

the forzani group ltd.

Consolidated Balance Sheets (in thousands) (unaudited)

As at	April 29, 2007	January 28, 2007	April 30, 2006
ASSETS			
Current			
Cash	\$ 897	\$ 22,758	\$ 1,075
Accounts receivable	134,538	65,543	107,260
Inventory	330,898	302,207	310,590
Prepaid expenses	4,565	2,688	4,001
	470,898	393,196	422,926
Capital assets	185,421	191,146	192,196
Goodwill and other intangibles	89,586	90,238	85,966
Other assets	4,952	8,930	9,956
Future income tax asset	117	-	5,677
	\$ 750,974	\$ 683,510	\$ 716,721
LIABILITIES			
Current			
Indebtedness under revolving credit facility	\$ 23,811	\$ -	\$ 58,456
Accounts payable and accrued liabilities	276,039	230,977	244,163
Current portion of long-term debt	2,494	2,082	6,790
	302,344	233,059	309,409
Long-term debt	56,204	58,303	60,635
Deferred lease inducements	57,947	58,543	62,360
Deferred rent liability	5,831	5,737	4,275
Future income tax liability	-	55	-
	422,326	355,697	436,679
SHAREHOLDERS' EQUITY			
Share capital (Note 3)	154,043	148,424	138,576
Contributed surplus	8,741	8,294	5,294
Accumulated other comprehensive earnings (note 2(a)(i))	(2)	-	-
Retained earnings	165,866	171,095	136,172
	328,648	327,813	280,042
	\$ 750,974	\$ 683,510	\$ 716,721

see accompanying notes

the forzani group ltd.

Consolidated Statements of Operations (in thousands, except per share data) (unaudited)

	For the 13 weeks ended	
	April 29, 2007	April 30, 2006
Revenue		
Retail	\$ 194,195	\$ 195,855
Wholesale	100,363	84,579
	294,558	280,434
Cost of sales	196,520	190,290
Gross margin	98,038	90,144
Operating and administrative expenses		
Store operating	57,541	57,697
General and administrative	26,038	19,619
	83,579	77,316
Operating earnings before undernoted items	14,459	12,828
Amortization	11,052	10,731
Interest	1,370	1,630
Loss on sale of investment (note 7)	864	-
	13,286	12,361
Earnings before income taxes	1,173	467
Provision for income taxes		
Current	438	160
Future	(4)	13
	434	173
Net earnings for the period	\$ 739	\$ 294
Earnings and diluted earnings per share	\$ 0.02	\$ 0.01

see accompanying notes

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Consolidated Statements of Retained Earnings, Comprehensive Earnings and Accumulated Other Comprehensive Earnings (in thousands) (unaudited)

Consolidated Statements of Retained Earnings

	For the thirteen weeks ended	
	April 29, 2007	April 30, 2006
Retained earnings, beginning of period	\$ 171,095	\$ 135,878
Net earnings	739	294
Adjustment arising from shares purchased under a normal course issuer bid	(5,968)	-
Retained earnings, end of period	\$ 165,866	\$ 136,172

Consolidated Statement of Comprehensive Earnings

	For the thirteen weeks ended April 29, 2007
Net earnings	\$ 739
Other comprehensive earnings (loss):	
Unrealized foreign currency gains and losses on cash flow hedges (net of tax of \$48)	(81)
Other comprehensive earnings (loss)	(81)
Comprehensive earnings	\$ 658

Consolidated Statement of Accumulated Other Comprehensive Earnings (note 2(a)(i))

	For the thirteen weeks ended April 29, 2007
Accumulated other comprehensive earnings, beginning of period	\$ -
Reclassification of foreign currency translation (transitional adjustment)	79
Accumulated other comprehensive earnings, beginning of period, as restated	79
Other comprehensive earnings loss	(81)
Accumulated other comprehensive earnings (loss), end of period	\$ (2)

see accompanying notes

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Consolidated Statements of Cash Flows (in thousands) (unaudited)

	For the thirteen weeks ended	
	April 29, 2007	April 30, 2006
Cash provided by (used in) operating activities		
Net earnings (loss) for the period	\$ 739	\$ 294
Items not involving cash:		
Amortization	11,052	10,731
Amortization of finance charges	176	137
Amortization of deferred lease inducements	(2,775)	(2,753)
Rent expense (note 4)	126	786
Stock-based compensation	2,146	1,023
Future income tax expense (recovery)	(4)	13
Loss on sale of investment	864	-
Loss on ineffective hedges	63	-
	12,387	10,231
Changes in non-cash elements of working capital related to operating activities (Note 4)	(54,396)	(73,602)
	(42,009)	(63,371)
Cash provided by (used in) financing activities		
Net proceeds from issuance/redemption of share capital	(349)	445
Decrease in long-term debt	(1,119)	(389)
Increase in revolving credit facility	23,811	58,456
Credit facility assumed on acquisition	-	(105)
Proceeds from deferred lease inducements	2,179	2,170
	24,522	60,577
Changes in non-cash elements of financing activities (Note 4)	(2,893)	-
	21,629	60,577
Cash provided by (used in) investing activities		
Net addition of capital assets	(4,999)	(8,892)
Net disposal of other assets	2,694	145
Acquisition of wholly-owned subsidiary	-	(6,650)
	(2,305)	(15,397)
Changes in non-cash elements of investing activities (Note 4)	824	-
	(1,481)	(15,397)
Increase (decrease) in cash	(21,861)	(18,191)
Net cash position, opening	22,758	19,266
Net cash position, closing	\$ 897	\$ 1,075

see accompanying notes

notes to interim consolidated financial statements

(tabular amounts in thousands)
(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 28, 2007.

The interim financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements as at January 28, 2007, except as noted below.

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 materially 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.

- ¹⁴ The Company’s business follows a seasonal pattern, with merchandise sales traditionally being higher in the fiscal fourth quarter 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 April 29, 2007 which is not necessarily indicative of performance for the balance of the year.

2. New Accounting Policies

- (a) As of January 29, 2007, the Company has adopted the following accounting policies all of which were effective for fiscal years beginning on or after October 1, 2006:

- i) Comprehensive Income -- CICA Section 1530

The standard introduces comprehensive earnings, which consists of net earnings and other comprehensive earnings. Other comprehensive earnings effectively records gains or losses arising from; the translation of the financial statements of self-sustaining foreign operations, changes in assets ‘available for sale’ and the change in fair values of effective cash flow hedging instruments. The presentation of comprehensive earnings results in the inclusion of new financial statements; Consolidated Statement of Comprehensive Earnings and Consolidated Statement of Accumulated Other Comprehensive Earnings (AOCE).

The adoption of this standard has had no material impact on the financial statements of the Company for the period ended April 29, 2007.

ii) Equity – CICA Section 3251

The section establishes standards for the presentation of equity and changes in equity during the reporting period. Application of this section is in conjunction with sections 1530 (Comprehensive Income), 3855 (Financial Instruments – Recognition and Measurement) and 3865 (Hedges).

The adoption of this standard has had no material impact on the financial statements of the Company for the period ended April 29, 2007.

iii) Financial Instruments Recognition and Measurement – CICA Section 3855

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. It also requires that all financial assets and liabilities are to be classified as either a) Held for Trading, b) Available for Sale, c) Held to Maturity, or d) Loans & Receivables or Other Liabilities, depending on the company's stated intention and/or historical practice. Under this standard, all financial instruments are required to be measured at fair value (or amortized cost) upon initial recognition, except for certain related party transactions. Treatment of the fair value of each financial instrument is determined by its classification. The standard requires retroactive treatment without restatement, any required adjustment is booked to retained earnings or accumulated other comprehensive earnings.

In accordance with the standard, the Company's financial assets and liabilities are generally classified as follows:

Asset/Liability	Category	Measurement
Assets:		
Cash	Held for trading	Fair value
Accounts receivable	Loans/Receivables	Amortized cost
Long-term receivables (included in other assets)	Loans/Receivables	Amortized cost
Liabilities:		
Indebtedness under revolving credit facility	Other financial liabilities	Amortized cost
Accounts payable & accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

Foreign currency options and forward exchange contracts, which are included in Long-term receivables, have been classified as held for trading and measured at fair value. Fair value is determined by reference to published price quotations.

On transition, the standard requires that the initial valuation of assets/liabilities to fair value be recorded in retained earnings or AOCE. See the following table.

The initial adoption of this standard has the following impact on the financial statements of the Company for the period ended April 29, 2007:

	Asset (historical cost) Increased (decreased)	Liability (historical cost) Increased (decreased)	AOCE (initial fair value adjustment) Gain See note 1 below
Derivatives – Options, Forward Contracts (see note 2 below)	\$ 2,041	\$ 2,041	\$ 69
Cash – USD (effective cash flow hedge)	-	-	\$ 10
Reclassification between other assets and long-term debt (see note 3 below)	\$ (764)	\$ (764)	-

Note 1 -- The adjustment is to AOCE (Accumulated Other Comprehensive Earnings) as these items were effective cash flow hedges.

Note 2 – Does not include the options cost of \$102,000, which was previously recorded in prepaid assets.

Note 3 – Transaction costs related to the issuance of long-term debt were reclassified from other assets and netted against the related long-term debt as required under the new accounting standards (April 30, 2006 - \$1,200,000 and January 28 2007 – \$880,000).

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The additional disclosures required, which are not currently included with the fiscal 2007 financial statements and notes, after implementation of this standard, are located in Note 5 – Financial Instruments and Hedges

iv) Financial Instruments Disclosure and Presentation – CICA Section 3861

Section 3861 establishes guidelines for the presentation of information required under Sections 1530 – Comprehensive Income, 3855 - Financial Instruments Recognition and Measurement and 3865 Hedges. This includes the policies which support the classifications of each type of financial instrument and hedge and its subsequent treatment. It requires the disclosure of the company's risk management policies related to the use of derivatives and hedging activities and also details the transitional provisions for companies adopting the new standards.

v) Hedges – CICA Section 3865

The standard establishes requirements for hedge accounting. Hedges are classified as one of a) fair value, b) cash flow or c) hedges of a net investment in a self-sustaining foreign operation. Treatment of changes in the fair value of each type of hedge is determined by its classification. The determination of the effectiveness of each hedging relationship is required under the section with any ineffectiveness immediately recognized in income.

Risk Management Policy

The Company enters into forward currency contracts and options, with financial institutions, as hedges of other financial transactions and not for speculative purposes. The Company's policies do not allow leveraged transactions and are designed to minimize foreign currency risk. The Company's policies require all hedges to be linked with specific liabilities on the balance sheet and be formally assessed, both at inception, and on an ongoing basis, as to their effectiveness in offsetting changes in the fair value of the hedged liabilities.

The risk management transactions noted above are designated as cash flow hedging items as defined in the standard. The typical transaction for which the hedge is used, would be that of a foreign currency denominated purchase of goods for resale with delivery at a future date. The maximum term of hedges mandated by the Company's policies is one year. Unrealized gains or losses on the hedging instruments deemed to be ineffective are recorded in earnings, in the period the ineffectiveness arises. These amounts are recorded in the general and administrative expense section of the Company's consolidated income statement.

The financial instruments to which hedge accounting was applied prior to the implementation of this standard continued to be effective after its adoption.

Gains and losses on cash flow hedges of anticipated transactions for non-financial assets and non-financial liabilities are included with the cost of the related non-financial asset or non-financial liability.

The initial adoption of this standard has the following impact on the financial statements of the Company for the period ended April 29, 2007: a cash flow hedge valuation adjustment, due on transition, increased accumulated other comprehensive earnings by \$79,000.

The additional disclosures required, after implementation of this standard, are located in Note 5 – Financial Instruments and Hedges.

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- (b) As of January 29, 2007 the company has adopted CICA Section 1506 – Accounting Changes, which provides for expanded disclosure for changes in accounting policies, accounting estimates and accounting for errors. Under the new standard accounting changes should be applied retrospectively unless otherwise permitted or where it is deemed impractical. The new standard also requires that the Company disclose new primary sources of GAAP that have been issued, but are not yet effective and have not been adopted by the Company. This standard became effective for fiscal years starting on or after January 1, 2007.

The following are the new standards which may impact the Company:

- i) Capital Disclosures – CICA Section 1535

As of February 4, 2008, the Company will be required to adopt Section 1535 “Capital Disclosures”, which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new standard is effective for fiscal years beginning on or after October 1, 2007. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its consolidated financial statements.

ii) Financial Instruments – Disclosures (CICA Section 3862) and Financial Instruments – Presentation (CICA Section 3863)

As of February 4, 2008, the Company will be required to adopt two new CICA standards, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation,” which will replace Section 3861 “Financial Instruments – Disclosure and Presentation.” The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standards carry forward the former presentation requirements and are effective for years beginning on or after October 1, 2007. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its consolidated financial statements.

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 28, 2007	33,696	\$ 148,424
Shares issued upon employees exercising stock options	452	5,507
Stock-based compensation related to options exercised	-	1,699
Shares redeemed pursuant to normal course issuer bid	(361)	(1,587)
Balance April 29, 2007	33,787	\$ 154,043

During the quarter, 360,800 (2007 – nil) Class A shares were repurchased pursuant to the Company’s Normal Course Issuer Bid for a total expenditure of \$7,555,000 (2007 – nil) or \$20.93 per share, and the consideration in excess of stated value of \$5,968,000 (amount paid of \$7,555,000 less stated value of \$1,587,000) was charged to retained earnings.

(c) Stock Option Plans

The Company has granted stock options to officers and employees to purchase 2,005,568 Class A shares at prices between \$10.25 and \$19.19 per share. These options expire on dates between April 2008 and March 2012.

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 April 29, 2007, there were no options issued under this plan and \$234,000 in compensation expense was recognized (2007 – \$431,000).

The second plan has the following general terms: options vest over a period ranging from 2 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 April 29, 2007, 310,000 options were issued under this plan and \$1,912,000 in compensation expense was recognized (2007 - \$592,000).

Weighted average						
Options issued	Strike price	Fair value per option	Risk-free rate	Expected option life	Expected volatility	Expected dividend yield
310,000	19.04	4.58	3.97%	4.00	21.46%	-

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

	Number of options
Opening	2,157
Granted	310
Exercised	(452)
Forfeited	(9)
Closing	2,006

(d) Earnings Per Share

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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	
	April 29, 2007	April 30, 2006
Weighted average number of shares outstanding (basic)	33,782	32,941
Effect of dilutive securities	571	625
Weighted average number of common shares outstanding (diluted)	34,353	33,566

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

	For the thirteen weeks ended	
	April 29, 2007	April 30, 2006
Anti-dilutive options	-	393

4. Supplementary Cash Flow Information

		For the thirteen weeks ended	
		April 29, 2007	April 30, 2006
(a)	Rent expense		
	Straight-line rent expense	\$ 94	\$ 360
	Non-cash free rent	32	426
		\$ 126	\$ 786
(b)	Changes in non-cash elements of working capital related to operating activities		
	Accounts receivable	\$ (69,163)	\$ (37,880)
	Inventory	(28,691)	(27,529)
	Prepaid expenses	(1,877)	(1,187)
	Accounts payable and accrued liabilities	45,062	(6,580)
	Non-cash free rent	273	(426)
		\$ (54,396)	\$ (73,602)
(c)	Changes in non-cash elements of financing activities		
	Non-cash lease inducements	\$ (561)	\$ -
	Non-cash redemption of options expense	(1,699)	-
	Non-cash change in derivative assets	(65)	-
	Non-cash change in long-term debt	(568)	-
		\$ (2,893)	\$ -
(d)	Changes in non-cash elements of investing activities		
	Non-cash capital asset additions	\$ 256	\$ -
	Non-cash change in other assets	568	-
		\$ 824	\$ -
(e)	Other Information		
	Cash interest paid	\$ 1,184	\$ 1,648
	Cash taxes paid	\$ 16,965	\$ 2,963

5. Financial Instruments and Hedges

(a) Fair Value of Financial Assets and Liabilities

The following table details carrying values and fair values of financial assets and liabilities by financial instrument classification:

	As at April 29, 2007	
	Carrying Value	Fair Value
Loans & Receivables:		
Trade and accrued receivables	\$ 134,538	\$ 134,538
Long-term receivables	\$ 2,530	\$ 2,530
Other financial liabilities:		
Trade payables and accrued liabilities	\$ 276,039	\$ 276,039
Current and long term debt	\$ 58,698	\$ 58,698
Held for trading:		
Cash	\$ 898	\$ 897
Derivatives	\$ 176	\$ 74

Fair values within the “Held for Trading” classification are determined by reference to published price quotations.

(b) Interest income and expense, and gains or losses by class of Financial Asset and Financial Liability

All interest income and expense, regardless of the class of financial asset or financial liability, is recorded in the Consolidated Statement of Operations as interest.

All gains and losses, regardless of the class of financial asset or financial liability, are recorded in the Consolidated Statement of Operations in gross margin (realized) or general and administration expense (unrealized).

(c) Risks

Exposure to credit risk and interest rate risk arise in the normal course of the Company's business. The Company does not currently enter into derivative financial instruments to reduce exposure to fluctuations in any credit or interest risks impacting the operations of the Company.

i. Credit risk

The Company is exposed to credit risk on its accounts receivable from franchisees. The accounts receivable are net of applicable allowances for doubtful accounts, which are established based on the specific credit risks associated with individual franchisees and other relevant information. Concentration of credit risk with respect to receivables is limited, due to the large number of franchisees.

ii. Interest rate risk

The Company is exposed to interest rate risk on the credit facility and term loan as the rate is based on the Company's financial performance as determined by its interest coverage ratio. As of April 29, 2007, the interest rate paid was bank prime less 0.45%.

The Company is not exposed to interest rate risk on long-term receivables, mortgages and vendor take-back loans as the rates are fixed.

(d) Hedging

The company currently uses forward currency contracts and options to hedge anticipated transactions whose terms do not exceed one year.

During the period the net loss related to the ineffective portion of hedges, recognized in general and administrative expenses, was \$137,000 (2007 - n/a).

Items currently reported in accumulated other comprehensive earnings will be reclassified to net earnings as the hedge is completed and the related non-financial asset is expensed or the hedge is deemed ineffective. Within the next twelve months the estimated net gains and losses reported in accumulated other comprehensive earnings to be reclassified to net earnings is a loss of \$2,000 (2007 - n/a).

The gains or losses reclassified to net earnings due to the discontinuance of a cash flow hedge, as the hedged item would not occur within the originally specified period, was \$21,000 (2007 - n/a), this was included above as part of the amount deemed ineffective.

6. 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. Amortization and interest expense are not disclosed by segment, as they are all substantially retail in nature.

	For the thirteen weeks ended	
	April 29, 2007	April 30, 2006
Revenues		
Retail	\$ 194,195	\$ 195,855
Wholesale	100,363	84,579
	\$ 294,558	\$ 280,434
Operating Profit		
Retail	\$ 18,529	\$ 15,380
Wholesale	10,030	7,025
	28,559	22,405
Non-segment specific administrative expenses	14,100	9,577
Operating profit before under-noted items	14,459	12,828
Amortization	11,052	10,731
Interest expense	1,370	1,630
Loss on sale of investment	864	-
	13,286	12,361
Earnings before income taxes	1,173	467
Income tax expense	434	173
Net earnings for the period	\$ 739	\$ 294

As at	April 29, 2007	January 28, 2007	April 30, 2006
Accounts Receivable			
Retail	\$ 1,625	\$ 1,830	\$ 5,822
Wholesale	119,377	63,372	95,695
Non-segment specific	13,536	341	5,743
	\$ 134,538	\$ 65,543	\$ 107,260
Capital Assets			
Retail	\$ 162,651	\$ 168,676	171,921
Wholesale	19,166	19,080	17,106
Non-segment specific	3,604	3,390	3,169
	\$ 185,421	\$ 191,146	\$ 192,196
Goodwill/Other Assets			
Retail	\$ 61,171	\$ 61,833	\$ 61,885
Wholesale	29,685	30,392	26,435
Non-segment specific	3,682	6,943	7,602
	\$ 94,538	\$ 99,168	\$ 95,922
Total Assets			
Retail	\$ 525,407	\$ 531,512	\$ 527,815
Wholesale	204,083	130,984	166,414
Non-segment specific	21,484	21,014	22,492
	\$ 750,974	\$ 683,510	\$ 716,721

7. Sale of Investment

During the quarter, the company sold its entire investment in a trademark licensing company. The investment had a cost of \$3,088,000 and was sold for \$2,224,000 with a one-time loss of \$864,000 recognized in the quarter.

8. Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current period.