



Consolidated Financial Statements of

THE NORTH WEST COMPANY INC.

For the years ended January 31, 2013 and 2012



Consolidated Financial Statements

TABLE OF CONTENTS

Management’s Responsibility for Financial Statements	3
Independent Auditor’s Report	3
Consolidated Balance Sheets	4
Consolidated Statements of Earnings	5
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Changes in Shareholders’ Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8



Management's Responsibility for Financial Statements

The management of The North West Company Inc. is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements and all other information in the annual report. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain amounts that are based on the best estimates and judgment by management.

In order to meet its responsibility and ensure integrity of financial information, management has established a code of business ethics, and maintains appropriate internal controls and accounting systems. An internal audit function is maintained that is designed to provide reasonable assurance that assets are safeguarded, transactions are authorized and recorded and that the financial records are reliable.

Ultimate responsibility for financial reporting to shareholders rests with the Board of Directors. The Audit Committee of the Board of Directors, consisting of independent Directors, meets periodically with management and with the internal and external auditors to review the audit results, internal controls and accounting policies. Internal and external auditors have unlimited access to the Audit Committee. The Audit Committee meets separately with management and the external auditors to review the financial statements and other contents of the annual report and recommend approval by the Board of Directors. The Audit Committee also recommends the independent auditor for appointment by the shareholders.

PricewaterhouseCoopers LLP, an independent firm of auditors appointed by the shareholders, have completed their audit and submitted their report as follows.

Edward S. Kennedy
PRESIDENT & CEO
THE NORTH WEST COMPANY INC.

John D. King
CHIEF FINANCIAL OFFICER
THE NORTH WEST COMPANY INC.

April 8, 2013

Independent Auditor's Report

To the Shareholders of The North West Company Inc.:

We have audited the accompanying consolidated financial statements of The North West Company Inc. and its subsidiaries, which comprise the consolidated balance sheets as at January 31, 2013 and January 31, 2012 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years ended January 31, 2013 and January 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The North West Company Inc. and its subsidiaries as at January 31, 2013 and January 31, 2012 and their financial performance and their cash flows for the years ended January 31, 2013 and January 31, 2012 in accordance with International Financial Reporting Standards.

CHARTERED ACCOUNTANTS
WINNIPEG, CANADA

April 8, 2013

Consolidated Balance Sheets

(\$ in thousands)

January 31, 2013 January 31, 2012

	January 31, 2013	January 31, 2012
CURRENT ASSETS		
Cash	\$ 38,675	\$ 26,984
Accounts receivable (Note 5)	70,040	76,539
Inventories (Note 6)	187,200	186,124
Prepaid expenses	7,981	6,189
	303,896	295,836
NON-CURRENT ASSETS		
Property and equipment (Note 7)	274,027	270,370
Goodwill (Note 8)	26,162	26,319
Intangible assets (Note 8)	20,136	14,620
Deferred tax assets (Note 9)	12,904	7,422
Other assets (Note 10)	14,269	12,350
	347,498	331,081
TOTAL ASSETS	\$ 651,394	\$ 626,917
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 130,501	\$ 122,349
Current portion of long-term debt (Note 11)	40,417	629
Income tax payable	19,266	5,024
	190,184	128,002
NON-CURRENT LIABILITIES		
Long-term debt (Note 11)	122,937	175,263
Defined benefit plan obligation (Note 12)	28,431	27,616
Deferred tax liabilities (Note 9)	2,026	2,440
Other long-term liabilities	11,566	9,887
	164,960	215,206
TOTAL LIABILITIES	355,144	343,208
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	165,358	165,133
Contributed surplus	3,485	3,180
Retained earnings	128,224	115,991
Accumulated other comprehensive income	(817)	(595)
TOTAL EQUITY	296,250	283,709
TOTAL LIABILITIES & EQUITY	\$ 651,394	\$ 626,917

See accompanying notes to consolidated financial statements

Approved on behalf of the Board of Directors

"Gary J. Lukassen"

DIRECTOR

"H. Sanford Riley"

DIRECTOR

Consolidated Statements of Earnings

(\$ in thousands, except per share amounts)	Year Ended January 31, 2013	Year Ended January 31, 2012
SALES	\$ 1,513,646	\$ 1,495,136
Cost of sales	(1,068,940)	(1,067,153)
Gross profit	444,706	427,983
Selling, operating and administrative expenses (Notes 16, 17)	(347,588)	(338,674)
Earnings from operations	97,118	89,309
Interest expense (Note 18)	(5,809)	(6,026)
Earnings before income taxes	91,309	83,283
Income taxes (Note 9)	(26,161)	(25,322)
NET EARNINGS FOR THE YEAR	\$ 65,148	\$ 57,961
NET EARNINGS PER SHARE (Note 20)		
Basic	\$ 1.35	\$ 1.20
Diluted	\$ 1.34	\$ 1.19
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING (000's)		
Basic	48,384	48,378
Diluted	48,579	48,525

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

(\$ in thousands)	Year Ended January 31, 2013	Year Ended January 31, 2012
NET EARNINGS FOR THE YEAR	\$ 65,148	\$ 57,961
Other comprehensive income/(expense):		
Exchange differences on translation of foreign controlled subsidiaries, net of tax	(222)	293
Actuarial losses on defined benefit plans, net of tax (Note 12)	(2,595)	(15,266)
Total other comprehensive income, net of tax	(2,817)	(14,973)
COMPREHENSIVE INCOME FOR THE YEAR	\$ 62,331	\$ 42,988

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity

(\$ in thousands)	Share Capital	Contributed Surplus	Retained Earnings	AOCI ⁽¹⁾	Total
Balance at January 31, 2012	\$ 165,133	\$ 3,180	\$ 115,991	\$ (595)	\$ 283,709
Net earnings for the year	—	—	65,148	—	65,148
Other comprehensive income	—	—	(2,595)	(222)	(2,817)
Comprehensive income	—	—	62,553	(222)	62,331
Equity settled share-based payments	—	471	—	—	471
Dividends (Note 19)	—	—	(50,320)	—	(50,320)
Issuance of common shares	225	(166)	—	—	59
	225	305	(50,320)	—	(49,790)
Balance at January 31, 2013	\$165,358	\$ 3,485	\$128,224	\$ (817)	\$296,250
Balance at January 31, 2011	\$ 165,133	\$ 2,491	\$ 119,739	\$ (888)	\$ 286,475
Net earnings for the year	—	—	57,961	—	57,961
Other comprehensive income	—	—	(15,266)	293	(14,973)
Comprehensive income	—	—	42,695	293	42,988
Equity settled share-based payments	—	689	—	—	689
Dividends (Note 19)	—	—	(46,443)	—	(46,443)
	—	689	(46,443)	—	(45,754)
Balance at January 31, 2012	\$ 165,133	\$ 3,180	\$ 115,991	\$ (595)	\$ 283,709

(1) Accumulated Other Comprehensive Income

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(\$ in thousands)	Year Ended January 31, 2013	Year Ended January 31, 2012
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings for the year	\$ 65,148	\$ 57,961
Adjustments for:		
Amortization	37,149	36,572
Provision for income taxes (Note 9)	26,161	25,322
Interest expense (Note 18)	5,809	6,026
Equity settled share option expense (Note 13)	471	689
Taxes paid	(15,483)	(6,195)
(Gain)/Loss on disposal of property and equipment	1,978	438
	121,233	120,813
Change in non-cash working capital	10,764	(2,989)
Change in other non-cash items	(3,005)	(2,355)
Cash from operating activities	128,992	115,469
Investing activities		
Purchase of property and equipment (Note 7)	(42,236)	(45,565)
Intangible asset additions (Note 8)	(8,897)	(811)
Proceeds from disposal of property and equipment	2,352	428
Cash from investing activities	(48,781)	(45,948)
Financing activities		
Decrease in long-term debt (Note 11)	(12,285)	(13,360)
Repayments of long-term debt	—	(3,676)
Dividends / distributions (Note 19)	(50,320)	(50,797)
Interest paid	(5,974)	(5,935)
Issuance of common shares	59	—
Cash from financing activities	(68,520)	(73,768)
NET CHANGE IN CASH	11,691	(4,247)
Cash, beginning of year	26,984	31,231
CASH, END OF YEAR	\$ 38,675	\$ 26,984

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
JANUARY 31, 2013 AND 2012

1. ORGANIZATION

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

These consolidated financial statements have been approved for issue by the Board of Directors of the Company on April 8, 2013.

2. BASIS OF PREPARATION

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

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

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

The methods used to measure fair values are discussed further in the notes to these financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied to all years presented in these consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

(A) Basis of Consolidation Subsidiaries are entities controlled, either directly or indirectly, by the Company. Control exists when the Company has the power to govern the financial and operating

policies of an entity so as to obtain benefit from its activities and is generally accompanying a shareholding of more than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases.

Joint ventures are those entities over which the Company has joint control, established by contractual agreement. The Company's share of its joint ventures has been classified as a jointly controlled entity. Its results are included in the consolidated statements of earnings using the equity method of accounting. Joint ventures are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share of net assets of the entity, less any impairment in value.

All significant inter-company amounts and transactions have been eliminated.

(B) Business Combinations Business combinations are accounted for using the acquisition method of accounting. The consideration transferred is measured at the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange. Acquisition costs incurred are expensed and included in selling, operating and administrative expenses. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with International Accounting Standard (IAS) 39 either in net earnings or as a change to other comprehensive income (OCI). If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date irrespective of the extent of any non-controlling interest. The excess of the cost of the acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of earnings.

(C) Revenue Recognition Revenue on the sale of goods is recorded at the time the sale is made to the customer, being when the significant risks and rewards of ownership have transferred to the customer, recovery of the consideration is probable, and the amount of revenue can be measured reliably. Sales are presented net of tax, returns and discounts and are measured at the fair value of the consideration received or receivable from the customer for the products sold or services supplied. Service charges on customer account receivables are accrued each month on balances outstanding at each account's billing date.

(D) Inventories Inventories are valued at the lower of cost and net realizable value. The cost of warehouse inventories is determined using the weighted-average cost method. The cost of retail inventories is determined primarily using the retail method of accounting for general merchandise inventories and the cost method of accounting for food inventories on a first-in, first-out basis. Cost includes the cost to purchase goods net of vendor allowances plus other costs incurred in bringing inventories to their present location and condition. Net realizable value is estimated based on the amount at which inventories are expected to be sold, taking into consideration fluctuations in retail prices due to seasonality.

Inventories are written down to net realizable value if net realizable value declines below carrying amount. When

circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed.

(E) Vendor Rebates Consideration received from vendors related to the purchase of merchandise is recorded on an accrual basis as a reduction in the cost of the vendor's products and reflected as a reduction of cost of sales and related inventory.

(F) Property and Equipment Property and equipment are stated at cost less accumulated amortization and any impairment losses. Cost includes any directly attributable costs, borrowing costs on qualifying construction projects, and the costs of dismantling and removing the items and restoring the site on which they are located. When major components of an item of property and equipment have different useful lives, they are accounted for as separate items. Amortization is calculated from the dates assets are available for use using the straight-line method to allocate the cost of assets less their residual values over their estimated useful lives as follows:

Buildings	3% – 8%
Leasehold improvements	5% – 20%
Fixtures and equipment	8% – 33%
Computer equipment	12% – 33%

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Assets under construction and land are not amortized.

(G) Impairment

Impairment of non-financial assets Tangible assets and definite life intangible assets are reviewed at each balance sheet date to determine whether events or conditions indicate that their carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For tangible and intangible assets excluding goodwill, the CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

Goodwill and indefinite life intangible assets are not amortized but are subject to an impairment test annually and whenever indicators of impairment are detected. Goodwill is allocated to CGU's that are expected to benefit from the synergies of the related business combination and represents the lowest level within the Company at which goodwill is monitored for internal management purposes, which is the Company's International operating segment before aggregation.

Any impairment charge is recognized in the consolidated statement of earnings in the period in which it occurs, to the extent that the carrying value exceeds its recoverable amount. Where an impairment loss other than an impairment loss on goodwill subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. Impairment charges on goodwill are not reversed.

Impairment of financial assets Financial assets are assessed at each reporting date to determine whether there is any objective

evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at their original effective interest rate.

All impairment losses are recognized in the consolidated statement of earnings. An impairment loss, except an impairment loss related to goodwill, is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(H) Leases Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are accounted for as operating leases. Assets leased under operating leases are not recorded on the consolidated balance sheets. Rental payments are recorded in selling, operating and administrative expenses in the consolidated statements of earnings. Lease incentives received are recognized as part of the total lease expense, over the term of the lease.

Leases in which the Company has substantially all of the risks and rewards of ownership are accounted for as finance leases. At commencement, finance leases are capitalized at the lower of the fair value of the leased property and the present value of minimum lease payments, and are recorded in property and equipment on the consolidated balance sheets. Finance lease liabilities are recorded in long-term debt and are reduced by the amount of the lease payment net of imputed interest (finance charges).

(I) Borrowing Costs Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of the respective asset until it is ready for its intended use. Qualifying assets are those assets that necessarily take a substantial period of time to prepare for their intended use. Borrowing costs are capitalized based on the Company's weighted-average cost of borrowing. All other borrowing costs are expensed as incurred.

(J) Goodwill Goodwill represents the excess of the consideration transferred over the fair value of the identifiable assets, including intangible assets, and liabilities of the acquiree at the date of acquisition. Goodwill is not amortized but is subject to an impairment test annually and whenever indicators of impairment are detected. Goodwill is carried at cost less accumulated impairment losses.

(K) Intangible Assets Intangible assets with finite lives are carried at cost less accumulated amortization and any impairment loss. Amortization is recorded on a straight-line basis over the term of the estimated useful life of the asset as follows:

Software	3 to 7 years
Non-compete agreements	3 to 5 years

Intangible assets with indefinite lives comprise the Cost-U-Less banner. This asset is not amortized but instead is tested for impairment annually or more frequently if indicators of impairment are identified.

(L) Share-based Payment Transactions

Equity settled plans The Share Option Plan prior to June 14, 2011 is an equity settled share-based payment plan. The fair value of this plan was determined using an option pricing model. The grant date fair values of this benefit is recognized as an employee expense over the vesting period, with corresponding increases in equity.

Cash settled plans The Share Option Plan commencing June 14, 2011, Restricted Share Units, Performance Share Units, Employee Share Purchase Plan and Director Deferred Share Unit Plan are cash settled share-based payments. These plans are measured at fair value at each balance sheet date and a charge or recovery recognized through the consolidated statement of earnings over the vesting period. A corresponding adjustment is reflected in accounts payable and accrued liabilities or other long-term liabilities.

The value of the charges under both cash settled and equity settled plans are adjusted in the consolidated statement of earnings to reflect expected and actual levels of benefits vesting.

(M) Foreign Currency Translation The accounts of foreign operations have been translated into the presentation currency, Canadian dollars. Assets and liabilities are translated at the period-end exchange rate, and revenues and expenses at the average rate for the period. Foreign exchange gains or losses arising from the translation of the net investment in foreign operations and the portion of the U.S. denominated borrowings designated as a hedge against this investment are recorded in equity as other comprehensive income. Foreign exchange gains or losses recorded in accumulated other comprehensive income (AOCI) are recognized in net earnings when there is a reduction in the net investment in foreign operations.

Items included in the financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (functional currency). Transactions in foreign currencies are translated to the respective functional currencies at exchange rates approximating the rates in effect at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date.

(N) Income Taxes Income tax expense includes taxes payable on current earnings and changes in deferred tax balances. Current income tax expense is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

The Company accounts for deferred income taxes using the liability method of tax allocation. Under the liability method, deferred income tax assets and liabilities are determined based on the temporary differences between the financial statement carrying values and tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be realized or settled. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects to settle the carrying amount of its assets and liabilities. A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the

extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and there is a legally enforceable right to offset the amounts.

Income tax expense is recognized in the consolidated statement of earnings, except to the extent that it relates to items recognized directly in other comprehensive income or in equity, in which case the related income tax expense is also recognized in other comprehensive income or in equity respectively.

(O) Employee Benefits The Company maintains either a defined benefit or defined contribution pension plans for the majority of its Canadian employees, and an employee savings plan for its U.S. employees. Other benefits include employee bonuses, employee share purchase plans and termination benefits.

Defined Benefit Pension Plan The actuarial determination of the defined benefit obligations for pension benefits uses the projected unit credit method prorated on services which incorporates management's best estimate of the discount rate, expected plan investment performance, salary escalation, retirement rates, termination rates and retirement ages of employees. The discount rate used to value the defined benefit obligation is derived from a portfolio of high quality Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit plan obligations. Bonds included in the curve are denominated in the currency in which the benefits will be paid that have terms to maturity approximating the terms of the related pension liability. When calculating expected returns on plan assets, assets are valued at fair market value.

The amount recognized in the consolidated balance sheet at each reporting date represents the present value of the defined benefit obligation, adjusted for unvested past service costs and reduced by the fair value of plan assets. Any recognized asset or surplus is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions. To the extent that there is uncertainty regarding entitlement to the surplus, no asset is recorded. The Company's funding policy is in compliance with statutory regulations and amounts funded are deductible for income tax purposes.

The actuarially determined expense is recognized annually in the consolidated statement of earnings. All actuarial gains and losses arising from defined benefit plans are recognized in full in the period in which they arise in the consolidated statement of other comprehensive income, and the recognized actuarial gains and losses are presented in retained earnings. The effect of the asset ceiling is also recognized in other comprehensive income. Interest costs on the defined benefit obligation and the expected return on employee benefit plan assets are charged to the consolidated statement of earnings as interest expense.

Defined Contribution Pension Plans The Company sponsors defined contribution pension plans for eligible employees where fixed contributions are paid into a registered plan. There is no obligation for the Company to pay any additional amount into these plans. Contributions to the defined contribution pension plans are expensed as incurred.

Short-term Benefits An undiscounted liability is recognized for the amount expected to be paid under short-term incentive plans or employee share purchase plans if the Company has a present legal or constructive obligation to pay this amount as a result of past

service provided by the employee and the obligation can be estimated reliably.

Termination Benefits Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the effect is significant, benefits are discounted to present value.

(P) Provisions A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(Q) Financial Instruments Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits related from the financial asset expire, or the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. On initial recognition, all financial instruments are classified into one of the following categories: fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments, available-for-sale, or other financial liabilities.

Financial instruments have been classified as follows:

- Cash is designated as loans and receivables
- Accounts receivable and financial assets included in other assets are classified as loans and receivables
- Long-term debt, accounts payable and accrued liabilities, and certain other liabilities are classified as other financial liabilities

Financial instruments are initially recognized at fair value plus transaction costs; subsequent measurement and recognition of changes in value depends on their initial classification. Financial instruments classified as FVTPL are subsequently measured at fair value, with changes in fair value recorded in net earnings. Loans and receivables are subsequently carried at amortized cost less impairment losses. Interest revenue, consisting primarily of service charge income on customer accounts receivable, is included in sales in the consolidated statement of earnings. Other financial liabilities are subsequently held at amortized cost. Interest expense relating to long-term debt is recorded using the effective interest rate method and included in the consolidated statement of earnings in interest expense.

The Company is exposed to financial risks associated with movements in interest rates and exchange rates. The Company may use derivative financial instruments to hedge these exposures. Qualifying hedge relationships are classified as either fair value hedges, cash flow hedges or as a hedge of a net investment in foreign operations. Fair value hedges are those where the derivative financial instrument hedges a change in the fair value of the financial asset or liability due to movements in interest rates. The Company does not have any cash flow hedges. Net investment hedges use financial liabilities to counterbalance gains and losses arising on the retranslation of foreign operations.

To qualify for hedge accounting, the Company documents its risk management strategy, the relationship between the

hedging instrument and the hedged item or transaction and the nature of the risks being hedged. The Company also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will likely be highly effective on an ongoing basis.

To the extent that a fair value hedging relationship is effective, a gain or loss arising from the hedged item adjusts its carrying value and is reflected in earnings, offset by a change in fair value of the underlying derivative. Any changes in fair value of derivatives that do not qualify for hedge accounting are reported in earnings. Changes in fair value relating to the interest rate swaps are included in interest expense.

The Company has designated a portion of the U.S. denominated debt as a hedge of its net investment in U.S. operations. To the extent that the hedging relationship is effective, the foreign exchange gains and losses arising from translation of this debt are included in other comprehensive income. These gains and losses are subsequently recognized in earnings when the hedged item affects earnings.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in other comprehensive income is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in other comprehensive income is transferred to the income statement for the period.

Embedded derivatives are components of hybrid instruments that include non-derivative host contracts. These are separated from their host contracts and recorded on the consolidated balance sheets at fair value when certain conditions are met. Changes in the fair value of embedded derivatives are recognized in earnings.

(R) Cash Cash comprises cash on hand and balances with banks.

(S) Net Earnings Per Share Basic net earnings per share are calculated by dividing the net earnings by the weighted-average number of common shares outstanding during the period. Diluted net earnings per share is determined by adjusting net earnings and the weighted-average number of common shares outstanding for the effects of all potentially dilutive shares, which comprise shares issued under the Share Option Plan and Deferred Share Unit Plan.

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

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

Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have the most significant effect on the amounts recognized in the consolidated financial statements include:

- Allowance for doubtful accounts (Notes 5, 14)
- Inventories (Note 6)
- Impairment of assets (Note 7)
- Goodwill and indefinite life intangible asset impairment (Note 8)
- Income taxes (Note 9)
- Defined benefit pension plan obligations (Note 12)

(U) Share capital Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

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

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

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

(W) Future Standards and Amendments A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended January 31, 2013, and have not been applied in preparing these consolidated financial statements. Unless otherwise noted, the following revised standards and amendments are effective for the Company's annual periods beginning February 1, 2013.

Consolidated Financial Statements The IASB issued IFRS 10, *Consolidated Financial Statements* replacing portions of IAS 27, *Consolidated and Separate Financial Statements* addressing consolidation and superseding Standing Interpretations Committee (SIC) Interpretation 12 in its entirety. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard is not expected to have a significant impact on the consolidated financial statements.

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

revenues and expenses. The adoption of IFRS 11 is not expected to have a significant impact on the consolidated financial statements.

Disclosure of Interests in Other Entities The IASB issued IFRS 12, *Disclosure of Interests in Other Entities* requiring extensive disclosures relating to a company's interest in subsidiaries, associates and certain other arrangements. IFRS 12 enables financial statement users to evaluate the nature and risks associated with these interests, and evaluate their effect on the Company's financial performance. This standard is not expected to have a significant impact on the consolidated financial statements.

Employee benefits The revised IAS 19, *Employee Benefits* issued by the IASB eliminates the option to defer the recognition of actuarial gains and losses on defined benefit plans. It amends the calculation of plan assets and benefit obligations, streamlines the presentation of changes in defined benefit plans and requires enhanced disclosure. The requirement to calculate the expected return on plan assets with the interest rate used to calculate the defined benefit plan obligation is the most significant for the Company. The Company will adopt this standard for its fiscal year beginning February 1, 2013. The implementation of this standard in the Company's 2013 financial statements will require restatement of its 2012 comparative numbers with an estimated decrease in net earnings of \$1,260 comprised of an increase to interest expense of \$1,170, an increase to selling, operating and administrative expenses of \$550 and a deferred tax recovery of \$460.

Financial Instruments The IASB has issued a new standard which will eventually replace IAS 39, *Financial Instruments: Recognition and Measurement*. The development of IFRS 9, *Financial Instruments* is a multi-phase project with a goal of improving and simplifying financial instrument reporting. IFRS 9 uses a single approach to determine measurement of a financial asset based on how an entity manages financial impairment, replacing the multiple classification options in IAS 39 with only two categories: amortized cost and fair value through profit or loss. This standard is effective for the Company's financial year beginning February 1, 2015. The Company is currently assessing the impact of changes to this standard.

Presentation of Financial Statements The IASB has amended IAS 1, *Presentation of Financial Statements* to enhance the presentation of Other Comprehensive Income (OCI). These amendments require the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. This standard is not expected to have a significant impact on the consolidated financial statements.

Fair Value Measurement IFRS 13, *Fair Value Measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. This standard is not expected to have a significant impact on the consolidated financial statements.

Financial Instruments The IASB has issued amendments to IFRS 7, *Financial Instruments: Disclosures* and IAS 32, *Financial Instruments: Presentation* which clarify the requirements for offsetting financial assets and financial liabilities along with new disclosure requirements. These amendments are effective for the Company's financial years beginning February 1, 2014 and February 1, 2013 respectively. These standards are not expected to have a significant impact on the consolidated financial statements.

4. SEGMENTED INFORMATION

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

The following key information is presented by geographic segment:

Consolidated Statements of Earnings		
Year Ended	January 31, 2013	January 31, 2012
Sales		
Canada	\$ 1,043,050	\$ 1,028,396
International	470,596	466,740
Consolidated	\$ 1,513,646	\$ 1,495,136
Earnings before amortization, interest and income taxes		
Canada	\$ 107,060	\$ 97,998
International	27,207	27,883
Consolidated	\$ 134,267	\$ 125,881
Earnings from operations		
Canada	\$ 77,905	\$ 69,253
International	19,213	20,056
Consolidated	\$ 97,118	\$ 89,309

	January 31, 2013	January 31, 2012
Assets		
Canada	\$ 444,848	\$ 443,956
International	206,546	182,961
Consolidated	\$ 651,394	\$ 626,917

International total assets includes goodwill of \$26,162 (January 31, 2012 - \$26,319).

Supplemental information

Year Ended	January 31, 2013		January 31, 2012	
	Canada	Int'l	Canada	Int'l
Expenditure on property and equipment	\$ 25,128	\$ 17,108	\$ 33,952	\$ 11,613
Amortization	\$ 29,155	\$ 7,994	\$ 28,745	\$ 7,827

5. ACCOUNTS RECEIVABLE

	January 31, 2013	January 31, 2012
Current:		
Trade accounts receivable	\$ 72,162	\$ 76,349
Corporate and other accounts receivable	11,920	13,796
Less: allowance for doubtful accounts	(14,042)	(13,606)
	\$ 70,040	\$ 76,539
Non-current:		
Long-term receivable (Note 10)	\$ 2,626	\$ 2,507
	\$ 72,666	\$ 79,046

The carrying values of current accounts receivable are a reasonable approximation of their fair values. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above (Note 14).

Movements in the allowance for doubtful accounts for customer and commercial accounts receivables are as follows:

	January 31, 2013	January 31, 2012
Current:		
Balance, beginning of year	\$ (13,606)	\$ (13,338)
Net charge	(7,606)	(7,748)
Written off	7,170	7,480
Balance, end of year	\$ (14,042)	\$ (13,606)

6. INVENTORIES

Retail inventories are valued at the lower of cost and net realizable value. Valuing retail inventories requires the Company to use estimates related to: discount factors used to convert inventory to cost; future retail sales prices and reductions; and inventory losses during periods between the last physical count and the balance sheet date. Included in inventories recognized as an expense for the year ended January 31, 2013, the Company recorded \$1,648 (January 31, 2012 - \$1,851) for the write-down of inventories as a result of net realizable value being lower than cost. There was no reversal of inventories written down previously that are no longer estimated to sell below cost during the year ended January 31, 2013 or 2012.

7. PROPERTY & EQUIPMENT

January 31, 2013	Land	Buildings	Leasehold improvements	Fixtures & equipment	Computer equipment	Construction in process	Total
Cost							
Balance, beginning of year	\$ 12,179	\$ 301,354	\$ 41,831	\$ 211,549	\$ 61,667	\$ 17,162	\$ 645,742
Additions	—	21,847	954	15,592	1,738	2,105	42,236
Disposals	(8)	(928)	(4,062)	(3,146)	(48)	—	(8,192)
Effect of movements in foreign exchange	(27)	(415)	(64)	(268)	(46)	(22)	(842)
Total January 31, 2013	\$ 12,144	\$ 321,858	\$ 38,659	\$ 223,727	\$ 63,311	\$ 19,245	\$ 678,944
Accumulated amortization							
Balance, beginning of year	\$ —	\$ 158,017	\$ 20,348	\$ 145,054	\$ 51,953	\$ —	\$ 375,372
Amortization expense	—	14,885	3,003	12,078	3,855	—	33,821
Disposals	—	(693)	(1,217)	(1,925)	(28)	—	(3,863)
Effect of movements in foreign exchange	—	(158)	(35)	(183)	(37)	—	(413)
Total January 31, 2013	\$ —	\$ 172,051	\$ 22,099	\$ 155,024	\$ 55,743	\$ —	\$ 404,917
Net book value January 31, 2013	\$ 12,144	\$ 149,807	\$ 16,560	\$ 68,703	\$ 7,568	\$ 19,245	\$ 274,027
January 31, 2012							
Cost							
Balance, beginning of year	\$ 12,182	\$ 291,234	\$ 37,496	\$ 203,236	\$ 55,302	\$ 7,801	\$ 607,251
Additions	8	13,890	4,682	10,991	6,639	9,355	45,565
Disposals	(24)	(4,009)	(388)	(2,853)	(311)	—	(7,585)
Effect of movements in foreign exchange	13	239	41	175	37	6	511
Total January 31, 2012	\$ 12,179	\$ 301,354	\$ 41,831	\$ 211,549	\$ 61,667	\$ 17,162	\$ 645,742
Accumulated amortization							
Balance, beginning of year	\$ —	\$ 146,959	\$ 17,766	\$ 135,225	\$ 47,718	\$ —	\$ 347,668
Amortization expense	—	13,795	2,911	12,120	4,398	—	33,224
Disposals	—	(2,856)	(354)	(2,423)	(187)	—	(5,820)
Effect of movements in foreign exchange	—	119	25	132	24	—	300
Total January 31, 2012	\$ —	\$ 158,017	\$ 20,348	\$ 145,054	\$ 51,953	\$ —	\$ 375,372
Net book value January 31, 2012	\$ 12,179	\$ 143,337	\$ 21,483	\$ 66,495	\$ 9,714	\$ 17,162	\$ 270,370

The Company reviewed its property and equipment for indicators of impairment. No assets were identified as impaired.

Interest capitalized

Interest attributable to the construction of qualifying assets was capitalized using an average rate of 3.49% and 3.21% for the years ended January 31, 2013 and 2012 respectively. Interest capitalized included in additions amounted to \$506 (January 31, 2012 - \$161). Accumulated interest capitalized included in the cost total above amounted to \$697 (January 31, 2012 - \$191).

8. GOODWILL & INTANGIBLE ASSETS

Goodwill

	January 31, 2013	January 31, 2012
Balance at beginning of year	\$ 26,319	\$ 26,241
Effect of movements in foreign exchange	(157)	78
Balance at end of year	\$ 26,162	\$ 26,319

Goodwill Impairment Testing

The goodwill asset balance relates to the Company's acquired subsidiary, Cost-U-Less, and is allocated to the International Operations operating segment. The value of the goodwill was tested by means of comparing the recoverable amount of the operating segment to its carrying value. To calculate the operating segment's recoverable

amount, the Company uses the capitalized earnings method. The product of maintainable earnings and a capitalization rate are used to determine the recoverable amount. The capitalization rate is based on the International Operations weighted-average cost of capital. Key assumptions in the capitalization rate include: equity risk premium, debt-to-equity ratio, pre-tax cost of debt capital and company specific risk premium. Cash flow forecasts for the following financial year are used to calculate maintainable earnings, to which a terminal growth rate of 2% has been applied. The capitalization rate implies a post-tax discount rate of 10.9% (January 31, 2012 - 11.1%), which equates to a pre-tax rate of approximately 14.5% (January 31, 2012 - 14.9%). No impairment has been identified on goodwill, and management considers reasonably foreseeable changes in key assumptions are unlikely to produce a goodwill impairment.

Intangible assets

January 31, 2013	Software	Cost-U-Less banner	Non-compete agreements	Total
Balance, beginning of year	\$ 15,868	\$ 7,027	\$ 8,123	\$ 31,018
Additions	8,684	—	213	8,897
Write off of fully amortized assets	—	—	(1,867)	(1,867)
Effect of movements in foreign exchange	—	(42)	(19)	(61)
Total January 31, 2013	\$ 24,552	\$ 6,985	\$ 6,450	\$ 37,987
Accumulated amortization at beginning of year	\$ 11,996	\$ —	\$ 4,402	\$ 16,398
Amortization expense	1,930	—	1,398	3,328
Write off of fully amortized assets	—	—	(1,867)	(1,867)
Effect of movements in foreign exchange	—	—	(8)	(8)
Total January 31, 2013	\$ 13,926	\$ —	\$ 3,925	\$ 17,851
Net book value January 31, 2013	\$ 10,626	\$ 6,985	\$ 2,525	\$ 20,136

January 31, 2012	Software	Cost-U-Less banner	Non-compete agreements	Total
Balance, beginning of year	\$ 15,057	\$ 7,015	\$ 8,114	\$ 30,186
Additions	811	—	—	811
Effect of movements in foreign exchange	—	12	9	21
Total January 31, 2012	\$ 15,868	\$ 7,027	\$ 8,123	\$ 31,018
Accumulated amortization, beginning of year	\$ 10,186	\$ —	\$ 2,853	\$ 13,039
Amortization expense	1,810	—	1,538	3,348
Effect of movements in foreign exchange	—	—	11	11
Total January 31, 2012	\$ 11,996	\$ —	\$ 4,402	\$ 16,398
Net book value January 31, 2012	\$ 3,872	\$ 7,027	\$ 3,721	\$ 14,620

Work in process

As at January 31, 2013 the Company had incurred \$6,519 for intangible assets that were not yet available for use, and therefore not subject to amortization.

Intangible Asset Impairment Testing

The Company determines the fair value of the Cost-U-Less banner using the Relief from Royalty approach. This method requires management to make long-term assumptions about future sales, terminal growth rates, royalty rates and discount rates. Sales forecasts for the following financial year together with medium and terminal growth rates ranging from 2% to 5% are used to estimate future sales, to which a royalty rate of 0.5% is applied. The present value of this royalty stream is compared to the carrying value of the asset. No impairment has been identified on intangible assets and management considers reasonably foreseeable changes in key assumptions are unlikely to produce an intangible asset impairment.

9. INCOMETAXES

The following are the major components of the income tax expense:

Year Ended	January 31, 2013	January 31, 2012
Current tax expense:		
Current tax on earnings for the year	\$ 30,199	\$ 8,969
Withholding taxes	207	1,443
(Over) under provision in prior years	740	(21)
	\$ 31,146	\$ 10,391
Deferred tax expense:		
Origination and reversal of temporary differences	\$ (3,996)	\$ 16,122
Impact of change in tax rates	(48)	(978)
Over provision in prior years	(941)	(213)
	(4,985)	14,931
Income taxes	\$ 26,161	\$ 25,322

Income tax expense varies from the amounts that would be computed by applying the statutory income tax rate to earnings before taxes for the following reasons:

Year Ended	January 31, 2013	January 31, 2012
Net earnings before income taxes	\$ 91,309	\$ 83,283
Combined statutory income tax rate	28.2%	30.3%
Expected income tax expense	\$ 25,749	\$ 25,235
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses/ non-taxable income	\$ (183)	\$ (136)
Withholding taxes	207	1,443
Impact of change in tax rates	(48)	(978)
Over provision in prior years	(201)	(234)
Other	637	(8)
Provision for income taxes	\$ 26,161	\$ 25,322
Income tax rate	28.7%	30.4%

The decrease in the combined statutory income tax rate is due to a reduction in Canadian substantively enacted tax rates and a change in the foreign subsidiaries' earnings.

Deferred income tax charged (credited) to other comprehensive income during the year is as follows:

Year Ended	January 31, 2013	January 31, 2012
Net investment hedge:		
Origination and reversal of temporary difference	\$ 56	\$ (30)
Impact of change in tax rates	6	2
	\$ 62	\$ (28)
Defined benefit plan actuarial loss:		
Origination and reversal of temporary difference	\$ (958)	\$ (5,540)
Impact of change in tax rates	(27)	(1)
	(985)	(5,541)
	\$ (923)	\$ (5,569)

Income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

January 31, 2013	February 1, 2012	Taxes (charged) credited to net earnings	Taxes (charged) credited to OCI	Foreign exchange differences recognized in OCI	January 31, 2013
Deferred tax assets:					
Goodwill & intangible assets	\$ 467	\$ (50)	\$ —	\$ 1	\$ 418
Property & equipment	8,089	2,337	—	3	10,429
Inventory	1,507	113	—	(6)	1,614
Share-based compensation and long-term incentive plans	1,693	1,678	—	—	3,371
Defined benefit plan obligation	7,366	(744)	985	—	7,607
Accrued expenses not deductible for tax	3,756	430	—	(12)	4,174
Other	898	821	—	2	1,721
	\$ 23,776	\$ 4,585	\$ 985	\$ (12)	\$ 29,334
Deferred tax liabilities:					
Net investment hedge	\$ (1,179)	\$ —	\$ (62)	\$ —	\$ (1,241)
Investment in jointly controlled entity	(1,086)	(63)	—	—	(1,149)
Deferred limited partnership earnings	(16,260)	390	—	—	(15,870)
Other	(269)	73	—	—	(196)
	\$ (18,794)	\$ 400	\$ (62)	\$ —	\$ (18,456)
	\$ 4,982	\$ 4,985	\$ 923	\$ (12)	\$ 10,878

Recorded on the consolidated balance sheet as follows:

Deferred tax assets	\$ 12,904
Deferred tax liabilities	(2,026)
	\$ 10,878

January 31, 2012	February 1, 2011	Taxes (charged) credited to net earnings	Taxes (charged) credited to OCI	Foreign exchange differences recognized in OCI	January 31, 2012
Deferred tax assets:					
Goodwill & intangible assets	\$ 402	\$ 60	\$ —	\$ 5	\$ 467
Property & equipment	6,489	1,599	—	1	8,089
Inventory	1,092	429	—	(14)	1,507
Share-based compensation and long-term incentive plans	1,551	144	—	(2)	1,693
Defined benefit plan obligation	2,401	(576)	5,541	—	7,366
Accrued expenses not deductible for tax	4,162	(330)	—	(76)	3,756
Other	810	88	—	—	898
	\$ 16,907	\$ 1,414	\$ 5,541	\$ (86)	\$ 23,776
Deferred tax liabilities:					
Net investment hedge	\$ (1,207)	\$ —	\$ 28	\$ —	\$ (1,179)
Investment in jointly controlled entity	(968)	(118)	—	—	(1,086)
Deferred limited partnership earnings	—	(16,260)	—	—	(16,260)
Other	(302)	33	—	—	(269)
	\$ (2,477)	\$ (16,345)	\$ 28	\$ —	\$ (18,794)
	\$ 14,430	\$ (14,931)	\$ 5,569	\$ (86)	\$ 4,982

Recorded on the consolidated balance sheet as follows:

Deferred tax assets	\$ 7,422
Deferred tax liabilities	(2,440)
	\$ 4,982

In assessing the recovery of deferred income tax assets, management considers whether it is probable that the deferred income tax assets will be realized. The recognition and measurement of the current and deferred tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations and in the assessment of the recoverability of deferred tax assets. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences are deductible.

Actual income taxes could vary from these estimates as a result of future events, including changes in income tax laws or the outcome of tax reviews by tax authorities and related appeals. To the extent the final outcome is different from the amounts initially recorded, such differences, which could be significant, will impact the tax provision in the period in which the outcome is determined.

No deferred tax has been recognized in respect of temporary differences associated with investment in subsidiaries where the Company is in a position to control the timing and reversal of the differences and it is probable that such differences will not reverse in the foreseeable future. The temporary differences associated with the Company's foreign subsidiaries are approximately \$53,000 at January 31, 2013 (January 31, 2012 – \$41,000).

10. OTHER ASSETS

	January 31, 2013	January 31, 2012
Investment in jointly controlled entity (Note 23)	\$ 8,590	\$ 8,156
Long-term receivable (Note 5)	2,626	2,507
Other	3,053	1,687
	\$ 14,269	\$ 12,350

11. LONG-TERM DEBT

	January 31, 2013	January 31, 2012
Current:		
Revolving loan facilities ⁽¹⁾	\$ 39,968	\$ —
Notes payable	199	268
Finance lease liabilities	250	361
	\$ 40,417	\$ 629
Non-current		
Revolving loan facilities ⁽¹⁾	\$ —	\$ 36,187
Revolving loan facilities ⁽²⁾	52,499	68,850
Senior notes ⁽³⁾	69,461	69,626
Revolving loan facilities ⁽⁴⁾	718	—
Notes payable	189	391
Finance lease liabilities	70	209
	\$ 122,937	\$ 175,263
Total	\$ 163,354	\$ 175,892

(1) The US\$52,000 committed, revolving loan facilities mature December 31, 2013 and bear interest at LIBOR plus a spread. The loan facilities are secured by a floating first charge against the assets of the Company and rank *pari passu* with the US\$70,000 senior notes and the \$170,000 Canadian Operations loan facilities. At January 31, 2013, the Company had drawn US\$40,000 (January 31, 2012 – US\$36,000) on this facility.

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

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

(4) In October 2012, the Company completed the refinancing of the committed, revolving loan facility of US\$20,000 that matured on October 31, 2012. The new committed, revolving facility provides the Company with up to US\$30,000 for working capital requirements and general business purposes. This facility, which matures October 31, 2015, bears a floating rate of interest based on LIBOR plus a spread and is secured by a charge against certain accounts receivable and inventories of the International Operations. At January 31, 2013, the International Operations had drawn US\$719 (January 31, 2012 – US \$NIL) on this facility.

12. POST-EMPLOYMENT BENEFITS

The Company sponsors defined benefit and defined contribution pension plans covering the majority of Canadian employees. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan, which incorporated legislated changes, administrative practice, and added a defined contribution provision (the "Amended Plan"). Under the Amended Plan, all members as of December 31, 2011 who did not meet a qualifying threshold based on number of years in the pension plan and age were transitioned to the defined contribution pension plan effective January 1, 2011 and no longer accumulate years of service under the defined benefit pension plan. The defined benefit pension previously earned by members transitioned to the defined contribution plan, will continue to accrue in accordance with the terms of the plan based on the member's current pensionable earnings. Members who met the qualifying threshold on January 1, 2011, elected between accruing a defined contribution benefit and continuing to accrue a defined benefit pension in accordance with the provisions of the Amended Plan.

The defined benefit pension plans are based on years of service and final average salary. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes as at January 31, 2013 and January 31, 2012. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 2013. The next actuarial valuation is required as at January 1, 2014. The Company also sponsors an employee savings plan covering all U.S. employees with at least six months of service. Under the terms of the plan, the Company is obligated to make a 50% matching contribution up to 6% of eligible compensation.

During the year ended January 31, 2013, the Company contributed \$5,583 to its defined benefit pension plans (January 31, 2012 - \$4,340). During the year ended January 31, 2013, the Company contributed \$2,002 to its defined contribution pension plans (January 31, 2012 - \$1,803). The current best estimate of the Company's funding obligation for the defined benefit pension plans for the year commencing February 1, 2013 is \$3,300. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

The following significant actuarial assumptions were employed to measure the plan:

	January 31, 2013	January 31, 2012
Discount rate on plan liabilities	4.3%	4.5%
Rate of compensation increase	4.0%	4.0%
Discount rate on plan expense	4.5%	5.8%
Inflation assumption	2.0%	2.0%
Expected return on plan assets	6.5%	6.5%

The average life expectancy in years of a member who reaches normal retirement age of 65 is as follows:

	January 31, 2013	January 31, 2012
Average life expectancies at age 65 for current pensioners:		
Male	19.8	19.7
Female	22.1	22.1
Average life expectancies at age 65 for current members aged 45:		
Male	19.9	19.8
Female	21.8	21.8

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. Mortality assumptions have been based on the 1994 United Pensioners Mortality Table with projections to 2015 using scale AA.

Information on the Company's defined benefit plans, in aggregate, is as follows:

	January 31, 2013	January 31, 2012
Plan assets:		
Fair value, beginning of year	\$ 57,893	\$ 58,773
Expected return on plan assets	3,800	3,777
Benefits paid	(4,441)	(5,681)
Employer contributions	5,583	4,340
Employee contributions	12	20
Actuarial gains/(losses) recognized in OCI	2,292	(3,336)
Fair value, end of year	\$ 65,139	\$ 57,893
Plan obligations:		
Defined benefit obligation, beginning of year	\$ (85,509)	\$ (67,773)
Current service costs	(2,870)	(2,192)
Employee contributions	(12)	(20)
Accrued interest on benefits	(3,748)	(3,734)
Benefits paid	4,441	5,681
Actuarial losses recognized in OCI	(5,872)	(17,471)
Defined benefit obligation, end of year	\$ (93,570)	\$ (85,509)
Plan deficit	\$ (28,431)	\$ (27,616)

The defined benefit obligation exceeds the fair value of plan assets as noted in the table.

The expected return on plan assets has been derived from the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis and the forward-looking view of the financial markets. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions, which may not necessarily be borne out in practice.

Sensitivity of key assumptions

The following table outlines the key assumptions for 2012 and the sensitivity of a 1% change in each of the assumptions on the defined benefit plan obligations and cost for the defined benefit pension plans. The table reflects the impact on both the current service and interest cost expense components.

The sensitivity analysis provided in the key table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Defined benefit plan obligations	Benefit plan cost
Discount rate: 4.3%		
Impact of:		
1% increase	\$ (14,669)	\$ (439)
1% decrease	\$ 19,075	\$ 439

The major categories of plan assets as a percentage of total plan assets are listed below. The pension plans have no investment in the shares of the Company.

	January 31, 2013	January 31, 2012
Plan assets:		
Equity securities	62%	60%
Debt securities	33%	36%
Other	5%	4%
Total	100%	100%

The following pension expenses have been charged to the consolidated statement of earnings:

	January 31, 2013	January 31, 2012
Employee costs (Note 17)		
Defined benefit pension plan, current service costs included in post-employment benefits	\$ 2,870	\$ 2,192
Defined contribution pension plan	2,001	1,803
Savings plan for U.S. employees	411	411
	\$ 5,282	\$ 4,406
Interest expense (Note 18)		
Expected return on pension plan assets	\$ (3,800)	\$ (3,777)
Interest on pension plan liabilities	3,748	3,734

The following amounts have been included in Other Comprehensive Income:

	January 31, 2013	January 31, 2012
Current Year:		
Actuarial gains/(losses)	\$ 2,292	\$ (3,336)
Actuarial loss on plan obligation	(5,872)	(17,471)
Taxes on cumulative actuarial movement in OCI	985	5,541
Net actuarial movement recognized in OCI	\$ (2,595)	\$ (15,266)
Cumulative gains/losses recognized in OCI:		
Cumulative gross actuarial movement in OCI	\$ (22,966)	\$ (19,386)
Taxes on cumulative actuarial movement in OCI	4,059	3,074
Cumulative net actuarial movement recognized in OCI	\$ (18,907)	\$ (16,312)

The actual return on the plans assets is summarized as follows:

	January 31, 2013	January 31, 2012
Expected return on plan assets	\$ 3,800	\$ 3,777
Actuarial movement recognized in OCI reflecting the difference between expected and actual return assets	2,292	(3,336)
Actual return on plan assets	\$ 6,092	\$ 441

13. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Restricted Share Units (RSU's); Performance Share Units (PSU's); Share Options; Director Deferred Share Units (DSU's); and an Employee Share Purchase Plan. The purpose of these plans is to directly align the interests of the participants and the shareholders of the Company by providing compensation that is dependent on the performance of the Company's common shares.

The total expense relating to share-based payment plans for the year ended January 31, 2013 was \$8,440 (January 31, 2012 - \$4,726). The carrying amount of the Company's share-based compensation arrangements including RSU, PSU, share option and DSU plans are recorded on the consolidated balance sheets as follows:

	January 31, 2013	January 31, 2012
Accounts payable and accrued liabilities	\$ 7,437	\$ 4,611
Other long-term liabilities	5,506	3,207
Contributed surplus	1,916	1,611
Total	\$ 14,859	\$ 9,429

Restricted Share Units and Performance Share Units

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

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

Compensation costs related to the RSU's and PSU's for the year ended January 31, 2013 are \$5,527 (January 31, 2012 - \$2,981).

Share Option Plan

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

The maximum number of shares available for issuance is a fixed number set at 4,354,020, representing 9% of the Company's issued and outstanding shares at January 31, 2013. Fair value of these options is determined using an option pricing model. Share options granted vest on a graduated basis over five years and are exercisable over a period of seven to ten years. The share option compensation cost recorded for the year ended January 31, 2013 is \$1,288 (January 31, 2012 - \$867).

The fair values for options issued during the year were calculated based on the following assumptions:

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

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

	2012	2011
Dividend yield	4.5%	5.4%
Annual risk-free interest rate	1.4%	1.2%
Expected share price volatility	20.9% to 25.8%	26.9% to 29.5%

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

The following continuity schedules reconcile the movement in outstanding options during the year:

Number of options outstanding	Declining Strike Price Options		Standard Options	
	2012	2011	2012	2011
Outstanding options, beginning of year	315,812	—	548,486	509,200
Granted	328,677	315,812	63,177	56,186
Exercised	—	—	(26,430)	—
Forfeited or cancelled	(64,474)	—	(28,301)	(16,900)
Outstanding options, end of year	580,015	315,812	556,932	548,486
Exercisable at end of year	—	—	59,165	—

Weighted-average exercise price	Declining Strike Price Options		Standard Options	
	2012	2011	2012	2011
Outstanding options, beginning of year	\$ 20.34	\$ —	\$ 17.45	\$ 17.10
Granted	21.86	20.62	21.86	20.62
Exercised	—	—	15.25	—
Forfeited or cancelled	21.11	—	17.31	16.92
Outstanding options, end of year	\$ 21.12	\$ 20.34	\$ 18.07	\$ 17.45
Exercisable at end of year	\$ —	\$ —	\$ 15.25	\$ —

Summary of options outstanding by grant year

Grant year	Range of exercise price	Outstanding			Exercisable		
		Number outstanding	Weighted-average remaining contractual years	Weighted-average exercise price	Options exercisable	Weighted-average exercise price	
2009	\$ 15.25	217,169	6.4	\$ 15.25	59,165	\$ 15.25	
2010	\$ 19.11-19.74	220,400	7.2	\$ 19.12	NIL	N/A	
2011	\$ 19.71-20.62	340,296	5.5	\$ 19.94	NIL	N/A	
2012	\$ 21.39-21.86	359,082	6.2	\$ 21.47	NIL	N/A	

Director Deferred Share Unit Plan

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

Compensation expense is measured based on the fair market value at each reporting date. The deferred share unit plan compensation recorded for the year ended January 31, 2013 is an expense of \$969 (January 31, 2012 – \$288). The total number of deferred share units outstanding at January 31, 2013 is 136,685 (January 31, 2012 – 118,262). There were 4,698 deferred share units exercised during the year ended January 31, 2013 (January 31, 2012 – 37,236). These deferred share units were settled in cash.

Employee Share Purchase Plan

The Employee Share Purchase Plan provides participants with the opportunity to acquire an ownership interest in the Company. The Company contributes an additional 33% of the amount invested, subject to a maximum annual contribution of 2% of the participants' base salary. The plan is administered by a trustee who uses the funds received to purchase shares on the TSX on behalf of the participating employees. These shares are registered in the name of the plan trustee on behalf of the participants. The Company's contribution to the plan is recorded as compensation expense. The employee share purchase plan compensation recorded for the year ended January 31, 2013 is \$656 (January 31, 2012 – \$590).

14. FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks including liquidity risk, credit risk and market risk. The Company's overall risk management program focuses on minimizing potential adverse effects on financial performance.

The Company manages funding and financial risk management with oversight provided by the Board of Directors, who also approve specific financial transactions. The Company uses derivative financial instruments only to hedge exposures arising in respect of underlying business requirements and not for speculative purposes.

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's operational cash flow is reasonably stable and predictable. This reflects the business risk profile of the majority of markets in which the Company operates and its product mix. Cash flow forecasts are produced regularly and reviewed against the Company's debt portfolio capacity and maturity profile to assist management in identifying future liquidity requirements. The Company's funding strategy is to ensure a mix of funding sources offering flexibility and cost effectiveness to match the business requirements.

The Company is financed by a combination of cash flow from operating activities, bank advances, senior notes and committed revolving loan facilities. At January 31, 2013, the Company had undrawn committed revolving loan facilities available of \$144,122 (January 31, 2012 - \$126,445) which mature in 2013 and 2015 (see Note 11).

The following table analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows or an estimation in respect of floating interest rate liabilities, and as a result may not agree to the amounts disclosed on the balance sheet.

	2013	2014	2015	2016	2017	2018+	Total
Accounts payable and accrued liabilities	\$ 130,501	—	—	—	—	—	\$ 130,501
Interest rate swap payable ⁽¹⁾	1,113	417	—	—	—	—	1,530
Current portion of long-term debt (Note 11)	40,864	—	—	—	—	—	40,864
Long-term debt (Note 11)	5,766	73,025	53,583	—	—	—	132,374
Operating leases	23,490	19,960	16,677	14,380	12,648	48,732	135,887
Total	\$ 201,734	93,402	70,260	14,380	12,648	48,732	\$ 441,156

(1) Based on variable pay interest. This will be partially offset by a fixed interest receipt.

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's exposures to credit risk arise primarily from holdings of cash and its customer and commercial accounts receivable.

To mitigate credit risk, the Company maintains deposits with financial institutions with minimum equivalent short-term credit ratings of "A1." The maximum exposure on cash is equal to the carrying amount of these instruments.

It is the Company's policy that customers who wish to trade on credit terms are subject to credit verification procedures including policies governing: credit approvals, limits, collections and fraud prevention. The Company provides impairment allowances for potentially uncollectible accounts receivable. Receivable balances are comprised of approximately forty thousand customers spread across a wide geography, substantially reducing the Company's risk through the diversity of its customer base. Further, receivables are centrally monitored on an ongoing basis with the result that the Company's exposure to individual customers is generally not significant. The maximum exposure is \$72,666 (January 31, 2012 - \$79,046). The Company does not have any individual customers greater than 10% of total accounts receivable. At January 31, 2013, the Company's maximum credit risk exposure is \$86,708 (January 31, 2012 - \$92,652). Of this amount, \$17,850 (January 31, 2012 - \$18,614) is more than 60 days past due. The Company has recorded an allowance against its maximum exposure to credit risk of \$14,042 (January 31, 2012 - \$13,606) which is based on historical payment records for similar financial assets.

As at January 31, 2013 and 2012, the Company has no significant credit risk related to derivative financial instruments.

Market risk

(a) *Currency risk* The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Foreign exchange risk arises from U.S. dollar denominated borrowings and net investments in foreign operations.

Management is responsible for managing foreign currency risk. The Company's U.S. dollar net investment is exposed to foreign currency translation risk. A significant portion of this risk has been hedged with U.S. dollar denominated borrowings.

In respect of recognized foreign currency assets and liabilities the Company has limited exposure. Procurement and related borrowing activity are generally conducted in currencies matching cash flows generated by underlying operations, providing an economic hedge without sophisticated treasury management.

Short-term imbalances in foreign currency holdings are rectified by buying or selling at spot rates when necessary.

Management considers a 10% variation in the Canadian dollar relative to the U.S. dollar reasonably possible. Considering all major exposures to the U.S. dollar as described above, a 10% appreciation of the Canadian dollar against the U.S. dollar in the year-end rate would cause net income to decrease by approximately \$100. A 10% depreciation of the Canadian dollar against the U.S. dollar year-end rate would cause net income to increase by approximately \$100.

(b) *Interest rate risk* Interest rate risk is the risk that the fair value of 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 monitoring its blend of fixed and floating interest rates, and modifying this blend using interest rate swaps. Under the terms of the swaps, the Company receives fixed interest and pays floating rate interest at a fixed spread above three-month LIBOR. The goal of management is to manage the trade-off between obtaining the most beneficial effective rates of interest, while minimizing the impact of interest rate volatility on earnings.

Management considers a 100 basis point change in interest rates reasonably possible. Considering all major exposures to interest rates as described above, a 100 basis point increase in the risk-free rate would cause net income to decrease by approximately \$1,170. A 100 basis point decrease would cause net income to increase by approximately \$1,170.

(c) *Accounting classifications and fair value estimation* The following table comprises the carrying amounts of the Company's financial instruments. Financial instruments are either carried at amortized cost using the effective interest rate method or fair value.

The Company uses a three-level hierarchy to categorize financial instruments carried at fair value as follows:

- Level 1 – Fair values measured using quoted prices (unadjusted) in active markets for identical instruments
- Level 2 – Fair values measured using directly or indirectly observable inputs, other than those included in Level 1
- Level 3 – Fair values measured using inputs that are not based on observable market data

These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment.

January 31, 2013	Assets (Liabilities) carried at amortized cost			Assets (Liabilities) carried at fair value
	Maturity	Carrying amount	Fair value	Carrying amount
Cash	Short-term	\$ 38,675	\$ 38,675	\$ —
Accounts receivable	Short-term	70,040	70,040	—
Other financial assets	Long-term	3,664	3,664	—
Accounts payable and accrued liabilities	Short-term	(130,501)	(130,501)	—
Financial derivative instruments ⁽¹⁾	Long-term	—	—	945
Current portion of long-term debt	Short-term	(40,417)	(40,417)	—
Long-term debt ⁽¹⁾	Long-term	(123,882)	(125,046)	—

(1) These items total \$122,937 which comprise the carrying amount of debt presented as long-term (Note 11).

January 31, 2012	Assets (Liabilities) carried at amortized cost			Assets (Liabilities) carried at fair value
	Maturity	Carrying amount	Fair value	Carrying amount
Cash	Short-term	\$ 26,984	\$ 26,984	\$ —
Accounts receivable	Short-term	76,539	76,539	—
Other financial assets	Long-term	3,552	3,552	—
Accounts payable and accrued liabilities	Short-term	(122,349)	(122,349)	—
Financial derivative instruments ⁽¹⁾	Long-term	—	—	1,516
Current portion of long-term debt	Short-term	(629)	(629)	—
Long-term debt ⁽¹⁾	Long-term	(176,779)	(178,759)	—

(1) These items total \$175,263 which comprise the carrying amount of debt presented as long-term (Note 11).

The methods and assumptions used in estimating the fair value of the Company's financial instruments are as follows:

- The fair value of short-term financial instruments approximates their carrying values due to their immediate or short-term period to maturity. Any differences between fair value and book values of short-term financial instruments are considered to be insignificant.
- The fair value of long-term debt with fixed interest rates is estimated by discounting the expected future cash flows using the current risk-free interest rate on an instrument with similar terms adjusted for an appropriate risk premium for the Company's credit profile.
- The derivative financial instruments have been measured using a generally accepted valuation technique. The pricing model incorporates current market measures for interest rates, credit spreads, volatility levels and other market-based pricing factors.

The portion of long-term debt in an effective fair value hedging relationship and derivative financial instruments are classified as Level 2, as they are primarily derived from observable interest rates. There would be no significant effect on net income if one or more of the assumptions used to fair value these instruments were changed to other reasonably possible alternatives. No financial instruments have been classified as Level 1 or Level 3.

Financial derivative instruments

The Company holds interest rate swaps with a notional value of US \$28,000 (January 31, 2012 – US\$28,000) to hedge a portion of the fixed rate senior notes due in 2014. Under the terms of the swaps, the Company receives fixed interest and pays floating rate interest at a fixed spread above three-month LIBOR.

The following table summarizes the Company's outstanding financial derivative instruments at January 31:

January 31, 2013	Notional value	Interest rate	Fair value
Interest rate swaps in effective fair value hedging relationship	US\$28,000 (2011 - US\$28,000)	LIBOR plus 3.67%	\$945 (2011 - \$1,516)

Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate total return to shareholders while maintaining a capital structure that provides the flexibility to take advantage of the growth opportunities of the business, maintain existing assets, meet obligations and financial covenants and enhance shareholder value. The capital structure of the Company consists of bank advances, long-term debt and shareholders' equity. The Company manages capital to optimize efficiency through an appropriate balance of debt and equity. In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue additional shares, borrow additional funds, adjust the amount of dividends paid or refinance debt at different terms and conditions.

The Company's process and policies for managing capital are monitored by management and are reflected in the following measures:

- (a) *Debt-to-equity ratio* At January 31, 2013, the debt-to-equity ratio was 0.55 compared to 0.62 last year. The debt-to-equity ratio is within the Company's objectives. The debt-to-equity ratio is calculated as follows:

	January 31, 2013	January 31, 2012
Current portion of long-term debt	\$ 40,417	\$ 629
Long-term debt	122,937	175,263
Total debt	\$ 163,354	\$ 175,892
Total equity	\$ 296,250	\$ 283,709
Debt-to-equity ratio	0.55	0.62

- (b) *Financial covenants* As a result of borrowing agreements entered into by the Company, there are certain financial covenants that must be maintained. Financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. Compliance with financial covenants is reported quarterly to the Board of Directors. During the years ended January 31, 2013 and 2012, the Company is in compliance with all financial covenants. Other than the requirements imposed by these borrowing agreements and solvency tests imposed by the CBCA, the Company is not subject to any externally imposed capital requirements.

Capital management objectives are reviewed on an annual basis. The capital management objectives were substantially unchanged for the year ended January 31, 2013.

15. SHARE CAPITAL

Authorized – The Company has an unlimited number of shares.

	Shares	Consideration
Balance at January 31, 2012	48,378,000	\$ 165,133
Issued under option plans (Note 13)	10,721	\$ 225
Balance at January 31, 2013	48,388,721	\$ 165,358

16. EXPENSES BY NATURE

Year Ended	January 31, 2013	January 31, 2012
Employee costs (Note 17)	\$ 220,070	\$ 210,893
Amortization	37,149	36,572
Operating lease rentals	24,304	23,391
Foreign exchange loss	106	20

17. EMPLOYEE COSTS

Year Ended	January 31, 2013	January 31, 2012
Wages, salaries and benefits including bonus	\$ 206,348	\$ 201,761
Post-employment benefits (Note 12)	5,282	4,406
Share-based compensation (Note 13)	8,440	4,726
Included in the above are the following amounts in respect of key management compensation:		
Wages, salaries and benefits including bonus	\$ 4,238	\$ 3,893
Post-employment benefit expense	646	420
Share-based compensation	5,234	2,777

Key management personnel are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel are comprised of the Board of Directors, Chief Executive Officer, and the four senior officers.

18. INTEREST EXPENSE

Year Ended	January 31, 2013	January 31, 2012
Interest on long-term debt	\$ 6,637	\$ 6,484
Fair value movement of derivative financial instruments in effective fair value hedging relationships	26	(10)
Expected return on pension plan assets	(3,800)	(3,777)
Interest on pension plan liabilities	3,748	3,734
Interest income	(296)	(244)
Less: interest capitalized	(506)	(161)
Interest expense	\$ 5,809	\$ 6,026

19. DIVIDENDS

The following is a reconciliation of the dividends and distributions recorded in retained earnings to those paid in cash:

Year Ended	January 31, 2013	January 31, 2012
Dividends recorded in retained earnings	\$ 50,320	\$ 46,443
Special distribution paid February 18, 2011 to unitholders of record on December 31, 2010	—	4,354
Dividends/distributions paid in cash	\$ 50,320	\$ 50,797
Dividends/distributions per share	\$ 1.04	\$ 1.05

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

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

On March 14, 2013, the Board of Directors declared a dividend of \$0.28 per common share to be paid on April 15, 2013 to shareholders of record as of the close of business on March 28, 2013.

20. NET EARNINGS PER SHARE

Basic net earnings per share is calculated based on the weighted-average shares outstanding during the year. The diluted net earnings per share takes into account the dilutive effect of all potential ordinary shares. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

(\$ and shares in thousands, except earnings per share)

Year Ended	January 31, 2013	January 31, 2012
Diluted earnings per share calculation:		
Net earnings for the year (numerator for diluted earnings per share)	\$ 65,148	\$ 57,961
Weighted-average shares outstanding (denominator for basic earnings per share)	48,384	48,378
Dilutive effect of share-based compensation	195	147
Denominator for diluted earnings per share	48,579	48,525
Basic earnings per share	\$ 1.35	\$ 1.20
Diluted earnings per share	\$ 1.34	\$ 1.19

21. OPERATING LEASE COMMITMENTS

The Company leases various retail stores, offices, warehouses and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. The future minimum lease payments are as follows:

Year Ended	January 31, 2013		January 31, 2012	
	Land and buildings	Other leases	Land and buildings	Other leases
Due within 1 year	\$ 22,739	\$ 751	\$ 23,636	\$ 738
Within 2 to 5 years inclusive	62,755	910	67,950	1,015
After 5 years	48,732	—	55,792	—

22. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

In 2002, the Company signed a 30-year Master Franchise Agreement with Giant Tiger Stores Limited, based in Ottawa, Ontario which grants the Company the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, Giant Tiger Stores Limited provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing distribution services to the stores. The Company's exclusivity right requires that a minimum number of Giant Tiger stores be opened each year, based on an expected roll-out of 72 stores over the term of the agreement. As at January 31, 2013, the Company has opened 31 Giant Tiger stores.

As a result of store closures during the year, the Company has fallen below the minimum number of stores required to maintain its exclusive right to open Giant Tiger stores in western Canada. The loss of exclusivity does not constitute an event of default under the Company's master franchise rights and will not prevent the Company from continuing to operate its existing stores.

Contingencies

In the ordinary course of business, the Company is subject to audits by taxation authorities. While the Company believes that its filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the taxation authorities. The Company regularly reviews the potential for adverse outcomes and the adequacy of its tax provisions. The Company believes that it has adequately provided for these matters. If the final outcome differs materially from the provisions, the Company's income tax expense and its earnings could be affected positively or negatively in the period in which the matters are resolved.

The Company is involved in various legal matters arising in the normal course of business. The occurrence of the confirming future events is not determinable or it is not possible to determine the amounts that may ultimately be assessed against the Company. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Guarantees

The Company has provided the following significant guarantees to third parties:

The Company has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased director and officer liability insurance. No amount has been recorded in the financial statements with respect to these indemnification agreements.

In the normal course of operations, the Company provides indemnification agreements to counterparties for various events such as intellectual property right infringement, loss or damages to property, claims that may arise while providing services, violation of laws or regulations, or as a result of litigation that might be suffered by the counterparties. The terms and nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. No amount has been recorded in the financial statements with respect to these indemnification agreements.

23. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

The Company's principal operating subsidiaries are set out below:

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

The investment in jointly controlled entities comprises a 50% interest in a Canadian Arctic shipping company, Transport Nanuk Inc. The Company's share of its earnings for the year ended January 31, 2013 and 2012 was \$434 and \$797 respectively. At January 31, 2013, the Company's share of the net assets of its jointly controlled entity amount to \$7,970 (January 31, 2012 - \$7,646), comprised assets of \$9,355 (January 31, 2012 - \$9,227) and liabilities of \$1,385 (January 31, 2012 - \$1,581).

During the course of the year the Company purchased freight handling and shipping services from Transport Nanuk Inc. and its subsidiaries of \$6,517 (January 31, 2012 - \$7,144). The contract terms are based on market rates for these types of services on similar arm's length transactions.



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

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