



2007 SUMMARY ANNUAL REPORT

NORTH WEST COMPANY FUND

# At Home in New Frontiers



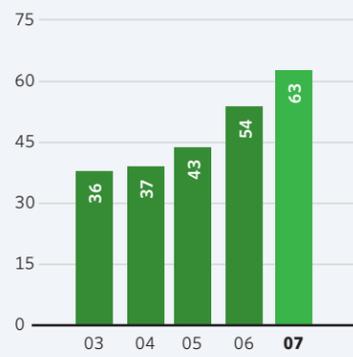
## 2007 Financial Highlights

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

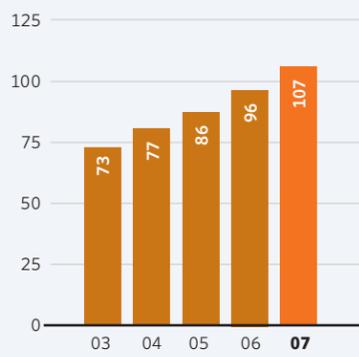
**Sales** (\$ in millions)



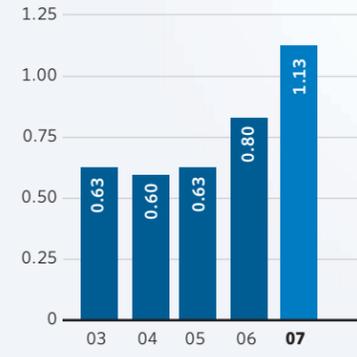
**Net Earnings** (\$ in millions)



**Trading Profit<sup>1</sup>** (\$ in millions)



**Cash Distributions Per Unit** (\$)

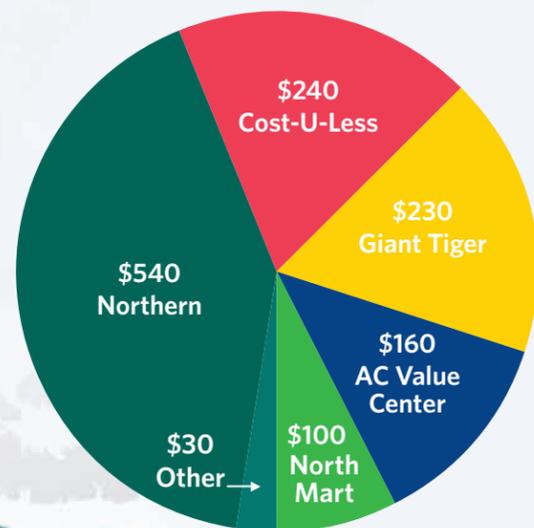


<sup>1</sup> See Non-GAAP measures section on page 20 in the Management's Discussion & Analysis and Consolidated Financial Statements report which is available through SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.northwest.ca](http://www.northwest.ca)



The North West Company is a leading retailer of food and everyday products and services to rural communities and urban neighbourhoods in Canada, Alaska, the South Pacific and the Caribbean.

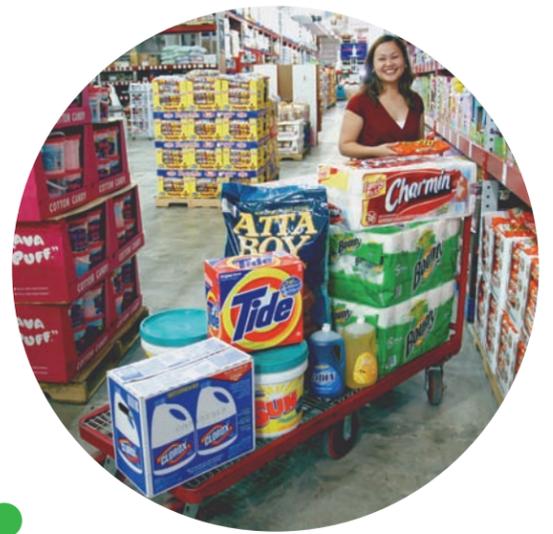
**\$1.3 Billion**  
Annualized Revenue by Banner  
(\$ in millions)



**Cover Top:** Samantha Barnes of Iqaluit, Nunavut is a loyal shopper at NorthMart.

**Cover Bottom:** Liz Torres, a regular Cost-U-Less customer, on the beach at Christiansted, St. Croix, U.S. Virgin Islands.





# We're growing...

As one of North America's leading remote market and neighbourhood retailers, we embrace new opportunities for growth. In December 2007, we acquired Cost-U-Less, a chain of warehouse club-style stores in the South Pacific and the Caribbean. Despite the change in temperature, we are right at home in these new tropical markets.

In each of our markets, we enjoy a leading competitive position that's supported by high barriers to entry and favourable demographic trends. Our success continues to be based on the strengths that have fuelled the growth of our banners in Canada and the U.S. - from specialized expertise in remote market logistics, to small market selling know-how, to entrepreneurial store management.

This year's annual report demonstrates, through the experiences of our customers, how our unique approach to "human-scale" retailing continues to make us an integral and valued store within each of the communities we serve.

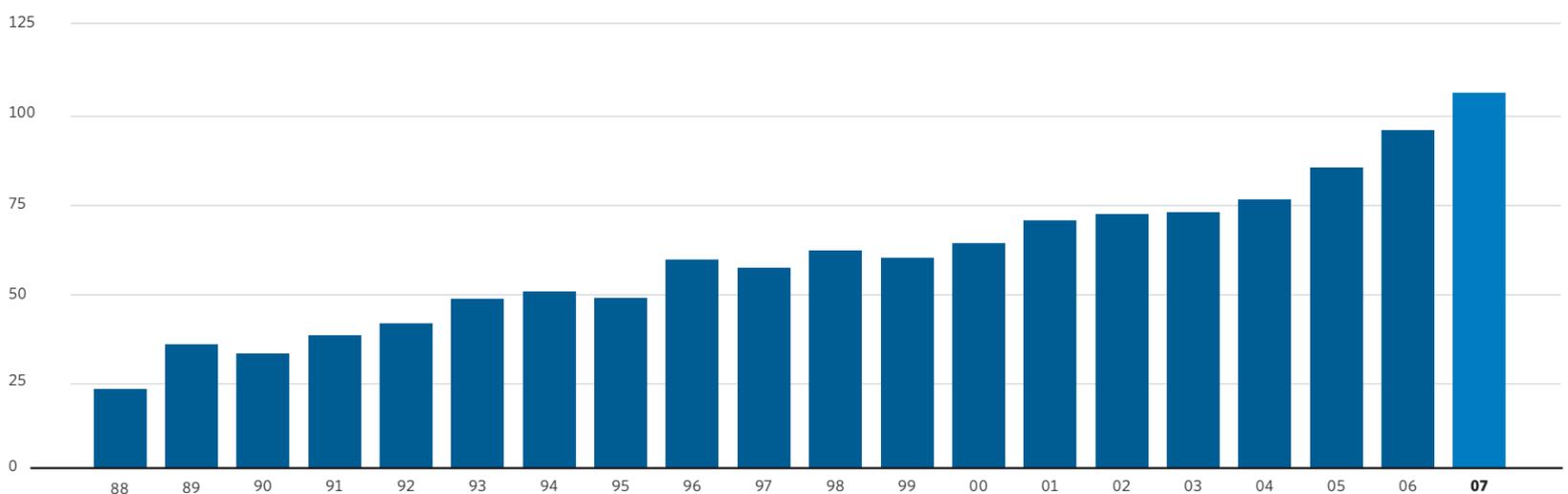


**Top:** Stocking up with bulk brand-name items at a Cost-U-Less store in Guam.

**Right:** Maata Parr of Cape Dorset shops at her local Northern store for everyday food options.

## Consistent Growth in Annual Trading Profit (\$ in millions)

Since its first full year of operation as an independent company 20 years ago, The North West Company has demonstrated enterprising growth, resilient earnings and consistent increases in unitholder distributions.





Edward Kennedy, President & CEO, with Ian Sutherland, Chairman, Board of Trustees, at the historic forks of the Assiniboine and Red Rivers in Winnipeg, Manitoba.

## Chairman's Message

### North West Company Fund delivered top quartile investment performance in 2007 and over the past five years.

In 2007, total return on units of the North West Company Fund was 19% compared to 7% for the Income Trust Index, 3.5% for the Toronto Stock Exchange (TSX) Composite Index and -12.9% for the retail component of the TSX. During the past five years, the Fund's units have delivered an annualized compound total return of 33.9%.

This performance was made possible through the efforts of the Company's close to 7,000 employees, 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.

The North West Company converted to the income trust structure in 1997, one of the early conversions to the business trust model. The strong operating performance of the Fund over the past 10 years, combined with the tax benefits of the trust structure, has provided superior returns to our unitholders. This includes our large base of employee unitholders who have been given a powerful incentive to contribute to the success of the enterprise. The trust structure also helped the Fund attract analyst coverage, increase unit liquidity and improve its ranking of the Fund in the capital markets.

The tax advantage of the trust structure will end on January 1, 2011. In the interim, we will carefully assess how we restructure to enhance the Company's status and to optimize unitholder returns. Like all trusts, we are still awaiting the legislative framework to allow the intended tax-free transformation to a corporate structure. It appears that the income tax for trusts and corporations will be substantially the same and that dividend and distribution tax credits will work to eliminate most of the double taxation that currently affects taxable unitholders and shareholders. The double tax for pension funds and RSPs remains an issue in the proposed post-2010 environment, one which we will challenge the governments to alleviate.

While we regret the end of the tax advantages for the trust structure, we have been pleased with the substantial reductions in corporate tax rates by the federal and some provincial governments. The reduction in rates from over 41% in 1997 to a targeted rate of 29% in 2012, combined with enhanced tax credits for taxable individuals, will significantly offset the impact of the trust tax measures. What's more, the tax reductions should assist capital formation and the overall competitiveness of Canada's tax environment.

We currently expect to remain a trust fund until 2011 in order to avoid the extra tax on income distributed to tax-exempt and tax-deferred unitholders. We estimate over half of our unitholders are tax-exempt or tax-deferred. The tax saving of about 33% on our 2008 income distributed to these unitholders remains significant in enhancing their returns. The trust structure also provides greater flexibility in allowing tax-free capital distributions than allowed under the corporate structure.

Your trustees will continue to assess the structural options for the Fund as the legal roadmap becomes clearer. No matter the outcome, we remain confident in the future of NWC as a business enterprise, as well as our ability to continue to deliver superior returns to our unitholders.

Ian Sutherland  
Chairman, Board of Trustees  
April 21, 2008

## 2007 Highlights

We launched a new corporate identity as part of our 20th anniversary celebration as an independent retailer and 339th year as one of the world's longest continuing enterprises.

We opened or acquired 21 stores, including our acquisition of Cost-U-Less, Inc. on December 13, for a total of 220 stores located across Canada, including all three Canadian territories, Alaska, Hawaii, Guam, American Samoa, the U.S. Virgin Islands, Fiji, the Netherlands Antilles and Grand Cayman Island.

We opened our first Giant Tiger store in British Columbia, extending the reach of Giant Tiger from coast to coast in Canada.

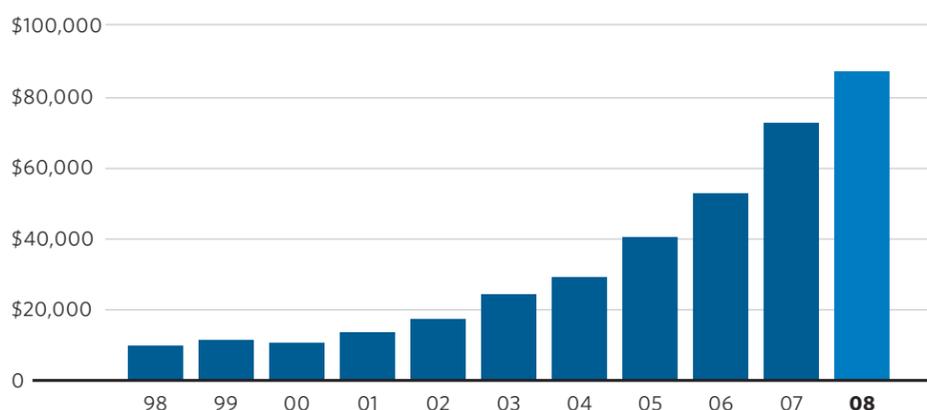
North West has close to 7,000 employees and grew by 1,300 new employees in fiscal 2007.

Comparable store sales were again among the strongest in the retail industry with food sales, excluding the foreign exchange impact, up 6.4%, and general merchandise sales, excluding the foreign exchange impact, up 7.4%. Food is 70% of the company's sales revenue.

North West received the "Regional Outstanding Corporate Partner Award" and the "Outstanding National Corporate Award" from the Canadian Diabetes Association and surpassed \$1 million in funds raised through our annual Healthy Living-Team Diabetes marathon teams.

## Ten-Year Unitholder Return on \$10,000 Initial Investment

January 31, 1998 - January 31, 2008



## President & CEO's Message

**N**orth West reported its eighth consecutive year of higher sales, profit and asset returns in 2007. Trading profit and net earnings grew at a rate of 10% or greater for the third straight year and distributions increased by 28% from last year. Above all, I am very pleased with the quality behind these numbers because we continued to demonstrate good balance between generating immediate sales and making the investments required to sustain our business in the years ahead.

In 2007, our people again went the extra mile to meet our customers' needs. Fundamental demand continued to grow steadily in all our markets. We benefited from spending tied to resource development projects in the North, higher oil-generated Permanent Fund Dividends in Alaska and the payment of Indian Residential School Survivor settlements in Canada. Merchandise was expedited to stores, individually-tailored credit terms were created and sales were captured by living up to a service commitment that stands above our competition.

On the business building side, we added the skill and dedication of over 1,300 new associates. We marked our entry into retailing beyond North America with the acquisition of Cost-U-Less, Inc. (CUL) and their warehouse-style stores in the South Pacific and the Caribbean. A record seven new Giant Tiger stores were opened and we moved deeper into health products and services with additional pharmacies. Just after year-end, we completed the purchase of Span Alaska, doubling our share of a wholesale niche serving independent Alaskan retailers.

There were many highlights and few setbacks from our major work last year. We correctly forecasted and aggressively pursued fourth quarter sales opportunities created by special income distributions to our customers and a buoyant resource economy. Achieving these sales was helped by our introduction of a two-month selling event planning cycle and more experience with our Advance Order System, which enables our store-level people to customize a mix of merchandise that will have the greatest appeal in their communities.

Store management recruitment and training was targeted at 40 candidates and, although we came close to this target, new store manager turnover also increased. Store productivity improved due to improved labour planning and utility cost management. Growth capital investment was \$69.3 million including the CUL acquisition, positioning us for a sales platform of over \$1.3 billion in 2008.

New product growth was led by our CashLink debit card and prepaid MasterCard products from our financial services group. Health products and services progressed more slowly than expected due to regulations that continued to challenge our remote prescription fulfillment model as well as new competition at two locations. Our pharmacy "hub and spoke" strategy remains sound and is an essential complement to the expansion of our healthy living food product range over the next several years. 2008 will be another investing year on this front.

Two initiatives that slipped in 2007 and which will be priorities in 2008 are business planning and leadership development. Our successful efforts on CUL, combined with intense northern banner sales activities in the second half, came at a price in terms of attention to both of these areas. By year-end we had a solid grip on our leadership program "Leadership @NWC." Our executive team is now fully invested in a realistic and comprehensive action plan that will take our 50 most senior leaders, including Cost-U-Less management, through monthly modules of our core leadership practices in 2008. Similarly, we had intended to revamp our business planning process in 2007 but this work will now be carried over to this year with a realistic timeline.

While our northern banners produced an exceptional general merchandise performance in the fourth quarter, I was disappointed with food sales in our new Giant Tiger stores. Until now, Giant Tiger new and same store sales increases have exceeded expectations and have brought these stores to a very profitable level at maturity. What we faced in late 2007 and what will continue to affect us in 2008 is heavy food price discounting in western Canada, stimulated by the entry of *Wal-Mart Supercentres*. In response, we plan to maintain our price competitiveness, enhance our food offer through more special buys, private label products and local items, and keep making the most of Giant Tiger's compelling fashion mix.

## 2007 Key Initiative Report Card

Initiative	Target	Actual
<b>Two-month selling event planning and second half general merchandise sales drive</b>	Same store growth of 5% to 7%	Third quarter general merchandise same store sales increased 2.6% and fourth quarter increased 16.7% excluding the foreign exchange impact
<b>"Local Store" ordering capability</b>	90% plus store utilization of Advance Order System within time and accuracy standards	Food at 88.6%; general merchandise at 91.3%
<b>Growth capital spending</b>	Ten new stores, five new pharmacies, five major store replacements and additions	Nine new stores, four in-store pharmacies, six major replacements and additions, CUL acquisition
<b>Store Manager-in-Training (MIT) program</b>	Hire 40 MITs	38 MITs hired
<b>New market expansion</b>	Assess market opportunities in the South Pacific and the Caribbean	Acquisition of CUL and Hita Market (Guam) completed in fourth quarter
<b>Leadership development and business planning</b>	New process and program effectively in place	Delays in completion of both initiatives; carried forward to 2008

## How We Look at Growth

In my role, I try to make our growth plans as simple, clear and compelling as possible, recognizing that we are a complex business. Four questions are front and centre. Does new growth put us clearly in position to be the best local store? Does each growth initiative leverage and add to the core strength of North West as a whole? Do we have the people and time to add these new activities and still effectively serve and get sales from our existing customers? Is the risk and return aligned with the rest of our business?

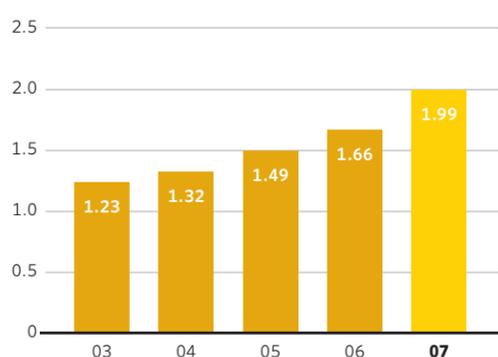
I am confident we have demonstrated the right answers and actions to these growth questions. First is our local store focus. At its heart, North West is about community retailing. Our stores are junior versions of today's big box outlets. They are what I refer to as human scale - smaller, more flexible and more accessible. Each time we look at a new banner or format idea, whether it's Giant Tiger, NorthMart or Cost-U-Less, we are looking for an opportunity to be uniquely local within markets where we can stand out and make an impact.

We are not a rapidly growing retailer measured by new stores and we think that's fine. Still, the last five years have been a period of more intense new store and new product activity at North West. Because we are learning to expand faster, profitably, we are appropriately sensitive to the quality of our growth efforts. I am satisfied that we are building very solid bench strength to support new growth like Cost-U-Less and our health products and services group, starting with the talent within our recruiting teams. Most importantly, we are completely at ease with slowing down expansion or passing on opportunities if we aren't ready.

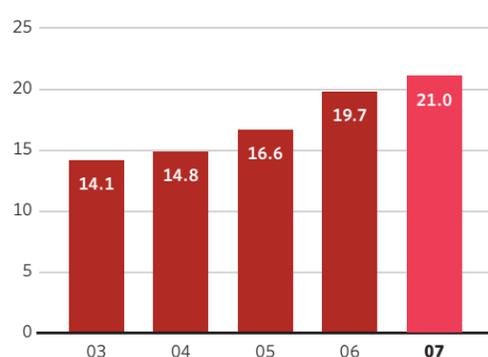
The last growth consideration is risk. We've had success within the mid-risk, mid-return spectrum. We've achieved modest to above-average growth while consistently increasing cash distributions to unitholders. As we grow faster and our business becomes more diverse, I am always considering the relative risk and return of what we are taking on. Today, I am very satisfied that each of the added banners and major product areas meets, or within three to five years will likely meet, the risk and return profile of our core northern store business. I also believe there is more than enough room for growth without increasing our risk profile.

## Consistent Long-Term Performance

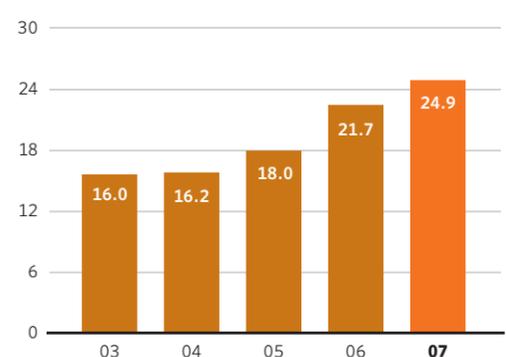
Cash Flow From Operations Per Unit (\$)



Return on Net Assets (%)



Return on Equity (%)



## President & CEO's Message (Continued)

### The Cost-U-Less Fit

Over the past two years, we communicated a strategic interest in international expansion. We did not report on specific markets beyond our intention to keep adding new stores in Alaska through acquisition and our commitment to building on our remote logistics and small market selling expertise. Behind the scenes we began to investigate the American territories of the South Pacific, starting with the island of Guam. We were attracted to the U.S. west coast gateway that the South Pacific shared with Alaska. We determined that the market characteristics were more similar than different compared to our existing store locations, including the predominance of indigenous cultures, second world infrastructure, high North American brand acceptance, unique regulatory barriers, relatively small population bases and weather challenges.

Leading into the second quarter of 2007, our market development strategy narrowed to the building or acquiring of primarily food-format stores on Guam, as a footprint for further growth in the region. Our pre-work included intensive competitive analysis of the major players and we knew Cost-U-Less through their presence in Guam and other U.S. Territories. We considered CUL to be a viable entry point based on their established presence, local market knowledge and stabilized performance. We had also gained a full understanding of the opportunities and risks within each CUL market including their Caribbean locations.

In a perfect situation, we would have made an initial investment in Guam and then looked again at CUL in 2008 or 2009. But, when CUL commenced a sale process last spring, we realized the window was advanced and we were ready. Today, I am pleased with every key aspect of our CUL acquisition. It is the right size for us to seriously commit our resources without putting our existing business at risk. The people at CUL have decades of cumulative remote market retail experience that has a ring of strong familiarity to us. The integration is proceeding smoothly and I am confident we will deliver a shopping experience that builds on CUL's warehouse store strengths. Finally, I believe that our experience with our Alaskan acquisition and the Giant Tiger expansion gives us the ability to deal with inevitable unexpected turns.

### 2008 Outlook

With widespread concern about the economy, I am increasingly asked how we expect to fare in a recessionary environment. I believe the answer is in our 2007 performance and over the twenty years preceding it. We have carefully built a retail business that is physically distant from conventional, big-box urban retailing but that is also more than that. Our primary focus on everyday food needs, lower-income shoppers and markets with above-average population growth means that our sales base is not only stable but holds continued growth potential.

Beyond stability, in 2008 we see a number of positive external drivers: mineral, oil and gas development activity in the North, public housing expenditures for rural Aboriginal communities, the beginning of a significant military spending program in Guam, favourable pharmacy regulation reform and an expected 20% increase in this year's Permanent Fund Dividend in Alaska.

We will face some equally unique challenges. Oil-cost inflation affects our customers' spending power and our stores' transportation and utility costs more than almost any other retailer. While we have the ability to pass through unavoidable costs to a greater degree than most retailers, there will be less discretionary spending by our customers in 2008. We are by no means in the clear on our new Giant Tiger stores. They will continue to fight and win customers but at a slower rate than the first 20 stores we opened, primarily due to big-box price wars that will pull at our growing base of loyal GT shoppers.

Within North West, this year will focus on finishing planning and leadership work from 2007, completing the integration of our recent acquisitions, reworking our Giant Tiger food offer and refining our customer and associate value offers. The newer members of our executive team are gaining more insight into our business and, as a group, I believe we have never had more talented and committed leaders. I am equally pleased with leadership at other levels in our organization. Our culture encourages and rewards enterprising actions, especially within our stores. Each year the fit between this culture and the capability of our store management gets better and better. Thanks to their efforts, and the continued dedication of our close to 7,000 associates, we posted another year of record results while building new opportunities for future growth. Looking ahead, I am committed to ensuring that we continue to offer great work and an even better work environment.

Edward S. Kennedy  
President & CEO  
April 21, 2008



New product growth was led by our CashLink debit card and prepaid Mastercard products.

### Synergies That Work

On the question of building our core strengths, we've been able to bring to our customers lower buying costs from suppliers in North America and more direct importing from offshore. We can afford support services that are more specialized, from store development to information systems. We can bring products developed within one banner - such as financial services or private label merchandise - to other banners faster, and at lower risk. We can attract and retain the best talent because we offer interesting work, the exciting challenges of a growing business and the enterprising spirit of a 339-year tradition.

		Community & Customer	Outbound Logistics	Food Mix	Support Services	Financial Services	Direct Imports
141 Stores <sup>1</sup>		●	●	●	●	●	●
6 Stores		●	●	●	●	●	●
27 Stores		●	●	●	◐	◐	●
32 Stores <sup>1</sup>		●	●	●	●	●	●
12 Stores		●	●	◐	●	◐	●

Store count as at April 21, 2008

<sup>1</sup>Includes Quickstop convenience stores



# “At Northern, we have access to almost anything in this frontier community.”

**M**ary Mason of Gods Lake Narrows, Manitoba is a Cree language teacher in this Aboriginal community 550 kilometers northeast of Winnipeg. Like most of her friends and neighbours, she counts on her Northern store to provide the conveniences expected by most Canadian consumers.

“This is where I was born and I wouldn’t live anywhere else. I got my university degree here, through correspondence, and enjoy a rewarding career that’s part of my heritage. We enjoy a traditional lifestyle, but thanks to Northern, we have access to just about anything we want in this frontier community.”

Over the years, Mary has relied on Northern for an expanding range of products and services, from fresh foods, to fashions, to furniture and electronics, to Skidoos and boats, to new financial services like our convenient Northern MasterCard.

“We have other choices, but we buy from Northern because we like the manager and he knows us. It’s not just any company that would prepare and serve a feast for the elders at Christmas time, or pitch in at other important cultural events. Northern is an integral and supportive member of the community and in a place like Gods Lake Narrows, we appreciate that.”



Gas retailing is a growing contributor to our success in northern markets. We also sell a significant number of motor vehicles in remote communities.

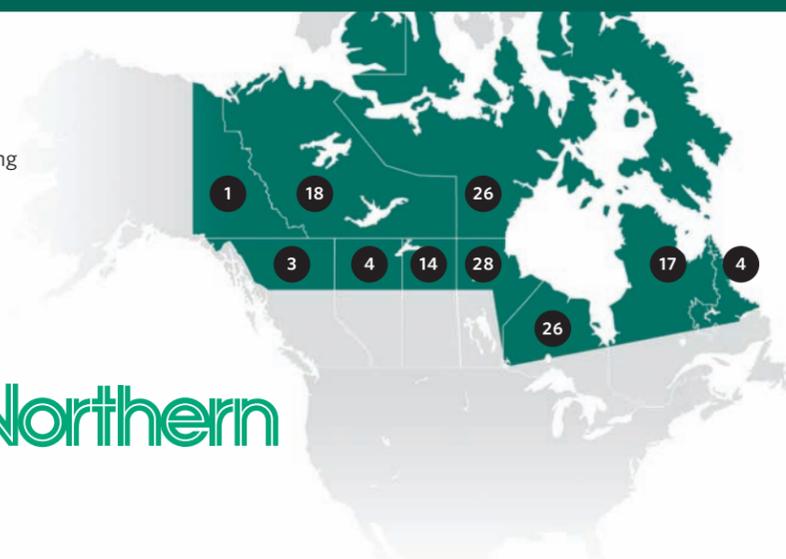
Robert Wells of Gods Lake Narrows in the well-stocked meat department.



**Your Everyday Value Store**



Northern is the original core store banner of The North West Company and today consists of 141 food and general merchandise stores, including Quickstop convenience stores, serving remote, northern Canadian communities. Northern is the first shopping choice in its markets thanks to a combination of fair prices, consistently superior local selection, being in stock at the right time, helpful, friendly service, and unwavering community support.





NorthMart is a group of six larger-size combination food and general merchandise stores especially created to serve regional centres in Canada's north. Featuring an expanded range of fashion merchandise and fresh food, NorthMart is a destination for shoppers and comes closest to providing the breadth of quality and selection typically found in urban centres.



**S**amantha Barnes of Iqaluit, Nunavut works as a Land Titles Officer in the fast-growing capital of this new territory. She's also a loyal shopper at NorthMart, an expanded-format store that's been designed for larger, regional centres in Canada's north.

"I've lived in many different communities in southern Canada but my heart's always been in the North. And I can tell you one thing - most Canadians would be very surprised at the combination of style, selection and value you'll find at NorthMart. It's like the best stores down south. That's why we bought our television, our DVD player and our furniture there. We even bought our new truck there. That's why I shop there every week for whatever I need, from food to fashions to baby supplies. When you live in an isolated area you have to make the most of your income. NorthMart helps me do that."

Community support also makes a difference to people like Samantha. "NorthMart has a real presence in the community. Whether it's Canada Day celebrations, Christmas drives or special causes like Habitat for Humanity, NorthMart has always been a helpful neighbour to the people of Iqaluit."

NorthMart stores in larger, regional markets offer a wide selection of fresh food offerings (including gourmet products and organics) as well as fashion and a wide array of general merchandise. To support its healthy living initiatives, pharmacy and health care services have been added in recent years.

**"I shop at NorthMart every week for whatever I need..."**





## “At Giant Tiger, I always find the latest styles my kids want to wear.”

**G**loria Morgan of Winnipeg, Manitoba serves customers at a downtown restaurant near our Donald Street Giant Tiger (GT) store. As a working mom, Gloria appreciates GT’s consistently low prices; as a mother of two active kids, she also values the availability of leading-edge fashions.

“I go to Giant Tiger three to four times a week for all the basics - not just for myself, but also for the restaurant. The prices just can’t be beat. The fashion is also outstanding, not at all what you’d expect to find in a discount store. My children are growing fast and they are very conscious about what they wear. Giant Tiger has the latest fashions and the hottest styles they are looking for, at prices that are easy on my budget.”

GT stores also feature the element of surprise, something else that appeals to Gloria’s shopping spirit. “I like the new and the unexpected, and I’m likely to get that at GT. Last month I found a great *Bongo* purse I’d been looking for everywhere in town. I walked into GT and there it was, right at the front of the store!”

### Giant Tiger Store Openings

As part of a 30-year master franchise agreement signed in 2002, NWC has opened 27 stores in western Canada. We expect a further three stores to open by the end of 2008.



### Your All Canadian Family Discount Store



Giant Tiger has a growing retail presence in western Canada. From its beginning six years ago, North West now owns and operates 27 Giant Tiger junior discount stores under a master franchise agreement with *Giant Tiger Stores Limited*. Giant Tiger’s convenient locations provide shoppers with a unique blend of everyday low prices on basic family and household needs combined with the newest fashions, arriving daily, at equally unbeatable prices.





**“AC’s my first choice for many reasons, including the great selection of fresh food.”**

**B**everly Hoffman of Bethel, Alaska is a wilderness outfitter in this Kuskokwim River town near the Bering Sea, 670 kilometres west of Anchorage. Like many native Alaskans, Beverly’s family enjoys a traditional lifestyle, with moose, caribou and salmon serving as important dietary staples. But Beverly relies on AC for just about everything else.

“When I was growing up, you were lucky to get onions, carrots and maybe some lettuce in the winter. Time has changed all that. We have a lot of family gatherings and food is a big part of our celebrations. My husband John is known in these parts as quite the gourmet chef. We can take any recipe from Julia Child’s *The Way to Cook* and find all of the fresh ingredients we need at the AC store.”

AC has also been a big supporter of the community causes close to Beverly’s heart. “In a small town with few big employers, there aren’t many places to turn for help. And you see AC’s name out there all the time. Whether it be the Kuskokwim 300 Dog Sled Race, the Bethel Search & Rescue Group, Volunteers in Public Schools, or my Y-K Delta Lifesavers Group, AC has a reputation for always being willing to lend a helping hand.”



*Customer Service is our First Priority*



AC Value Center is the largest retailer in rural Alaska, with 32 combination food, general merchandise and “express” stores. AC has earned its position as the retailer of choice for rural Alaskans by supporting our communities and by providing a great selection of lifestyle products, with friendly service, at the best local price.

