Speech by Ian Sutherland, Chairman

Throughout the Indian Residential School Settlement Act process, the North West Company has played a constructive and supportive role as a community retailer.

Today, as you are aware, attempts to turn an important page for Aboriginal Canadians who were harmed directly or indirectly by the Residential School System. The federal government's official apology, to be delivered this afternoon on behalf of all Canadians, speaks to the experiences and injustices that personally affect thousands of our customers and hundreds of our employees, as well as managers and Trustees of our company. We extend our heartfelt support to them today and during the Truth and Reconciliation process that will begin shortly.

A chart in our annual report shows that an initial investment of $10,000 made in the NWC Fund in 1998 grew to over $87,000 at the end of January 2008. This assumes all distributions were reinvested in units. The internal rate of return over the 10 year period was 24.2% per annum, clearly first quartile performance.

The last 10 years produced an acceleration of the returns realized over our total 20 year history, which has still been a robust 20% per annum. An initial investment of $10,000 in 1987 was worth over $420,000 at the end of January 2008. The acceleration of returns resulted from steady improvements to profitability and growth.

This performance was made possible through the skills, enterprise and hard work of all of our employees. Could all current employees and retirees of NWC present here today please stand to be recognized by our unitholders. Thank you.

I have been fortunate to be a Director or Trustee of your company for this entire 20 year period and Chair for the past 11 years. Over the past year, I have been reflecting that this has been a good time but, at some point, it will become too long a time. We are fortunate in having tremendous skills and qualities in your Trustees which facilitate Board and Chairman succession.

I have worked with the Board over the past year to select the next Chairman for the NWF Board and I am pleased to say that we unanimously support the election of Sandy Riley to be the next Chairman of the North West Company Fund following this meeting.

Sandy has been a Director or Trustee of NWF for the past five years and has widely acknowledged skills as a corporate and community leader. He is President and CEO of Richardson Financial Group and past Chairman and CEO of Investors Group Inc.

With the support of the Board and the unitholders, I will remain on as an active Trustee for the next few years.

As you are all painfully aware, the tax benefits available for income trusts end December 31, 2010. The premium values accorded income trusts have been reduced, since the announcement of the tax change, from some percentage of the tax savings into perpetuity to some percentage of the savings for only the next 2½ years. I calculate that a maximum of $0.90 of our current unit price relates to our trust structure and that this premium could diminish by about $0.09 a quarter as we get closer to 2011. This impact is not insignificant but it is modest in comparison to the positive effect of the investment yield and growth in income on our unit price.

Your Board has been deliberating our strategy as our tax benefit window starts to close. Our current assessment is that we should remain a trust until 2011 but will likely convert early in 2011 to a corporate structure.

The investment model of NWC will remain the same. We intend to transform from a moderate distribution trust reinvesting a substantial part of our earnings for growth to an attractive dividend paying stock with the same growth potential. The dividend and growth potential will be driven by the vision of our enterprising management group. To speak to this vision, I would now like to call on Léo Charrière, Executive Vice-President and CFO.

Speech by Léo Charrière, Executive Vice-President and CFO

Thank you Ian and good morning ladies and gentlemen.

In 2007, The North West Company delivered another year of strong financial results as well as providing a solid return to investors. A combination of healthy sales growth, good expense management, the acquisition of Cost-U-Less, Inc. and additional benefits gained from the Fund's restructuring contributed to a 17.4% increase in net earnings. 2007 was the eighth consecutive year of increased sales and improved earnings performance by the Fund, as North West continued to significantly outperform the retail industry.

Total sales were up 12.7% to $1.06 billion led by excellent general merchandise sales and robust food sales across our Canadian and Alaska stores. Same store increases of 6.7%, the addition of new stores, in-store pharmacies and the acquisition of the Cost-U-Less stores on December 13, 2007 were all factors contributing to our overall sales improvement.

General merchandise sales were very solid in the year increasing 15.7% over 2006. An increase in discretionary income related to resource development spending and employment, the Residential School Settlement payments in Canada and an increase in the Permanent Fund Dividend in Alaska helped drive same store general merchandise sales to a 16.7% increase in the fourth quarter. Big ticket categories were the primary beneficiaries of the higher consumer discretionary income.

Trading profit grew 10.6% to $106.6 million but as a percentage of sales decreased slightly to 10.0% from 10.2% in 2006 because of the cost of opening seven new Giant Tiger stores, as well as higher sales growth in lower margin categories. Not factoring in the impact of foreign exchange, the International operations led the way with an increase of 40.2% in trading profit as a result of higher sales, the effect of the non-recurring expenses of $1.4 million from 2006 relating to an Internal Revenue Service assessment and the gain on the disposition of shares in Associated Grocers, a cooperative wholesale distributor. Excluding the non-comparable adjustments, the International division still realized a substantial 15.1% increase in trading profit.

Net earnings improved 17.4% to $63 million or $1.31 per unit. Net earnings were positively impacted from a full year of the limited partnership structure and the completion on June 5, 2007 of an internal reorganization which enables Canadian earnings to flow to the Fund on a more tax efficient basis. The income tax expense reduction on the Canadian earnings was mostly offset by an increase in the International income taxes. Overall, the continuing improvement in net earnings allowed the Trustees to increase 2007 distributions by 41.3%.

Cash flow from operations increased 20% from 2006 and was sufficient to cover distributions, maintenance capital expenditures and most of our requirement for growth capital excluding the Cost-U-Less acquisition.

The other financial performance measures we monitor continue to trend positively. Return on net assets improved to 21% from 19.7% in 2006 and the return on equity grew to 24.9% from 21.7%. Earnings growth was the major driver in the improvement to both ratios. The return on equity ratio benefited from improved tax efficiency achieved by the reorganization of the Fund.

Looking ahead, we believe there are opportunities to improve the return on net assets as inventory is still not as productive as it should be. Gains in our inventory productivity slowed in 2007 and new initiatives are underway to improve our inventory position.

The Fund's stability and financial strength facilitated the acquisition of Cost-U-Less; and we still have flexibility to reinvest for higher growth and to increase distributions to unitholders.

Strong 2007 results provided our investors with a 19% total return on their investment compared to a 4.9% return on the business trust sector and a negative 12.9% return for the overall retail sector.

Over the past five years, the Fund's total returns exceeded the TSX composite by over 90% and were more than double the retailing group.

Now to our first quarter results. Consolidated sales increased 34.6% to $315 million and were up 5.2% on a same store basis. Healthy same store sales in northern Canada and Alaska and the Cost-U-Less acquisition drove our top line improvement. Total food sales increased 41.7% and same store food sales were up 5.2%. This reflected continuing market share gains and higher inflation in the northern markets. General merchandise sales were up 3.1% on a same store basis and increased overall by 28.8%. The excellent sales growth in the northern and Cost-U-Less markets offset soft sales in the Canadian urban and less remote markets which were impacted by more intense competitive price discounting.

Trading profit increased $4.3 million or 20% to $25.9 million and improved by 7.3% excluding the Cost-U-Less impact. Sales growth, improvements in staff productivity and an increase in our financial services revenues were the leading factors contributing to the trading profit dollar increase which more than offset lower gross profit rates in the quarter.

Interest expense increased 30% to $2.1 million due to the additional debt for the acquisition of Cost-U–Less, while the income tax provision decreased $1.7 million. The income tax expense decrease is mostly due to the Fund's structure changes completed in 2007.

Net earnings in the first quarter increased $4.4 million or 41% to $15.2 million.

In March 2008, the Trustees announced an increase in the quarterly distributions of 18.5% to $0.32 per unit as the full benefit of the restructuring is now being realized.

Overall management is pleased with the first quarter results; these results provide a good foundation to build upon in 2008.

Thank you, and now I'd like to turn things over to Edward Kennedy, President and CEO of The North West Company.

Speech by Edward Kennedy, President and CEO

Thank you Léo.   Good morning and welcome.

I'd like to extend a special welcome again to everyone who is attending their first North West Annual meeting, starting with our executive team from Cost-U-Less. It's great to have you here.

As mentioned, we're also fortunate to have an impressive base of large and small investors with us today who, as Ian has noted, have been rewarded for their decision to hold North West Company shares and units over the past 10 to 20 year periods.

Today, I'm pleased to report that North West continues to be a healthy, growing enterprise. 2007 was another good year and, as you can see from the numbers Léo presented, we've started 2008 with a solid first quarter.

My goal is to review our key achievements from last year and give a perspective on our plans and potential going forward. As a result I hope that you will share the confidence that I have in our ability to sustain the performance you have come to expect from us.

As a starting point, North West now has annual revenue of $1.3 billion generated by 221 stores. We have locations in eight Canadian provinces, all three Canadian territories, three U.S. states, four U.S. territories and four other countries and territories in the Caribbean and South Pacific. We also serve 350 independent, rural retailers through our wholesale divisions in Winnipeg, Anchorage and Seattle.

We have the advantage of a diversified sales base spread across five complementary store banners, displayed appropriately, on the banners to my right. These range from our general store-type Northern and AC Value Centers to our junior discount Giant Tiger stores and Cost-U-Less warehouse outlets. Each one fits a unique market or customer need from daily "what's for dinner?" shopping to weekly and monthly cost-saving, stock-up trips.

We have exceptional geographic breadth across a number of attractive economic regions. We have no stores in the recession-prone areas of eastern Canada and the U.S. Instead, we have good exposure to natural resource development, to government-service economies and to younger-aged markets with generally above-average population growth.

Because 75% of our business is selling food, we are in a better position to keep growing and we are more resilient, although not immune, to a general economic downturn.

Despite their diversity, our stores share a very important role, as seen from the customer perspectives in this year's annual report. We are seen as an integral part of the communities or neighbourhoods we serve, whose needs, because of size or remoteness, are not well-met by conventional, urban-based stores.

Instead, we find that our customers value the accessibility, friendliness and human-scale of stores like ours and that we are trusted to help make their lives better.

The relationships we foster, based on these principles, are essential and are in fact the most important competitive advantage we have at The North West Company.

How do we reconcile the growing breadth of our business with connecting to each unique customer? The answer is that while our business may look increasingly multi-national, our strategy and focus remains resolutely multi-local and multi-community in nature.

I know that our people, especially those that have worked across different regions, agree with this. It's not what country we are in that matters, it's the familiarity of serving people who would otherwise be underserved.

Looking back at 2007, our most visible achievement was investing $85 million in existing and new stores, including the acquisition of Cost-U-Less. In total, we added 21 locations, we made major reinvestments in 18 stores and we grew from 5,500 to 7,000 associates. That was a lot of activity for one year and I'm proud of how well it was managed by our people and, in particular, how well they have set these stores up for long-term success.

In western Canada, we opened seven Giant Tiger stores. This increased our total selling space by 35% and brought our year-end store count to 26. We now have an excellent GT presence in Manitoba, Saskatchewan and Alberta, in addition to our first store in B.C. To support our further west GT stores, a third party operated warehouse was also opened in Calgary and we created a team of Alberta-based field specialists.

2007 was a productive investment year in northern Canada as we expanded in markets which had outgrown our stores or which presented new sales opportunities. We opened stores in two new locations, replaced six stores, completed five major additions and opened four in-store pharmacies.

The replacements and additions are delivering impressive sales increases. They demonstrate that there is lots of business to capture, even in markets where we may already be a dominant local store.

Pharmacy performance wasn't stellar or more accurately it was hard to predict. It's still an emerging business for us and we are learning and adjusting from our experience. Despite some setbacks, I believe there is still a tremendous window for us to provide more accessible and reliable health services into the North, using our store network.

We know now that to reach our pharmacy goal of 12-14 hub locations and 35-40 satellites, we will have to work in closer partnership with communities and regulators. We are on the right track but likely another three years away from our initial revenue target of $50 million in sales.

Certainly our biggest growth achievement in 2007 was the Cost-U-Less acquisition completed in December. I want to take a few minutes to explain this transaction, especially since we had disclosed limited information about our international expansion plans in the period leading up to the Cost-U-Less announcement.

Over the prior two years, we had actively looked at how our capabilities could be extended to U.S. territories in the South Pacific.

We began with an understanding of how these markets worked. We found that the food sector was dominated by independent retailers and off-island shopping to places like Hawaii and the U.S. west coast. We felt this left open an opportunity to offer a combination of more selection, better prices and higher standards.

The other key fit considerations were: first, the degree of geographic remoteness, second world infrastructure and challenging physical climates to which we could apply our logistics and operations knowledge; second, the presence of unique, indigenous cultures that we could relate to and adapt to; third, regulatory or political barriers that we could work through with our flexible store ownership structures; and fourth, the ability to leverage our existing suppliers and our transportation partners to achieve better costs in these markets.

For most retailers this would be a list of negatives not positives, except for the last point. That's fine by us because our strength is managing within these complex environments, better than other retailers.

When we first looked at Cost-U-Less we didn't see a perfect match. They had two stores in Guam. This was a market we knew and liked because of its growth prospects, underdeveloped retail sector and the fact it was supplied from the U.S. west coast, like our Alaska stores. We also liked their stores in Fiji and American Samoa. Hawaii was a different, higher-income market and we considered the Caribbean to be a longer-range opportunity.

So instead of pursuing Cost-U-Less or another acquisition of this size, we decided we wanted to first learn island retailing first-hand by building our own stores in Guam.

While we proceeded down this path, Cost-U-Less came up for sale. By then, our build strategy had become riskier and pricier then we first believed. In a sense, we were looking at a remote market from the outside, like another retailer might look at the North. Like them, we were forced to contend with the high costs of new construction and of supporting stores without an existing infrastructure in place.

These factors caused us to look harder at Cost-U-Less and their other stores. And the closer we looked the more we liked the company. We were particularly impressed by their Caribbean locations. These stores were well run compared to the local competition. They had low prices and they had loyal shoppers.

As we got to know the people at Cost-U-Less, we placed a high value on their knowledge in operations, merchandising and logistics. The managers and their teams offered decades of experience in warehouse stores and remote island retailing. To us, their success, with only 12 stores, was sign of commitment and the upside that could be achieved by adding our resources and skills to the mix.

That, in short version, is the background that led to our acquisition of Cost-U-Less. The transition and integration have been relatively smooth, thanks to great work from our teams in Seattle, Winnipeg and Anchorage. We've gained a highly-regarded and profitable store franchise, some tremendous store assets and 650 talented people. Financial results are on or above target. Most important, we are creating another new longer-term growth platform that fits with the business we are and what we can become.

Turning to the rest of 2007, I'd like to highlight two achievements: our focus on selling events and our progress on store-based ordering. In simple terms, a selling event refers to how we organize ourselves to go after business. We define the event by the length and the type of selling opportunity whether it crosses over a calendar month, a quarter or even a year end. Our goal last year was to be better at planning, building excitement and being accountable for our performance targets, whether the event was two months of Back to School or a two-day Truckload Sale.

Our selling events improved through the spring and summer and they reached a high in the fourth quarter when general merchandise sales hit 16.7% in northern Canada and 14.6% in Alaska as Léo showed. It's true, we benefited from our customers' income being boosted by natural resource spending, the Indian Residential School Settlements and a higher Permanent Fund Dividend in Alaska.

But what stands out is that our people created an enterprising merchandise plan that focused on the right products: transportation, furniture and other durable merchandise. Our customers were extremely pleased with our commitment to having in-stock what they wanted to buy locally. We were ready and the sales blew past our forecast.

Our work on store-based ordering has been essential to being the best chain of stores serving unique communities rather than a store chain that tries to be consistently the same everywhere. In 2007, we shifted most of our hardgoods ordering into the hands of our store managers, supported by their field specialists. To enable this we had built technology called the Advance Order System or AOS. We integrated ordering practices into our managers' work day and we taught ourselves how to use it effectively. Our goal was 90% consistent utilization and we achieved 89% in general merchandise and 91% in food.

AOS deserves some of the credit for last year's great sales. The full upside is still to come and I believe it will be similar to the store communication network we set up two years ago. AOS will be a conduit to move information, limited only by our imagination, into the hands of the people who are closest to our customer and best able to use it.

Looking ahead, the balancing themes at North West continue to be sustaining performance while striving for the next level. In 2008 we will face this head on, as we always do.

Sustaining performance will contend with energy inflation, the impact of food competition on our Giant Tiger business, any spillover from a general recessionary environment and finding ways to match last year's exceptional fourth quarter performance from northern Canada and Alaska.

Getting to the next level will depend on our performance in four areas: integrating our major store investments from last year, optimizing local food sales, selectively pursuing discretionary sales and building our leadership and planning capacity.

To be more specific, I want to give you some insight into three of these factors: the impact of fuel costs, heightened food competition at Giant Tiger and leadership at North West.

Escalating fuel costs affect our markets in different ways.

Remote markets rely on diesel generated power and, as you can see from this table, the cost of energy in Iqaluit, Guam and Bethel, Alaska is four to eight times higher than here in Manitoba, whether you live in Brandon or Oxford House. These gaps are understated in Guam and Bethel and will likely spread further as existing diesel stocks are replenished.

Next we have freight. Remote communities contend with more expensive freight costs because of distance, mode of transport or both. These costs and how they change can easily exceed the underlying price we pay for the products we are shipping; in this example, the cost of flying food into Canadian Arctic communities, like Iqaluit.

On the other hand, because remote communities bring in fuel supplies on a yearly or seasonal basis, their current fuel stocks were purchased at rates much lower than today's price, even after factoring in the freight expense to get it there. So, for probably the first time, consumers in Brandon, as well as here in Winnipeg, are paying more to fill up their cars than people living in Oxford House, Iqaluit or Guam.

How do we make sense of these numbers? With our remote customers spending more of their income on essentials like food and heating their homes, there will be pressure for relief. We hope to see, as proposed right now in Alaska, that income transfers or subsidies will be used to alleviate at least the energy cost burden.

In road-access locations, our customers drive a lot more and the price at the pump is big cost factor, even before the most recent increases. In our favour, this is encouraging customers to shop closer to home or in their neighbourhood.

Overall the outlook is positive for local food sales and for our remote food business specifically. Spending on durable, discretionary merchandise will be softer, with pockets of growth tied to natural resource spending and resource-income transfers to individuals, like the Permanent Fund Dividend.

Manitoba continues to be the model for how far we can grow our Giant Tiger business. On August 16th, we will open our eighth GT store in Winnipeg, along Highway #1 east on Fermor Road. With stores in Morden, Brandon, The Pas and Thompson, we have a total of 12 stores serving this province and we think there is room for another four to six stores.

The cloud on the horizon is GT's food business. At 50% of sales, food is a smaller percentage compared to our other store banners but it is still a key driver of customers through the door.

With Wal-Mart's plan to aggressively add supermarket space to their stores in the West, this region will soon be over stored and all retailers selling food will face the prospect of tough sales and margin conditions for the next few years.

Already we are seeing that, unlike the rest of North America, in urban Canada food cost inflation has been difficult to pass through at the cash register. Intense competition is keeping many retail food prices artificially low, something that is great for the consumer but painful for the retailer, especially when they are committed, as we are, to giving our customers prices that match or beat Wal-Mart and Superstore.

Our response is to be an even better choice for our customers in three ways. We are working hard with our suppliers and we are finding savings on food products that we can pass on to our customers while protecting margins. We are refining our food product mix so that when our customers plan to spend money on food, they can find more stock-up items and larger sizes at our store. Third, we are expanding our line-up of private label products from 135 to 320 items by next year and to 640 items over the next four years so that we have a better selection of low-priced alternatives to national brands.

Our attention is on the stores we have recently opened because they are still building their customer base and they need food-generated traffic to help sell higher margin fashion and general merchandise. New store openings will continue but at a slower pace of 3-4 stores per year, until we see the competitive landscape return to one where we can generate returns that justify faster expansion.

With last year's capital spending taking centre stage we fell behind on our people investments and leadership development was one of them. This is a concern to me and it's also my accountability to get it right in 2008 and beyond. Leadership at North West is the name of our new approach. It started this year with our 40 most senior leaders, led by our executive group. Each month we re-introduce and explain the practice behind key leadership principles such as our commitment to accountability, trust, being enterprising and being customer-driven.

This work has been intense and at times difficult. But I am very satisfied that we are pulling together and gaining an appreciation for how good leadership practices don't just happen. They have to be worked on to keep our business growing and successful.

Before ending my remarks, I'd like to come back to the announcement made by Ian Sutherland that he will be stepping down as Chairman, effective at the conclusion of this meeting.

When this happens it will be another milestone in Ian's association with North West, an association that has hugely, yet in Ian's manner, understatedly contributed to our success over the past 20 years.

Ian's link to our business actually extends back several decades. His father, Hugh Sutherland, was Managing Director of the Northern Stores when it was still a division of HBC and one of Ian's first jobs was with the Bay. This experience gave Ian a special bond to the people, the character and the sense of history that makes up our company.

In 1987 Ian's vision and financial acumen spearheaded the somewhat audacious and very enterprising move of approaching The Hudson's Bay Company to acquire the Northern Stores Division. When this transaction finally happened, after repeated and persistent attempts, it marked the beginning of today's North West Company.

Six years later, the resignation of Ralph Trott created a CEO succession gap. Ian stepped forward, setting aside his other business pursuits to relocate to Winnipeg and take on the leadership of North West. Over the next three and half years, Ian's modest, forthright and respectful style resonated with our customers and employees as it still does today. He committed fully to building our business and successfully set the stage for the next CEO transition.

Ian's last initiative as CEO was another transformative one. He was the first head of a non-resource company in Canada to see the value of an income trust structure for businesses with high dividend pay-outs like North West. I recall there very little support for this idea from mainstream investment bankers. With the exception of people like David Broadhurst, we were basically told that we would be financial outcasts if we converted to an income trust.

But Ian knew the math better than Bay Street. He knew it was so compelling that the risk of being different or unconventional was not only worth taking it was in the very nature of our Nor'Wester heritage. The 150 business trusts that followed North West over the next 10 years can thank Ian for this leadership. More important our unitholders realized $100 million in additional distributions, a remarkable example of value creation.

Based on the graphs Ian showed earlier, I can say that Ian and I have been part of an effective team that includes each and every person who works at North West.

For my part, it's been a complete pleasure to work with someone as bright and insightful as Ian who also recognizes the necessary scope and the accountability of a CEO's role. I have benefited immensely from Ian's careful attention and advice on every major issue and opportunity we've faced over the past 11 years.

From the perspective of our Board, I can speak for my fellow members in saying that Ian's leadership has inculcated fully engaged and effective Board governance at The North West Company. Our meetings and practices reflect Ian's manner and his sole interest in open, frank discussion leading to the best possible decisions.

If you feel you know Ian better after my remarks you would be correct to conclude that he has little interest in personal attention or acclaim, especially since he isn't even leaving the Board. However, Ian did respectfully endure our sentiments last evening at dinner. We also announced that a scholarship will be established in the name of Ian Sutherland and The North West Company, to be awarded to Aboriginal students pursuing further education in retail or finance. I know that Ian was okay with this recognition because he immediately announced that he would match our $50,000 funding commitment.

I invite you to join me and our Board now in recognizing Ian Sutherland, the first, true, modern-era Nor'Wester.

Thank you very much for your attention.

Please note that the speeches may not have been delivered exactly as written.

For more information about these speeches, or the North West Company Fund, please contact:

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