

Press Release



FOR IMMEDIATE RELEASE

June 3, 1999

WINNIPEG - North West Company Fund (the "Fund") today reported 1999 first quarter earnings for the period ended May 1, 1999.

CONSOLIDATED RESULTS

The North West Company Fund reported first quarter earnings of \$5.3 million (\$0.35 per unit), up 84.7% from earnings of \$2.9 million (\$0.19 per unit) before unusual item in the first quarter of 1998. Of this increase, \$0.14 was due to improved earnings from operations and \$0.02 was from increased tax savings attributable to higher interest expense deductions by The North West Company (NWC) for interest payable to the North West Company Fund (NWF).

First quarter consolidated revenues were \$145.8 million, compared to \$145.3 million last year. Revenues for the quarter were negatively impacted by the closing of 14 stores in Canada and 5 stores in Alaska during 1998 and were partially offset by the opening of one store in Canada and two stores in Alaska. Same stores revenues increased by 0.4%. Earnings before interest, unusual item, income taxes and amortization ("EBIUTA") for the quarter increased 32.7% to \$12.6 million compared to \$9.5 million last year. As a percent to revenue, EBIUTA in the quarter increased to 8.7% compared to 6.6% last year. Interest expense was reduced 21.5% due to the \$37.9 million dollar reduction in debt from last year as a result of the closing of unprofitable units and reductions in working capital in ongoing operations.

CANADIAN OPERATIONS

Canadian revenues at \$112.6 million decreased 4.4% in the quarter compared to last year. Same store sales were down 1.4% for food and down 5.9% for general merchandise in the quarter. On a regional basis, sales throughout the new Canadian territory of Nunavut continued to be strong due to economic growth stimulated by the creation of a territorial government infrastructure. Several locations in northern Saskatchewan, Manitoba and Ontario lost sales due to a longer winter road season this year. In the first quarter last year, extremely warm weather conditions eliminated or shortened the winter road season in these locations, resulting in more local shopping.

On the merchandising side, sales continued to be impacted by new competition, especially in retail fuel categories. General merchandise sales were below last year due to a later Spring selling season, planned reductions in seasonal inventory levels related to the repositioning of selling space and unplanned reductions related to challenges in timing the exit of discontinued merchandise categories with the expansion of others. General merchandise margin rates improved due to lower mark-downs resulting from a higher sales blend of basic merchandise. Selections catalogue sales were up 11.5% in the first quarter with the introduction of three smaller catalogues compared to one large Spring catalogue last year.

Canadian EBIUTA increased 30.0% to \$11.5 million, compared to \$8.9 million last year. As a percent to sales, Canadian EBIUTA was 10.2% compared to 7.5% last year. Reduced administration and selling expense, lower debt loss, growth in financial services revenue, improved general merchandise margin rates and the closure of underperforming non-core stores at the end of last year all contributed to this increase. Net assets employed for Canadian operations were reduced by 7.6% to \$260.7 million primarily due to the closing of 14 underperforming stores in 1998 and reduced working capital requirements in the ongoing stores.

Vision 2000+ is a major repositioning strategy that focuses on growing the Company's core food, everyday basics and catalogue business in Canada to deliver superior value to customers, employees and unitholders. The progress on executing marketing and sales programs in support of Vision 2000+ has been slower than planned but is expected to improve sales momentum, beginning in the second quarter. More time and resources have been invested to ensure that store assortments are tailored to the Company's diverse market types and the selling opportunities they present. In 1999, 50 stores are planned to be physically reprofiled with expanded food and everyday basics selling space and the balance will be completed in 2000.

ALASKAN OPERATIONS (stated in U.S. dollars)

Alaska Commercial Company (**AC**) sales increased 14.7% in the quarter to \$22.2 million. On a same store basis, sales increased 8.7%. Comparable food sales increased 9.0% in the quarter and general merchandise sales were up 7.4%. Renovated and replacement stores continued to produce very strong market share gains and lead AC's performance, combined with exceptional results from recently opened stores. Continued improvements in store level execution of AC's food and everyday basics positioning strategy was also a major factor in achieving planned sales.

AC's earnings before interest, income taxes and amortization (EBITA) increased 57.4% to \$749,000 compared to \$476,000 last year. As a percent to sales, **AC's** EBITA was 3.4% in the quarter compared to 2.4% last year. Higher general merchandise margin rates, lower store operating expenses and the closure of six underperforming stores at the end of last year all contributed to this gain. Net assets employed were reduced by 5.1% to \$45.8 million primarily due to the repayment of development costs related to the Barrow store, which was opened in June of 1998.

OTHER HIGHLIGHTS

- **NWC** opened new stores in King Cove, Alaska; Nuiqsut, Alaska; and Tadoule Lake, Manitoba.
- **NWC** received national awards from the Diabetes Foundation of Ontario, in recognition of supporting fund raising programs; and from the Conference Board of Canada, in recognition of leadership in youth employment.
- The North West Company has completed most major Year 2000 computer system remediation efforts. The remaining remediation, system replacement and contingency plans, including plans related to trading partners, are targeted for completion by September 30th, 1999.
- The Fund increased its quarterly distribution to \$0.30 per unit commencing March 15, 1999 and expects to maintain that level for 1999. A final fifth distribution for 1999 will be approximately \$0.24 per unit payable in cash or units on December 31, 1999.

The North West Company is the leading provider of food and everyday products and services to remote communities across northern Canada and Alaska. The Fund trades on the Toronto and Winnipeg Stock Exchanges under the symbol "NWF.UN".

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CONSOLIDATED BALANCE SHEETS

(unaudited, in thousands of Canadian dollars)

	<u>May 1, 1999</u>	<u>May 2, 1998</u>
ASSETS		
Current assets		
Accounts receivable	\$ 41,400	\$ 52,956
Inventories	114,789	134,409
Other	26,660	30,965
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	182,849	218,330
Capital assets	193,316	195,482

Other assets	12,639	13,104
	<u>\$ 388,804</u>	<u>\$ 426,916</u>
LIABILITIES		
Current liabilities	\$ 86,890	\$ 137,633
Long-term debt	129,885	132,640
Deferred income taxes	7,701	8,896
	<u>224,476</u>	<u>279,169</u>
EQUITY	<u>164,328</u>	<u>147,747</u>
	<u>\$ 388,804</u>	<u>\$ 426,916</u>

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(unaudited, in thousands of Canadian dollars)

	13 Weeks Ended May 1, 1999	13 Weeks Ended May 2, 1998
SALES AND OTHER REVENUE		
Canadian operations	\$ 112,553	\$ 117,691
Alaskan operations	33,283	27,562
	<u>\$ 145,836</u>	<u>\$ 145,253</u>
Earnings before interest, unusual item, income taxes and amortization		
Canadian operations	\$ 11,522	\$ 8,866
Alaskan operations	1,124	666
Amortization		
Canadian operations	(4,256)	(4,009)
Alaskan operations	(709)	(522)
EARNINGS BEFORE INTEREST, UNUSUAL ITEM AND INCOME TAXES	<u>7,681</u>	<u>5,001</u>
Interest	(2,775)	(3,537)
Unusual item (Note 2)	-	(20,000)
Recovery of income taxes (Note 3)	406	9,812
EARNINGS (LOSS) FOR THE PERIOD	<u>5,312</u>	<u>(8,724)</u>
Retained earnings, beginning of period	11,825	14,430
Distributions	(4,500)	(3,750)
RETAINED EARNINGS, END OF PERIOD	<u>\$ 12,637</u>	<u>\$ 1,956</u>
EARNINGS (LOSS) PER UNIT	<u>\$ 0.35</u>	<u>\$ (0.58)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Principles

These unaudited consolidated financial statements are based on accounting principles consistent with those used and described in the annual financial statements of North West Company Fund.

2. Unusual Item

During the first quarter ended May 2, 1998 the Company recorded unusual charges totaling \$20,000,000 as a result of a major repositioning of its Canadian operations designed to sharpen the Company's focus on its core markets and improve performance. Of this amount \$9,000,000 represented writedowns of discontinued inventory, \$7,000,000 was provided for head office and store staff reduction costs and \$4,000,000 was provided for other related costs.

3. Income Taxes

Certain interest amounts deducted by The North West Company Inc. are included as taxable income to unitholders of North West Company Fund upon distribution. The Alaska Commercial Company has operating loss carryforwards available to offset taxable income.

4. Identifiable Assets (in thousands of Canadian dollars)

	<u>May 1, 1999</u>	<u>May 2, 1998</u>
Canadian operations	\$ 269,686	\$ 289,086
Alaskan operations	67,106	68,960

5. Comparative Amounts

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	<u>13 Weeks Ended May 1, 1999</u>	<u>13 Weeks Ended May 2, 1998</u>
CASH PROVIDED BY (USED IN)		
Operating Activities		
Earnings (loss) for the period	\$ 5,312	\$ (8,724)
Non-cash items		
Amortization	4,965	4,531

Deferred income taxes	(93)	(206)
Amortization of bond warrant proceeds and interest rate fixing payment	(508)	(509)
Gain on disposal of capital assets	(3)	-
Unusual item	-	20,000
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Cash flow	9,673	15,092
Changes in non-cash working capital components	(2,023)	(14,160)
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Operating activities	7,650	932
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Investing Activities		
Purchase of capital assets	(4,177)	(3,425)
Proceeds from sale of capital assets	1,175	-
Other assets	(1,411)	(780)
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Investing activities	(4,413)	(4,205)
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Financing Activities		
Repayment of long-term debt	(99)	(95)
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Financing activities	(99)	(95)
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Distributions	(4,500)	(3,750)
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CHANGES IN CASH POSITION	(1,362)	(7,118)
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Effect of currency translation adjustment	1,699	1,314
Cash position, beginning of period	(29,293)	(55,961)
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CASH POSITION, END OF PERIOD	\$ (28,956)	\$ (61,765)
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CASH POSITION IS COMPRISED OF		
Cash	\$ 13,168	\$ 15,383
Bank advances and short-term notes	(42,124)	(77,148)
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	\$ (28,956)	\$ (61,765)
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