NORTH WEST COMPANY FUND 2005

Management's Discussion & Analysis and Consolidated Financial Statements

Our purpose is to enhance lives by offering shopping choices that are convenient, dependable and lifestyle driven.

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Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the Consolidated Financial Statements and Notes to the Consolidated Financial Statements on pages 19 to 28 which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and is in Canadian dollars. The information contained in this MD&A is current to March 16, 2006, unless otherwise stated.

Forward-Looking Statements This MD&A contains forward-looking statements. These statements relate to, among other things, sales growth, expansion, capital expenditures and the Company's business strategy. Forward-looking statements are subject to uncertainties and risks. These include industry and economic conditions; changes in our relationship with our communities and suppliers; pricing pressure and other competitive factors; the availability and cost of merchandise, fuels and utilities; the results of our efforts to improve cost effectiveness; the rates of return on the Company's pension plan assets; changes in regulations; and the availability and terms of financing. These types of risks are outlined in the Risk Management section of this MD&A. The Company's results and events may vary significantly from those included in, contemplated or implied by the forward-looking statements in this MD&A.

Additional information on the Company, including our Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.northwest.ca.

Management's Discussion & Analysis

VISION AND CORE BUSINESSES

Strong Values, Solid Returns The North West Company (NWC) is a leading retailer of food and everyday products and services to rural communities and urban neighbourhoods across Canada and Alaska.

The Company's core strengths start with our unique understanding and experience in remote location retailing, our knowledge in serving Aboriginal customers and their communities and our ability to leverage these strengths to serve customers within other attractive niche markets.

Our purpose is to enhance lives by offering shopping choices that are convenient, dependable and lifestyle driven. In striving to fulfill this purpose, we aim to:

- Continually enhance our strengths to maximize our core business' long-term profitability and enable related new growth opportunities;
- Actively support the communities in which we operate, contributing to their long-term development;
- Foster a spirit of enterprise and growth for our people, within a work environment characterized by respect, openness, encouragement, learning, innovation and reward for performance;
- Deliver stable top quartile total returns to our unitholders; and
- Demonstrate integrity in all facets of our business.

The Company's stores have continuously served markets in northern Canada and Alaska, through predecessor companies, for more than 300 years.

The Largest Remote Retailer The North West Company is the largest remote market retailer in North America with operations across northern Canada and rural Alaska. NWC's stores offer a broad range of products and services with an emphasis on food. Our value offer is to be the best local shopping choice for everyday household and local lifestyle needs.

The Company's stores have continuously served markets in northern Canada and Alaska, through predecessor companies, for more than 300 years. These stores operate in communities with populations from 500 to 7,000. A typical store is 7,500 square feet in size and offers food, family apparel, housewares, appliances, outdoor products and services like cheque cashing, catalogue ordering, money transfers and quick-service prepared food.

Since 2001, we have applied our expertise and infrastructure to new growth opportunities. These include wholesaling to independent stores and opening junior discount stores in rural communities and urban neighbourhoods in western Canada.

The North West Company operates the following retail banners and wholesale businesses in two reporting segments:

Canadian Operations

- **131 Northern** stores, offering a combination of food and general merchandise to remote, northern Canadian communities;
- **15 Giant Tiger** junior discount stores offering family fashion, household products and food at convenient locations in Manitoba, Saskatchewan and Alberta;
- **5 NorthMart** stores, targeted at larger, regional markets and offering an expanded selection of fashion merchandise and fresh food;
- **10 Quickstop** convenience stores, offering prepared foods, petroleum products and a full convenience assortment;
- ***Selections*** catalogue, more than 325,000 of which are distributed across northern Canada, featuring everything from fashion and snowmobiles to computers and boats;
- **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; and
- **The Inuit Art Marketing Service**, Canada's largest distributor of Inuit art.

U.S. Operations

- **25 AC Value Centers**, offering a combination of food and general merchandise to communities across rural Alaska;
- **2 Quickstop** convenience stores, offering prepared foods, petroleum products and a full convenience assortment; and
- **Frontier Expeditors**, a distributor of food and general merchandise to independent grocery stores in rural Alaska.

STRATEGIES

The Company's long range plans are typically developed in five-year cycles and are reviewed and adjusted through an annual operating plan. The most recent long range plan was completed in 2004 and sets out key strategies together with operating and financial goals.

The Company's first strategic priority is to ensure that its core business — retailing in northern Canada and Alaska — continues to deliver both stability and growth in earnings. Second, we aim to take advantage of related new opportunities through Giant Tiger new store growth in western Canada, expansion of our wholesaling customer base, and through acquisitions.

Our remote store banners have produced consistent profit over the past 10 years. Food market share and margin rates have increased through better sourcing of our store-branded products and manufacture-label products that offer a value alternative to national brands, and by building our store-level capability with training, new technology and best practices. We have also pursued new product and service opportunities. These growth initiatives have been partially offset by a lack of new store locations and profit erosion in some of our general merchandise product categories due to increased outshopping competition.

Our food merchandising strategy for our remote stores was adjusted in 2005 to place more emphasis on lower pricing in select product categories, in addition to more new item and "special buys". This focus will continue into 2006. In general merchandise the priority continues to be on increasing profitability through better supply chain and ordering practices. At store level we have several more years of opportunity to improve capability through investments in technology, improvements in work methods and by upgrading the skills of our store teams.

Our remote store banners have produced consistent profit over the past 10 years.

Our remote store base provides us with the financial resources, stability and knowledge to pursue expansion into related opportunities. We are opportunistic in pursuing new ventures, for example the roll-out of Giant Tiger stores in western Canada, but we also focus on ensuring that their risk/return profile has a high potential to be close to that of our core northern business. This requires looking at the long term potential of a venture and the probability of achieving threshold returns on a sustainable, consistent basis. We place a heavy weighting on new ideas, clear principles, execution and the ability to track performance.

The Company's efforts to develop local management and staff have helped foster healthy community relations, especially within Aboriginal communities. The number of Aboriginal people in management positions has increased steadily from 61 in 1992 to 195 in 2005. We also work closely with local Aboriginal corporations in our store development projects.

Giant Tiger stores are a junior discount format offering trend-right apparel and hardlines merchandise, an everyday food product mix and convenient locations. The value offer focus is on everyday low prices; in-stock of basics and advertised goods; new fashion merchandise; community involvement; and friendly service within a convenient, easy-to-shop store.

We have a 30-year exclusive franchise agreement with *Giant Tiger Stores Limited,* based in Ottawa, Ontario to develop Giant Tiger stores in western Canada. Under this agreement, *Giant Tiger Stores Limited* provides general merchandise product sourcing, merchandising, information systems and administration support in return for a royalty based on sales. We are responsible for developing and operating the stores and for food procurement and distribution.

In 2005, four Giant Tiger stores were opened, bringing our total to 14 as at January 28, 2006. With a large percentage of newer stores, our priority is to accelerate the maturation of each location through training and ongoing adjustments to local selling opportunities. We also continue to focus on improved recruiting and site selection so that we can support a larger number of annual store openings. Finally, we are focused on finding efficiencies to reduce the incremental freight-related cost of doing business in western Canada.

Our wholesaling expansion plans are centered on Crescent Multi Foods (CMF) in western Canada and Frontier Expeditors (FE) in Alaska. Over the past few years, sales of CMF have increased significantly as we have expanded our product range and centralized meat procurement and distribution for our own stores in western Canada. In 2006 we will complete an assessment of the potential to further increase CMF's business by adding more product lines and targeting new geographic regions in the western Canadian independent wholesale market.

Similarly, we see potential to continue winning market share for FE in rural Alaska. FE is one of only two food distributors in the state with a local warehouse facility and is well-positioned for continued growth as a full-service, one-stop, food and general merchandise supplier to small independent retailers.

We place a heavy weighting on new ideas, clear principles, execution and the ability to track performance.

KEY PERFORMANCE DRIVERS AND CAPABILITIES TO DELIVER RESULTS

The ability to protect and enhance the profitability of our remote store banners. These stores represent over 90% of our profitability. Although we expect this to diminish over the next five years as we expand the number of our Giant Tiger stores and grow our wholesale businesses, our northern Canadian and Alaskan stores will be the core performance drivers for many years to come.

Our distribution payout guideline of approximately 50% of operating cash flow ensures that we have adequate capital to sustain our existing store base and to pursue growth opportunities such as our Giant Tiger roll-out. Our sustaining-type investments include non-capital expenditures, specifically improvements to our in-store capabilities through more in-depth training programs and the adoption of "best practice" work processes. Sustaining our remote store performance of consistent growth also depends on continuing to enhance our food market share position while maintaining margin rate gains. We measure and track our food performance by sales per capita, unit volume growth, transaction size, private label penetration and net contribution by food category. In our general merchandise business we have a stronger focus on improving profitability and then selectively pursuing growth. Using similar performance measures to food, we tailor our product mix to local market needs that we can profitably serve. Our broad assortment of general merchandise products gives our stores the necessary degree of flexibility required to achieve this goal.

The ability to continue the successful roll-out of the Giant Tiger brand across western Canada. In the past two fiscal years we opened nine new Giant Tiger stores for a current total of 16 stores as of April 1, 2006. In 2005, our Giant Tiger store group generated a modest profit reflecting a maturing store base offset by the majority of stores still reaching their profit potential. By the end of 2006, with an expected 20 stores in operation, we anticipate that we will be able to fully absorb support costs and generate enough sufficient cash flow to fund new Giant Tiger growth capital requirements.

Key performance drivers include our ability to meet or exceed sales and margin levels achieved by *Giant Tiger Stores Limited* in eastern Canada. Our success depends on achieving comparable product sourcing and operating and transportation costs while building strong, entrepreneurial store teams.

Our ability to achieve best selling practices and reinforce community relations in our remote stores. We began developing store capability initiatives in 2001. We have since invested in the core store technology platforms we require and we have built a solid base of best practice work methods. We continue to modify store processes to fully leverage our technology, specifically in the areas of communications, merchandise ordering, staff scheduling and training. In 2006 and beyond, management and staff development will accelerate, concentrating on upgrading manager skills and improving recruitment. The latter initiative recognizes the important role played by our store managers compared to other retail store models and the fact that the remoteness of our store locations creates challenges in attracting and retaining high potential people. Related to this is our continued ability to develop local management and to foster positive community relationships especially within the Aboriginal markets we serve.

Our ability to reduce costs across all of our store banners, improve competitiveness and create more time and skill at store level to order and sell merchandise. One of our key goals is to shift more staff time and skill towards ordering and selling merchandise tailored to the unique markets we serve while reducing costs in the non-selling facets of store work. Cost savings are targeted in labour scheduling, energy usage and product shrinkage. We have also developed alliances with other merchandisers to provide sales and distribution services for certain products and services where we do not have the scale to achieve a lower cost structure on our own. For example, under our alliance with Dufresne Furniture and Appliances of Winnipeg, Dufresne manages product assortment, marketing and distribution for the furniture and appliance categories in our Northern and NorthMart store banners. This has given us access to expertise and buying power and has allowed us to reduce inventories. We plan to continue to mature these alliances and compliment them with direct sourcing opportunities across North America and Asia.

One of our key goals is to shift more staff time and skill towards ordering and selling merchandise tailored to the unique markets we serve while reducing costs in the non-selling facets of store work.

Consolidated Results

2005 Highlights

- Sales rose 7.7% to $849.7 million, led by a Canadian sales increase of 9.4% and a same store increase of 5.4%.
- Trading profit in Canada increased 12.7% to $70.6 million reflecting our sales strength and lower controllable expenses as a rate to sales.
- Return on net assets improved to 16.6% from 14.8% reflecting improved inventory productivity and higher EBIT margins.
- Return on equity improved to 18.0%, a key indicator of our ability to more efficiently reinvest capital.
- Total returns to investors were 30% after a 39% total return in 2004 and 24% in 2003.
- Four Giant Tiger stores were opened, bringing the total number to 14.
- Our debt-to-equity improved to .46:1 down from .69:1 five years ago, providing North West Company Fund (NWF) with greater financial strength and flexibility.

Some of the key performance indicators used by management to assess results are summarized in the following table:

Key Performance Indicators

($ in thousands)	**2005**	2004	2003
Sales	**$ 849,653**	$ 788,693	$ 782,720
Same store sales % increase [1]	**5.4%**	1.4%	2.1%
Trading profit [2]	**$ 85,502**	$ 76,606	$ 72,826
Net earnings	**$ 42,890**	$ 37,265	$ 35,730
Net earnings per unit—basic	**$ 2.70**	$ 2.34	$ 2.24
Net earnings per unit—diluted	**$ 2.68**	$ 2.32	$ 2.22
Cash distributions in the year	**$ 1.88**	$ 1.80	$ 1.90
Total assets	**$ 423,849**	$ 414,477	$ 409,600
Return on net assets [3]	**16.6%**	14.8%	14.1%
Return on average equity	**18.0%**	16.2%	16.0%

1 Same store sales excluding the foreign exchange impact. 2003 same store sales adjusted to an equivalent 52-week basis

2 See Non-GAAP measures section on page 17

3 Earnings before interest and income taxes as a percentage of average net assets employed

Food sales exceeded our targets with an increase of 7.3%.

Consolidated Sales

Sales for the 52 weeks ending January 28, 2006 increased 7.7% to $849.7 million. Same store sales (excluding the foreign exchange impact) were up 5.4%.

Food sales exceeded our targets with an increase of 7.3%. Quarterly same store increases (excluding the foreign exchange impact) were 5.0%, 5.8%, 6.5%, and 7.8% with Canadian food sales increasing 9.1% and Alaska up 8.7%, excluding the foreign exchange impact.

General merchandise sales were satisfactory, increasing by 7.1% over 2004. Same store sales increased (excluding the foreign exchange impact) by 3.1% even though northern Canada experienced weak fourth quarter general merchandise sales. Quarterly same store sales increases (excluding the foreign exchange impact) were 7.3%, 6.9%, 2.8% and a fourth quarter decrease of 1.9%. Sales in the first six months were strong due to a higher inventory investment in new merchandise and the ongoing maturation of our merchandising capability in Giant Tiger stores. In the back half of the year our general merchandise business in remote Canadian stores slowed as our inventory and credit strategies focused on higher quality sales in the face of higher energy related living costs and more limited discretionary spending.

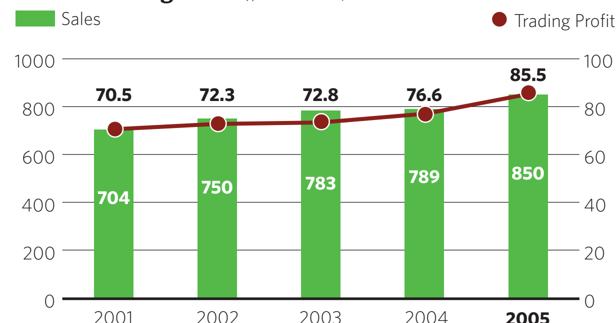
Service charge revenue for the year increased $1.9 million or 17.8% over 2004 due to higher average receivable balances throughout the year.

Canadian sales accounted for 81.1 % of total sales (79.9% in 2004) while Alaska contributed 18.9% (20.1% in 2004). The Canadian dollar's appreciation versus the U.S. dollar in 2005 affected results as follows:

Sales .... decrease of $11.8 million or 1.5%
Trading profit .... decrease of $1.1 million
Net earnings .... decrease of $548,000

Over the past two years, the appreciation of the Canadian dollar negatively impacted sales by $22.7 million, trading profit by $2.1 million and net earnings by $920,000.

Sales & Trading Profit ($ in millions)



Both sales and trading profit continued to grow in 2005.

Cost of sales, selling and administrative Cost of sales, selling and administrative expenses (expenses) increased $52.1 million to $764.2 million or 7.3% from 2004 but decreased 35 basis points as a percentage to sales. New and non-comparable stores added $24.2 million in expenses or 46.5% of the increase. Comparable expenses increased $27.9 million but decreased 51 basis points as a percentage to sales. Higher energy-related costs, an increase in net debt loss expense and higher incentive program payments reflecting above target performance in 2005 contributed to the dollar increase in expenses.

Amortization Amortization expense increased $1.1 million to $25.0 million from 2004. New stores accounted for $281,000 of the increase. The additional amortization is due to store renovation expense and store technology investment.

Interest expense Interest expense increased 6.2% to $6.1 million. The increase in interest expense was due to higher borrowing rates during the year, with the average cost of borrowing on interest-bearing debt at 4.9% compared to 4.6% in 2004. A reduction in our Alaska debt levels beginning in late 2004 helped offset some of this increase.

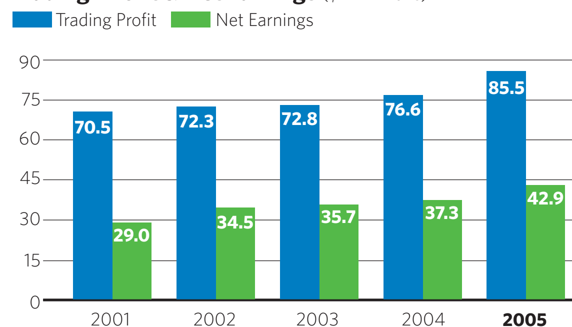
Income tax expense NWF recorded a provision for income taxes in 2005 of $11.5 million, compared to $9.7 million in 2004, for an effective tax rate of 21.1% in 2005 and 20.6% in 2004. The increase in the effective tax rate is due to higher Canadian earnings as the Fund has maximized the income tax benefit of its existing structure. In 2005, US withholding tax on dividends paid to the Canadian company totaled CDN$314,000 compared to CDN$815,000 in 2004.

Income taxes paid in cash were $9.3 million in 2005 compared to $7.5 million in 2004. Future income taxes on the balance sheet were reduced to $7.5 million from $10.4 million a year ago as a result of a decrease in other temporary differences.

The Canada Revenue Agency has been conducting an audit on the years 1996 to 1999. It is the opinion of management that the pending reassessments will not have a material effect on the consolidated financial statements.

A more detailed explanation of the income tax provision and future tax assets is provided in note 11 to the consolidated financial statements.

Trading Profit & Net Earnings ($ in millions)

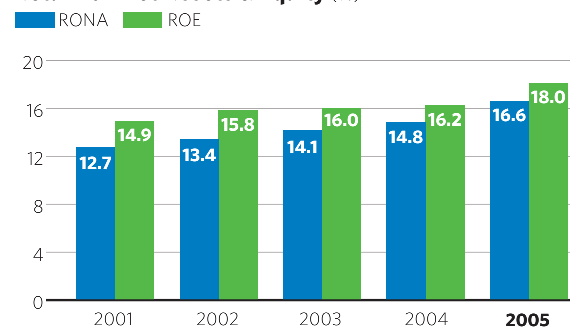


Net earnings benefited from sales gains and lower operating expense rates.

Net earnings Consolidated net earnings increased 15.1% to $42.9 million or $2.68 per unit on a diluted basis. The effects of the stronger Canadian dollar reduced net earnings by $548,000 or $0.03 per unit.

Return on net assets employed increased to 16.6% from 14.8% in 2004 while the return on equity improved to 18.0% from 16.2% in 2004. Return on net assets improved primarily due to the increase in EBIT combined with higher inventory productivity.

Return on Net Assets & Equity (%)



Return on net assets improved primarily due to the increase in EBIT combined with higher inventory productivity.

Fourth Quarter Highlights Fourth quarter consolidated sales increased 8.2% to $227.0 million and were up 8.8% excluding the foreign exchange impact of a stronger Canadian dollar compared to the fourth quarter last year. Same store sales increased 4.1% and were up 4.6% excluding the foreign exchange impact. Sustained food sales growth in all of our banners and strong general merchandise sales in our Giant Tiger stores and Alaskan operations were partially offset by weaker general merchandise sales in northern Canada.

Trading profit increased 12.0% to $24.1 million compared to $21.5 million in the fourth quarter last year. Sales gains and lower operating expense rates in both Canada and Alaska contributed to this improvement. Interest expense increased 12.5% to $1.6 million due to higher interest rates compared to the fourth quarter last year. Income taxes increased 14.6% to $4.0 million due to higher earnings in Canada. Fourth quarter earnings were $12.2 million, an increase of 15.4% compared to last year's fourth quarter earnings of $10.6 million. Diluted earnings per unit improved to $0.77 compared to $0.66 last year.

Cash flow from operating activities for the quarter increased to $39.8 million from $19.5 million last year. Inventories were down $17.2 million from the third quarter as better balanced inventory purchases and targeted markdowns on excess inventories helped reduce levels by year-end. Accounts payable increased $5.9 million from the third quarter resulting from extended terms negotiated with suppliers.

Canadian Operations

2005 CANADIAN OPERATIONS STRATEGY

Strategy	Results
1. Develop Superior Store Selling Capability	
• Achieve targeted staff cost reductions through technology and Best Practice standards	Staff costs were reduced by 47 basis points, target exceeded
• Train 40 management level employees in Best Practice standards	Trained 28 managers
• Implement a new, in-depth Manager-In-Training (MIT) program	Seven MITs graduated, 28 MITs recruited and in training at year-end
2. Re-Ignite Food Sales Growth in Northern/NorthMart Stores	
• Build traffic, loyalty and gross profit dollars through repricing of core food items in high potential markets	Same store sales increased at record levels. Gross profit exceeded target by year-end
3. Giant Tiger Store Expansion	
• Open four Giant Tiger stores	Stores opened in Winnipeg, Brandon and The Pas, Manitoba; Prince Albert, Saskatchewan

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

Key Performance Indicators

($ in thousands)	**2005**	2004	2003
Sales	**$ 689,340**	$ 629,823	$ 615,661
Same store sales % increase[1]	**5.4%**	0.9%	2.6%
Trading profit[2]	**$ 70,561**	$ 62,629	$ 57,663
EBIT[2]	**$ 49,458**	$ 42,652	$ 39,250
Return on net assets	**16.4%**	14.7%	14.0%

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

2 See Non-GAAP measures section on page 17

Sales Canadian sales increased 9.4% (5.4% on a same store basis) to $689.3 million. Canadian food sales accounted for 68.3% (68.5% in 2004) of total sales. The balance was made up of general merchandise sales at 27.2% (27.5% in 2004), other sales, primarily fuel sales, at 2.9% (2.5% in 2004) and service charge revenue at 1.6% (1.5% in 2004).

Total Canadian food sales increased by 9.1% over 2004. Momentum built through the year as pricing initiatives gained traction. Quarterly gains were 6.9%, 9.2%, 9.7% and 10.3%. All Canadian banners experienced strong food sales growth.

Sales increases in northern Canada stores were achieved across all food categories except deli and were led by beverages, meats and grocery. Tonnage or unit sales were also up over last year across all food categories. New food pricing strategies were implemented during the first quarter of 2005 to help accelerate unit sales growth. Higher fuel-related transportation expenses contributed to inflation pressures on food prices and overall higher sales dollars.

General merchandise sales increased 8.7%, an increase of 3.4% on a same store basis. The year started strongly with general merchandise sales up 11.5% in the first quarter, 14.8% in the second quarter, 8.1% in the third quarter and 3.2% in the fourth quarter.

Canadian sales per selling square foot were $1,015 for food ($969 in 2004) and $271 for general merchandise ($267 in 2004) reflecting continued strong food sales growth.

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

	2005	2004	2003
Food	**68.3%**	68.5%	67.8%
General merchandise	**27.2%**	27.5%	27.9%
Other	**2.9%**	2.5%	2.7%
Service charges	**1.6%**	1.5%	1.6%

Same store food sales have consistently performed at industry-leading levels while general merchandise sales have lagged due to weaker performance in remote stores.

Canadian—Same Store Sales

(% change)	**2005**	2004	2003
Food	**6.2%**	2.5%	5.5%
General merchandise	**3.4%**	-2.8%	-3.9%
Total sales	**5.4%**	0.9%	2.6%

Sales of our Canadian Diversified Business group increased 15.4% to $20.7 million. This group consists of three Fur Marketing outlets, the Inuit Art Marketing Service and fresh food wholesaler Crescent Multi Foods (CMF). CMF had a sales increase of 17.4% reflecting an increase in product lines and new accounts.

New food pricing strategies were implemented during the first quarter of 2005 to help accelerate unit sales growth.

Profitability Gross profit dollars for Canadian operations increased by 7.3% more than offsetting a 64 basis point drop in gross profit rates. The rate decline was due to more aggressive pricing in shelf-stable food categories, higher freight costs and a larger percentage of low margin Giant Tiger food sales. General merchandise gross profit rates improved over 2004 due to better inventory control and lower buying costs. Benefits from the 2004 information technology initiatives were realized in reduced staffing levels and store operating expenses. These savings helped offset higher occupancy expenses related to increasing energy costs and increased debt loss expense.

Trading profit from Canadian operations increased $7.9 million or 12.7% to $70.6 million. As a rate to sales, trading profit improved by 30 basis points to 10.2% of sales.

Operational Net Assets Employed Operational net assets employed at January 28, 2006, decreased 1.0% to $280.1 million compared to $283.0 million at the previous year-end as summarized in the following table:

Operational Net Assets Employed

($ millions at the end of the fiscal year)	**2005**	2004	2003
Property and equipment	**$ 145.6**	$ 147.3	$151.3
Inventory	**105.9**	102.8	93.3
Accounts receivable	**60.1**	61.6	51.3
Other assets	**25.9**	16.1	22.1
Liabilities	**(57.4)**	(44.8)	(41.0)
Total	**$ 280.1**	$ 283.0	$277.0

Property and equipment balances decreased reflecting lower capital expenditures during the year than amortization expense. Capital expenditures were below planned levels due to delayed major store investments, lower expenditures in information technology and the deferment of head office renovations. Major expenditures included the building of two replacement stores, the installation of a broadband network reaching all stores and the capital costs associated with opening four Giant Tiger stores.

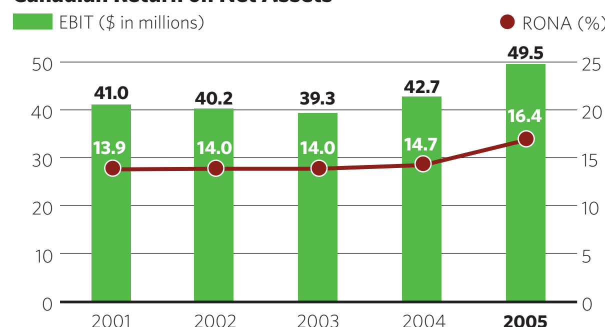
Inventory productivity improved in 2005 but monthly inventory levels were still higher than the previous year by an average of $6.8 million. Increased direct buying of import merchandise, the new Giant Tiger stores, additional freight costs imbedded in ending inventory levels and excess snow machine inventory were the major factors contributing to the higher average inventory.

Accounts receivable averaged $7.5 million higher than last year as the build up in the fourth quarter of 2004 carried over into 2005. By year-end receivable balances were below prior year levels by $1.5 million due to targeted credit programs and credit collection initiatives leveraged through our new central credit management system and higher debt loss reserves.

Other assets increased reflecting higher cash levels to fund the various cash services offered to customers. The increase in liabilities over the prior year is due to an increase in accounts payable as extended payment terms were negotiated with suppliers.

Return on Net Assets The return on net assets employed for Canadian operations was 16.4%, up from 14.7% in 2004. We believe there is more potential for working capital productivity gains as we continue to focus on targeted inventory reductions and improving the turnover of our accounts receivable.

Canadian Return on Net Assets



Return on net assets improved to 16.4% reflecting higher EBIT and better asset utilization.

Trading profit from Canadian operations increased $7.9 million or 12.7% to $70.6 million.

Alaskan Operations (Stated in U.S. dollars)

2005 ALASKAN OPERATIONS STRATEGY

Strategy	Results
1. Acquire and Develop New Store Locations	Three stores were purchased in 2005. Two are presently operating and the third is undergoing extensive renovations
2. Increase Wholesale Customer Sales by 8%	The wholesale division's sales increased 10.2%
3. Improve Cost Efficiencies	Store operating expenses were reduced as a rate to sales
4. Leverage Canadian Best Practice Model to Build Store Capability	Best Practice training has started but is behind schedule due to program adjustments

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

Key Performance Indicators

($ in thousands)	**2005**	2004	2003
Sales	**$ 133,018**	$ 122,813	$ 120,856
Same store sales % increase[1]	**5.7%**	3.7%	-0.4%
Trading profit[2]	**$ 12,397**	$ 10,805	$ 10,969
EBIT[2]	**$ 9,153**	$ 7,768	$ 8,084
Return on net assets	**17.7%**	15.5%	16.1%[3]

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

2 See Non-GAAP measures section on page 17

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

Sales AC's sales increased 8.3% to $133.0 million. Food sales accounted for 80.4% of total sales (80.1% in 2004) and were up 8.7% from 2004. On a same store basis, food sales increased 6.8%. AC's retail stores food sales were led by strong increases in grocery, tobacco and beverages. Tobacco sales benefited from a state tax increase early in 2005. Food sales were up in all categories as AC continued to gain market share.

General merchandise sales accounted for 18.3% of total sales (18.9% in 2004). General merchandise sales increased 5.1% from 2004 and were up 1.2% on a same store basis. General merchandise sales were stronger than last year in most categories with some weakness in bigger ticket home product groups such as home furnishings and media, sight and sound. Apparel, transportation, hardware and sporting goods had the largest sales increases.

Other sales, primarily gasoline, increased 34.8%. Service charge revenue was up 34.5% due to growth in extended equal payment programs.

Sales per selling square foot were $704 for food ($684 in 2004) and $202 for general merchandise ($209 in 2004) reflecting the strength of AC's food business. Food selling square footage accounted for 56% of total selling space compared to 57% in 2004. Same store sales for the past three years are shown in the following table:

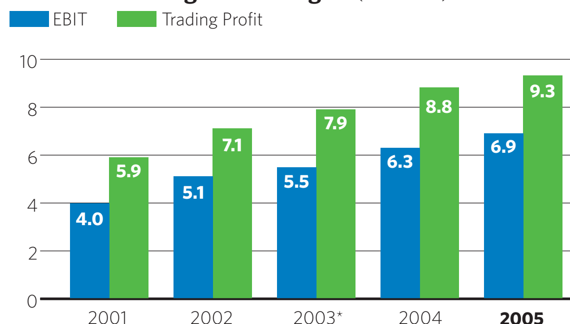
Same Store Sales

(% change)	**2005**	2004	2003
Food	**6.8%**	5.7%	3.0%
General merchandise	**1.2%**	-3.5%	-10.9%
Total sales	**5.7%**	3.7%	-0.4%

AC's wholesale business, Frontier Expeditor's (FE), delivered a sales increase of 10.2%. Food sales were up 7.9% due to an increase in the number of new food accounts. General merchandise sales increased 31.5% as FE expanded its general merchandise product lines and sales per existing customer. More aggressive pricing reduced gross profit rates but expenses were held to last year levels improving trading profit.

Profitability Gross profit rates decreased 68 basis points from 2004. Food rates decreased due to aggressive pricing in select markets. General merchandise rates declined as high markdowns were taken to clean up inventories throughout the chain and in the new stores purchased during the year. Healthy sales gains drove up gross profit dollars by 6.1%. Operating expenses were up due to the addition of two new stores and higher energy-related expenses, offset by gains in staff productivity. Trading profit improved by 14.7% to $12.4 million.

AC EBIT & Trading Profit Margins (% of sales)



*Excludes gains from insurance proceeds

Sales and staff productivity gains improved EBIT and trading profit margins.

Healthy sales gains drove up gross profit dollars by 6.1%.

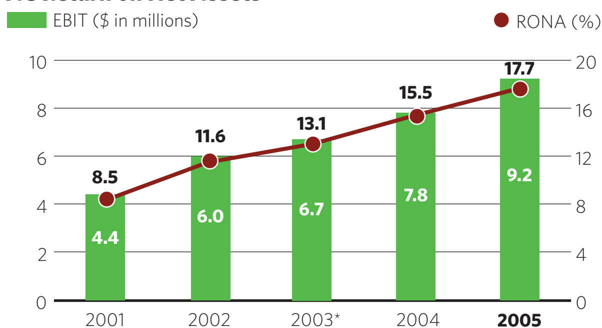
Operational Net Assets Employed

($ millions at the end of the fiscal year)	**2005**	2004	2003
Property and equipment	**$ 31.8**	$ 31.3	$ 30.8
Inventory	**16.2**	15.9	16.1
Accounts receivable	**6.4**	6.0	6.1
Other assets	**4.1**	3.2	3.3
Liabilities	**(6.6)**	(6.3)	(6.4)
Total	**$ 51.9**	$ 50.1	$ 49.9

AC's operational net assets employed were up 3.6% from the previous year. Property and equipment increased due to the purchase of three competitor stores. Amortization costs increased 6.8% to $3.2 million from 2004.

Inventories were up from last year due to the additional stores but decreased 9.7% on a comparable store basis as AC achieved its goal of improved general merchandise inventory productivity. Accounts receivable growth was due to the higher customer receivables from the equal payment program and sales growth at Frontier Expeditors. Net other assets and liabilities increased reflecting the increase in AC's store base.

AC Return on Net Assets



*Excludes gains from insurance proceeds

The return on net assets improved to 17.7% from 15.5% in 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash from operating activities Cash flow from operations increased $7.7 million to $70.9 million. Key factors were robust gross profit dollar growth, productivity gains at the expense line and the maturing of more Giant Tiger stores.

Changes in working capital items contributed $9.9 million in cash. This increase is due to higher accounts payable balances as we negotiated longer terms with our vendors. Cash flow from operating activities was reduced by $7.2 million due to additional contributions to the Company's pension plan which is included in the change in other non-cash items.

Cash used in investing activities Net cash used in investing activities was $24.0 million in 2005 compared to $21.6 million in 2004. Net capital spending on Canadian operations totaled $19.5 million ($16.8 million in 2004), and $4.5 million in Alaska ($4.8 million in 2004).

Capital expenditures in Canadian operations included two replacement stores (Tulita, North West Territories and Poplar River, Manitoba), store renovations, equipment replacements, support facilities and new gas retail outlets at five locations. New Giant Tiger stores were opened during the year in Brandon, Winnipeg and The Pas, Manitoba and Prince Albert, Saskatchewan. In Alaska, stores were acquired in the communities of Sand Point, Yakutat and Bethel. The Bethel store is presently undergoing extensive renovations and will re-open in the spring of 2006.

In 2006, net capital expenditures are expected to be in the range of $35 to $40 million. These expenditures include the replacement of two large stores in northern Canada, the opening of five new gas outlets, existing store renovations, the opening of six Giant Tiger stores and further store acquisitions in Alaska.

Cash used in financing activities Cash used in financing activities totaled $40.9 million of which $30.3 million was for distributions to our unitholders. Reductions in our operating line totaled $4.9 million and the repayment of long term debt was $102,000. The Board of Trustees authorized additional units during the year under the Company's Unit Purchase Loan Plan which encourages unit ownership among senior management. The additional loan amount, net of repayments, was $5.5 million.

Sources of liquidity The Company has credit facilities of up to $85.0 million, at favourable rates, with two Canadian chartered banks. At year-end, $27.0 million was drawn on these facilities. AC has an operating loan facility of US$4.0 million available and no amount was drawn at January 28, 2006.

In 2002, the Company issued senior notes of US$65.0 million at a rate of 5.89%. 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%.

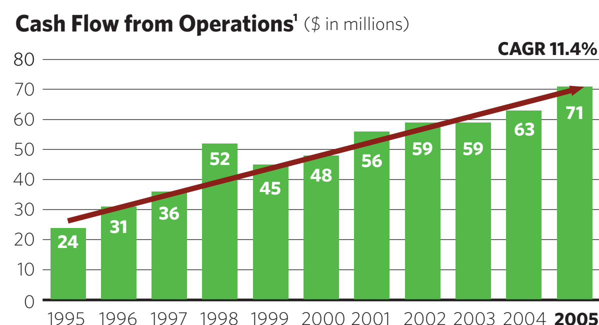
The Company designated US$45.0 million of its new U.S. dollar senior notes as a hedge against its U.S. dollar investment in AC. On November 7, 2002, US$20.0 million fixed obligation was converted by a cross currency swap to a Canadian dollar-floating obligation at the Canadian Banker's Acceptance three-months 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 AC 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 spread.

Cash flow from operations and unutilized credit available on existing credit facilities are expected to be sufficient to meet operating requirements, capital expenditures and anticipated distributions during 2006.

The compound annual growth rate (CAGR) for cash flow from operations over the past 10 years is 11.4% as shown in the following graph:

Cash Flow from Operations[1] ($ in millions)



1 See Non-GAAP measures section on page 17

The positive trend in cash flow from operations provides NWF with greater financial strength and flexibility.

The following table summarizes the number of stores and selling square footage under NWC's various retail banners at the end of the fiscal year:

	Number of Stores		Selling square footage	
	2005	2004	**2005**	2004
Northern	**131**	132	**771,265**	771,562
NorthMart	**5**	5	**125,084**	125,084
Quickstop	**12**	10	**16,753**	14,995
Giant Tiger	**14**	10	**225,962**	163,937
Other formats	**4**	4	**22,558**	22,558
AC Value Centers	**25**	23	**267,304**	249,497
Total at year end	**191**	184	**1,428,926**	1,347,633

A Northern store in Turnor Lake, Saskatchewan closed in 2005. New Giant Tiger stores were opened in Brandon, Winnipeg and The Pas, Manitoba and in Prince Albert, Saskatchewan. Total selling square feet in Canada increased to 1,156,607 from 1,093,121 in 2004.

Alaskan selling square feet increased to 272,319 from 254,512 in 2004 due to the acquisition of stores in Sand Point and Yakutat.

Contractual Obligations and Other Commitments

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

($ in thousands)	Total	0-1 Year	2-3 Years	4-5 Years	5 Years +
Senior notes	$ 83,412	$ -	$ 38,664	$ 44,748	$ -
Capital leases	1,220	108	253	311	548
Operating leases	97,693	10,815	20,088	15,619	51,171
Other long-term obligations	1,710	-	1,710	-	-
Total	$ 184,035	$ 10,923	$ 60,715	$ 60,678	$ 51,719

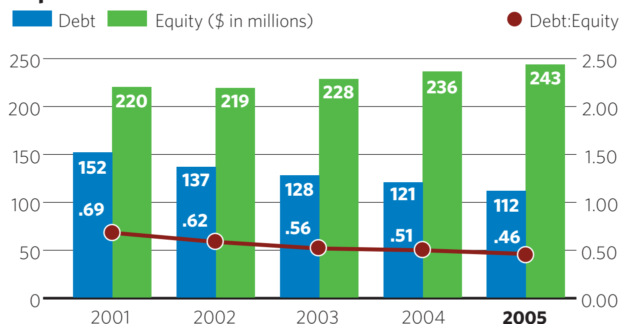
Director and Indemnification Agreements The Company has agreements with its current and former directors and officers to indemnify them against charges, costs, expenses, amounts paid in settlement and damages incurred from any lawsuit or any judicial, administrative or investigative proceeding in which they are sued as a result of their service. Due to the nature of these agreements the Company cannot make a reasonable estimate of the maximum amount it could be required to pay to counterparties. The Company has also purchased director and officers' liability insurance. No amount has been recorded in the financial statements regarding these indemnification agreements.

Other Indemnification Agreements The Company provides indemnification agreements to counterparties for 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 agreements vary based on the specific contract. The Company cannot make a reasonable estimate of the maximum amount it could be required to pay to counterparties. No amount has been recorded in the financial statements regarding these agreements.

Capital Structure

On a consolidated basis, NWF had $111.7 million in debt and $242.6 million in equity at the end of the year as the debt-to-equity ratio improved to .46:1 versus .51:1 a year earlier. There was no new equity issued in 2005.

Capital Structure



The strengthening of the Fund's capital structure is reflected in the above chart. Over the past five years, NWF's debt-to-equity ratio has improved to .46:1 from .69:1 while annual cash distributions to unitholders have increased to $1.88 per unit in 2005 from $1.46 per unit in 2001. Equity has increased 10.5% to $242.6 million over the past five years while interest-bearing debt was reduced by 26.3% to $111.7 million from $151.6 million in 2001.

Over the past two years, loans have been made to officers and selected senior management 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 305,456 units of the Company with a quoted value at January 28, 2006 of $11.0 million. Loans receivable at January 28, 2006 of $10.0 million ($4.4 million in 2004) are recorded as a reduction of equity. The maximum value of the loans under the plan is currently limited to $15.0 million.

Consolidated debt at January 28, 2006 decreased 7.7% or $9.3 million to $111.7 million. The reduction is mostly 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 the fiscal year)	**2005**	2004	2003
Senior notes	**$ 83,412**	$ 87,484	$ 91,432
Bank debt	**27,041**	32,023	30,313
Mortgages and notes payable	**–**	–	4,523
Capital leases	**1,220**	1,425	1,634
Total	**$ 111,673**	$ 120,932	$ 127,902

Book value per unit, on a diluted basis, at the end of the year increased to $15.66 from $14.93. Book equity was favourably affected by retained earnings of $12.6 million ($8.9 million in 2004) after distributions of $30.3 million ($28.4 million in 2004).

The coverage ratio of EBIT to interest improved to 9.9 times versus 9.1 times in 2004. The coverage ratio improved due to the increase in EBIT.

Interest Costs and Coverage

	2005	2004	2003
Coverage ratio	**9.9**	9.1	8.0
EBIT ($ in millions)	**60.5**	52.7	50.4
Interest ($ in millions)	**6.1**	5.8	6.3

RISK MANAGEMENT

NWC is exposed to a number of risks in 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 programs to improve training and change the work in our stores so we can better capitalize on local selling opportunities. The expected benefits are consistently strong operating standards, higher sales per capita in each market, increased efficiency and more rewarding and balanced work at the store level. Best Practices, in-depth new manager training, and advanced in-store systems are all directed at achieving these goals. The payback from this initiative will depend on our recruiting and retention success and our ability to effectively identify the right work and requisite training within a reasonable time period.

Competition We have a leading market position in a large percentage of the markets we serve. Sustaining and growing this position depends on our ability to more consistently identify and pursue new sales opportunities while defending our current positions through a superior value offer to our customers. We actively monitor competitive activity and we are proactive in adjusting and enhancing our value offer elements, ranging from in-stock position to service and pricing.

Community Relations Approximately one third 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, initiatives to recruit local residents into management positions, increased Aboriginal participation in our board of directors 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 in the form of social assistance, child benefits and old age security. These are stable sources of income, independent of economic cycles. A major source of employment income is generated from local government and spending on infrastructure projects. This includes new housing, schools, healthcare 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. A similar fluctuating source of income is employment related natural resource development and extraction activities.

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. Fluctuations in the foreign exchange rates due to the stronger Canadian dollar reduced AC's earnings by $548,000 when converted to Canadian funds.

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 or offsetting productivity gains, they may result in lower margins or higher retail prices. Consumer spending, especially on discretionary items, may also be adversely affected.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on management's historical experience, knowledge of current events, expectations of future outcomes and other factors that management considers reasonable under the circumstances. Actual results could differ from these estimates as confirming events occur. The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the consolidated financial statements.

Valuation of Accounts Receivable The Company records an allowance for doubtful accounts related to accounts receivable that may potentially be impaired. The allowance is based on the aging of the accounts receivable, our knowledge of our customers' financial condition, the current business environment and historical experience. A significant change in one or more of these factors could impact the estimated allowance for doubtful accounts recorded in the consolidated balance sheet and the provision for bad debts recorded in the consolidated statement of earnings and retained earnings.

Valuation of Inventories Retail inventories are stated at the lower of cost and net realizable value less normal profit margins. Significant estimation or judgment is required in the determination of (1) discount factors used to convert inventory to cost after a physical count at retail has been completed; (2) recognizing merchandise for which the customer's perception of value has declined and appropriately marking the retail value of the merchandise down to the perceived value; and (3) estimating inventory losses, or shrinkage, occurring between the last physical count and the balance sheet date.

Food inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness. General merchandise inventories counted at retail are converted to cost by applying average cost factors by merchandise category. These cost factors represent the average cost-to-retail ratio for each merchandise category based on beginning inventory and purchases made throughout the year.

Inventory shrinkage is estimated as a percentage of sales for the period from the date of the last physical inventory count to the balance sheet date. The estimate is based on experience and the most recent physical inventory results. To the extent that actual losses experienced vary from those estimated, both inventories and cost of sales may be impacted.

Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheet and a charge or credit to cost of sales in the consolidated statement of earnings and retained earnings.

Employee Future Benefits

The cost and accrued benefit plan obligations of the Company's defined benefit pension plans are accrued based on actuarial valuations which are dependent on assumptions determined by management. These assumptions include the expected long term rate of return on plan assets, the discount rate, the rate of compensation increase, retirement ages, and mortality rates. These assumptions are reviewed by management and the Company's actuaries.

The expected long term rate of return on plan assets, the discount rate and the rate of compensation increase are the three most significant assumptions. The expected long term rate of return on plan assets is based on historical returns, the asset mix and current investment yields. The expected long term rate of return on plan assets for fiscal 2005 and 2004 is 7.0%. The discount rate is based on market interest rates, as at the Company's measurement date of January 28, 2006 on a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations. The discount rates used to measure the benefit plan obligations for fiscal 2005 and 2004 was 5.0% and 6.0% respectively. Management assumed the rate of compensation increase for fiscal 2005 and 2004 was 4.0%.

These assumptions may change in the future and may result in material changes in the accrued benefit obligation on the Company's consolidated balance sheet and the benefit plan expense on the consolidated statement of earnings and retained earnings. The magnitude of any immediate impact, however, is mitigated by the fact that net actuarial gains and losses in excess of 10% of the greater of the accrued benefit plan obligation and the market value of the benefit plan assets are amortized on a straight–line basis over the average remaining service period of the employees expected to receive the benefits under the plan. Changes in financial market returns and interest rates could also result in changes to the funding requirements of the Company's defined benefit pension plans. Additional information regarding the Company's employee future benefits is provided in note 14 to the consolidated financial statements.

Impairment of Long-lived Assets The Company periodically assesses the recoverability of values assigned to long-lived assets after considering potential impairment indicated by such factors as business and market trends, future prospects, current market value and other economic factors. In performing its review of recoverability, management estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying value of the asset, an impairment loss would be recognized based on the excess of the carrying value of the asset over the fair market value calculated using discounted future cash flows. The underlying estimates for cash flows include estimates for future sales, gross margin rates and store expenses, and are based upon the stores' past and expected future performance. Changes which may impact future cash flows include, but are not limited to, competition and general economic conditions and unrecoverable increases in operating costs. To the extent that management's estimates are not realized, future assessments could result in impairment charges that may have a significant impact on the Company's consolidated balance sheet and consolidated statement of earnings and retained earnings.

Income Taxes Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment regarding the financial statement carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances. The future income tax assets and liabilities are also impacted by the interpretation of income tax legislation across various jurisdictions, expectations about future operating results and the timing of reversal of temporary differences, and possible audits of tax filings by the regulatory agencies.

Changes or differences in these estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts. Additional information on income taxes is provided in note 11 to the consolidated financial statements.

DISCLOSURE CONTROLS

Based on an evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures operated effectively as of January 28, 2006.

OUTLOOK

We believe that revenue and earnings growth has the potential to be at the higher end of recent performance. Food sales growth in the Canadian operations is targeted at levels close to 2005 as more moderate market share gains are offset by higher inflation rates. General merchandise sales increases are expected to be slightly positive as the focus continues to be on quality sales and improvement in margins and inventory management. Emphasis is being placed on training and systems investments in our remote stores built around the principle of more local management responsibility for driving sales. Giant Tiger store expansion will continue at a faster pace than in 2005 with the planned opening of six stores in 2006. Alaskan operations are expected to show above average food growth but moderate growth in general merchandise sales as we anticipate the payment from the Alaska Permanent Fund to stabilize. Capital spending will be above historical levels due to increasing growth investment opportunities.

In previous Reports to Unitholders, the Fund outlined the reorganization of the Canadian operating companies. The initial step of the reorganization transfers the majority of the Canadian operations to a limited partnership. Under this new structure, most of the future growth in the profitability of the Canadian operations can be distributed to unitholders on a more tax efficient basis.

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.

Quarterly Financial Information The following is a summary of selected quarterly financial information. Each quarter represents a 13-week period.

Operating Results—Consolidated

($ thousands)	Q1	Q2	Q3	Q4	Total
Sales					
2005	$ 196,237	$ 215,124	$ 211,295	$ 226,997	$ 849,653
2004	$ 184,364	$ 197,483	$ 196,989	$ 209,857	$ 788,693
Trading profit					
2005	$ 16,797	$ 21,863	$ 22,746	$ 24,096	$ 85,502
2004	$ 14,634	$ 19,293	$ 21,165	$ 21,514	$ 76,606
Net earnings					
2005	$ 7,745	$ 10,764	$ 12,192	$ 12,189	$ 42,890
2004	$ 6,388	$ 9,320	$ 10,993	$ 10,564	$ 37,265
Earnings per unit—basic					
2005	$ 0.49	$ 0.67	$ 0.77	$ 0.77	$ 2.70
2004	$ 0.40	$ 0.59	$ 0.69	$ 0.66	$ 2.34
Earnings per unit—diluted					
2005	$ 0.48	$ 0.67	$ 0.76	$ 0.77	$ 2.68
2004	$ 0.40	$ 0.58	$ 0.68	$ 0.66	$ 2.32

Historically, the Company's first quarter sales are the lowest and fourth quarter sales are the highest, reflecting the Christmas selling period. Weather conditions are often extreme and can affect sales in any quarter. Net earnings are historically lower in the first quarter due to lower sales. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to meet competitive pressures to reduce excess inventories.

ACCOUNTING STANDARDS IMPLEMENTED IN 2005

There were no new accounting standards implemented in 2005.

NON-GAAP MEASURES

1 Trading Profit (EBITDA) is not a recognized measure under Canadian GAAP. Management believes that in addition to net earnings, trading profit is a useful supplemental measure as it provides investors with an indication of the Company's operational performance before allocating the cost of interest, income taxes and capital investments. Investors should be cautioned, however, that trading profit should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of NWF's performance. NWF's method of calculating trading profit may differ from other companies and may not be comparable to measures used by other companies. A reconciliation of consolidated net earnings to trading profit or EBITDA is provided below:

Reconciliation of Net Earnings to Trading Profit

($ in thousands)	**2005**	2004
Net earnings	**$ 42,890**	$ 37,265
Add: Amortization	**25,013**	23,905
Interest expense	**6,120**	5,761
Income taxes	**11,479**	9,675
Trading profit	**$ 85,502**	$ 76,606

For trading profit information by business segment, see note 13 Segmented Information in the notes to the consolidated financial statements on page 25

2 Earnings Before Interest and Income Taxes (EBIT) is not a recognized measure under Canadian GAAP. Management believes that EBIT is a useful 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 determined in accordance with GAAP as an indicator of NWF's performance. NWF's method of calculating EBIT may differ and may not be comparable to measures used by other companies. A reconciliation of consolidated net earnings to EBIT is provided below:

Reconciliation of Net Earnings to EBIT

($ in thousands)	**2005**	2004
Net earnings	**$ 42,890**	$ 37,265
Add: Interest expense	**6,120**	5,761
Income taxes	**11,479**	9,675
Earnings before interest and income taxes (EBIT)	**$ 60,489**	$ 52,701

For EBIT information by business segment, see note 13 Segmented Information in the notes to the consolidated financial statements on page 25

3 Cash Flow from Operations is not a recognized measure under Canadian GAAP. Management believes that in addition to net earnings, cash flow from operations is a useful supplemental measure as it provides investors with an indication of the Company's ability to generate cash flows to fund its cash requirements, including distributions and capital investment. Investors should be cautioned, however, that cash flow from operations should not be construed as an alternative to net earnings as a measure of profitability or the statement of cash flows. NWF's method of calculating cash flow from operations may differ from other companies and may not be comparable to measures used by other companies. A reconciliation of consolidated net earnings to cash flow from operations is provided below:

Reconciliation of Net Earnings to Cash Flow from Operations

($ in thousands)	**2005**	2004
Net earnings	**$42,890**	$ 37,265
Non-cash items: Amortization	**25,013**	23,905
Future income taxes	**2,780**	636
Amortization of deferred financing costs	**186**	186
(Gain) Loss on disposal of property and equipment	**(13)**	1,158
Cash flow from operations	**$70,856**	$ 63,150

Management's Responsibility for Financial Statements

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

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

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

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

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

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

MARCH 15, 2006

Auditor's Report

To the Unitholders of North West Company Fund:
We have audited the consolidated balance sheets of North West Company Fund as at January 28, 2006 and as at January 29, 2005 and the consolidated statements of earnings and retained earnings and cash flows for the fiscal years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at January 28, 2006 and January 29, 2005 and the results of its operations and its cash flows for the fiscal years then ended in accordance with Canadian generally accepted accounting principles.

CHARTERED ACCOUNTANTS
WINNIPEG, CANADA

MARCH 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 (Note 11)	**1,824**	2,467
	218,742	208,188
Property and equipment (Note 3)	**182,108**	186,104
Other assets (Note 4)	**17,306**	12,253
Future income taxes (Note 11)	**5,693**	7,932
	$ 423,849	$ 414,477
LIABILITIES		
Current liabilities		
Bank advances and short-term notes (Note 5)	**$ 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 (Note 6)	**108**	106
	95,467	88,284
Long-term debt (Note 6)	**84,524**	88,803
Asset retirement obligations (Note 7)	**1,285**	1,105
	181,276	178,192
EQUITY		
Capital (Note 8)	**165,205**	165,205
Unit purchase loan plan (Note 9)	**(9,965)**	(4,429)
Retained earnings	**83,133**	70,560
Cumulative currency translation adjustments (Note 10)	**4,200**	4,949
	242,573	236,285
	$ 423,849	$ 414,477

See accompanying notes to consolidated financial statements

Approved by the Trustees

Ian Sutherland
TRUSTEE

Edward S. Kennedy
TRUSTEE

Consolidated Statements of Earnings & Retained Earnings

($ in thousands)	**52 Weeks Ended January 28, 2006**	52 Weeks Ended January 29, 2005
SALES	**$ 849,653**	$ 788,693
Cost of sales, selling and administrative expenses	**(764,151)**	(712,087)
Net earnings before amortization, interest and income taxes	**85,502**	76,606
Amortization	**(25,013)**	(23,905)
	60,489	52,701
Interest, including interest on long-term debt of $5,080 (2004 $4,821)	**(6,120)**	(5,761)
	54,369	46,940
Provision for income taxes (Note 11)	**(11,479)**	(9,675)
NET EARNINGS FOR THE YEAR	**42,890**	37,265
Retained earnings, beginning of year	**70,560**	61,679
Distributions	**(30,317)**	(28,384)
RETAINED EARNINGS, END OF YEAR	**$ 83,133**	$ 70,560
NET EARNINGS PER UNIT (Note 12)		
Basic	**$ 2.70**	$ 2.34
Diluted	**$ 2.68**	$ 2.32

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

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

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

January 28, 2006

1. ORGANIZATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Fiscal Year The fiscal year ends on the last Saturday in January. Accordingly, the 2005 fiscal year ended January 28, 2006 (52 weeks) and the 2004 fiscal year ended January 29, 2005 (52 weeks). Approximately every five years an additional week of sales and expenses are included in the financial results to bring results back in line with the 52-week year.

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

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

Inventories Inventories are valued at the lower of cost and net realizable value less normal profit margins. The cost of warehouse inventories is determined by the average cost method. The cost of retail inventories is determined primarily using the retail method of accounting for general merchandise inventories and the cost method of accounting for food inventories.

Vendor Rebates Consideration received from vendors related to the purchase of merchandise is recorded as a reduction in the price of the vendor's products and reflected as a reduction of cost of goods sold and related inventory.

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

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

Impairment of Long Lived Assets Impairment of long lived assets is recognized when an event or change in circumstances causes the asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

Other Assets The investment in a transportation company is accounted for on the equity basis. Deferred financing costs are being amortized over the life of the debt. Prepayments under lease agreements are being amortized over their respective lease terms.

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

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

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

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

Employee Future Benefits The Company maintains both defined benefit and defined contribution pension plans for substantially all of its employees. The actuarial determination of the accrued benefit obligations for pension benefits uses the projected benefit method prorated on services which incorporates management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees. For the purpose of calculating the expected returns on plan assets, those assets are valued at market related value based on a five year moving average. Past service costs and the net transitional asset are amortized on a straight-line basis over the average remaining service period of the employees expected to receive the benefits under the plan. The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the market related value of the plan assets is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by the pension plan is 15 years (2004 – 15 years). Contributions to the defined contribution pension plan are expensed as incurred.

Asset Retirement Obligations A liability associated with the retirement of long-lived assets is recorded in the period in which the legal obligation is incurred at its estimated fair value and a corresponding asset is capitalized as part of the related asset and depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation.

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

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

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

3. PROPERTY AND EQUIPMENT ($ in thousands)

Year Ended	**January 2006**		January 2005	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 6,420**	**$ –**	$ 6,498	$ –
Buildings & leasehold improvements	**208,879**	**101,560**	201,775	93,385
Fixtures & equipment	**127,217**	**79,520**	121,051	73,223
Computer equipment & software	**65,844**	**45,172**	62,967	39,579
	$ 408,360	**$ 226,252**	$ 392,291	$ 206,187
Net book value	**$ 182,108**		$ 186,104	

4. OTHER ASSETS ($ in thousands)

Year Ended	**January 2006**	January 2005
Investments in transportation companies	**$ 3,585**	$ 5,036
Accrued benefit asset	**7,431**	294
Deferred financing costs	**667**	853
Prepayments under lease agreements	**957**	1,052
Long-term receivable	**3,601**	3,839
Other*	**1,065**	1,179
	$ 17,306	$ 12,253

*Other includes redeemable deposits with suppliers

5. BANK ADVANCES AND SHORT-TERM NOTES

The Canadian operation has available operating loan facilities of $85 million at interest rates ranging from prime to prime plus 0.75%. These facilities are secured by a floating charge against the assets of the Company on a parri-passu basis with the senior note holders. As at January 28, 2006, the Company had drawn on the facilities $27,041,000 (2004 - $29,191,000).

The Alaskan operation has available an operating loan facility of US$4 million at an interest rate of prime plus 1.0% secured by a floating charge against the assets of the Company. As at January 28, 2006, the Alaskan operations had no outstanding amount drawn on the facility (2004 – US$2,281,000).

6. LONG-TERM DEBT

Year Ended ($ in thousands)	**January 2006**	January 2005
Senior notes [1]	**$ 74,581**	$ 80,679
Effect of foreign currency swaps [1]	**8,831**	6,805
Obligation under capital lease [2]	**1,220**	1,425
	84,632	88,909
Less: Current portion of long-term debt	**108**	106
	$ 84,524	$ 88,803

1 The US$65 million senior notes mature on June 15, 2009 and bear an interest rate of 5.89% payable semi-annually. Repayment of 20% of the principal is required on June 15, 2007 and June 15, 2008. The notes are secured by a floating charge against the assets of the Company. The Company has entered into various cross currency interest rate and interest rate swaps resulting in floating interest costs on US$36 million of its senior notes. After giving effect to the interest rate swaps and cross currency interest rate swaps the effective interest rate for 2005 was 6.1% (2004 – 5.3%).

2 The obligation under a capital lease of US$1,063,000 (2004 - US$1,148,000) is repayable in blended principal and interest payments of US$200,000 annually. The obligation will be fully repaid on October 31, 2013.

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

Years Ending January	($ in thousands)
2007	$ 108
2008	15,036
2009	15,049
2010	44,896
2011	163

7. ASSET RETIREMENT OBLIGATIONS

The Company has recognized a discounted liability associated with obligations arising from the operation of petroleum dispensing units and specific provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. At January 28, 2006, the undiscounted cash flows required to settle the obligations is $6.5 million, which is expected to be settled between 2006 and 2058. The credit-adjusted risk free rate at which the estimated cash flows have been discounted is 8%.

A reconciliation of the opening and closing carrying amount of the asset retirement obligation is as follows:

Year Ended ($ in thousands)	**January 2006**	January 2005
Balance, beginning of year	**$ 1,105**	$ 1,033
Liabilities incurred during the year	**99**	-
Accretion expense included in cost of sales, selling and administrative expenses	**81**	72
Balance, end of year	**$ 1,285**	$ 1,105

8. CAPITAL

Authorized The Fund has an unlimited number of units.

(units and $ in thousands) Year Ended	**January 2006**		January 2005	
Issued and outstanding	**16,126**	**$165,205**	16,126	$165,205

9. UNIT PURCHASE LOAN PLAN

During the year the Company issued loans to officers and senior management to purchase units under the unit purchase loan plan. These loans are non-interest bearing and are repayable from the Company's after tax distributions or if the officer sells the units or leaves the Company. The loans are secured by a pledge of 305,456 units of NWF with a quoted value of $10,996,000 as at January 28, 2006. Loans receivable at January 28, 2006 of $9,965,000 (2004 - $4,429,000) are recorded as a reduction of equity. The loans have terms of three to five years. The maximum amount of the loans under the plan is currently limited to $15,000,000.

10. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS ($ in thousands)

Year Ended	**January 2006**	January 2005
Balance, beginning of year	**$ 4,949**	$ 5,244
Movement in exchange rate	**(749)**	(295)
Balance, end of year	**$ 4,200**	$ 4,949

The cumulative currency translation adjustments account represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book values of the net investment in self-sustaining Alaskan operations since the date of acquisition. A portion of the U.S. denominated senior notes in the amount of US$43 million has been designated as a hedge against the Alaskan operations.

11. INCOME TAXES ($ in thousands)

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

Year Ended	January 2006	January 2005
Future tax assets		
Non-capital loss carryforwards	**$ 245**	$ 472
Tax values of capital assets in excess of accounting values	**7,915**	7,545
Provisions and other temporary differences	**(643)**	2,382
Net future tax asset	**$ 7,517**	$ 10,399
Comprised of		
Current	**$ 1,824**	$ 2,467
Long-term	**5,693**	7,932
	$ 7,517	$ 10,399

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

Year Ended	January 2006	January 2005
Net earnings before income taxes	**$ 54,369**	$ 46,940
Combined statutory income tax rate	**36.34%**	36.67%
Income taxes based on combined statutory income tax rate	**19,757**	17,212
Increase (decrease) in income taxes resulting from:		
Large corporation tax	**525**	620
Amounts not subject to income tax	**(1,112)**	(160)
Income tax deductions on interest paid to the Fund	**(9,340)**	(9,425)
Withholding tax	**314**	815
Recognition of Canadian income tax rate changes on future income taxes	**34**	(39)
Other	**1,301**	652
Provision for income taxes	**$ 11,479**	$ 9,675
Effective income tax rate	**21.11%**	20.61%

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

Year Ended	January 2006	January 2005
Current income tax expense	**$ 8,699**	$ 9,039
Future income tax expense (benefit) relating to:		
Temporary differences and loss carryforwards	**2,746**	675
Recognition of Canadian income tax rate changes on future income taxes	**34**	(39)
Provision for income taxes	**$ 11,479**	$ 9,675

12. NET EARNINGS PER UNIT

Basic net earnings per unit are calculated based on the weighted-average units outstanding of 15,898,000 (2004 - 15,918,000). The diluted net earnings per unit takes into account the additional income that would have been earned by the Company had interest costs not been incurred on the unit purchase loan plan and had the respective units been outstanding during the year.

($ and units in thousands except earnings per unit) Year Ended	January 2006	January 2005
Diluted earnings per unit calculation:		
Net earnings for the year (numerator for basic earnings per unit)	**$ 42,890**	$ 37,265
After tax interest cost of unit purchase loan plan	**266**	163
Numerator for diluted earnings per unit	**$ 43,156**	$ 37,428
Weighted average units outstanding (denominator for basic earnings per unit)	**15,898**	15,918
Effect of diluted unit purchase loan plan	**228**	208
Denominator for diluted earnings per unit	**16,126**	16,126
Basic earnings per unit	**$ 2.70**	$ 2.34
Diluted earnings per unit	**$ 2.68**	$ 2.32

13. SEGMENTED INFORMATION ($ in thousands)

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

Year Ended	January 2006	January 2005
Sales		
Canada	**$ 689,340**	$ 629,822
Alaska	**160,313**	158,871
Total	**$ 849,653**	$ 788,693
Net earnings before amortization, interest and income taxes		
Canada	**$ 70,561**	$ 62,629
Alaska	**14,941**	13,977
Total	**$ 85,502**	$ 76,606
Net earnings before interest and income taxes		
Canada	**$ 49,458**	$ 42,652
Alaska	**11,031**	10,049
Total	**$ 60,489**	$ 52,701
Identifiable assets		
Canada	**$ 293,606**	$ 293,254
Alaska	**60,640**	63,963
Total	**$ 354,246**	$ 357,217

14. EMPLOYEE FUTURE BENEFITS

The Company sponsors defined benefit pension plans covering the majority of Canadian employees. The defined benefit pension plans are based on years of service and final average salary. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes as at January 28, 2006 and January 29, 2005. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 2005. The next actuarial valuation is required as at January 1, 2006. The Company also sponsors an employee savings plan covering all U.S. employees with at least six months of service. Under the terms of the plan, the Company is obligated to make a 50% matching contribution up to 3% of eligible compensation.

Total cash payments by the Company for future employee benefits, consisting of cash contributed to its pension plans and U.S. employee's savings plans was $9,712,000 (2004 - $2,395,000).

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

Year Ended	**January 2006**	January 2005
Accrued benefit obligations		
Discount rate	**5.0%**	6.0%
Rate of compensation increase	**4.0%**	4.0%
Benefit plan expense		
Discount rate	**6.0%**	6.5%
Expected long-term rate of return on plan assets	**7.0%**	7.0%
Rate of compensation increase	**4.0%**	4.0%

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

Year Ended ($ in thousands)		**January 2006**			January 2005	
	Incurred in year	**Matching Adjustments[1]**	**Recognized in year**	Incurred in year	Matching Adjustments[1]	Recognized in year
Current service costs, net of employee contributions	**$ 2,673**	**$ –**	**$ 2,673**	$ 2,244	$ –	$ 2,244
Interest on accrued benefits	**2,819**	**–**	**2,819**	2,745	–	2,745
Return on plan assets	**(4,031)**	**909**	**(3,122)**	(2,869)	(1)	(2,870)
Actuarial (gain) loss	**10,164**	**(9,805)**	**359**	3,312	(3,240)	72
Past service costs	**–**	**(11)**	**(11)**	–	(11)	(11)
Amortization of net transition asset	**–**	**(308)**	**(308)**	–	(308)	(308)
Net benefit plan expense	**$ 11,625**	**$ (9,215)**	**$ 2,410**	$ 5,432	$ (3,560)	$ 1,872

1 Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits

The expense incurred under the employee savings plan covering U.S. employees is US$138,000 (2004–US$131,000).

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

Year Ended ($ in thousands)	January 2006	January 2005
Plan assets		
Fair value—beginning of year	**$ 39,199**	$ 37,026
Actual return on plan assets	**4,031**	2,870
Employer contributions	**9,533**	2,212
Employee contributions	**46**	46
Benefits paid	**(4,197)**	(2,955)
Fair value—end of year	**$ 48,612**	$ 39,199
Plan obligations		
Accrued benefit obligation—beginning of year	**$ 49,083**	$ 43,704
Current service cost	**2,705**	2,277
Accrued interest on benefits	**2,819**	2,745
Benefits paid	**(4,197)**	(2,955)
Actuarial loss	**10,164**	3,312
Accrued benefit obligation—end of year	**$ 60,574**	$ 49,083
Funded status		
Fair value plan assets	**$ 48,612**	$ 39,199
Accrued benefit obligation	**60,574**	49,083
Plan deficit	**(11,962)**	(9,884)
Unamortized net actuarial losses	**21,837**	12,941
Unamortized net transitional asset	**(2,382)**	(2,690)
Unamortized past service costs	**(62)**	(73)
Accrued benefit asset	**$ 7,431**	$ 294

The accrued benefit asset is included in other assets in the Company's consolidated balance sheet.

The accrued benefit obligation of all of the Company's defined benefit pension plans exceeds the fair value of plan assets as noted above.

Year Ended	January 2006	January 2005
Plan assets consist of:		
Equity securities	**54%**	51%
Debt securities	**33%**	38%
Other	**13%**	11%
Total	**100%**	100%

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

15. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

a) In 2002, the Company signed a 30-year Master Franchise Agreement with *Giant Tiger Stores Limited*, based in Ottawa, Ontario which grants the Company the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, *Giant Tiger Stores Limited* provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing distribution services to the stores. The Company's exclusivity right requires that a minimum number of Giant Tiger stores be opened each year, based on an expected roll-out of 72 stores over the term of the agreement. As at January 28, 2006 the Company has opened 14 Giant Tiger stores and is in compliance with the terms of the agreement.

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

c) The Company has future commitments under operating leases as follows:

Years Ending January	Minimum Lease Payments ($ in thousands)
2007	$ 10,815
2008	10,492
2009	9,596
2010	8,141
2011	7,478
Thereafter	51,171

Contingencies

a) Canada Revenue Agency is currently conducting an audit for the taxation years 1996 -1999. It is the opinion of management that the pending reassessments will be resolved without material effect on the financial statements.

b) The Company is involved in various legal matters arising in the normal course of business. The occurrence of the confirming future event is not determinable or it is not possible to determine the amounts that may ultimately be assessed against the Company. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Guarantees The Company has provided the following significant guarantees to third parties:

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

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

16. UNIT APPRECIATION RIGHTS (UARs) PLANS

The Company has a non-contingent UARs plan which forms part of the long-term incentive program for senior management. The UARs program was discontinued in 2000, however previously issued UARs continued to vest in 2005. The expense incurred during the year under the plan was $40,000 (2004 - $252,000).

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

Year Ended	**January 2006**		January 2005	
	UARs (000's)	**Price***	UARs (000's)	Price*
Outstanding at beginning of year	**9**	**$12.34**	128	$13.55
Exercised	**(9)**	**12.34**	(113)	25.66
Forfeited	-	-	(6)	10.50
Outstanding at end of year	-	-	9	$12.34
UARs exercisable at year end	-		4	

*Weighted-average

17. FINANCIAL INSTRUMENTS ($ in thousands)

Short-Term Financial Instruments Short-term financial instruments which include cash, accounts receivable, bank advances and short-term notes, accounts payable and accrued liabilities, and income tax payable are valued at their carrying amounts included in the balance sheet, which are reasonable estimates of fair value due to the relative short period to maturity of the instruments.

Long-Term Financial Instruments The Company has the following long-term financial instruments outstanding as at January 28, 2006:

	Maturity	**Interest Rate**	**Carrying Value**	**Fair Value**
Debt				
US$65 million Senior notes	2009	5.89% [1]	$ 74,581 [2]	$ 75,275
				Unrealized Loss
Swaps				
US$14 million Interest rate	2007–2009	LIBOR [3] plus 1.87%		$ 426
US$22 million Cross currency Interest rate	2007–2009	B.A. [4] plus 2.99% to B.A. plus 3.16%		$ 10,325

1 Weighted-average
2 The senior notes (note 6) recorded on the balance sheet includes unrealized losses of $8,831 on the foreign currency portion of the US$22 million cross currency interest rate swaps
3 London Interbank Offered Rate
4 Bankers' Acceptances

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

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

18. COMPARATIVE AMOUNTS

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

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