NORTH WEST COMPANY FUND

2010 SECOND QUARTER REPORT TO UNITHOLDERS

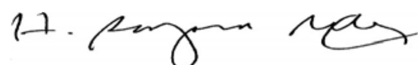
Report to Unitholders

The North West Company Fund reports second quarter net earnings to July 31, 2010 of $19.9 million, a decrease of 2.7% compared to last year's second quarter earnings of $20.5 million. Diluted earnings per unit were $0.41 compared to $0.43 last year. The impact of the stronger Canadian dollar on the conversion of U.S. denominated earnings in our International Operations decreased diluted earnings per unit by $0.01 per unit.

Sales decreased 0.3% to $366.2 million compared to the second quarter last year. Sales excluding the foreign exchange impact were up 3.0% and increased 2.2%[1] on a same store basis. Strong sales growth in our northern banners was offset by weaker performance at our Cost-U-Less stores and International wholesale business combined with the negative impact of foreign exchange on the conversion of U.S. denominated sales.

The Trustees have approved a quarterly distribution of $0.34 per unit to unitholders of record on September 30, 2010.

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 decreased 0.3% to $366.2 million compared to $367.5 million in 2009. Excluding the foreign exchange impact, sales increased 3.0% and were up 2.2%[1] on a same store basis. Food sales[1] increased 2.1% and were up 2.6% on a same store basis. General merchandise sales[1] increased 5.0% and were up 0.6% on a same store basis. Sales growth in our northern banners was offset by lower sales at our Cost-U-Less (CUL) stores and in our International wholesale business together with the negative impact of foreign exchange on the conversion of U.S. denominated sales.

Cost of sales, selling and administrative expenses increased 0.3% to $334.1 million and increased 56 basis points as a percentage to sales compared to the second quarter of 2009. The increase in expenses is due in part to new stores and higher cost of sales, staff costs, pension expense and income trust conversion costs in our Canadian Operations. Partially offsetting these increases is the impact of the stronger average Canadian dollar on the translation of U.S. denominated International Operations expenses compared to last year.

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[1] Excluding the foreign exchange impact

THE NORTH WEST COMPANY

Trading profit [2]or earnings before interest, income taxes, depreciation and amortization (EBITDA) decreased 6.3% to $32.1 million compared to $34.3 million in the second quarter last year. Trading profit gains in Canada partially offset a decrease in trading profit in our International Operations and the negative impact of the foreign exchange conversion. Excluding the foreign exchange impact, trading profit decreased 3.5% and was 8.8% as a percentage to sales compared to 9.4% last year.

Income taxes decreased to $2.0 million from $3.6 million in the second quarter last year largely due to lower earnings in our International Operations.

Net earnings decreased $557,000 or 2.7% to $19.9 million and diluted earnings per unit decreased to $0.41 per unit compared to $0.43 per unit last year. The stronger Canadian dollar negatively impacted the conversion of earnings from the International Operations by approximately $0.01 per unit on a fully diluted basis.

Year-to-Date

Year-to-date sales decreased 0.9% to $706.3 million compared to $713.1 million in 2009. Excluding the foreign exchange impact, sales increased 4.2% and were up 3.3%[1] on a same store basis. Food sales[1] increased 3.3% and were up 3.2% on a same store basis. General merchandise sales[1] increased 6.6% and were up 3.5% on a same store basis. The negative impact of foreign exchange on the conversion of U.S. denominated sales was the major factor contributing to the decrease in sales, partially offset by stronger retail food and general merchandise sales in Canada and Alaska. The average exchange rate used to convert U.S. denominated sales and expenses from the International Operations was 12.9% lower at 1.0340 compared to 1.1865 last year.

Cost of sales, selling and administrative expenses decreased 0.8% to $646.0 million but increased 13 basis points as a percentage to sales compared to last year. The decrease in expenses is due to the impact of the stronger Canadian dollar on the translation of International Operations expenses and a property insurance related gain, partially offset by new and non-comparable store expenses, higher pension and incentive plan expenses, and income trust conversion costs in the Canadian Operations.

Trading profit or earnings before interest, income taxes, depreciation and amortization (EBITDA) decreased 2.5% to $60.3 million compared to $61.9 million last year. A decrease in trading profit in our International Operations and the negative impact of the stronger Canadian dollar were the leading factors contributing to the trading profit dollar decrease. Excluding the foreign exchange impact, trading profit increased 1.5% and was 8.6% as a percentage to sales compared to 8.8% last year. Income taxes decreased $2.4 million to $2.7 million due lower earnings in the International Operations.

Net earnings increased 1.5% to $37.2 million compared to $36.6 million in 2009. Diluted earnings per unit were up 1.3% to $0.77 compared to $0.76 last year. The stronger Canadian dollar negatively impacted the conversion of earnings from the International Operations by $0.02 per unit on a fully diluted basis.

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[2] See Non-GAAP Measures Section of Management's Discussion & Analysis

CANADIAN OPERATIONS

Canadian sales for the quarter increased 6.5% to $245.7 million from $230.8 million last year and were up 4.0% on a same store basis. Food sales increased 6.1% and were up 4.7% on a same store basis with all banners contributing to the increase. Food sales were up in most categories with grocery, tobacco, meat, and pharmacy categories contributing the largest gains. Growth in ready-to-eat and value-priced private label products were also factors contributing to the increase in sales. Food inflation in remote markets, primarily driven by higher fuel-related transportation costs, was approximately 1.0% in the quarter.

General merchandise sales increased 6.8% from last year and were up 1.8% on a same store basis. Strong sales growth in our remote store banners, particularly in big-ticket categories such as electronics, home furnishings and transportation, was the leading factor. As anticipated, a recovery in the northern Canada economy led by public infrastructure spending and natural resource investment helped to improve discretionary incomes compared to last year and contributed to sales gains.

Gross profit dollars increased 6.0% as sales growth offset the impact of lower gross profit rates due in part to higher food distribution costs related to the new Edmonton facility combined with the inability to achieve all of the offsetting planned efficiencies. Other factors were market-driven price reductions in staple food categories and electronics partially offset by margin gains related to the impact of the stronger Canadian dollar on U.S. denominated purchases. Operating expenses increased 6.7% and were up 5 basis points as a percentage to sales. Higher staff costs, due in part to a mix of higher paying pharmacy and health care positions, were the main factor contributing to the increase. Expenses related to interest-rate driven pension liability expenses and the cost of our conversion to a share corporation, which were up cumulatively $1.0 million over last year's second quarter, also contributed to the increase in operating expenses.

Canadian trading profit increased 1.6% to $24.6 million and was 10.0% of sales compared to 10.5% of sales in the second quarter last year.

INTERNATIONAL OPERATIONS (stated in U.S. dollars)

International sales decreased 3.7% to $115.8 million compared to $120.2 million in the second quarter last year and were down 1.3% on a same store basis. Food sales decreased 4.2% and were down 1.0% on a same store basis with same store sales increases in Alaska of 3.8% offset by a 4.2% decrease at CUL. General merchandise sales decreased 1.2% and were down 3.6% on a same store basis due to soft performance at CUL. Sales in our Wholesale business, which were significantly below last year, continued to be negatively impacted by customer reaction to shipping disruptions in the first quarter resulting from the consolidation of our two operating banners together with their respective distribution and information systems. Sales in our CUL banner stores continue to be impacted by difficult economic conditions largely related to a downturn in tourism and more intense local competition.

Gross profit dollars decreased 6.6% due to lower sales and gross profit rates compared to last year. The decrease in gross profit rate was due to lower, more defensive pricing at CUL and market share-building at AC as well as continued trends toward lower margin, value-priced merchandise. Operating expense dollars were flat compared to the second quarter last year but increased 84 basis points as a percent to sales largely due to the decrease in sales.

Trading profit decreased 17.7% to $7.2 million compared to $8.8 million last year due to lower sales and gross profit. Trading profit as a percent to sales was 6.3% compared to 7.3% in the second quarter last year.

FINANCIAL CONDITION

Financial Ratios

The Fund's debt-to-equity ratio at the end of the quarter was .79:1 compared to .80:1 last year. The debt-to-equity ratio at January 31, 2010 was .72:1.

Working capital decreased 16.1% or $28.2 million compared to the second quarter last year largely due to the current portion of long term debt related to the $53.5 million (US$52.0 million) credit facility which matures December 31, 2010. Excluding the impact of the maturing credit facility, working capital increased $25.3 million or 14.5% compared to last year mainly due to an increase in inventories, accounts receivable, and cash partially offset by an increase in accounts payable. The increase in inventories is resulting from new stores, planned higher inventory balances to take advantage of lower water freight rates, earlier flow of fall seasonal merchandise, and higher than planned increases at our new Edmonton and Seattle distribution centres and at our Cost-U-Less stores. The increase in accounts receivable is due in part to higher customer accounts receivable on big-ticket sales in our Canadian Operations. The increase in cash is largely related to deposits in-transit and the increase in accounts payable is related to higher inventories.

Outstanding Units

The weighted average basic units outstanding for the quarter were 48,125,000 compared to 47,798,000 last year. The increase is due to a reduction in the number of units held under the Company's Unit Purchase Loan Plan as the units pledged as security for the loans are deducted from the issued and outstanding units of the Fund to determine the basic units outstanding. The weighted average fully diluted units outstanding for the quarter were 48,490,000 compared to 48,458,000 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 in the quarter decreased $20.6 million to $22.6 million from $43.3 million last year. The decrease in cash flow from operating activities is due to the change in non-cash working capital largely related to inventory and accounts receivable. Cash flow from operations[2] increased 2.7% to $27.9 million largely due to the change in future tax assets.

Cash used for investing activities in the quarter decreased to $8.2 million compared to $11.8 million last year due to a difference in the timing of capital investments. Net capital expenditures for 2010 are expected to be in the $50 million range (2009 - $59.4 million) reflecting the opening and acquisition of new stores, store renovation and energy conservation projects, pharmacy acquisitions and openings, store point-of-sale system upgrades and the completion of a major head office renovation project.

Cash used for financing activities in the quarter was $5.5 million compared to $27.0 million last year. The change in bank advances is due to an increase in the amount outstanding under the International Operations credit facility. Repayments received on loans issued to officers under the Unit Purchase Loan Plan (UPLP) were $0.5 million in the quarter. The remaining UPLP loans mature January 31, 2011. The Fund paid distributions of $16.4 million, an increase of 6.2% compared to $15.5 million last year. The change in long-term debt in the quarter is largely due to an increase in the amount drawn on the Canadian Operations revolving credit facility. The change in long-term debt in the second quarter last year is due to the refinancing of the Company's senior notes that matured on June 15, 2009 and the private placement issuance of US$70 million 6.55% senior notes which mature June 15, 2014.

The Canadian Operations have available extendible, committed, revolving loan facilities of $140.0 million that mature on December 31, 2011. These facilities are secured by a floating charge on the assets of the Company and rank pari passu with the senior notes. At July 31, 2010, the Company had drawn $97.1 million on these facilities (July 31, 2009 – $79.1 million).

The International Operations have available committed, non-revolving loan facilities of US$52.0 million that mature on December 31, 2010. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the senior notes. At July 31, 2010, the Company had drawn US$52.0 million on these facilities (July 31, 2009 – US$52.0 million).

The Company is in the process of refinancing the US$52.0 million loan facility. The Company does not anticipate any difficulty in securing financing to satisfy this maturing long-term debt however, economic conditions continue to be volatile and this may negatively impact the availability of credit, interest rates and the scope of financing covenants.

The International Operations also have available demand revolving loan facilities of US$15.0 million which are renewable annually. These loans are secured by a floating charge against certain accounts receivable and inventories of the International Operations. At July 31, 2010, the Company had US$5.1 million in bank advances drawn on these facilities (July 31, 2009 – US$4.3 million).

The credit facilities and senior notes 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, 2010, the Fund is in compliance with all covenants under these facilities. Current and forecasted debt levels are regularly monitored for compliance with debt covenants.

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.

UNITHOLDER DISTRIBUTIONS

The Trustees declared a regular quarterly distribution of $0.34 per unit to unitholders of record on September 30, 2010, distributable by October 15, 2010.

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 2010 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.

CONVERSION TO A SHARE CORPORATION

At the Fund's annual and special meeting on June 10, 2010, unitholders approved the conversion of the Fund to a publicly-traded share corporation. The Fund has also received the required court approval. In addition to unitholder and court approval, the conversion to a corporate structure is subject to customary regulatory and third party approvals. The details of the conversion, which will be completed through a plan of arrangement, are contained in the management information circular dated April 29, 2010 which is available on the Fund's website at *www.northwest.ca* or on Sedar at *www.sedar.com*.

Upon converting back to a share corporation Canadian earnings will be subject to income taxes commencing January 1, 2011 at a combined federal and provincial tax rate of approximately 30%. After this date it is the Company's intention to pay quarterly dividends of approximately the after-tax amount of the quarterly distributions prior to conversion. While higher corporate taxes will reduce NWC's net earnings available for distribution, the after- tax impact on personal income is largely offset for taxable investors benefiting from the dividend tax credit.

Based on the current annualized distributions of $1.36, the Company anticipates paying dividends of approximately $0.96 annually or $0.24 per quarter in 2011. As noted above, the dividends paid will provide qualifying owners with the benefit of the dividend tax credit which is not applicable to current distributions from the Fund. Dividends will be subject to the approval of the Board of Directors and will be based on, among other factors, the financial performance of the Company and its anticipated business needs.

QUARTERLY HIGHLIGHTS

- Giant Tiger stores were opened in Neepawa, Manitoba on June 19, 2010 and Calgary, Alberta on August 14, 2010 bringing the Company's Giant Tiger store count to 33.
- A remodelled AC Value Center store was opened in Sitka, Alaska on July 1, 2010 featuring a next generation, large store décor and lay-out.
- A new Northern convenience store was opened in Arviat, Nunavut on July 30, 2010.
- A pharmacy was acquired in Portage La Loche, Saskatchewan, bringing the Company's pharmacy count to 10.

OUTLOOK

Economic conditions and personal income growth is expected to remain favourable in northern Canada and Alaska over the second half of the year and this should help contribute to same store sales gains from our banners in these markets. Sales growth in our Giant Tiger banner is not expected to be as strong as our northern banners due to the impact of lower inflation and additional food discount competition. The most challenged part of our business will continue to be Cost-U-Less although sales are expected to stabilize as we cycle through the softer sales that occurred in the second half of last year. The poor sales performance at our International Wholesale Operations was unexpected and a recovery is more difficult to predict at this point.

Our ability to grow net earnings in 2010 will likely continue to be affected by other factors most notably; higher pension and incentive plan expenses in our Canadian Operations, health insurance costs and rising utility rates in our International Operations and expected higher interest rates compared to the second half of last year. The negative impact of the stronger Canadian dollar on conversion of U.S. denominated sales and earnings of the International Operations is expected to continue through the remainder of the year although to a lesser degree than the first half.

QUARTERLY RESULTS OF OPERATIONS

In 2010, the quarters have the same number of days of operations as 2009. The following is a summary of selected quarterly financial information.

Operating Results-Consolidated

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	92 days	92 days	89 days	89 days	92 days	92 days	92 days	92 days
($ in millions)	2010	2009	2010	2009	2009	2008	2009	2008
Sales	$366.2	$367.5	$340.1	$345.6	$370.5	$375.7	$360.8	$359.1
Trading profit	32.1	34.3	28.2	27.5	32.3	32.2	36.1	33.5
Net earnings	19.9	20.5	17.3	16.1	20.2	19.6	25.0	22.1
Net earnings per unit:								
Basic	0.41	0.43	0.36	0.34	0.42	0.41	0.52	0.46
Diluted	0.41	0.43	0.36	0.33	0.42	0.40	0.51	0.46

Historically, the Company's first quarter sales are the lowest and the fourth quarter sales are the highest, reflecting the holiday 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 AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to management in a timely manner so that appropriate decisions can be made regarding public disclosure. Management is also responsible for establishing and maintaining 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. 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 of achieving the control objectives. There have been no changes in the internal controls over financial reporting during the quarter ended July 31, 2010 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

FUTURE ACCOUNTING STANDARDS TO BE IMPLEMENTED

Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued CICA HB 1582 – Business Combinations together with CICA HB 1601 – Consolidated Financial Statements and CICA HB 1602 – Non-Controlling Interests. The new standards establish requirements for recognizing and measuring the fair value of certain assets and liabilities acquired in a business combination. They also require that acquisition related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as part of the business combination. These new standards are effective for the Company on a prospective basis for business combinations occurring on or after February 1, 2011. Early adoption is permitted and would facilitate the harmonization of the accounting treatment of business combinations for the year-ended January 31, 2011 under both Canadian GAAP and IFRS.

International Financial Reporting Standards

The Canadian Accounting Standards Board requires all publicly accountable enterprises 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 are also required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian Generally Accepted Accounting Principles (Canadian GAAP) 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.

Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. The adoption of IFRS will have an impact on the Company's accounting, financial statements and disclosures, information systems and internal controls over financial reporting. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings in the comparative period presented. The International Accounting Standards Board (IASB) is continuing to work on new accounting standards or changes to previously issued accounting standards. On the date of adoption, IFRS is expected to differ from current IFRS due to these changes, impacting the form and content of the Company's IFRS compliant financial statements. The Company continues to monitor the changes to accounting standards proposed by the IASB and assess the impact of those changes.

The Company's IFRS conversion plan and a description of the significant differences between IFRS and Canadian GAAP, including certain elections and exemptions that are applicable to the Company are provided on pages 23 to 25 of the 2009 Annual Financial Report. The Company continues to asses the impact of adopting IFRS and the consequential changes in accounting policies.

Readers are cautioned that the disclosed impacts of IFRS are estimates and may be subject to change. Until we have finalized our accounting policies and the transition exemptions and elections, the impact of IFRS on the Company's future financial position cannot be precisely quantified; however, such impacts may be material upon final determination.

The information below is provided to allow our stakeholders to obtain a better understanding of the areas that are expected to have the greatest impact on the Company and is not a comprehensive analysis of all changes that may result upon the adoption of IFRS.

Employee benefits – International Accounting Standard (IAS) 19, *Employee Benefits* permits an entity to make an accounting policy choice regarding the treatment of actuarial gains and losses. These choices include deferred recognition using the corridor method or immediate recognition in either equity through other comprehensive income or net earnings. The Company currently intends to recognize actuarial gains and losses on its defined benefit pension plans through other comprehensive income.

Borrowing costs – IAS 23, *Borrowing Costs* requires entities to capitalize borrowing costs directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset. Under Canadian GAAP the Company does not capitalize borrowing costs. This change is not expected to have a significant impact on the Company's future financial results.

IFRS 1 – First-time Adoption of International Financial Reporting Standards – IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for retrospective application of the standards. The company expects to apply the following IFRS 1 exemptions upon adoption:

Employee benefits – A first time adopter must either recalculate its actuarial gains and losses at changeover in accordance with the requirements of IAS 19, *Employee Benefits* or immediately recognize all cumulative actuarial gains and losses through opening retained earnings. The Company expects to elect the latter and has engaged its external actuaries to quantify the adjustment to retained earnings in accordance with IAS 19. Based on the January 31, 2010 Canadian GAAP financial statements, the Company estimates this adjustment will result in a decrease in retained earnings of $25.9 million excluding the related income tax effect.

Cumulative translation account – IFRS 1 provides the option to reclassify all cumulative translation differences at the transition date from other comprehensive income to retained earnings. We expect to use this election and reset all cumulative translation differences to zero on transition. As at January 31, 2010, the Company had unrealized gains on translation of financial statements from a self-sustaining operation in U.S. dollar functional currency to Canadian dollar reporting currency of $4.1 million.

Business combinations – IFRS 3, Business Combinations may be applied retrospectively, effectively restating all business combination in accordance with IFRS or by restating business combinations after a selected date. An entity may also elect to apply this standard prospectively from the date of transition. We expect to apply IFRS 3 prospectively. A consequential impact of this election is that goodwill arising on business combinations prior to the date of transition will not be adjusted from the carrying value previously determined under Canadian GAAP.

IFRS Conversion Project Update

As our project progresses throughout 2010, updates to the IFRS information in our 2009 Annual Financial Report will be provided.

Work continues on Phase Four – Policy Selection and Implementation and the consequential impact of IFRS on key performance measures, contractual agreements, incentive plans and budgeting. The implementation of IFRS will have an impact on the financial metrics that are used in calculating the Company's financial covenants under certain of its debt agreements. In the third quarter, the Company is working with its lenders to formalize a process to adjust the financial covenants for changes resulting from the implementation of IFRS. The Company also expects to complete its review of the differences in accounting for income taxes between Canadian GAAP and IFRS. Based on our work to date, the differences are expected to be predominantly caused by changes in the tax rates applied and changes in the book value of assets. IFRS also requires that all future taxes be disclosed as non-current assets or non-current liabilities.

The last component of Phase Four involves the final selection of accounting policies, elections and exemptions and the finalization of IFRS compliant financial statements and notes all of which are subject to the approval of the Company's Audit Committee, Board of Trustees, and the concurrence of the Fund's external auditors. As the analysis of the Company's IFRS accounting policies is completed, we assess whether changes are required to internal controls over financial reporting. This work will continue throughout 2010 to ensure that the appropriate internal controls over financial reporting and disclosure controls and procedures are in place to support the implementation of IFRS.

The Company continues to invest in resources and training to facilitate a timely conversion. Training for finance personnel consists of courses provided by external advisors as well as internally led training. The Company's IFRS project continues to be on target to meet the changeover date.

NON-GAAP MEASURES

(1) **Trading Profit (EBITDA)** is not a recognized measure under Canadian 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 2010	2009	Year-to-Date 2010	2009
Net earnings	**$ 19,926**	$ 20,483	**$ 37,177**	$ 36,616
Add: Amortization	**8,859**	8,782	**17,671**	17,365
Interest expense	**1,361**	1,496	**2,756**	2,800
Income taxes	**1,996**	3,557	**2,731**	5,085
Trading profit	**$ 32,142**	$ 34,318	**$ 60,335**	$ 61,866

For trading profit information by business segment, refer to Note 7 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 2010	2009	Year-to-Date 2010	2009
Cash flow from operating activities	**$ 22,648**	$ 43,270	**$ 28,103**	$ 44,415
Non-cash items:				
Change in other non-cash items	**138**	(64)	**620**	(3,709)
Change in non-cash working Capital	**5,139**	(16,019)	**24,740**	11,421
Cash flow from operations	**$ 27,925**	$ 27,187	**$ 53,463**	$ 52,127

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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 and is in Canadian dollars. The information contained in this MD&A is current to September 9, 2010.

Forward-Looking Statements

This Quarterly Report, including Management's Discussion & Analysis (MD&A), contains forward-looking statements about the North West Company Fund (the "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, growth rates, distributions, dividends, debt levels, financial capacity, access to capital, and liquidity), ongoing business strategies or prospects, the proposed conversion from an income trust to a corporation and the timing thereof, and possible future action by the Fund, 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 in general. 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 2009 Annual Financial Report and in the Risk Factors sections of the Annual Information Form and Management Information Circular. 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.

Additional information on the Fund, including our Annual Information Form, can be found on SEDAR at *www.sedar.com* or on the Company's website at *www.northwest.ca*.

CONSOLIDATED BALANCE SHEETS

(unaudited, $ in thousands)	**July 31 2010**	July 31 2009	January 31 2010
ASSETS			
Current assets			
Cash	**$ 36,649**	$ 29,545	$ 27,278
Accounts receivable	**68,792**	61,070	71,767
Inventories (Note 2)	**195,162**	181,548	177,877
Prepaid expenses	**8,848**	8,911	4,786
Future income taxes	**3,920**	4,022	4,135
	313,371	285,096	285,843
Property and equipment	**253,567**	255,109	258,928
Other assets	**24,894**	19,465	26,252
Intangible assets	**18,456**	15,178	18,332
Goodwill	**26,942**	28,251	28,593
Future income taxes	**7,149**	7,103	5,852
	$ 644,379	$ 610,202	$ 623,800
LIABILITIES			
Current liabilities			
Bank advances (Note 3)	**$ 5,271**	$ 4,689	$ 312
Accounts payable and accrued liabilities	**106,021**	99,358	113,407
Income taxes payable	**797**	5,021	1,888
Current portion of long-term debt (Note 4)	**54,375**	955	56,339
	166,464	110,023	171,946
Long-term debt (Note 4)	**173,668**	216,556	152,519
Other long-term liabilities	**7,886**	6,759	9,409
	348,018	333,338	333,874
EQUITY			
Capital	**165,133**	165,133	165,133
Unit purchase loan plan (Note 5)	**(4,178)**	(9,977)	(6,428)
Contributed surplus	**1,936**	1,569	1,569
Retained earnings	**129,804**	116,129	125,525
Accumulated other comprehensive income (Note 6)	**3,666**	4,010	4,127
	296,361	276,864	289,926
	$ 644,379	$ 610,202	$ 623,800

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(unaudited, $ in thousands)	**Three Months Ended July 31 2010**	Three Months Ended July 31 2009	**Six Months Ended July 31 2010**	Six Months Ended July 31 2009
SALES	**$ 366,205**	$ 367,469	**$ 706,338**	$ 713,090
Cost of sales, selling and administrative expenses	**(334,063)**	(333,151)	**(646,003)**	(651,224)
Net earnings before amortization, interest and income taxes	**32,142**	34,318	**60,335**	61,866
Amortization	**(8,859)**	(8,782)	**(17,671)**	(17,365)
	23,283	25,536	**42,664**	44,501
Interest	**(1,361)**	(1,496)	**(2,756)**	(2,800)
	21,922	24,040	**39,908**	41,701
Provision for income taxes	**(1,996)**	(3,557)	**(2,731)**	(5,085)
NET EARNINGS FOR THE PERIOD	$ **19,926**	$ 20,483	**$ 37,177**	$ 36,616
Retained earnings, beginning of period	**126,327**	111,127	**125,525**	110,475
Distributions (Note 11)	**(16,449)**	(15,481)	**(32,898)**	(30,962)
RETAINED EARNINGS, END OF PERIOD	**$ 129,804**	$ 116,129	**$ 129,804**	$ 116,129
NET EARNINGS PER UNIT				
Basic	**$ 0.41**	$ 0.43	**$ 0.77**	$ 0.77
Diluted	**$ 0.41**	$ 0.43	**$ 0.77**	$ 0.76
Weighted Average Number of Units Outstanding (000's)				
Basic	**48,125**	47,798	**48,080**	47,766
Diluted	**48,490**	48,458	**48,486**	48,453

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, $ in thousands)	**Three Months Ended July 31 2010**	Three Months Ended July 31 2009	**Six Months Ended July 31 2010**	Six Months Ended July 31 2009
NET EARNINGS	**$ 19,926**	$ 20,483	**$ 37,177**	$ 36,616
Unrealized gains (losses) on translation of financial statements from a self-sustaining operation in U.S. dollar functional currency to Canadian dollar reporting currency	**250**	(2,639)	**(461)**	(4,519)
Other comprehensive income (loss) (Note 6)	**250**	(2,639)	**(461)**	(4,519)
COMPREHENSIVE INCOME	**$ 20,176**	$ 17,844	**$ 36,716**	$ 32,097

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, $ in thousands)	**Three Months Ended July 31 2010**	Three Months Ended July 31 2009	**Six Months Ended July 31 2010**	Six Months Ended July 31 2009
CASH PROVIDED BY (USED IN)				
Operating Activities				
Net earnings for the period	**$ 19,926**	$ 20,483	**$ 37,177**	$ 36,616
Non-cash items				
Amortization	**8,859**	8,782	**17,671**	17,365
Future income taxes	**(729)**	(2,131)	**(1,233)**	(1,963)
Amortization of deferred financing costs	**55**	73	**108**	135
Gain on disposal of property and equipment	**(186)**	(20)	**(260)**	(26)
	27,925	27,187	**53,463**	52,127
Change in non-cash working capital	**(5,139)**	16,019	**(24,740)**	(11,421)
Change in other non-cash items	**(138)**	64	**(620)**	3,709
Operating activities	**22,648**	43,270	**28,103**	44,415
Investing Activities				
Business acquisitions (Note 10)	**-**	-	**-**	(12,153)
Purchase of property and equipment	**(9,130)**	(11,845)	**(14,971)**	(22,346)
Proceeds from disposal of property and equipment	**915**	2	**1,009**	8
Investing activities	**(8,215)**	(11,843)	**(13,962)**	(34,491)
Financing Activities				
Change in bank advances	**2,368**	(9,790)	**4,994**	(577)
Net repayments under unit purchase loan plan	**508**	1,195	**2,250**	1,319
Increase in long-term debt	**8,219**	41,473	**24,056**	71,934
Repayment of long-term debt	**(137)**	(44,399)	**(268)**	(44,437)
Distributions (Note 11)	**(16,449)**	(15,481)	**(35,802)**	(34,348)
Financing activities	**(5,491)**	(27,002)	**(4,770)**	(6,109)
NET CHANGE IN CASH	**$ 8,942**	$ 4,425	**$ 9,371**	$ 3,815
Cash, beginning of period	**27,707**	25,120	**27,278**	25,730
CASH, END OF PERIOD	**$ 36,649**	$ 29,545	**$ 36,649**	$ 29,545
Supplemental disclosure of cash paid for:				
Interest expense	**$ 2,229**	$ 2,144	**$ 2,636**	$ 2,756
Income taxes	**$ 4,832**	$ 2,759	**$ 4,871**	$ 3,723

See accompanying notes to 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 methods of application as the 2009 annual financial statements. 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 2009 Annual Financial Report. All amounts are expressed in Canadian dollars unless otherwise noted.

2. INVENTORIES

Included in cost of sales, selling and administrative expenses on the consolidated statement of earnings for the three months ended July 31, 2010 is $256,563 (July 31, 2009 - $260,220) of inventories recognized as an expense. For the six months ended July 31, 2010, $497,974 (six months ended July 31, 2009 - $509,010) of inventories recognized as an expense which includes $157 (July 31, 2009 - $302) for the write-down of inventories as a result of net realizable value being lower than cost. For the six months ended July 31, 2010 $462 (July 31, 2009 - $637) was included for the write-down of inventories as a result of net realizable value being lower than cost. There was no reversal of inventories written-down previously that are no longer estimated to sell below cost during the periods ending July 31, 2010 or 2009.

3. BANK ADVANCES

International Operations have available demand, revolving loan facilities of US$15,000 secured by a floating charge against certain accounts receivable and inventories of the International Operations. At July 31, 2010, the International Operations had drawn US$5,123 (July 31, 2009 – US$4,346) on the facility.

4. LONG-TERM DEBT

	July 31 2010	July 31 2009	January 31 2010
Senior notes [1]	**$ 70,985**	$ 74,567	$ 73,481
Revolving loan facilities [2]	**97,112**	79,059	72,853
Non-revolving loan facilities [3]	**53,508**	56,108	55,380
Notes payable [4]	**5,180**	5,857	5,567
Obligation under capital lease [5]	**1,258**	1,920	1,577
	228,043	217,511	208,858
Less: Current portion of long-term debt	**54,375**	955	56,339
	$ 173,668	$ 216,556	$ 152,519

(1) The Company issued US$70,000 senior notes on June 15, 2009 which mature June 15, 2014 and bear interest at a rate of 6.55%, payable semi-annually. The US$39,000 senior notes which matured on June 15, 2009, bore interest at 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$28,000 of its senior notes. The interest rate swap matures June 15, 2014.

(2) Canadian Operations have available extendible, committed, revolving loan facilities of $140,000 that mature on December 31, 2011. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the senior notes. These facilities bear interest at Bankers Acceptances rates plus stamping fees or the Canadian prime rate. At July 31, 2010, the Company has drawn $97,112 (July 31, 2009 - $79,059) on these facilities.

(3) International Operations have available committed non-revolving loan facilities of US$52,000 that mature on December 31, 2010. These facilities are secured by a floating charge against the assets of the Company and rank pari passu with the senior notes. These facilities bear interest at LIBOR plus stamping fees or the U.S. prime rate. At July 31, 2010, the Company has drawn US$52,000 (July 31, 2009 – US$52,000) on these facilities.

(4) The note payable in the amount of US$1,055 (July 31, 2009 – US$1,322) bears an interest rate of U.S. prime plus 1% and have annual principal payments of US$267. Notes payable in the amount of US$3,979 (July 31, 2009 – US$4,107) bear an interest rate of 5.75% and is repayable in blended principal and interest payments of US$350 annually. The notes payable mature in 2013, 2015 and 2029.

(5) The obligation under capital leases of US$1,223 (July 31, 2009 - US$1,779) is repayable in blended principal and interest payments of US$634 annually.

5. UNIT PURCHASE LOAN PLAN

The Company has issued loans to officers and senior management to purchase units under the unit purchase loan plan. These loans are non-interest bearing and are repayable from the Company's after tax distributions or if the employee sells the units or leaves the Company. The loans are secured by a pledge 238,568 of units (July 31, 2009 – 574,347) of the Fund with a quoted value of $4,719 at July 31, 2010 (July 31, 2009 - $8,989). Loans receivable at July 31, 2010 of $4,178 (July 31, 2009 - $9,977) are recorded as a reduction of equity. The loans mature January 31, 2011. The maximum amount of the loans under the plan is currently limited to $15,000.

6. ACCUMULATED OTHER COMPREHENSIVE INCOME

	July 31 2010	July 31 2009	January 31 2010
Balance, beginning of period	**$ 4,127**	$ 8,529	$ 8,529
Other comprehensive income (loss)	**(461)**	(4,519)	(4,402)
Accumulated other comprehensive income, end of period	**3,666**	4,010	4,127
Retained earnings, end of year	**129,804**	116,129	125,525
Total accumulated other comprehensive income and retained earnings	**$ 133,470**	$ 120,139	$ 129,652

Accumulated other comprehensive income represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book value of the net investment in self-sustaining foreign operations from the date of acquisition. The US$70,000 senior notes have been designated as a hedge against the foreign operations.

7. SEGMENTED INFORMATION

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

	Three Months Ended July 31 2010	Three Months Ended July 31 2009	**Six Months Ended July 31 2010**	Six Months Ended July 31 2009
Sales				
Canada	**$ 245,680**	$ 230,773	**$ 474,792**	$ 441,917
International	**120,525**	136,696	**231,546**	271,173
Total	**$ 366,205**	$ 367,469	**$ 706,338**	$ 713,090
Net earnings before amortization, interest and income taxes				
Canada	**$ 24,614**	$ 24,222	**$ 46,993**	$ 43,883
International	**7,528**	10,096	**13,342**	17,983
Total	**$ 32,142**	$ 34,318	**$ 60,335**	$ 61,866
Net earnings before interest and income taxes				
Canada	**$ 17,761**	$ 17,559	**$ 33,337**	$ 30,773
International	**5,522**	7,977	**9,327**	13,728
Total	**$ 23,283**	$ 25,536	**$ 42,664**	$ 44,501
Total Assets				
Canada	**$ 457,619**	$ 420,664	**$ 457,619**	$ 420,664
International	**186,760**	189,538	**186,760**	189,538
Total	**$ 644,379**	$ 610,202	**$ 644,379**	$ 610,202

Canadian total assets includes property and equipment of $181,863 (July 31, 2009 - $178,009). International total assets includes property and equipment of $71,704 (July 31, 2009 - $77,100) and goodwill of $26,942 (July 31, 2009 - $28,251).

8. 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, 2010 is $1,175 (three months ended July 31, 2009 - $650) and the six months ended July 31, 2010 is $2,350 (six months ended July 31, 2009 - $1,300). 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, 2010 of US$107 (three months ended July 31, 2009 – US$91) and for the six months ended July 31, 2010 of US$211 (six months ended July 31, 2009 – US$175).

9. 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 three months ended July 31, 2010 is $252 (three months ended July 31, 2009 - $71) and the six months ended July 31, 2010 is $481 (six months ended July 31, 2009 - $228). 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 reporting period. The total number of deferred units outstanding at July 31, 2010 is 117,842 (July 31, 2009 – 87,042). There were no deferred units exercised during the quarter.

Long Term Incentive Plans

The Company implemented Long Term Incentive Plans (LTIP's) that provide for the granting of Restricted Share Units (RSU's) and Performance Share Units (PSU's) to officers and senior management. Each RSU entitles the participant to receive a cash payment equal to the market value of the number of notional units granted at the end of the vesting period. The associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period.

Each PSU entitles the participant to receive a cash payment equal to the market value of the number of notional units granted at the end of the vesting period multiplied by factors related to the achievement of specific performance based criteria. The associated compensation expense is recognized over the vesting period based on the estimated total compensation to be paid out at the end of the vesting period factoring in the probability of the performance criteria being met during that period.

Compensation costs related to the RSU's and PSU's for the three months ended July 31, 2010 are $281 (three months ended July 31, 2009 – $591) and for the six months ended July 31, 2010 are $1,092 (six months ended July 31, 2009 - $804).

9. SECURITY-BASED COMPENSATION (continued)

Unit Option Plan

The Company has a Unit Option Plan that provides for the granting of options to certain officers. Each option is exercisable into one unit of the Fund at the price specified in the terms of the option, or the employees may elect to acquire units based on the excess of the fair market value of the Fund's units over the option price. These unit options are measured using a fair value method at the grant date. The fair value of stock-based compensation is recognized in net earnings over the vesting period.

Under the terms of this plan, the Company may grant options up to 5% of its issued and outstanding units. Options are issued at fair market value based on the volume weighted average closing price of the Fund's units for the five trading days preceding the grant date. Unit options granted in 2010 and 2009 vest on a graduated basis over five years and are exercisable over a period of ten years. The unit option compensation cost recorded for the three months ended July 31, 2010 was $156 (three months ended July 31, 2009 – $3) and for the six months ended July 31, 2010 is $253 (six months ended July 31, 2009 - $3).

A summary of the Company's unit option transactions is as follows:

	Number of Options	Weighted Average Option Price
Outstanding options, January 31, 2010	274,600	$ 15.25
Granted	242,800	$ 19.12
Exercised	-	-
Forfeited or cancelled	(8,200)	$ 15.25
Outstanding options, July 31, 2010	509,200	$ 17.10
Options exercisable, July 31, 2010	-	-

10. BUSINESS ACQUISITIONS

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

		Sitka April 6, 2009
Assets		
Accounts receivable	$	77
Inventories		778
Property and equipment		11,477
Total Assets	$	12,332
Liabilities		
Accounts payable and accrued expenses	$	179
Total Liabilities	$	179
Cash Consideration	$	12,153

On April 6, 2009, the Company acquired the assets of a privately-owned retail mall and store in Sitka, Alaska, for consideration of $12,153. The acquisition was accounted for by the purchase method of accounting and the results of operations are included in the consolidated financial statements from the closing date.

11. 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 six months ended July 31, 2010 are $35,802 including a special distribution of $2,904 paid on February 19, 2010 to unitholders of record on December 31, 2009 (six months ended July 31, 2009 - $34,348 including a special distribution of $3,386 paid on February 20, 2009 to unitholders of record on December 31, 2008). The distributions paid in cash for the three months ended July 31, 2010 are $16,449 (three months ended July 31, 2009 - $15,481).

12. SEASONALITY

The Company's business follows a seasonal pattern where historically 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 usually follow higher sales but can be dependant 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. FUTURE ACCOUNTING STANDARDS

The CICA has issued the following new accounting standards:

International Financial Reporting Standards

The Accounting Standards Board (AcSB) amended CICA Handbook Section 1506, Accounting Changes, to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. As a result, the Company is not required to disclose the progress of its implementation of International Financial Reporting Standards (IFRS) in the notes to these consolidated financial statements. Information on the Company's IFRS implementation plan is available in Management's Discussion and Analysis located in the 2009 Annual Financial Report.

Business Combinations

CICA HB 1582, Business Combinations, together with CICA HB 1601, Consolidated Financial Statements, and CICA 1602, Non-Controlling Interest, will be effective for the Company on a prospective basis for business combinations for which the acquisition date is on or after February 1, 2011. The new standards will align Canadian generally accepted accounting principles for business combinations and consolidated financial statements with IFRS. Early adoption is permitted and would facilitate harmonization of the accounting treatments of business combinations for the year ended January 31, 2011 under both Canadian GAAP and IFRS.

14. COMPARATIVE AMOUNTS

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