THE NORTH WEST COMPANY INC.

2010 FOURTH QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. (the "Company") reports fourth quarter net earnings to January 31, 2011 of $17.3 million, a decrease of 14.6% compared to last year's fourth quarter earnings of $20.2 million. Diluted earnings per share were $0.36 compared to $0.42 per unit last year.

Sales increased 1.1% to $374.5 million compared to the fourth quarter last year. Sales excluding the foreign exchange impact were up 2.8% and increased 1.7%[1] on a same store basis. Strong food sales growth in our northern banners was partially offset by continued sales weakness in our International Operations wholesale business and soft general merchandise sales performance in our Cost-U-Less stores.

The Board of Directors has approved a quarterly dividend of $0.24 per share to shareholders of record on March 31, 2011.

On behalf of the Board of Directors:

H. Sanford Riley	Edward S. Kennedy
Chairman	President and Chief Executive Officer

Management's Discussion & Analysis

CONVERSION TO A SHARE CORPORATION

On June 10, 2010, unitholders of the North West Company Fund (the "Fund") voted and approved the reorganization of the Fund, by way of a plan of arrangement under section 192 of the Canada Business Corporations Act ("CBCA") into a corporation pursuant to an amended and restated arrangement agreement dated November 29, 2010 between the Fund, and various subsidiaries of the Fund (the Arrangement). On January 1, 2011, the Fund completed its conversion to a corporation named The North West Company Inc. Through the Arrangement, unitholders of the Fund received one common share of the Company for each unit of the Fund held. In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund.

Upon conversion to a share corporation, the units of the Fund were delisted from the Toronto Stock Exchange and the trading of the common shares of the Company commenced under the symbol "NWF". The details of the conversion and the Arrangement are contained in the management information circular dated April 29, 2010 which is available on the Company's website at www.northwest.ca or on SEDAR at www.sedar.com.

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[1] Excluding the foreign exchange impact

The conversion was accounted for as a continuity of interests and as such the carrying amounts of the assets, liabilities and unitholders' equity in the consolidated financial statements of the Fund immediately before the conversion was the same as the carrying values of the Company immediately after the conversion. The comparative amounts in this MD&A and in the consolidated financial statements are those of the Fund. The MD&A and consolidated financial statements contain references to "shareholders", "shares" and "dividends" which were previously referred to as "unitholders", "units" and "distributions" under the Fund.

As a result of the conversion to a share corporation, the earnings from The North West Company LP that previously flowed to the Fund on a pre-tax basis will now be subject to income taxes commencing January 1, 2011 at a combined federal and provincial tax rate of approximately 30%. While higher corporate taxes will reduce the Company's net earnings and funds available for dividends to shareholders, the after- tax impact on personal income is largely offset for taxable investors benefiting from the dividend tax credit.

CONSOLIDATED RESULTS

Quarter

Fourth quarter consolidated sales increased 1.1% to $374.5 million compared to $370.5 million in 2009. Excluding the foreign exchange impact, sales increased 2.8% and were up 1.7%[1] on a same store basis. Northern markets remained strong in the quarter with sales[1] in our northern Canada and Alaska stores up 4.3% on a same store basis. Our discount banners faced continued food pricing pressure and were down 1.9% on a same store basis. Consolidated food sales[1] increased 2.8% and were up 2.5% on a same store basis. General merchandise sales[1] increased 1.5% but were down 0.8% on a same store basis.

Cost of sales, selling and administrative expenses increased 1.6% to $343.6 million and increased 49 basis points as a percentage to sales compared to the fourth quarter of 2009. More aggressive promotional pricing and higher distribution and pension expenses in our Canadian Operations were major factors contributing to the increase. Partially offsetting these increases were lower incentive plan expenses and the impact of a stronger average Canadian dollar on the translation of U.S. denominated International Operations expenses compared to last year.

Trading profit [2]or earnings before interest, income taxes, depreciation and amortization (EBITDA) decreased 4.6% to $30.9 million compared to $32.3 million in the fourth quarter last year. Overall lower gross profit rates and higher expenses in Canadian Operations were the leading factors contributing to this decrease. Excluding the foreign exchange impact, trading profit decreased 3.9% and was 8.3% as a percentage to sales compared to 8.8% last year.

Income taxes increased to $3.0 million from $1.9 million in the fourth quarter last year largely due to the taxation of Canadian Operations earnings effective January 1, 2011 as a result of the conversion to a share corporation. See Conversion to a Share Corporation on page 1 for further information.

Net earnings decreased 14.6% to $17.3 million and diluted earnings per share decreased to $0.36 compared to $0.42 per unit last year. The increase in income taxes in the Canadian Operations as a result of the conversion to a share corporation negatively impacted diluted earnings per share by approximately $0.02 per share.

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

Year-to-Date

Year-to-date sales of $1.448 billion were up $3.7 million or 0.3% to last year. Excluding the foreign exchange impact, sales increased 3.6% and were up 2.7%[1] on a same store basis. Food sales[1] increased 3.0% and were up 2.9% on a same store basis. General merchandise sales[1] increased 4.6% and were up 1.8% on a same store basis. Strong food and general merchandise sales growth in our northern Canada and Alaska stores was substantially offset by the negative impact of foreign exchange on the conversion of U.S. denominated sales combined with weaker sales in our Cost-U-Less stores and our International Operations wholesale business. The average exchange rate used to convert U.S. denominated sales and expenses from the International Operations was 8.9% lower at 1.0259 compared to 1.1262 last year.

Cost of sales, selling and administrative expenses were up 0.7% to $1.323 billion and increased 37 basis points as a percentage to sales compared to last year. This increase was due to more aggressive promotional pricing, higher staff costs and pension costs in Canadian Operations, and costs associated with the conversion from an income trust to a share corporation. Canadian pension expense increased $2.3 million or 90.9% over last year due largely to lower interest related discount rates. Costs incurred to convert back to a share corporation were approximately $1.0 million. Partially offsetting these increases was the impact of a stronger Canadian dollar on the translation of International Operations expenses and a property insurance related gain.

Trading profit or earnings before interest, income taxes, depreciation and amortization (EBITDA) decreased 3.8% to $125.3 million compared to $130.3 million last year. A 1.8% increase in trading profit in Canadian Operations was more than offset by the decrease in trading profit in our International Operations and the negative impact of the stronger Canadian dollar. Excluding the foreign exchange impact, trading profit decreased 1.5% and was 8.7% as a percentage to sales compared to 9.1% last year.

Income taxes decreased $0.5 million to $7.3 million as lower earnings in the International Operations offset the increase in income taxes in Canadian Operations as a result of the conversion to a share corporation.

Net earnings decreased 6.4% to $76.6 million compared to $81.8 million in 2009. Diluted earnings per share were $1.58 compared to $1.69 per unit last year. The stronger Canadian dollar negatively impacted the conversion of earnings from the International Operations by $0.02 per share on a fully diluted basis.

CANADIAN OPERATIONS

Canadian sales for the quarter increased 4.0% to $257.9 million from $247.9 million last year and were up 1.8% on a same store basis. Food sales increased 4.4% and were up 2.7% on a same store basis due in part to improved in-stock and perishable performance. Food sales and margins in urban markets and less remote locations were negatively impacted by on-going, more intense promotional price activity. Food inflation, driven partially by higher fuel-related transportation costs, was approximately 1.5% in the quarter.

General merchandise sales increased 1.9% from last year but were down 0.3% on a same store basis. Same store sales growth in durable goods categories slowed in the quarter, due in part to earlier merchandise flow that shifted sales into the third quarter, price deflation in electronics and unseasonably warm weather in the eastern Arctic.

Gross profit dollars increased 2.6% as sales gains offset lower gross profit rates. Rates were down due in part to higher food distribution costs related to the new Edmonton facility, market-driven price reductions in urban markets and higher markdowns to clear apparel and seasonal merchandise. Operating expenses increased 8.0% and were up 86 basis points as a percentage to sales largely due to higher staff costs, an increase in pension expense and costs associated with the conversion to a share corporation. The increase in staff costs is due in part to incremental administrative costs associated with our long range planning initiatives.

Canadian trading profit decreased 3.8% to $25.1 million compared to $26.0 million last year and was 9.7% to sales compared to 10.5% of sales in the fourth quarter last year.

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International sales were flat in the quarter at $116.0 million but were up 1.3% on a same store basis as robust sales growth in Alaska more than offset a decrease at Cost-U-Less (CUL). In Alaska, regional corporation dividends and the continuing impact of Federal infrastructure spending were positive factors. CUL same store sales, while negative in the quarter, showed considerable improvement over the previous three quarters. International same store food sales increased 2.1% but general merchandise same stores sales decreased 3.0% due in part to continuing high unemployment and generally challenging economic conditions in most CUL markets. Sales decreases in our wholesale business showed modest improvement over the trend in the first three quarters.

Gross profit dollars were up 1.4% as a result of an improvement in gross profit rates. The rate improvement was due in part to better merchandise assortment management and inventory shrink gains partially offset by targeted, market-driven price reductions on shelf-stable grocery items. Operating expenses increased 3.6% and were up 72 basis points as a percent to sales largely due to higher utility expenses caused by very cold weather conditions in rural Alaska.

Trading profit decreased 4.7% to $5.8 million compared to $6.1 million last year due to higher operating expenses. Trading profit as a percent to sales was 5.0% compared to 5.3% in the fourth quarter last year.

FINANCIAL CONDITION

Financial Ratios

The Company’s debt-to-equity ratio at the end of the quarter was 0.64:1 compared to 0.72:1 last year.

Working capital decreased 8.8% or $10.0 million compared to the fourth quarter last year largely due to the current portion of long term debt related to the $67.4 million outstanding on the credit facility in Canadian Operations which matures December 31, 2011 compared to the US$52 million credit facility in International Operations that was refinanced in November 2010. Excluding the impact of the maturing credit facilities, working capital increased $2.1 million or 1.2% compared to last year.

Outstanding Shares

The weighted average basic shares outstanding for the quarter were 48,377,000 compared to 47,856,000 units last year. The increase is due to the termination of the Unit Purchase Loan Plan as the units previously pledged as security for the loans were deducted from the issued and outstanding units of North West Company Fund (the "Fund") to determine the basic units outstanding. The weighted average fully diluted shares outstanding for the quarter were 48,525,000 compared to 48,474,000 units last year. The increase in the fully diluted shares outstanding is due to shares granted under the Director Deferred Share Unit Plan and options granted under the Share Option Plan.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities in the quarter increased $16.0 million or 42.5% to $53.7 million from $37.7 million last year. The increase in cash flow from operating activities is due to the change in non-cash working capital largely related to a decrease in accounts receivable and an increase in accounts payable in the quarter compared to the prior year. The impact of the earlier flow of fall and seasonal inventory in the second quarter this year compared to the third and fourth quarter last year was also a factor. Cash flow from operations[2] decreased 10.7% to $28.7 million largely due to lower earnings.

Cash used for investing activities in the quarter increased to $12.6 million compared to $11.7 million last year due to a difference in the timing of capital investments. Cash used for investing activities during the year was $36.0 million compared to $59.4 million in 2009. The decrease is largely due to the $15.4 million acquisition of a store and two pharmacy and health service businesses last year. Net capital expenditures for 2011 are projected to be in the $50 million range (2010 - $36.0 million) reflecting the opening and acquisition of new stores, store renovation and energy conservation projects, pharmacy acquisitions and openings, and store point-of-sale system upgrades.

Cash used for financing activities in the quarter was $38.7 million compared to $35.0 million last year. The change in bank advances is due to a reduction in the amount outstanding under the International Operations credit facility. Repayments received on loans issued to officers under the Unit Purchase Loan Plan (UPLP) were $0.1 million in the quarter compared to $3.0 million last year. The UPLP was discontinued as of January 31, 2011 and all of the loans have been repaid by the officers. The Company, on behalf of the Fund, paid distributions of $16.4 million consistent with the fourth quarter last year. The change in long-term debt in the quarter is largely due to a decrease in the amount drawn on the Canadian Operations revolving credit facility.

The Canadian Operations have available extendible, committed, revolving loan facilities of $140.0 million that mature on December 31, 2011. These facilities are secured by a floating charge on the assets of the Company and rank pari passu with the US$70.0 million senior notes and the US$52.0 million loan facilities. At January 31, 2011, the Company had drawn $67.4 million on these facilities (January 31, 2010 – $72.9 million). The Company has started the process of refinancing the $140.0 million loan facility. The Company does not anticipate any difficulty in securing financing to satisfy its maturing long-term debt however, economic conditions continue to be volatile and this may negatively impact the availability of credit, interest rates and the scope of financing covenants.

The International Operations have available committed, revolving loan facilities of US$52.0 million that mature on December 31, 2013. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the US$70.0 million senior notes and the $140.0 million loan facilities. At January 31, 2011, the Company had drawn US$50.0 million on these facilities (January 31, 2010 – US$52.0 million).

In January 2011, the Company refinanced the US$15.0 million demand, revolving loan facility in its International Operations. The new committed, revolving loan facility of US$20.0 million matures October 31, 2012 and is secured by a floating charge against certain accounts receivable and inventories of the International Operations. At January 31, 2011, the Company had nothing drawn on these facilities (January 31, 2010 – US$0.3 million).

The credit facilities and senior notes contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At January 31, 2011, the Company is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

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

SHAREHOLDER DIVIDENDS AND UNITHOLDER DISTRIBUTIONS

The Board of Directors of the Company has declared a quarterly dividend of $0.24 per share to shareholders of record on March 31, 2011, payable by April 15, 2011.

The Company anticipates paying dividends of approximately $0.96 annually or $0.24 per quarter in 2011. The payment of dividends on the Company's common shares will be subject to the approval of the Board of Directors and will be based on, among other factors, the financial performance of the Company, its current and anticipated future business needs and the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends.

The Fund's distribution policy was to make distributions to unitholders equal to the taxable income of the Fund. The taxable income of the Fund was primarily based on an allocation of the taxable income of The North West Company LP less Fund expenses. A special year-end distribution of $0.09 per unit was declared to unitholders of record of the Fund on December 31, 2010 and was distributed on February 18, 2011. The Fund's obligation to pay the $0.09 special distribution was assumed by the Company as part of the conversion to a share corporation.

QUARTERLY HIGHLIGHTS

- An AC Value Center was opened in Pilot Station, Alaska on January 25, 2011.
- The Company acquired a pharmacy and convenience store in La Ronge, Saskatchewan on January 28, 2011 increasing the number of pharmacies to 11.
- Two smaller Northern stores were closed January 31, 2011 in Fort St. James, B.C. and Wawa, Ontario.

OUTLOOK

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

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

As a result of changes in taxation legislation with respect to certain income trusts such as the Fund and the subsequent conversion of the Fund to a share corporation on January 1, 2011, the earnings from The North West Company LP that previously flowed to the Fund on a pre-tax basis will now be subject to income taxes at a combined federal and provincial tax rate of approximately 30% in 2011 which, on a comparable basis, will result in lower net earnings in 2011 compared to 2010.

QUARTERLY RESULTS OF OPERATIONS

In 2010, the quarters have the same number of days of operations as 2009. The following is a summary of selected quarterly financial information.

Operating Results-Consolidated

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	92 days	92 days	92 days	92 days	92 days	92 days	89 days	89 days
($ in millions)	2010	2009	2010	2009	2010	2009	2010	2009
Sales	$374.5	$370.5	$367.3	$360.8	$366.2	$367.5	$340.1	$345.6
Trading profit	31.0	32.3	34.1	36.1	32.1	34.3	28.2	27.5
Net earnings	17.3	20.2	22.1	25.0	19.9	20.5	17.3	16.1
Net earnings per share:								
Basic	0.36	0.42	0.46	0.52	0.41	0.43	0.36	0.34
Diluted	0.36	0.42	0.45	0.51	0.41	0.43	0.36	0.33

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

International Financial Reporting Standards

The Canadian Accounting Standards Board requires all publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies are also required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian Generally Accepted Accounting Principles (Canadian GAAP) to IFRS is applicable for the Company's first quarter beginning February 1, 2011 when the Company will prepare comparative financial statements in accordance with IFRS.

Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. The adoption of IFRS will have an impact on the Company's accounting, financial statements and disclosures, information systems, internal controls over financial reporting and disclosure controls and procedures. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings in the transitional balance sheet. The International Accounting Standards Board (IASB) is continuing to work on new accounting standards or changes to previously issued accounting standards. On the date of adoption, IFRS may differ from current IFRS due to these changes, impacting the form and content of the Company's IFRS compliant financial statements. The Company continues to monitor the changes to accounting standards proposed by the IASB and assess the impact of those changes.

The Company's IFRS conversion plan and a description of the significant differences between IFRS and Canadian GAAP, including certain elections and exemptions that are applicable to the Company are provided on pages 23 to 25 of the 2009 Annual Financial Report. The Company continues to assess the impact of adopting IFRS and the consequential changes in accounting policies.

Differences between Canadian GAAP and IFRS that will result in modifications to the financial statements have been identified. Based on the work completed to date, the differences expected to have the most significant impact on the Company's financial statements and an analysis thereof is summarized below. This information is provided to enable our stakeholders to obtain a better understanding of the areas that are expected to have the greatest impact on the Company and is not a comprehensive analysis of all changes that may result upon the adoption of IFRS.

Readers are cautioned that the disclosed impacts of IFRS are unaudited estimates and may be subject to change. Until we have finalized the accounting policies and the transition exemptions and elections, the impact of IFRS on the Company's future financial position cannot be precisely quantified; however, such impacts may be material upon final determination.

Employee benefits – International Accounting Standard (IAS) 19, *Employee Benefits* permits an entity to make an accounting policy choice regarding the treatment of actuarial gains and losses. These choices include deferred recognition using the corridor method or immediate recognition in either equity through other comprehensive income or net earnings. Under Canadian GAAP the Company applied the corridor method. In 2010 the IASB issued an exposure draft which would essentially eliminate the choices regarding the treatment of actuarial gains and losses and require them to be recorded directly in equity through comprehensive income. The Company expects to recognize actuarial gains and losses on its defined benefit pension plans through other comprehensive income.

Impairment – IAS 36, *Impairment of Assets* uses a one-step impairment test whereby long-lived and finite life intangible asset carrying values are compared directly to their fair value. Fair value under IFRS is based on the greater of value in use and fair value less costs to sell. Under IFRS, impairment of assets must be assessed at a more detailed level whenever there is an indication of impairment. This may result in more frequent impairments of assets under IFRS given the smaller size of the cash generating unit being evaluated. The Company has determined its cash generating units to be used for the purpose of goodwill impairment testing and determined there is no goodwill impairment on transition to IFRS. The Company has completed a preliminary determination of its cash generating unit and an evaluation of the events that may indicate potential impairment or reversal of impairment of long-lived assets. The Company does not expect the implementation of this standard to have a significant impact at the transition date however for the reasons given above, the future impact of this standard may result in more frequent impairment of assets and greater volatility in the statement of earnings.

Share-based Payments – IFRS 2, *Share-based Payments* requires that cash-settled awards granted to employees be measured at the grant date and each subsequent reporting period using a fair value model. This differs from Canadian GAAP whereby cash settled awards are measured using the intrinsic value which is based on the market price of the Fund's units at the end of the reporting period. The impact of accounting for these awards at fair value is not expected to be significant.

Provisions – IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* requires contractual liabilities and decommissioning obligations to be classified as provisions and calculated using a risk-free discount rate.. This requirement may result in the recognition of a different amount than under Canadian GAAP. The net effect of the change in discount rate on transition to IFRS is not expected to be significant.

Borrowing costs – IAS 23, *Borrowing Costs* requires entities to capitalize borrowing costs directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset. Under Canadian GAAP the Company does not capitalize borrowing costs. This change is not expected to be significant.

Income taxes – Changes to tax reporting will be predominantly caused by adjustments to the accounting basis of assets and liabilities under IFRS and differing tax rates applicable to mutual fund trusts. Upon transition the tax assets and liabilities must be calculated using the highest marginal tax rate of North West Company Fund which is 46.4%. This is expected to result in an increase to deferred tax assets of approximately $9.2 million at the February 1, 2010 transition date. A significant portion of the increase in deferred tax assets will reverse through the statement of earnings as deferred tax expense in the 2010 fourth quarter comparative numbers in the IFRS financial statements as a result of the conversion to a share corporation and the application of corporate tax rates used to calculate deferred tax assets. Together with the tax effect of other IFRS transition adjustments, the total increase to deferred income tax assets on transition is expected to approximate $15.8 million with a corresponding increase in retained earnings. IFRS also requires that all deferred taxes be disclosed as non-current assets or non-current liabilities.

Hedging – The requirements for achieving hedge accounting may differ under IFRS from those under Canadian GAAP, depending on the nature of the risk being hedged. The Company has hedged the fair value of a portion of its floating rate debt. The Company has also hedged the foreign exchange exposure from its net investment in self-sustaining foreign operations. The Company has completed its review of these hedging relationships and required effectiveness testing and expects the accounting treatment to remain the same under IFRS.

Leases – IFRS does not have specific quantitative guidelines to determine whether the risks and rewards of ownership of the leased asset have been transferred. Under IFRS, leased assets are assessed qualitatively to determine the classification of leases between operating and finance leases. The qualitative considerations for the classification of leases were reviewed at the transition date and the Company does not expect the adoption of this standard to be significant.

IFRS 1 – First-time Adoption of International Financial Reporting Standards – IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for retrospective application of the standards. The Company expects to apply the following IFRS 1 exemptions upon adoption:

Employee benefits – A first time adopter must either recalculate its cumulative actuarial gains and losses at changeover in accordance with the requirements of IAS 19, *Employee Benefits* or immediately recognize all cumulative actuarial gains and losses through opening retained earnings. The Company expects to elect the latter and has engaged its external actuaries to quantify the adjustment to retained earnings in accordance with IAS 19. Based on the January 31, 2010 Canadian GAAP financial statements, the Company estimates this adjustment will result in a decrease in retained earnings of $25.9 million excluding the related income tax effect.

Cumulative translation account – IFRS 1 provides the option to reclassify all cumulative translation differences at the transition date from other comprehensive income to retained earnings. The Company expects to use this election and reset all cumulative translation differences to zero on transition. At January 31, 2010, the Company had unrealized gains on translation of financial statements from a self-sustaining operation in U.S. dollar functional currency to Canadian dollar reporting currency of $4.1 million, which will result in an increase to retained earnings.

Fair value as deemed cost – A choice is available between: measuring property and equipment at either its fair value at the date of transition and using those values as deemed cost; or using amortized historical cost determined in accordance with IAS 16, *Property, Plant and Equipment*. The Company expects to selectively apply this exemption on transition, resulting in an estimated increase in the net book value of assets and retained earnings of $2.8 million, excluding the related tax impact.

Business combinations – IFRS 3, *Business Combinations* may be applied retrospectively, effectively restating all business combination in accordance with IFRS or by restating business combinations after a selected date. An entity may also elect to apply this standard prospectively from the date of transition. We expect to apply IFRS 3 prospectively from the date of transition. A consequential impact of this election is that goodwill arising on business combinations prior to the date of transition will not be adjusted from the carrying value previously determined under Canadian GAAP.

IFRS Conversion Project Update

Work continues on Phase Four – Policy Selection and Implementation and the consequential impact of IFRS on key performance measures, contractual agreements, incentive plans and budgeting. Procedural changes necessary to produce 2010 IFRS comparative financial statements have been substantially completed and the Company is completing its preliminary unaudited transitional balance sheet and interim financial statements for 2010 based on the information provided above. The review of the expected changes in the 2010 IFRS financial statements including: documentation supporting accounting policy choices; new disclosure requirements; and the calculation basis for our transition adjustments by our external auditors is ongoing.

The implementation of IFRS is expected to have an impact on certain financial measures used in calculating the Company's financial covenants under its loan facilities and senior notes. These agreements provide for the opportunity to revise the covenants to reflect the impact of IFRS. The Company has begun discussions with its lenders on how to administer the impact of IFRS on its financial covenants.

The last component of Phase Four involves the final selection of accounting policies, elections and exemptions and the finalization of IFRS compliant financial statements and notes; all of which are subject to the approval of the Company's Audit Committee, and the Board of Directors. Regular IFRS project reporting is provided to senior management and to the Audit Committee. When an accounting policy choice is available under IFRS, the Company considers, among other factors,: which policy best reflects the business and comparability to organizations in the same or similar industry; minimizing the impact on earnings volatility and income tax; and cost of initial conversion and ongoing compliance costs. As the analysis of the Company's IFRS accounting policies is completed, we also assess whether changes are required to internal controls over financial reporting and disclosure controls and procedures. The Company's IFRS project continues to be on target to meet the changeover date.

NON-GAAP MEASURES

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

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

($ in thousands)	Fourth Quarter **2010**	2009	Year-to-Date **2010**	2009
Net earnings	**$ 17,274**	$ 20,227	**$ 76,594**	$ 81,813
Add: Amortization	**9,026**	8,898	**35,492**	35,150
Interest expense	**1,552**	1,272	**5,875**	5,470
Income taxes	**3,008**	1,949	**7,341**	7,841
Trading profit	**$ 30,860**	$ 32,346	**$ 125,302**	$ 130,274

For trading profit information by business segment, refer to Note 8 Segmented Information in the Notes to the unaudited interim period Consolidated Financial Statements.

(2) **Cash Flow from Operations** is not a recognized measure under Canadian GAAP. Management believes that, in addition to cash flow from operating activities, cash flow from operations is a useful supplemental measure as it provides investors with an indication of the Company's ability to generate cash flows to fund its cash requirements, including distributions and capital investments. Investors should be cautioned, however, that cash flow from operations should not be construed as an alternative to cash flow from operating activities or net earnings as a measure of profitability. The Company's method of calculating cash flow from operations may differ from other companies and may not be comparable to measures used by other companies.

A reconciliation of consolidated cash flow from operating activities to cash flow from operations is provided below:

($ in thousands)	Fourth Quarter **2010**	2009	Year-to-Date **2010**	2009
Cash flow from operating activities	**$ 53,691**	$ 37,687	**$ 110,911**	$ 107,973
Non-cash items:				
Change in other non-cash items	**(502)**	(598)	**2,068**	1,834
Change in non-cash working Capital	**(24,442)**	(4,897)	**97**	6,679
Cash flow from operations	**$ 28,747**	$ 32,192	**$ 113,076**	$ 116,486

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Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the unaudited interim period Consolidated Financial Statements and Notes to the unaudited interim period Consolidated Financial Statements which have been prepared in accordance with Canadian Generally Accepted Accounting Principles and is in Canadian dollars. The information contained in this MD&A is current to March 16, 2011.

Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings, growth rates, distributions, dividends, debt levels, financial capacity, access to capital, and liquidity), on-going business strategies or prospects, and possible future action by the Company, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the retail industry in general. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company ability to complete strategic transactions and integrate acquisitions and the Company's success in anticipating and managing the foregoing risks. The reader is cautioned that the foregoing list of important factors is not exhaustive. Other risks are outlined in the Risk Management section of the 2009 Annual Financial Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

CONSOLIDATED BALANCE SHEETS

(unaudited, $ in thousands)	**January 31 2011**	January 31 2010
ASSETS		
Current assets		
Cash	**$ 31,231**	$ 27,278
Accounts receivable	**70,180**	71,767
Inventories (Note 3)	**177,019**	177,877
Prepaid expenses	**6,359**	4,786
Future income taxes	**4,514**	4,135
	289,303	285,843
Property and equipment	**256,454**	258,928
Other assets	**26,995**	26,252
Intangible assets	**17,147**	18,332
Goodwill	**26,241**	28,593
Future income taxes	**4,342**	5,852
	$ 620,482	$ 623,800
LIABILITIES		
Current liabilities		
Bank advances (Note 4)	**$ -**	$ 312
Accounts payable and accrued liabilities	**116,773**	113,407
Income taxes payable	**347**	1,888
Current portion of long-term debt (Note 5)	**68,257**	56,339
	185,377	171,946
Long-term debt (Note 5)	**124,339**	152,519
Other long-term liabilities	**8,269**	9,409
	317,985	333,874
EQUITY		
Capital	**165,133**	165,133
Unit purchase loan plan (Note 6)	**-**	(6,428)
Contributed surplus	**2,156**	1,569
Retained earnings	**131,969**	125,525
Accumulated other comprehensive income (Note 7)	**3,239**	4,127
	302,497	289,926
	$ **620,482**	$ 623,800

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(unaudited, $ in thousands)	**Three Months Ended January 31 2011**	Three Months Ended January 31 2010	**Twelve Months Ended January 31 2011**	Twelve Months Ended January 31 2010
SALES	**$ 374,481**	$ 370,512	**$ 1,448,104**	$ 1,444,366
Cost of sales, selling and administrative expenses	**(343,621)**	(338,166)	**(1,322,802)**	(1,314,092)
Net earnings before amortization, interest and income taxes	**30,860**	32,346	**125,302**	130,274
Amortization	**(9,026)**	(8,898)	**(35,492)**	(35,150)
	21,834	23,448	**89,810**	95,124
Interest	**(1,552)**	(1,272)	**(5,875)**	(5,470)
	20,282	22,176	**83,935**	89,654
Provision for income taxes	**(3,008)**	(1,949)	**(7,341)**	(7,841)
NET EARNINGS FOR THE PERIOD	**$ 17,274**	$ 20,227	**$ 76,594**	$ 81,813
Retained earnings, beginning of period	**135,498**	124,650	**125,525**	110,475
Distributions (Note 12)	**(20,803)**	(19,352)	**(70,150)**	(66,763)
RETAINED EARNINGS, END OF PERIOD	**$ 131,969**	$ 125,525	**$ 131,969**	$ 125,525
NET EARNINGS PER SHARE				
Basic	**$ 0.36**	$ 0.42	**$ 1.59**	$ 1.71
Diluted	**$ 0.36**	$ 0.42	**$ 1.58**	$ 1.69
Weighted Average Number of Shares Outstanding (000's)				
Basic	**48,377**	47,856	**48,180**	47,799
Diluted	**48,525**	48,474	**48,512**	48,462

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, $ in thousands)	**Three Months Ended January 31 2011**	Three Months Ended January 31 2010	**Twelve Months Ended January 31 2011**	Twelve Months Ended January 31 2010
NET EARNINGS	**$ 17,274**	$ 20,227	**$ 76,594**	$ 81,813
Unrealized gains (losses) on translation of financial statements from a self-sustaining operation in U.S. dollar functional currency to Canadian dollar reporting currency	**(343)**	43	**(888)**	(4,402)
Other comprehensive income (loss) (Note 7)	**(343)**	43	**(888)**	(4,402)
COMPREHENSIVE INCOME	**$ 16,931**	$ 20,270	**$ 75,706**	$ 77,411

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, $ in thousands)	**Three Months Ended January 31 2011**	Three Months Ended January 31 2010	**Twelve Months Ended January 31 2011**	Twelve Months Ended January 31 2010
CASH PROVIDED BY (USED IN)				
Operating Activities				
Net earnings for the period	**$ 17,274**	$ 20,227	**$ 76,594**	$ 81,813
Non-cash items				
Amortization	**9,026**	8,898	**35,492**	35,150
Future income taxes	**2,323**	2,865	**883**	(874)
Amortization of deferred financing costs	**55**	54	**217**	245
Loss (gain) on disposal of property and equipment	**69**	148	**(110)**	152
	28,747	32,192	**113,076**	116,486
Change in non-cash working capital	**24,442**	4,897	**(97)**	(6,679)
Change in other non-cash items	**502**	598	**(2,068)**	(1,834)
Operating activities	**53,691**	37,687	**110,911**	107,973
Investing Activities				
Business acquisitions (Note 11)	-	(36)	-	(15,421)
Purchase of property and equipment	**(12,586)**	(12,995)	**(37,096)**	(45,294)
Proceeds from disposal of property and equipment	**21**	1,329	**1,101**	1,343
Investing activities	**(12,565)**	(11,702)	**(35,995)**	(59,372)
Financing Activities				
Change in bank advances	**(458)**	(3,233)	**(301)**	(5,112)
Net repayments under unit purchase loan plan	**136**	3,025	**6,428**	4,868
Increase (decrease) in long-term debt	**(21,893)**	(18,142)	**(8,390)**	65,193
Repayment of long-term debt	-	(207)	-	(44,757)
Distributions (Note 12)	**(16,449)**	(16,448)	**(68,700)**	(67,245)
Financing activities	**(38,664)**	(35,005)	**(70,963)**	(47,053)
NET CHANGE IN CASH	**$ 2,462**	$ (9,020)	**$ 3,953**	$ 1,548
Cash, beginning of period	**28,769**	36,298	**27,278**	25,730
CASH, END OF PERIOD	**$ 31,231**	$ 27,278	**$ 31,231**	$ 27,278
Supplemental disclosure of cash paid for:				
Interest expense	**$ 2,339**	$ 2,439	**$ 5,524**	$ 5,568
Income taxes	**$ 1,063**	$ 2,945	**$ 8,200**	$ 8,826

See accompanying notes to consolidated financial statements

1. ACCOUNTING PRESENTATIONS AND DISCLOSURES

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

On January 1, 2011, North West Company Fund (the Fund) was reorganized by way of a plan of arrangement under section 192 of the CBCA into a corporation pursuant to an amended and restated arrangement agreement dated November 29, 2010 between the Fund, and various subsidiaries of the Fund (the Arrangement). The purpose of the Arrangement was to convert the Fund from an income trust into a publicly traded share corporation. Under the Arrangement, unitholders received one common share of the Company for each trust unit of the Fund that they held. In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund.

The Company is considered to be a continuation of the Fund following the continuity of interests method of accounting. This method recognizes the Company as the successor entity to the Fund and accordingly, these unaudited interim consolidated financial statements reflect the financial position, results of operations and cash flows as if the Company had always carried on the business formerly carried on by the Fund. As such, the carrying amounts of assets, liabilities and unitholders' equity in the consolidated financial statements of the Fund immediately before the conversion were the same as the carrying values of the Company immediately after the conversion. In these and future financial statements, the Company refers to common shares, shareholders and dividends which were formerly referred to as units, unitholders and distributions under the Fund. Comparative amounts in these financial statements are those of the Fund.

The unaudited interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). These interim financial statements follow the same methods of application as the 2009 annual financial statements. Not all disclosures required by generally accepted accounting principles for annual financial statements are presented, and accordingly, the interim financial statements should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included in the North West Company Fund's 2009 Annual Financial Report. All amounts are expressed in Canadian dollars unless otherwise noted.

2. ACCOUNTING POLICY CHANGES

Adopted in 2010

The Canadian Institute of Chartered Accountants (CICA) HB 1582, Business Combinations, together with CICA HB 1601, Consolidated Financial Statements, and CICA 1602, Non-Controlling Interest, were adopted for business combinations for which the acquisition date is on or after February 1, 2010. These new standards align Canadian generally accepted accounting principles for business combinations and consolidated financial statements with IFRS. The changes require measuring business acquisition at the fair value of the acquired business, including the measurement at fair value of the items such as non-controlling interests and contingent consideration. In addition, business acquisition costs including transaction costs and restructuring costs are expensed rather than capitalized. Early adoption facilitated the harmonization of the accounting treatments of business combinations for the year ended January 31, 2011 under both Canadian GAAP and IFRS. The adoption of these standards has had no material impact on the Company's results or its financial position.

3. INVENTORIES

Included in cost of sales, selling and administrative expenses on the consolidated statement of earnings for the three months ended January 31, 2011 is $263,453 (January 31, 2010 - $263,802) of inventories recognized as an expense which includes $525 (January 31, 2010 - $631) for the write-down of inventories as a result of net realizable value being lower than cost. For the twelve months ended January 31, 2011, $1,020,869 (twelve months ended January 31, 2010 - $1,029,617) of inventories are recognized as an expense which includes $1,501 (January 31, 2010 - $1,603) for the write-down of inventories as a result of net realizable value being lower than cost. There was no reversal of inventories written-down previously that are no longer estimated to sell below cost during the periods ending January 31, 2011 or 2010.

4. BANK ADVANCES

In January 2011, the Company refinanced the US$15,000 demand, revolving loan facility in its International Operations. The new committed, revolving loan facility of US$20,000 matures on October 31, 2012. This facility bears a floating rate of interest and is secured by a charge against certain accounts receivable and inventories of the International Operations. At January 31, 2011, the International Operations had drawn US$NIL (January 31, 2010 – US$293) on the facility.

($ IN THOUSANDS)

5. LONG-TERM DEBT

	January 31 2011	January 31 2010
Senior notes [(1)]	**$ 69,199**	$ 73,481
Revolving loan facilities [(2)]	**67,445**	72,853
Non-revolving loan facilities [(3)]	**50,110**	55,380
Notes payable [(4)]	**4,850**	5,567
Obligation under capital lease [(5)]	**992**	1,577
	192,596	208,858
Less: Current portion of long-term debt	**68,257**	56,339
	$ 124,339	$ 152,519

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

(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 first charge against the assets of the Company, and rank *pari passu* with the US$70,000 senior notes and the US$52,000 loan facilities in International Operations. These facilities bear interest at Bankers Acceptances rates plus stamping fees or the Canadian prime rate. At January 31, 2011, the Company has drawn $67,445 (January 31, 2010 - $72,853) on these facilities.

(3) In November 2010, the Company refinanced its US$52,000 non-revolving loan facilities. The new committed revolving loan facilities mature December 31, 2013 and bear interest at LIBOR plus a spread. The loan facilities are secured by a floating first charge against the assets of the Company, and rank *pari passu* with the US$70,000 senior notes and the $140,000 Canadian Operations loan facilities. At January 31, 2011, the Company has drawn US$50,000 (January 31, 2010 – US$52,000) on these facilities.

(4) The note payable in the amount of US$922 (January 31, 2010 – US$1,189) bears interest at U.S. prime plus 1% and has annual principal payments of US$267. Notes payable in the amount of US$3,917 (January 31, 2010 – US$4,039) bear interest at 5.75% and are 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$990 (January 31, 2010 - US$1,481) is repayable in blended principal and interest payments of US$424 annually.

($ IN THOUSANDS)

6. UNIT PURCHASE LOAN PLAN

The Fund issued loans to officers and senior management to purchase units under the unit purchase loan plan. These loans were non-interest bearing and were repayable from the Fund's after tax distributions or if the employee sold the units or left the Company. The plan was discontinued January 31, 2011 and all outstanding loans were repaid.

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

	January 31 2011	January 31 2010
Balance, beginning of period	**$ 4,127**	$ 8,529
Other comprehensive income (loss)	**(888)**	(4,402)
Accumulated other comprehensive income, end of period	**3,239**	4,127
Retained earnings, end of year	**131,969**	125,525
Total accumulated other comprehensive income and retained earnings	**$ 135,208**	$ 129,652

Accumulated other comprehensive income represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book value 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.

($ IN THOUSANDS)

8. SEGMENTED INFORMATION

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

	Three Months Ended January 31 2011	Three Months Ended January 31 2010	**Twelve Months Ended January 31 2011**	Twelve Months Ended January 31 2010
Sales				
Canada	**$ 257,871**	$ 247,921	**$ 978,662**	$ 921,621
International	**116,610**	122,591	**469,442**	522,745
Total	**$ 374,481**	$ 370,512	**$ 1,448,104**	$ 1,444,366
Net earnings before amortization, interest and income taxes				
Canada	**$ 25,053**	$ 26,031	**$ 98,319**	$ 96,599
International	**5,807**	6,315	**26,983**	33,675
Total	**$ 30,860**	$ 32,346	**$ 125,302**	$ 130,274
Net earnings before interest and income taxes				
Canada	**$ 18,012**	$ 19,215	**$ 70,808**	$ 69,872
International	**3,822**	4,233	**19,002**	25,252
Total	**$ 21,834**	$ 23,448	**$ 89,810**	$ 95,124
Total Assets				
Canada	**$ 440,488**	$ 437,264	**$ 440,488**	$ 437,264
International	**179,994**	186,536	**179,994**	186,536
Total	**$ 620,482**	$ 623,800	**$ 620,482**	$ 623,800

Canadian total assets includes property and equipment of $186,439 (January 31, 2010 - $183,786). International total assets includes property and equipment of $70,015 (January 31, 2010 - $75,142) and goodwill of $26,241 (January 31, 2010 - $28,593).

9. EMPLOYEE FUTURE BENEFITS

The Company's expense for employee future benefits is included in cost of sales, selling and administrative expenses. The expense for the defined benefit pension plan and the defined contribution pension plan for the three months ended January 31, 2011 is $1,285 (three months ended January 31, 2010 - $570) and the twelve months ended January 31, 2011 is $4,810 (twelve months ended January 31, 2010 - $2,520). The Company maintains an employee savings plan for substantially all of its U.S. employees and recorded an expense for the three months ended January 31, 2011 of US$79 (three months ended January 31, 2010 – US$110) and for the twelve months ended January 31, 2011 of US$412 (twelve months ended January 31, 2010 – US$359).

10. SECURITY-BASED COMPENSATION

Deferred Share Unit Plan

The Company has adopted the fair value method of accounting for security-based compensation for the Deferred Share Unit Plan. The deferred share unit plan compensation expense recorded for the three months ended January 31, 2011 is $149 (three months ended January 31, 2010 - $231) and the twelve months ended January 31, 2011 is $954 (twelve months ended January 31, 2010 - $715). The liability for the deferred share 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 share units outstanding multiplied by the closing share price at the end of the reporting period. The total number of deferred share units outstanding at January 31, 2011 is 132,924 (January 31, 2010 – 103,091). There were no deferred share units exercised during the quarter.

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 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 associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period factoring in the probability of the performance criteria being met during that period.

Compensation costs related to the RSU's and PSU's for the three months ended January 31, 2011 are $57 (three months ended January 31, 2010 – $1,018) and for the twelve months ended January 31, 2011 are $2,128 (twelve months ended January 31, 2010 - $2,692).

($ IN THOUSANDS)

10. SECURITY-BASED COMPENSATION (continued)

Share Option Plan

The Company has a Share Option Plan that provides for the granting of options to certain officers and senior management. Each option is exercisable into one share of the Company at the price specified in the terms of the option, or the employees may elect to acquire shares based on the excess of the fair market value of the Company's shares over the option price. These share options are measured using a fair value method at the grant date. The fair value of stock-based compensation 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 shares. Options are issued 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. Share options granted in 2011 and 2010 vest on a graduated basis over five years and are exercisable over a period of ten years. The share option compensation cost recorded for the three months ended January 31, 2011 was $101 (three months ended January 31, 2010 – $72) and for the twelve months ended January 31, 2011 is $473 (twelve months ended January 31, 2010 - $115).

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

	Number of Options	Weighted Average Option Price
Outstanding options, January 31, 2010	274,600	$ 15.25
Granted	242,800	$ 19.12
Exercised	-	-
Forfeited or cancelled	(8,200)	$ 15.25
Outstanding options, January 31, 2011	509,200	$ 17.10
Options exercisable, January 31, 2011	-	-

Options Outstanding				Options Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable	Weighted average exercise price
$ 15.25	266,400	8.4	$ 15.25	NIL	N/A
$ 19.11 – 19.74	242,800	9.2	$ 19.12	NIL	N/A

($ IN THOUSANDS)

11. BUSINESS ACQUISITIONS

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

	Other[1]	Sitka [2]
Assets		
Accounts receivable	$ 2	$ 77
Inventories	178	778
Prepaid expenses	2	-
Property and equipment	-	11,477
Other assets	3,086	-
Total Assets	$ 3,268	$ 12,332
Liabilities		
Accounts payable and accrued expenses	-	$ 179
Total Liabilities	-	$ 179
Cash Consideration	**$** 3,268	$ 12,153

(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.

The above acquisitions have been accounted for by the purchase method of accounting and the results of operations are included in the consolidated financial statements from their respective closing date. The purchase price has been allocated to the acquired assets based on estimates of their fair values at the closing date.

12. 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. The distributions paid in cash for the three months ended January 31, 2011 are $16,449 (three months ended January 31, 2010 - $16,448). The distributions paid in cash for the twelve months ended January 31, 2011 are $68,700 including a special distribution of $2,904 paid on February 19, 2010 to unitholders of record on December 31, 2009 (twelve months ended January 31, 2010 - $67,245 including a special distribution of $3,386 paid on February 20, 2009 to unitholders of record on December 31, 2008). A special distribution of $4,354 to unitholders of record on December 31, 2010 is recorded in retained earnings and was paid February 18, 2011.

On January 1, 2011 the Company converted from an income trust into a publicly traded share corporation pursuant to the Arrangement (Note 1). In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund, including the payment of distributions declared by the Fund prior to the conversion.

13. SEASONALITY

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

14. 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 the Company's 2009 annual Management's Discussion and Analysis and the 2010 quarterly Management's Discussion and Analysis.

15. COMPARATIVE AMOUNTS

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