

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 and the Board of Directors of the Company. The Audit Committee of the Board, consisting of outside Directors, meets periodically with management, Trustees 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 both the Trustees and the Board of Directors. 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 & SECRETARY, NORTH WEST COMPANY FUND

MARCH 16, 2005

Auditor's Report

PRICEWATERHOUSECOOPERS 

To the Unitholders of North West Company Fund:

We have audited the consolidated balance sheets of North West Company Fund as at January 29, 2005 and as at January 31, 2004 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 29, 2005 and January 31, 2004 and the results of its operations and its cash flows for the fiscal years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS

WINNIPEG, CANADA

MARCH 16, 2005

Consolidated Balance Sheets

(\$ in thousands)	January 29, 2005	January 31, 2004 (Restated Note 17)
ASSETS		
Current assets		
Cash	\$ 11,438	\$ 16,627
Accounts receivable	69,040	59,414
Inventories	122,034	114,790
Prepaid expenses	2,663	3,083
Future income taxes (Note 10)	2,467	2,916
	207,642	196,830
Property and equipment (Note 3)	186,104	192,395
Other assets (Note 4)	11,959	12,153
Future income taxes (Note 10)	7,932	8,222
	\$413,637	\$409,600
LIABILITIES		
Current liabilities		
Bank advances and short-term notes (Note 5)	\$ 32,023	\$ 30,313
Accounts payable and accrued liabilities	51,776	50,306
Income taxes payable	3,539	1,881
Current portion of long-term debt (Note 6)	106	640
	87,444	83,140
Long-term debt (Note 6)	88,803	96,949
Asset retirement obligations	1,105	1,033
	177,352	181,122
EQUITY		
Capital (Note 7)	165,205	165,205
Unit purchase loan plan (Note 8)	(4,429)	(3,650)
Retained earnings	70,560	61,679
Cumulative currency translation adjustments (Note 9)	4,949	5,244
	236,285	228,478
	\$413,637	\$409,600

See accompanying notes to consolidated financial statements

Approved by the Trustees and Board



Ian Sutherland
TRUSTEE & DIRECTOR



Edward S. Kennedy
DIRECTOR

Consolidated Statements of Earnings & Retained Earnings

(\$ in thousands)	52 Weeks Ended January 29, 2005	53 Weeks Ended January 31, 2004 (Restated Note 17)
SALES	\$ 788,693	\$ 782,720
Cost of sales, selling and administrative expenses	(712,087)	(709,894)
Net earnings before amortization, interest and income taxes	76,606	72,826
Amortization	(23,905)	(22,401)
Interest, including interest on long-term debt of \$4,821 (2003 \$5,495)	52,701 (5,761)	50,425 (6,299)
Provision for income taxes (Note 10)	46,940 (9,675)	44,126 (8,396)
NET EARNINGS FOR THE YEAR	37,265	35,730
Retained earnings, beginning of year as previously reported	61,679	52,165
Accounting changes (Note 17)	-	(1,144)
Retained earnings as restated	98,944	86,751
Distributions	(28,384)	(25,072)
RETAINED EARNINGS, END OF YEAR	\$ 70,560	\$ 61,679
NET EARNINGS PER UNIT (Note 11)		
Basic	\$ 2.34	\$ 2.24
Diluted	\$ 2.32	\$ 2.22

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(\$ in thousands)	52 Weeks Ended January 29, 2005	53 Weeks Ended January 31, 2004
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net earnings for the year	\$ 37,265	\$ 35,730
Non-cash items		
Amortization	23,905	22,401
Future income taxes	636	2,789
Pension (credit) expense	(352)	(637)
Amortization of deferred financing costs	186	186
Loss (Gain) on disposal of property and equipment	1,158	(1,583)
Cash flow from operations	62,798	58,886
Change in other non-cash items	(13,873)	7,894
Operating activities	48,925	66,780
Investing Activities		
Purchase of property and equipment	(22,323)	(33,273)
Proceeds from disposal of property and equipment	694	3,070
Investing activities	(21,629)	(30,203)
Financing Activities		
Change in bank advances and short-term notes	1,885	2,475
Net purchase of units for unit purchase loan plan	(779)	(285)
Repayment of long-term debt	(4,486)	(1,952)
Distributions	(29,105)	(30,639)
Financing activities	(32,485)	(30,401)
NET CHANGE IN CASH	(5,189)	6,176
Cash, beginning of year	16,627	10,451
CASH, END OF YEAR	\$ 11,438	\$ 16,627
Supplemental disclosure of cash paid for:		
Interest expense	\$ 6,076	\$ 6,410
Income taxes	7,453	4,513

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

January 29, 2005

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 subsidiary The North West Company Inc. (NWC), 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, NWC and its wholly owned subsidiaries (the "Company"), Alaska Commercial Company (AC) and the group of Tora companies, operating as Giant Tiger stores. All significant inter-company amounts and transactions have been eliminated on consolidation.

Fiscal Year The fiscal year ends on the last Saturday in January. Accordingly, the 2004 fiscal year ended January 29, 2005 (52 weeks) and the 2003 fiscal year ended January 31, 2004 (53 weeks). Approximately every five years an additional week of sales and expenses are included in the financial results to bring results back in line with the 52-week year.

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 will 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.

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%–5%
Leasehold improvements	5%–20%
Fixtures and equipment.....	8%
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 investments in transportation companies are accounted for on the equity basis. Deferred financing costs are being amortized over the life of the instrument. Prepayments under lease agreements are being amortized over their respective lease terms.

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

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 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 a cumulative currency translation adjustment. 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 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.

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.

Employee Future Benefits The Company maintains both defined benefit and defined contribution pension plans for substantially all 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 (2003–15 years). Contributions to the defined contribution pension plan are expensed as incurred.

Unit Appreciation Rights (UARs) Plans Compensation expense under the Company's UARs plans is charged to operations as it accrues using the fair value method. No units of the Fund are issued under these plans.

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.

3. PROPERTY AND EQUIPMENT (\$ in thousands)

Year Ended	January 2005		January 2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 6,498	\$ –	\$ 6,310	\$ –
Buildings & leasehold improvements	201,775	93,385	198,105	84,961
Fixtures & equipment	121,051	73,223	118,656	67,430
Computer equipment & software	62,967	39,579	72,099	50,384
	\$392,291	\$206,187	\$395,170	\$202,775
Net book value		\$186,104		\$192,395

4. OTHER ASSETS (\$ in thousands)

Year Ended	January 2005	January 2004
Investments in transportation companies	\$ 5,036	\$ 4,315
Deferred financing costs	853	1,039
Prepayments under lease agreements	1,052	1,151
Long-term receivable	3,839	3,993
Other*	1,179	1,655
	\$11,959	\$12,153

*Other includes redeemable deposits with suppliers and a mortgage receivable

5. 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 .75%. These facilities are secured by a floating charge against the assets of the Company on a parri-passu basis with the senior note holders. As at January 29, 2005, the Company had drawn on the facilities \$29,191,000 (2003—\$28,834,000).

The Alaskan operation has available an operating loan facility of US\$4 million at an interest rate of prime plus 1.0% secured by a floating charge against the assets of the Company. As at January 29, 2005, the Alaskan operations had drawn on the facility US\$2,281,000 (2003—US\$1,409,000).

6. LONG-TERM DEBT (\$ in thousands)

Year Ended	January 2005	January 2004
Senior notes ¹	\$ 80,679	\$ 86,704
Effect of foreign currency swaps ¹	6,805	4,728
Real estate loans ²	—	4,523
Obligation under capital lease ³	1,425	1,634
	88,909	97,589
Less: Current portion of long-term debt	106	640
	\$ 88,803	\$ 96,949

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 2004 was 5.3%.

2 The Alaska Industrial and Economic Development Export Authority (AIDEA) and two Alaskan-based banks provided real estate loans to assist in the financing of new stores. The loans were fully repaid in 2004.

3 The obligation under a capital lease of US\$1.1 million (2003—US\$1.2 million) 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)
2006	\$ 106
2007	117
2008	16,277
2009	16,291
2010 and thereafter	48,602

7. CAPITAL

Authorized The Fund has an unlimited number of units.

(units and \$ in thousands) Year Ended	January 2005		January 2004	
Issued and outstanding	16,126	\$165,205	16,126	\$165,205

8. UNIT PURCHASE LOAN PLAN

During the year the Company issued loans to officers 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 officer sells the units or leaves the Company. The loans are secured by a pledge of 225,998 units of NWF with a quoted value of \$7,006,000 as at January 28, 2005. Loans receivable at January 29, 2005 of \$4,429,000 (2003—\$3,650,000) are recorded as a reduction of equity. The loans have a term of five years. The maximum amount of the loans under the plan will not exceed \$7,500,000.

9. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS (\$ in thousands)

Year Ended	January 2005	January 2004
Balance, beginning of year	\$5,244	\$ 5,379
Movement in exchange rate	(295)	(135)
Balance, end of year	\$4,949	\$ 5,244

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.

10. INCOME TAXES (\$ in thousands)

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

Year Ended	January 2005	January 2004
Future tax assets		
Non-capital loss carryforwards	\$ 472	\$ 82
Tax values of capital assets in excess of accounting values	7,545	8,215
Provisions and other temporary differences	2,382	2,841
Net future tax asset	\$10,399	\$11,138
Comprised of		
Current	\$ 2,467	\$ 2,916
Long-term	7,932	8,222
	\$10,399	\$11,138

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

Year Ended	January 2005	January 2004
Net earnings before income taxes	\$46,940	\$44,126
Combined statutory income tax rate	36.67%	38.20%
Income taxes based on combined statutory income tax rate	17,212	16,856
Increase (decrease) in income taxes resulting from:		
Large corporation tax	620	674
Amounts not subject to income tax	(160)	93
Income tax deductions on interest paid to the Fund	(9,425)	(10,008)
Withholding tax	815	—
Recognition of Canadian income tax rate changes		
on future income taxes	(39)	(38)
Other	652	819
Provision for income taxes	\$ 9,675	\$ 8,396
Effective income tax rate	20.61%	19.03%

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

Year Ended	January 2005	January 2004
Current income tax expense	\$ 9,039	\$ 5,607
Future income tax expense (benefit) relating to:		
Temporary differences and loss carryforwards	675	2,827
Recognition of Canadian income tax rate changes		
on future income taxes	(39)	(38)
Provision for income taxes	\$ 9,675	\$ 8,396

11. NET EARNINGS PER UNIT

Basic net earnings per unit are calculated based on the weighted-average units outstanding of 15,918,000 (2003–15,940,000). The diluted net earnings per unit takes into account 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.

(\$ and units in thousands except diluted earnings per unit)		
Year Ended	January 2005	January 2004
Diluted earnings per unit calculation:		
Net earnings for the year (numerator for basic earnings per unit)	\$37,265	\$35,730
After tax interest cost of unit purchase loan plan	163	128
Numerator for diluted earnings per unit	\$37,428	\$35,858
Weighted average units outstanding	15,918	15,940
Effect of diluted unit purchase loan plan	208	186
Denominator for diluted earnings per unit	16,126	16,126
Diluted earnings per unit	\$ 2.32	\$ 2.22

12. SEGMENTED INFORMATION (\$ in thousands)

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

Year Ended	January 2005	January 2004
Sales		
Canada	\$629,822	\$615,661
Alaska	158,871	167,059
Total	\$788,693	\$782,720
Net earnings before amortization, interest and income taxes		
Canada	\$ 62,629	\$ 57,663
Alaska	13,977	15,163
Total	\$ 76,606	\$ 72,826
Net earnings before interest and income taxes		
Canada	\$ 42,652	\$ 39,250
Alaska	10,049	11,175
Total	\$ 52,701	\$ 50,425
Identifiable assets		
Canada	\$293,254	\$289,825
Alaska	63,963	66,555
Total	\$ 357,217	\$356,380

13. EMPLOYEE FUTURE BENEFITS (\$ in thousands)

The Company sponsors defined benefit pension plans covering substantially all 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 29, 2005 and January 31, 2004. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 2002. The next actuarial valuation is required for January 1, 2005. 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. employees' savings plans, was \$2,395,000 (2003–\$2,368,000).

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

Year Ended	January 2005	January 2004
Accrued benefit obligations		
Discount rate	6.0%	6.5%
Rate of compensation increase	4.0%	4.0%
Benefit plan expense		
Discount rate	6.5%	7.0%
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	January 2005			January 2004		
	Incurring in year	Matching Adjustments ¹	Recognized in year	Incurring in year	Matching Adjustments ¹	Recognized in year
Current service costs, net of employee contributions	\$ 2,244	\$ –	\$ 2,244	\$ 1,996	\$ –	\$ 1,996
Interest on accrued benefits	2,745	–	2,745	2,666	–	2,666
Return on plan assets	(2,979)	109	(2,870)	(2,304)	(484)	(2,788)
Actuarial (gain) loss	3,312	(3,240)	72	2,200	(2,200)	–
Past service costs	–	(11)	(11)	–	(11)	(11)
Amortization of net transition asset	–	(308)	(308)	–	(308)	(308)
Net benefit plan expense	\$ 5,322	\$ (3,450)	\$ 1,872	\$ 4,558	\$ (3,003)	\$ 1,555

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 is US\$131,000 (2003–US\$127,000).

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

Year Ended	January 2005	January 2004
Plan assets		
Fair value—beginning of year	\$ 37,026	\$ 34,852
Actual return (loss) on plan assets	2,870	2,514
Employer contributions	2,212	2,192
Employee contributions	46	52
Benefits paid	(2,955)	(2,584)
Fair value—end of year	\$ 39,199	\$ 37,026
Plan obligations		
Accrued benefit obligation—beginning of year	\$ 43,704	\$ 39,373
Current service cost	2,277	2,049
Accrued interest on benefits	2,745	2,666
Benefits paid	(2,955)	(2,584)
Actuarial loss	3,312	2,200
Accrued benefit obligation—end of year	\$ 49,083	\$ 43,704
Funded status		
Fair value plan assets	\$ 39,199	\$ 37,026
Accrued benefit obligation	49,083	43,704
Plan deficit	(9,884)	(6,678)
Unamortized experience gains/losses	12,941	9,701
Unamortized net transitional asset	(2,690)	(2,998)
Unamortized past service costs	(73)	(84)
Accrued benefit asset (liability)	\$ 294	\$ (59)

The accrued benefit asset (liability) is included in accounts payable and accrued liabilities in the Company's consolidated balance sheet.

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 2005	January 2004
Plan assets consist of:		
Equity securities	51%	48%
Debt securities	38%	42%
Other	11%	10%
Total	100%	100%

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

14. 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 29, 2005 the Company has opened 10 Giant Tiger stores.

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.

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

Years Ending January	Minimum Lease Payments (\$ in thousands)
2006	\$11,169
2007	10,390
2008	9,830
2009	8,850
2010	7,301
Thereafter	51,815

Contingencies Canada Revenue Agency is currently conducting an audit for the taxation years 1996–1999. It is the opinion of management that the pending reassessments will be resolved without material effect on the financial statements.

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.

15. UNIT APPRECIATION RIGHTS (UARs) PLANS

The Company has two UARs plans, non-contingent and performance contingent, which form part of the long-term incentive program for senior management. The UARs program was discontinued in 2000, however previously issued UARs continue to vest until 2005 and expire in 2006. The expense incurred during the year under the plan was \$252,000 (2003–\$842,000).

Non-Contingent Plan A summary of the Company's non-contingent plan and changes during the year is presented below:

Year Ended	January 2005		January 2004	
	UARs (000's)	Price*	UARs (000's)	Price*
Outstanding at beginning of year	128	\$13.55	294	\$13.79
Exercised	(113)	25.66	(156)	23.16
Forfeited	(6)	10.50	(10)	14.00
Outstanding at end of year	9	\$12.34	128	\$13.55
UARs exercisable at year end	4		94	

*Weighted-average

The non-contingent UARs vest over five years and expire after six years. As of January 29, 2005, the 9,000 non-contingent UARs outstanding under this plan have exercise prices between \$10.50 and \$15.00.

Performance Contingent Plan The Company granted qualifying senior management UARs where vesting was contingent upon reaching predetermined financial targets by January 26, 2002 and the personal ownership of units equal to the number of UARs granted. These contingent UARs commenced vesting in 2002 and vest over three years and expire after four years.

A summary of the Company's performance contingent plan and changes during the year is presented below:

Year Ended	January 2005		January 2004	
	UARs (000's)	Price*	UARs (000's)	Price*
Outstanding at beginning of year	17	\$14.88	30	\$14.53
Exercised	(17)	26.33	(13)	23.78
Forfeited	-	-	-	-
Outstanding at end of year	-	-	17	\$14.88
UARs exercisable at year end	-		12	

*Weighted-average

As of January 29, 2005, there are no performance UARs outstanding under the plan.

16. 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 relative short period to maturity of the instruments.

Long-Term Financial Instruments The Company has the following long-term financial instruments outstanding as at January 29, 2005:

	Maturity	Interest Rate	Carrying Value	Fair Value
Debt				
US\$65 million Senior notes	2009	5.89% ¹	\$80,679 ²	\$83,877
				Unrealized Gain(Loss)
Swaps				
US\$14 million Interest rate	2007–2009	LIBOR ³ plus 1.87%		\$60
US\$22 million Cross currency Interest rate	2007–2009	B.A. ⁴ plus 2.99% to B.A. plus 3.16%		\$(7,905)

1 Weighted-average

2 The senior notes (note 6) recorded on the balance sheet includes unrealized losses of \$6,805 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.

17. ACCOUNTING POLICY CHANGES

In 2004 the Company implemented the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

Hedging Relationships The Company adopted Accounting Guideline 13 "Hedging Relationships" (AcG 13), effective February 1, 2004. In accordance with the new guideline, the Company's hedging relationships are documented and subject to effectiveness tests on a quarterly basis for reasonable assurance that they are and will continue to be effective. Any derivative that does not qualify for hedge accounting is reported in earnings on a mark to market basis. The adoption of AcG 13 had no impact on the Company's financial statements.

Asset Retirement Obligations In the first quarter of 2004, the Company retroactively implemented CICA Section 3110 "Asset Retirement Obligations" (CICA 3110). Section 3110 establishes the standards for the recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. 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 that asset is 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.

Accordingly, the Company has recognized a discounted liability associated with 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. This standard was implemented retroactively with restatement of the prior year's consolidated financial statements. The cumulative effect of implementation was a decrease to opening retained earnings for 2003 of \$287,000 (net of future income taxes recoverable of \$165,000), an increase in property and equipment of \$586,000, an increase in other liabilities of \$1,033,000 and an increase in the cumulative translation adjustment of \$5,000. The impact on net earnings for each of 2003 and 2004 was not material.

Accounting for Certain Consideration Received from Vendors

In the third quarter of 2004, the Company retroactively implemented Emerging Issues Committee Abstract 144 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" (EIC 144). EIC 144 requires a customer to record cash consideration received from a vendor as a reduction in the price of the vendor's products and reflect it as a reduction of cost of goods sold and related inventory when recognized in the income statement and balance sheet.

The Company receives allowances from certain of its merchandise vendors which it records as a reduction of cost of goods sold. EIC 144 has changed the timing of recognition of some vendor allowances. This standard was implemented retroactively with restatement of the prior year's consolidated financial statements. Accordingly, the Company recorded a decrease to opening retained earnings for 2003 of \$857,000 (net of current future income taxes recoverable of \$487,000), a decrease to inventory of \$1,324,000 and an increase of \$20,000 to the cumulative translation adjustment. The impact on earnings for each of 2003 and 2004 was not material.

Variable Interest Entities During the fourth quarter, the Company adopted in advance Accounting Guideline 15 "Consolidation of Variable Interest Entities" (AcG 15). This guideline requires the consolidation of variable interest entities (VIE) for annual or interim periods beginning on or after November 1, 2004. A VIE is any legal structure used to conduct activities or hold assets which are not controlled by voting interests, but rather by contractual or other interests that change with that entity's underlying net asset value. The Company has assessed the impact of the accounting guideline and determined that the Company is not the primary beneficiary of any variable interest entities and accordingly, the implementation of AcG 15 has not had any impact on the consolidated financial statements.

18. COMPARATIVE AMOUNTS

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

The North West Company Inc.

Gibraltar House, 77 Main Street

Winnipeg, Manitoba Canada R3C 2R1

T: 204 943 0881

Toll-free: 1 800 563 0002

Corporate Website: www.northwest.ca