

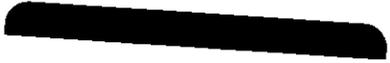


Gibraltar House  
77 Main Street  
Winnipeg, Manitoba  
R3C 2R1  
Phone: (204) 943-0881  
www.northwest.ca

RECEIVED  
2008 NOV -3 A 11:28

Oct 24, 2008

Office of International Corporate Finance  
The U.S. Securities & Exchange Commission  
450 Fifth Street N.W.  
Washington, DC 20549  
U.S.A.



**SUPL**

Dear Sir or Madam:

**NORTH WEST COMPANY FUND REPORTS SECOND QUARTER RESULTS  
EXEMPTION NUMBER 82-34737**

Attached please find the following documents, which have been filed on System for Electronic Document Analysis and Retrieval (SEDAR).

1. Certification of Interim Filings – President & CEO
2. Certification of Interim Filings – CFO
3. First Quarter Interim Financial Statements
4. Interim MD&A – Second Quarter
5. News Release – Second Quarter

If you require further information, please feel free to contact me. Thanks.

Yours truly,

Reinhard Sedlacek  
Director, Planning & Treasury Services &  
Assistant Corporate Secretary  
The North West Company  
T:(204) 934 1525  
F:(204) 934 1455  
[rsedlacek@northwest.ca](mailto:rsedlacek@northwest.ca)

PROCESSED  
NOV 06 2008

THOMSON REUTERS

ENTERPRISE SINCE 1668  
11/3



FORM 52-109F2

RECEIVED

CERTIFICATION OF INTERIM FILINGS

2008 NOV -3 A 11:43

I, EDWARD S. KENNEDY, President & Chief Executive Officer of North West Company Fund, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of North West Company Fund (the issuer) for the interim period ended July 31, 2008;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings; and
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filing are being prepared; and
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: September 11, 2008

"Edward S. Kennedy"

---

Edward S. Kennedy  
President & Chief Executive Officer

FORM 52-109F2

CERTIFICATION OF INTERIM FILINGS

I, LÉO P. CHARRIÈRE, Executive Vice-President & Chief Financial Officer of North West Company Fund, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of North West Company Fund (the issuer) for the interim period ended July 31, 2008;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings; and
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filing are being prepared; and
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: September 11, 2008

"Léo P. Charrière"

---

Léo P. Charrière  
Executive Vice-President & Chief Financial Officer

**"North West Company Fund – File No. 82-34737-  
rule 12g3-2(b) Filing"  
EXEMPTION NUMBER 82-34737**

**CONSOLIDATED BALANCE SHEETS**

(unaudited, \$ in thousands)	July 31 2008	July 31 2007	January 31 2008
<b>ASSETS</b>			
Current assets			
Cash	\$ 21,229	\$ 28,509	\$ 21,732
Accounts receivable	62,251	62,541	62,759
Inventories (Note 2)	174,025	139,364	162,481
Prepaid expenses	6,869	4,944	3,604
Future income taxes	2,402	2,163	3,485
<b>Total Current Assets</b>	<b>266,776</b>	<b>237,521</b>	<b>254,061</b>
Property and equipment	225,188	187,371	227,974
Other assets	21,019	19,097	19,033
Goodwill	31,851	-	26,882
Future income taxes	2,811	7,468	1,720
<b>Total Assets</b>	<b>\$ 547,645</b>	<b>\$ 451,457</b>	<b>\$ 529,670</b>
<b>LIABILITIES</b>			
Current liabilities			
Bank advances and short-term notes (Note 3)	\$ 9,484	\$ 61,762	\$ 4,336
Accounts payable and accrued liabilities	92,480	69,000	109,877
Income taxes payable	759	6,508	2,053
Current portion of long-term debt (Note 4)	40,961	18,280	18,633
<b>Total Current Liabilities</b>	<b>143,684</b>	<b>155,550</b>	<b>134,899</b>
Long-term debt (Note 4)	142,095	42,540	136,864
Asset retirement obligations	1,572	1,560	1,606
<b>Total Liabilities</b>	<b>287,351</b>	<b>199,650</b>	<b>273,369</b>
<b>EQUITY</b>			
Capital	165,133	165,205	165,133
Unit purchase loan plan (Note 6)	(11,519)	(12,544)	(12,342)
Contributed surplus	970	970	970
Retained earnings	103,114	95,118	100,526
Accumulated other comprehensive income (Note 8)	2,596	3,058	2,014
<b>Total Equity</b>	<b>260,294</b>	<b>251,807</b>	<b>256,301</b>
<b>Total Liabilities and Equity</b>	<b>\$ 547,645</b>	<b>\$ 451,457</b>	<b>\$ 529,670</b>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(unaudited, \$ in thousands)	Three Months Ended July 31 2008	Three Months Ended July 31 2007	Six Months Ended July 31 2008	Six Months Ended July 31 2007
SALES	\$ 342,358	\$ 256,414	\$ 657,826	\$ 490,765
Cost of sales, selling and administrative expenses	(311,716)	(230,429)	(601,262)	(443,178)
Net earnings before amortization, interest and income taxes	30,642	25,985	56,564	47,587
Amortization	(7,729)	(6,397)	(15,518)	(13,046)
Interest	22,913 (1,977)	19,588 (1,559)	41,046 (4,125)	34,541 (3,208)
Provision for income taxes	20,936 (2,502)	18,029 (3,183)	36,921 (3,252)	31,333 (5,680)
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 18,434</b>	<b>\$ 14,846</b>	<b>\$ 33,669</b>	<b>\$ 25,653</b>
Retained earnings, beginning of period as previously reported	100,161	93,334	100,526	93,253
Accounting policy changes (Note 2)	-	-	(119)	(83)
Retained earnings, as restated	100,161	93,334	100,407	93,170
Distributions (Note 10)	(15,481)	(13,062)	(30,962)	(23,705)
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 103,114</b>	<b>\$ 95,118</b>	<b>\$ 103,114</b>	<b>\$ 95,118</b>
<b>NET EARNINGS PER UNIT</b>				
Basic	\$ 0.39	\$ 0.31	\$ 0.71	\$ 0.54
Diluted	\$ 0.38	\$ 0.30	\$ 0.70	\$ 0.53
Weighted Average Number of Units Outstanding (000's)				
Basic	47,721	47,629	47,715	47,616
Diluted	48,427	48,408	48,424	48,405

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, \$ in thousands)	Three Months Ended July 31 2008	Three Months Ended July 31 2007	Six Months Ended July 31 2008	Six Months Ended July 31 2007
NET EARNINGS	\$ 18,434	\$ 14,846	\$ 33,669	\$ 25,653
Unrealized gains (losses) on translation of financial statements from a self sustaining operation in U.S. dollar functional currency to Canadian dollar reporting currency	394	(647)	582	(1,624)
Other comprehensive income (loss) (Note 8)	394	(647)	582	(1,624)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 18,828</b>	<b>\$ 14,199</b>	<b>\$ 34,251</b>	<b>\$ 24,029</b>

See accompanying notes to consolidated financial statements.

"North West Company Fund – File No. 82-34737-  
rule 12g3-2(b) Filing"  
EXEMPTION NUMBER 82-34737

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, \$ in thousands)	Three Months Ended July 31 2008	Three Months Ended July 31 2007	Six Months Ended July 31 2008	Six Months Ended July 31 2007
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating Activities</b>				
Net earnings for the period	\$ 18,434	\$ 14,846	\$ 33,669	\$ 25,653
Non-cash items				
Amortization	7,729	6,397	15,518	13,046
Future income taxes	650	(501)	156	(727)
Unit purchase loan plan compensation (Note 7)	-	280	-	587
Amortization of deferred financing costs	46	46	93	93
Loss on disposal of property and equipment	(5)	(21)	10	461
	26,854	21,047	49,446	39,113
Change in non-cash working capital	(4,879)	(11,015)	(25,407)	(8,055)
Change in other non-cash items	(2,363)	(529)	(2,220)	(261)
<b>Operating activities</b>	<b>19,612</b>	<b>9,503</b>	<b>21,819</b>	<b>30,797</b>
<b>Investing Activities</b>				
Business acquisition (Note 13)	-	-	(6,190)	-
Purchase of property and equipment	(7,073)	(9,198)	(13,768)	(14,902)
Proceeds from disposal of property and equipment	74	26	3,282	133
<b>Investing activities</b>	<b>(6,999)</b>	<b>(9,172)</b>	<b>(16,676)</b>	<b>(14,769)</b>
<b>Financing Activities</b>				
Change in bank advances and short-term notes	(74)	27,873	4,966	40,181
Net repayments (purchases) under unit purchase loan plan	504	165	823	(1,051)
Increase in long-term debt	20,200	-	43,525	-
Repayment of long-term debt	(18,092)	(20,186)	(18,193)	(20,206)
Distributions (Note 10)	(15,481)	(13,062)	(36,767)	(28,543)
<b>Financing activities</b>	<b>(12,943)</b>	<b>(5,210)</b>	<b>(5,646)</b>	<b>(9,619)</b>
<b>NET CHANGE IN CASH</b>	<b>\$ (330)</b>	<b>\$ (4,879)</b>	<b>\$ (503)</b>	<b>\$ 6,409</b>
Cash, beginning of period	21,559	33,388	21,732	22,100
<b>CASH, END OF PERIOD</b>	<b>\$ 21,229</b>	<b>\$ 28,509</b>	<b>\$ 21,229</b>	<b>\$ 28,509</b>
Supplemental disclosure of cash paid for:				
Interest expense	\$ 3,205	\$ 3,457	\$ 4,468	\$ 3,853
Income taxes	\$ 3,382	\$ 2,147	\$ 4,397	\$ 3,473

See accompanying notes to consolidated financial statements.

NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

---

1. Accounting Presentations and Disclosures

The unaudited interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). These interim financial statements follow the same accounting policies and their methods of application as the 2007 annual financial statements, except as described in Note 2. Not all disclosures required by generally accepted accounting principles for annual financial statements are presented, and accordingly, the interim financial statements should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included in the North West Company Fund's 2007 Management's Discussion & Analysis and Consolidated Financial Statements report. All amounts are expressed in Canadian dollars unless otherwise noted.

2. Accounting Policy Changes

Inventories

Effective February 1, 2008 the Company adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA) section 3031 Inventories which is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007. Section 3031 provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the cost to purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and are expensed in the period incurred. Reversals of previous write-downs to net realizable value are now required when there is a subsequent increase in the value of the inventories. The cost of inventories should be determined using either a first-in, first-out or weighted average cost formula. Techniques for the measurement of cost of inventories, such as the retail method may be used if the results approximate actual cost. The new standard also requires additional disclosures regarding the accounting policies used in measuring the inventories, the carrying value of the inventories, the amount of inventories recognized as an expense during the period, the amount of write-downs during the period and the amount of any reversal of write-downs that is recognized as a reduction of expenses.

The Company values inventories at the lower of cost and net realizable value. Costs include the cost to purchase net of vendor allowances and other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. The cost of warehouse inventories is determined by the weighted average cost. The cost of store inventories is determined primarily using the retail method of accounting for general merchandise inventories and the cost method on a first-in, first-out basis for food inventories. The Company defines net realizable value as the anticipated selling price. Inventories are written down to net realizable value when the cost of inventories is estimated to be greater than the anticipated selling price. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed. Storage costs, administrative overheads and selling costs related to the inventories are expensed in the period the costs are incurred.

This change in accounting policy has been implemented retroactively without restatement of comparative financial statements in accordance with the transitional provisions. Upon adoption of this accounting standard, the Company recorded a decrease in opening inventories of \$221,000, an increase in opening future income tax assets of \$102,000, and a decrease to opening retained earnings of \$119,000.

Included in cost of sales, selling and administrative expenses on the consolidated statement of earnings for the three months ended July 31, 2008 is \$242,109,000 of inventories recognized as an expense (six months ended July 31, 2008 - \$468,394,000), which includes \$345,000 for the write-down of inventories as a result of net realizable value being lower than cost (six months ended July 31, 2008 - \$659,000). There was no reversal of inventories written-down previously that are no longer estimated to sell below cost.

Financial Instruments - Recognition and Measurement, Disclosure and Presentation, Hedges, Comprehensive Income and Equity

On February 1, 2007 the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) section 3855 Financial Instruments - Recognition and Measurement; section 3861 Financial Instruments - Disclosure and Presentation; section 3865 Hedges; section 1530 Comprehensive Income; and section 3251 Equity. These changes in accounting policy were applied retroactively without restatement of comparative financial statements, with the exception of the reclassification of the cumulative currency translation adjustments account to accumulated other comprehensive income in accordance with the transitional provisions. Upon adoption of these accounting standards, the Company recorded a decrease in opening retained earnings of \$83,000.

3. Bank Advances and Short-Term Notes

In January 2008, the Company arranged for new revolving loan facilities and as a result amounts drawn by the Canadian operations on the new facilities are reported as long-term debt (Note 4). Prior to this new arrangement, the Canadian operations had available operating loan facilities of \$85,000,000 and had drawn \$61,762,000 on these facilities at July 31, 2007.

International operations have available demand, revolving loan facilities of US\$21,000,000 at interest rates of London Interbank Offered Rate (LIBOR) plus 1.75% or US prime minus 0.25% secured by a floating charge against certain accounts receivable and inventories of the International operations. At July 31, 2008, the International operations had drawn US\$8,246,000 (July 31, 2007 - \$0) on the facility.

NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

4. Long-term Debt

(\$ in thousands)	July 31	
	2008	2007
Senior notes <sup>(1)</sup>	\$ 40,214	\$ 59,825
Revolving loan facilities <sup>(2)</sup>	85,578	-
Non-revolving loan facilities <sup>(3)</sup>	53,336	-
Notes payable <sup>(4)</sup>	1,629	-
Obligations under capital lease <sup>(5)</sup>	2,299	995
	183,056	60,820
Less: Current portion of long-term debt	40,961	18,280
	\$ 142,095	\$ 42,540

- (1) The US\$39,000,000 senior notes mature on June 15, 2009 and bear an interest rate of 5.89% payable semi-annually. The notes are secured by a floating charge against the assets of the Company. The Company has entered into an interest rate swap resulting in floating interest costs on US\$9,000,000 of its senior notes.
- (2) Canadian operations have available three year extendible, committed, revolving loan facilities of \$140,000,000. These facilities are secured by a floating charge on the assets of the Company and rank pari passu with the senior note holders. These facilities bear interest at Bankers' Acceptances plus stamping fees ranging from 50 basis points to 90 basis points or the Canadian prime rate. At July 31, 2008 the Company has drawn \$85,578,000 on these facilities.
- (3) International operations have available three year, extendible, committed, non-revolving loan facilities of US\$52,000,000. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the senior note holders. These facilities bear interest at LIBOR plus stamping fees ranging from 50 basis points to 90 basis points or the US prime rate. At July 31, 2008 the Company had drawn US\$52,000,000 on these facilities.
- (4) The notes payable in the amount of US\$1,589,000 bear an interest rate of US prime plus 1% and have annual principal payments of US\$267,000. The notes payable mature in 2013 and 2015.
- (5) The obligation under capital leases of US\$2,241,000 (July 31, 2007 - US\$934,000) is repayable in blended principal and interest payments of US\$634,000 annually.

5. Financial Instruments

The following table presents the carrying amount and the fair value of the Company's financial instruments. Amortized cost is calculated using the effective interest rate method. Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors for instruments with similar characteristics and risk profiles. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment.

As at July 31, 2008 (\$ in thousands)	Maturity	Assets (Liabilities) Carried at Cost/Amortized Cost		Assets (Liabilities) Carried at Fair Value	
		Carrying Value	Fair Value	Carrying Value	
Cash	Short-term	\$ 21,229	\$ 21,229	\$ -	
Accounts receivable	Short-term	62,251	82,251	-	
Financial assets included in other assets	Long-term	5,130	5,130	-	
Bank advances and short-term notes (Note 3)	Short-term	(9,484)	(9,484)	-	
Accounts payable and accrued liabilities	Short-term	(92,480)	(92,480)	-	
Financial derivative instruments <sup>(1)</sup>	Short-term	-	-	(94)	
Current portion of long-term debt <sup>(1)</sup>	Short-term	(40,867)	(40,867)	-	
Long-term debt (Note 4)	Long-term	(142,095)	(143,090)	-	

- (1) These items total \$40,861 which comprises the current portion of long-term debt (Note 4).

NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2007 (\$ in thousands)	Maturity	Assets (Liabilities) Carried at Cost/Amortized Cost		Assets (Liabilities) Carried at Fair Value
		Carrying Value	Fair Value	Carrying Value
Cash	Short-term	\$ 28,509	\$ 28,509	\$ -
Accounts receivable	Short-term	62,541	62,541	-
Financial assets included in other assets	Long-term	4,954	4,954	-
Bank advances and short-term notes (Note 3)	Short-term	(61,762)	(61,762)	-
Accounts payable and accrued liabilities	Short-term	(69,000)	(69,000)	-
Financial derivative instruments <sup>(1)</sup>	Short-term	-	-	(4,964)
Current portion of long-term debt <sup>(1)</sup>	Short-term	(13,316)	(13,316)	-
Long-term debt (Note 4)	Long-term	(42,540)	(42,715)	-

(1) These items total \$18,280 which comprises the current portion of long-term debt (Note 4).

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments:

- The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity.
- The fair value of long-term debt with fixed interest rates is estimated by discounting the expected future cash flows using the current risk-free interest rate on an instrument with similar terms adjusted for an appropriate risk premium for the Company's credit profile.

The Company recorded interest revenue of \$47,000 for the three months ended July 31, 2008. For the six months ended July 31, 2008, the Company recorded interest revenue of \$74,000 and a foreign exchange gain of \$7,000 which is included in cost of sales, selling, and administrative expenses on the Company's consolidated statements of earnings and retained earnings.

Financial Derivative Instruments

As at July 31, 2008 (\$ in thousands)	Notional Value	Interest Rate	Fair Value
Interest rate swaps in effective fair value hedging relationship	US\$9,000 (2007 - US\$14,000)	LIBOR plus 1.87%	\$ 94 (2007 - \$278)
Cross-currency interest rate swaps in effective fair value hedging relationship	- (2007 - US\$7,000)	B.A. plus 2.99%	- (2007 - \$3,684)
Cross-currency interest rate swaps no longer in effective hedging relationship	- (2007 - US\$2,000)	B.A. plus 3.16%	- (2007 - \$1,002)

6. Unit Purchase Loan Plan

Loans issued to officers and senior management to purchase units under the unit purchase loan plan are treated as a reduction of equity. These loans are non-interest bearing and repayable from after tax distributions on the units purchased or if the person sells the units or leaves the Company. The loans are secured by a pledge of 655,777 units (July 31, 2007 - 719,302) of the Fund with a quoted value at July 31, 2008 of \$9,542,000 (July 31, 2007 - \$15,206,000). Loans receivable at July 31, 2008 of \$11,519,000 (July 31, 2007 - \$12,544,000) are recorded as a reduction of equity. The loans have terms of three or five years. The maximum value of the loans receivable under the plan is currently limited to \$15,000,000.

7. Security Based Compensation

Deferred Unit Plan

The Fund has adopted the fair value method of accounting for security based compensation for the Trustee Deferred Unit Plan. The deferred unit plan compensation recovery recorded for the three months ended July 31, 2008 is \$88,000 (three months ended July 31, 2007 - \$114,000 expense) and expense for the six months ended July 31, 2008 is \$16,000 (six months ended July 31, 2007 - \$315,000). The liability for the deferred unit plan is recorded in accounts payable and accrued liabilities on the Company's consolidated balance sheet and is adjusted to reflect the total number of deferred units outstanding multiplied by the closing unit price at the end of the period. The total number of deferred units outstanding at July 31, 2008 is 55,138 (July 31, 2007 - 33,786). There were no deferred units settled in cash during the period.

**NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS**

**Unit Purchase Loan Plan**

The Company has a unit purchase loan plan for officers and senior management whereby loans are granted to employees to purchase units of NWF (see Note 6). These loans are in substance similar to stock options and accordingly are accounted for as security based compensation in accordance with section 3870 of the Canadian Institute of Chartered Accountants handbook.

There were no compensation costs related to the unit purchase loan plan for the three months ended July 31, 2008 (three months ended July 31, 2007 - \$280,000) and for the six months ending July 31, 2008 (six months ending July 31, 2007 - \$587,000). Compensation cost is recorded in cost of sales, selling and administrative expenses with a corresponding increase in contributed surplus. The compensation cost is a non-cash expense and has no impact on the distributions from the Fund. The units are purchased at market prices and are fully vested at the time the loan is exercised. The units are pledged as security against the loan and cannot be withdrawn from the plan until the principal amount of the loan is less than 65% or 80% of the market value of the units pledged as security or if the employee sells the units or leaves the Company. If the loan value as a percentage of the market value of the units pledged as security against the loan falls below the 65% to 80% threshold, the employee may reduce the number of units pledged equal to the market value in excess of the loan balance. Employees are required to make principal payments on the loan equal to the after-tax distributions on the units pledged as security.

The fair value of the compensation cost was estimated using the Black-Scholes model using the following assumptions:

	<u>2007</u>
Expected life	3 or 5 years
Risk-free interest rate	4.2%
Expected volatility	25.7%

**8. Accumulated other comprehensive income (\$ in thousands)**

	<u>July 31 2008</u>	<u>July 31 2007</u>	<u>January 31 2008</u>
Balance, beginning of year	\$ 2,014	\$ 4,682	\$ 4,682
Other comprehensive income (loss)	582	(1,624)	(2,668)
Accumulated other comprehensive income, end of year	<u>2,596</u>	<u>3,058</u>	<u>2,014</u>
Retained earnings, end of year	103,114	95,118	100,526
Total accumulated other comprehensive income and retained earnings	<u>\$ 105,710</u>	<u>\$ 98,176</u>	<u>\$ 102,540</u>

Accumulated other comprehensive income represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book values of the net investment in self-sustaining foreign operations since the date of acquisition. A portion of the U.S. denominated senior notes in the amount of US\$39 million has been designated as a hedge against the foreign operations.

**9. Employee Future Benefits**

The Company's expense for employee future benefits is included in cost of sales, selling and administrative expenses. The expense for the defined benefit pension plan and the defined contribution pension plan for the three months ended July 31, 2008 is \$750,000 (three months ended July 31, 2007 - \$1,000,000) and the six months ended July 31, 2008 is \$1,500,000 (six months ended July 31, 2007 - \$2,000,000). The Company maintains an employee savings plan for substantially all of its U.S. employees and recorded an expense for the three months ended July 31, 2008 of US\$93,000 (three months ended July 31, 2007 - US\$45,000) and for the six months ended July 31, 2008 of US\$204,000 (six months ended July 31, 2007 - US\$93,000).

**10. Distributions**

The declaration of distributions from the Fund is subject to the terms of the Fund's Declaration of Trust and the discretion of the Board of Trustees. The distributions paid in cash for the three months ended July 31, 2008 is \$15,481,000 (three months ended July 31, 2007 - \$13,062,000) and six months ending July 31, 2008 \$36,767,000 including a special distribution of \$5,805,000 paid on February 22, 2008 to unitholders of record on December 31, 2007 (six months ending July 31, 2007 - \$28,543,000 including a special distribution of \$4,838,000 paid on February 23, 2007 to unitholders of record on December 31, 2006).

## NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

### 11. Segmented Information (\$ in thousands)

The Company operates within the retail industry. The following information is presented for the two business segments:

	Three Months Ended July 31 2008	Three Months Ended July 31 2007	Six Months Ended July 31 2008	Six Months Ended July 31 2007
<b>Sales</b>				
Canada	\$ 227,097	\$ 210,228	\$ 437,618	\$ 402,492
International	115,261	46,186	220,208	88,273
<b>Total</b>	<b>\$ 342,358</b>	<b>\$ 256,414</b>	<b>\$ 657,826</b>	<b>\$ 490,765</b>
<b>Net earnings before amortization, interest and income taxes</b>				
Canada	\$ 22,400	\$ 20,843	\$ 42,776	\$ 39,365
International	8,242	5,142	13,788	8,222
<b>Total</b>	<b>\$ 30,642</b>	<b>\$ 25,985</b>	<b>\$ 56,564</b>	<b>\$ 47,587</b>
<b>Net earnings before interest and income taxes</b>				
Canada	\$ 16,405	\$ 15,424	\$ 30,735	\$ 28,352
International	6,608	4,184	10,311	6,189
<b>Total</b>	<b>\$ 22,913</b>	<b>\$ 19,588</b>	<b>\$ 41,046</b>	<b>\$ 34,541</b>
<b>Total Assets</b>				
Canada	\$ 383,407	\$ 377,884	\$ 383,407	\$ 377,884
International	164,238	73,573	164,238	73,573
<b>Total</b>	<b>\$ 547,645</b>	<b>\$ 451,457</b>	<b>\$ 547,645</b>	<b>\$ 451,457</b>

International includes the operations of Alaska Commercial Company, Cost-U-Less, Inc. which was acquired on December 13, 2007 (Note 13) and Span Alaska Enterprises, Inc. which was acquired on March 3, 2008 (Note 13). Included in Canada total assets is property and equipment of \$163,180 (July 31, 2007 - \$153,592). International total assets includes property and equipment of \$62,008 (July 31, 2007 - \$33,780) and goodwill of \$31,851 (July 31, 2007 - \$0).

### 12. Seasonality

The Company's business follows a seasonal pattern where historically the first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting consumer holiday buying patterns. As a result, a disproportionate amount of total revenues and earnings are typically earned in the fourth quarter. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to reduce excess inventories. Net earnings are historically lower in the first quarter due to lower sales and fixed costs such as rent and overhead that apply uniformly throughout the year.

### 13. Business Acquisitions

On March 3, 2008, the Company acquired all of the issued and outstanding shares of privately owned Span Alaska Enterprises, Inc., a food and general merchandise distributor serving retail and wholesale customers in rural Alaska, for \$6,180,000 in cash consideration plus up to US\$1,200,000 in contingent cash consideration.

On December 13, 2007 the Company purchased all of the issued and outstanding shares of Cost-U-Less, Inc. a leading operator of mid-size warehouse format stores in remote island communities in the South Pacific and the Caribbean for \$54,258,000 in cash consideration.

All acquisitions have been accounted for by the purchase method of accounting and the results of operations of each acquisition are included in the consolidated financial statements from their respective closing date. The purchase price has been allocated to the acquired assets based on estimates of their fair values as at the closing date. The final allocation of the purchase price is dependant on certain ongoing valuations which may result in changes to the assigned values or the recognition of other intangible assets.

NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the fair value of the assets acquired and the liabilities assumed:

(\$ in thousands)	Span Alaska Enterprises, Inc. March 3, 2008	Cost-U-Less, Inc. December 13, 2007
<b>Assets</b>		
Cash	\$ -	\$ 3,043
Accounts receivable	2,284	1,030
Inventories	807	29,842
Prepaid expenses	17	729
Future income taxes	-	998
Property and equipment	104	27,963
Other assets	32	843
Goodwill	4,176	27,405
<b>Total Assets</b>	<b>\$ 7,420</b>	<b>\$ 91,853</b>
<b>Liabilities</b>		
Bank advances and short-term notes	\$ -	\$ 3,122
Accounts payable and accrued expenses	1,230	30,203
Current portion of long-term debt	-	611
Future income taxes	-	828
Long-term debt	-	2,831
<b>Total Liabilities</b>	<b>\$ 1,230</b>	<b>\$ 37,595</b>
<b>Cash Consideration</b>	<b>\$ 6,180</b>	<b>\$ 54,258</b>

Goodwill associated with the Cost-U-Less, Inc. acquisition is not deductible for tax purposes.

**14. Future Accounting Standards**

The CICA has issued the following new accounting standards:

**Goodwill and Intangible Assets**

Section 3084 issued in February 2008, provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than initial recognition of goodwill and intangible assets acquired in a business combination. The standard is effective for fiscal periods beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. The Company is currently reviewing the impact of this standard and will adopt the standard commencing February 1, 2009.

**International Financial Reporting Standards**

The Canadian Accounting Standards Board requires all public companies to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian Generally Accepted Accounting Principles to IFRS will be applicable for the Company's first quarter beginning February 1, 2011 when the Company will prepare comparative financial statements using IFRS. The adoption of IFRS will have an impact on the financial statements of the Company. The Company is assessing the impact of implementing IFRS, developing implementation plans and investing in training and resources to facilitate a timely conversion.

**15. Comparative Amounts**

The comparative amounts have been reclassified to conform with the current year's presentation.

## 2008 SECOND QUARTER REPORT TO UNITHOLDERS

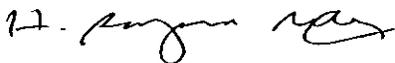
### Report to Unitholders

The North West Company Fund reports second quarter earnings to July 31, 2008 of \$18.4 million, an increase of 24.2% over last year's second quarter earnings of \$14.8 million. Diluted earnings per unit improved to \$0.38 compared to \$0.30 last year.

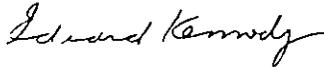
Sales increased 33.5% to \$342.4 million compared to the second quarter last year and were up 4.2% on a same store basis excluding the foreign exchange impact of a stronger Canadian dollar. Sales from new stores, including the acquisition of Cost-U-Less, Inc. on December 13, 2007, and strong same store food sales growth across all of our banners were the leading factors contributing to the sales increase in the quarter.

The Trustees have approved a quarterly distribution of \$0.32 per unit to unitholders of record on September 30, 2008.

On behalf of the Trustees:



H. Sanford Riley  
Chairman



Edward S. Kennedy  
President and Chief Executive Officer

### Management's Discussion & Analysis

#### CONSOLIDATED RESULTS

##### Quarter

Second quarter consolidated sales increased 33.5% to \$342.4 million compared to \$256.4 million in 2007 and were up 34.7% excluding the foreign exchange impact of a stronger Canadian dollar. On a same store basis, sales increased 4.2% excluding the foreign exchange impact and were up 4.8% including the comparable increases from Cost-U-Less (CUL) stores open for more than one year. Food sales increased 41.0% and were up 6.0% on a same store basis excluding CUL and the foreign exchange impact. General merchandise sales increased by 20.0% but were down 1.1% on a same store basis excluding CUL and the foreign exchange impact. Sales from new stores, including the acquisition of Cost-U-Less, Inc. on December 13, 2007, the acquisition of Span Alaska Enterprises, Inc. (Span) on March 3, 2008, and strong same store food sales growth across all of our banners were the leading factors contributing to the sales increase in the quarter.

Cost of sales, selling and administrative expenses increased 35.3% to \$311.7 million and increased 118 basis points as a percentage to sales compared to the second quarter of 2007. New and non-comparable store expenses accounted for approximately 90% of the dollar increase. The increase in the expense as a percentage to sales is mostly due to the discount margin structure of the CUL

stores. On a comparable store basis, cost of sales, selling and administrative expenses decreased 43 basis points as a percentage to sales. Higher transportation and energy related costs in our remote stores and a \$1.5 million increase in incentive plan expenses in Canada were more than offset by improvements in staff productivity, gains in financial services fees and lower debt loss expense.

Trading profit<sup>1</sup> or net earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 17.9% to \$30.6 million compared to \$26.0 million in the second quarter last year and was up 6.0% excluding the impact of CUL and Span. Sales growth and improvements in staff productivity were the leading factors contributing to the trading profit dollar increase, offsetting lower gross profit rates and higher transportation and incentive plan expenses in the quarter. Amortization increased 20.8% to \$7.7 million largely due to depreciation on new stores including CUL. Interest expense increased 26.8% to \$2.0 million as a result of higher average debt levels in the quarter in part due to additional borrowings to fund the CUL acquisition. Income taxes decreased 21.4% to \$2.5 million due to lower income taxes in the Canadian operations as a result of the reorganization completed in the second quarter of 2007. The reorganization changes the flow of earnings from the limited partnership to the Fund such that the majority of the Canadian operations pre-tax earnings now flow to the Fund. The decrease in Canadian income taxes was partially offset by an increase in income taxes in the International operations as a result of higher earnings.

Net earnings increased \$3.6 million or 24.2% to \$18.4 million. Diluted earnings per unit were up 26.7% to \$0.38 compared to \$0.30 last year.

#### **Year-to-Date**

Year-to-date sales increased 34.0% to \$657.8 million compared to \$490.8 million in 2007 and were up 36.1% excluding the foreign exchange impact of a stronger Canadian dollar. On a same store basis, sales increased 4.4% excluding the foreign exchange impact and were up 5.0% including the comparable increases from CUL stores open for more than one year. Food sales increased 41.3% and were up 5.6% on a same store basis excluding CUL and the foreign exchange impact. General merchandise sales increased by 24.0% and were up 0.8% on a same store basis excluding CUL and the foreign exchange impact. Sales from new stores, including the acquisition of CUL and Span combined with strong same store food sales growth were the leading factors contributing to the sales increase.

Cost of sales, selling and administrative expenses increased 35.7% to \$601.3 million and increased 110 basis points as a percentage to sales compared to last year. New and non-comparable store expenses accounted for substantially all of the dollar increase. The increase in the expense as a percentage to sales is primarily due to the discount margin structure of the CUL stores. On a comparable store basis, cost of sales, selling and administrative expenses decreased 57 basis points as a percentage to sales. Higher freight and energy related costs in our stores were more than offset by gains in financial services fees and staff productivity in Canada.

Trading profit or net earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 18.9% to \$56.6 million compared to \$47.6 million last year and was up 6.3% excluding the impact of CUL and Span. Sales growth and improvements in staff productivity were the leading factors contributing to the trading profit dollar increase, offsetting lower gross profit rates. Amortization increased 19.0% to \$15.5 million primarily due to depreciation on new stores. Interest expense increased 28.6% to \$4.1 million as a result of higher average debt levels compared to last year in part due to additional borrowings to fund the CUL acquisition. Income taxes decreased \$2.4

---

<sup>1</sup> See Non GAAP Measures Section of Management's Discussion & Analysis

million to \$3.3 million due to lower income taxes in the Canadian operations as a result of the reorganization completed in the second quarter of 2007. The decrease in Canadian income taxes was partially offset by an increase in income taxes in the International operations as a result of higher earnings.

Net earnings increased \$8.0 million or 31.2% to \$33.7 million. Diluted earnings per unit were up 32.1% to \$0.70 compared to \$0.53 last year.

### **CANADIAN OPERATIONS**

Canadian sales for the quarter increased 8.0% to \$227.1 million up from \$210.2 million last year and were up 4.0% on a same store basis. Food sales increased 9.4% and were up 6.0% on a same store basis. Food inflation was approximately 4.5%. Food sales were strong in most categories with grocery, beverages, tobacco and meats contributing the largest gains. General merchandise sales were up 4.4% over last year as a result of new stores but decreased 1.4% on a same store basis reflecting the impact of less discretionary spending and continued competitive pressures in urban markets and less remote locations. The decrease in general merchandise same store sales in urban and less remote locations was partially offset by higher discretionary spending from resource development-based economies and residual Indian Residential School Settlement payments.

Sales growth contributed to a 6.5% increase in gross profit dollars, net of a 45 basis points drop in gross profit rate compared to the second quarter last year. Higher fuel-related freight costs and market-driven price reductions negatively impacted the gross profit rate. Operating expenses increased 4.6% but were down 73 basis points as a percentage to sales due to sales growth, continued improvements in staff productivity and lower debt loss expense. Partially offsetting the staff productivity gains and lower debt loss were higher utility costs, particularly in more remote locations. Canadian trading profit increased 7.5% to \$22.4 million and was 9.9% of sales, consistent with the second quarter last year.

### **INTERNATIONAL OPERATIONS (stated in U.S. dollars)**

International operations sales increased \$71.0 million to \$114.0 million compared to \$42.9 million in the second quarter last year largely due to the CUL and Span acquisitions and were up 5.0% on a same store basis (up 6.5% including comparable increases from CUL stores open for more than one year).

Food sales increased 5.8% on a same store basis led by gains in grocery, snack foods, beverages, and chilled foods categories. Food inflation was approximately 4.0%. General merchandise same store sales increased 0.9% as higher fuel costs reduced discretionary income available for big-ticket merchandise. Sales growth in apparel categories offset sales decreases in transportation and home furnishings.

Gross profit dollars were up 96.8% driven by sales growth however, the gross profit rate decreased from last year due to the impact of the lower margin structure at CUL and Span. Operating expense dollars increased 106.5% compared to the second quarter last year but decreased as a percentage to sales as a result of the CUL and Span acquisitions. On a comparable basis, operating expenses increased 5.4% and increased 19 basis points as a percentage to sales. Staff productivity gains in the quarter partially offset increases in energy related occupancy costs.

Trading profit increased \$3.4 million to \$8.2 million reflecting the impact of the new stores. Excluding the CUL and Span acquisitions, trading profit increased 7.9% and as a percent of sales was 11.4% compared to 10.9% in the second quarter last year.

## **FINANCIAL CONDITION**

### **Financial Ratios**

The Fund's debt-to-equity ratio at the end of the quarter was .74:1 compared to .49:1 last year largely due to the additional debt incurred for the acquisition of Cost-U-Less. The debt-to-equity ratio at January 31, 2008 was .62:1.

Working capital increased \$41.1 million compared to last year. The increase in inventories is substantially due to the acquisition of CUL and Span as well as new stores in Canada. Planned higher inventory balances in stores serviced by water routes also contributed to the increase in inventories. The decrease in bank advances and short-term notes is due to the transfer of the majority of the credit lines to long-term debt as a result of the renegotiation of credit lines from a demand facility to a three year committed facility completed in the fourth quarter last year. Accounts payable and accrued liabilities increased from the prior year largely due to the liabilities assumed as part of the CUL acquisition. The increase in the current portion of long-term debt is due to US\$39 million of senior notes which mature June 15, 2009.

### **Outstanding Units**

The weighted average basic units outstanding for the quarter were 47,721,000 compared to 47,629,000 last year. The increase is due to a reduction in the number of units held under the Company's Unit Purchase Loan Plan. The weighted average fully diluted units outstanding for the quarter were 48,427,000 compared to 48,408,000 last year. The increase in the fully diluted units outstanding is due to units granted under the Trustee Deferred Unit Plan.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash flow from operating activities for the quarter increased \$10.1 million to \$19.6 million from \$9.5 million last year. The increase in cash flows from operating activities is due to higher net earnings and a change in non-cash working capital largely resulting from a decrease in accounts receivable in the quarter. Cash flow from operations<sup>1</sup> increased \$5.8 million to \$26.9 million due primarily to higher net earnings.

Cash used for investing activities in the quarter decreased to \$7.0 million from \$9.2 million last year due to the timing of capital asset purchases.

Cash used for financing activities in the quarter was \$12.9 million compared to \$5.2 million last year. The Fund paid distributions of \$15.5 million, an increase of 18.5% compared to \$13.1 million last year. In the fourth quarter of 2007, the Company arranged for new bank loan facilities which have resulted in a decrease in bank advances and short-term notes and an increase in long-term debt. The Canadian operation has available three year extendible, committed, revolving loan facilities of \$140 million. These facilities are secured by a floating charge on the assets of the Company and rank pari passu with the senior note holders. At July 31, 2008 the Company had drawn \$85.6 million on these facilities.

The US\$39 million of senior notes mature June 15, 2009. The Company plans to refinance the senior notes as long-term debt upon maturity.

---

<sup>1</sup> See Non GAAP Measures Section of Management's Discussion & Analysis

The Company's International operation has available three year extendible, committed, non-revolving loan facilities of US\$52 million. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the senior note holders. At July 31, 2008, the Company had drawn US\$52 million on these facilities. The International operation also has available demand revolving loan facilities of US\$21 million. These loans are secured by a floating charge against accounts receivable and inventories of the International operations. At July 31, 2008, the Company had US\$9.2 million in bank advances and short-term notes drawn on these facilities.

The credit facilities contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At July 31, 2008, the Fund is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

Net capital expenditures for 2008 are expected to be in the range of \$49 million to \$54 million (2007.- \$43.9 million) reflecting the planned opening of six new stores, major renovation activity in seven stores, new gas bars, pharmacy openings, system upgrades, and a head office renovation project. Cash flow from operations and funds available on existing credit facilities are expected to be sufficient to fund operating requirements, sustaining and growth-related capital expenditures, as well as all distributions for the year.

#### **OTHER HIGHLIGHTS**

- The Company's eighth Giant Tiger store opened in Winnipeg, Manitoba on August 16, 2008 increasing the total number of Giant Tiger West stores to 28.
- The Company's first Solo store was opened in Pinawa, Manitoba on August 23, 2008. Solo is a new concept store aimed at better serving the everyday needs of rural shoppers. The store's product and service mix includes a fresh deli/coffee, liquor store and a pharmacy.

#### **UNITHOLDER DISTRIBUTIONS**

The Trustees declared a regular quarterly distribution of \$0.32 per unit to unitholders of record on September 30, 2008, distributable by October 15, 2008.

The determination to declare and make payable distributions from the Fund is subject to the terms of the Fund's Declaration of Trust and the discretion of the Board of Trustees. The Fund's distribution policy is to make distributions to unitholders equal to the taxable income of the Fund. Historically, distributions from the Fund represented taxable income and did not include a return of unitholder capital. Management believes distributions in 2008 will continue to represent taxable income.

In determining the quarterly distributions the Trustees consider, among other factors, the seasonal variations in earnings inherent in the retail industry in order to maintain stable distributions throughout the year. On an annual basis, distributions are funded by cash flow from operations. Due to the seasonal nature of the retail business whereby income and cash flow is historically lower in the first quarter and higher in the fourth quarter, distributions in a quarter may exceed cash flow from operations. The taxable income of the Fund is primarily based on an allocation of the taxable income of the North West Company LP less Fund expenses.

## OUTLOOK

Third quarter sales have continued first half trends with food, fuel and less discretionary merchandise sales offsetting continued softness in general merchandise sales. Higher fuel costs have constrained consumer spending and this is expected to continue in the third and fourth quarters. At-home and local food spending is expected to be strong in most of our markets due to the high cost of travel favouring our northern store banners and the price advantage offered by our discount store banners. Food inflation is expected to remain in the 4% range across our Northern, AC and CUL stores and at lower rates in our NorthMart and Giant Tiger stores which will continue to face food pricing discounting pressures.

Government transfers of income and pockets of resource development-related employment are expected to provide local and regional selling opportunities, most notably the announced state payment of \$3,269 to each qualified resident of Alaska in the third quarter. This payment, which includes the annual Permanent Fund Dividend of \$2,069 and a \$1,200 fuel rebate, is significantly larger than the \$1,654 paid last year. The residents will receive the payment earlier than in 2007 which will help drive our third quarter business, partially at the expense of fourth quarter sales.

Integration of our CUL acquisition is continuing with annualized savings of at least \$3 million anticipated by the second half of 2008. The restructuring of support activities aimed at providing more specialized merchandising and administrative services to CUL and integration of system platforms will be completed by the end of the fiscal year.

## QUARTERLY RESULTS OF OPERATIONS

In 2008, the quarters will have the same number of days of operations as 2007 with the exception of the first quarter of 2008 which had an extra day resulting from the February 29 leap year. In the 2006 fourth quarter the Company changed its year end from the last Saturday in January to January 31 and adopted a fixed calendar quarter end beginning in 2007. As a result of this change, the number of days of operations in each quarter in 2007 was different from 2006. The chart below reflects the number of days in each quarter. On an annual basis, 2007 had 365 days of operations compared to 368 days of operations in 2006. The following is a summary of selected quarterly financial information.

### Operating Results-Consolidated

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	92 days 2008	92 days 2007	90 days 2008	89 days 2007	92 days 2007	95 days 2006	92 days 2007	91 days 2006
(\$ in millions)								
Sales	\$342.4	\$256.4	\$315.5	\$234.4	\$318.0	\$262.5	\$255.7	\$236.1
Trading profit	30.6	26.0	25.9	21.6	31.5	26.1	27.5	25.6
Net earnings	18.4	14.8	15.2	10.8	18.9	16.3	18.5	14.8
Net earnings per unit:								
Basic	0.39	0.31	0.32	0.23	0.39	0.34	0.39	0.31
Diluted	0.38	0.30	0.32	0.23	0.39	0.34	0.39	0.31

Historically, the Company's first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting the Christmas selling period. Weather conditions are often extreme and can affect sales in any quarter. Net earnings are historically lower in the first quarter due to lower sales. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to reduce excess inventories.

## **DISCLOSURE CONTROLS**

Management has established and maintained disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on an evaluation of the design of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed effectively as of July 31, 2008 to provide reasonable assurance that the information to be disclosed is recorded, summarized and reported as required.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management has designed the internal controls over financial reporting as of the end of the period covered by the interim filings, and believes the design is sufficient to provide such reasonable assurance. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be designed effectively can only provide reasonable assurance with respect to financial reporting. There have been no changes in the internal controls over financial reporting during the quarter ended July 31, 2008 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

## **ACCOUNTING STANDARDS IMPLEMENTED IN 2008**

### **Inventories**

As described in Note 2 of the 2008 second quarter consolidated interim financial statements, the Canadian Institute of Chartered Accountants (CICA) issued Section 3031, "Inventories" which is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3031 establishes new standards on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the cost to purchase and other costs incurred in bringing the inventories to their present location. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and are expensed in the period incurred. The new standard also requires additional disclosures regarding the accounting policies used in measuring the inventories, the carrying value of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of write-downs in the period.

The Company has adopted this new standard as of February 1, 2008 with the changes applied retroactively without restatement of comparative numbers in accordance with the transitional provisions. Upon adoption of this accounting standard, the Company recorded a decrease in opening retained earnings of \$119,000.

## FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

The Canadian Institute of Chartered Accountants has issued the following new accounting standards:

### Goodwill and Intangible Assets

Section 3064 issued in February 2008, provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than initial recognition of goodwill and intangible assets acquired in a business combination. The standard is effective for fiscal periods beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. The Company is currently reviewing the impact of this new standard on the consolidated financial statements and will adopt the standard commencing on February 1, 2009.

### International Financial Reporting Standards

The Canadian Accounting Standards Board will require all public companies to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian Generally Accepted Accounting Principles to IFRS will be applicable for the Company's first quarter beginning February 1, 2011 when the Company will prepare comparative financial statements using IFRS. The adoption of IFRS will have an impact on the financial statements of the Company. The Company is assessing the impact of implementing IFRS, developing implementation plans and investing in training and resources to facilitate a timely conversion.

## NON-GAAP MEASURES

(1) **Trading Profit (EBITDA)** is not a recognized measure under Canadian generally accepted accounting principles (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 Company's operational performance 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 NWF's performance. NWF's method of calculating trading profit may differ from other companies and, accordingly, trading profit may not be comparable to measures used by other companies.

A reconciliation of consolidated net earnings to trading profit or EBITDA is provided below:

(\$ in thousands)	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Net earnings	\$ 18,434	\$ 14,846	\$ 33,669	\$ 25,653
Add: Amortization	7,729	6,397	15,518	13,046
Interest expense	1,977	1,559	4,125	3,208
Income taxes	2,502	3,183	3,252	5,680
Trading profit	<u>\$ 30,642</u>	<u>\$ 25,985</u>	<u>\$ 56,564</u>	<u>\$ 47,587</u>

For trading profit information by business segment, refer to Note 11 Segmented Information in the notes to the unaudited interim period consolidated financial statements.

(2) **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 Company'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. NWF's method of calculating cash flow from operations may differ from other companies and may not be comparable to measures used by other companies.

A reconciliation of consolidated cash flow from operating activities to cash flow from operations is provided below:

(\$ in thousands)	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Cash flow from operating activities	\$ 19,612	\$ 9,503	\$ 21,819	\$ 30,797
Non-cash items:				
Change in other non-cash items	2,363	529	2,220	261
Change in non-cash working capital	4,879	11,015	25,407	8,055
Cash flow from operations	<u>\$ 26,854</u>	<u>\$ 21,047</u>	<u>\$ 49,446</u>	<u>\$ 39,113</u>

\*\*\*\*\*

Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the unaudited interim period Consolidated Financial Statements and Notes to the unaudited interim period Consolidated Financial Statements which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and is in Canadian dollars. The information contained in this MD&A is current to September 11, 2008.

### **Forward-Looking Statements**

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the North West Company Fund (Fund), including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional future financial performance (including sales, earnings or growth rates), ongoing business strategies or prospects, and possible future Fund action, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund, economic factors and the retail industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Fund due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Fund's ability to complete strategic transactions and integrate acquisitions and the Company's success in anticipating and managing the foregoing risks. The reader is cautioned that the foregoing list of important factors is not exhaustive. Other risks are outlined in the Risk Management section of the MD&A included in the Fund's 2007 Management's Discussion & Analysis and Consolidated Financial Statements report. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.



**NEWS RELEASE**

**FOR IMMEDIATE RELEASE**

**NORTH WEST COMPANY FUND ANNOUNCES SECOND QUARTER EARNINGS  
AND A DISTRIBUTION**

**Winnipeg, September 11, 2008:** North West Company Fund (the "Fund") today reported 2008 second quarter earnings of \$18.4 million for the period ended July 31, 2008. The Fund also announces a quarterly distribution of \$0.32 per unit to unitholders of record on September 30, 2008, distributable by October 15, 2008.

**Report to Unitholders**

The North West Company Fund reports second quarter earnings to July 31, 2008 of \$18.4 million, an increase of 24.2% over last year's second quarter earnings of \$14.8 million. Diluted earnings per unit improved to \$0.38 compared to \$0.30 last year.

Sales increased 33.5% to \$342.4 million compared to the second quarter last year and were up 4.2% on a same store basis excluding the foreign exchange impact of a stronger Canadian dollar. Sales from new stores, including the acquisition of Cost-U-Less, Inc. on December 13, 2007, and strong same store food sales growth across all of our banners were the leading factors contributing to the sales increase in the quarter.

The Trustees have approved a quarterly distribution of \$0.32 per unit to unitholders of record on September 30, 2008.

"We continue to find sales and margin opportunities that reflect the strength of our retail banners and our markets," said North West President & CEO Edward Kennedy. "Our customers have shifted to more at-home spending and we've met this need through our food offering and home products. Resource spending and income distributions in the North have helped create attractive pockets of demand for big-ticket merchandise like transportation and furniture."

## Management's Discussion & Analysis

### CONSOLIDATED RESULTS

#### Quarter

Second quarter consolidated sales increased 33.5% to \$342.4 million compared to \$256.4 million in 2007 and were up 34.7% excluding the foreign exchange impact of a stronger Canadian dollar. On a same store basis, sales increased 4.2% excluding the foreign exchange impact and were up 4.8% including the comparable increases from Cost-U-Less (CUL) stores open for more than one year. Food sales increased 41.0% and were up 6.0% on a same store basis excluding CUL and the foreign exchange impact. General merchandise sales increased by 20.0% but were down 1.1% on a same store basis excluding CUL and the foreign exchange impact. Sales from new stores, including the acquisition of Cost-U-Less, Inc. on December 13, 2007, the acquisition of Span Alaska Enterprises, Inc. (Span) on March 3, 2008, and strong same store food sales growth across all of our banners were the leading factors contributing to the sales increase in the quarter.

Cost of sales, selling and administrative expenses increased 35.3% to \$311.7 million and increased 118 basis points as a percentage to sales compared to the second quarter of 2007. New and non-comparable store expenses accounted for approximately 90% of the dollar increase. The increase in the expense as a percentage to sales is mostly due to the discount margin structure of the CUL stores. On a comparable store basis, cost of sales, selling and administrative expenses decreased 43 basis points as a percentage to sales. Higher transportation and energy related costs in our remote stores and a \$1.5 million increase in incentive plan expenses in Canada were more than offset by improvements in staff productivity, gains in financial services fees and lower debt loss expense.

Trading profit<sup>1</sup> or net earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 17.9% to \$30.6 million compared to \$26.0 million in the second quarter last year and was up 6.0% excluding the impact of CUL and Span. Sales growth and improvements in staff productivity were the leading factors contributing to the trading profit dollar increase, offsetting lower gross profit rates and higher transportation and incentive plan expenses in the quarter. Amortization increased 20.8% to \$7.7 million largely due to depreciation on new stores including CUL. Interest expense increased 26.8% to \$2.0 million as a result of higher average debt levels in the quarter in part due to additional borrowings to fund the CUL acquisition. Income taxes decreased 21.4% to \$2.5 million due to lower income taxes in the Canadian operations as a result of the reorganization completed in the second quarter of 2007. The reorganization changes the flow of earnings from the limited partnership to the Fund such that the majority of the Canadian operations pre-tax earnings now flow to the Fund. The decrease in Canadian income taxes was partially offset by an increase in income taxes in the International operations as a result of higher earnings.

Net earnings increased \$3.6 million or 24.2% to \$18.4 million. Diluted earnings per unit were up 26.7% to \$0.38 compared to \$0.30 last year.

#### Year-to-Date

Year-to-date sales increased 34.0% to \$657.8 million compared to \$490.8 million in 2007 and were up 36.1% excluding the foreign exchange impact of a stronger Canadian dollar. On a same store basis, sales increased 4.4% excluding the foreign exchange impact and were up 5.0% including the comparable increases from CUL stores open for more than one year. Food sales increased 41.3% and were up 5.6% on a same store basis excluding CUL and the foreign exchange impact. General merchandise sales increased by 24.0% and were up 0.8% on a same store basis excluding CUL and

<sup>1</sup> See Non GAAP Measures Section of Management's Discussion & Analysis

the foreign exchange impact. Sales from new stores, including the acquisition of CUL and Span combined with strong same store food sales growth were the leading factors contributing to the sales increase.

Cost of sales, selling and administrative expenses increased 35.7% to \$601.3 million and increased 110 basis points as a percentage to sales compared to last year. New and non-comparable store expenses accounted for substantially all of the dollar increase. The increase in the expense as a percentage to sales is primarily due to the discount margin structure of the CUL stores. On a comparable store basis, cost of sales, selling and administrative expenses decreased 57 basis points as a percentage to sales. Higher freight and energy related costs in our stores were more than offset by gains in financial services fees and staff productivity in Canada.

Trading profit or net earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 18.9% to \$56.6 million compared to \$47.6 million last year and was up 6.3% excluding the impact of CUL and Span. Sales growth and improvements in staff productivity were the leading factors contributing to the trading profit dollar increase, offsetting lower gross profit rates. Amortization increased 19.0% to \$15.5 million primarily due to depreciation on new stores. Interest expense increased 28.6% to \$4.1 million as a result of higher average debt levels compared to last year in part due to additional borrowings to fund the CUL acquisition. Income taxes decreased \$2.4 million to \$3.3 million due to lower income taxes in the Canadian operations as a result of the reorganization completed in the second quarter of 2007. The decrease in Canadian income taxes was partially offset by an increase in income taxes in the International operations as a result of higher earnings.

Net earnings increased \$8.0 million or 31.2% to \$33.7 million. Diluted earnings per unit were up 32.1% to \$0.70 compared to \$0.53 last year.

### **CANADIAN OPERATIONS**

Canadian sales for the quarter increased 8.0% to \$227.1 million up from \$210.2 million last year and were up 4.0% on a same store basis. Food sales increased 9.4% and were up 6.0% on a same store basis. Food inflation was approximately 4.5%. Food sales were strong in most categories with grocery, beverages, tobacco and meats contributing the largest gains. General merchandise sales were up 4.4% over last year as a result of new stores but decreased 1.4% on a same store basis reflecting the impact of less discretionary spending and continued competitive pressures in urban markets and less remote locations. The decrease in general merchandise same store sales in urban and less remote locations was partially offset by higher discretionary spending from resource development-based economies and residual Indian Residential School Settlement payments.

Sales growth contributed to a 6.5% increase in gross profit dollars, net of a 45 basis points drop in gross profit rate compared to the second quarter last year. Higher fuel-related freight costs and market-driven price reductions negatively impacted the gross profit rate. Operating expenses increased 4.6% but were down 73 basis points as a percentage to sales due to sales growth, continued improvements in staff productivity and lower debt loss expense. Partially offsetting the staff productivity gains and lower debt loss were higher utility costs, particularly in more remote locations. Canadian trading profit increased 7.5% to \$22.4 million and was 9.9% of sales, consistent with the second quarter last year.

### **INTERNATIONAL OPERATIONS (stated in U.S. dollars)**

International operations sales increased \$71.0 million to \$114.0 million compared to \$42.9 million in the second quarter last year largely due to the CUL and Span acquisitions and were up 5.0% on a same store basis (up 6.5% including comparable increases from CUL stores open for more than one year).

Food sales increased 5.8% on a same store basis led by gains in grocery, snack foods, beverages, and chilled foods categories. Food inflation was approximately 4.0%. General merchandise same store sales increased 0.9% as higher fuel costs reduced discretionary income available for big-ticket merchandise. Sales growth in apparel categories offset sales decreases in transportation and home furnishings.

Gross profit dollars were up 96.8% driven by sales growth however, the gross profit rate decreased from last year due to the impact of the lower margin structure at CUL and Span. Operating expense dollars increased 106.5% compared to the second quarter last year but decreased as a percentage to sales as a result of the CUL and Span acquisitions. On a comparable basis, operating expenses increased 5.4% and increased 19 basis points as a percentage to sales. Staff productivity gains in the quarter partially offset increases in energy related occupancy costs.

Trading profit increased \$3.4 million to \$8.2 million reflecting the impact of the new stores. Excluding the CUL and Span acquisitions, trading profit increased 7.9% and as a percent of sales was 11.4% compared to 10.9% in the second quarter last year.

## **FINANCIAL CONDITION**

### **Financial Ratios**

The Fund's debt-to-equity ratio at the end of the quarter was .74:1 compared to .49:1 last year largely due to the additional debt incurred for the acquisition of Cost-U-Less. The debt-to-equity ratio at January 31, 2008 was .62:1.

Working capital increased \$41.1 million compared to last year. The increase in inventories is substantially due to the acquisition of CUL and Span as well as new stores in Canada. Planned higher inventory balances in stores serviced by water routes also contributed to the increase in inventories. The decrease in bank advances and short-term notes is due to the transfer of the majority of the credit lines to long-term debt as a result of the renegotiation of credit lines from a demand facility to a three year committed facility completed in the fourth quarter last year. Accounts payable and accrued liabilities increased from the prior year largely due to the liabilities assumed as part of the CUL acquisition. The increase in the current portion of long-term debt is due to US\$39 million of senior notes which mature June 15, 2009.

### **Outstanding Units**

The weighted average basic units outstanding for the quarter were 47,721,000 compared to 47,629,000 last year. The increase is due to a reduction in the number of units held under the Company's Unit Purchase Loan Plan. The weighted average fully diluted units outstanding for the quarter were 48,427,000 compared to 48,408,000 last year. The increase in the fully diluted units outstanding is due to units granted under the Trustee Deferred Unit Plan.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash flow from operating activities for the quarter increased \$10.1 million to \$19.6 million from \$9.5 million last year. The increase in cash flows from operating activities is due to higher net earnings and a change in non-cash working capital largely resulting from a decrease in accounts receivable in the quarter. Cash flow from operations<sup>1</sup> increased \$5.8 million to \$26.9 million due primarily to higher net earnings.

---

<sup>1</sup> See Non GAAP Measures Section of Management's Discussion & Analysis

Cash used for investing activities in the quarter decreased to \$7.0 million from \$9.2 million last year due to the timing of capital asset purchases.

Cash used for financing activities in the quarter was \$12.9 million compared to \$5.2 million last year. The Fund paid distributions of \$15.5 million, an increase of 18.5% compared to \$13.1 million last year. In the fourth quarter of 2007, the Company arranged for new bank loan facilities which have resulted in a decrease in bank advances and short-term notes and an increase in long-term debt. The Canadian operation has available three year extendible, committed, revolving loan facilities of \$140 million. These facilities are secured by a floating charge on the assets of the Company and rank pari passu with the senior note holders. At July 31, 2008 the Company had drawn \$85.6 million on these facilities.

The US\$39 million of senior notes mature June 15, 2009. The Company plans to refinance the senior notes as long-term debt upon maturity.

The Company's International operation has available three year extendible, committed, non-revolving loan facilities of US\$52 million. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the senior note holders. At July 31, 2008, the Company had drawn US\$52 million on these facilities. The International operation also has available demand revolving loan facilities of US\$21 million. These loans are secured by a floating charge against accounts receivable and inventories of the International operations. At July 31, 2008, the Company had US\$9.2 million in bank advances and short-term notes drawn on these facilities.

The credit facilities contain covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a fixed charge coverage ratio, minimum current ratio, a leverage test and a minimum net worth test. At July 31, 2008, the Fund is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

Net capital expenditures for 2008 are expected to be in the range of \$49 million to \$54 million (2007 - \$43.9 million) reflecting the planned opening of six new stores, major renovation activity in seven stores, new gas bars, pharmacy openings, system upgrades, and a head office renovation project. Cash flow from operations and funds available on existing credit facilities are expected to be sufficient to fund operating requirements, sustaining and growth-related capital expenditures, as well as all distributions for the year.

#### **OTHER HIGHLIGHTS**

- The Company's eighth Giant Tiger store opened in Winnipeg, Manitoba on August 16, 2008 increasing the total number of Giant Tiger West stores to 28.
- The Company's first Solo store was opened in Pinawa, Manitoba on August 23, 2008. Solo is a new concept store aimed at better serving the everyday needs of rural shoppers. The store's product and service mix includes a fresh deli/coffee, liquor store and a pharmacy.

#### **UNITHOLDER DISTRIBUTIONS**

The Trustees declared a regular quarterly distribution of \$0.32 per unit to unitholders of record on September 30, 2008, distributable by October 15, 2008.

The determination to declare and make payable distributions from the Fund is subject to the terms of the Fund's Declaration of Trust and the discretion of the Board of Trustees. The Fund's distribution policy is to make distributions to unitholders equal to the taxable income of the Fund. Historically, distributions from the Fund represented taxable income and did not include a return of

unitholder capital. Management believes distributions in 2008 will continue to represent taxable income.

In determining the quarterly distributions the Trustees consider, among other factors, the seasonal variations in earnings inherent in the retail industry in order to maintain stable distributions throughout the year. On an annual basis, distributions are funded by cash flow from operations. Due to the seasonal nature of the retail business whereby income and cash flow is historically lower in the first quarter and higher in the fourth quarter, distributions in a quarter may exceed cash flow from operations. The taxable income of the Fund is primarily based on an allocation of the taxable income of the North West Company LP less Fund expenses.

## **OUTLOOK**

Third quarter sales have continued first half trends with food, fuel and less discretionary merchandise sales offsetting continued softness in general merchandise sales. Higher fuel costs have constrained consumer spending and this is expected to continue in the third and fourth quarters. At-home and local food spending is expected to be strong in most of our markets due to the high cost of travel favouring our northern store banners and the price advantage offered by our discount store banners. Food inflation is expected to remain in the 4% range across our Northern, AC and CUL stores and at lower rates in our NorthMart and Giant Tiger stores which will continue to face food pricing discounting pressures.

Government transfers of income and pockets of resource development-related employment are expected to provide local and regional selling opportunities, most notably the announced state payment of \$3,269 to each qualified resident of Alaska in the third quarter. This payment, which includes the annual Permanent Fund Dividend of \$2,069 and a \$1,200 fuel rebate, is significantly larger than the \$1,654 paid last year. The residents will receive the payment earlier than in 2007 which will help drive our third quarter business, partially at the expense of fourth quarter sales.

Integration of our CUL acquisition is continuing with annualized savings of at least \$3 million anticipated by the second half of 2008. The restructuring of support activities aimed at providing more specialized merchandising and administrative services to CUL and integration of system platforms will be completed by the end of the fiscal year.

## **QUARTERLY RESULTS OF OPERATIONS**

In 2008, the quarters will have the same number of days of operations as 2007 with the exception of the first quarter of 2008 which had an extra day resulting from the February 29 leap year. In the 2006 fourth quarter the Company changed its year end from the last Saturday in January to January 31 and adopted a fixed calendar quarter end beginning in 2007. As a result of this change, the number of days of operations in each quarter in 2007 was different from 2006. The chart below reflects the number of days in each quarter. On an annual basis, 2007 had 365 days of operations compared to 368 days of operations in 2006. The following is a summary of selected quarterly financial information.

Operating Results-Consolidated

(\$ In millions)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	92 days	92 days	90 days	89 days	92 days	95 days	92 days	91 days
	2008	2007	2008	2007	2007	2006	2007	2006
Sales	\$342.4	\$256.4	\$315.5	\$234.4	\$318.0	\$262.5	\$255.7	\$236.1
Trading profit	30.6	26.0	25.9	21.6	31.5	26.1	27.5	25.6
Net earnings	18.4	14.8	15.2	10.8	18.9	16.3	18.5	14.8
Net earnings per unit:								
Basic	0.39	0.31	0.32	0.23	0.39	0.34	0.39	0.31
Diluted	0.38	0.30	0.32	0.23	0.39	0.34	0.39	0.31

Historically, the Company's first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting the Christmas selling period. Weather conditions are often extreme and can affect sales in any quarter. Net earnings are historically lower in the first quarter due to lower sales. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to reduce excess inventories.

**DISCLOSURE CONTROLS**

Management has established and maintained disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on an evaluation of the design of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are designed effectively as of July 31, 2008 to provide reasonable assurance that the information to be disclosed is recorded, summarized and reported as required.

**INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management has designed the internal controls over financial reporting as of the end of the period covered by the interim filings, and believes the design is sufficient to provide such reasonable assurance. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be designed effectively can only provide reasonable assurance with respect to financial reporting. There have been no changes in the internal controls over financial reporting during the quarter ended July 31, 2008 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

**ACCOUNTING STANDARDS IMPLEMENTED IN 2008**

**Inventories**

As described in Note 2 of the 2008 second quarter consolidated interim financial statements, the Canadian Institute of Chartered Accountants (CICA) issued Section 3031, "Inventories" which is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3031 establishes new standards on the determination of cost and

requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the cost to purchase and other costs incurred in bringing the inventories to their present location. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and are expensed in the period incurred. The new standard also requires additional disclosures regarding the accounting policies used in measuring the inventories, the carrying value of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of write-downs in the period.

The Company has adopted this new standard as of February 1, 2008 with the changes applied retroactively without restatement of comparative numbers in accordance with the transitional provisions. Upon adoption of this accounting standard, the Company recorded a decrease in opening retained earnings of \$119,000.

#### **FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED**

The Canadian Institute of Chartered Accounts has issued the following new accounting standards:

##### **Goodwill and Intangible Assets**

Section 3064 issued in February 2008, provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than initial recognition of goodwill and intangible assets acquired in a business combination. The standard is effective for fiscal periods beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. The Company is currently reviewing the impact of this new standard on the consolidated financial statements and will adopt the standard commencing on February 1, 2009.

##### **International Financial Reporting Standards**

The Canadian Accounting Standards Board will require all public companies to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian Generally Accepted Accounting Principles to IFRS will be applicable for the Company's first quarter beginning February 1, 2011 when the Company will prepare comparative financial statements using IFRS. The adoption of IFRS will have an impact on the financial statements of the Company. The Company is assessing the impact of implementing IFRS, developing implementation plans and investing in training and resources to facilitate a timely conversion.

#### **NON-GAAP MEASURES**

(1) **Trading Profit (EBITDA)** is not a recognized measure under Canadian generally accepted accounting principles (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 Company's operational performance 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 NWF's performance. NWF's method of calculating trading profit may differ from other companies and, accordingly, trading profit may not be comparable to measures used by other companies.

A reconciliation of consolidated net earnings to trading profit or EBITDA is provided below:

(\$ in thousands)	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Net earnings	\$ 18,434	\$ 14,846	\$ 33,669	\$ 25,653
Add: Amortization	7,729	6,397	15,518	13,046
Interest expense	1,977	1,559	4,125	3,208
Income taxes	2,502	3,183	3,252	5,680
Trading profit	<u>\$ 30,642</u>	<u>\$ 25,985</u>	<u>\$ 56,564</u>	<u>\$ 47,587</u>

For trading profit information by business segment, refer to Note 11 Segmented Information in the notes to the unaudited interim period consolidated financial statements.

(2) **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 Company'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. NWF's method of calculating cash flow from operations may differ from other companies and may not be comparable to measures used by other companies.

A reconciliation of consolidated cash flow from operating activities to cash flow from operations is provided below:

(\$ in thousands)	Second Quarter		Year-to-Date	
	2008	2007	2008	2007
Cash flow from operating activities	\$ 19,612	\$ 9,503	\$ 21,819	\$ 30,797
Non-cash items:				
Change in other non-cash items	2,363	529	2,220	261
Change in non-cash working capital	4,879	11,015	25,407	8,055
Cash flow from operations	<u>\$ 26,854</u>	<u>\$ 21,047</u>	<u>\$ 49,446</u>	<u>\$ 39,113</u>

Unless otherwise stated, this Management's Discussion & Analysis (MD&A) is based on the financial information included in the unaudited interim period Consolidated Financial Statements and Notes to the unaudited interim period Consolidated Financial Statements which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and is in Canadian dollars. The information contained in this MD&A is current to September 11, 2008.

### Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the North West Company Fund (Fund), including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or

conditional future financial performance (including sales, earnings or growth rates), ongoing business strategies or prospects, and possible future Fund action, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund, economic factors and the retail industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Fund due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Fund's ability to complete strategic transactions and integrate acquisitions and the Company's success in anticipating and managing the foregoing risks. The reader is cautioned that the foregoing list of important factors is not exhaustive. Other risks are outlined in the Risk Management section of the MD&A included in the Fund's 2007 Management's Discussion & Analysis and Consolidated Financial Statements report. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

The North West Company is a leading retailer of food and everyday products and services to rural communities and urban neighbourhoods in Canada, Alaska, the South Pacific and the Caribbean. North West operates 221 stores under the trading names Northern, NorthMart, Giant Tiger, AC Value Center and Cost-U-Less and has annualized sales of approximately Cdn. \$1.3 billion.

The units of the Fund trade on the TSX Toronto Stock Exchange under the symbol "NWF.UN".

-30-

For more information contact:

Edward Kennedy, President and CEO, The North West Company  
phone 204-934-1482; fax 204-934-1317; email [ekennedy@northwest.ca](mailto:ekennedy@northwest.ca)

Léo Charrière, Executive Vice-President and CFO, The North West Company  
phone 204-934-1503; fax 204-934-1455; email [lcharriere@northwest.ca](mailto:lcharriere@northwest.ca)

John King, Vice-President, Finance and Secretary, The North West Company  
Phone 204-934-1397; fax 204-934-1455; email [jking@northwest.ca](mailto:jking@northwest.ca)

or visit on-line at [www.northwest.ca](http://www.northwest.ca)

**“North West Company Fund – File No. 82-34737-  
rule 12g3-2(b) Filing”  
EXEMPTION NUMBER 82-34737**

**CONSOLIDATED BALANCE SHEETS**

(unaudited, \$ in thousands)	July 31 2008	July 31 2007	January 31 2008
<b>ASSETS</b>			
Current assets			
Cash	\$ 21,229	\$ 28,509	\$ 21,732
Accounts receivable	62,251	62,541	62,759
Inventories (Note 2)	174,025	139,364	162,481
Prepaid expenses	6,869	4,944	3,604
Future income taxes	2,402	2,163	3,485
<b>Total Current Assets</b>	<b>266,776</b>	<b>237,521</b>	<b>254,061</b>
Property and equipment	225,188	187,371	227,974
Other assets	21,019	19,097	19,033
Goodwill	31,851	-	26,882
Future income taxes	2,811	7,468	1,720
<b>Total Assets</b>	<b>\$ 547,645</b>	<b>\$ 451,457</b>	<b>\$ 529,670</b>
<b>LIABILITIES</b>			
Current liabilities			
Bank advances and short-term notes (Note 3)	\$ 9,484	\$ 61,762	\$ 4,336
Accounts payable and accrued liabilities	92,480	69,000	109,877
Income taxes payable	759	6,508	2,053
Current portion of long-term debt (Note 4)	40,961	18,280	18,633
<b>Total Current Liabilities</b>	<b>143,684</b>	<b>155,550</b>	<b>134,899</b>
Long-term debt (Note 4)	142,095	42,540	136,864
Asset retirement obligations	1,572	1,560	1,606
<b>Total Liabilities</b>	<b>287,351</b>	<b>199,650</b>	<b>273,369</b>
<b>EQUITY</b>			
Capital	165,133	165,205	165,133
Unit purchase loan plan (Note 6)	(11,519)	(12,544)	(12,342)
Contributed surplus	970	970	970
Retained earnings	103,114	95,118	100,526
Accumulated other comprehensive income (Note 8)	2,596	3,058	2,014
<b>Total Equity</b>	<b>260,294</b>	<b>251,807</b>	<b>256,301</b>
<b>Total Liabilities and Equity</b>	<b>\$ 547,645</b>	<b>\$ 451,457</b>	<b>\$ 529,670</b>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS**

(unaudited, \$ in thousands)	Three Months Ended July 31 2008	Three Months Ended July 31 2007	Six Months Ended July 31 2008	Six Months Ended July 31 2007
<b>SALES</b>	<b>\$ 342,358</b>	<b>\$ 256,414</b>	<b>\$ 657,826</b>	<b>\$ 490,765</b>
Cost of sales, selling and administrative expenses	(311,716)	(230,429)	(601,262)	(443,178)
Net earnings before amortization, interest and income taxes	30,642	25,985	56,564	47,587
Amortization	(7,729)	(6,397)	(15,518)	(13,046)
Interest	22,913 (1,977)	19,588 (1,559)	41,046 (4,125)	34,541 (3,208)
Provision for income taxes	20,936 (2,502)	18,029 (3,183)	36,921 (3,252)	31,333 (5,680)
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 18,434</b>	<b>\$ 14,846</b>	<b>\$ 33,669</b>	<b>\$ 25,653</b>
Retained earnings, beginning of period as previously reported	100,161	93,334	100,526	93,253
Accounting policy changes (Note 2)	-	-	(119)	(83)
Retained earnings, as restated	100,161	93,334	100,407	93,170
Distributions (Note 10)	(15,481)	(13,062)	(30,962)	(23,705)
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 103,114</b>	<b>\$ 95,118</b>	<b>\$ 103,114</b>	<b>\$ 95,118</b>
<b>NET EARNINGS PER UNIT</b>				
Basic	\$ 0.39	\$ 0.31	\$ 0.71	\$ 0.54
Diluted	\$ 0.38	\$ 0.30	\$ 0.70	\$ 0.53
Weighted Average Number of Units Outstanding (000's)				
Basic	47,721	47,629	47,715	47,616
Diluted	48,427	48,408	48,424	48,405

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited, \$ in thousands)	Three Months Ended July 31 2008	Three Months Ended July 31 2007	Six Months Ended July 31 2008	Six Months Ended July 31 2007
<b>NET EARNINGS</b>	<b>\$ 18,434</b>	<b>\$ 14,846</b>	<b>\$ 33,669</b>	<b>\$ 25,653</b>
Unrealized gains (losses) on translation of financial statements from a self sustaining operation in U.S. dollar functional currency to Canadian dollar reporting currency	394	(647)	582	(1,624)
Other comprehensive income (loss) (Note 8)	394	(647)	582	(1,624)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 18,828</b>	<b>\$ 14,199</b>	<b>\$ 34,251</b>	<b>\$ 24,029</b>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, \$ in thousands)	Three Months Ended July 31 2008	Three Months Ended July 31 2007	Six Months Ended July 31 2008	Six Months Ended July 31 2007
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating Activities</b>				
Net earnings for the period	\$ 18,434	\$ 14,846	\$ 33,669	\$ 25,653
Non-cash items				
Amortization	7,729	6,397	15,518	13,046
Future income taxes	650	(501)	156	(727)
Unit purchase loan plan compensation (Note 7)	-	280	-	587
Amortization of deferred financing costs	46	46	93	93
Loss on disposal of property and equipment	(5)	(21)	10	461
	26,854	21,047	49,446	39,113
Change in non-cash working capital	(4,879)	(11,015)	(25,407)	(8,055)
Change in other non-cash items	(2,363)	(529)	(2,220)	(261)
<b>Operating activities</b>	<b>19,612</b>	<b>9,503</b>	<b>21,819</b>	<b>30,797</b>
<b>Investing Activities</b>				
Business acquisition (Note 13)	-	-	(6,190)	-
Purchase of property and equipment	(7,073)	(9,198)	(13,768)	(14,902)
Proceeds from disposal of property and equipment	74	26	3,282	133
<b>Investing activities</b>	<b>(6,999)</b>	<b>(9,172)</b>	<b>(16,676)</b>	<b>(14,769)</b>
<b>Financing Activities</b>				
Change in bank advances and short-term notes	(74)	27,873	4,966	40,181
Net repayments (purchases) under unit purchase loan plan	504	165	823	(1,051)
Increase in long-term debt	20,200	-	43,525	-
Repayment of long-term debt	(18,092)	(20,186)	(18,193)	(20,206)
Distributions (Note 10)	(15,481)	(13,062)	(36,767)	(28,543)
<b>Financing activities</b>	<b>(12,943)</b>	<b>(5,210)</b>	<b>(5,646)</b>	<b>(9,619)</b>
<b>NET CHANGE IN CASH</b>	<b>\$ (330)</b>	<b>\$ (4,879)</b>	<b>\$ (503)</b>	<b>\$ 6,409</b>
Cash, beginning of period	21,559	33,388	21,732	22,100
<b>CASH, END OF PERIOD</b>	<b>\$ 21,229</b>	<b>\$ 28,509</b>	<b>\$ 21,229</b>	<b>\$ 28,509</b>
Supplemental disclosure of cash paid for:				
Interest expense	\$ 3,205	\$ 3,457	\$ 4,468	\$ 3,853
Income taxes	\$ 3,382	\$ 2,147	\$ 4,397	\$ 3,473

See accompanying notes to consolidated financial statements.

NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Presentations and Disclosures

The unaudited interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). These interim financial statements follow the same accounting policies and their methods of application as the 2007 annual financial statements, except as described in Note 2. Not all disclosures required by generally accepted accounting principles for annual financial statements are presented, and accordingly, the interim financial statements should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included in the North West Company Fund's 2007 Management's Discussion & Analysis and Consolidated Financial Statements report. All amounts are expressed in Canadian dollars unless otherwise noted.

2. Accounting Policy Changes

Inventories

Effective February 1, 2008 the Company adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA) section 3031 Inventories which is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007. Section 3031 provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the cost to purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and are expensed in the period incurred. Reversals of previous write-downs to net realizable value are now required when there is a subsequent increase in the value of the inventories. The cost of inventories should be determined using either a first-in, first-out or weighted average cost formula. Techniques for the measurement of cost of inventories, such as the retail method may be used if the results approximate actual cost. The new standard also requires additional disclosures regarding the accounting policies used in measuring the inventories, the carrying value of the inventories, the amount of inventories recognized as an expense during the period, the amount of write-downs during the period and the amount of any reversal of write-downs that is recognized as a reduction of expenses.

The Company values inventories at the lower of cost and net realizable value. Costs include the cost to purchase net of vendor allowances and other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. The cost of warehouse inventories is determined by the weighted average cost. The cost of store inventories is determined primarily using the retail method of accounting for general merchandise inventories and the cost method on a first-in, first-out basis for food inventories. The Company defines net realizable value as the anticipated selling price. Inventories are written down to net realizable value when the cost of inventories is estimated to be greater than the anticipated selling price. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed. Storage costs, administrative overheads and selling costs related to the inventories are expensed in the period the costs are incurred.

This change in accounting policy has been implemented retroactively without restatement of comparative financial statements in accordance with the transitional provisions. Upon adoption of this accounting standard, the Company recorded a decrease in opening inventories of \$221,000, an increase in opening future income tax assets of \$102,000, and a decrease to opening retained earnings of \$119,000.

Included in cost of sales, selling and administrative expenses on the consolidated statement of earnings for the three months ended July 31, 2008 is \$242,109,000 of inventories recognized as an expense (six months ended July 31, 2008 - \$468,394,000), which includes \$345,000 for the write-down of inventories as a result of net realizable value being lower than cost (six months ended July 31, 2008 - \$659,000). There was no reversal of inventories written-down previously that are no longer estimated to sell below cost.

Financial Instruments - Recognition and Measurement, Disclosure and Presentation, Hedges, Comprehensive Income and Equity

On February 1, 2007 the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) section 3855 Financial Instruments - Recognition and Measurement; section 3861 Financial Instruments - Disclosure and Presentation; section 3885 Hedges; section 1530 Comprehensive Income; and section 3251 Equity. These changes in accounting policy were applied retroactively without restatement of comparative financial statements, with the exception of the reclassification of the cumulative currency translation adjustments account to accumulated other comprehensive income in accordance with the transitional provisions. Upon adoption of these accounting standards, the Company recorded a decrease in opening retained earnings of \$83,000.

3. Bank Advances and Short-Term Notes

In January 2008, the Company arranged for new revolving loan facilities and as a result amounts drawn by the Canadian operations on the new facilities are reported as long-term debt (Note 4). Prior to this new arrangement, the Canadian operations had available operating loan facilities of \$85,000,000 and had drawn \$61,762,000 on these facilities at July 31, 2007.

International operations have available demand, revolving loan facilities of US\$21,000,000 at interest rates of London Interbank Offered Rate (LIBOR) plus 1.75% or US prime minus 0.25% secured by a floating charge against certain accounts receivable and inventories of the International operations. At July 31, 2008, the International operations had drawn US\$9,246,000 (July 31, 2007 - \$0) on the facility.

**NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS**

**4. Long-term Debt**

(\$ In thousands)	July 31 2008	July 31 2007
Senior notes <sup>(1)</sup>	\$ 40,214	\$ 59,825
Revolving loan facilities <sup>(2)</sup>	85,578	-
Non-revolving loan facilities <sup>(3)</sup>	53,338	-
Notes payable <sup>(4)</sup>	1,829	-
Obligations under capital lease <sup>(5)</sup>	2,299	995
	<b>183,056</b>	<b>60,820</b>
Less: Current portion of long-term debt	40,961	18,280
	<b>\$ 142,095</b>	<b>\$ 42,540</b>

- (1) The US\$39,000,000 senior notes mature on June 15, 2009 and bear an interest rate of 5.89% payable semi-annually. The notes are secured by a floating charge against the assets of the Company. The Company has entered into an interest rate swap resulting in floating interest costs on US\$9,000,000 of its senior notes.
- (2) Canadian operations have available three year extendible, committed, revolving loan facilities of \$140,000,000. These facilities are secured by a floating charge on the assets of the Company and rank pari passu with the senior note holders. These facilities bear interest at Bankers' Acceptances plus stamping fees ranging from 50 basis points to 90 basis points or the Canadian prime rate. At July 31, 2008 the Company has drawn \$85,578,000 on these facilities.
- (3) International operations have available three year, extendible, committed, non-revolving loan facilities of US\$52,000,000. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the senior note holders. These facilities bear interest at LIBOR plus stamping fees ranging from 50 basis points to 90 basis points or the US prime rate. At July 31, 2008 the Company had drawn US\$52,000,000 on these facilities.
- (4) The notes payable in the amount of US\$1,589,000 bear an interest rate of US prime plus 1% and have annual principal payments of US\$267,000. The notes payable mature in 2013 and 2015.
- (5) The obligation under capital leases of US\$2,241,000 (July 31, 2007 - US\$934,000) is repayable in blended principal and interest payments of US\$634,000 annually.

**5. Financial Instruments**

The following table presents the carrying amount and the fair value of the Company's financial instruments. Amortized cost is calculated using the effective interest rate method. Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors for instruments with similar characteristics and risk profiles. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment.

As at July 31, 2008 (\$ in thousands)	Maturity	Assets (Liabilities) Carried at Cost/Amortized Cost		Assets (Liabilities) Carried at Fair Value	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	Short-term	\$ 21,229	\$ 21,229	\$ -	-
Accounts receivable	Short-term	62,251	62,251	-	-
Financial assets included in other assets	Long-term	5,130	5,130	-	-
Bank advances and short-term notes (Note 3)	Short-term	(9,484)	(9,484)	-	-
Accounts payable and accrued liabilities	Short-term	(92,480)	(92,480)	-	-
Financial derivative instruments <sup>(1)</sup>	Short-term	-	-	-	(94)
Current portion of long-term debt <sup>(1)</sup>	Short-term	(40,867)	(40,867)	-	-
Long-term debt (Note 4)	Long-term	(142,095)	(143,090)	-	-

(1) These items total \$40,861 which comprises the current portion of long-term debt (Note 4).

## NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2007 (\$ in thousands)	Maturity	Assets (Liabilities) Carried at Cost/Amortized Cost		Assets (Liabilities) Carried at Fair Value
		Carrying Value	Fair Value	Carrying Value
Cash	Short-term	\$ 28,509	\$ 28,509	\$ -
Accounts receivable	Short-term	62,541	62,541	-
Financial assets included in other assets	Long-term	4,954	4,954	-
Bank advances and short-term notes (Note 3)	Short-term	(61,762)	(61,762)	-
Accounts payable and accrued liabilities	Short-term	(69,000)	(69,000)	-
Financial derivative instruments <sup>(1)</sup>	Short-term	-	-	(4,064)
Current portion of long-term debt <sup>(1)</sup>	Short-term	(13,316)	(13,316)	-
Long-term debt (Note 4)	Long-term	(42,540)	(42,715)	-

(1) These items total \$18,280 which comprises the current portion of long-term debt (Note 4).

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments:

- The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity.
- The fair value of long-term debt with fixed interest rates is estimated by discounting the expected future cash flows using the current risk-free interest rate on an instrument with similar terms adjusted for an appropriate risk premium for the Company's credit profile.

The Company recorded interest revenue of \$47,000 for the three months ended July 31, 2008. For the six months ended July 31, 2008, the Company recorded interest revenue of \$74,000 and a foreign exchange gain of \$7,000 which is included in cost of sales, selling, and administrative expenses on the Company's consolidated statements of earnings and retained earnings.

### Financial Derivative Instruments

As at July 31, 2008 (\$ in thousands)	Notional Value	Interest Rate	Fair Value
Interest rate swaps in effective fair value hedging relationship	US\$9,000 (2007 - US\$14,000)	LIBOR plus 1.87%	\$ 94 (2007 - \$278)
Cross-currency interest rate swaps in effective fair value hedging relationship	- (2007 - US\$7,000)	B.A. plus 2.99%	- (2007 - \$3,684)
Cross-currency interest rate swaps no longer in effective hedging relationship	- (2007 - US\$2,000)	B.A. plus 3.16%	- (2007 - \$1,002)

### 6. Unit Purchase Loan Plan

Loans issued to officers and senior management to purchase units under the unit purchase loan plan are treated as a reduction of equity. These loans are non-interest bearing and repayable from after tax distributions on the units purchased or if the person sells the units or leaves the Company. The loans are secured by a pledge of 655,777 units (July 31, 2007 - 719,302) of the Fund with a quoted value at July 31, 2008 of \$9,542,000 (July 31, 2007 - \$15,206,000). Loans receivable at July 31, 2008 of \$11,519,000 (July 31, 2007 - \$12,544,000) are recorded as a reduction of equity. The loans have terms of three or five years. The maximum value of the loans receivable under the plan is currently limited to \$15,000,000.

### 7. Security Based Compensation

#### Deferred Unit Plan

The Fund has adopted the fair value method of accounting for security based compensation for the Trustee Deferred Unit Plan. The deferred unit plan compensation recovery recorded for the three months ended July 31, 2008 is \$88,000 (three months ended July 31, 2007 - \$114,000 expense) and expense for the six months ended July 31, 2008 is \$16,000 (six months ended July 31, 2007 - \$315,000). The liability for the deferred unit plan is recorded in accounts payable and accrued liabilities on the Company's consolidated balance sheet and is adjusted to reflect the total number of deferred units outstanding multiplied by the closing unit price at the end of the period. The total number of deferred units outstanding at July 31, 2008 is 55,138 (July 31, 2007 - 33,786). There were no deferred units settled in cash during the period.

**NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS**

**Unit Purchase Loan Plan**

The Company has a unit purchase loan plan for officers and senior management whereby loans are granted to employees to purchase units of NWF (see Note 6). These loans are in substance similar to stock options and accordingly are accounted for as security based compensation in accordance with section 3870 of the Canadian Institute of Chartered Accountants handbook.

There were no compensation costs related to the unit purchase loan plan for the three months ended July 31, 2008 (three months ended July 31, 2007 - \$280,000) and for the six months ending July 31, 2008 (six months ending July 31, 2007 - \$587,000). Compensation cost is recorded in cost of sales, selling and administrative expenses with a corresponding increase in contributed surplus. The compensation cost is a non-cash expense and has no impact on the distributions from the Fund. The units are purchased at market prices and are fully vested at the time the loan is exercised. The units are pledged as security against the loan and cannot be withdrawn from the plan until the principal amount of the loan is less than 65% or 80% of the market value of the units pledged as security or if the employee sells the units or leaves the Company. If the loan value as a percentage of the market value of the units pledged as security against the loan falls below the 65% to 80% threshold, the employee may reduce the number of units pledged equal to the market value in excess of the loan balance. Employees are required to make principal payments on the loan equal to the after-tax distributions on the units pledged as security.

The fair value of the compensation cost was estimated using the Black-Scholes model using the following assumptions:

	<u>2007</u>
Expected life	3 or 5 years
Risk-free interest rate	4.2%
Expected volatility	25.7%

**8. Accumulated other comprehensive income (\$ in thousands)**

	July 31 2008	July 31 2007	January 31 2008
Balance, beginning of year	\$ 2,014	\$ 4,882	\$ 4,882
Other comprehensive income (loss)	582	(1,824)	(2,688)
Accumulated other comprehensive income, end of year	2,596	3,058	2,014
Retained earnings, end of year	103,114	95,118	100,526
Total accumulated other comprehensive income and retained earnings	<u>\$ 105,710</u>	<u>\$ 98,176</u>	<u>\$ 102,540</u>

Accumulated other comprehensive income represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book values of the net investment in self-sustaining foreign operations since the date of acquisition. A portion of the U.S. denominated senior notes in the amount of US\$39 million has been designated as a hedge against the foreign operations.

**9. Employee Future Benefits**

The Company's expense for employee future benefits is included in cost of sales, selling and administrative expenses. The expense for the defined benefit pension plan and the defined contribution pension plan for the three months ended July 31, 2008 is \$750,000 (three months ended July 31, 2007 - \$1,000,000) and the six months ended July 31, 2008 is \$1,500,000 (six months ended July 31, 2007 - \$2,000,000). The Company maintains an employee savings plan for substantially all of its U.S. employees and recorded an expense for the three months ended July 31, 2008 of US\$93,000 (three months ended July 31, 2007 - US\$45,000) and for the six months ended July 31, 2008 of US\$204,000 (six months ended July 31, 2007 - US\$93,000).

**10. Distributions**

The declaration of distributions from the Fund is subject to the terms of the Fund's Declaration of Trust and the discretion of the Board of Trustees. The distributions paid in cash for the three months ended July 31, 2008 is \$15,481,000 (three months ended July 31, 2007 - \$13,062,000) and six months ending July 31, 2008 \$36,787,000 including a special distribution of \$5,805,000 paid on February 22, 2008 to unitholders of record on December 31, 2007 (six months ending July 31, 2007 - \$28,543,000 including a special distribution of \$4,838,000 paid on February 23, 2007 to unitholders of record on December 31, 2008).

## NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

### 11. Segmented Information (\$ in thousands)

The Company operates within the retail industry. The following information is presented for the two business segments:

	Three Months Ended July 31 2008	Three Months Ended July 31 2007	Six Months Ended July 31 2008	Six Months Ended July 31 2007
<b>Sales</b>				
Canada	\$ 227,097	\$ 210,228	\$ 437,618	\$ 402,492
International	115,251	48,186	220,208	88,273
<b>Total</b>	<b>\$ 342,358</b>	<b>\$ 258,414</b>	<b>\$ 657,826</b>	<b>\$ 490,765</b>
<b>Net earnings before amortization, interest and income taxes</b>				
Canada	\$ 22,400	\$ 20,843	\$ 42,776	\$ 39,365
International	8,242	5,142	13,788	8,222
<b>Total</b>	<b>\$ 30,642</b>	<b>\$ 25,985</b>	<b>\$ 56,564</b>	<b>\$ 47,587</b>
<b>Net earnings before interest and income taxes</b>				
Canada	\$ 16,405	\$ 15,424	\$ 30,735	\$ 28,352
International	6,508	4,164	10,311	6,189
<b>Total</b>	<b>\$ 22,913</b>	<b>\$ 19,588</b>	<b>\$ 41,046</b>	<b>\$ 34,541</b>
<b>Total Assets</b>				
Canada	\$ 383,407	\$ 377,884	\$ 383,407	\$ 377,884
International	164,238	73,573	164,238	73,573
<b>Total</b>	<b>\$ 547,645</b>	<b>\$ 451,457</b>	<b>\$ 547,645</b>	<b>\$ 451,457</b>

International includes the operations of Alaska Commercial Company, Cost-U-Less, Inc. which was acquired on December 13, 2007 (Note 13) and Span Alaska Enterprises, Inc. which was acquired on March 3, 2008 (Note 13). Included in Canada total assets is property and equipment of \$163,180 (July 31, 2007 - \$153,592). International total assets includes property and equipment of \$62,008 (July 31, 2007 - \$33,780) and goodwill of \$31,851 (July 31, 2007 - \$0).

### 12. Seasonality

The Company's business follows a seasonal pattern where historically the first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting consumer holiday buying patterns. As a result, a disproportionate amount of total revenues and earnings are typically earned in the fourth quarter. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to reduce excess inventories. Net earnings are historically lower in the first quarter due to lower sales and fixed costs such as rent and overhead that apply uniformly throughout the year.

### 13. Business Acquisitions

On March 3, 2008, the Company acquired all of the issued and outstanding shares of privately owned Span Alaska Enterprises, Inc., a food and general merchandise distributor serving retail and wholesale customers in rural Alaska, for \$6,190,000 in cash consideration plus up to US\$1,200,000 in contingent cash consideration.

On December 13, 2007 the Company purchased all of the issued and outstanding shares of Cost-U-Less, Inc. a leading operator of mid-size warehouse format stores in remote island communities in the South Pacific and the Caribbean for \$54,258,000 in cash consideration.

All acquisitions have been accounted for by the purchase method of accounting and the results of operations of each acquisition are included in the consolidated financial statements from their respective closing date. The purchase price has been allocated to the acquired assets based on estimates of their fair values as at the closing date. The final allocation of the purchase price is dependant on certain ongoing valuations which may result in changes to the assigned values or the recognition of other intangible assets.

NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the fair value of the assets acquired and the liabilities assumed:

(\$ in thousands)	Span Alaska	
	Enterprises, Inc. March 3, 2008	Cost-U-Less, Inc. December 13, 2007
<b>Assets</b>		
Cash	\$ -	\$ 3,043
Accounts receivable	2,284	1,030
Inventories	607	28,842
Prepaid expenses	17	729
Future income taxes	-	888
Property and equipment	104	27,963
Other assets	32	843
Goodwill	4,176	27,405
<b>Total Assets</b>	<b>\$ 7,420</b>	<b>\$ 91,853</b>
<b>Liabilities</b>		
Bank advances and short-term notes	\$ -	\$ 3,122
Accounts payable and accrued expenses	1,230	30,203
Current portion of long-term debt	-	811
Future income taxes	-	828
Long-term debt	-	2,831
<b>Total Liabilities</b>	<b>\$ 1,230</b>	<b>\$ 37,595</b>
<b>Cash Consideration</b>	<b>\$ 6,190</b>	<b>\$ 54,258</b>

Goodwill associated with the Cost-U-Less, Inc. acquisition is not deductible for tax purposes.

**15. Future Accounting Standards**

The CICA has issued the following new accounting standards:

**Goodwill and Intangible Assets**

Section 3084 issued in February 2008, provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than initial recognition of goodwill and intangible assets acquired in a business combination. The standard is effective for fiscal periods beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. The Company is currently reviewing the impact of this standard and will adopt the standard commencing February 1, 2009.

**International Financial Reporting Standards**

The Canadian Accounting Standards Board requires all public companies to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian Generally Accepted Accounting Principles to IFRS will be applicable for the Company's first quarter beginning February 1, 2011 when the Company will prepare comparative financial statements using IFRS. The adoption of IFRS will have an impact on the financial statements of the Company. The Company is assessing the impact of implementing IFRS, developing implementation plans and investing in training and resources to facilitate a timely conversion.

**16. Comparative Amounts**

The comparative amounts have been reclassified to conform with the current year's presentation.

END