

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

As at	November 1, 2009	February 1, 2009 (Restated)	November 2, 2008 (Restated)
<b>ASSETS</b>			
Current			
Cash	\$ 2,817	\$ 3,474	\$ 1,996
Accounts receivable (Note 6)	163,270	84,455	154,455
Inventory	394,462	291,497	378,978
Prepaid expenses	5,305	2,827	2,863
	<b>565,854</b>	<b>382,253</b>	<b>538,292</b>
Capital assets	205,634	196,765	191,761
Goodwill and other intangibles (Note 1)	96,003	91,434	91,452
Other assets	6,943	8,545	7,589
Future income tax asset	9,107	9,960	16,322
	<b>\$ 883,541</b>	<b>\$ 688,957</b>	<b>\$ 845,416</b>
<b>LIABILITIES</b>			
Current			
Indebtedness under revolving credit facility	\$ 90,125	\$ 17,130	\$ 90,643
Accounts payable and accrued liabilities	405,029	277,820	381,214
Current portion of long-term debt (Note 11)	-	7,501	2,398
	<b>495,154</b>	<b>302,451</b>	<b>474,255</b>
Long-term debt (Note 11)	5,945	126	4,623
Deferred lease inducements	44,682	47,811	49,824
Deferred rent liability	5,716	5,893	5,927
	<b>551,497</b>	<b>356,281</b>	<b>534,629</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 3)	149,258	147,161	147,161
Contributed surplus	5,988	6,401	6,401
Accumulated other comprehensive earnings	103	863	928
Retained earnings	176,695	178,251	156,297
	<b>332,044</b>	<b>332,676</b>	<b>310,787</b>
	<b>\$ 883,541</b>	<b>\$ 688,957</b>	<b>\$ 845,416</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 39 weeks ended	
	November 1, 2009	November 2, 2008 (Restated)	November 1, 2009	November 2, 2008 (Restated)
<b>Revenue</b>				
Retail	\$ 255,305	\$ 245,325	\$ 672,893	\$ 676,945
Wholesale	125,780	117,569	312,430	289,001
	<b>381,085</b>	<b>362,894</b>	<b>985,323</b>	<b>965,946</b>
Cost of sales	250,126	241,948	647,654	633,835
<b>Gross margin</b>	<b>130,959</b>	<b>120,946</b>	<b>337,669</b>	<b>332,111</b>
<b>Operating and administrative expenses</b>				
Store operating	72,431	66,302	208,430	202,545
General and administrative	27,519	27,310	79,842	79,690
	<b>99,950</b>	<b>93,612</b>	<b>288,272</b>	<b>282,235</b>
<b>Operating earnings before undernoted items</b>	<b>31,009</b>	<b>27,334</b>	<b>49,397</b>	<b>49,876</b>
Amortization of capital assets	13,846	11,983	38,910	34,504
Interest	664	2,609	2,001	4,568
	<b>14,510</b>	<b>14,592</b>	<b>40,911</b>	<b>39,072</b>
<b>Earnings before income taxes</b>	<b>16,499</b>	<b>12,742</b>	<b>8,486</b>	<b>10,804</b>
<b>Income tax expense</b>				
Current	3,456	5,668	1,778	5,095
Future	1,659	427	853	323
	<b>5,115</b>	<b>6,095</b>	<b>2,631</b>	<b>5,418</b>
<b>Net earnings for the period</b>	<b>\$ 11,384</b>	<b>\$ 6,647</b>	<b>\$ 5,855</b>	<b>\$ 5,386</b>
<b>Basic and diluted earnings per share</b>	<b>\$ 0.37</b>	<b>\$ 0.22</b>	<b>\$ 0.19</b>	<b>\$ 0.17</b>

See accompanying notes to the consolidated financial statements

# 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 13 weeks ended		For the 39 weeks ended	
	November 1, 2009	November 2, 2008	November 1, 2009	November 2, 2008
		(Restated)		(Restated)
Retained earnings, beginning of period	\$ 168,145	\$ 152,567	\$ 178,251	\$ 191,176
Adjustment arising from adoption of new accounting policies (Note 1)	-	(633)	-	(2,161)
Adjusted Retained earnings, beginning of period	168,145	151,934	178,251	189,015
Net earnings	11,384	6,647	5,855	5,386
Dividends (Note 3(f))	(2,299)	(2,284)	(6,876)	(7,042)
Adjustment arising from shares purchased under a normal course issuer bid (Note 3(b))	(535)	-	(535)	(31,062)
<b>Retained earnings, end of period</b>	<b>\$ 176,695</b>	<b>\$ 156,297</b>	<b>\$ 176,695</b>	<b>\$ 156,297</b>

Consolidated Statements of Comprehensive Earnings	For the 13 weeks ended		For the 39 weeks ended	
	November 1, 2009	November 2, 2008	November 1, 2009	November 2, 2008
Net earnings	\$ 11,384	\$ 6,647	\$ 5,855	\$ 5,386
Other comprehensive earnings (loss):				
Unrealized foreign currency gains (loss) on cash flow hedges	371	1,391	(1,101)	1,439
Tax impact	(115)	(486)	341	(503)
Other comprehensive earnings (loss)	256	905	(760)	936
<b>Comprehensive earnings</b>	<b>\$ 11,640</b>	<b>\$ 7,552</b>	<b>\$ 5,095</b>	<b>\$ 6,322</b>

Consolidated Statements of Accumulated Other Comprehensive Earnings ("AOCE")	For the 13 weeks ended		For the 39 weeks ended	
	November 1, 2009	November 2, 2008	November 1, 2009	November 2, 2008
Accumulated other comprehensive earnings (loss), beginning of period	\$ (153)	\$ 23	\$ 863	\$ (8)
Other comprehensive earnings (loss)	256	905	(760)	936
<b>Accumulated other comprehensive earnings, end of period</b>	<b>\$ 103</b>	<b>\$ 928</b>	<b>\$ 103</b>	<b>\$ 928</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 39 weeks ended	
	November 1, 2009	November 2, 2008	November 1, 2009	November 2, 2008
		(Restated)		(Restated)
<b>Cash provided by (used in) operating activities</b>				
Net earnings for the period	\$ 11,384	\$ 6,647	\$ 5,855	\$ 5,386
Items not involving cash:				
Amortization of capital assets	13,846	11,983	38,910	34,504
Amortization of deferred finance charges	41	37	121	330
Amortization of deferred lease inducements	(2,666)	(2,821)	(8,524)	(8,591)
Rent expense (Note 4)	33	70	92	74
Stock-based compensation	24	(1,120)	55	(174)
Future income tax expense	1,659	427	853	323
Unrealized loss on ineffective hedges	149	345	104	344
	24,470	15,568	37,466	32,196
<b>Changes in non-cash elements of working capital related to operating activities (Note 4)</b>	22,158	40,374	(58,254)	(30,151)
	46,628	55,942	(20,788)	2,045
<b>Cash provided by (used in) financing activities</b>				
Proceeds from issuance of share capital	389	-	1,970	2,384
Share repurchase via normal course issuer bid (Note 3(b))	(876)	-	(876)	(44,027)
Long-term debt	(6,248)	(879)	(5,376)	(1,762)
Revolving credit facility	(24,386)	(38,801)	72,995	90,643
Dividends paid	(2,299)	(2,284)	(6,876)	(7,042)
Lease inducements received	1,442	2,028	5,395	3,327
	(31,978)	(39,936)	67,232	43,523
<b>Changes in non-cash elements of financing activities (Note 4)</b>	(1,225)	(1,460)	3,079	(51,611)
	(33,203)	(41,396)	70,311	(8,088)
<b>Cash provided by (used in) investing activities</b>				
Capital assets	(15,200)	(11,538)	(47,260)	(34,611)
Other assets	(366)	(2,373)	(551)	(2,402)
Acquisition of assets (Note 9)	-	-	(945)	-
	(15,566)	(13,911)	(48,756)	(37,013)
<b>Changes in non-cash elements of investing activities (Note 4)</b>	2,053	(1,429)	(1,424)	(2,432)
	(13,513)	(15,340)	(50,180)	(39,445)
Decrease in cash	(88)	(794)	(657)	(45,488)
Cash position, opening	2,905	2,790	3,474	47,484
<b>Cash position, closing</b>	\$ 2,817	\$ 1,996	\$ 2,817	\$ 1,996

See accompanying notes to the consolidated financial statements

# The Forzani Group Ltd.

Notes to the 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 November 1, 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 fiscal 2009 opening inventory 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>November 2, 2008</b>
<b>Increase (decrease) (000's)</b>		
<b>Assets</b>		
Goodwill and other intangibles	\$ (47)	\$ (47)
Other assets	(735)	(834)
Future income tax asset	279	309
	<b>\$ (503)</b>	<b>\$ (572)</b>
<b>Shareholders' Equity</b>		
Retained earnings, opening	\$ (804)	\$ (804)
Net income for the period	301	232
Retained earnings, ending	<b>\$ (503)</b>	<b>\$ (572)</b>
<b>Consolidated Earnings</b>		For the 39 weeks ended November 2, 2008
Net earnings for the period as previously stated before the following items:		\$ 5,154
Adjustments to:		
Depreciation and amortization		357
Income tax		(125)
		232
Net earnings for the period		<b>\$ 5,386</b>
Net earnings per share – basic and diluted		<b>\$ 0.17</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

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### **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.

### **Financial Instruments – Disclosures (CICA Section 3862)**

As of February 1, 2010, the Company will be required to adopt new disclosure standards with respect to financial instruments. The new section amends previously issued guidance to include additional disclosure requirements about fair value measurements of financial instruments and liquidity risk. The Company is currently evaluating the future impact of this amendment on its consolidated financial statements.

### **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**

Class A shares	Number	Consideration
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>
Shares issued upon employees exercising stock options	38	\$ 389
Stock-based compensation related to options exercised	-	92
Shares redeemed pursuant to normal course issuer bid	(70)	(341)
<b>Balance November 1, 2009</b>	<b>30,590</b>	<b>\$ 149,258</b>

During the 13-week and 39-week periods ended November 1, 2009, 70,000 (November 2, 2008 – nil and 2,694,376 respectively) Class A shares were repurchased and cancelled pursuant to the Company's Normal Course Issuer Bid for a total expenditure of \$876,000 or \$12.52 per share, and consideration in excess of stated value of \$535,000 (amount paid less stated value of \$341,000) was charged to retained earnings. Total expenditures incurred in the corresponding fiscal 2009 periods were \$Nil 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 November 1, 2009, there were no options of this type issued (November 2, 2008 – Nil) and no stock-based compensation expense was recognized (November 2, 2008 – \$Nil). For the 39-week period ended November 1, 2009, there were no options of this type issued (November 2, 2008 – Nil) and \$Nil in stock based compensation expense was recognized (November 2, 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 November 1, 2009, there were no options of this type issued (November 2, 2008 – Nil) and no stock-based compensation expense was recognized (November 2, 2008 - \$Nil). For the 39-week period ended November 1, 2009, there were no options of this type issued (November 2, 2008 – 120,000) and no stock-based compensation expense was recognized (November 2, 2008 - \$383,000).

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 November 1, 2009, 370 TSARs (November 2, 2008 – 1,900) were issued and \$150,000 was charged to stock-based compensation expense (November 2, 2008 - \$1,120,000 credit). For the 39-week period ended November 1, 2009, 564,660 TSARs (November 2, 2008 – 264,760) were issued and \$525,000 was charged to stock-based compensation expense (November 2, 2008 - \$582,000 credit). As a cash-settled award, TSARs are a liability-classified plan, and are recorded within Accounts Payable.

As at November 1, 2009, there were 2,020,269 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 1,174,198 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
370	13.41	3.63	1.87%	3	43.48%	2.237%

\*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 39-week period ended November 1, 2009:

	Number
Opening	1,695
Granted	565
Exercised	(192)
Forfeited	(48)
<b>Closing</b>	<b>2,020</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 November 1, 2009, 4,564 DSUs (November 2, 2008 – 5,170) were issued and \$143,000 (November 2, 2008 - \$640,000 credit) was credited to compensation expense. For the 39-week period ended November

1, 2009, 15,231 DSUs (November 2, 2008 – 14,683) were issued under this plan, and \$983,000 was charged to compensation expense (November 2, 2008 - \$736,000 credit).

During the 13-week period ended November 1, 2009, 1,425 PSUs (November 2, 2008 – 993) were issued and \$210,000 was charged to compensation expense (November 2, 2008 – \$18,000 credit). For the 39-week period ended November 1, 2009, 232,158 PSUs (November 2, 2008 – 145,073) were issued and \$130,000 was charged to compensation expense (November 2, 2008 - \$1,606,000 charge).

During the 13-week period ended November 1, 2009, 883 RSUs (November 2, 2008 – 884) were issued and \$200,000 (November 2, 2008 - \$2,000) was charged to compensation expense. For the 39-week period ended November 1, 2009, 107,899 RSUs (November 2, 2008 – 45,209) were issued under this plan and \$767,000 in compensation expense was recognized (November 2, 2008 - \$480,000 charge).

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 November 1, 2009, the Company has recorded a total amount payable for all units outstanding of \$3,967,000 (November 2, 2008 - \$2,102,000) of which \$2,047,000 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 39 weeks ended	
	November 1, 2009	November 2, 2008	November 1, 2009	November 2, 2008
Weighted average number of Class A shares outstanding (basic)	30,639	30,468	30,544	31,575
Effective of dilutive securities	58	37	36	94
Weighted average number of Class A shares outstanding (diluted)	30,697	30,505	30,580	31,669

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 39 weeks ended	
	November 1, 2009	November 2, 2008	November 1, 2009	November 2, 2008
Anti-dilutive options	743	1,381	757	1,153

**(f) Dividends**

On December 10, 2009, the Company declared a dividend of \$0.075 per Class "A" common share, payable on February 1, 2010 to shareholders of record on January 18, 2010. 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
December 10, 2009	January 18, 2010

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 39 weeks ended	
	November 1, 2009	November 2, 2008	November 1, 2009	November 2, 2008
Rent expense				
Straight-line rent expense	\$ (90)	\$ (42)	\$ (177)	\$ (109)
Non-cash free rent	123	112	269	183
	\$ 33	\$ 70	\$ 92	\$ 74
Change in non-cash elements of working capital related to operating activities				
Accounts receivable	\$ (56,768)	\$ (53,272)	\$ (78,815)	\$ (78,949)
Inventory	(52,789)	(44,374)	(102,459)	(65,727)
Prepaid expenses	(865)	11,720	(2,478)	11,638
Financial Instruments	222	662	(1,206)	675
Accounts payable and accrued liabilities	132,057	124,733	127,209	101,276
Non-cash free rent	45	-	255	-
Change in fair-value of cash flow hedge	256	905	(760)	936
	\$ 22,158	\$ 40,374	\$ (58,254)	\$ (30,151)
Change in non-cash elements of financing activities				
Lease inducements	\$ (854)	\$ (453)	\$ (1,717)	\$ (592)
Long-term debt	-	-	3,694	(50,000)
Net financial assets	(371)	(1,007)	1,102	(1,019)
	\$ (1,225)	\$ (1,460)	\$ 3,079	\$ (51,611)
Change in non-cash elements of investing activities				
Capital assets	\$ 686	\$ 319	\$ 1,193	\$ 441
Other assets	1,367	(1,748)	1,476	(2,873)
Contingent consideration on asset purchase (Note 9)	-	-	(4,093)	-
	\$ 2,053	\$ (1,429)	\$ (1,424)	\$ (2,432)
Cash interest paid	\$ 623	\$ 1,315	\$ 1,875	\$ 3,045
Net cash taxes paid (recovered) (Note 10)	\$ (2,818)	\$ 912	\$ (4,244)	\$ 23,094

## 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 November 1, 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, accrued liabilities and indebtedness under revolving credit facility) approximates their respective carrying amounts as at the balance sheet dates due to their short-term nature.

### *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 November 1, 2009, the aging of the accounts receivable is as follows:

	November 1, 2009	November 2, 2008
Current	\$ 150,023	\$ 142,086
Past due 1 - 60 days	1,965	8,442
Past due 61 days and over	12,746	5,121
Accounts receivable	164,734	155,649
Less: allowance for doubtful accounts	(1,464)	(1,194)
	\$ 163,270	\$ 154,455

## **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 November 1, 2009, the interest rate paid was bank prime less 0.45%.

A 25 basis point increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a \$227,000 increase or decrease in the Company's net earnings for the 13 weeks ended November 1, 2009.

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

## **iii. 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 gain in the consolidated statement of comprehensive earnings for the thirteen week period ended November 1, 2009 of \$371,000 (November 2, 2008 - \$1,391,000) relating to foreign currency contracts that qualify for hedge accounting.

The outstanding forward buy foreign exchange contracts to which hedge accounting was applied at November 1, 2009 have notional amounts of \$12,826,000 (November 2, 2008 - \$3,418,000) and terms ranging from November 27, 2009 to May 28, 2010 at forward rates ranging from \$1.0528 to \$1.2199.

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.

A 1% change 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 \$15,000 change in the Company's net earnings for the 13 weeks ended November 1, 2009.

## **iv. 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 39 weeks ended	
	November 1, 2009	November 2, 2008	November 1, 2009	November 2, 2008
		(Restated)		(Restated)
Revenues:				
Retail	\$ 255,305	\$ 245,325	\$ 672,893	\$ 676,945
Wholesale	125,780	117,569	312,430	289,001
	\$ 381,085	\$ 362,894	\$ 985,323	\$ 965,946
Operating Profit:				
Retail	\$ 31,827	\$ 29,063	\$ 61,652	\$ 58,345
Wholesale	13,423	12,730	28,922	29,711
	45,250	41,793	90,574	88,056
Non-segment specific administrative expenses	14,241	14,459	41,177	38,180
Operating profit before under noted items	31,009	27,334	49,397	49,876
Amortization of capital assets	13,846	11,983	38,910	34,504
Interest	664	2,609	2,001	4,568
	14,510	14,592	40,911	39,072
Earnings before income taxes	16,499	12,742	8,486	10,804
Income tax expense	5,115	6,095	2,631	5,418
Net earnings for the period	\$ 11,384	\$ 6,647	\$ 5,855	\$ 5,386

As at	November 1, 2009	February 1, 2009	November 2, 2008
		(Restated)	(Restated)
<b>Accounts receivable</b>			
Retail	\$ 446	\$ 617	\$ 1,727
Wholesale	157,108	74,031	142,625
Non-segment specific	5,716	9,807	10,103
	<b>\$ 163,270</b>	<b>\$ 84,455</b>	<b>\$ 154,455</b>
<b>Capital assets</b>			
Retail	\$ 183,298	\$ 172,146	\$ 167,914
Wholesale	19,562	21,262	21,132
Non-segment specific	2,774	3,357	2,715
	<b>\$ 205,634</b>	<b>\$ 196,765</b>	<b>\$ 191,761</b>
<b>Goodwill and other intangibles/Other assets</b>			
Retail	\$ 82,940	\$ 73,162	\$ 64,711
Wholesale	16,653	23,263	29,119
Non-segment specific	3,353	3,554	5,211
	<b>\$ 102,946</b>	<b>\$ 99,979</b>	<b>\$ 99,041</b>
<b>Total assets</b>			
Retail	\$ 579,883	\$ 476,711	\$ 549,350
Wholesale	238,486	169,915	241,003
Non-segment specific	65,172	42,331	55,063
	<b>\$ 883,541</b>	<b>\$ 688,957</b>	<b>\$ 845,416</b>

## 8. Employee Benefits Plan

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

The 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 the profit sharing plans were recognized as an expense when incurred.

During the 13-week period ended November 1, 2009, the Company has expensed \$317,000 (November 2, 2008 - \$254,000) to the defined contribution plan and \$Nil (November 2, 2008 - \$124,000 expense) for the profit sharing plans. During the 39-week period ended November 1, 2009, the Company has expensed \$1,027,000 (November 2, 2008 - \$875,000) to the defined contribution plan and taken a net credit of \$597,000 for the profit sharing plans as financial and operational targets were not met in the prior year and no resulting payment was required. (November 2, 2008 - \$337,000 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 - trademarks		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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As at November 1, 2009, the Company has recorded a tax receivable balance of \$4,902,000 (November 2, 2008 – \$11,874,000) which is included within accounts receivable. During the 13 and 39 week periods ended November 1, 2009, the Company received a net cash tax refund of tax instalments of \$2,818,000 and \$4,244,000 respectively.

## 11. Long Term Debt

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On October 30, 2009, the Company repaid in full its outstanding mortgage on its Laval office property of \$5,213,000 (February 1, 2009 - \$5,458,000). The remainder of the long term debt consists of contingent purchase consideration, the current portion of which has yet to be earned.

## 12. Comparative Figures

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