

PET VALU™

Better Pet Nutrition

PET VALU, INC.

Quarterly Report

Thirty-Nine Weeks Ended September 27, 2008

(The financial statements contained herein are prepared in accordance with
Accounting Principles Generally Accepted in the United States of America)
(in U.S. dollars)

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Pet Valu, Inc.

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Management's Discussion & Analysis

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 thirty-nine week period ended September 27, 2008. 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 November 5, 2008. Additional information relating to the Company, including the fiscal 2007 Annual Report of Pet Valu, Inc. and the Annual Information Form of Pet Valu, 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; the outcome of strategic alternatives being considered by the Company's board of directors; 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 September 27, 2008, there were 292 stores operating in Canada and 62 stores operating in the U.S. Of the 292 Canadian stores, 182 stores were franchised and 110 were company-owned. In the U.S., 60 of the 62 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 Pet Food Inc. ("Paulmac's") stores and Berrys' ... Your PetsChoice ("Berrys") 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 Pet Valu Canada Inc., Paulmac's, or Berrys. Canadian stores are also franchised through Pet Valu Canada Inc. or Paulmac's. Berrys does not franchise its stores. U.S. stores are operated by, or franchised through, Pet Valu, Inc.'s U.S. operating subsidiary, Pet Valu International Inc.

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Products and Services

PET VALU, PAULMAC'S and BERRYS stores offer a wide range of pet food and pet-related supply products, including national and premium brand products. PET VALU stores also carry a broad selection of private label dog, cat and other pet foods marketed under trademarks owned by Pet Valu Canada Inc. 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, cat litter 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/or dogs, on behalf of local animal welfare organizations.

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 stores in Canada and the U.S. There are ten 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 525,000 square feet. Most of these facilities are located regionally to support local small box store delivery logistics. The Company also owns a parcel of land in Ontario of approximately 10 acres.

Distribution services in both countries are provided by a fleet of company-owned and leased vehicles and supplemented by outside carriers.

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 vast 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 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 September 27, 2008, there were only two U.S. franchises in operation.

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Key Accomplishments

During the first three quarters of fiscal 2008, the Company pursued key priorities intended to improve results from operations, liquidity, capital resources and cash flow.

Reniching

The Company's reniching program contributed to the strong results for the quarter and the year to date period. As part of this program, 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 reniching program has improved and is expected to continue to improve operating profits and enhance the image of the Company as a specialty retailer.

Inventory Investment

The Company's inventory buying system is designed to take advantage of opportunities, including those in relation to cost inflation. As a result, the Company's warehouse inventory levels have increased by approximately C\$4.2 million during the quarter and C\$5.9 million for the year to date in fiscal 2008. These increases are in addition to fiscal 2007 increases of approximately C\$1.6 million. The Company believes that recent declines in various commodity prices will slow the rate of any cost increases in fiscal 2009.

Amendment of Bank Credit Agreement

During the third quarter, the Company entered into an agreement with its bank to amend its existing credit agreement dated as of July 14, 2006 ("Credit Agreement"). The amendment increased the revolving line of credit in the Credit Agreement from a maximum of C\$15 million to a maximum of C\$20 million. In addition, the amendment created a new C\$5 million term loan that bears interest at prime plus 1% and is repayable in 24 equal monthly installments. The amendment did not materially change any other terms contained in the Credit Agreement.

Repayment of 10% Non-convertible Debentures

In accordance with a debenture holder agreement dated July 24, 2006, the scheduled repayment of principal and accrued interest for the 10% non-convertible debentures was made on July 24, 2008 by cash payments to the debenture holders. The amount of the payments was C\$8,877,836, consisting of principal repayments of C\$8,820,000 and accrued interest of C\$57,836. These payments were financed from the new bank term loan, the Company's bank operating line and funds provided from operations.

Acquisition

On August 22, the Company acquired companies operating 15 "Berrys...Your PetsChoice" stores. These stores are all located in eastern Ontario. The purchase price of C\$2.4 million was financed using Pet Valu's existing bank operating line. The Berrys operations and the anticipated operating synergies are expected to incrementally contribute an approximate C\$600,000 to Pet Valu's consolidated income before income taxes during the first 12 months of inclusion within the Pet Valu group of stores.

New Developments

Expression of Interest Regarding Possible Acquisition

On July 14, 2008, the Company announced that it had received an unsolicited approach expressing interest in pursuing a possible acquisition of the Company. The Company's board of directors continues to review and consider this approach as well as other alternatives to enhance shareholder value with the advice and assistance of its financial advisor, TD Securities Inc., and its legal advisors. There can be no assurance, however, that any definitive transaction proposal will result from this process, or that any transaction, if proposed, will be completed.

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Changes in Economic Conditions

The economic conditions in the markets in which the Company operates have changed significantly during the course of the year and in the third quarter specifically. Commodity prices have increased throughout the year and many suppliers have increased the cost of their products purchased by the Company, which in turn has resulted in increased retail prices. In addition, some consumers have likely been impacted to some degree by the change in economic circumstances. However, the Company believes sales and profitability have not been materially adversely affected by the changes in these conditions. The Company continues to record gains in same store sales and to increase net income in both Canada and the United States. The Company believes that its various operating strategies including product differentiation and inventory investments will continue to contribute to its future success even as weaknesses in the economy persist.

The Company is not exposed to issues relating to asset backed commercial paper. It does not have any investments in these instruments nor does it have any investments in third parties that may have exposure to these instruments.

The Company's operations are not directly affected by the liquidity issues currently affecting the credit markets. The Company has prudently managed its financial resources reducing its reliance on debt over the past four years. In addition, the Credit Agreement has an operating loan facility and a term loan facility which provide for availability of funds through to July 2011. Therefore, there is expected to be sufficient funds available to fund operations without further need to access the capital markets.

Overall Performance

The Company reported net income of \$4.0 million for the third quarter of fiscal 2008, which represented an improvement of \$0.8 million or 26.3% over the third quarter of fiscal 2007. For the year to date period, the Company reported net income of \$10.4 million, which represented an increase of \$2.7 million or 35.7% over the comparable period of the prior year. Net income, before non-comparable items, for the third quarter of fiscal 2008 was \$4.6 million, an increase of 47% over the comparable period of the prior year. Non-comparable items during the quarter included costs of a shareholder proxy contest and costs related to actions in response to the expression of interest to acquire Pet Valu, which was previously announced. The increase in net income was primarily due to improvements in sales and gross profit margins. Sales increases are attributed to various strategies including store level, product and inventory investment strategies that have been implemented. Gross profit margins increased as a result of a shift in sales to higher margin products and from the benefits of the inventory investment program. For a more in depth discussion of revenues, gross profit and expenses, please refer to the section of this MD&A entitled "Comparison of Third Quarter of Fiscal 2008 to the Third Quarter of Fiscal 2007".

Cash flow from operations continued to increase in the third quarter of fiscal 2008. During the quarter, the Company used its existing bank operating line and a new C\$5 million bank term loan to finance debenture repayments of C\$8.8 million. The Company also acquired the shares of companies operating 15 "Berrys...Your PetsChoice" stores. The purchase price of C\$2.4 million was financed using Pet Valu's existing bank operating line. In Canada, as part of regular operations, one franchise was repurchased. Cash flow from operations funded the repurchase of franchise store assets. Acquisitions of certain property and equipment were funded through vendor leasing programs.

The Company anticipates that cash flow from current operations will be sufficient to meet debt servicing obligations for fiscal 2008. 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.

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Summary of Quarterly Results

Eight quarter summary

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

	Fiscal 2006 4 th Quarter	1 st Quarter	Fiscal 2007 2 nd Quarter	3 rd Quarter	4 th Quarter	1 st Quarter	Fiscal 2008 2 nd Quarter	3 rd Quarter
System-wide sales ⁽¹⁾	\$ 50,712	\$ 45,300	\$ 48,528	\$ 52,496	\$ 60,323	\$ 53,270	\$ 54,592	\$ 56,242
Sales and revenue	40,001	35,893	38,645	41,518	46,937	42,800	44,257	46,585
Gross profit	13,346	10,246	11,918	12,873	16,016	13,511	15,122	16,015
EBITDA ⁽²⁾	5,721	3,528	4,861	5,711	7,818	5,227	6,227	6,581
EBITDA before non-comparable items ⁽²⁾	6,679	3,528	4,861	5,711	7,992	5,227	6,597	7,566
Net income	3,253	1,749	2,774	3,140	4,719	2,838	3,595	3,966
Net income before non-comparable items ⁽³⁾	3,809	1,749	2,774	3,140	4,705	2,838	3,841	4,621
Net income per share – basic	0.37	0.20	0.32	0.36	0.55	0.32	0.38	0.42
Net income per share – diluted	0.32	0.17	0.27	0.31	0.46	0.28	0.35	0.39
Net income per share before non-comparable items ⁽⁴⁾								
Basic	0.44	0.20	0.32	0.36	0.55	0.32	0.41	0.49
Diluted	0.37	0.17	0.27	0.31	0.46	0.28	0.38	0.45
Non comparable items								
Shareholder proxy costs	-	-	-	-	-	-	370	480
Strategic alternative related costs	-	-	-	-	-	-	-	505
Executive employment related payment	-	-	-	-	640	-	-	-
Promotion fund allowance	(180)	-	-	-	(466)	-	-	-
Loss on debt extinguishment	1,138	-	-	-	-	-	-	-
Future tax recovery on NOLs	(154)	-	-	-	(125)	-	-	-
Applicable tax on non-comparable items	(248)	-	-	-	(63)	-	(124)	(330)

⁽¹⁾ System-wide sales represent retail sales to customers through company-owned and franchise stores.

⁽²⁾ Earnings before interest, taxes, depreciation and amortization (“EBITDA”) and EBITDA before non-comparable items are not recognized measures under GAAP. As these measure do not have a standardized meaning prescribed by GAAP, the Company’s method of calculating EBITDA and EBITDA before non-comparable items may differ from other companies. Management believes EBITDA is a useful supplemental measure as it provides investors with an indication of cash available prior to debt service, capital expenditures and income taxes.

⁽³⁾ 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.

⁽⁴⁾ 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 without the effects of non-recurring or non-operational activities.

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Non-comparable items

In connection with a May 2008 proxy contest, costs of \$370,000 were incurred by the Company. In addition, \$480,322 has been accrued for the reimbursement of expenses to Goodwood Inc., the shareholder who initiated the contest.

During the quarter, the Company incurred expenses of \$505,000 related to actions taken in response to the expression of interest to acquire Pet Valu.

A one-time payment of approximately \$640,000 was made in the first quarter of fiscal 2008 in relation to an employment contract between the CEO of the Company and the Company. The contract expired as of December 31, 2007. A new contract was executed with the CEO effective January 1, 2008. The new contract does not contain provisions for any one-time payments of similar magnitude.

The Company and its franchisees make contributions to the Canadian promotion fund, which is used for marketing and advertising activities. The Company determined that the deficit balance of the promotion fund at the end of fiscal 2007 was likely to be recovered in fiscal 2008 having regard to the magnitude of the promotion fund deficit and the Company's assessment of its future promotional plans. Therefore, the allowance that was initially provided at the end of fiscal 2005, and adjusted in fiscal 2006, has been reversed in full in fiscal 2007.

The Company reduced the valuation allowance relating to the net operating loss ("NOL") carryforwards for tax purposes of the U.S. operations in both fiscal 2007 and 2006. The result of the reduction in the valuation allowance is a future tax recovery of \$0.1 million in fiscal 2007 and \$0.2 million in fiscal 2006.

Comparison of the Third Quarter of Fiscal 2008 to the Third Quarter of Fiscal 2007

Store Operations

During the third quarter of fiscal 2008, there was a net increase of fifteen stores, resulting from the acquisition of the Berrys chain of stores, all of which were in Canada. For the year to date period, there was a net increase of eleven stores, all of which were in Canada. 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 four stores that were closed in the first and second quarter of fiscal 2008 were identified by an evaluation of criteria such as cash flow contribution and the Company's ability to negotiate favourable lease termination arrangements.

In the third quarter of fiscal 2008, the average number of stores in operation was 347, three stores more than the average for the third quarter of the prior year. In the U.S., the average number of stores in operation during the third quarter of fiscal 2008 was 62, a decrease of three stores from the prior year. The average number of stores in operation in Canada increased by six to 285 stores, comprised of 183 franchised stores and 102 company-owned stores as compared to the third quarter of the prior year during which there were 194 franchised stores and 85 company-owned stores in operation. For the year to date, the average number of stores in operation in Canada was greater by 1.3 stores compared with the comparable period in fiscal 2007 and in the U.S. was less by 4.8 stores compared with the comparable period in fiscal 2007.

System-wide sales

System-wide sales represent retail sales to customers through company-owned and franchise stores. During the third quarter of fiscal 2008, system-wide sales increased by \$3.7 million or 7.1% from the prior year to \$56.2 million. The change in foreign currency exchange rates resulted in an increase in system-wide sales from the prior year of \$0.2 million. Before the effects of the change in foreign currency exchange rates, the system-wide sales in the Canadian operations increased by \$2.9 million or 6.7%, which included sales of \$0.5 million from the acquired Berrys locations. The system-wide sales in the U.S. operations increased by \$0.6 million or 6.7%. For the year to date period, system-wide sales increased by \$17.8 million or 12.2% from the prior year. Before the effects of the change in foreign currency exchange rates, the system-wide sales increased by \$6.8 million or 5.7% in the Canadian operations and by \$0.7 million or 2.7% in the U.S. operations.

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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 for the third quarter of fiscal 2008 increased over the third quarter of the prior year by 5.8% in Canada and by 10.5% in the U.S. For the year to date period, comparable store sales increased by 5.6% in Canada and by 8.8% in the U.S. as compared to the prior year. Factors contributing to the increase in Canada include retail price inflation, product differentiation strategies, store image strategies, and in-store inventory positions. While it is difficult to accurately measure the impacts of inflation, the Company estimates that approximately half of the comparable store sales gains in the current year are due to retail price inflation. As a result of differentiation strategies, higher margin product sales have continued to show strong growth, while lower margin product sales declines have moderated. Store image strategies and improved in-store inventory positions have contributed to more positive shopping experiences for customers, resulting in higher sales levels. Similar factors existed in the U.S.

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 \$5.1 million or 12.2% in the third quarter of fiscal 2008 as compared to the third quarter of fiscal 2007 and by \$17.6 million or 15.2% for the year to date period in fiscal 2008 as compared to the comparable period of the prior year. In the third quarter of fiscal 2008, the change in foreign currency exchange rates resulted in an increase in sales and revenue of \$0.6 million. Before the effects of the change in foreign currency exchange rates, the sales and revenue in the Canadian operations increased by \$3.9 million or 11.9%, which included sales of \$0.5 million from the acquired Berrys locations. The sales and revenue from the U.S. operations increased by \$0.6 million or 6.7%. In Canada, increases in comparable store sales and increases in the number of company-owned stores in operation contributed to the increase in sales and revenue while fewer franchised stores in operation partially offset these increases. In the U.S., increases in comparable store sales contributed to the increase in sales and revenue which was partially offset by decreases in the average number of stores in operation.

Gross profit

Gross profit on sales and revenue increased by \$3.1 million or 24.4% in the third quarter of fiscal 2008 as compared to the comparable period of the prior year. In the third quarter of fiscal 2008, the change in foreign currency exchange rates resulted in an increase in gross profit of \$0.2 million. Before the effects of the change in foreign currency exchange rates, gross profit in the Canadian operations increased by \$2.6 million or 25.2%. In the U.S. operations, gross profit increased by \$0.3 million or 10.6%. For the year to date period, gross profit on sales and revenue increased by \$9.6 million or 27.4%. Before the effects of the change in foreign currency exchange rates, gross profit in the Canadian operations increased by \$6.4 million or 23.4%. In the U.S. operations, gross profit increased by \$0.3 million or 3.4%. The change in foreign currency exchange rates resulted in an increase in gross profit of \$2.9 million.

Blended gross profit margins increased to 34.4% in the third quarter of fiscal 2008, as compared to 31.0% in the third quarter of fiscal 2007. For the year to date period, blended gross profit margins increased to 33.4% as compared to 30.2% for the comparable period of the prior year. The Company's reniching program, which has generated higher sales and higher gross profits margins, the increase in the number of company-owned stores in Canada and the inventory investment program contributed to the increase in gross profit margins.

Store operating expenses

Store operating expenses increased by \$0.8 million or 19.9% in the third quarter of fiscal 2008 as compared to the third quarter of fiscal 2007. In the third quarter of fiscal 2008, the change in foreign currency exchange rates resulted in an increase of less than \$0.1 million in store operating expenses. Before the effects of the change in foreign currency exchange rates, store operating expenses in the Canadian operations increased by \$0.8 million or 37.0%. In the U.S. operations, store operating expenses decreased by less than \$0.1 million or 1.5% compared to the prior year. On a per store basis, store operating costs increased by 13.8% in Canada and by 2.9% in the U.S. Canadian stores were impacted by increased wages as the Company increased its hourly rates and incentive programs to retain current employees and attract new employees and by increased advertising expenses. Additionally, certain store operating costs are variable in relation to sales and therefore are expected to increase as store sales increase. As a percentage of sales by company-owned stores, store operating expenses increased from 22.3% to 23.2% in Canada and decreased from 23.0% to 21.2% in the U.S.

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For the year to date period, store operating expenses increased by \$2.2 million or 18.3% as compared to the comparable period of the prior year. The change in foreign currency exchange rates resulted in an increase of \$0.7 million in store operating expenses. Before the effects of the change in foreign currency exchange rates, store operating expenses in the Canadian operations increased by \$1.7 million or 27.5%. In the U.S. operations, store operating expenses decreased by \$0.2 million or 2.6% compared to the prior year. On a per store basis, store operating costs increased by 7.4% in Canada and by 4.9% in the U.S. As a percentage of sales by company-owned stores, store operating expenses decreased from 24.1% to 23.3% in Canada and from 23.4% to 22.1% in the U.S.

General and administrative expenses

General and administrative expenses increased by \$1.5 million or 43.0% in the third quarter of fiscal 2008 as compared to the third quarter of fiscal 2007 and increased by \$3.6 million or 35.6% for the year to date period. The change in foreign currency exchange rates resulted in an increase of less than \$0.1 million in general and administrative expenses in the third quarter and an increase of \$1.0 million for the year to date period. Before the effects of the change in foreign currency exchange rates, general and administrative expenses in the Canadian operations increased by \$1.4 million or 43.1% in the third quarter and by \$2.5 million or 25.8% for the year to date period. In the U.S. operations, general and administrative expenses for the quarter were consistent with the comparable period of the prior year and increased by \$0.1 million for the year to date period. Included in the general and administrative expenses in Canada in the third quarter were non-comparable items totaling \$1.0 million in connection with the shareholder proxy contest conducted prior to the May 8, 2008 AGM and the Company's actions in response to the expression of interest to acquire the Company referred to previously. Also contributing to the increase in general and administrative expenses were annual salary increases, the addition of staff in various administrative departments, and an increase in directors' fees occasioned by an increase in the number of directors meetings.

Net interest expense

Net interest expense decreased by \$0.3 million or 50.8% in the third quarter of fiscal 2008 as compared to the third quarter of fiscal 2007 and by \$0.4 million or 24.3% for the year to date period. The reduction in net interest expense was primarily due to the elimination of installment interest on income taxes payable in the Canadian companies and the reduction in interest bearing debt levels and interest rates in general.

Income taxes provision

The provision for income taxes rose by \$0.3 million in the third quarter of fiscal 2008 and by \$1.4 million for the year to date period as compared to the comparable periods of the prior year. The increase is due to an increase in income before income taxes and higher non-deductible permanent differences related primarily to foreign exchange on capital items partially offset by a reduction in the effective combined Canadian and Province of Ontario corporate income tax rates from 36.12% to 33.5%.

Net income

Net income for the third quarter of fiscal 2008 was \$4.0 million as compared to \$3.1 million in the third quarter of fiscal 2007. For the year to date period, net income was \$10.4 million as compared to \$7.7 million for the comparable period of the prior year. The change in foreign currency exchange rates resulted in an increase of \$0.1 million in net income for the third quarter of fiscal 2008 as compared to the third quarter of the prior year and an increase of \$0.7 million for the year to date period for fiscal 2008 as compared to the comparable period of the prior year. Before the effects of the change in foreign currency exchange rates, net income in the Canadian operations increased by \$0.5 million in the quarter and increased by \$1.7 million for the year to date. In the U.S. operations, net income increased by \$0.3 million in the quarter and the year to date period. Sales increases and improvements in blended gross profit margins were partially offset by increases in operating expenses.

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Effect of Translating Canadian Operations into US Dollar Reporting Currency

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, for each subsidiary whose functional currency is not U.S. dollars, the statement of operations and the balance sheet are converted to U.S. dollars at the end of the period using the average foreign currency exchange rate for the period and the end of period foreign currency exchange rate, respectively. For the third quarter and the year to date period the Canadian dollar was 0.6% and 8.6% stronger than the comparable period of the prior year, respectively. At September 27, 2008, the Canadian dollar was 5.1% weaker than at December 29, 2007. These effects were somewhat offset when the results of operations and balance sheets of subsidiaries which use the U.S. dollar as their functional currency were consolidated with the results of operations and balance sheets of the Canadian subsidiaries.

Summary of effects of translating Canadian operations into US dollar reporting currency
(All amounts in millions of US dollars)

	Q3 2007 Reported	Q3 2008 Reported	Foreign Exchange ⁽¹⁾
System-wide sales	\$ 52.5	\$ 56.2	\$ 0.2
Sales and revenue	41.5	46.6	0.6
Gross profit	12.9	16.0	0.2
EBITDA	5.7	6.6	0.1
EBITDA before non-comparable items	5.7	7.6	0.1
Net income	3.1	4.0	0.1
Net income before non-comparable items	3.1	4.6	0.1

	YTD Q3 2007 Reported	YTD Q3 2008 Reported	Foreign Exchange ⁽¹⁾
System-wide sales	\$ 146.3	\$ 164.1	\$ 10.3
Sales and revenue	116.1	133.6	8.4
Gross profit	35.0	44.6	2.9
EBITDA	14.1	18.0	1.3
EBITDA before non-comparable items	14.1	19.4	1.4
Net income	7.6	10.4	0.7
Net income before non-comparable items	7.6	11.3	0.8

(1) Foreign exchange represents the impact of the change in currency exchange rates used in translating the Canadian operations from the functional currency of Canadian dollars into the reporting currency of US dollars

Liquidity and Financial Position

At September 27, 2008, the Company had non-cash working capital of \$15.0 million, which was \$10.6 million more than the non-cash working capital of \$4.4 million at the end of fiscal 2007, largely due to an increase in inventory. There are no requirements to increase working capital in fiscal 2008; however, as store locations are added in the future or the breadth of product lines are expanded, inventory requirements may increase.

Merchandise accounts payable leveraging (trade payables over inventory) decreased to 19.9% as of September 27, 2008 as compared to 20.1% as of December 29, 2007. The Company maintains a relatively low level of leveraging due to efforts to realize increased vendor discounts and allowances.

Total assets increased by approximately \$6.4 million to \$78.3 million at September 27, 2008, as compared to \$71.9 million at December 29, 2007. The change in foreign currency exchange rates resulted in a decrease of \$3.6 million in total assets. Before the effects of the change in foreign currency exchange rates, total assets increased by \$10.6 million. An increase in warehouse inventory levels due to the inventory investment program, increases in store inventory and fixed assets from franchise repurchases and the acquisition of Berrys contributed to the increase in assets as compared to December 29, 2007.

Cash provided by operating activities in the third quarter of fiscal 2008 was \$2.2 million, which was \$3.8 million less than the third quarter of fiscal 2007. For the year to date period, cash provided by operating activities was \$7.4 million as compared to \$6.6 million for the comparable period in fiscal 2007. During the quarter, the cash requirements for the inventory investment program more than offset the increase in net income contributing to the reduction in cash provided by operations. In the first quarter of fiscal 2007, cash was used to pay 2006 income taxes for which no installments were made in 2006 resulting in a large use of cash from operations.

Pet Valu, Inc.

Net cash used in investing activities for the third quarter of fiscal 2008 was \$2.8 million, which was \$0.1 million greater than the cash used in the third quarter of fiscal 2007. For the year to date period, cash used in investing activities was \$4.7 million as compared \$3.9 million for the comparable period of the prior year.

During the third quarter of fiscal 2008, the Company acquired the shares of companies operating 15 "Berrys...Your PetsChoice" stores. The purchase price of C\$2.4 million was financed using Pet Valu's existing bank operating line.

In the third quarter of fiscal 2007, the Company acquired land in Whitby, Ontario for cash of \$1.9 million

In Canada, as part of regular operations, franchises were repurchased on an on-going basis. During the quarter, the Company repurchased one franchise store (2007 – five) for \$68,608 (2007 - \$373,846) and for the year to date period, the Company repurchased six franchise stores (2007 - 15) for \$820,195 (2007-\$902,459). Cash flow from operations was used to support the cost of repurchasing franchise store assets.

Replacements of certain property and equipment were funded through vendor leasing programs.

Net cash used in financing activities in the third quarter of fiscal 2008 was \$0.5 million as compared to \$3.7 million in the third quarter of fiscal 2007. For the year to date period, cash used in financing activities was \$2.9 million as compared to \$3.6 million in the comparable period of the prior year. The Company received \$1.9 million from the exercise of warrants by certain warrant holders in the first quarter of fiscal 2008, made monthly payments on a term loan with its bank during both years and acquired exchangeable shares of Pet Valu Canada Inc. under a normal course issuer bid during the last half of fiscal 2007 and the first half of fiscal 2008. In the third quarter of fiscal 2008, the Company made the scheduled repayment of C\$8.8 million principal and accrued interest for debentures financed by the Company's bank operating line and a new C\$5 million bank term loan.

The Company anticipates that cash flow from current operations will be sufficient to meet debt servicing obligations for fiscal 2008. 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 has certain debt obligations that will mature in fiscal 2009. The Company has adequate financial resources to meet these maturities as they come due.

Capital Resources

The Company's Credit Agreement provides the Company with a C\$20 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. The Company is in compliance with the covenants contained in the Credit Agreement as of the date hereof.

At September 27, 2008, the Company had utilized C\$7.3 million of the revolving line of credit as compared to C\$3.1 million at December 29, 2007. Under the 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 required 24 equal monthly installments of C\$208,333. During the third quarter the principal owing on this term loan was repaid and a new term loan for C\$5 million was drawn.

On July 24, 2008, the Company repaid and cancelled C\$8.8 million of 10% debentures using funds from the Company's term loan and operating line of credit.

On March 5, 2008, 785,411 Tranche A Warrants and 66,533 Tranche B Warrants were exercised for proceeds of C\$1,936,754.

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.

Pet Valu, Inc.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements as of September 27, 2008 or December 29, 2007.

Contingent Liabilities

There are various claims outstanding against the Company including the matters referred to in the litigation paragraphs of the "Risks and Uncertainties" section of this MD&A.

Financial Instruments

The Company's consolidated financial statements include a number of financial instruments, in particular, cash and short-term investments, accounts receivable, other receivables, notes receivable, bank overdraft, bank operating loans, accounts payable and accrued liabilities, long term debt and subordinated debentures.

Cash and short-term investments

The Company's excess cash is invested in overnight deposits with high quality financial institutions to generate a return on these funds. The Company assesses the credit and interest rate risks on these investments as minimal.

Long term debt

The Company's long term debt consists of a term loan with its bank, capital leases and supplier and other notes payable. The term loan, which comprises the majority of the long term debt, and the supplier and other notes payable have floating rates of interest based on Canadian and U.S. bank prime. 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.

Accounts Receivable and Other Receivables

The Company's accounts receivable and other receivables are from its suppliers and the Company's franchise operators. The Company assesses the credit risk on its receivables from franchises to be minimal due to the short settlement terms on these receivables and the distributed nature of the balance between a large number of franchise operators. The Company assesses the credit risk on its receivables from its suppliers to be minimal due to its ability to offset any monies owed by the supplier against amounts owed to the supplier.

Foreign currency exchange risk on financial instruments

The Company is exposed to risks arising from fluctuations in currency exchange rates between Canadian dollars and United States dollars. Generally, this risk is minimal as the majority of the financial instruments are short term in nature and held in the local currency of the respective operating company. The Canadian subsidiaries borrow US dollars through their bank operating line and from the US subsidiaries to facilitate merchandise purchases from US suppliers. While the amount borrowed in foreign currencies at any given time varies, current borrowing levels would result in gains or losses of approximately \$100,000 for each 1% change in the Canadian / US currency exchange rates, with gains occurring as the Canadian dollar strengthens and losses occurring as the Canadian dollar weakens.

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.

Pet Valu, Inc.

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.

Economic Conditions and Resulting Product Cost Inflation

Economic conditions including escalating costs in energy, agricultural products, and livestock used either in the production of food products or as ingredients in food products sold by the Company are resulting in inflation in the cost of many products sold by the Company. As a result, the Company believes retail prices could increase among all retailers. The Company's inventory investment strategy is expected to provide a competitive advantage in this regard. In the event that weaker economic conditions persist and consumers begin to change their purchasing patterns, the Company's convenient locations and strong private label programs are expected to provide it with an advantage.

Foreign Exchange Risks Associated with Merchandise Purchased in Foreign Currencies

The Company purchases 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. Currently, the Company's Canadian subsidiaries purchase approximately 15% of its products in US dollars. The Company does not currently hedge against changes in the US / Canadian currency exchange rates.

Risks Associated with Importing Merchandise

The Company imports merchandise into Canada from the US and other countries. In addition, the Company imports merchandise into the US from Canada and other countries. This merchandise includes 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.

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Litigation

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.

In fiscal 2007 Pet Valu, Inc. and Pet Valu Canada Inc. (the "Pet Valu Companies") were joined, or targeted to be joined, as defendants, along with certain other pet food retailers as well as some manufacturers, in five potential class action lawsuits concerning the manufacture and sale of pet food products alleged to contain melamine. The actions in which the Pet Valu Companies were joined were commenced in British Columbia, Saskatchewan, and Newfoundland. Actions in which they were targeted to be joined were commenced in Ontario and Manitoba.

All five above actions and approximately 100 other actions commenced in the U.S. and Canada which do not involve the Pet Valu Companies have been the subject of negotiation which resulted in a settlement agreement in the first half of fiscal 2008. The settlement agreement has received preliminary approval of the U.S. and Canadian courts. The U.S. Court gave final approval of the settlement on October 15, 2008 and final approval by the Canadian courts is expected by the end of the year. The settlement agreement creates a settlement fund of US\$24 million to be administered by a neutral claims administrator that will allow a potential recovery of up to 100% of all economic damages incurred by pet owners subject to certain limitations. The Pet Valu Companies expect that the settlement will have no financial impact on them.

From time to time, the Company is named as a defendant in other legal proceedings 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 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. Historically, fourth quarter earnings tend to be stronger due to higher store sales and increased margins.

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, although, retail price inflation and product cost inflation in the current year has been higher than in the previous years.

Market risks

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

Expansion Plans

Expansion by the Company either through greenfield development or synergistic acquisition depends on several factors such as its ability to obtain favourable store sites and / or identify synergistic competitors, and to compete in existing or new markets.

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; 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; the outcome of strategic alternatives being considered by the Company's board of directors; and changes in the laws, rules and regulations applicable to the Company or the markets in which the Company operates.

Pet Valu, Inc.

Transactions with related parties

The Company had the following transactions with related parties.

- a) Interest payments were made on debentures held by certain officers and former directors of C\$261,421 (2007 - C\$0) during the third quarter and C\$677,994 (2007 - C\$622,290) for the year to date period. The principal amounts of these debentures and all outstanding interest was repaid on the maturity date of July 24, 2008.
- b) Payments of C\$9,765 (2007 – C\$4,865) for the quarter and C\$44,446 (2007 – C\$4,865) for the year to date period were made to a former director of the Company for consulting services provided regarding various matters.
- c) The Company has accrued \$480,322 for a claim for reimbursement of out-of-pocket expenses incurred by Goodwood Inc. in connection with the proxy contest to reconstitute the Pet Valu Board. A partner in Goodwood Inc. was appointed to the Pet Valu board of directors in May 2008.

Please see the discussion of transactions with related parties in the MD&A for the year ended December 29, 2007.

Critical accounting estimates

There were no new critical accounting estimates in the first three quarters of fiscal 2008. Please see the discussion of critical accounting estimates in the MD&A for the year ended December 29, 2007.

Changes in Accounting Policies including Initial Adoption

In September 2006, the Financial Accounting Standards Board (“FASB”) issued statement of financial accounting standard (“SFAS”) No. 157, “Fair Value Measurement.” SFAS 157 defines fair value and establishes a framework for measuring fair value. It also expands the disclosures required for fair value measurement. SFAS 157 applies to other accounting pronouncements that require fair value measurement; however it does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 has not had a material effect on the Company’s consolidated financial position, results of operations or cash flows.

In February, 2007, FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities- Including an Amendment of FASB Statement No. 115.” SFAS 159 permits an entity to have the option to measure selected financial instruments and certain other items at fair value at specified election dates. A business entity would report unrealized gains and losses on which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied on an instrument by instrument basis, is irrevocable and must be applied to an entire instrument. Most of the provisions of SFAS 159 are elective; however the amendment of SFAS No. 155, “Accounting for Certain Investments in Debt and Equity Securities”, must be applied to all entities with available-for-sale and trading securities. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The adoption of SFAS 159 had no effect on the Company’s consolidated financial position, results of operations or cash flows.

In December 2007, FASB issued SFAS No. 160, “Noncontrolling Interest in Consolidated Financial Statements – An Amendment of ARB No. 51”. SFAS 160 establishes new accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires that noncontrolling interests be reported as a component of equity within the consolidated financial statements, that changes in a parent company’s ownership interest where the parent retains controlling interest be recorded as equity transactions and that upon deconsolidation the parent recognize a gain or loss in net income. The resulting gain or loss is to be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 is effective for fiscal years and interim periods beginning on or after December 15, 2008. The adoption of SFAS 160 will not have a material effect on the Company’s consolidated financial position, results of operations or cash flows.

Pet Valu, Inc.

In December 2007, FASB issued SFAS No. 141(R), "Business Combinations". SFAS 141(R) replaces SFAS No. 141, "Business Combinations". SFAS 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest. SFAS 141(R) requires that an acquirer record the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at fair value. It also provides guidance for recognizing and measuring goodwill obtained during a business combination. In addition, guidance is provided on disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS 141(R) will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements of Statement 133 to provide a better understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and their effect on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. We are currently evaluating the impact that the adoption of SFAS 161 will have on our consolidated financial statements.

In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The adoption of SFAS 162 will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

Outstanding Share Data

The following table contains the number of outstanding voting or equity securities at September 27, 2008 and the end of fiscal 2007. Please refer to notes 9 and 10 of the financial statements for the thirty-nine weeks ended September 27, 2008 for additional information.

	<u>Nov. 5, 2008</u>	<u>Sep. 27, 2008</u>	<u>Dec. 29, 2007</u>
Common Stock of Pet Valu, Inc.	100	100	100
Special Voting Stock of Pet Valu, Inc.	-	-	-
Additional Special Voting Stock of Pet Valu, Inc.	9,626,274	9,626,274	9,626,274
Exchangeable Shares of Pet Valu Canada Inc.	9,492,300	9,492,300	8,566,416
Common Shares of Pet Valu Canada Inc. (held by Pet Valu, Inc.)	1	1	1

Non-voting securities convertible into Exchangeable Shares of Pet Valu Canada Inc.:

8.5% debentures of Pet Valu Canada Inc. (face value C\$3.7 million)	672,727	672,727	672,727
Warrants of Pet Valu Canada Inc. issued September 30, 2004	-	-	851,944

On March 5, 2008, 785,411 Tranche A Warrants and 66,533 Tranche B Warrants were exercised for proceeds of C\$1,936,754.

Pet Valu, Inc.

Outlook

Pursue Organic Growth

Growth in comparable store sales has resulted from the Company's reniching programs, including the additions of new differentiated products and the continued development of private label products. These reniching programs have and are expected to continue to contribute to an increase in gross profit margins and improved product selection for customers.

These programs are on-going and include various degrees of product differentiation, staff training, facilities upgrades, and customer service initiatives. The Company will continue to focus on these programs for the foreseeable future with a goal of increasing sales, maintaining strong margins and improving the customer experience.

Pursue Store Growth through Greenfield Expansion / Acquisition

Store expansion will be pursued in Canada through greenfield development, and/or acquisitions that meet profit targets or otherwise realize synergies. Our target for store growth in fiscal 2008 has been reduced to 15-20 new stores in Canada. The previously announced target included a potential acquisition that is not expected to occur in fiscal 2008.

The U.S. market is quite different from the Canadian market and is more competitive. The Company is analyzing the opportunity for further expansion in the U.S.; however, the focus of the Company's growth plans will first be in Canada.

Pet Valu plans to explore expansion in Canadian markets where the Company is not already operating, including Alberta, B.C., Saskatchewan and the Maritimes. These will be analysed and pursued to the extent that it is determined that targeted returns can be achieved and are sustainable.

Pursue initiatives to sustain growth

Initiatives to sustain growth include:

- Reviewing the current information systems and inventory control systems. The goal will be to acquire or develop systems that are scalable and will support expansion initiatives and other initiatives to increase profitability.
- Continuing to develop warehousing, operating and distribution related infrastructure to meet the anticipated growth of the business.

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 controls over financial reporting during the most recent interim period ended September 27, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Pet Valu, Inc.

November 5, 2008

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 September 27, 2008, nor the consolidated statements of operations, comprehensive income and cash flows for the thirty-nine 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 U.S. dollars)

September 27, 2008 December 29, 2007

Assets		
Current assets		
Cash and short-term investments	\$ 1,699,053	\$ 1,635,834
Accounts receivable	1,757,155	2,041,638
Other receivables (Less allowances of \$5,132, 2007 - \$5,405)	514,550	1,273,781
Inventories	38,514,501	32,541,967
Prepaid expenses and other assets	1,763,459	1,701,495
Deferred income taxes (Note 2)	759,924	787,959
Total current assets	45,008,642	39,982,674
Notes receivable (Less allowances of \$4,485, 2007 - \$4,724)	10,186	24,192
Deferred rent receivable and other assets	1,116,610	1,237,773
Property and equipment, net of accumulated depreciation and amortization	9,580,959	9,259,778
Goodwill (Note 5)	18,399,823	17,132,808
Deferred income taxes (Note 2)	4,194,700	4,273,630
Total assets	\$ 78,310,920	\$ 71,910,855
Liabilities and Shareholders' Equity		
Current liabilities		
Bank overdraft	\$ 853,958	\$ 2,122,868
Bank operating loans (Note 4)	7,063,211	3,153,614
Current portion of long-term debt including capital lease obligations (Note 6)	2,893,375	2,625,284
Current portion of deferred gain on warehouse sale	246,508	269,080
Trade accounts payable	7,678,346	6,536,133
Accrued liabilities	5,024,316	4,597,761
Accrued wages and benefits	4,138,334	4,067,541
Income taxes payable	355,063	1,534,407
Subordinated debentures (Note 7)	-	8,995,410
Total current liabilities	28,253,111	33,902,098
Deferred franchise revenue	6,790	8,182
Deferred gain on warehouse sale	-	188,579
Deferred rent payable	2,646,770	2,629,650
Long-term debt including capital lease obligations, less current maturities (Note 6)	3,334,628	1,072,492
Subordinated debentures (Note 7)	3,582,494	3,773,585
Total liabilities	37,823,793	41,574,586
Commitments and contingencies (Notes 4 & 12)		
Shareholders' Equity		
Capital stock (Notes 9 & 10)	963	963
Additional paid in capital	21,903,970	19,585,169
Accumulated earnings	23,685,287	14,850,532
Accumulated other comprehensive loss	(4,411,108)	(3,408,410)
Treasury stock – exchangeable shares, at cost	(691,985)	(691,985)
Total shareholders' equity	40,487,127	30,336,269
Total liabilities and shareholders' equity	\$ 78,310,920	\$ 71,910,855

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 U.S. dollars, except number of shares)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Sales and revenue	\$ 46,585,138	\$ 41,517,718	\$133,642,111	\$116,056,136
Cost of sales including occupancy costs	30,569,946	28,645,243	88,994,019	81,019,374
Gross profit	16,015,192	12,872,475	44,648,092	35,036,762
Store operating expenses excluding occupancy costs	4,962,681	4,137,304	14,296,382	12,088,043
General and administrative expenses	4,981,250	3,482,925	13,805,138	10,180,462
	6,071,261	5,252,246	16,546,572	12,768,257
Net interest expense	312,920	636,207	1,201,467	1,588,023
Income before income taxes	5,758,341	4,616,039	15,345,105	11,180,234
Income taxes provision	1,792,780	1,475,274	4,946,745	3,516,954
Net income	\$ 3,965,561	\$ 3,140,765	\$ 10,398,360	\$ 7,663,280
Basic EPS (Note 3)	\$ 0.42	\$ 0.36	\$ 1.13	\$ 0.88
Diluted EPS (Note 3)	0.39	0.31	1.02	0.75
Weighted average number of common stock and exchangeable shares outstanding: Basic (Note 3)	9,494,403	8,682,730	9,219,566	8,722,141
Diluted (Note 3)	10,374,663	10,425,369	10,344,305	10,438,810

Consolidated Statements of Comprehensive Income

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Net Income	\$ 3,965,561	\$ 3,140,765	\$ 10,398,360	\$ 7,663,280
Other comprehensive income				
Unrealized foreign currency translation gains and losses	(480,310)	979,869	(1,002,698)	1,987,886
Comprehensive Income	\$ 3,485,251	\$ 4,120,634	\$ 9,395,662	\$ 9,651,166

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 U.S. dollars)

		Additional Special Voting Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity (Deficit)
Balance – December 30, 2006	\$	963	\$ 19,802,745	\$ 5,223,320	\$ (5,737,717)	\$ (691,985)	\$ 18,597,326
Stock-based compensation costs		–	145,675	–	–	–	145,675
Repurchase of Exchangeable Shares (Note 9)		–	(617,651)	(2,754,349)	–	–	(3,372,000)
Issuance of Exchangeable Shares (Note 10)		–	254,400	–	–	–	254,400
Net Income		–	–	12,381,561	–	–	12,381,561
Foreign currency translation Adjustments		–	–	–	2,329,307	–	2,329,307
Balance – December 29, 2007	\$	963	\$ 19,585,169	\$ 14,850,532	\$ (3,408,410)	\$ (691,985)	\$ 30,336,269
Stock-based compensation costs		–	133,865	–	–	–	133,865
Repurchase of Exchangeable Shares (Note 9)		–	(350,578)	(1,563,605)	–	–	(1,914,183)
Issuance of Exchangeable Shares (Note 10)		–	2,535,514	–	–	–	2,535,514
Net Income		–	–	10,398,360	–	–	10,398,360
Foreign currency translation Adjustments		–	–	–	(1,002,698)	–	(1,002,698)
Balance – September 27, 2008	\$	963	\$ 21,903,970	\$ 23,685,287	\$ (4,411,108)	\$ (691,985)	\$ 40,487,127

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 U.S. dollars)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Operating activities				
Net income	\$ 3,965,561	\$ 3,140,765	\$ 10,398,360	\$ 7,663,280
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	509,265	458,498	1,488,364	1,331,889
Deferred income taxes	18,168	19,405	55,801	55,355
(Gain) loss on disposal of property and equipment	(1,958)	4,617	(2,256)	31,295
Stock based compensation costs	56,091	36,347	133,865	105,446
Deferred rent receivable and other assets	(1,450)	126,679	201,568	211,459
Amortization of deferred gain on warehouse sale	(62,213)	(61,555)	(190,729)	(175,599)
Changes in other operating assets and liabilities:				
Decrease in receivables	448,940	20,015	912,732	1,423,921
Increase in inventories	(4,528,337)	(53,978)	(6,287,569)	(423,813)
(Increase) decrease in prepaid expenses	(428,933)	121,323	(127,492)	(414,894)
Increase (decrease) in trade accounts payable	458,138	577,291	1,101,802	(319,816)
Increase (decrease) in accrued liabilities	1,874,466	897,555	858,166	380,413
(Decrease) increase in income taxes payable	(76,646)	775,286	(1,117,972)	(3,250,419)
Net cash provided by operating activities	2,231,092	6,062,248	7,424,640	6,618,517
Investing activities				
Purchases of property and equipment	(511,042)	(2,389,576)	(1,641,250)	(3,053,052)
Proceeds on disposal of property and equipment	2,330	975	24,818	14,363
Acquisition of businesses (Note 5)	(2,330,814)	(373,846)	(3,082,401)	(902,459)
Notes and other receivables	3,907	3,961	11,977	14,167
Net cash used in investing activities	(2,835,619)	(2,758,486)	(4,686,856)	(3,926,981)
Financing activities				
Increase (decrease) in short-term financing	4,432,287	(1,645,140)	4,128,858	1,349,205
Increase (decrease) in bank overdraft	56,527	(32,707)	(1,178,410)	(205,129)
Repayment of capital lease obligation	(101,011)	(86,593)	(295,004)	(265,964)
Issuance of Exchangeable Shares	30,823	12,172	2,535,515	259,316
Repurchase of Exchangeable Shares	-	(1,233,857)	(1,914,183)	(2,912,025)
Repayment of notes payable	(66,973)	(69,601)	(116,621)	(114,759)
Proceeds (repayment) of term loan financing	3,896,555	(602,259)	2,643,114	(1,723,800)
Repayment of subordinated debentures	(8,720,585)	-	(8,720,585)	-
Net cash used in financing activities	(472,377)	(3,657,985)	(2,917,316)	(3,613,156)
Effect of exchange rate changes on cash	110,398	(229,060)	242,751	(320,959)
Net (decrease) increase in cash	(966,506)	(583,283)	63,219	(1,242,579)
Cash and short-term investments – Beginning of fiscal period	2,665,559	1,777,538	1,635,834	2,436,834
Cash and short-term investments – End of fiscal period	\$ 1,669,053	\$ 1,194,255	\$ 1,669,053	\$ 1,194,255

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

Pet Valu, Inc.

Notes to Consolidated Financial Statements

For the thirty-nine week periods ended September 27, 2008 and September 29, 2007

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 accounting principles generally accepted in the United States of America ("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 29, 2007.

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 29, 2007, except as noted below.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to current year's presentation.

Newly Adopted Accounting Standards

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurement." SFAS 157 defines fair value and establishes a framework for measuring fair value. It also expands the disclosures required for fair value measurement. SFAS 157 applies to other accounting pronouncements that require fair value measurement; however it does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 has not had a material effect on the Company's consolidated financial position, results of operations or cash flows.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities- Including an Amendment of FASB Statement No. 115." SFAS 159 permits an entity to have the option to measure selected financial instruments and certain other items at fair value at specified election dates. A business entity would report unrealized gains and losses on which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied on an instrument by instrument basis, is irrevocable and must be applied to an entire instrument. Most of the provisions of SFAS 159 are elective; however the amendment of SFAS No. 155, "Accounting for Certain Investments in Debt and Equity Securities", must be applied to all entities with available-for-sale and trading securities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The adoption of SFAS 159 had no effect on the Company's consolidated financial position, results of operations or cash flows.

2. Income Taxes

The Company's deferred tax assets are comprised of timing differences related to depreciable assets, intangible assets and net operating loss carryforwards. The Company reduces the deferred tax assets by a valuation allowance for the portion of the net operating loss carryforward that management determined does not meet the more likely than not criteria for recognition. An estimate of future taxable income is used in this determination. This estimate is revised once a year in the fourth quarter unless there has been a significant change in the results of operations. Therefore, unless otherwise stated there is no adjustment to the valuation allowance during the interim periods.

Pet Valu, Inc.

3. 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 convertible debt, 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 diluted effect of equity and debt instruments convertible into either Common Stock or Exchangeable Shares (see Note 9 & 10).

In the third quarter of fiscal 2008 and fiscal 2007, 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 to purchase 336,110 Exchangeable Shares and/or Common Stock were outstanding on September 27, 2008 (September 29, 2007 – 1,334,114) (see Note 10). Warrants issued in fiscal 2004 to purchase 851,944 Exchangeable Shares were exercised on March 5, 2008. There are no warrants outstanding on September 27, 2008. 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.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Net income for the period	\$ 3,965,561	\$ 3,140,765	\$ 10,398,360	\$ 7,663,280
Net income applicable to holders of Common Stock and Exchangeable Shares				
Basic	\$ 3,965,561	\$ 3,140,765	\$ 10,398,360	\$ 7,663,280
Interest on 8.5% debenture	50,203	47,774	154,099	136,285
Diluted	\$ 4,015,764	\$ 3,188,539	\$ 10,552,459	\$ 7,799,565
Basic EPS	\$ 0.42	\$ 0.36	\$ 1.13	\$ 0.88
Diluted EPS	\$ 0.39	\$ 0.31	\$ 1.02	\$ 0.75
Weighted average number of Common Stock and Exchangeable Shares outstanding:				
Basic	9,494,403	8,682,730	9,219,566	8,722,141
Effect of dilutive stock options outstanding	207,533	369,870	283,777	372,497
Effect of dilutive warrants outstanding	-	700,042	168,235	671,445
Effect of conversion of 8.5% debenture	672,727	672,727	672,727	672,727
Diluted	10,374,663	10,425,369	10,344,305	10,438,810

Pet Valu, Inc.

4. 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 revolving line of credit for a term of five years and a C\$5,000,000 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 (C\$20 million on September 27, 2008) and a borrowing base calculation related to inventories and franchise receivables.

On July 23, 2008, the Company entered into an amending agreement with its bank that increased the ceiling on the revolving line of credit from a maximum of C\$15 million to a maximum of C\$20 million. In addition, the amendment created a new C\$5 million term loan that bears interest at prime plus 1% and is repayable in 24 equal monthly installments. Concurrently with the execution of the amending agreement, the balance of the term loan on that date, plus all accrued interest, totaling C\$627,160, was repaid. All other terms in the existing credit agreement remained substantially the same. On September 27, 2008 the borrowings outstanding under the credit facility were \$7,063,211 (December 29, 2007 - \$3,153,614). The borrowing base calculation exceeded the loan ceiling; therefore borrowings were limited to C\$20,000,000 at September 27, 2008 and C\$15,000,000 at December 29, 2007. The resulting availability at September 27, 2008 was C\$12,705,116 (December 29, 2007-C\$11,907,880). Interest on the revolving line of credit is calculated using the bank's prime rate plus 0.25% per annum. The interest rates at September 27, 2008 were 5.00% for Canadian dollar borrowings and 5.75% 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 the covenants at September 27, 2008.

5. Business Acquisitions

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Franchise Repurchases (see a below)	\$ 68,608	\$ 373,846	\$ 820,195	\$ 902,459
Other Business Acquisition (see b below)	2,262,206	-	2,262,206	-
Net Cash Consideration Paid	\$ 2,330,814	\$ 373,846	\$ 3,082,401	\$ 902,459

a) Franchise Repurchases

Included in the consolidated financial results of the Company are repurchases of franchise stores. The repurchases have been accounted for through the purchase method.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Number of Stores Repurchased	1	5	6	15
Inventory	\$ 60,299	\$ 230,597	\$ 394,922	\$ 574,494
Property and equipment	12,084	59,183	73,210	143,450
Goodwill	(3,775)	84,066	352,063	184,515
Cash consideration	\$ 68,608	\$ 373,846	\$ 820,195	\$ 902,459

b) Other Business Acquisition

On August 22, 2008, the Company's Canadian operating subsidiary, Pet Valu Canada Inc., acquired 100% of the issued and outstanding shares of four corporations; Pets Choice Distributors Ltd, 1517256 Ontario Inc., 1202772 Ontario Ltd. and 869317 Ontario Ltd.. Together, these four companies operate a chain of 15 pet food and supply retail stores operating under the "Berrys...Your PetsChoice" banner in eastern Ontario.

Pet Valu, Inc.

b) Other Business Acquisition (Continued)

The aggregate purchase price was \$2,288,766 and was paid in cash from the Company's bank operating line of credit. The cash consideration paid, net of cash acquired of \$26,560, was \$2,262,206.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price is subject to refinement as final accounting for the transaction is still in process.

	August 22, 2008
Current assets	\$ 852,890
Property and equipment	28,610
Goodwill	1,743,714
Total assets acquired	\$ 2,625,214
Current liabilities assumed	336,448
Net assets acquired	\$ 2,288,766

The \$1,743,714 of goodwill was assigned to the Canadian segment for purposes of segmented reporting. None of the goodwill is expected to be deductible for tax purposes.

The following table shows the consolidated financial results of the Company as if the acquisition had been completed at the beginning of each period presented.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Proforma revenue	\$ 47,601,535	\$ 42,514,914	\$ 136,691,301	\$ 119,047,724
Proforma net income	\$ 4,062,598	\$ 3,241,600	\$ 10,689,472	\$ 7,965,785
Proforma earnings per share				
Basic	\$ 0.43	\$ 0.37	\$ 1.16	\$ 0.91
Diluted	\$ 0.40	\$ 0.32	\$ 1.05	\$ 0.78
Weighted average number of Common Stock and Exchangeable Shares outstanding:				
Basic	9,494,403	8,682,730	9,219,566	8,722,141
Diluted	10,374,663	10,425,369	10,344,305	10,438,810

Pet Valu, Inc.

6. Long-term Debt

	Long-term	September 27, 2008		Long-term	December 29, 2007	
		Current	Total		Current	Total
Bank term loan	\$ 2,218,887	\$ 2,420,604	\$ 4,639,491	\$ -	\$ 2,124,766	\$ 2,124,766
Supplier notes payable	115,912	115,912	231,824	236,989	118,494	355,483
Other note payable	-	7,207	7,207	1,839	22,962	24,801
Capitalized lease obligations	999,829	349,652	1,349,481	833,664	359,062	1,192,726
Total	\$ 3,334,628	\$ 2,893,375	\$ 6,228,003	\$ 1,072,492	\$ 2,625,284	\$ 3,697,776

Bank Term Loan

The bank term loan is part of the amended and restated credit agreement (see Note 4). The loan bears interest at prime plus 1% (5.75% at September 27, 2008) and matures July 23, 2010. The loan is repayable in 24 equal monthly installments.

Supplier Notes Payable

During fiscal 2000, the Company entered into loan agreements with a supplier. These loans are payable in annual principal installments of C\$50,000 and US\$67,500, respectively and mature in 2010. The loans bear interest, payable monthly, at Canadian bank prime (4.75% at September 27, 2008) and U.S. prime for U.S. dollar borrowings within the United States (5.00% at September 27, 2008), respectively. Pursuant to the loan agreements, the Company must meet certain merchandise purchase targets. If the targets are not met, the principal repayments are accelerated based on a formula.

Other Note Payable

The other note payable bears interest at US prime (5.00% at September 27, 2008), matures in 2009 and is 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 \$2,427,395 and \$2,014,021 as at September 27, 2008 and December 29, 2007, respectively. Accumulated depreciation relating to these assets was \$1,135,782 and \$872,489 as at September 27, 2008 and December 29, 2007, respectively.

Future repayments are as follows:

	Bank Term Loans	Supplier Notes Payable	Other Notes Payable	Capitalized Lease Obligations	Total
2008	\$ 605,151	\$ -	\$ 5,368	\$ 126,777	\$ 737,296
2009	2,420,604	115,912	1,839	428,579	2,966,934
2010	1,613,736	115,912	-	324,191	2,053,839
2011	-	-	-	255,829	255,829
2012	-	-	-	218,502	218,502
2013	-	-	-	172,527	172,527
2014	-	-	-	75,497	75,497
2015 and thereafter	-	-	-	63,368	63,368
	\$ 4,639,491	\$ 231,824	\$ 7,207	\$ 1,665,270	\$ 6,543,792
Less: Interest	-	-	-	315,789	315,789
Current Maturities	2,420,604	115,912	7,207	349,652	2,893,375
Total	\$ 2,218,887	\$ 115,912	\$ -	\$ 999,829	\$ 3,334,628

Pet Valu, Inc.

7. Subordinated Debentures

	September 27, 2008			December 29, 2007		
	Face Value (Converted from C\$)	Unamortized Discount	Net	Face Value (Converted from C\$)	Unamortized Discount	Net
8.5% subordinate (convertible)	\$ 3,582,494	\$ -	\$ 3,582,494	\$ 3,773,585	\$ -	\$ 3,773,585
10% subordinate (non-convertible)	-	-	-	8,995,410	-	8,995,410
	\$ 3,582,494	\$ -	\$ 3,582,494	\$ 12,768,995	\$ -	\$ 12,768,995
Balance Sheet Classification						
Current	\$ -	\$ -	\$ -	\$ 8,995,410	\$ -	\$ 8,995,410
Non-Current	3,582,494	-	3,582,494	3,773,585	-	3,773,585
	\$ 3,582,494	\$ -	\$ 3,582,494	\$ 12,768,995	\$ -	\$ 12,768,995

(a) 8.5% Convertible

Pet Valu Canada Inc. has an outstanding 8.5% convertible subordinated unsecured debenture in the amount of C\$3,700,000. 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. The debenture is due in December of 2009. Interest on this debenture is paid quarterly.

(b) 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\$8,820,000 was completed on July 24, 2006. Interest on the 10% debentures was paid quarterly. The initial term of these debentures was two years. The holders had an option to extend for an additional two years and the issuer had 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. However, the deadline for holders to exercise their options to extend the debenture term expired and no holders exercised their option to extend. In accordance with the debenture agreement, the scheduled repayment of principal and accrued interest for the 10% Non Convertible Debentures was made on July 24, 2008 by cash payments to the debenture holders. The amount of the payments was C\$8,877,836, made up of principal repayments of C\$8,820,000 and accrued interest of C\$57,836. These payments were financed from the new Bank Term Loan (Notes 4 and 7), the Company's Bank Operating Line (Note 4) and funds provided from operations.

The investors in the private placement included, among others, certain then directors and/or officers of Pet Valu, Inc. and Pet Valu Canada, directly or indirectly. In particular, Geoffrey Holt, who was a director (until May of 2008) and continues to be an officer of both companies, invested C\$5,000,000 through Holtcorp, a personal holding company; Douglas Lunau, who was a director of both companies (until May of 2008), invested C\$3,000,000 through the Lunau Family Trust; Breena Holt, who was a director of both companies (until May of 2008) and a consultant to Pet Valu Canada, invested C\$150,000; Darryl Squires, who was a director of both companies (until May of 2008), invested C\$20,000; and John Turner, who is an officer and part-time employee of Pet Valu Canada, invested C\$150,000. Interest paid to the related parties in the third quarter was C\$261,421 (2007 – nil) and C\$677,994 (2007 – C\$622,290) for the year to date period. As a result of a sale of certain of these debentures by Holtcorp Inc. to the Lunau Family Trust, completed on July 1, 2007, the principal amount of Holtcorp Inc.'s investment became C\$4,500,000 and that of Lunau Family Trust became C\$3,500,000.

Pet Valu, Inc.

8. Capital Disclosures

The Company considers its capital to include shareholders' equity and its subordinated debentures. As at September 27, 2008, the Company's capital was \$44,069,621 (December 29, 2007 - \$43,105,264).

The Company's objective when managing its capital is to seek continuous improvement in the return to its shareholders while maintaining a low to moderate tolerance level for risk. The objective is achieved by prudently managing the capital generated through internal growth and profitability, through the use of lower cost capital, including capital leases and bank debt, and raising share capital or debt when required to fund opportunities as they arise. The Company may also return capital to shareholders through the repurchase of shares or reduce debt where it determines either of these to be an effective method of achieving the above objective. The Company does not use ratios in the management of its capital.

The Company is not subject to any externally imposed capital requirements, although the Company's credit agreement with its bank contains certain restrictions on the issuance of debt, prepayment of debt, and dividends or distributions to shareholders.

9. Capital Stock

Authorized

- 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

	September 27, 2008		December 29, 2007	
	Shares Issued And Outstanding	Amount	Shares Issued and Outstanding	Amount
Additional Special Voting Stock	9,626,274	\$ 963	9,626,274	\$ 963
Common Stock	100	-	100	-
Additional paid-in capital		21,903,970		19,585,169
		\$ 21,904,933		\$ 19,586,132

Pet Valu, Inc.

9. Capital Stock (Continued)

Pet Valu Canada Inc. Shares

				September 27, 2008	December 29, 2007
	Authorized	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	9,846,000	9,492,300	9,492,300	8,566,416
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 September 27, 2008 and December 29, 2007, 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 September 27, 2008 and December 29, 2007, in treasury at cost.

Pet Valu Canada Inc. repurchased and cancelled Exchangeable Shares for cash under a normal course issuer bid as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Number of Shares Repurchased and Cancelled	-	93,000	154,200	242,300
Cash Consideration	-	\$ 1,233,857	\$ 1,914,183	\$ 2,912,025
	-	C\$1,230,345	C\$1,941,918	C\$3,018,265

10. 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 672,270 Exchangeable Shares of Pet Valu Canada Inc. for issuance pursuant to its Plans of which 336,160 are available for grant.

Pet Valu, Inc.

10. Stock Options and Warrants (Continued)

In the second and third quarters of fiscal 2008, there were no Common Stock and Exchangeable Share options granted. There were 79,500 Common Stock and Exchangeable Share options granted in the first quarter of fiscal 2008. The weighted average fair value of the Common Stock and Exchangeable Share options granted in fiscal 2008 was C\$3.06. There were no Common Stock and Exchangeable Share options granted in fiscal 2007. 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	
	September 27, 2008	December 29, 2007
Expected dividend rate	0%	-
Expected volatility	33%	-
Weighted average risk-free interest rate	3.0%	-
Expected lives (years)	3 years	-

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 September 27, 2008, there were 9,000 Board options vested and exercisable and 254,110 Executive options vested and exercisable with weighted average exercise prices of C\$2.26 and C\$3.82, 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 30, 2006	602,450	\$ 1.16 – 4.99	\$ 2.84
Granted	-	-	-
Exercised	(122,500)	1.16 – 3.28	2.34
Cancelled	-	-	-
Outstanding December 29, 2007	479,950	\$ 1.30 – 4.99	\$ 2.97
Granted	79,500	11.74	11.74
Exercised	(205,340)	2.06 – 4.99	3.09
Cancelled	(18,000)	3.26 – 4.99	3.84
Outstanding September 27, 2008	336,110	\$ 1.30 – 11.74	\$ 4.92

The weighted average remaining term of options outstanding at September 27, 2008 was 1.43 years.

The following table summarizes information about stock options outstanding at September 27, 2008:

Range of Exercise Price	Options outstanding			Options exercisable		
	Options Outstanding	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price	
\$ 1.30 – 1.46	5,720	2.30	\$ 1.44	5,720	\$1.44	
2.06	35,000	6.14	2.06	15,000	2.06	
2.80	142,390	1.24	2.80	142,390	2.80	
3.26	4,000	1.12	3.26	4,000	3.26	
3.28	69,500	1.04	3.28	69,500	3.28	
11.74	79,500	5.26	11.74	26,500	11.74	
	336,110			263,110		

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10. 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 entitled the holder to purchase one Exchangeable Share. All warrants were due to expire on September 30, 2009. The Tranche C Warrants were cancelled in fiscal 2005.

In fiscal 2006, 25,000 of the Tranche A Warrants were exercised. On March 5, 2008, the remaining 785,411 Tranche A Warrants and 66,533 Tranche B Warrants were exercised for proceeds of C\$1,936,754.

11. Financial Instruments

The Company has classified its assets and liabilities as follows:

Asset/Liability	Classification	Measurement
Cash and short-term investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Notes receivables	Loans and receivables	Amortized cost
Bank indebtedness and bank operating loans	Other liabilities	Amortized cost
Accounts payable and accruals	Other liabilities	Amortized cost
Capital lease obligations and other long-term debt	Other liabilities	Amortized cost
Subordinated debentures	Other liabilities	Amortized cost

The Company's estimate of the fair value of cash and short-term investments, trade accounts, notes receivable and other receivables, trade accounts payable, accrued liabilities, accrued wages and benefits and income taxes payable approximates their carrying value due to the short-term nature of these instruments. The estimated fair value of supplier notes payable, bank overdrafts, bank operating loans, a term loan and other notes payable approximated the carrying value because of their variable interest rates. The carrying value of capital lease obligations approximates their fair value as their interest rates approximate current market interest rates. The subordinated debentures are not listed for trading on a stock exchange and are not actively traded. Accordingly, as fair value of these debentures is not readily determinable, the debentures are recorded at amortized cost.

Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are cash and short-term investments and accounts receivable. The Company mitigates the risk on cash and short-term investments by the fact that its deposits are with various high quality financial institutions. The Company has receivables from its suppliers and from the Company's franchise operators. The credit risk on its receivables from suppliers is managed by the Company's ability to offset any monies owed by the supplier against amounts owed to the suppliers. The management of credit risk on its franchisee accounts receivable is maintained by having short settlement terms on these receivables.

Liquidity Risk

The Company manages its liquidity risk by having various financing sources, including bank debt, subordinated debentures and capital leases. The Company prepares financial projections to ensure that it has sufficient funds to meet its contractual debt obligations.

Exchange Risk

To the extent that the assets securing bank overdrafts and bank operating loans and other activities are not denominated in the same currency, changes in foreign currency exchange rates can expose the Company to foreign currency risk.

Interest Rate Risk

The bank operating loans and certain other loans and notes are subject to variable interest rates. The Company does not engage in hedging to mitigate this risk.

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12. 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, including those referenced in the "Litigation" paragraph of the "Risks and Uncertainties" section of the Management's Discussion and Analysis issued concurrently with these financial statements, cannot be estimated, in the opinion of the Company, any such liability is unlikely to have a material adverse effect on its financial position, operating results or liquidity.

13. Related Party Transactions

In addition to the amounts disclosed in Note 7 regarding interest payment on debentures held by certain officers and former directors, the Company made payments of C\$9,765 (2007 – C\$4,865) for the quarter and C\$34,681 (2007 – C\$4,865) for the year to date period to a former director of the Company for consulting services provided regarding various matters.

The Company has accrued C\$488,919 to reimburse out-of-pocket expenses incurred by Goodwood Inc. in connection with the proxy contest to reconstitute the Pet Valu Board. A partner in Goodwood Inc. was appointed to the Pet Valu board of directors in May 2008.

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14. 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.

	Thirteen weeks ended		Thirty-Nine weeks ended	
	Sept. 27, 2008	Sept. 29, 2007	Sept. 27, 2008	Sept. 29, 2007
Sales and revenue to external customers				
Canada	\$ 37,207,023	\$ 32,727,670	\$ 106,443,472	\$ 89,553,652
U.S.	9,378,115	8,790,048	27,198,639	26,502,484
Total sales and revenue	\$ 46,585,138	\$ 41,517,718	\$ 133,642,111	\$ 116,056,136
Net interest expense				
Canada	\$ 308,341	\$ 629,913	\$ 1,200,872	\$ 1,613,872
U.S.	4,579	6,294	595	(25,849)
Total net interest expense	\$ 312,920	\$ 636,207	\$ 1,201,467	\$ 1,588,023
Net Income				
Canada	\$ 3,351,617	\$ 2,819,035	\$ 9,159,551	\$ 6,775,823
U.S.	738,402	446,188	1,612,183	1,260,831
Intersegment elimination	(124,458)	(124,458)	(373,374)	(373,374)
Total net income	\$ 3,965,561	\$ 3,140,765	\$ 10,398,360	\$ 7,663,280
Depreciation and amortization				
Canada	\$ 424,308	\$ 351,793	\$ 1,238,099	\$ 1,012,747
U.S.	84,957	106,705	250,265	319,142
Total depreciation and amortization	\$ 509,265	\$ 458,498	\$ 1,488,364	\$ 1,331,889
Purchases of property and equipment				
Canada	\$ 444,141	\$ 2,213,463	\$ 1,423,273	\$ 2,767,565
U.S.	66,901	176,113	217,977	285,487
Total purchases of property and equipment	\$ 511,042	\$ 2,389,576	\$ 1,641,250	\$ 3,053,052

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

	Sept. 27, 2008	December 29, 2007
Total assets		
Canada	\$ 124,860,200	\$ 118,400,799
U.S.	18,981,187	17,007,032
Intersegment elimination	(65,530,467)	(63,496,976)
Total assets	\$ 78,310,920	\$ 71,910,855
Capital assets and goodwill		
Canada	\$ 26,444,985	\$ 24,880,880
U.S.	1,535,797	1,511,706
Total capital assets and goodwill	\$ 27,980,782	\$ 26,392,586