



THE FORZANI GROUP LTD.
 Consolidated Statements of Operations and Retained Earnings
 (in thousands, except per share data)
 (unaudited)

	For the thirteen weeks ended	
	May 2, 2004	May 4, 2003
Corporate and Franchise Retail Sales	\$ 227,735	\$ 221,629
Revenue		
Retail	\$ 150,552	\$ 147,844
Wholesale	78,075	73,461
	228,627	221,305
Cost of sales	157,757	153,807
Gross margin	70,870	67,498
Operating and administrative expenses		
Store operating	44,795	42,929
General and administrative	13,438	13,237
Stock-based compensation	766	456
	58,999	56,622
Operating earnings before undernoted items	11,871	10,876
Amortization	8,411	7,564
Interest	921	1,424
	9,332	8,988
Earnings before income taxes	2,539	1,888
Income tax expense (recovery)		
Current	904	993
Future	23	(275)
	927	718
Net earnings for the period	\$ 1,612	\$ 1,170
Retained earnings, beginning of period	106,330	78,527
Retained earnings, end of period	\$ 107,942	\$ 79,697
Basic and diluted earnings per share	\$ 0.05	\$ 0.04
Total number of common shares outstanding	32,628	31,018
Weighted average number of common shares outstanding	32,203	30,848



THE FORZANI GROUP LTD.
 Consolidated Statements of Cash Flows
 (in thousands)
 (unaudited)

	For the thirteen weeks ended	
	May 2, 2004	May 4, 2003
Cash provided by (used in) operating activities		
Net earnings for the period	\$ 1,612	\$ 1,170
Items not involving cash		
Amortization	8,411	7,564
Amortization of finance charges	251	104
Amortization of deferred lease inducements	(2,195)	(2,020)
Stock-based compensation	766	456
Future income tax expense (recovery)	23	(275)
Cash flow from operations	8,868	6,999
Changes in non-cash operating elements of working capital		
Accounts receivable	(45,754)	(43,359)
Inventory	(24,115)	(5,194)
Prepaid expenses	(969)	(1,095)
Accounts payable and accrued liabilities	(18,063)	(24,386)
	(88,901)	(74,034)
	(80,033)	(67,035)
Cash provided by financing activities		
Proceeds from issuance of share capital	1,747	993
Increase in long-term debt	660	-
Increase in revolving credit facility	70,466	70,938
Proceeds from deferred lease inducements	1,196	2,735
	74,069	74,666
Cash provided by (used in) investing activities		
Acquisition of wholly-owned subsidiary	(9,589)	-
Net addition of capital assets	(7,364)	(6,601)
Net addition of other assets	225	(971)
	(16,728)	(7,572)
Increase (decrease) in cash	(22,692)	59
Net cash position, beginning of period	23,315	523
Net cash position, end of period	\$ 623	\$ 582



1. Accounting Policies

The unaudited interim consolidated financial statements (the “financial statements”) have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). These financial statements do not contain all disclosures required by 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 February 1, 2004.

The interim financial statements, follow the same accounting policies and methods of applications as the most recent annual consolidated financial statements as at February 1, 2004, except as reported in Note 2.

The preparation of the financial statements in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used when accounting for items such as employee benefits, product warranties, inventory provisions, amortization, uncollectible receivables and the liability for the Company’s loyalty program.

The Company’s business follows a seasonal pattern, with merchandise sales traditionally being higher in the fiscal fourth quarter than in other quarterly periods due to consumer holiday buying patterns. As a result, a disproportionate share of total revenues is typically earned in the fourth quarter. This business seasonality results in performance, for the 13 week period ended May 2, 2004, which is not necessarily indicative of performance for the balance of the year.



2. Adoption of New Accounting Policies

Effective February 2, 2004 the Company has adopted the following accounting policies:

a) Hedging Relationships - Accounting Guideline 13

This guideline is effective for fiscal years beginning on or after July 1, 2003. Under this policy the Company formally documents the relationship between the hedging instruments, hedged items, its risk management objective and risk management strategy. This documentation links all derivatives to specific assets, liabilities, firm commitments or forecasted transactions. The Company formally assesses the effectiveness of derivatives in offsetting changes or cash flow of hedged items at inception and on an ongoing basis. The adoption of this standard has had no material impact on the financial statements of the Company for the 13 weeks ended May 2, 2004.

b) Impairment of Long-Lived Assets– CICA Section 3063

This standard is effective for fiscal years beginning on or after April 1, 2003. The standard provides guidance on recognizing, measuring and disclosing the impairment of long-lived assets and replaces the previous standard regarding write-down of property, plant and equipment. There is a requirement to recognize an impairment loss for a long-lived asset when its carrying value exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition (fair value). The impairment loss is measured as the amount by which the carrying value exceeds its fair value. The adoption of this standard has had no material impact on the financial statements of the Company for the 13 weeks ended May 2, 2004.



c) Asset Retirement Obligations – CICA Section 3110

This standard is effective for fiscal years beginning on or after January 1, 2004. The standard provides guidance on the recognition and measurement of liabilities or obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. The obligation is recorded in the period when a reasonable estimate of the fair value can be determined, with a corresponding increase in the carrying value of the related asset. The asset is then amortized over the length of its useful life and the actual asset retirement expenditures are charged against the obligation. The adoption of this standard has had no material impact on the financial statements of the Company for the 13 weeks ended May 2, 2004.

3. Share Capital

(a) Authorized

An unlimited number of Class A shares

An unlimited number of Preferred shares, issuable in series

(b) Issued

Class A shares

	Number	Consideration
Balance February 1, 2004	31,791,327	\$ 128,880
Shares issued upon employees exercising stock options	537,002	1,747
Shares issued March 19, 2004 as part of an acquisition (Note 5)	300,000	3,924
Balance May 2, 2004	32,628,329	\$ 134,551



(c) Stock Option Plan

The Company has granted stock options to directors, officers and employees to purchase 2,476,819 Class A shares at prices between \$4.21 and \$22.06 per share. These options expire on dates between September 28, 2004 and March 23, 2009.

During the 13 weeks ended May 2, 2004, the following options, with a strike price of \$13.05, were granted:

Options issued	Weighted average fair value per option	Risk-free rate life	Expected option	Expected volatility	Expected dividend yield
205,000	\$4.39	3.68%	3 years	46%	nil

The following table summarizes the movement in stock options during the quarter:

	Number of options
Opening	2,808,821
Exercised	(537,002)
Granted	205,000
Closing	2,476,819

(d) Earnings Per Share

The Company uses the treasury-stock method to calculate diluted earnings per share. Under the treasury-stock method, the numerator remains unchanged from the basic earnings per share calculation as the assumed exercise of the Company's stock options does not result in an adjustment to earnings. The reconciliation of the denominator in calculating diluted earnings per share is as follows:

	May 2, 2004	May 4, 2003
Weighted average number of shares outstanding (basic)	32,203,118	30,848,244
Effect of dilutive securities	395,992	1,284,438
Weighted average number of common shares outstanding (diluted)	32,599,110	32,132,682

Anti-dilutive shares are excluded from the effect of dilutive securities. The following weighted average options are anti-dilutive:

	May 2, 2004	May 4, 2003
Anti-dilutive options	1,586,668	770,000



4. Segmented Financial Information

The Company operates principally in two business segments: corporately owned and operated retail stores and as a wholesale business selling to franchisees and others. Identifiable assets, depreciation and amortization, interest expense and capital expenditures are not disclosed by segment, as they are all substantially retail in nature.

	For the thirteen weeks ended	
	May 2, 2004	May 4, 2003
Revenues:		
Retail	\$ 150,552	\$ 147,844
Wholesale	78,075	73,461
	228,627	221,305
Operating Profit:		
Retail	9,137	7,975
Wholesale	6,506	6,851
	15,643	14,826
Non-segment specific administrative expenses	3,772	3,950
Depreciation and amortization	8,411	7,564
Interest expense	921	1,424
	13,104	12,938
Earnings before income taxes	2,539	1,888
Income tax expense	927	718
Net earnings for the period	\$ 1,612	\$ 1,170



5. Acquisition

Effective March 19, 2004, the Company acquired 100% of the outstanding shares of Gen-X Sports Inc. The acquisition is accounted for using the purchase method and accordingly the consolidated financial statements for the 13 weeks ended May 2, 2004 include the results of operations since the date of the acquisition.

The consideration for the transaction was \$13,513,000 for all the outstanding class A and class B common shares. The purchase consideration consisted of \$9,589,000 cash and the remainder in the form of a vendor take-back loan, repayable over four years. The loan payments are in the form of 300,000 escrowed Company class A shares distributed over the four year period.

The assigned fair values of the underlying assets and liabilities acquired by the company as at March 19, 2004, are summarized as follows:

Inventory	\$	6,208
Trademarks		3,280
Fixed Assets		200
Goodwill		3,924
<u>Total Assets Acquired</u>		<u>13,612</u>
<u>Current Liabilities</u>		<u>(99)</u>
<u>Total Liabilities Acquired</u>		<u>(99)</u>
	\$	13,513



6. Comparative Figures

Certain comparative or prior year's figures have been reclassified to conform with the presentation adopted for the current year ending January 30, 2005.