

# THE NORTH WEST COMPANY

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**ANNUAL INFORMATION FORM**  
**NORTH WEST COMPANY FUND (SUCCESSOR ISSUER**  
**TO THE NORTH WEST COMPANY INC.)**  
**(dated June 4, 1998)**

**FORMATION**

Effective March 27, 1997, shareholders of The North West Company Inc. (the "Company") exchanged their shares on a one-for-one basis for units (the "Units") of the North West Company Fund (the "Fund") pursuant to a reorganization of the Company (the "Reorganization") under a Plan of Arrangement (the "Plan") made pursuant to Section 192 of the Canada Business Corporations Act and approved by shareholders at a Special Meeting held on March 21, 1997.

The Fund is an open-ended trust governed by the laws of the Province of Manitoba and created pursuant to a Declaration of Trust dated as of January 31, 1997. It is administered by a board of trustees (the "Trustees").

The Fund is a limited purpose trust and is restricted to:

- a. investing in such securities as may be approved from time to time by the Trustees and the board of directors of the Company including the Company's common shares, the Company's preferred shares, the Company's subordinated notes (the "Subordinated Notes") and the Company's variable notes and any other securities of the Company;
- b. disposing of any part of the assets of the Fund;
- c. temporarily holding cash and investments for the purpose of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any trust units, and making distributions to holders of the Units (the "Unitholders"); and
- d. undertaking such other business and activities as shall be approved by the Trustees from time to time provided that such business or activity does not result in the Fund not being considered either a "unit trust" or a "mutual fund trust" for purposes of the Income Tax Act.

To the maximum extent possible, the Fund will make cash distributions to Unitholders of the interest income earned from the Subordinated Notes, dividends received on, and amounts, if any, received on redemption of the Company's common and preferred shares after expenses and any cash redemptions of Units. See "Fund's Distribution Policy"

On June 4, 1998, by special resolution, four amendments to the Declaration of Trust were approved by Unitholders at a Special and Annual Meeting of Unitholders, which amendments permit the Trustees from time to time to invest net income of the Fund in permitted investments (as described in the Declaration of Trust) and to make distributions of Units in these circumstances to Unitholders in lieu of cash.

The registered and principal office of the Fund is located at 77 Main Street, Winnipeg, Manitoba, R3C 2R1.

## **INCORPORATION OF THE COMPANY**

The Company is a wholly-owned subsidiary of the Fund and is the only subsidiary of the Fund. All of the Company's shares

and Subordinated Notes are held by the Fund. The Company was incorporated under the laws of the Province of Ontario on January 17, 1978, and was continued under the laws of Canada as 155191 Canada Inc. on May 5, 1987. On July 17, 1987, the Company changed its name to Northern Stores Inc. and on March 16, 1990, to The North West Company Inc.

The Company restructured its operations effective July 1, 1991, by transferring certain operating assets into three wholly owned subsidiaries, The North West Company (NWT) Inc., The North West Company (Quebec) Inc. and The North West Company (Northern) Inc.

Effective November 1, 1992, the Company acquired Alaska Commercial Company ("AC").

On June 28, 1996, the Company amalgamated with two of its wholly-owned subsidiaries, The North West Company (Northern) Inc. and F. A. Anderson & Sons Ltd.

The registered and principal office of the Company is located at 77 Main Street, Winnipeg, Manitoba, R3C 2R1.

## GENERAL DEVELOPMENT OF THE BUSINESS OF THE COMPANY

The shares and Subordinated Notes of the Company are the only assets of the Fund and accordingly the relevant disclosure with respect to the business of the Fund relates to the business of the Company.

The Company, operating under its trading names NORTHERN, NORTHMART, QUICKSTOP, THE NORTH WEST COMPANY TRADING POST, NORTHERN RENTAL PURCHASE, AC VALUE CENTER, and AC EXPRESS CENTER, is the leading retailer of food, family apparel and general merchandise in northern communities. The Company also operates complementary businesses which utilize its unique heritage and knowledge of the north.

The Company's Canadian operations as at January 31, 1998 consisted of 145 NORTHERN stores, four NORTHMARTS, six stand-alone QUICKSTOP convenience stores, six NORTH WEST COMPANY TRADING POSTS and one NORTHERN RENTAL PURCHASE outlet. These 162 outlets are located in 151 communities in the Northwest Territories, the Yukon Territories and the Canadian provinces (excluding New Brunswick, Prince Edward Island and Nova Scotia). The communities range in size from small, remote settlements with populations of as little as 300 people to larger regional locations with populations of up to 10,000 people. In 1997 the Company also operated the Inuit Art Marketing Service in Toronto, and The Odd Lots Discount Centre and Crescent Multi Foods in Winnipeg. Revenue from Canadian operations for the year ended January 31, 1998 was \$498.0 million.

Under its trading names AC VALUE CENTERS (23) and AC EXPRESS CENTERS (5), the Company's U.S. operations as at January 31, 1998, consisted of 28 stores in rural Alaska, serving a market of approximately 150,000 people. These stores operate on a similar format to the NORTHERN stores that service remote communities in northern Canada. The Alaskan operations also include Frontier Expeditors (FEI), which provides wholesale services to small independent retailers in remote areas of Alaska. Revenue from Alaskan operations for the year ended January 31, 1998, was \$118.7 million (Cdn.)

For the year ended January 31, 1998, the Company's total revenue was \$616.7 million, (January 25, 1997, \$590.6 million) of which Canadian operations accounted for approximately 80.8% (1997 – 80.3%).

## DESCRIPTION OF BUSINESS OF THE COMPANY

### Markets

The Company operates 117 NORTHERN, NORTHMART, QUICKSTOP and AC VALUE CENTER stores in more remote communities, of which 17 are accessible by all-weather roads. The remote communities are smaller settlements inhabited principally by First Nations Indian, Metis and Inuit groups and range in population from 300 to 3,700 people. These communities generally have a stable income base, which consists of direct, non-discretionary government assistance or public sector employment such as schools, health services or local government. Demographics and income levels are also influenced by external activities such as fishing, resource exploration, pipeline construction, hydro electricity development and related construction activity.

The Company's markets have become increasingly aware of consumer trends. The Company's food and general merchandise assortments have reflected this change and include more fresh departments in foods, as well as fashion and lifestyle products similar to those offered by retailers in more competitive urban markets. Food merchandise consists of perishable and non-perishable products including groceries, dairy products, meat, produce and convenience/fast-food services. General merchandise consists of family apparel, housewares, staples, health and beauty aids, sporting goods, toys, hardware, furniture, appliances and home entertainment products, boats, outboard motors, canoes, all-terrain vehicles and snowmobiles. The Company also provides catalogue shopping services through its Selections Catalogue.

The Company operates 73 stores in less remote, regional communities, of which 57 are road accessible. The majority of these markets are larger regional communities which range in population from 1,000 to 10,000 people. The economies of these communities are more diverse and income levels are higher than those of the more remote locations. Major sources of employment are in natural resources, transportation, health care, tourism and government services. The Company considers that of its total number of regional locations, 27 communities are dependent to varying degrees on natural resource industries.

## Operations

Net earnings from operations for the fiscal year ended January 31, 1998 were \$21.0 million or \$1.40 a Unit versus net earnings of \$17.9 million or \$1.18 per share for the fiscal year ended January 25, 1997.

Revenues increased 4.4% (0.2% decrease last year) for the 53 weeks ended January 31, 1998 over the 52 weeks in the previous fiscal year. Canadian operations experienced a 5.0% increase in revenue. Alaskan operations recorded a 0.1% increase in revenue to \$85.3 million (U.S.).

Earnings before interest and taxes were \$39.6 million or 6.4% of sales. Canadian operating profits of \$38.0 million or 7.6% of revenue decreased from \$43.0 million or 9.1% of revenue in 1996. Alaskan operations generated an operating profit of \$1.6 million compared to \$191,000 in 1996. Interest costs for the fiscal year ended January 31, 1998, were \$12.3 million, up from \$11.8 million for the fiscal year ended January 25, 1997.

## Stores and Other Facilities

### Stores

The following table sets forth the number, location by region, selling area and ownership or lease arrangements pertaining to NORTHERN, NORTHMART, QUICKSTOP, THE NORTH WEST COMPANY TRADING POST, NORTHERN RENTAL PURCHASE, AC VALUE CENTER and AC EXPRESS CENTER store locations as at January 31, 1998.

#### Retail Selling Facilities - 000's of sq.ft.

<u>Number of Stores</u>	<u>Owned</u>	<u>Leased</u>	<u>Food</u>	<u>General Merchandise</u>	<u>Service</u>	<u>Warehouse</u>	<u>Total</u>
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British Columbia	2	2	0	0	19	7	1	27
Alberta	9	7	2	11	28	21	9	69
Saskatchewan	16	15	1	30	39	34	29	132
Manitoba	33	24	9	90	124	125	51	390
Ontario	34	24	10	49	170	132	35	386
Quebec	17	15	2	41	59	77	54	231
Newfoundland	8	6	2	22	77	26	35	160
NWT/YK	43	37	6	124	167	156	190	637
<b>TOTAL Cdn stores</b>	<b>162</b>	<b>130</b>	<b>32</b>	<b>367</b>	<b>683</b>	<b>578</b>	<b>404</b>	<b>2032</b>
Alaska Commercial Co.	28	14	14	121	104	111	16	352
<b>TOTAL STORES</b>	<b>190</b>	<b>144</b>	<b>46</b>	<b>488</b>	<b>787</b>	<b>689</b>	<b>420</b>	<b>2384</b>

(1) Of these stores, 40 are located on leased land pursuant to ground leases.

Selling areas of stores in remote communities range in size from 1,000 sq. ft. to 10,000 sq. ft. In regional communities, selling areas range from 3,000 sq. ft. to 30,000 sq. ft. The Company owns employee residences and staff houses which are typically located adjacent to the more remote store locations.

## Other Facilities

The following table contains the location, type of facility, area and ownership or lease arrangements pertaining to the Company's other principal facilities.

<u>Location</u>	<u>Type of Facility</u>	<u>Area</u> <u>(000's of sq.ft.)</u>	<u>Owned/Leased</u>	<u>Expiry of Lease</u>
Winnipeg	Distribution Centre (1)	344	Owned	
Winnipeg	Food Distribution Centre	113	Leased	2004

Winnipeg	Home Office	85	Owned	
Winnipeg	Aircraft Hangar	24	Leased	2000
Edmonton	Regional Office	5	Leased	1999
Toronto	Inuit Art Centre	4	Leased	1999
Montreal	Consolidation Centre (2)	32	Leased	2001
Anchorage	Distribution Centre	57	Leased	2004

(1) The Winnipeg Distribution Centre building is located on land leased from the City of Winnipeg pursuant to a leasehold title. The land lease has a 15 year term with a purchase option during the term of the lease and an obligation to purchase the land on the expiry date which is August 31, 2007.

(2) Lease extended from April 1, 1998 to March 31, 2001 reducing the size to 32,000 sq. ft.

## Competition

The Company faces fragmented competition in its remote locations. Competition consists of stores operated by local Inuit and First Nations peoples, native village corporations (in Alaska), independent store owners and local co-operatives, some of which are associated with regional or national buying groups. In Canada, all of these communities have access to mail order catalogue and direct mail services such as those provided by Sears Canada Inc., the Winnipeg Fur Exchange and Wal-Mart. In Alaska, this type of competition is more intense and includes catalogues directed solely at the rural Alaska market by Anchorage retailers such as Wal-Mart and Sears. Competition has been increasing with the emergence of native organizations partly funded by land settlement claims or government economic development programs. The strength of this competition varies considerably depending on the management skills and financial strength of local operators.

In 20 of the larger communities, the Company competes directly with secondary market chains such as True Value, Fields, Saan, I.G.A. and Eagle Quality Centers (Alaska only) as well as home shopping networks. AC competes directly with Safeway in one market. The marketing strategy for these competitors tends to be centrally directed from head office with local management responsible for administration. In all of its regional locations, the Company competes against independent merchants who maintain market share due to strong local loyalties and through established customer relationships. Additionally, 28 locations of the Company are within three hours driving distance of small to medium urban centres offering alternative shopping.

The Company's competitive position is discussed on page 7 of the Fund's Annual Report to Unitholders for the year ended January 31, 1998, which section is incorporated herein by reference.

## Distribution

In support of its retail operations the Company owns and operates a 344,000 square foot distribution centre in Winnipeg (the "Retail Service Centre"). The Retail Service Centre which opened in April 1993, provides the Company with state-of-the-art distribution capabilities to service its 162 retail outlets in Canada and its Selections Catalogue customers.

In addition to the Retail Service Centre, which provides distribution services and warehousing of central stock for family apparel and general merchandise, the Company opened a 113,000 square foot food warehouse (the "Warehouse") in

Winnipeg in October of 1994. The Warehouse is equipped with freezers and coolers and provides food services to stores throughout Canada.

Third party consolidation and distribution facilities operate in Toronto and Edmonton. Consolidation centres in Montreal, Toronto and Edmonton serve as freight terminals to receive and consolidate goods in order to capitalize on lowering transportation costs. The Montreal facility also consolidates and loads containers for shipping to the Arctic by sea-going vessels ("sealift") in a joint venture between the Company and Logistics Corporation.

In support of its AC Value Center ("AC") and Frontier Expeditors ("FEI") operations the Company operates a 57,000 sq. ft. warehouse in Anchorage. The Anchorage Distribution Center (ADC) was opened in the fall of 1994 and is a leased facility. The ADC provides cross-dock distributions of food, apparel and general merchandise and is a warehouse facility for fast-moving grocery items as well as basic apparel and hardlines (appliances, furniture, electronics, housewares, etc). Most of the stores' product is transported via ship from Seattle to Anchorage and then flown to the stores. AC's head office is part of the ADC facility.

## Transportation

Due to the vast geography of the Company's store network, transportation is an important element of the Company's operations. The majority of stores are inaccessible by all-weather roads and the balance are relatively distant from major transportation corridors. As a result, stores are serviced by all available modes of transportation including sealift, barge, winter roads, trucks, rail and air.

Sealift was the original method of supplying ports on the shores of Hudson Bay and remains the most cost effective method of servicing approximately 25 NORTHERN stores today. The Company owns 50% of the shipping company Transport Nanuk, which operates two vessels: the M.V. Aivik and the M.V. Lucien Paquin. These ships carry supplies to ports in the Canadian Arctic during the summer months and during the rest of the year undertake coastal or international voyages on behalf of various shippers.

## Buying

In Canada, the Company operates a food buying office in Winnipeg, which reports through a Director, Food Marketing to the Executive Vice-President. The Company has good relationships with its broad supplier base. No contractual obligations or other agreements exist which might prevent the Company from obtaining the best possible buying arrangement.

General merchandise buying is also the responsibility of the Company's Executive Vice-President. All categories of general merchandise are bought through the Company's head office buying group in Winnipeg. These categories are regularly reviewed and updated through a formal line review process. The Company maintains good relationships with a broad supplier base. All other general merchandise sourcing is committed on a seasonal basis or, as with basic merchandise, through an ongoing relationship with appropriate industry suppliers.

Buying for AC and FEI is handled by a buying office located in Anchorage which sources product locally as well as from the lower 48 states. Because of AC's size, more product is sourced through wholesalers and distributors rather than purchased directly from manufacturers as compared to the Company's Canadian operations.

## Information Services

In 1994, the Company established a comprehensive Information Technology strategy that dealt with the technology infrastructure, Information Services staff/outsourcing considerations, application architecture and business process re-engineering. This initiative was called the Business Innovation Project ("BIP"). The first two phases of the BIP identified the benefits to be obtained from a fully integrated system and established targets towards a \$5 million annual saving. The third phase resulted in the selection of a new core Merchandise Management System called Retek™ and definition of essential

integration components between the in-store systems and the Retek™ System. Pursuant to the BIP, in-store systems such as Store Book Accounting (SBA), Change-in-price Adjustments & Transfer System (CATS), and Store Human Resources (Store HR) were implemented. These systems significantly reduce the store office administration workload, and thereby allow store personnel to spend more time with customers. The Company also implemented a customer patronage system called POINTS NORTH into stores in highly competitive markets.

A highly automated Warehouse Management System was installed in the Retail Service Centre in Winnipeg in 1993 which significantly improved warehouse productivity, timeliness of shipments, and provided substantial annual operational savings.

The focus for 1996 continued to be BIP and the implementation of the Retek™ system. The system was fully implemented for the non-food side of the business. This included functions such as merchandise planning, merchandise buying, central item maintenance, sales analysis and inventory management.

To complement the Retek™ system, the Company's financial management system was replaced with PeopleSoft Financials™. This system provides automation for the Company's Accounts Payable, General Ledger, Asset Management and Budgeting functions. This software is another key piece of the technology infrastructure which will optimize the Company's supply chain.

All technology components have been updated to current technology. The focus for the latter half of 1997 was the reduction of the total cost of ownership for the infrastructure.

In 1998, the Company expects it will complete the final phase of implementation of the Retek™ system. This will enable the Company to use the system for its food business. With the essential infrastructure applications in place, substantial additional benefits can be derived from optimization of the supply chain including the use of Electronic Data Interchange ("EDI"), and advanced auto-replenishment techniques. Assimilation of the Company's technologies and applications will continue at AC including the implementation of these new technologies.

## Credit Services

In regional communities the Company offers a NORTHERN store revolving (APA) account which allows customers to purchase goods up to a predetermined credit limit and provides flexible repayment terms. Customers may pay their balance in full or pay less than the balance due to a minimum of 5% of the opening statement balance. All Purpose Accounts (APA) represent approximately 21.4% (25.8% in 1996) of NORTHERN store receivables.

In most locations, the Company offers two credit plans. A monthly charge account (MCA) enables customers to purchase food and general merchandise up to their personal credit limit, subject to repayment in full within 30 days. Approximately 42.8% (40.8% in 1996) of NORTHERN store receivables are represented by monthly charge accounts. A special terms account (STA) is also provided to finance the purchase of "big-ticket" items such as appliances, furniture, boats, outboard motors and snowmobiles. A separate conditional sales agreement is established for each STA purchase and financing terms of up to 18 months (24 only in rare circumstances) are offered. Special term accounts represent approximately 35.8% (33.4% in 1996) of NORTHERN store receivables.

The company introduced the use of debit cards in 1994. Debit card sales now make up about 10.4% of total sales which is a 34% increase from the previous year.

Service charge rates applied to accounts compare favourably with those offered by major department stores. Charges on APAs are the same as the major department stores while rates in core communities are significantly lower than major department stores. NORTHERN stores also accept VISA and Master Card for food and general merchandise sales.

Most day-to-day credit decisions are the responsibility of the local store managers. All accounts are reviewed monthly and the allowance for doubtful accounts is adjusted to reflect changes in the currency of outstanding balances. Allowances are adequate to cover the bad debts for the year. Management believes that most day-to-day credit decisions are most appropriately handled by store managers because of their intimate knowledge of the local economic conditions and their personal acquaintance with most of their customers. For the year ended January 31, 1998, bad debt experience in

NORTHERN stores was 1.0% to credit sales, compared to 0.8% for the year ended January 25, 1997, and 1.1% to credit sales for the year ended January 27, 1996. There were approximately 49,395 active accounts maintained in the stores as at January 31, 1998, with an average balance of \$735 (January 25, 1997 – 51,000 active accounts with an average balance of \$749). The number of active accounts declined in 1997 primarily due to the sale of receivables to a finance company.

AC offers credit services to customers using the same basic types of accounts used in Canadian operations (monthly charge accounts [Open]) that make up 50% of receivables and special term accounts (Express) which comprise 49% of the portfolio. In late 1997 revolving (APA) accounts were introduced to all AC branches. Small Store group branches continued to be centrally administered by the Credit Department in AC's Anchorage head office. The average balance of the centrally-held accounts is \$692. All branches can accommodate commercial accounts and day-to-day general merchandise purchases as well as big-ticket contract sale agreements. The central credit office in Anchorage makes credit-granting decisions for all branches including ten branches that maintain their own receivables portfolio. All accounts are reviewed monthly and the allowance for doubtful accounts is adjusted to reflect changes in the currency of outstanding balances. Allowances are adequate to cover bad debts for the year.

## Capital Expenditures

For the year ended January 31, 1998 total capital expenditures amounted to \$28.8 million compared to \$23.0 million for the year ended January 25, 1997. Capital expenditures for the year ending January 30, 1999 are expected to be approximately \$17.0 million and will be financed out of operating cash flow and existing lines of credit.

## Management of Sales & Operations

In Canada, each store employs a full-time manager who has primary responsibility to monitor daily operations, maximize selling opportunities and safeguard Company assets. The organizational structure of the Sales & Operations Department includes 14 Regions, each of which is managed by a Sales and Operations Director.

Directors, Sales and Operations report to the Vice-President, Sales and Operations, and are responsible for the overall execution of corporate policies, programs, initiatives and strategies.

The Sales and Operations Department contributes to the development of these policies, programs, initiatives and strategies as the front-line contact with staff, customers and communities. The other departments in the supply chain – Marketing, Buying and Logistics -- as well as the support departments of Finance and Administration, Human Resources and Information Services, assist them in their activities.

In Alaska, retail operations are divided into a large store group and small store group, each reporting to a retail operations Vice President. Support for retail operations is provided directly by AC's Human Resources, Marketing departments and Winnipeg based Information Systems and Accounting departments.

## Employees

At January 31, 1998 the Company employed 4,689 people, including 685 in Alaska. Of these, 3,854 work directly in store operations and 835 perform administrative and distribution functions. On May 12, 1998, the Company announced a plan to reduce administrative staff in Canada by 20% which will result in an annualized saving of \$5 million in Canadian operations. Similar reductions were made in Alaskan administrative operations in 1997.

A collective agreement covers 22 of the employees working in one store in Manitoba. The overall relationship between the Company and its employees is good.

The Company supports employee training and development. Major programs in Canada include an employer-supported



educational reimbursement program, an eight-day development program for store managers and a resource-materials library for all staff. Store employees participate in the Stores Training Program which, when fully developed, will consist of 150 training modules describing components of our store operations. In Alaska, the focus is on industry-sponsored training materials and the recruitment of more senior people for store operations positions.

## Other Business Segments

The Company operates the Fur Marketing Division and the Inuit Art Division, both complementary businesses to its core NORTHERN store retail operations.

The Fur Marketing Division purchases furs from trappers, and also sells aboriginal handicrafts and outerwear to the local and tourist retail market through North West Company Trading Post outlets.

The Inuit Art Division, located in Toronto, procures and markets carvings from Native artisans and is the largest Inuit art marketing service in Canada.

## Environment

The Company is subject to environmental regulation pursuant to federal, provincial and state legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances handled by the Company. A breach of such legislation may result in the imposition of fines and penalties. To ensure that the Company is in compliance with applicable environmental laws, the Director of Construction and Store Planning has been appointed as its Environmental Officer and he reports quarterly to the board of directors of the Company.

The Company is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the environment. The Company believes it is in substantial compliance with applicable environmental laws and regulations and does not believe the increased expenditures will have a material effect on the Company's earnings.

## Risks

The risks related to the Company's foreign operations in Alaska are discussed on page 22 of the Management Discussion and Analysis in the Company's annual report for the fiscal year ended January 31, 1998, which is incorporated herein by reference.

### **SELECTED CONSOLIDATED FINANCIAL INFORMATION**

(\$000's)

<u>53 Weeks</u> <u>Ended</u> <u>Jan. 31/98</u>	<u>52 Weeks</u> <u>Ended</u> <u>Jan. 25/97</u>	<u>52 Weeks</u> <u>Ended</u> <u>Jan. 27/96</u>	<u>52 Weeks</u> <u>Ended</u> <u>Jan. 28/95</u>	<u>52 Weeks</u> <u>Ended</u> <u>Jan. 29/94</u>
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### **RESULTS FOR THE YEAR**

Sales and other revenue	\$616,710	\$590,583	\$592,034	\$586,242	\$548,679
Earnings from Continuing Operations before interest and income taxes and unusual items	39,587	43,208	32,860	38,432	38,054
Provision for loss on disposition of assets	-	-	(16,129)	-	-
Earnings (loss) from Continuing Operations	\$21,037	17,858	(5,172)	16,239	17,162

**PER SHARE/UNIT VALUES (Dollars)**

Basic earnings per share	1.40	1.18	(0.32)	1.00	1.06
Fully diluted earnings (loss) per share	1.40	1.18	(0.32)	1.00	1.06
Cash distributions/dividends	0.60	0.40	0.40	0.39	0.36
Shareholders Equity	10.68	9.82	9.02	9.90	9.13
Balance Sheet Items					
- Total assets	425,136	383,736	375,947	392,434	331,055
- Total long term debt	134,476	135,228	142,736	85,939	87,833

**FINANCIAL RATIOS %**

Operating Profit (% of Sales)	6.4%	7.3%	5.5%	6.6%	6.9%
Return on Net Assets*	11.7%	13.4%	9.8%	12.5%	14.9%
Return on Average Equity	13.8%	12.7%	(3.3%)	10.6%	12.3%

\*Pretax earnings plus interest as a percentage of the 12 month trailing average net assets employed before unusual items.

**QUARTERLY RESULTS**

(\$000's)

<u>QUARTER</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>TOTAL</u>
<b>Sales and Other Revenue 1997</b>	<b>138,602</b>	<b>149,757</b>	<b>150,058</b>	<b>178,293</b>	<b>616,710</b>
1996	137,961	146,927	146,277	159,418	590,583
<b>Net Earnings (Loss) 1997</b>	<b>2,327</b>	<b>5,356</b>	<b>6,039</b>	<b>7,315</b>	<b>21,037</b>
1996	1,716	5,800	4,631	5,711	17,858
<b>Basic E.P.U./E.P.S. 1997</b>	<b>0.16</b>	<b>0.35</b>	<b>0.40</b>	<b>0.49</b>	<b>1.40</b>
1996	0.11	0.38	0.31	0.38	1.18
<b>Fully Diluted E.P.U./E.P.S. 1997</b>	<b>0.16</b>	<b>0.35</b>	<b>0.40</b>	<b>0.49</b>	<b>1.40</b>
1996	0.11	0.38	0.31	0.38	1.18

## **Dividends/Distributions**

The Company began paying a quarterly dividend of \$0.08 per share in April, 1990. In April, 1992, the quarterly dividend rate was increased to \$0.09 per share; in March, 1994, it was increased to \$0.10 per share. On February 17, 1997 the Company declared a final dividend of \$0.10, payable April 30, 1997 to shareholders of record on March 26, 1997.

The Fund paid an initial distribution of \$0.175 to Unitholders on September 15, 1997 and a second distribution of \$0.22 on December 15, 1998. Quarterly distributions were increased to \$0.25 effective the March 15, 1998 payment.

## **1997 compared to 1996**

### **Sales and Other Revenue**

In 1997 sales and other revenue increased 4.4% to \$616.7 million from \$590.6 million. Revenues for the year included 53 weeks of sales compared to 52 weeks in the previous fiscal year.

Canadian operations experienced a 5.0% increase, with food sales gaining over 6.0% and general merchandise sales 3.0%. Revenues from Alaskan operations for 1997 were \$118.7 million, an increase of 2.2% over \$116.1 million in 1996.

## **Earnings**

Net earnings were \$21.0 million, compared to \$17.9 in 1996. Earnings per Unit were \$1.40 compared to earnings per share of \$1.18 in 1996.

Canadian operations generated an operating profit of \$38.0 million in 1996, an 11.6% decrease compared to \$43.0 million in 1996. Alaskan operations operating profit of \$1.6 million compared to \$191,000 in 1996.

## **Liquidity and Capital Resources**

At January 31, 1998, net working capital was \$92.9 million, representing a nominal change from \$92.3 million at the previous year end. Cash on hand and in transit of \$0.4 million, was \$7.0 million more than last year. Accounts receivable of \$64.4 million increased 11.7% during the year. Inventories of \$134.4 million increased 7.0% from \$127.4 in 1996. Financing activities during the year generated a net cash outflow of \$1.8 million.

### **1996 compared to 1995**

## **Sales and Other Revenue**

In 1996 sales and other revenue decreased 0.2% to \$590.6 million from \$592.0 million. Revenues for the year included 52 weeks of sales as did the previous fiscal year.

Canadian operations experienced a 0.9% increase, with food sales up 3.5% and general merchandise sales down 6.4%. Fur sales of \$3.2 million increased 44.9% as a result of better markets. Revenues from Alaskan operations for 1996 were \$116.1 million compared to \$121.7 million in 1995.

## **Earnings**

Net earnings were \$17.9 million, compared to a 1995 loss of \$5.2 million. Fully diluted net earnings per share were \$1.18 compared to losses of \$0.32 in 1995. A provision of \$16.1 million was taken in the Alaskan operations in the fourth quarter of 1995 to provide for losses on the disposition of marina and home center assets and for a reduction in carrying value of certain stores that had been adversely affected by market conditions.

Canadian operations generated an operating profit of \$43.0 million in 1996 compared to \$34.9 million in 1995. Alaskan operations reported an operating profit of \$191,000 in 1996 versus a loss of \$2.1 million in 1995.

## **Liquidity and Capital Resources**

At January 25, 1997, net working capital was \$92.3 million, a 9.8% decrease from \$102.3 million at the previous year end. Cash on hand and in transit of \$3.4 million, was \$1.8 million less than last year. Accounts receivable of \$52.7 million increased 6.0% during the year. Inventories of \$127.4 million increased 1.0% during the year. Financing activities during the year generated a net cash outflow of \$9.6 million, resulting from a combination of repayment of long-term debt and purchase of shares for cancellation.

### **1995 compared to 1994**

In 1995 sales and other revenue increased 1.0% from \$586.2 million to \$592.0 million. Revenues for the year included 52 weeks of sales as did the previous fiscal year.

Canadian operations experienced a 0.1% decrease, with food sales up 3.4% and general merchandise sales down 5.0%. Fur sales of \$2.3 million decreased 19.3% as a result of weaker markets. Revenues from Alaskan operations for 1995 were \$121.7 million compared to \$115.4 million in 1994.

## **Earnings**

Net losses were \$5.2 million, compared to 1994 earnings of \$16.2 million. Fully diluted net loss per share was \$0.32 compared to earnings of \$1.00 in 1994. A provision of \$16.1 million was taken in the Alaskan operations in the fourth quarter to provide for losses on the disposition of marina and home center assets and for a reduction in carrying value of certain stores that have been adversely affected by market conditions. The carrying value was reduced to a value that can be realized by sale, future cash flows or alternative use.

Canadian operations generated an operating profit of \$34.9 million in 1995 compared to \$38.4 million in 1994. Alaskan operations reported an operating loss of \$2.1 million in 1995 versus a profit of \$49,000 in 1994.

## **Liquidity and Capital Resources**

At January 27, 1996, net working capital was \$102.3 million, a 49% increase from \$68.7 million at the previous year end. Cash on hand and in transit of \$5.2 million, was \$1.3 million less than last year. Accounts receivable of \$49.7 million decreased 4.3% during the year. Inventories of \$126.2 million decreased 12% from the higher levels at the end of 1994. Financing activities during the year generated a net cash inflow of \$42.0 million, with \$112 million resulting from a bond issue offset by repayment of long-term debt and purchase of shares for cancellation.

## **1994 compared to 1993**

### **Sales and Other Revenue**

In 1994 sales and other revenue increased 6.8% from \$548.7 million to \$586.2 million. Revenues for the year included 52 weeks of sales as did the previous fiscal year.

Canadian operations delivered a 4.4% increase, with food sales up 6.5% and general merchandise sales up 6.0%. Shipping revenues of \$0.6 million decreased from \$8.8 million the prior year as shipping operations were sold in March 1994. Fur sales of \$2.9 million increased 73.2% as a result of improved markets. Revenues from Alaskan operations for 1994 were \$115.4 million compared to \$97.7 million in 1993.

### **Earnings**

Net earnings were \$16.2 million, a decrease from 1993 earnings of \$17.2 million. Fully diluted net earnings were \$1.00 per share compared to \$1.06 in 1993. Canadian operations generated an operating profit of \$38.7 million in 1994 compared to \$34.0 million in 1993. Alaskan operations reported an operating profit of \$49,000 in 1994 versus \$4.0 million in 1993.

### **Liquidity and Capital Resources**

At January 28, 1995, net working capital was \$68.7 million, a 30.4% decrease from \$98.7 million at the previous year end. Working capital from the Alaska operation decreased \$5.6 million in 1994 to \$6.9 million, due to increased operating loans required to finance store acquisitions and expansions. Cash on hand and in transit of \$6.5 million, was \$0.6 million less than last year. Accounts receivables of \$52.0 million decreased 2.0% during the year. Inventories of \$143.4 million increased 19.6% as a result of acquisitions and expansions, building basic stocks, as well as broadened fresh and prepared foods assortments. Financing activities during the year generated a net cash outflow of \$2.2 million. New long term debt accounted for a \$7.9 million inflow, while term loan repayments required \$10.1 million.

## **1993 compared to 1992**

### **Sales and Other Revenue**

In 1993, sales and other revenue increased 16.1% from \$472.7 million to \$548.7 million. Revenues for the year included 52 weeks of sales versus 53 weeks in the previous fiscal year. Alaskan operations which were acquired in November 1992 contributed revenues of \$97.7 million in 1993 compared to \$25.1 million in 1992.

Canadian operations delivered a 0.8% increase, with food sales up 3.9% and general merchandise sales down 4.1%. Shipping revenues of \$8.8 million increased 37.8% over the prior year due to increased third party tonnage carried on the Arctic sealift, while fur sales of \$1.7 million declined 45.2%.

### **Earnings**

Net earnings were \$17.2 million, a 14.8% increase over 1992 earnings of \$15.0 million. Fully diluted net earnings were \$1.06 per share compared to \$1.05 in 1992. Canadian operations generated an operating profit of \$34.0 million in 1993 compared to \$32.6 million in 1992 while Alaskan operations reported an operating profit of \$4.0 million in 1993 versus \$0.8 million in 1992.

### **Liquidity and Capital Resources**

At January 29, 1994, net working capital was \$99.5 million, a 13.7% increase from \$87.3 million at the previous year end. Working capital from the Alaskan operation increased \$13.3 million in 1993 and \$3.3 million in 1992. Cash on hand and in transit for Canadian operations, of \$7.3 million, was \$4.6 million less than last year due to timing differences in the payment of suppliers and lower levels of funds in transit at stores to accommodate the cashing of government and payroll cheques. Accounts receivables of \$50.1 million increased 1.5% during the year, consistent with increases in revenue. Inventories of \$104.2 million increased 8.5% in Canadian operations.

Financing activities during the year generated an inflow of \$25.1 million. Issue of share capital was \$0.5 million and new long term debt accounted for \$36.7 million of the inflow. Term loan repayments decreased the inflow by \$12.2 million.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Reference is made to the section entitled "Management's Discussion and Analysis" on pages 18 through 22 of the Company's 1996 Annual Report to shareholders, which section is incorporated herein by reference.

## **MARKET FOR SECURITIES**

Units of the Fund are listed on The Toronto Stock Exchange and The Winnipeg Stock Exchange.

## **FUND'S DISTRIBUTION POLICY**

The Directors of the Company and the Trustees of the Fund have adopted a policy to distribute 25% to 35% of the prior year's pre-tax cash flow to Unitholders. Based on this policy, and the Company's goal to reduce its debt-to-equity ratio from 1.25:1 at the end of 1997 to 1:1 by the end of 1998, the final \$0.25 of the 1998 payout of \$1.25 will be made in Units pursuant to the amendment to the Declaration of Trust approved by Unitholders on June 4, 1998. In early 1999, the Directors and Trustees will reassess the level of cash distributions based on the achievement of the Company's targeted debt-to-equity ratio, its debt rating, the Company's capital requirements for expansion and/or acquisitions, and the Company's business prospects.

**TRUSTEES AND OFFICERS OF THE FUND**

The name, municipality of residence, position and principal occupation of each of the Trustees and Officers of the Fund are as follows:

<b>Name and Municipality of Residence</b>	<b>Position Held</b>	<b>Principal Occupation</b>
Ian Sutherland Winnipeg, Manitoba	Trustee	Chairman of the Board of the Company
Kevin R. Bolt Winnipeg, Manitoba	Trustee	Partner Aikins, MacAulay & Thorvaldson
David G. Broadhurst Toronto, Ontario	Trustee	President Reeve Court Insurance Limited
Gary V. Eggertson Winnipeg, Manitoba	Chief Financial Officer and Secretary	Vice-President, Chief Financial Officer and Secretary of the Company
Reinhard Sedlacek Winnipeg, Manitoba	Treasurer	Director, Planning & Treasury Services of the Company

**DIRECTORS AND OFFICERS OF THE COMPANY**

The name, municipality of residence, position and principal occupation of each of the directors and officers of the Company are as follows:

**DIRECTORS**

<b><u>Name and Municipality of Residence</u></b>	<b><u>Director Since</u></b>	<b><u>Position Held</u></b>	<b><u>Principal Occupation if Different from Office Held</u></b>
Ian Sutherland [1,5] Winnipeg, Manitoba	1978	Chairman of the Board and Director	
Edward S. Kennedy Winnipeg, Manitoba	1996	President and Chief Executive Officer, Director	
Lloyd I. Barber [2,3,5] Regina Beach, Saskatchewan	1991	Director	President Emeritus, University of Regina
Donald Beaumont [1,3,4] Toronto, Ontario	1996	Director	Corporate Director

Nellie Cournoyea [4,5] Inuvik, Northwest Territories	1996	Director	Chairperson & Chief Executive Officer, Inuvialuit Regional Corporation
Raymond Dore' [2,3] Toronto, Ontario	1987	Director	Chairman & Chief Executive Officer MCAP Financial Corporation
Gary J. Lukassen [1,3,4] Mississauga, Ontario	1987	Director	Executive Vice-President and Chief Financial Officer, Hudson's Bay Company
Stanley McKay [2,4] Beausejour, Manitoba	1994	Director	Director, Spiritual Care, Health Sciences Centre Co-Director, Dr. Jessie Saulteaux Resource Centre
Sterling J. McLeod [3,5] Winnipeg, Manitoba	1993	Director	Consultant, Investors Group Inc.
James G. Osborne [1,2,5] Winnipeg, Manitoba	1987	Director	President, Mentor Capital Management Corporation
T. Iain Ronald [1,2,4] Toronto, Ontario	1987	Director	Corporate Director

[1] Member of the Executive Committee

[2] Member of Corporate Governance and Nominating Committee

[3] Member of the Audit Committee

[4] Member of the Human Resources and Compensation Committee

[5] Member of the Pension Committee

## OFFICERS

Ian Sutherland Toronto, Ontario	Chairman of the Board and Director
Edward S. Kennedy Winnipeg, Manitoba	President and Chief Executive Officer and Director
Dallas V. Thorsteinson Winnipeg, Manitoba	Executive Vice President
Gary V. Eggertson Winnipeg, Manitoba	Vice-President and Chief Financial Officer and Secretary
Leonard G. Flett Winnipeg, Manitoba	Vice-President, Store Development and Public Affairs



Darryl P. Lemecha Winnipeg, Manitoba	Vice-President, Information Services
John R. McFerran Winnipeg, Manitoba	Vice-President, Human Resources
Carl A. McKay Winnipeg, Manitoba	Vice-President, Sales and Operations
Bradley R. Vollrath Winnipeg, Manitoba	Vice-President, Logistics

All the trustees, directors and officers have held their present positions or other executive positions with the same or associated firms or organizations during the past five (5) years, except as follows:

Donald Beaumont retired in January, 1996, as President and CEO of Kmart Canada Ltd., a position he had held since 1991.

Prior to June 1998, Kevin Bolt was a Partner of Pitblado & Hoskin.

From August 1996 to the end of May 1998, David Broadhurst was an Investment Banker with First Marathon Securities Limited. Prior to that he was a Partner of Price Waterhouse.

Nellie Cournoyea was Government Leader of the Northwest Territories from November 1991 to November 1995.

Prior to joining the Company in August 1993, Darryl P. Lemecha was Vice-President, Applications Technology, Investors Group.

In October 1997, Stanley McKay was seconded by the Health Sciences Centre (HSC) of Winnipeg as Director, Spiritual Care. In 1994 he completed a two-year elected term as Moderator of the United Church of Canada in August, 1994, and returned to the Dr. Jessie Saulteaux Resource Centre, with which he had been associated before his United Church of Canada appointment, as the Centre's Director. He will continue his association with the Centre as Co-Director during his term with HSC.

T. Iain Ronald was Chairman of the Board of the Company from June, 1994 to March 21, 1997. He was Vice-Chairman, Canadian Imperial Bank of Commerce, prior to his retirement in February, 1995.

Ian Sutherland was President and CEO of the Company from November 1, 1993, to March 21, 1997. Prior to November, 1993, he was Executive Vice-President, The Mutual Trust Company.

Dallas V. Thorsteinson joined the Company on April 20, 1998. He had been National Director of Merchandising for Petro Canada Products since 1993.

The term of office of each of the Trustees of the Fund and the Directors of the Company expires at the next Annual Meeting of the Fund.

Trustees and Officers of the Fund and Directors and Officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over, 5.2% of the outstanding Units of the Fund as of the date of this report. The issued and outstanding capital of the Fund consists of 15,000,000 Units as at June 4, 1998.

## UNITHOLDER RIGHTS PLAN

Pursuant to the Reorganization, a Unitholder Rights Plan (the "Rights Plan") was implemented for the Fund effective March 27, 1997. The Rights Plan, which is aimed at preventing a takeover situation that either prejudices the minority Unitholders of the Fund or prevents the Fund from maximizing Unitholder value in a sale process, remains in effect.

## ADDITIONAL INFORMATION

The Fund will provide to any persons, upon request to the secretary-treasurer of the Fund, Gibraltar House, 77 Main Street, Winnipeg, Manitoba, R3C 2R1, when the securities of the Fund are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of the Fund's securities, the following:

- (i) one copy of the most recent Annual Information Form of the Fund, together with one copy of any document or the pertinent pages of any document, incorporated by reference into such Annual Information Form;
- (ii) one copy of the comparative financial statements of the Fund for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Fund subsequent to the financial statements for its most recently completed financial year;
- (iii) one copy of the information circular of the Fund in respect of its most recent annual meeting of unitholders that involved the election of Trustees of the Fund and directors of the Company, or one copy of any annual filing prepared in lieu of that information circular, as appropriate; and
- (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under paragraphs (i), (ii) or (iii) above.

At any other time, one copy of the above documents referred to in paragraphs (i), (ii), (iii) and (iv) shall be provided upon request to the secretary-treasurer of the Fund, Gibraltar House, 77 Main Street, Winnipeg, Manitoba, R3C 2R1, provided that the Fund may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Fund.

Additional information including Trustees', Directors' and Officers' remuneration and indebtedness, principal holders of the Funds securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Fund's information circular for its most recent annual meeting of Unitholders that involved the election of Trustees and additional financial information is provided in the Company's comparative financial statements for its most recently completed financial year.