North West Company Fund
Annual Meeting of Unitholders
May 29, 2003
Winnipeg, Manitoba

Speech by Ian Sutherland, Chairman, The North West Company

Today I would like to summarize the work done over the past year by the Board of Directors of The North West Company as well as the committees through which much of the Board's oversight responsibilities are managed. I also want to make some comments on the fact that the Fund has again provided its investors with top quartile investment returns in 2002.

Before I continue, let me explain in very general terms how the responsibilities differ for the Board of Directors of the Company and the Trustees of the Fund.

The trustees are responsible for administering the Fund and managing its investment in The North West Company. As well as fulfilling the Fund's reporting issuer obligations, the trustees monitor the Fund's tax status and make sure that the Fund takes on no liabilities that may impact unitholders.

The Board of the North West Company is responsible for monitoring management and managing the business of the Company. As NWC is the only investment of the Fund, the Company's Board also shares the reporting issuer obligations of the Fund.

Now let's look at how the committees of the Board discharge their responsibilities.

The Audit Committee is comprised of Keith Martell, Donald Beaumont and Frank Coleman and is chaired by Gary Lukassen. All of these independent directors have relevant financial expertise and three of them have specific retail industry knowledge. This committee reviews all financial statements, MD&A's and reports to unitholders. It meets quarterly with management and internal and external auditors. It also meets privately with our external auditors, PriceWaterhouseCoopers, at least once a year. The committee reviews the statements, as well as the accounting policies and management assumptions that help to determine our results. Its members have a sound knowledge of industry accounting methods and ensure that NWC uses appropriate accounting practices. This committee's mandate and practices meet all regulatory requirements and guidelines. The trustees participate in the committee's deliberations as part of their specific obligations regarding the Fund.

Until this year, the Board has also had an Executive Committee comprised of the committee chairs and myself. This committee provided a detailed review of the Company's strategic and annual plans. But now it has been determined that it is important for the whole Board to assume this role so we no longer look to the executive committee for this important responsibility. The other key function of the committee was to provide an in depth review of transactions or issues delegated by the Board. In the past few years, this committee provided valuable input to the CEO and the Board on such issues as the Giant Tiger opportunity. However, we decided this year to discontinue the Executive Committee largely because we did not want to create the appearance that some members of the Board were more important than others. The Board or the Trustees may form special committees to deal with significant issues or transactions, as they arise.

The Pension Committee is comprised of four independent members including Nellie Cournoyea, Iain Ronald, Stan MacKay and James Oborne, who acts as Chair. This committee fulfills the Board's fiduciary responsibilities to the Company's pension plans and fund. James Oborne has many years of pension and investment experience and has managed or chaired many larger private and public pension plans. Brian Fox, the chair of the employee pension committee and Karen Milani, our VP Human Resources, also participate in the committee's quarterly meetings. This committee considers and recommends to the Board any changes to the benefits and terms of the Company's retirement programs as well as actuarial and trustee reports. Each quarter, the committee reviews the performance of the fund manager. This year the committee changed managers, hiring Jarislowski Fraser, a top ranked fund manager. The committee also considers the actuarial funding status, the actuarial and management assumptions and the Company's pension contributions. It is comforting that with the current turmoil in corporate pension plans, this committee has been appropriately conservative and diligent in monitoring the plan and fund.

The Human Resources and Compensation Committee is comprised of four independent members including Frank Coleman, Gary Lukassen, Stan MacKay and Donald Beaumont, who acts as Chair. All members have extensive experience with human resources and compensation practices and three have significant retail industry experience. This committee reviews all HR and compensation programs in the Company and devotes a lot of time and energy to reviewing executive compensation plans. The chair and members of the committee have had many private meetings with compensation consultants and have conducted a great deal of research to ensure that compensation programs are competitive, but also fair to you, the Fund's owners. The committee ensures that NWC pays for performance. NWC has no options outstanding. Their Unit Appreciation Rights plans, now discontinued, have always been expensed as in-the-money amounts have accrued. We are not issuing any new rights under this plan but prior rights outstanding continue to accrue as the NWF unit price appreciates. Our long-term incentive plans are now centred primarily around the issuance of loans or interest subsidies to encourage managers to directly purchase units in the Fund. This helps to ensure that management thinks like you – the owners of the business -- while providing appropriate long-term incentives.

The committee also does valuable work ensuring that we have appropriate Aboriginal employment goals and achievements. As the largest private sector employer of Aboriginal peoples in Canada, we are pleased that NWC has taken a leadership role in fostering management opportunities for Aboriginals. There are now over 200 Aboriginals in management positions at NWC, compared to 62 positions 10 years ago. The committee also monitors management succession, training initiatives and other HR practices.

The Governance and Nominating Committee is comprised of four independent members including Nellie Cournoyea, Keith Martell, James Oborne and Iain Ronald, who acts as chair. This committee monitors the performance of the Board and its chair. This includes a peer review process. The committee also considers the membership of, and new nominees to, the Board and its committees, and ensures that the Board has adequate skills and attention to support and monitor the Company's activities.

Overall, we feel that our compliance with governance guidelines is exemplary. We have been especially fortunate to have had Iain Ronald as chair of this committee. Iain has had unique experience in senior board governance roles in a number of major Canadian corporations. As the senior officer at Hudson's Bay Company with responsibility for Northern Stores and then as a director of NWC since its inception in 1987, Iain provided important knowledge and continuity in our early years. He chaired the Board from 1994 to 1997 and has been active on all the Board committees. Iain will be retiring from our Board today and I would like to thank him for his tremendous contribution to the governance and success of The North West Company over more than 16 years. Thank you Iain.

Another key component of our public affairs and community relations is the Aboriginal Business Relations Council. The members include Board members, Stanley McKay and Nellie Cournoyea, as well as Tagak Curley, Phil Fontaine, Charles Fox, Elijah Harper and Don Robertson.

Turning to the performance of NWF as an investment, I am pleased to report to unitholders that the Fund continues to meet its key goal of delivering top quartile investment performance. NWF produced superior returns in the past year and has done so for the past five years.

For the five years ended January 31, 2003, NWF had a total return of 142%, compared with 6% for the

TSX composite index and a loss of 37% for the TSX retailing group.

This 142% total return was comprised of unit price appreciation of 48% with cash distributions accounting for 49%, and a compound return from the reinvestment of cash dividends and distributions totaling 45%. The average annual return for the past five years was 28.4%.

In 2002, the total return was 32.9%. 2002 was another good year for income trusts as a whole, so NWF was in good company, but we were also pleased that we produced top quartile returns among retailers, the TSX composite index and the TSX SP Income Trust Index. The publication *Supermarket News* reported NWF as the top performing retail stock in North America for 2002.

The unit performance is based primarily on the Company's strong operating results and the long-term growth in earnings. The 59% improvement in trading volumes in our units in 2002 and further increases in 2003 also help to improve unitholder value. The unit issue in 2001 increased our float and helped attract a larger analyst following which increased the liquidity of our units. This superior performance has continued into 2003.

There may be short periods of time when NWF will under perform the market, but I remain confident that our solid business fundamentals and exceptional management team will continue to deliver on unitholder value goals over the longer term.

I would now like to introduce our President and CEO, Edward Kennedy, who will report to the unitholders on the performance and long-term growth strategy of The North West Company.

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

Thank–you Ian and Good Morning.

At The North West Company our goal is to be one of the best small market retailers in North America. We measure our success by how well we attract more sales, profitably, from our customers, by whether the communities we serve believe we truly support them and by whether our people consider their work to be rewarding. When we make this all happen we are able to deliver attractive returns to our unitholders.

Ian has given you the picture on our unit performance. Now my job is to tell you about what we are doing to reach the next level so that we can sustain these numbers.

I am pleased to report, first of all, that we are on track and we are moving at a good pace, despite hitting some bumps along the way. 2002 was our fourth consecutive year of higher sales, cash flow and earnings. It was, even more, a year of construction work as we established our vendor alliance network and prepared for the roll-out of chain-wide new store training and technology while addressing competitive price pressure.

Before moving further into our financial results and our key initiatives, I want to explain the other essential elements of how we operate.

Our business is tailored to customers living in different types of remote communities, small towns and urban neighbourhoods, all of which are underserved by today's 'big box' retailers.

We compete with what we call our value offer. This means providing friendlier, more helpful service, superior convenience by being in-stock, at the right time, having the best local selection of current, everyday merchandise, all at the right price.

Our market focus and value offer gives us what we believe is a winning strategy and disciplined business framework. That gets us to first base. Then the real work starts in the very capable hands of our people and their persistent efforts in making North West a great company.

Last year our three main businesses, Northern Canada, Alaska and Giant Tiger, were at different stages but each did their share to produce solid overall results. At the top line, we continued to focus on growth with, and within, our existing markets. Northern Canada led the way with a same store gain of just over 31.2% contributing to a total sales increase of 6.5%, to $750 million.

Trading profit growth was softer in 2002, increasing by 2.6% to $72.3 million, compared to our long-term average of 6.0%. Alaska's trading profit gains carried most of the load, starting with our wholesale division, Frontier Expeditors or FE, led by Bob Galosich, who is pictured here. FE's revenues grew by one third, more than offsetting a loss of tobacco sales for most of the year, while margins recovered to historical levels after high debt loss in 2001. FE has now returned to our fold as a profitable, leading full-service distributor to small, independent stores.

So thank-you Bob and welcome back! Unfortunately we have to settle for Bob's picture today because he's got another aggressive sales target this year and he's back in Alaska making sure that he hits it.

This past November marked the 10th anniversary of our acquisition of Alaska Commercial Company. I know that many unitholders have followed our performance in Alaska with interest over this timeframe. In the early years there was lots of concern, as we invested heavily in new stores, faced a determined competitor and watched other Canadian retailers exit the U.S.

Today I'm pleased to say that we've succeeded by playing to our strength of serving northern shoppers better than anyone else. It was especially satisfying that in 2002 Alaska achieved a return on net assets of 11.6%, within range of our 14% level in Canada. Alaska has produced after-tax cash returns of almost $20 million since 1998, net of new investment. We all owe a debt of gratitude to the more than 700 employees in Canada and Alaska who have worked so hard to make this a healthy part of North West.

While the story in Alaska last year was about margin improvement, in northern Canada gross margin rates dropped 1.5 points as we pursued more aggressive pricing, managed the transition to our new supplier alliances and streamlined working capital.

Our aggressive pricing stance isn't new. We are committed to profitably keeping a number one market position in as many locations as possible. Protecting this position requires careful pricing compared to local and out-of-town competition.

Last year I believe we chased our customers with prices that were too low to be offset by higher sales. While we had great merchandise, thanks to our marketing team and our alliance partners, we were just a little anxious in wanting to share it with our customers before making sure the price was right for us.

The third-party alliances we introduced in 2002 essentially changed the way we do business for about 20%, or $100 million, of our northern Canada revenue base. This helped stimulate sales and we picked up over $1 million in annual cost savings by consolidating our distribution centers. On the other hand, we suffered transition pains related to merchandise flow, shipping too much and too little of the right product. The biggest challenge was on the margin side and we are still working on this as we absorb inefficiencies, get our markdowns back in line and adjust our pricing.

This year we have no new major alliances on our agenda and that means we can focus on making the existing ones work. I am very excited and optimistic about this. As I said last year, Giant Tiger, *Dufresne Furniture and Appliances* and *A. De La Chevrotière Ltée.*, are some of the best regional retailers and distributors in North America. They are the right partners to help us get to a level that would be very hard to attain profitably on our own.

Working capital efficiency was another highlight in 2002. Last year we used new tools to better track basic merchandise flow and the daily cash used by our Northern Financial Services business. We reduced warehouse inventory by 23%, enabled by our alliances, and we joined with Giant Tiger to source and ship seasonal merchandise closer to our selling periods.

These activities contributed to a 10% improvement in inventory turnover and helped deliver record cash flow from operations of $59 million, up 6% from 2001.

More cash flow from fewer assets is a pure productivity gain. This was reflected in our return on net assets, which improved to 13.4% from 12.7%. This year, we continue to work on a $10 million inventory reduction target in Northern Canada and we are bringing inventory streamlining to our Alaska business.

With more efficient working capital and lower interest rates, we were able to reduce interest expense by almost $4 million last year. This year, even with a further reduction in debt, higher rates in Canada will mean higher finance costs, but still well below the levels of two and three year ago.

Net earnings in 2002 finished at $34.5 million, up 19.0% and in line with our internal goals. Fully diluted earnings per unit grew by 10% to $2.14. This was our largest earnings increase since 1998, which was our first full year as an income trust.

Financial strength equals flexibility and is another important principle at North West. Last year we added some more strength by refinancing $65 million U.S. in long-term debt and negotiating $85 million in new bank credit facilities. Over the past five years, equity has increased by one third to $219 million and debt has fallen by over 20% to $137 million. As a ratio of debt to equity, this translates into 0.6:1 at year-end 2002 down from 1.1:1 in 1998. Over this period distributions to unitholders have increased from $1.00 to $1.56.

Turning to 2003 and this year’s first quarter, consolidated sales were up 4.2% to $179 million. Sales in Canada were strong, increasing 7.5% and up 6% on a same store basis. Canadian same store sales have improved over each of the past five quarters, in contrast to a deteriorating trend within our industry. We believe this shows the upside we have through better execution and through bringing more appealing merchandise to our customers. Our core customers’ income, although lower than average, is also more stable. This translates into more consistent spending that is less affected by broader economic conditions compared to middle income shoppers across North America.

In Alaska sales were up marginally in U.S. dollars but were down 6.0% in Canadian dollar terms. Compared to Canada, our Alaska stores are more affected by the fortunes of resource industries, in this case continued softness in the commercial fishing industry.

At our trading profit line, lower margins and higher expenses offset our Canadian sales performance resulting in a 10% trading profit decline. While margin rates improved from year-end, they are still below last year's first quarter, in part because a cooler Spring again hurt our higher-margin seasonal business. Cost increases in areas like insurance, incentive plans, fuel-related expenses and our store training program also had an impact and this was exaggerated by the fact that the first quarter is traditionally our lowest sales period.

An example of this was our Unit Appreciation Rights, or UAR plan. This plan is a long-term incentive with over 100 senior managers taking part. As Ian explained, we expense UAR costs as the in-the-money amounts are accrued. The plan's total cost is not excessive and it has worked well to attract and keep quality people over the past six years. In the first quarter this year UAR expenses were unusually high due of a sharp rise in our unit price and this accounted for a large part of our Canadian trading profit shortfall.

In Alaska, trading profits were up 23.6% in U.S. dollars and up 14.7% in Canadian dollars. Margins held firm and expenses were tightly controlled in what is shaping up to be a very difficult sales environment compared to our Canadian markets.

Net earnings for the quarter, reflecting our Canadian trading profit and slightly higher interest expense finished at $0.35 cents per unit compared to $0.39 cents last year.

2003 is a year of fine-tuning the work on our plate in Canada and getting even more efficient in Alaska. Our focus will be on the shorter-term margin and expense issues I've discussed and on reaching our next level in the years ahead.

At the top of our "next level" list are three initiatives:

1. Elevating our stores to best practice standards.
2. Installing superior store systems.
3. Accelerating the roll-out of our Giant Tiger stores.

After a year of development we've identified dozens of work practices that reflect the best of what we know and we've learned about running stores in the North. We've set up three teaching stores and we've started to bring in managers to complete detailed, practical training plans. We're measuring results to ensure we get a return on our average training cost of $10,000 per manager. We're already started to see the payback as proven sales, staff development and expense control methods take hold. We're confident that this investment will give us a major advantage when, by the end of 2005, we have over 400 managers, each performing at their own next level.

Many of the best practices in our stores are built on new information systems that we've begun to install in our northern Canada and Alaska stores. For our customers this means a faster, more dependable checkout experience. For store staff and management it means the elimination or automation of activities like scheduling, store-level accounting, price file management, merchandise receiving and credit card administration. One small example of this last activity is our going live in April with centralized, third party printing and mailing of Northern Financial Services credit card statements. This was work that up until then could be done in our stores, taking precious time away from selling.

Our new store systems will cost $15 million and they'll be installed over the next two years. We expect a $5 million annual return with a life span on this technology of at least seven years. Not included are the future benefits of creating a seamless information connection to our stores. These include the ability to upload and track individual customer spending profiles and download learning material to our store-level people.

Shortly after last year's annual meeting, we announced our decision to move forward with a plan to open up 70 Giant Tiger stores under a Master Franchise Agreement with *Giant Tiger Stores Ltd.* of Ottawa. Since then we've opened our third store, here in Winnipeg, and announced plans to open four more in 2003, starting with a Regina location on June 14^{th}. At each of our three stores the customer response has been impressive, clearly demonstrating that there is room for a more convenient, fashion and trend-focussed discount store, here in western Canada.

In addition to the positive customer response we are receiving, we are very encouraged that our store standards are up to par with Giant Tigers' stores in the East. We consider this to be an achievement because, even with Giant Tiger's experience and support, we're still new at the business of discount retailing. As we gain more knowledge and experience, we want to accelerate our growth plans. We expect to open larger stores because these are proving to be the most profitable formats, starting with the expansion of our first Winnipeg store earlier this spring. We also expect to open more stores faster with a goal of at least 20 within three years so that we can make a meaningful contribution to our consolidated trading profit by the end of 2005.

Finally, our Northern Canada stores share the same core food product mix as Giant Tiger. This created a great leverage point for reducing our Northern Canada buying costs and investing the savings to get sales, improve margins or a bit of both.

In concluding my remarks, I'd like to acknowledge an important change in our senior management ranks. In addition to the Board changes highlighted by Ian, we recently announced that Léo Charrière would be joining The North West Company, coming over from his position as President and CEO of TruServ Canada. Leo will take on the position Executive Vice-President and CFO. He brings a great breadth of rural retailing and financial skills to our team.

The other half of this announcement is the retirement of Gary Eggertson after more than 30 years with North West and its predecessor, the Northern Store Division of the Hudson's Bay Company. Gary is North West's first and only CFO until later this afternoon when Leo assumes the reins.

Gary and I have been through every major venture at North West together and, like everyone who has had the privilege of working with Gary, I can truly say that he has made my work more rewarding. I'd also say that behind every solid, growing income paying company like North West is a CFO like Gary who manages risk and makes sure that CEOs like me don't spend more money than we need to grow the business.

Gary, on behalf of the whole North West family, thank-you for playing such a large role in helping build this Company. I wish you the best as a very active retiree and, of course, as a continuing unitholder of North West Company Fund.

That concludes my remarks. 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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