Consolidated Financial Statements of

THE NORTH WEST COMPANY INC.

For the year ended January 31, 2011

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Management's Responsibility for Financial Statements

The management of The North West Company Inc. are responsible for the preparation, presentation and integrity of the accompanying financial statements and all other information in this annual report. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada and include certain amounts that are based on the best estimates and judgment by management.

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

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

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

Edward S. Kennedy
President & Chief Executive Officer
The North West Company Inc.

John D. King
Chief Financial Officer
The North West Company Inc.

April 6, 2011

Independent Auditor's Report

To the Shareholders of The North West Company Inc.

We have audited the accompanying consolidated financial statements of The North West Company Inc. and its subsidiaries, which comprise the consolidated balance sheets as at January 31, 2011 and January 31, 2010 and the consolidated statements of earnings and retained earnings, comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The North West Company Inc. and its subsidiaries as at January 31, 2011 and January 31, 2010 and their results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"PricewaterhouseCoopers LLP"

Chartered Accountants
Winnipeg, Canada
April 6, 2011

CONSOLIDATED BALANCE SHEETS

($ in thousands)	**January 31 2011**	January 31 2010
ASSETS		
Current assets		
Cash	**$ 31,231**	$ 27,278
Accounts receivable	**70,180**	71,767
Inventories (Note 4)	**177,019**	177,877
Prepaid expenses	**6,359**	4,786
Future income taxes (Note 14)	**4,514**	4,135
	289,303	285,843
Property and equipment (Note 5)	**256,454**	258,928
Other assets (Note 6)	**26,995**	26,252
Intangible assets (Note 7)	**17,147**	18,332
Goodwill (Note 7)	**26,241**	28,593
Future income taxes (Note 14)	**4,342**	5,852
	$ 620,482	$ 623,800
LIABILITIES		
Current liabilities		
Bank advances (Note 8)	**$ -**	$ 312
Accounts payable and accrued liabilities	**116,773**	113,407
Income taxes payable	**347**	1,888
Current portion of long-term debt (Note 9)	**68,257**	56,339
	185,377	171,946
Long-term debt (Note 9)	**124,339**	152,519
Other long-term liabilities (Note 10)	**8,269**	9,409
	317,985	333,874
EQUITY		
Capital (Note 11)	**165,133**	165,133
Unit purchase loan plan (Note 12)	-	(6,428)
Contributed surplus	**2,156**	1,569
Retained earnings	**131,969**	125,525
Accumulated other comprehensive income (Note 13)	**3,239**	4,127
	302,497	289,926
	$ 620,482	$ 623,800

See accompanying notes to consolidated financial statements

Approved on behalf of the Board of Directors

"Gary J. Lukassen"
DIRECTOR

"H. Sanford Riley"
DIRECTOR

CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

($ in thousands)		**Year Ended January 31, 2011**		Year Ended January 31, 2010
SALES	**$**	**1,448,104**	$	1,444,366
Cost of sales, selling and administrative expenses		**(1,322,802)**		(1,314,092)
Net earnings before amortization, interest and income taxes		**125,302**		130,274
Amortization		**(35,492)**		(35,150)
		89,810		95,124
Interest, including interest of $5,552 (2009 – $5,173) on long-term debt		**(5,875)**		(5,470)
		83,935		89,654
Provision for income taxes (Note 14)		**(7,341)**		(7,841)
NET EARNINGS FOR THE PERIOD	**$**	**76,594**	$	81,813
Retained earnings, beginning of year		**125,525**		110,475
Distributions (Note 23)		**(70,150)**		(66,763)
RETAINED EARNINGS, END OF YEAR	**$**	**131,969**	$	125,525
NET EARNINGS PER SHARE (Note 15)				
Basic	**$**	**1.59**	$	1.71
Diluted	**$**	**1.58**	$	1.69

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in thousands)	**Year Ended January 31, 2011**	Year Ended January 31, 2010
NET EARNINGS FOR THE YEAR	**$ 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	**(888)**	(4,402)
Other comprehensive income (loss) (Note 13)	**(888)**	(4,402)
COMPREHENSIVE INCOME	**$ 75,706**	$ 77,411

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)	**Year Ended January 31, 2011**	Year Ended January 31, 2010
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net earnings for the year	**$ 76,594**	$ 81,813
Non-cash items		
Amortization	**35,492**	35,150
Future income taxes	**883**	(874)
Amortization of deferred financing costs	**217**	245
Loss (gain) on disposal of property and equipment	**(110)**	152
	113,076	116,486
Change in non-cash working capital	**(97)**	(6,679)
Change in other non-cash items	**(2,068)**	(1,834)
Operating activities	**110,911**	107,973
Investing Activities		
Business acquisitions (Note 22)	**-**	(15,421)
Purchase of property and equipment	**(37,096)**	(45,294)
Proceeds from disposal of property and equipment	**1,101**	1,343
Investing activities	**(35,995)**	(59,372)
Financing Activities		
Change in bank advances	**(301)**	(5,112)
Net repayments under unit purchase loan plan	**6,428**	4,868
Increase (decrease) in long-term debt	**(8,390)**	65,193
Repayment of long-term debt	**-**	(44,757)
Distributions (Note 23)	**(68,700)**	(67,245)
Financing activities	**(70,963)**	(47,053)
NET CHANGE IN CASH	**$ 3,953**	$ 1,548
Cash, beginning of year	**27,278**	25,730
CASH, END OF YEAR	**$ 31,231**	$ 27,278
Supplemental disclosure of cash paid for:		
Interest expense	**$ 5,524**	$ 5,568
Income taxes	**$ 8,200**	$ 8,826

See accompanying notes to consolidated financial statements

1. ORGANIZATION

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

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

The Company is considered to be a continuation of the Fund following the continuity of interests method of accounting. This method recognizes the Company as the successor entity to the Fund and accordingly, these 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.

2. ACCOUNTING POLICY CHANGES

Adopted for the year ended January 31, 2011
Business Combinations

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 (GAAP) for business combinations and consolidated financial statements with International Financial Reporting Standards (IFRS). The

ACCOUNTING POLICY CHANGES (continued)

changes require measuring business acquisitions 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 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, 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements of the Company 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 NWC, NWC GP Inc., The North West Company LP, North West Company Holdings Inc., 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, 2011 and January 31, 2010. 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.

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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
Lease incentives and allowances received for operating leases 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 indicate the asset's carrying value exceeds 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, 2011 or 2010.

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. Write downs to fair value are effected 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.

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 the 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 consolidated financial statements at applicable statutory rates.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Future Benefits The Company maintains a number of pension plans, including a defined benefit or defined contribution pension plan for the majority of its Canadian employees, and an employee savings plan for its U.S. 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, 2010 – 14 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.

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 receivables 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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)
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.

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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)
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 Share Basic net earnings per share are calculated based on the weighted average shares outstanding. The units that were pledged as security for the loans issued under the Fund's former Unit Purchase Loan Plan are deducted from the issued and outstanding units of the Fund to determine basic units outstanding. Diluted net earnings per share takes into account the dilutive effect of the share option plan, the deferred share unit plan and the additional income that would have been earned 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.

4. INVENTORIES

Included in cost of sales, selling and administrative expenses on the consolidated statement of earnings for the year ended January 31, 2011 is $1,020,869 (January 31, 2010 - $1,029,617) of inventories 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.

5. PROPERTY AND EQUIPMENT

Year Ended	January 2011		January 2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 9,369**	**$ -**	$ 9,946	$ -
Buildings	**290,918**	**146,959**	281,304	136,034
Leasehold improvements	**37,496**	**17,766**	34,769	15,556
Fixtures & equipment	**203,236**	**135,225**	193,833	125,002
Computer equipment	**55,302**	**47,718**	51,878	44,424
Construction in process	**7,801**	**-**	8,214	-
	$ 604,122	**$ 347,668**	$ 579,944	$ 321,016
Net book value	**$ 256,454**		$ 258,928	

6. OTHER ASSETS

Year Ended	January 2011	January 2010
Investment in transportation company	**$ 7,272**	$ 6,611
Accrued employee future benefit asset (Note 17)	**15,271**	15,139
Long-term receivable	**2,724**	2,908
Prepayments under lease agreements	**554**	680
Other	**1,174**	914
	$ 26,995	$ 26,252

7. GOODWILL AND INTANGIBLE ASSETS

Year Ended	**January 2011**		January 2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Intangible assets with definite lives:				
Software	**$ 15,057**	**$ 10,186**	$ 14,627	$ 8,265
Non-compete agreements	**8,114**	**2,853**	6,727	2,212
Intangible assets with indefinite lives:				
Cost-U-Less banner	**7,015**	**-**	7,455	-
	$ 30,186	**$ 13,039**	$ 28,809	$ 10,477
Net book value	**$ 17,147**		$ 18,332	

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, 2011 is $2,562 (January 31, 2010 - $3,054).

Goodwill relates to the Company's acquisition of Cost-U-Less. The change in the carrying amount of goodwill is as follows:

Year Ended	**January 2011**	January 2010
Balance, beginning of year	**$ 28,593**	$ 32,372
Changes in foreign exchange rates	**(2,352)**	(3,779)
Balance, end of year	**$ 26,241**	$ 28,593

8. 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.

9. LONG-TERM DEBT

Year Ended	**January 2011**	January 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.

LONG-TERM DEBT (continued)

(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 this facility.

(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.

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

Year Ending January		
2012	$	68,257
2013		771
2014		50,662
2015		69,485
2016 and thereafter		3,421

10. OTHER LONG-TERM LIABILITIES

Year Ended		**January 2011**		January 2010
Asset retirement obligation	$	3,243	$	3,075
Other long-term liabilities		5,026		6,334
Total other long-term liabilities	$	8,269	$	9,409

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, 2011, the undiscounted cash flows required to settle the obligations is $9,958 (January 31, 2010 - $10,000), which is expected to be settled between 2011 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.

11. CAPITAL

The Arrangement (Note 1) was effective on January 1, 2011 resulting in the conversion of the Fund's income trust structure into a dividend paying publicly-traded share corporation. For each unit of the Fund held, unitholders received one common share of the Company.

The Company is considered to be a continuation of the Fund following the continuity of interest method of accounting. 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.

Authorized The Company has an unlimited number of common shares.

Year Ended	**Shares**	**January 2011**	Units	January 2010
Issued and outstanding	**48,378**	**$ 165,133**	48,378	$ 165,133

12. UNIT PURCHASE LOAN PLAN

The Fund issued loans to officers and senior management to purchase units under the unit purchase loan plan (Note 19). 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.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

Year Ended	**January 2011**	January 2010
Balance, beginning of year	**$ 4,127**	$ 8,529
Other comprehensive loss	**(888)**	(4,402)
Accumulated other comprehensive income, end of year	**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 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.

14. INCOME TAXES

On January 1, 2011, the Company converted from an income trust into a publicly traded share corporation pursuant to the Arrangement (Note 1). As a result, for the period January 1, 2011 to January 31, 2011, the taxable income earned in the Company's Canadian Operations was subject to income taxes at full corporate tax rates. For the year ended January 31, 2010 a substantial portion of taxable income earned in the Canadian Operations was not subject to tax as such income was ultimately distributed to the Fund's unitholders.

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 2011**	January 2010
Future income tax assets:		
Goodwill and intangible assets	**$ 738**	$ 366
Property, equipment and inventory	**8,239**	7,444
International property, equipment and inventory	**572**	1,283
Stock-based compensation and long-term incentive plans	**1,384**	1,856
Other temporary differences	**4,600**	3,683
Total future income tax assets	**$ 15,533**	$ 14,632
Future income tax liabilities:		
Accrued employee future benefit asset	**(5,088)**	(4,029)
Other temporary differences	**(1,589)**	(616)
Total future income tax liabilities	**(6,677)**	(4,645)
Net future income tax asset	**8,856**	9,987
Less: current portion	**4,514**	4,135
Long-term future income tax assets	**$ 4,342**	$ 5,852

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.

INCOME TAXES (continued)

Components of the provision for income taxes are as follows:

Year Ended	**January 2011**	January 2010
Current income tax expense	**$ 6,458**	$ 8,715
Future income tax expense (benefit) relating to:		
Temporary differences and loss carryforwards	**795**	(1,067)
Future income tax expense resulting from income tax rate changes	**88**	193
	$ 7,341	$ 7,841

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 2011**	January 2010
Net earnings before income taxes	**$ 83,935**	$ 89,654
Combined statutory income tax rate[(1)]	**31.77%**	32.58%
Computed expected income tax expense	**$ 26,666**	$ 29,209
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses/non-taxable income	**(19,648)**	(21,516)
Tax rate changes on future income taxes	**88**	193
Other	**235**	(45)
Provision for income taxes	**$ 7,341**	$ 7,841
Effective income tax rate	**8.75%**	8.75%

(1) The statutory rate comprises the combined statutory tax rate for the Company and its subsidiaries for the year ended January 31, 2011 and the combined statutory tax rate for the Fund and its subsidiaries for the year-ended January 31, 2010.

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.

15. NET EARNINGS PER SHARE

Year Ended (Shares in thousands except earnings per share)	**January 2011**	January 2010
Diluted earnings per share calculation:		
Net earnings for the year (numerator for basic earnings per share)	**$76,594**	$81,813
After tax interest cost of unit purchase loan plan	**51**	192
Numerator for diluted earnings per share	**$76,645**	$82,005
Weighted average shares outstanding(1) (denominator for basic earnings per share)	**48,180**	47,799
Dilutive effect of security-based compensation	**332**	663
Denominator for diluted earnings per share	**48,512**	48,462
Basic earnings per share	**$1.59**	$1.71
Diluted earnings per share	**$1.58**	$1.69

(1) On January 1, 2011, the Fund converted from an income trust into a publicly traded share corporation pursuant to the Arrangement (Note 1). In these and future financial statements for the Company, the former reference to "units" will now be "common shares."

16. SEGMENTED INFORMATION

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

Year Ended	**January 2011**	January 2010
Sales		
Canada	**$ 978,662**	$ 921,621
International	**469,442**	522,745
Total	**$ 1,448,104**	$ 1,444,366
Net earnings before amortization, interest and income taxes		
Canada	**$ 98,319**	$ 96,599
International	**26,983**	33,675
Total	**$ 125,302**	$ 130,274
Net earnings before interest and income taxes		
Canada	**$ 70,808**	$ 69,872
International	**19,002**	25,252
Total	**$ 89,810**	$ 95,124
Total assets		
Canada	**$ 440,488**	$ 437,264
International	**179,994**	186,536
Total	**$ 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).

17. EMPLOYEE FUTURE BENEFITS

The Company sponsors defined benefit and defined contribution pension plans covering the majority of Canadian employees. Effective January 1, 2011, the Company entered into an amended and restated staff pension plan, which incorporated legislated changes, administrative practice, and added a defined contribution provision (the "Amended Plan"). Under the Amended Plan, all members as of December 31, 2010 who did not meet a qualifying threshold based on number of years in the pension plan and age were transitioned to the defined contribution pension plan effective January 1, 2011 and no longer accumulate years of service under the defined benefit pension plan. The defined benefit pension previously earned by the members transitioned to the defined contribution plan will continue to accrue in accordance with the terms of the plan based on the member's current pensionable earnings. Members who met the qualifying threshold on January 1, 2011, elected between accruing a defined contribution benefit and continuing to accrue a defined benefit pension in accordance with the provisions of the Amended Plan.

The defined benefit pension plans are based on years of service and final average salary. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes as at January 31, 2011 and January 31, 2010. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 2011. The next actuarial valuation is required as at January 1, 2012. 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, 2011 were $5,364 (January 31, 2010 - $9,541).

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

Year Ended	**January 2011**	January 2010
Accrued benefit obligations		
Discount rate	**5.8%**	6.0%
Rate of compensation increase	**4.0%**	4.0%
Benefit plan expense		
Discount rate	**6.0%**	7.0%
Expected long-term rate of return on plan assets	**6.5%**	6.5%
Rate of compensation increase	**4.0%**	4.0%

EMPLOYEE FUTURE BENEFITS (continued)

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

Year Ended	**January 2011**			January 2010		
	Incurred in year	**Matching Adjustments (1)**	**Recognized in year**	Incurred in year	Matching Adjustments (1)	Recognized in year
Current service costs, net of employee contributions	**$ 4,051**	**$ -**	**$4,051**	$ 2,960	$ -	$ 2,960
Interest on accrued benefits	**3,753**	**-**	**3,753**	3,292	-	3,292
Return on plan assets	**(4,477)**	**643**	**(3,834)**	(6,998)	3,522	(3,476)
Actuarial (gain) loss	**(282)**	**1,386**	**1,104**	13,699	(13,611)	88
Past service costs	**-**	**(14)**	**(14)**	-	(11)	(11)
Amortization of net transition asset	**-**	**(375)**	**(375)**	-	(333)	(333)
Net defined benefit plan expense	**$ 3,045**	**$1,640**	**$4,685**	$ 12,953	$ (10,433)	$ 2,520

(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, 2011 is US$412 (January 31, 2010 – US$359). The expense incurred under the defined contribution plan covering Canadian employees for the year ended January 31, 2011 is $125 (January 31, 2010 – NIL).

EMPLOYEE FUTURE BENEFITS (continued)

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

Year Ended	**January 2011**	January 2010
Plan assets		
Fair value - beginning of year	**$ 54,099**	$ 42,207
Actual return on plan assets	**4,477**	6,998
Employer contributions	**4,817**	9,137
Employee contributions	**26**	24
Benefits paid	**(4,646)**	(4,267)
Fair value - end of year	**$ 58,773**	$ 54,099
Plan obligations		
Accrued benefit obligation - beginning of year	**$ 64,871**	$ 49,163
Current service cost	**4,077**	2,984
Accrued interest on benefits	**3,753**	3,292
Benefits paid	**(4,646)**	(4,267)
Actuarial (gain) loss	**(282)**	13,699
Accrued benefit obligation - end of year	**$ 67,773**	$ 64,871
Funded status		
Fair value plan assets	**$58,773**	$ 54,099
Accrued benefit obligation	**67,773**	64,871
Plan deficit	**(9,000)**	(10,772)
Unamortized net actuarial losses	**25,025**	27,054
Unamortized net transitional asset	**(750)**	(1,125)
Unamortized past service costs	**(4)**	(18)
Accrued employee future benefit asset	**$ 15,271**	$ 15,139

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

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 2011**	January 2010
Plan assets consist of:		
Equity securities	**60%**	59%
Debt securities	**36%**	37%
Other	**4%**	4%
Total	**100%**	100%

The pension plans have no investment in the shares of the Company.

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, 2011, the Company has opened 34 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
2012	$21,953
2013	19,900
2014	18,182
2015	15,077
2016	12,414
2017 and thereafter	58,056

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.

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 Share Unit Plan

The Company offers a deferred share unit plan for independent Directors. The purpose of the Deferred Share Unit Plan is to enhance the ability of the Company to attract and retain independent Directors whose training, experience and ability will contribute to the effective governance of the Company and to directly align their interests with the interests of shareholders by providing compensation for services to the Company in the form of shares. Participants are credited with deferred share units based on the portion of fees each participant elects to allocate to the deferred share unit plan. Each deferred share unit entitles the holder to receive a share of the Company. The deferred share units are exercisable by the holder at any time but no later than December 31 of the first calendar year commencing after the holder ceases to be a Director. A participant may elect at the time of exercise of any deferred share units, subject to the consent of the Company, to have the Company pay an amount in cash equal to the aggregate current market value of the shares, determined based on the closing price of the shares on the TSX on the trading day preceding the exercise date, in consideration for the surrender by the participant to the Company the right to receive shares from the exercising of the deferred share units.

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 year ended January 31, 2011 is $954 (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 unit 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 year.

SECURITY-BASED COMPENSATION (continued)

Unit Purchase Loan Plan

The Company had a unit purchase loan plan for officers and senior management whereby loans were granted to employees to purchase units of NWF (Note 12). These loans were in substance similar to stock options and accordingly were accounted for as stock-based compensation in accordance with section 3870 of the CICA handbook whereby compensation cost was recorded as an expense with a corresponding increase in contributed surplus.

Units were purchased at market prices and were fully vested at the time the loan was exercised. The units were pledged as security against the loan and could not be withdrawn from the plan until the principal amount of the loan was less than 65% or 80% of the market value of the units pledged as security or if the employee sold the units or left the Company. If the loan value as a percentage of the market value of the units pledged as security against the loan fell below the 65% to 80% threshold, the employee could reduce the number of units pledged equal to the market value in excess of the loan balance. Employees were required to make principal payments on the loan equal to the after-tax distributions on the units pledged as security.

As of January 31, 2011 the plan has been discontinued and all outstanding loans have been repaid. The compensation cost relating to the unit purchase loan plan for the year ended January 31, 2011 and 2010 was NIL.

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 shares granted at the end of the vesting period. The RSU account for each participant includes the value of dividends from the Company as if reinvested in additional RSU's. RSU awards vest with the employee on the third fiscal year 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 Company's shares at the grant date and subsequently adjusted for additional shares granted based on the reinvestment of notional dividends and the market value of the shares at the end of 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.

SECURITY-BASED COMPENSATION (continued)

Long Term Incentive Plans (continued)

Each PSU entitles the participant to receive a cash payment equal to the market value of the number of notional shares granted at the end of the vesting period multiplied by factors related to the achievement of specific performance based criteria. The PSU account for each participant includes the value of dividends from the Company as if reinvested in additional PSU's. PSU awards vest with the employee on the third fiscal year 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 Company's shares at the grant date and subsequently adjusted for additional shares granted based on the reinvestment of notional dividends and the market value of the shares at the end of 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, 2011 are $2,128 (January 31, 2010 – $2,692).

Share Option Plan

The Company has implemented 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 share price. These share options are measured using a fair value method at the time of the grant date. The fair value of 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 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 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 period ended January 31, 2011 was $473 (January 31, 2010 – $115).

SECURITY-BASED COMPENSATION (continued)

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

	Number of Options	Weighted Average Option Price
Outstanding options, beginning of year	274,600	$15.25
Granted	242,800	19.12
Exercised	-	-
Forfeited or cancelled	(8,200)	15.25
Outstanding options, end of year	509,200	$17.10

Options Outstanding				Options Exercisable		
Grant year	Range of exercise prices	Number Outstanding	Weighted average remaining contractual years	Weighted average exercise price	Options exercisable	Weighted average exercise price
2009	$ 15.25	266,400	8.4	$ 15.25	NIL	N/A
2010	$ 19.11–19.74	242,800	9.2	$ 19.12	NIL	N/A

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

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.

FINANCIAL INSTRUMENTS (continued)

Year Ended January 2011	Maturity	Assets (Liabilities) Carried at Cost/Amortized Cost Carrying Amount	Fair Value	Assets (Liabilities) Carried at Fair Value Carrying Amount
Cash	Short-term	$ 31,231	$ 31,231	$ -
Accounts receivable	Short-term	70,180	70,180	-
Financial assets included in other assets (Note 6)	Long-term	3,898	3,898	-
Bank advances (Note 8)	Short-term	-	-	-
Accounts payable and accrued liabilities	Short-term	(116,773)	(116,773)	-
Financial derivative instruments (1)	Short-term	-	-	1,286
Current portion of long-term debt (Note 9)	Short-term	(68,257)	(68,257)	-
Long-term debt(1) (Note 9)	Long-term	(125,625)	(127,275)	-

(1) These items total $124,339 which comprise the carrying value of long-term debt (Note 9).

Year Ended January 2010	Maturity	Assets (Liabilities) Carried at Cost/Amortized Cost Carrying Amount	Fair Value	Assets (Liabilities) Carried at 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 (1)	Short-term	-	-	576
Current portion of long-term debt (Note 9)	Short-term	(56,339)	(56,339)	-
Long-term debt(1) (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).

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

- The fair value of short-term financial instruments approximates their carrying values due to their immediate or short-term period to maturity. Any differences between fair value and book values of short-term financial instruments are considered to be insignificant.

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

Year Ended January 2011	Notional Value	Interest Rate	Fair Value
Interest rate swaps in effective fair value hedging relationship	US$28,000 (2009 – US$28,000)	LIBOR plus 3.67%	$1,286 (2009 - $576)

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, 2011, the Company's maximum credit risk exposure is $85,785 (January 31, 2010 - $86,818). Of this amount $19,458 (January 31, 2010 - $15,412) is more than 60 days past due. The Company has recorded an allowance against its maximum exposure to credit risk of $12,881 (January 31, 2010 - $12,143).

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**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017 +**
Accounts payable and accrued liabilities	$116,773	$116,773	$ -	$ -	$ -	$ -	$ -
Long-term debt (Note 9)	192,596	68,257	771	50,662	69,485	217	3,204
Operating leases (Note 18)	145,582	21,953	19,900	18,182	15,077	12,414	58,056
Total	$454,951	$206,983	$20,671	$68,844	$84,562	$12,631	$61,260

At January 31, 2011, the Company has undrawn revolving loan facilities of $94,603.

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 financial instrument 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.

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 $1,370. A 100 basis point decrease would cause net income to increase by approximately $1,370.

21. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to shareholders 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 shareholder value. The capital structure of the Company consists of bank advances, current and long-term debt and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity. In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue additional shares, borrow additional funds or refinance debt at different terms and conditions.

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

- The Company's debt-to-equity ratio at the end of the year was .64 compared to .72 last year. This debt-to-equity ratio is within the Company's objectives. The debt-to-equity ratio is calculated as follows:

Year Ended	**January 2011**	January 2010
Bank advances (Note 8)	**$ -**	$ 312
Current portion of long-term debt (Note 9)	**68,257**	56,339
Long-term debt (Note 9)	**124,339**	152,519
Total debt	**$ 192,596**	$ 209,170
Total equity	**$ 302,497**	$ 289,926
Debt-to-equity ratio	**.64**	.72

CAPITAL MANAGEMENT (continued)

- As a result of borrowing agreements entered into by the Company, there are certain financial covenants that must be maintained. Financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. Compliance with financial covenants is reported quarterly to the Board of Directors. At January 31, 2011 and 2010, the Company is in compliance with all financial covenants. Other than the requirements imposed by these borrowing agreements, the Company 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 2010.

22. BUSINESS ACQUISITIONS

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

	Other(1)	Sitka April 6, 2009(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.

BUSINESS ACQUISITIONS (continued)

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 purchase price has been allocated to the acquired assets based on estimates of their fair values at the closing date.

23. DISTRIBUTIONS

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

Year Ended		**January 2011**		January 2010
Distributions recorded in retained earnings	**$**	**70,150**	$	66,763
Special distribution paid February 18, 2011 to unitholders of record on December 31, 2010		**(4,354)**		-
Special distribution paid February 19, 2010 to unitholders of record on December 31, 2009		**2,904**		(2,904)
Special distribution paid February 20, 2009 to unitholders of record on December 31, 2008		**-**		3,386
Distributions paid in cash	**$**	**68,700**		$ 67,245

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.

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 the Company's 2010 Management's Discussion and Analysis.

25. COMPARATIVE AMOUNTS

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