

CONSOLIDATED BALANCE SHEETS

(In thousands)
(unaudited)

As at	May 1, 2005	January 30, 2005	May 2, 2004 (restated – see note 2)
ASSETS			
Current			
Cash	\$ 1,793	\$ 26,018	\$ 623
Accounts receivable	81,041	54,651	82,073
Inventory	318,526	278,631	288,499
Prepaid expenses	14,080	3,022	12,261
	<u>415,440</u>	<u>362,322</u>	<u>383,456</u>
Capital assets	180,003	179,702	167,190
Goodwill and other intangibles	75,516	52,790	46,830
Other assets	9,284	9,415	9,250
Future income tax asset	3,962	-	2,200
	<u>\$ 684,205</u>	<u>\$ 604,229</u>	<u>\$ 608,926</u>
LIABILITIES			
Current			
Indebtedness under revolving credit facility	\$ 107,383	\$ -	\$ 70,466
Accounts payable and accrued liabilities	213,945	234,314	199,813
Current portion of long-term debt	1,644	1,580	1,105
	<u>322,972</u>	<u>235,894</u>	<u>271,384</u>
Long-term debt	38,678	40,278	37,850
Deferred lease inducements	63,580	62,613	58,552
Deferred rent liability	3,104	2,213	544
Future income tax liability	-	384	-
	<u>428,334</u>	<u>341,382</u>	<u>368,330</u>
SHAREHOLDERS' EQUITY			
Share capital (Note 3)	137,919	137,811	134,551
Contributed surplus	3,248	2,915	3,654
Retained earnings	114,704	122,121	102,391
	<u>255,871</u>	<u>262,847</u>	<u>240,596</u>
	<u>\$ 684,205</u>	<u>\$ 604,229</u>	<u>\$ 608,926</u>

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(in thousands, except per share data)
(unaudited)

	For the thirteen weeks ended	
	May 1, 2005	May 2, 2004 (restated – see note 2)
Revenue		
Retail	\$ 166,804	\$ 150,552
Wholesale	71,398	78,075
	238,202	228,627
Cost of sales	169,136	158,395
Gross margin	69,066	70,232
Operating and administrative expenses		
Store operating	51,589	45,073
General and administrative	17,458	14,204
	69,047	59,277
Operating earnings before undernoted items	19	10,955
Amortization	10,188	8,672
Interest	1,510	921
	11,698	9,593
Earnings (loss) before income taxes	(11,679)	1,362
Income tax expense (recovery)		
Current	(4,309)	904
Future	47	(405)
	(4,262)	499
Net earnings (loss) for the period	\$ (7,417)	\$ 863
Retained earnings, beginning of period	122,121	101,528
Retained earnings, end of period	\$ 114,704	\$ 102,391
Basic and diluted earnings (loss) per share	\$ (0.23)	\$ 0.03

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(unaudited)

	For the thirteen weeks ended	
	May 1, 2005	May 2, 2004 (restated –see note 2)
Cash provided by (used in) operating activities		
Net earnings (loss) for the period	\$ (7,417)	\$ 863
Items not involving cash		
Amortization	10,188	8,672
Amortization of finance charges	241	251
Amortization of deferred lease inducements	(2,674)	(2,461)
Straight-line rent expense	397	544
Stock-based compensation	333	766
Future income tax expense (recovery)	47	(405)
	1,115	8,230
Changes in non-cash operating elements of working capital (Note 4)	(96,534)	(88,263)
	(95,419)	(80,033)
Cash provided by (used in) financing activities		
Proceeds from issuance of share capital	108	1,747
Increase (decrease) in long-term debt	(45)	660
Increase in revolving credit facility	89,461	70,467
Proceeds from deferred lease inducements	2,459	1,195
	91,983	74,069
Cash provided by (used in) investing activities		
Acquisition of wholly owned subsidiary, net of cash acquired	(12,428)	(9,589)
Net addition of capital assets	(7,833)	(7,364)
Net disposal of other assets	(528)	225
	(20,789)	(16,728)
Decrease in cash	(24,225)	(22,692)
Net cash position, beginning of period	26,018	23,315
Net cash position, end of period	\$ 1,793	\$ 623

See accompanying notes

NOTES TO INTERIM CONSOLIDATED STATEMENTS
 (Tabular amounts in thousands, except share data)
 (Unaudited)

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 January 30, 2005.

The interim financial statements follow the same accounting policies and methods of applications as the most recent annual consolidated financial statements as at January 30, 2005.

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 1, 2005, which is not necessarily indicative of performance for the balance of the year.

2. Prior Period Restatements

The Company has restated the 13 week period ended May 2, 2004 due to -

Effective October 31, 2004 the Company adopted the following accounting policy:

(a) **Accounting by a Customer for Certain Consideration Received from a Vendor – EIC 144**

This abstract was effective for annual or interim periods ending after August 15, 2004 and has been applied retroactively. The abstract provides guidance on how a customer of a vendor’s products should account for cash consideration from a vendor. Cash consideration received by a company from a vendor, as in the case of volume rebates, is presumed to be a reduction of the prices of the vendor’s products or services and should, therefore, be accounted for as a reduction of cost of sales and related inventory when recognized in the company’s income statement and balance sheet. If cash consideration is received as a reimbursement of costs incurred by the customer to sell the vendor’s products, as in the case of marketing and advertising funds, it should be characterized as a reduction of that cost when recognized in the company’s income statement, provided certain conditions are met.

For the 13 weeks ended May 2, 2004, application of EIC-144 resulted in an increase in cost of sales of \$638,000 and a decrease in net earnings of \$406,000. At May 2, 2004, inventory decreased by \$9,045,000, future income tax liability decreased by \$3,592,000 and retained earnings decreased by \$5,453,000.

Effective January 30, 2005, the Company adopted the following accounting policies:

(b) **Leased premises**

Following a clarification of accounting policies under generally accepted accounting principles in the United States, the Company reviewed its lease accounting practices and determined that in order to present its financial position and results of operations in accordance with Canadian generally accepted accounting principles, a change to the treatment of rent expense during store fixturing periods was required. The Company capitalizes, to the cost of leasehold improvements, any rent expense during the fixturing period.

For the 13 weeks ended May 2, 2004, the retroactive adjustment has resulted in an increase to net earnings of \$3,000. As at May 2, 2004 capital assets increased by \$6,977,000, deferred lease inducements increased by \$6,597,000, future income tax liability increased by \$132,000 and retained earnings increased by \$248,000.

(c) **Rent Expense**

The Company changed its method of accounting for scheduled increases in rent in accordance with Canadian Institute of Chartered Accountants section 1100 and the clarification of accounting policy in accordance with GAAP regarding leased premises (referred to above). In the past, rent had been expensed based on rent payments, in accordance with industry practice, and is now expensed on a straight-line basis over the life of the lease. For the 13 weeks ended May 2, 2004, the impact of this change was a decrease to net earnings of \$346,000, an increase to deferred rent liability of \$544,000 and a decrease to future income tax liability of \$198,000.

The following tables illustrate the impact of the restatements due to changes in accounting policies, for the 13 weeks ended May 2, 2004, on consolidated net earnings, retained earnings and balance sheet accounts:

	For the thirteen weeks ended May 2, 2004				
	As reported	EIC 144	Leased Premises	Rent Expense	As restated
	\$	\$	\$	\$	\$
Cost of sales	157,757	638	-	-	158,395
Store operating	44,795	-	(266)	544	45,073
Amortization	8,411	-	261	-	8,672
Earnings before income taxes	2,539	(638)	5	(544)	1,362
Income tax expense	927	(232)	2	(198)	499
Net earnings	1,612	(406)	3	(346)	863
Retained earnings, beginning of period	106,330	(5,047)	245	-	101,528
Retained earnings, End of period	107,942				102,391
Earnings and diluted earnings per share	0.05				0.03

	As at May 2, 2004				
	As reported	EIC 144	Leased Premises	Rent Expense	As restated
	\$	\$	\$	\$	\$
Inventory	297,544	(9,045)	-	-	288,499
Capital assets	160,213	-	6,977	-	167,190
Deferred lease inducements	51,955	-	6,597	-	58,552
Deferred rent liability	-	-	-	544	544
Future income tax liability (asset)	1,458	(3,592)	132	(198)	(2,200)
Retained earnings	107,942	(5,453)	248	(346)	102,391

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 January 30, 2005	32,874,889	\$ 137,811
Shares issued upon employees exercising stock options	13,334	108
Balance May 1, 2005	32,888,223	\$ 137,919

(c) Stock Option Plans

The Company has granted stock options to directors, officers and employees to purchase 2,470,167 Class A shares at prices between \$4.21 and \$19.19 per share. These options expire on dates between August 29, 2005 and April 18, 2010.

The Company has two stock option plans. The first plan has the following general terms: options vest over a period ranging from 2 to 5 years and the maximum term of the options granted is 5 years. During the 13 week period ended May 1, 2005, 210,000 options were issued under this plan. The second plan has the following general terms: options vest over a period ranging from 3 to 5 years dependent on the Company achieving certain performance targets, and the maximum term of the options granted is 5 years. During the 13 week period ended May 1, 2005, 115,000 options were issued under this plan and no compensation expense was incurred.

During the 13 weeks ended May 1, 2005, the following options, with strike prices between \$12.20 and \$13.80, were granted:

Options issued	Weighted average fair value per option	Weighted average risk-free rate	Weighted average expected option life	Weighted average expected volatility	Weighted average expected dividend yield
325,000	\$ 5.88	3.73%	2.7 years	47%	nil

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

	Number of options
Opening	2,158,501
Exercised	(13,334)
Granted	325,000
Closing	2,470,167

(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	
	May 1, 2005	May 2, 2004
Weighted average number of shares outstanding (basic)	32,881,959	32,203,118
Effect of dilutive securities	-	395,992
Weighted average number of common shares outstanding (diluted)	32,881,959	32,599,110

4. Supplementary Cash Flow Information

	For the thirteen weeks ended	
	May 1, 2005	May 2, 2004
Accounts receivable	\$ (26,077)	\$ (45,754)
Inventory	(15,980)	(23,477)
Prepaid expenses	(10,293)	(969)
Accounts payable and accrued liabilities	(44,184)	(18,063)
	<u>\$ (96,534)</u>	<u>\$ (88,263)</u>
Cash taxes paid	\$2,756,710	\$ 4,709,073
Cash interest paid	\$1,389,299	\$ 943,136

5. 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 1, 2005	May 2, 2004 (restated see note 2)
Revenues:		
Retail	\$ 166,804	\$ 150,552
Wholesale	71,398	78,075
	<u>238,202</u>	<u>228,627</u>
Operating Profit:		
Retail	206	8,183
Wholesale	4,045	6,506
	<u>4,251</u>	<u>14,689</u>
Non-segment specific administrative expenses	4,232	3,734
Depreciation and amortization	10,188	8,672
Interest expense	1,510	921
	<u>15,930</u>	<u>13,327</u>
Earnings (loss) before income taxes	(11,679)	1,362
Income tax expense (recovery)	(4,262)	499
Net earnings (loss) for the period	<u>\$ (7,417)</u>	<u>\$ 863</u>

6. Acquisition

Effective January 31, 2005, the Company acquired 100% of the outstanding shares of National Gym Clothing Ltd. The acquisition is accounted for using the purchase method and accordingly the consolidated financial statements for the 13 weeks ended May 1, 2005 include the results of operations since the date of the acquisition.

The consideration for the transaction was \$13,026,000 in cash for all the outstanding common shares.

The assigned fair values of the underlying assets and liabilities acquired by the Company as at January 31, 2005, are summarized as follows:

Cash	\$ 598
Accounts receivable	313
Inventory	23,915
Prepaid expenses	765
Trademarks	2,535
Fixed assets	2,261
Goodwill	21,848
Future income tax asset	4,393
Total assets acquired	<u>56,628</u>
Secured indebtedness	17,922
Accounts payable	23,815
Long-term debt	189
Deferred rent liability	494
Deferred lease inducements	1,182
Total liabilities acquired	<u>43,602</u>
Cash consideration	<u>\$ 13,026</u>

7. Comparative Figures

Certain comparative or prior year figures have been reclassified to conform to the presentation adopted for the current period.