



*More growth in store...*

THE NORTH WEST COMPANY INC.

# Annual Information Form Year ended January 31, 2011

APRIL 6, 2011

THE NORTH WEST COMPANY INC.



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## TABLE OF CONTENTS

<b>EXPLANATORY NOTES</b> .....	1
Date of Annual Information Form .....	1
Glossary of Terms.....	1
Currency .....	2
Forward-Looking Statements .....	2
Non-GAAP Measures .....	2
<b>CORPORATE STRUCTURE</b> .....	3
Name, Address and Incorporation .....	3
Intercorporate Relationships .....	4
<b>GENERAL DEVELOPMENT OF THE BUSINESS</b> .....	5
History .....	5
Developments for 2008.....	5
Developments for 2009.....	6
Developments for 2010.....	6
Developments for 2011.....	9
<b>DESCRIPTION OF THE BUSINESS</b> .....	10
General.....	10
Canadian Operations.....	10
International Operations .....	12
Distribution and Infrastructure.....	12
Financial Services .....	13
Markets .....	13
Stores and Other Facilities.....	14
Competition .....	15
Investing Activities .....	15
Management of Sales and Operations .....	15
Employees.....	16
Customers .....	16
Intangible Properties .....	17
Seasonality .....	17
Environment .....	17
Reorganizations .....	17
Debt Financing.....	17
<b>RISK FACTORS</b> .....	18
Retail Industry and Economic Downturns .....	18
Consumer Income .....	19
Competitive Environment.....	19
Community Relations .....	19
Employee Development and Retention .....	19
Food Safety .....	20
Energy Costs.....	20
Environmental.....	20
Insurance.....	20
Climate.....	21
Information Technology .....	21
Laws, Regulations and Standards .....	21
Management of Inventory.....	21



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Vendor and Service Partner Management .....	21
Ethical Business Conduct .....	22
Geopolitical.....	22
Employee Future Benefits .....	22
Credit Risk.....	22
Liquidity Risk.....	22
Currency Risk.....	23
Interest Rate Risk.....	23
New Business Strategies.....	23
Litigation.....	23
Financial Services Business.....	24
Dependence on Key Facilities .....	24
Leases .....	24
<b>DESCRIPTION OF THE NORTH WEST COMPANY INC.</b> .....	24
Conversion of the Fund into a Corporation .....	24
Capital Structure .....	25
<b>DIVIDENDS AND DISTRIBUTIONS</b> .....	25
Dividends.....	25
Distribution History .....	26
<b>MARKET FOR SECURITIES</b> .....	26
<b>ESCROWED SECURITIES</b> .....	27
<b>TRANSFER AGENT AND REGISTRAR</b> .....	27
<b>DIRECTORS AND EXECUTIVES OF THE COMPANY</b> .....	27
<b>CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTION</b> .....	30
<b>AUDIT COMMITTEE INFORMATION</b> .....	31
Audit Committee Members .....	32
External Audit Service Fee.....	33
<b>INTEREST OF EXPERTS</b> .....	34
<b>CONFLICTS OF INTEREST</b> .....	34
<b>LEGAL PROCEEDINGS</b> .....	34
<b>INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS</b> .....	34
<b>MATERIAL CONTRACTS</b> .....	34
<b>ADDITIONAL INFORMATION</b> .....	35
<b>APPENDIX A – AUDIT COMMITTEE CHARTER</b> .....	36



## EXPLANATORY NOTES

### Date of Annual Information Form

The information contained in this Annual Information Form (“AIF”) is stated as at January 31, 2011, unless otherwise indicated.

### Glossary of Terms

Unless otherwise indicated or the context otherwise requires:

“AIF” means Annual Information Form;

“CBCA” means the *Canada Business Corporations Act*;

“CCAA” means the *Companies’ Creditors Arrangement Act (Canada)*;

“CUL” means the Cost-U-Less banner;

“Company” means The North West Company Inc. and/or its subsidiaries, and where such references are made prior to January 1, 2011, the Fund and/or its subsidiaries;

“EBIT” means earnings before interest and income taxes;

“EBITDA” means earnings before interest, income taxes, depreciation and amortization;

“Fund” means North West Company Fund, and where the reference so requires, references to the Fund includes its subsidiaries;

“GAAP” means Canadian generally accepted accounting principles;

“IT” means information technology;

“LRP” means long range planning;

“Nutrition North” means a Canadian federally subsidy program for nutritious perishable food sold in northern Canada;

“Plan of Arrangement” has the meaning set out in “Corporate Structure – Name, Address and Incorporation”; and

“Senior Notes” has the meaning set out in “Description of the Business – Debt Financing – Senior Notes”.



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## Currency

Unless otherwise stated, all dollar amounts are expressed in Canadian dollars and references to “\$” are to Canadian dollars.

## Forward-Looking Statements

*This AIF contains "forward-looking statements" within the meaning of applicable securities laws, including (but not limited to) statements about the Company's profitability, the Company's objectives and strategies, outlook for the Company's business or the economy, targeted and expected financial results, and new products and services, and similar statements concerning anticipated future events, results, circumstances, performance or expectations, which reflect the Company's current expectations and are based on information currently available to management. The words "may", "will", "should", "believe", "expect", "plan", "anticipate", "intend", "estimate", "predict", "potential", "continue" or the negative of these terms, or other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking matters.*

*Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to economic conditions and consumer confidence, fluctuations in interest rates and currency values, changes in economic and political conditions, legislative and regulatory developments, changes in income tax legislation affecting income, legal developments, the level of competition in the Company's markets, the occurrence of weather related and other natural catastrophes, the ability to attract and retain key personnel, the ability to complete and integrate acquisitions, changes in tax laws, and those risks and uncertainties detailed in the section entitled "Risk Factors". The preceding list is not an exhaustive list of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable law.*

## Non-GAAP Measures

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

Earnings Before Interest and Income Taxes (“EBIT”) is not a recognized measure and does not have a standardized meaning under Canadian GAAP. Management believes that EBIT is a useful measure as it provides investors with an indication of the performance of the consolidated operations and/or business segments, prior to interest expense and income taxes. Investors should be cautioned, however, that EBIT should not be construed as an alternative to net earnings determined in accordance with Canadian GAAP



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as an indicator of the Company's performance. The Company's method of calculating EBIT may differ and may not be comparable to measures used by other companies.

Cash flow from operations is not a recognized measure under Canadian GAAP. 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 dividends 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 issuers and may not be comparable to measures used by other issuers.

## CORPORATE STRUCTURE

### **Name, Address and Incorporation**

The North West Company Inc. (the "Company") is a corporation amalgamated on January 1, 2011 under the *Canada Business Corporations Act* ("CBCA"), resulting from the amalgamation of the predecessor entity named The North West Company Inc., and certain other corporations pursuant to the plan of arrangement referred to below. It is the successor to North West Company Fund (the Fund"), following the completion of the reorganization of the Fund from an income trust structure to a corporate structure by way of a court-approved plan of arrangement (the "Plan of Arrangement") under section 192 of the CBCA.

As a result of the Plan of Arrangement, unitholders of the Fund received, for each unit of the Fund held, one common share of the Company and consequently, the holders of the units of the Fund became the holders of the common shares of the Company. As a result of the reorganization, the Fund and NWC Trust were liquidated and dissolved. Accordingly, references to The North West Company Inc. or the Company in this AIF for periods prior to January 1, 2011 are references to the Fund and/or its subsidiaries, as the context may require. See "Description of The North West Company Inc. – Conversion of the Fund into the Corporation".

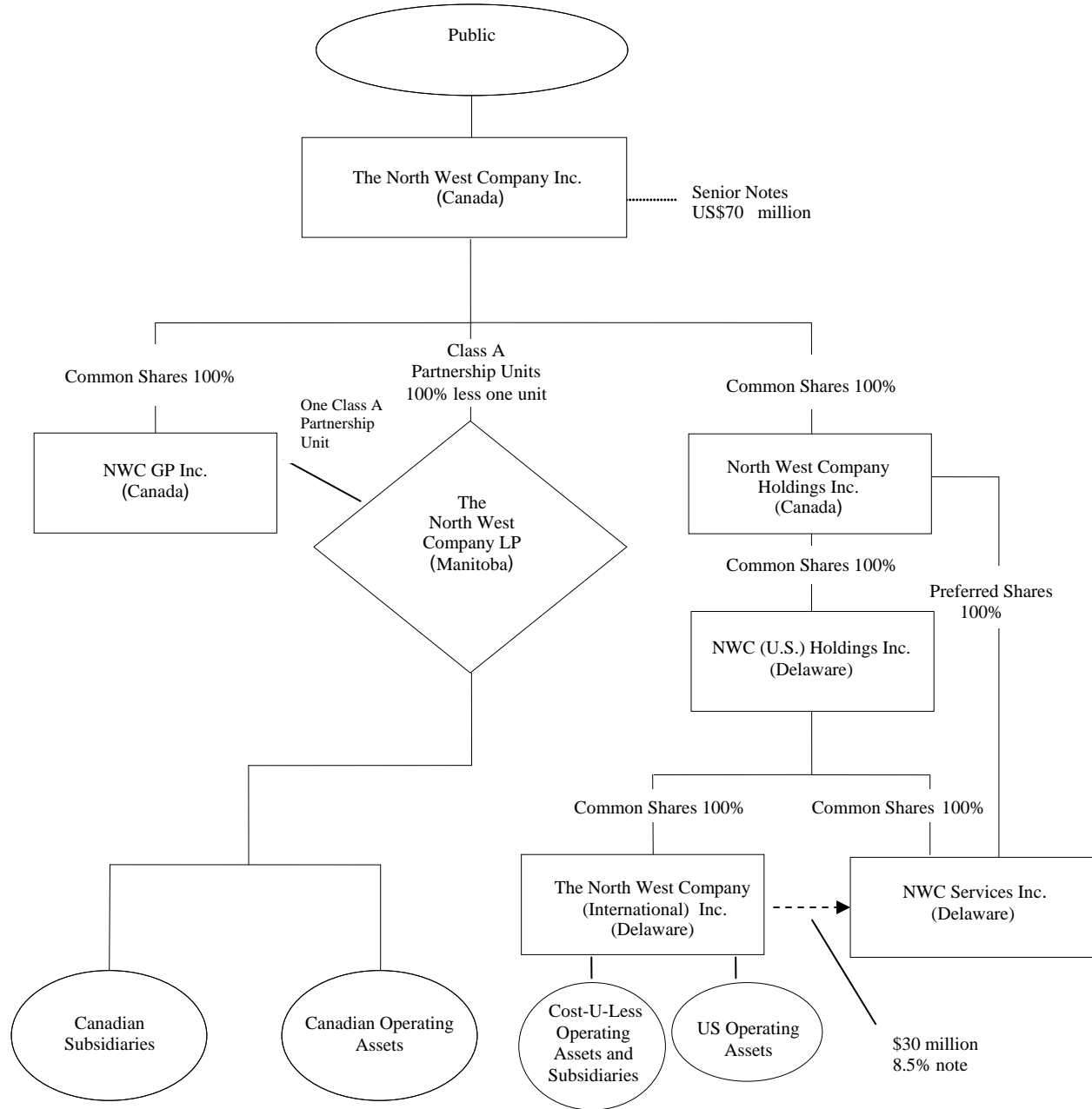
The head office of the Company is located at Gibraltar House, 77 Main Street, Winnipeg, Manitoba R3C 2R1.

Copies of the AIF, as well as the Company's 2010 Annual Financial Report and Summary Annual Report can be obtained at [www.sedar.com](http://www.sedar.com) and at [www.northwest.ca](http://www.northwest.ca).

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### Intercorporate Relationships

The following chart illustrates on a simplified basis, the structure of the Company as at January 31, 2011.



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## GENERAL DEVELOPMENT OF THE BUSINESS

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

### History

The Company has a rich enterprising legacy as one of the longest continuing retail enterprises in the world. The history of Company dates back to 1668, with the establishment of one of North America's early trading posts at Waskaganish on James Bay. The Hudson's Bay Company received its Royal Charter in 1670, and began establishing fur-trading outlets throughout what is now northern Canada. In 1821, the Hudson's Bay Company merged with its rival, The North West Company, which federation of partners commenced operations in 1779. Over time, the original fur-trading outlets diversified their product lines and eventually became the Northern Stores division of the Hudson's Bay Company. In 1987, the Northern Stores division was sold to a management and private investor group. Shares of the successor of the Northern Stores division, The North West Company Inc., were listed for trading on the Winnipeg and Toronto Stock Exchanges in 1990, and a subsequent public offering was made in 1992. Later that year, The North West Company Inc. purchased Alaska Commercial Company that traces its roots back to the Russian-American Company, which was a semi-official colonial trading company started by Grigory Shelikhov and Nikolai Rezanov, and chartered by Tsar Paul in 1799.

In 1997, The Company was reorganized pursuant to a plan of arrangement and the outstanding shares of The North West Company were effectively exchanged on a one-for-one basis for trust units of North West Company Fund. On December 13, 2007 The North West Company acquired Cost-U-Less, Inc. ("CUL").

### Developments for 2008

On March 3, 2008, the Company, through its international subsidiary called Alaska Commercial Company, acquired Span Alaska Enterprises, Inc., a distributor of food and general merchandise to independent grocery stores in rural Alaska.

On December 16, 2008, the corporate name of Alaska Commercial Company was changed to The North West Company (International) Inc. and its corporate registration was transferred from Alaska to Delaware. On December 31, 2008, Span Alaska Enterprises, Inc. and Cost-U-Less, Inc. were merged with The North West Company (International) Inc., with the amalgamated entity being named The North West Company (International) Inc.

The Company continued to refine its decentralized approach to community retailing in 2008. This encompassed the principles of being customer driven and tailoring the product and service assortment to meet the needs of the community. The Company also continued to work on its pharmacy growth initiative and opened a telepharmacy in northern Canada and a full-service pharmacy in Winnipeg.

During 2008, the Company reclassified one store from Northern to a new format SOLO Market store, closed two stores and opened three Giant Tiger Stores, two Northern stores and a Quickstop. The Company closed one AC Value Center. The SOLO Market concept store was developed to test product





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assortment strategies in road accessible communities of less than 5,000 people. The Company continued to test other store formats and assess wholesale business opportunities.

Operational initiatives included the integration of CUL, improving general merchandise inventory productivity in northern retail banners, initiatives to integrate wholesale activities, improve warehouse efficiencies, and leadership development.

### **Developments for 2009**

The Company continued the development of store selling and control capability in the Northern Canada Retail Division, and as a result, inventory shrinkage and controllable store operating expenses met targets.

During the year, the Company opened two new Giant Tiger stores in Canada. In its International operations, new stores included one AC Value Centre, and one Quickstop in Alaska, and its first store under the “Island Fresh” banner was opened in Chalan Pago, Guam.

The Company also focused on warehouse improvements in 2009. Warehouse processing and shipping schedules were realigned in February, 2009. A warehouse management system was implemented mid-year. The Alberta warehousing facility was transferred from Calgary to Edmonton.

Operating initiatives for the Company’s International operations included the integration of CUL merchandising systems, and the procurement and marketing function between AC Value Centers and CUL was consolidated into its Bellevue, Washington office. In addition, two warehouse operations in Anchorage, Alaska were consolidated into one facility, and a distribution centre in Monroe, Washington was replaced by a better suited facility at the Port of Tacoma, Washington.

The branding, sales systems, and distribution integration of Span Alaska Enterprises, Inc. and Frontier Expeditors was completed in February, 2010, under the new name of Pacific Alaska Wholesale.

On June 15, 2009, the Company successfully closed a private placement offering of US\$70 million 6.55% Senior Notes, which mature on June 15, 2014.

### **Developments for 2010**

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

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



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

The specific areas the Company has highlighted for attention further protect, grow and optimize the performance of its food business, which accounts for approximately 76% of its sales base. The following is an update on the progress of the LRP initiatives in 2010.

***Improve perishable food performance gaps***

This initiative is a comprehensive reworking of products, processes and technology required to improve the performance of categories that attract higher activity costs and require more complex executions. These include produce, meat, chilled and frozen food.

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

***Optimize in-stock position***

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

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

***Ensure store teams stability***

With such a diverse store network, the people, especially at store level, have always made the difference. Through the Company's assessment, it identified a critical need to solidify its store teams so that they stay together longer in specific locations, resulting in deepening customer and community relationships, and building their business. For this to happen consistently, the Company is revamping recruitment, retention and store work processes to ensure it attracts and retains highly productive, capable store personnel.

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

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gaps. The goal for fiscal 2010 was to establish one third of all stores with teams that met our stability and capability criteria in one third of our stores.

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

***Be “priced right”***

Price management is considered to be a strategic opportunity, especially in its more remote banners. Market-based pricing is more difficult due to limited local shopping options in many of these locations, and this requires a deeper, more sophisticated understanding of consumer purchase behaviour relative to price.

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

***Build supply chain advantage***

The Company is a major shipper of merchandise and other freight into the remote markets that it serves. This creates an opportunity to work more collaboratively with its transportation partners to fully leverage its knowledge and forecasted volumes. The outcomes expected from this strategy are improved delivery service within a more productive, lower cost transportation network.

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

***Cascade leadership principles into practices***

The Company considers its leadership principles in action, to be the foundation for great, sustainable performance across all levels of the organization. From its cashiers to its buyers and store managers, the Company recognizes the potential for measurable, effective practices that reflect these principles and align its work. The work in 2010 carried forward this commitment to making leadership at the Company deeper and more effective.



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

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

In the Company's Canadian operations, new stores in 2010 included one Quickstop convenience store, a Northern store, three Giant Tiger stores and one stand-alone pharmacy. Two smaller Northern banner stores were closed in Fort St. James, BC and Wawa, Ontario.

In the Company's International operations, one AC Value Center was opened and one Quickstop in Bethel, Alaska was closed.

In December, 2010, the Company refinanced its committed, revolving loan facilities of US\$52.0 million, which now mature on December 31, 2013. In January 2011, the Company refinanced the US\$15.0 million demand, revolving loan facility in its International operations. The new committed, revolving loan facility of US\$20.0 million matures on October 31, 2012.

### **Developments for 2011**

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

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

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



Further information on the Company's LRP work and strategies are provided in the Company's 2010 annual MD&A, which is incorporated by reference.

## DESCRIPTION OF THE BUSINESS

### General

The Company's operations are grouped into the Canadian operations and International operations. It is a leading retailer of food and everyday consumer goods and services to rural communities and urban neighborhoods in Canada, Alaska, the South Pacific and the Caribbean. The Company operates 227 retail stores that offer a broad assortment of food, general merchandise and other everyday products and services such as gasoline, cheque cashing and money transfers. The Company also operates complementary businesses, including food wholesale, a pharmacy, and fur and Inuit art marketing.

For the fiscal year ended January 31, 2011, total revenues of the Company were approximately \$1.448 billion, of which Canadian operations accounted for approximately 68% and International operations accounted for approximately 32%. For the fiscal year ended January 31, 2010, total revenues were approximately \$1.444 billion.

At January 31, 2011, 6,902 people were employed by the Company, of which 5,301 people were employed in its Canadian operations and 1,601 people employed in its International operations.

### Canadian Operations

The Canadian operations operate primarily through its Canadian subsidiary called The North West Company LP. The Canadian operations consist of the following:

Banner	Number of Locations	Description of Banner
Northern	126	Offer a combination of food, financial services and general merchandise to remote northern Canadian communities
NorthMart	7	Targeted at larger northern markets with an emphasis on an expanded selection of fresh foods, fashion and health products and services
Giant Tiger	34	Junior discount stores, offering family fashion, household products and food to urban neighbourhoods and larger rural centres in western Canada
Quickstop	12	Convenience stores, offering ready-to-eat foods, petroleum products and related services
Valu Lots	1	Clearance center
Solo Market	1	Test store, targeted at less remote, rural markets
Drug Store	1	Stand-alone pharmacy and convenience store combination in northern Canada
Crescent Multi Foods	1	Distributor of produce and fresh meats to independent grocery stores in Saskatchewan, Manitoba and northwestern Ontario
Fur Marketing	2	Trading in wild furs and offering Aboriginal handicrafts and authentic Canadian heritage products
Inuit Art Marketing Service	1	Canada's largest distributor of Inuit art



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These outlets are located in 152 communities across the Canadian north and in urban centers across western Canada. The communities range in size from small, remote settlements with populations as low as approximately 300 people to larger, regional centers with populations of up to 15,000 people and to urban centers situated across western Canada. The average store size has approximately 7,500 square feet of selling space and features a broad assortment of food, general merchandise and services.

Northern and NorthMart stores food offerings consist of perishable and non-perishable products including groceries, dairy products, meat, produce and convenience/fast-food services, and health and beauty aids. General merchandise consists of family apparel, housewares, sporting goods, toys, hardware, furniture, appliances and home entertainment products, boats, outboard motors, canoes, all-terrain vehicles and snowmobiles. Pizza Hut, Burger King, KFC, A&W and Tim Hortons outlets are also located in select Northern and NorthMart stores. Services include cheque cashing, cash cards, income tax preparation, ATM's, money transfers, bill payment, and gasoline sales. Stores may also feature a post office, fast food franchise or a pharmacy. Quickstop convenience stores offer ready-to-eat foods, petroleum products and related services. Other retail formats include a SOLO Market, which is a full service grocery with a community focused product assortment and pharmacy serving a road accessible community of less than 5,000 people and Valu Lots, which is a discount clearance center.

The Company has pursued a strategy of entering into alliances with leading specialty retailers, distributors and service providers to broaden its product and service offerings while leveraging its convenient locations. To date, the Company has established alliances with Dufresne Furniture and Appliances, TruServ Canada Inc. (in the hardware category) and Sobey's (food distribution in eastern Canada). Management believes that these alliances have been positive in delivering stronger product and service offerings to customers at lower costs.

In 2002, the Company signed a 30-year master franchise agreement with Giant Tiger Stores Limited, based in Ottawa, Ontario which grants the Company the exclusive right to open Giant Tiger stores in western Canada. Giant Tiger is a junior discount retail store offering family fashion, household products and food to urban neighbourhoods and larger rural centers. The average store size has approximately 16,000 feet of selling space. Under the agreement, Giant Tiger Stores Limited provides product sourcing, merchandising, systems and administrative support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing distribution services to the stores. The Company's exclusivity right requires that a minimum number of Giant Tiger stores be opened each year, based on an expected roll-out of 72 stores over the term of the agreement. As at January 31, 2011 the Company has opened 34 Giant Tiger stores and is in compliance with the terms of the agreement.

In addition to its retail operations, the Company operates complementary businesses that apply its unique heritage and knowledge of the north. These include: (i) the Fur Marketing Division, which purchases furs from trappers and sells aboriginal crafts and outerwear to the local and tourist retail market from two trading posts; (ii) the Inuit Art Marketing Service, which procures and markets carvings from Native artisans and is the largest Inuit art marketing service in Canada; (iii) Crescent Multi Foods, which is a full-line produce and fresh meat distributor, serving the Company's stores and third-party customers in Manitoba and northwestern Ontario; and (iv) Amdocs, which provides isolated northern communities with physician services.





## International Operations

The Company's International operations operate primarily through its US subsidiary called The North West Company (International) Inc. and its operating CUL subsidiaries. The International operations consist of the following:

Banner	Number of Locations	Description of Banner
AC Value Center	30	Stores similar to Northern and NorthMart, offering a combination of food and general merchandise to communities across remote and rural regions of Alaska
Quickstop	3	Convenience stores
Pacific Alaska Wholesale	1	Leading distributor of independent grocery stores and individual households in rural Alaska
Cost-U-Less	12	Mid-size warehouse stores, offering discount food and general merchandise products to island communities in the South Pacific and the Caribbean
Island Fresh Supermarket	1	Neighborhood store offering convenience with an emphasis on fresh and prepared foods

The average selling square footage of the AC Value Center stores is approximately 10,000 square feet. The International operations also include Pacific Alaska Wholesale, which provides wholesale bulk foods services to independent retailers and businesses in Alaska.

The CUL stores are mid-sized warehouse club style retail stores located in the South Pacific and Caribbean. CUL stores offer a variety of U.S. branded food and general merchandise in addition to merchandise purchased locally. The average selling square footage of the CUL stores is approximately 28,000 square feet.

Additional financial information on the Company's Canadian and International operations is provided in the Company's 2010 annual MD&A, which is incorporated by reference.

## Distribution and Infrastructure

The Company operates a distribution centre in Winnipeg, Manitoba and has a third party managed distribution facility in Edmonton, Alberta. AC operates a distribution centre in the Port of Tacoma, Washington and a distribution centre in Anchorage, Alaska. CUL operates a distribution centre in San Leandro, California, and uses other third party facilities in Florida, California, Australia and New Zealand.

Due to the vast geography of the store network, transportation is an important element of operations. Ninety-five (95) stores in Canada are inaccessible by all-weather roads. All of the AC Value Center stores are serviced by air or water transportation. Eleven (11) CUL stores rely on air and long haul water transportation. All available modes of transportation including sealift, long haul water transportation, barge, trucks including via winter roads, rail and air are used. The Company owns a 50% interest in Transport Nanuk Inc., a shipping company servicing the eastern Arctic.



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The Company owns 134 stores in addition to employee residences and staff houses. The balance of the stores are leased facilities.

In Canada, the Company sources both food and general merchandise through its head office in Winnipeg, Manitoba, a buying office for fashion in Montreal, Quebec, and through its corporate alliances. In the International operations, the Company sources food and general merchandise for its Alaskan operations from local distributors and manufacturers as well as from the lower 48 U.S. states through a buying office in Bellevue, Washington. The Company sources food and general merchandise for its CUL stores from local distributors and manufacturers and other foreign entities through a buying office in Bellevue, Washington.

In addition to manufacturers in Canada and the United States, the Company also sources general merchandise from China.

### **Financial Services**

Customers are offered convenient, local access to a wide variety of financial services. Northern, NorthMart and AC Value Center stores each offer a revolving credit card for day-to-day purchases, similar to those offered by major department store chains. An extended payment program is also available to finance large dollar or big ticket purchases at the stores. In addition to revolving credit, these stores also offer financial services such as ATMs, cheque cashing, debit card cash withdrawal, cash transfer, bill payment, personal income tax preparation, money order, CashLink and gift card services.

Most of the day-to-day credit decisions are centralized, freeing up the store manager's time for the marketing of products and services. The store manager's knowledge of the local economic conditions and their personal acquaintances with their customers continues to provide valuable input into the credit decision process. Credit provided on the extended payment program for big-ticket purchases is approved at the Company's head office. A central credit management system allows continuous monitoring of account activity and balances at the head office so that credit specialists can provide advice to the store managers. The allowance for doubtful accounts is adjusted monthly to reflect the changes in the currency of outstanding balances.

### **Markets**

The Company operates 144 stores in remote Canadian and Alaskan communities inhabited principally by indigenous peoples. These markets range in population from 300 to 3,700 people and are generally not accessible by all-weather roads. These communities generally have a stable income base, which is dependent on government spending through social assistance and public sector employment in schools, health services, local government and public works projects. Income levels are also influenced by activities such as fishing, resource exploration, pipeline construction, tourists and hydro electricity development and related construction activity. The CUL stores and Island Fresh store are situated in markets ranging in populations from 7,700 to 168,000 people with an average population of 41,000 people. These stores range in size from 19,500 square feet to 35,500 square feet (selling area) with the average square footage being approximately 28,000 square feet. These markets rely on foreign aid, tourism, fishing, natural resources and resource development.

There are 86 stores operated by the Company in less remote communities that are generally accessible by all-weather roads. These markets range in population from 1,000 to large urban centers. The economies of these communities are more diverse and income levels are generally higher than those of the more



remote locations. Major sources of employment are in manufacturing, government services, transportation, health care, tourism and natural resources.

### Stores and Other Facilities

The following table sets out the number of stores, the location of stores by region and whether the stores are owned or leased as at January 31, 2011.

		Number of Stores	Owned	Leased
Canadian Stores	Alberta	16	4	12
	British Columbia	3	1	2
	Labrador/Newfoundland	5	5	0
	Manitoba	42	21	21
	Northwest Territories	20	17	3
	Nunavut	29	24	5
	Ontario	25	12	13
	Quebec	18	16	2
	Saskatchewan	25	16	9
	Yukon	1	0	1
<b>Canadian Stores Total</b>		<b>184</b>	<b>116</b>	<b>68</b>
International Stores	Alaska	33	15	18
	California	1	0	1
	Caribbean	5	2	3
	Pacific	7	1	6
<b>International Stores Total</b>		<b>46</b>	<b>18</b>	<b>28</b>
<b>Grand Total</b>		<b>230</b>	<b>134</b>	<b>96</b>

The following table summarizes the number of stores and selling square footage under the retail formats as at January 31, 2011.

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



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Selling areas of stores in remote communities in Canada and Alaska range in size from 900 sq. ft. to 14,600 sq. ft. In regional and urban communities in Canada and Alaska, selling areas range from 3,000 sq. ft. to 35,000 sq. ft. In the CUL stores, selling areas range from 19,500 sq. ft. to 35,500 sq. ft. The Company owns employee residences and staff houses, which are typically located adjacent to the more remote store locations.

### **Competition**

In the vast majority of the northern and remote communities that it serves, the Company's stores are the dominant providers of food, everyday and seasonal general merchandise and financial services and enjoy a leading competitive position supported by high barriers to entry. Local competition consists of stores operated by independent store owners and local co-operatives, some of which are associated with regional or national buying groups. Many of the Company's stores enjoy strong local loyalties through established customer relationships. The strength of independent store competition varies considerably depending on the management skills, financial strength and scale of local operators. Additionally, the commitment of local staff to the store and to customer relationships and the ability to maintain consistent standards are other key factors that influence their success. In Canada, all of the communities in which the Company operates have access to mail order catalogue and direct mail services such as those provided by Sears Canada, Wal-Mart, Costco and smaller regional and specialized competitors. In the International operations this type of competition is more intense and includes catalogues and direct sales material from retailers such as Safeway, Wal-Mart and Sears. The CUL stores face equally highly competitive discount and grocery retailers such as Wal-Mart, Costco and Kmart.

The stores also face competition (in varying degrees based upon the specific market location) from non-independent stores, including traditional department stores, big box retailers, discount department stores and specialty stores. AC Value Center competes directly with Safeway or its subsidiaries in two markets and Wal-Mart in one market. The Giant Tiger stores are located in larger rural and urban markets and compete against major discount chains, food stores and department store formats. CUL's competition includes local, national and international grocery store chains and other warehouse clubs and discount retailers.

### **Investing Activities**

Financial information on the Company's capital expenditures is included in the Company's Management's Discussion & Analysis and Consolidated Annual Audited Financial Statements, both for the fiscal year ended January 31, 2011 and filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.northwest.ca](http://www.northwest.ca).

### **Management of Sales and Operations**

Each store employs a full-time manager who has the primary responsibility to monitor daily operations, maximize selling opportunities and safeguard the Company's assets. All stores have direct access to sales and operations development, procurement and marketing, logistics, accounting, finance, legal, human resources, information technology, store development and real estate services provided by our support offices located in Anchorage, Alaska, Bellevue, Washington and Winnipeg, Manitoba.

Northern, NorthMart, and Quickstop banners are managed within four regions, each of which is managed by a General Manager under the leadership of an Executive Vice President. One region is led by a general



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manager and a specialist support team. The remaining three regions are divided into districts, with each district led by a district manager supported by a human resources manager.

The general managers are responsible for the store level execution of corporate strategies, policies and programs. The general managers contribute to the development of corporate strategies by providing front line feedback from daily contact with staff, customers and communities.

The Giant Tiger stores are managed by the Vice President and General Manager Giant Tiger West along with specialist support teams and assistance from Giant Tiger Stores Limited.

The International operations are under the leadership of the President and COO who is based out of Anchorage, Alaska. The retail sales and operations personnel of AC Value Centers, CUL and Pacific Alaska Wholesale each report to a Vice President and General Manager.

## **Employees**

At January 31, 2011, the Company employed 6,902 people, including 1,601 in its International operations. Of these, approximately 2,113 are aboriginal and of the aboriginal employees, approximately 180 hold managerial positions. The Company is active in the recruitment of aboriginal and indigenous peoples for positions in stores, corporate and distribution centers.

Training and development of employees is also a major focus of the Company. Particular attention is being paid toward enhancing food expertise within store operations and with those who have category management responsibilities. The sales and operations teams for Canada and International operations are accountable for providing training on best practices to the store managers and their teams and for ensuring compliance with operational standards. The Company is also recruiting more senior people for store operations positions through the Manager-In-Training and the Department Manager-in-Training programs. This provides training to experienced store managers and department managers as to operating processes prior to managing a store or a department within a store.

## **Customers**

The primary customer segment consists of lower-income shoppers residing in remote and urban neighborhood communities across Canada and Alaska. The typical customer's income depends on wage income, direct and non-discretionary government transfer payments or regional government program funding. In smaller, more remote communities, this group's spending is also influenced by the availability of seasonal employment opportunities, which are typically created by government-funded construction and infrastructure projects. The shopping needs of this customer group mainly consists of necessity food and everyday basic general merchandise and are influenced by the challenging climate and logistics conditions that exist in these communities. The urban Giant Tiger customers are somewhat less dependent upon government funding but still exhibit similar shopping needs. CUL's customers come from a variety of ethnic groups who demand products in sync with the ethnicity of each culture along with U.S. branded products and other internationally available products. Income levels of CUL's customers range from lower-income to the affluent. In several CUL markets, the economy is dependent on tourism, resource development and government subsidies.

Secondary target customers also include quality and selection-driven shoppers and younger "trend-driven shoppers". Food and general merchandise assortments aimed at these shoppers consist of fashion and lifestyle products similar to those offered by retailers in urban markets.



## **Intangible Properties**

The Company protects its trademarks and the design presentations associated with the trademarks which are material to the business.

## **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 buying patterns. As a result, a disproportionate amount of total sales 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.

## **Environment**

The Company is subject to environmental regulations pursuant to federal, provincial and state legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances handled. A breach of such legislation may result in the imposition of fines and penalties. To ensure that compliance is in accordance with applicable environmental laws, the Company retains environmental consulting engineers.

The Company is committed to meeting its responsibilities to protect the environment wherever it operates and annually budgets expenditures of both a capital and expense nature to meet the increasingly stringent laws relating to the protection of the environment. The Company believes it is in substantial compliance with applicable environmental laws and regulations and does not believe the expenditures will have a material effect on capital expenditures, earnings or its competitive position.

## **Reorganizations**

In 2007, the Company completed a two step reorganization amending the Company's structure from a "trust on corporation" structure to a "trust on trust on partnership" structure. Details respecting the nature of this reorganization are set forth in the Company's Annual Information Form for the years ended January 31, 2006, January 31, 2007 and January 31, 2008, and Management's Information Circular dated April 21, 2006, all of which are filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.northwest.ca](http://www.northwest.ca).

Effective January 1, 2011, the Fund completed its conversion to a share corporation named The North West Company Inc. See "Description of The North West Company Inc. – Conversion of the Fund into the Corporation".

## **Debt Financing**

### *Senior Notes*

On June 15, 2009, the Company issued senior notes for an aggregate amount of US\$70.0 million, which mature on June 15, 2014 (the "Senior Notes"). The Senior Notes are placed with two large U.S. based insurance companies. The net proceeds of the Senior Notes offering were used to retire senior debt of NWC that matured on June 15, 2009, to reduce bank debt and for general

corporate purposes. The notes are secured by a floating first charge against the assets of the Company, and rank *pari passu* with Canadian \$140 million credit facilities and the US\$52 million credit facilities.

### ***Other Senior Indebtedness***

The Company's Canadian operations have available extendible, committed, revolving credit facilities of \$140.0 million that mature on December 31, 2011. These facilities are secured by a floating first charge against the assets of the Company and rank *pari passu* with the Senior Notes and the US\$52 million credit facilities. As at January 31, 2011, the Company had drawn \$67.4 million on these facilities.

The Company's international operations have available committed non-revolving credit 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 Senior Notes and the Canadian \$140 million credit facilities. As at January 31, 2011, the Company has drawn US\$50.0 million on these facilities.

The International operations have available demand, revolving credit facilities of US\$20.0 million secured by a floating charge against certain accounts receivable and inventories of the International operations. As at January 31, 2011, the International operations had drawn US\$Nil on these facilities.

The Senior Notes and other senior indebtedness are subject to the satisfaction of certain conditions, which are usual and customary for loans of this nature. The holders of the Senior Notes and other senior indebtedness have appointed Bank of Montreal as security agent to hold all security jointly.

## **RISK FACTORS**

The Company is exposed to a number of risks in its business. The descriptions of risks below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company deems immaterial, may also impair the operations of the Company. If any of such risks actually occur, the business, financial condition, liquidity, and results of operations of the Company could be materially adversely affected. While the Company employs strategies to minimize these risks, these strategies do not guarantee that events or circumstances will not occur that could negatively impact the Company's financial condition and performance. Readers of this AIF are also encouraged to refer to the Company's Annual Management's Discussion and Analysis which provides further information on the risk factors facing the Company.

### **Retail Industry and Economic Downturns**

External factors which affect customer demand, and over which the Company exercises no influence, include general economic growth, inflation, interest rates, personal debt levels, unemployment rates and levels of personal disposable income. In an economic downturn, discounting by major retailers may result in more out-shopping by consumers from the Company's markets, which may negatively impact sales and gross profit. Changes in the inflation rate are unpredictable and may impact the cost of merchandise and the prices charged to consumers which in turn could negatively impact sales and net earnings. Although our core customer is a lower income shopper with relatively stable income sources, a recession or significant and



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prolonged decline in consumer spending could have an adverse effect on the financial condition and results of operations. Management regularly monitors economic conditions and considers factors which can affect customer demand in making operating decisions and the development of strategic initiatives and long-range plans.

### **Consumer Income**

The Company's largest customer segment derives most of its income directly or indirectly from government infrastructure spending or direct payment to individuals in the form of social assistance, food subsidy programs, child tax benefits and old age security. These tend to be stable sources of income, independent of economic cycles. A major source of employment income is generated from local government and spending on infrastructure projects. This includes new housing, schools, healthcare facilities, military facilities, roads and sewers. Local employment levels will fluctuate from year-to-year depending on a community's fiscal health, especially near the end of the government budget year. A similar fluctuating source of income is employment related to tourism and natural resource development and extraction activities. A significant or prolonged reduction in government transfers, spending on infrastructure projects, natural resource development and tourism spending would have a negative impact on consumer income which in turn could result in a decrease in sales and gross profit, particularly for more discretionary general merchandise items.

### **Competitive Environment**

The Company has a leading market position in a large percentage of the markets it serves. Sustaining and growing this position depends on the Company's ability to continually improve customer satisfaction while identifying and pursue new sales opportunities. The Company actively monitors competitive activity and is proactive in enhancing its value offer elements, ranging from in-stock position to service and pricing. The entrance of new competitors or an increase in competition in any of the Company's markets could negatively impact sales and financial performance.

### **Community Relations**

A portion of the Company's sales are derived from communities and regions that restrict commercial land ownership and usage by non-indigenous or non-local owned businesses or which have enacted policies and regulations to support locally-owned businesses. The Company successfully operates within these environments through initiatives that promote positive community and customer relations. These include store lease arrangements with community-based development organizations, initiatives to recruit local residents into management positions, encourage indigenous or Aboriginal participation in its Board of Directors, and direct investment in the Company, by locally-owned entities. To the extent the Company is not successful in maintaining positive community and customer relations in these locations, it could have an adverse effect on sales and financial performance.

### **Employee Development and Retention**

Retaining and developing high calibre employees is essential to effectively managing the Company's business, executing its strategies and meeting its objectives. Due to the vast geography and remoteness of the Company's markets, there is significant competition for talent and a limited number of experienced personnel, particularly at the store management level. The degree to which the Company is not successful in retaining and developing employees and establishing appropriate succession plans could lead to a lack of knowledge, skills and experience required to effectively run its operations and execute its strategies.





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In 2010, the Company began work on the store stability initiative. This initiative, which is part of the LRP initiative, is focused on having all stores reach a targeted level of capability and stability within three years. In addition to compensation programs that are designed to attract and retain qualified personnel, the Company also continues to implement and refine initiatives such as comprehensive store-based manager-in-training programs and the Company's in-depth leadership development program. These types of programs are long term change management investments that continue to be refined.

### **Food Safety**

The Company is exposed to risks associated with food safety and product handling. Food sales represent approximately 76% of total Company sales. A significant outbreak of a food-borne illness or increased public concerns with certain food products could have an adverse effect on the financial condition and results of operations. The Company has food preparation, handling and storage procedures which help mitigate these risks. The Company also has product recall procedures in place in the event of a food-borne illness outbreak, however the existence of these procedures does not eliminate the underlying risks.

### **Energy Costs**

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

### **Environmental**

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

### **Insurance**

The Company manages its exposure to certain risks through an integrated insurance program which combines an appropriate level of self-insurance and the purchase of various insurance policies. The Company's insurance program is based on various lines and limits of coverage. Insurance is arranged with financially stable insurance companies as rated by the professional rating agencies. There is no guarantee that any given risk will be mitigated in all circumstances, or that the Company will be able to continue to purchase this insurance coverage at reasonable rates.



## **Climate**

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

## **Information Technology**

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

## **Laws, Regulations and Standards**

The Company is subject to various laws and regulations administered by federal, provincial and foreign regulatory authorities, including but not limited to taxes, duties, currency repatriation, zoning, health and safety, employment standards and licensing requirements. New accounting standards and pronouncements or changes in accounting standards, including the transition to International Financial Reporting Standards, may also impact the Company's financial results. These laws, regulations and standards and their interpretation by various courts and agencies are subject to change. In the course of complying with such changes, the Company may incur significant costs. Failure by the Company to fully comply with applicable laws, regulations and standards could result in financial penalties, assessments, sanctions, or legal action that could have an adverse effect on the business, financial condition or results of operations.

## **Management of Inventory**

Success in the retail industry is dependent upon the ability to manage merchandise inventories in proportion to the demand for such merchandise. A miscalculation of consumer demand for merchandise could result in having excess inventory for some products and missed sales opportunities for others. Excess inventory may result in higher markdowns or inventory shrinkage all of which could have an adverse effect on the financial condition and results of operations.

## **Vendor and Service Partner Management**

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





## **Ethical Business Conduct**

The Company has a Code of Conduct Policy which governs both employees and directors. The Business Ethics Committee monitors compliance with the Code of Conduct policy. The Company also has a Vendor Information Manual which outlines the Company's expectations for the ethical conduct of its vendors. Unethical business conduct could negatively impact the Company's reputation and relationship with its customers, investors, and employees, which in turn could have an adverse effect on the financial condition and results of operations.

## **Geopolitical**

Changes in the domestic or international political environment may impact the Company's ability to source and provide products and services. Acts of terrorism, riots, and political instability could have an adverse effect on the financial condition and results of operations.

## **Employee Future Benefits**

The Company engages professional investment advisors to manage the assets in the defined benefit pension plans. The performance of the Company's pension plans and the plan funding requirements are impacted by the returns on plan assets, actuarial valuations and regulatory funding requirements. The Company regularly monitors and assesses the performance of the pension plan assets and the impact of changes in capital markets, changes in plan member demographics, and other economic factors that may impact funding requirements, employee future benefit plan expenses and actuarial assumptions. If capital market returns are below the level estimated by management, or if the discount rate used to value the liabilities of the plans decreases, the Company may be required to make contributions to its defined benefit pension plans in excess of those currently contemplated, which may have an adverse effect on the Company's financial condition and results of operations.

## **Credit Risk**

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

## **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company manages liquidity risk by maintaining adequate credit facilities to fund operating requirements and capital expenditures, and regularly monitoring actual and forecasted cash flow and debt levels. The Company's Canadian \$140.0 million credit facilities mature on December 31, 2011. The Company has started the process of refinancing this credit facility. Global economic conditions continue to result in uncertainty and volatility in the credit markets which may negatively impact the availability of credit, interest rates and covenants for companies seeking to refinance debt. To the extent the Company cannot meet its obligations or refinance its debt when it comes due, or can do so only at an excessive cost, this may have an adverse effect on the financial condition and



results of operations.

### **Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily the U.S. dollar, through its net investment in self-sustaining International operations and its U.S. dollar denominated borrowings. The Company manages its exposure to currency risk by hedging the net investment in self-sustaining foreign operations with a portion of U.S. dollar denominated borrowings. The Company is also exposed to currency risk relating to the translation of International operations earnings from U.S. dollars to Canadian dollars. During 2010, the Canadian dollar was on average stronger than the U.S. dollar compared to 2009. In 2009, the Canadian dollar was on average weaker than the U.S. dollar compared to 2008. The stronger Canadian dollar in 2010 decreased the translation of U.S. denominated net earnings from International operations by \$1.2 million compared to an increase in the translation of net earnings of \$0.6 million in 2009 compared to 2008. .

### **Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its long-term borrowings. The Company manages exposure to interest rate risk by using a combination of interest rate swaps and a mixture of fixed and floating interest rate debt.

### **New Business Strategies**

The success of new store growth is dependent on a number of factors, including the availability of suitable store locations or acquisition opportunities, the successful negotiation of acceptable leases or acquisitions, and the ability to manage the expansion of the store base, the ability to successfully develop new products and services, the ability to source inventory which meets the needs of the new stores, the development of adequate management information systems, the ability to recruit and train new managers and employees, the availability of capital and general economic and business conditions. The success of the alliance strategy described previously is dependent on a number of factors, such as the ability of the alliance partners to source suitable merchandise, obtain volume discounts, manage inventory and deliver products in a timely manner, and on the relationship between the Company and its operating entities and its alliance partners.

There can be no assurance that new business strategies will be successfully implemented, or that, if implemented, the strategies will increase profitability.

### **Litigation**

In the normal course of business, the Company is subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which either an adequate provision has been made in the Company's financial statements (in the event management believes the Company will incur liability for such claim or legal action), or for which no material liability is expected. If management's assessment of its liability for any such claim is incorrect and the Company is unsuccessful in defending its position, the amount of the judgment or penalty would become an expense in the period such claim was resolved.



### **Financial Services Business**

The financial services operations are an important part of the business of the Company. There is a risk of customer defaults on credit accounts, particularly following deterioration in the economy. The credit card industry is highly competitive and other credit card issuers may seek to expand or to enter its markets. New federal, provincial and state laws and amendments to existing laws may be enacted to further regulate the credit card industry or to reduce finance charges or other fees or charges applicable to credit card accounts. Deterioration in the financial services business could have an adverse effect on business, financial condition and results of operations.

### **Dependence on Key Facilities**

There are six major distribution centers which are located in Winnipeg, Manitoba; Anchorage, Alaska; San Leandro, California; Port of Tacoma, Washington; and third party managed facilities in Edmonton, Alberta and Miami, Florida. A serious disruption at any of these facilities or those of any of the corporate alliance partners due to fire, inclement weather or otherwise could have a material adverse effect on business, financial condition and results of operations.

### **Leases**

The Company's operating subsidiaries operate a number of stores under leases. The nature of the leases may limit the ability to respond in a timely manner to changes in the demographic or retail environment at any location.

## **DESCRIPTION OF THE NORTH WEST COMPANY INC.**

### **Conversion of the Fund into a Corporation**

During the first quarter of the 2010, the Fund announced the details of a Plan of Arrangement which was designed to facilitate the conversion of the Fund from an income trust structure to a traditional dividend paying public corporation. As part of this Plan of Arrangement, the Fund obtained an interim order on April 28, 2010 from the Manitoba Court of Queen's Bench. The interim order confirmed the calling of an annual and special meeting of the Fund's unitholders on June 10, 2010 for the purpose of considering the Plan of Arrangement and approving the arrangement agreement dated April 22, 2010 (as amended and restated on November 29, 2010).

In order to become effective, the Plan of Arrangement required the receipt of all necessary court, regulatory and Toronto Stock Exchange approvals and other customary conditions, along with the approval of more than 66% of the votes cast by the Fund's unitholders voting in person or by proxy at the annual and special meeting of the Fund held on June 10, 2010. This approval was obtained on June 10, 2010, when the Fund's unitholders adopted the Plan of Arrangement by a vote of 99.93%. On June 18, 2010, the Manitoba Court of Queen's Bench issued a final order approving the Plan of Arrangement.

On January 1, 2011, the Plan of Arrangement became effective resulting in the conversion of the Fund's income trust structure into a dividend paying publicly traded corporation named The North West Company Inc. Unitholders of the Fund received, for each unit of the Fund held, one common share of The North West Company Inc. On the same date, units of the Fund were delisted from the Toronto Stock



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Exchange and trading of the common shares of the Company on the Toronto Stock Exchange commenced under the symbol “NWF”.

As part of the conversion, NWC Trust was liquidated and dissolved and its assets and liabilities were distributed to and assumed by the Fund. The Fund was then liquidated and dissolved and its assets and liabilities were distributed and assumed by the predecessor entity called The North West Company Inc. (an existing corporation amalgamated under the CBCA). Such corporation was then amalgamated with 7578270 Canada Limited (successor corporation to 2891973 Manitoba Ltd.), 7578237 Canada Limited (successor corporation to 4698844 Manitoba Ltd.), and 7577583 Canada Ltd. (successor corporation to Buffalo Pharmacy Ltd.) to form the Company.

### **Capital Structure**

The Company is authorized to issue an unlimited number of common shares. As at April 6, 2011, there were 48,378,000 common shares of the Company issued and outstanding. The rights, privileges, restrictions and conditions attaching to the common shares of the Company are listed below.

#### ***Voting Rights***

The holders of the common shares of the Company are entitled to one vote per common share at all meetings of the shareholders of the Company.

#### ***Dividends***

The holders of the common shares of the Company are entitled to receive any dividend declared by the Board of Directors of the Company on the common shares. See “Dividends and Distributions – Dividends”.

#### ***Rights Upon Dissolution***

In the event of liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of the common shares of the Company are entitled to receive, after payment of all liabilities of the Company, the remaining assets and property of the Company.

## **DIVIDENDS AND DISTRIBUTIONS**

### **Dividends**

On January 1, 2011, the Fund’s income trust structure was converted into a dividend paying publicly traded corporation named The North West Company Inc. See Description of The North West Company Inc. – Conversion of the Fund into a Corporation”. Unitholders of the Fund received one common share of The North West Company Inc. for each unit of the Fund held.

On the same day, units of the Fund were delisted from the Toronto Stock Exchange and trading of common shares of The North West Company Inc. commenced under the symbol, “NWF”.

The Company anticipates paying dividends of approximately \$0.96 annually or \$0.24 per quarter in 2011. The Company’s first dividend of \$0.24 was declared on March 16, 2011 to shareholders of record on March 31, 2011, payable by April 15, 2011.



The payment of dividends on the Company's common shares will be subject to the discretion of the Board of Directors of the Company, and will vary based on, among other factors, the financial performance of the Company, its current and anticipated future business needs and the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time.

### Distribution History

The following table shows the quarterly and special cash distributions per unit declared for the past three years by the Fund.

Cash Distributions Per Fund Unit (\$)			
Date of Declaration	2010	2009	2008
First Quarter	0.34	0.32	0.32
Second Quarter	0.34	0.32	0.32
Third Quarter	0.34	0.34	0.32
Fourth Quarter	0.34	0.34	0.32
Special	0.09	0.06	0.07
<b>Total</b>	<b>1.45</b>	<b>1.38</b>	<b>1.35</b>

The determination to declare and make payable distributions from the Fund was subject to the terms of the Fund's Declaration of Trust and the discretion of the Board of Trustees of the Fund. 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 (Canadian operations) less Fund expenses. In addition to the quarterly distributions, a special year end distribution was declared to unitholders if the taxable income of the Fund exceeded the cumulative distributions for the year. A special distribution of \$0.09 per unit was declared in December, 2010, and paid February 18, 2011 to unitholders of record on December 31, 2010. The Fund's obligation to pay the \$0.09 per unit special distribution was assumed by the Company as part of the conversion to a share corporation.

### MARKET FOR SECURITIES

The common shares are listed on The Toronto Stock Exchange under the trading symbol "NWF". The following table shows the trading prices and the trading volume of Fund units/common shares by month for the period of February 2010 to January 2011.

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<b>TRADING PRICE AND VOLUME</b>			
<b>MONTH</b>	<b>HIGH</b>	<b>LOW</b>	<b>VOLUME</b>
February, 2010	18.66	17.60	1,160,400
March, 2010	18.48	17.85	2,136,000
April, 2010	19.50	18.25	1,602,800
May, 2010	18.93	17.02	1,812,500
June, 2010	20.22	18.27	1,339,000
July, 2010	20.05	18.71	997,026
August, 2010	21.99	19.43	1,313,766
September, 2010	21.80	19.27	2,001,351
October, 2010	21.07	19.36	1,803,815
November, 2010	23.00	20.17	1,677,932
December, 2010	22.08	19.93	4,356,581
January, 2011 <sup>(1)</sup>	21.94	20.59	4,612,597

<sup>(1)</sup> On January 1, 2011, units of the Fund were delisted from the Toronto Stock Exchange and trading of common shares of the Company commenced.

### ESCROWED SECURITIES

To the Company's knowledge, no securities of the Company were held in escrow as at January 31, 2011.

### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of the Company is CIBC Mellon Trust Company at its principal office located at 199 Bay Street, Commerce Court West, Securities Level, Toronto, Ontario M5L 1G9.

### DIRECTORS AND EXECUTIVES OF THE COMPANY

The name, municipality of residence, position and principal occupation of the directors of the Company as at April 6, 2011 are as follows:

<b>Name and Municipality of Residence</b>	<b>Principal Occupation and Position with the Company</b>	<b>Trustee/Director Since <sup>(5)</sup></b>
<b>Directors</b>		
<b>H. SANFORD RILEY</b> <sup>(4)</sup> Winnipeg, Manitoba, Canada	President and Chief Executive Officer, Richardson Financial Group Limited	2003
<b>EDWARD S. KENNEDY</b> <sup>(4)</sup> Winnipeg, Manitoba, Canada	President and Chief Executive Officer, The North West Company Inc.	1996
<b>DAVID G. BROADHURST</b> <sup>(1), (2)</sup> Toronto, Ontario, Canada	President, Poynton Investments Limited	1997
<b>FRANK J. COLEMAN</b> <sup>(2)</sup> Corner Brook, Newfoundland and Labrador, Canada	President and Chief Executive Officer, Coleman Group of Companies	1999
<b>WENDY F. EVANS</b> <sup>(1), (3)</sup> Toronto, Ontario, Canada	President, Evans and Company Consultants Inc.	2005



THE NORTH WEST COMPANY INC.  
ANNUAL INFORMATION FORM  
April 6, 2011

<u>Name and Municipality of Residence</u>	<u>Principal Occupation and Position with the Company</u>	<u>Trustee/Director Since <sup>(5)</sup></u>
<b>ROBERT J. KENNEDY</b> <sup>(1), (3)</sup> Winnipeg, Manitoba, Canada	Chief Executive Officer, WiBand Communications Corp.	2003
<b>GARY J. LUKASSEN</b> <sup>(1)</sup> Mississauga, Ontario, Canada	Corporate Director	1987
<b>JAMES G. OBORNE</b> <sup>(2), (3)</sup> Winnipeg, Manitoba, Canada	Chairman, Westgate Capital Management Corp.	1987
<b>IAN SUTHERLAND</b> <sup>(1), (3)</sup> Oro Medonte, Ontario, Canada	Chairman, MCAN Mortgage Corporation	1987

**Executives**

		<u>Executive Since</u>
<b>EDWARD S. KENNEDY</b> Winnipeg, Manitoba, Canada	President and Chief Executive Officer	1989
<b>JOHN D. KING</b> Winnipeg, Manitoba, Canada	Chief Financial Officer	2006
<b>CRAIG T. GILPIN</b> Winnipeg, Manitoba, Canada	Executive Vice President and Chief Corporate Officer	2010
<b>MICHAEL W. McMULLEN</b> La Salle, Manitoba, Canada	Executive Vice President, Northern Canada Retail	2007
<b>REX A. WILHELM</b> Anchorage, Alaska	President and Chief Operating Officer, The North West Company (International) Inc.	2007
<b>DALBIR S. BAINS</b> Winnipeg, Manitoba, Canada	Vice President, Planning and Corporate Development	2008
<b>DAVID M. CHATYRBOK</b> Winnipeg, Manitoba, Canada	Vice President, Canadian Procurement and Marketing	2009
<b>PAULINA HIEBERT</b> Winnipeg, Manitoba, Canada	Vice President, Legal and Corporate Secretary	2009
<b>SCOTT A. MCKAY</b> Winnipeg, Manitoba, Canada	Vice President & General Manager, Giant Tiger West Store Division	2004
<b>GERALD L. MAUTHE</b> Ste. Adolphe, Manitoba, Canada	Vice President, Information Services	2005
<b>DANIEL G. MCCONNELL</b> Winnipeg, Manitoba, Canada	Vice President, Real Estate and Store Development	2008
<b>MICHAEL E. SOROBAY</b> Winnipeg, Manitoba, Canada	Vice President, Logistics and Supply Chain Services	2010

(1) Member of Audit Committee.

(2) Member of the Governance and Nominating Committee.

(3) Member of the Human Resources, Compensation and Pension Committee.

(4) The Chairman of the Board is not a member of any Board Committee, but attends all meetings in an ex-officio capacity. The President and Chief Executive Officer is not a member of any Board Committee, but attends these meetings as an invited guest.

(5) Due to the various reorganizations of the Company as described in this AIF, this reference refers to either the Board of Trustees or the Board of Directors, as the context may require.

The term of office of each of the directors expires at the next annual meeting of the Company.



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All of the directors and Executives of the Company have held their present positions or other executive positions with the Company (or its predecessors) during the past five years, except as follows:

**H. Sanford Riley** was appointed Chairman of the Company in June, 2008. Mr. Riley has been President and CEO of Richardson Financial Group Limited since 2003. He held the positions of Chairman of Investors Group Inc. from 2001 to 2002 and President and CEO of Investors Group Inc. from 1992 to 2001. He currently holds the positions of Director, Molson Coors Brewing Company, Director of Richardson GMP Limited, GMP Capital Inc., The Canada West Foundation and Canadian Western Bank. He is the Chairman of the University of Winnipeg Foundation. Mr. Riley was appointed to the Order of Canada in July, 2002. He has been a board member of the Company and its predecessor entities since 2003.

**Craig T. Gilpin** joined the Company in March, 2010 as Executive Vice President and Chief Corporate Officer. Prior to joining the Company, Mr. Gilpin held the position of President, Operations, Sobeys Ontario since 2004. Prior to joining Sobeys, Mr. Gilpin worked for seventeen years in various senior roles with A&P Canada.

**John D. King** joined the Company in 1994. John was appointed to the position of Chief Financial Officer on June 28, 2010, Vice President, Finance on November 3, 2009, and Vice President, Finance & Secretary on June 19, 2006. Prior to these appointments, John held the positions of Director of Finance and Stores Controller.

**Michael W. McMullen** joined the Company in 2007 as Executive Vice President, Northern Canada Retail. Prior to this appointment, Michael was President and CEO of Warehouse One, The Jean Store, a national denim and casual wear chain based in Winnipeg, Manitoba. His previous background includes Vice President, Retail of Palliser Rooms, as well as a 15-year career with IKEA North America in the U.S. and Canada. Prior to joining IKEA, Michael was an adjunct professor of Business Policy and Organization Behaviour at Wilfred Laurier University.

**Dalbir S. Bains** joined the Company in 2008 as Vice President, Planning & Corporate Development. Prior to joining NWC, Dalbir was the Vice President of Strategic Planning and Implementation at CanWest Global Communications Corp. He held several senior roles during his 11 years at CanWest, including Vice President of their Internet business operations, as well as Strategic Planning, Investor Relations and Project Management.

**David M. Chatyrbok** joined the Company in 2000. David was appointed to the position of Vice President, Canadian Procurement and Marketing on March 13, 2009. From 2000 to 2007, he held various management positions within the procurement and marketing division of the Company, including Senior Category Manager and Director. In 2007, David was promoted to Vice President of Marketing for the Alaska Commercial Company. Prior to joining the Company, David spent 10 years with Zellers of the Hudson Bay Company in different capacities including store manager and senior buyer.

**Paulina Hiebert** joined the Company in November, 2009 after being employed as Vice President, Legal and Corporate Secretary of The Brick Group Income Fund since 2002. Prior to joining The Brick, she was Corporate Counsel for Alberta Treasury Branches, and an Associate with the law firm of Milner Fenerty in Edmonton. Paulina has also held various senior management positions with a venture capital Company and several chartered banks in Canada. She has been a director of several privately held companies. She is a member of the Law Societies of Alberta and Manitoba.





**Daniel G. McConnell** joined the Company in 2002 as the Manager, Real Estate and Store Development. Dan was appointed Vice President Store Development on September 23, 2008 and was the Director, Real Estate & Store Development prior to this appointment.

**Michael E. Sorobey** joined the Company in March, 2010 as Vice President Logistics and Supply Chain. Prior to joining NWC, Mr. Sorobey held the position of Vice President of GES Exposition Services. Prior to joining GES Exposition Services, Mr. Sorobey held various senior roles with Tibbett & Britten Group PLC for nine years, and spent seven years at Westfair Foods Limited in various warehouse management roles.

As at April 6, 2011, to the knowledge of the Company, directors and executives of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 1,606,908 common shares or 3.3% of the outstanding common shares of the Company.

As at January 31, 2011, based on public filings, CIBC Global Asset Management Inc. beneficially owned, or controlled or directed, directly or indirectly, 4,430,796 or 9.2% of the issued and outstanding common shares. These common shares are held for its client accounts as the beneficial owners.

#### **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTION**

Other than as noted in the declarations set forth below, no director or executive of the Company is, or has been within the past 10 years, a director or executive officer or promoter of any other Company that, while such person was acting in that capacity: (i) was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the person ceased to be a director or executive officer, in the issuer being the subject of a cease trade order or similar order or an order denying statutory exemption; or (iii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

No director or executive of the Company has, within the 10 years preceding the date hereof, been subject to any penalties or sanctions imposed by a court relating to securities legislation or by any securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that would be likely to be considered important to a reasonable investor making an investment decision.

No director or executive is, or has become, within the 10 years preceding the date hereof, bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

The following directors have made the following declarations.

#### ***Mr. James G. Osborne***

Mr. Osborne was a director and founding member along with five others of Futureview Inc., a company that went public in January 2001 on the Winnipeg Stock Exchange using its Keystone Company Program and subsequently became listed on the TSX Venture Exchange. The shares of

Futureview Inc. were suspended from trading in 2003 due to the company's failure to complete a required qualifying transaction as required by TSX Venture Exchange policy. The company was wound up in April 2004 after the external public shareholders had been returned 100% of their original investment and all corporate liabilities had been paid.

Mr. Osborne was a director of Jazz Golf Equipment Inc. prior to it being a reporting issuer until October 6, 2006, at which time he resigned due to a disagreement as to corporate strategy being directed by the major shareholder's representatives on the Board of Directors. On October 27, 2006, the Board via press release announced approval of the sale of assets to a subsidiary of Ensis Growth Company Inc., the largest shareholder and creditor of Jazz, under the *Bankruptcy and Insolvency Act* (Canada), subsequently Court approved on November 22, 2006. The shares ceased trading on January 5, 2007.

***Mr. Gary J. Lukassen***

Mr. Lukassen was a director of Stelco Inc. from June 2002 until March 31, 2006. On January 29, 2004, Stelco Inc. filed for and was granted Court protection under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA"). Stelco Inc. emerged from Court protection under the CCAA on March 31, 2006.

Mr. Lukassen was a director of Abitibi Consolidated Inc from April 2003 to October 2007 and a director of AbitibiBowater Inc from October 2007 until December 9, 2010. On April 16, 2009 AbitibiBowater Inc. filed for relief under the provisions of Chapter 11 of the United States Bankruptcy Code and on April 17, 2009 filed for protection under the CCAA in Canada. AbitibiBowater Inc. emerged from Court protection under CCAA and Chapter 11 on December 9, 2010.

***Mr. Robert J. Kennedy***

Mr. Kennedy was a director and officer of WiBand Corporation. In December 2001, WiBand Communications Corp. was sold to OA Group Inc. an issuer listed on the TSX Venture Exchange. Shares were exchanged and the shareholders of WiBand Communications Corp. received shares in OA Group Inc. As a condition of the share exchange, Mr. Kennedy was to be included on the management slate of the Board of Trustees of OA Group Inc. He was elected to the Board of Trustees OA Group Inc. on June 20, 2002. Upon seeing the financial condition of OA Group Inc. Mr. Kennedy resigned on July 8, 2002. OA Group Inc. went into receivership on July 15, 2002. Mr. Kennedy bought certain assets from the receiver and continues the business under the WiBand name.

Mr. Kennedy was a director of Jazz Golf Equipment Inc. In 2006, Jazz Golf Equipment Inc., a company listed on the TSX Venture Exchange filed a proposal under the Bankruptcy Act to sell its assets to Ensis Corporation to become a private company. Under the proposal, all creditors were to be satisfied. Mr. Kennedy resigned on November 22, 2006 from the Board. Jazz Golf Equipment Inc. was de-listed from the TSX Venture Exchange.

## **AUDIT COMMITTEE INFORMATION**

The current Audit Committee Charter as approved by the Board of Directors is included in Appendix "A" to this AIF. The Audit Committee of the Company is currently comprised of Gary J. Lukassen, who also



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is the Chair of the committee, David G. Broadhurst, Wendy F. Evans, Robert J. Kennedy and Ian C. Sutherland. All members of the Audit Committee are independent and financially literate within the meaning of National Instrument 52-110, Audit Committees and have the education and experience as shown below which is relevant to their roles as Audit Committee members.

### **Audit Committee Members**

The following is a summary of the education and experience of the members of the Audit Committee that is relevant to the performance of responsibilities as an Audit Committee member.

#### ***Gary J. Lukassen, CA***

Corporate Director; Retired as Executive Vice President and Chief Financial Officer from The Hudson's Bay Company in March 2001. Mr. Lukassen was also a member of the Audit Committee of AbitibiBowater Inc. from October 2007 to December 9, 2010.

#### ***David G. Broadhurst, CA***

President of Poynton Investments Limited; President & COO of Reeve Court Insurance Limited (Bermuda) from 1998 to 2001; Investment Banker with First Marathon Securities Limited from 1996 to 1998; previously spent his entire career with Price Waterhouse Canada retiring in 1996 as the Senior Tax Partner. Director, MCAN Mortgage Corporation, Director, Canadian Opera Company.

#### ***Wendy F. Evans, BSc***

President, Evans and Company Consultants Inc. since 1987 providing international marketing, financial and management services; Associate, Cambridge Corporate Development; Member Dean's Advisory Council and Adjunct Professor, Ted Rogers School of Management, Ryerson University; Member Corporate Cabinet Conservation Foundation; author of "Border Crossings, Doing Business in the U.S"; served as Director on the Board of Sun Life Financial Trust, Canadian Cancer Society, Advisory Board of the Ontario Retail Sector Strategy, past President and Chair of the Granite Club.

#### ***Robert J. Kennedy, BSc***

Chief Executive Officer, WiBand Communications Corp. since 1999; Worldwide Business Development Executive of the IBM Corporation from 1997 to 1999; CEO and founder of PBSC Computer Training Centres from 1985 to 1997; CEO and founder of Computer Land Western Canada from 1978 to 1987.

#### ***Ian Sutherland, CA***

Chairman of the Board of the Company's predecessor from 1997 to 2008; CEO of the Company's predecessor from 1993 to 1997. For most of his career, he has been an officer of MCAN Mortgage Corporation and its predecessor, The Mutual Trust Company. Director, MCAN Mortgage Corporation, Director, Strongco Income Company. A Company Director since he participated in the founding of the Company and the purchase of Northern Stores from the Hudson's Bay Company in 1987.



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## External Audit Service Fees

The auditors of the Company are PricewaterhouseCoopers LLP, Richardson Building, One Lombard Place, Winnipeg, Manitoba R3B 0X6.

Fees paid to the external auditors in the past two years with respect to services provided to the Company and the subsidiaries were:

Type of Fees	Fiscal 2010	Fiscal 2009
Audit Fees	\$ 373,000	\$ 357,000
Audit-Related Fees	114,899	71,797
Tax Fees	218,921	234,755
All other Fees	20,970	4,778
<b>TOTAL</b>	<b>\$ 727,790</b>	<b>\$ 668,330</b>

The nature of each category of fees is described below:

### *Audit Fees*

Audit fees were paid for professional services rendered by the auditors for the audit of the Company's annual financial statements or services provided in connection with statutory and regulatory filings or engagements, and the review of the Company's interim financial statements.

### *Audit-Related Fees*

Audit related fees related to professional services for store audit procedures, review of procedures for the Company, confirmation on compliance with debt covenants, and assistance with IFRS implementation plan.

### *Tax-Related Fees*

Tax related fees include professional services for tax compliance services and advice, trust conversion, acquisition and other matters.

### *All Other Fees*

All other fees related to professional services for Canadian Public Accountability Board and business consulting.

### *Pre-Approval Policies and Procedures*

As part of the Company's governance structure, the Audit Committee annually reviews and approves the terms of the external auditor's engagement. To further ensure the independence of the auditors is not compromised, the Company's policy requires that the Audit Committee also pre-approve all engagements of the auditors for non-audit related services. All non-audit related engagements must also be reported to the Audit Committee on a quarterly basis.

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## INTEREST OF EXPERTS

The only persons who are named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, under National Instrument 51-102, Continuous Disclosure by the Company during, or relating to, the Company's most recently completed financial year, and whose profession or business gives authority to the statement, report or valuation made by the person or Company, is PricewaterhouseCoopers LLP, the auditors of the Company, who prepared a report on the audited annual financial statements of the Company.

To the knowledge of the Company, at the time that PricewaterhouseCoopers LLP prepared its report on the audited financial statements of the Company, the partners of PricewaterhouseCoopers LLP had no registered or beneficial interest in the securities of the Company.

## CONFLICTS OF INTEREST

No director or officer of the Company, or any associate or affiliate of the foregoing persons, has any substantial interest, direct or indirect, in any material transaction with the Company for the period February 1, 2010 to January 31, 2011.

## LEGAL PROCEEDINGS

Management is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against the Company or their respective subsidiaries which would be material to a purchaser of common shares, see "Risk Factors – Litigation".

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Management is not aware of any director or executive of the Company, or other insider of the Company, nor any associate or affiliate of the foregoing persons who has any substantial interest, direct or indirect, in any material transaction since the commencement of the Company's most recently completed financial year or in any proposed transaction.

## MATERIAL CONTRACTS

The Company has entered into the following material contracts:

- Fourth Amended and Restated Partnership Limited Partnership Agreement of The North West Company LP, dated January 1, 2011, as the same may be amended, supplemented or restated from time to time.
- The Arrangement Agreement in respect of the conversion of the Fund's income trust structure into a corporate structure (see Description of The North West Company Inc. – Conversion of the Fund into a Corporation").

A copy of the foregoing documents may be examined during normal business hours at the office of the Company located at Gibraltar House, 77 Main Street, Winnipeg, Manitoba, R3C 2R1 and are available on SEDAR at [www.sedar.com](http://www.sedar.com).



## ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.northwest.ca](http://www.northwest.ca).

Additional information, including director and executive remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, is contained in the Company's Management Information Circular to be issued in connection with the Annual Meeting of Shareholders to be held on June 14, 2011 in Winnipeg, Manitoba.

Additional financial information is provided in the Company's Consolidated Financial Statements and Management's Discussion and Analysis for the year ended January 31, 2011 and the Company's 2010 Annual Report, all of which are available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.northwest.ca](http://www.northwest.ca).

Copies of the information referred to in this section, and well as the AIF, can be obtained by writing to the Corporate Secretary, The North West Company Inc., Gibraltar House, 77 Main Street, Winnipeg, Manitoba, R3C 2R1.

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**APPENDIX A –**

**THE NORTH WEST COMPANY INC.  
AUDIT COMMITTEE MANDATE**

The Audit Committee (the “Committee”) of The North West Company Inc. (“North West”) is established in order to assist the Board of Directors of North West (the “Board”) in its oversight activities, including overseeing the work of North West’s external auditor as set out below.

**1. Purpose**

The primary purpose of the Committee is to assist the Board in fulfilling its responsibilities of oversight and supervision of:

- (a) the integrity of North West’s accounting and financial reporting practices and procedures;
- (b) the adequacy of North West’s internal accounting and disclosure controls and procedures;
- (c) the quality and integrity of North West’s consolidated annual and quarterly financial statements;
- (d) the independence and performance of North West’s external auditor;
- (e) compliance by North West with legal and regulatory requirements in regard to financial reporting and disclosure that North West is subject to; and
- (f) the performance of the internal audit function and ensuring processes are in place to ensure the independence of the internal audit function.

**2. Composition**

- (a) The Committee will be comprised of a minimum of three directors who are “independent” directors within the meaning of Multilateral Instrument 52-110 Audit Committee (the “Policy”). Any Committee member, who, for any reason, is no longer independent, immediately ceases to be a Committee member;
- (b) All Committee members will be “financially literate” or will become financially literate within the time limits as set out in the Policy. “Financially literate” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by North West’s consolidated financial statements; and
- (c) Committee members will be appointed and removed by the Board. The Committee Chairperson will be appointed by the Board.

**3. Reports**

The Committee shall report to the Board on a regular basis, including prior to the public disclosure by North West of its quarterly and annual financial results. The reports of the Committee shall include any





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issues of which the Committee is aware with respect to the quality or integrity of North West's consolidated financial statements, its compliance with legal and regulatory requirements, and the performance and independence of North West's external auditor.

#### **4. Responsibilities**

Subject to the powers and duties of the Board, and with the requirement that the Committee provides timely summary reports to the Board on its activities, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board:

##### **A. Financial Statements and Other Financial Information**

The Committee shall:

- (a) review North West's consolidated interim unaudited financial statements and annual audited financial statements and related documents, prior to any public disclosure of such information;
- (b) following a review with management and the external auditor of such annual and interim consolidated financial statements and related documents including the auditor's report thereon, recommend to the Board the approval of such financial statements and related documents;
- (c) review with management and/or the external auditor all critical accounting policies and practices used as well as significant management estimates and judgments and any changes in accounting policies or financial reporting requirements that may affect North West's consolidated financial statements;
- (d) review with management and/or the external auditor the treatment in the financial statements of any significant transactions, and other potentially difficult matters;
- (e) review with management and the external auditor all matters required to be communicated to the Committee under generally accepted auditing standards;
- (f) review and recommend to the Board for approval, other annual and quarterly financial reporting documents, including management's discussion and analysis, earnings press releases, Annual Information Form, and Annual Report of North West prior to any disclosure to the public;
- (g) review with management and the external auditor any material off-balance sheet financing mechanisms, transactions or obligations of North West;
- (h) review a summary provided by North West's management, of the status of any material existing, pending or threatened litigation, claims and assessments respecting North West and its subsidiaries;
- (i) review with management and the external auditor any correspondence with securities regulators or commissions which raise material issues regarding North West's financial statements or accounting policies; and



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- (j) review in advance and approve, any communications regarding material financial matters between North West and any applicable securities regulators or commissions.

**B. Financial Reporting Control Systems**

The Committee shall:

- (a) in consultation with management, the external auditor and the officer or employee responsible for the internal audit function, review, evaluate and assess the adequacy, integrity and effectiveness of North West's consolidated financial reporting processes, management information systems, and internal controls and discuss significant financial risk, exposures and the steps management has taken to monitor, control and report such exposures;
- (b) review guidelines and policies with respect to identifying and managing the principle financial risks inherent in North West's business and operations, and review the processes that are implemented by management to manage and monitor those risks;
- (c) submit to the Board, any recommendations that the Committee may have from time to time (through its own inquiries or through those of advisors retained by the Committee) with respect to financial reporting, accounting procedures and policies and internal controls;
- (d) ensure that due diligence processes and controls in connection with certification of North West's annual and interim filings are in place, monitoring their continued effectiveness, and ensure that such filings are in a form that permits their certification;
- (e) review any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal controls made to the Committee by the CEO and CFO during their certification process for forms filed with applicable securities regulators;
- (f) review with management and/or the external auditor any related party transactions (as defined under "GAAP");
- (g) review the management representation letter to the external auditor;
- (h) review reports obtained from the external auditor regarding the overall control environment and the adequacy of accounting system controls;
- (i) review any new appointments to Vice President positions of North West and its subsidiaries with financial reporting responsibilities;
- (j) satisfy itself that adequate procedures are in place for the review of North West's disclosure of North West's financial information extracted or derived from North West's consolidated financial statements, and periodically assess the adequacy of those procedures;



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- (k) establish procedures for the receipt, retention, and treatment of confidential, anonymous concerns received from employees of North West or its subsidiaries regarding questionable accounting, internal accounting controls, or auditing matters;
  - (l) review and approve North West's (and its respective subsidiaries) hiring policies regarding employees and former employees of the present and former external auditor of North West; and
  - (m) review annually North West's property and liability insurance policies (other than Director and Officer Liability Insurance), and satisfy itself that adequate insurance programs are in place.

**C. Disclosure Controls**

The Committee shall:

- (a) satisfy itself that management has developed and implemented a system of disclosure controls to ensure that North West meets its continuous disclosure obligations;
- (b) receive regular reports from management on the functioning of the disclosure compliance system, including any significant instances of non-compliance with such system, in order to satisfy itself that such system may be reasonably relied upon; and
- (c) review any disclosures concerning any weaknesses or any deficiencies in the design or operation of disclosure controls made to the Committee by the CEO and CFO during their certification process for forms filed with applicable securities regulators.

**D. Internal Audit**

The Committee shall:

- (a) review and concur with any appointment or dismissal of the senior internal audit officer or employee;
- (b) review the performance and ensure processes are in place for the independence of the internal audit function;
- (c) meet separately with the senior internal audit officer or employee to discuss any matters that the Committee or auditor believe should be discussed in private;
- (d) review and approve the proposed annual corporate internal audit plan, including assessment of major risks, areas of focus, responsibilities and objectives, and staffing; and
- (e) receive quarterly reports from internal audit on (i) the progress on the internal audit plan, including any significant changes to it; (ii) significant internal audit

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findings, including issues as to the adequacy of internal control over financial reporting and any procedures implemented in light of significant control deficiencies; and (iii) any significant internal fraud issues.

**E. External Auditor**

The Committee shall:

- (a) obtain confirmation from the external auditor that it will be accountable to, and report directly to, the Committee;
- (b) review and approve the external auditor's annual audit plan;
- (c) meet with North West's external auditor on a regular basis in the absence of management, and discuss in private with the external auditor matters affecting the conduct of their audit and other corporate matters;
- (d) review regularly the performance, qualifications, independence and remuneration of North West's external auditor, as well as the competence and responsiveness of the individual partners assigned to North West's account;
- (e) recommend to the Board each year the remuneration of, and the retention or replacement of the external auditor to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for North West, and annually approve the terms of such engagement;
- (f) if there is a plan to change the external auditor, review all issues related to the change and the steps planned for an orderly transition;
- (g) oversee the work of the external auditor engaged for the purpose of preparing or issuing an audit report or performing other services;
- (h) discuss with North West's external auditor the quality and not just the acceptability of North West's accounting principles and policies;
- (i) relay its expectations to North West's external auditor from time to time including its expectation that (i) any disagreements of a material nature with management be brought to the attention of the Committee, (ii) any irregularities in the financial information be reported to the Committee; and (iii) the external auditor discloses any conflict of interest that may arise in their engagement; and
- (j) pre-approve all non-audit services to be provided to North West or its subsidiary entities by its external auditor to obtain assurance that the performance of such services will not compromise the independence of the external auditor. The Committee may delegate to the Chairperson of the Committee authority to pre-approve non-audit services in satisfaction of this requirement. The pre-approval of non-audit services by the Chairperson of the Committee must be presented to the full Committee at its first scheduled meeting following such pre-approval.



**F. Other**

- (a) The Committee shall assess the performance of the CFO and report their views to the CEO, in conjunction with the CEO's annual performance review of the CFO.

**5. Structure**

- (a) The Board shall appoint one of the Committee members to act as Chairperson of the Committee.
- (b) The Committee will appoint the Corporate Secretary of North West as secretary of the Committee, who will keep minutes of all meetings. In absence of the Corporate Secretary, the Committee will appoint an acting secretary who will keep minutes of the meeting.
- (c) The Committee will meet as many times as is necessary to carry out its responsibilities but in no event will the Committee meet less than quarterly each year. Meetings will be at the call of the Chairperson. Notwithstanding the foregoing, the external auditor of North West or any member of the Committee may call a meeting of the Committee. The Committee may hold a meeting by telephone conference call.
- (d) No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that if the number of members of the Committee is an even number one half of the number of members plus one shall constitute a quorum.
- (e) Any member of the Committee may be removed or replaced at any time by the Board or shall cease to be a member of the Committee as soon as such member ceases to be a director. Subject to the foregoing, each member of the Committee shall hold such office until the next annual meeting of shareholders.
- (f) The external auditor of North West shall be entitled to receive notice of every meeting of the Committee to attend and be heard thereat.
- (g) The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedure in all respects of such meeting shall be determined by the Committee, unless otherwise provided for in North West's bylaws, or otherwise determined by resolution of the Board.
- (h) members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.



**6. Chairperson of the Committee**

The Chairperson of the Committee (the “Chairperson”) is responsible for the effective functioning of the Committee.

**7. Independent Advice**

In discharging its mandate, the Committee shall have the authority to retain and receive advice from independent legal, accounting or other advisors at the expense of North West, as required to fulfill its duties, and to set and pay the compensation for such advisors.

**8. Evaluation**

The Committee shall:

- (a) regularly review and assess the adequacy of its Mandate, and recommend any proposed changes to the Governance and Nominating Committee, for recommendation to the Board for approval; and
- (b) participate in a regular performance evaluation of the Committee, the results of which will be reviewed by the Governance and Nominating Committee, and the Board.

Approved by the Board of Directors: Effective January 1, 2011.



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

**The North West Company Inc.**

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