

the forzani group ltd.

Consolidated Balance Sheets (in thousands) (unaudited)

As at	October 28, 2007	January 28, 2007	October 29, 2006
ASSETS			
Current			
Cash	\$ 9,854	\$ 22,758	\$ 1,111
Accounts receivable	138,548	65,543	134,052
Inventory	376,620	302,207	362,178
Prepaid expenses	3,647	2,688	3,278
	528,669	393,196	500,619
Capital assets	185,812	191,146	191,810
Goodwill and other intangibles	89,338	90,238	85,740
Other assets	3,950	8,930	9,269
Future income tax asset	309	-	454
	\$ 808,078	\$ 683,510	\$ 787,892
LIABILITIES			
Current			
Indebtedness under revolving credit facility	\$ -	\$ -	\$ 25,922
Accounts payable and accrued liabilities	349,058	230,977	331,255
Current portion of long-term debt	51,671	2,082	4,593
	400,729	233,059	361,770
Long-term debt	6,685	58,303	58,068
Deferred lease inducements	55,367	58,543	60,790
Deferred rent liability	6,140	5,737	5,637
Future income tax liability	-	55	-
	468,921	355,697	486,265
SHAREHOLDERS' EQUITY			
Share capital (Note 3)	160,105	148,424	144,322
Contributed surplus	6,821	8,294	7,307
Accumulated other comprehensive (loss)	(166)	-	-
Retained earnings	172,397	171,095	149,998
	339,157	327,813	301,627
	\$ 808,078	\$ 683,510	\$ 787,892

see accompanying notes

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

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Revenue				
Retail	\$ 224,158	\$ 228,381	\$ 630,458	\$ 632,424
Wholesale	109,313	117,968	289,950	278,356
	333,471	346,349	920,408	910,780
Cost of sales	219,545	226,954	606,332	604,580
Gross margin	113,926	119,395	314,076	306,200
Operating and administrative expenses				
Store operating	60,915	58,351	177,401	173,026
General and administrative	20,065	29,628	68,330	72,856
	80,980	87,979	245,731	245,882
Operating earnings before undernoted items	32,946	31,416	68,345	60,318
Amortization	11,137	10,458	33,039	31,676
Interest	1,831	2,104	4,737	5,633
Loss on sale of investment (note 8)	-	-	864	-
	12,968	12,562	38,640	37,309
Earnings before income taxes	19,978	18,854	29,705	23,009
Income tax expense (recovery)				
Current	7,428	6,587	11,146	8,016
Future	(36)	389	(194)	873
	7,392	6,976	10,952	8,889
Net earnings for the period	\$ 12,586	\$ 11,878	\$ 18,753	\$ 14,120
Earnings per share	\$ 0.37	\$ 0.36	\$ 0.55	\$ 0.43
Diluted earnings per share	\$ 0.36	\$ 0.35	\$ 0.55	\$ 0.42

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		For the thirty-nine weeks ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Retained earnings, beginning of period	\$ 169,410	\$ 138,120	\$ 171,095	\$ 135,878
Net earnings	12,586	11,878	18,753	14,120
Adjustment arising from shares purchased under a normal course issuer bid (note 3(b))	(9,599)	-	(17,451)	-
Retained earnings, end of period	\$ 172,397	\$ 149,998	\$ 172,397	\$ 149,998

Consolidated Statement of Comprehensive Earnings

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Net earnings	\$ 12,586	\$ 11,878	\$ 18,753	\$ 14,120
Other comprehensive earnings (loss):				
Unrealized foreign currency gains and losses on cash flow hedges	(264)		(389)	
Tax impact	98		144	
	(166)	N/A	(245)	N/A
Other comprehensive earnings (loss)	(166)		(245)	
Comprehensive earnings	\$ 12,420	\$ 11,878	\$ 18,508	\$ 14,120

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

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
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)	(166)	\$ -	\$ (245)	\$ -
Accumulated other comprehensive earnings (loss), end of period	\$ (166)	\$ -	\$ (166)	\$ -

see accompanying notes

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

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Cash provided by (used in) operating activities				
Net earnings for the period	\$ 12,586	\$ 11,878	\$ 18,753	\$ 14,120
Items not involving cash:				
Amortization	11,137	10,458	33,039	31,676
Amortization of finance charges	189	144	731	423
Amortization of deferred lease inducements	(2,754)	(2,139)	(8,260)	(7,672)
Rent expense (note 4)	151	683	606	2,467
Stock-based compensation	76	1,655	2,338	3,202
Future income tax expense (recovery)	(36)	389	(194)	873
Loss on sale of investment	-	-	864	-
Loss on ineffective hedges	8	-	37	-
	21,357	23,068	47,914	45,089
Changes in non-cash elements of working capital related to operating activities (Note 4)	27,042	17,372	(30,629)	(60,060)
	48,399	40,440	17,285	(14,971)
Cash provided by (used in) financing activities				
Proceeds from issuance of share capital	1,087	5,604	13,115	6,191
Share repurchase via normal course issuer bid	(12,785)	-	(22,695)	-
Decrease in long-term debt	(64)	(4,700)	(2,011)	(5,153)
Increase (decrease) in revolving credit facility	(18,809)	(35,584)	-	25,922
Credit facility assumed on acquisition	-	-	-	(105)
Proceeds from deferred lease inducements	2,690	2,720	5,084	5,519
	(27,881)	(31,960)	(6,507)	32,374
Changes in non-cash elements of financing activities (Note 4)	(150)	(160)	(1,462)	(463)
	(28,031)	(32,120)	(7,969)	31,911
Cash provided by (used in) investing activities				
Net addition of capital assets	(11,740)	(8,155)	(26,743)	(28,737)
Net disposal of other assets	269	2	3,303	58
Acquisition of wholly-owned subsidiary	-	-	-	(6,650)
	(11,471)	(8,153)	(23,440)	(35,329)
Changes in non-cash elements of investing activities (Note 4)	213	40	1,220	234
	(11,258)	(8,113)	(22,220)	(35,095)
Increase (decrease) in cash	9,110	207	(12,904)	(18,155)
Net cash position, opening	744	904	22,758	19,266
Net cash position, closing	\$ 9,854	\$ 1,111	\$ 9,854	\$ 1,111

see accompanying notes

notes to interim consolidated financial statements

as at and for the 13 and 39 week periods ended October 28, 2007

(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.

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 October 28, 2007 which is not necessarily indicative of performance for the balance of the year. 13

2. New Accounting Policies

(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 39 week periods ended October 28, 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 39 week periods ended October 28, 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:

Asset/Liability	Category	Measurement
Assets:		
¹⁴ 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 accounts receivable, 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 39 week periods ended October 28, 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 39 week periods ended October 28, 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 inventory. 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

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
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)
Balance July 29, 2007	34,203	\$ 161,902
Shares issued upon employees exercising stock options	92	1,087
Stock-based compensation related to options exercised	-	304
Shares redeemed pursuant to normal course issuer bid	(670)	(3,188)
Balance October 28, 2007	33,625	\$ 160,105

During the quarter, 670,000 (2007 – nil) Class A shares were repurchased pursuant to the Company’s Normal Course Issuer Bid for a total expenditure of \$12,785,000 (2007 – nil) or \$19.08 per share, and the consideration in excess of stated value of \$9,599,000 (amount paid of \$12,785,000 less stated value of \$3,188,000) was charged to retained earnings.

For the 39-week period ended October 28, 2007, 1,132,900 (2007 – nil) Class A shares were repurchased pursuant to the Company’s Normal Course Issuer Bid for a total expenditure of \$22,695,000 (2007 - nil) or \$20.03 per share, and the consideration in excess of stated value of \$17,451,000 (amount paid of \$22,695,000 less stated value of \$5,244,000) was charged to retained earnings.

(c) Stock Option Plans

The Company has granted stock options to officers and employees to purchase 1,435,469 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 October 28, 2007, there were no options issued under this plan and \$15,000 in compensation expense was recognized (2007 – \$485,800). For the 39-week period ended October 28, 2007, there were no options issued under this plan and \$308,000 in compensation expense was recognized (2007 - \$1,290,800).

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 October 28, 2007, no options were issued under this plan and \$61,000 in compensation expense was recognized (2007 - \$1,169,000). For the 39-week period ended October 28, 2007, 350,000 options were issued under this plan and \$2,030,000 in compensation expense was recognized (2007 - \$1,909,000).

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The following table summarizes the movement in stock options during the 39-week period ended October 28, 2007:

	Number of options
Opening	2,157
Granted	350
Exercised	(1,062)
Forfeited	(10)
Closing	1,435

(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 thirty-nine weeks ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Weighted average number of shares outstanding (basic)	34,212	33,147	33,973	33,017
Effect of dilutive securities	428	715	431	701
Weighted average number of common shares outstanding (diluted)	34,640	33,862	34,404	33,718

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 thirty-nine weeks ended	
	October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
Anti-dilutive options	40	625	21	552

4. Supplementary Cash Flow Information

		For the thirteen weeks ended		For the thirty-nine weeks ended	
		October 28, 2007	October 29, 2006	October 28, 2007	October 29, 2006
(a)	Rent expense				
	Straight-line rent expense	\$ 137	\$ 619	\$ 403	\$ 1,722
	Non-cash free rent	14	64	203	745
		\$ 151	\$ 683	\$ 606	\$ 2,467
(b)	Changes in non-cash elements of working capital related to operating activities				
	Accounts receivable	\$ (30,770)	\$ (45,534)	\$ (73,173)	\$ (60,309)
	Inventory	(53,141)	(48,208)	(74,413)	(79,117)
	Prepaid expenses	1,002	58	(959)	(464)
	Accounts payable and accrued liabilities	109,929	111,120	117,778	80,512
	Non-cash free rent	22	(64)	138	(682)
		\$ 27,042	\$ 17,372	\$ (30,629)	\$ (60,060)
20 (c)	Changes in non-cash elements of financing activities				
	Non-cash lease inducements	\$ (248)	\$ (40)	\$ (992)	\$ (297)
	Non-cash reduction of long-term debt	-	-	(568)	-
	Non-cash change in AOCE	(166)	-	(166)	-
	Non-cash change in other assets	264	(120)	264	(166)
		\$ (150)	\$ (160)	\$ (1,462)	\$ (463)
(d)	Changes in non-cash elements of investing activities				
	Non-cash change in other assets	\$ -	\$ -	\$ 568	\$ -
	Non-cash capital asset additions	213	40	652	234
		\$ 213	\$ 40	\$ 1,220	\$ 234
(e)	Other Information				
	Cash interest paid	\$ 1,630	\$ 1,960	4,152	\$ 5,208
	Cash taxes paid	\$ 4,240	\$ 4,517	\$ 27,542	\$ 15,049

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 October 28th, 2007	
	Carrying Value	Fair Value
Loans & Receivables:		
Trade and accrued receivables	\$ 138,548	\$ 138,548
Long-term receivables	\$ 1,608	\$ 1,608
Other financial liabilities:		
Revolving credit facility	-	\$ -
Trade payables and accrued liabilities	\$ 349,058	\$ 349,058
Current and long-term debt	\$ 58,356	\$ 58,356

(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).²¹

(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 October 28, 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.

The Company has recorded an unrealized gain in the consolidated statement of operations for the thirteen week period ended October 28, 2007 of \$56,078 relating to sell forward foreign currency contracts that are deemed to be ineffective and an unrealized loss of \$37,324 relating to call options that are deemed to be ineffective. The Company has recorded an unrealized loss in the consolidated statement of comprehensive earnings for the thirteen week period ended October 28, 2007 of \$239,531 relating to forward foreign currency contracts that do qualify for hedge accounting.

The outstanding sell forward U.S. dollar foreign currency contracts to which hedge accounting was not applied have terms ranging from November 23, 2007 to January 18, 2008 at forward rates ranging from \$0.9886 to \$0.9963, the outstanding call options at October 28, 2007 have terms ranging from December 4, 2007 to March 4, 2008 at a forward rate of \$1.13 and the outstanding forward foreign exchange contracts to which hedge accounting was applied at October 28, 2007 have terms ranging from November 2, 2007 to July 18, 2008 at forward rates ranging from \$0.9629 to \$1.0577.

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.

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.

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	For the thirteen weeks ended		For the thirty-nine weeks ended	
	Oct. 28, 2007	Oct. 29, 2006	Oct. 28, 2007	Oct. 29, 2006
Revenues				
Retail	\$ 224,158	\$ 228,381	\$ 630,459	\$ 632,424
Wholesale	109,313	117,968	289,950	278,356
	\$ 333,471	\$ 346,349	\$ 920,409	\$ 910,780
Operating Profit				
Retail	\$ 33,470	38,333	77,519	76,471
Wholesale	9,764	11,086	26,451	24,834
	43,234	49,419	103,970	101,305
Non-segment specific administrative expenses	10,288	18,003	35,625	40,987
Operating profit before under-noted items	32,946	31,416	68,345	60,318
Amortization	11,137	10,458	33,039	31,676
Interest expense	1,831	2,104	4,737	5,633
Loss on sale of investment	-	-	864	-
	12,968	12,562	38,640	37,309
Earnings before income taxes	19,978	18,854	29,705	23,009
Income tax expense	7,392	6,976	10,952	8,889
Net earnings for the period	\$ 12,586	\$ 11,878	\$ 18,753	\$ 14,120

As at	October 28, 2007	January 28, 2007	October 29, 2006
Accounts Receivable			
Retail	\$ 22,031	\$ 1,830	\$ 7,972
Wholesale	125,337	63,372	124,294
Non-segment specific (see note below)	(8,820)	341	1,786
	\$ 138,548	\$ 65,543	\$ 134,052
Capital Assets			
Retail	\$ 161,536	\$ 168,676	171,207
Wholesale	20,832	19,080	17,313
Non-segment specific	3,444	3,390	3,290
	\$ 185,812	\$ 191,146	\$ 191,810
Goodwill/Other Assets			
Retail	\$ 56,360	\$ 61,833	\$ 61,424
Wholesale	33,425	30,392	16,205
Non-segment specific	3,503	6,943	17,380
	\$ 93,288	\$ 99,168	\$ 95,009
Total Assets			
Retail	\$ 559,066	\$ 531,512	\$ 583,136
Wholesale	223,659	130,984	186,873
Non-segment specific	25,353	21,014	17,883
	\$ 808,078	\$ 683,510	\$ 787,892

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

7. Acquisitions

Effective September 9, 2007, the Company acquired select net assets of Al DiMarco's Custom Golf Shop Ltd. and various other related entities ("DiMarco"). The acquisition was accounted for using the purchase method as net assets acquired encompass the necessary inputs, processes and outputs to sustain the business, thereby meeting the definition of a business (as per CICA Section 1580 and EIC 124) and accordingly the consolidated financial statements for the 13 and 39 weeks ended October 28, 2007 include the results of operations since the date of the acquisition.

The consideration for the transaction was \$1,039,000 in cash and the settlement of an outstanding account receivable by the Company from DiMarco of \$3,095,000.

The assigned fair values of the underlying assets and liabilities acquired by the company as at September 9, 2007 are summarized as follows:

Cash	\$ 3
Inventory	3,755
Prepaid expenses	39
Capital assets	425
Less: amounts due to others	(88)
Net assets acquired	\$4,134

8. 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.

24 9. Comparative Figures

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

10. Subsequent Event

Effective November 26, 2007, the Company acquired 100% of the outstanding common shares of Athletes World Limited, and a position as an unsecured creditor in certain inter-company debt. The consideration for the transaction is \$1,500,000 cash and the assumption of a secured operating debt facility of approximately \$20,000,000. Depending upon the achievement of a certain threshold use of tax-loss carry forwards, the Company is contingently liable to the former unsecured creditor of certain inter-company debt on a pro-rata basis.

The Company plans to repay the secured debt through its existing credit facilities.

The Company plans to operate Athletes World Limited, which filed for and is currently operating under Companies' Creditors Arrangement Act ("CCAA") protection as of October 30, 2007, as a stand-alone business. The Company hopes to complete the required restructuring proposal and receive the approvals necessary to exit CCAA by April 2008.