

## Management's Responsibility for Financial Statements

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

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

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

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

Edward S. Kennedy  
PRESIDENT & CEO, THE NORTH WEST COMPANY INC.

Léo P. Charrière  
EXECUTIVE VICE-PRESIDENT & CFO,  
THE NORTH WEST COMPANY INC.

MARCH 19, 2007

## Auditor's Report



To the Unitholders of North West Company Fund:  
We have audited the consolidated balance sheets of North West Company Fund as at January 31, 2007 and as at January 28, 2006 and the consolidated statements of earnings and retained earnings and cash flows for the fiscal years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at January 31, 2007 and January 28, 2006 and the results of its operations and its cash flows for the fiscal years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in cursive script, likely belonging to a representative of PricewaterhouseCoopers.

CHARTERED ACCOUNTANTS  
WINNIPEG, CANADA

MARCH 19, 2007

# Consolidated Balance Sheets

(\$ in thousands)

January 31, 2007

January 28, 2006

## ASSETS

Current assets		
Cash	\$ 22,100	\$ 21,888
Accounts receivable	69,208	67,498
Inventories	128,455	124,551
Prepaid expenses	3,693	2,981
Future income taxes (Note 12)	2,708	1,824
	<b>226,164</b>	218,742
Property and equipment (Note 3)	189,599	182,108
Other assets (Note 4)	19,690	17,306
Future income taxes (Note 12)	6,416	5,693
	<b>\$ 441,869</b>	\$ 423,849

## LIABILITIES

Current liabilities		
Bank advances and short-term notes (Note 6)	\$ 21,581	\$ 27,041
Accounts payable and accrued liabilities	77,624	65,016
Income taxes payable	3,287	3,302
Current portion of long-term debt (Note 7)	20,291	108
	<b>122,783</b>	95,467
Long-term debt (Note 7)	65,631	84,524
Asset retirement obligations (Note 8)	1,425	1,285
	<b>189,839</b>	181,276

## EQUITY

Capital (Note 9)	165,205	165,205
Contributed surplus (Note 17)	383	-
Unit purchase loan plan (Note 10)	(11,493)	(9,965)
Retained earnings	93,253	83,133
Cumulative currency translation adjustments (Note 11)	4,682	4,200
	<b>252,030</b>	242,573
	<b>\$ 441,869</b>	\$ 423,849

See accompanying notes to consolidated financial statements

Approved by the Trustees

Ian Sutherland  
TRUSTEE

Edward S. Kennedy  
TRUSTEE

## Consolidated Statements of Earnings & Retained Earnings

(\$ in thousands)	52 Weeks Ended January 31, 2007 (Note 2)	52 Weeks Ended January 28, 2006
<b>SALES</b>	<b>\$ 944,924</b>	\$ 849,653
Cost of sales, selling and administrative expenses	<b>(848,555)</b>	(764,151)
Net earnings before amortization, interest and income taxes	<b>96,369</b>	85,502
Amortization	<b>(26,172)</b>	(25,013)
	<b>70,197</b>	60,489
Interest, including interest on long-term debt of \$5,792 (2005 - \$5,080)	<b>(6,844)</b>	(6,120)
	<b>63,353</b>	54,369
Provision for income taxes (Note 12)	<b>(9,693)</b>	(11,479)
<b>NET EARNINGS FOR THE YEAR</b>	<b>\$ 53,660</b>	\$ 42,890
Retained earnings, beginning of year	<b>83,133</b>	70,560
Distributions (Note 20)	<b>(43,540)</b>	(30,317)
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 93,253</b>	\$ 83,133
<b>NET EARNINGS PER UNIT</b> (Note 13)		
Basic	<b>\$ 1.13</b>	\$ 0.90
Diluted	<b>\$ 1.12</b>	\$ 0.89

See accompanying notes to consolidated financial statements

# Consolidated Statements of Cash Flows

(\$ in thousands)	52 Weeks Ended January 31, 2007 (Note 2)	52 Weeks Ended January 28, 2006
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating Activities</b>		
Net earnings for the year	\$ 53,660	\$ 42,890
Non-cash items		
Amortization	26,172	25,013
Future income taxes	(1,580)	2,780
Unit purchase loan plan compensation (Note 17)	383	-
Amortization of deferred financing costs	186	186
Gain on disposal of property and equipment	(68)	(13)
	<b>78,753</b>	70,856
Change in non-cash working capital	3,845	9,865
Change in other non-cash items	(1,112)	(5,432)
Operating activities	<b>81,486</b>	75,289
<b>Investing Activities</b>		
Business acquisitions (Note 19)	(5,577)	-
Purchase of property and equipment	(30,136)	(24,833)
Proceeds from disposal of property and equipment	237	848
Investing activities	<b>(35,476)</b>	(23,985)
<b>Financing Activities</b>		
Change in bank advances and short-term notes	(5,460)	(4,899)
Net purchase of units for unit purchase loan plan	(1,528)	(5,536)
Repayment of long-term debt	(108)	(102)
Distributions (Note 20)	(38,702)	(30,317)
Financing activities	<b>(45,798)</b>	(40,854)
<b>NET CHANGE IN CASH</b>	<b>\$ 212</b>	<b>\$ 10,450</b>
Cash, beginning of year	21,888	11,438
<b>CASH, END OF YEAR</b>	<b>\$ 22,100</b>	<b>\$ 21,888</b>
Supplemental disclosure of cash paid for:		
Interest expense	\$ 6,839	\$ 6,166
Income taxes	\$ 11,730	\$ 9,260

See accompanying notes to consolidated financial statements

# Notes to Consolidated Financial Statements

January 31, 2007

## 1. ORGANIZATION

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

These consolidated financial statements include the accounts of NWF, The NWC Trust, NWC GP Inc., the operating entities (the "Company") The North West Company LP, NWC and its wholly owned subsidiaries, Alaska Commercial Company (AC) and the group of Tora companies operating as Giant Tiger stores. The financial results of certain subsidiaries which have different year ends have been included in the consolidated financial statements for the 12 months ended January 31, 2007 and January 28, 2006. All significant inter-company amounts and transactions have been eliminated on consolidation.

**Fiscal Year** The Fund has adopted a fixed fiscal year end of January 31 compared to the last Saturday in January used in prior years. Accordingly, the year ended January 31, 2007 has 368 days of operations compared to the year ended January 28, 2006 which has 364 days of operations.

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

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

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

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

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

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

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

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

**Intangible Assets** Non-compete agreements are recorded at their cost and are amortized on a straight-line basis over the term of the agreements which is five to 10 years. The carrying value of these assets is reviewed periodically for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable and will be written down to their fair value by a charge to amortization expense if a decline in carrying value is determined.

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

**Security Based Compensation** The Company has security-based compensation plans as described in Note 17. Security-based awards are measured and recognized using a fair value based method.

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

cumulative currency translation adjustments. These cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the self-sustaining foreign operation.

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

The Fund is an inter vivos trust for income tax purposes. All income of the Fund is distributed to unitholders and, as such, no income tax is payable by the Fund. On October 31, 2006 the Government of Canada announced plans to impose a tax on certain publicly traded income trusts. If the proposed tax changes are enacted, interest amounts that are paid to the Fund, which are currently allowable as a deduction from taxable income of The North West Company Inc., and other income that flows on a pre-tax basis to the Fund will be taxed upon distribution from the Fund at a proposed rate of 31.5% beginning in 2011.

**Employee Future Benefits** The Company maintains a defined benefit or defined contribution pension plan for the majority of its employees. The actuarial determination of the accrued benefit obligations for pension benefits uses the projected benefit method prorated on services which incorporates management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees. For the purpose of calculating the expected returns on plan assets, those assets are valued at market-related value based on a five-year moving average. Past service costs and the net transitional asset are amortized on a straight-line basis over the average remaining service period of the employees expected to receive the benefits under the plan. The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the market-related value of the plan assets is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by the pension plan is 15 years (January 28, 2006 - 15 years). Contributions to the defined contribution pension plan are expensed as incurred.

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

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

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future events could alter such estimates in the near term. Estimates are used when accounting for items such as valuation of accounts receivable, valuation of inventories, amortization, impairment of assets, employee future benefits, and income taxes.

### 3. PROPERTY AND EQUIPMENT (\$ in thousands)

Year Ended	January 2007		January 2006	
	Accumulated Cost	Amortization	Cost	Amortization
Land	\$ 6,664	\$ -	\$ 6,420	\$ -
Buildings & leasehold improvements	221,920	113,391	204,835	101,560
Fixtures & equipment	136,614	87,194	125,001	79,520
Computer equipment & software	68,173	49,883	65,721	45,172
Construction in process	6,696	-	6,383	-
	<b>\$ 440,067</b>	<b>\$ 250,468</b>	\$ 408,360	\$ 226,252
Net book value	<b>\$ 189,599</b>		\$ 182,108	

### 4. OTHER ASSETS (\$ in thousands)

Year Ended	January 2007	January 2006
Investments in transportation companies	\$ 4,706	\$ 3,585
Accrued employee future benefit asset (Note 15)	7,470	7,431
Long-term receivable	3,466	3,601
Prepayments under lease agreements	1,076	957
Intangible assets (Note 5)	1,177	-
Deferred financing costs	481	667
Other*	1,314	1,065
	<b>\$ 19,690</b>	\$ 17,306

\*Other includes redeemable deposits with suppliers, licenses and shares in buying groups

## 5. INTANGIBLE ASSETS (\$ in thousands)

Year Ended	January 2007		January 2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Non-compete agreements	\$ 1,370	\$ 193	\$ -	\$ -
Net book value	\$ 1,177		\$ -	

The non-compete agreements included as part of the business acquisitions (see Note 19) are amortized on a straight-line basis over the term of the agreements which is five to 10 years. Intangible assets are included in other assets on the Company's consolidated balance sheet. Intangible asset amortization expense recorded in amortization on the Company's consolidated statement of earnings for the year ended January 31, 2007 is \$193,000 (January 28, 2006 - \$0).

## 6. BANK ADVANCES AND SHORT-TERM NOTES

The Canadian operation has available operating loan facilities of \$85 million at interest rates ranging from prime to prime plus 0.75%. These facilities are secured by a floating charge against the assets of the Company on a pari passu basis with the senior note holders. As at January 31, 2007, the Company had drawn on the facilities \$21,581,000 (January 28, 2006 - \$27,041,000).

The Alaskan operation has available an operating loan facility of US\$4 million at an interest rate of prime minus 0.25% secured by a floating charge against the assets of the Company. As at January 31, 2007, the Alaskan operations had no outstanding amount drawn on the facility (January 28, 2006 - US\$0).

## 7. LONG-TERM DEBT

Year Ended (\$ in thousands)	January 2007	January 2006
Senior notes <sup>1</sup>	\$ 76,648	\$ 74,581
Effect of foreign currency swaps <sup>1</sup>	8,132	8,831
Obligation under capital lease <sup>2</sup>	1,142	1,220
	85,922	84,632
Less: Current portion of long-term debt	20,291	108
	\$ 65,631	\$ 84,524

1 The US\$65 million senior notes mature on June 15, 2009 and bear an interest rate of 5.89% payable semi-annually. Repayment of 20% of the principal is required on June 15, 2007 and June 15, 2008. The notes are secured by a floating charge against the assets of the Company. The Company has entered into various cross-currency interest rate and interest rate swaps resulting in floating interest costs on US\$36 million of its senior notes. After giving effect to the interest rate swaps and cross-currency interest rate swaps the effective interest rate for the year ended January 31, 2007 was 7.3% (January 28, 2006 - 6.1%).

2 The obligation under a capital lease of US\$968,000 (January 28, 2006 - US\$1,063,000) is repayable in blended principal and interest payments of US\$200,000 annually. The obligation will be fully repaid on October 31, 2013.

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

Years Ending January	(\$ in thousands)
2008	\$ 20,291
2009	18,759
2010	46,140
2011	168
2012	186

## 8. ASSET RETIREMENT OBLIGATIONS

The Company has recognized a discounted liability associated with obligations arising from the operation of petroleum dispensing units and specific provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. At January 31, 2007, the undiscounted cash flows required to settle the obligations are \$6.9 million, which is expected to be settled between 2007 and 2058. The credit-adjusted risk-free rate at which the estimated cash flows have been discounted is 8%.

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

Year Ended (\$ in thousands)	January 2007	January 2006
Balance, beginning of year	\$ 1,285	\$ 1,105
Liabilities incurred during the year	34	99
Accretion expense included in cost of sales, selling and administrative expenses	106	81
Balance, end of year	\$ 1,425	\$ 1,285

## 9. CAPITAL

**Authorized** The Fund has an unlimited number of units.

(units and \$ in thousands)		January 2007		January 2006	
Year Ended					
Issued and outstanding	48,378	\$165,205	48,378	\$165,205	

On September 20, 2006, the Fund's outstanding units were split on a three-for-one basis whereby unitholders received two additional units for each unit held on the record date of September 20, 2006. The issued and outstanding units in prior periods have been restated to reflect the three-for-one unit split.

## 10. UNIT PURCHASE LOAN PLAN

During the year the Company issued loans to officers and senior management to purchase units under the unit purchase loan plan. These loans are non-interest bearing and are repayable from the Company's after-tax distributions or if the employee sells the units or leaves the Company. The loans are secured by a pledge of 752,704 units of NWF with a quoted value of \$12,352,000 as at January 31, 2007. Loans receivable at January 31, 2007 of \$11,493,000 (January 28, 2006 - \$9,965,000) are recorded as a reduction of equity. The loans have terms of three to five years. The maximum amount of the loans under the plan is currently limited to \$15,000,000.

## 11. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

(\$ in thousands)

Year Ended	January 2007	January 2006
Balance, beginning of year	\$ 4,200	\$ 4,949
Movement in exchange rate	482	(749)
Balance, end of year	\$ 4,682	\$ 4,200

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

## 12. INCOME TAXES

(\$ in thousands)

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

Year Ended	January 2007	January 2006
<b>Future tax assets</b>		
Non-capital loss carryforwards	\$ -	\$ 245
Tax values of capital assets in excess of accounting values	7,893	7,915
Provisions and other temporary differences	1,231	(643)
<b>Net future tax asset</b>	<b>\$ 9,124</b>	<b>\$ 7,517</b>
<b>Comprised of</b>		
Current	\$ 2,708	\$ 1,824
Long-term	6,416	5,693
	<b>\$ 9,124</b>	<b>\$ 7,517</b>

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

Year Ended	January 2007	January 2006
Net earnings before income taxes	\$ 63,353	\$ 54,369
Combined statutory income tax rate	35.90%	36.34%
Income taxes based on combined statutory income tax rate	22,744	19,757
Increase (decrease) in income taxes resulting from:		
Large corporation tax	-	525
Amounts not subject to income tax	(6,925)	(1,112)
Income tax deductions on interest paid to the Fund	(9,232)	(9,340)
Withholding tax	286	314
Recognition of Canadian income tax rate changes on future income taxes	735	34
Other	2,085	1,301
Provision for income taxes	\$ 9,693	\$ 11,479
Effective income tax rate	15.30%	21.11%

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

Year Ended	January 2007	January 2006
Current income tax expense	\$ 11,272	\$ 8,699
Future income tax expense (benefit) relating to:		
Temporary differences and loss carryforwards	(2,314)	2,746
Recognition of Canadian income tax rate changes on future income taxes	735	34
Provision for income taxes	\$ 9,693	\$ 11,479

The recognition and measurement of the current and future tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations and in the assessment of the recoverability of future tax assets. Actual income taxes could vary from these estimates as a result of future events, including changes in income tax laws or the outcome of tax review by tax authorities and related appeals. To the extent the final outcome is different from the amounts initially recorded, such differences, which could be significant, will impact the income tax provision in the period in which the outcome is determined.

## 13. NET EARNINGS PER UNIT

Basic net earnings per unit are calculated based on the weighted-average units outstanding in 2006 of 47,561,000 (2005 - 47,694,000). The diluted net earnings per unit takes into account the dilutive effect of the deferred unit plan for Trustees and the additional income that would have been earned by the Company had interest costs not been incurred on the unit purchase loan plan and had the respective units been outstanding during the year. On September 20, 2006, the Fund's outstanding units were split on a three-for-one basis whereby unitholders received two additional units for each unit held on the record date of September 20, 2006. The weighted average units outstanding and the basic and diluted earnings per unit in prior periods have been restated to reflect the three-for-one unit split.

(\$ and units in thousands except earnings per unit)

Year Ended	January 2007	January 2006
<b>Diluted earnings per unit calculation:</b>		
Net earnings for the year (numerator for basic earnings per unit)	\$ 53,660	\$ 42,890
After-tax interest cost of unit purchase loan plan	418	266
Numerator for diluted earnings per unit	\$ 54,078	\$ 43,156
Weighted average units outstanding (denominator for basic earnings per unit)	47,561	47,694
Dilutive effect of security based compensation	828	684
Denominator for diluted earnings per unit	48,389	48,378
<b>Basic earnings per unit</b>	<b>\$ 1.13</b>	<b>\$ 0.90</b>
<b>Diluted earnings per unit</b>	<b>\$ 1.12</b>	<b>\$ 0.89</b>



#### 14. SEGMENTED INFORMATION (\$ in thousands)

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

Year Ended	January 2007	January 2006
<b>Sales</b>		
Canada	\$ 769,633	\$ 689,340
Alaska	175,291	160,313
Total	\$ 944,924	\$ 849,653
<b>Net earnings before amortization, interest and income taxes</b>		
Canada	\$ 81,730	\$ 70,561
Alaska	14,639	14,941
Total	\$ 96,369	\$ 85,502
<b>Net earnings before interest and income taxes</b>		
Canada	\$ 59,482	\$ 49,458
Alaska	10,715	11,031
Total	\$ 70,197	\$ 60,489
<b>Identifiable assets</b>		
Canada	\$ 292,872	\$ 293,606
Alaska	66,661	60,640
Total	\$ 359,533	\$ 354,246

#### 15. EMPLOYEE FUTURE BENEFITS

The Company sponsors defined benefit pension plans covering the majority of Canadian employees. The defined benefit pension plans are based on years of service and final average salary. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes as at January 31, 2007 and January 28, 2006. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 2006. The next actuarial valuation is required as at January 1, 2009. The Company also sponsors an employee savings plan covering all U.S. employees with at least six months of service. Under the terms of the plan, the Company is obligated to make a 50% matching contribution up to 3% of eligible compensation.

Total cash payments by the Company for future employee benefits, consisting of cash contributed to its pension plans and U.S. employee's savings plans for the year ended January 31, 2007 was \$4,069,000 (January 28, 2006 - \$9,712,000).

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

Year Ended	January 2007	January 2006
<b>Accrued benefit obligations</b>		
Discount rate	5.3%	5.0%
Rate of compensation increase	4.0%	4.0%
<b>Benefit plan expense</b>		
Discount rate	5.0%	6.0%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase	4.0%	4.0%

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

Year Ended (\$ in thousands)	January 2007			January 2006		
	Incurring in year	Matching Adjustments <sup>1</sup>	Recognized in year	Incurring in year	Matching Adjustments <sup>1</sup>	Recognized in year
Current service costs, net of employee contributions	\$ 3,555	\$ -	\$ 3,555	\$ 2,673	\$ -	\$ 2,673
Interest on accrued benefits	2,884	-	2,884	2,819	-	2,819
Return on plan assets	(4,986)	1,650	(3,336)	(4,031)	909	(3,122)
Actuarial (gain) loss	(1,602)	2,679	1,077	10,164	(9,805)	359
Past service costs	-	(11)	(11)	-	(11)	(11)
Amortization of net transition asset	-	(308)	(308)	-	(308)	(308)
Net benefit plan expense	\$ (149)	\$ 4,010	\$ 3,861	\$ 11,625	\$ (9,215)	\$ 2,410

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

The expense incurred under the employee savings plan covering U.S. employees for the year ended January 31, 2007 is US\$148,000 (January 28, 2006 - US\$138,000).

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

Year Ended (\$ in thousands)	January 2007	January 2006
<b>Plan assets</b>		
Fair value—beginning of year	\$ 48,612	\$ 39,199
Actual return on plan assets	4,986	4,031
Employer contributions	3,900	9,533
Employee contributions	38	46
Benefits paid	(5,813)	(4,197)
Fair value—end of year	\$ 51,723	\$ 48,612
<b>Plan obligations</b>		
Accrued benefit obligation—beginning of year	\$ 60,574	\$ 49,083
Current service cost	3,593	2,705
Accrued interest on benefits	2,884	2,819
Benefits paid	(5,813)	(4,197)
Actuarial (gain) loss	(1,602)	10,164
Accrued benefit obligation—end of year	\$ 59,636	\$ 60,574
<b>Funded status</b>		
Fair value plan assets	\$ 51,723	\$ 48,612
Accrued benefit obligation	59,636	60,574
Plan deficit	(7,913)	(11,962)
Unamortized net actuarial losses	17,508	21,837
Unamortized net transitional asset	(2,074)	(2,382)
Unamortized past service costs	(51)	(62)
Accrued employee future benefit asset	\$ 7,470	\$ 7,431

The accrued employee future benefit asset is included in other assets in the Company's consolidated balance sheet (see Note 4).

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

Year Ended	January 2007	January 2006
<b>Plan assets consist of:</b>		
Equity securities	64%	54%
Debt securities	29%	33%
Other	7%	13%
Total	100%	100%

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

## 16. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### Commitments

a) In 2002, the Company signed a 30-year Master Franchise Agreement with *Giant Tiger Stores Limited*, based in Ottawa, Ontario which grants the Company the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, *Giant Tiger Stores Limited* provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing distribution services to the stores. The Company's exclusivity right requires that a minimum number of Giant Tiger stores be opened each year, based on an expected roll-out of 72 stores over the term of the agreement. As at January 31, 2007 the Company had opened 19 Giant Tiger stores and is in compliance with the terms of the agreement.

b) In 1992, the Company entered into an agreement to lease the land on which the Winnipeg Logistics Service Centre is located from the City of Winnipeg for \$1 per year for 15 years subject to attaining agreed-upon job creation targets. Management anticipates that the agreed targets will be met; accordingly, no additional lease payments have been accrued. The Company is obligated to buy the land for the greater of \$1,710,000 or fair market value at August 31, 2007. The Company believes the purchase price of the land will be approximately \$1.7 million.

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

Years Ending January	Minimum Lease Payments (\$ in thousands)
2008	\$ 11,819
2009	10,673
2010	8,993
2011	8,505
2012	7,764
Thereafter	47,412

### Contingencies

a) In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the tax authorities. The Company regularly reviews the potential for adverse outcomes and the adequacy of its tax provisions. The Company believes that it has adequately provided for these matters. If the final outcome differs materially from the provisions, the Company's income tax expense and its earnings could be affected positively or negatively in the period in which the matters are resolved.

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

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

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

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

## 17. SECURITY-BASED COMPENSATION

**Deferred unit plan** The Fund offers a deferred unit plan for independent Trustees and Directors. The purpose of the deferred unit plan is to enhance the ability of the Fund and the Company to attract and retain independent Trustees and Directors whose training, experience and ability will contribute to the effective governance of the Fund and the Company and to directly align their interests with the interests of unitholders by providing compensation for services to the Fund and Company in the form of units. Participants will be credited with deferred units based on the portion of fees each participant elects to allocate to the deferred unit plan. Each deferred unit will entitle the holder to receive a unit of the Fund. The deferred units are exercisable by the holder at any time but no later than December 31 of the first calendar year commencing after the holder ceases to be a Trustee or Director. A participant may elect at the time of exercise of any deferred units, subject to the consent of the Fund, to have the Fund pay an amount in cash equal to the aggregate current market value of the units, determined based on the closing price of the units on the TSX on the trading day preceding the exercise date, in consideration for the surrender by the participant to the Fund the right to receive units from the exercising of the deferred units.

The Fund has adopted the fair value method of accounting for security based compensation. The security based compensation expense recorded for the year ended January 31, 2007 is \$370,000 (January 28, 2006 - \$0). The liability for the deferred unit plan is recorded in accounts payable and accrued liabilities on the Company's consolidated balance sheet and is adjusted to reflect the total number of deferred units outstanding multiplied by the closing unit price at the end of the reporting period. The total number of deferred units outstanding at January 31, 2007 is 24,346 (January 28, 2006 - 0). There were 2,148 deferred units exercised during the year which were settled in cash.

**Unit purchase loan plan** The Company has a unit purchase loan plan for officers and senior management whereby loans are granted to employees to purchase units of NWF (see Note 10). These loans are in substance similar to stock options and accordingly are accounted for as stock-based compensation in accordance with section 3870 of the CICA handbook. This standard has been applied on a prospective basis as it was determined that the application on a retroactive basis would not have a material impact on the financial statements.

The compensation cost relating to the unit purchase loan plan for the year ended January 31, 2007 was \$383,000 with a corresponding increase in contributed surplus. The compensation cost is a non-cash expense and has no impact on the distributions from the Fund. There were 139,138 units purchased under the unit purchase loan plan in 2006. The units are purchased at market prices and are fully vested at the time the loan is exercised. The units are pledged as security against the loan and cannot be withdrawn from the plan until the principal amount of the loan is less than 65% or 80% of the market value of the units pledged as security or if the employee sells the units or leaves the Company. If the loan value as a percentage of the market value of the units pledged as security against the loan falls below the 65% to 80% threshold, the employee may reduce the number of units pledged equal to the market value in excess of the loan balance. Employees are required to make principal payments on the loan equal to the after-tax distributions on the units pledged as security. The fair value of the compensation cost was estimated using the Black-Scholes model using the following assumptions:

Expected life .....	3 to 5 years
Risk-free interest rate .....	4.1%
Expected volatility .....	17.9%

## 18. FINANCIAL INSTRUMENTS (\$ in thousands)

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

**Long-Term Financial Instruments** The Company had the following long-term financial instruments outstanding as at January 31, 2007:

	<b>Maturity</b>	<b>Interest Rate</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Debt</b>				
US\$65 million				
Senior notes	2009	5.89% <sup>1</sup>	\$ 76,648 <sup>2</sup>	\$ 76,464
				<b>Unrealized Loss</b>
<b>Swaps</b>				
US\$14 million		LIBOR <sup>3</sup> plus		
Interest rate	2007-2009	1.87%		\$ 445
US\$22 million		B.A. <sup>4</sup> plus 2.99%		
Cross-currency	2007-2009	to B.A. plus 3.16%		\$ 9,001
Interest rate				

1 Weighted-average

2 The senior notes (Note 7) recorded on the balance sheet includes unrealized losses of \$8,132 on the foreign currency portion of the US\$22 million cross-currency interest rate swaps

3 London Interbank Offered Rate

4 Bankers' Acceptances

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

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

## 19. BUSINESS ACQUISITIONS

On May 1, 2006, the Company acquired the assets of four stores on Prince of Wales Island, Alaska for \$3,248,000 in cash consideration. The acquisition has been accounted for by the purchase method of accounting and the results of the operations are included in the consolidated financial statements from May 1, 2006. The assets acquired were comprised of inventories \$1,321,000; property and equipment \$1,586,000; and intangible assets of \$341,000. The intangible assets are included in other assets on the Company's consolidated balance sheet. The purchase price has been allocated to the acquired assets based on estimates of their fair values as at the closing date.

On March 8, 2006, the Company acquired all of the common shares of 1089140 Ontario Inc., a retail pharmacy in Moosonee, Ontario for \$2,329,000 in cash. The acquisition has been accounted for by the purchase method of accounting and the results of the operations of 1089140 Ontario Inc. are included in the consolidated financial statement from March 8, 2006. The net assets acquired were comprised of accounts receivable of \$131,000; inventories of \$398,000; property and equipment of \$828,000; intangible assets of \$1,029,000 and future income taxes payable of \$57,000. The intangible assets are included in other assets on the Company's consolidated balance sheet. The purchase price has been allocated to the acquired assets based on estimates of their fair values as at the closing date.

## 20. DISTRIBUTIONS

Distributions for the year ended January 31, 2007 of \$43,540,000 include the extra distribution of \$4,838,000 paid on February 23, 2007 to unitholders of record on December 31, 2006. The distributions paid in cash during the fiscal year were \$38,702,000 which does not include the \$4,838,000 extra distribution that was paid on February 23, 2007.

There were no extra distributions paid for the fiscal year ending January 28, 2006.

## 21. COMPARATIVE AMOUNTS

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

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