

## Enterprising...

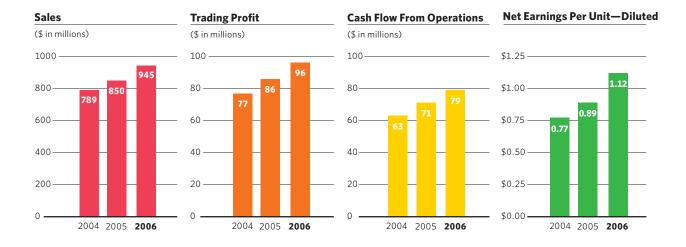
NORTH WEST COMPANY FUND
2006 SUMMARY ANNUAL REPORT



## **Financial Highlights**

All currency figures in this report are in Canadian dollars, unless otherwise noted

Fiscal Year (\$ in thousands)	2006 52 Weeks	2005 52 Weeks	2004 52 Weeks
RESULTS FOR THE YEAR			
Sales	\$ 944,924	\$ 849,653	\$ 788,693
Same store sales % increase <sup>1</sup>	5.8%	5.4%	1.4%
Trading profit <sup>2</sup> (earnings before interest, income taxes and amortization	n) <b>\$ 96,369</b>	\$ 85,502	\$ 76,606
Earnings before interest and income taxes <sup>2</sup> (EBIT)	70,197	60,489	52,701
Net earnings	53,660	42,890	37,265
Cash flow from operations <sup>2</sup>	78,753	70,856	63,150
FINANCIAL POSITION			
Total assets	\$ 441,869	\$ 423,849	\$ 414,477
Total debt	107,503	111,673	120,932
Total equity	252,030	242,573	236,285
FINANCIAL RATIOS			
Debt-to-equity	.43:1	.46:1	.51:1
Return on net assets <sup>3</sup>	19.7%	16.6%	14.8%
Return on average equity	21.7%	18.0%	16.2%
PER UNIT (\$)—DILUTED <sup>4</sup>			
Trading profit	\$ 1.99	\$ 1.77	\$ 1.58
Net earnings	1.12	0.89	0.77
Cash flow from operations	1.63	1.46	1.31
Equity—net book value	5.45	5.22	4.98
Cash distributions paid during the year	0.80	0.63	0.60
Market price—January 31	16.41	12.50	10.22
—high	18.50	12.83	10.58
—low	10.64	8.88	7.70

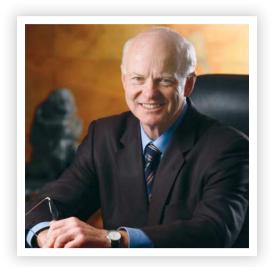


- 1 Same store sales, excluding the foreign exchange impact, on an equivalent 52-week basis
- 2 See Non-GAAP measures section on page 17 in the Management's Discussion & Analysis and Consolidated Financial Statements report which is available through SEDAR at <a href="https://www.sedar.com">www.sedar.com</a> or the Company's website at <a href="https://www.northwest.ca">www.northwest.ca</a>
- 3 Earnings before interest and income taxes as a percent of average net assets employed
- $4\ \ \text{All per unit information has been restated to reflect the three-for-one unit split that occurred on September 20, 2006.}$



North West Company Fund 2006

# North West Company Fund (NWF) once again delivered top quartile investment performance in 2006.



Total return was 39% compared to 1% for the Income Trust Index, 12% for the TSX Composite Index and 11% for the retail component of the TSX. During the past five years, the Fund's units have delivered an annualized compound total return of 32%.

This performance was made possible by the Company's more than 6,600 employees and, in particular, their extraordinary dedication to customer service in the diverse communities we serve. On behalf of all unitholders, I would like to thank them for another successful year.

For the second year in a row, taxation issues figured prominently in the performance of the income trust sector. On October 31, 2006, the federal government announced a tax of 31.5% that will apply to most income trusts starting in 2011. The unit values of trusts affected by the proposed tax declined significantly as a result, although average values had recovered to a level of about 7% less than pre-announcement levels within three months.

If the proposed tax had been applied to NWF's 2006 Canadian taxable income, the Fund's earnings and cash provided by operating activities would have been reduced by \$13 million or 20.4% of consolidated income before tax. However, under the proposed tax changes, taxable Canadian unitholders would receive taxable dividend treatment on their distributions such that the after-tax income for most taxable unitholders would be substantially unchanged. Non-taxable Canadian and foreign unitholders would have a reduction in their after-tax distribution income.

Jack Mintz and PricewaterhouseCoopers LLP have made proposals to the federal government that recommend a refundable tax credit to non-taxable Canadian unitholders and shareholders such as RRSPs, RIFs and pension funds. We think this type of credit would improve the balance of investment opportunity in the capital markets between private and public equities and large and small tax-exempt and tax-deferred investors. It would improve the efficiency of the Canadian capital markets and encourage Canadian ownership of Canada's enterprises.

No matter how this issue plays out, we will continue to monitor evolving tax and capital markets developments and do our best to ensure that NWF maximizes the benefits to unitholders during the non-taxable period until 2011. We remain confident in North West Company Fund's ability to prosper—during the next four years and in the post-2010 environment.

# In 2007, The North West Company is celebrating its 20<sup>th</sup> anniversary as an independent retailer and a 338-year history as one of the world's longest continuing enterprises.

Today our heritage continues to inspire us in meeting the needs of customers in our unique rural and neighbourhood markets. We are even prouder of our team of more than 6,600 Nor'Westers, whose commitment to excellence is North West's biggest competitive advantage.

In the spirit of our  $20^{th}$  anniversary year, we've created a new corporate identity, which you'll see throughout this report. It's meant to symbolize our drive, teamwork and enterprising spirit, and it reflects the strong links between our tradition and future as we look for new and better ways to serve our customers every day.

**2006** was a great example of the balance between activities that drive our annual results and building block investments. This balance, effectively managed, is a cornerstone principle that guides how we sustain and enhance our business. Over the last two years, we have achieved higher sales and earnings gains, reflecting work that began five years ago on building the selling capabilities of our stores and increasing our investment in new locations, products and services.

Sales, trading profit and net earnings increased for the seventh consecutive year and our productivity measures of return on assets, return on equity and inventory turns reached record levels. Sales were up 11.2% or \$95.2 million to \$944.9 million, divided equally between existing and new store growth. Same store sales were robust, producing a 5.8% gain. Simply stated, our progress was the result of creating more reasons for our customers to shop with us. These included our growing network of gas bars, pre-loaded cash cards and innovative food introductions. The growing brand awareness of our maturing Giant Tiger stores and our ability to maintain the high operating standards of our stores in a very tight entry labour market also helped our performance.

Trading profit improved by 12.7% to \$96.4 million, slightly less than the full leverage we expected from our sales gain. Food was the leading profit driver and remains our merchandise focus. Our nine new stores in Alaska and Canada are all very good locations but overall produced net losses in their first year, as we wrote off store opening and training costs. Other expenses that we consider to be non-reoccurring totaled over \$3 million. These included an unfavourable tax assessment on staff housing benefits in Alaska, a large heating fuel clean-up expense, also in Alaska, and the professional fees tied to creating our limited partnership structure.

Energy-related inflation was a neutral income factor but, in terms of dollars flowing through our business, it had a large impact. Some costs were passed through in our pricing and some were absorbed and offset by gains in staff efficiency and contributions from real sales growth in our comparable stores.

Net income increased 25.1% to \$53.7 million, reflecting operating earnings performance and the enhanced tax efficiency of step one of our limited partnership structure. Additional tax efficiency will be achieved if the second and final step of the reorganization is approved by the Canada Revenue Agency. If this occurs, we could increase cash distributions from our existing cash flow base by a further \$10 million to \$13 million per year. This will continue until expected new tax rules take effect for all business income trusts in 2011.







## **Report Card on 2006 Targets**

Our report card on last year's growth initiatives shows excellent results with some slower improvements where we underestimated development time for new businesses:

Food business will continue to be our first priority for market share growth. Same store food sales were up a healthy 6.9% across all store banners, exceeding our target of 6.0%. Inflation was significant at 3.3% but real market share growth was even greater. Fresh food categories averaged gains of more than 10.0%, supported by more focus in our advertising, marketing events and new items. Execution continued to improve despite intense competitive pressure on finding and keeping the best people to lead our stores and key departments.

In 2006, we will complete an assessment of wholesale distribution opportunities in northwestern Ontario and western Canada. We have decided that there is space in the wholesale market for what we can offer, as a one-stop partner for rural, independent retailers. System integration is underway to seamlessly offer our full range of products and efficiently process orders. We will be ready for testing with customers in the second half of 2007.

In healthcare, we now have a base capability in place following the acquisition of a large in-store pharmacy business early in 2006. Last year's plan was to open two in-store pharmacies and five satellite telepharmacy services. Two pharmacies and one telepharmacy were opened with two more constructed and awaiting regulatory approval from the Government of Nunavut. We expect to open or acquire in-store pharmacies at a faster pace in 2007 and move more slowly on the satellite operations, pending the outcome of the regulatory approval process in Nunavut and the Northwest Territories.

**Increasing food sales** Gary Dyck, Supervisor, Production Grocery, Winnipeg Logistics Service Centre, prepares food for distribution throughout the North.

**Super-convenience** Lindsay Linklater with her son, Spencer, at a QuickStop in Moose Factory, Ontario.

## Same store food sales were up a healthy 6.9% across all store banners.

New openings will accelerate in 2006 with six Giant Tiger (GT) banner stores and the anticipated acquisition of at least four Alaska stores. We finished the year with five Giant Tiger openings, one short of our goal. Three of our new GT stores were in Alberta where we are working hard to locate affordable sites. In Alaska, we completed the acquisition of four stores, including our first stores on Prince of Wales Island in the southeast region of the state.

The addition of gas bars and the repositioning of our smaller road-accessible stores to a 'super-convenience' product mix will continue to be refined in 2006. Our fuel business was very strong with six new gas bars opened against a target of five, bringing us to 45 at year end. Gas sales at existing outlets were up 30.3% reflecting price inflation and excellent market share gains driven literally by more customer traffic. Fuel will continue to grow as a core product within our road-accessible stores and will eventually be part of our wholesale offering to independent retailers.

Last year we started to sell motor vehicles, complementing our line-up of snow machines, all-terrain vehicles, boats and motors. Motor vehicle sales increased as planned, and we started selling vehicles at our Alaska stores. We have a good foothold in the Arctic and we have the potential to double our business in these markets over the next three years by adding locations and extending our product range. In less remote locations, there are entrenched buying patterns with conventional auto dealers and our initial expectations for volume growth will be more difficult but not impossible to achieve.



## **2007 Building Block Investments**

Serving local markets with convenient, lifestyle-driven shopping choices presents us with an ongoing stream of attractive new product and service opportunities. Being ready and able to take advantage of these opportunities is the goal of our building block work in the areas of leadership, technology and the way we organize our business.

## Leadership is the role of everyone at North West, with emphasis on managerial level positions throughout the organization.

We are each accountable to build highly capable teams and to ensure that we have clearly defined, valuable roles for our people. Building deeper bench strength is a key area, especially for our store management positions and for new businesses. We continued to refine our Manager-In-Training (MIT) programs to attract, teach and retain skilled people, and in 2007 we will recruit over 40 MITs into our company. Added to our efforts over the past two years, this recruitment target gives us the capacity to grow and to operate our existing stores at the highest standards.

Continuous leadership development is increasingly important at North West. We are investing more time, starting with my own, in the career planning of our highest potential managers and in leadership education programs. The result is that our managers are on the same page, working from the same principles when it comes to how we lead and what we expect from each other.

Technology will keep providing us with flexible, cost-effective information solutions. As we have added new banners, products and services, our information support needs have grown. Today, our computing environment is too rigid, complex and costly for a company of our relatively small size and wide breadth. In 2007, we will start converting to a Service Oriented Architecture that is a more agile, affordable "plug and play" model. The work will take several years as we simplify business applications and processes across our business. It will allow us to reduce information technology costs while delivering systems that fully support each of our specialized products and services, from food to pharmacy to general merchandise and financial services.

At North West we pride ourselves on being the local store in every respect. This means refining a retail model that encourages decision-making as close as possible to our customer. The equation is simple. Within the diversity of our small markets, more control and accountability at store level translates into better customer relationships and higher sales potential.

Over the past five years and for the next three or more we will continue to create a more decentralized selling structure that's supported by scalable and flexible home office services. Ongoing initiatives in support of this structure include integrated ordering systems, management recruiting and training, retention and incentive plans. In 2007, our priorities will be general merchandise ordering proficiency in our Canadian stores and best practices across all banners. Success will be measured by improved sales and margin performance in this business over 2006, and a continued reduction in our average inventory position.

2007 will be another year of above average capital spending on both sustaining and new business investment. We expect to spend about \$42 million this year, up from \$35 million in 2006 and our historical rate of \$25 million. Growth spending will accelerate in our health business with the addition of five in-store pharmacies. Ten new store openings are planned in Alaska and Canada. These will be a combination of new market builds and acquisitions of independent retailers. Six major store replacements and additions will be completed and we will launch a long-term store renewal program to cycle all of our stores through upgrades.

## **2007 Environment and Outlook**

## **in 2007.** We expect that lower inflation will bring down our comparable store sales growth from last year's exceptional levels. Northern consumer spending is expected to rise in the second half of the year due to several factors including: higher Permanent

We are planning for another year of improvement and growth

half of the year due to several factors including: higher Permanen Fund Dividends in Alaska; the distribution of residential school settlement payments in northern Canada; accelerated resource development in the far North; and a healthy salmon industry in Alaska.

Sales planning will receive more attention in 2007. Sales targets will be more ambitious and we will be ready to capture more seasonal sales throughout the year and during key selling events, outside of our traditionally strong Christmas period.

North West's senior management team has been strengthened by several recent changes. Michael McMullen, former CEO of Warehouse One, The Jean Store, joined North West in February 2007 to head up our Northern and NorthMart store banners. In the second half of last year, the food and general merchandise groups were consolidated into the Procurement and Marketing Group under Russell Zwanka who joined North West in mid-2005 from a leading regional U.S. food wholesaler. Within our Finance and Support Services Group, John King was promoted to the position of Vice-President, Finance & Secretary at mid-year. This move provided financial leadership depth and enabled Léo Charrière, CFO and Executive Vice-President of the Support Services Group, to lead our business planning, information systems and logistics work.

At North West, our first priority is to build a successful retail business. Our belief, which has stood the test of time, is that regardless of our structure the underlying business is where value is generated. Prior to becoming one of the first business income trusts in 1997, we were a publicly traded company with a solid record of earnings and dividends. Now, 10 years later, anticipated tax rules suggest that we should remain an income trust for the next four years while remaining open to new structure ideas that do not weaken our ability to be a growing, successful retailer.

No matter how the new tax rules for income trusts play out, North West is making the necessary investments for continued prosperity—during the next four years and in the post-2010 environment. With the valued support of our customers, suppliers and employees, I look forward to reporting on our progress in the months and years ahead.



# Each northern market is a never ending, enterprising opportunity.

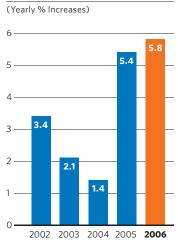


At North West, our northern store banners are driven by a strategy aimed at growing "with and within" each market. Where other retailers depend on new store openings for growth, our first priority is to sell more each year through existing

stores. You can see this commitment in our continuous expansion into new products and services and in our effort to tailor each store's merchandise mix to the community it serves. While the ongoing expansion of our food offering continues to drive sales growth, complementary products and services such as financial services, healthcare, motor vehicles and gas retailing are growing contributors to our success. At store level, we continue to invest in the skills and technology required to refine our merchandise selection and ordering capabilities. Combined with the insight of our local managers, we remain focused on the best merchandise opportunities, one community, and one customer, at a time.

And automobiles... Arviat Northern manager, Darren Price, with happy customer Hattie Alagalak, one of 71 new motor vehicle customers from remote communities in 2006.

## **Same Store Sales Growth**



Room to grow Uniquely positioned, with hard-to-duplicate assets in remote but thriving communities, North West continues to lead the industry in same store sales growth.

# North West Company Fund 2006

## An open mind creates enterprising partnerships.

When your product and service offering is as broad as ours, competing against specialty retailers requires an open, enterprising approach. Our Giant Tiger venture combines the buying power of North West and Giant Tiger stores to obtain the lowest cost on food items, while leveraging North West's regional market knowledge. Stores are modeled after Giant Tiger's eastern Canadian business with the merchandise mix adapted to regional and local differences. The result is a blend of expertise that has enabled North West to extend its reach from remote to urban markets while enhancing the Company's cash flow performance.

Our first partnership started 15 years ago with the launching of licensed quick-service food outlets under the Pizza Hut and KFC banners. Since then, we have entered into mutually profitable ventures with many companies including H&R Block, Canada Post, TruServ Canada Inc., Dufresne Furniture & Appliances, Bailey's Furniture, Burger King and A&W.



1987

1990

1992

Purchase of Alaska

Frontier Expeditors

Commercial Company and

1993

First Burger King opens

Approval of adoption of The North West Company name by shareholders

Northern retail banner rollout begins

Northern

NWC common shares are listed on the Toronto, Ontario and Winnipeg, Manitoba stock exchanges



Winnipeg Retail Service Centre, a state of the art distribution facility, opens

First KFC opens in Nelson House, Manitoba

First Pizza Hut Express opens in Cross Lake, Manitoba







Food distribution facility

opens in Winnipeg, Manitoba



food outlet

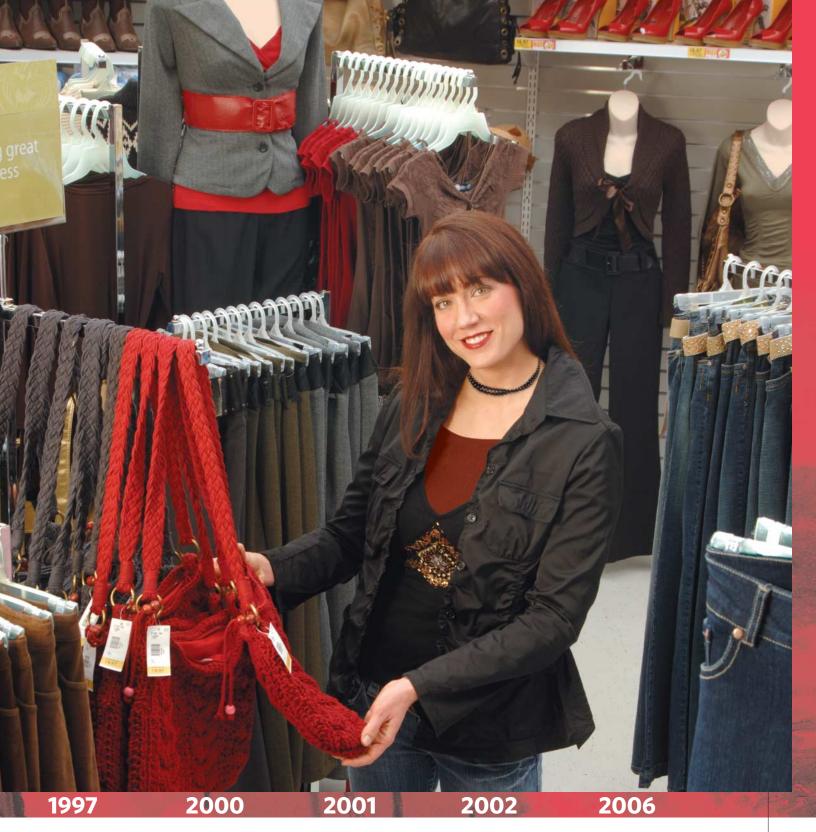


Purchase of the assets of Hudson Bay Company Northern Stores Division

in Dutch Harbour, Alaska First NorthMart opens

in La Ronge, Saskatchewan including an A&W fast





Acquisition of Crescent Multi Foods

Announcement of the North West Company Fund structure



Introduction of *H&R Block* and *TruServ Canada Inc.* alliances

Wintering Partners' Conference resumes in Winnipeg, Manitoba



TRUSERV.

Alliance with *Dufresne* Furniture & Appliances begins

Giant Tiger pilot stores open in Winnipeg and Thompson, Manitoba





Master Franchise Agreement with *Giant Tiger Stores Limited* signed

Alliance agreement with A. De La Chevrotière Ltée commences

Acquisition of a retail pharmacy in Moosonee, Ontario

Partnership with Bailey's Furniture begins





# orth West Company Fund 2006

Close-knit NWC enjoys centurieslong relationships with many of the communities we serve, exemplified by the annual Moose Cree First Nation Elder's Christmas Feast we sponsor in Moose Factory, Ontario. Shown in the foreground are Mary Linklater, Nellie Fairies, Sophia Quachegan, Anne Marie

Jamieson, Charlotte Hardisty,

Lorne Lazarus, April Katapaytuk, Billy Cornston Senior and Sandra Little.

## **Good citizens build better communities.**

Strong community relations aren't just a noble goal at The North West Company—they're an integral part of everyday life in our stores, where the scale of our business and the close-knit communities we serve is dwarfed by a majestic and often unrelenting environment. Here, the spirit of human cooperation is strong and personal relationships run deep, often through generations. We embrace the accountability that comes with this territory and treat it as a privilege that demands our respect and support. While our stated purpose is "to enhance lives by offering shopping choices that are convenient, dependable and lifestyle-driven," we recognize that being a supportive local enterprise is an essential part of what we do. Our efforts are intensely focused at the community and regional levels because this is where the greatest need resides. We are asked often for help and, in one way or another, we do our best to lend a hand.



**Supportive** High school basketball tournaments such as this one in Cordova are a popular activity and a source of pride in Alaskan communities. The Alaska Commercial Company is a major sponsor of the Alaska Schools Activity Association (ASAA) benefiting students, athletes, musicians, and entertaining families throughout the state.



## Our performance depends on the efforts of more than 6,600 associates

who share a proud and enterprising heritage. That's why we do our best to challenge and reward them. Throughout the organization, we encourage accountability, innovation and delegation of work to the lowest capable level. And we provide our people with the comprehensive training and tailored compensation programs they need to reach their potential. It's an investment that emulates the enterprising legacy of Canada's first merchants, and it will always be an integral part of our success.



#### Cash Distributions & Unit Price Post Split Basis (\$) Annual Cash Distributions Unit Closing Price Special Distribution (as of January 31) 1.00 20.00 16.41 0.75 15.00 12.50 7.88 10.22 0.11 6.90 0.50 0.90 10.00 0.25 5.00 0.52 0.52 0.00 0.00

## **North West Company Fund Structure**

The Fund The North West Company Fund (the Fund) was created on March 27, 1997 when the shareholders of The North West Company (the Company) exchanged their shares for 100% of the issued units of the Fund. The benefits of the Fund structure included increased cash distributions to unitholders, improvement in unitholder value and a greater ability to raise capital for growth. Interest paid by the Company to the Fund and then through to unitholders resulted in tax efficiencies to the Company. These tax efficiencies and the positive trend in cash flow from operations of the Fund have permitted growing distributions to unitholders.

As a result of the Company's growth in profitability, the Fund had reached the maximum tax benefits available under the existing structure by the end of 2005, at which time the Fund initiated an internal reorganization that transferred most of the Canadian assets and operations to a limited partnership, The North West Company LP (NWC LP). Completed in April 2006, this new structure allows an increased portion of the future growth in the profitability of the Canadian operations to be distributed to unitholders on a more tax effective basis.

The Fund also proceeded with a tax ruling submission to the Canada Revenue Agency to implement a further restructuring to more fully utilize the benefits of the limited partnership structure. Unitholder approval for this next step was received at the June 8, 2006 Annual and Special Meeting. A response to the submission has not yet been received. Lender approval will also be required.

**Capital Structure of the Company** The Fund holds a total of \$205.0 million in subordinated notes of the Company and of the NWC Trust at an average interest rate of 12.6%. The maximum total distribution from interest on the notes, net of fund expenses, is \$0.52 per unit. Additional distributions are made from dividends paid to the Fund by the Company and from the net income of NWC LP after a preferred distribution is paid to the Company. The Fund owns all of the shares of the Company and is the only holder of units in the NWC Trust.

**Cash Paid Out and Reinvested** The following table outlines the cash flow from operations per unit and the amounts distributed and reinvested over the past five years. Distributions increased from \$0.52 per unit in 2002 to \$0.90 per unit in 2006. A special distribution of \$0.11 per unit is included in the 2003 distributions. The Company has reinvested over 50% of cash flow from operations.

Fiscal year	2002	2003	2004	2005	2006
Cash flow from operations/unit \$ <sup>1</sup>	1.22	1.22	1.31	1.46	1.63
Payout \$	0.52	0.632	0.60	0.63	0.90
Payout %	42.6	51.6	45.8	43.2	55.2
Reinvested \$	0.70	0.59	0.71	0.83	0.73

- 1 For 2002 to 2006, the total number of units outstanding throughout the year was used to calculate cash flow from operations/unit \$. Units held by management as part of the Unit Purchase Loan Plan were not deducted from the total number of units outstanding 2 2003 includes a special distribution of \$0.11 per unit

**Distributions** The policy of the Fund is to distribute the interest received on the notes and its portion of the NWC LP earnings. This policy is based on the Company's assessment of short- and long-term capital requirements, earnings stability and balance sheet strength. During 2006, unitholders received quarterly cash distributions of \$0.18 to \$0.22 per unit with an extra distribution of \$0.10 included in the 2006 amount but paid in February 2007. Quarterly cash distributions of \$0.22 per unit are expected for 2007, payable to unitholders of record at the end of March, June, September and December, and distributed by the fifteenth of the following month. Depending on the profitability of the limited partnership, the Trustees may elect to increase the level of distributions.

## **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 summarized financial statements and all other information in this annual report. The summarized 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. The summarized consolidated financial statements and all other information in this annual report should be read in conjunction with the audited consolidated financial statements and Management's Discussion & Analysis.

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

### 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

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## **Auditor's Report on Summarized Financial Statements**

To the Unitholders of North West Company Fund: The accompanying summarized consolidated balance sheet and statements of earnings and retained earnings and cash flows are derived from the complete consolidated financial statements of North West Company Fund as at January 31, 2007 and January 28, 2006 and for the years then ended on which we expressed an opinion without reservation in our report dated March 19, 2007. The fair summarization of the complete financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized financial statements.

In our opinion, the accompanying financial statements fairly summarize, in all material respects, the related complete consolidated financial statements in accordance with the criteria described in the Guideline referred to above.

These summarized financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the entity's financial position, results of operations and cash flows, reference should be made to the related complete consolidated financial statements.

Chartered Accountants Winnipeg, Canada

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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	2,708		1,824	
	226,164		218,742	
Property and equipment	189,599		182,108	
Other assets	19,690		17,306	
Future income taxes	6,416		5,693	
	\$ 441,869	\$	423,849	
LIABILITIES				
Current liabilities				
Bank advances and short-term notes	\$ 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	20,291		108	
	122,783		95,467	
Long-term debt	65,631		84,524	
Asset retirement obligations	1,425		1,285	
	189,839		181,276	
EQUITY				
Capital	165,205		165,205	
Contributed surplus	383		_	
Unit purchase loan plan	(11,493)		(9,965)	
Retained earnings	93,253		83,133	
Cumulative currency translation adjustments	4,682		4,200	
	252,030		242,573	
	\$ 441,869	\$	423,849	

Approved by the Trustees

lan Sutherland Edward S. Kennedy

All financial data was summarized from and should be read in conjunction with the audited consolidated financial statements included in the Management's Discussion & Analysis and Consolidated Financial Statements report which is available through SEDAR at www.sedar.com or the Company's website at www.northwest.ca

## **Consolidated Statements of Earnings & Retained Earnings**

 <b>52 Weeks Ended</b> 52 Weeks Ended January <b>31, 2007</b> January 28, 20			
\$ 944,924	\$	849,653	
(848,555)		(764,151)	
96,369		85,502	
(26,172)		(25,013)	
70,197		60,489	
(6,844)		(6,120)	
63,353		54,369	
(9,693)		(11,479)	
\$ 53,660	\$	42,890	
83,133		70,560	
(43,540)		(30,317)	
\$ 93,253	\$	83,133	
\$ 1.13	\$	0.90	
\$ 1.12	\$	0.89	
Januar \$	\$ 944,924 (848,555)  96,369 (26,172)  70,197 (6,844)  63,353 (9,693)  \$ 53,660 83,133 (43,540)  \$ 93,253	\$ 944,924 \$ \$ (848,555)  96,369 (26,172)  70,197 (6,844)  63,353 (9,693)  \$ 53,660 \$ \$ 83,133 (43,540)  \$ 93,253 \$ \$	

All financial data was summarized from and should be read in conjunction with the audited consolidated financial statements included in the Management's Discussion & Analysis and Consolidated Financial Statements report which is available through SEDAR at www.sedar.com or the Company's website at www.northwest.ca

# th West Company Fund 2006

## **Consolidated Statements** of Cash Flows

(\$ in thousands)	52 Weeks Ended January 31, 2007	52 Weeks Ended January 28, 2006
CASH PROVIDED BY (USED IN)		
Operating Activities	¢ 52.440	¢ 42.000
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	383	_
Amortization of deferred financing costs	186	186
Gain on disposal of property and equipment	(68)	(13)
	78,753	70,856
Change in non-cash working capital	3,845	9,865
Change in other non-cash items	(1,112)	(5,432)
Operating activities	81,486	75,289
Investing Activities		
Business acquisitions	(5,577)	_
Purchase of property and equipment	(30,136)	(24,833)
Proceeds from disposal of property and equipment	237	848
Investing activities	(35,476)	(23,985
Financing Activities		
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	(38,702)	(30,317)
Financing activities	(45,798)	(40,854
NET CHANGE IN CASH	\$ 212	\$ 10,450
Cash, beginning of year	21,888	11,438
CASH, END OF YEAR	\$ 22,100	\$ 21,888
Supplemental disclosure of cash paid for:		
Interest expense	\$ 6,839	\$ 6,166
Income taxes	\$ 11,730	\$ 9,260

All financial data was summarized from and should be read in conjunction with the audited consolidated financial statements included in the Management's Discussion & Analysis and Consolidated Financial Statements report which is available through SEDAR at www.sedar.com or the Company's website at www.northwest.ca

## **Eleven-Year Financial Summary**

Fiscal Year¹ (\$ in thousands)	2006 52 weeks	2005 52 weeks	2004 52 weeks	2003 53 weeks	2002 52 weeks	
Consolidated Statements of Earnings						
Sales—Canadian Operations	\$ 769,633	\$ 689,340	\$ 629,822	\$ 615,661	\$ 565,747	
Sales—Alaskan Operations	175,291	160,313	158,871	167,059	184,012	
Sales—Total	944,924	849,653	788,693	782,720	749,759	
Trading Profit (EBIUTDA) <sup>3</sup> —Canadian Operations	81,730	70,561	62,629	57,663	59,163	
Trading Profit (EBIUTDA) <sup>3</sup> —Alaskan Operations	14,639	14,941	13,977	15,163	13,108	
Trading Profit (EBIUTDA) <sup>3</sup> —Total Operations	96,369	85,502	76,606	72,826	72,271	
Amortization—Canadian Operations	22,248	21,103	19,977	18,413	18,976	
Amortization—Alaskan Operations	3,924	3,910	3,928	3,988	3,696	
Amortization—Total	26,172	25,013	23,905	22,401	22,672	
Unusual item	_	_	_	_	_	
Interest	6,844	6,120	5,761	6,299	6,681	
Income tax provision (recovery)	9,693	11,479	9,675	8,396	8,449	
Net earnings	53,660	42,890	37,265	35,730	34,469	
Cash flow from operations	78,753	70,856	63,150	58,886	59,184	
Distributions/Dividends paid during the year	38,702	30,317	29,105	30,639	25,157	
Cash flow from operations after distributions/dividends	40,051	40,539	34,045	28,247	34,027	
Capital expenditures	30,136	24,833	22,323	33,273	20,128	
Net change in cash	212	10,450	(5,189)	6,176	475	
Consolidated Balance Sheets						
Current assets	\$ 226,164	\$ 218,742	\$ 208,188	\$ 196,830	\$ 209,900	
Property and equipment	189,599	182,108	186,104	192,395	188,194	
Other assets	19,690	17,306	12,253	12,153	10,775	
Future income taxes	6,416	5,693	7,932	8,222	9,322	
Current liabilities	122,783	95,467	88,284	83,140	91,995	
Long-term debt and other liabilities	67,056	85,809	89,908	97,982	106,812	
Equity	252,030	242,573	236,285	228,478	219,384	
Consolidated per Unit/Share (\$) <sup>2</sup>						
Net earnings before unusual item—basic	\$ 1.13	\$ 0.90	\$ 0.78	\$ 0.75	\$ 0.72	
Net earnings—diluted	1.12	0.89	0.77	0.74	0.71	
Trading profit <sup>4</sup>	2.03	1.79	1.60	1.52	1.50	
Cash flow from operations <sup>4</sup>	1.66	1.49	1.32	1.23	1.23	
Distributions paid in cash during the year	0.80	0.63	0.60	0.63	0.52	
Distributions paid in units during the year	0.00	0.00	0.00	0.00	0.00	
Dividends paid in cash during the year	0.00	0.00	0.00	0.00	0.00	
Cash flow from operations after cash distributions/dividends <sup>4</sup>	0.86	0.86	0.72	0.60	0.71	
Equity at end of fiscal year (basic units outstanding)	5.29	5.11	4.95	4.78	4.59	
Market price at January 31	16.41	12.50	10.22	7.88	6.90	
Statistics at Year End						
Number of stores—Canadian	168	164	159	156	154	
Number of stores—Alaskan	32	27	25	25	25	
Selling square feet (000's) end of year—Canadian Stores	1,226	1,157	1,093	1,106	1,070	
Selling square feet (000's) end of year—Alaskan Stores	311	272	255	254	245	
Sales per average selling square foot—Canadian	\$ 646	\$ 613	\$ 573	\$ 566	\$ 534	
Sales per average selling square foot—Alaskan	\$ 601	\$ 608	\$ 624	\$ 669	\$ 752	
Number of employees—Canadian Operations	5,833	5,175	4,830	4,552	4,270	
Number of employees—Alaskan Operations	806	732	692	736	657	
Average units/shares outstanding (000's)	47,561	47,694	47,754	47,820	48,021	
Units/Shares outstanding at end of fiscal year (000's)	47,625	47,463	47,700	47,799	47,844	
Units/Shares traded during the year (000's)	13,201	6,956	7,393	7,207	7,617	
Financial Ratios					2	
Trading profit (%) <sup>3</sup>	10.2	10.1	9.7	9.3	9.6	
EBIUT (%) <sup>5</sup>	7.4	7.1	6.7	6.4	6.6	
Total return on net assets before unusual item (%)	19.7	16.6	14.8	14.1	13.4	
Return on average equity before unusual item (%)	21.7	18.0	16.2	16.0	15.8	
Debt-to-equity	.43:1	.46:1	.51:1	.56:1	.62:1	
Distributions/Dividends as % of cash flow from operations	49.1 5.1	42.8	46.1	52.1 4.1	42.5	
Inventory turnover (times)	5.1	4.6	4.2	4.1	3.7	

 $<sup>1\,</sup>$  The fiscal year changed from the last Saturday in January to January 31, effective January 31, 2007

<sup>2</sup> On September 20, 2006 the units were split on a three-for-one basis.

All per unit information has been restated to reflect the three-for-one split except trading volume

	Fiscal \ (\$ in thousa	1996 52 weeks	1997 53 weeks	98 eks	1 52 we	1999 52 weeks	5	2000 52 weeks	2001 52 weeks	5
	Consolidated Statements of Earn									
_	Sales—Canadian Operati	\$ 474,465	\$ 497,997	23	\$ 494,	478,508	\$	\$ 502,756	532,349	\$
	Sales—Alaskan Operati	116,118	118,713		135,	147,961		156,276	171,694	
	Sales—7	590,583	616,710		629,	626,469		659,032	704,043	
	Trading Profit (EBIUTDA) <sup>3</sup> —Canadian Operati									
	Trading Profit (EBIUTDA) — Canadian Operati	57,198	53,478		55,	51,075		54,534	60,337	
		2,159	3,620	04		8,881		9,352	10,198	
lions	Trading Profit (EBIUTDA) <sup>3</sup> —Total Operat	59,357	57,098	140	62,	59,956		63,886	70,535	
ions	Amortization—Canadian Operat	14,181	15,525	39	16,	17,287		18,568	19,301	
tions	Amortization—Alaskan Operati	1,968	1,986	70	2,	2,860		2,987	3,393	
Total	Amortization—T	16,149	17,511	109	19,	20,147		21,555	22,694	
item	Unusual i	_	_	00	20,	_		_	_	
erest	Inte	11,843	12,298	14	13,	11,701		13,236	10,501	
verv)	Income tax provision (recov	13,507	6,252	28)	(7.	151		961	8,325	
	Net earn	17,858	21,037		16,	27,957		28,134	29,015	
	Cash flow from operation	30,587	35,992		52,	44,854		47,782	55,773	
<b>´</b>	Distributions/Dividends paid during the	6,094	8,925		18,	21,600		21,446	21,375	
ends	Cash flow from operations after distributions/divide	24,493	27,067		33,	23,254		26,336	34,398	
ures	Capital expendito	22,994	28,818	28	18,	22,777		19,133	20,427	
cash	Net change in o	(1,759)	6,967	:60	1,	(1,481)		(1,567)	1,388	
eets	Consolidated Balance Sho									
sets	Current as:	\$ 184,836	\$213,659	.37	\$ 174,	176,164	\$	\$ 192,250	219,956	\$
nent	Property and equipm	184,268	198,074	10	197,	195,429		194,448	194,025	
	Other as:	14,632	13,403		13,	12,351		10,055	9,836	
	Future income ta	(8,570)	(9,102)	19		3,593		19,212	9,358	
	Current liabili	92,585	121,398		90,	92,486		100,886	204,017	
	Long-term debt and other liabili	135,228	134,476		132,	125,146		124,106	9,634	
quity		147,353	160,160		164,	169,905		190,973	219,524	
	<u> </u>	147,555	100,100	/	104,	107,703		170,773	217,324	
	Consolidated per Unit/Share									
	Net earnings before unusual item—b	\$ 0.39	\$ 0.47	61		0.62	\$	\$ 0.63		\$
	Net earnings—dilu	0.39	0.47	.36	(	0.62		0.63	0.65	
	Trading pro	1.31	1.27	.38	·	1.33		1.43	1.58	
ons⁴	Cash flow from operation	0.68	0.80	16		1.00		1.07	1.25	
year	Distributions paid in cash during the	0.00	0.13	.33	(	0.48		0.48	0.49	
year	Distributions paid in units during the	0.00	0.00	.08	(	0.00		0.00	0.00	
year	Dividends paid in cash during the	0.13	0.07	.00	(	0.00		0.00	0.00	
nds <sup>4</sup>	Cash flow from operations after cash distributions/divider	0.55	0.60	.83	(	0.52		0.59	0.76	
ding)	Equity at end of fiscal year (basic units outstand	3.27	3.56	65		3.78		4.33	4.54	
ry 31	Market price at Januar	3.67	4.67	20	ļ	4.00		4.33	5.73	
r End	Statistics at Year									
	Number of stores—Cana	160	162	.51		150		150	150	
	Number of stores—Canal		163			153		153	153	
		27	28	23		25		24	24	
	Selling square feet (000's) end of year—Canadian Sto	1,026	1,063	90		998		1,019	1,050	
	Selling square feet (000's) end of year—Alaskan Sto	229	227	29		235		238	244	
	Sales per average selling square foot—Canac	\$ 466	\$ 477	81		481	\$	\$ 499	515	\$
	Sales per average selling square foot—Alas	\$ 513	\$ 520	92		638	\$	\$ 661		\$
	Number of employees—Canadian Operation	3,725	4,004	23	3,	3,787		3,822	4,015	
ions	Number of employees—Alaskan Operati	645	685	35		655		655	690	
)0's)	Average units/shares outstanding (00	45,285	45,000	00	45,	45,000		44,625	44,688	
)0's)	Units/Shares outstanding at end of fiscal year (00	45,000	45,000	00	45,	45,000		44,073	48,378	
)0's)	Units/Shares traded during the year (00	6,862	6,195	06	4,	2,795		4,843	4,776	
atios	Financial Ra									
	Trading profit <sup>3</sup>	10.1	9.3	9.9		9.6		9.7	10.0	
	EBIUT <sup>5</sup>	7.3	6.4	5.8		6.4		6.4	6.8	
	Total return on net assets before unusual item	13.4	11.4	2.1		11.6		11.5	12.7	
	Return on average equity before unusual item	13.4	13.9	z.1 7.6		16.8		15.2	14.9	
	Debt-to-eq	1.19:1	1.26:1		1.0	1.01:1		.92:1	.69:1	
	Distributions/Dividends as % of cash flow from operation	19.9	24.8	5.0		48.2		44.9	38.3	
nes)	Inventory turnover (tin	3.0	3.0	3.1		3.4		3.3	3.3	

## **Unitholder Information**

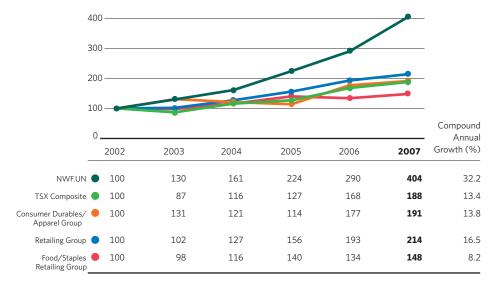


Fiscal Year	Unit Price High	Unit Price Low	Unit Price Close	Volume <sup>2</sup>	EPU <sup>3</sup>
2006	\$ 18.50	\$ 10.64	\$ 16.41	13,166,699	\$ 1.12
April 30, 2006	14.17	10.64	13.62	1,543,300	0.20
July 31, 2006	15.96	12.65	15.49	2,360,545	0.27
October 31, 2006	18.50	14.74	17.61	3,105,911	0.31
January 31, 2007	17.19	12.25	16.41	6,156,943	0.34
<b>2005</b> <sup>1</sup>	\$ 12.83	\$ 8.88	\$ 12.50	6,955,708	\$ 0.89
April 30, 2005	11.25	9.55	9.75	1,617,400	0.16
July 31, 2005	11.48	9.67	11.15	1,109,500	0.23
October 31, 2005	11.33	8.88	9.45	2,180,500	0.25
January 31, 2006	12.83	9.13	12.50	2,048,308	0.25
<b>2004</b> <sup>1</sup>	\$ 10.58	\$ 7.70	\$ 10.22	7,392,594	\$ 0.77
April 30, 2004	8.42	7.73	7.77	2,712,528	0.13
July 31, 2004	8.78	7.70	7.87	1,607,521	0.19
October 31, 2004	9.00	7.83	8.87	1,443,974	0.23
January 31, 2005	10.58	8.74	10.22	1,628,571	0.22

<sup>1 2004/2005</sup> restated for the three-for-one unit split

### **Total Return Performance** (% at January 31)

This chart illustrates the relative performance of units (on a post split basis) of North West Company Fund over the past five years. The index incorporates the reinvestment of dividends and income distributions.





#### **2007 Financial Calendar Reporting Dates**

First Quarter: June 5, 2007

Second Quarter: September 6, 2007 Third Quarter: December 6, 2007 Fourth Quarter: March 19, 2008

### **North West Company Fund Distribution Dates**

Record and Payable Date: March 31, 2007 Distributable Date: April 15, 2007

Record and Payable Date: June 30, 2007 Distributable Date: July 15, 2007

Record and Payable Date: September 30, 2007 Distributable Date: October 15, 2007

Record and Payable Date: December 31, 2007 Distributable Date: January 15, 2008

#### **Annual Meeting**

The Annual Meeting of Unitholders of North West Company Fund will be held on Tuesday, June 5, 2007 at 11:30 am in the Muriel Richardson Auditorium, Winnipeg Art Gallery, 300 Memorial Boulevard, Winnipeg, Manitoba.

### **Transfer Agent and Registrar**

CIBC Mellon Trust Company Calgary and Toronto Toll-free: 1800 387 0825 www.cibcmellon.ca

## **Stock Exchange Listing**

The Toronto Stock Exchange

## Stock Symbol NWF.UN

TIN #: T 17 685 782 CUSIP #: 662906-10-6

Number of units outstanding at fiscal year end on a diluted basis: 48,378,000 Average number of units outstanding in 2006 on a diluted basis: 48,378,000

### **Auditors**

PricewaterhouseCoopers LLP

#### Bankers

The Toronto-Dominion Bank Bank of Montreal

<sup>2</sup> Volumes are reflected as the actual volumes traded and show a blend of pre and post September 20, 2006 unit split trades

<sup>3</sup> Net earnings per unit on a diluted basis

## **Corporate Governance**

Complete disclosure on North West Company Fund's corporate governance is provided in the Company's Management Information Circular, which is available on the Canadian Securities Administrators' website at <a href="https://www.sedar.com">www.sedar.com</a> or in the investor section of The North West Company's website at <a href="https://www.northwest.ca">www.northwest.ca</a>

#### Officers

The North West Company Inc. NWC GP Inc. The North West Company LP

Ian Sutherland<sup>1</sup> Chairman

Edward S. Kennedy 1, 2, 3 President & CEO

Léo P. Charrière 1, 2, 3 Executive Vice-President & CFO

Russell J. Zwanka<sup>1,3</sup> Executive Vice-President, Procurement & Marketing

Michael W. McMullen<sup>1,3</sup> Executive Vice-President, Northern Canada Retail

Scott A. McKay<sup>1,3</sup> Vice-President & General Manager, Giant Tiger, West

Karen J. Milani<sup>1,3</sup> Vice-President, Human Resources

Kenneth M. Claudel <sup>1, 3</sup> Vice-President, Logistics & Supply Chain Services

John D. King<sup>1,2,3</sup> Vice-President, Finance & Secretary

Gerald L. Mauthe<sup>1,3</sup> Vice-President, Information Services

- 1 The North West Company Inc.
- 2 NWC GP Inc.
- 3 The North West Company LP

#### **Officers & Directors**

Principal Subsidiary Company NWC (U.S.) Holdings Inc. Principal Subsidiary Company of NWC (U.S.) Holdings Inc. Alaska Commercial Company

Edward S. Kennedy 1, 2 Chairman & CEO

Rex A. Wilhelm 1, 2 President

Henry J. Baldwin II<sup>1,2</sup> Vice-President, Human Resources & Logistics

Léo P. Charrière 1, 2 CFO

David M. Chatyrbok<sup>2</sup> Vice-President, Marketing

John D. King<sup>2</sup> Secretary

Benjamin C. Piatt 1,2 Vice-President, Market Development

Walter E. Pickett <sup>1,2</sup> Vice-President, Store Operations

Reinhard Sedlacek<sup>2</sup> Treasurer

- 1 Director
- 2 Officer

#### **Trustees & Directors**

North West Company Fund The North West Company Inc.

Ian Sutherland

Edward S. Kennedy

David G. Broadhurst 2,4

Frank I. Coleman 3,4

Wendy F. Evans<sup>2,3</sup>

Robert J. Kennedy 1,3

Gary J. Lukassen<sup>2,3</sup>

Keith G. Martell 1,2

James G. Oborne 2,4

H. Sanford Riley 1,3

## **Committees**

- 1 Corporate Governance & Nominating
- 2 Audit
- 3 Human Resources & Compensation
- 4 Pension



For additional copies of this report or for general information about the Fund or the Company, contact our Assistant Corporate Secretary:

## The North West Company Inc.

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**Design** Circle

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## The North West Company traces its roots to North America's first trading post,

established at Waskaganish on James Bay in 1668. Our new corporate identity reflects the enterprising spirit that our people have fostered since day one—and builds on this venerable history. Nor'Westers have consistently been associated with the vision, hard work, and perseverance of the voyageurs who pushed past limits to further our Company's growth during the fur trade. Today, we continue to embrace this pioneering culture as enterprising and dependable "frontier merchants."

