

THE FORZANI GROUP LTD.  
Consolidated Balance Sheets  
(in thousands)  
(unaudited, except where otherwise noted)

As at	August 1, 2004	February 1, 2004 (audited)	August 3, 2003
<b>ASSETS</b>			
Current			
Cash	\$ 668	\$ 23,315	\$ 590
Accounts receivable	56,505	36,319	57,720
Inventory	302,244	267,221	272,247
Prepaid expenses	12,198	11,292	12,949
	<b>371,615</b>	338,147	343,506
Capital assets	163,003	160,625	146,556
Goodwill and other intangibles (Note 5)	46,632	39,682	38,377
Other assets (Note 6)	7,566	10,105	11,042
	<b>\$ 588,816</b>	\$ 548,559	\$ 539,481
<b>LIABILITIES</b>			
Current			
Indebtedness under revolving credit facility	\$ 66,822	\$ -	\$ 59,137
Accounts payable and accrued liabilities	183,481	217,777	182,996
Current portion of long-term debt	858	887	363
	<b>251,161</b>	218,664	242,496
Long-term debt	35,391	37,408	31,914
Deferred lease inducements	51,018	52,954	52,104
Future income tax liability	1,100	1,435	622
	<b>338,670</b>	310,461	327,136
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 3)	135,111	128,880	127,353
Contributed surplus	4,447	2,888	1,597
Retained earnings	110,588	106,330	83,395
	<b>250,146</b>	238,098	212,345
	<b>\$ 588,816</b>	\$ 548,559	\$ 539,481



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

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 1, 2004	August 3, 2003	August 1, 2004	August 3, 2003
<b>Corporate and Franchise Retail Sales</b>	<b>\$ 256,423</b>	\$ 262,749	<b>\$ 484,158</b>	\$ 484,378
<b>Revenue</b>				
Retail	<b>162,706</b>	166,666	<b>313,258</b>	314,510
Wholesale	<b>53,663</b>	49,040	<b>131,738</b>	122,501
	<b>216,369</b>	215,706	<b>444,996</b>	437,011
Cost of sales	<b>137,240</b>	142,023	<b>294,997</b>	295,830
<b>Gross margin</b>	<b>79,129</b>	73,683	<b>149,999</b>	141,181
<b>Operating and administrative expenses</b>				
Store operating	<b>44,823</b>	44,372	<b>89,617</b>	87,301
General and administrative	<b>17,980</b>	13,243	<b>31,418</b>	26,480
Stock-based compensation	<b>793</b>	595	<b>1,559</b>	1,051
	<b>63,596</b>	58,210	<b>122,594</b>	114,832
<b>Operating earnings before undernoted items</b>	<b>15,533</b>	15,473	<b>27,405</b>	26,349
Amortization	<b>8,533</b>	7,700	<b>16,945</b>	15,264
Interest	<b>1,019</b>	1,462	<b>1,940</b>	2,886
Write-down of investment (Note 6)	<b>1,814</b>	-	<b>1,814</b>	-
	<b>11,366</b>	9,162	<b>20,699</b>	18,150
<b>Earnings before income taxes</b>	<b>4,167</b>	6,311	<b>6,706</b>	8,199
Income tax expense (recovery)				
Current	<b>1,879</b>	2,561	<b>2,783</b>	3,554
Future	<b>(358)</b>	(164)	<b>(335)</b>	(439)
	<b>1,521</b>	2,397	<b>2,448</b>	3,115
<b>Net earnings for the period</b>	<b>2,646</b>	3,914	<b>4,258</b>	5,084
Retained earnings, beginning of period	<b>107,942</b>	79,481	<b>106,330</b>	78,311
<b>Retained earnings, end of period</b>	<b>\$ 110,588</b>	\$ 83,395	<b>\$ 110,588</b>	\$ 83,395
<b>Earnings per share</b>	<b>\$ 0.08</b>	\$ 0.13	<b>\$ 0.13</b>	\$ 0.16
<b>Diluted earnings per share</b>	<b>\$ 0.08</b>	\$ 0.12	<b>\$ 0.13</b>	\$ 0.16
<b>Total number of common shares outstanding</b>	<b>32,693</b>	31,336	<b>32,693</b>	31,336
<b>Weighted average number of common shares outstanding</b>	<b>32,681</b>	31,226	<b>32,442</b>	31,037



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

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 1, 2004	August 3, 2003	August 1, 2004	August 3, 2003
<b>Cash provided by (used in) operating activities</b>				
Net earnings for the period	\$ 2,646	\$ 3,914	\$ 4,258	\$ 5,084
Items not involving cash				
Amortization	8,533	7,700	16,945	15,264
Amortization of finance charges	164	127	414	231
Amortization of deferred lease inducements	(2,099)	(1,987)	(4,294)	(4,007)
Stock-based compensation	793	595	1,559	1,051
Future income tax recovery	(358)	(164)	(335)	(439)
Write-down of investment (Note 6)	1,814	-	1,814	-
<b>Cash flow from operations</b>	<b>11,493</b>	<b>10,185</b>	<b>20,361</b>	<b>17,184</b>
<b>Changes in non-cash operating elements of working capital</b>				
Accounts receivable	25,568	23,914	(20,186)	(19,445)
Inventory	(4,700)	1,466	(28,815)	(3,728)
Prepaid expenses	63	(731)	(906)	(1,826)
Accounts payable and accrued liabilities	(16,332)	(2,491)	(34,395)	(26,877)
	4,599	22,158	(84,302)	(51,876)
	16,092	32,343	(63,941)	(34,692)
<b>Cash provided by (used in) financing activities</b>				
Proceeds from issuance of share capital	560	1,494	2,307	2,487
Principal repayment of long-term debt	(2,706)	(3,423)	(2,046)	(3,423)
Increase (decrease) in revolving credit facility	(3,644)	(16,005)	66,822	54,933
Proceeds from deferred lease inducements	1,162	1,125	2,358	3,860
	(4,628)	(16,809)	69,441	57,857
<b>Cash provided by (used in) investing activities</b>				
Acquisition of wholly-owned subsidiary	-	-	(9,589)	-
Net addition of capital assets	(10,824)	(12,104)	(18,188)	(18,705)
Net addition of other assets	(595)	(3,422)	(370)	(4,393)
	(11,419)	(15,526)	(28,147)	(23,098)
Increase (decrease) in cash	45	8	(22,647)	67
Net cash position, beginning of period	623	582	23,315	523
<b>Net cash position, end of period</b>	<b>\$ 668</b>	<b>\$ 590</b>	<b>\$ 668</b>	<b>\$ 590</b>



## 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 accounts 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 August 1, 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 and 26 weeks ended August 1, 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 and 26 weeks ended August 1, 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 and 26 weeks ended August 1, 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
Shares issued upon employees exercising stock options	65,000	560
<b>Balance August 1, 2004</b>	<b>32,693,329</b>	<b>\$ 135,111</b>



### (c) Stock Option Plan

The Company has stock options outstanding to directors, officers and employees to purchase 2,372,501 Class A shares at prices between \$4.21 and \$19.19 per share. These options expire on dates between September 28, 2004 and March 23, 2009.

No options were granted during the 13 weeks ended August 1, 2004.

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

	Number of options
Opening	2,476,819
Exercised	(65,000)
Cancelled	(39,318)
Granted	-
<b>Closing</b>	<b>2,372,501</b>

#### (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:

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 1, 2004	August 3, 2003	August 1, 2004	August 3, 2003
Weighted average number of shares outstanding (basic)	<b>32,681,021</b>	31,226,107	<b>32,442,070</b>	31,037,175
Effect of dilutive securities	<b>136,483</b>	1,590,828	<b>267,067</b>	1,426,917
Weighted average number of common shares outstanding (diluted)	<b>32,817,504</b>	32,816,935	<b>32,709,137</b>	32,464,092

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

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 1, 2004	August 3, 2003	August 1, 2004	August 3, 2003
Anti-dilutive options	<b>1,568,792</b>	309,341	<b>1,577,730</b>	179,670

#### 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		For the twenty-six weeks ended	
	August 1, 2004	August 3, 2003	August 1, 2004	August 3, 2003
Revenues:				
Retail	<b>\$162,706</b>	\$166,666	<b>\$313,258</b>	\$314,510
Wholesale	<b>53,663</b>	49,040	<b>131,738</b>	122,501
	<b>216,369</b>	215,706	<b>444,996</b>	437,011
Operating Profit:				
Retail	<b>16,157</b>	17,664	<b>25,294</b>	25,639
Wholesale	<b>6,077</b>	3,973	<b>12,583</b>	10,824
	<b>22,234</b>	21,637	<b>37,877</b>	36,463
Non-segment specific administrative expenses	<b>6,701</b>	6,164	<b>10,472</b>	10,114
Amortization	<b>8,533</b>	7,700	<b>16,945</b>	15,264
Interest expense	<b>1,019</b>	1,462	<b>1,940</b>	2,886
Write-down of investment	<b>1,814</b>	-	<b>1,814</b>	-
	<b>18,067</b>	15,326	<b>31,171</b>	28,264
Earnings before income taxes	4,167	6,311	6,706	8,199
Income tax expense	1,521	2,397	2,448	3,115
Net earnings for the period	<b>\$2,646</b>	\$3,914	<b>\$4,258</b>	\$5,084

## 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 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, payable 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

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## 6. Write-down of Investment

During the quarter ended August 1, 2004, the Company reviewed the carrying value of its investment in a wholesale distribution company. As a result of this review, the Company determined that a decline in the value of this investment that is other than temporary has occurred and has recorded a write-down in the amount of \$1,814,396 against the carrying value of the investment. The carrying value of this investment at August 1, 2004 is \$ 393,556.

## 7. 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.

## 8. Subsequent Event

On August 6, 2004, in the normal course of operations, the Company exercised its single, irreversible option to increase the maximum available credit under its revolving loan by \$35 million, to \$150 million.