

## 2007 SECOND QUARTER REPORT TO UNITHOLDERS

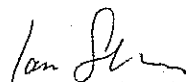
### Report to Unitholders

The North West Company Fund reports second quarter earnings to July 31, 2007 of \$14.8 million, an increase of 16.4% over last year's second quarter earnings of \$12.8 million. Diluted earnings per unit improved to \$0.30 compared to \$0.27 last year. The quarter had 92 days of operations compared to 91 days last year as a result of changing the year end to January 31 and adopting a fixed calendar quarter end.

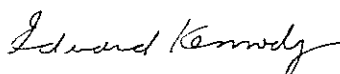
Sales increased 10.2% to \$256.4 million compared to the second quarter last year. On an equivalent 13-week basis, sales increased 9.0% and were up 7.4% on a same store basis excluding the foreign exchange impact of a stronger Canadian dollar. Sales growth in all of our banners across Canada and Alaska contributed to the sales gains in the quarter.

The Trustees have approved a quarterly distribution of \$0.27 per unit to unitholders of record on September 30, 2007.

On behalf of the Trustees and the Board of Directors:



Ian Sutherland  
Chairman



Edward S. Kennedy  
President and Chief Executive Officer

### Management's Discussion & Analysis

#### CONSOLIDATED RESULTS

##### Quarter

Second quarter consolidated sales increased 10.2% to \$256.4 million compared to \$232.6 million in 2006 and were up 11.2% excluding the foreign exchange impact of a stronger Canadian dollar. The quarter had 92 days of operations compared to 91 days last year as a result of changing the year end to January 31 and adopting a fixed calendar quarter end. On an equivalent 13-week basis, sales increased 9.0% and were up 7.4% on a same store basis excluding the foreign exchange impact. Food sales increased 10.2% and were up 8.5% on a same store basis excluding the foreign exchange impact. General merchandise sales improved by 10.1% mainly as a result of new stores in Canada and were up 4.2% on a same store basis excluding the foreign exchange impact.

Cost of sales, selling and administrative expenses increased 10.7% to \$230.4 million and increased 37 basis points as a percentage to sales compared to the second quarter of 2006. On an equivalent 13-week basis, expenses increased approximately 9.6% with new and non-comparable store expenses accounting for approximately 49% of the increase. Higher staff costs related to recruitment and retention in the North, business development expenses, incentive plans and energy related cost pressures in our remote stores were partially offset by lower debt loss expense in our Canadian operations.

Trading profit<sup>1</sup> or net earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 6.4% to \$26.0 million compared to \$24.4 million in the second quarter last year. On an equivalent 13-week

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

basis, trading profit increased 4.2% to \$25.5 million and was 10.0% as a percentage of sales compared to 10.5% of sales in the second quarter last year. Sales growth across all our banners was the leading factor contributing to the trading profit improvement offsetting higher expenses in the quarter. Income taxes decreased 8.3% to \$3.2 million due to lower income taxes in the Canadian operations resulting from the completion of the reorganization. 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. Partially offsetting the reduction in Canadian taxes is a \$1.3 million provision relating to a disagreement with Canada Revenue Agency regarding certain property valuations and the calculation of capital cost allowance.

Net earnings increased \$2.1 million or 16.4% to \$14.8 million. Diluted earnings per unit improved to \$0.30 compared to \$0.27 last year.

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

Year-to-date sales increased 10.0% to \$490.8 million compared to last year and were up 10.4% excluding the foreign exchange impact of a stronger Canadian dollar. There are 181 days of operations year-to-date compared to 182 days of operations last year as a result of changing the year end to January 31 and adopting a fixed calendar quarter end. On an equivalent 26-week basis, sales increased 10.6% and were up 11.0% excluding the foreign exchange impact. Same store sales increased 6.3% and were up 6.7% excluding the foreign exchange impact. Food sales increased 10.2% and were up 7.8% on a same store basis excluding the foreign exchange impact led by strong sales across all our banners. General merchandise sales were up 9.3% as a result of new stores in Canada and Alaska and were up 3.5% on a same store basis excluding the foreign exchange impact.

Cost of sales, selling and administrative expenses increased 10.3% to \$443.2 million and increased 30 basis points as a percentage to sales compared to last year. On an equivalent 26-week basis, expenses increased approximately 10.9% with new and non-comparable store expenses accounting for approximately 51% of the increase.

Trading profit increased 6.7% to \$47.6 million compared to \$44.6 million last year. On an equivalent 26-week basis, trading profit increased 7.8% and was 9.7% as a percentage to sales compared to 10.0% as a percentage to sales last year. Strong sales growth was the leading factor contributing to the increase in trading profit offsetting lower gross profit rates and higher operating expenses. Income taxes decreased 1.7% to \$5.7 million and decreased as a percentage of net earnings before tax to 18.1% compared to 20.4% last year as a result of the implementation of the limited partnership structure and completion of our reorganization. Net earnings increased 13.9% to \$25.7 million from \$22.5 million last year. Diluted earnings per unit improved to \$0.53 compared to \$0.47 last year. The stronger Canadian dollar did not have a significant impact on the conversion of earnings from Alaska.

### **CANADIAN OPERATIONS**

Canadian sales for the quarter increased 12.7% to \$210.2 million compared to \$186.5 million last year. On an equivalent 13-week basis, sales increased 11.5% and were up 8.3% on a same store basis.

Food sales increased 12.9% in the quarter compared to last year and were up 9.4% on a same store basis. Food sales were strong in most categories with grocery, beverages, meat and tobacco contributing the largest gains. Our continued focus on store brands and special buy items and the strength of our fresh food business were also positive factors. Inflation in northern Canada at approximately 5% was also a factor. General merchandise sales were up 13.2% over last year and were up 5.1% on a same store basis. Strong sales growth in ladies apparel and electronics were partially offset by sales decreases in footwear, outerwear, and home furnishings categories.

Gross profit dollars increased 10.8% led by strong sales growth as the gross profit rate decreased 56 basis points compared to the second quarter last year. More aggressive pricing in staple food categories like bread and milk continued to contribute to the decrease in gross profit rate in the quarter. Operating expense dollars increased 11.5% but decreased as a percentage to sales on an equivalent 13-week basis by 10 basis points compared to the second quarter last year. Higher staff costs and energy related cost pressures in many of our northern markets were the leading factors contributing to the increase compared to the second quarter last year. Canadian trading profit increased 6.1% to \$20.8 million or 9.9% of sales. On an equivalent 13-week basis, trading profit increased 4.0% and as a rate to sales was 9.8% compared to 10.5% in the second quarter last year.

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

Alaska Commercial Company (AC) sales for the quarter increased 4.2% to \$42.9 million compared to \$41.2 million last year. On an equivalent 13-week basis, sales increased 3.0% and were up 3.2% on a same store basis.

Food sales increased 5.1% compared to the second quarter last year and were up 4.4% on a same store basis. Sales gains were achieved in all categories with beverages, grocery and chilled food categories contributing the largest increase over last year. General merchandise sales were down 5.6% compared to last year and were down 2.4% on a same store basis. Sales decreases were concentrated in electronics, as a result of the discontinuation of an unprofitable distributorship arrangement and continued softness in transportation sales. These were offset by sales growth in home furnishings and by a net improvement in gross profit rates.

AC's gross profit dollars were up 9.2% driven by sales gains in food and gross profit rate improvements in food and general merchandise categories. Operating expense dollars increased 6.9% compared to the second quarter last year and were up 77 basis points as a percentage to sales on an equivalent 13-week basis primarily due to higher staff costs. Trading profit increased 11.8% to \$4.7 million. On an equivalent 13-week basis, trading profit dollars increased 9.4% and as a percentage of sales was 10.9% compared to 10.3% in the second quarter last year.

## **FINANCIAL CONDITION**

### **Financial Ratios**

The Fund's debt-to-equity ratio at the end of the quarter was .49:1 compared to .45:1 last year. The debt-to-equity at January 31, 2007 was .43:1.

Working capital decreased \$23.4 million compared to last year as bank advances and short-term notes increased due to the \$20.2 million principal repayment on long-term debt made June 15, 2007 and additional funds drawn for inventory purchases. The increase in cash is due to higher cash balances to support financial services, the timing of deposits in transit and higher cash balances in Alaska. The increase in inventory is due to new stores in Canada, additional inventory purchases for stores that receive their merchandise by sealift and the opening of a new third party managed distribution centre in Calgary, Alberta. Accounts payable and accrued liabilities increased from the prior year due to additional inventory purchases and the impact of the change in quarter end date.

### **Outstanding Units**

On September 20, 2006, the Fund completed a three-for-one unit split. The weighted average basic units outstanding for the quarter were 47,629,000 compared to 47,502,000 last year on a split adjusted basis. 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 48,408,000 compared to 48,384,000 last year on a split adjusted basis. 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 decreased to \$9.5 million from \$21.0 million last year. The decrease in cash flows from operating activities is mainly due to the change in non-cash working capital largely resulting from an increase in inventories and a decrease in accounts payable and accrued liabilities in the quarter compared to last year. Cash flow from operations<sup>1</sup> increased \$1.9 million to \$21.0 million due primarily to higher net earnings resulting from strong sales growth.

Cash used for investing activities in the quarter increased to \$9.2 million from \$7.7 million last year due to new stores opened in Canada.

Cash used for financing activities in the quarter was \$5.2 million compared to \$13.1 million last year. The \$20.2 million principal payment on long-term debt and higher distributions to unitholders were partially offset by an increase in bank advances and short-term notes.

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

Capital expenditures for 2007 are expected to be in the range of \$39 million to \$43 million reflecting the expected opening of 10 new stores in Canada and Alaska, four new gas bars, pharmacy openings and major renovation activity in six stores. 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

- On August 27, 2007 the Company announced that it has entered into a definitive agreement to purchase all of the issued and outstanding shares of Cost-U-Less, Inc. (Nasdaq: CULS), a leading operator of mid-size warehouse format stores in remote island communities in Hawaii, the South Pacific and the Caribbean for US\$52.2 million or US\$11.75 per share in cash. The acquisition will be financed through a combination of cash on hand and funds available on existing credit facilities. The acquisition of Cost-U-Less, Inc. is a strong strategic fit with the Company's positioning as a leading retailer in remote markets and is expected to leverage both the Company's and Cost-U-Less' specialized capabilities in merchandising and supply chain management.

The following table shows audited summary financial information for Cost-U-Less, Inc. for the fiscal year ending December 31, 2006:

(US \$ in thousands)	2006
Sales	\$ 222,022
Net earnings before amortization, interest and income taxes	7,083
Net earnings	2,668
Total assets	54,035
Total liabilities	27,039
Total equity	26,996

The transaction is subject to customary terms and conditions, including approval by Cost-U-Less, Inc. shareholders, and is expected to close before the end of November 2007.

- Giant Tiger stores opened in Regina, Saskatchewan on June 23, 2007, in Winnipeg, Manitoba on August 18, 2007 and in Lethbridge, Alberta on August 25, 2007.

## REORGANIZATION

On June 5, 2007, the Company completed the second step of its reorganization. The second step of the reorganization changes the flow of the earnings from the limited partnership to the Fund. The partnership units held by The North West Company Inc. were transferred to the Fund through a series of steps outlined in the April 21, 2006 Information Circular. The outcome has resulted in most of the Canadian pre-tax earnings flowing to the Fund.

## UNITHOLDER DISTRIBUTIONS

The Trustees declared a quarterly cash distribution of \$0.27 per unit to unitholders of record on September 30, 2007 and distributable by October 15, 2007.

## OUTLOOK

Food sales should continue to remain strong in the second half of the year in all of our banners. General merchandise sales in Canada are trending positively due to more emphasis on seasonal and trend items. General merchandise sales should be positively impacted by the Residential School Settlement payments expected to start flowing to claimants late in the third quarter and into the fourth quarter and an expected increase in the Alaska Permanent Fund Dividend.

## QUARTERLY RESULTS OF OPERATIONS

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 will be different from 2006. As noted below, the first quarter of 2007 had 89 days of operations compared to 91 days in the first quarter last year. The second quarter of 2007 had 92 days of operations compared to 91 days of operations in 2006. The third quarter of 2007 will have 92 days of operations compared to 91 days in the third quarter of 2006 and the fourth quarter of 2007 will have 92 days of operations compared to 95 days of operations in the fourth quarter last year. On an annual basis, 2007 will have 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 2007	91 days 2006	89 days 2007	91 days 2006	95 days 2006	91 days 2005	91 days 2006	91 days 2005
(\$ in millions)								
Sales	\$256.4	\$232.6	\$234.4	\$213.7	\$262.5	\$227.0	\$236.1	\$211.3
Trading profit	26.0	24.4	21.6	20.2	26.1	24.1	25.6	22.7
Net earnings	14.8	12.8	10.8	9.8	16.3	12.2	14.8	12.2
Net earnings per unit:								
Basic	0.31	0.27	0.23	0.21	0.34	0.25	0.31	0.26
Diluted	0.30	0.27	0.23	0.20	0.34	0.25	0.31	0.25

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, 2007 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, 2007 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

## **ACCOUNTING STANDARDS IMPLEMENTED IN 2007**

### **Financial Instruments – Recognition and Measurement, Hedges, Comprehensive Income and Equity**

As described in Note 2 of the 2007 second quarter consolidated interim financial statements, the Canadian Institute of Chartered Accountants (CICA) issued Section 3855, "Financial Instruments – Recognition and Measurement", Section 3865, "Hedges", Section 1530, "Comprehensive Income" and Section 3251, "Equity". These standards provide guidance on the recognition, measurement, and classification of financial assets and liabilities. These new standards require that all derivatives be recognized on the balance sheet at their fair value and specifies how financial instrument gains and losses are to be presented. The standards establish new accounting requirements for hedges whereby any ineffectiveness of designated hedges will be recognized immediately in income. CICA 1530 introduces new standards for the presentation and disclosure of items in comprehensive income which will be recorded as a component of equity. Comprehensive income includes changes in the cumulative currency translation adjustment account relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale investments. These new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

The Company has adopted these new standards as of February 1, 2007 with the changes applied retroactively without restatement of comparative numbers, with the exception of the reclassification of the cumulative currency translation adjustments account to accumulated other comprehensive income (Note 6 of the 2007 second quarter consolidated interim financial statements). Upon adoption of these accounting standards, the Company recorded a decrease in opening retained earnings of \$83,000.

## **ACCOUNTING STANDARDS TO BE IMPLEMENTED IN 2008**

The Canadian Institute of Chartered Accountants issued new accounting standards which apply to fiscal years beginning on or after October 1, 2007. Section 3862, Financial Instruments – Disclosures, describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance. The standard also requires disclosure of the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. This section complements existing handbook section 3855, Financial Instruments – Recognition and Measurement, section 3863, Financial Instruments – Presentation, and section 3865, Hedges.

Section 3863, Financial Instruments – Presentation, establishes standards for presentation of financial instruments and non-financial derivatives. This section complements the existing handbook section 3861, Financial Instruments – Disclosure and Presentation.

Section 1535, Capital Disclosure, establishes standards for disclosing information about a Company's capital to enable users of financial statements to evaluate the Company's objectives, policies and procedures for managing capital.

Section 3031, Inventories, establishes new standards on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. This standard replaces Section 3030 of the same title and is effective for fiscal years beginning on or after January 1, 2008.

The Company is currently evaluating the impact of these new accounting standards on the consolidated financial statements and will adopt the standards commencing in fiscal 2008.

## **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	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net earnings	\$ 14,846	\$ 12,759	\$ 25,653	\$ 22,526
Add: Amortization	6,397	6,543	13,046	12,992
Interest expense	1,559	1,658	3,208	3,324
Income taxes	<u>3,183</u>	<u>3,470</u>	<u>5,680</u>	<u>5,777</u>
Trading profit	<u>\$ 25,985</u>	<u>\$ 24,430</u>	<u>\$ 47,587</u>	<u>\$ 44,619</u>

For trading profit information by business segment, refer to Note 9 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	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Cash flow from operating activities	\$ 9,503	\$ 21,024	\$ 30,797	\$ 33,439
Non-cash items:				
Change in other non-cash items	529	89	261	76
Change in non-cash working capital	<u>11,015</u>	<u>(1,945)</u>	<u>8,055</u>	<u>1,492</u>
Cash flow from operations	<u>\$ 21,047</u>	<u>\$ 19,168</u>	<u>\$ 39,113</u>	<u>\$ 35,007</u>

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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 6, 2007.

### **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 2006 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.



**CONSOLIDATED BALANCE SHEETS**

	July 31 2007	July 29 2006	January 31 2007
<i>(unaudited, \$ in thousands)</i>			
<b>ASSETS</b>			
Current assets			
Cash	\$ 28,509	\$ 20,671	\$ 22,100
Accounts receivable	62,541	65,478	69,208
Inventories	139,364	124,542	128,455
Prepaid expenses	4,944	4,608	3,693
Future income taxes	2,163	2,147	2,708
<b>Total Current Assets</b>	<b>237,521</b>	<b>217,446</b>	<b>226,164</b>
Property and equipment	187,371	181,973	189,599
Other assets	19,097	18,224	19,690
Future income taxes	7,468	5,937	6,416
<b>Total Assets</b>	<b>\$ 451,457</b>	<b>\$ 423,580</b>	<b>\$ 441,869</b>
<b>LIABILITIES</b>			
Current liabilities			
Bank advances and short-term notes (Note 3)	\$ 61,762	\$ 27,090	\$ 21,581
Accounts payable and accrued liabilities	69,000	59,995	77,624
Income taxes payable	6,508	4,734	3,287
Financial derivative instruments	4,964	-	-
Current portion of long-term debt	13,316	20,275	20,291
<b>Total Current Liabilities</b>	<b>155,550</b>	<b>112,094</b>	<b>122,783</b>
Long-term debt	42,540	63,541	65,631
Other long-term liabilities	1,560	1,332	1,425
<b>Total Liabilities</b>	<b>199,650</b>	<b>176,967</b>	<b>189,839</b>
<b>EQUITY</b>			
Capital	165,205	165,205	165,205
Unit purchase loan plan (Note 4)	(12,544)	(10,879)	(11,493)
Contributed surplus (Note 5)	970	-	383
Retained earnings	95,118	88,243	93,253
Accumulated other comprehensive income (Note 6)	3,058	4,044	4,682
<b>Total Equity</b>	<b>251,807</b>	<b>246,613</b>	<b>252,030</b>
<b>Total Liabilities and Equity</b>	<b>\$ 451,457</b>	<b>\$ 423,580</b>	<b>\$ 441,869</b>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS**

(unaudited, \$ in thousands)	92 Days Ended July 31 2007 (Note 1)	91 Days Ended July 29 2006 (Note 1)	181 Days Ended July 31 2007 (Note 1)	182 Days Ended July 29 2006 (Note 1)
<b>SALES</b>	\$ 256,414	\$ 232,642	\$ 490,765	\$ 446,333
Cost of sales, selling and administrative expenses	(230,429)	(208,212)	(443,178)	(401,714)
Net earnings before amortization, interest and income taxes	25,985	24,430	47,587	44,619
Amortization	(6,397)	(6,543)	(13,046)	(12,992)
Interest	19,588 (1,559)	17,887 (1,658)	34,541 (3,208)	31,627 (3,324)
Provision for income taxes	18,029 (3,183)	16,229 (3,470)	31,333 (5,680)	28,303 (5,777)
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 14,846</b>	<b>\$ 12,759</b>	<b>\$ 25,653</b>	<b>\$ 22,526</b>
Retained earnings, beginning of period as previously reported	93,334	84,192	93,253	83,133
Accounting policy changes (Note 2) as restated	- 93,334	- 84,192	(83) 93,170	- 83,133
Distributions (Note 8)	(13,062)	(8,708)	(23,705)	(17,416)
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 95,118</b>	<b>\$ 88,243</b>	<b>\$ 95,118</b>	<b>\$ 88,243</b>
<b>NET EARNINGS PER UNIT</b>				
Basic	\$ 0.31	\$ 0.27	\$ 0.54	\$ 0.47
Diluted	\$ 0.30	\$ 0.27	\$ 0.53	\$ 0.47
Weighted Average Number of Units Outstanding (000's)				
Basic	47,629	47,502	47,616	47,490
Diluted	48,408	48,384	48,405	48,381

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited, \$ in thousands)	92 Days Ended July 31 2007 (Note 1)	91 Days Ended July 29 2006 (Note 1)	181 Days Ended July 31 2007 (Note 1)	182 Days Ended July 29 2006 (Note 1)
<b>NET EARNINGS</b>	<b>\$ 14,846</b>	<b>\$ 12,759</b>	<b>\$ 25,653</b>	<b>\$ 22,526</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	(647)	117	(1,624)	(156)
Other comprehensive income (loss) (Note 6)	(647)	117	(1,624)	(156)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 14,199</b>	<b>\$ 12,876</b>	<b>\$ 24,029</b>	<b>\$ 22,370</b>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	92 Days Ended July 31 2007 (Note 1)	91 Days Ended July 29 2006 (Note 1)	181 Days Ended July 31 2007 (Note 1)	182 Days Ended July 29 2006 (Note 1)
(unaudited, \$ in thousands)				
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating Activities</b>				
Net earnings for the period	\$ 14,846	\$ 12,759	\$ 25,653	\$ 22,526
Non-cash items				
Amortization	6,397	6,543	13,046	12,992
Future income taxes	(501)	(179)	(727)	(588)
Unit purchase loan plan compensation (Note 5)	280	-	587	-
Amortization of deferred financing costs	46	46	93	93
(Gain) Loss on disposal of property and equipment	(21)	(1)	461	(16)
	21,047	19,168	39,113	35,007
Change in non-cash working capital	(11,015)	1,945	(8,055)	(1,492)
Change in other non-cash items	(529)	(89)	(261)	(76)
Operating activities	9,503	21,024	30,797	33,439
<b>Investing Activities</b>				
Business acquisition	-	(3,248)	-	(5,577)
Cash held in escrow	-	2,521	-	-
Purchase of property and equipment	(9,198)	(6,986)	(14,902)	(10,829)
Proceeds from disposal of property and equipment	26	4	133	67
Investing activities	(9,172)	(7,709)	(14,769)	(16,339)
<b>Financing Activities</b>				
Change in bank advances and short-term notes	27,873	(3,588)	40,181	53
Net repayments (purchases) under unit purchase loan plan	165	(747)	(1,051)	(914)
Repayment of long-term debt	(20,186)	(19)	(20,206)	(40)
Distributions (Note 8)	(13,062)	(8,708)	(28,543)	(17,416)
Financing activities	(5,210)	(13,062)	(9,619)	(18,317)
<b>NET CHANGE IN CASH</b>	\$ (4,879)	\$ 253	\$ 6,409	\$ (1,217)
Cash, beginning of period	33,388	22,939	22,100	21,888
Cash, end of period before cash held in escrow	28,509	23,192	28,509	20,671
Cash held in escrow	-	(2,521)	-	-
<b>CASH, END OF PERIOD</b>	\$ 28,509	\$ 20,671	\$ 28,509	\$ 20,671
Supplemental disclosure of cash paid for:				
Interest expense	\$ 3,457	\$ 2,914	\$ 3,853	\$ 3,269
Income taxes	\$ 2,147	\$ 4,136	\$ 3,473	\$ 5,462

See accompanying notes to consolidated financial statements.

## North West Company Fund 2007 Second Quarter Report

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

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#### 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 2006 annual financial statements, except as described below. 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 2006 Management's Discussion & Analysis and Consolidated Financial Statements report. All amounts are expressed in Canadian dollars unless otherwise noted.

The Fund has adopted a fixed fiscal year end of January 31 and accordingly has adopted a fixed calendar quarter end of July 31. The 2007 second quarter has 92 days of operations compared to 91 days in the second quarter last year and the year-to-date has 181 days of operations compared to 182 days of operations year-to-date last year.

#### 2. Accounting Policy Changes

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

Effective 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 have been 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 (Note 6) in accordance with the transitional provisions. Upon adoption of these accounting standards, the Company recorded a decrease in opening retained earnings of \$83,000 net of tax.

The Company initially recognizes all financial assets, financial liabilities and derivatives on the balance sheet at fair value. Subsequent to initial recognition, financial assets are measured at either cost, amortized cost or fair value depending on the type of instrument and any optional designations by the Company. Financial liabilities are subsequently measured at amortized cost or at fair value if they are classified as held for trading purposes. Derivative financial instruments are measured at fair value even when they are part of a hedging relationship.

The Company has cross currency and interest rate swap derivative instruments designated as fair value hedges that qualify for hedge accounting and as such, the derivatives are documented and subjected to hedge effectiveness testing on a quarterly basis. To the extent that the hedging relationship is effective, a gain or loss arising from the hedged risk in a fair value hedge adjusts the carrying value of the hedged item and is reflected in earnings, offset by a change in fair value of the underlying derivative. Any change in fair value of derivatives that do not qualify for hedge accounting is reported in earnings. The Company has designated a portion of the U.S. denominated senior notes in the amount of US\$43 million as a hedge against the net investment in self-sustaining Alaskan operations. The gain or loss on the hedge of the net investment in Alaskan operations is accumulated in other comprehensive income and subsequently recognized in earnings when the hedged item affects earnings.

Section 3855 requires that derivatives embedded in financial and non-financial contracts be separated from the host contract and accounted for separately if certain conditions are met. In accordance with the transitional requirements of the standard, the Company has performed a search for embedded derivatives in contracts existing as of January 31, 2007 that were entered into after February 1, 2004. This requirement had no impact on the Company's financial statements.

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.

## NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

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

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. These include cash and cash equivalents, accounts receivable, bank and other loans, accounts payable and accrued liabilities, and the current portion of financial derivative instruments.
- The fair value of long-term debt with fixed interest rates is estimated by discounting the expected future cash flows using the risk-free interest rate on an instrument with similar terms adjusted for an appropriate risk premium for the Company's credit profile.
- Derivatives are valued based on closing market quotations.

As a result of adopting these new accounting standards, the Company recorded a credit to interest expense of \$130,000 and a foreign exchange loss of \$77,000 which is included in cost of sales, selling, and administrative expenses on the Company's consolidated statements of earnings for the 92 days ended July 31, 2007. For the 181 days ended July 31, 2007, the Company recorded a credit to interest expense of \$138,000 and foreign exchange loss of \$109,000.

### Risk Management

The Company manages risk and risk exposures through a combination of insurance, derivative financial instruments, a system of internal and disclosure controls and sound operating practices. The Company manages exposure to interest rate risk and foreign currency risk on borrowings by using a combination of interest rate swaps, a mixture of fixed and floating rates and cross currency swaps. The Company is exposed to credit risk, primarily in relation to credit card accounts and accounts receivable from First Nations governments. The Company manages credit risk by performing regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

### 3. Bank Advances and Short-Term Notes

The Canadian operation has available operating loan facilities of \$130 million at interest rates ranging from Bankers Acceptances to prime. These facilities are secured by a floating charge against the assets of the Company on a pari passu basis with the senior note holders. As at July 31, 2007, the Company had drawn \$61,762,000 (July 29, 2006 - \$25,597,000) on the facilities.

The Alaskan operation has available an operating loan facility of US\$15 million at an interest rate of prime minus 0.25% secured by a floating charge against the assets of the Company. As at July 31, 2007, the Alaskan operation had no outstanding amount drawn on the facility (July 29, 2006 - US\$1,321,000).

### 4. 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 719,302 units (2006 - 734,487) of the Fund with a quoted value at July 31, 2007 of \$15,206,000 (2006 - \$11,605,000). Loans receivable at July 31, 2007 of \$12,544,000 (2006 - \$10,879,000) are recorded as a reduction of equity. The loans have terms of three to five years. The maximum value of the loans receivable under the plan is currently limited to \$15,000,000.

## NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

### 5. 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 expense recorded for the 92 days ended July 31, 2007 is \$114,000 (91 days ended July 29, 2006 - \$119,000) and for 181 days ended July 31, 2007 is \$315,000 (182 days ended July 29, 2006 - \$119,000). 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, 2007 is 33,786 (2006 - 16,965). There were no deferred units settled in cash during the period.

#### 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 4). 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.

The compensation cost related to the unit purchase loan plan for the 92 days ended July 31, 2007 is \$280,000 (91 days ended July 29, 2006 - \$0) and for the 181 days ended July 31, 2007 is \$587,000 (182 days ended July 29, 2006 - \$0) 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:

Expected life	3 to 5 years
Risk-free interest rate	4.2%
Expected volatility	25.7%

### 6. Accumulated other comprehensive income (\$ in thousands)

	July 31 2007	July 29 2006	January 31 2007
Balance, beginning of period as previously reported	\$ -	\$ -	\$ -
Unrealized gains (losses) on translation of financial statements from a self sustaining operation in U.S. dollar functional currency to Canadian dollar reporting currency	4,682	4,200	4,200
Restated balance, beginning of period	4,682	4,200	4,200
Other comprehensive income (loss)	(1,624)	(156)	482
Accumulated other comprehensive income, end of period	3,058	4,044	4,682
Retained earnings, end of period	95,118	88,243	93,253
Total accumulated other comprehensive income and retained earnings	<u>98,176</u>	<u>92,287</u>	<u>97,935</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 Alaskan operations since the date of acquisition. A portion of the U.S. denominated senior notes in the amount of US\$43 million has been designated as a hedge against the Alaskan operations.

### 7. 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 92 days ended July 31, 2007 is \$1,000,000 (91 days ended July 29, 2006 - \$900,000) and for the 181 days ended July 31, 2007 is \$2,000,000 (182 days ended July 29, 2006 - \$1,800,000).

The Company maintains an employee savings plan for substantially all of its U.S. employees and recorded an expense for the 92 days ended July 31, 2007 of US\$45,000 (91 days ended July 29, 2006 - US\$41,000) and for the 181 days ended July 31, 2007 is US\$93,000 (182 days ended July 29, 2006 - US\$82,000).

## NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

### 8. Distributions

Distributions recorded in retained earnings year-to-date are \$23,705,000. The distributions paid in cash year-to-date of \$28,543,000 includes a special distribution of \$4,838,000 paid on February 23, 2007 to unitholders of record on December 31, 2006.

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

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

	92 Days Ended July 31 2007 (Note 1)	91 Days Ended July 29 2006 (Note 1)	181 Days Ended July 31 2007 (Note 1)	182 Days Ended July 29 2006 (Note 1)
<b>Sales</b>				
Canada	\$ 210,228	\$ 186,458	\$ 402,492	\$ 362,574
Alaska	46,186	46,184	88,273	83,759
<b>Total</b>	<b>\$ 256,414</b>	<b>\$ 232,642</b>	<b>\$ 490,765</b>	<b>\$ 446,333</b>
<b>Net earnings before amortization, interest and income taxes</b>				
Canada	\$ 20,843	\$ 19,639	\$ 39,365	\$ 37,044
Alaska	5,142	4,791	8,222	7,575
<b>Total</b>	<b>\$ 25,985</b>	<b>\$ 24,430</b>	<b>\$ 47,587</b>	<b>\$ 44,619</b>
<b>Net earnings before interest and income taxes</b>				
Canada	\$ 15,424	\$ 14,052	\$ 28,352	\$ 25,957
Alaska	4,164	3,835	6,189	5,670
<b>Total</b>	<b>\$ 19,588</b>	<b>\$ 17,887</b>	<b>\$ 34,541</b>	<b>\$ 31,627</b>
<b>Identifiable Assets</b>				
Canada	\$ 311,732	\$ 293,903	\$ 311,732	\$ 293,903
Alaska	62,657	63,616	62,657	63,616
<b>Total</b>	<b>\$ 374,389</b>	<b>\$ 357,519</b>	<b>\$ 374,389</b>	<b>\$ 357,519</b>

### 10. 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.

## NOTES TO THE UNAUDITED INTERIM PERIOD CONSOLIDATED FINANCIAL STATEMENTS

### 11. Subsequent Event

On August 27, 2007 the Company announced that it has entered into a definitive agreement to purchase all of the issued and outstanding shares of Cost-U-Less, Inc. (Nasdaq CULS), a leading operator of mid-size warehouse format stores in remote island communities in Hawaii, the South Pacific and the Caribbean for US\$52.2 million or US\$11.75 per share in cash. The acquisition will be financed through a combination of cash on hand and funds available on existing credit facilities. The acquisition of Cost-U-Less, Inc. will strengthen the Company's position as a leading retailer in remote markets and will leverage the Company's specialized capabilities in merchandising and supply chain management.

The following table shows summary financial information for Cost-U-Less, Inc. for the fiscal year ending December 31, 2006:

(US \$ in thousands)	2006
Sales	\$ 222,022
Net earnings before amortization, interest and income taxes	7,083
Net earnings	2,668
Total assets	54,035
Total liabilities	27,039
Total equity	26,996

The transaction is subject to customary terms and conditions, including approval by Cost-U-Less, Inc. shareholders and is expected to close before the end of November 2007.

### 12. Future Accounting Standards

The CICA issued new accounting standards which apply to fiscal years beginning on or after October 1, 2007:

#### Financial Instruments - Disclosures

Section 3862 describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance. The standard also requires disclosure of the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. This section complements existing handbook section 3855, Financial Instruments - Recognition and Measurement, section 3861, Financial Instruments - Disclosure and Presentation, and section 3865 Hedges.

#### Financial Instruments - Presentation

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. This section complements the existing handbook section 3861, Financial Instruments - Disclosure and Presentation.

#### Capital Disclosure

Section 1535 establishes standards for disclosing information about a Company's capital to enable users of financial statements to evaluate the Company's objectives, policies and procedures for managing capital.

#### Inventories

Section 3031 issued in June 2007 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 include the cost to purchase and other costs incurred in bringing the inventories to their present location. 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 recognized in the period.

The Company is currently evaluating the impact of these new standards on the consolidated financial statements and will adopt these standards commencing in fiscal 2008.

### 13. Comparative Amounts

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