North West Company Fund
Annual and Special Meeting of Unitholders
June 9, 2005
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 2004 performance was positive 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 2004 overall sales were up 0.8% to $789 million. 2004 was a 52-week year compared to 53 weeks in 2003. The sales increase was 2.6% on an equivalent 52-week period and 4.0% if we exclude the impact of a stronger Canadian dollar.

Retail conditions in northern Canada were stable. In this environment, we had moderate food sales growth of 2% on a comparable store rate.

A highlight for the year was reversing the negative general merchandise sales trend in northern Canada from a 7.9% decrease in the first quarter to an increase of 5.9% in the fourth quarter. This was due to a greater focus on lower-cost product sourcing and more current offerings.

In Alaska, sales increased 3.7% on a comparable 52-week basis as a result of strong food sales growth of 5.7%. A 17% decline in the Alaska Permanent Fund dividend paid each fall to state residents contributed to a decrease of 3.5% in general merchandise sales.

In the South, our Giant Tiger stores continued to attract more shoppers. Comparable sales met our expectations and all but one of our stores open for more than one year continued to improve their top and bottom line performance. During the year we opened new stores in Winnipeg, Manitoba and Saskatoon and Moose Jaw, Saskatchewan.

Overall, trading profit grew 5.2% in 2004. Our Canadian operations led the way with improved margin rates in general merchandise as a result of better inventory control, lower buying costs and lower markdowns.

In Alaska, trading profit decreased compared to last year because of a gain from insurance proceeds realized in 2003. Excluding this gain, trading profit in Alaska increased 13.2%. Strong food sales combined with better margins contributed to this increase.

Net earnings for 2004 were up 4.3% to $37.3 million and fully diluted earnings grew 4.5% to $2.32 per unit. A decline in interest expense of 8.5% due to lower debt levels contributed to the net earnings increase. The average cost of borrowing on interest bearing debt decreased 10 basis points to 4.6% due to the reduction in U.S. debt throughout 2004. Income tax expense increased by $1.3 million over the previous year with our effective tax rate up by 160 basis points. The increase in the effective tax rate is due to U.S. withholding tax of $815,000 Cdn on dividends paid by Alaska Commercial Company to The North West Company. Excluding the tax impact of the dividend, net earnings increased 6.6% over the previous year.

2004 cash flow from operations increased to $62.8 million while return on net assets moved up 70 basis points to 14.8%, the highest level in 11 years. Net assets employed increased by $800,000 due to increases in receivables and inventories. Those increases were mostly offset by a lower cash position, decreased property and equipment balances and higher payables. We have new initiatives underway to reduce inventories as we believe there is an opportunity to improve our inventory productivity and free up cash for other uses.

Over the past five years, equity in the business has increased by 39% to $236 million while debt has fallen by 30% to $121 million. As a ratio of equity, our debt levels have been reduced by half to 0.51:1.

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. This allowed us to increase regular distributions by 15% to $1.80 per unit in 2004 and another increase of 4.4% to $1.88 per unit in 2005. This level of distribution is well within the guidelines set by the Trustees to distribute about 50% of the previous year's cash flow from operations.

North West has a track record of earnings and cash flow 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.

Investors are placing greater emphasis on quality of earnings and the fundamentals that support the distribution levels. This focus has been – and, we feel, will continue to be – positive for the North West Company Fund.

Now to the results for the first quarter of 2005. Consolidated sales were up 6.4% to $196.2 million. Excluding the negative impact of a stronger Canadian dollar on our U.S. results, sales increased 8.2%. Strong sales in both food and general merchandise in all of our banners contributed to the sales increase.

Canadian food sales were up 4.5% on a comparable store basis, up from last year's first quarter increase of 4.1%.

Canadian general merchandise sales were a positive factor in the first quarter increasing 7.6% on a comparable store basis after an 8.1% decrease in the same quarter last year. A stronger merchandise offering and better pricing resulting from low-cost product sourcing contributed to this increase.

Alaska retail sales had a strong 7.1% comparable stores increase. Frontier Expeditors had an 8.2% increase after a weak last half of 2004. Continued market share gains in a handful of key locations contributed to Alaska's best ever first quarter measured in U.S. dollars.

Trading Profit dollar growth in the first quarter was driven equally by Canada and Alaska and was up 14.8% to $16.8 million.

In Canada, trading profit was $14.1 million, up 15.0%. Excellent expense control in Northern Canada more than offset increased energy-related costs. Improved margins in the Giant Tiger operations also contributed to the trading profit improvement.

Alaska trading profit was $2.7 million in Canadian dollars, up 13.9% from last year and up 23.4% if we exclude the impact of a stronger Canadian dollar versus the first quarter in 2004. Alaska achieved higher gross profits in food sales. Even though general merchandise sales increased, gross profit dollars were lower than last year due to clearance activities to reduce excess merchandise carried over from weak 2004 fourth quarter sales. Expenses as a percentage of sales decreased by over 100 basis points.

Earnings for the quarter were $7.7 million, up 21.3% from 2004. Earnings per unit were 48 cents, an increase of 20% on a fully diluted basis.

Our performance indicators are running ahead of 2004 except for general merchandise gross profit dollars in Alaska, which we believe will come into line in the current quarter.

We believe our sales momentum will continue into the second quarter. We are continuing our work on cost streamlining to achieve productivity gains. Combined with the strong contributions from all of our banners 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.

As you can see from Leo's presentation, 2004 was a solid year financially and 2005 is off to one of our strongest starts ever. We've now produced six consecutive years of higher sales, cash flow and earnings. Over this timeframe, our investors have earned an average return of 32.2% each year and a cumulative return of over 300%, made up of income distributions and gains in our unit price.

It's a pleasure to be here again, reporting solid numbers like these. While we know we can't take credit for the popularity of income trusts, we know that we have a team of great people at North West, who together continue to make progress towards even better results.

This morning my goal is to discuss the major work we have in front of us, linked to our strategies and long-term goals. I will also offer some insight into the cover theme of the 2004 Annual Report – Relationships That Matter. Then I would be happy to entertain any questions you may have.

I'd like to start with a brief comment on the North's long and short-term economic outlook.

First, we continue to expect healthy population growth in the North for at least the next 15 years. Second, we will benefit from long-term economic activity and income transfers tied to pipeline construction in Alaska or the Mackenzie Region of the Northwest Territories. Third, we are optimistic that the funding needs of the northern territories and First Nations of Canada will receive more attention from the federal government in a minority situation. Fourth, in Alaska the state's fiscal position is starting to look robust again, thanks to higher oil revenues. It will improve even further if new exploration lands are opened for drilling.

Overall, while we expect to see fluctuations by region and communities, the picture is a bright one with only one cloud --- high energy prices.

The North is more susceptible to fuel price shocks than the South because diesel generation is used for power, air is used for transportation and, of course, it's cold. All of these factors affected our results in 2004 and dampened what would have been an even stronger first quarter for us this year.

We're addressing the challenge of higher fuel costs in a number of ways. Our focus on opening price point and lower-cost products is helping our customers keep up their buying power. Conservation efforts are also holding the line on heating and lighting cost increases. From a timing standpoint, we expect to cycle through the biggest increases by the third quarter, unless prices spike even higher.

In our northern retail group, our work is centered on the plan for growth that I presented last year. This plan has four strategies:

- To operate each store as if it were the only store we have;

- To offer more exciting, new and exclusive merchandise;
- To achieve higher sales per capita; and
- To lower our costs through better systems and more productive work.

When it comes to our stores, the best value we can offer is through what we do locally for each community and uniquely for each customer we serve. To our communities and customers, we are not The North West Company or the North West Company Fund. In Happy Valley, Labrador, we are David Pelley and the staff at the local NorthMart, pictured here. In Wunnumin Lake, in northwestern Ontario, we are George Franklin and his team at the Northern store. In King Salmon, Alaska, we are Kathy Chaffee and her AC Value Center crew.

Each year we get better at helping our stores reach the next level. In 2003 we launched Best Practice training with 85 managers. In 2004, we rotated another 60 managers through three weeks of Best Practice training at two store locations. We worked with them on learning new techniques for leading their store teams and getting sales. The investment was $7,000 per person and the return started immediately when each manager returned to his or her home stores.

In 2005, we will train an additional 40 managers in Best Practices in northern Canada, we will introduce the best of Best Practice to our Alaska stores and we will improve the follow-up on each manager's back to store plan.

While Best Practice gives existing managers better skills, our new manager talent pool has also received attention. Until recently our main resource stream has been promoting from within our junior associate ranks. Last year, twenty more senior people were recruited to North West specifically for manager positions and placed in training programs of up to one year. This approach borrowed from the success we've had with similar programs in our Alaska and Giant Tiger stores.

This year our northern Canada goal is to recruit 35 people as managers in training. That's in addition to our annual recruitment needs of approximately 90 individuals from the South to the North.

The challenge is not simply to find more people. We are looking for candidates with the potential to maximize store performance, whether through the right local decisions about who to hire, what to sell or how to cultivate great customer service and community ties. As we raise the bar, recruiting, training and keeping these individuals will itself become a core capability at North West.

In tandem with building store skills, we are also changing our performance incentives. Beginning this year, our northern Canadian managers will be paid bonuses on a straight percentage of average profit improvement instead of being paid against budget. This more entrepreneurial philosophy is similar to that used in our Giant Tiger stores. Based on the test stores we've had in the program, we expect this change will be a powerful incentive to unlock more local sales growth.

Technology investments are helping create more productive and effective work in our stores. Last year we completed the installation of new point-of-sale and office systems in northern Canada and Alaska. The wide-band communications network that we announced in 2004 will be in place in all but a few Canadian stores by the end of 2005. Together, these systems will allow each store to directly order and receive merchandise using on line information. This is a key ingredient for achieving cost reductions and, again, being able to tailor what we sell to each market.

Our strategy of getting new merchandise in front of our customers is proving to be a catalyst for driving same store sales. We are very pleased with how the addition of Giant Tiger food volume enables us to introduce more value-priced items into our northern store mix. Pictured here are recently-launched private label products. They deliver lower costs, better margins and retail pricing that local competition is hardpressed to match.

New programs are also driving our sales gains in food. Year to date, for example, we are up 20% in our quick service restaurant business, led by a new coffee program and slush drinks. Slush drinks are of course better known in Winnipeg as Slurpees and, for kids, they are a true everyday need, if there ever was one. Between the coffee and the slush programs, we expect to hit well over $1 million in sales this year, from a base of practically zero in 2004.

Another great story is birthday cakes. We've built a new thaw and serve program and we've set a modest per capita goal of selling one cake for every 10 birthdays. Sales are trending to hit $500,000, up 130% from 2004. When we reach our modest per capita target in 2006, we'll have another $1 million in new business.

In general merchandise, we are able to sell a wide range of products and we try to be very opportunistic by market. Product newness fits with this plan. It enables us to capture the growth portion of a product category while avoiding tying up extra inventory in slower-moving, basic merchandise.

In the past, we've been cautious about how much emphasis we placed on trend merchandise in the North. If you get it wrong, it's an expensive journey to our clearance centre in Winnipeg. Today we believe that there's nothing that's too new for our customers in the North, if we understand local market needs. To confirm this, all we have to do is look at the success of the fashion business at our Giant Tiger stores in northern locations like The Pas and Thompson.

Just like our in food business, we've had success with new products and programs in general merchandise. Some examples are computers, electronic games and the expansion of our truckload furniture events. These three categories and events will alone add about $4 million in new sales this year.

New products deliver other types of less obvious value for our northern customers. In home entertainment, LCD TV costs are falling and will be at a very affordable price point by Christmas. Even better, these TVs weigh only 30 lbs. compared to 200 lbs. for a conventional TV. In the city, that means easier lifting from the store to your car. Up North it means a freight savings of up to $300. I think I see another $1 million sales opportunity.

Our momentum in general merchandise is also being driven by dramatically lower buying costs. Our merchandise people are spending more time sourcing in China directly. We're proving to ourselves that while alliances work very well for some products, we can act as a direct buyer and achieve even lower costs in many product categories.

For our customers, this translates into prices that are lower than anything they have seen before. For our competition, it means we've created another tough-to-beat advantage.

When we take a longer view, we recognize that growing sales per capita, consistently, depends on more than capturing trends and reducing costs. We also need to pursue entirely new businesses in the North that have high local spending but where we don't currently compete. Last year we identified motor vehicles and health as the most attractive of these opportunities.

In transportation, we've successfully tested the sale of used trucks and cars and in 2005 we will expand this business to store locations across Nunavut. Over the past year, we've also opened a handful of new gas outlets on existing store sites and we have five new locations for 2005.

Our health strategy starts with pharmacies. The vision is to offer pharmacy services and related health care products across the North. We plan to do this through a combination of conventional in-store departments and through remote prescription-filling enabled by our communications network.

It's taken longer than we expected to get our pharmacy plan off the ground. We are now very close to creating a structure with the right people to lead our growth in this key area.

The report on our Giant Tiger store venture is, on balance, a positive one. We've opened three stores this Spring for a total of thirteen. The customer response has been excellent as seen by the immediate appeal of our food offering. As stores mature, we are selling an improved blend of higher margin fashion and hardlines merchandise. Our short-term growth target is to get 20 stores open so that we have a critical mass to support our overhead and new store development costs.

The biggest challenge is finding affordable sites and store managers that have the ability to succeed in Giant Tiger's highly decentralized model. We believe that time and focus will get us to our goal by the end of 2006. In the meantime, Giant Tiger will be modestly profitable. Far from being a distraction, it will continue to be an essential element to achieving lower product costs and new growth in the North.

Before turning to our Annual Report theme, I'd like to tell you about some recent changes to our organization. At last year's meeting, I explained how The North West Company was a growing network of interrelated retail banners and businesses. The structure behind this was finalized at the end of January with the creation of our Northern Canada Retail, Giant Tiger West and Food Procurement & Wholesale divisions. Leadership changes were made in each operating unit, starting with the appointment of Carl McKay as Executive Vice-President of Northern Canada Retail and Scott Findlay as Vice-President and General Manager of Food Procurement and Wholesaling. At the end of March, Rex Wilhelm succeeded Jerry Bittner as President of Alaska Commercial Company and Scott McKay succeeded Ron Voldeng by moving into the role of Vice-President & General Manager, Giant Tiger West Retail.

With these changes, we've ensured a smooth transition in Alaska and at Giant Tiger. We have accountability for our Northern Canada retail business under one position. Finally, we've created a food division that allows us to be the best at buying for our own stores while pursuing a wholesale growth plan.

Last year I noted Jerry Bittner's forthcoming retirement and his contribution to AC's success. Today I want to acknowledge Ron Voldeng's tireless work and his resourcefulness in taking our Giant Tiger venture from the idea stage through to the opening of our first 10 stores. Thank-you Ron. Unfortunately Ron isn't here today because, for some reason, he'd rather be at his retirement home in Fiji than enjoying our weather.

Over the years, Ian and I have said a lot about our values. This year's Annual Report says it even better by offering a perspective on what The North West Company stands for in the words of our employees, customers, communities, suppliers and investors.

When you read the three customer stories in the report, what stands out is the value our customers place on being treated with genuine helpfulness, friendliness and respect. After hearing me talk about training, systems and merchandise, these stories bring us back to our true first priority of service.

I believe the employee section of the report is equally compelling. It demonstrates to me the personal connection that so many of our people, like Dee, Ashley and Calvin, pictured here, have with their jobs. Their stories also show the passion our people have for doing great work and how we each feel about the impact we can make at North West.

There are many unique aspects to community relations and the report gives readers a sense of how we play a supportive role. For me, taking the initiative is an important common theme to these community stories. In each example, someone at North West recognized a need that fit with our community values, and they made things happen.

In many companies, community programs are part of a head-office driven brand marketing strategy. At North West, we plan to just keep doing locally and regionally what we think is right.

Following this principle, I am pleased to announce that in the 30 Inuit speaking markets we serve in Canada, we will be changing our store name and signage this year to add the Inuit word “Niuvirvik” shown here, which translates into “a place to find things”. With this initiative, we are again setting the standard for other local retailers.

Suppliers are recognized in the Annual Report and I have to say that it’s about time. Apart from our alliances, like the one with Dufresne Furniture featured in the report, we’ve been pretty low key when it comes to explaining the importance of strong supplier partnerships.

A great supplier at North West is one that truly gets what our business is about. When this happens, we get ideas and solutions that work. That may mean solving logistical challenges we face in the North or delivering low everyday net costs that enable our Giant Tiger stores to compete against Wal-Mart in the South.

The bottom line is that we want to be as important to our suppliers as they are to us. We are fortunate to have many suppliers with the same commitment to our business as the three featured in the 2004 Annual Report.

The final relationship that matters to us is the one we have with our investors. We understand completely that value to our unitholders starts and ends with us producing top quartile returns, over the long term.

We’ve highlighted investor relationships, like the one with Tribal Council Investments Group, as an example of the type that works at other levels as well. In this instance, as a connection with the Aboriginal communities we serve in Manitoba, Saskatchewan and parts of the Northwest Territories.

The other featured investors, Sandy McIntyre from Sentry Select mutual funds and Jim Morlock, demonstrate the long term commitment we’ve received from so many of our unitholders. This is something again that we don’t recognize enough. Building a company is a heck of a lot easier when you have investors who understand, believe in and support your plan and principles.

In real life, every quarter and every year won’t be an increase over the previous one. That’s why it’s so important to have investor relationships that are grounded in an understanding of North West Company’s fundamental strengths and our realistic potential for growth.

In closing, I’d like to recognize all of the relationships that are essential to The North West Company’s success. I see them everyday and I’m inspired to believe there is so much more for us to accomplish together.

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:

Rhonda Laxdal
Executive Assistant to the President and CEO
The North West Company
77 Main Street
Winnipeg, Manitoba R3C 2R1

Phone: 204-934-1501 (toll free in Canada: 1-800-563-0002)
Fax: 204-934-1317
E-mail: rlaxdal@northwest.ca