

# the forzani group ltd.

## Consolidated Balance Sheets (in thousands) (unaudited)

As at	July 29, 2007	January 28, 2007	July 30, 2006
<b>ASSETS</b>			
Current			
Cash	\$ 744	\$ 22,758	\$ 904
Accounts receivable	107,778	65,543	84,155
Inventory	323,479	302,207	313,970
Prepaid expenses	4,649	2,688	3,336
	436,650	393,196	402,365
Capital assets	184,895	191,146	193,839
Goodwill and other intangibles	89,501	90,238	85,818
Other assets	4,373	8,930	9,611
Future income tax asset	272	-	5,206
	\$ 715,691	\$ 683,510	\$ 696,839
<b>LIABILITIES</b>			
Current			
Indebtedness under revolving credit facility	\$ 18,809	\$ -	\$ 61,506
Accounts payable and accrued liabilities	238,856	230,977	220,135
Current portion of long-term debt	51,474	2,082	6,850
	309,139	233,059	288,491
Long-term debt	6,760	58,303	60,511
Deferred lease inducements	55,429	58,543	60,209
Deferred rent liability	6,003	5,737	5,018
Future income tax liability	-	55	-
	377,331	355,697	414,229
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 3)	161,902	148,424	138,718
Contributed surplus	7,049	8,294	5,772
Retained earnings	169,409	171,095	138,120
	338,360	327,813	282,610
	\$ 715,691	\$ 683,510	\$ 696,839

see accompanying notes

# the forzani group ltd.

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

	For the thirteen weeks ended		For the twenty-six weeks ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
<b>Revenue</b>				
Retail	\$ 212,107	\$ 208,188	\$ 406,300	\$ 404,043
Wholesale	80,274	75,808	180,637	160,388
	<b>292,381</b>	<b>283,996</b>	<b>586,937</b>	<b>564,431</b>
Cost of sales	190,268	187,335	386,787	377,626
<b>Gross margin</b>	<b>102,113</b>	<b>96,661</b>	<b>200,150</b>	<b>186,805</b>
<b>Operating and administrative expenses</b>				
Store operating	58,946	56,978	116,486	114,675
General and administrative	22,227	23,608	48,265	43,228
	<b>81,173</b>	<b>80,586</b>	<b>164,751</b>	<b>157,903</b>
<b>Operating earnings before undernoted items</b>	<b>20,940</b>	<b>16,075</b>	<b>35,399</b>	<b>28,902</b>
Amortization	10,850	10,487	21,902	21,218
Interest	1,536	1,899	2,906	3,529
Loss on sale of investment (note 7)	-	-	864	-
	<b>12,386</b>	<b>12,386</b>	<b>25,672</b>	<b>24,747</b>
<b>Earnings before income taxes</b>	<b>8,554</b>	<b>3,689</b>	<b>9,727</b>	<b>4,155</b>
Income tax expense (recovery)				
Current	3,281	1,270	3,719	1,429
Future	(155)	471	(159)	484
	<b>3,126</b>	<b>1,741</b>	<b>3,560</b>	<b>1,913</b>
<b>Net earnings for the period</b>	<b>\$ 5,428</b>	<b>\$ 1,948</b>	<b>\$ 6,167</b>	<b>\$ 2,242</b>
<b>Earnings and diluted earnings per share (note 3)</b>	<b>\$ 0.16</b>	<b>\$ 0.06</b>	<b>\$ 0.18</b>	<b>\$ 0.07</b>

see accompanying notes

# the forzani group ltd.

## 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		For the twenty-six weeks ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Retained earnings, beginning of period	\$ 165,866	\$ 136,172	\$ 171,095	\$ 135,878
Net earnings	5,428	1,948	6,167	2,242
Adjustment arising from shares purchased under a normal course issuer bid	(1,885)	-	(7,853)	-
<b>Retained earnings, end of period</b>	<b>\$ 169,409</b>	<b>\$ 138,120</b>	<b>\$ 169,409</b>	<b>\$ 138,120</b>

### Consolidated Statement of Comprehensive Earnings

	For the thirteen weeks ended		For the twenty-six weeks ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Net earnings	\$ 5,428	\$ 1,948	\$ 6,167	\$ 2,242
Other comprehensive earnings (loss):				
Unrealized foreign currency gains and losses on cash flow hedges	3		(126)	
Tax impact	(1)		47	
	2	N/A	(79)	N/A
Other comprehensive earnings (loss)	2		(79)	
<b>Comprehensive earnings</b>	<b>\$ 5,430</b>	<b>1,948</b>	<b>\$ 6,088</b>	<b>2,242</b>

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

	For the thirteen weeks ended		For the twenty-six weeks ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Accumulated other comprehensive earnings, beginning of period	(2)	-	-	-
Reclassification of foreign currency translation (transitional adjustment)	-	-	79	-
Accumulated other comprehensive earnings, beginning of period, as restated	(2)	-	79	-
Other comprehensive earnings loss	2	-	(79)	-
<b>Accumulated other comprehensive earnings (loss), end of period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

see accompanying notes

# the forzani group ltd.

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

	For the thirteen weeks ended		For the twenty-six weeks ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
<b>Cash provided by (used in) operating activities</b>				
Net earnings for the period	\$ 5,428	\$ 1,948	\$ 6,167	\$ 2,242
Items not involving cash:				
Amortization	10,850	10,487	21,902	21,218
Amortization of finance charges	4	145	179	282
Amortization of deferred lease inducements	(2,732)	(2,780)	(5,507)	(5,533)
Rent expense (note 4)	329	998	455	1,784
Stock-based compensation	117	522	2,262	1,545
Future income tax expense (recovery)	(155)	471	(159)	484
Loss on sale of investment	-	-	864	-
Loss on ineffective hedges	(71)	-	29	-
	13,770	11,791	26,192	22,022
<b>Changes in non-cash elements of working capital related to operating activities (Note 4)</b>	(3,245)	(3,830)	(57,641)	(77,432)
	10,525	7,961	(31,449)	(55,410)
<sup>12</sup> <b>Cash provided by (used in) financing activities</b>				
Net proceeds from issuance of share capital	4,165	98	2,118	543
Decrease in long-term debt	(464)	(64)	(1,583)	(453)
Increase in revolving credit facility	(5,002)	3,050	18,809	61,506
Credit facility assumed on acquisition	-	-	-	(105)
Proceeds from deferred lease inducements	214	629	2,393	2,799
	(1,087)	3,713	21,737	64,290
<b>Changes in non-cash elements of financing activities (Note 4)</b>	(183)	(257)	(1,312)	(257)
	(1,270)	3,456	20,425	64,033
<b>Cash provided by (used in) investing activities</b>				
Net addition of capital assets	(10,003)	(11,691)	(15,003)	(20,583)
Net disposal of other assets	413	(91)	3,006	54
Acquisition of wholly-owned subsidiary	-	-	-	(6,650)
	(9,590)	(11,782)	(11,997)	(27,179)
<b>Changes in non-cash elements of investing activities (Note 4)</b>	182	194	1,007	194
	(9,408)	(11,588)	(10,990)	(26,985)
Increase (decrease) in cash	(153)	(171)	(22,014)	(18,362)
Net cash position, opening	897	1,075	22,758	19,266
<b>Net cash position, closing</b>	\$ 744	\$ 904	\$ 744	\$ 904

see accompanying notes

# notes to interim consolidated financial statements

(tabular amounts in thousands)  
(unaudited)

## 1. Accounting Policies

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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.

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 July 29, 2007 which is not necessarily indicative of performance for the balance of the year. 13

## 2. New Accounting Policies

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(a) As of January 29, 2007, the Company adopted the following new CICA accounting policies:

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 two 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 13 and 26 week periods ended July 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 13 and 26 week periods ended July 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 financial 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, with any required adjustment 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:

	<b>Asset/Liability</b>	<b>Category</b>	<b>Measurement</b>
14	<b>Assets:</b>		
	Cash	Held for trading	Fair value
	Accounts receivable	Loans/Receivables	Amortized cost
	Long-term receivables (included in other assets)	Loans/Receivables	Amortized cost
	<b>Liabilities:</b>		
	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 required that the initial valuation of assets/liabilities to fair value be recorded in retained earnings or AOCE.

The initial adoption of this standard created a gain of \$79,000 for the period ended April 29, 2007.

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.

The adoption of this standard has had no material impact on the financial statements of the Company for the 13 and 26 week periods ended July 29, 2007.

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.

The adoption of this standard has had no material impact on the financial statements of the Company for the 13 and 26 week periods ended July 29, 2007.

## 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 or commitments 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 related hedges.

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 resulted in a cash flow hedge valuation adjustment, due on transition, increasing accumulated other comprehensive earnings by \$79,000. As these hedges expired in the 13 week period ended July 29, 2007, the amount is now reflected in net earnings.

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

(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 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 also carry forward the former presentation requirements. The Company is assessing the impact on its consolidated financial statements.

iii) Inventory – CICA Section 3031

As of February 4, 2008, the Company will be required to adopt new CICA standards with respect to Section 3031, which replaced section 3030 in June 2007. The new section specifies the cost formulae to be used in the valuation of inventories and defines the treatment of “other costs” eligible for inclusion in the calculation of inventory values. The new inventory requirements were issued in June 2007 and the Company is assessing the impact on its consolidated financial statements.

### 3. Share Capital

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a) Authorized

An unlimited number of Class A shares

An unlimited number of Preferred shares, issuable in series

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(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)
<b>Balance April 29, 2007</b>	<b>33,787</b>	<b>\$ 154,043</b>
Shares issued upon employees exercising stock options	518	6,521
Stock-based compensation related to options exercised	-	1,808
Shares redeemed pursuant to normal course issuer bid	(102)	(470)
<b>Balance July 29, 2007</b>	<b>34,203</b>	<b>\$ 161,902</b>

During the quarter, 102,100 (2007 – nil) Class A shares were repurchased pursuant to the Company’s Normal Course Issuer Bid for a total expenditure of \$2,355,000 (2007 – nil) or \$23.07 per share, and the consideration in excess of stated value of \$1,885,000 (amount paid of \$2,355,000 less stated value of \$470,000) was charged to retained earnings.

For the 26-week period ended July 29, 2007, 462,900 (2007 – nil) Class A shares were repurchased pursuant to the Company’s Normal Course Issuer Bid for a total expenditure of \$9,910,000 (2007 - nil) or \$21.41 per share, and the consideration in excess of stated value of \$7,853,000 (amount paid of \$9,910,000 less stated value of \$2,057,000) was charged to retained earnings.

(c) Stock Option Plans

The Company has granted stock options to officers and employees to purchase 1,526,769 Class A shares at prices between \$10.25 and \$23.00 per share. These options expire on dates between April 2008 and June 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 July 29, 2007, there were no options issued under this plan and \$59,000 in compensation expense was recognized (2007 – \$374,000). For the 26-week period ended July 29, 2007, there were no options issued under this plan and \$293,000 in compensation expense was recognized (2007 - \$805,000).

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 July 29, 2007, 40,000 options were issued under this plan and \$58,000 in compensation expense was recognized (2007 - \$148,000). For the 26-week period ended July 29, 2007, 350,000 options were issued under this plan and \$1,969,000 in compensation expense was recognized (2007 - \$740,000).

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Weighted average						
Options issued	Strike price	Fair value per option	Risk-free rate	Expected option life	Expected volatility	Expected dividend yield
40,000	23.00	5.77	4.60%	4.00	21.21%	-

The following table summarizes the movement in stock options during the 26-week period ended July 29, 2007:

	Number of options
Opening	2,157
Granted	350
Exercised	(970)
Forfeited	(10)
<b>Closing</b>	<b>1,527</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	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Weighted average number of shares outstanding (basic)	33,925	32,963	33,853	32,952
Effect of dilutive securities	562	651	473	640
Weighted average number of common shares outstanding (diluted)	34,487	33,614	34,326	33,592

Anti-dilutive options 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	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Anti-dilutive options	-	705	12	595

#### 4. Supplementary Cash Flow Information

	For the thirteen weeks ended		For the twenty-six weeks ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
(a) Rent expense				
Straight-line rent expense	\$ 172	\$ 743	\$ 266	\$ 1,103
Non-cash free rent	157	255	189	681
	<b>\$ 329</b>	<b>\$ 998</b>	<b>\$ 455</b>	<b>\$ 1,784</b>
(b) Changes in non-cash elements of working capital related to operating activities				
Accounts receivable	\$ 26,760	\$ 23,105	\$ (42,403)	\$ (14,775)
Inventory	7,419	(3,380)	(21,272)	(30,909)
Prepaid expenses	(84)	665	(1,961)	(522)
Accounts payable and accrued liabilities	(37,183)	(24,028)	7,879	(30,608)
Non-cash free rent	(157)	(192)	116	(618)
	<b>\$ (3,245)</b>	<b>\$ (3,830)</b>	<b>\$ (57,641)</b>	<b>\$ (77,432)</b>
20 (c) Changes in non-cash elements of financing activities				
Non-cash lease inducements	\$ (182)	\$ (257)	\$ (744)	\$ (257)
Non-cash reduction of long-term debt	-	-	(568)	-
Non-cash change in AOCE	2	-	-	-
Non-cash change in other assets	(3)	-	-	-
	<b>\$ (183)</b>	<b>\$ (257)</b>	<b>\$ (1,312)</b>	<b>\$ (257)</b>
(d) Changes in non-cash elements of investing activities				
Non-cash change in other assets	\$ -	\$ -	\$ 568	\$ -
Non-cash capital asset additions	182	194	439	194
	<b>\$ 182</b>	<b>\$ 194</b>	<b>\$ 1,007</b>	<b>\$ 194</b>
(e) Other Information				
Cash interest paid	\$ 1,338	\$ 1,754	\$ 2,521	\$ 3,247
Cash taxes paid	\$ 6,338	\$ (2,604)	\$ 23,302	\$ 360

## 5. Financial Instruments and Hedges

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### (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 July 29, 2007	
	Carrying Value	Fair Value
<b>Loans &amp; Receivables:</b>		
Trade and accrued receivables	\$ 107,778	\$ 107,778
Long-term receivables	\$ 2,304	\$ 2,304
<b>Other financial liabilities:</b>		
Revolving credit facility	18,809	18,809
Trade payables and accrued liabilities	\$ 238,856	\$ 238,856
Current and long term debt	\$ 58,234	\$ 58,234
<b>Held for trading:</b>		
Cash	\$ 744	\$ 744
Foreign currency options and forward exchange contracts	\$ 14	\$ 14

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 July 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 Company recorded a net gain related to the expiry of ineffective hedges of \$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 when a hedge is deemed ineffective.

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		For the twenty-six weeks ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Revenues				
Retail	\$ 212,107	\$ 208,188	\$ 406,300	\$ 404,043
Wholesale	80,274	75,808	180,637	160,388
	<b>292,381</b>	<b>283,996</b>	<b>586,937</b>	<b>564,431</b>
Operating Profit				
Retail	25,520	22,758	44,049	38,138
Wholesale	6,657	6,722	16,687	13,748
	<b>32,177</b>	<b>29,480</b>	<b>60,736</b>	<b>51,886</b>
Non-segment specific administrative expenses	11,237	13,405	25,337	22,984
Operating profit before under-noted items	<b>20,940</b>	<b>16,075</b>	<b>35,399</b>	<b>28,902</b>
Amortization	10,850	10,487	21,902	21,218
Interest expense	1,536	1,899	2,906	3,529
Loss on sale of investment	-	-	864	-
	<b>12,386</b>	<b>12,386</b>	<b>25,672</b>	<b>24,747</b>
Earnings before income taxes	8,554	3,689	9,727	4,155
Income tax expense	3,126	1,741	3,560	1,913
Net earnings for the period	\$ 5,428	\$ 1,948	\$ 6,167	\$ 2,242

As at	July 29, 2007	January 28, 2007	July 30, 2006
<b>Accounts Receivable</b>			
Retail	\$ 7,035	\$ 1,830	\$ 6,123
Wholesale	94,842	63,372	79,460
Non-segment specific (see note below)	5,901	341	(1,428)
	<b>\$ 107,778</b>	<b>\$ 65,543</b>	<b>\$ 84,155</b>
<b>Capital Assets</b>			
Retail	\$ 161,970	\$ 168,676	173,523
Wholesale	19,331	19,080	17,166
Non-segment specific	3,594	3,390	3,150
	<b>\$ 184,895</b>	<b>\$ 191,146</b>	<b>\$ 193,839</b>
<b>Goodwill/Other Assets</b>			
Retail	\$ 56,485	\$ 61,833	\$ 61,506
Wholesale	33,783	30,392	16,358
Non-segment specific	3,606	6,943	17,565
	<b>\$ 93,874</b>	<b>\$ 99,168</b>	<b>\$ 95,429</b>
<b>Total Assets</b>			
Retail	\$ 496,688	\$ 531,512	\$ 533,065
Wholesale	183,888	130,984	144,355
Non-segment specific	35,115	21,014	19,419
	<b>\$ 715,691</b>	<b>\$ 683,510</b>	<b>\$ 696,839</b>

Note: Non-segment specific Accounts Receivable can be negative due to timing of related taxes receivable net of taxes payable

## 7. Sale of Investment

During the 13 week period ended April 29, 2007, 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.

## 8. Comparative Figures

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