

NORTH WEST COMPANY FUND 2007

# Annual Information Form

Year Ended January 31, 2008

APRIL 25, 2008



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**The information contained in this annual information form (this “Annual Information Form”) is current to April 25, 2008 unless otherwise stated.**

## **NORTH WEST COMPANY FUND AND ITS AFFILIATED ENTITIES**

In this Annual Information Form, references are made to the “Fund”, being North West Company Fund, and its “affiliated entities”. The term “affiliated entities” includes, in respect of the Fund: The North West Company Inc. / La Compagnie Du Nord-Ouest Inc. (including all of its predecessor entities, as applicable) (“NWC”), The North West Company LP (“NWCLP”), North West Company Holdings Inc (“NWHoldco”), NWC GP Inc. (“NWC GP”), The NWC Trust (“NWCT”), NWC (U.S.) Holdings Inc., Alaska Commercial Company (“AC”) and Cost-U-Less, Inc. (“CUL”). Where the context requires, references to the Fund include the affiliated entities.

## **FORWARD LOOKING STATEMENTS**

Certain statements in this Annual Information Form are forward-looking statements which reflect management’s expectations regarding the future growth, results of operations, performance, business prospects and opportunities of the Fund and its affiliated entities. Such forward-looking statements reflect management’s current beliefs and are based on information currently available to management. The Fund’s annual report for the financial year ended January 31, 2008, including the management’s discussion & analysis and consolidated financial statements, also contain certain forward-looking statements. Such statements relate to, among other things, sales growth, expansion and growth of the business, future capital expenditures and business strategy of the Fund and its affiliated entities. Forward-looking statements are subject to inherent uncertainties and risks including but not limited to: treatment of income trusts for taxation purposes, general industry and economic conditions, changes in the Fund’s relationship within the communities it serves and with its suppliers, pricing pressure and other competitive factors, the availability and cost of merchandise, foreign currency and exchange rates, fuels and utilities, the results of the Fund’s ongoing efforts to improve cost effectiveness, the rates of return on the Fund’s pension plan assets, changes in regulatory requirements affecting the business of the Fund, and the availability and terms of financing. See “Risk Factors” below. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

## **Non-GAAP Measures**

Trading-profit (EBITDA) is not a recognized measure under the Canadian generally accepted accounting principals (GAAP). Management believes that in addition to net earnings, trading profit is a useful supplemental measure as it provides investors with an indication of the operational performance of the Fund before allocating the cost of interest, income taxes and capital investments. Investors should be cautioned, however, that trading profit should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Fund’s performance. The Fund’s method of calculating trading profit may differ from other issuers and, accordingly, trading profit may not be comparable to measures used by other issuers.

Cash-flow from operations is not a recognized measure under Canadian GAAP. Management believes that in addition to cash flow from operating activities, cash flow from operations is a useful supplemental measure as it provides investors with an indication of the Fund’s ability to generate cash flows to fund its cash requirements, including distributions and capital investments. Investors should be cautioned, however, that cash flow from operations should not be construed as an alternative to cash flow from operating activities or net earnings as a measure of profitability. The Fund’s method of calculating cash flow from operations may differ from other issuers and may not be comparable to measures used by other issuers.

## **NORTH WEST COMPANY FUND**

### **General**

The Fund is an unincorporated, open-ended mutual fund trust established under the laws of the Province of Manitoba, on January 31, 1997 pursuant to a declaration of trust dated January 31, 1997, as amended on March 2, 1997, June 4, 1998, February 25, 2003, June 9, 2005 and June 1, 2007 (collectively, the "Declaration of Trust"). The head office of the Fund is located at Gibraltar House, 77 Main Street, Winnipeg, Manitoba R3C 2R1.

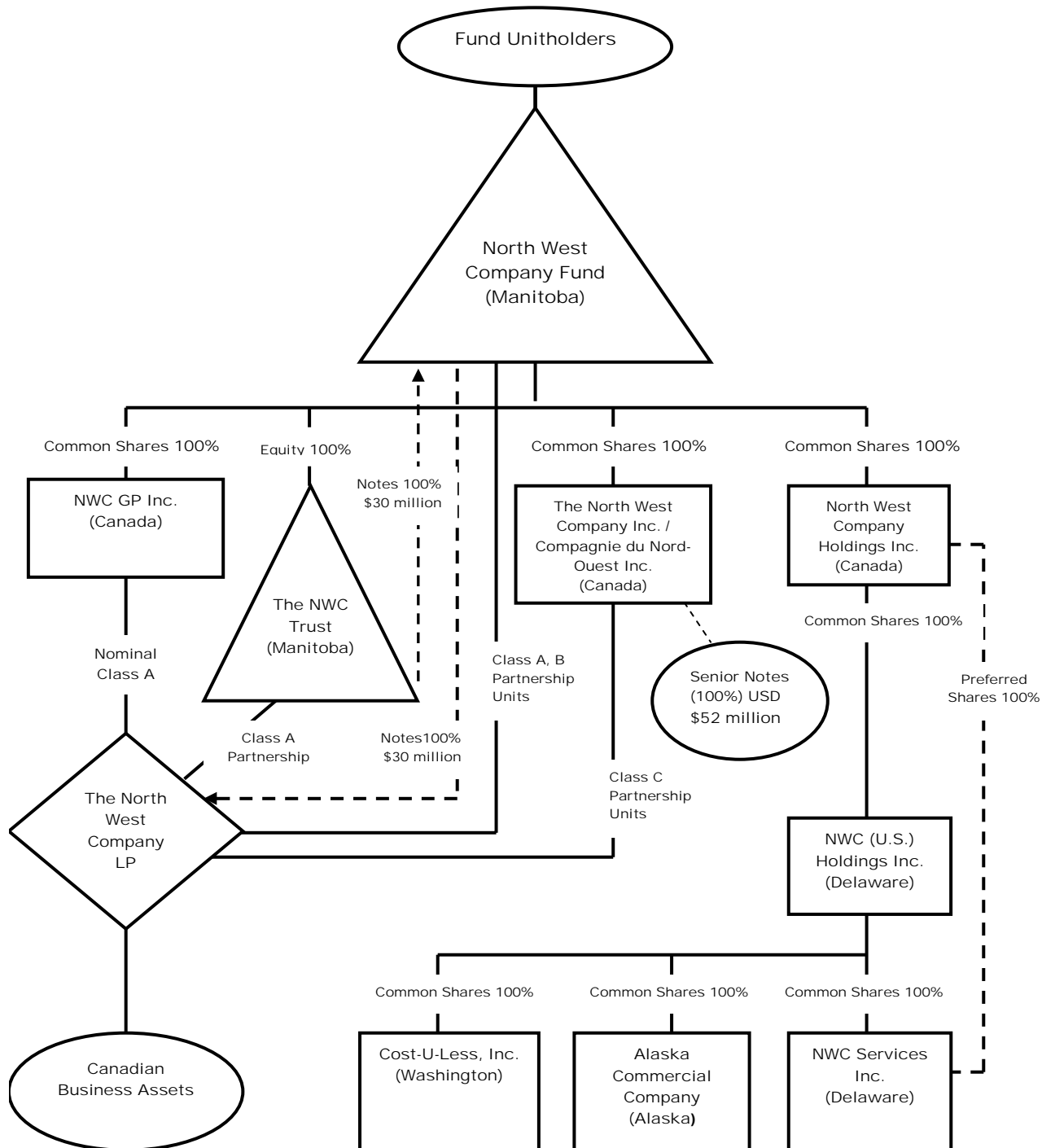
The Fund is a limited purpose trust, the principle activities of which include investing in such securities as may be approved from time to time by the Trustees of the Fund (the "Trustees") including securities of its affiliated entities, and to the extent possible, to make distributions to holders ("Unitholders") of Trust Units of the Fund ("Trust Units") from distributions or payments made to the Fund.

At January 31, 2008, the Fund held 100% of the shares of NWC, 100% of the Trust Units of NWCT, 100% of the shares of NWHoldco, 100% of the shares of NWCGP and a \$30 million promissory note of NWCT due December 31, 2031. The Fund also holds Class A and Class B partnership units in NWCLP.

On June 8, 2006, the unitholders authorized and approved the Fund to undertake the second step of an internal reorganization of the Fund and its affiliated entities and certain related amendments to the Declaration of Trust, all as more particularly described in the Fund's annual information form for the year ended January 31, 2007 (the "2007 AIF"). The objective of the second step of the internal reorganization was to complete the implementation of a structure that (a) was suited to the profitable, expansionary stage that has been reached by the business carried on by the Fund's affiliated entities, and (b) to satisfy unitholder expectations regarding the returns on their investment in the Fund. The Fund applied to and received from the Canada Revenue Agency a favourable advance income tax ruling in respect of the second step of the reorganization and completed the reorganization on June 5, 2007.

**Structure of the Fund**

The following diagram illustrates the organizational structure (including jurisdiction of organization or incorporation as the case may be) and the relationship between the Fund and its affiliated entities as at January 31, 2008.



## Federal Tax Changes

On June 22, 2007, new legislation was passed (the "SIFT Rules") which imposes a new entity-level tax on distributions from certain specified investment flow-through entities ("SIFTs") such as the Fund commencing January 1, 2011. The application of the SIFT Rules is delayed until January 1, 2011 provided the Fund is not considered to have undergone an "undue expansion" in the interim period. The SIFT Rules will result in a reduction in the cash available for distribution to unitholders by the amount of the tax paid or payable by the Fund and the distributions to unitholders will be characterized as dividends. Based on the information currently available, it is anticipated this new tax will be at the rate of 29.5% in 2011 and 28.0% in 2012. There can be no assurance that Canadian federal income tax laws respecting SIFTs will not be further changed in a manner which adversely affects unitholders.

Further, the SIFT Rules provide that, while there is no intention to prevent "normal growth" during the transitional period, any "undue expansion" would result in the transition period being terminated. As a result, the adverse tax consequences resulting from the proposals could be realized sooner than January 1, 2011. On December 15, 2006, the Department of Finance issued guidelines with respect to what is meant by "normal growth" in this context. Specifically, the Department of Finance stated that "normal growth" would include equity growth within certain "safe harbour" limits, measured by reference to a "specified investment flow-through's" ("SIFT") market capitalization as of the end of trading on October 31, 2006 (which would include only the market value of the SIFTs issued and outstanding publicly-traded Trust Units, and not any convertible debt, options or other interests convertible into or exchangeable for Trust Units). Those safe harbour limits are 40% for the period from November 1, 2006 to December 31, 2007, and 20% each for calendar years 2008, 2009 and 2010. Moreover, these limits are cumulative, so that any unused limit for a period carries over into the subsequent period. Additional details of the Department of Finance's guidelines include the following:

- (a) new equity for these purposes includes units and debt that is convertible into units (and may include other substitutes for equity if attempts are made to develop those);
- (b) replacing debt that was outstanding as of October 31, 2006 with new equity, whether by a conversion into Trust Units of convertible debentures or otherwise, will not be considered growth for these purposes and will therefore not affect the safe harbour; and
- (c) the exchange, for Trust Units, of exchangeable partnership units or exchangeable shares that were outstanding on October 31, 2006 will not be considered growth for those purposes and will therefore not affect the safe harbour where the issuance of the Trust Units is made in satisfaction of the exercise of the exchange right by a person other than the SIFT.

The Fund's market capitalization as of the close of trading on October 31, 2006, having regard to its issued and outstanding publicly-traded Trust Units and senior debt, was approximately \$934 million, which means the "safe harbour" equity growth amount for the period ending December 31, 2007 is approximately \$374 million, and for each of calendar 2008, 2009 and 2010 is approximately an additional \$187 million (in any case, not including equity, including convertible debentures, issued to replace debt that was outstanding on October 31, 2006).

While these guidelines are such that it is unlikely they would affect the Fund's ability to raise the capital required to maintain and grow the existing operations in the ordinary course during the transition period, they could adversely affect the cost of raising capital and the Fund's ability to undertake more significant acquisitions.

On March 14, 2008, draft legislation (the "Provincial SIFT Tax Proposal") received its first reading in the House of Commons, that would have the effect of basing the provincial component on the general provincial corporate income tax rate in each province in which the Fund has a permanent establishment

instead of basing the provincial component of the tax on a flat rate of 13%. For purposes of calculating this component of the tax, the general corporate taxable income allocation formula will be used. Specifically, the Fund's taxable distributions will be allocated to provinces by taking half of the aggregate of:

- that proportion of the Trust's taxable distributions for the year that the Trust's wages and salaries in the province are of its total wages and salaries in Canada; and
- that proportion of the Trust's taxable distributions for the year that the Trust's gross revenues in the province are of its total gross revenues in Canada.

Under the Provincial SIFT Tax Proposal the Fund will have an effective tax rate of approximately 30% in 2011. Taxable distributions that are not allocated to any province would be subject to a 10% rate constituting the provincial component. There can be no assurance, however, that the Provincial SIFT Tax Proposal will be enacted as proposed.

### SUMMARY OF THE DECLARATION OF TRUST

***The following is a summary of certain material attributes and characteristics of the Trust Units and provisions of the Declaration of Trust, a copy of which is available at [www.sedar.com](http://www.sedar.com) or upon request from the Secretary of the Fund. This summary does not purport to be complete and is qualified entirely by the Declaration of Trust.***

#### **Activities of the Fund**

The Fund does not conduct an active business but rather distributes to the unitholders the income (net of expenses) it receives from its affiliated entities. The Declaration of Trust limits the activities of the Fund to:

- (a) investing in such securities as may be approved from time to time by the Trustees, including any securities of its affiliated entities, provided that the Trustees may not make any investment or use any of the Fund's assets or property in a manner which would result in the Fund not being considered either a "unit trust" or a "mutual fund trust" for the purposes of the *Income Tax Act* (Canada) (the "Tax Act") at the time such investment was made;
- (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 unitholders;
- (d) undertaking such other 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 Tax Act; and
- (e) investing the net income of the Fund in "Permitted Investments" as shall be approved by the Trustees from time to time.

"Permitted Investments" is defined in the Declaration of Trust to include, among other things, securities of any subsidiary of the Fund and any other securities or investments which may be acquired by the Fund in accordance with the Declaration of Trust.

The Declaration of Trust may be amended or altered from time to time by at least 66 2/3% of the votes cast at a meeting of the unitholders called for such purpose.

The Trustees may, without the approval of the unitholders, make certain amendments to the Declaration of Trust, including amendments:

- (a) for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental or other authority having jurisdiction over the Trustees or over the Fund;
- (b) which, in the opinion of the Trustees, provide additional protection for the unitholders;
- (c) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the unitholders; and
- (d) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws.

### **Trust Units and Special Units**

The beneficial interests of the Fund are divided into interests of two classes, described and designated as "Trust Units" and "Special Units", which are entitled to the rights and subject to the limitations, restrictions and conditions as set out in the Declaration of Trust.

### **Description of Trust Units**

An unlimited number of Trust Units may be created and issued pursuant to the Declaration of Trust. As of April 25, 2008 there were 48,378,000 Trust Units issued and outstanding. Each Trust Unit represents an equal fractional undivided beneficial interest in any distribution from and in any net assets of the Fund in the event of termination or winding-up of the Fund. All Trust Units are of the same class with equal rights, privileges and ranking. Each Trust Unit is transferable and entitles the holder thereof to participate equally in distributions, including the distributions of net income and net realized capital gains of the Fund and distributions on termination or winding-up and the Trust Units are issued as fully paid and non-assessable. Each Trust Unit entitles the holder thereof to one vote at all meetings of unitholders.

### **Issuance of Trust Units**

The Declaration of Trust provides that Trust Units or rights, warrants or options to acquire Trust Units may be issued at the times, to such persons, for such consideration and on such terms and conditions that the Trustees determine. Existing unitholders have no pre-emptive rights to subscribe for or purchase any Trust Units. The Declaration of Trust also provides that fractional Trust Units shall not be issued except pursuant to a *pro rata* distribution of additional Trust Units to all unitholders in satisfaction of any non-cash distribution, following which the number of outstanding Trust Units will be consolidated such that each unitholder will hold the same number of Trust Units held before the non-cash distribution. In such case, each certificate representing a number of Trust Units prior to the non-cash distribution is deemed to represent the same number of Trust Units after the non-cash distribution and the consolidation.

### **Trust Unit Recirculation Right**

Trust Units may be recirculated at any time at the option of the holders thereof upon delivery to the Fund of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed direction and power of attorney authorizing the Trustees or the recirculation agent, appointed from time to time by the Trustees (the "Recirculation Agent"), to sell such Trust Units on the unitholders behalf ("Recirculation") at such price or prices as may be obtained by the Trustees or the Recirculation Agent in their absolute discretion. The holder of Trust Units tendered for Recirculation shall be entitled to receive payment of the gross proceeds received from the Recirculation sale less applicable selling costs including brokerage commissions of the Recirculation Agent, such payment to be made by the Fund or the Trustees or the Recirculation Agent no later than the fifth business day following the end of the month during which the Recirculation sale is effected.



### **Trust Units Redemption Rights**

Trust Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by the Fund, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Trust Units (the "Redemption Price") equal to the lesser of: (i) 85% of the "market price" (determined in accordance with the Declaration of Trust) of the Trust Units on the principal market on which the Trust Units are quoted for trading during the 10 trading day period commencing immediately after the date on which the Trust Units are surrendered for redemption (the "Redemption Date"); and (ii) the "closing market price" (determined in accordance with the Declaration of Trust) on the principal market on which the Trust Units are quoted for trading on the Redemption Date.

In certain circumstances, including where the Redemption Price for all Trust Units redeemed in the same calendar month exceeds \$100,000, the Fund may pay a portion of the Redemption Price in promissory notes of NWCT.

### **Limitation on Non-Resident Ownership**

At no time may non-residents of Canada within the meaning of the Tax Act (each, a "Non-Resident" and, collectively, the "Non-Residents") be the beneficial owners of a majority of the Trust Units and the Trustees shall inform the transfer agent of the Fund (the "Transfer Agent") of this restriction. The Transfer Agent may require declarations as to the jurisdictions in which beneficial owners of Trust Units are resident. If the Transfer Agent becomes aware as a result of requiring such declarations as to beneficial ownership that the beneficial owners of 49% of the Trust Units then outstanding are, or may be, Non-Residents or that such a situation is imminent, the Transfer Agent may make a public announcement thereof and shall not accept a subscription for Trust Units from or issue or register a transfer of Trust Units to a person unless the person provides a declaration in form and content satisfactory to the Trustees that the person is not a Non-Resident. If notwithstanding the foregoing, the Transfer Agent determines that a majority of the Trust Units are held by non-residents, the Transfer Agent may send a notice to non-resident holders of Trust Units, chosen in inverse order to the order of acquisition or registration or in such other manner as the Transfer Agent may consider equitable and practicable, requiring them to sell their Trust Units or a portion thereof within a specified period of not less than 60 days. If the unitholders receiving such notice have not sold the specified number of Trust Units or provided the Transfer Agent with satisfactory evidence that they are not Non-Residents within such period, the Transfer Agent may on behalf of such unitholders sell such Trust Units and, in the interim, shall suspend the voting and distribution rights attached to such Trust Units. Upon such sale the affected holders shall cease to be holders of Trust Units and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates representing such Trust Units.

The Fund requests a quarterly report showing the ownership ratio of the Trust Units from the Transfer Agent.

### **Description of Special Units**

The Declaration of Trust provides that Special Units of the Fund shall confer upon the holders thereof the same rights as holders of Trust Units and, except as otherwise provided therein, the provisions of the Declaration of Trust applicable to Trust Units shall apply to the Special Units *mutatis mutandis*. The Special Units were created for the purpose of facilitating a reorganization of the Fund, which was completed on June 5, 2007. In connection with such internal reorganization of the Fund, Special Units were issued to NWC and subsequently cancelled. There are no Special Units issued and outstanding on the date hereof.

## **The Trustees**

Trustees are elected every year as may be determined by a majority of the votes cast at an annual meeting of the unitholders. The Declaration of Trust provides that, subject to the terms and conditions thereof, the Trustees may, in respect of the Fund assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and shall supervise the investments and conduct the affairs of the Fund. The Trustees are responsible for, among other things: (i) acting for, voting on behalf of and representing the Fund as a shareholder of NWC, NWC GP and NWHoldco and as a unitholder and note holder of NWCT and as a unitholder of NWCLP; (ii) maintaining records and providing reports to unitholders; (iii) supervising the activities of the Fund; (iv) managing the affairs of the Fund; (v) ensuring that the restrictions in the Declaration of Trust on non-resident ownership are met; and (vi) declaring distributions from the Fund to unitholders.

The Declaration of Trust provides for a board of Trustees (the “Board of Trustees” or the “Board”) consisting of a minimum of seven Trustees and a maximum of 11 Trustees.

## **Meetings of Unitholders**

The Declaration of Trust provides that meetings of unitholders must be called and held for, among other matters, the election of Trustees, the appointment of the auditors of the Fund, the approval of certain amendments to the Declaration of Trust, the sale of all or substantially all of the assets of the Fund as an entirety and the termination of the Fund. Meetings of unitholders will be called and held annually for, among other things, the election of the Trustees and the appointment of auditors of the Fund. A resolution appointing or removing a Trustee or the auditors of the Fund must be passed by a simple majority of the votes cast by unitholders. The balance of the foregoing matters must be passed by at least 66 2/3% of the votes cast at a meeting of unitholders called for such purpose.

A meeting of unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 10% of the Trust Units then outstanding by a written requisition. A requisition must, among other things, state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of unitholders either in person or by proxy and a proxy holder need not be a unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 10% of the votes attaching to all outstanding Trust Units shall constitute a quorum for the transaction of business at all such meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of unitholders.

## **Description of Capital Structure of the Fund**

### **Trust Units**

The Fund has two classes of Trust Units as described above. For details regarding the rights of unitholders, see “Summary of Declaration of Trust” above.

### **Current Unitholders Rights Plan**

In order to provide unitholders with protection from unfair, abusive or coercive takeover strategies and to afford unitholders and the Trustees adequate time to assess an offer made for the Trust Units and to pursue, explore and develop alternative courses of action in an attempt to maximize unitholder value, the Trustees adopted a Unitholder Rights Plan dated March 27, 1997, which was subsequently amended as of March 13, 2002 and June 9, 2005 (the “Unitholder Rights Plan”). The Unitholder Rights Plan will expire at the close of business on June 30, 2008, unless extended by approval of the unitholders.

The Trustees have approved proposed amendments to the Unitholder Rights Plan (the “Amended and Restated Rights Plan”) which will be presented to the unitholders for their review and, if considered advisable, their approval of the plan at the Annual and Special Meeting of Unitholders to be held on June 11, 2008.

A summary of the current Unitholder Rights Plan is contained in the 2007 AIF.

## **Amended and Restated Unitholder Rights Plan**

### **Executive Summary**

***The existing Unitholder Rights Plan of the Fund was reviewed for conformity with current practices of publicly-traded Canadian issuers with respect to securityholder rights plan design and recommendations for securityholder rights plans under the proxy voting guidelines of institutional investors. The Trustees have proposed the adoption of the Amended and Restated Rights Plan which contains a number of changes to the existing Unitholder Rights Plan so as to bring it into conformity with current industry practice and the recommendations for securityholder rights plans under proxy guidelines of institutional investors.***

### **Objectives of the Amended and Restated Rights Plan**

The primary objectives of the Amended and Restated Rights Plan, are to ensure that, in the context of a bid for control of the Fund through an acquisition of the Trust Units, the Board of Trustees of the Fund has sufficient time to explore and develop alternatives for maximizing unitholder value, to provide adequate time for competing bids to emerge, to ensure that unitholders have an equal opportunity to participate in such a bid and to give them adequate time to properly assess the bid and lessen the pressure to tender typically encountered by a securityholder of an issuer that is subject to a bid.

### **Executive Summary of Key Features**

The following is a general summary of the features of the Amended and Restated Rights Plan proposed to be implemented pursuant to an amended and restated unitholder rights plan agreement (the “Rights Plan Agreement”) between the Fund and CIBC Mellon Trust Company, as rights agent, which will be entered into following receipt of unitholder approval. The summary is qualified in its entirety by the full text of the Rights Plan Agreement, a draft copy of which is available upon written request of the Fund or, in the event that the Amended and Restated Rights Plan is approved by unitholders and implemented, on [www.sedar.com](http://www.sedar.com) or the Fund’s website at [www.northwest.ca](http://www.northwest.ca). All defined terms, where used in this summary without definition, have the meanings attributed to them in the Rights Plan Agreement.

#### **a) Flip-In Event**

A Flip-In Event occurs when any Person becomes an Acquiring Person. In the event that a Flip-In Event (which has not been waived by the Board of Trustees) occurs, each Right (except for Rights Beneficially Owned or which may thereafter be Beneficially Owned by an Acquiring Person or a transferee of such a Person, which Rights will become null and void) shall constitute the right to purchase from the Fund, upon exercise thereof in accordance with the terms of the Rights Plan, that number of Trust Units having an aggregate Market Price on the date of the Flip-In Event equal to twice the Exercise Price (the “Exercise Price” being \$50, subject to adjustment), for the Exercise Price (such Right being subject to anti-dilution provisions). A Flip-In Event will result in significant dilution to the Acquiring Person.

**b) Issuance of Rights**

One Right has been issued in respect of each Trust Unit outstanding and will be issued with respect to future Trust Unit issuances.

**c) Separation Time**

The Separation Time is the close of business on the tenth business day after the earlier of (i) the “Trust Unit Acquisition Date”, which is generally the first date of public announcement of facts indicating that a Person has become an Acquiring Person, and (ii) the date of the commencement of, or first public announcement of the intent of any Person (other than the Fund or any Subsidiary of the Fund) to commence a Take-over Bid (other than a Permitted Bid or a Competing Permitted Bid, so long as such bid continues to satisfy the requirements of a Permitted Bid or Competing Permitted Bid). In either case, the Separation Time can be such later date as may from time to time be determined by the Board of Trustees.

**d) Acquiring Person**

In general, an Acquiring Person is a Person who is the Beneficial Owner of 20% or more of the outstanding Trust Units.

**e) Beneficial Ownership**

In general, a Person is deemed to Beneficially Own Trust Units actually held by others in circumstances where those holdings are or should be grouped together for purposes of the Rights Plan, subject to certain exceptions including with respect to certain categories of institutional Unitholders.

**f) Permitted Bid and Competing Permitted Bid**

A Permitted Bid is a take-over bid (a “Take-over Bid”) made by way of a take-over bid circular and which complies with the following additional provisions:

- (i) the Take-over Bid is made to all holders of record of Trust Units, other than the Offeror;
- (ii) the Take-over Bid contains irrevocable and unqualified conditions that:
  - (A) no Trust Unit shall be taken up or paid for pursuant to the Take-over Bid prior to the close of business on a date which is not less than 60 days following the date of the Take-over Bid and the provisions for the take-up and payment for Trust Units tendered or deposited thereunder shall be subject to such irrevocable and unqualified condition;
  - (B) unless the Take-over Bid is withdrawn, Trust Units may be deposited pursuant to the Take-over Bid at any time prior to the close of business on the date of first take-up or payment for Trust Units and all Trust Units deposited pursuant to the Take-over Bid may be withdrawn at any time prior to the close of business on such dates;
  - (C) not less than 50% of the outstanding Trust Units held by Independent Unitholders (i.e.: Unitholders who are not the “Acquiring Person”) must be deposited to the Take-over Bid and not withdrawn at the close of business on the date of first take-up or payment for Trust Units; and
  - (D) in the event that not less than 50% of the then outstanding Trust Units held by Independent Unitholders have been deposited to the Take over Bid and not withdrawn as at the date of first take-up or payment for Trust Units under the Take-over Bid, the Offeror will make a public announcement of that fact and the Take-over Bid will remain open for deposits and tenders of Trust Units for not less than 10 Business Days from the date of such public announcement.

A Competing Permitted Bid is a Take-over Bid that is made after a Permitted Bid has been made but prior to its expiry and satisfies all the requirements of a Permitted Bid as described above, except that a Competing Permitted Bid is not required to remain open for 60 days so long as it is open until the later

of (i) the earliest date on which Trust Units may be taken-up or paid for under any earlier Permitted Bid or Competing Permitted Bid that is in existence and (ii) 35 days (or such other minimum period of days as may be prescribed by applicable law in Ontario) after the date of the Take-over Bid constituting the Competing Permitted Bid.

**g) Supplements and Amendments**

Changes that the Board of Trustees, acting in good faith, determines are necessary to maintain the validity of the Rights Plan as a result of any change in any applicable legislation, rules or regulation may be made subject to subsequent confirmation by the holders of Trust Units or, after the Separation Time, the holders of Rights.

The Fund may make amendments to correct any clerical or typographical error. Subject to the above exceptions, after the Rights Plan is approved by unitholders, any amendment, variation or deletion of or from the Rights Plan and the Rights, is subject to the prior approval of the holders of Trust Units, or, after the Separation Time, the holders of the Rights.

**h) Expiration**

If the Rights Plan is approved by unitholders, it will become effective immediately following such approval and remain in force until the earlier of the Termination Time (the time at which the right to exercise Rights shall terminate pursuant to the Rights Plan) and the termination of the annual meeting of the unitholders in the year 2011 unless at or prior to such meeting the Independent Unitholders ratify the continued existence of the Rights Plan.

**THE NORTH WEST COMPANY**

The history of The North West Company dates back to 1670, when the Hudson's Bay Company received its Royal Charter and began establishing fur-trading outlets throughout what is now northern Canada. In 1821 Hudson's Bay Company merged with its rival NWC, which federation of partners commenced operations in 1779. Over time, the original fur-trading outlets diversified their product lines and eventually became the Northern Stores division of the Hudson's Bay Company ("Northern Stores"). In 1987, Northern Stores was sold to a management and private investor group. Shares of the successor to Northern Stores, NWC were listed for trading on the Toronto Stock Exchange in 1990, and a public offering was made in 1992. Later that year, NWC bought Alaska Commercial Company (AC) that traces its roots back to the Russian-American Company which was a semi-official colonial trading company started by Grigory Shelikhov and Nikolai Rezanov and chartered by Tsar Paul in 1799. In 1997, NWC was reorganized pursuant to a plan of arrangement and the outstanding shares in NWC were effectively exchanged on a one-for-one basis for Trust Units of the Fund. On January 27, 2005, NWC transferred its interest in AC to its wholly owned subsidiary NWC (U.S.) Holdings Inc. On April 30, 2006, NWC transferred its operating assets and the operating assets of its wholly owned subsidiary Tora Western Canada Limited to a newly formed limited partnership, NWCLP. On June 5, 2007, as a result of the reorganization, NWC, Tora Western Canada Limited, 4431227 Canada Inc., and Tora Regina (Tower) Limited amalgamated to form a new corporation named "The North West Company / La Compagnie du Nord-Ouest Inc.". On December 13, 2007 NWC (U.S.) Holdings Inc., a subsidiary of NWHoldco, acquired Cost-U-Less, Inc. On March 3, 2008, AC, a wholly owned subsidiary of NWC (U.S.) Holdings Inc., acquired Span Alaska Enterprises Inc.

For details regarding the structure of the Fund and its affiliated entities, see "North West Company Fund – Structure of the Fund" above.

**Description of Capital Structure of The North West Company Inc.**

NWC is authorized to issue an unlimited number of common shares ("Common Shares"). The Fund is the beneficial owner of all of the issued and outstanding Common Shares of NWC.

## **Common Shares**

Each Common Share entitles the holder thereof to receive notice of and to attend all meetings of the shareholders of NWC and to one vote at such meetings. The holders of Common Shares are entitled to receive any dividends declared on the Common Shares by the board of directors of NWC. In the event of the liquidation, dissolution, bankruptcy or winding-up of NWC or other distribution of its assets among its shareholders, the holders of the Common Shares will be entitled to share equally in all remaining assets of NWC.

## **Note Receivable**

NWC issued an amended and restated promissory note (the "Note Receivable") to the Fund as of December 31, 2001. The Note Receivable has a principal amount of \$30.0 million and bears interest at 13.0% per annum, payable quarterly on the last day of March, June, September and December and matures on December 31, 2031. On April 30, 2006, the Fund assigned the Note Receivable to NWCT in exchange for a note of equal value from NWCT. On April 30, 2006, NWCT assigned the Note Receivable to NWCLP. On June 5, 2007, the liability for the Note Receivable was assumed by the Fund as part of a purchase agreement between NWC and the Fund whereby the Fund purchased all of the Class A and Class B units of NWCLP, all of the common shares of NWHoldco, all of the common shares of 4431235 Canada Inc., and NWC's right, title and interest in the proceeds from the subscription by the Fund for 48,378,000 Class A common shares in the capital of 4431227 Canada Inc.

## **Senior Notes**

In August 2002, NWC issued US\$65.0 million, 5.89% senior notes (the "Senior Notes"). NWC repaid 20% of the principal amount of the Senior Notes on June 15, 2007 and is required to repay a further 20% of the principal amount of the Security Notes (being US\$13.0 Million) on June 15, 2008, with the balance of the principal amount of the Senior Notes due on June 15, 2009. The Senior Notes are placed with three large U.S.-based life insurance and pension funds. The net proceeds of the Senior Notes offering, together with funds drawn from NWC secured credit facilities referenced below, were used to retire senior debt of NWC that matured on August 28, 2002.

## **Other Senior Indebtedness**

The Fund and its affiliates have \$140.0 million in secured operating lines of credit ("Other Senior Indebtedness") with banks in Canada and US\$21.0 million in secured operating lines of credit with banks in the United States, of which CDN\$63.2 million was drawn as at March 31, 2008. The operating lines with the Canadian banks have three year committed, revolving, extendible terms, while the operating lines of credit with one U.S. bank is renewable annually and with the other U.S. bank, the operating line of credit has a two year term. In December 2007, the Company through its affiliate NWC (U.S.) Holdings Inc., secured two three year committed term loans for US\$26 million each, with two banks. These term loans mature on December 31, 2010.

## **Security for Senior Notes and Other Senior Indebtedness**

The Senior Notes and Other Senior Indebtedness are secured by the following: (i) NWC has granted a security interest in all of the present and future property, both real and personal, of NWC (including all units held by NWC in NWCLP) to secure the payment and performance of all debts, obligations and liabilities of any kind whatsoever to the banks and to any of the senior noteholders in connection with the Senior Notes and Other Senior Indebtedness; (ii) NWC has guaranteed all debts, obligations and liabilities of NWCLP to the banks and the holders of the Senior Notes; (iii) the Fund has guaranteed payment of all debts, obligations and liabilities of NWC or any of its subsidiaries evidenced by or in connection with the Other Senior Indebtedness; (iv) the Fund has guaranteed to the holders of the Senior Notes the payment of all amounts owing under the Senior Notes by NWC; (v) the Fund has granted as security for the payment and performance of all debts, obligations and liabilities of the Fund to the banks and the holders of the Senior Notes, all shares (including, without limitation, all shares in

the capital of NWC and NWHoldco) held by the Fund and all limited partnership units in NWCLP; (vi) NWCLP has granted a security interest in all of the present and after-acquired personal property and undertaking of NWCLP to secure the payment and performance of all debts, obligations and liabilities of any kind whatsoever of NWCLP and NWC to the banks and to any of the senior noteholders in connection with the Senior Notes and Other Senior Indebtedness; (vii) NWCLP has guaranteed all debts, obligations and liabilities of NWC to the banks and the holders of the Senior Notes; (viii) NWCGP has granted a security interest in all of the present and after-acquired personal property and undertaking of NWCGP to secure the payment and performance of all debts, obligations and liabilities of any kind whatsoever of NWCGP and NWC to the banks and to any of the senior noteholders in connection with the Senior Notes and Other Senior Indebtedness; (ix) NWCGP has guaranteed all debts, obligations and liabilities of NWCLP to the banks and the holders of the Senior Notes; (x) NWCT has granted a security interest in all of the present and after-acquired personal property and undertaking of NWCT (including all units held by NWCT in NWCLP) to secure the payment and performance of all debts, obligations and liabilities of any kind whatsoever of NWCT and NWC to the banks and to any of the senior noteholders in connection with the Senior Notes and Other Senior Indebtedness; (xi) NWCT has guaranteed all debts, obligations and liabilities of NWC to the banks and the holders of the Senior Notes; (xii) NWCT has guaranteed all debts, obligations and liabilities of NWCLP to the banks and the holders of the Senior Notes; (xiii) NWHoldco has granted a security interest in all of the present and after-acquired personal property and undertaking of NWHoldco (including all shares held by NWHoldco in NWC (U.S.) Holdings Inc. and NWC Services Inc.) to secure the payment and performance of all debts, obligations and liabilities of any kind whatsoever of NWHoldco and NWC to the banks and to any of the senior noteholders in connection with the Senior Notes and Other Senior Indebtedness; (xiv) NWHoldco has guaranteed all debts, obligations and liabilities of NWC to the banks and the holders of the Senior Notes; (xv) AC has granted a security interest in all of the present and future property, both real and personal, of AC to secure the payment and performance of all debts, obligations and liabilities of any kind whatsoever to the banks and to any of the senior noteholders in connection with the Senior Notes and Other Senior Indebtedness; (xvi) AC has guaranteed all debts, obligations and liabilities of NWC to the banks and the holders of the Senior Notes; and (xvii) a subordination agreement between the Fund, NWC and the banks and the holders of the Senior Notes that, among other things, subordinates the Note Receivable to the Senior Notes and Other Senior Indebtedness.

The Senior Notes and Other Senior Indebtedness are subject to the satisfaction of certain conditions, which are usual and customary for loans of this nature. The holders of the Senior Notes and Other Senior Indebtedness have appointed Bank of Montreal as security agent to hold all security jointly.

### **THE NWC TRUST**

NWCT was formed pursuant to a Declaration of Trust dated Feb 15, 2006. NWCT is an open end unincorporated trust, established for the purposes of:

- (a) acquiring, investing in, transferring, disposing of and otherwise dealing with debt and equity securities of NWCLP and all businesses ("NWC entities") and activities ancillary or incidental thereto and such other investments as the trustees may determine;
- (b) acquiring, investing in, holding, transferring, disposing of and otherwise dealing with securities issued by, loans made to or debt obligations (including those evidenced by promissory notes) of any of the NWC entities, or any other business entity or other person in which an NWC entity has or is currently acquiring an interest;
- (c) acquiring or investing in the securities of any other entity, including without limitation bodies corporate, partnerships or trusts, through an acquisition of assets or an acquisition of shares or other evidence of an ownership interest and borrowing funds or otherwise obtaining credit, including the granting of guarantees for the purpose;
- (d) holding cash in interest bearing accounts with Canadian financial institutions or investing in permitted investments for the purpose of the NWCT's activities, including making investments or

- paying expenses of NWCT, paying amounts payable by NWCT in connection with the redemption of any Trust Units or other securities of NWCT and making distributions to holders of its Trust Units;
- (e) disposing of all or part of the investments, securities and assets of NWCT;
  - (f) issuing Trust Units of NWCT and rights, warrants, special warrants or other securities to purchase, to convert into or exchange into Trust Units of NWCT;
  - (g) issuing debt securities, borrowing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of the investment, securities and assets of NWCT as security for any obligations, liabilities or indebtedness;
  - (h) guaranteeing (as guarantor, surety or co-principal obligor) the payment of indebtedness, liability or obligation of any of the NWC entities, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the investments, securities and assets of NWCT, including debt or equity securities issued by the NWC entities as security for such guarantee;
  - (i) investing in securities of other issuers as may be approved by the Trustees of NWCT;
  - (j) undertaking such other activities (including investing in securities and entering into agreements), or taking such other actions as are approved by the Trustees of NWCT from time to time;
  - (k) paying costs, fees and expenses associated with the foregoing purposes or incidental thereto; and
  - (l) engaging in activities ancillary or incidental to those activities set forth above.

### **Description of the Capital Structure of NWCT**

All of the outstanding Trust Units of NWCT are held by the Fund.

### **Nature and Ranking of Trust Units**

The beneficial interests of NWCT are divided into interests of one class which are entitled to the rights and subject to the limitations, restrictions, and conditions set forth in the Declaration of Trust of NWCT dated February 15, 2006, and the interest of each holder of Trust Units of NWCT is determined by the number of Trust Units registered in the name of each holder.

Each Trust Unit of NWCT entitles the holder or holders thereof to one vote at any meeting of the holders of Trust Units of NWCT and represents an equal fractional undivided beneficial interest in any distribution from NWCT (whether of distributable cash flow, net realized capital gains or other amounts) and in any net assets of NWCT in the event of termination or winding up of NWCT. All Trust Units of NWCT rank among themselves equally and rateably without discrimination, preference or priority.

### **Authorized Number of Units**

The aggregate number of Trust Units of NWCT which are authorized and may be issued are unlimited.

### **Fractional Units**

Fractional Trust Units of NWCT will not be issued, except pursuant to distributions of additional Trust Units of NWCT to all holders thereof.



### **Issue of Trust Units**

Trust Units of NWCT may be allotted and issued by NWCT at such times, to such persons, for such consideration and on such terms and conditions as the Trustees of NWCT may determine. The Trustees of NWCT may authorize NWCT to pay a reasonable commission to any person in consideration of such person purchasing or agreeing to purchase Trust Units of NWCT from NWCT.

The Trustees of NWCT may create and issue rights, warrants (including so-call “special warrants” which may be exercisable for no additional consideration), convertible securities (including Trust Units issuable upon the exchange of securities of other issuers) or options (including all types of incentive programs) to subscribe for Trust Units, which rights, warrants, convertible securities or options may be exercisable at such subscription price or prices and at such time or times and on such terms or conditions as the Trustees of NWCT may determine. A right warrant, convertible security or option will not be a Trust Unit and the holder thereof will not be a holder of Trust Units of NWCT.

### **No Pre-Emptive Rights**

No person is entitled, as a matter of right, to subscribe for or purchase any Trust Unit of NWCT, unless agreed to in writing by NWCT.

### **Notes Receivable**

On April 30, 2006, NWCT issued to the Fund a promissory note (the “NWCT Note Receivable”) due December 31, 2031, in the amount of CDN\$30.0 million which bears interest at an annual interest rate of 13% and which interest is payable on a quarterly basis on March 31, June 30, September 30 and December 31 in each year, in exchange for the \$30.0 million Notes Receivable transferred from the Fund. NWCT has in turn transferred the NWCT Note Receivable to NWCLP in exchange for Class A partnership units of NWCLP.

### **NWC GP INC.**

NWCGP is incorporated under the *Canada Business Corporations Act* (the “CBCA”) and is the general partner of NWCLP. NWCGP, which has a nominal interest in NWCLP, exists to administer and operate the business affairs of the Fund. As at June 5, 2007, the Fund, NWCGP and NWCT entered into an assignment and novation agreement pursuant to which NWC assigned to NWCGP all of NWC’s right and interest in an administration agreement dated as of April 27, 2006 (the “Administration Agreement”) among NWC, NWCT and the Fund. Under the Administration Agreement, the Fund delegates to NWCGP, and NWCGP agrees to provide and be responsible for the management, administrative and support services necessary for the operation of the Fund.

### **Description of Capital Structure of NWC GP Inc.**

NWCGP is authorized to issue an unlimited number of common shares, all of which are held by the Fund, and which have the following rights privileges and restrictions attached thereto:

- (a) The holders of common shares are entitled to receive notice and to attend any meetings of the shareholders of NWCGP and are entitled to one vote for each common share held by them respectively;
- (b) The holders of common shares are entitled to receive dividends when, as and if declared thereon by the board of directors of NWCGP; and
- (c) In the event of the liquidation, dissolution or winding up of NWCGP or other distribution of assets of NWCGP among shareholders for the purpose of winding up its affairs, the holders of the common shares shall be entitled to receive rateably the property and assets of NWCGP.

## THE NORTH WEST COMPANY LP

NWCLP was formed on April 30, 2006 under the laws of Manitoba pursuant to a limited partnership agreement among NWC, NWCGP and NWCT (the "Partnership Agreement").

### **Description of the Capital Structure of The North West Company LP**

NWCLP has issued Class A, Class B and Class C limited partnership units (the "Class A Units", "Class B Units" and "Class C Units", respectively), the following of which are issued and outstanding on the date hereof:

	<u>Holder</u>	<u>Number</u>
<b>Class A Units</b>	Fund	3,313,000
	NWCT	3,000,001
	NWC GP Inc.	1
<b>Class B Units</b>	Fund	47,357
<b>Class C Units</b>	NWC	7,300

### **Class A Units**

The Class A Units have the rights, privileges, restrictions and conditions set forth in the Partnership Agreement, including those described below.

#### **Parity**

Other than as set forth in the Partnership Agreement, the rights of all holders of Class A Units are equal in all respects, without discrimination, preference or priority among them, including with respect to matters such as payment of distributions, and the distribution of assets of NWCLP in the event of any liquidation, dissolution or winding up of NWCLP, or other distribution of assets of NWCLP for the purpose of winding up its affairs.

#### **Distributions to Holders of Class A Units**

The holders of the Class A Units will be entitled to receive from time to time distributions in respect of such Class A Units held thereby in such amount, character and nature as is in accordance with the provisions of Article 4 of the Partnership Agreement and such other provisions of the Partnership Agreement as may be applicable. Holders of Class A Units will be entitled to receive non-cumulative distributions only if, as and when declared by NWC GP Inc. in accordance with the provisions of Article 4 of the Partnership Agreement.

#### **Participation on Liquidation, Dissolution or Winding Up**

In the event of the liquidation, dissolution or winding up of NWCLP or other distribution of assets of NWCLP among its partners for the purpose of winding up its affairs, the holders of the Class A Units will, subject to the rights of the holders of any other class of units entitled to receive assets of NWCLP upon such a distribution in priority to, or concurrently with, the holders of the Class A Units, be entitled to participate in the distribution, all in accordance with the Partnership Agreement. Such distribution to which the holders of Class A Units are entitled will be made *pro rata* to the amount of each holder's respective net contribution amount determined in accordance with the Partnership Agreement in respect of Class A Units.

## **Class B Units**

The Class B Units have the rights, privileges, restrictions and conditions set forth in the Partnership Agreement, including those described below:

### **Parity**

The rights of all holders of Class B Units are equal in all respects, without discrimination, preference or priority among them, including with respect to matters such as payment of distributions, and the distribution of assets of NWCLP in the event of any liquidation, dissolution or winding up of NWCLP, or other distribution of assets of NWCLP for the purpose of winding up its affairs.

### **Distributions to Holders of Class B Units**

The holders of Class B Units as a class will be entitled to receive, in respect of each distribution period or fiscal year of NWCLP, as the case may be, in priority to holders of Class A Units (but subject to the priority distributions hereunder to the Class C Units), distributions from NWCLP in an amount equal to the "Class B Preferred Return" (as defined in the Partnership Agreement) or the "Annual Class B Preferred Return" (as defined in the Partnership Agreement), as applicable, all in the manner set forth in the Partnership Agreement. All Class B Units outstanding from time to time represent a fractional undivided beneficial interest in and will be entitled to equal shares in the Class B Preferred Return or the Annual Class B Preferred Return, as applicable, in the manner set forth in the Partnership Agreement. All Class B Units will rank among themselves equally and rateably without discrimination, preference or priority.

### **Participation on Liquidation, Dissolution or Winding Up**

In the event of the liquidation, dissolution or winding up of NWCLP, or other distribution of assets of NWCLP among its partners for the purpose of winding up the affairs of NWCLP, each holder of Class B Units will be entitled to receive from the assets of NWCLP, for each Class B Unit held by such holder, the sum of:

- (i) such holder's then net contribution amount in respect of Class B Units, plus
- (ii) for each fiscal year (or prorated part thereof, if such liquidation, dissolution or winding up does not occur at the end of a fiscal year), such holder's *pro rata* proportion (based upon each holder's then respective net contribution amount in respect of Class B Units) of an amount equal to the Class B Preferred Rate, multiplied by the total aggregate "Class B Subscription Amount" (as defined in the Partnership Agreement) minus the aggregate amount of all contributions returned by NWCLP in respect of Class B Units prior to such time, to the extent that it has not been paid to such holder for each Class B Unit held by it in respect of such fiscal year (or prorated part thereof),

before any amount will be paid to any holder of Class A Units or partnership units of any other class ranking junior to the Class B Units. After payment has been made to the holders of the Class B Units, such holders will, as such, have no further entitlement to participate in any further distributions upon any such liquidation, dissolution or winding up of the affairs of NWCLP except to the extent that such holders of Class B Units are also holders of Class A Units.

### **Right of Redemption at Option of the Holder**

Subject to the rights, privileges, restrictions and conditions of any class or series of units ranking in preference to, or on a parity with, the Class B Units, each partner holding Class B Units will be entitled to require NWCLP to redeem at any time, or from time to time, at the demand of such partner all or any part of the Class B Units registered in the name of such partner at the Class B Redemption Price (as

defined below), with respect to each Class B Unit so redeemed, as determined and payable in accordance with the terms and conditions hereinafter provided.

### **Exercise of Redemption Right**

To exercise the above-mentioned right to require redemption hereunder, a duly completed and properly executed notice requiring NWCLP to redeem the relevant Class B Units, in a form reasonably acceptable to NWCGP, will be sent by the relevant partner to NWCLP at the head office of NWCLP, together with the certificates representing the Class B Units to be redeemed and written instructions as to the number of Class B Units to be redeemed. No form or manner of completion or execution of such notice and other documents will be sufficient unless the same is in all respects satisfactory to NWCGP and is accompanied by any further evidence that NWCGP may reasonably require with respect to the identity, capacity or authority of the person giving such notice.

Upon the tender by a partner of Class B Units for redemption, such partner will thereafter cease to have any rights with respect to the Class B Units tendered for redemption (other than to receive the Class B Redemption Price) including the right to receive any distributions thereon which are declared payable to the holders of Class B Units of record on a date which is subsequent to the Redemption Date (defined below). Class B Units will be considered to be tendered for redemption on the date (the "Class B Redemption Date") that NWCLP has, to the satisfaction of NWCGP, received the notice, certificates representing the Class B Units to be redeemed, the written instructions as to the number of Class B Units to be redeemed and other required documents or evidence as aforesaid.

### **Payment of Class B Redemption Price**

The Class B Redemption Price payable in respect of the Class B Units tendered or called for redemption will be paid in immediately available funds, by cheque, drawn on a Canadian chartered bank or trust company in lawful money of Canada, payable to or to the order of the partner holding the Class B Units to be redeemed.

Payments made by NWCLP of the Class B Redemption Price are conclusively deemed to have been made upon the mailing of a cheque in a postage pre-paid envelope addressed to the former partner holding Class B Units and/or any party having a security interest therein, unless such cheque is dishonored upon presentment. Upon such payment, NWCLP will be discharged from all liability to the relevant partner in respect of the Class B Units so redeemed to the extent of the amount of such cheque.

### **Class B Redemption Price**

For the purposes of the Partnership Agreement, the price per Class B Unit payable to the partner holding Class B Units for each Class B Unit tendered for redemption by such Partner (the "Class B Redemption Price") is equal to the sum of:

- (i) such partner's then net contribution amount in respect of Class B Units, plus
- (ii) for each fiscal year (or prorated part thereof, if the Class B Redemption Date does not occur at the end of a fiscal year), such partner's *pro rata* proportion (based upon each partner's respective net contribution amount in respect of Class B Units) of an amount equal to the Class B Preferred Rate, multiplied by the total aggregate Class B Subscription Amount (as defined in the Partnership Agreement) minus the aggregate amount of all contributions returned by the Partnership in respect of Class B Units prior to such time, to the extent that it has not been paid to such partner for each Class B Unit held by it in respect of such fiscal year (or prorated part thereof).

### **Cancellation of Certificates for all Redeemed Class B Units**

All certificates representing Class B Units that are redeemed pursuant to the terms of the Partnership Agreement will be cancelled and such Class B Units will no longer be outstanding.

### **Class C Units**

The Class C Units have the rights, privileges, restrictions and conditions as set forth in the Partnership Agreement, including those described below:

#### **Parity**

The rights of all holders of Class C Units are equal in all respects, without discrimination, preference or priority among them, including with respect to matters such as payment of distributions, and the distribution of assets of NWCLP in the event of any liquidation, dissolution or winding up of NWCLP, or other distribution of assets of NWCLP for the purpose of winding up its affairs.

#### **Distributions to Holders of Class C Units**

The holders of Class C Units as a class will be entitled to receive, in respect of each distribution period or fiscal year, as the case may be, in priority to holders of Class A Units and Class B Units, distributions from NWCLP in an amount equal to the "Class C Preferred Return" (as defined in the Partnership Agreement) or the "Annual Class C Preferred Return" (as defined in the Partnership Agreement), as applicable, all in the manner set forth in the Partnership Agreement. All Class C Units outstanding from time to time represent a fractional undivided beneficial interest in and will be entitled to equal shares in the Class C Preferred Return or the Annual Class C Preferred Return, as applicable, per the Partnership Agreement. All Class C Units will rank among themselves equally and rateably without discrimination, preference or priority.

#### **Participation on Liquidation, Dissolution or Winding Up**

In the event of the liquidation, dissolution or winding up of NWCLP, or other distribution of assets of NWCLP among its partners for the purpose of winding up the affairs of NWCLP, each holder of Class C Units will be entitled to receive from the assets of NWCLP, for each Class C Unit held by such holder, the sum of:

- (i) such holder's then net contribution amount in respect of Class C Units, plus
- (ii) for each fiscal year (or prorated part thereof, if such liquidation, dissolution or winding up does not occur at the end of a fiscal year), such holder's *pro rata* proportion (based upon each holder's then respective net contribution amount in respect of Class C Units) of an amount equal to the Class C Preferred Return, multiplied by the total aggregate Class C Subscription Amount (as defined in the Partnership Agreement) minus the aggregate amount of all contributions returned by NWCLP in respect of Class C Units prior to such time, to the extent that it has not been paid to such holder for each Class C Unit held by it in respect of such fiscal year (or prorated part thereof),

before any amount will be paid to any holder of Class A Units or Class B Units or partnership units of any other class ranking junior to the Class C Units. After payment has been made to the holders of the Class C Units, such holders will, as such, have no further entitlement to participate in any further distributions upon any such liquidation, dissolution or winding up of the affairs of NWCLP except to the extent that such holders of Class C Units are also holders of Class A Units or Class B Units.

### **Right of Redemption at Option of the Holder**

Subject to the rights, privileges, restrictions and conditions of any class or series of units ranking in preference to, or on a parity with, the Class C Units, each partner holding Class C Units will be entitled to require NWCLP to redeem at any time, or from time to time, at the demand of such partner all or any part of the Class C Units registered in the name of such partner at the Class C Redemption Price (as defined below), with respect to each Class C Unit so redeemed, as determined and payable in accordance with the terms and conditions hereinafter provided.

### **Exercise of Redemption Right**

To exercise the above-mentioned right to require redemption hereunder, a duly completed and properly executed notice requiring NWCLP to redeem the relevant Class C Units, in a form reasonably acceptable to NWC GP Inc., will be sent by the relevant partner to NWCLP at the head office of NWCLP, together with the certificates representing the Class C Units to be redeemed and written instructions as to the number of Class C Units to be redeemed. No form or manner of completion or execution of such notice and other documents will be sufficient unless the same is in all respects satisfactory to NWCGP and is accompanied by any further evidence that NWC GP Inc. may reasonably require with respect to the identity, capacity or authority of the person giving such notice.

Upon the tender by a partner of Class C Units for redemption, such partner will thereafter cease to have any rights with respect to the Class C Units tendered for redemption (other than to receive the Class C Redemption Price therefore) including the right to receive any distributions thereon which are declared payable to the holders of Class C Units of record on a date which is subsequent to the Class C Redemption Date (defined below). Class C Units will be considered to be tendered for redemption on the date (the "Class C Redemption Date") NWCLP has, to the satisfaction of NWCGP, received the notice, certificates representing the Class C Units to be redeemed, the written instructions as to the number of Class C Units to be redeemed and other required documents or evidence as aforesaid.

### **Payment of Class C Redemption Price**

The Class C Redemption Price payable in respect of the Class C Units tendered or called for redemption will be paid in immediately available funds, by cheque, drawn on a Canadian chartered bank or trust company in lawful money of the United States, payable to or to the order of the Partner holding the Class C Units to be redeemed.

Payments made by NWCLP of the Class C Redemption Price are conclusively deemed to have been made upon the mailing of a cheque in a postage pre-paid envelope addressed to the former partner holding Class C Units and/or any party having a security interest therein, unless such cheque is dishonored upon presentment. Upon such payment, NWCLP will be discharged from all liability to the relevant partner in respect of the Class C Units so redeemed to the extent of the amount of such cheque.

### **Class C Redemption Price**

For the purposes hereof, the price per Class C Unit payable to the partner holding Class C Units for each Class C Unit tendered for redemption by such partner (the "Class C Redemption Price") will be equal to the sum of:

- (i) such partner's then net contribution amount in respect of Class C Units, plus
- (ii) for each fiscal year (or prorated part thereof, if the Redemption Date does not occur at the end of a fiscal year), such partner's *pro rata* proportion (based upon each partner's respective net contribution amount in respect of Class C Units) of an amount equal to the Class C Preferred Rate, multiplied by the total aggregate Class C Subscription Amount minus the aggregate amount of all contributions returned by NWCLP in respect of Class C Units prior to such time, to

the extent that it has not been paid to such partner for each Class C Unit held by it in respect of such fiscal year (or prorated part thereof).

#### **Cancellation of Certificates for all Redeemed Class C Units**

All certificates representing Class C Units that are redeemed hereunder will be cancelled and such Class C Units will no longer be outstanding.

#### **NORTH WEST COMPANY HOLDINGS INC.**

NWHoldco is incorporated under the CBCA and is a wholly-owned subsidiary of the Fund. NWHoldco exists to administer and operate the business affairs of the Fund's international interests.

#### **NWC (U.S.) HOLDINGS INC.**

NWC (U.S.) Holdings Inc. is incorporated under the *General Corporation Law of Delaware* and is a wholly-owned subsidiary of NWHoldco. It is the parent company of AC and CUL.

#### **ALASKA COMMERCIAL COMPANY**

AC is incorporated under the laws of Alaska and is a wholly-owned subsidiary of NWC (U.S.) Holdings Inc. AC operates stores in the United States (mainly in the State of Alaska).

#### **COST-U-LESS, INC.**

CUL is incorporated under the laws of Washington and is a wholly-owned subsidiary of NWC (U.S.) Holdings Inc. CUL operates Cost-U-Less stores in certain countries in the Caribbean and in the South Pacific.

#### **NWC SERVICES INC.**

AC is incorporated under the laws of Delaware and is a wholly-owned subsidiary of NWC (U.S.) Holdings Inc.

### **GENERAL DEVELOPMENT OF THE BUSINESS**

The Fund, through its subsidiaries and affiliates, is a leading retailer of food and everyday products and services to rural communities and urban neighborhoods across Canada, Alaska, the South Pacific and the Caribbean.

The Fund (through its operating entities) operates 220 stores across Canada, the United States (mainly in the state of Alaska) and in certain countries in the Caribbean and in the South Pacific under the banners of Northern, NorthMart, Giant Tiger, AC Value Centers and Cost-U-Less.

#### **Three-Year History**

##### **Fiscal 2007**

In December 2007, the Fund, through its US subsidiary NWC (U.S.) Holdings Inc., acquired all of the issued and outstanding shares of CUL, an operator of 11 mid-size warehouse stores in remote island communities in Hawaii, the South Pacific and the Caribbean for a purchase price of US\$53 million. An additional CUL store was opened on the Cayman Islands in mid-December, followed by the purchase of Hita Supermarket on Guam, which store will re-open in late 2008 once renovations are complete. The Fund continues to expand with this new format and is giving consideration to its use in other markets as part of its expansion program. An additional seven Giant Tiger stores and one Northern store were

opened in Canada in 2007. On March 3, 2008, AC, another international subsidiary acquired Span Alaska Enterprises Inc., a food distributing company based in the State of Washington.

The Fund continues to develop its growth in the provision of pharmacy services to remote markets in Canada via its in-store pharmacies, telepharmacies and hub pharmacies program. The Fund opened four in-store pharmacies, one telepharmacy and one hub pharmacy in 2007.

Development of private store brands and the repositioning of merchandise selection in both food and general merchandise to meet the needs of the Fund's markets is ongoing through off shore direct buying, and continued alliances.

The Fund continues to test wholesale concepts and has established a field operation to test various wholesale strategies.

### **Fiscal 2006**

In 2006, NWC initiated multiple strategies to further expand its merchandise offerings and introduce new products. At the beginning of the year an acquisition of a large in-store pharmacy provided NWC with knowledge and expertise related to remote pharmacy operations, telepharmacy and contract pharmacy services to northern hospitals. An additional in-store pharmacy and one telepharmacy were opened during the year.

NWC re-launched its private label store brands to bring a more coherent message to its customers and create a more exclusive brand identity. In addition, NWC started to revamp its quick-service food business to strike a more profitable balance between fresher food and the cost of food preparation.

Gas bars were a growth opportunity for NWC as six new gas bars were opened providing additional traffic within the stores and helping increase food sales.

Taking advantage of the broadband technology installed in the prior fiscal year, NWC introduced improved store ordering processes through an "advanced order system" providing greater capability to store management to localize their assortment to better serve their customers. This new technology rolled out to all stores throughout 2007.

Nine stores were opened and six stores were renovated by NWC.

### **Fiscal 2005**

NWC continued its focus on in-store capability during 2005. "Best Practice" training was provided to another 28 managers and another 28 management candidates entered the Manager-In-Training program. NWC continues to redefine the store manager role to ensure that more accountability for planning, people and merchandise stays with our store teams.

Leadership programs were introduced for high potential senior managers recognizing the need for more accountable, effective and consistent management practices. One of the intents of this program is having work being done at the right level, with better decisions being made on a day-to-day basis, as close to our customers and communities as possible.

NWC completed a roll out of its in-store point-of-sale systems. NWC also installed a broadband communication network in all of the northern Canadian stores. This is an essential platform for bridging the distance between our vast geography of store locations. The benefits were improved customer service by providing faster check-out lanes and cost savings from disconnecting hundreds of land phone lines. The network also enables NWC to introduce improved work methods and processes in the upcoming years.

NWC opened seven stores and renovated eight stores.



## DESCRIPTION OF THE BUSINESS

### General

The main operating entities of the Fund are NWCLP, AC and CUL. References to the "Fund" includes where the context requires, the Fund and its affiliated entities.

NWCLP and AC are leading retailers and distributors of everyday consumer goods and services to remote communities, rural towns and urban neighborhoods across northern and western Canada, rural Alaska respectively, and CUL is an operator of mid-size warehouse stores in remote island communities in Hawaii, the South Pacific and the Caribbean. The Fund's three operating entities operate a network of 220 retail stores, which offer a diverse range of merchandise catering to the northern customer, the urban customer at several locations in southern Canada, and to island dwellers in the southern hemisphere. They also operate complementary businesses, including fur and Inuit art marketing businesses.

For the fiscal year ended January 31, 2008, total revenues of the Fund were approximately \$1.1 billion, of which Canadian operations accounted for approximately 80% and International operations accounted for approximately 20%. For the fiscal year ended January 31, 2007, total revenues were \$944.9 million.

At January 31, 2008, 6,861 people were employed by the Fund and its affiliated entities, including 1,502 people in International operations.

### Canadian Operations

The Canadian retailing operations consist of 130 Northern stores, six NorthMart stores, 10 stand-alone Quickstop convenience stores and 27 Giant Tiger stores. These outlets are located in 156 communities across the Canadian north and in urban centers across western Canada. The communities range in size from small, remote settlements with populations as few as 300 people to larger, regional centers with populations of up to 15,000 people and to urban centers situated across western Canada. The average store size has approximately 7,500 square feet of selling space and features a broad assortment of food, general merchandise and services. Food offerings consist of perishable and non-perishable products including groceries, dairy products, meat, produce and convenience/fast-food services. General merchandise consists of family apparel, house wares, health and beauty aids, sporting goods, toys, hardware, furniture, appliances and home entertainment products, boats, outboard motors, canoes, all-terrain vehicles and snowmobiles. Services include cheque cashing, tax services, ATM's, money transfers, bill payment, and gasoline sales. Stores may also feature a post office, fast food franchise or a pharmacy.

The Fund is pursuing a strategy of entering into alliances with leading specialty retailers, distributors and service providers to broaden its product and service offerings while leveraging its convenient locations. To date, the Fund has established alliances with *Dufresne Furniture and Appliances*, *TruServ Canada Inc.* (in the hardware category) and *Sobey's* (food distribution in eastern Canada). Management believes that these alliances have been positive in delivering stronger product and service offerings to customers at lower costs.

In 2002, the Fund signed a 30-year master franchise agreement with *Giant Tiger Stores Limited*, based in Ottawa, Ontario which grants the Fund the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, *Giant Tiger Stores Limited* provides product sourcing, merchandising, systems and administrative support to the Fund's Giant Tiger stores in return for a royalty based on sales. The Fund is responsible for opening, owning, operating and providing distribution services to the stores. The Fund's exclusivity right requires that a minimum number of Giant Tiger stores be opened each year, based on an expected roll-out of 72 stores over the term of the agreement. As at April 25, 2008 the Fund has opened 27 Giant Tiger stores and is in compliance with the terms of the agreement.

In addition to its retail operations, the Fund operates complementary businesses that apply its unique heritage and knowledge of the north. These include: (i) the Fur Marketing Division, which purchases furs from trappers and sells aboriginal crafts and outerwear to the local and tourist retail market from three trading posts; (ii) the Inuit Art Marketing Service, which procures and markets carvings from Native artisans and is the largest Inuit art marketing service in Canada; (iii) Crescent Multi Foods, which is a full-line produce and fresh meat distributor, serving the Fund's stores and third-party customers in Manitoba and northwestern Ontario; and (iv) Valu Lots Discount Centre, which is used by the Fund to dispose of surplus merchandise.

### **International Operations**

International operations are conducted through AC and CUL both wholly owned subsidiaries of NWC (U.S.) Holdings Inc. AC operates 29 AC Value Center stores and three AC Quickstop convenience stores and CUL operates 12 stores. The AC store formats are similar to the Canadian stores. The AC operations also include Frontier Expeditors and Span Alaska Enterprises Inc., who provide wholesale services to small independent retailers in Alaska.

On December 13, 2007, NWC (U.S.) Holdings, a subsidiary of NWHoldco acquired 100% of the voting shares of CUL. CUL operates mid-sized warehouse club style retail stores in the United States Territories, in foreign island countries in the Pacific and Caribbean, in the Hawaiian Islands, and in Sonora, California. Their primary strategy is to operate in island markets, offering predominantly U.S. branded goods.

### **Distribution and Infrastructure**

NWCLP operates a distribution centre in Winnipeg, Manitoba and has a third party managed distribution centre in Calgary, Alberta. AC operates a distribution centre in Anchorage, Alaska and CUL operates a distribution centre in San Leandro, California. These distribution centers are used for both food and general merchandise distribution. CUL, in addition to its distribution facility in San Leandro, uses other third party facilities in Florida, California, Australia and New Zealand.

Due to the vast geography of the store network, transportation is an important element of operations. One hundred and nineteen (119) stores in Canada are inaccessible by all-weather roads. Twenty-three (23) of the AC stores are serviced by air or water and 11 CUL stores rely on air and long haul water transportation. All available modes of transportation including sealift, long haul water transportation, barge, trucks including via winter roads, rail and air are used. NWHoldco owns a 50% interest in Transport Nanuk Inc., a shipping company servicing the eastern Arctic.

The Fund's operating subsidiaries own, in the aggregate, 135 stores in addition to employee residences and staff houses, which are typically located adjacent to the store in more remote store locations.

In Canada, NWCLP sources both food and general merchandise through its head office in Winnipeg, Manitoba, a buying office for fashion in Montreal, Quebec and through its corporate alliances. In Alaska, AC sources food and general merchandise from local distributors and manufacturers as well as from the lower 48 U.S. states through a buying office in Anchorage, Alaska. CUL sources food and general merchandise from local distributors and manufacturers as well as from the U.S. and other foreign entities through a buying office in Bellevue, Washington.

China is becoming an ever increasingly important source for obtaining general merchandise for the Fund.

### **Financial Services**

Customers are offered convenient, local access to a wide variety of financial services. Northern, NorthMart and AC Value Center stores each offer a revolving credit card for day-to-day purchases, similar to those offered by major department store chains. An extended payment program is also available to finance large dollar (big-ticket) purchases at the stores. As there are relatively few bank branches in remote markets that the Fund's operating entities serve, ATMs, cheque cashing, debit card

cash withdrawal, cash transfer, bill payment, currency exchange, money order and CashLink and gift card services are also offered at its stores.

Most of the day-to-day credit decisions are centralized, freeing up the store manager's time for the marketing of products and services. The store manager's knowledge of the local economic conditions and their personal acquaintances with their customers continues to provide valuable input into the credit decision process. Credit provided on the extended payment program for big-ticket purchases is approved at the Fund's head office. A central credit management system allows continuous monitoring of account activity and balances at the head office so that credit specialists can provide advice to the store managers. The allowance for doubtful accounts is adjusted monthly to reflect the changes in the currency of outstanding balances.

### Markets

NWCLP and AC operate an aggregate of 119 stores in smaller, remote Canadian and Alaskan communities inhabited principally by First Nations, Métis and Inuit. These markets range in population from 300 to 3,700 people and are generally not accessible by all-weather roads. These communities generally have a stable income base, which is dependent on government spending through social assistance and public sector employment in schools, health services, local government and public works projects. Income levels are also influenced by activities such as fishing, resource exploration, pipeline construction, tourists and hydro electricity development and related construction activity. CUL operates 12 stores situated in markets ranging in populations from 7,700 to 168,000 people with the average population of 41,000 people. The Fund's stores range in size from 22,000 square feet to 42,200 square feet with the average square footage being approximately 33,000 square feet. CUL's markets rely on foreign aid, tourism, fishing, natural resources and resource development.

There are 90 stores operated by the Fund in less remote, regional communities that are generally accessible by all-weather roads. These markets range in population from 1,000 to large urban centers. 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 manufacturing, government services, transportation, health care, tourism and natural resources.

### Stores and Other Facilities

<b>The following table sets forth the number of stores, the location of the stores by region and whether the stores are owned or leased as at January 31, 2008</b>	<b>Number of Stores</b>	<b>Owned <sup>(1)</sup></b>	<b>Leased</b>
Alberta	11	4	7
British Columbia	4	2	2
Labrador/NFLD	5	5	0
Manitoba	41	22	19
Nunavut	27	23	4
NWT	20	17	3
Ontario	27	15	12
Quebec	16	15	1
Saskatchewan	24	15	9
Yukon	1	0	1
<b>Total Canadian Stores</b>	<b>176</b>	<b>118</b>	<b>58</b>
Alaska Commercial Co.	32	15	17
Cost-U-Less, Inc.	12	2	10
<b>Total International Stores</b>	<b>44</b>	<b>17</b>	<b>27</b>
<b>Total Stores</b>	<b>220</b>	<b>135</b>	<b>85</b>

<sup>(1)</sup> Of these stores, 46 are located on leased land pursuant to ground leases.

The following table summarizes the number of stores and selling square footage under the retail formats as at January 31, 2008.

	Number of Stores		Selling Square Footage	
	2007	2006	2007	2006
Northern <sup>(1)</sup>	130	130	757,370	763,294
NorthMart <sup>(1)</sup>	6	5	144,501	125,084
Quickstop <sup>(2)</sup>	13	13	23,176	21,651
Giant Tiger	26	19	428,478	303,103
AC Value Centres	29	29	300,876	300,876
Cost-U-Less <sup>(3)</sup>	12	0	379,416	0
Other formats	4	4	24,123	22,558
<b>Total at end of year</b>	<b>220</b>	<b>200</b>	<b>2,057,940</b>	<b>1,536,566</b>

<sup>(1)</sup> In 2007, the Northern store at Cross Lake, Manitoba was replaced by a new NorthMart store.

<sup>(2)</sup> There are 10 Quickstops in Canada and three in Alaska.

<sup>(3)</sup> Of the CUL stores, 11 were acquired and one new store was opened on December 13, 2007.

Selling areas of stores in remote communities range in size from 1,000 sq. ft. to 10,000 sq. ft. In regional and urban communities, selling areas range from 3,000 sq. ft. to 39,900 sq. ft. The Fund owns employee residences and staff houses, which are typically located adjacent to the more remote store locations.

### **Competition**

In the vast majority of the northern and remote communities that it serves, the Fund's stores are the dominant providers of food, every day and seasonal general merchandise and financial services and command the largest market share. Local competition consists of stores operated by independent store owners and local co-operatives, some of which are associated with regional or national buying groups. Many of the Fund's stores enjoy strong local loyalties through established customer relationships. The strength of independent store competition varies considerably depending on the management skills, financial strength and scale of local operators. Additionally, the commitment of local staff to the store and to customer relationships and the ability to maintain consistent standards are other key factors that influence their success. In Canada, all of the communities in which the Fund operates have access to mail order catalogue and direct mail services such as those provided by *Sears Canada Inc.*, *Wal-Mart Stores, Inc.*, *Costco Wholesale Canada Ltd.* and smaller regional and specialized competitors. In the International operations this type of competition is more intense and includes catalogues and direct sales material from retailers such as Safeway, Wal-Mart and Sears. The CUL stores face equally highly competitive discount and grocery retailers such as Wal-Mart, Costco and Kmart.

The stores also face competition (in varying degrees based upon the specific market location) from non-independent stores, including traditional department stores, big box retailers, discount department stores and specialty stores. AC competes directly with Safeway or its subsidiaries in three markets and Wal-Mart in one market. Furthermore, 41 Canadian store locations are within three hours driving distance of small to medium-sized urban centers offering a variety of shopping alternatives. The Giant Tiger stores are located in larger rural and urban markets and compete against major discount chains, food stores and department store formats. CUL's competition includes local, national and international grocery store chains and other warehouse clubs and discount retailers.

### **Investing Activities**

For the fiscal year ended January 31, 2008 total investing activities amounted to \$98.1 million compared to \$35.5 million for the fiscal year ended January 31, 2007. Included in the \$98.1 million is \$54.3 million for the acquisition of CUL. Net capital expenditures for the fiscal year ending January 31, 2009, are

expected to be in the range of \$49.0 million to \$53.0 million and will be financed out of cash flow from operations and from unutilized credit available on existing bank operating facilities. Further financial information on the Fund's capital expenditures is included in the 2007 management's discussion & analysis and consolidated financial statements report filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Fund's website at [www.northwest.ca](http://www.northwest.ca).

### **Management of Sales and Operations**

In Canada, each store employs a full-time manager who has the primary responsibility to monitor daily operations, maximize selling opportunities and safeguard the Fund's assets.

Northern, NorthMart, and Quickstop banners are managed within four regions, each of which is managed by a General Manager under the leadership of an Executive Vice-President. One region is led by a general manager and a specialist support team. The remaining three regions are divided into 12 districts, with each district led by a district manager supported by a human resources manager. All stores are supported by sales development, marketing services and operational development teams.

The general managers are responsible for the store level execution of corporate strategies, policies and programs. The regional general managers contribute to the development of these initiatives by providing front line feedback from daily contact with staff, customers and communities.

The 27 Giant Tiger stores are managed by the Vice-President and General Manager Giant Tiger West along with a specialist support team and assistance from Giant Tiger Stores Limited.

In Alaska, the sales and operations personnel report to a Vice-President & General Manager. Support for sales and operations personnel is provided directly by AC's accounting, human resources and marketing departments in Anchorage, Alaska and with selected additional support from service departments based in Winnipeg, Manitoba.

In CUL, sales and operations personnel report to a Vice-President & General Manager. Support for sales and operations personnel is provided directly by CUL's accounting, human resources and marketing departments in Bellevue, Washington and with selected additional support from service departments based in Anchorage, Alaska and Winnipeg, Manitoba.

### **Employees**

At January 31, 2008, the Fund employed 6,861 people, including 1,502 in International operations. Of these, approximately 2,099 are aboriginal and of the aboriginal employees, 188 hold managerial positions. The Fund is active in the recruitment of aboriginal and indigenous peoples for positions in stores, corporate and distribution centers.

Training and development of employees is also a major focus of the Fund. Particular attention is being paid toward enhancing food expertise within store operations and with those who have category management responsibilities. As part of a "Best Practice" training initiative new operational processes have been identified and documented. The Sales and Operations teams for Canada and International operations are responsible to train the store managers and their teams to comply with required operational standards. In Alaska, the focus is on industry-sponsored training materials. The Fund is also recruiting more senior people for store operations positions through the Manager-In-Training and the Department Manager-in-Training programs. This provides training to experienced store managers and department managers as to operating processes prior to managing a store or a department within a store.

## **Customers**

The primary customer group consists of lower-income shoppers residing in remote and urban neighborhood communities across Canada and Alaska. The typical customer's income depends on wage income, direct and non-discretionary government transfer payments or regional government program funding. In smaller, more remote communities, this group's spending is also influenced by the availability of seasonal employment opportunities, which are typically created by government-funded construction and infrastructure projects. The shopping needs of this customer group mainly consists of necessity food and everyday basic general merchandise and are influenced by the challenging climate and logistics conditions that exist in these communities. The urban Giant Tiger customers are somewhat less dependent upon government funding but still exhibit similar shopping needs. CUL targets customers and areas where customers have had some experience with warehouse clubs and retail discounters. CUL's customers come from a variety of ethnic groups who demand products in synch with the ethnicity of each culture along with U.S. branded products and other internationally available products. Income levels of CUL's customers range from poverty levels to the affluent. In several markets, the economy relies on tourism and tourists provide a significant part of the customer base.

Secondary target customers also include quality and selection-driven shoppers and younger, "trend-driven shoppers". Food and general merchandise assortments aimed at these shoppers consist of fashion and lifestyle products similar to those offered by retailers in urban markets.

## **Environment**

The Fund and its affiliated entities are subject to environmental regulations pursuant to federal, provincial and state legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances handled. A breach of such legislation may result in the imposition of fines and penalties. To ensure that compliance is in accordance with applicable environmental laws, the Director, Real Estate and Store Planning has been appointed as Environmental Officer and reports quarterly to the board of Trustees.

The Fund is committed to meeting its responsibilities to protect the environment wherever it operates and annually budgets expenditures of both a capital and expense nature to meet the increasingly stringent laws relating to the protection of the environment. The Fund believes it is in substantial compliance with applicable environmental laws and regulations and does not believe the expenditures will have a material effect on earnings.

## **RISK FACTORS**

Risks affecting business and the Trust Units of the Fund include but are not limited to the following:

### **Risks Factors Relating to the Trust Units**

#### **Income Tax Matters**

As noted above under Federal Tax Changes, legislation was passed on June 22, 2007, which imposes a new entity-level tax on distributions from certain specified investment flow-through entities ("SIFTs") such as the Fund commencing January 1, 2011. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the holders of Trust Units.

The Fund is an *inter vivos* trust for income tax purposes. All income of the Fund is distributed to unitholders and, as such, no income tax is payable by the Fund.

Income taxes are accounted for by using the liability method of tax allocation. Under the liability method, future income tax assets and liabilities are determined based on the differences between the

financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be realized or settled. The provision for income taxes is recorded at applicable statutory rates.

In the ordinary course of business, the Fund is subject to ongoing audits by tax authorities. While the Fund believes that its tax filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the tax authorities. The Fund regularly reviews the potential for adverse outcomes and the adequacy of its tax provisions. The Fund believes that it has adequately provided for these matters. If the final outcome differs materially from the provisions, the Fund's income tax expense and its earnings could be affected positively or negatively in the period in which the matters are resolved.

### **Nature of Trust Units**

The Trust Units do not represent a direct investment in the operations and should not be viewed by investors as shares in the operating entities. Holders of Trust Units will not have the statutory rights normally associated with ownership of common shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Trust Units represent a fractional interest in the Fund. The Fund's primary assets are equity securities and debt instruments of its affiliated entities. The market price per Trust Unit is expected to be a function of the Fund's anticipated distributable income and the growth in earnings per unit generated by operations and general investment market conditions.

### **Redemption Right**

It is anticipated that the redemption right will not be the primary mechanism for holders of Trust Units to liquidate their investments. Notes which may be distributed to holders of Trust Units in connection with a redemption ("Redemption Notes") will not be listed on any stock exchange and no established market is expected to develop for such securities. In addition, Redemption Notes received by unitholders as a result of a redemption of Trust Units will not be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and registered education savings plans. Cash redemptions are subject to limitations.

### **Distribution of Shares and Notes on Termination of the Fund**

Upon termination of the Fund, the Trustees may distribute the assets of the Fund directly to the holders of Trust Units, subject to obtaining all required regulatory approvals. The primary assets of the Fund are common shares and subordinated notes of its affiliated entities, which securities are not freely tradable and are not currently listed on any stock exchange. In addition, the securities of its affiliated entities are not qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds or registered education savings plans.

### **Cash Distributions Are Not Guaranteed and May Fluctuate with the Fund's performance**

Although the Fund must distribute its net income to unitholders (except net income which is determined by the Trustees to be required to satisfy any tax liability of the Fund), there can be no assurance regarding the amounts of income generated by the Fund or its affiliates, or that such distributions will be payable in cash. The Fund depends on interest and other payments from its affiliated entities to make its cash distributions. The ability of the Fund's affiliated entities to service its debt and make other payments to the Fund will depend upon numerous factors, including profitability, third party debt service payments, fluctuations in working capital, interest rates, foreign currency exchange rates, capital expenditures and other factors beyond the control of the Fund and its affiliated entities. Cash distributions are not guaranteed and may fluctuate with earnings performance.

## **Fluctuations in Cash Distributions**

A return on an investment in Trust Units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in Trust Units is at risk, and the return on an investment in Trust Units is based on many performance assumptions. Although the Fund intends to distribute the net income and net realized capital gains of the Fund as determined in accordance with its Declaration of Trust, the actual amount of cash distributed in respect of Trust Units will depend on numerous factors, including the amount of dividends and distributions received by the Fund from its operating subsidiaries, interest income, the expenses and liabilities of the Fund and other factors that may be beyond the control of the Fund. Cash distributions may be reduced or suspended at any time. In addition, the market value of the Trust Units may decline if the Fund is unable to provide a satisfactory return to unitholders.

## **Public Market Risk**

It is not possible to predict the price at which the Trust Units will trade in the future and there can be no assurance that an active trading market for the Trust Units will be sustained. The Trust Units will not necessarily trade at values determined solely by reference to the value of the Fund's assets. Accordingly, the Trust Units may trade at a premium or a discount to the value implied by the value of the Fund's assets. The market price for the Trust Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the Fund.

## **Risks Relating to the Business**

### **Government Regulation**

The Fund's operating entities are subject to various applicable laws and regulations administered by federal, provincial and foreign regulatory authorities, including but not limited to laws and regulations regarding taxes, currency repatriation, zoning health and safety, employment and licensing requirements. Should the Fund's operating entities continue to expand into foreign countries, our operations would be subject to additional foreign regulatory standards, laws and regulations, in addition to customs, duties and immigration laws and regulations. Changes in the foregoing laws and their interpretation by various courts and agencies are subject to change from time to time. While the Fund believes that its operating entities are in compliance in all material respects with such laws and regulations, there can be no assurance that future compliance will not have a material adverse effect on the business, financial condition or operating results of the Fund.

### **Government Spending**

Financial performance is partly dependent upon the prosperity of communities in northern Canada and within the international markets where the Fund's operating entities transact business. The economy in northern Canada is highly dependent on government spending through social benefits programs, health care, education and public works. The Alaskan economy also benefits from annual payments to residents from a permanent fund created from oil revenues. In international markets relying on foreign aid there can be no assurance that foreign aid will continue at current levels if at all. The discontinuation of foreign aid would have an adverse effect on some CUL markets. In some CUL markets located in other foreign jurisdictions, there is the risk of political instability and should political strife occur, it may have an adverse effect on the business of the Fund's operating entities in those regions.

### **Retail Industry and Economic Downturns**

For the fiscal year ended January 31, 2008, approximately 25% of sales were in the general merchandise category. Although the core customer is a lower income shopper with relatively stable income sources, the general merchandise category is sensitive to general economic conditions, consumer confidence and weather fluctuations. External factors which affect customer demand, and



over which the Company exercises no influence, include general economic growth, interest rates, personal debt levels, unemployment rates and levels of personal disposable income. In an economic downturn, discounting by major retailers may affect the pricing levels achievable in respect of general merchandise products. A recession or significant and prolonged decline in consumer spending could have a material adverse effect on business, financial condition and results of operations.

In addition, approximately 12% of the stores are located in communities which are dependent on a single industry, such as fishing, mining or oil and gas extraction. A decline in the fortunes of the relevant industry would have a material adverse effect on the communities in which those stores are located and, in the aggregate, could have a material adverse effect on business, financial condition or results of operations of the Fund.

### **Community Relations**

Approximately 30% of our sales are derived from communities and regions that restrict commercial land ownership and usage by non-indigenous or non-local owned businesses or which have enacted policies and regulations to support locally-owned businesses. We successfully operate within these environments through initiatives that promote positive community and customer relations. These include joint ventures and store lease arrangements with community-based development organizations, initiatives to recruit local residents into management positions, increased indigenous or Aboriginal participation in our Board of Trustees and direct investment in the North West Company Fund by Aboriginal-owned entities.

### **Competitive Environment**

Despite the remoteness of its markets, there is significant competition. The stores of the Fund compete with stores operated by local village corporations, independent store owners and co-operatives, some of which are associated with regional or national buying groups. These independent merchants maintain market share due to strong local loyalties and established customer relationships. All of the communities in which there are stores of the Fund have access to mail order catalogue, direct mail and internet services such as those provided by *Sears Canada Inc.*, *Wal-Mart Stores, Inc.* and *Costco Wholesale Canada Ltd.* In the larger communities and in foreign locations, the stores of the Fund compete directly with other national, international or regional retailers such as True Value, Fields, I.G.A./Sobeys, Wal-Mart, Kmart, Price Smart and Costco. Moreover, approximately 19% of the stores are located within three hours driving distance of small and medium sized urban centers that offer expanded shopping alternatives. Financial performance and results from operations are dependant on the ability to continue to develop and implement strategies to compete with other retailers and to anticipate and respond to changing consumer preferences and merchandising trends in a timely manner.

### **Dependence on Key Personnel**

Success depends to a significant degree on the ability of the Fund and its operating entities to attract and retain employees. Due to the vast geography and remoteness of the markets in which the Fund's operating entities operate, there is significant competition and limited numbers of experienced personnel, particularly at the store management level. At the store level, as with many other retailers, there is the challenge of high employee turnover. The ability to minimize employee turnover is an important competitive factor and directly relates to the effectiveness of store operations. Failure to attract, motivate and retain qualified personnel could have a material adverse effect on business, financial condition and results of operations.

In addition, the Fund and its operating entities are dependent upon its officers and the loss of services of any number of officers could have a material adverse effect on the business, financial condition and results of operations of the Fund and its operating entities.

### **New Business Strategies**

The success of same and new store growth is dependent on a number of factors, including the availability of suitable store locations or acquisition opportunities, the successful negotiation of acceptable leases or acquisitions, the ability to manage the expansion of the store base, the ability to successfully develop new products and services, the ability to source inventory which meets the needs of the new stores, the development of adequate management information systems, the ability to recruit and train new managers and employees, the availability of capital and general economic and business conditions. The success of the alliance strategy described under "Canadian Operations" above is dependent on a number of factors, such as the ability of the alliance partners to source suitable merchandise, obtain volume discounts, manage inventory and deliver products in a timely manner and on the relationship between the Fund and its operating entities and its alliance partners.

There can be no assurance that new business strategies will be successfully implemented, or that, if implemented, the strategies will increase profitability.

### **Financial Services Business**

The financial services operations are an important part of the business of the Fund. There is a risk of customer defaults on credit accounts, particularly following deterioration in the economy. The credit card industry is highly competitive and other credit card issuers may seek to expand or to enter the markets. New federal, provincial and state laws and amendments to existing laws may be enacted to further regulate the credit card industry or to reduce finance charges or other fees or charges applicable to credit card accounts. Deterioration in the financial services business could have an adverse effect on business, financial condition and results of operations.

### **Supplier Arrangements**

There is a dependency on third parties for the manufacturing and supply of the products for sale. All orders for merchandise and food products are placed by purchase order or personal data terminal and there are no long-term agreements with any manufacturer or supplier. Failure to maintain favourable relationships with manufacturers or suppliers could have an adverse effect on business, financial condition and results of operations.

Under the alliance initiative of the Fund, major buying and distribution activities are outsourced through partnerships with non-competing retailers and distributors. The benefit is lower product sourcing costs, improved product sourcing knowledge, a reduction in inventory investment, sales growth and, over the long term, lower overhead expenses. For each alliance entered into, it is important that an effective connection be established with the other organization. The cultural, technology and strategic fit with each partner, and the disruption created by the transition to each alliance, are risks of this initiative. Increased risks are assumed as the volume of business increases with alliance partners, with less direct control over the assurance of their performance than with internally controlled processes.

### **Liquidity**

There can be no assurance that the Company will be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company manages liquidity risk by maintaining adequate credit facilities to fund operating requirements and sustaining and growth-related capital expenditures and regularly monitoring actual and forecasted cash flow and debt levels.

### **Interest**

There is an exposure to fluctuations in interest rates under its borrowings. Through the use of certain financial instruments during the financial year ended January 31, 2008, US\$23.0 million of the US\$52.0 million Senior Notes were effectively converted from fixed interest rate debt to floating interest rate debt

and US\$43.0 million of the Senior Notes were maintained in U.S. dollar obligations to hedge NWC's investment in International operations. Increases in interest rates would increase the cost of borrowing. Interest rate fluctuations are beyond the Company's control and there can be no assurance that such fluctuations will not have a material effect on business, financial condition and results of operations.

### **Currency Fluctuations**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily the U.S. dollar, through its net investment in self-sustaining International operations and its U.S. dollar denominated borrowings. The Company manages its exposure to currency risk by hedging U.S. denominated borrowings with cross currency interest rate swaps and hedging of a portion of the net investment in self-sustaining foreign operations with a portion of U.S. dollar denominated borrowings. The Company is also exposed to currency risk relating to the translation of International operations earnings from U.S. dollars to Canadian dollars. Within its International operations, the Company is also exposed to fluctuations in currency values in Netherland Antilles gilder, the Cayman dollar and the Fijian dollar. Currency rate fluctuations are beyond the Company's control and there can be no assurance that such fluctuations will not have a material effect on business, financial condition and results of operations.

### **Income Taxes**

The Fund has a complex structure and financing arrangements. Provisions for income taxes and filings are based on assumptions that management and its tax advisors believe are appropriate but can be subject to review and challenge by tax authorities in Canada, the United States and any other jurisdiction in which the Fund and/or its affiliated entities operate. Tax audits can be completed for periods of up to six years after the filing of returns. The tax provisions and assumptions may not be adequate if the tax authorities disagree with the positions taken by the Fund and its affiliated entities and could result in reassessments of prior years which could have a material adverse effect on the financial condition and results of operations of the Fund and/or its affiliated entities. Also see "Risks Relating to the Units – Income Tax Matters" above.

### **Risks of Refinancing**

The Senior Notes were issued on June 15, 2002 in an aggregate principal amount of US\$65.0 million, with 20% repayable June 15, 2007 and June 15, 2008 and the balance due on June 15, 2009. As at January 31, 2008, US\$52.0 million remains outstanding with a US\$13.0 million payment due on June 15, 2008 which upon payment will leave a remaining balance of US\$39.0 million. In addition, the Canadian operating lines of credit have been extended for three years. The operating lines in the International operations extend from one to two years. In December 2007, the Company received term loans in the amount of US\$52.0 million through its affiliate NWC (U.S.) Holdings Inc. There can be no assurance that the Fund will be able to refinance such borrowings on favourable terms or at all. Cash flow from operations and unutilized credit available on existing credit facilities are expected to be sufficient to fund operating requirements, sustaining and growth-related capital expenditures and a long-term debt repayment due June 15, 2008 as well as all distributions for the year. To the extent that NWC is not able to refinance its borrowings, it may impact the ability of the Fund and its subsidiaries and affiliates, to fund operating requirements, make capital expenditures and pay distributions.

### **Management of Inventory**

Success in the retail industry is dependent upon the ability to manage inventories of merchandise in proportion to the demand for such merchandise. A miscalculation of consumer demand for its products could result in having excess inventory for some products and missed sales opportunities for others. Weak sales and resulting markdowns and/or write-offs could impair profitability and have a material adverse effect on the business, financial condition and results of operations.

**Information Systems**

Information systems play an important role in the support of the core business processes, including merchandising, marketing and advertising, logistics, store operations, finance, human resources and store planning. The ability to maintain and upgrade information systems capabilities and to maximize the benefits from corresponding process changes will be important to future business, financial condition and results of operations.

**Dependence on Key Facilities**

There are four major distribution centers, one in Winnipeg, Manitoba, one in Anchorage, Alaska and one in San Leandro, California and a third party managed facility in Calgary, Alberta. A serious disruption at any of these facilities or those of any of the corporate alliance partners due to fire, inclement weather or otherwise could have a material adverse effect on business, financial condition and results of operations.

**Leases**

The Fund's operating subsidiaries own, directly or indirectly, the land and buildings associated with 135 stores. The remaining stores are generally held under long-term leases. The long-term nature of the leases may limit the ability to respond in a timely manner to changes in the demographic or retail environment at any location.

**Crude Oil and Other Energy Prices**

Due to the vast geography of the store network, transportation is an important element of operations. The majority of stores are inaccessible by all-weather roads and the balance is relatively distant from major transportation corridors. As a result, stores are serviced by all available modes of transportation including sealift, barge, trucks including via winter roads, rail and air. In addition, heating costs comprise a relatively significant portion of the general overhead costs. An increase in the price of crude oil and other energy prices would increase the cost of supplying and heating the stores. If these increased costs cannot be passed along to customers, such increases may have an adverse effect on business, financial condition and results of operations.

**Severe Weather Conditions**

Due to the vast geography of the store network, world weather conditions can play a significant role in the operations of the stores of the Fund's operating subsidiaries. Severe weather conditions can range from blizzards to hurricanes and cyclones and these can cause loss of life, damage to and destruction of key stores. Such losses may have an adverse effect on business, financial condition and results of operations.

**Political Instability**

Acts of terrorism and political instability, globally or in countries where the Fund has a presence, may cause a prolonged decrease of tourism and travel into markets that are tourist dependant. Riots and political strife may cause vandalism, loss of life and closures of some stores in foreign countries and as such may have an adverse effect on business, financial condition and results of operations.

### MARKET FOR SECURITIES

The Trust Units are listed on The Toronto Stock Exchange under the trading symbol "NWF.UN". The following table shows the trading prices and the trading volume of Trust Units by month for the year.

2007 Trading Price and Volume			
MONTH	HIGH	LOW	VOLUME
Feb-07	\$16.98	\$16.03	966,049
Mar-07	17.60	15.01	3,554,099
Apr-07	20.93	16.85	1,849,410
May-07	20.80	19.34	1,240,587
Jun-07	20.15	18.29	1,008,272
Jul-07	21.15	18.60	1,461,274
Aug-07	21.39	19.25	1,045,278
Sep-07	21.96	19.86	878,219
Oct-07	21.79	19.45	924,391
Nov-07	22.68	19.35	1,272,821
Dec-07	22.19	19.85	1,277,001
Jan-08	21.24	17.69	1,852,130

### TRUSTEES OF THE FUND

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

Name and Municipality of Residence	Committees	Trustee Since	Position Held	Principal Occupation
Ian Sutherland Oro Medonte, Ontario	-	1997	Trustee	Chairman of the Board of Trustees
David G. Broadhurst Toronto, Ontario	1,4	1997	Trustee	President, Poynton Investments Limited
Frank J. Coleman Corner Brook, Newfoundland and Labrador	2,3	2005	Trustee	President & Chief Executive Officer, Coleman Group of Companies
Wendy F. Evans Toronto, Ontario	1,3	2005	Trustee	President, Evans and Company Consultants Inc.
R.J. (Bob) Kennedy Winnipeg, Manitoba	2,3	2005	Trustee	Chief Executive Officer, WiBand Communications Corp.
Gary J. Lukassen Mississauga, Ontario	1,2	2005	Trustee	Corporate Director
Keith G. Martell Saskatoon, Saskatchewan	1,3	2005	Trustee	Chairman, First Nations Bank of Canada
James G. Osborne Winnipeg, Manitoba	1,4	2005	Trustee	Chairman, Westgate Capital Management Corp.
H. Sanford (Sandy) Riley Winnipeg, Manitoba	3,4	2005	Trustee	President & Chief Executive Officer, Richardson Financial Group Limited
Edward S. Kennedy Winnipeg, Manitoba	-	2005	Trustee	President & Chief Executive Officer

- 1 Member of Audit Committee
- 2 Member of the Governance and Nominating Committee
- 3 Member of the Human Resources and Compensation Supervisory Committee
- 4 Member of the Pension Supervisory Committee
- \* The Chairman of the Board of Trustees and President & Chief Executive Officer attend all committee meetings in an ex officio capacity.

### **Executive Officers**

The name, municipality of residence, office held and principal occupation of the executive officers of the Company are as follows:

<b>Name and Municipality of Residence</b>	<b>Executive Officer Since</b>	<b>Position Held</b>	<b>Principal Occupation</b>
Ian Sutherland Oro Medonte, Ontario	1978	Executive Officer	Chairman of the Board of Trustees
Edward S. Kennedy Winnipeg, Manitoba	1989	Executive Officer	President & Chief Executive Officer
Léo P. Charrière Winnipeg, Manitoba	2003	Executive Officer	Executive Vice-President & Chief Financial Officer
John D. King Winnipeg, Manitoba	2006	Executive Officer	Vice-President, Finance & Secretary
Gerald L. Mauthe Ste. Adolphe, Manitoba	2005	Executive Officer	Vice-President, Information Services
Scott A. McKay, Winnipeg, Manitoba	2004	Executive Officer	Vice-President & General Manager, Giant Tiger, West
Karen J. Milani Winnipeg, Manitoba	2000	Executive Officer	Vice-President, Human Resources
Russell J. Zwanka Winnipeg, Manitoba	2005	Executive Officer	Executive Vice-President, Procurement & Marketing
Michael W. McMullen La Salle, Manitoba	2007	Executive Officer	Executive Vice-President, Northern Canada Retail
C. Sabra Stephens Winnipeg, Manitoba	2008	Executive Officer	Vice-President, Logistics & Supply Chain Services
Rex A. Wilhelm Anchorage, Alaska	2007	Executive Officer	President & COO, Alaska Commercial Company & Cost-U-Less, Inc.

All of the Trustees of the Fund and officers of the Company have held their present positions or other executive positions with the same or associated firms or organizations during the past five years, except as follows:

Léo P. Charrière became Executive Vice-President, Chief Financial Officer and Secretary effective May 29, 2003. Prior to this appointment Léo was President and CEO of TruServ Canada Cooperative Inc., a distributor of general merchandise in Winnipeg. In June 2006, his title was changed to Executive Vice-President & Chief Financial Officer.

Scott A. McKay became Vice-President and General Manager, Giant Tiger, West Store Division on October 19th, 2004. Prior to this appointment Scott was the General Manager of Plug-Ins Electronix a Dubai based electronics retailer in the Middle East. His previous background includes Vice President of Retail Operations with Intrawest Retail Group in Golden, Colorado and General Manager, Western Canada with Toys R Us Canada.

Gerald L. Mauthe joined NWC on March 21, 2005 as Vice-President of Information Services. Prior to this appointment Gerry was the Director / CIO of the Information Technology Group of

TruServ Canada Cooperative Inc., a distributor of general merchandise in Winnipeg. His previous background includes various Senior Consultant and Project Manager positions.

Russell J. Zwanka joined NWC on August 8, 2005 as Executive Vice-President, Food Procurement and Wholesale. Prior to this appointment, Russell was Vice President of Merchandising for Bozzuto's, a \$1.5B Wholesaler/ Retailer located in Cheshire, CT. His previous background includes senior roles in Merchandising Planning, C-Stores, Procurement, and Category Management. In June 2006, his title was changed to Executive Vice-President, Procurement & Marketing.

John D. King was appointed to the position of Vice-President, Finance & Secretary on June 19, 2006. Prior to this appointment, John held the positions of Director of Finance and Stores Controller. He joined NWC in 1994.

Michael W. McMullen joined the Company on February 5, 2007 as Executive Vice-President, Northern Canada Retail. Prior to this appointment, Michael was President & CEO of Warehouse One, The Jean Store, a national denim and casual wear chain based in Winnipeg, MB. His previous background includes Vice-President, Retail of Palliser Rooms, as well as a 15 year career with IKEA North America in the U.S. and Canada. Prior to joining IKEA, Michael taught Business Policy and Organization Behavior at Wilfred Laurier University.

C. Sabra Stephens joined the Company on March 17, 2008 as Vice-President Logistics. Sabra has extensive knowledge in all aspects of supply chain and operations management. For the past seven years she ran her own consulting firm specializing in supply chain integration services working in Canada and the United States with companies such as Clorox Canada, Levi Strauss and Standard Products. Previously, she was the Vice President, Global Supply Chain Management for McCain Foods. She also held the position of Director Supply Chain Services with Tibbett & Britten Group, a third party logistics provider where she worked with clients such as Wal-Mart, Shoppers Drug Mart, Oshawa Foods, Alberta Liquor and Gaming Commission and Safeway.

Rex A. Wilhelm has actively worked in the retail industry for 33 years, with the last 24 years with Alaska Commercial Company (AC). He has served in a variety of roles with AC progressing from department manager to Vice President of Operations, and in 2005 was appointed as President and COO. In addition, Rex was named President & COO of Cost-U-Less, Inc. in December 2007 and now heads up the organization's International Division.

The term of office of each of the Trustees expires at the next annual meeting of the Fund.

To the knowledge of the Fund, Trustees and officers of the Fund as a group beneficially own, directly or indirectly, or exercise control or direction over 2,360,136 Trust Units or 4.9% of the outstanding Trust Units of the Fund as of the date of this Annual Information Form.

#### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Other than as noted in the declarations set forth below, no Trustee or executive officer of the Fund is, or has been within the past 10 years, a director or executive officer or promoter of any other company that, while such person was acting in that capacity: (i) was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the person ceased to be a director or executive officer, in the issuer being the subject of a cease trade order or similar order or an order denying statutory exemption; or (iii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

No Trustee or executive officer of the Fund has, within the 10 years preceding the date hereof, been subject to any penalties or sanctions imposed by a court relating to securities legislation or by any securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that would be likely to be considered important to a reasonable investor making an investment decision.

No Trustee or executive officer is, or has become, within the 10 years preceding the date hereof, bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

The following Trustees have made the following declarations.

Mr. James G. Osborne was a Director and founding member along with five others of Futureview Inc., a company that went public in January 2001 on the Winnipeg Stock Exchange using its Keystone Company Program and subsequently became listed on the TSX Venture Exchange. The shares of Futureview Inc. were suspended from trading in 2003 due to the company's failure to complete a required qualifying transaction as required by TSX Venture Exchange policy. The company was wound up in April 2004 after the external public shareholders had been returned 100 percent of their original investment and all corporate liabilities had been paid.

Mr. James G. Osborne was a Director of Jazz Golf Equipment Inc. from prior to it being a Reporting Issuer until October 6, 2006, at which time he resigned due to a disagreement as to corporate strategy being directed by the major shareholder's Trustee appointees. On October 27, 2006, the Board via press release announced approval of the sale of assets to a subsidiary of Ensis Growth Fund Inc., the largest shareholder and creditor of Jazz, under the Bankruptcy and Insolvency Act, subsequently Court approved on November 22, 2006. The shares ceased trading on January 5, 2007.

Mr. Gary J. Lukassen was a Director of Stelco Inc. from June 2002 until March 31, 2006. On January 29, 2004 Stelco Inc. filed for and was granted Court protection under the *Companies' Creditors Arrangement Act (Canada)* (the "CCAA"). Stelco Inc. emerged from court protection under the CCAA on March 31, 2006.

Mr. R.J. (Bob) Kennedy was a Director and officer of WiBand Communications Corp. In December 2001, WiBand Communications Corp. was sold to OA Group Inc. an issuer listed on the TSX Venture Exchange. Shares were exchanged and the shareholders of WiBand Communications Corp. received shares in OA Group Inc. As a condition of the share exchange, Mr. Kennedy was to be included on the management slate of the board of directors of OA Group Inc. He was elected to as a director of OA Group Inc. on June 20, 2002. Upon seeing the financial condition of OA Group Inc., Mr. Kennedy resigned as a director on July 8, 2002. OA Group Inc. went into receivership on July 15, 2002. Mr. Kennedy bought certain assets from the receiver and continues the business under the WiBand name.

Mr. R. J. (Bob) Kennedy was a Director of Jazz Golf Equipment Inc. In 2006, Jazz Golf Equipment Inc., a company listed on the TSX Venture Exchange filed a proposal under the *Bankruptcy and Insolvency Act (Canada)* to sell its assets to Ensis Growth Fund Inc. Mr. Kennedy resigned on November 22, 2006 from the Board. Jazz Golf Equipment Inc. was subsequently de-listed from the TSX Venture Exchange.

The information set forth above, not being within the direct knowledge of management of the Fund, has been provided to the Fund by the persons referenced in the preceding paragraphs.



## AUDIT COMMITTEE INFORMATION

The Audit Committee Charter as approved by the Board of Trustees on December 5, 2007 is included in Appendix "A". The Audit Committee of the Fund is currently comprised of Gary J. Lukassen, who also is the Chair of the committee, David G. Broadhurst, Wendy F. Evans, Keith G. Martell and James G. Osborne. All members of the Audit Committee are independent and financially literate within the meaning of National Instrument 52-110 - *Audit Committees* and have the education and experience as shown below which is relevant to their roles as Audit Committee members.

### Audit Committee Members

The following is a summary of the education and experience of the members of the Audit Committee that is relevant to the performance of responsibilities as an Audit Committee member.

Gary J. Lukassen, CA retired as Executive Vice-President and Chief Financial Officer, The Hudson's Bay Company in March 2001. He is currently a director and a member of the Audit Committee of AbitibiBowater Inc.

David G. Broadhurst is President of Poynton Investments Limited. He was President and C.O.O. of Reeve Court Insurance Limited (Bermuda) from 1998 to 2001; Investment Banker with First Marathon Securities Limited from 1996 to 1998. Previously he spent his entire career with Price Waterhouse Canada retiring in 1996 as the Senior Tax Partner. He is also a director and the Chair of the Audit Committee of MCAN Mortgage Corporation.

Keith G. Martell, CA is the Chairman of the First Nations Bank of Canada, a position he has held since 1997; Executive Director of Finance of the Federation of Saskatchewan Indian Nations from 1994 to 1997; Chartered Accountant with KPMG from 1985 to 1994. He is a director of Public Sector Pension Investment Board of Canada, Potash Corporation of Saskatchewan Inc. and a trustee of Flying Dust First Nation TLE Trust and Primrose Lake Settlement Trust.

James G. Osborne, B.A. has over 40 years experience as an investment dealer and in pension fund investment and venture capital management, and is the Chairman of Westgate Capital Management. He has served on many audit committees in his career, and is currently a member of two committees, both of which he chairs.

Wendy F. Evans is President of Evans and Company Consultants Inc. which has provided international marketing, financial and management services to a wide range of clients since 1987. Ms Evans is an Adjunct Professor in the Ted Rogers School of Retail Management at Ryerson University. She is a director on the Board of Sun Life Financial Trust, serving on the Audit Committee, director, Canadian Cancer Society, Chair, Granite Club, Corporate Cabinet Member, Conservation Foundation and has served on the Advisory Board of the Ontario Retail Sector Strategy.

### External Audit Service Fees

Fees paid to the external auditors in the past two years with respect to services provided to the Fund and the Company were:

	<b>2007</b>	<b>2006</b>
Audit fees	\$298,632	\$337,808
Audit related fees <sup>(1)</sup>	23,056	12,297
Tax fees <sup>(2)</sup>	249,978	257,825
Other fees <sup>(3)</sup>	16,301	11,962
<b>Total</b>	<b>\$587,967</b>	<b>\$619,892</b>

- (1) Audit related fees include store audit procedures, review of procedures for the Fund, and confirmation of compliance with senior debt covenants.
- (2) Tax compliance services and tax planning advice.
- (3) Canadian Public Accountability Board fees and advice on the reorganization of the Fund.

### **AUDITORS**

The auditors of the Fund is PricewaterhouseCoopers LLP, Richardson Building, One Lombard Place, Winnipeg, Manitoba R3B 0X6.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Fund is CIBC Mellon Trust Company, 600 Dome Tower, 6th Floor, 333-7th Ave. S. W., Calgary, Alberta T2P 2Z1.

### **INTEREST OF EXPERTS**

The only persons who are named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, under National Instrument 51-102 – *Continuous Disclosure* by the Fund during, or relating to, the Fund's most recently completed financial year, and whose profession or business gives authority to the statement, report or valuation made by the person or company, is PricewaterhouseCoopers LLP, the auditors of the Fund, who prepared a report on the audited annual financial statements of the Fund.

To the knowledge of the Fund, at the time that PricewaterhouseCoopers LLP prepared its report on the audited financial statements of the Fund, the partners of PricewaterhouseCoopers LLP had no registered or beneficial interest in the securities of the Fund.

### **ADDITIONAL INFORMATION**

The Fund will provide to any persons, upon request to the Executive Vice-President and Chief Financial Officer or the Vice-President, Finance and Secretary 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, copies of the following:

- (i) 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) 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) 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 or one copy of any annual filing prepared in lieu of that Information Circular, as appropriate; and
- (iv) any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and that are not required to be provided under paragraphs (i), (ii) or (iii) above.

Additional information can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Fund's website at [www.northwest.ca](http://www.northwest.ca).

At any other time, one copy of the above documents referred to in paragraphs (i), (ii), (iii) and (iv) shall be provided upon request by the Executive Vice-President and Chief Financial Officer or the Vice-President, Finance and Secretary 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 Fund's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Fund's management information circular for its most recent meeting of unitholders that involved the election of Trustees and additional financial information is provided in the comparative financial statements for its most recently completed financial year.

**APPENDIX "A"**

**NORTH WEST COMPANY FUND**

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**AUDIT COMMITTEE CHARTER**

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**Approved by the Board of Trustees on December 5, 2007**

## **Introduction**

The Audit Committee will assist the Board of Trustees (the Trustees) in fulfilling their oversight responsibilities. The Audit Committee will review the integrity of the financial reporting process, the system of internal control and the management of financial risks, the audit process, and the Fund's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the committee will maintain effective working relationships with the Trustees, management, and the internal and external auditors. To perform his or her role effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the company's business, operations, and risks.

### **1. Reporting**

The committee shall report to the Board of Trustees of the North West Company Fund.

### **2. Composition**

The Audit Committee will consist of at least three and no more than six members of the Board of Trustees. The Board of Trustees will appoint committee members and the committee Chair. Each committee member will be both independent and financially literate and at least one member shall have accounting or related financial expertise. For this purpose "financial literacy" means the ability to read and understand a balance sheet, an income statement and a cash flow statement at the level of complexity of the Fund and "accounting or related financial expertise" means the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles.

### **3. Authority**

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- (a) Recommend the appointment, compensation, and oversee the work of the external auditors.
- (b) Resolve any disagreements between management and the auditor regarding financial reporting.
- (c) Set a policy that establishes appropriate guidelines for approval of non-audit services to be provided by external auditors.
- (d) If necessary, retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- (e) Seek any information it requires from employees—all of whom are directed to cooperate with the committee's requests—or external parties.
- (f) Meet with company officers, external auditors, or outside counsel, as necessary.

### **4. Responsibilities**

The committee will carry out the following responsibilities:

- (a) Financial Statements
  - Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, tax liabilities and issues, recent professional and regulatory pronouncements, and understand their impact on the financial statements.

- Review with management and the external auditors the results of the audit, including any difficulties encountered.
  - Review the annual audited financial statements, and consider whether they are complete and accurate in all material respects; represent fairly the Fund's and its subsidiaries' financial position and performance and are in accordance with GAAP and recommend approval of the financial statements to the Board of Trustees.
  - Review other sections of the annual report, related regulatory filings, earnings press releases and Annual Information form before release and consider the accuracy and completeness of the information.
  - Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards.
  - Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
  - Review interim financial reports with management and the external auditors prior to their release, and consider whether they are complete and consistent with the information known to committee members.
- (b) Internal Control
- Consider the effectiveness of the Fund's and its Subsidiaries' internal control systems, including information technology security and control.
  - Understand the scope of internal and external auditor's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- (c) Internal Audit
- Review with management and the Manager, Internal Audit, the mandate, plans, activities, staffing, and organizational structure of the internal audit function.
  - Ensure that the internal audit function is structured in a manner that achieves independence.
  - Review and concur in the appointment, replacement, or dismissal of the Manager, Internal Audit.
  - Review the performance and effectiveness of the internal audit function.
  - On a regular basis, meet separately with the Manager, Internal Audit to discuss any matters that the committee or internal audit believes should be discussed privately.
- (d) External Audit
- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
  - Review the external auditors' qualifications, performance and the firm's internal quality control procedures, and recommend the appointment or discharge of the auditors.
  - Review with the external auditors the quality of the Fund's and its subsidiaries' accounting policies.

- Approve the external audit fee.
  - Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
  - Review any unadjusted errors in the financial statements.
  - On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
  - Review with the external auditors Report to Unitholders and letters to management on deficiencies in internal control and other matters of concern and management's response thereto.
  - Set clear hiring policies for employees or former employees of the external auditors.
  - Pre-approve any non-audit services to be performed by the external auditor and set a fee budget for such services.
- (e) Compliance
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
  - Review the findings of any examinations by regulatory agencies, and any auditor observations.
  - Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
  - Obtain regular updates from management and company legal counsel regarding compliance matters.
  - Reviewing all incidents of fraud, illegal acts and conflict of interest.
- (f) Reporting Responsibilities
- Regularly report to the Board of Trustees about committee activities, issues, and related recommendations.
  - Provide an open avenue of communication between internal audit, the external auditors, and the Board of Trustees.
  - Report annually to the unitholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
  - Review any other reports the Fund issues that relate to committee responsibilities.
  - Review annually the Fund's policy on public disclosures.
- (g) Other Responsibilities
- Perform other activities related to this mandate as requested by the Board of Trustees.

- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee mandate annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this mandate have been carried out.
- Review annual assessment done by Governance & Nominating Committee to determine how effectively the Audit committee is meeting its responsibilities.
- Review annually the Fund's and its subsidiaries' insurance program.
- Review and approve the procedures for the receipt, retention and treatment of complaints received by the Fund regarding accounting, internal controls or auditing matters, including procedures for employees' confidential anonymous submissions. Ensure that all such complaints are presented to the committee.
- Review process followed in CEO/CFO certification of financial statements.