1,981	5,726	5,996
Consolidated	\$ 9,028	\$ 8,795	\$ 27,030	\$ 26,466

5. ISSUED SHARE CAPITAL

Authorized – The Company has an unlimited number of shares.

	Shares	October 31, 2011	Shares	October 31, 2010
Issued and outstanding	48,378,000	\$ 165,133	48,378,000	\$ 165,133

6. INVENTORIES

For inventories recognized as an expense for the three months ended October 31, 2011, the Company recognized \$439 (three months ended - October 31, 2010 - \$514) for the write-down of inventories as a result of net realizable value being lower than cost. For the nine months ended October 31, 2011, \$1,432 (nine months ended - October 31, 2010 - \$976) was included for the write-down of inventories as a result of net realizable value being lower than cost. There was no reversal of inventories written down previously that are no longer estimated to sell below cost during the periods ended October 31, 2011 or 2010.

7. INCOME TAXES

On January 1, 2011, North West Company Fund (the “Fund”) converted from an income trust into a publicly traded share corporation pursuant to the Arrangement (Note 1). Prior to the conversion to a share corporation, a substantial portion of the earnings from The North West Company LP flowed to the Fund and was ultimately distributed to unitholders. There was no current income tax payable by the Fund on these distributions. Upon conversion to a share corporation, the earnings of The North West Company LP are taxed in the Company based on the statutory corporate income tax rates.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
OCTOBER 31, 2011 AND 2010

8. DIVIDENDS

	October 31, 2011	October 31, 2010
Dividends/distributions recorded in retained earnings	\$ 34,832	\$ 49,347
Special distribution paid February 18, 2011 to unitholders of record on December 31, 2010	4,354	–
Special distribution paid February 19, 2010 to unitholders of record on December 31, 2009	–	2,904
Dividends/distributions paid in cash	\$ 39,186	\$ 52,251
Dividends/distributions per share	\$ 0.81	\$ 1.08

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

The declaration of distributions from the Fund was subject to the terms of the Fund's Declaration of Trust and the discretion of the Board of Trustees.

9. LONG-TERM DEBT

	October 31 2011	October 31 2010	January 31 2011
Current			
Bank advances ⁽¹⁾	\$ 1,153	\$ 453	\$ –
Revolving loan facilities ⁽²⁾	88,160	–	67,445
Non-revolving loan facilities ⁽³⁾	–	52,978	–
Notes payable ⁽⁴⁾	265	394	388
Finance lease liabilities	382	433	424
	\$ 89,960	\$ 54,258	\$ 68,257
Non-current			
Senior notes ⁽⁵⁾	\$ 68,742	\$ 70,292	\$ 69,199
Revolving loan facilities ⁽²⁾	–	87,061	–
Revolving loan facilities ⁽³⁾	43,714	–	50,110
Notes payable ⁽⁴⁾	452	4,636	4,462
Finance lease liabilities	290	677	568
	113,198	162,666	124,339
Total	\$ 203,158	\$ 216,924	\$ 192,596

(1) In January 2011, the Company refinanced the US\$15,000 demand, revolving loan facility in its International Operations. The new committed, revolving loan facility of US\$20,000 matures on October 31, 2012. This facility bears a floating rate of interest and is secured by a charge against certain accounts receivable and inventories of the International Operations. At October 31, 2011, the International Operations had drawn US\$1,161 (October 31, 2010 – US\$445) on the facility.

(2) Canadian Operations have available extendible, committed, revolving loan facilities of \$140,000 that mature on December 31, 2011 (Subsequent Event Note 17). These facilities are secured by a floating charge against the assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the US\$52,000 loan facilities in International Operations. These facilities bear interest at Bankers Acceptances rates plus stamping fees or the Canadian prime rate.

(3) In November 2010, the Company refinanced its US\$52,000 non-revolving loan facilities. The new committed, revolving loan facilities mature December 31, 2013 and bear interest at LIBOR plus a spread. The loan facilities are secured by a floating first charge against the assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the \$140,000 Canadian Operations loan facilities. At October 31, 2011, the Company has drawn US\$44,000 (October 31, 2010 – US\$52,000) on this facility.

(4) Notes payable in the amount of US\$722 bear interest at a rate of U.S. prime plus 1% and have annual principal payments of US\$267. Notes payable in the amount of US\$3,873 bearing interest at 5.75% were repaid in April 2011.

(5) The US\$70,000 senior notes mature on June 15, 2014 and bear interest at a rate of 6.55%, payable semi-annually. The notes are secured by a floating charge against the assets of the Company and rank *pari passu* with the \$140,000 Canadian Operations loan facilities and the US\$52,000 loan facilities in International Operations. The Company has entered into interest rate swaps resulting in floating interest costs on US\$28,000 of its senior notes (October 31, 2010 – US\$28,000). The interest rate swaps mature June 15, 2014.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OCTOBER 31, 2011 AND 2010

10. EMPLOYEE FUTURE BENEFITS

During the nine months ended October 31, 2011, the Company contributed \$2,684 to its defined benefit pension plans (nine months ended October 31, 2010 - \$3,903). Effective January 1, 2011, the Company implemented a defined contribution pension plan. During the nine months ended October 31, 2011, the Company contributed \$1,407 to its defined contribution pension plan (nine months ended October 31, 2010 - \$NIL).

A remeasurement of the defined benefit plan assets and liabilities was performed as at October 31, 2011. As a result of a significant decrease in the discount rate and lower than expected returns on pension plan assets, the Company recorded actuarial losses on defined benefit plans of \$13,531 net of deferred income taxes in other comprehensive income, which was recognized immediately in retained earnings at October 31, 2011. The Company's defined benefit plan obligation increased \$18,442 as a result of pension plan liabilities increasing by \$14,228 and the defined benefit pension plan assets decreasing by \$4,214, and deferred income tax assets increased by \$4,911.

The discount rate used to determine the benefit obligation for the defined benefit pension plan at October 31, 2011 was 4.75%.

The benefit obligations and plan assets for the Company's pension and other post-retirement plans were as follows:

	October 31, 2011	January 31, 2011
Present value of defined benefit obligations	\$ (81,849)	\$ (67,773)
Fair value of plan assets	56,281	58,773
Defined benefit plan obligation, funded status	(25,568)	(9,000)

11. EMPLOYEE COSTS

	Three Months Ended October 31, 2011	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
Wages, salaries and benefits including bonus	\$ 48,522	\$ 48,563	\$ 146,159	\$ 143,578
Retirement benefit expense	\$ 2,449	\$ 1,199	\$ 4,717	\$ 3,562
Share-based compensation (Note 13)	\$ 893	\$ 1,584	\$ 3,438	\$ 3,876

12. INTEREST EXPENSE

	Three Months Ended October 31, 2011	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
Interest on borrowings	\$ 1,632	\$ 1,666	\$ 4,722	\$ 4,608
Fair value movement of financial instruments in effective fair value hedging relationships	(26)	(44)	(19)	(117)
Expected return on pension plan assets	(960)	(886)	(2,880)	(2,658)
Interest on pension plan liabilities	955	944	2,865	2,832
Other interest income	(72)	(55)	(188)	(168)
Less: interest capitalized	(89)	-	(89)	(30)
Interest expense	\$ 1,440	\$ 1,625	\$ 4,411	\$ 4,467

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

OCTOBER 31, 2011 AND 2010

13. SHARE-BASED COMPENSATION

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

The total charge relating to share-based payment plans for the three months ended October 31, 2011 was \$893 (three months ended - October 31, 2010 - \$1,584) and for the nine months ended October 31, 2011 was \$3,438 (nine months ended October 31, 2010 - \$3,876).

Restricted Share Units and Performance Share Units

The Company grants Restricted Share Units (RSU's) and Performance Share Units (PSU's) to officers and senior management. Each RSU entitles the participant to receive a cash payment equal to the market value of the number of notional shares granted at the end of the vesting period. The RSU account for each participant includes the value of dividends from the Company as if reinvested in additional RSU's. RSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. The associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period.

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

Compensation costs related to the RSU's and PSU's for the three months ended October 31, 2011 are \$578 (three months ended October 31, 2010 - \$979) and for the nine months ended October 31, 2011 are \$2,155 (nine months ended October 31, 2010 - \$2,071).

Share Option Plan

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

The terms of the plan provide for granting options up to 9% of the Company's issued and outstanding shares less shares reserved under any other equity based compensation plans. Fair value of these options is determined using an option pricing model. Share options granted vest on a graduated basis over five years and are exercisable over a period of seven to ten years. The share option compensation cost recorded for the three months ended October 31, 2011 is \$285 (three months ended October 31, 2010 - \$169) and for the nine months ended October 31, 2011 is \$653 (nine months ended October 31, 2010 - \$505).

There were no options issued during the three months ended October 31, 2011 and 2010.

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13. SHARE-BASED COMPENSATION (continued)

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

	October 31, 2011		October 31, 2010	
	Number of options	Weighted-Average Exercise Price	Number of options	Weighted-Average Exercise Price
Outstanding options, January 31	509,200	\$ 17.10	274,600	\$ 15.25
Granted ⁽¹⁾	371,457	20.62	242,800	19.12
Exercised	–	–	–	–
Forfeited or cancelled	(16,900)	16.92	(8,200)	15.25
Outstanding options, October 31	863,757	\$ 18.50	509,200	\$ 17.10
Exercisable at end of period	–	–	–	–

(1) 315,812 options issued during the period give the option holder the choice to either deduct a portion of all dividends declared after the grant date from the exercise price of the option, or to elect to exercise the option at the strike price specified at the grant date.

The options outstanding at October 31, 2011 have an exercise price in the range of \$15.25 to \$20.62 and a weighted-average remaining contractual life of 7.7 years. No share options were exercised during the periods ended October 31, 2011 or October 31, 2010.

Deferred Share Unit Plan

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

Compensation expense is measured based on the fair market value at each reporting date. The deferred share unit plan compensation recorded for the three months ended October 31, 2011 is a recovery of \$71 (three months ended October 31, 2010 – expense of \$324) and for the nine months ended October 31, 2011 is an expense of \$138 (nine months ended October 31, 2010 – expense of \$805). The total number of deferred share units outstanding at October 31, 2011 is 114,149 (October 31, 2010 – 128,338). There were NIL deferred share units exercised during the three months ended October 31, 2011 (three months ended October 31, 2010 - NIL) and 37,236 deferred share units exercised during the nine months ended October 31, 2011 (nine months ended October 31, 2010 – NIL). These deferred share units were settled in cash. The liability for the deferred share unit plan is recorded in accounts payable and accrued liabilities on the Company's consolidated balance sheet.

Employee Share Purchase Plan

The Employee Share Purchase Plan provides participants with the opportunity to acquire an ownership interest in the Company. The Company contributes an additional 33% of the amount invested, subject to a maximum annual contribution of 2% of the participants' base salary. The plan is administered by a trustee who uses the funds received to purchase shares on the TSX on behalf of the participating employees. These shares are registered in the name of the plan trustee on behalf of the participants. The Company's contribution to the plan is recorded as compensation expense. The employee share purchase plan compensation recorded for the three months ended October 31, 2011 is \$101 (three months ended October 31, 2010 – \$108) and for the nine months ended October 31, 2011 is \$492 (nine months ended October 31, 2010 – \$460).

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13. SHARE-BASED COMPENSATION (continued)

Unit Purchase Loan Plan

The Company had a Unit Purchase Loan Plan (UPLP) for officers and senior management whereby loans were granted to employees to purchase units of NWF. These loans were in substance similar to stock options and accordingly were accounted for as share-based compensation whereby compensation cost was recorded as an expense with a corresponding increase in contributed surplus.

Units were purchased at market prices and were fully vested at the time the loan was exercised. The units were pledged as security against the loan and could not be withdrawn from the plan until the principal amount of the loan was less than 65% or 80% of the market value of the units pledged as security or if the employee sold the units or left the Company. If the loan value as a percentage of the market value of the units pledged as security against the loan fell below the 65% to 80% threshold, the employee could reduce the number of units pledged equal to the market value in excess of the loan balance. These loans were non-interest bearing and employees were required to make principal payments on the loan equal to the after-tax distributions on the units pledged as security.

As at January 31, 2011, the plan was discontinued and all outstanding loans have been repaid. The compensation cost relating to the UPLP for the period ended October 31, 2010 was \$NIL.

14. SEASONALITY

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

15. SUBSIDIARIES

The Company's principal subsidiaries are set out below:

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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16. TRANSITION TO IFRS

For all periods up to and including the period ended January 31, 2011, the Company prepared its consolidated financial statements in accordance with Canadian GAAP. The Company's audited annual consolidated financial statements for the year ending January 31, 2012 will be the first that are prepared in accordance with the requirements of IFRS, including the application of IFRS 1. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Notes 4 and 16 of the Company's first quarter 2011 unaudited interim period condensed consolidated financial statements.

The accounting policies set out in Note 3 and in the Company's first quarter 2011 condensed consolidated financial statements have been applied in preparing the condensed consolidated financial statements for the period ended October 31, 2011, and the comparative information presented in these financial statements for the three months ended October 31, 2010, the nine months ended October 31, 2010 and the year ended January 31, 2011. The Company will ultimately prepare its IFRS financial statements as at and for the years ending January 31, 2012 and 2011 by applying existing IFRS with an effective date of January 31, 2012. Any subsequent changes to IFRS, that are given effect in the Company's annual consolidated financial statements for the year ending January 31, 2012 could result in restatement of these condensed consolidated financial statements, including the transition adjustments recognized.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in consolidated financial statements prepared in accordance with Canadian GAAP based on preliminary IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1), elections and exceptions and IFRS policy choices. The Company has not changed the presentation format in the current quarter ended October 31, 2011, nor has it made any changes to the elected exemptions or mandatory exceptions from full retrospective application of IFRS as disclosed in its first quarter 2011 unaudited condensed consolidated financial statements for the period ended April 30, 2011.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows in these financial statements is set out in the following tables and notes that accompany these tables.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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16. TRANSITION TO IFRS (continued)

Reconciliation of the Condensed Consolidated Balance Sheets

Note	CDN GAAP			CDN GAAP			
	ADJ	IFRS	ADJ	IFRS	IFRS		
	October 31, 2010			January 31, 2011			
CURRENT ASSETS							
Cash	28,769	–	28,769	31,231	–	31,231	
Accounts Receivable	68,943	–	68,943	70,180	–	70,180	
Inventories	198,020	–	198,020	177,019	–	177,019	
Prepaid expenses	7,000	–	7,000	6,359	–	6,359	
Future income taxes	(h)	4,043	–	4,514	(4,514)	–	
		306,775	(4,043)	302,732	289,303	(4,514)	284,789
NON-CURRENT ASSETS							
Property and equipment	(a)	253,775	3,129	256,904	256,454	3,129	259,583
Goodwill	(b)	26,675	–	26,675	26,241	–	26,241
Intangible assets	(b)	17,585	–	17,585	17,147	–	17,147
Deferred tax assets	(h)	7,185	21,671	28,856	4,342	12,675	17,017
Other assets	(c)	27,625	(15,519)	12,106	26,995	(15,184)	11,811
		332,845	9,281	342,126	331,179	620	331,799
TOTAL ASSETS		639,620	5,238	644,858	620,482	(3,894)	616,588
CURRENT LIABILITIES							
Accounts payable and accrued liabilities		107,886	–	107,886	116,773	–	116,773
Current portion of long-term debt		54,258	–	54,258	68,257	–	68,257
Income tax payable		540	–	540	347	–	347
		162,684	–	162,684	185,377	–	185,377
NON-CURRENT LIABILITIES							
Long-term debt		162,666	–	162,666	124,339	–	124,339
Provisions	(d)	–	3,741	3,741	–	3,784	3,784
Defined benefit plans	(c)	–	10,277	10,277	–	9,000	9,000
Deferred tax liabilities	(h)	–	1,416	1,416	–	2,587	2,587
Other long-term liabilities	(e)	8,137	(3,200)	4,937	8,269	(3,243)	5,026
		170,803	12,234	183,037	132,608	12,128	144,736
TOTAL LIABILITIES		333,487	12,234	345,721	317,985	12,128	330,113
SHAREHOLDERS' EQUITY							
Capital		165,133	–	165,133	165,133	–	165,133
Unit purchase loan plan		(136)	–	(136)	–	–	–
Contributed surplus	(e)	2,056	207	2,263	2,156	335	2,491
Retained earnings	(f)	135,498	(3,076)	132,422	131,969	(12,230)	119,739
Accumulated other comprehensive income	(g)	3,582	(4,127)	(545)	3,239	(4,127)	(888)
TOTAL EQUITY		306,133	(6,996)	299,137	302,497	(16,022)	286,475
TOTAL LIABILITIES & EQUITY		639,620	5,238	644,858	620,482	(3,894)	616,588

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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16. TRANSITION TO IFRS (continued)

Reconciliation of Condensed Consolidated Statements of Earnings

	Note	CDN GAAP*	ADJ	IFRS	CDN GAAP*	ADJ	IFRS	CDN GAAP*	ADJ	IFRS
		Three Months Ended October 31, 2010			Nine Months Ended October 31, 2010			Year Ended January 31, 2011		
SALES		367,285	–	367,285	1,073,623	–	1,073,623	1,448,104	–	1,448,104
Cost of sales		(262,773)	–	(262,773)	(767,994)	–	(767,994)	(1,034,772)	–	(1,034,772)
Gross profit		104,512	–	104,512	305,629	–	305,629	413,332	–	413,332
Selling, operating and administrative expenses	(i)	(79,200)	108	(79,092)	(237,653)	341	(237,312)	(323,522)	462	(323,060)
Earnings from operations		25,312	108	25,420	67,976	341	68,317	89,810	462	90,272
Interest expense	(j)	(1,567)	(58)	(1,625)	(4,323)	(144)	(4,467)	(5,875)	(202)	(6,077)
Earnings before income taxes		23,745	50	23,795	63,653	197	63,850	83,935	260	84,195
Provision for income taxes	(h)	(1,602)	216	(1,386)	(4,333)	973	(3,360)	(7,341)	(7,198)	(14,539)
NET EARNINGS FOR THE PERIOD		22,143	266	22,409	59,320	1,170	60,490	76,594	(6,938)	69,656

Reconciliation of Condensed Consolidated Statements of Comprehensive Income

	Note	CDN GAAP*	ADJ	IFRS	CDN GAAP*	ADJ	IFRS	CDN GAAP*	ADJ	IFRS
		Three Months Ended October 31, 2010			Nine Months Ended October 31, 2010			Year Ended January 31, 2011		
NET EARNINGS FOR THE PERIOD		22,143	266	22,409	59,320	1,170	60,490	76,594	(6,938)	69,656
Other comprehensive income/(expense):										
Exchange differences on translation of foreign controlled subsidiaries, net of tax		(84)	–	(84)	(545)	–	(545)	(888)	–	(888)
Actuarial gains/(losses) on defined benefit pension plans, net of tax	(c)	–	–	–	–	–	–	–	(1,046)	(1,046)
Total other comprehensive income, net of tax		(84)	–	(84)	(545)	–	(545)	(888)	(1,046)	(1,934)
COMPREHENSIVE INCOME		22,059	266	22,325	58,775	1,170	59,945	75,706	(7,984)	67,722

* In preparing the 2010 comparative information, certain Canadian GAAP financial statement components have been reclassified to conform with the presentation requirements of IFRS

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16. TRANSITION TO IFRS (continued)

The impact of the adjustments below on deferred tax is set out in Note h.

(a) Property and equipment

The Company has elected under IFRS 1 to use the fair value of certain property as its deemed cost on transition to IFRS. Under Canadian GAAP these assets were carried at their original cost less accumulated amortization. The effect of this election is to increase property and equipment and retained earnings by \$2,813.

The adjustment to property and equipment also includes \$286 arising from a measurement difference on the asset retirement obligation (Note d) and \$30 of capitalized borrowing costs directly attributable to the construction of a qualifying asset that was expensed under Canadian GAAP (Note j). The estimated impact of these changes is reconciled as follows:

	October 31, 2010	January 31, 2011
Increase due to:		
IFRS 1 fair value election	\$ 2,813	\$ 2,813
Asset retirement obligation	286	286
Borrowing costs	30	30
Total adjustment	\$ 3,129	\$ 3,129

(b) Goodwill and intangible assets

The Company has elected to apply IFRS 3 prospectively from the date of transition. No adjustments to goodwill and intangible assets arising on business combinations prior to the date of transition were identified related to the carrying value previously determined under Canadian GAAP.

(c) Defined benefit plan obligation

The Company has elected to immediately recognize all cumulative actuarial gains and losses through opening retained earnings. The effect is to eliminate the accrued employee future benefit asset under Canadian GAAP and to record a liability for defined benefit plans with a corresponding decrease in retained earnings. The defined benefit plan liability represents the difference between the fair value of plan assets and the benefit obligation.

IAS 19 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. The Company has elected to recognize actuarial gains and losses on its defined benefit pension plans through other comprehensive income. The recognized actuarial gains and losses are presented in retained earnings.

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16. TRANSITION TO IFRS (continued)

The estimated impact of these changes is reconciled as follows:

	October 31, 2010	January 31, 2011
Net decrease due to:		
IFRS 1, cumulative actuarial losses	\$ (26,096)	\$ (26,096)
Employee benefit expense differential	300	491
Actuarial gains	-	1,421
<hr/>		
Total retained earnings adjustment	(25,796)	(24,184)
Portion applied to other assets	15,519	15,184
<hr/>		
Defined benefit plans adjustment disclosed	\$ (10,277)	\$ (9,000)

These changes resulted in an increase to earnings of \$300 and \$491 for the periods ended October 31, 2010 and January 31, 2011. An increase to other comprehensive income of \$1,421 (decrease of \$1,046 net of tax) was also required for the period ended January 31, 2011.

(d) Provisions

Under Canadian GAAP, an asset retirement obligation (decommissioning provision) was recorded in respect of the Company's obligation to restore certain facilities to their original condition. Under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, 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. IAS 37 also requires certain of these obligations to be classified separately from accrued liabilities.

Changing the discount rate at transition results in an increase to provisions of \$541 and an increase to property and equipment of \$286 (Note a) at February 1, 2010. The estimated impact of these changes is reconciled as follows:

	October 31, 2010	January 31, 2011
Increase due to:		
Change in discount rate	\$ 541	\$ 541
Reclassification of decommissioning obligation	3,200	3,243
<hr/>		
Provisions adjustment disclosed	\$ 3,741	\$ 3,784

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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16. TRANSITION TO IFRS (continued)

(e) Other long-term liabilities

As described in Note 13, the Company has granted options to certain employees of the Company. IFRS 2, *Share-based Payments* requires these liability awards to be measured at the grant date and each subsequent reporting period using a fair value model. This differs from Canadian GAAP whereby these liability awards were measured using the intrinsic value, which is based on the market price of the Company's shares.

In addition to this measurement change, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and IFRS 2 require certain obligations to be classified separately from other long-term liabilities. As a result both the decommissioning and share-based payments obligations have been reclassified to provisions and contributed surplus respectively. The estimated impact of these changes is reconciled as follows:

	October 31, 2010	January 31, 2011
Net decrease due to:		
Change in share-based payments	\$ 207	\$ 335
Reclassification of decommissioning obligation	(3,200)	(3,243)
Reclassification of share-based payments obligation	(207)	(335)
Other long-term liabilities adjustment disclosed	\$ (3,200)	\$ (3,243)

(f) Retained earnings

A reconciliation of the adjustments the Company has applied to retained earnings to effect the transition from Canadian GAAP to IFRS is as follows:

	Note	October 31, 2010	January 31, 2011
RETAINED EARNINGS, Canadian GAAP		\$ 135,498	\$ 131,969
Adjusted by:			
Property and equipment	(a)	3,129	3,129
Defined benefit plans	(c)	(25,796)	(24,184)
Provisions	(d)	(541)	(541)
Other long-term liabilities	(e)	(207)	(335)
AOCI adjustments	(g)	4,127	4,127
Deferred taxes	(h)	16,212	5,574
Transition adjustment		(3,076)	(12,230)
RETAINED EARNINGS, IFRS		\$ 132,422	\$ 119,739

(g) Accumulated other comprehensive income (AOCI)

The Company has elected to reset all cumulative translation differences that arose prior to the date of transition to IFRS in respect of all foreign entities to \$NIL at the date of transition. The effect is to decrease accumulated other comprehensive income by \$4,127 for all period ends presented, and to increase retained earnings by these same amounts.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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16. TRANSITION TO IFRS (continued)

A reconciliation of the adjustments the Company has applied to AOCI to effect the transition from Canadian GAAP to IFRS is as follows:

	Note	October 31, 2010	January 31, 2011
AOCI, Canadian GAAP			
		\$ 3,582	\$ 3,239
Cumulative translation account adjustment	(f)	(4,127)	(4,127)
AOCI, IFRS			
		\$ (545)	\$ (888)

(h) Deferred taxes

Changes to tax reporting are predominantly caused by adjustments to the accounting basis of assets and liabilities under IFRS, the classification of all deferred tax assets and liabilities as “long-term”, and differing tax rates applicable to mutual fund trusts.

From February 1, 2010 through December 31, 2010, the organization was structured as an income trust. During this period, deferred tax assets and liabilities must be calculated using the highest marginal tax rate of the Fund, which is 46.4%. A significant portion of this increase reversed through the statement of earnings as deferred tax expense in the 2010 fourth quarter comparative numbers as a result of the conversion to a share corporation and the application of corporate tax rates to calculate deferred tax assets. The impact of these changes is as follows:

	Note	October 31, 2010	January 31, 2011
Property and equipment	(a)	\$ (459)	\$ (459)
Defined benefit pension plans	(c)	6,872	6,465
Provisions	(d)	151	151
Application of undistributed tax rate		10,231	–
Other differences		(583)	(583)
Net deferred tax adjustment		16,212	5,574
Reclassification of current deferred taxes		4,043	4,514
		\$ 20,255	\$ 10,088
Disclosed as:			
Deferred tax assets		\$ 21,671	\$ 12,675
Deferred tax liabilities		(1,416)	(2,587)
		\$ 20,255	\$ 10,088

These differences decreased deferred income tax expense recognized in net earnings by \$216 for the three months ended October 31, 2010 and \$973 for the nine months ended October 31, 2010. For the year ended January 31, 2011 these differences increased deferred income tax expense recognized in net earnings by \$7,198.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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16. TRANSITION TO IFRS (continued)

(i) Selling, operating and administrative expenses

The Company has made an accounting policy choice under IAS 19, *Employee Benefits* to disaggregate defined benefit pension costs on the consolidated statement of earnings, and present the interest and expected return on asset components of total pension cost within interest expense.

The effect for the three months ended October 31, 2010 has been to reclassify interest expense on the defined benefit plan obligation of \$944 and interest income on plan assets of \$886 out of selling, operating and administrative expenses and into interest expense. In addition to this \$58 net expense reclassification, an actuarially determined reduction to our pension expense and an increase in our share-based payments charge are combined to produce a net decrease in selling, operating and administrative expenses of \$108.

The effect for the nine months ended October 31, 2010 has been to reclassify interest expense on the defined benefit plan obligation of \$2,832 and interest income on plan assets of \$2,658 out of selling, operating and administrative expenses and into interest expense. In addition to this \$174 net expense reclassification, an actuarially determined reduction to our pension expense and an increase in our share-based payments charge are combined to produce a net decrease in selling, operating and administrative expenses of \$341.

The effect at January 31, 2011 has been to reclassify interest expense on the defined benefit plan obligation of \$3,753 and interest income on plan assets of \$3,523 out of selling, operating and administrative expenses and into interest expense. In addition to this \$230 net expense reclassification, an actuarially determined reduction to our pension expense and an increase in our share-based payments charge are combined to produce a net decrease in selling, operating and administrative expenses of \$462.

(j) Interest expense

Under Canadian GAAP all interest was expensed as incurred. Under IFRS, borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use (qualifying assets) are capitalized as part of the respective asset. There is no impact for the three months ended October 31, 2010, however the effect for the nine months ended October 31, 2010 is to increase property and equipment by \$30 with a corresponding decrease in interest expense. This adjustment has been combined with the net interest expense reclassification described in Note (i) to arrive at the total increase in interest expense for the three months ended October 31, 2010, nine months ended October 31, 2010 and the year-ended January 31, 2011 of \$58, \$144 and \$202 respectively.

(k) Statements of cash flows

The transition from Canadian GAAP to IFRS has not had a significant impact on the statements of cash flows.

17. SUBSEQUENT EVENT

On December 5, 2011 the Company completed the refinancing of its Canadian Operations revolving loan facilities maturing December 31, 2011. The new committed, extendible, revolving loan facilities, which will be provided by the lenders of the existing facilities, provide the Company with a \$170 million revolving loan facility for working capital requirements and general business purposes. These facilities, which mature on December 31, 2015 will be secured by a floating charge on the assets of the Company and rank *pari passu* with the US\$70 million senior notes and the US\$52 million loan facilities. The new loan facilities will bear a floating interest rate based on bankers acceptances plus a negotiated spread or the Canadian prime interest rate.