

PET VALU™

Better Pet Nutrition

PET VALU, INC.

Quarterly Report

Twenty-Six Weeks Ended June 30, 2007

(prepared in accordance with Accounting Principles Generally Accepted in the United States of America)
(in thousands of U.S. dollars)

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Pet Valu, Inc.

Content

3	Management's Discussion and Analysis
15	Notice to Shareholders
16	Consolidated Balance Sheets
17	Consolidated Statements of Operations
17	Consolidated Statements of Comprehensive Income
18	Consolidated Statements of Shareholders' Equity
19	Consolidated Statements of Cash Flows
20	Notes to Consolidated Financial Statements

Pet Valu, Inc.

Management's Discussion & Analysis

(prepared in accordance with Accounting Principles Generally Accepted in the United States of America)

For purposes of this discussion, "Pet Valu" or the "Company" refers to Pet Valu, Inc. and its subsidiaries.

This Management's Discussion and Analysis ("MD&A") section of the Quarterly Report contains commentary from the Company's management regarding strategy, operating results, and financial condition.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 13-week period ended June 30, 2007. The 2006 fiscal year refers to the 52-week period ended December 30, 2006. Unless otherwise indicated, all amounts are expressed in U.S. dollars. References to Canadian dollars are noted by using the International Monetary symbol for Canadian dollars, namely "C\$".

This MD&A is current as of August 7, 2007. Additional information relating to the Company, including the fiscal 2006 Annual Report of Pet Valu, Inc. and the Annual Information Form of Pet Valu, Inc. and Pet Valu Canada Inc. is available on-line at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Information

Certain information in this MD&A and in other public announcements by the Company is forward-looking and is subject to important risks and uncertainties. Forward-looking information includes information concerning the Company's future financial performance, business strategy, plans, goals, objectives, business prospects and opportunities. Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; changes in consumer spending; the outcome of legal proceedings as they arise; general economic conditions and normal business uncertainty; the availability of suitable store locations; customer preferences towards product offerings; adverse climate changes; the occurrence of a pandemic or other catastrophic event which could create shortages of labour, products or services required to operate the business profitably; fluctuations in foreign currency exchange rates; changes in the Company's relationship with its merchandise and service suppliers; interest rate fluctuations and other changes in borrowing costs; and changes in laws, rules and regulations applicable to the Company or the markets in which the Company operates. The Company cautions that this is not an exhaustive list of factors that may affect the forward-looking information in the MD&A. Potential investors and readers are urged to give careful consideration to all of these factors in evaluating any forward-looking information and are cautioned not to place undue reliance on such information.

While the Company believes that its forecasts and assumptions are reasonable, results or events predicted in this forward-looking information may differ materially from actual results or events.

Overview

The Company's principal business is that of a specialty retailer and wholesaler of food and supplies for dogs, cats, birds, fish, reptiles, and small animals and a franchisor of pet food and pet-related supply outlets. The Company was founded in 1976 with the opening of its first retail outlet in Ontario, Canada. Canadian operations have grown through "greenfield" store development and through the acquisition of smaller chains. In 1995, the Company entered the U.S. market by opening its first retail outlet in the state of Maryland. At June 30, 2007, there were 279 stores in operation in Canada and 65 stores operating in the U.S. Of the 279 Canadian stores, 196 stores were franchised and 83 were company-owned. In the U.S., 63 of the 65 stores were company-owned and two were franchised. PET VALU stores are located in Ontario, Manitoba, Pennsylvania, New Jersey, Maryland and Virginia. The Company's PAULMAC'S stores are located in Ontario.

The Company classifies its operations into two geographical operating segments, Canadian operations and U.S. operations. Canadian stores are operated by, or franchised through, Pet Valu Canada Inc. or one of Pet Valu Canada Inc.'s Ontario subsidiaries, Paulmac's Pet Food Inc. ("Paulmac's"). U.S. stores are operated by, or franchised through, Pet Valu, Inc.'s U.S. operating subsidiary, Pet Valu International Inc.

Products and Services

PET VALU and PAULMAC'S stores offer a wide range of pet food and pet-related supply products. In addition to national and premium brands of pet food and supplies, they carry a broad selection of private label dog, cat and other pet foods marketed under trademarks owned by either Pet Valu Canada Inc. or Paulmac's. Company-owned and franchise stores also offer customers a large variety of non-food products, such as rawhide products, collars, leashes, flea and tick products, pet cages and carriers, dog and cat toys, and other pet-related accessories. These products include both brand name and private label brands. Additional pet food and pet-related supply products, not regularly carried by stores, are available by special order from Company warehouses.

In Canada, some PET VALU and most PAULMAC'S stores sell fish, birds, reptiles, and/or small animals and some offer grooming services. Stores in Canada and the U.S. carry a range of wild bird products and none sell dogs or cats. Some stores in Canada and the U.S., however, facilitate the adoptions of cats and dogs on behalf of local animal welfare organizations.

Pet Valu, Inc.

The Company has ongoing programs to identify higher quality, differentiated merchandise brands as well as to develop additional private label offerings, which take a wellness-focused approach to pet nutrition. Through the introduction of these specialty and private label food offerings as well as unique pet-related supply products, the Company seeks to differentiate itself from many of its principal competitors in the sale of pet food and supplies.

Warehousing and Distribution

The Company purchases, warehouses, and distributes pet food and pet-related supplies for and to all company-owned and franchise stores in Canada and the U.S. There are eight leased and two owned distribution facilities in Canada and two leased distribution facilities in the U.S. Total space in these facilities, inclusive of office space located therein, is approximately 460,000 square feet. Most of these facilities are located regionally to support local small box store delivery logistics. The Company acquired a parcel of land in Ontario in July 2007 for the purpose of building a custom designed warehouse to suit future warehousing requirements. The Company utilized the availability in its existing bank operating line to pay the C\$1.9 million cost of the land acquisition. Distribution services in both countries are provided by a fleet of company-owned and leased vehicles and supplemented by outside carriers and short-term rentals. Distribution services include delivery of merchandise to company-owned and franchise stores, as well as pick up of merchandise from some vendors to improve the utilization of the fleet.

Franchising

In Canada, Company revenues in relation to franchise operations are generated from fees and gains on the sale of franchises, from ongoing merchandise sales to franchisees, and from royalty and other income from franchise operations. Franchisees purchase the majority of their inventory from the Company. In Canada, PET VALU franchises are sold on a turnkey basis and the price of a franchise includes leasehold improvements, where applicable, equipment, merchandise inventory, goodwill, where applicable, franchise fees, and a site development fee. PET VALU franchisees pay a royalty as a percentage of gross sales or imputed gross sales and percentage rent equal to the amount by which a fixed percentage of gross sales or imputed gross sales exceeds the base rent payable by the franchisee under the sublease. They also pay distribution fees for the delivery of merchandise to their stores calculated on the basis of a percentage of the retail value of products and they contribute to a promotion fund which is used to defray certain Company expenses in relation to promotional activities. They are also responsible, generally, for the costs of operating the business, including rent, employee wages and benefits, and other costs. Transfer fees are charged on the sale of existing franchises to new franchisees. PAULMAC'S franchisees pay a weekly royalty as a percentage of gross sales and are responsible, generally, for the costs of operating the business, including rent, employee wages and benefits, and other costs. PET VALU franchisees in Canada and PAULMAC's franchisees sign a franchise agreement and, generally, a lease or sublease. The Company is not currently offering new PAULMAC'S franchises.

The Company has a U.S. franchise system which differs from the Canadian system; however, the Company is not currently offering new PET VALU franchises in the U.S. and, as at June 30, 2007, there were only two U.S. franchises in operation.

Key Accomplishments and New Developments

During the first half of fiscal 2007 and the fiscal year ended December 30, 2006, the Company pursued key priorities intended to improve results from operations, liquidity, capital resources and cash flow.

Reniching project

The Company continued to pursue a long-term objective of shifting its product offering to higher-margin, high-quality pet products, which include pet specialty brands and private label products featuring a wellness-focused approach to pet nutrition. This aspect of reniching is expected to improve operating profits and enhance the image of the Company as a specialty retailer. The other key component of the Company's reniching efforts involves the development of revised or new store location criteria reflecting changes in consumer traffic patterns, shopping centre developments, and competitive dynamics.

The Company continued its rebranding efforts which were commenced in fiscal 2005 with the introduction of the Company's PET VALU BETTER PET NUTRITION trademark, now used in addition to the PET VALU trademark and name. This additional mark, together with the transition from the "discount" image in association with the PET VALU business, is indicative of efforts to transform the Company's image from discount retailer to purveyor of higher quality products.

Franchise Repurchases

During the first half of fiscal 2007 and the fiscal year ended December 30, 2006, the number of company-owned stores in Canada increased by five and 10, respectively. This increase was primarily due to the repurchase of several franchises where it was determined that the stores would operate more profitably as company-owned stores and therefore generate higher net income for the Company. The decision to invest in these repurchases was based on the projected return on investment. As a result of converting franchise stores to company-owned stores, sales and revenue, gross profits, store operating expenses and net income all increased. For a more in depth discussion of revenues, gross profit and expenses, please refer to the section of this MD&A entitled "Results of Operations".

Pet Valu, Inc.

Normal Course Issuer Bid

In the second quarter of fiscal 2007, the Company used \$1.7 million from operations to repurchase and cancel publicly traded exchangeable shares of Pet Valu Canada Inc. under a previously announced normal course issuer bid.

Vendor Product Recalls

In the first half of fiscal 2007, certain vendors announced recalls of certain production runs for certain products. These recalls received significant media attention and raised some concern within the industry. However, the number of recalled products carried by the Company is limited. Accordingly, the recalls did not have a material affect on the sales or the results of operations of the Company. The Company's long-term objective of shifting its product offering to higher-margin, high-quality pet products, which include pet specialty brands and private label products featuring a wellness-focused approach to pet nutrition is believed to be providing a competitive advantage to the Company with respect to consumers looking for alternative foods for their pets.

U.S. Expansion

The Company is currently reviewing its site location criteria for the U.S. operations. No U.S. stores were opened in the first half of fiscal 2007 during this review. The Company does not expect any stores to be opened until the review is completed and specific locations that meet the new site location criteria are identified, leases negotiated and set-up completed. Due to the time required to complete each of these steps, the Company does not expect to open any stores in the U.S. during the remainder of fiscal 2007.

Bank Credit Facilities

On July 14, 2006, the Company entered into an amended and restated credit agreement with Bank of Montreal and Harris, N.A. The credit agreement provides the Company with a C\$15 million revolving line of credit for a term of five years and a C\$5 million term loan to be repaid over twenty-four months. The credit agreement contains a financial covenant in relation to debt service and certain limitations regarding indebtedness, liens, leases, dividends and capital expenditures. Interest on the revolving line of credit is charged at Bank of Montreal's prime rate of interest plus 0.25% and interest on the term loan is charged at the bank's prime rate of interest plus 1%.

Debenture Issuance and Repayments

A private placement of 10% non-convertible unsecured subordinated debentures of Pet Valu Canada Inc. in the principal amount of C\$8.8 million was completed on July 24, 2006. The debentures are guaranteed by Pet Valu, Inc. The proceeds from the private placement along with availability from the revolving line of credit referenced above were used to make repayment to the debenture trustee and in certain cases, the debenture holders directly of C\$15.1 million of debentures which matured on July 24, 2006. On October 31, 2006, the Company prepaid the entire principal amount of C\$15 million of a 12.5% debenture which was otherwise due on September 30, 2009.

Warrant Exercises

Warrants of Pet Valu Canada Inc. which were listed for trading on the Toronto Stock Exchange under the symbol PVC.WT expired on July 24, 2006. Proceeds from the exercise of warrants on or before July 24, 2006 totaled C\$8.0 million. These proceeds reduced the borrowing from the revolving line of credit that was used to make repayment, as referred to above, of C\$15.1 million of debentures.

Overall Performance

Net income for the second quarter of fiscal 2007 was \$2.8 million as compared to net income of \$1.2 million in the second quarter of fiscal 2006. For the first half of fiscal 2007, net income was \$4.5 million as compared to \$2.1 million for same period of fiscal 2006. The increase in net income was primarily due to increased sales and revenues and improvements in blended gross profit margins. Increases in comparable store sales in both the U.S. and Canada contributed to increased sales and revenues. Blended gross profit margins increased as a result of a shift to higher margin products. For a more in depth discussion of revenues, gross profit and expenses, please refer to the section of this MD&A entitled "Results of Operations".

Cash flow from current operations was sufficient to meet all of the Company's debt obligations during the quarter and the year to date. There were no acquisitions during the first half of fiscal 2007 that required funding. Replacements of certain property and equipment were funded through vendor leasing programs. In Canada, as part of regular operations, franchises were repurchased and sold on an on-going basis. Cash flow required to support the cost of repurchasing franchise store assets was partially offset by cash received from the sale of Company-owned store assets to new franchisees.

The Company anticipates that cash flow from current operations will be sufficient to meet debt servicing obligations for the remainder of fiscal 2007. Future expansion will be funded through operating cash flow. The Company anticipates that it will continue to generate positive cash flow for the foreseeable future.

The Company's financial condition improved in the second quarter of fiscal 2007 due to positive cash flow from operations. The Company's capital structure remained similar to the end of the prior year. There was no additional debt issued other than capital leases for capital asset additions.

Pet Valu, Inc.

Summary of Quarterly Results

Eight quarter summary

(expressed in thousands of U.S. dollars except for per share amounts)

	Fiscal 2005		Fiscal 2006				Fiscal 2007	
	3 rd Quarter	4 th Quarter	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	1 st Quarter	2 nd Quarter
System-wide sales ⁽¹⁾	\$ 42,350	\$ 48,582	\$ 43,603	\$ 44,926	\$ 47,301	\$ 50,712	\$ 45,300	\$ 48,528
Sales and revenue	33,307	37,563	34,081	35,501	37,454	40,001	35,893	38,645
Gross profit	9,041	11,754	9,223	9,919	11,169	13,346	10,246	11,918
Net income	1,420	4,013	922	1,218	2,126	3,253	1,749	2,774
Net income before non-comparable items ⁽²⁾	1,420	3,175	976	1,272	2,150	3,809	1,749	2,774
Net income per share – basic	0.19	0.54	0.12	0.16	0.25	0.37	0.20	0.32
Net income per share – diluted	0.16	0.46	0.11	0.13	0.21	0.32	0.17	0.27
Net income per share before non-comparable items ⁽³⁾								
basic	0.19	0.42	0.13	0.17	0.25	0.44	0.20	0.32
diluted	0.16	0.37	0.12	0.14	0.22	0.37	0.17	0.27
Non comparable items								
Promotion fund allowance	-	582	-	-	-	(180)	-	-
Loss on debt extinguishment	-	-	-	-	-	1,138	-	-
Future tax recovery on NOLs	-	(1,210)	-	-	-	(154)	-	-
Financing initiatives costs	-	-	84	85	38	-	-	-
Applicable tax on non-comparable items	-	(210)	(30)	(31)	(14)	(248)	-	-

⁽¹⁾ System-wide sales is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, the Company's method of calculating system-wide sales may differ from other companies. System-wide sales include sales at all company-owned and franchised stores, as reported by franchisees. Management believes system-wide sales is a useful supplemental measure as it provides a measure that can be used to analyze growth and to facilitate an understanding of financial performance as the Company's franchisees pay royalties and percentage rent based on a percentage of their sales. Management uses system-wide sales for purposes of evaluating performance and growth internally and for internal budgeting and planning purposes.

⁽²⁾ Net income before non-comparable items is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, the Company's method of calculating net income before non-comparable items may differ from other companies. Management believes net income before non-comparable items is a useful supplemental measure as it provides investors with a measure that can be used to compare year over year net income without the effects of non-recurring or non-operational activities. Management uses net income before non-comparable items as a key performance measure of the results of operations for purposes of evaluating performance internally and for internal budgeting and planning processes.

⁽³⁾ Net income per share before non-comparable items is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, the Company's method of calculating net income per share before non-comparable items may differ from other companies. Management believes net income per share before non-comparable items is a useful supplemental measure as it provides investors with a measure that can be used to compare year over year net income per share without the effects of non-recurring or non-operational activities. Management uses net income per share before non-comparable items as a key performance measure of the results of operations for purposes of evaluating performance internally and for internal budgeting and planning processes.

Non-comparable items include (1) any allowance for promotion fund deficit, (2) any loss on extinguishment of debt, (3) any future income tax recoveries relating to the net operating loss ("NOL") carryforwards of the U.S. operations, and (4) legal and other costs relating to financing initiatives that are not pursued. For a more in depth discussion of non-comparable items, please refer to the section of this MD&A entitled "Results of Operations".

The Canadian dollar strengthened against the U.S. dollar in both the second quarter and the year to date period. The average U.S. / Canadian foreign currency exchange rate for the second quarter of fiscal 2007 was 1.0975 as compared to the average for the second quarter of fiscal 2006 of 1.1213. The average U.S. / Canadian foreign currency exchange rate for the year to date in fiscal 2007 was 1.1349 as compared to the average for the year to date in fiscal 2006 of 1.1381. Foreign currency exchange rates are used in the operational activities of the Company to calculate gains or losses on foreign denominated monetary items, and to convert the results of Canadian operations from the operating currency of Canadian dollars to the reporting currency of U.S. dollars. Operationally, the change in the foreign currency exchange rate resulted in decreased Canadian dollar cost of U.S. products for the Canadian operations. Foreign currency exchange gains or losses on long-term monetary items are disclosed separately in the Consolidated Statement of Operations. The Canadian operations use the Canadian dollar as their operating currency. Therefore, the financial statements of the Canadian operations are converted to U.S. dollars upon consolidation with the U.S. operations. As the Canadian operations comprise a significant portion of the total operations, the majority of items in the financial statements are affected by the change in the U.S. / Canada currency exchange rate.

Pet Valu, Inc.

During fiscal 2006, 2005 and 2004, the value of the U.S. dollar declined significantly against the Canadian dollar. This decline caused notable effects on the financial statements of the Company.

The Company reviews the likelihood of a realization of the NOL carryforwards of the U.S. operations on a regular basis. The Company believes it is more likely than not that a portion of the NOL carryforwards will be realized based on the current and projected taxable income of the U.S. operations. The Company reduced the valuation allowance relating to the NOL carryforwards for tax purposes of the U.S. operations in the fourth quarter of fiscal 2006, 2005 and 2004. There was no change in the valuation allowance in the first half of fiscal 2007. At the end of the second quarter of fiscal 2007, the valuation allowance was \$6.8 million.

The Company and its Canadian PET VALU franchisees make contributions to the Canadian promotion fund, which is used for marketing and advertising activities. The Company determined that the deficit balances of the promotion fund at the end of fiscal 2006 and 2005 were unlikely to be recovered in the next fiscal year due to the magnitude of the promotion fund deficit and the Company's assessment of future promotional plans. Therefore, an allowance of \$0.6 million was provided at the end of fiscal 2005. The deficit balance of the promotion fund was reduced in fiscal 2006 to \$0.4 million and the allowance was adjusted accordingly. There has been no adjustment to the allowance in the first half of fiscal 2007.

The Company does not have a significant exposure to seasonal fluctuations among its product lines. Traditionally, fourth quarter earnings tend to be stronger due to higher store sales and increased margins, particularly in the month of December.

Results of Operations

Impact of a strengthening of the Canadian dollar versus the U.S. dollar

The Company is comprised of various Canadian and U.S. subsidiaries. Generally, the country in which the subsidiary operates will determine the functional currency. The reporting currency for the consolidated financial statements is U.S. dollars. Therefore, the statement of operations for each subsidiary whose functional currency is not U.S. dollars is converted to U.S. dollars at the end of the period using the year-to-date average foreign currency exchange rate. During fiscal 2006 the Canadian dollar strengthened significantly. Comparatively, in the second quarter and year to date period of fiscal 2007, the Canadian dollar strengthened modestly against the U.S. dollar. The result of this strengthening was that each line item in the statements of operations of subsidiaries using Canadian dollars as their functional currency increased in U.S. dollar value by 2.2% in the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006 and by 0.3% for the year to date period of fiscal 2007 as compared to the year to date period of fiscal 2006. This effect was somewhat offset when the results of operations of subsidiaries which use the U.S. dollar as their functional currency were consolidated with the results of operations of the Canadian subsidiaries. In all areas of the following analysis, the change in the foreign currency exchange rate will have the effect of increasing fiscal 2007 dollar amounts as compared to those of fiscal 2006.

Non-comparable items

To address the repayment on July 24, 2006 of C\$15.1 million of debentures, the Company incurred legal and other costs in the amount of \$0.1 million in the second quarter of fiscal 2006 and \$0.2 million in the first half of fiscal 2006 to assist in the preparation of documents and materials for a potential financing initiative that was ultimately not pursued.

Comparison of second quarter fiscal 2007 to second quarter fiscal 2006

Store Operations

During the second quarter of fiscal 2007, there was a net decrease in the number of stores in operation of two in Canada and four in the U.S. For the year to date period, there was a net decrease in the number of stores in operation of four in Canada and four in the U.S. Store operations are evaluated on an on-going basis with openings and closings resulting from shifts in demographics, quality of locations, population growth, and competition. The stores that were closed in the first half of fiscal 2007 were identified by an evaluation of criteria such as cash flow contribution and the Company's ability to achieve favourable lease termination arrangements. The Company believes that the Canadian markets in which the Company operates are highly competitive, mature markets where growth is limited to normal population changes, inflation, changes in per pet spending, and consolidation within the industry itself.

In the second quarter of fiscal 2007, the average number of stores in operation was 346.5, which was 2.5 stores less than the average for the second quarter of fiscal 2006. In the U.S. the average number of stores in operation during the second quarter of fiscal 2007 was 66.8, which was a decrease of 0.7 stores or 1.1% as compared to the second quarter of fiscal 2006. In Canada the average number of stores in operation was 279.8 in the second quarter of fiscal 2007, which was a decrease of 1.8 stores or 0.6% as compared to the second quarter of fiscal 2006. For the year to date period, the average number of stores in operation was 1.8 fewer in Canada and 1.0 more in the U.S. for a total of 0.8 fewer stores as compared to the same period of fiscal 2006.

Pet Valu, Inc.

System-wide sales

System-wide sales represent retail sales to customers through company-owned and franchise stores. During the second quarter of fiscal 2007, system-wide sales increased by \$3.6 million or 8.0% from the prior year to \$48.5 million. For the year to date, system-wide sales increased by \$5.3 million or 6.0% from the prior year to \$93.8 million. The change in foreign currency exchange rates resulted in an increase in system-wide sales for the second quarter from the prior year of \$0.9 million or 1.9%. For the year to date, the change in foreign currency exchange rates resulted in an increase in system-wide sales of \$0.3 or 0.4%. Before the effects of the change in foreign exchange rates, the system-wide sales in the Canadian operations increased by \$2.6 million or 7.1% for the quarter and \$4.4 million or 6.1% for the year to date period. The system-wide sales in the U.S. operations increased by \$0.2 million or 2.1% for the quarter and \$0.6 million or 3.5% for the year to date period.

Comparable store sales represent a year-over-year comparison of the same group of stores that were open during both years of comparison. A store becomes comparable one year after its first full month of operation. Comparable store sales in Canada increased by 7.1% and 6.3% for the second quarter and year to date, respectively. Comparable store sales in the U.S. increased by 2.5% and 2.4% for the second quarter and year to date, respectively. Factors contributing to the increase in Canada include product differentiation strategies and changes in competition. As a result of differentiation strategies, higher margin product sales have continued to show strong growth, while lower margin product sales declines have moderated. Reductions in competition in certain markets appear to have had a more positive impact on sales than increases in competition in certain other markets. Canadian sales gains continue to be somewhat limited by the maturity of markets and demographic shifts. Similar factors existed in the U.S.; however, increases in competition in certain markets had a greater negative impact on overall sales than in Canada.

Sales and revenue

Sales and revenue represent retail sales through company-owned stores in Canada and the U.S., retail sales through franchise stores in the U.S., merchandise sales to franchisees in Canada, initial and continuing franchise fees in both countries, and wholesale sales to third parties. The Company's sales and revenue increased by \$3.1 million or 8.9% in the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006. For the year to date period, sales and revenue increased by \$5.0 million or 7.1%. The change in foreign currency exchange rates resulted in an increase in sales and revenue of \$0.6 million for the quarter and \$0.2 million for the year to date period. Before the effects of the change in foreign currency exchange rates, the sales and revenue in the Canadian operations increased by \$2.4 million or 8.8% for the quarter and \$4.2 million or 8.0% for the year to date period. The sales and revenue in the U.S. operations increased by \$0.2 million or 2.5% for the quarter and \$0.6 or 3.6% for the year to date period. Increases in comparable store sales contributed to the increase in sales and revenue in Canada and the U.S. An increase in the average number of stores in operation for the year to date period in the U.S. also contributed to the increase in sales and revenue from the U.S. operations.

Total merchandise sales through company-owned stores increased by \$1.9 million to \$16.9 million for the second quarter, accounting for a 5.3% increase in consolidated sales and revenue. For the year to date period, merchandise sales through company-owned stores increased by \$3.6 million to \$32.7 million. The change in foreign currency exchange rates resulted in an increase of \$0.2 million in merchandise sales through company-owned stores for the quarter and less than \$0.1 million for the year to date. Before the effects of the change in foreign currency exchange rates, the merchandise sales through company-owned stores in the Canadian operations increased by \$1.5 million or 21.6% for the quarter and \$2.8 million or 21.9% for the year to date period. In the U.S. operations, merchandise sales through company-owned stores increased by \$0.3 million or 3.3% for the quarter and \$0.7 million or 4.3% for the year to date period. Increases in the average number of company-owned stores and the increase in comparable store sales contributed to the increased merchandise sales in both Canada and the U.S.

Merchandise revenue from franchisees includes (1) merchandise sales at U.S. franchise stores; and (2) merchandise sold to Canadian franchisees together with related franchise distribution charges, royalty revenue and percentage rent revenue. Total merchandise revenue from franchise stores increased by \$1.2 million for both the second quarter and the year to date period as compared to the prior year. The change in foreign currency exchange rates resulted in an increase of \$0.4 million for the quarter and \$0.1 million for the year to date period in merchandise revenue from franchise stores. Before the effects of the change in foreign currency exchange rates, the merchandise revenue from franchise stores in the Canadian operations increased by \$0.9 million or 4.4% for the quarter and \$1.2 million or 3.1% for the year to date period. In the U.S. operations, merchandise revenue from franchise stores decreased by \$0.1 million for both the quarter and the year to date period as compared to the prior year. Increases in comparable stores sales contributed to the increase in merchandise revenue from franchises. There were fewer franchises in operation during the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006 which reduced the increase in merchandise revenue from franchisees resulting from comparable store sales increases.

Initial fees and gains on the sale of franchises of \$0.3 million for the second quarter increased by less than \$0.1 million as compared to the same period of the prior year. For the year to date period, initial fees and gains of \$0.6 million was \$0.1 million greater than the prior year.

Wholesale revenue of \$0.3 million and \$0.5 million in the second quarter of fiscal 2007 and the year to date period, respectively were both less than \$0.1 million greater than the prior year.

Pet Valu, Inc.

Gross profit

Gross profit on sales and revenue increased by \$2.0 million or 20.2% in the second quarter and \$3.0 million or 15.8% for the year to date period as compared to the same periods in fiscal 2006. The change in foreign currency exchange rates resulted in an increase in gross profit of \$0.2 million for the quarter and less than \$0.1 million for the year to date period. Before the effects of the change in foreign currency exchange rates, gross profit in the Canadian operations increased by \$1.8 million or 24.8% for the quarter and \$2.9 million or 20.5% for the year to date period. In the U.S. operations, gross profit was consistent with the prior year for the quarter and increased by \$0.1 million or 1.6% for the year to date.

Blended gross profit margins increased to 30.8% in the second quarter of fiscal 2007, as compared to 27.9% in the second quarter of fiscal 2006. Gross profit margins in the U.S. stores were consistent with the second quarter and the year to date period of the prior year. Canadian company-owned stores achieved an increase in gross profit margins of 0.4% for the second quarter and 0.7% for the year to date period as compared to the prior year.

Store operating expenses

Store operating expenses increased by \$0.3 million or 7.3% in the second quarter and by \$0.5 million or 7.3% for the year to date period as compared to the same periods of fiscal 2006. Store operating expenses in the Canadian operations increased by \$0.3 million or 15.5% in the second quarter and by \$0.5 million or 15.9% for the year to date period. In the U.S. operations, store operating expenses were consistent with the prior year for the quarter and the year to date period. On a per store basis, store operating costs in Canada increased by 4.5% for the quarter and 3.1% for the year to date period as compared to the prior year and in the U.S. decreased by 0.8% for the quarter and 1.8% for the year to date period. Increased wages and advertising in Canada were offset by reductions in most other expenses on a per store basis. In the U.S. decreases in advertising contributed to the decrease in store operating costs on a per store basis offsetting increases in wages.

General and administrative expenses

General and administrative expenses decreased by less than \$0.1 million or 0.4% in the second quarter of fiscal 2007 and decreased by less than \$0.1 million or 0.9% for the year to date period as compared to the same periods for the prior year. The change in foreign currency exchange rates resulted in an increase of less than \$0.1 million in general and administrative expenses in both the second quarter and the year to date period as compared to the same periods in the prior year. Before the effects of the change in foreign currency exchange rates, general and administrative expenses in the Canadian operations were \$0.1 million less than the prior year for both the second quarter and the year to date period. In the U.S. operations, general and administrative expenses were consistent with the prior year for both the second quarter and the year to date period. Included in the general and administrative costs of the Canadian operations for the first and second quarter of fiscal 2006 were one time costs incurred in relation to the Company's refinancing efforts that are included in non-comparable items.

Net interest expense

Net interest expense decreased by \$0.5 million or 52.2% in the second quarter of fiscal 2007 and \$1.0 million or 50.4% for the year to date period as compared to the same periods of the prior year. Net interest expense in the Canadian operations decreased by \$0.5 million or 48.2% in the second quarter and \$0.9 million or 45.7% for the year to date period as compared to the same periods of the prior year, primarily due to the repayment of debentures in the third and fourth quarter of fiscal 2006. In the U.S. operations, net interest expense decreased by less than \$0.1 million in the second quarter and by \$0.1 million for the year to date period as compared to the same periods of the prior year.

Net income

Net income for the second quarter of fiscal 2007 was \$2.8 million as compared to net income of \$1.2 million in the second quarter of fiscal 2006. For the first half of fiscal 2007, net income was \$4.5 million as compared to \$2.1 million for same period of fiscal 2006. The increase in net income was primarily due to increased sales and revenues and improvements in blended gross profit margins. Increases in comparable store sales in both the U.S. and Canada contributed to increased sales and revenues. Blended gross profit margins increased as a result of a shift to higher margin products.

Liquidity and Financial Position

At the end of the second quarter of fiscal 2007, the Company had non-cash working capital of \$10.5 million, which was \$3.1 million more than the non-cash working capital of \$7.4 million at the end of fiscal 2006. Cash flow from operations contributed to the increase in working capital. No additional working capital requirements are expected in fiscal 2007; however, as store locations are added in the future, inventory requirements may increase.

Merchandise accounts payable leveraging (trade payables as a percentage of inventory) decreased to 22.7% as of June 30, 2007 as compared to 26.8% as of December 30, 2006. The Company maintains a relatively low level of leveraging due to efforts to realize increased vendor discounts and allowances.

Total assets increased by \$4.0 million to \$62.3 million at June 30, 2007, as compared to \$58.3 million at the end of fiscal 2006. The change in foreign currency exchange rates resulted in an increase of \$4.4 million in total assets as compared to the end of fiscal 2006. Reductions in accounts receivable from the end of fiscal 2006 was partially offset by increases in warehouse inventory levels and Canadian corporate store inventory levels, which increased due to an increase in the number of corporate stores operating in Canada.

Pet Valu, Inc.

Cash provided by operating activities in the second quarter of fiscal 2007 was \$3.4 million as compared to cash used in operating activities of \$0.4 million in the second quarter of fiscal 2006. For the year to date period of fiscal 2007 cash provided by operating activities was \$0.2 million as compared to \$0.1 million for the same period of the prior year. The difference between the quarters was primarily due to the timing of income tax payments in Canada.

Net cash used in investing activities for the second quarter of fiscal 2007 decreased by \$0.2 million to \$0.6 million as compared to \$0.8 million used in the second quarter of fiscal 2006. For the year to date period of fiscal 2007, cash used in investing activities was \$0.8 million as compared to \$1.6 million for the same period of the prior year. A decrease in repurchases of franchises resulting in repurchased property and equipment and goodwill contributed to the decrease in the use of cash for investing activities.

Net cash used in financing activities in the second quarter of fiscal 2007 was \$3.2 million as compared to net cash provided by financing activities of \$0.8 million in the second quarter of fiscal 2006. For the year to date period, cash provided by financing activities was less than \$0.1 million as compared to \$0.3 million for the same period of the prior year. The Company increased the amount of funds borrowed under the bank operating facility to make scheduled principal repayments of long-term debt and for use in operating activities. In the second quarter of fiscal 2007, the Company used \$1.7 million from operations to repurchase and cancel publicly traded exchangeable shares under a previously announced normal course issuer bid.

There were no acquisitions during the first quarter of fiscal 2007 that required funding. Replacements of certain property and equipment were funded through vendor leasing programs. In Canada, as part of regular operations, franchises were repurchased and sold on an on-going basis. Cash flow was required to support the cost of repurchasing franchise store assets.

The Company anticipates that cash flow from current operations will be sufficient to meet debt servicing obligations for the remainder of fiscal 2007. Future expansion will be funded through operating cash flow. The Company anticipates that it will continue to generate positive cash flow for the foreseeable future.

Capital Resources

As of July 14, 2006, the Company entered into an amended and restated credit agreement with Bank of Montreal and Harris N.A. The credit agreement provides the Company with a C\$15 million revolving line of credit for a term of five years and a C\$5 million term loan to be repaid over twenty-four months. The credit agreement contains a financial covenant in relation to debt service and certain limitations regarding indebtedness, liens, leases, dividends and capital expenditures. This amended and restated credit agreement replaces a previous agreement with Bank of Montreal in effect since November 14, 2000 (as amended and extended from time to time). The Company is in compliance with the covenants contained in the amended and restated credit agreement as of the date hereof.

At June 30, 2007, the Company had utilized \$6.6 million of the revolving line of credit as compared to \$3.1 million at the end of fiscal 2006. Under the amended and restated credit agreement, the Company was required to draw on the C\$5 million term loan on or before September 30, 2006, which it did on September 30, 2006. The term loan is currently being repaid in equal monthly installments over a 24-month period.

On June 30, 2007, Pet Valu Canada Inc. had outstanding C\$8.8 million of 10% non-convertible unsecured subordinated debentures, which mature on July 24, 2008 and C\$3.7 million of 8.5% convertible unsecured subordinated debentures, which mature December 29, 2009.

The Company does not have any commitments with respect to future capital expenditures. Replacement of existing capital assets will occur as required. Additions of furniture and fixtures are normally financed through internal cash flow. Additions of tractors, trailers, warehouse material handling equipment, and some computer and office equipment may be financed through vendor leasing programs. The Company is planning for the development of new computer facilities. Capital expenditures related to this development are expected to be approximately \$0.4 million.

Off-Balance Sheet Arrangements

There are no new off-balance sheet arrangements. Please see the discussion of off-balance sheet arrangements in the MD&A for the year ended December 30, 2006.

Pet Valu, Inc.

Risks and Uncertainties

The Company is exposed to a number of risks in the normal course of its business that have the potential to affect operating performance. Exposure to certain risks is an integral part of carrying on business.

Competition

The Company's stores compete with four main types of competitors: (i) grocery product retailers; (ii) pet food specialty stores; (iii) pet product superstores; and (iv) pet shops. Grocery product retailers include grocery stores, mass merchandisers, warehouse clubs, and convenience retailers such as some convenience stores, discount stores, drug stores, and hardware general merchandise stores.

The Company's stores compete with these groups by seeking to offer products at competitive prices as well as higher margin, high quality products including private label and natural and wellness-focused products, and by seeking to provide a convenient, friendly, service-oriented shopping environment in which customers may discuss their pets and obtain product information and advice about the care of their pets from knowledgeable staff.

The Company expects continued increases in competition including increases to retail square footage in the pet product specialty sector which may decrease sales at established stores. The Company plans to address these challenges by employing strategies focused on its key competitive strengths. These include customer service, convenience, and the introduction of new specialty and wellness-focused products.

Dependence on Key Personnel

The success of the Company is dependent to a significant degree upon the expertise and experience of its senior management, most of whom have been with the Company for many years. The Company's continued success could depend on its ability to retain current management or hire comparable replacement personnel.

Reliance on Suppliers, Product Lines and Current Distribution Arrangements

The Company purchases significant amounts of its merchandise from certain key suppliers. A termination or interruption in the flow of merchandise from any of these vendors or any other significant suppliers of pet food or pet-related supplies offered by the Company could have an adverse impact on the Company.

Risks Associated with Foreign Operations

The Company does not have operations outside Canada and the U.S. However, it does purchase certain of its goods for resale from foreign suppliers in foreign currencies. The foreign currency exchange rate at the time of purchase is included in the calculation of the cost of the product. There are, therefore, the usual risks associated with exchange rate fluctuations. The Company does not feel that purchases of this type are sufficient in magnitude to warrant hedging of currency rates.

The Company's merchandise purchases include products that are subject to various laws and rules, including those administered by the Food and Drug Administration in the U.S. and the Canadian Food Inspection Agency in Canada. These agencies are empowered to act to prevent the importing of goods for various reasons within their mandate. Broad import restrictions could negatively impact the ability of the Company to source products demanded by its customers. For example, import and export controls on animal protein ingredients of pet products pursuant to events such as the discovery of bovine spongiform encephalopathy in cattle or the avian flu virus in poultry could disrupt the supply of products available for the Company to sell, or affect the price of brand name products or the raw material ingredients for its private label products.

Leases

The Company leases space for most of the company-owned and franchise stores, as well as the majority of warehouse and office facilities. The terms of the leases vary by location. In the event of unreasonable rent increases upon renewal of store leases or an inability to secure renewals, relocation costs should not be material due to store sizes. However, there is the usual risk associated with the loss of a profitable retail location and the inability to find a substitute location of equal profitability. The Company does not anticipate at the present time any material impact on profitability in relation to potential losses of desirable store locations. With respect to warehouse and office facilities, the Company expects that it will be in a position to find adequate facilities in the event that it is unable to reach satisfactory extensions of lease terms at current locations.

Environmental Matters

As an owner, occupier, and lessor of property, the Company is subject to various laws relating to environmental matters. Under such laws an owner, occupier, or lessor could be liable for the costs of removal and remediation of certain contaminants with respect to the properties it owns, occupies, or leases. These risks are believed to be limited.

Pet Valu, Inc.

Litigation

One of the Company's wholly owned subsidiaries, Paulmac's, is currently defending a motor vehicle claim where the amount claimed for damages totals C\$3.6 million and the limit of insurance coverage is C\$2.0 million. Moreover, the plaintiffs make a claim for punitive damages and there is no insurance coverage for punitive damages. While the outcome of this litigation is not certain, the Company believes that there are substantive defences to this claim.

Pet Valu, Inc. and its affiliates (other than Paulmac's) have, both before and after this claim, and Paulmac's has, since its acquisition by Pet Valu Canada Inc., maintained automobile insurance coverage limits which have been, and are, well in excess of the above limit and which have been, and are, adequate in the view of management to cover future risks similar to the above.

Pet Valu Canada Inc. has been advised that a motion is being pursued in the Court of Queen's Bench in the Province of Saskatchewan to include Pet Valu Canada Inc. and Pet Valu, Inc., among other defendants, in a potential class action lawsuit involving allegations concerning the manufacture and sale of pet food products alleged to contain tainted ingredients.

The Company is in the early stages of its investigation of this potential claim. Based upon information known to date, it believes that its overall exposure in relation to this claim is not material. It intends to vigorously defend itself in this matter.

From time to time, the Company is also named as a defendant in legal proceedings arising from its normal business activities. Although the amount of any liability that could arise with respect to such currently pending actions cannot be estimated, in the opinion of the Company, any such liability is not likely to have a material adverse effect on its financial position, operating results or liquidity.

Seasonality

The Company does not have a significant exposure to seasonal fluctuations among its product lines. Traditionally, fourth quarter earnings tend to be stronger due to higher store sales and increased margins, particularly in the month of December.

Inflation

The results of operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation, the Company believes that the effects of inflation on its operations have been immaterial over the last three years.

Market risks

The Company does not engage in financial transactions for trading or speculative purposes.

Interest rate risk

The Company believes that debt subject to variable interest rates is at an acceptable level and that any current obligations affected by minor fluctuations in rates can be met by current operations.

Expansion Plans

The Company's expansion depends on several factors including the ability of its stores to maintain sales and margins, as well as its ability to obtain favourable store sites, to compete in existing and new geographic markets, and to secure or generate adequate financial resources.

Other Risks

Additional risks include: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; changes in consumer spending; general economic conditions and normal business uncertainty; customer preferences toward product offerings; adverse climate changes; the occurrence of a pandemic or other catastrophic event which could create shortages of labour, products or services required to operate the business profitably; and changes in the laws, rules and regulations applicable to the Company or the markets in which the Company operates.

Transactions with related parties

There are no new transactions with related parties in the first half of fiscal 2007. Please see the discussion of transactions with related parties in the MD&A for the year ended December 30, 2006.

Critical accounting estimates

There are no new critical accounting estimates. Please see the discussion of critical accounting estimates in the MD&A for the year ended December 30, 2006.

Pet Valu, Inc.

Changes in Accounting Policies including Initial Adoption

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), at the beginning of fiscal 2007. FIN 48 is an interpretation of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

There are no other changes in accounting policies. Please see the discussion of changes in accounting policies in the MD&A for the year ended December 30, 2006.

Outstanding Share Data

The following table contains the number of outstanding voting or equity securities at June 30, 2007 and the end of fiscal 2006. Please refer to notes 4 and 5 of the financial statements for additional information.

	<u>June 30, 2007</u>	<u>December 30, 2006</u>
Common Stock of Pet Valu, Inc.	100	100
Additional Special Voting Stock of Pet Valu, Inc.	9,626,274	9,626,274
Exchangeable Shares of Pet Valu Canada Inc.	8,714,496	8,743,516
Common Shares of Pet Valu Canada Inc. (held by Pet Valu, Inc.)	1	1
Non-voting securities convertible into Exchangeable Shares of Pet Valu Canada Inc.		
8.5% debentures of Pet Valu Canada Inc.	672,727	672,727
Warrants of Pet Valu Canada Inc. issued September 30, 2004	851,944	851,944
Executive and Board stock options	482,170	602,450

2007 Outlook

The Company has several key operating objectives for 2007 and 2008. A primary objective will be to continue re-engineering existing operating practices to highest industry standards. In this regard, the Company will be seeking to improve its technological systems, including those related to materials handling, as well as those where there are opportunities to increase automation of routine practices throughout the business. The Company will also be reviewing its fuel and energy strategies so as to improve distribution efficiencies; its merchandising models so as to be able to fully utilize varying store sizes within the scope of small box retailing; its franchising systems in Canada; and its risk management strategies.

As well, the Company plans to upgrade the shopping experience at its stores under "Better Pet Nutrition" re-licensing, including enhancements to store image and services, expansion of differentiated product selection, the identification of more targeted store location criteria, improvements to space management programs, and the integration of an e-commerce component to the business.

The Company intends to validate a U.S. market expansion platform that addresses changes in both the niche positioning of competitors as well as changes in consumer purchasing trends. On another front, the Company plans on strengthening the capacity of management to complete its operating and growth objectives, as well as improving the productivity of management by establishing higher levels of accountability in relation to strategic business planning, project management and interdepartmental coordination.

The Company's financial goal will be to efficiently utilize available capital by applying cash flow to projects that meet targeted returns. In that regard, the Company acquired a parcel of land in Ontario in July 2007 for the purpose of building a custom designed warehouse to suit future warehousing requirements. The Company may also utilize available capital for acquisitions as opportunities arise.

In general, the current focus of the Company will be toward generating profit improvements from existing operations and reengineering the platform for future growth.

Pet Valu, Inc.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company has designed disclosure controls and procedures to provide reasonable assurance that material information related to the Company is included in the annual filings.

The Company has designed 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 GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Pet Valu, Inc.

August 7, 2007

To the Shareholders of Pet Valu, Inc.:

An auditor has not reviewed the consolidated balance sheet or the consolidated statement of shareholders' equity of Pet Valu, Inc. as at June 30, 2007, nor the consolidated statements of operations, comprehensive income and cash flows for the twenty-six week period then ended.

Pet Valu, Inc.

Consolidated Balance Sheets

In accordance with accounting principles generally accepted in the United States of America

(Unaudited)

(In thousands of U.S. dollars)

June 30, 2007 December 30, 2006

Assets

Current assets

Cash and cash equivalents	\$	1,778	\$	2,437
Accounts receivable		1,922		2,445
Other receivables (Less allowances of \$476, 2006 - \$430)		636		1,303
Income tax receivable		768		-
Inventories		28,374		25,632
Prepaid expenses		1,603		966
Deferred income taxes		613		591

Total current assets		35,694		33,374
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Notes receivable (Less allowances of \$4, 2006 - \$38)		32		42
Deferred charges		1,137		1,177
Property and equipment, net of accumulated depreciation and amortization		5,876		5,543
Goodwill		15,261		13,883
Deferred income taxes		4,261		4,237

Total assets	\$	62,261	\$	58,256
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Liabilities and Shareholders' Equity

Current liabilities

Bank overdraft	\$	983	\$	1,067
Bank operating loans (Note 3)		6,592		3,110
Current portion of long-term debt including capital lease obligations (Note 4)		2,809		2,611
Current portion of deferred gain on warehouse sale		243		222
Trade accounts payable		6,429		6,860
Accrued liabilities		3,204		3,625
Accrued wages and benefits		3,118		2,812
Income taxes payable		-		3,215

Total current liabilities		23,378		23,522
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Deferred franchise revenue		8		10
Deferred gain on warehouse sale		300		385
Deferred rent payable		2,278		2,156
Long-term debt including capital lease obligations, less current maturities (Note 4)		1,778		2,843
Subordinated debentures (Note 5)		11,751		10,743

Total liabilities		39,493		39,659
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Shareholders' Equity

Capital Stock (Note 6)		1		1
Additional paid in capital		18,443		19,803
Accumulated earnings		9,746		5,223
Accumulated other comprehensive loss		(4,730)		(5,738)
Treasury stock – exchangeable shares, at cost		(692)		(692)

Total shareholders' equity		22,768		18,597
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Total liabilities and shareholders' equity	\$	62,261	\$	58,256
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The accompanying notes are an integral part of these consolidated financial statements.

Pet Valu, Inc.

Consolidated Statements of Operations

In accordance with accounting principles generally accepted in the United States of America
(Unaudited)
(In thousands of U.S. dollars, except number of shares and per share data)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Sales and revenue	\$ 38,645	\$ 35,501	\$ 74,538	\$ 69,582
Cost of sales including occupancy costs	26,727	25,582	52,374	50,440
Gross profit	11,918	9,919	22,164	19,142
Store operating expenses excluding occupancy costs	4,103	3,824	7,951	7,413
General and administrative expenses	3,398	3,411	6,697	6,759
	4,417	2,684	7,516	4,970
Net interest expense	460	961	952	1,920
Income before income taxes	3,957	1,723	6,564	3,050
Income taxes provision	1,183	504	2,041	909
Net income	\$ 2,774	\$ 1,219	\$ 4,523	\$ 2,141
Basic EPS (Note 2)	\$ 0.32	\$ 0.16	\$ 0.51	\$ 0.28
Diluted EPS (Note 2)	0.27	0.13	0.44	0.24
Weighted average number of common stock and exchangeable shares outstanding:				
Basic (Note 2)	8,739,197	7,609,030	8,816,846	7,561,796
Diluted (Note 2)	10,440,431	9,511,441	10,535,116	9,216,646

Consolidated Statements of Comprehensive Income

In accordance with accounting principles generally accepted in the United States of America
(Unaudited)
(In thousands of U.S. dollars)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net Income	\$ 2,774	\$ 1,219	\$ 4,523	\$ 2,141
Other comprehensive income				
Unrealized foreign currency translation gains and losses	906	(167)	1,008	(158)
Comprehensive Income	\$ 3,680	\$ 1,052	\$ 5,531	\$ 1,983

The accompanying notes are an integral part of these consolidated financial statements.

Pet Valu, Inc.

Consolidated Statements of Shareholders' Equity

In accordance with accounting principles generally accepted in the United States of America

(Unaudited)

(In thousands of U.S. dollars)

	Additional Special Voting Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance – December 31, 2005	\$ 1	\$ 12,454	\$ (2,296)	\$ (5,383)	\$ (692)	\$ 4,084
Stock-based compensation costs	–	140	–	–	–	140
Income tax on cancellation of Warrants (Note 7)	–	(67)	–	–	–	(67)
Issuance of Exchangeable Shares (Note 7)	–	7,276	–	–	–	7,276
Net Income	–	–	7,519	–	–	7,519
Foreign currency translation Adjustments	–	–	–	(355)	–	(355)
Balance – December 30, 2006	\$ 1	\$ 19,803	\$ 5,223	\$ (5,738)	\$ (692)	\$ 18,597
Stock-based compensation costs	–	70	–	–	–	70
Repurchase of Exchangeable Shares (Note 6)	–	(1,678)	–	–	–	(1,678)
Issuance of Exchangeable Shares (Note 7)	–	248	–	–	–	248
Net Income	–	–	4,523	–	–	4,523
Foreign currency translation Adjustments	–	–	–	1,008	–	1,008
Balance – June 30, 2007	\$ 1	\$ 18,443	\$ 9,746	\$ (4,730)	\$ (692)	\$ 22,678

The accompanying notes are an integral part of these consolidated financial statements.

Pet Valu, Inc.

Consolidated Statements of Cash Flows

In accordance with accounting principles generally accepted in the United States of America

(Unaudited)

(In thousands of U.S. dollars)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Operating activities				
Net income	\$ 2,774	\$ 1,219	\$ 4,523	\$ 2,141
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	444	491	873	941
Deferred income taxes	19	18	36	36
Loss on disposal of property and equipment	29	4	26	5
Amortization of debenture discount	-	57	-	112
Stock based compensation costs	35	35	69	69
Deferred charges	93	49	85	99
Amortization of deferred gain on warehouse sale	(59)	(58)	(114)	(114)
Write off of goodwill on store closures	-	-	-	57
Changes in other operating assets and liabilities:				
Decrease in receivables	421	36	1,404	436
(Increase) decrease in inventories	(132)	1,017	(714)	822
(Increase) decrease in prepaid expenses	(87)	294	(536)	(1,643)
Increase (decrease) in trade accounts payables	407	(684)	(897)	(407)
Decrease in accrued liabilities	(462)	(408)	(517)	(402)
Decrease income taxes payable	(129)	(2,496)	(4,026)	(2,027)
Net cash provided by (used in) operating activities	3,353	(426)	212	125
Investing activities				
Purchases of property and equipment	(457)	(758)	(748)	(1,231)
Proceeds on disposal of property and equipment	3	-	13	-
Purchase of store goodwill	(100)	-	(100)	(427)
Notes and other receivables	4	6	10	16
Net cash used in investing activities	(550)	(752)	(825)	(1,642)
Financing activities				
(Repayment) borrowing of short-term financing	(467)	470	2,994	(606)
(Decrease) increase in bank overdraft	(465)	(490)	(172)	272
Repayment of capital lease obligation	(82)	(91)	(179)	(184)
Repayment of note payable	(44)	(44)	(45)	(52)
Repayment of term loan financing	(575)	(15)	(1,121)	(67)
Repurchase of Exchangeable Shares	(1,678)	-	(1,678)	-
Issuance of Exchangeable Shares	87	928	247	978
Net cash (used in) provided by financing activities	(3,224)	758	46	341
Effect of exchange rate changes on cash	(80)	(53)	(92)	(48)
Net decrease in cash	(501)	(473)	(659)	(1,224)
Cash and cash equivalents – Beginning of fiscal period	2,279	923	2,437	1,674
Cash and cash equivalents – End of fiscal period	\$ 1,778	\$ 450	\$ 1,778	\$ 450

The accompanying notes are an integral part of these consolidated financial statements.

Pet Valu, Inc.

Notes to Consolidated Financial Statements

For the Twenty-Six week periods ended June 30, 2007 and July 1, 2006

In accordance with accounting principles generally accepted in the United States of America (Unaudited)

(All amounts are expressed in U.S. dollars, unless otherwise indicated.)

(Canadian dollar reporting shall be cited as C\$)

1. Significant Accounting Policies

The unaudited interim consolidated financial statements (the "financial statements") have been prepared by management in accordance with U.S. generally accepted accounting principles ("US GAAP") and include the accounts of Pet Valu, Inc. and its subsidiaries. These financial statements do not contain all disclosures required by U.S. GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the 52 week period ended December 30, 2006.

These financial statements follow the same accounting policies and their methods of application as described in the most recent annual financial statements for the 52 week period ended December 30, 2006, except as noted below.

Income Taxes

The Company adopted FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), on December 31, 2006. FIN 48 is an interpretation of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". Beginning fiscal 2007, the Company records the financial statement effects of an income tax position when it is more likely than not, based on the technical merits, that it will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold is measured and recorded as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. Previously recognized tax positions are derecognized in the first period in which it is no longer more likely than not that the tax position will be sustained. The benefit associated with previously unrecognized tax positions are generally recognized in the first period in which the more-likely-than-not threshold is met at the reporting date, the tax matter is ultimately settled through negotiation or litigation or when the related statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired. The recognition, derecognition, and measurement of tax positions are based on management's best judgment given the facts, circumstances and information available at the reporting date.

Differences between a tax position taken or expected to be taken in the Company's tax returns and the amount of benefit recognized and measured in the financial statements result in unrecognized tax benefits, which are recorded in the balance sheet as either a liability for unrecognized tax benefits or reductions to recorded tax assets, as applicable. Interest and penalties are accrued with respect to unrecognized tax benefits in accordance with the legislation of the respective taxing jurisdictions, which are recognized as a component of tax expense. As of June 30, 2007, there was no interest or penalties related to unrecognized tax benefits recorded in interest expense.

The adoption of FIN 48 did not have an impact in the Company's statements of operations and financial position and did not result in a cumulative adjustment to retained earnings at adoption.

The Company or its subsidiaries file income tax returns in the United States and Canada in both federal, state and provincial jurisdictions. Generally, the tax years 1996 through 2006 remain open and subject to examination by the relevant tax authorities either by virtue of statute or the ability to adjust net operating loss (NOL) carryforwards.

2. Net Earnings per Share

Basic earnings per share ("EPS") exclude potentially dilutive securities and are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed assuming the conversion or exercise of all dilutive securities such as preferred stock, options and warrants.

In order to reflect the economic substance of the Company's capital structure, the computation of basic EPS is based on the aggregate number of shares of common stock of Pet Valu, Inc. ("Common Stock") and exchangeable shares of its subsidiary, Pet Valu Canada Inc. ("Exchangeable Shares"), excluding treasury stock. Diluted EPS is based on the dilutive effect of equity and debt instruments convertible into either Common Stock or Exchangeable Shares (see Note 6).

In the second quarter of fiscal 2007 and fiscal 2006, the calculation of diluted EPS included certain stock options, warrants and convertible debt outstanding during the relevant period. The debt was convertible into 672,727 Exchangeable Shares. Stock options and warrants to purchase 1,334,114 Exchangeable Shares were outstanding on June 30, 2007 (July 1, 2006 – 3,382,609). The Company uses the treasury method to determine the number of Exchangeable Shares to be added to the denominator due to dilutive warrants and options.

Pet Valu, Inc.

2. Net Earnings per Share (continued)

Net income applicable to holders of Common Stock and Exchangeable Shares:
(In thousands of U.S. dollars, except for number of shares)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net income for the year	\$ 2,774	\$ 1,219	\$ 4,523	\$ 2,141
Net income applicable to holders of Common Stock and Exchangeable Shares				
Basic	\$ 2,774	\$ 1,219	\$ 4,523	\$ 2,141
Interest on 8.5% debenture	46	44	89	88
Diluted	\$ 2,820	\$ 1,263	\$ 4,612	\$ 2,229
Basic EPS	\$ 0.32	\$ 0.16	\$ 0.51	\$ 0.28
Diluted EPS	\$ 0.27	\$ 0.13	\$ 0.44	\$ 0.24
Weighted average number of Common Stock and Exchangeable Shares outstanding:				
Basic	8,739,197	7,609,030	8,816,846	7,561,796
Effect of dilutive stock options outstanding	360,316	411,620	379,825	390,632
Effect of dilutive warrants outstanding	668,191	818,064	665,718	591,491
Effect of conversion of 8.5% debenture	672,727	672,727	672,727	672,727
Diluted	10,440,431	9,511,441	10,535,116	9,216,646

3. Bank Operating Loans

In July 2006, the Company entered into an amended and restated credit agreement with Bank of Montreal and Harris, N.A. The credit agreement provides the Company with a C\$15 million revolving line of credit for a term of five years and a C\$5 million term loan to be repaid over twenty-four months. Borrowings under the revolving line of credit are limited to the lesser of the loan ceiling of C\$15 million and a borrowing base calculation related to inventories and franchise receivables. On June 30, 2007 the borrowings outstanding under the revolving line of credit, the borrowing base calculation and the resulting availability were \$6.6 million (December 30, 2006 - \$3.1 million), C\$15.0 million (December 30, 2006 - C\$15.0 million), and C\$8.0 million (December 30, 2006 - C\$11.4 million), respectively. Interest is calculated using the bank's prime rate plus 0.25% per annum. The interest rates at June 30, 2007 were 6.25% for Canadian dollar borrowings and 9.0% for U.S. dollar borrowings. In addition, a fee of 0.25% is charged on the unused portion of the credit facility.

The facility is collateralized by liens against all assets of the Company, subject to certain permitted encumbrances.

Pursuant to the above agreement, in addition to its borrowing base restrictions, the Company must comply with certain general covenants which include, among others, a minimum consolidated debt service ratio. The Company was in compliance with these covenants at June 30, 2007.

4. Long-term Debt

(In thousands of U.S. dollars)

	June 30, 2007			December 30, 2006		
	Long-term	Current	Total	Long-term	Current	Total
Bank term loan	\$ 782	\$ 2,347	\$ 3,129	\$ 1,788	\$ 2,145	\$ 3,933
Supplier notes payable	296	114	410	331	111	442
Other notes payable	15	30	45	28	38	66
Capitalized lease obligations	685	318	1,003	696	317	1,013
Total	\$ 1,778	\$ 2,809	\$ 4,587	\$ 2,843	\$ 2,611	\$ 5,454

Bank Term Loan

The bank term loan is part of the amended and restated credit agreement (see Note 3). The loan bears interest at prime plus 1% (7% at June 30, 2007) and matures September 30, 2008. The loan is repayable in 24 equal monthly installments.

Pet Valu, Inc.

4. Long-term Debt (continued)

Supplier Notes Payable

During fiscal 2000, the Company entered into loan agreements with a certain supplier. These loans are payable in annual principal installments of C\$50,000 and US\$67,500 and mature in 2010. The loans bear interest, payable monthly, at Canadian bank prime (6% at June 30, 2007) and U.S. bank prime (8.25% at June 30, 2007). Pursuant to the loan agreements, the Company must meet certain annual merchandise purchase targets. If the targets are not met, the principal repayments may be accelerated based on a formula.

Other Notes Payable

Other notes payable bear interest at annual rates ranging between 6.00% and 8.25%, have various maturity dates from 2008 to 2009, and are unsecured.

Capital Lease Obligations

The Company financed certain automotive equipment and computer and office equipment under capital leases with a capitalized cost included in property and equipment of \$1.8 million and \$1.9 million as at June 30, 2007 and December 30, 2006, respectively. Accumulated depreciation relating to these assets was \$0.9 million and \$0.9 million as at June 30, 2007 and December 30, 2006, respectively.

Future repayments are as follows:
(In thousands of U.S. dollars)

	Bank Term Loan	Supplier Notes Payable	Other Notes Payable	Capitalized Lease Obligations	Total
2007	1,173	68	17	198	1,456
2008	1,956	114	26	348	2,444
2009	-	114	2	251	367
2010	-	114	-	141	255
2011	-	-	-	93	93
2012	-	-	-	75	75
2013	-	-	-	36	36
	\$ 3,129	\$ 410	\$ 45	\$ 1,142	\$ 4,726
Less: Interest	-	-	-	139	139
Current maturities	2,347	114	30	318	2,809
Total	\$ 782	\$ 296	\$ 15	\$ 685	\$ 1,778

5. Subordinated Debentures

(In thousands of U.S. dollars)

	June 30, 2007			December 30, 2006		
	Face Value (Converted from C\$)	Unamortized Discount	Net	Face Value (Converted from C\$)	Unamortized Discount	Net
8.5% non-convertible	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12.5% non-convertible	-	-	-	-	-	-
8.5% convertible	3,473	-	3,473	3,175	-	3,175
10.0% non-convertible	8,278	-	8,278	7,568	-	7,568
	\$ 11,751	\$ -	\$ 11,751	\$ 10,743	\$ -	\$ 10,743
Balance Sheet Classification						
Current	-	-	-	-	-	-
Non-Current	11,751	-	11,751	10,743	-	10,743
	\$ 11,751	\$ -	\$ 11,751	\$ 10,743	\$ -	\$ 10,743

Pet Valu, Inc.

5. Subordinated Debentures (continued)

(a) 8.5% Non-Convertible

In fiscal 1996, Pet Valu Canada Inc. raised C\$15.1 million through the sale of units to its subscribing Common and Exchangeable Shareholders (see Note 6). Each unit consisted of one C\$7.50 principal amount 8.5% non-convertible subordinated unsecured debenture of Pet Valu Canada Inc. due July 24, 2006 and one Exchangeable Share purchase warrant (see Note 7) of Pet Valu Canada Inc. The fair value of these warrants was allocated to shareholders' equity, resulting in a debenture discount of \$0.7 million (C\$1.0 million), which was amortized over the remaining term of the debentures. Amortization of \$42,190 (C\$48,017) was included in net interest expense for the second quarter of 2006. Repayment to the debenture trustee and in certain cases to debenture holders directly was made on July 24, 2006 with proceeds from a private placement of 10% non-convertible unsecured subordinated debentures (see Note 5(d)) and availability from the bank revolving line of credit.

(b) 12.5% Non-Convertible

In fiscal 2004, Pet Valu Canada Inc. issued to Penfund Mezzanine Limited Partnership II ("Penfund") a C\$15.0 million secured subordinated debenture and share purchase warrants entitling Penfund to purchase up to 924,200 Exchangeable Shares. The fair value of these warrants at the time of issue was \$0.6 million (C\$0.8 million), which was allocated to shareholders' equity and deducted as a debenture discount, which was being amortized over the five year term of the debenture. Amortization of \$69,750 (C\$79,383) was included in net interest expense for the second quarter of 2006. As a result of the repayment of C\$2.6 million of the debentures referred to in Note 5(c), 47,256 of the warrants issued to Penfund referred to above were cancelled on March 31, 2005. On October 31, 2006, the Company prepaid the entire principal amount of the 12.5% non-convertible subordinated debenture held by Penfund which was otherwise due on September 30, 2009. On the date of repayment, the unamortized discount was C\$0.5 million. In addition to the principal, a prepayment premium of C\$0.2 million was also paid. The Company was also required to write off the deferred charges of C\$0.7 million related to the arrangement of the debt financing. As a result of the prepayment, the Company recognized a loss on extinguishment of debt of \$1.1 million (C\$1.3 million).

(c) 8.5% Convertible

In fiscal 1999, an agreement was completed creating new 8.5% convertible unsecured debentures of Pet Valu Canada Inc. in the amount of C\$6.3 million. These debentures replaced certain existing 7% convertible unsecured debentures and one non-convertible unsecured debenture together with a corresponding exchangeable share purchase warrant.

Debentures totaling C\$2.6 million, along with accrued interest thereon, were repaid in fiscal 2005. The balance of C\$3.7 million, represented by one debenture, is due in 2009. Interest on this debenture is paid quarterly. This debenture is convertible, at any time, into Exchangeable Shares at a conversion price of C\$5.50 per share and is repayable by Pet Valu Canada Inc. on the terms specified in the applicable debenture holder agreement.

(d) 10% Non-convertible

A private placement of 10% non-convertible unsecured subordinated debentures of Pet Valu Canada Inc. and guaranteed by Pet Valu, Inc. in the principal amount of C\$8.8 million was completed on July 24, 2006. The proceeds from the private placement and availability from the bank revolving line of credit were used to make repayment to the debenture trustee and, in certain cases, the debenture holders directly of C\$15.1 million of debentures which matured on July 24, 2006. Interest on the 10% debentures is paid quarterly. The initial term of these debentures is two years. The holders have an option to extend for an additional two years and the issuer has an option to prepay the debt after the completion of the first year of the extended period upon payment of a premium equal to 1% of the principal amount being repaid.

The investors in the private placement included, among others, certain directors and/or officers of Pet Valu, Inc. and Pet Valu Canada Inc., directly or indirectly. In particular, Geoffrey Holt, who is a director and officer of both companies, invested C\$5.0 million through Holtcorp Inc., a personal holding company; Douglas Lunau, who is a director of both companies, invested C\$3.0 million through the Lunau Family Trust; Breena Holt, who is a director of both companies and a part-time employee of Pet Valu Canada Inc., invested C\$0.2 million; Darryl Squires, who is a director of both companies, invested C\$20,000; and John Turner, who is an officer and part-time employee of Pet Valu Canada, invested C\$0.2 million. Interest paid to the related parties for the first two quarters of 2007 was C\$0.6 million. There was no interest paid to related parties in the first two quarters of 2006. As a result of a sale of certain of these debentures by Holtcorp Inc. to Lunau Family Trust, completed on July 1, 2007, the principal amount of Holtcorp Inc.'s investment is now C\$4.5 million and that of Lunau Family Trust is now C\$3.5 million.

Pet Valu, Inc.

6. Capital Stock

Authorized

1	Special Voting Stock with a par value of \$1.00.
9,626,274	Additional Special Voting Stock with a par value of \$0.0001 per share, possessing as a class a total number of votes equal to the number of outstanding Exchangeable Shares from time to time not owned by Pet Valu, Inc. or any of its subsidiaries.
100,000,000	Preferred Stock with 8% cumulative dividends, a par value of \$0.0624 per share, redeemable at the option of both the Company and the holder based on terms as defined.
20,000,000	Common Stock with a par value of \$0.0001 per share, possessing one vote per share.

Issued and Outstanding

(In thousands of U.S. dollars, except for number of shares)

	June 30, 2007		December 30, 2006	
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount
Additional Special Voting Stock	9,626,274	\$ 1	9,626,274	\$ 1
Common Stock	100	-	100	-
Additional paid-in capital		18,443		19,803
		\$ 18,444		\$ 19,804

In fiscal 2000, the Company reacquired the 100,000,000 shares of Preferred Stock and 1,000,000 warrants as part of a private placement. The Preferred Stock is now held by one of Pet Valu Canada Inc.'s subsidiaries, PVUS Holdings Inc., and is eliminated on consolidation. The warrants were cancelled.

Pet Valu Canada Inc. Shares

	Authorized	June 30, 2007		December 30, 2006	
		Issued	Outstanding	Pet Valu, Inc. Common Equivalents	Pet Valu, Inc. Common Equivalents
Common Shares, no par value	Unlimited	1	1	-	-
Exchangeable Shares, no par value	Unlimited	9,068,196	8,714,496	8,714,496	8,743,516
Class A Preferred Shares, no par value	7,000,000	-	-	-	-
Class B Preferred Shares, no par value	176,845	-	-	-	-
Class C Preferred Shares, no par value	1	-	-	-	-

Pet Valu Canada Inc. had one common share issued to Pet Valu, Inc. as of June 30, 2007 and December 30, 2006, which has been eliminated in consolidation.

Exchangeable Shares

The Exchangeable Shares have the right to dividends and can vote on an equivalent basis with the Common Stock and have exercise privileges which could result in the exchange of the Exchangeable Shares for Common Stock. The Exchangeable Shares vote in Pet Valu, Inc. through the Additional Special Voting Stock, which is held by CIBC Mellon Trust Company as trustee.

In order to reflect the economic substance of the Company's capital structure, the value of the Exchangeable Shares and equity instruments of Pet Valu Canada Inc. convertible into Exchangeable Shares have been included in shareholders' equity in the consolidated financial statements.

Pet Valu, Inc. held 353,700 Exchangeable Shares at June 30, 2007 and December 30, 2006, in treasury at cost. Pet Valu Canada Inc. repurchased and cancelled 149,300 Exchangeable Shares during the second quarter of fiscal 2007 under a normal course issuer bid. No shares were repurchased in fiscal 2006.

Pet Valu, Inc.

7. Stock Options and Warrants

The Company's Executive Stock Option Plan and Board Stock Option Plan (collectively, the "Plans") provide for the granting of options to purchase Exchangeable Shares to certain full-time employees and to members of the Company's Board of Directors. Required disclosure information with respect to these Plans has been combined due to the similarities of the Plans.

The Company has reserved 879,830 Exchangeable Shares for issuance pursuant to its Plans of which 397,660 are available for grant.

There were no Common Stock and Exchangeable Share options granted in the second quarter of fiscal 2007. The weighted average fair value of the Common Stock and Exchangeable Share options granted in fiscal 2006 was \$1.52 per share. The fair value of the Common Stock and Exchangeable Share options granted is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions:

	Fiscal periods ended	
	June 30, 2007	December 30, 2006
Expected dividend rate	-	0%
Expected volatility	-	40%
Weighted average risk-free interest rate	-	4.0%
Expected lives (years)	-	4 to 8

Pursuant to the terms of the Board Stock Option Plan, new board members receive options that vest and become exercisable at a rate of 2,000 per year of service on the Board. Such options expire three years after vesting. The Board Plan permits the board to grant additional options to existing directors as well.

Pursuant to the terms of the Executive Stock Option Plan, certain full time employees are eligible to receive options that may be granted from time to time by the Company. The option exercise period shall not exceed ten years.

As of June 30, 2007 there were 13,000 Board options vested and exercisable and 415,170 Executive options vested and exercisable with weighted average exercise prices of C\$3.31 and C\$2.99, respectively.

Information with respect to all options outstanding is as follows:
(all amounts in Canadian dollars)

	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding December 31, 2005	675,600	\$ 1.16 – 3.28	\$ 2.78
Granted	10,000	4.99	4.99
Exercised	(79,150)	1.16 – 3.28	2.60
Cancelled	(4,000)	1.16 – 2.75	1.96
Outstanding December 30, 2006	602,450	\$ 1.16 – 4.99	\$ 2.84
Granted	-	-	-
Exercised	(120,280)	1.16 – 3.28	2.33
Cancelled	-	-	-
Outstanding June 30, 2007	482,170	\$ 1.30 – 4.99	\$ 2.97

The weighted average remaining term of options outstanding at June 30, 2007 was 3.02 years.

The following table summarizes information about stock options outstanding at June 30, 2007:

Range of exercise price	Options Outstanding	Options outstanding		Options exercisable	
		Weighted Average Remaining Contractual Life(yrs)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$ 1.30 – 1.46	5,720	3.55	\$ 1.44	1,720	\$ 1.39
2.06	50,000	7.39	2.06	20,000	2.06
2.75	2,000	0.54	2.75	2,000	2.75
2.80	197,950	2.48	2.80	197,950	2.80
3.26	20,000	3.86	3.26	8,000	3.26
3.28	196,500	2.29	3.28	196,500	3.28
4.99	10,000	4.57	4.99	2,000	4.99
	482,170			428,170	

Pet Valu, Inc.

7. Stock Options and Warrants (continued)

Warrants

In fiscal 2004, Pet Valu Canada Inc. issued share purchase warrants as part of a private placement financing entitling the holder to purchase up to 924,200 Exchangeable Shares of Pet Valu Canada Inc. The share purchase warrants were issued in three tranches, as follows: (1) 810,411 warrants exercisable at C\$2.00 ("Tranche A Warrants"), at the option of the holder; (2) 66,533 warrants exercisable at C\$5.50 ("Tranche B Warrants"), at the option of the holder; and (3) 47,256 warrants exercisable at C\$5.50 ("Tranche C Warrants"). Each warrant entitles the holder to purchase one Exchangeable Share. All warrants expire on September 30, 2009. The Tranche C Warrants were not automatically exercisable, but rather only became exercisable in certain circumstances, and were subject to cancellation if certain conversion rights held by unrelated third party investors were cancelled. The cancellation of said conversion rights was completed in fiscal 2005 and the Tranche C warrants were cancelled.

In fiscal 2006, 25,000 of the Tranche A Warrants were exercised. As at December 30, 2006 and June 30, 2007, 785,411 Tranche A Warrants and 66,533 Tranche B Warrants were outstanding.

During fiscal 1996, Pet Valu Canada Inc. issued 2,007,305 warrants in connection with the 8.5% non-convertible subordinated unsecured debentures (see Note 5a). Each warrant entitled the holder to purchase one Exchangeable Share at a price equal to the greater of (i) C\$7.00; or (ii) the then current market price of an Exchangeable Share on the Toronto Stock Exchange less C\$7.00, at any time on or before July 24, 2006, subject to adjustment under certain events, as defined. In fiscal 2006, there were 1,138,208 warrants exercised for total proceeds of C\$7,967,456. The remaining 869,097 warrants expired unexercised.

8. Contingencies

From time to time, the Company is named as a defendant in legal actions arising from its normal business activities. Although the amount of any liability that could arise with respect to currently pending actions cannot be estimated, in the opinion of the Company, any such liability will not likely have a material adverse effect on its financial position, operating results or liquidity.

9. Subsequent Events

On July 23, 2007, the Company acquired land that will be used to develop an additional Canadian warehouse facility. The land had a purchase price of C\$1.9 million.

Pet Valu, Inc.

10. Segmented Financial Information

The Company operates exclusively in the pet product retail industry. The Company's reportable segments are based on geographic area. All intercompany revenues and expenses are eliminated in computing revenues and operating income. The accounting policies of the segments are the same as those described in Note 1 - Significant Accounting Policies.

Operating results and other financial data by segment were as follows:
(in thousands of U.S. dollars)

	Thirteen weeks ended		Twenty-Six Weeks ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Sales and revenue to external customers				
Canada	\$ 29,749	\$ 26,823	\$ 56,826	\$ 52,484
U.S.	8,896	8,678	17,712	17,098
Total sales and revenue	38,645	35,501	\$ 74,538	\$ 69,582
Net interest expense				
Canada	\$ 447	\$ 949	\$ 984	\$ 1,894
U.S.	13	12	(32)	26
Total net interest expense	\$ 460	\$ 961	\$ 952	\$ 1,920
Net Income				
Canada	\$ 2,435	\$ 975	\$ 3,957	\$ 1,744
U.S.	463	369	815	646
Intersegment elimination	(124)	(125)	(249)	(249)
Total net income	\$ 2,774	\$ 1,219	\$ 4,523	\$ 2,141
Depreciation and amortization				
Canada	\$ 340	\$ 392	\$ 661	\$ 752
U.S.	104	99	212	189
Total depreciation and amortization	\$ 444	\$ 491	\$ 873	\$ 941
Purchases of property and equipment				
Canada	\$ 399	\$ 502	\$ 639	\$ 894
U.S.	58	256	109	337
Total purchases of property and equipment	\$ 457	\$ 758	\$ 748	\$ 1,231

Total assets and other financial data by segment were as follows:
(in thousands of U.S. dollars)

	June 30, 2007	December 30, 2006
Total assets		
Canada	\$ 105,095	\$ 95,165
U.S.	15,904	15,498
Intersegment elimination	(58,738)	(52,407)
Total assets	\$ 62,261	\$ 58,256
Capital assets and goodwill		
Canada	\$ 19,640	\$ 17,818
U.S.	1,497	1,608
Total capital assets and goodwill	\$ 21,137	\$ 19,426