North West Company Fund
Annual and Special Meeting of Unitholders
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Winnipeg, Manitoba

Speech by H. Sanford (Sandy) Riley, Chairman

Your Board of Trustees worked on several initiatives over the past year. These included the ongoing planning for a transition back to a share corporation by 2011 and monitoring the effective integration of our Cost-U-Less acquisition. Our two most significant areas of new work, which I would like to briefly review, were on defining the Board's strategic role and on executive compensation.

Creating a well-understood and effective strategic role is something that many Boards struggle with. At North West we were doing okay but we felt that there was a need for clearer guiding principles, especially as we started to commit more Board time to strategy discussions.

Through the course of last year, we met with Edward and as a Board to better understand and define our respective roles. The conclusion we reached was to, first, affirm the Board's active role in reviewing and advising versus management's role in initiating strategies.

Second, we agreed on a calendar and structure that ensures we spend sufficient strategic time on each element of our business, whether related to overall direction, a particular store banner, talent development or risk management.

The structure of our executive compensation is reviewed in-depth by the HR and Compensation Committee and the Board every three years. Our work in 2009 was more comprehensive because we addressed the replacement of the Company's unit purchase loan program. This program had proven to be very cost-effective because the actual value to executives, although difficult to measure, was largely generated by our unit's market performance and the reported value to executives was limited to the interest subsidy component of the plan. Meanwhile the opportunity cost to the Company of tying up $15 million in capital through loans to executives, although real, was even less visible.

Our new program, which will convert nicely to a corporate structure in 2011, uses restricted share units, performance-based share units and options. Apart from being easier to explain, all of the elements of this program are widely-accepted in the market place and lead to greater transparency as to the value of benefits being conferred on our executives. Most important, the new program aligns our executives even more closely to the actual value that they create through earnings growth and income yield to investors, as opposed to value created by the market.

As I commented in the annual report, we are now in a period of uncharted economic turbulence. We recognize that each economic cycle is different, but also know that North West is a resilient retailer. We have confidence in the Company's ability to outperform through this downturn, based first and foremost on the talented and dedicated team of employees who serve our customers across more than a dozen time zones everyday. In concluding I want to acknowledge their contributions in what promises to be very testing, and very promising times ahead.

I'd now like to invite Léo Charrière to report on our financial performance. Leo …

Speech by Léo Charrière, Executive Vice-President and CFO

Thank you Sandy and good morning ladies and gentlemen.

In 2008, The North West Company delivered its ninth consecutive year of increased sales and earnings. Strong food sales across all of our banners and store acquisitions were the key drivers in our net earnings improvement of 19.7%.

Total sales were up 30.8% to $1.4 billion with same store sales up 2.7%. Growth was again led by our food business with an overall same store increase of 6.1%, but also contributing were the addition of new stores, the acquisition of the Cost-U-Less stores on December 13, 2007 and of Span Alaska Wholesale on March 3, 2008.

General merchandise sales were mixed. Alaska's general merchandise sales were up 6.9% on a same store basis. A large increase in the Permanent Fund Dividend and solid merchandise programs contributed to this gain. Contrary to Alaska, Canadian general merchandise same store sales decreased 7.8%. The decline will be covered in greater detail by Edward in his remarks and related to fluctuations in discretionary income, especially in the North, which contributed to a 22% sales increase in the 2007 fourth quarter. As the big ticket categories were the primary beneficiaries of the higher consumer discretionary income in 2007, those same categories had the largest decreases in 2008.

Trading profit grew 14.7% to $122.3 million but as a percentage of sales decreased to 8.8% from 10.0% in 2007. The decrease of 120 basis points is due to the discount gross profit structure of Cost-U-Less, Span Alaska and Giant Tiger. International operations were the major contributor to the trading profit increase realizing an increase of 61.5% due to the Cost-U-Less and Span acquisitions.

Consolidated net earnings improved 19.7% to $75.4 million or $1.56 per unit. In addition to the operating factors noted earlier, the Fund benefited from a full year of the internal reorganization completed on June 5, 2007 which enables Canadian earnings to flow through to unitholders on a more tax efficient basis. The resulting income tax expense reduction on the Canadian earnings was partly offset by an increase in the International income taxes. With this improvement in net earnings cash distributions to unitholders were also increased by 23.9% to $67.7 million.

Cash flow from operations was up 12.2% from 2007 and was sufficient to cover distributions, maintenance capital expenditures and most of our requirement for growth capital.

We also monitor two other performance measures: return on net assets and return on equity. Both ratios were impacted by the acquisition of Cost-U-Less and Span Alaska. The return on net assets decreased to 19.8% from 21% because of the immediate increased asset base without the full benefit of the acquisition cost synergies which are being completed this year. The return on equity, which is the top line, on the other hand, immediately improved to reach 28.6% from 24.9% in 2007. This was because acquisition growth was financed by relatively low cost debt and without having to issue more equity. Another factor was the reduced tax expense as a result of the internal restructuring completed in June 2007.

The challenges faced by investors in 2008 were severe but as a unitholder of the North West Company Fund you fared better than most others. The Fund's total return was a negative 5.2% in 2008 compared to a TSX composite decline of 31.5% and the retailing group index decrease of 29.3%.

Over the past five years, the Fund's total returns have been 283% exceeding the TSX composite by over 140% and are more than two and half times the return performance of the TSX retailing group.

I will now provide an overview of our first quarter results and I encourage unitholders to read our first quarter report for a more in-depth analysis.

Consolidated sales increased 9.6% to $345.6 million and on a same store basis were down 0.4%. Same store food sales increased in all of our banners improving 4.3%. The largest increases were seen in the Giant Tiger and Cost-U-Less stores as our discount formats continued to attract more value shoppers. General merchandise sales were very disappointing and were down 16.5% on a same store basis. The decrease in general merchandise sales is due to several discretionary income factors that Edward will comment on shortly.

Trading profit increased $1.6 million or 6.3% to $27.5 million. Sales growth and gross profit improvements in the International Operations more than offset a decrease in trading profit in our Canadian business operations which also felt the effects of higher energy-related utility costs and higher debt loss. The increase in net debt loss compares to lower than normal debt loss experienced last year due to healthier income levels in the North tied to the Indian Residential School Settlement payments.

Interest expense decreased 39.3% to $1.3 million. Lower interest rates countered slightly higher debt levels in the quarter. The income tax provision increased by $750,000 to $1.5 million reflecting the higher earnings in our International Operations.

Net earnings in the first quarter increased $898,000 or 5.9% to $16.1 million.

A quarterly distribution of $0.32 per unit was declared by the Trustees to be paid July 15, 2009.

Our emphasis on staple food sales is providing the Fund with the base to meet these challenging economic times. This positioning will continue to be the driver over the next quarter as general merchandise sales continue to be challenged.

Many investors have enquired about the future structure of the Fund come 2011. Our current assessment is that the Fund should remain structured as a trust until January 1, 2011 at which time the Conversion Rules would likely be relied on to convert back to a corporate structure.

Thank you, and now Edward Kennedy, President and CEO of the North West Company …

Speech by Edward Kennedy, President and CEO

Thank you Léo.

Good morning and welcome.

I'd like to first comment on The North West Company's response to the H1N1 situation emerging in northern communities. The incidences of widespread H1N1-like flu symptoms surfaced in St. Theresa Point 10 days ago. Since that time, we have been working in close contact with First Nation leadership and local health officials. Our overriding goal in St. Theresa Point is to continue providing an essential service while maintaining a safe environment for our customers and staff. In St. Theresa Point, our staff wear masks in the store and employees in the food preparation departments are wearing rubber gloves when working with unwrapped product. All multiple use service areas, like counters and shopping cards, are being sanitized on an hourly basis. Several of our staff and their families have become sick and have been medivaced to Winnipeg. No staff have been confirmed as having the H1N1 virus.

That's the picture in one community. In every community we serve in northern Canada our managers are aware of what's happening. They are communicating with local officials so that we can immediately respond as required (just like we have in St. Theresa Point).

I'd be happy to answer any questions on this issue at the conclusion of my remarks.

Regarding the Giant Tiger fashion flyer that you see here (on this slide), these items are "must have" trends for the season at terrific prices. And yes, the season I'm referring to is summer, starting today, no matter what the weather feels like.

A few years ago, we had GT apparel modeled by the employee unitholders who proposed or seconded our meeting motions. We've done it again this year. I would like to ask these well-dressed and thrifty individuals to stand again so that we can see how great they look and all for under $30 dollars an outfit. I think you would agree that it would be a better world if we all looked just as good for less. So as an incentive we're offering everyone in attendance today a $10 GT fashion coupon.

I see our Giant Tiger Vice President, Scott McKay, cringing because he was only going to offer $5 off. Sorry Scott but you need the sales and I see GT shoppers here.

Our video gave you a good picture of how we, at The North West Company, strive to be a trusted community store of choice. When we succeed, this position gives us a clear advantage over our competition. Whether we are serving our customers' everyday needs or introducing new stores, products or services, we want to be a vital, compelling retailer. We rely on our enterprising ideas, our passion for doing great work and a true connection with the communities that we serve. We count on each other to deliver on our commitments. We expect to be held accountable by all of our stakeholders, starting with you, our investors.

Today I want to report on our performance measured against these principles and the reality of the current recession. I hope to also give you a sense of how we are creating and reacting to new opportunities that will sustain our business growth.

Let's look first at our general merchandise performance in the North. This graph shows the volatility in our largest general merchandise categories -- transportation, home furnishings, appliances and electronics – over the last two years and into 2009. Sales per quarter have ranged from an increase of 50% to a drop of 37%, all within six months. While general merchandise represents only 22% of our northern sales base and only about 15% of our total operating margin, the impact on our bottom line is exaggerated by these ups and downs.

The reasons for this have been mentioned before, but they are worth repeating.

Through several quarters in 2007 and 2008 we benefited from unusually high discretionary income in the North. This came from oil revenue dividends paid to Alaska residents, the Indian Residential School Settlement payments to qualifying Aboriginal Canadians and robust natural resource exploration activity. We went after sales and we were successful. Now this extra spending power is gone, at least for this year.

Fortunately, the situation looks brighter for next year and into 2011 as government fiscal stimulus starts to take hold.

As an example of how important this is for the North, shown here is the per capita dollar increase in Canadian government fiscal support for the provinces and territories over the 2009-10 budget year. These are primarily health and education transfers. For the Canadian territories they include an annual financing formula that represents up to 90% of their day-to-day operating budgets. In 2009-10 the territories will receive a 12% increase in this funding. More important, the amount per capita will average nearly $3,000 compared to under $400 for the provinces.

These increases <u>exclude</u> most of the federal government's infrastructure programs. We estimate that this new capital spending alone will amount to 7.5% of the NWT's and Nunavut's combined GDP. That's $300 million per year over the next three years. This compares to stimulus spending of just over 2% of GDP for Canada as a whole and just under 3% for the U.S. overall.

Other regional markets that look promising over this timeframe are Guam with $16 billion in military relocation spending starting in 2010 and hydro projects that are now underway in northern Manitoba and northern Quebec.

While the medium-term outlook is promising, our immediate focus is on protecting our sales base in the North and in the South.

We are doing this in several ways. We are focusing more on key, proven best-selling items and less on the broad product ranges we have been known for in the past. We are fine-tuning our store-based ordering to ensure that our local knowledge is invested in the highest return merchandise instead of low value items that can be regionally pushed to stores. Finally, we continue to right-size our inventory to match up with the realistic demand this year especially in big-ticket categories.

Turning to our food performance, in 2007 we added 20 discount stores between Giant Tiger and Cost-U-Less and these two banners now represent 40% of our food sales. In the first quarter Cost-U-Less and Giant Tiger delivered same store food increases of 9.5% and 7.2% respectively, including a 38% gain in produce sales at GT.

These are tremendous numbers and the timing has turned to be as much fortuitous as it is strategic. We are in the right place with these stores as food shoppers look for value and trade down from eating out to eating at home, from shopping at full-service food stores to discount outlets, from national brands to value brands and from convenience shopping to less frequent stocking-up trips.

Where does that leave the 60% of our still very solid food business, in northern Canada and Alaska?

In the first quarter, same store food sales at our Northern, NorthMart and AC Value Center stores were up only 2.1% compared to a 6.2% gain last year. An important factor was freight deflation. Last year I showed that energy-related costs, like transportation, are more important than the actual cost of the product itself. Now with lower fuel prices, transportation costs have dropped and overall food inflation in the North is actually lower than in the South for the first time in a long time.

A second factor is the consumer behavior shift that I just described. Remember we're coming off 18 months of high income surges in the North. Now customers are looking for more value and more ways to save. Our response is to focus on our convenience strengths while ensuring that our prices are compelling on the right items and at the time.

A key focus is to capture more food sales on the days that our customers receive their monthly income. We call this initiative "build the basket" and since launching it in February we've seen a steady increase in our share of income day spending.

To build the basket we are introducing more opportunity and special buys that take advantage of our combined discount and northern store volumes. We are also being more promotional with incentives geared towards spending $200 and more with us instead of only smaller transactions between out of town shopping trips.

A second food priority is to accelerate our store brand program so that we are positioned to offer lower-cost, quality alternatives to national brands while building loyalty to our stores. A great example was the customer comment on our Northern Best Value bread in the video. This is a product that stays fresh longer than any other bread on the market, a very important feature when you're camping out on the land for a week or more.

In 2009 we will add 150 new store brand items at the opening and national-brand quality levels, known as Best Value and BV Select. This will take us to a total of 375 by year end and we'll be on track to hit our target penetration goals of 15% at our Northern stores and 25% at Giant Tiger.

The initiatives I've just reviewed are the type of work that North West will spend more time on over the next five years. We see tremendous upside in circling back to our existing business scope of stores, markets and products. We will invest more time on the details that make our offer more compelling for customers to shop with us and we will bring more cost savings to our bottom line. And finally, with so many choices, we plan to do a better job prioritizing the best opportunities.

What does this mean in practice?

To get a better sense, let's look at our recent store investments.

In November we opened our 29th Giant Tiger store, and our third location in Edmonton. With GT we've learned that Winnipeg, Edmonton and Calgary offer superior returns compared to most smaller, rural centers. We also know that lower rent, neighbourhood malls give us the strongest customer traffic and loyalty. Since the recession started we're seeing more sites become available and we've been more selective at getting these market attributes right, as we did with this store.

Within the last six months we also made two market in-fill investments, the first in Iqaluit, Nunavut and the second in Bethel, Alaska. Iqaluit and Bethel are regional cities in which we have large main stores. As cities and large towns like these grow, we grow with them by reinvesting in our main stores and by opening neighbourhood convenience outlets. The Iqaluit Quickstop pictured here is actually our fourth c-store in this market. In Bethel we added our second satellite AC store by a acquiring an underutilized store located next to the river system that links Bethel to more than 30 villages.

At the end of March we completed a replacement Northern store project that demonstrates top line and expense saving potential. The store is in Nain, a town of 1,100 people on the Labrador coast. We entered the market 15 years ago by acquiring the older building shown here. And it didn't look much better then. Our new store is 50% larger and sales are up significantly since we opened. Over the next five years we can see up to 20 similar opportunities in both Alaska and northern Canada.

Other key features of the Nain store, as you saw in the video, are the energy efficient innovations. Our manager was getting pretty excited when he said that the heat reclaim system was going to cut his heating bill by I think he said 30% or even 50%. Well he's going to be even happier because this system will actually meet 80% of his heating needs. As well, the store runs on high efficiency LED and T8 lights and natural light from added windows, linked to sensors that turn off excess interior lights during daylight hours.

We have $4 million worth of retrofit projects on our books for 2009-10 that should deliver a five years or less payback at current fuel prices.

On April 6th we completed the purchase of a 41,000 square foot grocery store and mall in Sitka, Alaska. While larger than most, the Sitka transaction illustrates the type of tuck-in acquisitions that we intend to keep pursuing. The first ingredient is typically an older store owner with a solid business that he, or in this case, she, has built up. We are interested if we can add value through standards, product enhancement and store upgrades while keeping a strong community connection.

Three weeks ago we opened our first Island Fresh IGA store and our third store in Guam U.S.A. along with two existing Cost-U-Less outlets. With a population of 170,000 and growing, it made sense that we expand our presence in Guam before entering new island markets. We followed the proven path we've taken elsewhere. We acquired an underused store and brought it back to life with some investment, with full, fresh shelves of merchandise and with a skilled store team. To date the results have been encouraging.

This focus on getting more from our existing business scope applies to new products and services. Over the last five years North West invested in financial services, pharmacies and, most recently, in a web-based, direct to customer food business called Span Alaska. Each business is making a positive and growing contribution to our bottom line, with our financial services now at approximately 10% of our EBITDA.

The difference today is that we have a hard-earned starting point that increases the attractiveness of these ventures without the risk associated with something completely new and different. This could mean several exciting possibilities ranging from new financial card products and branching into other health services to bringing our Span Alaska model into Canada.

In the past I've posed the question of how do we manage our complexity while still connecting to each unique customer that we serve? My answer is still that our business will always happen at a personal, community level. That applies whether in Alaska, northern Quebec or Fiji. It's what we do.

But we can't and won't take this for granted. It is essential that serving our customers is always our first priority and that we first stay connected to each other. This week we have our 50 most senior managers here in Winnipeg again sharing ideas and advice with myself and my executive team. Below this level we invest a lot of money and more than most retailers to bring our store managers together, including across our different banners in Canada and internationally. In between face-to-face meetings we use networking tools to link ideas from our stores to our support offices. Most important, we work on reinforcing why we are here so that we are clear on our roles and the principles of customer-first, trust, accountability, passion, balance and the enterprising spirit that drives our success.

2009 will be one of the most challenging years for getting sales that we've faced in quite some time. We are in an enviable position because we have a team of over 7,000 associates that are up to the task. They are encouraged by leaders at all levels at North West who are committed to a focus on the basics and core strengths that I have covered today.

I believe these will continue to be our true elements of sustainable growth.

I look forward to reporting on our success throughout the year and at next year's meeting.

Thank you for your attention.

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

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

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