

*Consolidated Financial Statements of*

**NORTH WEST COMPANY FUND**

*For the year ended January 31, 2010*

## **Auditors' Report**

To the Unitholders of  
North West Company Fund

We have audited the consolidated balance sheets of North West Company Fund as at January 31, 2010 and 2009 and the consolidated statements of earnings and retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at January 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*“PricewaterhouseCoopers LLP”*

Chartered Accountants

Winnipeg, Canada  
April 7, 2010

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**NORTH WEST COMPANY FUND**  
**CONSOLIDATED BALANCE SHEETS**

(\$ in thousands)

	January 31, 2010	January 31, 2009
<b>ASSETS</b>		
Current assets		
Cash	\$ 27,278	\$ 25,730
Accounts receivable	71,767	68,485
Inventories	177,877	181,780
Prepaid expenses	4,786	5,845
Future income taxes (Note 14)	4,135	3,248
	<u>285,843</u>	<u>285,088</u>
Property and equipment (Note 5)	258,928	248,856
Other assets (Note 6)	26,252	20,360
Intangible assets (Note 7)	18,332	15,900
Goodwill (Note 7)	28,593	32,372
Future income taxes (Note 14)	5,852	6,597
	<u>623,800</u>	<u>609,173</u>
<b>LIABILITIES</b>		
Current liabilities		
Bank advances (Note 8)	\$ 312	\$ 5,974
Accounts payable and accrued liabilities	113,407	114,366
Income taxes payable	1,888	2,549
Current portion of long-term debt (Note 9)	56,339	49,327
	<u>171,946</u>	<u>172,216</u>
Long-term debt (Note 9)	152,519	157,725
Other long-term liabilities (Note 10)	9,409	4,822
	<u>333,874</u>	<u>334,763</u>
<b>EQUITY</b>		
Capital (Note 11)	165,133	165,133
Unit purchase loan plan (Note 12)	(6,428)	(11,296)
Contributed surplus	1,569	1,569
Retained earnings	125,525	110,475
Accumulated other comprehensive income (Note 13)	4,127	8,529
	<u>289,926</u>	<u>274,410</u>
	<u>\$ 623,800</u>	<u>\$ 609,173</u>

See accompanying notes to consolidated financial statements

Approved on behalf of the Board of Trustees

"Gary J. Lukassen", Trustee

"H. Sanford Riley", Trustee

**NORTH WEST COMPANY FUND****CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS**

(\$ in thousands)

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	Year Ended January 31, 2010	Year Ended January 31, 2009
<b>SALES</b>	<b>\$ 1,444,366</b>	<b>\$ 1,392,634</b>
Cost of sales, selling and administrative expenses	<u>(1,314,092)</u>	<u>(1,270,377)</u>
Net earnings before amortization, interest and income taxes	<b>130,274</b>	122,257
Amortization	<u>(35,150)</u>	<u>(32,054)</u>
	<b>95,124</b>	90,203
Interest, including interest on long-term debt of \$5,173 (2008 - \$7,760)	<u>(5,470)</u>	<u>(8,307)</u>
	<b>89,654</b>	81,896
Provision for income taxes (Note 14)	<u>(7,841)</u>	<u>(6,518)</u>
<b>NET EARNINGS FOR THE YEAR</b>	<b>\$ 81,813</b>	<b>\$ 75,378</b>
Retained earnings, beginning of year as previously reported	<b>110,475</b>	100,526
Accounting policy changes (Note 2)	<u>-</u>	<u>(119)</u>
Retained earnings, as adjusted	<b>110,475</b>	100,407
Distributions (Note 23)	<u>(66,763)</u>	<u>(65,310)</u>
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 125,525</b>	<b>\$ 110,475</b>
<b>NET EARNINGS PER UNIT</b> (Note 15)		
Basic	<b>\$ 1.71</b>	<b>\$ 1.58</b>
Diluted	<b>\$ 1.69</b>	<b>\$ 1.56</b>

See accompanying notes to consolidated financial statements

**NORTH WEST COMPANY FUND**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(\$ in thousands)

	<b>Year Ended January 31, 2010</b>	<b>Year Ended January 31, 2009</b>
<b>NET EARNINGS FOR THE YEAR</b>	<b>\$ 81,813</b>	<b>\$ 75,378</b>
Unrealized gains (losses) on translation of financial statements from a self-sustaining operation in U.S. dollar functional currency to Canadian dollar reporting currency	<u>(4,402)</u>	<u>6,515</u>
Other comprehensive income (loss) (Note 13)	<u>(4,402)</u>	<u>6,515</u>
<b>COMPREHENSIVE INCOME</b>	<b><u>\$ 77,411</u></b>	<b><u>\$ 81,893</u></b>

See accompanying notes to consolidated financial statements

**NORTH WEST COMPANY FUND**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(\$ in thousands)

	Year Ended January 31, 2010	Year Ended January 31, 2009
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating Activities</b>		
Net earnings for the year	\$ 81,813	\$ 75,378
Non-cash items		
Amortization	35,150	32,054
Future income taxes	(874)	(919)
Unit purchase loan plan compensation (Note 19)	-	599
Amortization of deferred financing costs	245	186
(Gain) Loss on disposal of property and equipment	152	(974)
	<u>116,486</u>	<u>106,324</u>
Change in non-cash working capital	(6,679)	(17,542)
Change in other non-cash items	(1,834)	1,396
	<u>107,973</u>	<u>90,178</u>
<b>Investing Activities</b>		
Business acquisitions (Note 22)	(15,421)	(7,656)
Purchase of property and equipment	(45,294)	(46,118)
Proceeds from disposal of property and equipment	1,343	4,339
	<u>(59,372)</u>	<u>(49,435)</u>
<b>Financing Activities</b>		
Change in bank advances	(5,112)	548
Net repayments under unit purchase loan plan	4,868	1,046
Increase in long-term debt	65,193	47,822
Repayment of long-term debt	(44,757)	(18,431)
Distributions (Note 23)	(67,245)	(67,730)
	<u>(47,053)</u>	<u>(36,745)</u>
<b>NET CHANGE IN CASH</b>	<b>1,548</b>	<b>3,998</b>
Cash, beginning of year	<u>25,730</u>	<u>21,732</u>
<b>CASH, END OF YEAR</b>	<b>\$ 27,278</b>	<b>\$ 25,730</b>
Supplemental disclosure of cash paid for:		
Interest expense	\$ 5,568	\$ 8,287
Income taxes	\$ 8,826	\$ 7,535

See accompanying notes to consolidated financial statements

**NORTH WEST COMPANY FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(\$ IN THOUSANDS)**  
**JANUARY 31, 2010 and 2009**

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**1. ORGANIZATION**

The North West Company Fund (NWF or the Fund) is an unincorporated open-ended mutual fund trust, governed by the laws of the Province of Manitoba and the laws of Canada and created pursuant to a Declaration of Trust. The beneficiaries of the Fund (the “unitholders”) are holders of trust units issued by the Fund (the “Trust Units”). The Fund is a limited purpose trust whose purpose is to invest in securities of its wholly owned subsidiaries The North West Company Inc. (NWC), The NWC Trust, North West Company Holdings Inc., NWC GP Inc., The North West Company LP, administer the assets and liabilities of NWF and make distributions to the unitholders all in accordance with the Declaration of Trust.

**2. ACCOUNTING POLICY CHANGES**

**Adopted for the year ended January 31, 2010**  
**Financial Instruments – Recognition and Measurement**

In June 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to Section 3855 Financial Instruments – Recognition and Measurement. These amendments included clarifications on the application of the effective interest rate method and reclassification of financial instruments with embedded derivatives.

In August 2009, the CICA further amended Section 3855 to define loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The amendment eliminated the distinction between debt securities and other debt instruments and changed the scope of the categories into which these financial instruments may be classified.

These amendments had no material impact on the Company’s consolidated financial position or results of operations.

**Financial Instruments – Disclosures**

In June 2009, the CICA issued amendments to Section 3862 Financial Instruments – Disclosures to improve fair value and liquidity risk disclosures. The standard now requires that all financial instruments measured at fair value be categorized using a three level hierarchy. Each level is based on the transparency of inputs used to measure the fair values of financial assets and liabilities. The additional disclosures required as a result of these changes are included in Note 20.



**NORTH WEST COMPANY FUND**  
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**ACCOUNTING POLICY CHANGES (continued)**

**Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

Effective February 1, 2009 the Company adopted the requirements of EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This Abstract requires entities to consider its own and counterparty credit risk in determining the fair value of its financial assets and liabilities including derivative financial instruments. The adoption of this standard has had no material impact on the Company's financial statement disclosures, results or financial position.

**Adopted for the year ended January 31, 2009**

**Goodwill and Intangible Assets**

The requirements of Section 3064, Goodwill and Intangible Assets have been adopted and reflected in the Company's financial statements as of January 31, 2009. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard has had no material impact on the Company's financial statement disclosures or its results from operations.

**Inventories**

Effective February 1, 2008 the Company adopted the new accounting standard issued by the CICA Section 3031, Inventories which was effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007. Section 3031 provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. This change in accounting policy was implemented retroactively without restatement of comparative financial statements in accordance with the transitional provisions of the standard. Upon adoption of this accounting standard, the Company recorded a decrease in opening inventories of \$221, an increase in opening future income tax assets of \$102, and a decrease to opening retained earnings of \$119.

Additional disclosures required by Section 3031 have been included in Note 4.

**NORTH WEST COMPANY FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**ACCOUNTING POLICY CHANGES (continued)**

**General Standards of Financial Statement Presentation**

CICA Section 1400, General Standards of Financial Statement Presentation, was amended to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt upon an entity's ability to continue as a going concern. The Company adopted this new standard effective February 1, 2008 with no impact on the Company's financial statement disclosures.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** The consolidated financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in thousands of Canadian dollars unless otherwise noted. These consolidated financial statements include the accounts of NWF, The NWC Trust, North West Company Holdings Inc., NWC GP Inc., NWC, and the operating entities (the "Company") The North West Company LP and The North West Company (International) Inc. The financial results of certain subsidiaries which have different year ends have been included in the consolidated financial statements for the 12 months ended January 31, 2010 and January 31, 2009. The results of operations of businesses acquired are included in the consolidated financial statements from the acquisition date. All significant inter-company amounts and transactions have been eliminated on consolidation.

**Revenue Recognition** Revenue on the sale of goods and services is recorded at the time the sale is made to the customer. Revenue is recorded net of customer merchandise returns. Service charges on credit card receivables are accrued each month on balances outstanding at each account's billing date.

**Accounts Receivable** Accounts receivable are recorded at cost, net of allowance for doubtful accounts and include customer installment accounts, a portion of which may not become due within one year. The Company records an allowance to reduce the carrying value of accounts receivable identified as potentially uncollectible to their estimated realizable amount. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

**NORTH WEST COMPANY FUND**  
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**SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Inventories** Inventories are valued at the lower of cost and net realizable value. The cost of inventories includes the cost to purchase net of vendor allowances plus other costs, such as transportation costs, that are directly incurred to bring the inventories to their present location and condition. The cost of warehouse inventories is determined by weighted average cost. The cost of store inventories is determined primarily using the retail method of accounting for general merchandise inventories and the cost method on a first-in, first-out basis for food inventories. 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 less the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage, or permanent declines in selling prices. 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 the selling price, the amount of the write-down previously recorded is reversed. Costs such as storage costs and administrative overheads that do not contribute to bring the inventories to their present location and condition are specifically excluded from the cost of inventories and are expensed in the period incurred.

**Vendor Allowances** Consideration received from vendors related to the purchase of merchandise is recorded as a reduction in the price of the vendor's products and reflected as a reduction of cost of goods sold and related inventory.

**Property and Equipment** Property and equipment are initially recorded at cost. Amortization is provided using the straight-line method over their estimated useful lives, as follows:

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

**Leases** Leases in which a significant portion of the risks and rewards of ownership are transferred to the Company are accounted for as capital leases. The present value of minimum lease payments are recorded in property and equipment on the consolidated balance sheets and are amortized over the estimated useful lives on a straight-line basis. Capital lease obligations are recorded in long-term debt and are reduced by the amount of the lease payment net of imputed interest. All other leases are accounted for as operating leases and the lease payments are included in cost of sales, selling and administrative expenses on the consolidated statement of earnings.

**NORTH WEST COMPANY FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**JANUARY 31, 2010 and 2009**

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**SIGNIFICANT ACCOUNTING POLICIES (continued)**

Lease incentives and allowances received are recorded as other long-term liabilities and are amortized as a reduction of the lease expense over the term of the lease.

**Impairment of Long-Lived Assets** Impairment of long-lived assets is recognized when an event or change in circumstances causes the asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value and is recognized as an expense in the period of impairment. No assets were deemed to be impaired at January 31, 2010 or 2009.

**Other Assets** Other assets consist primarily of accrued employee future benefit asset and an investment in a transportation company. The transportation company is accounted for on the equity basis. Prepayments under lease agreements are being amortized over their respective lease terms and are recorded in cost of sales, selling and administrative expenses on the consolidated statements of earnings.

**Intangible Assets** Intangible assets with definite useful lives are recorded at their cost and are amortized on a straight-line basis over their estimated useful lives as follows:

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

The carrying value of these assets is reviewed periodically for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable and will be written down to their fair value by a charge to amortization expense if a decline in carrying value is determined. The amortization method and estimate of the useful life of an intangible asset are reviewed annually.

Intangible assets which have indefinite lives are not amortized but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test compares the carrying amount of the intangible assets with their fair value as of the assessment date. An impairment loss is recorded when the carrying value exceeds the fair value and is recognized as an expense in the period of impairment. The annual impairment test was performed on indefinite life intangible assets and it was determined that there was no impairment to the carrying value.

**NORTH WEST COMPANY FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(\$ IN THOUSANDS)**  
**JANUARY 31, 2010 and 2009**

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**SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Goodwill** Goodwill represents the excess of the acquisition cost of investments in subsidiaries over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is not amortized but is subject to an annual fair value impairment test. Impairment is tested by determining whether a reporting unit's fair value exceeds its net carrying amount as of the assessment date. An impairment loss is recorded when the carrying value exceeds the fair value and is recognized as an expense in the period of impairment. The Company performs the impairment test on an annual basis. The annual impairment test was performed and it was determined that there was no impairment to the carrying value.

**Unit Purchase Loan Plan** Loans issued to officers and senior management to purchase units of the Fund under the unit purchase loan plan are accounted for as a reduction of equity until repaid as described in Note 12.

**Security-Based Compensation** The Company has security-based compensation plans as described in Note 19. Security-based awards are measured and recognized using a fair value based method.

**Foreign Currency Translation** The accounts of self-sustaining foreign operations have been translated into Canadian dollars using the current rate method whereby assets and liabilities are translated at the year end exchange rate and revenues and expenses at the average rate for the period. Foreign exchange gains or losses arising from the translation of both the net investment in the self-sustaining foreign operations and the U.S. denominated debt designated as a hedge against this investment are deferred and included in a separate component of equity as accumulated other comprehensive income. Accumulated other comprehensive income is recognized in net earnings when there has been a reduction in the net investment in the self-sustaining foreign operation.

**Income Taxes** The Company accounts for income taxes using the liability method of tax allocation. Under the liability method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax 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 future income tax assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized. The provision for income taxes is recorded in the Company at applicable statutory rates.

**NORTH WEST COMPANY FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Fund is an inter vivos trust for income tax purposes. All income of the Fund is distributed to unitholders and, as such, no income tax is payable by the Fund. On June 22, 2007, legislation was passed (the “SIFT Rules”) which imposes a new entity-level tax on distributions from certain specified investment flow-through entities (“SIFTs”) such as the Fund commencing January 1, 2011. The legislation specifies that the SIFT tax rate will be the federal general corporate income tax rate plus the provincial SIFT tax rate which is based on the general provincial corporate income tax rate in each province in which the Fund has a permanent establishment. The provincial SIFT tax rate is calculated using the general corporate taxable income allocation formula. Based on substantively enacted tax rates, the Fund estimates the effective tax rate will be approximately 30% in 2011. The application of the SIFT Rules is delayed until January 1, 2011 provided the Fund is not considered to have undergone an “undue expansion” in the interim period.

**Employee Future Benefits** The Company maintains a defined benefit or defined contribution pension plan for the majority of its Canadian employees. The actuarial determination of the accrued benefit obligations for pension benefits uses the projected benefit method prorated on services which incorporates management’s best estimate of expected plan investment performance, salary escalation, and retirement ages of employees. For the purpose of calculating the expected returns on plan assets, those assets are valued at market related value based on a five year moving average. Past service costs and the net transitional asset are amortized on a straight-line basis over the average remaining service period of the employees expected to receive the benefits under the plan. The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the market related value of the plan assets is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by the pension plan is 14 years (January 31, 2009 – 15 years). Contributions to the defined contribution pension plan are expensed as incurred. The Company also sponsors an employee savings plan for U.S. employees whereby the Company is obligated to make a 50% matching contribution up to 6% of eligible compensation.

**Asset Retirement Obligations** A liability associated with the retirement of long-lived assets is recorded in the period in which the legal obligation is incurred at its estimated fair value and a corresponding asset is capitalized as part of the related asset and depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is accreted to reflect the passage of time and changes in the estimated future costs underlying the obligation. Accretion expense is included in cost of sales, selling and administrative expenses.

**NORTH WEST COMPANY FUND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments** All financial assets must be designated as either held for trading, available for sale, loans and receivables or held to maturity. All financial liabilities must be designated as either held for trading or other liabilities. Initial measurement of financial instruments is at fair value. Measurement in subsequent periods depends on the initial classification. Financial assets and liabilities designated as held for trading are subsequently measured at fair value with periodic changes in fair value recognized in net earnings. Financial assets designated as available for sale are subsequently measured at fair value with periodic changes in fair value recognized in other comprehensive income until realized, at which time the accumulated gains or losses are reclassified into net earnings. Financial assets designated as loans and receivable or held to maturity and financial liabilities designated as other liabilities are subsequently measured at amortized cost and income or expense is recognized in net earnings using the effective interest rate method. The carrying amounts of assets or liabilities that are part of an effective fair value hedging relationship are adjusted by an amount equal to the change in fair value caused by the risk that is hedged.

All derivatives, including embedded derivatives must be measured on the balance sheet at fair value. Periodic changes in the fair value of those derivatives are reflected in net earnings unless the derivative is in an effective cash flow hedging relationship. For derivatives in an effective cash flow hedging relationship, the effective portion of the change in fair value is recognized in other comprehensive income and any ineffective portion is recognized in net earnings.

Accounts receivables and financial assets included in other assets are designated as loans and receivables and are carried on the balance sheet at amortized cost. Interest revenue, consisting primarily of service charge income on customer accounts receivable, is included in sales in the consolidated financial statements. Bank advances and accounts payable and accrued liabilities are designated as other liabilities and are carried on the balance sheet at amortized cost. Interest incurred, if any, in relation to these liabilities is recorded using the effective interest rate method and included in interest expense.

Long-term debt is designated as other liabilities and carried on the balance sheet at amortized cost. Transaction costs relating to the issuance of long-term debt are included in the amortized cost of the debt. 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. Portions of the long-term debt are hedged to protect against interest rate risk. To the extent that the hedging relationships are effective, the amortized cost balance is adjusted to include the portion of the change in fair value of the debt that is caused by the effects of interest rate risk, where that risk is hedged.

**NORTH WEST COMPANY FUND**  
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**SIGNIFICANT ACCOUNTING POLICIES (continued)**

Cross currency interest rate and interest rate swap derivative instruments may be used to hedge exposure to interest rate and foreign exchange rate risk. These derivatives are recognized on the balance sheet at their fair value. The hedging relationships are designated as fair value hedges and are tested for effectiveness on a quarterly basis. To the extent that the hedging relationship is effective, a gain or loss arising from the hedged item in a fair value hedge adjusts the carrying value of the hedged item and is reflected in earnings, offset by change in fair value of the underlying derivative. Any change in fair value of derivatives that do not qualify for hedge accounting is reported in earnings. Changes in fair value relating to the interest rate swaps are included in interest expense. For cross currency interest rate swaps, changes in fair value caused by interest rates are included in interest expense and changes in fair value caused by foreign exchange rates are included in cost of sales, selling and administrative expenses in the consolidated statement of earnings.

A portion of the U.S. denominated debt is designated as a hedge against foreign exchange exposure caused by the Company's net investment in self-sustaining foreign operations. The foreign exchange gains and losses arising from translation of this debt are included in other comprehensive income and subsequently recognized in earnings when the hedged item affects earnings.

**Net Earnings Per Unit** Basic net earnings per unit are calculated based on the weighted-average units outstanding. The units pledged as security for the loans issued under the Company's Unit Purchase Loan Plan are deducted from the issued and outstanding units of the Fund to determine basic units outstanding. Diluted net earnings per unit takes into account the dilutive effect of the deferred unit plan for Trustees and the additional income that would have been earned by the Company had interest costs not been incurred on the unit purchase loan plan and had the respective units been outstanding during the year (Note 12).

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements and notes. Estimates are used when accounting for items such as valuation of inventories, financial instruments, impairment of assets, employee future benefits, goodwill and income taxes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and actions that the Company may undertake in the future. Certain of these estimates require subjective or complex judgments by management about matters that are uncertain and changes in those estimates could materially impact the consolidated financial statements and notes.



**NORTH WEST COMPANY FUND**  
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**4. INVENTORIES**

Included in cost of sales, selling and administrative expenses on the consolidated statement of earnings for the year ended January 31, 2010 is \$1,029,617 (January 31, 2009 - \$990,348) of inventories recognized as an expense which includes \$1,603 (January 31, 2009 - \$1,235) for the write-down of inventories as a result of net realizable value being lower than cost. There was no reversal of previous write-downs during the year.

**5. PROPERTY AND EQUIPMENT**

Year Ended	January 2010		January 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 9,946	\$ -	\$ 8,540	\$ -
Buildings	281,304	136,034	256,788	127,442
Leasehold improvements	34,769	15,556	32,199	14,168
Fixtures & equipment	193,833	125,002	185,328	120,244
Computer equipment	51,878	44,424	54,161	44,773
Construction in process	8,214	-	18,467	-
	<b>\$579,944</b>	<b>\$321,016</b>	<b>\$555,483</b>	<b>\$306,627</b>
Net book value	<b>\$258,928</b>		<b>\$248,856</b>	

**6. OTHER ASSETS**

Year Ended	January 2010	January 2009
Investment in transportation company	\$ 6,611	\$ 6,186
Accrued employee future benefit asset (Note 17)	15,139	8,522
Long-term receivable	2,908	3,088
Prepayments under lease agreements	680	807
Other	914	1,757
	<b>\$ 26,252</b>	<b>\$ 20,360</b>

**NORTH WEST COMPANY FUND**  
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**7. GOODWILL AND INTANGIBLE ASSETS**

Year Ended	January 2010		January 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Intangible assets with definite lives:				
Software	\$ 14,627	\$ 8,265	\$ 11,877	\$ 6,373
Non-compete agreements	6,727	2,212	2,791	1,050
Intangible assets with indefinite lives:				
Cost-U-Less banner	7,455	-	8,655	-
	<b>\$ 28,809</b>	<b>\$ 10,477</b>	<b>\$ 23,323</b>	<b>\$ 7,423</b>
Net book value	<b>\$ 18,332</b>		<b>\$ 15,900</b>	

The amount allocated to the Cost-U-Less banner is an indefinite life intangible asset as it is expected to generate cash flows in perpetuity. Indefinite life intangible assets are not amortized but are subject to an annual impairment test. This test was performed and there was no impairment. The decrease in the carrying value of the Cost-U-Less banner is due to a change in foreign exchange rates.

Intangible asset amortization expense recorded in amortization on the consolidated statement of earnings for the year ended January 31, 2010 is \$3,054 (January 31, 2009 - \$3,284).

The change in the carrying amount of goodwill is as follows:

Year Ended	January 2010	January 2009
Balance, beginning of year	\$ 32,372	\$ 26,882
Goodwill acquired	-	6,661
Reclassified to intangibles	-	(7,152)
Changes in foreign exchange rates	(3,779)	5,981
Balance, end of year	<b>\$ 28,593</b>	<b>\$ 32,372</b>

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**8. BANK ADVANCES**

International Operations have available demand, revolving loan facilities of US\$15,000 at interest rates of U.S. prime secured by a floating charge against certain accounts receivable and inventories of the International Operations. As at January 31, 2010, the International Operations had drawn US\$293 (January 31, 2009 – US\$4,832) on the facility.

**9. LONG-TERM DEBT**

Year Ended	January 2010	January 2009
Senior notes <sup>(1)</sup>	<b>\$ 73,481</b>	\$ 48,411
Revolving loan facilities <sup>(2)</sup>	<b>72,853</b>	90,031
Non-revolving loan facilities <sup>(3)</sup>	<b>55,380</b>	64,293
Notes payable <sup>(4)</sup>	<b>5,567</b>	1,799
Obligation under capital lease <sup>(5)</sup>	<b>1,577</b>	2,518
	<b>208,858</b>	207,052
Less: Current portion of long-term debt	<b>56,339</b>	49,327
	<b>\$ 152,519</b>	\$ 157,725

- (1) The Company issued US\$70,000 senior notes on June 15, 2009 which mature June 15, 2014 and bear interest at a rate of 6.55%, payable semi-annually. The US\$39,000 senior notes which matured on June 15, 2009, bore interest at 5.89% payable semi-annually. The notes are secured by a floating charge against the assets of the Company. The Company has entered into an interest rate swap resulting in floating interest costs on US\$28,000 of its senior notes.
- (2) Canadian Operations have available extendible, committed, revolving loan facilities of \$140,000 that mature on December 31, 2011. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the senior notes. These facilities bear interest at Bankers Acceptances rates plus stamping fees or the Canadian prime rate. As at January 31, 2010, the Company has drawn \$72,853 (January 31, 2009 - \$90,031) on these facilities.
- (3) International Operations have available committed non-revolving loan facilities of US\$52,000 that mature on December 31, 2010. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the senior notes. These facilities bear interest at LIBOR plus stamping fees or the U.S. prime rate. As at January 31, 2010, the Company has drawn US\$52,000 (January 31, 2009 – US\$52,000) on these facilities.

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**LONG-TERM DEBT (continued)**

- (4) The note payable in the amount of US\$1,189 (January 31, 2009 – US\$1,455) bears an interest rate of U.S. prime plus 1% and have annual principal payments of US\$267. Notes payable in the amount of US\$4,039 bear an interest rate of 5.75% and is repayable in blended principal and interest payments of US\$350 annually. The notes payable mature in 2013, 2015 and 2029.
- (5) The obligation under capital leases of US\$1,481 (January 31, 2009 - US\$2,036) is repayable in blended principal and interest payments of US\$634 annually.

The Company's principal payments of long-term debt over the next five years are as follows:

Years Ending January	
2011	\$ 56,339
2012	73,724
2013	811
2014	563
2015 and thereafter	77,421

**10. OTHER LONG-TERM LIABILITIES**

Year Ended	January 2010	January 2009
Asset retirement obligation	<b>3,075</b>	1,737
Other long-term liabilities	<b>6,334</b>	3,085
<b>Total other long-term liabilities</b>	<b>\$ 9,409</b>	\$ 4,822

The Company has recognized a discounted liability associated with asset retirement obligations (ARO's) arising from the operation of petroleum dispensing units and the specific provisions of certain lease agreements. At January 31, 2010, the undiscounted cash flows required to settle the obligations is \$10,000, which is expected to be settled between 2010 and 2037. The credit-adjusted risk-free rates at which the estimated cash flows have been discounted range from 6% to 8%. Other long-term liabilities include deferred lease inducements and liabilities for security-based compensation plans.

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**11. CAPITAL**

**Authorized** The Fund has an unlimited number of units.

Year Ended	January 2010		January 2009	
Issued and outstanding	<b>48,378</b>	<b>\$ 165,133</b>	48,378	\$ 165,133

**12. UNIT PURCHASE LOAN PLAN**

The Company has issued loans to officers and senior management to purchase units under the unit purchase loan plan (Note 19). These loans are non-interest bearing and are repayable from the Company's after tax distributions or if the employee sells the units or leaves the Company. The loans are secured by a pledge of 361,318 units (January 31, 2009 - 655,777) of NWF with a quoted value of \$6,482 as at January 31, 2010 (January 31, 2009 - \$10,584). Loans receivable at January 31, 2010 of \$6,428 (January 31, 2009 - \$11,296) are recorded as a reduction of equity. The loans mature January 31, 2011. The maximum amount of the loans under the plan is currently limited to \$15,000.

**13. ACCUMULATED OTHER COMPREHENSIVE INCOME**

Year Ended	January 2010	January 2009
Balance, beginning of year	<b>\$ 8,529</b>	\$ 2,014
Other comprehensive income (loss)	<b>(4,402)</b>	6,515
Accumulated other comprehensive income, end of year	<b>4,127</b>	8,529
Retained earnings, end of year	<b>125,525</b>	110,475
Total accumulated other comprehensive income and retained earnings	<b>\$ 129,652</b>	\$ 119,004

Accumulated other comprehensive income represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book values of the net investment in self-sustaining foreign operations from the date of acquisition. The US\$70,000 senior notes have been designated as a hedge against the foreign operations.

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**14. INCOME TAXES**

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

Year Ended	January 2010	January 2009
Future income tax assets:		
Non-capital income tax loss carry forwards	\$ -	\$ 147
Goodwill and intangible assets	366	577
Property, equipment and inventory	7,444	6,879
International property, equipment and inventory	1,283	1,501
Stock-based compensation and long-term incentive plans	1,856	969
Other temporary differences	3,067	2,078
Total future income tax assets	\$ 14,016	\$ 12,151
Future income tax liabilities:		
Accrued employee future benefit asset	(4,029)	(2,306)
Net future income tax asset	9,987	9,845
Less: current portion	4,135	3,248
Long-term future income tax assets	\$ 5,852	\$ 6,597

In assessing the recovery of future income tax assets, management considers whether it is more likely than not that the future income tax assets will be realized. The recognition and measurement of the current and future tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations and in the assessment of the recoverability of future tax assets. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible.

Components of the provision for income taxes are as follows:

Year Ended	January 2010	January 2009
Current income tax expense	\$ 8,715	\$ 7,437
Future income tax expense (benefit) relating to:		
Temporary differences and loss carryforwards	(1,067)	(1,092)
Future income tax expense resulting from income tax rate changes	193	173
	\$ 7,841	\$ 6,518

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**INCOME TAXES (continued)**

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

Year Ended	January 2010	January 2009
Net earnings before income taxes	<b>\$ 89,654</b>	\$ 81,896
Combined statutory income tax rate	<b>32.58%</b>	32.99%
Computed expected income tax expense	<b>\$ 29,209</b>	\$ 27,020
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses/non-taxable income	<b>(21,516)</b>	(20,172)
Withholding tax	-	187
Tax rate changes on future income taxes	<b>193</b>	173
Other	<b>(45)</b>	(690)
Provision for income taxes	<b>\$ 7,841</b>	\$ 6,518
Effective income tax rate	<b>8.75%</b>	7.96%

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 review 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.

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**15. NET EARNINGS PER UNIT**

Year Ended (Units in thousands except earnings per unit)	January 2010	January 2009
<b>Diluted earnings per unit calculation:</b>		
Net earnings for the year (numerator for basic earnings per unit)	<b>\$81,813</b>	\$75,378
After tax interest cost of unit purchase loan Plan	<b>192</b>	397
Numerator for diluted earnings per unit	<b>\$82,005</b>	\$75,775
Weighted average units outstanding (denominator for basic earnings per unit)	<b>47,799</b>	47,718
Dilutive effect of security-based compensation	<b>663</b>	713
Denominator for diluted earnings per unit	<b>48,462</b>	48,431
<b>Basic earnings per unit</b>	<b>\$1.71</b>	\$1.58
<b>Diluted earnings per unit</b>	<b>\$1.69</b>	\$1.56



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**16. SEGMENTED INFORMATION**

The Company operates within the retail industry. The following information is presented for the two business segments:

Year Ended	January 2010	January 2009
<b>Sales</b>		
Canada	<b>\$ 921,621</b>	\$ 899,263
International	<b>522,745</b>	493,371
<b>Total</b>	<b>\$1,444,366</b>	\$1,392,634
<hr/>		
<b>Net earnings before amortization, interest and income taxes</b>		
Canada	<b>\$ 96,599</b>	\$ 90,606
International	<b>33,675</b>	31,651
<b>Total</b>	<b>\$ 130,274</b>	\$ 122,257
<hr/>		
<b>Net earnings before interest and income taxes</b>		
Canada	<b>\$ 69,872</b>	\$ 66,105
International	<b>25,252</b>	24,098
<b>Total</b>	<b>\$ 95,124</b>	\$ 90,203
<hr/>		
<b>Total Assets</b>		
Canada	<b>\$ 437,264</b>	\$ 405,417
International	<b>186,536</b>	203,756
<b>Total</b>	<b>\$ 623,800</b>	\$ 609,173

Canadian total assets includes property and equipment of \$183,786 (January 31, 2009 - \$173,862). International total assets includes property and equipment of \$75,142 (January 31, 2009 - \$74,994) and goodwill of \$28,593 (January 31, 2009 - \$32,372).

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**17. EMPLOYEE FUTURE BENEFITS**

The Company sponsors defined benefit pension plans covering the majority of Canadian employees. 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, 2010 and January 31, 2009. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 2009. The next actuarial valuation is required as at January 1, 2010. 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.

Total cash payments by the Company for future employee benefits, consisting of cash contributed to its pension plans and U.S. employee's savings plans for the year ended January 31, 2010 were \$9,541 (January 31, 2009 - \$4,433).

The following significant actuarial assumptions were employed to measure the accrued benefit obligations and benefit plan expense:

Year Ended	January 2010	January 2009
<b>Accrued benefit obligations</b>		
Discount rate	<b>6.0%</b>	7.0%
Rate of compensation increase	<b>4.0%</b>	4.0%
<b>Benefit plan expense</b>		
Discount rate	<b>7.0%</b>	6.0%
Expected long-term rate of return on plan assets	<b>6.5%</b>	6.5%
Rate of compensation increase	<b>4.0%</b>	4.0%

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**EMPLOYEE FUTURE BENEFITS (continued)**

The Company's pension benefit expense is determined as follows:

Year Ended	January 2010			January 2009		
	Incurred in year	Matching Adjustments <sup>(1)</sup>	Recognized in year	Incurred in year	Matching Adjustments <sup>(1)</sup>	Recognized in year
Current service costs, net of employee contributions	\$ 2,960	\$ -	\$2,960	\$ 3,388	\$ -	\$ 3,388
Interest on accrued benefits	3,292	-	3,292	3,223	-	3,223
Return on plan assets	(6,998)	3,522	(3,476)	6,337	(10,001)	(3,664)
Actuarial (gain) loss	13,699	(13,611)	88	(8,623)	9,114	491
Past service costs	-	(11)	(11)	-	(11)	(11)
Amortization of net transition asset	-	(333)	(333)	-	(308)	(308)
<b>Net benefit plan expense</b>	<b>\$12,953</b>	<b>\$10,433</b>	<b>\$2,520</b>	<b>\$ 4,325</b>	<b>\$ (1,206)</b>	<b>\$ 3,119</b>

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

The expense incurred under the employee savings plan covering U.S. employees for the year ended January 31, 2010 is US\$359 (January 31, 2009 – US\$396).

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**EMPLOYEE FUTURE BENEFITS (continued)**

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

Year Ended	January 2010	January 2009
<b>Plan assets</b>		
Fair value - beginning of year	\$42,207	\$ 49,646
Actual return on plan assets	6,998	(6,337)
Employer contributions	9,137	4,003
Employee contributions	24	30
Benefits paid	(4,267)	(5,135)
Fair value - end of year	<b>\$54,099</b>	\$ 42,207
<b>Plan obligations</b>		
Accrued benefit obligation - beginning of year	\$49,163	\$ 56,280
Current service cost	2,984	3,418
Accrued interest on benefits	3,292	3,223
Benefits paid	(4,267)	(5,135)
Actuarial (gain) loss	13,699	(8,623)
Accrued benefit obligation - end of year	<b>\$64,871</b>	\$ 49,163
<b>Funded status</b>		
Fair value plan assets	\$54,099	\$ 42,207
Accrued benefit obligation	64,871	49,163
Plan deficit	(10,772)	(6,956)
Unamortized net actuarial losses	27,054	16,965
Unamortized net transitional asset	(1,125)	(1,458)
Unamortized past service costs	(18)	(29)
Accrued employee future benefit asset	<b>\$15,139</b>	\$ 8,522

The accrued employee future benefit asset is included in other assets in the Company's consolidated balance sheet (see Note 6).

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**EMPLOYEE FUTURE BENEFITS (continued)**

The accrued benefit obligation of all of the Company's defined benefit pension plans exceeds the fair value of plan assets as noted above.

Year Ended	January 2010	January 2009
<b>Plan assets consist of:</b>		
Equity securities	59%	58%
Debt securities	37%	36%
Other	4%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The pension plans have no investment in the units of the Fund.

**18. COMMITMENTS, CONTINGENCIES AND GUARANTEES**

**Commitments**

- (a) 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, 2010, the Company has opened 31 Giant Tiger stores and is in compliance with the terms of the agreement.
- (b) The Company has future commitments under operating leases as follows:

Years Ending January	Minimum Lease Payments
2011	\$ 19,397
2012	17,723
2013	15,854
2014	14,291
2015	11,988
2016 and thereafter	59,056

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**COMMITMENTS, CONTINGENCIES AND GUARANTEES (continued)**

**Contingencies**

- (a) In the ordinary course of business, the Company is subject to audits by taxation authorities. While the Company believes that its tax filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the taxation authorities. The Company regularly reviews the potential for adverse outcomes and the adequacy of its tax provisions. The Company believes that it has adequately provided for these matters. If the final outcome differs materially from the 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.
  
- (b) The Company is involved in various legal matters arising in the normal course of business. The occurrence of the confirming future event 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:

- (a) 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.

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**COMMITMENTS, CONTINGENCIES AND GUARANTEES (continued)**

(b) 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 vary based on the specific contract. 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. No amount has been recorded in the financial statements with respect to these indemnification agreements.

**19. SECURITY-BASED COMPENSATION**

**Deferred Unit Plan**

The Fund offers a deferred unit plan for independent Trustees. The purpose of the Trustee Deferred Unit Plan is to enhance the ability of the Fund to attract and retain independent Trustees whose training, experience and ability will contribute to the effective governance of the Fund and to directly align their interests with the interests of unitholders by providing compensation for services to the Fund in the form of units. Participants are credited with deferred units based on the portion of fees each participant elects to allocate to the deferred unit plan. Each deferred unit entitles the holder to receive a unit of the Fund. The deferred 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 Trustee. A participant may elect at the time of exercise of any deferred units, subject to the consent of the Fund, to have the Fund pay an amount in cash equal to the aggregate current market value of the units, determined based on the closing price of the units on the TSX on the trading day preceding the exercise date, in consideration for the surrender by the participant to the Fund the right to receive units from the exercising of the deferred units.

The Fund has adopted the fair value method of accounting for security-based compensation for the Trustee Deferred Unit Plan. The deferred unit plan compensation expense recorded for the year ended January 31, 2010 is \$715 (January 31, 2009 - \$348). The liability for the deferred unit plan is recorded in accounts payable and accrued liabilities on the Company's consolidated balance sheet and is adjusted to reflect the total number of deferred units outstanding multiplied by the closing unit price at the end of the reporting period. The total number of deferred units outstanding at January 31, 2010 is 103,091 (January 31, 2009 - 70,265). There were no deferred units exercised during the year which were settled in cash.

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**SECURITY-BASED COMPENSATION (continued)**

**Unit Purchase Loan Plan**

The Company has a unit purchase loan plan for officers and senior management whereby loans are granted to employees to purchase units of NWF (Note 12). These loans are in substance similar to stock options and accordingly are accounted for as stock-based compensation in accordance with section 3870 of the CICA handbook.

The compensation cost relating to the unit purchase loan plan for the year ended January 31, 2010 was NIL. For the year ended January 31, 2009 the compensation cost was \$599, with a corresponding increase in contributed surplus. The compensation cost is a non-cash expense and has no impact on the distributions from the Fund. There were NIL units (January 31, 2009 - NIL) purchased under the unit purchase loan plan. The units are purchased at market prices and are fully vested at the time the loan is exercised. The units are pledged as security against the loan and can not be withdrawn from the plan until the principal amount of the loan is less than 65% or 80% of the market value of the units pledged as security or if the employee sells the units or leaves the Company. If the loan value as a percentage of the market value of the units pledged as security against the loan falls below the 65% to 80% threshold, the employee may reduce the number of units pledged equal to the market value in excess of the loan balance. Employees are required to make principal payments on the loan equal to the after tax distributions on the units pledged as security. The fair value of the compensation cost was estimated using the Black-Scholes model using the following assumptions:

Year Ended	January 2010	January 2009
Loan maturity	-	2011
Risk-free interest rate	-	2.3%
Expected volatility	-	28.3%



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**SECURITY-BASED COMPENSATION (continued)**

**Long Term Incentive Plans**

The Company implemented Long Term Incentive Plans (LTIP's) that provide for the granting of Restricted Share Units (RSU's) and Performance Share Units (PSU's) to officers and senior management. Each RSU entitles the participant to receive a cash payment equal to the market value of the number of notional units granted at the end of the vesting period. The RSU account for each participant includes the value of distributions from the Fund as if reinvested in additional RSU's. RSU awards vest with the employee on the third fiscal year end following the date of the grant to which the award relates. Compensation expense is measured initially based on the fair market value of the Fund's units at the grant date and subsequently adjusted for additional units granted based on the reinvestment of notional distributions and the market value of the units at the end of the 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 multiplied by factors related to the achievement of specific performance based criteria. The PSU account for each participant includes the value of distributions from the Fund as if reinvested in additional PSU's. PSU awards vest with the employee on the third fiscal year end following the date of the grant to which the award relates. Compensation expense is measured initially based on the fair market value of the Fund's units at the grant date and subsequently adjusted for additional units granted based on the reinvestment of notional distributions and the market value of the units at the end of the 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 ending January 31, 2010 are \$2,692 (January 31, 2009 – \$1,904).

**Unit Option Plan**

The Company has implemented a Unit Option Plan that provides for the granting of options to certain officers. These unit options have tandem appreciation rights, enabling employees to exercise the option to acquire units or receive a cash payment equal to the excess of the fair market value of the Fund's units over the option price. These unit options are measured using the intrinsic value method, whereby a compensation liability is recorded over the vesting period in the amount by which the quoted market value of the units at the balance sheet date exceeds the

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**SECURITY-BASED COMPENSATION (continued)**

exercise price of the unit options. The year-over-year change in the stock-based compensation liability is recognized in net earnings over the vesting period.

Under the terms of this plan, the Company may grant options up to 5% of its issued and outstanding units. Options are issued at fair market value based on the volume weighted average closing price of the Fund's units for the five trading days preceding the grant date. Unit options granted in 2009 vest on a graduated basis over five years and are exercisable over a period of ten years. On June 26, 2009, the Company granted 274,600 unit options with a weighted average option price of \$15.25. The unit option compensation cost recorded for the period ended January 31, 2010 was \$115 (January 31, 2009 – NIL).

A summary of the Company's unit option transactions is as follows:

	Number of Options	Weighted Average Option Price
Outstanding options, beginning of year	-	-
Granted	274,600	\$15.25
Exercised	-	-
Forfeited or cancelled	-	-
Outstanding options, end of year	274,600	\$15.25

**20. FINANCIAL INSTRUMENTS**

**Carrying Amount and Fair Value**

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

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**FINANCIAL INSTRUMENTS (continued)**

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 judgement.

Year Ended January 2010	Maturity	Assets (Liabilities) Carried at Cost/Amortized Cost		Assets (Liabilities) Carried at Fair Value
		Carrying Amount	Fair Value	Carrying Amount
Cash	Short-term	\$ 27,278	\$ 27,278	\$ -
Accounts receivable	Short-term	71,767	71,767	-
Financial assets included in other assets (Note 6)	Long-term	3,822	3,822	-
Bank advances (Note 8)	Short-term	(312)	(312)	-
Accounts payable and accrued liabilities	Short-term	(113,407)	(113,407)	-
Financial derivative instruments <sup>(1)</sup>	Short-term	-	-	576
Current portion of long-term debt	Short-term	(56,339)	(56,339)	-
Long-term debt <sup>(1)</sup> (Note 9)	Long-term	(153,095)	(154,162)	-

(1) These items total \$152,519 which comprise the carrying value of long-term debt (Note 9).

Year Ended January 2009	Maturity	Assets (Liabilities) Carried at Cost/Amortized Cost		Assets (Liabilities) Carried at Fair Value
		Carrying Amount	Fair Value	Carrying Amount
Cash	Short-term	\$ 25,730	\$ 25,730	\$ -
Accounts receivable	Short-term	68,485	68,485	-
Financial assets included in other assets (Note 6)	Long-term	4,845	4,845	-
Bank advances (Note 8)	Short-term	(5,974)	(5,974)	-
Accounts payable and accrued liabilities	Short-term	(114,366)	(114,366)	-
Financial derivative instruments <sup>(1)</sup>	Short-term	-	-	(129)
Current portion of long-term debt <sup>(1)</sup>	Short-term	(49,198)	(49,198)	-
Long-term debt (Note 9)	Long-term	(157,725)	(158,638)	-

(1) These items total \$49,327 which comprise the current portion of long-term debt (Note 9).

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 the immediate or short-term period to maturity. Any difference between fair value and book values of short-term financial instruments are considered to be insignificant.

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**FINANCIAL INSTRUMENTS (continued)**

- 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.

**Financial Derivative Instruments**

<b>Year Ended January 2010</b>	<b>Notional Value</b>	<b>Interest Rate</b>	<b>Fair Value</b>
Interest rate swaps in effective fair value hedging relationship	US\$28,000 (2008 – US\$9,000)	LIBOR plus 3.67%	\$576 (2008 - \$129)

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**Financial Risk Management**

The Company manages risk exposures created by its use of financial instruments through a combination of derivative financial instruments, a system of internal and disclosure controls and sound operating practices.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk primarily in relation to individual and commercial accounts receivable. The Company manages credit risk by performing regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The Company does not have any individual customers greater than 10% of total accounts receivable. At January 31, 2010, the Company's maximum credit risk exposure is \$86,818 (January 31, 2009 - \$84,514). Of this amount \$15,412 (January 31, 2009 - \$14,870) is more than 60 days past due. The Company has recorded an allowance against its maximum exposure to credit risk of \$12,143 (January 31, 2009 - \$12,941).

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**FINANCIAL INSTRUMENTS (continued)**

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company manages liquidity risk by maintaining adequate credit facilities to fund operating requirements and sustain growth-related capital expenditures and by regularly monitoring actual and forecasted cash flow and debt levels. The following table summarizes the financial liabilities by relevant maturity dates based on the remaining period at the balance sheet date to the contractual maturity date.

Years Ending January 31	Total	2011	2012	2013	2014	2015	2016 +
Accounts payable and accrued liabilities	\$113,407	\$113,407	\$ -	\$ -	\$ -	\$ -	\$ -
Bank advances (Note 8)	312	312	-	-	-	-	-
Long-term debt (Note 9)	208,858	56,339	73,724	811	563	73,785	3,636
Operating leases (Note 18)	138,309	19,397	17,723	15,854	14,291	11,988	59,056
Total	\$460,886	\$189,455	\$91,447	\$16,665	\$14,854	\$85,773	\$62,692

At January 31, 2010, the Company has undrawn revolving loan facilities of \$82,810.

**Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily the U.S. dollar, through its net investment in self-sustaining foreign operations and its U.S. dollar denominated borrowings. The Company manages its exposure to currency risk by hedging the net investment in self-sustaining foreign operations with a portion of U.S. dollar denominated borrowings.

Management considers a 10% variation in the Canadian dollar relative to the U.S. dollar from a year end rate 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.

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**FINANCIAL INSTRUMENTS (continued)**

**Interest Rate Risk**

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

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 \$1,500. A 100 basis point decrease would cause net income to increase by approximately \$1,500.

**21. CAPITAL MANAGEMENT**

The Fund's objectives in managing capital are to deploy capital to provide an appropriate return to unitholders and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities of the business, maintain existing assets, meet financial obligations and enhance unitholder value. The capital structure of the Fund consists of bank advances, long-term debt including the current portion and unitholder equity. The Fund manages capital to ensure an appropriate balance between debt and equity. In order to maintain or adjust its capital structure, the Fund may purchase units for cancellation pursuant to normal course issuer bids, issue additional units, borrow additional funds or refinance debt at different terms and conditions.

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

- The Fund's debt-to-equity ratio at the end of the year was .72 compared to .78 last year. This debt-to-equity ratio is within the Fund's objectives. The debt-to-equity ratio is calculated as follows:

Year Ended	January 2010	January 2009
Bank advances (Note 8)	\$ 312	\$ 5,974
Current portion of long-term debt (Note 9)	56,339	49,327
Long-term debt (Note 9)	152,519	157,725
Total debt	\$ 209,170	\$ 213,026
Total equity	\$ 289,926	\$ 274,410
Debt-to-equity ratio	.72	.78

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**CAPITAL MANAGEMENT (continued)**

- As a result of borrowing agreements entered into by the Fund, 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 Trustees. At January 31, 2010 and 2009, the Fund is in compliance with all financial covenants. Other than the requirements imposed by these borrowing agreements, the Fund is not subject to any externally imposed capital requirements.

Capital management objectives are reviewed on an annual basis. The capital management objectives are substantially unchanged in 2009.

**22. BUSINESS ACQUISITIONS**

The following table summarizes the fair value of the assets acquired and the liabilities assumed:

	Other <sup>(1)</sup>	Sitka April 6, 2009 <sup>(2)</sup>	Span Alaska Enterprises, Inc. March 3, 2008 <sup>(3)</sup>
<b>Assets</b>			
Accounts receivable	\$ 2	\$ 77	\$ 1,977
Inventories	178	778	807
Prepaid expenses	2	-	17
Property and equipment	-	11,477	104
Other Assets	3,086	-	1,598
Goodwill	-	-	4,422
<b>Total Assets</b>	<b>\$ 3,268</b>	<b>\$ 12,332</b>	<b>\$ 8,925</b>
<b>Liabilities</b>			
Accounts payable and accrued Expenses	\$ -	\$ 179	\$ 1,269
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 179</b>	<b>\$ 1,269</b>
<b>Cash consideration</b>	<b>\$ 3,268</b>	<b>\$ 12,153</b>	<b>\$ 7,656</b>

(1) In the third quarter of 2009, the Company acquired all of the issued and outstanding shares of two privately-owned health products and services businesses with operations in northern Canada for total cash consideration of \$3,268.

(2) On April 6, 2009, the Company acquired the assets of a privately-owned retail mall and store in Sitka, Alaska, for consideration of \$12,153.

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**BUSINESS ACQUISITIONS (continued)**

- (3) On March 3, 2008, the Company acquired all of the issued and outstanding shares of privately-owned Span Alaska Enterprises, Inc., a food and general merchandise distributor serving retail and wholesale customers in rural Alaska, for \$7,656 in cash consideration.

The above acquisitions have been accounted for by the purchase method of accounting and the results of operations of each acquisition are included in the consolidated financial statements from their respective closing date. The final allocation of the purchase price of acquisitions in the current financial year is dependant on certain ongoing valuations which may result in changes to the assigned values or the recognition of other intangible assets.

Goodwill associated with the Span acquisition is deductible for tax purposes.

**23. DISTRIBUTIONS**

The declaration of distributions from the Fund is subject to the terms of the Fund's Declaration of Trust and the discretion of the Board of Trustees. Following is a reconciliation of distributions recorded in retained earnings and distributions paid in cash:

Year Ended	January 2010	January 2009
Distributions recorded in retained earnings	<b>\$ 66,763</b>	\$ 65,310
Special distribution paid February 19, 2010 to unitholders of record on December 31, 2009	<b>(2,904)</b>	-
Special distribution paid February 20, 2009 to unitholders of record on December 31, 2008	<b>3,386</b>	(3,386)
Special distribution paid February 22, 2008 to unitholders of record on December 31, 2007	-	5,806
Distributions paid in cash	<b>\$ 67,245</b>	\$ 67,730



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**24. FUTURE ACCOUNTING STANDARDS**

The CICA has issued the following new accounting standards:

**International Financial Reporting Standards**

The Accounting Standards Board (AcSB) amended CICA Handbook Section 1506, Accounting Changes, to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. As a result, the Company is not required to disclose the progress of its implementation of International Financial Reporting Standards (IFRS) in the notes to these consolidated financial statements. Information on the Company's IFRS implementation plan is available in Management's Discussion and Analysis located in the 2009 Annual Financial Report.

**Business Combinations**

CICA HB 1582, Business Combinations, together with CICA HB 1601, Consolidated Financial Statements, and CICA 1602, Non-Controlling Interest, will be effective for the Company on a prospective basis for business combinations for which the acquisition date is on or after February 1, 2011. The new standards will align Canadian generally accepted accounting principles for business combinations and consolidated financial statements with IFRS. Early adoption is permitted and would facilitate harmonization of the accounting treatments of business combinations for the year ended January 31, 2011 under both Canadian GAAP and IFRS.

**25. COMPARATIVE AMOUNTS**

The comparative amounts have been reclassified to conform with the current year's presentation.