Speech by Ian Sutherland, Chairman, The North West Company

NWF produced superior returns in the past year as well as for the past five years. In 2000, the total return was 23.4%. This was comprised of cash distributions of $1.44 or 12%, appreciation of 8.3%, and 3% from compounding the reinvestment of distributions. In the same period, the TSE300 produced a return of 10.9% and the merchandising index, a return of 19.8%. For those of you who think these numbers do not jive with the calendar year, I should note that they are for the 12 months ended January 31, 2001.

For the five years, NWF had a total return of 137%, as compared with 103% for the TSE300 and 51% for the merchandising index. This superior performance has continued in 2001. In addition to a cash yield of 11%, NWF has appreciated over 10% already this year while the TSE300 is down 7%. Moreover, NWF is still relatively inexpensive on any type of valuation basis.

This strong performance was a surprise to many investors who sometimes only think of price appreciation. The unit price improved from $9 to $13 in the five-year period ending January 31, 2001. However, the main NWF advantage relative to the TSE300 and the merchandising stocks is the compound return of NWF's high distribution which has increased from a 40¢ dividend in 1996 to $1.44 for the past two years.

For the five-year period, the 137% total return was comprised of unit price appreciation of 44.1%, cash dividends and distributions paid of 54.1% and the compound return from the reinvestment of cash dividends and distributions of 38.8%. Compound interest really does work – especially for investors in NWF.

NWF has demonstrated earnings growth that is better than the index, while maintaining these high distributions. In fact, NWF's earnings per unit has grown from 68¢ to $1.89 in the past five years – a compound annual growth rate of 22.7%. Excluding the increase in earnings due to the tax benefits of the Fund, the compound annual growth rate is still 12.9%. This compares to the 24-year history of growth stocks in the S&P500 of 6.5%, surprisingly, the same growth rate as for value stocks according to a recent Bank Credit Analyst report. As a comparison, Nortel, Canada's great growth stock, had risen 8% p.a. over the past 15 years – until the recent losses. I might add that NWF's earnings are real generally accepted accounting principles earnings, not pro forma or cash earnings that remove deductions for acquisition costs and stock option remuneration.

With NWF's cash distribution of 10% and earnings and unit price appreciation potential of another 10%, we continue to view NWF as a superb component in your investment portfolio.

NWF has 14,691,000 units outstanding. Each unit represents a common share of NWC and a subordinated 12.5% note of $11.91. The interest of $1.44 is paid out to unitholders and is deductible by the Fund for tax purposes. This generates tax savings of about 60¢/unit. The distribution is treated as interest income to unitholders. It is tax free to pension funds, RRSP's and certain Aboriginal investment holders who together comprise about 75% of our unitholders. Taxable individuals pay about 10% more in tax on our distributions than they would on taxable dividends since the distributions do not benefit from the dividend tax credit. However, a dividend would have been at least 40% less after tax.

This $1.44 distribution represents 45% of the cash flow of NWF of $3.21/unit. Of the remainder of cash flow, $1.30/unit was invested in new stores, equipment and technology. The balance improved working capital and reduced debt. NWF has met its target of reducing its debt to equity ratio below 1 : 1 in 2000. In fact, this ratio improved from 1.27 : 1 five years ago to 0.92 : 1 last year. This year we expect a further improvement.

I would like to introduce our President and CEO, Edward Kennedy to report to the unitholders on the recent performance and growth strategy of NWF.

Speech by Edward Kennedy, President & CEO, The North West Company

Thank-you Ian. Good Morning.

At The North West Company, our vision is to be the most successful small market retailer in North America. Our plan is to focus on attractive markets, like the North, and then be the best within these market niches.

As Ian has highlighted, we are delivering superior returns through growth and yield. Between the two, investing for growth comes first. But we're aware that it's your money we're spending. We will always distribute cashflow back to our unitholders before investing it for the sake of growth. This disciplined, opportunistic approach to creating investor value is helped by the fact that 450 of our employees and our board together own more than 11% of The North West Company Fund.

This morning I'd like to give you an updated picture of who we are, then review our financial performance and our plans for earnings growth over the next few years.

Today's North West Company is 4,500 people, at work, across the North, around the clock. We live in seven different time zones, we speak a dozen different languages and we work in several different divisions and types of stores. But we share at least two things in common. We're all part of the North West family and serving northern customers is our first priority.

Northern is the name of our largest retail banner, with 137 stores. **Northern** staff like Janine Kalluak meet the everyday needs of northern shoppers, by selling quality, affordable outerwear under our 'Northern Expedition' label.

The next largest retail group is called *AC Value Center* with 21 stores covering rural Alaska. In this part of the world, we are more than the general store. Our staff, like Gail Niles, are friends and neighbours to long-time customers like "Grandma Nancy" Morgan, pictured here with Gail.

In five regional centers across northern Canada we operate *NorthMart* stores. These stores feature selection and freshness, from casual fashions to the quality meats sold by manager Ken Ives in Iqaluit, Nunavut.

Northern Financial Service is the name of our growing range of credit and banking-type products. Last year, our financial service managers like Philip Bailey from our Iqaluit store, administered over $186 million in credit sales and generated fees on $80 million in debit card withdrawals.

Another expanding business at North West is our *Selections* catalogue. Sales are up over 50% since 1998 as we have shifted more of our product mix to this channel. Thirty-five year employee Celina Gardner has helped manage this growth by providing helpful customer service from our call centre in Winnipeg.

Northern livelihoods have changed dramatically, but not for everyone. Our Inuit Art and Fur Marketing divisions are still important sources of income for carvers like Adamie Ashevak in Cape Dorset, Nunavut and trapper Suggashie Strang from Poplar Hill, Manitoba.

Food wholesaling is a small but profitable business for us. One reason we succeed is because warehouse staff like Jeremy Brown at Frontier Expeditors in Anchorage and Jason Dupras at Crescent Multi Foods, here in Winnipeg, work at all hours to ship product quickly and carefully to our 375 accounts.

Finally, we have positioned ourselves at North West to partner with other retailers and non-competing service providers. For example, our dedicated people like Maata Oqutuq and the size of our facilities enable us to operate 40 post offices inside our stores.

Now, let’s look at our recent financial performance.

Sales last year grew 5% to a record level of $659 million. In Canada, we started slowly with a gain of 2.5% in the first quarter. We shifted into higher gear in the second half with sales increasing 6.5%. This was helped by the completion of 53 store reprofiles, a great selection of seasonal product just in time for a cold winter and a terrific “get sales” attitude in our stores.

In Alaska, we also had a strong second half. We achieved 5% or better sales growth for the third straight year as we solidified our number one position in the rural Alaska market, assisted by the unfortunate demise of weaker competition.

Last year’s trading profit finished at $63.9 million, up 6.6% from 1999. This improvement was slightly better than our sales increase but, looking at our numbers quarter by quarter, trading profit really accelerated as margins firmed up and our same store sales gains broke through the five percent level. This shows the bottom line leverage we have when we capture more sales through existing stores.

Our third and fourth quarter performance helped us recover from our mid-year earnings shortfall and offset over $2 million dollars in higher taxes and interest expenses. Year-end earnings finished at $28.1 million or $1.89 per unit, our sixth straight year of improvement.

Turning to this year, sales for the three months ending in April continued to trend very strongly and are up 7% to $161 million.

In Canada, food sales increased 8.3% compared to a 4.7% gain last year. Food continues to be driven by more selling space and better in-store presentation standards. Measured since the start of our Vision 2000+ strategy in mid 1998, the growth picture is clear. Food now represents just under 70% of total sales compared to 66% in 1998. This year, 20 more stores will be reprofiled with expanded food presentation. And, with food inflation 2% above last year, we again expect our retail food business to lead the way in 2001.

Our next largest product group in Canada is general merchandise at 26% of first quarter sales (followed by fuel and financial services at 5% and 1.5%).

General merchandise grew by 4.2% compared to a 3.0% decline in 2000. These results are even better than they look considering that unseasonably cool weather put a damper on April sales, except in the Arctic, where Spring doesn’t officially start until tomorrow.

Over the last eighteen months, we’ve made adjustments to our general merchandise pricing, seasonal planning, selling space and our catalogue. We believe we are now on track and that the sales trend shown here is profitable and sustainable. Last winter especially demonstrated the importance of categories like snow machines, electronics and outerwear to our customers and to our bottom line.

Canadian first quarter trading profit finished up 9.0% to $12.6 million. Behind these numbers, our retail trading profit increased by 15% and our wholesale divisions were down against last year.

In Alaska, first quarter food sales decreased by 1.4% after gains of 9.0% in 1999 and 1998. Our retail food performance was up a solid 4.1%. This left the sales shortfall with Frontier Expeditors (FE). FE is rapidly growing and has achieved 30% increases in each of the last two years. In the first quarter this year, FE's sales dropped by 26% because of a tax levy that, since January, has effectively stopped Anchorage-based wholesalers from selling tobacco products. This levy was poorly designed. It raises no new revenue because retailers have simply switched to buying tobacco from distributors based outside of Anchorage. We expect it to be repealed by the end of June.

Fortunately, FE's top line erosion was offset by an 8.1% increase in our retail general merchandise. This was driven by an early Bering Sea commercial fishing season and by success with sales programs in furniture, electronics and motorized machines.

Selling more furniture and less tobacco translated into a healthier sales blend for AC (and probably for our customers). Trading profit improved to just over $1 million compared to just under $800,000 last year.

On a consolidated basis, our strong sales, combined with slightly better margins and lower interest expenses, delivered a net earnings gain of $4.9 million up 14.7% to $0.34 per unit.

The first quarter is our smallest sales and earnings period and I've cautioned before it doesn't take much to push the bottom line up or down. Looking ahead, we expect most of our wholesale businesses to rebound through the course of the year but, either way, the real force will be our retail sales momentum as we move into our busiest periods.

That's the financial picture. I'd like to now tell you more about our plans to keep delivering value through growth. Our efforts are in three key areas: 1) growing with the Canadian North; 2) closing our Alaska performance gap; and 3) new growth ventures.

The first and biggest opportunity is to get more sales from our northern Canadian market. Our goal is to be the first shopping choice in each community we serve. Since we launched Vision 2000+ three years ago, we've been at work building this capability through three strategies:

1. Streamline our business;

2. Focus on what our customers value the most and what creates value for us;

3. Be the best at selling.

Cost streamlining was a boost to our bottom line in 1998 after we took out $4 million in head office costs. Since then, we've been challenged to keep pushing our expense rates down while investing to attract and retain the best people and pay our rising heating bills. We are not discouraged by this situation. In fact, we're confident that by early 2002 our alliance strategy of linking with lower cost partners like TruServ Hardware and RadioShack, our work to improve inventory management and our investment in new technology will start to deliver another round of expense savings.

Our second strategy is to focus on what our customers value most and what creates value for us. Because we run a general type of store, we are truly at the buffet table of retailing. We are able to sell almost anything, from boat motors to hamburgers, to almost anyone, from low-income, necessity-driven customers to high earning quality-driven shoppers. Making the right decisions requires digging deep to discover where the most value lies.

As we've gotten better at finding value, our product mix has become tightly linked to the different customer needs we serve. For example, our 'Northern' branded packaged meats are aimed at necessity-driven shoppers and our 'Exclusive Selections' line-up of higher end frozen meat entrees attracts quality-driven shoppers who are less price sensitive.

Another right decision has been to enhance 650,000 square feet of selling space with upgraded fixtures and equipment over the past two years. This included shifting 120,000 feet so that we can sell more food and everyday basic merchandise. We've completed this effort in 105 stores and most of our remaining locations are scheduled for this year.

The result of our reprofiling effort speaks for itself. For store's completed in 1999, the average food sales gain after reprofiling was 3.5%. In 2000, after some refinements, the average increase was 5.5%. The best part is that we still have lots to learn. We expect that further fine-tuning to all our reprofiled stores will give us another sales boost in 2002.

Strategy #3 is to be the best at selling. This is where we had the most catch-up work to do last year and this is where our progress has been the most encouraging. During 2000, store management training sessions were created and held in partnership with regional education authorities. These have set a framework for affordably delivering training to our remote store employees.

In September, we held our first annual Canadian Store Managers' Conference, since renamed the Wintering Partners' Conference, recognizing our link to the original North West Company's annual gathering in Fort William. The value of this event had been proven in Alaska and our Canadian version was equally successful and worth every penny that our vendors contributed to pay for it. In particular, the success of our sales last Fall is due in part to the sharing of ideas and the enthusiasm that came out of last year's meeting.

Another key building block for being the best at selling is local recruitment. Our success in hiring and keeping local management, especially Aboriginal management, has accelerated over the past five years to where we are today, one third of our store management team is of Aboriginal origin.

We're proud of local hiring because it's the right thing to do. Equally important, the business case for this type of investment is compelling. Community relations and local market share is usually higher and recruitment costs are always lower compared to drawing people from southern Canada's tight job markets.

This Spring we took a further step by revamping our store compensation system so that we are now able to compete locally for the best possible candidates. We expect that this change will enable us to fill 20 more management positions each year from within our communities.

Being the best at selling starts with hiring and motivating the right people. Teaching and encouraging them to sell and serve is what makes the difference to our customers. At last year's meeting, I showed some pretty pictures of real stores but these could be challenged as being professionally taken, which they were, and maybe not representative of what our customers see everyday. This year, I want to show you pictures sent in by our stores, competing for what we call our "WOW" merchandising awards. These displays are the real thing. They are examples of a 'Best at Selling' attitude that is creating excitement in our stores and triggering great sales.

Our second bottom line growth opportunity is in Alaska. We refer to this as closing the performance gap not because Alaska hasn't performed. In fact the opposite is true.

Over the past five years, Alaska Commercial Company has steadily improved its operating margins. The challenge now is to get closer to our Canadian profit level of 10.8%. The hurdle is that we have a handful of markets with too many stores. In most of these locations, we have the lead share and we are in the best position to capture the additional volume needed to be profitable. How this will happen is through store closures or acquisitions. When this will happen is hard to predict. We know from experience that it occurs sooner when you grab a few more customers from your competition each week, which is what we're doing at AC.

Our third growth engine is through new ventures. The initiative I'd like to highlight this morning is our plan to test Giant Tiger family discount stores in western Canada.

Before telling you more about why we've joined with Giant Tiger let me explain why, in the first place, we are looking at growth outside of the North. The first reason is to achieve scale. This means maximizing our distribution centres and buying volumes to reach lower costs that will allow us to capture more sales in the North. Second, we want to apply, to other geographic areas, our knowledge of retailing to lower income shoppers in small markets. Third, and specific to the venture with Giant Tiger, we want to exploit an underserved market niche in partnership with one of the best discount retailers in eastern Canada.

When we look at the discount market in western Canada we see big stores in the suburbs. What we don't see are smaller, accessible stores meeting the needs of rural areas or lower income urban neighbourhoods. We also see great prices but not a lot of great fashion. These weaknesses are in essence what Giant Tiger excels at with 100 stores serving smaller centres and inner cities across Ontario and Quebec.

Giant Tiger stores use recycled real estate often left behind by big box retailers. The price for these locations is low and with very modest spending they look better than new on opening day.

Inside the store is a terrific mix of best selling food, health and beauty aids and very current fashion all at low prices. The feel of a Giant Tiger store is convenience and value but the look changes weekly with new items arriving throughout the season.

Our agreement with Giant Tiger is based on a Master Franchise relationship, which gives us exclusive rights to open and operate Giant Tiger stores in western Canada. Both companies are working together to negotiate lower buying costs and to adapt the product mix to western Canadian shoppers. So yes, you will be able to find perogies and winter boots at your Giant Tiger store.

Our first store opens in Thompson, Manitoba on June 23rd. Our second store is planned for Winnipeg this Fall. By next Spring, we expect to know the long-term potential for this venture. If we move forward to roll-out stores in the West, we expect to be able to finance this growth without jeopardizing our core business spending.

I've just covered a lot of growth to go along with our yield. To recap, we expect our immediate and largest returns to come from our core Canadian business. Alaska is positioned to deliver a step up in profit margins within the next two years. Longer term, new growth ventures like Giant Tiger will be aggressively pursued if they produce returns that will match the historical performance presented by Ian.

In conclusion, I am confident about The North West Company's future. We are fortunate and thankful to have great people across the North and here in Winnipeg. We are all focussed on the details of doing excellent work but our heads are also up, looking for new ways to deliver value. With three positive quarters behind us, the results are very encouraging. I look forward to sharing more of the same with you over the next twelve months and in the exciting years we have ahead of us.

Thank-you for your attention.

Please note that the speeches may not have been delivered exactly as written.

For more information about these speeches, or the North West Company Fund, please contact:

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