

The Forzani Group Ltd.  
Consolidated Balance Sheets  
(in thousands)  
(unaudited)

As at	August 2, 2009	February 1, 2009 (Restated - Note 1)	August 3, 2008 (Restated - Note 1)
<b>ASSETS</b>			
Current			
Cash	\$ 2,905	\$ 3,474	\$ 2,790
Accounts receivable	106,502	84,455	101,183
Inventory	341,673	291,497	334,604
Prepaid Expenses	4,440	2,827	14,583
	<b>455,520</b>	<b>382,253</b>	<b>453,160</b>
Capital assets	204,120	196,765	192,071
Goodwill and other intangibles (Note 1)	96,020	91,434	91,470
Other assets	8,128	8,545	3,584
Future income tax asset	10,766	9,960	16,749
	<b>\$ 774,554</b>	<b>\$ 688,957</b>	<b>\$ 757,034</b>
<b>LIABILITIES</b>			
Current			
Indebtedness under revolving credit facility	\$ 114,511	\$ 17,130	\$ 129,444
Accounts payable and accrued liabilities	272,972	277,820	256,502
Current portion of long-term debt	5,740	7,501	3,187
	<b>393,223</b>	<b>302,451</b>	<b>389,133</b>
Long-term debt	6,453	126	4,675
Deferred lease inducements	45,906	47,811	50,618
Deferred rent liability	5,806	5,893	5,969
	<b>451,388</b>	<b>356,281</b>	<b>450,395</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 3)	149,118	147,161	147,161
Contributed surplus	6,056	6,401	7,521
Accumulated other comprehensive earnings (loss)	(153)	863	23
Retained earnings	168,145	178,251	151,934
	<b>323,166</b>	<b>332,676</b>	<b>306,639</b>
	<b>\$ 774,554</b>	<b>\$ 688,957</b>	<b>\$ 757,034</b>

See accompanying notes to the consolidated financial statements

The Forzani Group Ltd.  
Consolidated Statements of Operations  
(in thousands, except per share data)  
(unaudited)

	For the 13 weeks ended		For the 26 weeks ended	
	August 2, 2009	August 3, 2008 (Restated – Note 1)	August 2, 2009	August 3, 2008 (Restated – Note 1)
<b>Revenue</b>				
Retail	\$ 216,257	\$ 221,290	\$ 417,588	\$ 431,620
Wholesale	80,268	74,272	186,650	171,432
	296,525	295,562	604,238	603,052
Cost of sales	193,449	189,808	397,528	391,887
<b>Gross margin</b>	103,076	105,754	206,710	211,165
<b>Operating and administrative expenses</b>				
Store operating	69,422	65,833	135,999	136,243
General and administrative	26,766	25,060	52,323	52,380
	96,188	90,893	188,322	188,623
<b>Operating earnings before undernoted items</b>	6,888	14,861	18,388	22,542
Amortization of capital assets	12,789	11,406	25,067	22,522
Interest	407	1,055	1,334	1,959
	13,196	12,461	26,401	24,481
<b>Earnings (loss) before income taxes</b>	(6,308)	2,400	(8,013)	(1,939)
<b>Income tax expense (recovery)</b>				
Current	(1,353)	395	(1,678)	(571)
Future	(543)	445	(806)	(107)
	(1,896)	840	(2,484)	(678)
<b>Net earnings (loss) for the period</b>	\$ (4,412)	\$ 1,560	\$ (5,529)	\$ (1,261)
<b>Basic and diluted earnings (loss) per share (Note 3)</b>	\$ (0.14)	\$ 0.05	\$ (0.18)	\$ (0.04)

See accompanying notes to the consolidated financial statements

# The Forzani Group Ltd.

## Consolidated Statements of Retained Earnings, Comprehensive Earnings (Loss) and Accumulated Other Comprehensive Earnings (Loss)

(in thousands)

(unaudited)

Consolidated Statements of Retained Earnings	For the 13 weeks ended		For the 26 weeks ended	
	August 2, 2009	August 3, 2008	August 2, 2009	August 3, 2008
		(Restated – Note 1)		(Restated – Note 1)
Retained earnings, beginning of period	\$ 174,848	\$ 176,377	\$ 178,251	\$ 191,176
Adjustment arising from adoption of new accounting policy (Note 1)	-	(717)	-	(2,161)
Adjusted Retained earnings, beginning of period	174,848	175,660	178,251	189,015
Net earnings (loss)	(4,412)	1,560	(5,529)	(1,261)
Dividends paid (Note 3(f))	(2,291)	(2,285)	(4,577)	(4,758)
Adjustment arising from shares purchased under a normal course issuer bid (Note 3(b))	-	(23,001)	-	(31,062)
<b>Retained earnings, end of period</b>	<b>\$ 168,145</b>	<b>\$ 151,934</b>	<b>\$ 168,145</b>	<b>\$ 151,934</b>

Consolidated Statements of Comprehensive Earnings (Loss)	For the 13 weeks ended		For the 26 weeks ended	
	August 2, 2009	August 3, 2008	August 2, 2009	August 3, 2008
Net earnings (loss)	\$ (4,412)	\$ 1,560	\$ (5,529)	\$ (1,261)
Other comprehensive earnings (loss):				
Unrealized foreign currency gains (loss) on cash flow hedges	(87)	(37)	(1,472)	48
Tax impact	(22)	13	456	(17)
Other comprehensive earnings (loss)	(109)	(24)	(1,016)	31
<b>Comprehensive earnings (loss)</b>	<b>\$ (4,521)</b>	<b>\$ 1,536</b>	<b>\$ (6,545)</b>	<b>\$ (1,230)</b>

Consolidated Statements of Accumulated Other Comprehensive Earnings (Loss) ("AOCE")	For the 13 weeks ended		For the 26 weeks ended	
	August 2, 2009	August 3, 2008	August 2, 2009	August 3, 2008
Accumulated other comprehensive earnings (loss), beginning of period	\$ (44)	\$ 47	\$ 863	\$ (8)
Other comprehensive earnings (loss)	(109)	(24)	(1,016)	31
<b>Accumulated other comprehensive earnings (loss), end of period</b>	<b>\$ (153)</b>	<b>\$ 23</b>	<b>\$ (153)</b>	<b>\$ 23</b>

See accompanying notes to the consolidated financial statements

The Forzani Group Ltd.  
Consolidated Statements of Cash Flows  
(in thousands)  
(unaudited)

	For the 13 weeks ended		For the 26 weeks ended	
	August 2, 2009	August 3, 2008	August 2, 2009	August 3, 2008
		(Restated - Note1)		(Restated - Note1)
<b>Cash provided by (used in) operating activities</b>				
Net earnings (loss) for the period	\$ (4,412)	\$ 1,560	\$ (5,529)	\$ (1,261)
Items not involving cash:				
Amortization of capital assets	12,789	11,406	25,067	22,522
Amortization of deferred finance charges	36	114	78	295
Amortization of deferred lease inducements	(2,954)	(2,895)	(5,858)	(5,770)
Rent expense (Note 4)	91	(17)	59	4
Stock-based compensation (Note 3(c))	23	257	31	946
Future income tax expense (recovery)	(543)	445	(806)	(107)
Unrealized gain (loss) on ineffective hedges	(321)	24	(45)	(1)
	4,709	10,894	12,997	16,628
<b>Changes in non-cash elements of working capital related to operating activities (Note 4)</b>	(8,525)	(14,746)	(80,411)	(70,525)
	(3,816)	(3,852)	(67,414)	(53,897)
<b>Cash provided by (used in) financing activities</b>				
Proceeds from issuance of share capital	1,529	127	1,581	2,384
Share repurchase via normal course issuer bid	-	(32,953)	-	(44,027)
Long-term debt	(1,671)	(790)	1,396	(883)
Revolving credit facility	22,433	101,998	97,381	129,444
Dividends paid (Note 3(f))	(2,291)	(2,285)	(4,577)	(4,758)
Lease inducements received	3,921	190	3,953	1,299
	23,921	66,287	99,734	83,459
<b>Changes in non-cash elements of financing activities (Note 4)</b>	(775)	(50,119)	3,779	(50,151)
	23,146	16,168	103,513	33,308
<b>Cash provided by (used in) investing activities</b>				
Capital assets	(20,205)	(11,736)	(32,061)	(23,073)
Other assets	(27)	(857)	(186)	(1,154)
Acquisition of assets (Note 9)	-	-	(945)	-
	(20,232)	(12,593)	(33,192)	(24,227)
<b>Changes in non-cash elements of investing activities (Note 4)</b>	616	122	(3,476)	122
	(19,616)	(12,471)	(36,668)	(24,105)
Decrease in cash	(286)	(155)	(569)	(44,694)
Net cash position, opening	3,191	2,945	3,474	47,484
<b>Net cash position, closing</b>	\$ 2,905	\$ 2,790	\$ 2,905	\$ 2,790

See accompanying notes to the consolidated financial statements

# The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements (tabular amounts in thousands)  
(unaudited)

## 1. Summary of Significant Accounting Policies

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The unaudited interim consolidated financial statements (the “financial statements”) of The Forzani Group Ltd. (the “Company” or “FGL”) have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). These financial statements do not contain all disclosures required by GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the 52-week period ended February 1, 2009.

The interim financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements as at February 1, 2009, 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 August 2, 2009 which is not necessarily indicative of performance for the balance of the year.

Effective February 4, 2008, the Company adopted the following accounting standard issued by the Canadian Institute of Chartered Accountants (“CICA”):

CICA Section 3031, *Inventories*, introduced significant changes to the measurement and disclosure of inventories, including the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable for goods and services produced for specific purposes, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed.

Under the prior guidance, the Company included storage costs in the cost of inventory. This is no longer permitted, resulting in a \$1,357,000 adjustment to opening inventory for the prior year and a corresponding adjustment to opening retained earnings by the difference in the measurement of opening inventory.

Effective February 2, 2009, the Company retroactively adopted CICA Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062 of the same title. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets.

Under the prior guidance, the Company capitalized certain non-compete payments, training costs, and product development costs that no longer meet the requirements of the new section.

The balances in these asset accounts as at February 1, 2009 were restated and included in Retained Earnings and the results of operations of fiscal 2009 were also restated to conform to the fiscal 2010 presentation.

The impact of the recommendations of Section 3064 on the consolidated financial statements follows:

<b>Consolidated Balance Sheets</b>	<b>February 1, 2009</b>	<b>August 3, 2008</b>
<b>Increase (decrease)</b>		
<b>Assets</b>		
Goodwill and other intangibles	\$ (47)	\$ (47)
Other assets	(735)	(927)
Future income tax asset	279	341
	<b>\$ (503)</b>	<b>\$ (633)</b>
<b>Shareholders' Equity</b>		
Retained earnings, opening	\$ (804)	\$ (804)
Net income for the period	301	171
Retained earnings, ending	<b>\$ (503)</b>	<b>\$ (633)</b>
For the 26 weeks ended August 3, 2008		
<b>Consolidated Earnings</b>		
Net loss for the period as previously stated before the following items:		\$ (1,432)
Adjustments to:		
Depreciation and amortization		263
Income tax		(92)
		171
Net loss for the period		<b>\$ (1,261)</b>
Net loss per share – basic and diluted		<b>\$ 0.04</b>

The Emerging Issues Committee issued EIC-173, *Credit risk and the fair value of financial assets and financial liabilities*, which provides guidance on how to measure financial assets and liabilities, taking into account the company's own credit risk and the counterparty credit risk in determining the fair value of financial assets and financial liabilities. The adoption of these recommendations, effective February 2, 2009, had no material impact on the results, financial position and cash flows of the Company.

## 2. Future Accounting Policies

### **Business Combinations, Consolidated Financial Statements and Non-Controlling Interests – (CICA Sections 1582, 1601 and 1602)**

As of January 30, 2011, the Company will be required to adopt new CICA standards with respect to business combinations, consolidated financial statements and non-controlling interests. The new CICA Section 1582 will replace CICA Section 1581 and is meant to align the accounting for business combinations under Canadian GAAP with the requirements of International Financial Reporting Standards. Likewise, CICA Sections 1601 and 1602 will replace CICA Section 1600 with respect to consolidated financial statements and accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination.

Under sections 1582, 1601 and 1602 the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. In addition, acquisition costs are not part of the purchase consideration and are to be expensed when incurred. With the adoption of these standards, the Company expects that all acquisition related costs will be expensed through the consolidated statement of operations. These standards will be applied on a prospective basis.

### **International Financial Reporting Standards (“IFRS”)**

In February 2008, the CICA announced that GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which current and comparative information will be prepared under IFRS.

The Company is in the process of completing the assessment phase of the transition. This phase identified a number of topics possibly impacting either the Company's financial results and/or the Company's effort necessary to changeover to IFRS. This phase is ongoing, as the Company will continue to assess future International Accounting Standards Board (“IASB”) pronouncements for transitional impacts.

The Company has started the key elements phase of implementation which includes the identification, evaluation and selection of accounting policies necessary for the Company to transition to IFRS. Consideration of impacts on operational elements such as information technology and internal control over financial reporting are integral to this process.

Although the Company's impact assessment activities are underway and progressing according to plan, continued progress is necessary before the Company can prudently increase the specificity of the disclosure of pre- and post-IFRS changeover accounting policy differences.

### 3. Share Capital

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(a) *Authorized*

An unlimited number of Class A shares (no par value)

An unlimited number of Preferred shares, issuable in series

(b) *Issued*

<b>Class A shares</b>	<b>Number</b>	<b>Consideration</b>
Balance February 1, 2009	30,468	\$ 147,161
Shares issued upon employees exercising stock options	5	52
Stock-based compensation related to options exercised	–	12
<b>Balance May 3, 2009</b>	<b>30,473</b>	<b>\$ 147,225</b>
Shares issued upon employees exercising stock options	149	1,529
Stock-based compensation related to options exercised	-	364
<b>Balance August 2, 2009</b>	<b>30,622</b>	<b>\$ 149,118</b>

During the 13-week and 26-week periods ended August 2, 2009, no (August 3, 2008 – 2,062,076 and 2,694,376 respectively) Class A shares were repurchased and cancelled pursuant to the Company's Normal Course Issuer Bid. Expenditures incurred in the fiscal 2009 periods were \$32,953,000 and \$44,027,000 respectively.

(c) *Stock Option Plan*

The directors, officers and other employees of the Company and its subsidiaries are eligible to participate in the Corporation's stock option plan as last amended December 7, 2007 (the "Stock Option Plan"). The Board, or a committee thereof, may designate which directors, officers and employees of the Company are to be granted options under the Stock Option Plan. The Board has determined that directors will not be granted options.

The Stock Option Plan allows for the issuance of options having different attributes, including different arrangements with respect to vesting and redemption criteria. Since the initial adoption of the Stock Option Plan, the Company has issued options with three different attributes. The particulars of those options are as follows:

i) Time-Based Options – These options are exercisable for Class "A" shares on a one-for-one basis and generally vest over time periods ranging from two to five years with no particular performance component attached to such time-based vesting criteria. These options have a maximum expiry date of five years from the date of grant.

During the 13-week period ended August 2, 2009, there were no options of this type issued (August 3, 2008 – Nil) and no stock-based compensation expense was recognized (August 3, 2008 – \$10,000). For the 26-week period ended August 2, 2009, there were no options of this type issued (August 3, 2008 – Nil) and \$Nil in stock based compensation expense was recognized (August 3, 2008 - \$25,000).

ii) Performance Based Options – These options are also exercisable for Class "A" shares on a one-for-one basis and generally vest over time periods ranging from two to five years, provided that the Company achieves certain performance criteria established at the time of grant of the options. These options have a maximum expiry date of five years from the date of grant. All of the performance-related vesting criteria for these options were achieved in fiscal 2007, and therefore any new issuances of this type vest and are expensed immediately.

During the 13-week period ended August 2, 2009, there were no options of this type issued (August 3, 2008 – Nil) and no stock-based compensation expense was recognized (August 3, 2008 - \$Nil). For the 26-week period ended August 2, 2009, there were no options of this type issued (August 3, 2008 – 120,000) and no stock-based compensation expense was recognized (August 3, 2008 - \$382,800).

iii) Modified Time-Based Options - These options are similar to the options described in (i) above, other than that holders may elect to either exercise such options to purchase Class "A" shares on a one-for-one basis or take advantage of the tandem share appreciation right ("TSAR") feature which allows the holder to surrender to the Company the unexercised options and receive a cash payment equal to the market price of the Class "A" share less the exercise price of the particular options. Similar to the above, these options have a maximum term of five years from the date of grant.

During the 13-week period ended August 2, 2009, 8,360 TSARs (August 3, 2008 – 4,340) were issued and \$203,000 was charged to stock-based compensation expense (August 3, 2008 - \$246,000). For the 26-week period ended August 2, 2009, 564,290 TSARs (August 3, 2008 – 262,860) were issued and \$374,000 was charged to stock-based compensation expense (August 3, 2008 - \$538,000). As a cash-settled award, TSAR's are a liability-classified plan, and are recorded within Accounts Payable.

As at August 2, 2009, there were 2,065,320 options to purchase Class "A" shares issued and outstanding at prices ranging between \$7.70 and \$23.00 per share and expiry dates ranging between December 2009 and April 2014, of which 1,212,459 were exercisable.

The total number of shares authorized for option grants under all option plans is 3,406,622.

Weighted Average						
Options issued	Strike price	Intrinsic value per option	Risk-free rate	Expected option life	Expected volatility*	Expected dividend yield
8,360	14.24	3.86	2.01%	3	42.93%	2.107%

\*Expected volatility is calculated using a trailing 3 year average of weekly changes in the Company's Class "A" shares.

The following table summarizes the movement in stock options during the 26-week period ended August 2, 2009:

	Number
Opening	1,695
Granted	564
Exercised	(154)
Forfeited	(40)
<b>Closing</b>	<b>2,065</b>

**(d) Stock Unit Plans**

*Director Stock Units ("DSU")* - The Company issues DSUs on a quarterly basis to each non-executive member of the Board of Directors. A director may also choose to receive other cash compensation entitlements in the form of DSUs. If a director so chooses, the number of units granted is calculated as the cash compensation foregone divided by the closing share price on the grant date.

When the company declares a dividend on its common shares, a grant of additional DSUs is made in the amount of the outstanding DSUs at the dividend date times the dividend per share, divided by the closing share price at the dividend date. These DSUs are added to the director's account.

DSUs vest immediately upon granting, but a director is only entitled to the cash value of their account upon retirement from the Board.

*Restricted Stock Units ("RSU")* are granted to senior management as a component of the Company's Long Term Incentive Plan ("LTIP"). RSU grants are made on an annual basis or upon an individual's promotion to senior management.

When the company declares a dividend on its common shares, a grant of additional RSUs is made in the amount of the outstanding RSUs at the dividend date times the dividend per share, divided by the closing share price at the dividend date. These RSUs are added to the participant's LTIP account.

RSU grants vest in 1/3rd tranches annually over 3 years. Grants made throughout the year to new participants retain the same vesting dates as annual grants.

*Performance Stock Units ("PSU")* are granted to senior management as a component of the Company's LTIP. PSU grants are made on an annual basis or upon an individual's promotion to senior management.

When the company declares a dividend on its common shares, a grant of additional PSUs is made in the amount of the outstanding PSUs at the dividend date times the dividend per share, divided by the closing share price at the dividend date. These PSUs are added to the participant's LTIP account.

PSU grants vest on the 3rd anniversary of the grant date. Grants made throughout the year to new participants retain the same vesting dates as annual grants.

During the 13-week period ended August 2, 2009, 5,031 DSUs (August 3, 2008 – 4,769) were issued and \$544,000 (August 3, 2008 - \$422,000 credit) was charged to compensation expense. For the 26-week period ended August 2, 2009, 10,667 DSUs (August 3, 2008 – 9,513) were issued under this plan, and \$1,126,000 was charged to compensation expense (August 3, 2008 - \$96,000 credit).

During the 13-week period ended August 2, 2009, 4,491 PSUs (August 3, 2008 – 1,287) were issued and \$283,000 (August 3, 2008 – \$56,000) was charged to compensation expense. For the 26-week period ended August 2, 2009, 230,733 PSUs (August 3, 2008 – 144,080) were issued and \$81,000 was credited to compensation expense, due to a reduction in the fair value of units (August 3, 2008 - \$1,625,000 expense).

During the 13-week period ended August 2, 2009, 32,218 RSUs (August 3, 2008 – 1,020) were issued and \$356,000 (August 3, 2008 - \$21,000 credit) was charged to compensation expense. For the 26-week period ended August 2, 2009, 107,016 RSUs (August 3, 2008 – 44,325) were issued under this plan and \$567,000 in compensation expense was recognized (August 3, 2008 - \$478,000).

These units (DSUs, RSUs and PSUs) are accounted for as liability-classified awards and are measured at their intrinsic value on the date of issuance, and re-measured at each reporting period, until settlement.

As at August 2, 2009, the Company has recorded a total amount payable for all units outstanding of \$3,574,000 (August 3, 2008 - \$2,526,000) of which \$2,190,000 relates to DSUs.

**(e) 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 13 weeks ended		For the 26 weeks ended	
	August 2, 2009	August 3, 2008	August 2, 2009	August 3, 2008
Weighted average number of Class A shares outstanding (basic)	30,524	31,362	30,496	32,128
Effective of dilutive securities	-	131	-	-
Weighted average number of Class A shares outstanding (diluted)	30,524	31,493	30,496	32,128

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

	For the 13 weeks ended		For the 26 weeks ended	
	August 2, 2009	August 3, 2008	August 2, 2009	August 3, 2008
Anti-dilutive options	743	1,277	756	607

**(f) Dividends**

On September 8, 2009, the Company declared a dividend of \$0.075 per Class A common share, payable on November 2, 2009 to shareholders of record on October 19, 2009. The Company's stated intention is to declare annual dividends of \$0.30 per share, payable quarterly, subject to the Board of Directors discretion.

The Company has declared quarterly dividends of \$0.075 per Class A common share, payable to shareholders of record as follows:

<b>Date Declared</b>	<b>For Shareholders of Record Dated</b>
April 7, 2009	April 20, 2009
June 9, 2009	July 20, 2009
September 8, 2009	October 19, 2009

All dividends paid by the Company are, pursuant to subsection 89 (14) of the Income Tax Act (Canada), designated as eligible dividends. An eligible dividend paid to a Canadian resident is entitled to the enhanced dividend tax credit.

## 4. Supplementary Cash Flow Information

	For the 13 weeks ended		For the 26 weeks ended	
	August 2, 2009	August 3, 2009	August 2, 2009	August 3, 2009
Rent expense				
Straight-line rent expense	\$ (43)	\$ (76)	\$ (87)	\$ (67)
Non-cash free rent	134	59	146	71
	\$ 91	\$ (17)	\$ 59	\$ 4
Change in non-cash elements of working capital related to operating activities				
Accounts receivable	\$ 30,532	\$ 24,083	\$ (22,047)	\$ (25,677)
Inventory	(3,370)	4,764	(49,670)	(21,353)
Prepaid expenses	12,171	1,501	(1,613)	(82)
Financial Instruments	233	(44)	(1,427)	13
Accounts payable and accrued liabilities	(48,206)	(44,984)	(4,848)	(23,408)
Non-cash free rent	224	(42)	210	(49)
Change in fair-value of cash flow hedge	(109)	(24)	(1,016)	31
	\$ (8,525)	\$ (14,746)	\$ (80,411)	\$ (70,525)
Change in non-cash elements of financing activities				
Lease inducements	\$ (864)	\$ (139)	\$ (863)	\$ (139)
Long-term debt	-	(50,000)	3,170	(50,000)
Net financial assets	89	20	1,472	(12)
	\$ (775)	\$ (50,119)	\$ 3,779	\$ (50,151)
Change in non-cash elements of investing activities				
Capital assets	\$ 506	\$ 122	\$ 507	\$ 122
Other assets	110	-	110	-
Contingent consideration on asset purchase (Note 9)	-	-	(4,093)	-
	\$ 616	\$ 122	\$ (3,476)	\$ 122
Cash interest paid	\$ 409	\$ 1,007	\$ 1,334	\$ 1,730
Net cash taxes paid (Note 10)	\$ 1,696	\$ 7,528	\$ 1,426	\$ 22,182

## 5. Capital Disclosures

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The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to deploy capital to provide an appropriate return on investment to its shareholders. The Company's overall strategy remains unchanged from the prior year. The capital structure of the Company consists of cash, short and long-term debt and shareholders' equity comprised of retained earnings and share capital. The Company manages its capital structure and makes adjustments to it in light of economic conditions and the risk characteristics of the underlying assets. The Company's primary uses of capital are to finance non-cash working capital requirements, capital expenditures and acquisitions, which are currently funded from its internally-generated cash flows. The Company is in compliance with all externally imposed capital requirements, including its debt covenant.

## 6. Financial Instruments and Hedges

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### **Financial Instruments**

Financial assets and financial liabilities are initially recorded at fair value and are subsequently measured based on their classification as described below. The Company classifies its financial instruments into various categories based on the purpose for which the financial instruments were acquired and their characteristics.

#### *Held-for-trading*

Financial assets that are purchased and held with the intention of generating profits in the short-term are classified as held-for-trading. These investments are accounted for at fair value with the change in fair value recognized in net earnings during the period. Cash and cash equivalents and any derivatives not designated as hedges are classified as held for trading as of August 2, 2009.

#### *Held-to-maturity*

Securities that have a fixed maturity date and which the Company has a positive intention and ability to hold to maturity are classified as held-to-maturity and are accounted for at amortized cost using the effective interest rate method. The Company does not recognize gains and losses arising from changes in the fair value of these instruments until the gains and losses are realized, or there is impairment in the value of an asset. When recognized, such gains and losses are recorded directly in net income. No investments are classified as held-to-maturity investments.

#### *Available-for-sale*

Available-for sale investments are carried at fair market value, except where the instrument does not have a quoted market price in an active market, with foreign exchange and revaluation gains and losses included in other comprehensive income or loss until the gains and losses are realized when equities are sold in the market or there is impairment in the value. The Company does not have any assets classified as available-for-sale.

### *Loans and Receivables*

The Company's accounts receivable are classified as current assets and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of trade receivables is at amortized cost, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

### *Other Financial Liabilities*

Accounts payable, accrued liabilities, dividends payable, long-term debt and revolving credit facilities are classified as other financial liabilities and are measured at amortized cost.

### *Fair Value of Financial Instruments*

The Company has determined that the fair value of its cash, accounts receivable and financial liabilities (trade payables and accrued liabilities) approximates their respective carrying amounts as at the balance sheet dates due to their short-term nature.

The Company has determined the fair value of the current and long term portions of its mortgage debts are \$6,250,000 in aggregate versus a carrying value of \$5,295,000. The change in fair value is created by movements in interest rates for similar maturity debt instruments which are used to discount the remaining payment obligations of the Company's mortgage debts.

### *Risks*

Exposure to credit risk and interest rate risk arises 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.

As at August 2, 2009, the aging of the accounts receivable is as follows:

Current	\$	96,479
Past due 1 - 60 days		2,660
Past due 61 days and over		8,610
Accounts receivable		107,749
Less: allowance for doubtful accounts		(1,247)
	\$	106,502

## **ii. Interest rate risk**

The Company is exposed to interest rate risk on the credit facility as the rate is based on an index rate and on the Company's financial performance as determined by its interest coverage ratio. As at August 2, 2009, the interest rate paid was bank prime less 0.45%.

On August 2, 2009, a 25 basis point increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a \$200,000 increase or decrease in the company's net earnings for the 13 weeks ended August 2, 2009.

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

## **iii. Asset backed exposure**

The Company has no exposure to asset-backed securities.

## **iv. Exchange risk**

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 loss in the consolidated statement of comprehensive earnings (loss) for the thirteen week period ended August 2, 2009 of \$109,000 (August 3, 2008 - \$24,000) relating to foreign currency contracts that qualify for hedge accounting.

The outstanding forward buy foreign exchange contracts to which hedge accounting was applied at August 2, 2009 have notional amounts of \$2,178,000 (August 3, 2008 - \$4,710,000) and terms ranging from August 21, 2009 to February 5, 2010 at forward rates ranging from \$1.0783 to \$1.0789.

Items currently reported in AOCE will be reclassified to net earnings when the hedge is settled and the related non-financial asset is expensed or when a hedge is deemed ineffective and the hedged item has settled.

On August 2, 2009, a 1% increase or decrease in the exchange rate of the Canadian dollar compared to the U.S. dollar, assuming all other variables are constant, would have resulted in a \$33,000 change in the Company's net earnings for the 13 weeks ended August 2, 2009.

## **v. Liquidity risk**

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company manages its liquidity risk through cash and debt management. See Note 5 for a more detailed discussion.

## 7. 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 13 weeks ended		For the 26 weeks ended	
	August 2, 2009	August 3, 2008	August 2, 2009	August 3, 2008
		(Restated-Note1)		(Restated-Note1)
Revenues:				
Retail	\$ 216,257	\$ 221,290	\$ 417,588	\$ 431,620
Wholesale	80,268	74,272	186,650	171,432
	\$ 296,525	\$ 295,562	\$ 604,238	\$ 603,052
Operating Profit:				
Retail	\$ 15,123	\$ 18,382	\$ 29,825	\$ 29,282
Wholesale	6,583	7,381	15,499	16,981
	21,706	25,763	45,324	46,263
Non-segment specific administrative expenses	14,818	10,902	26,936	23,721
Operating profit before under noted items	6,888	14,861	18,388	22,542
Amortization of capital assets	12,789	11,406	25,067	22,522
Interest expense	407	1,055	1,334	1,959
	13,196	12,461	26,401	24,481
Earnings (loss) before income taxes	(6,308)	2,400	(8,013)	(1,939)
Income tax expense (recovery)	(1,896)	840	(2,484)	(678)
Net earnings (loss) for the period	\$ (4,412)	\$ 1,560	\$ (5,529)	\$ (1,261)

As at	August 2, 2009	February 1, 2009	August 3, 2008
		(Restated-Note1)	(Restated-Note1)
<b>Accounts receivable</b>			
Retail	\$ 672	\$ 617	\$ 1,978
Wholesale	92,691	74,031	79,308
Non-segment specific	13,139	9,807	19,897
	<b>\$ 106,502</b>	<b>\$ 84,455</b>	<b>\$ 101,183</b>
<b>Capital assets</b>			
Retail	\$ 180,423	\$ 172,146	\$ 168,128
Wholesale	20,665	21,262	21,082
Non-segment specific	3,032	3,357	2,861
	<b>\$ 204,120</b>	<b>\$ 196,765</b>	<b>\$ 192,071</b>
<b>Goodwill and other intangibles/Other assets</b>			
Retail	\$ 75,970	\$ 73,162	\$ 60,245
Wholesale	25,154	23,263	27,804
Non-segment specific	3,024	3,554	7,005
	<b>\$ 104,148</b>	<b>\$ 99,979</b>	<b>\$ 95,054</b>
<b>Total assets</b>			
Retail	\$ 534,228	\$ 476,711	\$ 512,717
Wholesale	186,792	169,915	179,251
Non-segment specific	53,534	42,331	65,066
	<b>\$ 774,554</b>	<b>\$ 688,957</b>	<b>\$ 757,034</b>

## 8. Employee Benefits Plan

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The Company has a defined contribution plan and an employee profit sharing plan. Defined contributions are paid to employee retirement savings plans and are expensed when incurred.

Under the employee profit sharing plan, the Company creates a pool of funds to distribute to participating employees on a predetermined basis. Distributions are tied to the value of the Company's Class "A" shares and the employees' achievement of individual financial and operational targets. Payouts under the employee profit sharing plan are made annually. The deferred profit sharing contributions were previously paid to a Trustee for the purchase of shares of the Company and then distributed to participating employees on a predetermined basis, upon retirement from the Company. Contributions to both the employee profit sharing plan and previously to the deferred profit sharing plan are recognized as an expense when incurred.

During the 13-week period ended August 2, 2009, the Company has expensed \$312,000 (August 3, 2008 - \$291,000) to the defined contribution plan and recorded a net credit of \$3,000 (August 3, 2008 - \$112,000 expense) for the employee profit sharing plan. During the 26-week period ended August 2, 2009, the Company has expensed \$710,000 (August 3, 2008 - \$622,000) to the defined contribution plan and taken a net credit of \$597,000 for the employee profit sharing plan as financial and operational targets were not met in the prior year and no resulting payment was required under the plan (August 3, 2008 - \$214,000 expense).

## 9. Acquisition

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Effective February 18, 2009, the Company completed an asset purchase for certain snowboard industry trademarks, domain names and inventory, for total expected consideration of \$5,038,000, payable over 5 years on the completion of certain performance measures.

The assigned fair values of the underlying assets and liabilities acquired by the Company as at February 18, 2009, are summarized as follows:

Inventory	\$	506
Capital assets		41
Intangible asset - trademark		4,042
Intangible asset - domain name		449
<u>Total assets acquired</u>	<u>\$</u>	<u>5,038</u>
Consideration given:		
Cash	\$	945
Contingent consideration		4,093
<u>Total Consideration</u>	<u>\$</u>	<u>5,038</u>

## 10. Income Taxes

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During the period ended August 2, 2009, the Company received a \$1,635,000 refund of prior year instalment payments as a result of the utilization of certain loss carry forwards. For the period ended August 2, 2009, the Company has recorded a tax receivable balance of \$11,337,000 (August 3, 2008 – (\$11,264,000)) which is included within accounts receivable.

## 11. Comparative Figures

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