

# Leadership



NORTH WEST COMPANY FUND 2005 SUMMARY ANNUAL REPORT

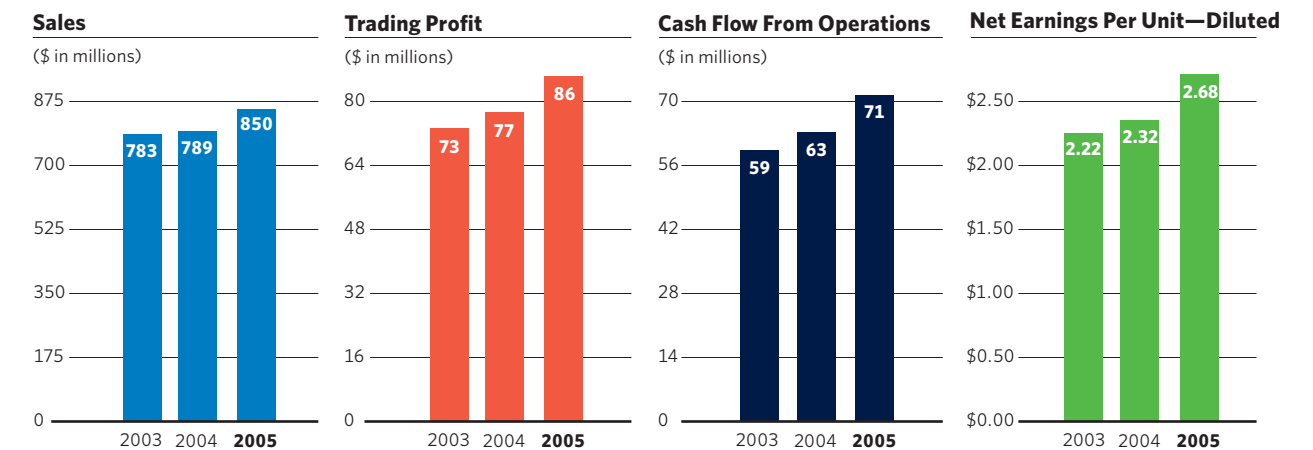


NORTH WEST COMPANY FUND

## Financial Highlights

All currency figures in this report are in Canadian dollars, unless otherwise noted.

Fiscal Year (\$ in thousands)	2005 52 Weeks	2004 52 Weeks	2003 53 Weeks
<b>RESULTS FOR THE YEAR</b>			
Sales	\$ 849,653	\$ 788,693	\$ 782,720
Same store sales % increase <sup>1</sup>	5.4%	1.4%	2.1%
Trading profit <sup>2</sup> (earnings before interest, income taxes and amortization)	\$ 85,502	\$ 76,606	\$ 72,826
Earnings before interest and income taxes <sup>2</sup> (EBIT)	60,489	52,701	50,425
Net earnings	42,890	37,265	35,730
Cash flow from operations <sup>2</sup>	70,856	63,150	58,886
<b>FINANCIAL POSITION</b>			
Total assets	\$ 423,849	\$ 414,477	\$ 409,600
Total debt	111,673	120,932	127,902
Total equity	242,573	236,285	228,478
<b>FINANCIAL RATIOS</b>			
Debt-to-equity	.46:1	.51:1	.56:1
Return on net assets <sup>3</sup>	16.6%	14.8%	14.1%
Return on average equity	18.0%	16.2%	16.0%
<b>PER UNIT (\$)—DILUTED</b>			
Trading profit	\$ 5.30	\$ 4.75	\$ 4.52
Net earnings	2.68	2.32	2.22
Cash flow from operations	4.39	3.92	3.65
Equity—net book value	15.66	14.93	14.39
Cash distributions paid during the year	1.88	1.80	1.90
Market price—January 31	37.50	30.65	23.63
—high	38.49	31.74	25.50
—low	26.65	23.10	20.87



1 Same store sales, excluding the foreign exchange impact, on an equivalent 52-week basis  
 2 See Non-GAAP measures section on page 17 in the Management's Discussion & Analysis which is available through SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.northwest.ca](http://www.northwest.ca)  
 3 Earnings before interest and income taxes as a percent of average net assets employed





The North West Company is a leading retailer of food and everyday products and services to rural communities and urban neighbourhoods across Canada and Alaska.

BERING SEA

GULF OF ALASKA

**HEAD OFFICES**

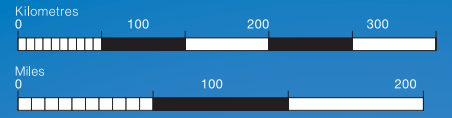
- ☆ The North West Company Inc. — Winnipeg Head Office
- ★ Alaska Commercial Company — Anchorage Head Office

**RETAIL BANNERS**

- 131 Northern stores,**<sup>1</sup> offering a combination of food and general merchandise to remote, northern Canadian communities
- 25 AC Value Centers,** offering a combination of food and general merchandise to communities across rural Alaska
- 5 NorthMart stores,**<sup>1</sup> targeted at larger, regional markets and offering an expanded selection of fashion merchandise and fresh food
- 12 Quickstop convenience stores,**<sup>2</sup> offering prepared foods, petroleum products and a full convenience assortment
- 16 Giant Tiger**<sup>3</sup> junior discount stores offering family fashion, household products and food at convenient locations in Manitoba, Saskatchewan and Alberta
- Selections catalogue,** more than 325,000 of which are distributed across northern Canada, featuring everything from fashion and snowmobiles to computers and boats

**WHOLESALE DIVISIONS**

- Frontier Expeditors,** a distributor of food and general merchandise to independent grocery stores in rural Alaska
- Crescent Multi Foods,** a distributor of produce and fresh meats to independent grocery stores in Saskatchewan, Manitoba and northwestern Ontario
- 3 North West Company Fur Marketing outlets,** offering native handicrafts and authentic Canadian heritage products, as well as wild furs
- The Inuit Art Marketing Service,** Canada's largest distributor of Inuit art



<sup>1</sup> The Inuit language word Niuivirik, ᑎᓄᓄᓄᓄᓄᓄ, meaning "a place to find things," was added to The North West Company's current trading names Northern and NorthMart for 32 stores in Nunavut, the Northwest Territories and the Nunavik region of Northern Quebec.

<sup>2</sup> Iqaluit, Nunavut has three Quickstops.

<sup>3</sup> Winnipeg, Manitoba has five Giant Tiger stores. Yorkton, Saskatchewan Giant Tiger opened February 25, 2006. Grande Prairie, Alberta Giant Tiger opened April 1, 2006. A seventeenth store was recently announced and is planned to be opened in Calgary, Alberta on June 24, 2006.

Information as of April 19, 2006

- ☆ Winnipeg
- The North West Company – Head Office
- Logistics Service Centre
- Odd Lots Discount Centre
- Motorized Division
- Selections Catalogue Operations
- Crescent Multi Foods
- Giant Tiger Stores

**The North West Company Fund (NWF) met its goal of delivering top quartile investment performance again in 2005 with a total return exceeding 31% in the calendar year. This compares with a total return for business income trusts of 2%.**

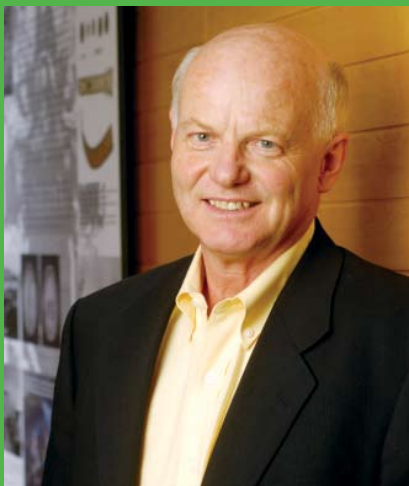
**It is the outstanding performance of our more than 5,900 employees and their dedication to customer service, our communities and NWF that helped make this a reality.**

Income trusts experienced unusual volatility in the fourth quarter of 2005 following then-Finance Minister Goodale's announcement of a tax review of income trusts, a freeze in advance tax rulings and an indication that he favoured taxing trusts equitably with corporations. He also indicated that it may not be good for the economy that trusts were distributing most of their earnings to their owners. This resulted in a decline in income trust market values of over \$20 billion in the ensuing weeks. The units of NWF were not spared and decreased over \$60 million in market capitalization in that period.

NWF provided one of the earlier submissions to the Department of Finance outlining the benefits of income trusts to the economy and the capital markets. NWF is a sterling example that income trusts can have a disciplined but robust capital spending and growth model that delivers real benefits to customers, communities, employees and investors.

Whether it was the logic of the submissions received or the politics of a minority government, the tax position of income trusts was settled to the benefit of our capital markets and Canada.

We were pleased to welcome Wendy Evans to our Board in 2005. Wendy is a leading retail expert and has a keen strategic focus that will add depth to your Board's deliberations.



Ian Sutherland  
TRUSTEE, THE NORTH WEST COMPANY FUND  
CHAIRMAN, THE NORTH WEST COMPANY INC.  
APRIL 19, 2006



# Leadership Performance

**I am pleased to report that 2005 was our sixth consecutive year of higher sales, trading profit and net earnings.** Most

satisfying was the “next level” performance we achieved after several years of modest growth. Underpinning these results was the ability of our people. They continue to give North West a tremendous advantage as they reach their own next level by being accountable and committed to great work.

Next level work is a constant at North West. Retailers are adding selling space faster than consumer income growth, led by big box chains. For smaller players like us, being local, convenient, fresh and fast defines our advantage. In each area we’ve learned valuable lessons and we’ve built strengths to stay ahead.

**North West has earned a reputation for solid, consistent financial results.**

In 2005, we exceeded recent trend lines, led by sales growth of 9.3% excluding the foreign exchange impact of a higher Canadian dollar. Same store sales increased 5.4% (excluding the foreign exchange impact) reflecting food market share gains across all store banners.

Trading profit was up 11.6% to \$85.5 million, improving by 35 basis points to 10.1% as a rate to sales. Margin erosion from sharper food pricing was buffered by lower cost product sourcing and by spreading fixed-type costs against higher sales. Energy prices escalated, increasing occupancy and transportation rates. Sales and staff productivity helped offset these pressures and, with new communication technology and work processes in place, overall expenses declined as a percent to sales.

Net earnings grew 15.1% to \$42.9 million and return on equity and net assets each improved by 180 basis points to 18.0% and 16.6% respectively. Asset productivity is another area where we have achieved consistent gains. 2005 was noteworthy because we rebounded from over investing in merchandise during the second half of 2004. Operating cash flow was up 53.9% to \$75.3 million.

**2005 was a solid year for delivering on long-term initiatives.** Our multi-year focus is to ensure that we have the ability and the room to grow with our existing store banners and through complementary new businesses. Having the ability starts with building store-level skill so that we can take advantage of unique, local selling opportunities. Room to grow means identifying new store locations and new products and services that leverage our core capabilities and allow us to gain a higher share of local spending.



# 2005 was our sixth consecutive year of higher sales, trading profit and net earnings.

## CANADIAN OPERATIONS



**Technology was a driver last year in northern Canada** as we completed the installation of a broadband communications network. This is an essential platform for bridging the distance between our vast geography of store locations. The immediate

return is measured by faster check-out lanes and cost savings from disconnecting hundreds of land phone lines. The network also enables us to deliver information and services like telepharmacy, credit authorization, electronic merchandise ordering and distance learning.



**Learning programs were another key element to building store knowledge in northern Canada.** Twenty-eight managers completed Best Practice training last year, bringing our three-year total to 173. Another 28 new management recruits were enrolled

in our Manager-in-Training program and will begin to graduate into store manager positions in 2006.

Linked to our training work, we have redefined the store manager role to ensure that more accountability for planning, people and merchandise stays with our store teams. Consistent with this approach, we have put in place a store-level profit-sharing plan that rewards sustaining and growing store contribution year after year, while maximizing working capital efficiency.



**In 2005, Giant Tiger (GT) provided a modest contribution to the Company's profitability.** GT stores open for more than two years continued to be a leading indicator of the upside we see with this venture. These stores achieved healthy sales increases as customer awareness

and acceptance grew. At the same time, our skills in ordering, selling and expense management continued to improve. With these factors at play, time is the biggest prerequisite to realizing GT's full potential. We consider GT to be an increasingly important opportunity, but one that will remain at a developmental level for the next two to three years, until more stores reach maturity.

## ALASKAN OPERATIONS



**Alaska Commercial Company (AC) has closed the gap and exceeded our northern Canada stores on many productivity measures.** We see more potential at AC as we work harder at adapting best practices among all our Canadian and Alaskan stores. A related

goal is to provide the same depth of support and expertise to each store we operate, regardless of the number of stores in the business. A positive example from 2005 was AC's roll-out of staff payroll and scheduling systems used in the Canadian operations. In 2006, AC will adopt the store leadership and compensation principles we have developed for our Canadian stores. After some delays last year, store work processes will also be defined in 2006, based on the Best Practices training we have invested in over the last three years in northern Canada.

## LEADERSHIP AT NORTH WEST



**Each year we adjust and add new elements to our capability work.**

Beyond our store programs, leadership is receiving more attention, recognizing the need for more accountable, effective and consistent management practices. In 2005, a structured leadership

program was started for high potential senior managers below the level of vice-president. In 2006, we will add programs for managers at levels between this group and our stores.

We consider our leadership initiatives to be a solid, rewarding investment in the career satisfaction of our people. For North West, the return is having work being done at the right level, with better decisions being made on a day-to-day basis, as close to our customers and communities as possible. On pages six to nine of this report, we have presented highlights on how our leadership development work is taking hold.



**1 Food business will continue to be our first priority for market share growth.** In 2006, we will re-launch our private store label brands to bring a more coherent message to our customers and create a more exclusive brand identity. Our quick-service food business will also be revamped to strike a more profitable balance between fresher food and the cost of food preparation in our typically high cost in-store environment.

**Left** Vera Ross, Easterville Northern store customer

## 2006 growth initiatives...

With enhanced capability being put in place, we are confident about the range of “room to grow” initiatives we can add to our work over the next several years. In 2006, we plan to spend over \$35 million on capital investment with approximately \$15 million of this on growth areas. Our business-sustaining investment will also have a strong expansion focus as it will include building 30,000 square foot replacement stores in two of our largest markets, a 50% increase in selling space in each location.

**2 In 2006, we will complete an assessment of wholesale distribution opportunities in northwestern Ontario and western Canada,** leveraging skills built up in our current wholesale businesses, Crescent Multi Foods and Frontier Expeditors. Our target concept is a one-stop service to the small, independent retailer serving rural towns and inner cities, markets that are either not sufficiently remote or not large enough to fit with one of our existing corporate store formats.

**3 In healthcare, we now have a base capability in place following the acquisition of a large in-store pharmacy business early in 2006.** This transaction brought knowledge into North West related to remote pharmacy operations, telepharmacy and contract pharmacy services to northern hospitals. In 2006, we plan to open two more in-store pharmacies for a total of five and develop five satellite telepharmacy sites within our smaller store operations. The number of pharmacies will grow further in 2007 and we will enhance our healthcare offering to include medical equipment and a broader range of non-prescription health products in all stores.







**4 New openings will accelerate in 2006 with six GT stores and the anticipated acquisition of at least four Alaska stores.** We want to keep our annual GT openings at a minimum of six stores, depending on the affordability of real estate as we move further west. In Alaska, we will continue to look for stores to add to our existing network.

**5 The addition of gas bars and the repositioning of our smaller road-accessible stores to a “super-convenience” product mix will continue to be refined in 2006.** Over the last two years, we’ve opened seven gas bars for a total of 39 and we’ve leveraged more customer traffic into higher sales across our food categories. This year we plan to open five outlets in existing store locations.

**6 Last year we started to sell motor vehicles, complementing our line-up of snow machines, all-terrain vehicles, boats and motors.** Motor vehicle sales met expectations in test markets. We plan to significantly grow this business in 2006 by increasing our mix of compact SUVs and targeting Alaskan and Canadian Arctic locations served by summer and fall sealifts.

**Left** Debbie Ateah, Winnipeg Giant Tiger customer  
**Below** Elliott Mink, Easterville Northern store Grocery Supervisor



## 2006 ENVIRONMENT AND OUTLOOK

**The external environment in 2006 and for the next several years looks favourable for North West.** Our markets continue to rely on government spending and transfer payments for their base level of consumer income. This has proven to be a steady source of growth for us, tied to population increases and family size, both of which are above average compared to other markets in North America. Income beyond these levels comes primarily from resource development and spending on community infrastructure. On the resource side, we are in a good position in Alaska and northern Canada. Metal and energy prices remain at attractive levels, triggering new investment and employment.

On the infrastructure side, we see upside in funding to address chronic housing shortages and defence spending in the Canadian Arctic.

Against this positive outlook we will continue to be challenged by high energy prices. Remote economies are significantly impacted by fuel prices. This translates into higher inflation and cost pressure on consumers and local businesses. We need to be creative in finding new technologies and processes that can mitigate this vulnerability while finding lower cost product sources to offset price increases from traditional suppliers.

Our customers will continue to see innovation from North West in 2006.

Products and services tailored to unique lifestyle needs will be a focus led by healthcare and transportation and enabled by giving our stores more ability to buy the right items for their market.

Our people are aligned to the important work at North West. Their commitment and the value they place on what we can accomplish indicates that we have plenty of room to grow in 2006 and in the years ahead.

Edward S. Kennedy  
 PRESIDENT & CEO, THE NORTH WEST COMPANY INC.  
 APRIL 19, 2006

# Leadership across North West drives our success

Rex Wilhelm, President,  
Alaska Commercial Company (AC)



## Building AC through Alaska leadership

In our AC operations, management gives advice on strategic direction and then creates and implements its own growth plans, adapted to the Alaska market. Leadership is local, not driven by the focus of senior managers thousands of miles away.

**The result: A multi-layered plan to raise AC's sales by about 50% to more than \$200 million by 2010.** The prime opportunity springs from the stellar reputation AC has established as store operators and business partners. Village corporations and tribal governments are realizing our expertise in operating retail stores efficiently and profitably. The result is growing new partnerships in eight communities with the potential for more. Acquisition of competitors has allowed us to consolidate business in two locations and open stores in two more. AC recently announced an agreement to acquire four stores on Prince of Wales Island in southeast Alaska, to add \$13 million to sales.

**The growth strategy is not limited to expanding AC's traditional retail store base.** In larger communities, AC is adding gas bars and convenience stores as a complement to its main store business. On the wholesale side, Frontier Expeditors is well-positioned for continued growth as the only full-service, one-stop, food and general merchandise supplier to small, independent retailers in Alaska. We could not create or execute these plans without strong, deep local leadership.

## North West training programs produce results

**By training and providing better local tools and technology, we've produced results.**

In Canadian operations, operating expenses declined by 42 basis points in the fourth quarter, for example, due in part to improved work processes and staff productivity. In Alaska, trading profit rose 44.5% in the fourth quarter, reflecting sales performance and a 134 basis point expense drop led by staff productivity gains.

**Manager-in-Training program launched** A Manager-in-Training program, with a strong leadership component, was initiated in 2004 and enhanced in 2005 to strengthen the pool of store managers. Approximately 20 store manager candidates are expected to undergo accelerated training each year. Seven store managers graduated in 2005 and there are a total of 28 people currently in training.





# Leadership in action

How great leaders make the difference...



## **Kirk Coates**

### **Giant Tiger Store Manager**

Kirk Coates successfully opened four of the first seven North West Giant Tiger stores. He was given a permanent store assignment last year and he raised sales by 26%, gross profit dollars by 34% and also improved payroll productivity. Kirk is the recipient of the 2005 President's Award Recognizing Excellence in Leadership.

## **Gerald Favel**

### **Northern Store Manager**

Gerald Favel took control of his first assignment as a Northern store manager, quickly applying his community relations and merchandising skills. Food sales jumped 42%, general merchandise sales by 41% and gas sales by 35%. Gerald won the 2005 President's Award Recognizing Excellence in Enterprising.

## **Lizzie Sakiagak**

### **Northern Office Supervisor**

Lizzie Sakiagak embodies North West's true northern spirit. A tireless community volunteer, chief fundraiser for North West Diabetes initiatives and Inuktitut translator, Lizzie won the 2005 President's Award Recognizing Excellence in Community Support.

## **Rob Boudreau**

### **AC Value Center Manager**

Rob Boudreau is AC's store manager of the year for 2005. His store led in contribution margin, fuelled by a 23% sales increase. Rob attributes success to a great store team of future leaders who build "stepping stones out of stumbling blocks."

*"We are strengthening our pool of leaders."*

KAREN MILANI, VICE-PRESIDENT, HUMAN RESOURCES

# Leadership targets new opportunities



**Above** Donna Thomas, Office Supervisor at the Northern store in Easterville, explains the new features of CashLink to customer Veronica Favel.

## CashLink— faster, cheaper, simpler money

**Money is harder to transport, store, process and secure in the North, where communities are spread across thousands of miles and are poorly serviced by financial institutions.**

North West has introduced CashLink, a new stored value card that offers customers better service, convenience and value compared to paper cash.

CashLink has been launched in 75 Northern and NorthMart communities, with the remainder to be up and running later this year. It acts as a debit card, eliminating costs and inefficiencies in handling cash, vouchers and pay cheques.

“Being a leader in this type of technology has many benefits for our customers,” says Brian Fox, Director, Financial Services. CashLink offers lower costs on cheque cashing fees, uses secure PIN-based technology, can easily be re-loaded, does not require a bank account and reduces the need to handle cash.

Using North West’s integrated point-of-sale systems, CashLink transactions at the check-out counter are processed far faster than cheques and other documents, making it simpler for our customers.



*"Our expansion into local pharmacy and healthcare complements our role as a provider of everyday products and responds to a major unmet need in the North."*

DAVE HUSTON, DIRECTOR, PHARMACY OPERATIONS

## New ways to deliver healthcare products

**In the North, the demand for pharmacy and other healthcare products is growing at a rapid pace, triggered by a younger than average, but still aging population, and by the high incidence of related disease, most notably Type II diabetes.** Our plans over the next five years are aimed at earning a distinct, trusted identity for North West as a local healthcare provider. Opening in-store pharmacies in regional stores, using telepharmacy technology to distribute pharmaceutical products in smaller, satellite stores and providing 24/7 back-up pharmacy service to our customers and to northern hospitals are the key elements for growth.

This focus also gives us the foundation to grow other "Healthy Living" programs through increased selling space dedicated to non-prescription medications, medical equipment and healthier food choices.

**Right** Angèle Raymond, Pharmacist, is one of the new additions at the NorthMart store in Iqaluit.



## A natural fit — fuelling growth

**Fuel retailing at North West fits the criteria of targeting everyday spending needs.** ATVs, snow machines, boats, motors and increasingly trucks and cars, are essential to northern lifestyles. After years of little new investment in fuel, we are adding an average of six dispensing stations each year in northern Canada, for a total of 39 by the end of 2006. Fuel sales are growing in the 20% range and more frequent customer traffic inside our stores, combined with an enhanced mix of convenience products, is complementing our strong food sales in northern Canada. "Fuel is another reason for customers to count on us, every day," explains Paul Hughes, Category Manager.

**Left** Ile a la Crosse Northern store gas bar



# Fund Structure

## growing future profitability

**The Fund** The North West Company Fund (the Fund) was created on March 27, 1997 when the shareholders of The North West Company (the Company) exchanged their shares for 100% of the issued units of the Fund. The benefits of the Fund structure included increased cash distributions to unitholders, improvement in unitholder value and a greater ability to raise capital for growth. Interest paid by the Company to the Fund and then through to unitholders resulted in tax efficiencies to the Company. These tax efficiencies and the positive trend in cash flow from operations of the Fund have permitted growing distributions to unitholders.

As a result of the Company's growth in profitability, we have reached the maximum tax benefits available under the existing Fund structure. In December 2005, the Fund initiated an internal reorganization to transfer most of the Canadian assets and operations to a limited partnership, The North West Company LP (NWC LP). Under this new structure, an increased portion of the future growth in the profitability of the Canadian operations can be distributed to unitholders on a more tax efficient basis. The internal reorganization should be implemented by the end of April 2006.

The Fund is also proceeding with a tax ruling submission to Canada Revenue Agency to implement a further restructuring to more fully utilize the benefits of the limited partnership structure. The timeline in receiving a response to the tax ruling submission is not yet known. As well as requiring a satisfactory tax ruling, the Fund will require lender and unitholder approval. Unitholder approval will be sought at the Fund's Annual and Special Meeting on June 8, 2006.

**Capital Structure of the Company** The Fund holds a total of \$205.0 million in subordinated notes of the Company and of the NWC Trust at an average interest rate of 12.6%. The maximum total distribution from interest on the notes, net of fund expenses, is \$1.56 per unit. Additional distributions are made from dividends paid to the Fund by the Company and from the net income of NWC LP after a preferred distribution is paid to the Company. The Fund owns all of the shares of the Company and is the only holder of units in the NWC Trust.

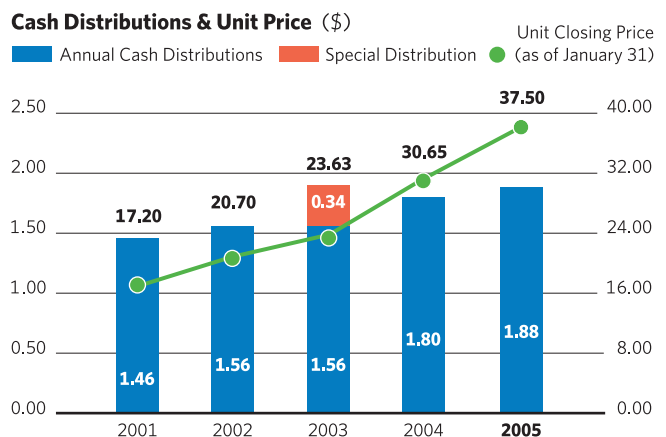
**Cash Paid Out and Reinvested** The following table outlines the cash flow from operations per unit and the amounts distributed and reinvested over the past five years. Distributions increased from \$1.46 per unit in 2001 to \$1.88 per unit in 2005. A special one-time distribution of \$0.34 per unit is included in the 2003 distributions. The Company has reinvested over 50% of cash flow from operations.

Fiscal year	2001	2002	2003	2004	2005
Cash flow from operations/unit \$ <sup>1</sup>	3.74	3.67	3.65	3.92	<b>4.39</b>
Payout \$	1.46	1.56	1.90*	1.80	<b>1.88</b>
Payout %	39.0	42.5	52.1	45.9	<b>42.8</b>
Reinvested \$	2.28	2.11	1.75	2.12	<b>2.51</b>

<sup>1</sup> For 2002 to 2005, the total number of units outstanding throughout the year was used to calculate cash flow from operations/unit \$. Units held by management as part of the Unit Purchase Loan Plan were not deducted from the total number of units outstanding.

\* 2003 includes a special distribution of \$0.34 per unit.

**Distributions** The policy of the Fund is to distribute about 50% of cash flow from operations. This policy is based on the Company's short and long-term capital requirements, its stable earnings and its strong balance sheet. During 2005, unitholders received quarterly cash distributions of \$0.47 per unit. Quarterly cash distributions of \$0.54 per unit are expected for 2006, payable to unitholders of record at the end of March, June, September and December, and distributed by the fifteenth of the following month. Depending on the profitability of the limited partnership, the Trustees may elect to change the level of distributions.





## 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 summarized financial statements and all other information in this annual report. The summarized 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. The summarized consolidated financial statements and all other information in this annual report should be read in conjunction with the audited consolidated financial statements and Management's Discussion & Analysis.

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

Edward S. Kennedy  
PRESIDENT & CEO, NORTH WEST COMPANY FUND

Léo P. Charrière  
EXECUTIVE VICE-PRESIDENT,  
CFO & SECRETARY, NORTH WEST COMPANY FUND

MARCH 15, 2006



### Auditor's Report on Summarized Financial Statements

To the Unitholders of North West Company Fund:  
The accompanying summarized consolidated balance sheet and statements of earnings and retained earnings and cash flows are derived from the complete consolidated financial statements of North West Company Fund as at January 28, 2006 and January 29, 2005 and for the years then ended on which we expressed an opinion without reservation in our report dated March 15, 2006. The fair summarization of the complete financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized financial statements.

In our opinion, the accompanying financial statements fairly summarize, in all material respects, the related complete consolidated financial statements in accordance with the criteria described in the Guideline referred to above.

These summarized financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the entity's financial position, results of operations and cash flows, reference should be made to the related complete consolidated financial statements.

CHARTERED ACCOUNTANTS  
WINNIPEG, CANADA

MARCH 15, 2006

# Consolidated Balance Sheets

(\$ in thousands)

January 28, 2006 January 29, 2005

## ASSETS

Current assets		
Cash	\$ 21,888	\$ 11,438
Accounts receivable	67,498	69,040
Inventories	124,551	122,580
Prepaid expenses	2,981	2,663
Future income taxes	1,824	2,467
	<b>218,742</b>	208,188
Property and equipment	182,108	186,104
Other assets	17,306	12,253
Future income taxes	5,693	7,932
	<b>\$ 423,849</b>	\$ 414,477

## LIABILITIES

Current liabilities		
Bank advances and short-term notes	\$ 27,041	\$ 32,023
Accounts payable and accrued liabilities	65,016	52,616
Income taxes payable	3,302	3,539
Current portion of long-term debt	108	106
	<b>95,467</b>	88,284
Long-term debt	84,524	88,803
Asset retirement obligations	1,285	1,105
	<b>181,276</b>	178,192

## EQUITY

Capital	165,205	165,205
Unit purchase loan plan	(9,965)	(4,429)
Retained earnings	83,133	70,560
Cumulative currency translation adjustments	4,200	4,949
	<b>242,573</b>	236,285
	<b>\$ 423,849</b>	\$ 414,477

Approved by the Trustees

Ian Sutherland TRUSTEE

Edward S. Kennedy TRUSTEE

All financial data was summarized from and should be read in conjunction with the audited consolidated financial statements included in the Management's Discussion & Analysis and Consolidated Financial Statements report which is available through SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.northwest.ca](http://www.northwest.ca)

# Consolidated Statements of Earnings & Retained Earnings

(\$ in thousands)	<b>52 Weeks Ended January 28, 2006</b>	52 Weeks Ended January 29, 2005
<b>SALES</b>	<b>\$ 849,653</b>	\$ 788,693
Cost of sales, selling and administrative expenses	<b>(764,151)</b>	(712,087)
Net earnings before amortization, interest and income taxes	<b>85,502</b>	76,606
Amortization	<b>(25,013)</b>	(23,905)
Interest, including interest on long-term debt of \$5,080 (2004 \$4,821)	<b>60,489</b> <b>(6,120)</b>	52,701 (5,761)
Provision for income taxes	<b>54,369</b> <b>(11,479)</b>	46,940 (9,675)
<b>NET EARNINGS FOR THE YEAR</b>	<b>\$ 42,890</b>	\$ 37,265
Retained earnings, beginning of year	<b>70,560</b>	61,679
Distributions	<b>(30,317)</b>	(28,384)
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 83,133</b>	\$ 70,560
<b>NET EARNINGS PER UNIT</b>		
Basic	<b>\$ 2.70</b>	\$ 2.34
Diluted	<b>\$ 2.68</b>	\$ 2.32

All financial data was summarized from and should be read in conjunction with the audited consolidated financial statements included in the Management's Discussion & Analysis and Consolidated Financial Statements report which is available through SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.northwest.ca](http://www.northwest.ca)



# Consolidated Statements of Cash Flows

(\$ in thousands)	<b>52 Weeks Ended January 28, 2006</b>	52 Weeks Ended January 29, 2005
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating Activities</b>		
Net earnings for the year	<b>\$ 42,890</b>	\$ 37,265
Non-cash items		
Amortization	<b>25,013</b>	23,905
Future income taxes	<b>2,780</b>	636
Amortization of deferred financing costs	<b>186</b>	186
(Gain) Loss on disposal of property and equipment	<b>(13)</b>	1,158
	<b>70,856</b>	63,150
Change in non-cash working capital	<b>9,865</b>	(13,698)
Change in other non-cash items	<b>(5,432)</b>	(527)
Operating activities	<b>75,289</b>	48,925
<b>Investing Activities</b>		
Purchase of property and equipment	<b>(24,833)</b>	(22,323)
Proceeds from disposal of property and equipment	<b>848</b>	694
Investing activities	<b>(23,985)</b>	(21,629)
<b>Financing Activities</b>		
Change in bank advances and short-term notes	<b>(4,899)</b>	1,885
Net purchase of units for unit purchase loan plan	<b>(5,536)</b>	(779)
Repayment of long-term debt	<b>(102)</b>	(4,486)
Distributions	<b>(30,317)</b>	(29,105)
Financing activities	<b>(40,854)</b>	(32,485)
<b>NET CHANGE IN CASH</b>	<b>10,450</b>	(5,189)
Cash, beginning of year	<b>11,438</b>	16,627
<b>CASH, END OF YEAR</b>	<b>\$ 21,888</b>	\$ 11,438
Supplemental disclosure of cash paid for:		
Interest expense	<b>\$ 6,166</b>	\$ 6,076
Income taxes	<b>\$ 9,260</b>	\$ 7,453

All financial data was summarized from and should be read in conjunction with the audited consolidated financial statements included in the Management's Discussion & Analysis and Consolidated Financial Statements report which is available through SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.northwest.ca](http://www.northwest.ca)

# Eleven-Year Financial Summary

Fiscal Year (\$ in thousands)	2005 52 weeks	2004 52 weeks	2003 53 weeks	2002 52 weeks	2001 52 weeks
<b>Consolidated Statements of Earnings</b>					
Sales—Canadian Operations	\$ 689,340	\$ 629,822	\$ 615,661	\$ 565,747	\$ 532,349
Sales—Alaskan Operations	160,313	158,871	167,059	184,012	171,694
Sales—Total	849,653	788,693	782,720	749,759	704,043
Trading Profit (EBIUTDA) <sup>1</sup> —Canadian Operations	70,561	62,629	57,663	59,163	60,337
Trading Profit (EBIUTDA) <sup>1</sup> —Alaskan Operations	14,941	13,977	15,163	13,108	10,198
Trading Profit (EBIUTDA) <sup>1</sup> —Total Operations	85,502	76,606	72,826	72,271	70,535
Amortization—Canadian Operations	21,103	19,977	18,413	18,976	19,301
Amortization—Alaskan Operations	3,910	3,928	3,988	3,696	3,393
Amortization—Total	25,013	23,905	22,401	22,672	22,694
Unusual item	—	—	—	—	—
Interest	6,120	5,761	6,299	6,681	10,501
Income tax provision (recovery)	11,479	9,675	8,396	8,449	8,325
Net earnings (loss)	42,890	37,265	35,730	34,469	29,015
Cash flow from operations	70,856	63,150	58,886	59,184	55,773
Distributions/Dividends paid during the year	30,317	29,105	30,639	25,157	21,375
Cash flow from operations after distributions/dividends	40,539	34,045	28,247	34,027	34,398
Capital expenditures	24,833	22,323	33,273	20,128	20,427
Net change in cash	10,450	(5,189)	6,176	475	1,388
<b>Consolidated Balance Sheets</b>					
Current assets	\$ 218,742	\$ 208,188	\$ 196,830	\$ 209,900	\$ 219,956
Property and equipment	182,108	186,104	192,395	188,194	194,025
Other assets	17,306	12,253	12,153	10,775	9,836
Future income taxes	5,693	7,932	8,222	9,322	9,358
Current liabilities	95,467	88,284	83,140	91,995	204,017
Long-term debt and other liabilities	85,809	89,908	97,982	106,812	9,634
Equity	242,573	236,285	228,478	219,384	219,524
<b>Consolidated per Unit/Share (\$)</b>					
Net earnings (loss) before unusual item—basic	\$ 2.70	\$ 2.34	\$ 2.24	\$ 2.15	\$ 1.95
Net earnings (loss)—diluted	2.68	2.32	2.22	2.14	1.95
Trading profit <sup>2</sup>	5.38	4.81	4.57	4.51	4.74
Cash flow from operations <sup>2</sup>	4.46	3.97	3.69	3.70	3.74
Distributions paid in cash during the year	1.88	1.80	1.90	1.56	1.46
Distributions paid in units during the year	0.00	0.00	0.00	0.00	0.00
Dividends paid in cash during the year	0.00	0.00	0.00	0.00	0.00
Cash flow from operations after cash distributions/dividends <sup>2</sup>	2.58	2.17	1.79	2.14	2.28
Equity at end of fiscal year (basic units outstanding)	15.33	14.86	14.34	13.76	13.61
Market price at January 31	37.50	30.65	23.63	20.70	17.20
<b>Statistics at Year End</b>					
Number of stores—Canadian	164	159	156	154	153
Number of stores—Alaskan	27	25	25	25	24
Selling square feet (000's) end of year—Canadian Stores	1,157	1,093	1,106	1,070	1,050
Selling square feet (000's) end of year—Alaskan Stores	272	255	254	245	244
Sales per average selling square foot—Canadian	\$ 613	\$ 573	\$ 566	\$ 534	\$ 515
Sales per average selling square foot—Alaskan	\$ 608	\$ 624	\$ 669	\$ 752	\$ 712
Number of employees—Canadian Operations	5,175	4,830	4,552	4,270	4,015
Number of employees—Alaskan Operations	732	692	736	657	690
Average units/shares outstanding (000's)	15,898	15,918	15,940	16,007	14,896
Units/Shares outstanding at end of fiscal year (000's)	15,821	15,900	15,933	15,948	16,126
Units/Shares traded during the year (000's)	6,956	7,393	7,207	7,617	4,776
<b>Financial Ratios</b>					
Trading profit <sup>1</sup> (%)	10.1	9.7	9.3	9.6	10.0
EBIUT <sup>3</sup> (%)	7.1	6.7	6.4	6.6	6.8
Total return on net assets before unusual item (%)	16.6	14.8	14.1	13.4	12.7
Return on average equity before unusual item (%)	18.0	16.2	16.0	15.8	14.9
Debt-to-equity	.46:1	.51:1	.56:1	.62:1	.69:1
Distributions/Dividends as % of cash flow from operations	42.8	46.1	52.1	42.5	38.3
Inventory turnover (times)	4.6	4.2	4.1	3.7	3.3

1 Earnings before interest, unusual item, taxes and amortization

2 Based on average basic units outstanding

3 Earnings before interest, unusual item and taxes

2000	1999	1998	1997	1996	1995	Fiscal Year
52 weeks	52 weeks	52 weeks	53 weeks	52 weeks	52 weeks	(\$ in thousands)
<b>Consolidated Statements of Earnings</b>						
\$ 502,756	\$ 478,508	\$ 494,023	\$ 497,997	\$ 474,465	\$ 470,306	Sales—Canadian Operations
156,276	147,961	135,095	118,713	116,118	121,728	Sales—Alaskan Operations
659,032	626,469	629,118	616,710	590,583	592,034	Sales—Total
54,534	51,075	55,736	53,478	57,198	47,451	Trading Profit (EBIUTDA) <sup>1</sup> —Canadian Operations
9,352	8,881	6,304	3,620	2,159	580	Trading Profit (EBIUTDA) <sup>1</sup> —Alaskan Operations
63,886	59,956	62,040	57,098	59,357	48,031	Trading Profit (EBIUTDA) <sup>1</sup> —Total Operations
18,568	17,287	16,739	15,525	14,181	12,535	Amortization—Canadian Operations
2,987	2,860	2,470	1,986	1,968	2,636	Amortization—Alaskan Operations
21,555	20,147	19,209	17,511	16,149	15,171	Amortization—Total
—	—	20,000	—	—	16,129	Unusual item
13,236	11,701	13,714	12,298	11,843	12,548	Interest
961	151	(7,028)	6,252	13,507	9,355	Income tax provision (recovery)
28,134	27,957	16,145	21,037	17,858	(5,172)	Net earnings (loss)
47,782	44,854	52,110	35,992	30,587	23,966	Cash flow from operations
21,446	21,600	18,750	8,925	6,094	6,466	Distributions/Dividends paid during the year
26,336	23,254	33,360	27,067	24,493	17,500	Cash flow from operations after distributions/dividends
19,133	22,777	18,328	28,818	22,994	29,745	Capital expenditures
(1,567)	(1,481)	1,260	6,967	(1,759)	(1,285)	Net change in cash
<b>Consolidated Balance Sheets</b>						
\$ 192,250	\$ 176,164	\$ 174,137	\$ 213,659	\$ 184,836	\$ 185,932	Current assets
194,448	195,429	197,310	198,074	184,268	179,651	Property and equipment
10,055	12,351	13,045	13,403	14,632	10,364	Other assets
19,212	3,593	2,919	(9,102)	(8,570)	(9,587)	Future income taxes
100,886	92,486	90,723	121,398	92,585	83,671	Current liabilities
124,106	125,146	132,571	134,476	135,228	142,736	Long-term debt and other liabilities
190,973	169,905	164,117	160,160	147,353	139,953	Equity
<b>Consolidated per Unit/Share (\$)</b>						
\$ 1.89	\$ 1.86	\$ 1.82	\$ 1.40	\$ 1.18	\$ 0.68	Net earnings (loss) before unusual item—basic
1.89	1.86	1.08	1.40	1.18	(0.32)	Net earnings (loss)—diluted
4.29	4.00	4.14	3.81	3.93	2.99	Trading profit <sup>2</sup>
3.21	2.99	3.47	2.40	2.03	1.49	Cash flow from operations <sup>2</sup>
1.44	1.44	1.00	0.40	0.00	0.00	Distributions paid in cash during the year
0.00	0.00	0.25	0.00	0.00	0.00	Distributions paid in units during the year
0.00	0.00	0.00	0.20	0.40	0.40	Dividends paid in cash during the year
1.77	1.55	2.47	1.80	1.63	1.09	Cash flow from operations after cash distributions/dividends <sup>2</sup>
13.00	11.33	10.94	10.68	9.82	9.02	Equity at end of fiscal year (basic units outstanding)
13.00	12.00	15.60	14.00	11.00	8.00	Market price at January 31
<b>Statistics at Year End</b>						
153	153	151	163	160	161	Number of stores—Canadian
24	25	23	28	27	28	Number of stores—Alaskan
1,019	998	990	1,063	1,026	1,009	Selling square feet (000's) end of year—Canadian Stores
238	235	229	227	229	223	Selling square feet (000's) end of year—Alaskan Stores
\$ 499	\$ 481	\$ 481	\$ 477	\$ 466	\$ 467	Sales per average selling square foot—Canadian
\$ 661	\$ 638	\$ 592	\$ 520	\$ 513	\$ 545	Sales per average selling square foot—Alaskan
3,822	3,787	3,823	4,004	3,725	3,779	Number of employees—Canadian Operations
655	655	635	685	645	704	Number of employees—Alaskan Operations
14,875	15,000	15,000	15,000	15,095	16,040	Average units/shares outstanding (000's)
14,691	15,000	15,000	15,000	15,000	15,519	Units/Shares outstanding at end of fiscal year (000's)
4,843	2,795	4,606	6,195	6,862	5,873	Units/Shares traded during the year (000's)
<b>Financial Ratios</b>						
9.7	9.6	9.9	9.3	10.1	8.1	Trading profit <sup>1</sup> (%)
6.4	6.4	6.8	6.4	7.3	5.6	EBIUT <sup>3</sup> (%)
11.5	11.6	12.1	11.4	13.4	9.8	Total return on net assets before unusual item (%)
15.2	16.8	17.6	13.9	12.7	7.0	Return on average equity before unusual item (%)
.92:1	1.01:1	1.06:1	1.26:1	1.19:1	1.27:1	Debt-to-equity
44.9	48.2	36.0	24.8	19.9	27.0	Distributions/Dividends as % of cash flow from operations
3.3	3.4	3.1	3.0	3.0	2.8	Inventory turnover (times)

1 Earnings before interest, unusual item, taxes and amortization

2 Based on average basic units outstanding

3 Earnings before interest, unusual item and taxes



# Unitholder Information

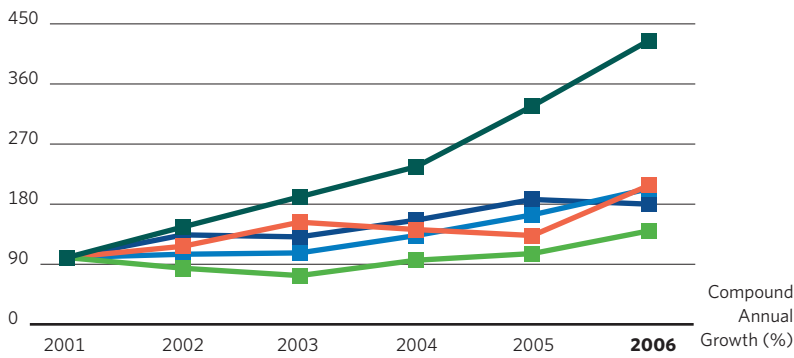
## Quarterly History

Fiscal Year	Unit Price High	Unit Price Low	Unit Price Close	Volume	EPU *
<b>2005</b>	<b>\$ 38.49</b>	<b>\$ 26.65</b>	<b>\$ 37.50</b>	<b>6,955,708</b>	<b>\$ 2.68</b>
April 30, 2005	33.74	28.65	29.25	1,617,400	0.48
July 31, 2005	34.45	29.01	33.45	1,109,500	0.67
October 31, 2005	34.00	26.65	28.34	2,180,500	0.76
January 31, 2006	38.49	27.40	37.50	2,048,308	0.77
<b>2004</b>	<b>\$ 31.74</b>	<b>\$ 23.10</b>	<b>\$ 30.65</b>	<b>7,392,594</b>	<b>\$ 2.32</b>
April 30, 2004	25.25	23.20	23.30	2,712,528	0.40
July 31, 2004	26.34	23.10	23.61	1,607,521	0.58
October 31, 2004	27.00	23.50	26.60	1,443,974	0.68
January 31, 2005	31.74	26.21	30.65	1,628,571	0.66
<b>2003</b>	<b>\$ 25.50</b>	<b>\$ 20.87</b>	<b>\$ 23.63</b>	<b>7,206,507</b>	<b>\$ 2.22</b>
April 30, 2003	23.00	20.87	22.70	1,346,702	0.35
July 31, 2003	24.10	22.75	23.90	1,903,368	0.55
October 31, 2003	25.45	22.50	23.98	2,190,157	0.66
January 31, 2004	25.50	23.60	23.63	1,766,280	0.66

\* Net earnings per unit on a diluted basis

## Total Return Performance (% at January 31)

This chart illustrates the relative performance of units of North West Company Fund over the past five years. The index incorporates the reinvestment of dividends and income distributions.



Index	2001	2002	2003	2004	2005	2006	Compound Annual Growth (%)
NWF.UN	100	146	191	236	327	425	33.5
TSX Composite	100	84	73	96	106	140	7.0
Consumer Durables	100	117	153	142	133	208	15.8
Apparel Group	100	105	107	133	164	203	15.2
Retailing Group	100	134	131	156	187	180	12.4

## 2006 Financial Calendar Reporting Dates

First Quarter: June 8, 2006  
 Second Quarter: September 7, 2006  
 Third Quarter: December 7, 2006  
 Fourth Quarter: March 15, 2007

## North West Company Fund Distribution Dates

Record and Payable Date: March 31, 2006  
 Distributable Date: April 15, 2006

Record and Payable Date: June 30, 2006  
 Distributable Date: July 15, 2006

Record and Payable Date: September 30, 2006  
 Distributable Date: October 15, 2006

Record and Payable Date: December 31, 2006  
 Distributable Date: January 15, 2007

## Annual and Special Meeting

The Annual and Special Meeting of Unitholders of North West Company Fund will be held on Thursday, June 8, 2006 at 11:30 am in the Muriel Richardson Auditorium, Winnipeg Art Gallery, 300 Memorial Boulevard, Winnipeg, Manitoba.

## Transfer Agent and Registrar

CIBC Mellon Trust Company  
 Calgary and Toronto  
 Toll-free: 1 800 387 0825  
 www.cibcmellon.ca

## Stock Exchange Listing

The Toronto Stock Exchange

## Stock Symbol NWF.UN

TIN #: T 17 685 782  
 CUSIP #: 662906-10-6

Number of units outstanding at fiscal year end on a diluted basis: 16,126,000  
 Average number of units outstanding in 2005 on a diluted basis: 16,126,000

## Auditors

PricewaterhouseCoopers LLP

## Bankers

The Toronto-Dominion Bank  
 Bank of Montreal

# Corporate Governance

Complete disclosure of North West Company Fund's corporate governance is provided in the Company's Management Information Circular, which is available on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com) or in the investor section of The North West Company's website at [www.northwest.ca](http://www.northwest.ca)

## Officers

The North West Company Inc.  
NWC GP Inc.  
The North West Company LP

---

Ian Sutherland  
Chairman

Edward S. Kennedy  
President & CEO

Léo P. Charrière  
Executive Vice-President,  
CFO & Secretary

Kenneth M. Claudel  
Vice-President,  
Logistics & Supply Chain Services

Gerald L. Mauthe  
Vice-President,  
Information Services

Scott A. McKay  
Vice-President & General Manager,  
Giant Tiger, West Store Division

Karen J. Milani  
Vice-President,  
Human Resources

Russell J. Zwanka  
Executive Vice-President,  
Food Procurement & Wholesaling

## Officers and Directors

Principal Subsidiary Company  
NWC (U.S.) Holdings Inc.  
Principal Subsidiary Company of NWC  
(U.S.) Holdings Inc.  
Alaska Commercial Company

---

Edward S. Kennedy<sup>1,2</sup>  
Chairman & CEO

Rex A. Wilhelm<sup>1,2</sup>  
President

Henry J. Baldwin II<sup>2</sup>  
Vice-President,  
Human Resources & Logistics

Léo P. Charrière<sup>1,2</sup>  
CFO & Secretary

Robert S. Galosich<sup>2</sup>  
Vice-President,  
Wholesale Operations

Benjamin C. Piatt<sup>2</sup>  
Vice-President,  
Marketing

Walter E. Pickett<sup>2</sup>  
Vice-President,  
Store Operations

Reinhard Sedlacek<sup>2</sup>  
Treasurer

1 Director 2 Officer

## Trustees and Directors

North West Company Fund  
The North West Company Inc.

---

Ian Sutherland

Edward S. Kennedy

David G. Broadhurst<sup>2,4</sup>

Frank J. Coleman<sup>3,4</sup>

Wendy F. Evans<sup>2,3</sup>

Robert J. Kennedy<sup>1,3</sup>

Gary J. Lukassen<sup>2,3</sup>

Keith G. Martell<sup>1,2</sup>

James G. Osborne<sup>2,4</sup>

H. Sanford Riley<sup>1,3</sup>

## Committees

1 Corporate Governance & Nominating

2 Audit

3 Human Resources & Compensation

4 Pension

**Leadership in Action** Throughout this annual report, photographs of customers, communities and employees are shown. Communities featured include Anchorage, Bethel, Easterville, Ile a la Crosse, Iqaluit, Kangiqsujuaq, Kodiak, Kotzebue, Moosonee, Regina and Winnipeg.

**Front Cover** Gerald Favel, Easterville Northern Store Manager, is proud to serve customers like the Chartrand family. Charlie Senior and his wife Shawna are shown with their children Wendell, Charlize and Charlie Junior.

**Design** Circle

**Editorial Services** Blunn & Company Inc.

**Principal Photography** Ian McCausland

Printed in Canada on recyclable paper

©2006 The North West Company Inc.

Trademarks are used throughout this annual report in an editorial fashion with no intention of infringement.

For additional copies of this report or for general information about the Fund or the Company, contact Reinhard Sedlacek, Assistant Corporate Secretary:

## The North West Company Inc.

Gibraltar House, 77 Main Street  
Winnipeg, Manitoba Canada R3C 2R1  
T 204 934 1525 F 204 934 1455  
Toll-free 1 800 563 0002  
[rsedlacek@northwest.ca](mailto:rsedlacek@northwest.ca)  
[www.northwest.ca](http://www.northwest.ca)



Visit the investor section for more information...

[www.northwest.ca](http://www.northwest.ca)



The North West Company is a leading retailer of food and everyday products and services to rural communities and urban neighbourhoods across Canada and Alaska. Our purpose is to enhance lives by offering shopping choices that are convenient, dependable and lifestyle driven.