

## Management's Responsibility for Financial Statements

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

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

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

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

Edward S. Kennedy, PRESIDENT & C.E.O.  
THE NORTH WEST COMPANY INC.

Léo P. Charrière, C.F.O. & SECRETARY  
NORTH WEST COMPANY FUND

March 5, 2004

## Auditor's Report

To the Unitholders of North West Company Fund:  
We have audited the consolidated balance sheets of North West Company Fund as at January 31, 2004 and as at January 25, 2003 and the consolidated statements of earnings and retained earnings and cash flows for the fiscal years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at January 31, 2004 and January 25, 2003 and the results of its operations and its cash flows for the fiscal years then ended in accordance with Canadian generally accepted accounting principles.

CHARTERED ACCOUNTANTS  
WINNIPEG, CANADA

March 5, 2004

## Consolidated Balance Sheets

(\$ in thousands)	January 31, 2004	January 25, 2003
<b>ASSETS</b>		
Current assets		
Cash	\$ 16,627	\$ 10,451
Accounts receivable	59,414	64,762
Inventories	116,114	127,449
Prepaid expenses	3,083	2,274
Future income taxes (Note 10)	2,429	4,964
	197,667	209,900
Property and equipment (Note 3)	191,809	188,194
Other assets (Note 4)	12,153	10,775
Future income taxes (Note 10)	8,057	9,322
	\$ 409,686	\$ 418,191
<b>LIABILITIES</b>		
Current liabilities		
Bank advances and short-term notes (Note 5)	\$ 30,313	\$ 28,157
Accounts payable and accrued	50,306	60,495
Income taxes payable	1,881	1,500
Current portion of long-term debt (Note 6)	640	1,843
	83,140	91,995
Long-term debt (Note 6)	96,949	106,812
	180,089	198,807
<b>EQUITY</b>		
Capital (Note 7)	165,205	165,205
Unit purchase loan plan (Note 8)	(3,650)	(3,365)
Retained earnings	62,823	52,165
Cumulative currency translation adjustments (Note 9)	5,219	5,379
	229,597	219,384
	\$ 409,686	\$ 418,191

See accompanying notes to consolidated financial statements.

Approved by the Trustees and Board

Ian Sutherland, TRUSTEE & DIRECTOR

Edward S. Kennedy, DIRECTOR

## Consolidated Statements of Earnings & Retained Earnings

(\$ in thousands)	53 Weeks Ended January 31, 2004	52 Weeks Ended January 25, 2003
<b>SALES</b>	\$ 782,720	\$ 749,759
Cost of sales, selling and administrative expenses	(709,894)	(677,488)
Net earnings before amortization, interest and income taxes	72,826	72,271
Amortization	(22,401)	(22,672)
Interest, including interest on long-term debt of \$5,495 (2002 \$5,891)	50,425	49,599
Provision for income taxes (Note 10)	(6,299)	(6,681)
	44,126	42,918
<b>NET EARNINGS FOR THE YEAR</b>	(8,396)	(8,449)
Retained earnings, beginning of year	35,730	34,469
Distributions	52,165	49,142
	(25,072)	(31,446)
<b>RETAINED EARNINGS, END OF YEAR</b>	\$ 62,823	\$ 52,165
<b>NET EARNINGS PER UNIT</b> (Note 11)		
Basic	\$ 2.24	\$ 2.15
Diluted	\$ 2.22	\$ 2.14

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

(\$ in thousands)	53 Weeks Ended January 31, 2004	52 Weeks Ended January 25, 2003
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating Activities</b>		
Net earnings for the year	\$ 35,730	\$ 34,469
Non-cash items		
Amortization	22,401	22,672
Future income taxes	3,446	3,097
Pension (credit) expense	(637)	353
Amortization of deferred financing costs	186	(645)
Gain on foreign exchange from reduction of AC investment	–	(92)
Gain on disposal of property and equipment	(1,583)	(670)
Cash flow from operations	59,543	59,184
Change in other non-cash items	7,237	176
Operating activities	66,780	59,360
<b>Investing Activities</b>		
Purchase of property and equipment	(33,273)	(20,128)
Proceeds from disposal of property and equipment	3,070	1,944
Investing activities	(30,203)	(18,184)
<b>Financing Activities</b>		
Change in bank advances and short-term notes	2,475	2,260
Repayment of bonds	–	(112,000)
Proceeds from issuance of senior notes	–	100,841
Net purchase of units for unit purchase loan plan	(285)	(3,365)
Deferred financing costs	–	(1,302)
Repayment of long-term debt	(1,952)	(1,978)
Distributions	(30,639)	(25,157)
Financing activities	(30,401)	(40,701)
<b>NET CHANGE IN CASH</b>	6,176	475
Cash, beginning of year	10,451	9,976
<b>CASH, END OF YEAR</b>	\$ 16,627	\$ 10,451
Supplemental disclosure of cash paid for:		
Interest expense	\$ 6,410	\$ 10,105
Income taxes	4,513	6,961

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements January 31, 2004

## 1. ORGANIZATION

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** The consolidated financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise noted.

These consolidated financial statements include the accounts of NWF, NWC and its wholly owned subsidiaries (the 'Company'), Alaska Commercial Company (AC) and the group of Tora companies, operating as Giant Tiger stores. All significant inter-company amounts and transactions have been eliminated on consolidation.

**Fiscal Year** The fiscal year ends on the last Saturday in January. Accordingly, the 2003 fiscal year ended January 31, 2004 (53 weeks) and the 2002 fiscal year ended January 25, 2003 (52 weeks). Approximately every five years an additional week of sales and expenses are included in the financial results to bring results back in line with the 52-week year.

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

**Accounts Receivable** Accounts receivable classified as current assets include customer installment accounts of which a portion will not become due within one year.

**Inventories** Inventories are valued at the lower of cost and net realizable value less normal profit margins. The cost of warehouse inventories is determined by 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.

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

Buildings .....	2% - 5%
Leasehold improvements .....	5% - 20%
Fixtures and equipment .....	8%
Computer equipment and software .....	12% - 33%

**Other Assets** The investments in transportation companies are accounted for on the equity basis. Deferred financing costs are being amortized over the life of the instrument. Prepayments under lease agreements are being amortized over their respective lease terms.

**Unit Purchase Loan Plan** Loans issued to officers to purchase units of the Fund under the unit purchase loan plan are treated as a reduction of equity.

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

**Income Taxes** The Fund is an inter vivos trust for income tax purposes. All income of the Fund is distributed to unitholders and, as such, no income tax is payable by the Fund.

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

**Pensions in Canada** The Company accrues its obligations under employee benefit plans and related costs, net of plan assets. Current service costs are charged to operations as they accrue using the projected benefit method, pro-rated on services and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees. For the purpose of calculating the expected returns on plan assets, those assets are valued at market related value based on a five year moving average. Past service costs and the net transitional asset are amortized on a straight line basis over the average remaining service period of employees. The excess of the net experience gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining service period of active employees.

**Employee Savings Plan in Alaska** AC sponsors an employee savings plan covering all employees with at least six months of service. Under the terms of the plan, AC is obligated to make a 50% matching contribution up to 3% of eligible compensation, otherwise contributions are discretionary. Contributions to this plan are expensed as incurred.

#### **Unit Appreciation Rights (UARs) Plans**

Compensation expense under the Company's UARs plans is charged to operations as it accrues using the fair value method. No units of the Fund are issued under these plans.

**Financial Instruments** The Company uses various financial instruments to reduce its exposure to fluctuations in interest and U.S. currency exchange rates. The Company does not hold or issue any derivative financial instruments for speculative trading purposes. The interest differential to be paid or received under interest rate swap agreements is recognized over the life of the contracts as an adjustment to interest expense. The Company translates its U.S. denominated debt that is hedged by cross currency swaps at the rate implicit in the swap agreement.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future events could alter such estimates in the near term.

### **3. PROPERTY AND EQUIPMENT** (\$ in thousands)

Year Ended	January 2004		January 2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 6,310	\$ –	\$ 6,307	\$ –
Buildings & leasehold improvements	197,370	84,812	195,262	77,513
Fixtures & equipment	118,656	67,430	113,680	61,073
Computer equipment & software	72,099	50,384	57,596	46,065
	\$394,435	\$202,626	\$372,845	\$184,651
Net Book Value		\$191,809		\$188,194

**4. OTHER ASSETS** (\$ in thousands)

Year Ended	January 2004	January 2003
Investments in transportation companies	\$ 4,315	\$ 3,686
Deferred financing costs	1,039	1,225
Prepayments under lease agreements	1,151	1,028
Long-term receivable	3,993	2,678
Other*	1,655	2,158
	\$ 12,153	\$ 10,775

\*Other includes redeemable deposits with suppliers and a mortgage receivable.

**5. BANK ADVANCES & SHORT-TERM NOTES**

The Canadian operation has operating loan facilities of \$85 million at interest rates ranging from prime to prime plus .75%. These facilities are secured by a floating charge against the assets of the Company on a parri-passu basis with the senior note holders. As at January 31, 2004, the Company had drawn \$28.4 million.

The Alaskan operation has an operating loan facility of US\$4 million at an interest rate of prime plus 1.0% secured by a floating charge against the assets of the Company. As at January 31, 2004, the Alaskan operations had drawn US\$1.4 million.

**6. LONG-TERM DEBT** (\$ in thousands)

Year Ended	January 2004	January 2003
Senior notes <sup>1</sup>	\$ 91,432	\$ 99,597
Real estate loans <sup>2</sup>	4,523	5,838
Manitoba Development Corporation loan <sup>3</sup>	–	1,250
Obligation under capital lease <sup>4</sup>	1,634	1,970
	97,589	108,655
Less: Current portion of long-term debt	640	1,843
	\$ 96,949	\$ 106,812

1. The US\$65 million senior notes mature on June 15, 2009 and bear an interest rate of 5.89% payable semi-annually. Repayment of 20% of the principal is required on June 15, 2007 and June 15, 2008. The notes are secured by a floating charge against the assets of the Company. The Company has entered into various cross currency interest rate and interest rate swaps resulting in floating interest costs on US\$36 million of its senior notes. After giving effect to the interest rate swaps

and cross currency interest rate swaps the effective interest rate for 2003 was 5.8%.

2. The Alaska Industrial and Economic Development Export Authority (AIDEA) and two Alaskan-based banks have provided real estate loans of US\$3.4 million (2002 – US\$3.8 million) to assist in the financing of new stores. The loans mature August 1, 2017 and bear interest at the equivalent to 90-day commercial paper plus 2.6% for the AIDEA loans that represent 80% of the principal. The interest on the bank portion of these loans is approximately U.S. prime plus 0.65%. Blended monthly payments totaling US\$660,000 annually are required to be made on these loans, which are secured by the Alaskan store buildings and related equipment.

3. The Manitoba Development Corporation loan bore interest at the rate charged by the Manitoba Government to Crown Corporations and was repayable in four equal annual payments of \$1,250,000, with the final payment made December 31, 2003. The loan was secured by a first fixed charge against the leasehold title to the land, a first fixed charge against the building, and a first fixed charge on all processing equipment connected with the project. Interest was forgiven as the Company attained agreed upon annual job creation targets.

4. The obligation under a capital lease of US\$1.2 million (2002 - US\$1.3 million) is repayable in blended principal and interest payments of US\$200,000 annually. The obligation will be fully repaid on October 31, 2013.

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

Years Ending January	(\$ in thousands)
2005 .....	\$ 640
2006 .....	529
2007 .....	425
2008 .....	17,805
2009 .....	17,848

**7. CAPITAL** (\$ in thousands)

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

Year Ended	January 2004		January 2003	
	Units (000's)		Units (000's)	
Issued and outstanding	16,126	\$ 165,205	16,126	\$ 165,205

## 8. UNIT PURCHASE LOAN PLAN

During the year the Company issued loans to officers to purchase units under the unit purchase loan plan. These loans are non-interest bearing and are repayable from the after tax distributions or if the officer sells the units or leaves the Company. The loans are secured by a pledge of 192,657 units of NWF with a quoted value of \$4,552,485. Loans receivable at January 31, 2004 of \$3,650,240 are recorded as a reduction of equity. The loans have a term of five years. The maximum value of the loans under the plan will not exceed \$7,500,000.

## 9. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

(\$ in thousands)

Year Ended	January 2004	January 2003
Balance, beginning of year	\$ 5,379	\$ 5,177
Movement in exchange rate	(160)	294
Reduction in net investment in AC	—	(92)
Balance, end of year	\$ 5,219	\$ 5,379

The cumulative currency translation adjustments account represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book values of the net investment in self-sustaining Alaskan operations since the date of acquisition. A portion of the U.S. denominated senior notes in the amount of US\$43 million has been designated as a hedge against the Alaskan operations. In 2002 a foreign exchange gain was realized on the reduction of US\$4 million in the Company's net investment in AC during the year.

## 10. INCOME TAXES

(\$ in thousands)

Significant components of the Company's future tax assets are as follows:

Year Ended	January 2004	January 2003
<b>Future tax assets</b>		
Non-capital loss carryforwards	\$ 82	\$ 1,919
Tax values of capital assets in excess of accounting values	8,051	9,109
Provisions and other temporary differences	2,353	3,258
<b>Net future tax asset</b>	\$ 10,486	\$ 14,286
<b>Comprised of</b>		
Current	\$ 2,429	\$ 4,964
Long-term	8,057	9,322
	\$ 10,486	\$ 14,286

Income tax expense differs from the amounts which would be obtained by applying the combined statutory income tax rate to earnings due to the following:

Year Ended	January 2004	January 2003
Net earnings before income taxes	\$ 44,126	\$ 42,918
Combined statutory income tax rate	38.20%	39.91%
Income taxes based on combined statutory income tax rate	16,856	17,129
Increase (decrease) in income taxes resulting from:		
Large corporation tax	674	684
Amounts not subject to income tax	93	215
Income tax deductions on interest paid to the Fund	(10,008)	(10,287)
Recognition of Canadian income tax rate changes on future income taxes	(38)	349
Other	819	359
Provision for income taxes	\$ 8,396	\$ 8,449
Effective income tax rate	19.0%	9.7%

Significant components of the provision for income taxes are as follows:

Year Ended	January 2004	January 2003
Current income tax expense	\$ 4,950	\$ 5,352
Future income tax expense (benefit) relating to:		
Temporary differences and loss carryforwards	3,484	2,748
Recognition of Canadian income tax rate changes on future income taxes	(38)	349
Provision for income taxes	\$ 8,396	\$ 8,449



### 11. NET EARNINGS PER UNIT

Basic net earnings per unit are calculated based on the weighted-average units outstanding of 15,939,527 (2002 - 16,007,481). The diluted net earnings per unit takes into account the additional income that would have been earned by the Company had interest costs not been incurred on the unit purchase loan plan and had the respective units been outstanding during the year.

(\$ and units in thousands except diluted earnings per unit)

Year Ended	January 2004	January 2003
<b>Diluted earnings per unit calculation:</b>		
Numerator for basic earnings per unit	\$35,730	\$34,469
After tax interest cost of unit purchase loan plan	128	77
Numerator for diluted earnings per unit	\$35,858	\$34,546
Weighted average units outstanding	15,940	16,007
Effect of diluted unit purchase loan plan	186	119
Denominator for diluted earnings per unit	16,126	16,126
<b>Diluted earnings per unit</b>	<b>\$ 2.22</b>	<b>\$ 2.14</b>

### 12. SEGMENTED INFORMATION (\$ in thousands)

The Company operates predominantly within the retail industry in northern Canada and Alaska. The following information is presented for the two business segments:

Year Ended	January 2004	January 2003
Sales		
Canada	\$ 615,661	\$ 565,747
Alaska	167,059	184,012
Total	\$ 782,720	\$ 749,759
Net earnings before amortization, interest and income taxes		
Canada	\$ 57,663	\$ 59,163
Alaska	15,163	13,108
Total	\$ 72,826	\$ 72,271
Net earnings before interest and income taxes		
Canada	\$ 39,250	\$ 40,187
Alaska	11,175	9,412
Total	\$ 50,425	\$ 49,599
Identifiable assets		
Canada	\$ 290,708	\$ 280,341
Alaska	66,791	75,855
Total	\$ 357,499	\$ 356,196

### 13. EMPLOYEE FUTURE BENEFITS

The Company sponsors both defined benefit and defined contribution pension arrangements covering substantially all employees. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 2002. The following significant actuarial assumptions were employed to determine the periodic pension expense and the accrued benefit obligations:

Year Ended	January 2004	January 2003
Expected long-term rate of return on plan assets	7.0%	7.0%
Discount rate	6.5%	7.0%
Rate of compensation increase	4.0%	4.5%

The Company's net benefit plan expense is as follows:

(\$ in thousands)

Year Ended	January 2004	January 2003
Current service cost	\$ 2,049	\$ 1,790
Interest cost	2,666	2,679
Expected return on plan assets	(2,789)	(2,636)
Amortization of net transitional asset	(308)	(308)
Amortization of past service cost	(11)	(11)
Employee contributions	(52)	(45)
<b>Net benefit plan expense</b>	<b>\$ 1,555</b>	<b>\$ 1,469</b>

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

(\$ in thousands)

Year Ended	January 2004	January 2003
<b>Accrued benefit obligation</b>		
Balance, beginning of year	\$ 39,373	\$ 41,973
Current service cost	2,049	1,790
Interest cost	2,666	2,679
Benefits paid	(2,584)	(3,139)
Actuarial loss (gain)	2,200	(3,930)
Balance, end of year	\$ 43,704	\$ 39,373
<b>Plan assets</b>		
Fair value, beginning of year	\$ 34,852	\$ 45,351
Return (loss) on plan assets	572	(8,521)
Employer contributions	2,192	1,116
Employee contributions	52	45
Benefits paid	(2,584)	(3,139)
Fair value, end of year	\$ 35,084	\$ 34,852
<b>Funded status</b>		
Surplus (deficit)	\$ (8,620)	\$ (4,521)
Unamortized experience losses	11,644	7,227
Unamortized past service costs	(84)	(95)
Unamortized net transitional asset	(2,998)	(3,306)
<b>Net accrued liability</b>	\$ (58)	\$ (695)

The Company maintains an employee savings plan for substantially all of its U.S. employees and recorded an expense of US\$127,000 (2002 - US\$118,000) for this plan.

#### 14. COMMITMENTS, CONTINGENCIES & GUARANTEES

Canada Revenue Agency is currently conducting an audit for the taxation years 1996 -1999. The Company has not received notices of reassessment with respect to all of the matters raised, however, management has recorded a provision based on their estimate of the potential liability. It is the opinion of management that the pending reassessments will be resolved without material effect on the financial statements.

In 2002, the Company signed a 30-year Master Franchise Agreement with *Giant Tiger Stores Limited* based in Ottawa, Ontario which grants the Company the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, *Giant Tiger Stores Limited* provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing distribution services to the stores. The Company's exclusivity right requires that a minimum number of Giant Tiger stores be opened each year, based on an expected roll-out of 72 stores over the term of the agreement. As at January 31, 2004 the Company has opened seven Giant Tiger stores.

In 1992, the Company entered into an agreement to lease the land on which the Winnipeg Logistics Service Centre is located from the City of Winnipeg for \$1 per year for 15 years subject to attaining agreed-upon job creation targets. Management anticipates that the agreed targets will be met; accordingly, no additional lease payments have been accrued. The Company is obligated to buy the land for the greater of \$1,710,000 or fair market value at August 31, 2007.

The Company has future commitments under operating leases as follows:

Years Ending January	Minimum Lease Payments (\$ in thousands)
2005	\$ 10,601
2006	9,483
2007	8,553
2008	8,103
2009	7,226
Thereafter	50,817

#### Guarantees

During the year the Company implemented Accounting Guideline 14 - 'Disclosure of Guarantees,' issued by the Canadian Institute of Chartered Accountants (CICA), which requires a guarantor to disclose in its notes to the consolidated financial statements significant information about guarantees

it has provided. The disclosures are required even when the likelihood of the guarantor having to make payment under the guarantee is remote. The Company has provided the following significant guarantees to third parties:

#### Director and Officer Indemnification Agreements

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

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

### 15. UNIT APPRECIATION RIGHTS (UARs) PLANS

The Company has two UARs plans, non-contingent and performance contingent, which form part of the long-term incentive program for senior management. UARs were granted to senior management at the discretion of the Board. Compensation expense incurred during the year under the plan was \$1,055,000 (2002 – \$1,773,000).

The UARs program was discontinued in 2000, however previously issued UARs continue to vest until 2005 and expire in 2006.

**Non-Contingent Plan** A summary of the Company's non-contingent plan and changes during the year is presented below:

Year Ended	January 2004		January 2003	
	UARs (000's)	Price*	UARs (000's)	Price*
Outstanding at beginning of year	294	\$13.79	502	\$13.79
Exercised	(156)	23.16	(195)	19.55
Forfeited	(10)	14.00	(13)	13.84
Outstanding at end of year	128	\$13.55	294	\$13.79
UARs exercisable at year-end	94		148	

\* Weighted-average

The non-contingent UARs vest over five years and expire after six years. As of January 31, 2004, the 128,000 non-contingent UARs outstanding under this plan have exercise prices between \$10.50 and \$15.05.

**Performance Contingent Plan** The Company granted qualifying senior management UARs where vesting was contingent upon reaching predetermined financial targets by January 26, 2002, and the personal ownership of units equal to the number of UARs granted. These contingent UARs commenced vesting in 2002 and vest over three years and expire after four years.

A summary of the Company's performance contingent plan and changes during the year is presented below:

Year Ended	January 2004		January 2003	
	UARs (000's)	Price*	UARs (000's)	Price*
Outstanding at beginning of year	30	\$14.53	52	\$14.66
Exercised	(13)	23.78	(2)	19.86
Forfeited	–	–	(20)	14.94
Outstanding at end of year	17	\$14.88	30	\$14.53
UARs exercisable at year-end	12		14	

\* Weighted-average

As of January 31, 2004, the 17,000 performance UARs outstanding under the plan have exercise prices between \$14.00 and \$15.05.

**16. FINANCIAL INSTRUMENTS** (\$ in thousands)

**Short-Term Financial Instruments** Short-term financial instruments are valued at their carrying amounts included in the balance sheet, which are reasonable estimates of fair value due to the relative short period to maturity of the instruments.

**Long-Term Financial Instruments** The Company has the following long-term financial instruments outstanding as at January 31, 2004:

	Maturity	Interest Rate <sup>1</sup>	Carrying Value <sup>2</sup>	Fair Value
<b>Debt</b>				
US\$65 million				
Senior notes	2009	5.89%	\$86,704	\$92,357
				Unrealized Gain (Loss)
<b>Swaps</b>				
US\$14 million				
Interest rate	2007 – 2009	LIBOR <sup>3</sup> plus 1.87%		\$444
US\$22 million				
Cross currency Interest rate	2007 – 2009	B.A. <sup>4</sup> plus 2.99% to B.A. plus 3.16%		\$(5,554)

<sup>1</sup> Weighted-average

<sup>2</sup> The senior notes (Note 6) recorded on the balance sheet includes unrealized losses of \$4,728 on the foreign currency portion of the US\$22 million cross currency interest rate swaps.

<sup>3</sup> London Interbank Offered Rate

<sup>4</sup> Bankers' Acceptances

**Interest Rate Risk** The Company has exposure to interest rate fluctuations on the swapped amount of its senior notes and real estate loans.

**Credit Risk** The Company is exposed to credit risk, primarily in relation to credit card customer accounts and notes receivable from First Nations governments. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

**17. NEW ACCOUNTING POLICIES**

**Asset Retirement Obligations** The CICA has issued Handbook Section 3110 'Asset Retirement Obligations' (CICA 3110), which will be effective for fiscal years beginning on or after April 1, 2003. The standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of a tangible long-lived asset that result from acquisition, construction, development or normal operations. Under the new standard, the Company will be required to record the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The Company is subsequently required to allocate that asset retirement cost to expense using a systematic and rational method over the asset's useful life. The Company does not believe that the adoption of CICA 3110 will have a material effect on the balance sheet or the statement of earnings.

**Hedging Relationships** The CICA has issued Accounting Guideline 13 'Hedging Relationships' (AcG 13), which will be effective for fiscal years beginning on or after July 1, 2003. AcG 13 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purposes of applying hedge accounting. It also establishes conditions for applying or discontinuing hedge accounting. Under the new guideline, the Company will be required to document its hedging transactions and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. As at January 31, 2004, the only derivatives utilized by the Company are U.S. interest rate swaps and cross currency interest rate swaps as described in Notes 6 and 16. The Company does not believe that the adoption of AcG 13 will have a material effect on the balance sheet or the statement of earnings.

**18. COMPARATIVE AMOUNTS**

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