North West Company Fund
Annual General Meeting of Unitholders
June 3, 2004
Winnipeg, Manitoba

Speech by Léo Charrière, Executive Vice-President, CFO & Secretary, The North West Company

Good morning ladies and gentlemen.

The North West Company's 2003 performance was good on most financial measures as we continued to deliver modest bottom line growth, a stronger balance sheet and higher cash distributions to our unitholders.

In 2003, overall sales were up 4.4% to $783 million. Retail conditions in northern Canada were softer than we expected due to less employment income from infrastructure projects and more consumer shopping outside our communities. In this environment the highlight was our success in growing food sales at a healthy 5% comparable store rate while our challenge was getting profitable sales from general merchandise categories like electronics and apparel where sales are more discretionary.

In Alaska, sales increased 1.3% on a comparable 52-week basis as we felt the effect of a 28% decline in the Alaska Permanent Fund dividend paid each fall to state residents.

In the South, our Giant Tiger stores continued to attract more shoppers. Comparable sales grew 12.6% and total sales doubled to $47.2 million with the opening of new stores in Winnipeg and Morden, Manitoba; Edmonton, Alberta; and Regina, Saskatchewan.

Overall, trading profit grew in 2003 led by excellent margin and cost management in our Alaska stores coupled with another great year from our wholesale division, Frontier Expeditors. In Canada, our northern store training investment, Giant Tiger store opening costs, generally higher operating expenses and weak margins during the first half in general merchandise, all contributed to a slight decline in Canadian earnings before depreciation, interest and taxes. The net effect was relatively flat trading profit for The North West Company over the past two years while we have invested for future growth.

Net earnings for 2003 were up 3.7% to $35.7 million and fully diluted earnings grew by the same percentage to $2.22 per unit. Contributing to the net earnings increase was a decline in interest expense of 5.8% due to lower net debt levels, offset slightly by an increase in our average cost of funds. The average cost of borrowing on interest bearing debt increased 23 basis points to 4.68% due to the rise in Canadian rates throughout 2003. Income tax expense was flat to last year in dollars with our effective tax rate down by one percent. Canadian federal income tax rates decreased by 2% contributing to the lower effective tax rate.

2003 cash flow from operations increased to $59.5 million while return on net assets moved up half a percent to 13.9%, the highest level in ten years and our fifth consecutive year of asset productivity gains. Behind these numbers was a 9% reduction in inventory that contributed to a 12.5% increase in net cash flow before capital expenditures and distributions. While inventories can't drop indefinitely, we believe that excess inventory continues to be an opportunity within our northern retail businesses and we expect it to be a source of capital for at least two more years.

Our growing financial strength ensures that we can maintain our flexibility to reinvest for higher growth, to increase distributions to unitholders and to withstand any downturns to our business. In 2003 we continued to build this flexibility, while funding an extra distribution of 34 cents per unit at the end of the year.

Over the past five years, equity in the business has increased by 35% to $230 million while debt has fallen by 25% to $128 million. As a ratio of equity, our debt levels have been reduced by almost half, to

0.56:1.

Our balance sheet strength, stable earnings base and the need to continually reinvest for growth were considered by the Trustees, with input from the Board and Management, when they set a new distribution policy at the March Trustee Meeting. This policy sets a guideline for the Fund to distribute approximately 50% of the previous year's operating cash flow.

Our current distribution level of $1.80 per unit is within the policy. Over the past five years, distributions have been below our new target level, with the exception of the special distribution last year.

Looking at how the North West Company Fund's units have performed for investors, 2003 was another exceptional year, with total returns – including the distribution payments – of 24%, after a 33% total return in 2002. This kept us ahead of most retailers, and with a five-year return of 247%, we remain one of the best of all retail industry investments.

While 2003 was another good year for income trusts as a whole, a few business income trusts stumbled. This has placed more investor attention on the quality of earnings that support the distribution levels of various trusts. We feel that this focus has been -- and will continue to be -- positive for the North West Company Fund.

North West has a track record of stability and real potential to grow the bottom line. This, we believe, offers unitholders more earnings upside. It also results in less downside pressure on our unit price, whether due to nervousness about higher interest rates or concerns created by poor performance of other companies in the business trust sector.

Let me turn to the results for the first quarter of 2004. Consolidated sales were up 2.8% to $184.4 million. Excluding the negative impact of a stronger Canadian dollar on our U.S. sales, sales increased 5.0%, led by our Giant Tiger store group where sales more than doubled to $15.9 million.

At Giant Tiger, stores open for at least one year kept up the momentum from 2003 and continued to demonstrate strong customer appeal, especially in larger centres. Comparable sales increased 13.5% and most new stores exceeded their sales targets.

Alaska retail sales rebounded to a 5.9% comparable stores increase. Alaska appeared to follow more buoyant spending trends across the U.S. helped by factors like higher income tax refunds related to last year's tax reductions. Continued market share gains in a handful of key locations also contributed to Alaska's best ever first quarter measured in U.S. dollars.

Northern Canada food sales, which make up over 70% of our northern Canada business, were up 3.2% on a comparable store basis, down slightly from last year's strong first quarter increase of 4.8%.

Our one weak sales area in the first quarter was in northern Canada general merchandise, which dropped 8.8% after a 6.8% increase in the same quarter last year. We expected a slight decline as we continued to offer less price discounting compared to previous years. We did not anticipate a very cool Spring and the slowdown in spending that we've seen in many northern communities.

Trading Profit dollar growth in the first quarter was driven equally by Canada and Alaska and was up 10.6% to $14.6 million.

In Canada, trading profit was $12.3 million, up 5.8%. Improved general merchandise margins and good expense control in northern Canada more than offset higher training and related expenses in both our Giant Tiger and northern retail businesses. Canadian results also benefited from lower expenses from our Unit Appreciation Rights plan, which is nearing its expiry.

Alaska trading profit was $2.3 million in Canadian dollars, up 44.2% from last year and up 60.5% if we exclude the impact of a stronger Canadian dollar vs. the first quarter in 2003. Similar to Canada, Alaska achieved higher gross profits in general merchandise. The difference was that Alaska also achieved an increase in food gross profit rates and through good management of staffing costs, achieved an absolute decline in store expenses.

Earnings for the quarter were $6.4 million, up 15.2% from 2003. Earnings per unit were 40 cents, an increase of 14.3% on a fully diluted basis.

With the exception of general merchandise sales in northern Canada and store opening expenses in our Giant Tiger business, our performance indicators are running ahead of 2003.

We are continuing our work on the expense reduction side and we project a recovery in northern Canada general merchandise sales this fall. Combined with our continuing growth in food sales and the Giant Tiger store expansion, the North West Company Fund should have another successful year.

Thank-you.

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

Good Morning.

2003 was another very productive year at The North West Company. As Léo reported, it was our fifth consecutive year of higher sales, cash flow, earnings and superior returns to our investors.

While the numbers give an image of steady, modest growth, the activities underway at North West paint an even better picture that I want to share with you today – a picture of a company that has a clear strategy, as our customers' Everyday Store, with potential to expand at a faster, more profitable rate in the years ahead.

In 2003 we worked with our Board to clarify and confirm our long range plans. We started by recognizing that North West is a growing network of interrelated businesses connected by the everyday shopping needs of our customers.

The "core" remains our retail store base in northern Canada and Alaska. These stores share the same remote market customer base, logistics and general store-type merchandise mix. They also run on the same technology platform and on common work methods at the store level.

Our emerging businesses are our Giant Tiger stores and wholesaling to independent retailers through Frontier Expeditors and Crescent Multi Foods. Today these emerging businesses represent only 15% of total revenues at North West but they offer the most upside for top line growth.

In the middle we have our support services, ranging from food distribution, logistics and information systems to store planning and construction. The key here is being able to share and reduce costs, whether through internal services or through external alliance partners.

When we look five years ahead we see revenues growing to well over $1 billion, driven by same store sales in our northern store groups, new store growth at Giant Tiger and new account growth in wholesaling. Together, Giant Tiger and wholesaling are expected to double their share of total Company sales to over 30% by 2009.

Turning first to our northern retail groups, the plan for growth is built on four strategies:

- Higher sales per capita;
- Operating each store as if it were the only store we have;
- Offering more exciting, new and exclusive merchandise; and
- Achieving lower costs through better systems and more productive work.

In 2003 we looked carefully at our sales on a per capita basis. With few new locations available in the North, we wanted to assess the long-term sales potential in our existing markets. Our research told us that the population will continue to increase at a very attractive rate, growing by 35% over the next 15 years. Combined with modest inflation, we expect this to produce annual income growth in the range of 4-5%.

The North will still be a strong youth market, with large families, but the fastest growing age segments are shifting to those 40 years and over. With this change, we see healthy living products and services increasingly in demand. One way we plan to pursue this opportunity is by opening pharmacies in our largest stores that serve the local market and outlying smaller communities. We currently have two pharmacies operating under this model and we see potential for many more.

Promoting Healthy Living is also a community value at North West. Through Team Diabetes Canada, a selected group of North West employees take part in an international marathon each year. Last year's Honolulu marathon team raised over $100,000 for Diabetes research and prevention. Two of our team members, Dora Bland of God's Narrows, Manitoba and Shirley Chiskamish of Chisasibi, Quebec, have applied their experience to inspire others and, using our store as a resource base, have started walking clubs in their communities.

Convenience is another trend that opens new avenues for us in the North. Our customers have become more mobile and, especially in our 46 road accessible locations, they expect more from their local stores. We see these stores changing to super convenience outlets with full grocery selection enhanced by gas bars, financial services, ready to eat fresh prepared foods and extended hours. Looking at sales of gasoline, for example, we expect to grow the number of outlets we have today from 36 to well over 50.

Our second growth strategy is based on the principle of approaching each store as if it were the only one we operate. This recognizes that in the North we are, first and foremost, a local retailer serving small markets, each with unique selling opportunities. In this environment, nothing comes close to matching the performance of a trained, motivated and empowered store team, in touch with their customers and led by a highly-skilled manager.

To achieve this capability we first developed Best Practice training stores that last year graduated 85 store-level managers. We've reinforced this in 2004 through more aggressive recruiting and a more in-depth new store manager-training program.

Also, by the end of next year, our new in-store systems will give our managers the computer-based tools to locally order the seasonal and trend merchandise they want in their stores.

A key component to this new approach to running stores is a profit-sharing store incentive plan that we are in the second year of testing. The objective goes to the heart of The North West Company's enterprising spirit. We want to provide more reward for store managers who, as true business partners, grow their business profitably. So far the results have been very encouraging.

Exciting, new and exclusive merchandise is what almost every shopper wants more of, even from their Everyday Store. On this measure, northern customers have told us that our merchandise is often too boring and too predictable. That's tough to take when you've built your business on principles like being in stock on basic merchandise.

Today we recognize that being in stock is still an imperative but that hardly anything is basic anymore and almost everything is fashion and trend in a world with *Atkins* diet bread, *Omega* eggs and made to order PCs.

To enliven our merchandise mix, we plan to shift selling space and expertise to more seasonal and trend items; be first to our markets with new products and fully leverage our exclusive vendor and alliance partnerships with the likes of *Rogers Video*, *Honda*, *Giant Tiger* and *Dufresne Furniture,* as well as our own-control brands like Exclusive Selections food products and Northern Financial Services.

Our fourth northern growth strategy is to be a lower cost retailer through innovative new work methods and systems, from our head office to our stores. With our base best practices and technology now largely in place, we have an almost limitless opportunity to streamline costs by tapping the ideas of our people.

Here are a few examples. In 2004 we will invest $1.3 million on new lighting, heating and other energy efficiency projects that will deliver a three-year or less payback. We will also invest $2.8 million on a private satellite-based communications network. This will give us for the first time broadband access to and from our stores, enabling faster, richer information flow as well as cost efficiencies. In the area of debit and credit card authorizations, 8.3 million annual transactions will reduce in time from 50 seconds to five and we will eliminate over 750 phone lines from our stores.

We are also starting to combine office, financial services and product checkout activities around a single workstation in our stores. We are cross-training our people to handle more diverse tasks and are benchmarking similar stores to set new standards for controllable costs. Finally, wherever possible, we continue to take non-selling activities out of our stores.

Turning to our Giant Tiger store venture, we see this as a priority for retail growth outside the North over the next five years. We now have eight stores and will open two more this year: one on west Portage Avenue in Winnipeg and another in Saskatoon, which will be our first ground-up, new construction store.

In 2005 we will open at least six stores, including Brandon, Manitoba; Estevan, Saskatchewan and a fifth store in Winnipeg. Besides looking for great, low-cost sites, our rollout plan is to cluster stores to maximize freight efficiencies and to complement our northern store trucking routes.

Léo reported on the excellent sales growth we've achieved with our Giant Tiger stores. This tells us we are a winning alternative to big box discounters like *Superstore* and *Wal-Mart*.

Next is getting Giant Tiger to a point where it contributes meaningfully to our bottom line. We are still two years away from this goal, but we're getting closer as our stores mature and more stores are opened to share start-up overhead costs.

Wholesaling is the third exciting growth area we've identified. We are starting with our two principal businesses, Frontier Expeditors, based in Anchorage, Alaska and Crescent Multi Foods, which is in the process of relocating to an expanded facility right here in Winnipeg.

Frontier and Crescent are both focused on serving independent grocery and general stores. These accounts are the survivors of 20 years of independent food store consolidations and closures. In this market we compete with integrated wholesalers owned by large chains like *Sobeys*, *Safeway* and *Loblaws*. Our advantage is that we are local and truly independent, just like our customers. We don't compete with them and, as a smaller supplier, have more room to be service focused.

We're planning to build slowly, one account at a time, learning along the way. Our success to date tells us that if we give personal attention to our customers and help them succeed as an independent they will reward us with even faster growth.

Compared to our northern retail and Giant Tiger opportunities, wholesaling will be the smallest contributor over the next five years. However, by 2009 we expect it to generate between $70 and $100 million in revenues and be ready for the next stage.

Over the past five years, The North West Company has been on a path to build, first, a better, and then a bigger business. While we've improved our profitability each year, we have not grown our bottom line very quickly.

Over the next five years, our overriding objective is sustainable earnings growth, building to a faster rate. We expect each North West business will create a healthier balance of top line sales growth, gross margin management and cost streamlining.

We're pleased so far with our 2004 results, considering the poor spring sales climate we've faced in northern Canada, both weather and income-related. We have initiatives underway to introduce new merchandise, open new stores, develop meaningful new training and further streamline costs. Our path for the next five years has been fine tuned and clarified.

We are confident of our plan, our people, our resources and our ability to execute. We look forward to reporting to you on our progress each quarter and at this time next year.

Before concluding, I'd like to recognize a special achievement at North West. Last year I highlighted the performance gains of the Alaska Commercial Company. 2003 was another successful year for us in Alaska. What you don't see are the people behind these numbers, starting with excellent work of AC's President, Jerry Bittner. Jerry joined Alaska Commercial eight years ago as Vice President of Marketing before being appointed President. He is a consummate, world-class merchant and a tremendous motivator. Early next year Jerry will be retiring. I'd like to take this opportunity to acknowledge Jerry's leadership, his results and his success in building a management team that is capable of lifting AC to even higher levels. Jerry, thank-you.

Thank you very much 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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