

THE NORTH WEST COMPANY INC.

2011 FIRST QUARTER REPORT TO SHAREHOLDERS

Report to Shareholders

The North West Company Inc. reports its results for the first quarter ending April 30, 2011 prepared under International Financial Reporting Standards (“IFRS”). Sales increased 1.8% to \$346.3 million compared to the first quarter last year. Sales excluding the foreign exchange impact were up 3.6% and increased 1.8%¹ on a same store basis. Strong food sales growth and a recovery in our International Operations more than offset soft general merchandise sales performance across all of our banners.

First quarter net earnings to April 30, 2011 were \$12.4 million compared to last year’s IFRS restated first quarter earnings of \$17.8 million. Diluted earnings per share were \$0.26 compared to \$0.37 per unit last year. The conversion to a share corporation effective January 1, 2011 and the resulting increase in income tax expense accounted for most of this difference, negatively impacting diluted earnings per share by approximately \$0.10 per share.

The Board of Directors has approved a quarterly dividend of \$0.24 per share to shareholders of record on June 30, 2011.

On behalf of the Board of Directors:



H. Sanford Riley
Chairman



Edward S. Kennedy
President and Chief Executive Officer

Management’s Discussion & Analysis

The Canadian Accounting Standards Board requires that all publicly accountable enterprises prepare interim and annual financial statements using International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Accordingly, the Company has prepared its unaudited interim condensed consolidated financial statements for the period ending April 30, 2011 using IFRS. All comparative figures for 2010 that were previously reported in the consolidated financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) have been restated to conform with the accounting policies and financial statement presentation adopted under IFRS. For further information on the transition to IFRS and its impact on the Company’s financial statements refer to Note 16 in the 2011 first quarter unaudited interim condensed consolidated financial statements.

The following management discussion and analysis should be read in conjunction with The North West Company Inc.’s unaudited interim condensed consolidated financial statements for the three months ended April 30, 2011 and the audited annual consolidated financial statements and accompanying notes included in 2010 Annual Financial Report. The Company’s April 30, 2011 unaudited interim condensed consolidated financial statements and the accompanying notes form part of the first annual audited consolidated financial statements to be prepared in accordance with IFRS for the year ended January 31, 2012.

¹ Excluding the foreign exchange impact

CONSOLIDATED RESULTS

First quarter consolidated sales increased 1.8% to \$346.3 million compared to \$340.1 million in 2010. Excluding the foreign exchange impact, sales increased 3.6% and were up 1.8%¹ on a same store basis. Strong sales growth in northern markets was the leading factor with sales¹ in our northern Canada and Alaska stores up 3.2% on a same store basis. Our discount banners continued to face competitive pricing pressure and were down 0.3% on a same store basis. Food sales¹ increased 4.5% and were up 3.0% on a same store basis. General merchandise sales¹ decreased 1.5% and were down 3.2% on a same store basis.

Earnings from operations decreased 0.7% to \$19.4 million compared to \$19.5 million last year as lower gross profit rates and higher selling, operating and administrative expenses offset the impact of higher sales. Trading profit² or earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 0.2% to \$28.4 million compared to \$28.3 million in the first quarter last year. Excluding the foreign exchange impact, trading profit increased \$0.4 million or 1.3% and was 8.2% as a percentage to sales compared to 8.4% last year.

Income taxes increased to \$5.5 million compared to \$0.3 million in the first quarter last year largely due to the taxation of Canadian Operations earnings as a result of the conversion to a share corporation on January 1, 2011 (see Conversion to a Share Corporation on page 5 for further information). Prior to the conversion to a share corporation, a substantial portion of the earnings from The North West Company LP flowed to the Fund on pre-tax basis and were ultimately distributed to unitholders. There was no current income tax payable by the Fund on these distributions. The consolidated effective tax rate for the quarter was 30.5% reflecting the taxation of Canadian earnings and higher earnings in the International Operations.

Net earnings decreased 30.4% to \$12.4 million and diluted earnings per share decreased to \$0.26 compared to \$0.37 per unit last year. The increase in income taxes in the Canadian Operations as a result of the conversion to a share corporation was the largest factor, negatively impacting diluted earnings per share by approximately \$0.10 per share.

CANADIAN OPERATIONS

Canadian sales for the quarter increased 3.4% to \$236.9 million from \$229.1 million last year and were up 1.2% on a same store basis. Food sales increased 4.2% and were up 2.2% on a same store basis. Strong food sales growth in northern markets was partially offset by the higher promotional pricing activity in less remote locations. Better in-stock performance in all food categories was also a factor contributing to the sales gains and offset the out-shopping impact of a longer winter road season. Food inflation resulting from higher commodity costs and higher fuel-related transportation costs was approximately 1.4% in the quarter. General merchandise sales decreased 0.5% from last year and were down 2.2% on a same store basis. Cool weather conditions negatively impacted seasonal hardlines and apparel sales.

Gross profit dollars increased 1.8% as sales gains offset lower gross profit rates. Gross profit rates decreased largely due to lower initial apparel pricing, higher markdowns to clear apparel and seasonal merchandise, and price reductions in food. Selling, operating and administrative expenses increased 3.5% and were up 3 basis points as a percentage to sales largely due to higher staff costs and occupancy costs related to new stores. Lower debt loss expense in the quarter partially offset these increases.

Canadian trading profit decreased 0.7% to \$22.4 million compared to \$22.5 million last year and was 9.4% to sales compared to 9.8% of sales in the first quarter last year.

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

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International sales increased 3.9% to \$112.4 million compared to \$108.1 million in the first quarter last year and were up 3.0% on a same store basis. Food sales gains at both Alaska (AC) and Cost-U-Less (CUL) stores more than offset weaker sales performance in general merchandise. Food sales increased 5.1% and were up 4.5% on a same store basis with both AC and CUL stores contributing to the increase. General merchandise same store sales were down 6.8% in the quarter reflecting the impact of cooler spring weather in Alaska, lower discretionary spending in CUL and very strong comparable sales growth from AC in 2010 when federal income tax stimulus payments helped drive spending. CUL overall same store sales were positive for the quarter reversing our 2010 sales trend. Sales in our wholesale business were also up for the quarter as we cycled through weak sales performance in 2010.

Gross profit dollars were up 5.4% as a result of sales growth and improved gross profit rates. The rate improvement was due in part to less promotional pricing pressure at CUL and better inventory shrink management, partially offset by higher markdowns to clear seasonal merchandise. Selling, operating and administrative expenses increased 3.9% but were flat to last year as a percent to sales. The increase in expenses is largely due to staff costs, higher incentive plan expenses reflecting the improved performance in the quarter and higher utility expenses caused by higher fuel prices reaching CUL's markets and cooler weather conditions in rural Alaska. Partially offsetting these increases was lower debt loss expense in the quarter.

Trading profit increased 9.2% to \$6.2 million compared to \$5.7 million last year and as a percent to sales was 5.5% compared to 5.2% in the first quarter last year.

FINANCIAL CONDITION

Financial Ratios

The Company's debt-to-equity ratio at the end of the quarter was 0.71:1 compared to 0.78:1 last year. The debt-to-equity ratio at January 31, 2011 was 0.67:1.

Working capital decreased 29.1% or \$38.2 million compared to the first quarter last year largely due to the current portion of long term debt. The increase in the current portion of long-term debt is due to the \$87.8 million outstanding on the credit facility in Canadian Operations which matures December 31, 2011 compared to the \$52.6 million credit facility in International Operations that was refinanced in November 2010. Excluding the impact of these maturing credit facilities, working capital decreased \$3.0 million or 1.6% compared to last year.

Outstanding Shares

The weighted average basic shares outstanding for the quarter were 48,378,000 compared to 48,035,000 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 48,533,000 compared to 48,482,000 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

The following table summarizes the major components of cash flow:

\$ in thousands	Three Months April 30, 2011	Three Months April 30, 2010	Change
Cash flows from (used in):			
Operating Activities	\$ 11,615	\$ 5,891	\$ 5,724
Investing Activities	(8,977)	(5,777)	(3,200)
Financing Activities	(811)	315	(1,126)
Net change in cash	\$ 1,827	\$ 429	\$ 1,398

Cash flow from operating activities in the quarter increased \$5.7 million to \$11.6 million from \$5.9 million last year. This increase is due to the change in non-cash working capital largely related to the change in accounts payable in the quarter compared to the prior year. Cash flow from operations² was \$28.4 million consistent with the prior year.

Cash used for investing activities in the quarter increased to \$9.0 million compared to \$5.8 million last year due to a difference in the timing of capital investments. 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 \$0.8 million compared to \$0.3 million in cash flow provided from financing last year. The change in bank advances is due to a reduction in the amount outstanding under the International Operations credit facility. The change in long-term debt in the quarter is largely due to an increase in the amount drawn on the Canadian Operations revolving credit facility. During the quarter, the Company repaid a note payable in the amount of US\$3.9 million.

The Company paid dividends of \$16.0 million compared to distributions from the Fund of \$19.4 million in the first quarter last year. The decrease in the amount paid to shareholders is due to the conversion to a share corporation and the taxation of earnings in the Canadian Operations. While higher corporate income taxes will reduce the Company's net earnings available for dividends to shareholders, the after-tax impact on personal income is largely offset for taxable investors benefiting from the dividend tax credit.

Sources of Liquidity

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 April 30, 2011, the Company had drawn \$87.8 million on these facilities (April 30, 2010 – \$88.8 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 April 30, 2011, the Company had drawn US\$48.0 million on these facilities (April 30, 2010 – US\$52.0 million).

The International Operations also have available a committed, revolving loan facility of US\$20.0 million that matures October 31, 2012 and is secured by a floating charge against certain accounts receivable and inventories of the International Operations. At April 30, 2011, the Company had US\$1.3 million drawn on these facilities (April 30, 2010 – US\$2.9 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 April 30, 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

The Board of Directors of the Company declared a quarterly dividend of \$0.24 per share to shareholders of record on June 30, 2011, payable on July 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 dividends are designated as eligible dividends in accordance with the administrative position of the Canada Revenue Agency.

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. See Conversion to a Share Corporation below for further information.

CONVERSION TO A SHARE CORPORATION

On January 1, 2011, the North West Company Fund (the "Fund") completed its previously announced conversion to a corporation named The North West Company Inc. (the "Company") by way of a plan of arrangement under section 192 of the Canada Business Corporations Act ("CBCA"). Unitholders of the Fund received one common share of the Company for each unit of the Fund held. Upon conversion, the Company assumed all of the covenants and obligations of the Fund and the common shares of the Company are now trading on the Toronto Stock Exchange under the symbol "NWC". 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.

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 restated to conform with IFRS. 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.

QUARTERLY HIGHLIGHTS

- A Giant Tiger store opened in Edmonton, Alberta on April 9, 2011 increasing the Company's Giant Tiger store count to 35.
- The Company's leased store in Kasabonika, Ontario was destroyed by fire on April 22, 2011 and reopened one week later in a temporary facility.
- A new Canadian federal program called Nutrition North ("NN") was launched on April 1, 2011. Under the NN program, freight subsidies were adjusted for qualifying food items by community and each retailer became accountable to deliver qualifying products as efficiently as possible. In conjunction with the program launch NWC announced price reductions of approximately \$6 million across all stores eligible under the program. These reductions were a direct pass through of efficiency gains and also reflected our commitment to lead in bringing lower pricing to our customers.
- On May 2, 2011, the Company announced that its trading symbol on the Toronto Stock Exchange was changed to "NWC" which is more reflective of the Company's corporate identity and is consistent with the trading symbol of the Company prior to converting to an income trust in 1997.

OUTLOOK

The Company continues to work on "More Growth in Store" initiatives outlined in its long range plan. The focus is on improving in-stock performance, perishable food profitability, supply chain improvements and store management stability. Economic conditions driven by commodity prices and personal income growth in northern Canada and Alaska are expected to remain favourable in 2011 and this should contribute to same store sales gains from our banners in these markets in the second quarter. Retail food competition in Western Canada is expected to continue to impact same store sales at Giant Tiger. Sales at CUL are expected to continue to show improvement as we cycle through the poor performance that occurred in the first half of last year. We are continuing to recapture business that was affected by shipping disruptions in our International Operations wholesale business last year which should result in modest sales growth in the second quarter.

The implementation of Nutrition North will result in lower transportation costs for most qualifying communities. This is expected to have a deflationary impact on sales within the eligible food categories in our Northern and NorthMart stores but will also present an opportunity to grow our tonnage volume.

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 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 2011, the quarters have the same number of days of operations as 2010. The following is a summary of selected quarterly financial information which is prepared in accordance with IFRS except for the 2009 information which was prepared in accordance with Canadian GAAP (CGAAP).

Operating Results-Consolidated

(\$ in millions)	First Quarter		Fourth Quarter		Third Quarter		Second Quarter	
	IFRS	IFRS	IFRS	CGAAP	IFRS	CGAAP	IFRS	CGAAP
	92 days	92 days	92 days	92 days	92 days	92 days	92 days	92 days
	2011	2010	2010	2009	2010	2009	2010	2009
Sales	\$346.3	\$340.1	\$374.5	\$370.5	\$367.3	\$360.8	\$366.2	\$367.5
Trading profit	28.4	28.3	31.0	32.3	34.2	36.1	32.2	34.3
Net earnings	12.4	17.8	9.2	20.2	22.4	25.0	20.2	20.5
Net earnings per share:								
Basic	0.26	0.37	0.19	0.42	0.47	0.52	0.42	0.43
Diluted	0.26	0.37	0.19	0.42	0.46	0.51	0.42	0.43

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 all 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 IFRS. 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. Additionally, management is necessarily required to use judgment in evaluating controls and procedures. There have been no changes in the internal controls over financial reporting during the quarter ended April 30, 2011 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As required by the Canadian Accounting Standards Board, the Company has adopted IFRS and accordingly the unaudited interim condensed consolidated financial statements for the period ending April 30, 2011 and the corresponding 2010 comparative figures have been prepared in accordance with IFRS and IAS 34, *Interim Financial Reporting*. A reconciliation of the 2010 financial statements prepared under Canadian generally accepted principles to IFRS and other reconciliations required under IFRS 1, *First-time Adoption of International Financial Reporting Standards* is included in Note 16 to the consolidated financial statements.

During the quarter ended April 30, 2011, the Company finalized the selection of its IFRS accounting policies and its IFRS 1 optional exemptions and mandatory exceptions. These accounting policies are consistent with those disclosed in the Company's 2010 Annual Financial Report and have been approved by the Company's Audit Committee and Board of Directors. The significant accounting policies are described in Note 3 to the unaudited interim condensed consolidated financial statements and the significant exemptions and exceptions available in IFRS 1 selected by the Company are described in Note 16.

The Company also completed its review of the impact of implementing IFRS on disclosure controls and internal controls over financial reporting to ensure that the appropriate controls and procedures are in place. There were no material changes in disclosure controls and internal controls over financial reporting as a result of adopting IFRS.

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments are applicable to the Company's financial year beginning February 1, 2012. The Company is currently assessing the impact of these amendments.

Income Taxes The IASB has issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The Company does not expect this change to have a significant effect on its consolidated financial statements.

Financial Instruments The IASB has issued a new standard which will eventually replace IAS 39, *Financial Instruments: Recognition and Measurement*. The development of IFRS 9, *Financial Instruments* is a multi-phase project with a goal of improving and simplifying financial instrument reporting. This standard is effective for the Company's financial year beginning February 1, 2013. The Company is currently assessing the impact of this new standard.

Fair Value Measurement IFRS 13 – Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. The Company is assessing the impact of this new standard.

NON-GAAP MEASURES

(1) **Trading Profit (EBITDA)** is not a recognized measure under IFRS. 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)	First Quarter	
	<u>2011</u>	<u>2010</u>
Net earnings	\$ 12,425	\$ 17,848
Add: Amortization	9,002	8,812
Interest expense	1,497	1,423
Income taxes	<u>5,463</u>	<u>250</u>
Trading profit	<u>\$ 28,387</u>	<u>\$ 28,333</u>

For trading profit information by business segment, refer to Note 5 Segmented Information in the Notes to the unaudited interim condensed consolidated financial statements.

(2) **Cash Flow from Operations** is not a recognized measure under IFRS. 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)	First Quarter	
	<u>2011</u>	<u>2010</u>
Cash flow from operating activities	\$ 11,615	\$ 5,891
Non-cash items:		
Change in other non-cash items	(25)	1,571
Change in non-cash working Capital	<u>16,772</u>	<u>20,925</u>
Cash flow from operations	<u>\$ 28,362</u>	<u>\$ 28,387</u>

Unless otherwise stated, this Management’s Discussion & Analysis (MD&A) is based on the financial information included in the unaudited interim condensed Consolidated Financial Statements and Notes to the unaudited interim condensed Consolidated Financial Statements which have been prepared in accordance with International Financial Reporting Standards and is in Canadian dollars. The information contained in this MD&A is current to June 14, 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 2010 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)	April 30 2011	April 30 2010	January 31 2011	February 1 2010
CURRENT ASSETS				
Cash	\$ 33,058	\$ 27,707	\$ 31,231	\$ 27,278
Accounts receivable	67,721	65,784	70,180	71,767
Inventories (Note 7)	182,285	183,854	177,019	177,877
Prepaid expenses	7,756	8,022	6,359	4,786
	290,820	285,367	284,789	281,708
NON-CURRENT ASSETS				
Property and equipment	256,126	255,565	259,583	262,027
Goodwill	24,837	27,195	26,241	28,593
Intangible assets	16,007	17,214	17,147	18,332
Deferred tax assets	15,957	27,491	17,017	26,747
Other assets	11,050	9,766	11,811	11,113
	323,977	337,231	331,799	346,812
TOTAL ASSETS	\$ 614,797	\$ 622,598	\$ 616,588	\$ 628,520
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 102,831	\$ 94,983	\$ 116,773	\$ 113,407
Current portion of long-term debt (Note 10)	89,703	56,368	68,257	56,651
Income tax payable (Note 8)	5,272	2,806	347	1,888
	197,806	154,157	185,377	171,946
NON-CURRENT LIABILITIES				
Long-term debt (Note 10)	112,045	164,253	124,339	152,519
Provisions	3,814	3,641	3,784	3,616
Defined benefit plan obligation	8,378	10,857	9,000	10,957
Deferred tax liabilities	2,437	1,501	2,587	1,521
Other long-term liabilities	4,438	4,206	5,026	6,408
	131,112	184,458	144,736	175,021
TOTAL LIABILITIES	328,918	338,615	330,113	346,967
SHAREHOLDERS' EQUITY				
Share capital (Note 6)	165,133	165,133	165,133	165,133
Unit purchase loan plan (Note 13)	—	(4,686)	—	(6,428)
Contributed surplus	2,671	1,569	2,491	1,569
Retained earnings	120,553	122,678	119,739	121,279
Accumulated other comprehensive income	(2,478)	(711)	(888)	—
TOTAL EQUITY	285,879	283,983	286,475	281,553
TOTAL LIABILITIES & EQUITY	\$ 614,797	\$ 622,598	\$ 616,588	\$ 628,520

See accompanying notes to condensed consolidated financial statements, including Note 16 which reconciles amounts previously reported under Canadian generally accepted accounting principles (Canadian GAAP) to International Financial Reporting Standards (IFRS)

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited, \$ in thousands, except per share amounts)	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010
SALES	\$ 346,262	\$ 340,133
Cost of sales	(250,175)	(245,227)
Gross profit	96,087	94,906
Selling, operating and administrative expenses	(76,702)	(75,385)
Earnings from operations	19,385	19,521
Interest expense (Note 12)	(1,497)	(1,423)
Earnings before income taxes	17,888	18,098
Provision for income taxes (Note 8)	(5,463)	(250)
NET EARNINGS FOR THE PERIOD	\$ 12,425	\$ 17,848
NET EARNINGS PER SHARE		
Basic	\$ 0.26	\$ 0.37
Diluted	\$ 0.26	\$ 0.37
Weighted-Average Number of Shares Outstanding (000's)		
Basic	48,378	48,035
Diluted	48,533	48,482

See accompanying notes to condensed consolidated financial statements, including Note 16 which reconciles amounts previously reported under Canadian GAAP to IFRS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, \$ in thousands)	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010
NET EARNINGS FOR THE PERIOD	\$ 12,425	\$ 17,848
Other comprehensive income/(expense):		
Exchange differences on translation of foreign controlled subsidiaries, net of tax	(1,590)	(711)
Total other comprehensive income, net of tax	(1,590)	(711)
COMPREHENSIVE INCOME	\$ 10,835	\$ 17,137

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited, \$ in thousands)	Capital	Unit Purchase Loan Plan	Contributed Surplus	Retained Earnings	AOCI ⁽¹⁾	Total
Balance at January 31, 2011	165,133	–	2,491	119,739	(888)	286,475
Net earnings	–	–	–	12,425	–	12,425
Other comprehensive income	–	–	–	–	(1,590)	(1,590)
Comprehensive income	–	–	–	12,425	(1,590)	10,835
Share-based payments adjustment	–	–	180	–	–	180
Dividends (Note 9)	–	–	–	(11,611)	–	(11,611)
	–	–	180	(11,611)	–	(11,431)
Balance at April 30, 2011	165,133	–	2,671	120,553	(2,478)	285,879
Balance at February 1, 2010	165,133	(6,428)	1,569	121,279	–	281,553
Net earnings	–	–	–	17,848	–	17,848
Other comprehensive income	–	–	–	–	(711)	(711)
Comprehensive income	–	–	–	17,848	(711)	17,137
Dividends (Note 9)	–	–	–	(16,449)	–	(16,449)
UPLP repayment	–	1,742	–	–	–	1,742
	–	1,742	–	(16,449)	–	(14,707)
Balance at April 30, 2010	165,133	(4,686)	1,569	122,678	(711)	283,983

(1) Accumulated Other Comprehensive Income

See accompanying notes to condensed consolidated financial statements, including Note 16 which reconciles amounts previously reported under Canadian GAAP to IFRS

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, \$ in thousands)	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings for the period	\$ 12,425	\$ 17,848
Adjustments for:		
Amortization	9,002	8,812
Provision for income taxes (Note 8)	5,463	250
Interest expense (Note 12)	1,497	1,423
Share option expense (Note 13)	180	115
Taxes paid	(296)	(40)
Amortization of deferred financing costs	55	53
(Gain)/Loss on disposal of property and equipment	36	(74)
	28,362	28,387
Change in non-cash working capital	(16,772)	(20,925)
Change in other non-cash items	25	(1,571)
Cash from operating activities	11,615	5,891
Investing activities		
Purchase of property and equipment	(9,097)	(5,871)
Proceeds from disposal of property and equipment	120	94
Cash from investing activities	(8,977)	(5,777)
Financing activities		
Increase in long-term debt	19,381	18,463
Repayments of long-term debt	(3,676)	(131)
Dividends / distributions (Note 9)	(15,965)	(19,353)
Repayments of Unit Purchase Loan Plan (Note 13)	-	1,742
Interest paid	(551)	(406)
Cash from financing activities	(811)	315
NET CHANGE IN CASH	1,827	429
Cash, beginning of period	31,231	27,278
CASH, END OF PERIOD	\$ 33,058	\$ 27,707

See accompanying notes to condensed consolidated financial statements, including Note 16 which reconciles amounts previously reported under Canadian GAAP to IFRS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

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 unaudited interim period condensed consolidated financial statements (condensed consolidated financial statements) reflect the financial position, financial performance and cash flows as if the Company had always carried on the business formerly carried on by the Fund. 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.

These condensed consolidated financial statements have been approved for issue by the Board of Directors of the Company on June 14, 2011.

2. BASIS OF PREPARATION

(A) **Statement of Compliance** These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB) and using the accounting policies the Company expects to adopt in its annual consolidated financial statements as at and for the financial year ending January 31, 2012. Changes in accounting policies are the result of changing from previous Canadian GAAP to IFRS. These are the Company's first condensed consolidated financial statements prepared under IFRS as Canadian GAAP, and IFRS 1 *First-Time Adoption of International Financial Reporting Standards* has been applied.

These condensed consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes included in The North West Company Inc.'s 2010 Annual Financial Report. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 16.

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

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

2. BASIS OF PREPARATION (continued)

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

- (A) **Basis of Consolidation** Subsidiaries are entities controlled, either directly or indirectly, by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases.

Associates are entities that are neither subsidiaries nor joint ventures, over which the Company has significant influence. The Company's share of its associate's results are included in the consolidated statements of earnings using the equity method of accounting. Investments in associates are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share of net assets of the entity, less any impairment in value.

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

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

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Inventories are written down to net realizable value if net realizable value declines below carrying amount. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed.

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

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

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

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

(G) **Impairment**

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment of financial assets Financial assets classified as loans and receivables are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at their original effective interest rate.

Financial assets are tested for impairment at each reporting date. All impairment losses are recognized in the consolidated statement of earnings. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

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

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

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

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

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

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(L) Share-based Payment Transactions

Equity settled plans The Share Option Plan and Unit Purchase Loan Plan are equity settled share-based payment plans. The fair values of these plans are determined using option pricing models. The grant date fair values of these benefits are recognized as an employee expense over the vesting period, with corresponding increases in equity.

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

The value of the charges under both cash settled and equity settled plans are adjusted in the statement of earnings to reflect expected and actual levels of benefits vesting, with the corresponding adjustments made in accrued liabilities or equity.

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

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

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

The Company accounts for deferred income taxes using the liability method of tax allocation. Under the liability method, deferred income tax assets and liabilities are determined based on the temporary differences between the financial statement carrying values and tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be realized or settled. A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset the amounts and the Company intends to realize the asset and settle the liability simultaneously.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- (O) **Employee Benefits** The Company maintains a number of pension plans, including either 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. Other benefits include employee bonuses, employee share purchase plans and termination benefits.

Defined Benefit Pension Plan 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 the discount rate, expected plan investment performance, salary escalation, retirement rates, termination rates and retirement ages of employees. The discount rate used to value the defined benefit obligation is derived from the yield on a portfolio of AA Corporate bonds. When calculating expected returns on plan assets, assets are valued at fair market value.

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

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

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

Short-term Benefits A liability is recognized for the amount expected to be paid under short-term cash bonus or employee share purchase plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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

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

Provisions for onerous contracts are recognized when the expected benefits to be derived by the Company from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. If the effect is significant, provisions are discounted to the present value of the expected expenditure.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial instruments have been classified as follows:

- Cash is designated as fair value through profit or loss (FVTPL)
- Accounts receivable and financial assets included in other assets are classified as loans and receivables
- Long-term debt, provisions, accounts payable and accrued liabilities, and certain other liabilities are classified as other financial liabilities

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

The Company is exposed to financial risks associated with movements in interest rates and exchange rates. The Company may use derivative financial instruments to hedge these exposures. Qualifying hedge relationships are classified as either fair value or cash flow hedges. Fair value hedges are those where the derivative financial instrument hedges a change in the fair value of the financial asset or liability due to movements in interest rates. The Company does not have any cash flow hedges.

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

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

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 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.

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

Embedded derivatives are components of hybrid instruments that include non-derivative host contracts. They are separated from their host contract and recorded on the balance sheet at fair value. Changes in the fair value of embedded derivatives are recognized in earnings.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(R) Cash Cash comprises cash on hand. Bank overdrafts are included in the current portion of long-term debt on the balance sheets.

(S) Net Earnings Per Share Basic net earnings per share are calculated by dividing the net earnings by the weighted-average number of common shares outstanding during the period. The units that were pledged as security for the loans issued under the previous Unit Purchase Loan Plan are deducted from the issued and outstanding shares of the Company to determine basic shares outstanding. Diluted net earnings per share is determined by adjusting net earnings and the weighted-average number of common shares outstanding for the effects of all potentially dilutive shares, which comprise shares issued under the Share Option Plan, Deferred Share Unit Plan and former Unit Purchase Loan Plan (Note 13).

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

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

Estimates and judgments are used when accounting for items such as:

- Goodwill impairment
- Impairment of assets
- Retirement benefit obligations
- Income taxes
- Financial instruments
- Inventories

(U) Future Standards and Amendments A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending January 31, 2012, and have not been applied in preparing these condensed consolidated financial statements.

Financial Instruments: Disclosures The IASB issued amendments to IFRS 7, *Financial Instruments: Disclosures* to expand the disclosure requirements for transfers of financial assets. The amendments are applicable to the Company's financial year beginning February 1, 2012. The Company is currently assessing the impact of these amendments.

Income Taxes The IASB has issued an amendment to IAS 12, *Income Taxes* introducing an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The Company does not expect this change to have a significant effect on its consolidated financial statements.

Financial Instruments The IASB has issued a new standard which will eventually replace IAS 39, *Financial Instruments: Recognition and Measurement*. The development of IFRS 9, *Financial Instruments* is a multi-phase project with a goal of improving and simplifying financial instrument reporting. This standard is effective for the Company's financial year beginning February 1, 2013. The Company is currently assessing the impact of this new standard.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement IFRS 13 – *Fair Value Measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. This standard is effective for the Company's financial year beginning February 1, 2013. The Company is currently assessing the impact of this new standard.

4. ADDITIONAL IFRS INFORMATION FOR THE YEAR ENDED JANUARY 31, 2011

As these condensed consolidated financial statements are the Company's first prepared financial statements using IFRS, certain disclosures that are required to be included in the annual financial statements prepared in accordance with IFRS that were not included in the Company's annual financial statements prepared in accordance with Canadian GAAP have been included below. Only those additional disclosures considered material to the understanding of the Company's condensed consolidated financial statements have been included.

Property & equipment

January 31, 2011	Land	Buildings	Leasehold improvements	Fixtures & equipment	Computer equipment	Construction in process	Total
Cost at February 1, 2010	12,759	281,590	34,769	193,833	51,878	8,214	583,043
Additions	–	14,952	3,699	12,842	4,084	(352)	35,225
Disposals	(287)	(1,093)	(224)	(398)	(251)	–	(2,253)
Effect of movements in foreign exchange	(290)	(4,215)	(748)	(3,041)	(409)	(61)	(8,764)
Total January 31, 2011	12,182	291,234	37,496	203,236	55,302	7,801	607,251
Accumulated amortization at February 1, 2010	–	136,034	15,556	125,002	44,424	–	321,016
Amortization expense	–	13,819	2,666	12,005	3,751	–	32,241
Disposals	–	(1,123)	(136)	(380)	(109)	–	(1,748)
Effect of movements in foreign exchange	–	(1,771)	(320)	(1,402)	(348)	–	(3,841)
Total January 31, 2011	–	146,959	17,766	135,225	47,718	–	347,668
Net book value January 31, 2011	12,182	144,275	19,730	68,011	7,584	7,801	259,583
Net book value January 31, 2010	12,759	145,556	19,213	68,831	7,454	8,214	262,027

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

Goodwill & indefinite life intangible assets

The goodwill and indefinite life intangible asset balances relate to the Company's acquired subsidiary – Cost-U-Less and are allocated to the International operating segment. The value of the goodwill was tested by means of comparing the recoverable amount of the operating segment to its carrying value. To calculate the operating segment's recoverable amount, the Company uses the capitalized earnings method. The product of maintainable earnings and a capitalization rate are used to determine the recoverable amount. The capitalization rate is based on the International Operations weighted-average cost of capital. Key assumptions in the capitalization rate include: equity risk premium, debt-to-equity ratio, pre-tax cost of debt capital and company specific risk premium. Cash flow forecasts for the following financial year are used to calculate maintainable earnings, to which a terminal growth rate of 2% has been applied. The capitalization rate implies a post-tax discount rate of 11.5% (January 31, 2010 – 11.4%), which equates to a pre-tax rate of approximately 16.0% (January 31, 2010 – 15.1%). No intangible assets were identified as impaired.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

4. ADDITIONAL IFRS INFORMATION FOR THE YEAR ENDED JANUARY 31, 2011 (continued)

Employee costs

Year Ended	January 31, 2011
Wages, salaries and benefits including bonus	\$ 193,169
Retirement benefit expense	\$ 4,705
Share-based compensation (Note 13)	\$ 4,407

Included in the above are the following amounts in respect of key management compensation:

Wages, salaries and benefits including bonus and termination benefits	\$ 2,476
Retirement benefit expense	\$ 574
Share-based compensation	\$ 2,563

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

Interest expense

Year Ended	January 31, 2011
Interest on long-term debt	\$ 6,299
Fair value movement of derivative financial instruments in effective fair value hedging relationships	(70)
Expected return on pension plan assets	(3,523)
Interest on pension plan liabilities	3,753
Other interest (income)/expense	(352)
Less: interest capitalized	(30)
Interest expense	\$ 6,077

Earnings per share

Basic net earnings per share are calculated based on the weighted-average shares outstanding during the period. The diluted net earnings per share takes into account the dilutive effect of all potential ordinary shares. These comprise the options granted under the Share Option Plan, shares issued pursuant to the Deferred Share Unit Plan, and the anti-dilutive effect had shares not been outstanding under the Unit Purchase Loan Plan during the period.

Diluted earnings per share is provided by adjusting for additional income that would have been earned by the Company had interest costs not been incurred on the Unit Purchase Loan Plan.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

4. ADDITIONAL IFRS INFORMATION FOR THE YEAR-ENDED JANUARY 31, 2011 (continued)

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period the options were outstanding.

Year Ended (shares in thousands)	January 31, 2011	
Diluted earnings per share calculation:		
Net earnings for the period (numerator for basic earnings per share)	\$	69,656
After-tax interest cost of Unit Purchase Loan Plan		51
Numerator for diluted earnings per share	\$	69,707
Weighted-average shares outstanding ⁽¹⁾ (denominator for basic earnings per share)		48,180
Dilutive effect of share-based compensation		332
Denominator for diluted earnings per share		48,512
Basic earnings per share	\$	1.45
Diluted earnings per share	\$	1.44

(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 "shares."

5. SEGMENTED INFORMATION

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

The following key information is presented by geographic segment:

Consolidated Statement of Earnings:

	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010
Sales		
Canada	\$ 236,861	\$ 229,112
International	109,401	111,021
Consolidated	\$ 346,262	\$ 340,133
Earnings before amortization, interest and income taxes		
Canada	\$ 22,370	\$ 22,519
International	6,017	5,814
Consolidated	\$ 28,387	\$ 28,333
Earnings from operations		
Canada	\$ 15,260	\$ 15,716
International	4,125	3,805
Consolidated	\$ 19,385	\$ 19,521
	April 30, 2011	April 30, 2010
Assets		
Canada	\$ 442,581	\$ 442,460
International	172,216	180,138
Consolidated	\$ 614,797	\$ 622,598

International total assets includes goodwill of \$24,837 (April 30, 2010 - \$27,195).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

5. SEGMENTED INFORMATION (continued)

Supplemental information:

	Three Months Ended April 30, 2011		Three Months Ended April 30, 2010	
	Canada	International	Canada	International
	Expenditure on property and equipment	\$ 8,481	\$ 616	\$ 4,620
Amortization	\$ 7,110	\$ 1,892	\$ 6,803	\$ 2,009

6. ISSUED SHARE CAPITAL

Authorized – The Company has an unlimited number of shares.

	Shares	April 30, 2011	Shares	April 30, 2010
Issued and outstanding	48,378,000	\$ 165,133	48,378,000	\$ 165,133

7. INVENTORIES

For inventories recognized as an expense for the three months ended April 30, 2011, the Company recognized \$393 (April 30, 2010 - \$305) 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 three months ended April 30, 2011 or 2010.

8. INCOME TAXES

On January 1, 2011, the North West Company Fund (the “Fund”) converted from an income trust into a publicly traded share corporation pursuant to the Arrangement (Note 1). Prior to the conversion to a share corporation, a substantial portion of the earnings from The North West Company LP flowed to the Fund and was ultimately distributed to unitholders. There was no current income tax payable by the Fund on these distributions. Upon conversion to a share corporation, the earnings of The North West Company LP are taxed in the Company based on the statutory corporate income tax rates.

9. DIVIDENDS

	April 30, 2011	April 30, 2010
Dividends/distributions recorded in retained earnings	\$ 11,611	\$ 16,449
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
Dividends/distributions paid in cash	\$ 15,965	\$ 19,353
Dividends/distributions per share	\$ 0.33	\$ 0.40

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

9. DIVIDENDS (continued)

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

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

10. LONG-TERM DEBT

	April 30 2011	April 30 2010	January 31 2011
Current			
Bank advances ⁽¹⁾	\$ 1,209	\$ 2,883	\$ –
Revolving loan facilities ⁽²⁾	87,835	–	67,445
Non-revolving loan facilities ⁽³⁾	–	52,603	–
Notes payable ⁽⁴⁾	253	391	388
Finance lease liabilities	406	491	424
	\$ 89,703	\$ 56,368	\$ 68,257
Non-current			
Senior notes ⁽⁵⁾	\$ 65,518	\$ 69,786	\$ 69,199
Revolving loan facilities ⁽²⁾	–	88,790	–
Revolving loan facilities ⁽³⁾	45,533	–	50,110
Notes payable ⁽⁴⁾	558	4,799	4,462
Finance lease liabilities	436	878	568
	112,045	164,253	124,339
Total	\$ 201,748	\$ 220,621	\$ 192,596

(1) 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 April 30, 2011, the International Operations had drawn US\$1,274 (April 30, 2010 – US\$2,850) on the facility.

(2) Canadian Operations have available extendible, committed, revolving loan facilities of \$140,000 that mature on December 31, 2011. These facilities are secured by a floating charge against the assets of the Company and rank *pari passu* with the 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.

(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 April 30, 2011, the Company has drawn US\$48,000 (April 30, 2010 – US\$52,000) on this facility.

(4) Notes payable in the amount of US\$855 bear interest at a rate of U.S. prime plus 1% and have annual principal payments of US\$267. Notes payable in the amount of US\$3,873 bearing interest at 5.75% were repaid in April 2011.

(5) The US\$70,000 senior notes mature on June 15, 2014 and bear interest at a rate of 6.55%, payable semi-annually. The notes are secured by a floating charge against the assets of the Company and rank *pari passu* with the \$140,000 Canadian Operations loan facilities and the US\$52,000 loan facilities in International Operations. The Company has entered into interest rate swaps resulting in floating interest costs on US\$28,000 of its senior notes (April 30, 2010 – US\$28,000). The interest rate swaps mature June 15, 2014.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

11. EMPLOYEE COSTS

	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010
Wages, salaries and benefits including bonus	\$ 47,455	\$ 45,736
Retirement benefit expense	\$ 1,237	\$ 1,180
Share-based compensation (Note 13)	\$ 779	\$ 1,414

12. INTEREST EXPENSE

	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010
Interest on borrowings	\$ 1,547	\$ 1,461
Fair value movement of derivative financial instruments in effective fair value hedging relationships	18	(10)
Expected return on pension plan assets	(960)	(886)
Interest on pension plan liabilities	955	944
Other interest income	(63)	(56)
Less: interest capitalized	-	(30)
Interest expense	\$ 1,497	\$ 1,423

13. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Restricted Share Units; Performance Share Units; Share Options; Director Deferred Share Units; and an Employee Share Purchase Plan. The Company discontinued its Unit Purchase Loan Plan effective January 31, 2011. The purpose of these plans is to directly align the interests of the participants and the shareholders of the Company by providing compensation that is dependent on the performance of the Company's common shares.

The total charge for the period relating to share-based payment plans was \$779 (April 30, 2010 - \$1,414).

Restricted Share Units and Performance Share Units

The Company grants 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 following the date of the grant to which the award relates. The associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period.

Each PSU entitles the participant to receive a cash payment equal to the market value of the number of notional units granted at the end of the vesting period multiplied by factors related to the achievement of specific performance based criteria. The PSU account for each participant includes the value of dividends from the Company as if reinvested in additional PSU's. PSU awards vest with the employee on the third fiscal year following the date of the grant to which the award relates. 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

13. SHARE-BASED COMPENSATION (continued)

Compensation costs related to the RSU's and PSU's for the three months ended April 30, 2011 are \$547 (April 30, 2010 - \$811).

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 employee may elect to acquire shares based on the excess of the fair market value of the Company's shares over the option price. The fair value of the share-based compensation is recognized in net earnings over the vesting period.

The terms of the plan provide for granting options up to 5% of the Company's issued and outstanding shares less shares reserved under any other equity based compensation plans. 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. Fair value of these options at the grant date is determined using an option pricing model. Share options granted vest on a graduated basis over five years and are exercisable over a period of ten years. The share option compensation cost recorded for the three months ended April 30, 2011 was \$180 (April 30, 2010 - \$115).

There were no options granted during the three months ended April 30, 2011. The fair value for options issued during the three months ended April 30, 2010 was calculated based on the following assumptions:

	April 30, 2010
Share price at grant date	\$ 19.11
Fair value of options granted	\$ 4.60
Exercise price	\$ 19.11
Dividend yield	6.87%
Annual risk-free interest rate	3.12%
Expected share price volatility	29.89%

The expected dividend yield is estimated based on the quarterly dividend rate and the closing share price on the date the options are granted.

The expected share price volatility is estimated based on the Company's historical volatility over a period consistent with the expected life of the options.

The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the grant date for a term to maturity equal to the expected life of the options.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

13. SHARE-BASED COMPENSATION (continued)

The following continuity schedule reconciles the movement in outstanding options during the period:

	April 30, 2011		April 30, 2010	
	Number of options	Weighted-Average Exercise Price	Number of options	Weighted-Average Exercise Price
Outstanding options, beginning of period	509,200	\$ 17.10	274,600	\$ 15.25
Granted	–	–	237,800	19.11
Exercised	–	–	–	–
Forfeited or cancelled	–	–	–	–
Outstanding options, end of period	509,200	\$ 17.10	512,400	\$ 17.04
Exercisable at end of period	–	–	–	–

The options outstanding at April 30, 2011 have an exercise price in the range of \$15.25 to \$19.74 and a weighted-average remaining contractual life of 8.5 years. No share options were exercised during the periods ending April 30, 2011 or April 30, 2010.

Deferred Share Unit Plan

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

Compensation expense is measured based on the fair market value at each reporting date. The deferred share unit plan compensation recorded for the three months ended April 30, 2011 is a recovery of \$243 (April 30, 2010 – expense of \$229). The total number of deferred share units outstanding at April 30, 2011 is 129,428 (April 30, 2010 – 110,827). There were 8,580 deferred share units exercised during the period. These deferred share units were settled in cash. The liability for the deferred share unit plan is recorded in accounts payable and accrued liabilities on the Company's consolidated balance sheet.

Employee Share Purchase Plan

The Employee Share Purchase Plan provides participants with the opportunity to acquire an ownership interest in the Company. The Company contributes an additional 33% of the amount invested, subject to a maximum annual contribution of 2% of the participants' base salary. The plan is administered by a trustee who uses the funds received to purchase shares on the TSX on behalf of the participating employees. These shares are registered in the name of the plan trustee on behalf of the participants. The Company's contribution to the plan is recorded as compensation expense. The employee share purchase plan compensation recorded for the three months ended April 30, 2011 is \$295 (April 30, 2010 – \$259).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

13. SHARE-BASED COMPENSATION (continued)

Unit Purchase Loan Plan

The Company had a Unit Purchase Loan Plan (UPLP) for officers and senior management whereby loans were granted to employees to purchase units of NWF. These loans were in substance similar to stock options and accordingly were accounted for as share-based compensation 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. These loans were non-interest bearing and employees were required to make principal payments on the loan equal to the after-tax distributions on the units pledged as security.

As at January 31, 2011, the plan was discontinued and all outstanding loans have been repaid. The compensation cost relating to the UPLP for the period ending April 30, 2010 was \$NIL.

14. SEASONALITY

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

15. SUBSIDIARIES

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS

For all periods up to and including the period ended January 31, 2011, the Company prepared its consolidated financial statements in accordance with Canadian GAAP. These financial statements, for the three months ended April 30, 2011, are the first the Company has prepared under IFRS as Canadian GAAP.

The accounting policies set out in Note 3 have been applied in preparing the condensed consolidated financial statements for the three months ended April 30, 2011, the comparative information presented in these financial statements for the three months ended April 30, 2010 and the year ended January 31, 2011 and the preparation of an opening IFRS balance sheet as at February 1, 2010 (the Company's date of transition). The Company will ultimately prepare its IFRS financial statements as at and for the years ending January 31, 2012 and 2011 by applying existing IFRS with an effective date of January 31, 2012. Any subsequent changes to IFRS, that are given effect in the Company's annual consolidated financial statements for the year ending January 31, 2012 could result in restatement of these condensed consolidated financial statements, including the transition adjustments recognized.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in consolidated financial statements prepared in accordance with Canadian GAAP based on preliminary IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1), elections and exceptions and IFRS policy choices. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and notes that accompany these tables.

Transition elections

The requirements for the first time adoption of IFRS are set out in IFRS 1. Generally, the Company is required to determine its IFRS accounting policies and to apply these retrospectively. Due to cost and/or practical considerations, retrospective application is not always possible. Accordingly, IFRS 1 delineates certain mandatory exceptions and optional exemptions from retrospective application. The requirements of IFRS 1 most applicable to the Company are as follows:

Employee benefits A first time adopter must either recalculate its 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 has applied this exemption and all unrecognized actuarial gains and losses have been recognized in opening retained earnings as at February 1, 2010. In addition, the Company has elected to disclose all employee benefit plan historical disclosures required under IAS 19 for fiscal years subsequent to the transition to IFRS.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS (continued)

Cumulative translation account This exemption permits reclassification of all cumulative translation differences at the transition date from other comprehensive income to retained earnings. The Company has applied this exemption and the historical balance recorded as accumulated other comprehensive income was so transferred.

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*. This election applies to individual assets and it has been selectively applied.

Business combinations IFRS 3, *Business Combinations* may be applied retrospectively, effectively restating all business combinations in accordance with IFRS or by restating business combinations after a selected date. The Company has applied IFRS 3 prospectively from the date of transition. Goodwill and intangible assets arising on business combinations prior to the date of transition were not adjusted from the carrying value previously determined under Canadian GAAP.

The Company evaluated whether assets acquired and liabilities assumed met the recognition criteria in the relevant IFRS standard, and whether there were any assets acquired or liabilities assumed that were not recognized under Canadian GAAP for which recognition would be required under IFRS. The Company applied the requirements of IFRS to assets acquired and liabilities assumed in business combinations which resulted in no change to the carrying value of goodwill generated from business combinations occurring prior to the transition date.

Borrowing costs This exemption allows the Company to adopt IAS 23, *Borrowing Costs* prospectively. The Company will capitalize borrowing costs on qualifying assets where the commencement date for capitalization is on or after the transition date.

Estimates IFRS 1 stipulates a mandatory exemption from retrospective application of IFRS as it pertains to the use of estimates. Estimates made in accordance with IFRS at the changeover date and in the comparative period of the first IFRS financial statements are consistent with those determined under Canadian GAAP. The use of hindsight is not permitted and was not used to adjust estimates made in the past under Canadian GAAP, nor was there any evidence that previously made estimates were in error. The adjustments made in this note reflect differences in accounting policies between the two bases of accounting.

Hedging To achieve hedge accounting at the transition date, the hedging relationship must meet the requirements of IAS 39, *Financial Instruments: Recognition and Measurement* and be formally documented. The Company has hedged the fair value of a portion of its floating rate debt and also the foreign exchange exposure from its net investment in self-sustaining foreign operations. These hedging relationships were fully documented and designated at the transaction dates under Canadian GAAP and satisfied the hedge accounting criteria under IFRS at the changeover date.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS (continued)

Reconciliation of Consolidated Balance Sheets

	Note	CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS
		April 30, 2010			January 31, 2011			February 1, 2010		
CURRENT ASSETS										
Cash		27,707	–	27,707	31,231	–	31,231	27,278	–	27,278
Accounts Receivable		65,784	–	65,784	70,180	–	70,180	71,767	–	71,767
Inventories		183,854	–	183,854	177,019	–	177,019	177,877	–	177,877
Prepaid expenses		8,022	–	8,022	6,359	–	6,359	4,786	–	4,786
Future income taxes	(h)	3,911	(3,911)	–	4,514	(4,514)	–	4,135	(4,135)	–
		289,278	(3,911)	285,367	289,303	(4,514)	284,789	285,843	(4,135)	281,708
NON-CURRENT ASSETS										
Property and equipment	(a)	252,436	3,129	255,565	256,454	3,129	259,583	258,928	3,099	262,027
Goodwill	(b)	27,195	–	27,195	26,241	–	26,241	28,593	–	28,593
Intangible assets	(b)	17,214	–	17,214	17,147	–	17,147	18,332	–	18,332
Deferred tax assets	(h)	6,355	21,136	27,491	4,342	12,675	17,017	5,852	20,895	26,747
Other assets	(c)	24,905	(15,139)	9,766	26,995	(15,184)	11,811	26,252	(15,139)	11,113
		328,105	9,126	337,231	331,179	620	331,799	337,957	8,855	346,812
TOTAL ASSETS		617,383	5,215	622,598	620,482	(3,894)	616,588	623,800	4,720	628,520
CURRENT LIABILITIES										
Accounts payable and accrued liabilities		94,983	–	94,983	116,773	–	116,773	113,407	–	113,407
Current portion of long-term debt		56,368	–	56,368	68,257	–	68,257	56,651	–	56,651
Income tax payable		2,806	–	2,806	347	–	347	1,888	–	1,888
		154,157	–	154,157	185,377	–	185,377	171,946	–	171,946
NON-CURRENT LIABILITIES										
Long-term debt		164,253	–	164,253	124,339	–	124,339	152,519	–	152,519
Provisions	(d)	–	3,641	3,641	–	3,784	3,784	–	3,616	3,616
Defined benefit plans	(c)	–	10,857	10,857	–	9,000	9,000	–	10,957	10,957
Deferred tax liabilities	(h)	–	1,501	1,501	–	2,587	2,587	–	1,521	1,521
Other long-term liabilities	(e)	7,214	(3,008)	4,206	8,269	(3,243)	5,026	9,409	(3,001)	6,408
		171,467	12,991	184,458	132,608	12,128	144,736	161,928	13,093	175,021
TOTAL LIABILITIES		325,624	12,991	338,615	317,985	12,128	330,113	333,874	13,093	346,967
SHAREHOLDERS' EQUITY										
Capital		165,133	–	165,133	165,133	–	165,133	165,133	–	165,133
Unit purchase loan plan		(4,686)	–	(4,686)	–	–	–	(6,428)	–	(6,428)
Contributed surplus	(e)	1,569	–	1,569	2,156	335	2,491	1,569	–	1,569
Retained earnings	(f)	126,327	(3,649)	122,678	131,969	(12,230)	119,739	125,525	(4,246)	121,279
Accumulated other comprehensive income	(g)	3,416	(4,127)	(711)	3,239	(4,127)	(888)	4,127	(4,127)	–
TOTAL EQUITY		291,759	(7,776)	283,983	302,497	(16,022)	286,475	289,926	(8,373)	281,553
TOTAL LIABILITIES & EQUITY		617,383	5,215	622,598	620,482	(3,894)	616,588	623,800	4,720	628,520

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS (continued)

Reconciliation of Consolidated Statements of Earnings

	Note	CDN GAAP*	ADJ	IFRS	CDN GAAP*	ADJ	IFRS
		Period Ended April 30, 2010			Year Ended January 31, 2011		
SALES		340,133	–	340,133	1,448,104	–	1,448,104
Cost of sales		(245,227)	–	(245,227)	(1,034,772)	–	(1,034,772)
Gross profit		94,906	–	94,906	413,332	–	413,332
Selling, operating and administrative expenses	(i)	(75,525)	140	(75,385)	(323,522)	462	(323,060)
Earnings from operations	(i)	19,381	140	19,521	89,810	462	90,272
Interest expense	(j)	(1,395)	(28)	(1,423)	(5,875)	(202)	(6,077)
Earnings before income taxes		17,986	112	18,098	83,935	260	84,195
Provision for income taxes	(h)	(735)	485	(250)	(7,341)	(7,198)	(14,539)
NET EARNINGS FOR THE PERIOD		17,251	597	17,848	76,594	(6,938)	69,656

* In preparing the 2010 comparative information, certain Canadian GAAP financial statement components have been reclassified to conform with the presentation requirements of IFRS. A reconciliation of the consolidated statement of earnings format prescribed under Canadian GAAP to the one prescribed by IFRS has been provided in Note 16(l)

Reconciliation of Consolidated Statements of Comprehensive Income

	Note	CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS
		Period Ended April 30, 2010			Year Ended January 31, 2011		
NET EARNINGS FOR THE PERIOD		17,251	597	17,848	76,594	(6,938)	69,656
Other comprehensive income/(expense):							
Exchange differences on translation of foreign controlled subsidiaries, net of tax		(711)	–	(711)	(888)	–	(888)
Actuarial gains/(losses) on defined benefit pension plans, net of tax	(c)	–	–	–	–	(1,046)	(1,046)
Total other comprehensive income, net of tax		(711)	–	(711)	(888)	(1,046)	(1,934)
COMPREHENSIVE INCOME		16,540	597	17,137	75,706	(7,984)	67,722

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS (continued)

The impact of the adjustments below on deferred tax is set out in Note h.

(a) Property and equipment

The Company has elected under IFRS 1 to use the fair value of certain property as its deemed cost on transition to IFRS. Under Canadian GAAP these assets were carried at their original cost less accumulated amortization. The effect of this election is to increase property and equipment and retained earnings by \$2,813.

The adjustment to property and equipment also includes \$286 arising from a measurement difference on the asset retirement obligation (Note d) and \$30 of capitalized borrowing costs directly attributable to the construction of a qualifying asset that was expensed under Canadian GAAP (Note j). The estimated impact of these changes is reconciled as follows:

	April 30, 2010	January 31, 2011	February 1, 2010
Increase due to:			
IFRS 1 fair value election	\$ 2,813	\$ 2,813	\$ 2,813
Asset retirement obligation	286	286	286
Borrowing costs	30	30	–
Total adjustment	\$ 3,129	\$ 3,129	\$ 3,099

(b) Goodwill and intangible assets

The Company has elected to apply IFRS 3 prospectively from the date of transition. No adjustments to goodwill and intangible assets arising on business combinations prior to the date of transition were identified related to the carrying value previously determined under Canadian GAAP.

(c) Defined benefit plan obligation

The Company has elected to immediately recognize all cumulative actuarial gains and losses through opening retained earnings. The effect is to eliminate the accrued employee future benefit asset under Canadian GAAP and to record a liability for defined benefit plans with a corresponding decrease in retained earnings. The defined benefit plan liability represents the difference between the fair value of plan assets and the benefit obligation.

IAS 19 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. The Company has elected to recognize actuarial gains and losses on its defined benefit pension plans through other comprehensive income. The recognized actuarial gains and losses are presented in retained earnings.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS (continued)

The estimated impact of these changes is reconciled as follows:

	April 30, 2010	January 31, 2011	February 1, 2010
Net decrease due to:			
IFRS 1, cumulative actuarial losses	\$ (26,096)	\$ (26,096)	\$ (26,096)
Employee benefit expense differential	100	491	–
Actuarial gains	–	1,421	–
Total retained earnings adjustment	(25,996)	(24,184)	(26,096)
Portion applied to other assets	15,139	15,184	15,139
Defined benefit plans adjustment disclosed	\$ (10,857)	\$ (9,000)	\$ (10,957)

These changes resulted in an increase to earnings of \$100 and \$491 for the periods ending April 30, 2010 and January 31, 2011. An increase to other comprehensive income of \$1,421 (decrease of \$1,046 net of tax) was also required for the period ended January 31, 2011.

(d) Provisions

Under Canadian GAAP, an asset retirement obligation (decommissioning provision) was recorded in respect of the Company's obligation to restore certain facilities to their original condition. Under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* changes in the discount rate used to measure the liability result in its revaluation. Under Canadian GAAP, only changes to the estimate resulting in increases in the liability are discounted at the current interest rate. IAS 37 also requires certain of these obligations to be classified separately from accrued liabilities.

Changing the discount rate at transition results in an increase to provisions of \$541 and an increase to property and equipment of \$286 (Note a) at February 1, 2010. The estimated impact of these changes is reconciled as follows:

	April 30, 2010	January 31, 2011	February 1, 2010
Increase due to:			
Change in discount rate	\$ 541	\$ 541	\$ 541
Reclassification of decommissioning obligation	3,100	3,243	3,075
Provisions adjustment disclosed	\$ 3,641	\$ 3,784	\$ 3,616

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS (continued)

(e) Other long-term liabilities

As described in Note 13, the Company has granted options to certain employees of the Company. IFRS 2, *Share-based Payments* requires these liability awards to be measured at the grant date, and each subsequent reporting period, using a fair value model. This differs from Canadian GAAP whereby these liability awards were measured using the intrinsic value, which is based on the market price of the Company's shares.

In addition to this measurement change, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and IFRS 2 require certain obligations to be classified separately from other long-term liabilities. As a result both the decommissioning and share-based payments obligations have been reclassified to provisions and contributed surplus respectively. The estimated impact of these changes is reconciled as follows:

	April 30, 2010	January 31, 2011	February 1, 2010
Net decrease due to:			
Change in share-based payments	\$ 92	\$ 335	\$ 74
Reclassification of decommissioning obligation	(3,100)	(3,243)	(3,075)
Reclassification of share-based payments obligation	–	(335)	–
Other long-term liabilities adjustment disclosed	\$ (3,008)	\$ (3,243)	\$ (3,001)

(f) Retained earnings

A reconciliation of the adjustments the Company has applied to retained earnings to effect the transition from Canadian GAAP to IFRS is as follows:

	Note	April 30, 2010	January 31, 2011	February 1, 2010
RETAINED EARNINGS, Canadian GAAP		\$ 126,327	\$ 131,969	\$ 125,525
Adjusted by:				
Property and equipment	(a)	3,129	3,129	3,099
Defined benefit plans	(c)	(25,996)	(24,184)	(26,096)
Provisions	(d)	(541)	(541)	(541)
Other long-term liabilities	(e)	(92)	(335)	(74)
AOCI adjustments	(g)	4,127	4,127	4,127
Deferred taxes	(h)	15,724	5,574	15,239
Transition adjustment		(3,649)	(12,230)	(4,246)
RETAINED EARNINGS, IFRS		\$ 122,678	\$ 119,739	\$ 121,279

(g) Accumulated other comprehensive income (AOCI)

The Company has elected to reset all cumulative translation differences that arose prior to the date of transition to IFRS in respect of all foreign entities to \$NIL at the date of transition. The effect is to decrease accumulated other comprehensive income by \$4,127 for all period ends presented, and to increase retained earnings by these same amounts.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS (continued)

A reconciliation of the adjustments the Company has applied to AOCI to effect the transition from Canadian GAAP to IFRS is as follows:

	Note	April 30, 2010	January 31, 2011	February 1, 2010
AOCI, Canadian GAAP		\$ 3,416	\$ 3,239	\$ 4,127
Cumulative translation account adjustment	(f)	(4,127)	(4,127)	(4,127)
AOCI, IFRS		\$ (711)	\$ (888)	\$ –

(h) Deferred taxes

Changes to tax reporting are predominantly caused by adjustments to the accounting basis of assets and liabilities under IFRS, the classification of all deferred tax assets and liabilities as “long-term”, and differing tax rates applicable to mutual fund trusts.

From February 1, 2010 through December 31, 2010, the organization was structured as an income trust. During this period, deferred tax assets and liabilities must be calculated using the highest marginal tax rate of the Fund, which is 46.4%. A significant portion of this increase reversed through the statement of earnings as deferred tax expense in the 2010 fourth quarter comparative numbers as a result of the conversion to a share corporation and the application of corporate tax rates to calculate deferred tax assets. The impact of these changes is as follows:

	Note	April 30, 2010	January 31, 2011	February 1, 2010
Property and equipment	(a)	\$ (459)	\$ (459)	\$ (451)
Defined benefit pension plans	(c)	6,925	6,465	6,952
Property provisions	(d)	151	151	144
Application of undistributed tax rate		9,665	–	9,157
Other differences		(558)	(583)	(563)
Net deferred tax adjustment		15,724	5,574	15,239
Reclassification of current deferred taxes		3,911	4,514	4,135
		\$ 19,635	\$ 10,088	\$ 19,374
Disclosed as:				
Deferred tax assets		\$ 21,136	\$ 12,675	\$ 20,895
Deferred tax liabilities		(1,501)	(2,587)	(1,521)
		\$ 19,635	\$ 10,088	\$ 19,374

These differences decreased deferred income tax expense recognized in net earnings by \$485 for the three months ended April 30, 2010. For the year ended January 31, 2011 these differences increased deferred income tax expense recognized in net earnings by \$7,198.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS (continued)

(i) Selling, operating and administrative expenses

The Company has made an accounting policy choice under IAS 19, *Employee Benefits* to disaggregate defined benefit pension costs on the consolidated statement of earnings, and present the interest and expected return on asset components of total pension cost within interest expense.

The effect at April 30, 2010 has been to reclassify interest expense on the accrued benefit obligation of \$944 and interest income on plan assets of \$886 out of selling, operating and administrative expenses and into interest expense. In addition to this \$58 net expense reclassification, an actuarially determined reduction to our pension expense and an increase in our share-based payments charge are combined to produce a net decrease in selling, operating and administrative expenses of \$140.

The effect at January 31, 2011 has been to reclassify interest expense on the accrued benefit obligation of \$3,753 and interest income on plan assets of \$3,523 out of selling, operating and administrative expenses and into interest expense. In addition to this \$230 net expense reclassification, an actuarially determined reduction to our pension expense and an increase in our share-based payments charge are combined to produce a net decrease in selling, operating and administrative expenses of \$462.

(j) Interest expense

Under Canadian GAAP all interest was expensed as incurred. Under IFRS, borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use (qualifying assets) are capitalized as part of the respective asset. The effect is to increase property and equipment by \$30 with a corresponding decrease in interest expense for the three month period ended April 30, 2010. This adjustment has been combined with the net interest expense reclassification described in Note (i) to arrive at the total increase in interest expense at April 30, 2010 and January 31, 2011 of \$28 and \$202 respectively.

(k) Statement of cash flows

The transition from Canadian GAAP to IFRS has not had a material impact on the statement of cash flows.

(l) Prescribed format

Under Canadian GAAP, selling and administrative expenses were presented with cost of sales and amortization was presented separately on the consolidated statements of earnings. Under IFRS, the Company's expenses have been presented by function. To conform with the prescribed presentation, the Company has reclassified these amounts. A reconciliation of amounts presented in the financial statements reported under the previous GAAP to the comparable IFRS presentation is provided below:

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

APRIL 30, 2011 AND 2010

16. TRANSITION TO IFRS (continued)

A reconciliation of the consolidated statement of earnings for the period ended April 30, 2010 from the format used under Canadian GAAP to the format prescribed by IFRS is as follows:

Format under Canadian GAAP	CDN GAAP	Format ADJ	CDN GAAP	Format under IFRS
April 30, 2010				
SALES	\$ 340,133	–	\$ 340,133	SALES
Cost of sales, selling and administrative expenses	(311,940)	66,713	(245,227)	Cost of sales
Net earnings before amortization, interest and income taxes	28,193		94,906	Gross profit
Amortization	(8,812)	8,812	–	
		(75,525)	(75,525)	Selling, operating and administrative expenses
	19,381	–	19,381	Earnings from operations
Interest	(1,395)	–	(1,395)	Interest expense
	17,986	–	17,986	Earnings before income taxes
Provision for income taxes	(735)	–	(735)	Provision for income taxes
NET EARNINGS FOR THE PERIOD	\$ 17,251	–	\$ 17,251	NET EARNINGS FOR THE PERIOD

A reconciliation of the consolidated statement of earnings for the year ended January 31, 2011 from the format used under Canadian GAAP to the format prescribed by IFRS is as follows:

Format under Canadian GAAP	CDN GAAP	Format ADJ	CDN GAAP	Format under IFRS
January 31, 2011				
SALES	\$ 1,448,104	–	\$ 1,448,104	SALES
Cost of sales, selling and administrative expenses	(1,322,802)	288,030	(1,034,772)	Cost of sales
Net earnings before amortization, interest and income taxes	125,302		413,332	Gross profit
Amortization	(35,492)	35,492	–	
		(323,522)	(323,522)	Selling, operating and administrative expenses
	89,810	–	89,810	Earnings from operations
Interest	(5,875)	–	(5,875)	Interest expense
	83,935	–	83,935	Earnings before income taxes
Provision for income taxes	(7,341)	–	(7,341)	Provision for income taxes
NET EARNINGS FOR THE PERIOD	\$ 76,594	–	\$ 76,594	NET EARNINGS FOR THE PERIOD