

Management's Discussion & Analysis

as of March 18, 2004

The financial data has been prepared in accordance with Canadian generally accepted accounting principles (GAAP) unless otherwise stated and is in Canadian dollars unless otherwise stated.

OVERVIEW

The North West Company is the largest remote market retailer in North America, with operations across northern Canada and rural Alaska. North West's stores sell a broad range of products and services with an emphasis on food. The Company's value offer is to be the best local shopping choice for everyday household and northern lifestyle needs. The Company's stores have served northern Canada and Alaska, through predecessor companies, for over 300 years.

Since 2001, the Company has applied its small market expertise to new growth opportunities, including wholesaling to independent stores and opening junior discount stores in rural communities and urban neighbourhoods.

VISION AND VALUES

North West strives to be one of the best small market retailers in North America. This vision starts with providing our customers with a superior local selection of in-stock, everyday products and services, supported by convenient locations, extended hours and helpful service.

Community and employee values are tied closely to the Company's customer focus. Because North West serves small markets, community affiliation and support is essential. We strive to create an open, positive workplace that fosters new ideas and solid execution. By delivering on its vision and values, North West aims to provide top quartile returns to its investors through a combination of unit appreciation and distributions. To achieve this goal, the Company takes a long-term view that emphasizes stable, sustained growth. A priority is placed on prudent reinvestment and operational opportunities where risk is closely managed to provide growth in income distributions.

STRATEGIES

North West is just completing a new long-term plan. Our plans are typically developed in five-year cycles and are reviewed and adjusted through an annual operating plan. The long-term plan sets operating and financial goals and key strategies.

2003 HIGHLIGHTS

- Sales were up 4.4% to \$783 million, led by a food sales increase of 6.9%.
- Alaska operations' trading profit increased 14.3% to US\$9.6 million (excluding the gain from insurance proceeds), the eighth consecutive year of improvement.
- Cash flow from operating activities increased 12.5% to \$67 million, reflecting our efforts to streamline inventories.
- Return on net assets improved by one half of a percentage point to 13.9%, reflecting our continuing push to maximize asset utilization.
- Return on equity improved to 15.9%, a key indicator of our ability to effectively use capital.
- Total returns to investors were 24% after a 33% total return in 2002. This maintains North West in the upper quartile amongst Canadian retailers.
- Opened four Giant Tiger stores for a total of seven stores opened and operating towards our objective of 72 Giant Tiger stores in western Canada.
- Best Practice training was provided to 85 managers in our ongoing effort to enhance customer service.
- Our debt-to-equity improved to .56:1 down from 1.1:1 five years ago, providing North West with flexibility to invest for profitable growth and deliver higher income distributions.

Forward-Looking Statements *This Annual Report, including this Management's Discussion & Analysis (MD&A), contains certain forward-looking statements. Such statements relate to, among other things, sales growth, expansion and growth of the Company's business, future capital expenditures and the Company's business strategy. Forward-looking statements are subject to inherent uncertainties and risks including but not limited to: general industry and economic conditions, changes in the Company's relationship within the communities it serves and with its suppliers, pricing pressure and other competitive factors, the availability and costs of merchandise, fuels and utilities, the results of the Company's ongoing efforts to improve cost effectiveness, the rates of return on the Company's pension plan assets, changes in regulatory requirements affecting the Company's business and the availability and terms of financing. Other risks are outlined in the Risk Management section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.*

Our long-term goals are that North West will be known for:

- Providing the leading local selection of quality food products with an emphasis on convenience, fresh and prepared foods;
- Offering a compelling assortment of services and general merchandise products, tailored to local market needs;
- Building strength around store employee capability as a first priority toward providing all employees with an opportunity to do interesting and fulfilling work;
- Creating distinct but complementary businesses and store formats that share support services while excelling in different local marketplaces; and
- Continually finding ways to streamline costs and simplify our business.

The Company's current operating strategies

will help it achieve these goals, however, several new strategies are being more fully developed for the next five years. These include:

- Ensuring that programs, store space, equipment and people skills achieve a leading food market share position in as many locations as possible;
- Creating service and general merchandise product opportunities to maximize per capita sales by market;
- Focusing on innovative recruitment and training programs to find and train the best people suited for the Company's different store formats;
- Investing in new northern and replacement stores through local community partnerships;
- Expanding into southern, urban markets through the continued roll-out of Giant Tiger junior discount stores;
- Adding new growth through wholesaling or complementary retail formats; and
- Tracking all key performance indicators to ensure solid execution.

North West's financial strategies include:

- Reinvesting sufficient cash flow to fully implement operating strategies;
- Using financial instruments to minimize risk and capital costs;
- Maintaining a strong balance sheet, with debt-to-equity levels below .8:1;
- Ensuring liquidity and capital market access through a meaningful public float and an effective investor relations program; and
- Growing distributions consistently while considering the above strategies and ongoing business prospects.

CAPABILITY TO DELIVER RESULTS

North West has several key capabilities that enable it to succeed:

Market Knowledge By concentrating on serving small communities, North West has gained unique knowledge about customer lifestyle and spending needs. Applying this knowledge to create tailored product and service programs is an advantage over mass-market retailers.

Brand Equity Throughout the North, North West's stores are known for being consistently in-stock and offering a wide range of everyday products and services. North West has built customer loyalty by being a dependable retailer within a harsh physical environment where business disruptions are often the norm.

In western Canada, the Company's Giant Tiger store master franchise is building brand equity around convenience, low prices and trend-right merchandise. More time is needed to assess the strength of this capability in the Company's franchise territory. The track record of *Giant Tiger Stores Limited* in eastern Canada indicates the potential.

Logistics and Supply Chain Serving and running a remote chain of stores is a complex proposition. North West has created a network of over 45 different routes with up to four modes of transportation per store to serve 181 stores in Canada and Alaska. North West is often the single largest shipper within a freight corridor or mode. This enables lower freight costs and flexible service compared to other local and out-of-town retailers shipping north.

Locations 70% of Company locations are owned. Through a careful plan of store remodels, expansions and limited replacements, these stores carry an average cost, including warehouse space, which is well below replacement value. This provides North West with a significantly lower average occupancy expense.

Community Relations North West has developed community relationships that enable it to maintain a presence in markets and to structure unique new store development agreements. The Company has built a track record of working closely and flexibly to meet local economic development goals, including local employment requirements.

Scale As the largest retail chain in northern Canada and rural Alaska, North West has cost and resource advantages compared to its local competitors. This enables the Company to develop more new programs, reinvest more capital in its people, stores and technology and achieve overall lower retail prices for its customers.

The Company believes its recent Giant Tiger store venture has a scale advantage because it is supported by its franchisor, *Giant Tiger Stores Limited*. As a 130-store chain retailer with a well-developed 30-year business, *Giant Tiger Stores Limited* benefits from superior product costs and product sourcing compared to other junior discount retailers.

Credit North West's in-house financial services division finances 31% of sales in its northern retail business. Many of the Company's credit customers are not traditionally qualified for bank-type credit cards. The Company relies on local management knowledge combined with head office credit rating systems and expertise to capture sales through prudent credit terms.

Employee Training and Retention A Best Practice program was implemented in 2003. This program trains our current managers in the best practices of running stores and/or departments. The accessibility of our locations and distances to travel to the Best Practice training stores make this a costly but worthwhile program where we do expect the benefits to greatly exceed the investment.

We are also implementing a more exhaustive training program in an effort to better prepare managers new to the Company to store conditions in the North and the different challenges they will encounter in managing a North West store. We expect this will continue to help with employee retention and improve store standards, with better-prepared managers.

CONSOLIDATED RESULTS

The key performance indicators used by management to assess results are summarized in the following table.

KEY PERFORMANCE INDICATORS (\$ in thousands)

	2003	2002	2001
Sales	\$782,720	\$749,759	\$704,043
Same store sales % increase ¹	2.1%	3.4%	4.4%
Trading profit ²	\$ 72,826	\$ 72,271	\$ 70,535
Net earnings	\$ 35,730	\$ 34,469	\$ 29,015
Net earnings per unit – basic	\$ 2.24	\$ 2.15	\$ 1.95
Net earnings per unit – diluted	\$ 2.22	\$ 2.14	\$ 1.95
Cash distributions in the year	\$ 1.90	\$ 1.56	\$ 1.46
Total assets	\$409,686	\$418,191	\$433,175
Return on net assets	13.9%	13.4%	12.7%
Return on average equity	15.9%	15.8%	14.9%

¹ 2003 same store sales adjusted to an equivalent 52-week basis

² See Non-GAAP Measures section on page 23.

Tax returns made easy...

It's one of the most basic and inevitable of customer needs. So, North West tested a tax preparation service in 2002 and, based on the results, we rolled it out in 2003. Last year, 105 stores generated fee income by processing 13,600 returns through a partnership with *H&R Block*. The service generated new store sales as cash refunds were given out during one of our traditionally slower sales periods.



North West's in-house financial services division finances 31% of sales in its northern retail business.

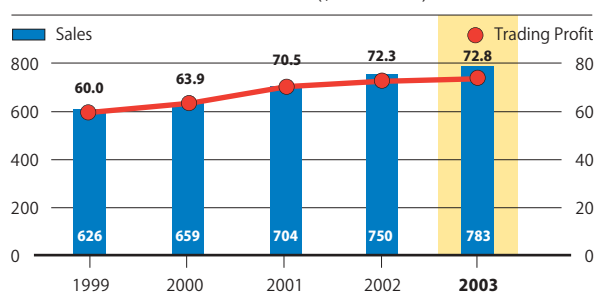
CONSOLIDATED SALES

Sales for the 53 weeks ending January 31, 2004 increased 4.4% to \$782.7 million from \$749.8 million in 2002. When adjusted to an equivalent 52-week basis, the increase was 2.7%. Same store sales (excluding foreign exchange impact) on an equivalent 52-week basis increased 2.1%. Same store sales weakened on a quarterly basis from Q1 4.7%, Q2 2.9%, Q3 2.6%, and Q4 minus 1.2%. Food sales continued to perform well, with quarterly same store increases of 4.5%, 5.6%, 5.5% and 4.6%, for the first to fourth quarters. The weakness in sales was felt in general merchandise, which had a same store sales increase in the first quarter of 5.3%, but had decreases of 4.0%, 4.9% and 11.4% over the last three quarters. Alaska Commercial Company's (AC) food sales were strong due to more aggressive pricing in the meat, produce and grocery categories. Canadian food sales growth was across all categories. Unit growth was positive in most categories. Again this year, we experienced above average price inflation in tobacco products. General merchandise sales were impacted by a decrease in disposable income, reduced clearance and promotional activity, and increased outshopping competition. In comparison to 2001 and 2002, government and resource spending was weaker in most regions of northern Canada. The Company's merchandise clearance pricing was more limited as a focus was placed on achieving controlled inventory levels and more profitable sales. In Alaska, a reduction of 28% in the Permanent Fund Dividend, paid out annually to state residents, negatively impacted big-ticket general merchandise sales.

Canadian sales accounted for 78.7% of total sales (75.5% in 2002) while Alaska contributed 21.3% (24.5% in 2002). The Canadian dollar's appreciation versus the U.S. dollar in 2003 reduced sales, trading profit and net earnings as follows:

Salesdecrease of \$22.1 million
 Trading profitdecrease of \$2.0 million
 Net earningsdecrease of \$763,000

SALES & TRADING PROFIT (\$ in millions)



Both sales and trading profit were up in 2003.

PROFITABILITY

Trading profit (EBITDA) increased to \$72.8 million from \$72.3 million in 2002.

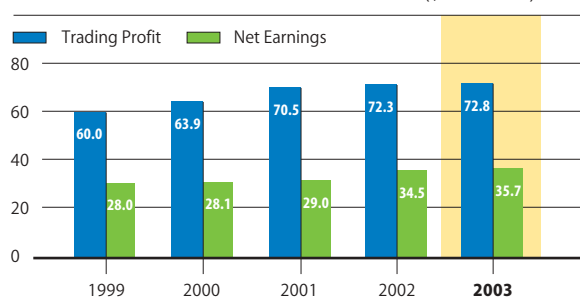
Giant Tiger store growth increased sales by \$23.5 million but reduced consolidated trading profit margins due to this format's discount pricing model. Opening costs of four new Giant Tiger stores also reduced trading profit. Amortization expense decreased marginally in the year.

Interest expense decreased 5.7% to \$6.3 million from \$6.7 million. The average cost of borrowing on interest bearing debt was 4.68% compared to 4.45% in 2002 reflecting the rise in Canadian interest rates in 2003. The reduction in interest expense results from the decrease in borrowing due to lower inventory and accounts receivable.

The effective income tax rate for 2003 was 19.0% of pre-tax earnings compared to 19.7% in 2002. The reduction results from a decrease in Canadian tax rates.

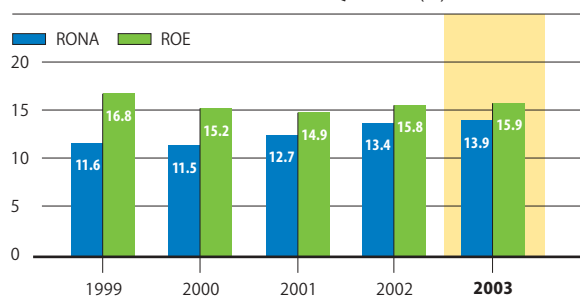
Consolidated net earnings increased 3.7% to \$35.7 million or \$2.22 per unit on a diluted basis from \$34.5 million or \$2.14 per unit in 2002. Net earnings were negatively impacted by \$763,000 or \$0.05 per unit due to the stronger Canadian dollar.

TRADING PROFIT & NET EARNINGS (\$ in millions)



Net earnings benefited from lower interest expense and tax rates.

RETURN ON NET ASSETS & EQUITY (%)



Our return on net assets has benefited from lower receivables and inventories.

Return on net assets employed increased to 13.9% from 13.4% in 2002 while the return on equity improved to 15.9% from 15.8% in 2002. Return on net assets improved primarily due to lower average customer receivables and inventory levels. Alliances developed with non-competing retailers and distributors have helped to improve inventory productivity.

Taxes Consolidated NWF recorded a provision for income taxes in 2003 of \$8.4 million, similar to 2002, for an effective rate of 19.0% in 2003 compared to 19.7% in 2002. The decrease in the effective rate was due to lower Canadian federal income tax rates that declined to 24.12% from 26.12% effective January 1, 2003. This factor was partially offset by a higher blend of AC pre-tax earnings in 2003. Income taxes paid in cash were \$4.5 million in 2003 compared to \$7.0 million in 2002.

Future income taxes on the balance sheet were reduced by 26.6% or \$3.8 million to \$10.5 million from \$14.3 million reported a year ago. Loss carryforwards of \$5.8 million were utilized in 2003. There are no loss carryforwards for AC.

The Canada Revenue Agency has been conducting an audit on the years 1996 to 1999. The audit has not been concluded and management has made provisions for items that will likely be reassessed and has included this in its income taxes payable.

A more detailed explanation of the income tax provision and future tax assets is provided in note 10 to the consolidated financial statements.

CANADIAN OPERATIONS

Retail Environment The retail environment in northern Canada was relatively quiet in 2003. There were no substantial infrastructure developments as in prior years. Mining and oil exploration is continuing but many projects are in the process of completing environmental assessments, so their economic impact remains modest.

Store Capability The Company's store capability initiative has three components: new technology, new Best Practice work processes and training.

The roll-out of new store information systems, including new central credit management systems, was delayed as testing identified deficiencies. As a result, 21 stores were installed compared to a plan of 31. The overall project cost increased from \$15.0 million to \$18.0 million due to additional software development, training and installation costs. A full roll-out of these systems is expected to be completed by November 2004 and annual benefits are still targeted at \$5.0 million once fully installed.

Food sales keep growing

Over the past five years, North West has concentrated on building a strong food business. This is where customers look first for their local, everyday shopping needs and this is where they will find our stores – ready to serve.



Consolidated sales increased 4.4% to \$782.7 million.

2003 Canadian Operations Strategy

STRATEGY

1. Develop Superior Store Selling Capability

- Install information systems in 31 stores Installed in 21 stores
- Establish three Best Practice stores..... Completed
- Train 91 management level employees
in Best Practice standards..... Trained 85 managers

2. Pursue Alliances

- Save \$200,000 per year from alliance Saved over \$250,000 in 2003 with
with *A. De La Chevrotière Ltée*..... additional benefits expected in 2004

3. Continue Giant Tiger Store Expansion

- Open four Giant Tiger stores Opened in Winnipeg and Morden, Manitoba,
Regina, Saskatchewan and Edmonton, Alberta

RESULTS

Best Practice work methods were identified and three Best Practice training sites were developed in early 2003. By year-end, 85 managers had completed from three to four weeks of intensive training. The differences in our store formats identified a need for two separate training modules; one for large stores and one for small to medium sized stores. In 2004, training will focus on large stores with two Best Practice sites. In addition, an in-depth management training program has been established for new managers joining the Company. This complements existing 'promote from within' programs, which are geared towards existing store associates.

Alliances Alliance relationships were strengthened in 2003 through improved communication and alignment with our partners. In 2004, we expect additional cost benefits to be achieved through better integration of merchandise ordering, billing and payment systems.

Giant Tiger Stores The Company opened four Giant Tiger stores in 2003 and now has seven stores open under a 30-year exclusive franchise agreement with *Giant Tiger Stores Limited*, based in Ottawa, Ontario. Under this agreement, *Giant Tiger Stores Limited* provides product sourcing, merchandising, information systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for developing and operating the stores, as well as for food procurement and distribution.

Giant Tiger stores are a junior discount format offering trend-right apparel and hardlines merchandise, an everyday food product mix and convenient locations. Store sales performance has exceeded expectations and all stores that have been open for more than one year are profitable.

In 2004, three new stores will be opened. We will also focus on recruiting and training store managers and field support for a faster roll-out beginning in 2005.

Financial Performance Results of Canadian operations are summarized below by the key performance indicators used by management.

KEY PERFORMANCE INDICATORS (\$ in thousands)

	2003	2002	2001
Sales	\$ 615,661	\$ 565,747	\$ 532,349
Same store sales % increase ¹	2.6%	3.6%	4.2%
Trading profit ²	\$ 57,663	\$ 59,163	\$ 60,337
EBIT ²	\$ 39,250	\$ 40,187	\$ 41,036
Return on net assets	14.0%	14.2%	13.9%

¹ 2003 same store sales adjusted to an equivalent 52-week basis

² See Non-GAAP Measures section on page 23.

Sales Canadian sales increased 8.8% (2.6% on a same store basis) to \$615.7 million from \$565.7 million in 2002. Excluding the extra week, sales were \$605.1 million or an increase of 6.9%.

Canadian food sales accounted for 67.8% (66.0% in 2002) of total sales. The balance was made up of general merchandise sales at 27.9% (29.6% in 2002), other sales, primarily fuel sales, at 2.7% (2.8% in 2002) and consumer credit revenue at 1.6% (1.6% in 2002).

Core stores include the Company's remote store formats in Canada and exclude Giant Tiger stores and the Diversified Business group. Food sales in core stores increased 7.2% (5.0% on a same store basis and on an equivalent 52-week basis) compared to an increase of 4.6% in 2002. The 7.2% exceeded our 2003 target of 6.7%. Food sales were strong throughout the year with quarterly increases of 5.0%, 6.1%, 4.8% and 12.7% (4.0% excluding the extra week in the fourth quarter).

Sales increases were achieved across all categories with major increases in deli, which continues its strong growth in our large stores; tobacco, which was affected by higher government taxes imbedded in the price; confectionary, beverages and chilled foods. The weakest category was food service, which continues to be impacted by labour shortages in many locations due to extended hours of operation.

General merchandise sales in core stores were down 3.1% compared to 2002 (-4.4% on a same store basis and on an equivalent 52-week basis). General merchandise sales growth was targeted at 4.2% on an equivalent 52-week basis. The year started strongly with general merchandise sales up 6.2% in the first quarter but declined from 2002 in each of the next three quarters by 2.9%, 5.7% and 7.0% (-10.7% after adjusting for the extra week in the fourth quarter). Major decreases occurred in electronics, footwear and outerwear, men's apparel and hardware.

Selections catalogue sales were down 8.9% to \$39.3 million from \$43.1 million in 2002. Deflationary pricing, weak merchandise programs, less clearance and promotional activity, increased discount store competition and less discretionary income were all factors. Despite poor sales, a focus on improved margins, better balanced inventory levels and fewer deep discount promotions combined to produce an increase in general merchandise profitability for the year.

The focus in 2004 will continue to be on growing food sales while further improving the profitability of the general merchandise business before pursuing more aggressive sales targets.

Sales Blend The chart below reflects the growing importance of food sales to the overall sales of the Canadian operations.

	2003	2002	2001
Food %	67.8	66.0	65.2
General merchandise %	27.9	29.6	29.9
Other %	2.7	2.8	3.4
Service charges %	1.6	1.6	1.5

Same store food sales in the Company's core remote stores have consistently performed at industry-leading levels while general merchandise sales have lagged for core stores.

CORE STORES – SAME STORE SALES (% change)

	2003	2002	2001
Food	5.0%	3.8%	6.1%
General merchandise	-4.4%	2.6%	0.0%
Total sales	2.1%	3.4%	4.2%

Best Practice equals higher performance

Store manager Dave Ratter in La Ronge, Saskatchewan is a 23-year North West veteran. He's also one of the early participants in the Company's Best Practice store manager training program.



"Best Practice means a better store for everyone. Now we're spending more time on the work that sells products and services. We have a better idea of where the profit is."

— DAVE RATTER, STORE MANAGER, NORTHMART,
LA RONGE, SASKATCHEWAN

Giant Tiger store sales doubled to \$47.2 million as we added four new stores in 2003. Same store sales increased by 12.6%. Food (which includes tobacco) and general merchandise accounted for 63% and 37% of total sales respectively.

The Diversified Business group consists of three Fur Marketing branches, Inuit Art Marketing Service and fresh food wholesaler Crescent Multi Foods (CMF). Sales for the group increased 31.1% (18.1% on an equivalent 52-week basis) to \$19.1 million from \$14.6 million in 2002. This improvement was led by a 38.7% sales gain at CMF as it continued to add customers and expand its wholesale fresh food offering.

Sales per selling square foot were \$829 for food (\$728 in 2002) and \$285 for general merchandise (\$299 in 2002) reflecting the continuing strong food sales growth.

Profitability Gross profit dollars for core stores increased by 5.2% (2.9% on an equivalent 52-week basis). The gross profit rate increased to 34.3% compared to 33.9% in 2002. More aggressive pricing in our shelf-stable food categories lowered food gross profits. This was more than offset by higher general merchandise rates due to better inventory control, lower buying costs and lower markdowns. Offsetting this improvement were increased payroll expense and occupancy costs related to higher energy costs.

Trading profit from Canadian operations decreased by \$1.5 million to \$57.7 million or 9.4% of sales. Trading profit in 2002 was \$59.2 million or 10.5% of sales. Other factors impacting Canadian trading profit were Giant Tiger store opening costs and head office administration expenses for Best Practice training, and termination allowances.

Operational Net Assets Employed Operational net assets employed at January 31, 2004, increased 2.0% to \$277.5 million compared to \$272.1 million at the previous year-end as summarized in the following table.

OPERATIONAL NET ASSETS EMPLOYED

(\$ millions at the end of the fiscal year)

	2003	2002	2001
Property and equipment	\$150.8	\$142.1	\$144.6
Inventory	94.4	102.0	108.8
Accounts receivable	51.3	56.8	57.6
Other assets	22.1	14.4	12.2
Liabilities	(41.1)	(43.2)	(49.3)
Total	\$277.5	\$272.1	\$273.9

Property and equipment balances were up due to the new in-store information system and the capital costs associated with opening four Giant Tiger stores. Capital expenditures for 2004 are expected to be \$4.0 million lower than in 2003 as the store information system development is complete and hardware has been purchased.

Inventory levels were reduced as part of a plan to eliminate chronic slow moving inventory pockets, improve merchandise flow and reduce excess safety stock. This plan was expected to reduce average inventory levels by \$10.0 million by the end of 2003 compared to average levels for the year 2000. Excluding the impact of the Giant Tiger inventories, we reduced our average inventory by over \$5.0 million and made substantial progress towards the larger objective during the last half of the year. We believe we will achieve a further \$4.0 million in average inventory level reductions in 2004.

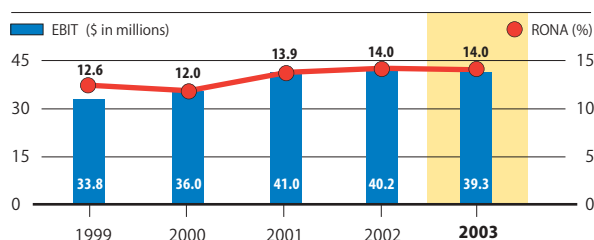
Accounts receivable decreased 9.6% in 2003, reflecting the decline in general merchandise sales.

Other assets increased due to additional cash on hand to meet month-end cheque cashing and ATM requirements and the higher than usual deposits in transit at fiscal year-end. Liabilities were lower in 2003 than the previous year due to a reduction in accounts payable balances resulting from a decline in merchandise purchases.

Return on Net Assets The return on net assets employed for Canadian operations was 14.0%, the same level as 2002.

There is more potential for working capital productivity gains in core stores and Giant Tiger stores will continue to deliver high inventory turns. Profit margin rates will erode due to the growing impact of Giant Tiger's discount pricing, offset by higher sales volumes.

CANADIAN RETURN ON NET ASSETS



Even though EBIT dropped slightly, RONA remained the same.

2003 Alaskan Operations Strategy

STRATEGY

1. Acquire and Develop New Store Locations Identified potential locations

2. Increase Sales in the Wholesale Division Substantial growth in grocery, meat and frozen food, but large decrease in tobacco sales

3. Improve Cost Efficiencies Ongoing, general administration costs were flat versus 2002

4. Enhance Store Capabilities

• Install information systems in nine stores Installed in five stores

RESULTS

ALASKAN OPERATIONS (Stated in U.S. dollars)

Retail Environment The rural Alaskan market was generally weak in 2003 as poor conditions continued in the fishing industry and there was a reduction of 28% in the Alaska Permanent Fund (APF) dividends in 2003 to \$1,107 per capita from \$1,541 per capita in 2002. The dividends are based on the APF's average earnings over the last five years. The APF dividend is expected to decrease again in 2004.

Operations The Alaskan operations did not add any new locations in 2003 but concentrated on existing markets. New locations have been identified but are dependent on successful negotiations of lease terms. AC's wholesale division, Frontier Expeditors (FE) saw double-digit growth in grocery, meats and frozen foods. This sales increase was mostly offset by a large decrease in low-margin tobacco sales leaving FE with a moderate sales growth of 3.0%. FE's growth in food categories, other than tobacco, is much more sustainable.

The roll-out of the store information systems was also delayed in Alaska. Five stores had systems installed instead of nine. We expect to install systems in the remaining 20 stores by November 2004.

Financial Performance Alaskan results for the year are summarized below by key performance indicators.

KEY PERFORMANCE INDICATORS (\$ in thousands)	(\$ in thousands)		
	2003	2002	2001
Sales	\$120,856	\$117,542	\$110,308
Same store sales % increase ¹	-0.4%	2.6%	5.9%
Trading profit ²	\$ 10,969	\$ 8,373	\$ 6,551
EBIT ²	\$ 8,084	\$ 6,012	\$ 4,372
Return on net assets	15.9% ³	11.6%	8.5%

¹ 2003 same store sales adjusted to an equivalent 52-week basis

² See Non-GAAP Measures section on page 23.

³ Return on net assets would be 13.1% if gain from insurance proceeds of \$1.4 million is excluded.

Sales AC's total sales increased 2.8% (1.3% on an equivalent 52-week basis) to \$120.9 million for the year compared to \$117.5 million in 2002. Food sales, which accounted for 79.5% of total revenue (77.0% in 2002), increased 6.2% (4.9% on an equivalent 52-week basis). On a same store basis, food sales increased 3.0%. Food sales were led by strong increases in grocery 13.5%, snack foods 12.7%, beverages 10.0%, meats and produce both at 8.0%. All other food categories had increases except food service and tobacco. Less competitive pricing pressure in selective markets and market share gains account for the sales increase.

General merchandise sales, which accounted for 19.6% of total sales (22.1% in 2002), decreased 9.0% (-9.9% on an equivalent 52-week basis). On a same store basis, general merchandise sales declined 10.9%.

General merchandise sales continued to be weak as disposable income was severely impacted by the reduction of dividends from the Alaska Permanent Fund. Large ticket merchandise categories, such as home furnishings, electronics and transportation, accounted for 66% of the general merchandise sales decrease. All other general merchandise categories experienced smaller decreases.

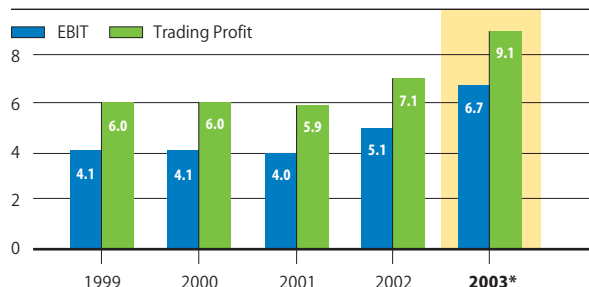
Other sales, consisting primarily of gasoline, were flat to 2003. Service charge income increased 10.7% accounting for 0.5% of total revenue. Same store sales for the past three years are shown on the following table.

SAME STORE SALES (% change)	(% change)		
	2003	2002	2001
Food	3.0%	3.9%	4.9%
General merchandise	-10.9%	-1.4%	8.7%
Total sales	-0.4%	2.6%	5.9%

The decline in same store sales reflects the decrease in disposable income as a result of the lower Alaska Permanent Fund distribution. Food same store sales increases are above industry averages.

Sales per selling square foot were \$676 for food (\$622 in 2002) and \$211 for general merchandise (\$268 in 2002) continuing the strong food sales performance. Food selling square footage accounted for 56% of total selling space of Alaskan operations compared to 61% in 2002.

AC TRADING PROFIT & EBIT MARGINS (% of sales)



* Excludes gain from insurance proceeds

Trading profit increased 14% in 2003.

Profitability Gross profit rates improved to 33.5% from 33.4% in 2002. Both food and general merchandise rates improved in 2003. With greater sales and the higher gross profit rates, gross profit dollars increased 3.2% to \$40.5 million from \$39.3 million in 2002. Operating expenses increased 1.8% as a result of the extra week's wages and larger amortization expense due to the new St. Michael store.

Trading profit increased 31.0% to \$11.0 million from \$8.4 million in 2002. Excluding the gain from insurance proceeds of \$1.4 million, the increase in trading profit was 14.3%.

FE increased its trading profit by \$456,500 or 44.2% in 2003. Bad debt recoveries account for a significant part of the increase. FE sales increased 3.0% in 2003. FE saw double-digit sales increases in grocery, meats and frozen foods due to increased market share won from small independent retailers in rural Alaska but this was offset by a reduction in tobacco sales.

OPERATIONAL NET ASSETS EMPLOYED

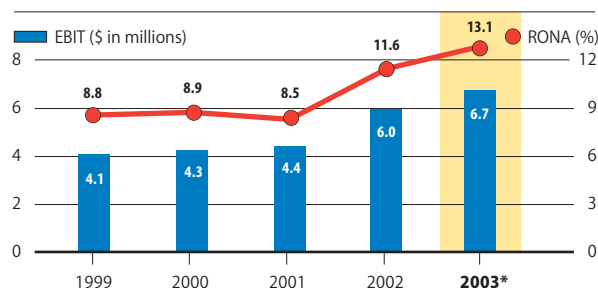
(\$ in millions at the end of the fiscal year)

	2003	2002	2001
Property and equipment	\$30.8	\$30.3	\$30.9
Inventory	16.3	16.7	16.0
Accounts receivable	6.1	5.2	5.2
Other assets	3.3	2.7	3.0
Liabilities	(6.4)	(6.8)	(5.8)
Total	\$50.1	\$48.1	\$49.3

At January 31, 2004, AC's operational net assets employed were \$50.1 million compared to \$48.1 million a year earlier. Property and equipment increased due to the rebuilding of a store in St. Michael, which was destroyed by fire, and the start of the roll-out of the store information system. Capital expenditures will increase in 2004 due to the roll-out of the store information system to remaining stores and completion of a major store remodel project. Amortization costs for the year increased 20.8% to \$2.9 million compared to \$2.4 million in 2002.

Inventories decreased marginally from last year. Accounts receivable increased 15.9% due to an amount from insurance proceeds received shortly after year-end. Other assets and liabilities amounted to \$3.1 million compared to \$4.1 million in 2002. The decrease was due to higher prepaids and lower accounts payable.

AC RETURN ON NET ASSETS



* Excludes gain from insurance proceeds

AC's return on net assets increased substantially for the second year in a row.

FINANCIAL CONDITION

CONSOLIDATED NET ASSETS EMPLOYED

(\$ in millions at the end of the fiscal year)

	2003	2002	2001
Property and equipment	\$191.8	\$188.2	\$194.0
Inventory	116.1	127.4	134.4
Accounts receivable	59.4	64.8	65.9
Other assets	40.4	35.6	35.4
Liabilities	(50.2)	(59.8)	(58.6)
Total	\$357.5	\$356.2	\$371.1

Balance Sheet and Cash Flows Property and equipment balances increased marginally in 2003. Additional information on capital expenditures is included in the next section.

Inventory levels declined 8.9% or \$11.3 million due to lower levels in the Canadian operations and the appreciation of the Canadian dollar. AC inventory levels were flat in U.S. dollar terms at \$16.3 million. Accounts receivable were down 9.6% in Canada and up 15.9% in Alaska because of the insurance proceeds receivable at year-end. Liabilities and other assets decreased by \$14.4 million due to the payment of a \$6.3 million distribution payable declared December 24, 2002 but only distributed March 15, 2003 and an increase in our cash balances to meet month-end cheque-cashing requirements in stores and a reduction in accounts payable. Included in the accounts receivable balance is a reserve on customer receivables calculated on the number of days past due. Payments overdue by 150 days or more are fully reserved.

Cash flow from operations in 2003 was similar to 2002 at \$59.5 million compared to \$59.2 million in 2002. A gain on disposal of property and equipment relates to insurance recoveries that funded the replacement of one store that was destroyed by fire in 2002. Changes on other non-cash items netted \$7.2 million due to reductions of inventory and receivables.

Capital Expenditures on Property and Equipment

Total net capital expenditures in 2003 were \$30.2 million compared to \$18.2 million in 2002. Net capital spending on Canadian and Alaskan operations, respectively, amounted to \$27.2 million and \$3.0 million for 2003 compared to \$15.4 million and \$2.8 million in 2002.

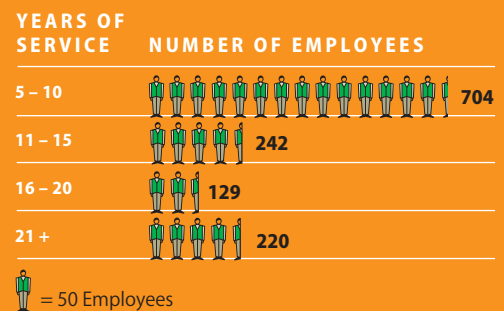
Capital expenditures in Canadian operations were \$28.3 million in 2003 versus \$17.3 million in 2002. Investments totalling \$6.8 million (\$8.4 million in 2002) were made to renovate existing stores, replace equipment, improve support facilities and replace one major store. Expenditures on information systems of \$12.7 million (\$6.6 million in 2002) were primarily directed at the development and upgrading of our in-store and corporate information systems, corporate software upgrades and corporate hardware.

A new store was built in Inukjuak, Quebec. Major upgrades were made to stores in Hay River, Fort Smith, and Fort Simpson, all in the Northwest Territories, as well in The Pas, Manitoba, Fort Vermillion, Alberta, and Puvirnituk, Quebec. Four new Giant Tiger stores were opened during the year: Regina, Saskatchewan; a third location in Winnipeg, Manitoba; Edmonton, Alberta and Morden, Manitoba. Two stores were closed in 2003: Snow Lake, Manitoba and North West River, Newfoundland and Labrador. Total selling square feet in Canada increased to 1,105,748 from 1,070,468 in 2002.

Capital expenditures in Alaska were \$4.9 million compared to \$2.8 million in 2002. A store in St. Michael was reopened in September 2003. There were no closures in Alaska in 2003. Alaskan selling square feet increased to 253,981 from 245,343 in 2002.

Our experience counts...

Two-thirds of North West's executive team started their retail careers with the Company, where commitment is a tradition. In 2003, 709 employees celebrated anniversaries of 10 years or more. Excluding our newly launched Giant Tiger store venture, 25% of the Company's employees have five or more years of service:



The following table summarizes the number of stores and selling square footage under NWC's retail formats.

	NUMBER OF STORES		SELLING SQ. FOOTAGE	
	2003	2002	2003	2002
Northern	133	136	785,213	803,093
NorthMart	7	6	178,372	178,328
Quickstop – Cdn	5	5	16,178	18,831
Giant Tiger	7	3	103,427	47,658
Other formats	4	4	22,558	22,558
AC Value Centers	25	25	253,981	245,343
Total at year-end	181	179	1,359,729	1,315,811

Net capital expenditures are expected to be \$25.7 million in 2004 and will be funded entirely from cash from operations.

Financing Activities The Company has credit facilities with two Canadian chartered banks totalling up to \$85.0 million at favourable rates. At year-end, the Company had drawn \$28.4 million of the credit facilities. The Alaska subsidiary has an operating loan facility of US\$4.0 million available and was drawing US\$1.4 million at January 31, 2004.

The Company continues to finance all of its capital expenditures and distributions with cash from operations. The Company expects that cash from operations and funds available from credit facilities are more than sufficient to meet all its obligations in 2004.

In August 2002, the Company successfully completed the refinancing of its long-term bonds by issuing US\$65.0 million 5.89% senior notes. Repayments of 20% of the original amount of the senior notes are required on June 15, 2007 and June 15, 2008 with the balance due June 15, 2009.

A swap was completed on September 11, 2002 to convert US\$14.0 million of the US\$65.0 million obligation from fixed to floating rates at three-month London Interbank Offered Rate (LIBOR) plus 1.87%.

The Company designated US\$45.0 million of its new U.S. dollar senior notes as a hedge against its U.S. dollar investment in Alaska Commercial Company. On November 7, 2002, US\$20.0 million fixed obligation was converted by a cross currency swap to a Canadian dollar-floating obligation at the Canadian Banker's Acceptance three-months rate plus 2.99%. On January 24, 2003, an additional US\$2.0 million of the fixed obligation was converted by a cross currency swap to a Canadian dollar-floating obligation at the Canadian Banker's Acceptance three-months rate plus 3.16%.

This swap reduced the hedge to US\$43.0 million to recognize the earnings at Alaska Commercial Company in 2002 and the reduction of the investment due to repayments on inter company notes.

This leaves US\$29.0 million of the original senior notes fixed at an interest rate of 5.89% and the remainder of the indebtedness subject to floating rates plus negotiated spreads.

The Fund paid five distributions in 2003 totalling \$30.6 million compared to four distributions in 2002 totalling \$25.2 million.

Contractual Obligations and Other Commitments

Contractual obligations of the Company are listed in the chart below.

	CONTRACTUAL OBLIGATIONS (\$ in thousands)				
	Total	0-1 Year	2-3 Years	4-5 Years	5 Years +
Long term debt	\$ 95,955	\$ 538	\$ 714	\$35,358	\$ 59,345
Capital leases	1,634	102	240	294	998
Operating leases	94,783	10,601	18,036	15,329	50,817
Other long-term obligations	1,710	–	–	1,710	–
Total	\$194,082	\$11,241	\$18,990	\$52,691	\$111,160

Director and Officer Indemnification Agreements

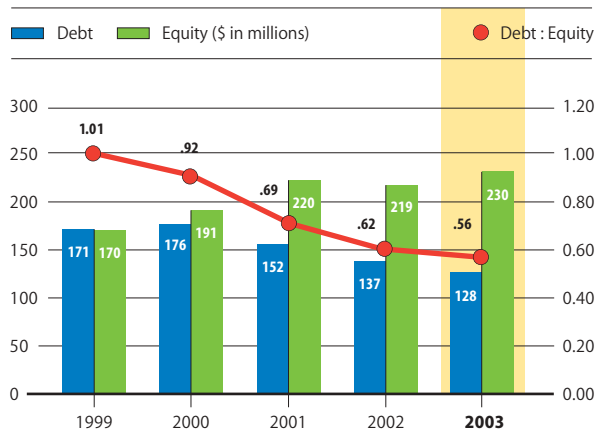
The Company has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any 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.

The Company continues to finance all of its capital expenditures and distributions with cash from operations.

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.

Capital Structure On a consolidated basis, NWF had \$127.9 million in debt and \$229.6 million in equity at the end of the year as the debt-to-equity ratio continued to improve to .56:1 versus .62:1 a year earlier. There was no new equity issued in 2003.

CAPITAL STRUCTURE



NWF's balance sheet continues to strengthen.

The strengthening of the Fund's capital structure is reflected in the above chart. Over the past five years, NWF's and NWC's debt-to-equity ratio has improved to .56:1 from 1.01:1 while annual cash distributions to unitholders have increased to \$1.90 in 2003 (includes a special distribution of \$0.34) from \$1.44 in 1999. Equity has increased by 35.1% to \$229.6 million from \$169.9 million over the past five years while interest-bearing debt was reduced by 25.4% to \$127.9 million from \$171.4 million in 1999.

Running for a cause

Team Diabetes North West finished in the Honolulu, Hawaii marathon on December 14, raising a record \$105,495 for the Canadian Diabetes Association. It was the third successful year a North West team has participated in an international marathon. The majority of team members work in North West's northern stores and have played a special role in promoting greater awareness of healthy, active living in their communities.



“Running for this important cause has been a great motivation, and a great experience. I'll never forget it.”

— DONNA YOUNG, WAREHOUSE ASSOCIATE,
WINNIPEG LOGISTICS SERVICE CENTRE

During the year, the Company issued loans to officers to purchase units under the unit purchase loan plan, which has the effect of decreasing equity. These loans are non-interest bearing and 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 the Company with a quoted value at January 31, 2004 of \$4.6 million. Loans receivable at January 31, 2004 of \$3.7 million (\$3.4 million at January 25, 2003) are recorded as a reduction of equity. The maximum value of the loans under the plan will not exceed \$7.5 million.

Consolidated debt at January 31, 2004 decreased 6.5% or \$8.9 million to \$127.9 million compared to \$136.8 million at January 25, 2003. The reduction is partly due to a stronger Canadian dollar. The debt outstanding at the end of the fiscal year is summarized as follows:

DEBT (\$ in thousands at the end of fiscal year)				
	2003	2002	2001	
Senior notes	\$ 91,432	\$ 99,597	\$ –	
Bonds	–	–	112,000	
Deferred warrants and swaps	–	–	2,090	
Bank debt	30,313	28,157	26,071	
Mortgages and notes payable	4,523	7,088	9,282	
Capital leases	1,634	1,970	2,172	
Total	\$127,902	\$136,812	\$151,615	

Book value per unit, on a diluted basis, at the end of the year increased 4.7% or \$0.64 to \$14.24 from \$13.60 a year earlier. Book equity was favourably affected by retained earnings of \$10.7 million (\$3.0 million in 2002) after declaring distributions of \$25.1 million (\$31.4 million in 2002).

The coverage ratio of EBIT to interest improved significantly to 8.0 times versus 7.4 times in 2002. Interest costs were reduced due to lower average debt levels in 2003.

INTEREST COSTS & COVERAGE

	2003	2002	2001	2000	1999
Coverage ratio	8.0	7.4	4.6	3.2	3.4
EBIT (\$ in millions)	50.4	49.6	47.8	42.3	39.8
Interest (\$ in millions)	6.3	6.7	10.5	13.2	11.7

RISK MANAGEMENT

NWC is exposed to a number of risks in the normal course of its business. These risks relate to our industry, the market environment and the successful execution of our key strategies.

Store Selling Capability Initiative This involves changing the work in our stores and improved training so that we can be better at selling. The expected benefits are more time spent on selling rather than administration, more rewarding and balanced work at the store level and profitable sales growth. We are using Best Practice stores, new manager recruiting and training and new in-store systems technology to achieve our goal. The payback from this initiative will depend on our recruiting success and our ability to efficiently train our existing people to use effective new practices within a reasonable time period.

Competition We have a leading market position in the vast majority of communities that we serve. Sustaining and growing this position depends on our ability to be more consistently in stock on a broader range of everyday products and services compared to our local competitors. To this end, we actively monitor competitive activity and take necessary steps to protect and grow our market share both in individual communities and regionally. Outshopping competition from regional centres is significant and continues to grow in general merchandise categories. Competition in these markets is continuously assessed to ensure that our pricing, selection and service levels attract profitable local spending through our stores and catalogue.

Community Relations About 60% of our sales are derived from communities and regions that restrict commercial land ownership and usage by non Aboriginal-owned businesses or which have enacted policies and regulations to support Aboriginal-owned businesses. We successfully operate within these environments through initiatives that promote positive community and customer relations. These include joint venture and store lease arrangements with community-based development organizations, affirmative steps taken to recruit local residents into management positions, increased Aboriginal participation at our Board level and direct investment in the North West Company Fund by Aboriginal-owned entities.

Consumer Income Our largest customer group derives most of its income directly or indirectly from government transfer payments. These payments are in the form of social assistance, child benefits and old age security. We consider these sources to be stable and independent of economic cycles within the broader North American economy. A major source of employment income is generated from local government and from spending on infrastructure projects. This includes new housing, schools, health care facilities, roads and sewers. Local government employment levels will fluctuate within a year depending on a community's fiscal health, especially near the end of a budget year. Project spending by community varies and corresponds to the northern spending allocations of the various levels of government.

The infrastructure and social support needs of the North are immense and we expect to see some spending increases as politicians recognize the need to deal with the problem. In the federal budget speech of February 18, 2003, the Canadian minister of finance acknowledged the unacceptable gap in health status between Aboriginal and other Canadians. This budget therefore provides \$1.3 billion over the next five years for measures that will help improve the health of Aboriginal Canadians; and an additional \$600 million is being targeted to improving the quality of water and wastewater treatment on reserves. Aboriginal issues and financial assistance has been reaffirmed as a priority of the new Prime Minister, Paul Martin.

Additional income will be generated from the National Child Benefit Supplement that will increase by \$150 annually per child in July 2004, \$185 in July 2005 and \$185 in July 2006 for low-income families. All or part of the supplement may be negated by reductions in social assistance payments by the provinces or territories.

Alliance Initiative Under this initiative, we are outsourcing major buying and distribution activities through partnerships with non-competing retailers and distributors. The benefit is lower product sourcing costs, improved product sourcing knowledge, a reduction in our inventory investment, sales growth and, over the long term, lower overhead expenses. Each alliance we enter into requires that we connect effectively with another organization. The cultural, technology and strategic fit with each partner and the disruption created by the transition to each alliance are risks of this initiative. The Company also assumes increased risks as volume of business increases with alliance partners with less direct control over assurance of their performance than internally controlled processes.

Bank in a box – a natural fit...

ATMs are a standard feature across most of North America. But in northern Canada and rural Alaska they are far from a common service. Security, communications and servicing are a natural fit with North West's reliable local presence. That's why 75% of all the ATMs in our remote markets are located in our stores – reinforcing our role as our customers' everyday store.



We have a leading market position in the vast majority of communities that we serve.

Interest Rate and Currency Fluctuations NWC is exposed to fluctuations in interest rates and currency exchange rates under its borrowings. Through the use of certain financial instruments, US\$36.0 million of NWC's senior notes were effectively converted from fixed interest rate debt to floating interest rate debt and US\$43.0 million of NWC's senior notes were maintained in U.S. dollar obligations to hedge the Company's investment in AC. Increases in interest rates would increase NWC's cost of borrowing. Interest rate and exchange rate fluctuations are beyond NWC's control and there can be no assurance that such fluctuations will not have a material effect on NWC's business, financial condition and results of operations.

Energy Costs The Company is exposed to fluctuations in the price of energy, particularly oil. To the extent that escalating fuel costs cannot be offset by energy conservation practices, they will result in higher retail prices, and consumer spending, especially on discretionary items, may be adversely affected.

OUTLOOK

We believe that revenue and earnings growth will continue at modest rates in 2004. Emphasis is being placed on training and systems investments in our core stores and these will not deliver a full payback until future years. The Canadian core general merchandise focus will be on profitability and opportunistic pockets of sales growth. Giant Tiger store expansion will continue but will focus on preparing a foundation for accelerated store openings in 2005. Alaskan operations are expected to show above average food growth but a slight decline in general merchandise sales as we anticipate another payment decrease from the Alaska Permanent Fund.

We believe that revenue and earnings growth will continue at modest rates in 2004.

QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly financial information. Each quarter represents a 13-week period, except the fourth quarter of 2003, which represents a 14-week period.

OPERATING RESULTS – CONSOLIDATED (\$ in thousands)

	Q1	Q2	Q3	Q4	Total
Sales					
2003	\$179,396	\$192,376	\$193,998	\$216,950	\$782,720
2002	\$172,233	\$186,613	\$185,811	\$205,102	\$749,759
Trading profit					
2003	\$13,234	\$17,984	\$20,586	\$21,022	\$72,826
2002	\$14,324	\$19,628	\$17,954	\$20,365	\$72,271
Net earnings					
2003	\$5,543	\$8,925	\$10,648	\$10,614	\$35,730
2002	\$6,266	\$9,144	\$8,904	\$10,155	\$34,469
Net earnings per unit – basic					
2003	\$0.35	\$0.56	\$0.67	\$0.66	\$2.24
2002	\$0.39	\$0.57	\$0.56	\$0.63	\$2.15
Net earnings per unit – diluted					
2003	\$0.35	\$0.55	\$0.66	\$0.66	\$2.22
2002	\$0.39	\$0.57	\$0.55	\$0.63	\$2.14

Retail businesses are prone to seasonal sales fluctuations. Historically, the Company's first quarter sales are the lowest with increases in the next three quarters with the fourth quarter being the highest as it includes the strong Christmas selling period. Weather conditions can impact sales in any of the four quarters. Net earnings are historically lower in the first quarter due to the lower sales. Net earnings generally follow the higher sales but may be dependent on markdown activity in key sales periods to meet competitive pressures or reduce excess inventories.

Accounting Standards Implemented in 2003

Effective July 26, 2003, the Fund adopted Accounting Guideline 14 – Disclosure of Guarantees. This guideline requires a guarantor to disclose significant information about guarantees it has provided without regard to the probability that the guarantor will have to make any payments under those guarantees, and is in addition to the requirements under Section 3290 'Contingencies.' This guideline is effective for interim and annual periods beginning on or after January 1, 2003 and has been implemented.

FUTURE ACCOUNTING STANDARDS

Asset Retirement Obligations The Canadian Institute of Chartered Accountants (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 its balance sheet or 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. 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 its balance sheet or statement of earnings.

Retail businesses are prone to seasonal sales fluctuations.

NON-GAAP MEASURES

1 Trading Profit (EBITDA) is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings (loss), trading profit is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to amortization, interest expense and income taxes. Investors should be cautioned, however, that trading profit should not be construed as an alternative to net earnings (loss) determined in accordance with GAAP as an indicator of NWF's performance. NWF'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 net earnings, the closest comparable GAAP measure, to trading profit or EBITDA for consolidated operations is provided below.

RECONCILIATION OF NET EARNINGS TO TRADING PROFIT

(\$ in thousands)	2003	2002
Net earnings	\$ 35,730	\$ 34,469
Add: Amortization	22,401	22,672
Interest expense	6,299	6,681
Income taxes	8,396	8,449
Trading profit	\$ 72,826	\$ 72,271

For trading profit information by business segment, see note 12 Segmented Information in the notes to the consolidated financial statements on page 32.

2 Earnings Before Interest and Income Taxes (EBIT) is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings (loss), EBIT is a useful supplemental measure as it provides investors with an indication of the performance of the consolidated operation and/or business segments, prior to interest expense and income taxes. Investors should be cautioned, however, that EBIT should not be construed as an alternative to net earnings (loss) determined in accordance with GAAP as an indicator of NWF's performance. NWF's method of calculating EBIT may differ from other companies and, accordingly, EBIT may not be comparable to measures used by other companies.

A reconciliation of net earnings, the closest comparable GAAP measure, to EBIT for consolidated operations is provided below.

RECONCILIATION OF NET EARNINGS TO EBIT

(\$ in thousands)	2003	2002
Net earnings	\$ 35,730	\$ 34,469
Add: Interest expense	6,299	6,681
Income taxes	8,396	8,449
Earnings before interest and income taxes (EBIT)	\$ 50,425	\$ 49,599

For EBIT information by business segment, see note 12 Segmented Information in the notes to the consolidated financial statements on page 32.