

# THE NORTH WEST COMPANY INC.

## 2011 FOURTH QUARTER REPORT TO SHAREHOLDERS

### Report to Shareholders

The North West Company Inc. reports its results for the fourth quarter ended January 31, 2012 prepared under International Financial Reporting Standards (“IFRS”). Sales increased 6.2% to \$397.6 million compared to the fourth quarter last year. Sales excluding the foreign exchange impact were up 5.7% and increased 5.1%<sup>1</sup> on a same store basis as a result of strong food and general merchandise sales across all of our banners.

Fourth quarter net earnings were \$13.5 million, an increase of 47.3% compared to last year’s IFRS restated fourth quarter earnings of \$9.2 million. Diluted earnings per share were \$0.27 compared to \$0.19 per unit last year. The conversion to a share corporation effective January 1, 2011 and the resulting impact on the Canadian Operations income tax expense accounted for the increase in diluted earnings per share. Excluding the impact of the Canadian income tax expense, diluted earnings per share would have decreased \$0.02 per share compared to the fourth quarter last year.

The Board of Directors has approved a quarterly dividend of \$0.26 per share, an increase of \$0.02 per share or 8.3%, to shareholders of record on March 30, 2012.

On behalf of the Board of Directors:



H. Sanford Riley  
Chairman



Edward S. Kennedy  
President and Chief Executive Officer

### Management’s Discussion & Analysis

The 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 January 31, 2012 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 fourth quarter unaudited interim period 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 January 31, 2012 and the audited annual consolidated financial statements and accompanying notes included in the 2010 Annual Financial Report. The Company’s January 31, 2012 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.

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<sup>1</sup> Excluding the foreign exchange impact

## CONSOLIDATED RESULTS

### Quarter

Fourth quarter consolidated sales increased 6.2% to \$397.6 million compared to \$374.5 million in 2010. Excluding the foreign exchange impact, sales increased 5.7% and were up 5.1%<sup>1</sup> on a same store basis as a result of strong food and general merchandise sales growth across all of our banners. Food sales<sup>1</sup> increased 4.6% and were up 4.3% on a same store basis. General merchandise sales<sup>1</sup> increased 8.4% and were up 7.5% on a same store basis.

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

	2011	2010
Food	72.9%	73.5%
General merchandise	23.6%	23.1%
Other*	3.5%	3.4%

\* Other sales include gas, fur and service charge revenues

Earnings from Operations decreased 4.0% to \$21.1 million compared to the fourth quarter last year as increases in sales and gross profit were offset by higher selling, operating and administrative expenses related largely to higher incentive plan expenses. Annual and long-term incentive plan expenses increased \$4.2 million compared to last year as a result of improved financial performance, led by the International Operations, and incremental expense related to share-based compensation programs. Excluding the foreign exchange impact and the increase in incentive plan expense, earnings from operations increased 14.2% compared to the fourth quarter last year. Trading profit<sup>2</sup> or earnings before interest, income taxes, depreciation and amortization (EBITDA) decreased 1.2% to \$30.6 million compared to \$31.0 million last year. Excluding the foreign exchange impact and the increase in incentive plan expense, trading profit increased 11.7% and was 8.8% as a percentage to sales compared to 8.3% last year.

Income tax expense decreased to \$6.0 million compared to \$11.2 million in the fourth quarter last year. This decrease is largely due to the conversion to a share corporation on January 1, 2011 and the related impact of IFRS on the income tax rates used to calculate deferred income tax assets and liabilities under the Fund structure compared to a corporate structure (see Conversion to a Share Corporation on page 7 for further information). Upon conversion to a share corporation, the fourth quarter 2010 deferred tax assets and liabilities were calculated using substantively enacted corporate income tax rates of approximately 27% compared to the 46.4% that was required to be used by IFRS under the Fund structure prior to conversion. This change in income tax rates resulted in an incremental income tax expense of approximately \$8.4 million in the 2010 fourth quarter comparative numbers.

Net earnings increased 47.3% to \$13.5 million and diluted earnings per share increased to \$0.27 compared to \$0.19 per unit last year largely due to the changes in deferred income taxes in the 2010 fourth quarter comparative numbers discussed above. Excluding the impact of the Canadian income tax expense in 2011 and 2010, diluted earnings per share would have decreased \$0.02 per share compared to the fourth quarter last year.

As a result of a further decrease in the discount rate used to calculate pension liabilities and lower than expected returns on pension plan assets, the Company recorded an increase in defined benefit plan obligations of \$2.3 million, an increase in deferred tax assets of \$0.6 million, and net actuarial losses of \$1.7 million as a charge to other comprehensive income. The charge to other comprehensive income was immediately recognized in retained earnings at January 31, 2012.

<sup>2</sup> See Non-GAAP Measures Section of Management's Discussion & Analysis

## Year

Sales for the year increased 3.2% to \$1.495 billion compared to \$1.448 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 3.4% lower at 0.991 compared to 1.026 last year. Excluding the foreign exchange impact, sales increased 4.4% and were up 3.3%<sup>1</sup> on a same store basis. Food sales<sup>1</sup> increased 4.5% and were up 3.5% on a same store basis. General merchandise sales<sup>1</sup> increased 3.5% and were up 2.2% on a same store basis.

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

	2011	2010
Food	76.4%	76.4%
General merchandise	20.2%	20.3%
Other*	3.4%	3.3%

\* Other sales include gas, fur and service charge revenues

Earnings from operations decreased 1.1% to \$89.3 million compared to \$90.3 million last year as higher incentive plan expenses included in selling, operating and administrative expenses offset the impact of higher sales. Excluding the foreign exchange impact and the incentive plan expense noted above, earnings from operations increased 6.7%. Trading profit<sup>2</sup> of \$125.9 million was flat to last year. Excluding the foreign exchange impact and the increase in incentive plan expense, trading profit increased 5.9% and was 8.8% as a percentage to sales compared to 8.7% last year.

Income taxes increased to \$25.3 million compared to \$14.5 million last year largely due to the taxation of Canadian Operations earnings as a result of the conversion to a share corporation. 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 was 30.4% reflecting the taxation of Canadian earnings and higher earnings in the International Operations.

Net earnings decreased 16.8% to \$58.0 million and diluted earnings per share decreased to \$1.19 compared to \$1.44 per unit last year. The change 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 \$0.21 per share. The impact of a stronger Canadian dollar on the conversion of U.S. denominated earnings in our International Operations also decreased diluted earnings per share by \$0.01 per share.

## CANADIAN OPERATIONS

Canadian sales for the quarter increased 6.8% to \$275.4 million from \$257.9 million last year and were up 6.1% on a same store basis. Food sales increased 5.9% and were up 5.6% 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 continuing to deliver 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 1.6% in the quarter. General merchandise sales increased 8.4% from last year and were up 7.6% on a same store basis with all banners contributing to the strong sales performance. Sales were up in most categories with electronics, toys and apparel sales contributing the largest increases.

Gross profit dollars increased 4.8% driven by sales gains as gross profit rates were down in the quarter. The lower gross profit rates in the quarter were due to more aggressive promotional food pricing in select markets and markdowns to clear seasonal merchandise as a result of unseasonably warm weather. Selling, operating and administrative expenses increased 7.0% and were up 6 basis points as a percentage to sales. The increase is largely due to higher incentive plan expenses as previously noted partially offset by lower debt loss expense in the quarter.

Canadian trading profit decreased 2.4% to \$24.6 million compared to \$25.2 million last year and was 8.9% to sales compared to 9.8% of sales in the fourth quarter last year. Excluding the increase in incentive plan expense, trading profit increased 9.4% and was 10.0% to sales.

## **INTERNATIONAL OPERATIONS (stated in U.S. dollars)**

International sales increased 3.2% to \$119.7 million compared to \$116.0 million in the fourth quarter last year and were up 2.7% on a same store basis. Food sales increased 2.3% and were up 1.9% on a same store basis with both Alaska and CUL stores contributing to the increase. General merchandise same store sales were up 7.1% in the quarter reversing the negative sales trend in the past four quarters with the majority of the increase generated by markdown activity in our CUL stores. These markdowns successfully positioned CUL for higher margin sales from fresher merchandise in targeted growth categories for 2012 and were part of a performance improvement plan launched in the second half of 2011. Sales in our wholesale business continued to improve after a weaker sales performance in 2010.

Gross profit dollars were up 11.2% as a result of sales growth and improved gross profit rates. Better sourcing, pricing reviews, a decrease in promotional food pricing in several key markets and improved perishable food profitability were all the factors contributing to higher gross profit rates which more than offset higher markdowns to clear general merchandise. Selling, operating and administrative expenses increased 13.0% and were up 205 basis points as a percent to sales due to higher incentive plan expenses. Rising utility expenses caused by higher fuel prices was also a factor.

Trading profit increased 1.1% to \$5.9 million compared to \$5.8 million last year and as a percent to sales was 4.9% compared to 5.0% in the fourth quarter last year. Excluding the increase in incentive expense, trading profit increased 21.4% and was 5.9% to sales.

## **FINANCIAL CONDITION**

### **Financial Ratios**

The Company's debt-to-equity ratio at the end of the quarter was 0.62:1 compared to 0.67:1 last year. 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 \$15.3 million charge to retained earnings through other comprehensive income related to the actuarial losses on the Company's defined benefit pension plan.

Working capital increased 68.8% or \$68.4 million compared to the fourth quarter last year largely due to the decrease in the current portion of long term debt. The decrease in the current portion of long-term debt is due to the Canadian Operations loan facilities that were refinanced on December 5, 2011. Excluding the impact of the maturing loan facilities, working capital increased \$1.0 million or 0.6% compared to last year.

## Outstanding Shares

The weighted average basic shares outstanding for the quarter were 48,378,000 compared to 48,377,000 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 48,518,000 compared to 48,525,000 units last year. The decrease in the fully diluted shares outstanding compared to last year is due to a decrease in the number of shares outstanding under the Director Deferred Share Unit Plan.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the major components of cash flow:

	<b>Three Months January 31, 2012</b>	Three Months January 31, 2011	Change	<b>Twelve Months January 31, 2012</b>	Twelve Months January 31, 2011	Change
\$ in thousands						
Cash flows from (used in):						
Operating Activities	<b>\$ 52,324</b>	\$ 54,129	\$ (1,805)	<b>\$ 114,658</b>	\$ 114,564	\$ 94
Investing Activities	<b>(16,555)</b>	(10,664)	(5,891)	<b>(45,137)</b>	(34,124)	(11,013)
Financing Activities	<b>(42,766)</b>	(41,003)	(1,763)	<b>(73,768)</b>	(76,487)	2,719
Net change in cash	<b>\$ (6,997)</b>	\$ 2,462	\$ (9,459)	<b>\$ (4,247)</b>	\$ 3,953	\$ (8,200)

Cash flow from operating activities in the quarter decreased \$1.8 million to \$52.3 million from \$54.1 million last year largely due to lower earnings before income taxes. As a result of the conversion to a share corporation, the earnings of The North West Company LP ("NWCLP") are now taxed in the Company based on statutory corporate income tax rates. Although the Company has been accruing Canadian income tax expense throughout the year, a significant portion of these income taxes will be deferred to a subsequent period. On November 21, 2011, new income tax legislation was enacted to curtail income deferral by corporations with a partnership that has a different taxation year. The new legislation requires income from these partnerships to be reported on an accrual basis for tax purposes but also includes transitional provisions whereby income earned from the partnership during the initial adoption year can be deferred and recognized over a subsequent five-year period. As a result of these transition rules, a substantial portion of the income tax payable of the Canadian Operations for 2011 has been deferred and will be paid over the next five years. This deferred tax liability has been recorded as a reduction of deferred tax assets on the consolidated balance sheet. Income tax installments will begin being paid in the first quarter of 2012 and will increase in 2013 based on the recognition of the income deferred under the transition rules. Cash flow from operations<sup>2</sup> in the quarter decreased 3.9% to \$29.1 million compared to \$30.3 million last year due primarily to a decrease in earnings before income tax.

For the year, cash flow from operating activities was flat to last year at \$114.7 million. The change in non-cash working capital is largely related to an increase in inventories and accounts receivable compared to the prior year partially offset by the change in accounts payable related to the timing of payments to vendors. The change in other non-cash items is primarily due to the change in the current service cost of the defined benefit pension plan compared to the prior year.

Cash used for investing activities in the quarter increased to \$16.6 million compared to \$10.7 million last year due to a difference in the timing of capital investments. For the year, cash used in investing activities increased 32.3% to \$45.1 million compared to last year. Capital expenditures for the year included new stores, major store renovations, an ATM replacement project, store point-of-sale system upgrades and staff housing renovations.

Cash used for financing activities in the quarter was \$42.8 million compared to \$41.0 million last year. The change in long-term debt in the quarter is largely due to a decrease in the amount drawn on the International Operations revolving loan facility compared to last year.

The Company paid dividends of \$11.6 million compared to distributions from the Fund of \$16.5 million in the fourth 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.

Cash used for financing activities for the year was \$73.8 million compared to \$76.5 million last year due to a decrease in dividends as explained above, a decrease in the amount drawn on loan facilities as well as the repayment of a US\$3.9 million note payable.

### **Sources of Liquidity**

On December 5, 2011, the Company completed the refinancing of its \$140.0 million loan facilities in the Canadian Operations. The new committed, extendible, revolving loan 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, 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. 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. At January 31, 2012, the Company had drawn \$68.9 million on these facilities (January 31, 2011 – \$67.4 million).

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 \$170.0 million loan facilities. At January 31, 2012, the Company had drawn US\$36.0 million on these facilities (January 31, 2011 – US\$50.0 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 January 31, 2012, the Company had nothing drawn on these facilities (January 31, 2011 – US\$ NIL).

The loan facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At January 31, 2012, the Company is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

Cash flow from 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 \$0.26 per share, an increase of \$0.02 per share or 8.3%, to shareholders of record on March 30, 2012, payable on April 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 provisions of the Canadian Income Tax Act.

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](http://www.northwest.ca) or on SEDAR at [www.sedar.com](http://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.

## **QUARTERLY HIGHLIGHTS**

- In February, the Company held its 13th annual Wintering Partners Conference and Trade Show in Winnipeg. For the first time store managers from across all of the Company's banners attended this conference which focuses on best practice learning and selling plans for the year ahead. During the week a special celebration was held marking the 25th anniversary of North West as an independent company beginning with the acquisition of the Northern Stores Division of The Hudson's Bay Company in 1987.
- The Company's 37<sup>th</sup> Giant Tiger store will open on March 17, 2012 in Swift Current, Saskatchewan.
- A small Northern store in Fort Ware, BC was closed on January 31, 2012.

## 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 longer-duration performance improvement work within our Giant Tiger and Cost-U-Less store banners.

First quarter sales trends have been favourable, in addition to the extra sales day in February. Sales momentum is expected to moderate compared to the fourth quarter and our emphasis will continue to be on margin and cost improvement opportunities under our "More Growth in Store" strategic focus offsetting expected higher pension, insurance and utility expenses.

Net capital expenditures for 2012 are projected to be in the range of \$60 million to \$70 million (2011 - \$45.1 million) reflecting the opening and acquisition of new stores, major replacement store projects, energy conservation projects, staff housing renovations, corporate information systems upgrades and the implementation of a transportation management system. The investments in staff housing and the transportation management system, which are the result of our More Growth in Store focus, account for approximately \$11 million of the projected capital expenditures. The remaining increase in projected capital spending in 2012 compared to prior years is due to a larger than usual number of northern store replacement projects caused by fire losses over the past 18 months and agreements being reached with First Nation communities. Actual year-to-year expenditures depend upon the completion of negotiations and shipment of construction materials to remote markets and therefore, the amount and timing can fluctuate as it has over the past few years. Beyond 2012, capital spending is expected to return to an average of \$40 million to \$50 million per year.

## 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.

### Operating Results-Consolidated

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
	92 days	92 days	92 days	92 days	92 days	92 days	89 days	89 days
(\$ in millions)	2011	2010	2011	2010	2011	2010	2011	2010
Sales	\$397.6	\$374.5	\$378.4	\$367.3	\$372.9	\$366.2	\$346.3	\$340.1
Trading profit	30.6	31.0	34.5	34.2	32.4	32.2	28.4	28.3
Net earnings	13.5	9.2	17.0	22.4	15.0	20.2	12.4	17.8
Net earnings per share:								
Basic	0.28	0.19	0.35	0.47	0.31	0.42	0.26	0.37
Diluted	0.27	0.19	0.35	0.46	0.31	0.42	0.26	0.37

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 January 31, 2012 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 ended January 31, 2012 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 the 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 standards that may apply in future periods. Unless otherwise noted, the following revised standards and amendments are effective for the Company's annual periods beginning February 1, 2013.

**Financial Instruments: Disclosures** The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The Company will apply the amendment for its financial year beginning February 1, 2012 and does not expect its implementation to have a significant impact on its disclosures.

**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.

**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 venturers' rights and obligations. This standard provides guidance for financial reporting activities required by entities that have an interest in a jointly controlled arrangement. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the ventures assets, liabilities, revenues and expenses.

**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.

**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.

**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 with only two categories: amortized cost and fair value through profit or loss. This standard is effective for the Company's financial year beginning February 1, 2015.

**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.

**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.

**Financial Instruments** The IASB has issued amendments to IFRS 7, *Financial Instruments: Disclosures* and IAS 32, *Financial Instruments, Presentation* which clarify the requirements for offsetting financial assets and financial liabilities along with new disclosure requirements for financial assets and liabilities that are offset. These amendments are effective for the Company's financial years beginning February 1, 2014 and February 1, 2013 respectively.

## 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)	Fourth Quarter		Year-to-Date	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net earnings	\$ 13,501	\$ 9,166	\$ 57,961	\$ 69,656
Add: Amortization	9,542	9,026	36,572	35,492
Interest expense	1,615	1,610	6,026	6,077
Income taxes	5,952	11,179	25,322	14,539
Trading profit	<u>\$ 30,610</u>	<u>\$ 30,981</u>	<u>\$ 125,881</u>	<u>\$ 125,764</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)	Fourth Quarter		Year-to-Date	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Cash flow from operating activities	\$ 52,324	\$ 54,129	\$ 114,658	\$ 114,564
Non-cash items:				
Change in other non-cash items	(708)	(830)	2,355	4,453
Change in non-cash working capital	(22,523)	(23,029)	4,027	(613)
Cash flow from operations	<u>\$ 29,093</u>	<u>\$ 30,270</u>	<u>\$ 121,040</u>	<u>\$ 118,404</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 March 16, 2012.

### **Forward-Looking Statements**

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, 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](http://www.sedar.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited, \$ in thousands)	January 31 2012	January 31 2011
<b>CURRENT ASSETS</b>		
Cash	\$ 26,984	\$ 31,231
Accounts receivable	76,539	70,180
Inventories (Note 6)	186,124	177,019
Prepaid expenses	6,189	6,359
	<b>295,836</b>	<b>284,789</b>
<b>NON-CURRENT ASSETS</b>		
Property and equipment	270,370	259,583
Goodwill	26,319	26,241
Intangible assets	14,620	17,147
Deferred tax assets	7,422	17,017
Other assets	12,350	11,811
	<b>331,081</b>	<b>331,799</b>
<b>TOTAL ASSETS</b>	<b>\$ 626,917</b>	<b>\$ 616,588</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 122,349	\$ 116,773
Current portion of long-term debt (Note 9)	629	68,257
Income tax payable (Note 7)	5,024	347
	<b>128,002</b>	<b>185,377</b>
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt (Note 9)	175,263	124,339
Provisions	4,016	3,784
Defined benefit plan obligation (Note 10)	27,616	9,000
Deferred tax liabilities	2,440	2,587
Other long-term liabilities	5,871	5,026
	<b>215,206</b>	<b>144,736</b>
<b>TOTAL LIABILITIES</b>	<b>343,208</b>	<b>330,113</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 5)	165,133	165,133
Contributed surplus	3,180	2,491
Retained earnings	115,991	119,739
Accumulated other comprehensive income	(595)	(888)
<b>TOTAL EQUITY</b>	<b>283,709</b>	<b>286,475</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 626,917</b>	<b>\$ 616,588</b>

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)	<b>Three Months Ended January 31, 2012</b>	Three Months Ended January 31, 2011	<b>Twelve Months Ended January 31, 2012</b>	Twelve Months Ended January 31, 2011
<b>SALES</b>	<b>\$ 397,570</b>	\$ 374,481	<b>\$ 1,495,136</b>	\$ 1,448,104
Cost of sales	<b>(282,356)</b>	(266,778)	<b>(1,067,153)</b>	(1,034,772)
Gross profit	<b>115,214</b>	107,703	<b>427,983</b>	413,332
Selling, operating and administrative expenses	<b>(94,146)</b>	(85,748)	<b>(338,674)</b>	(323,060)
Earnings from operations	<b>21,068</b>	21,955	<b>89,309</b>	90,272
Interest expense (Note 12)	<b>(1,615)</b>	(1,610)	<b>(6,026)</b>	(6,077)
Earnings before income taxes	<b>19,453</b>	20,345	<b>83,283</b>	84,195
Provision for income taxes (Note 7)	<b>(5,952)</b>	(11,179)	<b>(25,322)</b>	(14,539)
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 13,501</b>	\$ 9,166	<b>\$ 57,961</b>	\$ 69,656
<b>NET EARNINGS PER SHARE</b>				
Basic	<b>\$ 0.28</b>	\$ 0.19	<b>\$ 1.20</b>	\$ 1.45
Diluted	<b>\$ 0.27</b>	\$ 0.19	<b>\$ 1.19</b>	\$ 1.44
Weighted-Average Number of Shares Outstanding (000's)				
Basic	<b>48,378</b>	48,377	<b>48,378</b>	48,180
Diluted	<b>48,518</b>	48,525	<b>48,525</b>	48,512

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 January 31, 2012	Three Months Ended January 31, 2011	Twelve Months Ended January 31, 2012	Twelve Months Ended January 31, 2011
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 13,501</b>	<b>\$ 9,166</b>	<b>\$ 57,961</b>	<b>\$ 69,656</b>
Other comprehensive income/(expense):				
Exchange differences on translation of foreign controlled subsidiaries, net of tax	356	(343)	293	(888)
Actuarial losses on defined benefit plans, net of tax (Note 10)	(1,735)	(1,046)	(15,266)	(1,046)
Total other comprehensive income, net of tax	(1,379)	(1,389)	(14,973)	(1,934)
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 12,122</b>	<b>\$ 7,777</b>	<b>\$ 42,988</b>	<b>\$ 67,722</b>

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, \$ in thousands)	Share Capital	Unit Purchase Loan Plan	Contributed Surplus	Retained Earnings	AOCI <sup>(1)</sup>	Total
Balance at January 31, 2011	\$ 165,133	\$ –	\$ 2,491	\$ 119,739	\$ (888)	\$ 286,475
Net earnings for the period	–	–	–	57,961	–	57,961
Other comprehensive income	–	–	–	(15,266)	293	(14,973)
Comprehensive income	–	–	–	42,695	293	42,988
Equity settled share-based payments	–	–	689	–	–	689
Dividends (Note 8)	–	–	–	(46,443)	–	(46,443)
	–	–	689	(46,443)	–	(45,754)
<b>Balance at January 31, 2012</b>	<b>\$ 165,133</b>	<b>\$ –</b>	<b>\$ 3,180</b>	<b>\$ 115,991</b>	<b>\$ (595)</b>	<b>\$ 283,709</b>
Balance at February 1, 2010	\$ 165,133	\$ (6,428)	\$ 1,569	\$ 121,279	\$ –	\$ 281,553
Net earnings for the period	–	–	–	69,656	–	69,656
Other comprehensive income	–	–	–	(1,046)	(888)	(1,934)
Comprehensive income	–	–	–	68,610	(888)	67,722
Equity settled share-based payments	–	–	922	–	–	922
Dividends (Note 8)	–	–	–	(70,150)	–	(70,150)
UPLP repayment (Note 13)	–	6,428	–	–	–	6,428
	–	6,428	922	(70,150)	–	(62,800)
Balance at January 31, 2011	\$ 165,133	\$ –	\$ 2,491	\$ 119,739	\$ (888)	\$ 286,475

(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 January 31, 2012	Three Months Ended January 31, 2011	Twelve Months Ended January 31, 2012	Twelve Months Ended January 31, 2011
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating activities</b>				
Net earnings for the period	\$ 13,501	\$ 9,166	\$ 57,961	\$ 69,656
Adjustments for:				
Amortization	9,542	9,026	36,572	35,492
Provision for income taxes (Note 7)	5,952	11,179	25,322	14,539
Interest expense (Note 12)	1,615	1,610	6,026	6,077
Equity settled share option expense (Note 13)	36	228	689	733
Taxes paid	(1,585)	(1,063)	(6,195)	(8,200)
Amortization of deferred financing costs	57	55	227	217
(Gain) / Loss on disposal of property and equipment	(25)	69	438	(110)
	<b>29,093</b>	30,270	<b>121,040</b>	118,404
Change in non-cash working capital	22,523	23,029	(4,027)	613
Change in other non-cash items	708	830	(2,355)	(4,453)
Cash from operating activities	<b>52,324</b>	54,129	<b>114,658</b>	114,564
<b>Investing activities</b>				
Purchase of property and equipment (Note 4)	(16,583)	(10,685)	(45,565)	(35,225)
Proceeds from disposal of property and equipment	28	21	428	1,101
Cash from investing activities	<b>(16,555)</b>	(10,664)	<b>(45,137)</b>	(34,124)
<b>Financing activities</b>				
Decrease in long-term debt	(28,660)	(22,351)	(13,360)	(8,691)
Repayments of long-term debt	-	-	(3,676)	-
Dividends / distributions (Note 8)	(11,611)	(16,449)	(50,797)	(68,700)
Repayments of Unit Purchase Loan Plan (Note 13)	-	136	-	6,428
Interest paid	(2,495)	(2,339)	(5,935)	(5,524)
Cash from financing activities	<b>(42,766)</b>	(41,003)	<b>(73,768)</b>	(76,487)
<b>NET CHANGE IN CASH</b>	<b>(6,997)</b>	2,462	<b>(4,247)</b>	3,953
Cash, beginning of period	33,981	28,769	31,231	27,278
<b>CASH, END OF PERIOD</b>	<b>\$ 26,984</b>	\$ 31,231	<b>\$ 26,984</b>	\$ 31,231

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)

JANUARY 31, 2012 AND 2011

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## 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 consolidated 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 March 16, 2012.

## 2. BASIS OF PREPARATION

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

JANUARY 31, 2012 AND 2011

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### 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 ended January 31, 2012 and have not been applied in preparing these condensed consolidated financial statements. Unless otherwise noted, the following revised standards and amendments are effective for the Company's annual periods beginning February 1, 2013. 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 Company will apply the amendments for its financial year beginning February 1, 2012 and does not expect its implementation to have a significant impact on its disclosure.

*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.

*Joint Arrangements* The IASB issued IFRS 11, *Joint Arrangements* superseding IAS 31, *Interest in Joint Ventures* and Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities – Non Monetary Contributions by Venturers*. IFRS 11 establishes principles for determining the type of joint arrangement by assessing the venturers' rights and obligations. This standard provides guidance for financial reporting activities required by entities that have an interest in a jointly controlled arrangement. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the ventures' assets, liabilities, revenues and expenses.

*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 the Company's financial performance.

*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.

*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 with only two categories: amortized cost and fair value through profit or loss. This standard is effective for the Company's financial year beginning February 1, 2015.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

JANUARY 31, 2012 AND 2011

### 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.

*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.

*Financial Instruments* The IASB has issued amendments to IFRS 7, *Financial Instruments: Disclosures* and IAS 32, *Financial Instruments, Presentation* which clarify the requirements for offsetting financial assets and financial liabilities along with new disclosure requirements for financial assets and liabilities that are offset. These amendments are effective for the Company's financial years beginning February 1, 2014 and February 1, 2013 respectively.

### 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, assets and liabilities 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 January 31, 2012	Three Months Ended January 31, 2011	Twelve Months Ended January 31, 2012	Twelve Months Ended January 31, 2011
<b>Sales</b>				
Canada	\$ 275,350	\$ 257,871	\$ 1,028,396	\$ 978,662
International	122,220	116,610	466,740	469,442
Consolidated	\$ 397,570	\$ 374,481	\$ 1,495,136	\$ 1,448,104
<b>Earnings before amortization, interest and income taxes</b>				
Canada	\$ 24,569	\$ 25,174	\$ 97,998	\$ 98,781
International	6,041	5,807	27,883	26,983
Consolidated	\$ 30,610	\$ 30,981	\$ 125,881	\$ 125,764
<b>Earnings from operations</b>				
Canada	\$ 17,128	\$ 18,133	\$ 69,253	\$ 71,270
International	3,940	3,822	20,056	19,002
Consolidated	\$ 21,068	\$ 21,955	\$ 89,309	\$ 90,272

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

JANUARY 31, 2012 AND 2011

### 4. SEGMENTED INFORMATION (continued)

#### Supplemental Information:

	January 31, 2012	January 31, 2011
<b>Assets</b>		
Canada	\$ 447,931	\$ 435,775
International <sup>(1)</sup>	178,986	180,813
Consolidated	\$ 626,917	\$ 616,588

(1) International total assets includes goodwill of \$26,319 (January 31, 2011 - \$26,241).

	Three Months Ended January 31, 2012	Three Months Ended January 31, 2011	Twelve Months Ended January 31, 2012	Twelve Months Ended January 31, 2011
<b>Expenditure on property and equipment</b>				
Canada	\$ 14,313	\$ 8,732	\$ 37,927	\$ 27,392
International	2,270	1,953	7,638	7,833
Consolidated	\$ 16,583	\$ 10,685	\$ 45,565	\$ 35,225
<b>Amortization</b>				
Canada	\$ 7,441	\$ 7,041	\$ 28,745	\$ 27,511
International	2,101	1,985	7,827	7,981
Consolidated	\$ 9,542	\$ 9,026	\$ 36,572	\$ 35,492

### 5. ISSUED SHARE CAPITAL

**Authorized** – The Company has an unlimited number of shares.

	Shares	January 31, 2012	Shares	January 31, 2011
Issued and outstanding	48,378,000	\$ 165,133	48,378,000	\$ 165,133

### 6. INVENTORIES

Included in inventories recognized as an expense for the three months ended January 31, 2012, the Company recorded \$419 (three months ended - January 31, 2011 - \$525) for the write-down of inventories as a result of net realizable value being lower than cost. For the twelve months ended January 31, 2012, \$1,851 (twelve months ended - January 31, 2011 - \$1,501) 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 January 31, 2012 or 2011.

### 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)  
**JANUARY 31, 2012 AND 2011**

**8. DIVIDENDS**

	January 31, 2012	January 31, 2011
Dividends/distributions recorded in retained earnings	\$ 46,443	\$ 70,150
Special distribution paid February 18, 2011 to unitholders of record on December 31, 2010	4,354	(4,354)
Special distribution paid February 19, 2010 to unitholders of record on December 31, 2009	–	2,904
Dividends/distributions paid in cash	\$ 50,797	\$ 68,700
Dividends/distributions per share	\$ 1.05	\$ 1.42

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**

	January 31, 2012	January 31, 2011
<b>Current</b>		
Bank advances <sup>(1)</sup>	\$ –	\$ –
Revolving loan facilities <sup>(2)</sup>	–	67,445
Notes payable <sup>(3)</sup>	268	388
Finance lease liabilities	361	424
	\$ 629	\$ 68,257
<b>Non-current</b>		
Senior notes <sup>(4)</sup>	\$ 69,626	\$ 69,199
Revolving loan facilities <sup>(2)</sup>	68,850	–
Revolving loan facilities <sup>(5)</sup>	36,187	50,110
Notes payable <sup>(3)</sup>	391	4,462
Finance lease liabilities	209	568
	175,263	124,339
<b>Total</b>	<b>\$ 175,892</b>	<b>\$ 192,596</b>

(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.

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

(3) Notes payable in the amount of US\$655 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.

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

(5) The US\$52,000 committed, revolving loan facilities mature December 31, 2013 and bear interest at LIBOR plus a spread. The loan facilities are secured by a floating first charge against the assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the \$170,000 Canadian Operations loan facilities. At January 31, 2012, the Company has drawn US\$36,000 (January 31, 2011 – US\$50,000) on this facility.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

JANUARY 31, 2012 AND 2011

### 10. POST EMPLOYMENT BENEFITS

During the twelve months ended January 31, 2012, the Company contributed \$4,340 to its defined benefit pension plans (twelve months ended January 31, 2011 - \$4,817). Effective January 1, 2011, the Company implemented a defined contribution pension plan. During the twelve months ended January 31, 2012, the Company contributed \$1,803 to its defined contribution pension plan (twelve months ended January 31, 2011 - \$125).

A remeasurement of the defined benefit plan assets and liabilities is performed periodically. As a result of further decrease in the discount rate in the quarter ended January 31, 2012, the Company recorded actuarial losses on defined benefit plans of \$1,735 (three months ended January 31, 2011 - \$1,046), net of deferred income taxes, in other comprehensive income. This amount was recognized immediately in retained earnings.

During the twelve months ended January 31, 2012, the Company's defined benefit plan obligation increased to \$27,616, primarily as a result of a significant decrease in the discount rate and lower than expected returns on pension plan assets. For the twelve months ended January 31, 2012 the Company recorded actuarial losses on defined benefit plans of \$15,266 (twelve months ended January 31, 2011 - \$1,046), net of deferred income taxes, in other comprehensive income. These amounts were recognized immediately in retained earnings. The Company's defined benefit plan obligation increased \$20,807 as a result of pension plan liabilities increasing by \$17,471 and the defined benefit pension plan assets decreasing by \$3,336, and deferred income tax assets increased by \$5,541.

The discount rate used to determine the benefit obligation for the defined benefit pension plan at January 31, 2012 was 4.5%.

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

	January 31, 2012	January 31, 2011
Present value of defined benefit obligations	\$ (85,509)	\$ (67,773)
Fair value of plan assets	57,893	58,773
Defined benefit plan obligation, funded status	\$ (27,616)	\$ (9,000)

### 11. EMPLOYEE COSTS

	Three Months Ended January 31, 2012	Three Months Ended January 31, 2011	Twelve Months Ended January 31, 2012	Twelve Months Ended January 31, 2011
Wages, salaries and benefits including bonus	\$ 55,602	\$ 49,591	\$ 201,761	\$ 193,169
Retirement benefit expense	\$ 1,007	\$ 1,039	\$ 4,406	\$ 4,601
Share-based compensation (Note 13)	\$ 1,288	\$ 531	\$ 4,726	\$ 4,407

### 12. INTEREST EXPENSE

	Three Months Ended January 31, 2012	Three Months Ended January 31, 2011	Twelve Months Ended January 31, 2012	Twelve Months Ended January 31, 2011
Interest on borrowings	\$ 1,762	\$ 1,691	\$ 6,484	\$ 6,299
Fair value movement of financial instruments in effective fair value hedging relationships	9	47	(10)	(70)
Expected return on pension plan assets	(897)	(865)	(3,777)	(3,523)
Interest on pension plan liabilities	869	921	3,734	3,753
Other interest income	(56)	(184)	(244)	(352)
Less: interest capitalized	(72)	-	(161)	(30)
Interest expense	\$ 1,615	\$ 1,610	\$ 6,026	\$ 6,077

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 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 January 31, 2012 was \$1,288 (three months ended - January 31, 2011 - \$531) and for the twelve months ended January 31, 2012 was \$4,726 (twelve months ended January 31, 2011 - \$4,407).

#### Restricted Share Units and Performance Share Units

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

Compensation costs related to the RSU's and PSU's for the three months ended January 31, 2012 are \$826 (three months ended January 31, 2011 - \$57) and for the twelve months ended January 31, 2012 are \$2,981 (twelve months ended January 31, 2011 - \$2,128).

#### 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 maximum number of shares available for issuance is a fixed number set at 4,354,020, representing 9% of the Company's issued and outstanding shares at January 31, 2012. Fair value of these options is determined using an option pricing model. Share options granted vest on a graduated basis over five years and are exercisable over a period of seven to ten years. The share option compensation cost recorded for the three months ended January 31, 2012 is \$214 (three months ended January 31, 2011 - \$228) and for the twelve months ended January 31, 2012 is \$867 (twelve months ended January 31, 2011 - \$733).

There were no options issued during the three months ended January 31, 2012 and 2011.

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**13. SHARE-BASED COMPENSATION (continued)**

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

	January 31, 2012		January 31, 2011	
	Number of options	Weighted-Average Exercise Price	Number of options	Weighted-Average Exercise Price
Outstanding options, beginning of year	509,200	\$ 17.10	274,600	\$ 15.25
Granted <sup>(1)</sup>	371,998	20.39	242,800	19.12
Exercised	—	—	—	—
Forfeited or cancelled	(16,900)	16.92	(8,200)	15.25
Outstanding options, end of year	864,298	\$ 18.61	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 January 31, 2012 have an exercise price in the range of \$15.25 to \$20.62 and a weighted-average remaining contractual life of 7.2 years. No share options were exercised during the periods ended January 31, 2012 or January 31, 2011.

**Director Deferred Share Unit Plan**

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

Compensation expense is measured based on the fair market value at each reporting date. The deferred share unit plan compensation recorded for the three months ended January 31, 2012 is an expense of \$150 (three months ended January 31, 2011 – \$149) and for the twelve months ended January 31, 2012 is an expense of \$288 (twelve months ended January 31, 2011 – \$954). The total number of deferred share units outstanding at January 31, 2012 is 118,262 (January 31, 2011 – 132,924). There were NIL deferred share units exercised during the three months ended January 31, 2012 (three months ended January 31, 2011 - NIL) and 37,236 deferred share units exercised during the twelve months ended January 31, 2012 (twelve months ended January 31, 2011 – 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 January 31, 2012 is \$98 (three months ended January 31, 2011 – \$95) and for the twelve months ended January 31, 2012 is \$590 (twelve months ended January 31, 2011 – \$555).



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 this plan was discontinued and outstanding loans of \$6,428 were repaid during the year. The compensation cost relating to the UPLP for the period ended January 31, 2011 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:

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

## 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 ended 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 January 31, 2012, and the comparative information presented in these financial statements for the three months ended January 31, 2011 and the twelve months ended January 31, 2011. The Company will ultimately prepare its IFRS financial statements as at and for the years ended 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 ended 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 January 31, 2012, 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	ADJ	IFRS
January 31, 2011			
<b>CURRENT ASSETS</b>			
Cash	31,231	–	<b>31,231</b>
Accounts Receivable	70,180	–	<b>70,180</b>
Inventories	177,019	–	<b>177,019</b>
Prepaid expenses	6,359	–	<b>6,359</b>
Future income taxes (h)	4,514	(4,514)	–
	289,303	(4,514)	<b>284,789</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment (a)	256,454	3,129	<b>259,583</b>
Goodwill (b)	26,241	–	<b>26,241</b>
Intangible assets (b)	17,147	–	<b>17,147</b>
Deferred tax assets (h)	4,342	12,675	<b>17,017</b>
Other assets (c)	26,995	(15,184)	<b>11,811</b>
	331,179	620	<b>331,799</b>
<b>TOTAL ASSETS</b>	<b>620,482</b>	<b>(3,894)</b>	<b>616,588</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	116,773	–	<b>116,773</b>
Current portion of long-term debt	68,257	–	<b>68,257</b>
Income tax payable	347	–	<b>347</b>
	185,377	–	<b>185,377</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt	124,339	–	<b>124,339</b>
Provisions (d)	–	3,784	<b>3,784</b>
Defined benefit plans (c)	–	9,000	<b>9,000</b>
Deferred tax liabilities (h)	–	2,587	<b>2,587</b>
Other long-term liabilities (e)	8,269	(3,243)	<b>5,026</b>
	132,608	12,128	<b>144,736</b>
<b>TOTAL LIABILITIES</b>	<b>317,985</b>	<b>12,128</b>	<b>330,113</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital	165,133	–	<b>165,133</b>
Unit Purchase Loan Plan	–	–	–
Contributed surplus (e)	2,156	335	<b>2,491</b>
Retained earnings (f)	131,969	(12,230)	<b>119,739</b>
Accumulated other comprehensive income (g)	3,239	(4,127)	<b>(888)</b>
<b>TOTAL EQUITY</b>	<b>302,497</b>	<b>(16,022)</b>	<b>286,475</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>620,482</b>	<b>(3,894)</b>	<b>616,588</b>

**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			CDN		
		GAAP*	ADJ	IFRS	GAAP*	ADJ	IFRS
		Three Months Ended January 31, 2011			Year Ended January 31, 2011		
<b>SALES</b>		374,481	–	<b>374,481</b>	1,448,104	–	<b>1,448,104</b>
Cost of sales		(266,778)	–	<b>(266,778)</b>	(1,034,772)	–	<b>(1,034,772)</b>
Gross profit		107,703	–	<b>107,703</b>	413,332	–	<b>413,332</b>
Selling, operating and administrative expenses	(i)	(85,869)	121	<b>(85,748)</b>	(323,522)	462	<b>(323,060)</b>
Earnings from operations		21,834	121	<b>21,955</b>	89,810	462	<b>90,272</b>
Interest expense	(j)	(1,552)	(58)	<b>(1,610)</b>	(5,875)	(202)	<b>(6,077)</b>
Earnings before income taxes		20,282	63	<b>20,345</b>	83,935	260	<b>84,195</b>
Provision for income taxes	(h)	(3,008)	(8,171)	<b>(11,179)</b>	(7,341)	(7,198)	<b>(14,539)</b>
<b>NET EARNINGS FOR THE PERIOD</b>		17,274	(8,108)	<b>9,166</b>	76,594	(6,938)	<b>69,656</b>

**Reconciliation of Condensed Consolidated Statements of Comprehensive Income**

	Note	CDN			CDN		
		GAAP*	ADJ	IFRS	GAAP*	ADJ	IFRS
		Three Months Ended January 31, 2011			Year Ended January 31, 2011		
<b>NET EARNINGS FOR THE PERIOD</b>		17,274	(8,108)	<b>9,166</b>	76,594	(6,938)	<b>69,656</b>
Other comprehensive income/(expense):							
Exchange differences on translation of foreign controlled subsidiaries, net of tax		(343)	–	<b>(343)</b>	(888)	–	<b>(888)</b>
Actuarial gains/(losses) on defined benefit pension plans, net of tax	(c)	–	(1,046)	<b>(1,046)</b>	–	(1,046)	<b>(1,046)</b>
Total other comprehensive income, net of tax		(343)	(1,046)	<b>(1,389)</b>	(888)	(1,046)	<b>(1,934)</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>		16,931	(9,154)	<b>7,777</b>	75,706	(7,984)	<b>67,722</b>

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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:

	January 31, 2011
Increase due to:	
IFRS 1 fair value election	\$ 2,813
Decommissioning obligation	286
Borrowing costs	30
Total adjustment	\$ 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:

	<b>January 31, 2011</b>
Net decrease due to:	
IFRS 1, cumulative actuarial losses	\$ (26,096)
Employee benefit expense differential	491
Actuarial gains	1,421
Total retained earnings adjustment	(24,184)
Portion applied to other assets	15,184
Defined benefit plans adjustment	\$ (9,000)

These changes resulted in an increase to earnings of \$491 for the period ended 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:

	<b>January 31, 2011</b>
Increase due to:	
Change in discount rate	\$ 541
Reclassification of decommissioning obligation	3,243
Provisions adjustment	\$ 3,784

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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:

	January 31, 2011
Net decrease due to:	
Change in share-based payments	\$ 335
Reclassification of decommissioning obligation	(3,243)
Reclassification of share-based payments obligation	(335)
Other long-term liabilities adjustment	\$ (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	January 31, 2011
<b>RETAINED EARNINGS, Canadian GAAP</b>		<b>\$ 131,969</b>
Adjusted by:		
Property and equipment	(a)	3,129
Defined benefit plans	(c)	(24,184)
Provisions	(d)	(541)
Other long-term liabilities	(e)	(335)
AOCI adjustments	(g)	4,127
Deferred taxes	(h)	5,574
Transition adjustment		(12,230)
<b>RETAINED EARNINGS, IFRS</b>		<b>\$ 119,739</b>

#### (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	January 31, 2011
<b>AOCI, Canadian GAAP</b>		\$ 3,239
Cumulative translation account adjustment	(f)	(4,127)
<b>AOCI, IFRS</b>		\$ (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	January 31, 2011
Property and equipment	(a)	\$ (459)
Defined benefit pension plans	(c)	6,465
Property provisions	(d)	151
Application of undistributed tax rate		—
Other differences		(583)
Net deferred tax adjustment		5,574
Reclassification of current deferred taxes		4,514
		\$ 10,088
Disclosed as:		
Deferred tax assets		\$ 12,675
Deferred tax liabilities		(2,587)
		\$ 10,088

These differences increased deferred income tax expense recognized in net earnings by \$8,171 for the three months ended January 31, 2011 and \$7,198 for the twelve months ended January 31, 2011.



## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 January 31, 2011 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 \$121.

The effect for the twelve months ended 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 January 31, 2011, however the effect for the twelve months ended January 31, 2011 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 January 31, 2011 and the year ended January 31, 2011 of \$58 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.