

The Forzani Group Ltd.

Consolidated Balance Sheets
(in thousands)
(unaudited)

As at	August 3, 2008	February 3, 2008	July 29, 2007
ASSETS			
Current			
Cash and cash equivalents	\$ 2,790	\$ 47,484	\$ 744
Accounts receivable	101,183	75,506	107,778
Inventory (Note 1)	334,604	319,445	323,479
Prepaid expenses	14,583	14,501	4,649
	453,160	456,936	436,650
Capital assets	192,071	188,621	184,895
Goodwill and other intangibles	91,517	89,335	89,501
Other assets	4,511	3,863	4,373
Future income tax asset	16,408	16,209	272
	\$ 757,667	\$ 754,964	\$ 715,691
LIABILITIES			
Current			
Indebtedness under revolving credit facility	\$ 129,444	\$ -	\$ 18,809
Accounts payable and accrued liabilities	256,502	279,910	238,856
Current portion of long-term debt	3,187	51,863	51,474
	389,133	331,773	309,139
Long-term debt	4,675	6,586	6,760
Deferred lease inducements	50,618	55,089	55,429
Deferred rent liability	5,969	6,033	6,003
	450,395	399,481	377,331
SHAREHOLDERS' EQUITY			
Share capital (Note 3)	147,161	157,105	161,902
Contributed surplus	7,521	7,210	7,049
Accumulated other comprehensive earnings (loss)	23	(8)	-
Retained earnings (Note 1)	152,567	191,176	169,409
	307,272	355,483	338,360
	\$ 757,667	\$ 754,964	\$ 715,691

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 thirteen weeks ended		For the twenty-six weeks ended	
	August 3, 2008	July 29, 2007	August 3, 2008	July 29, 2007
Revenue				
Retail	\$ 221,290	\$ 212,107	\$ 431,620	\$ 406,300
Wholesale	74,272	80,274	171,432	180,637
	295,562	292,381	603,052	586,937
Cost of sales	189,808	190,268	391,887	386,787
Gross margin	105,754	102,113	211,165	200,150
Operating and administrative expenses				
Store operating	65,833	58,946	136,243	116,486
General and administrative	25,060	22,227	52,380	48,265
	90,893	81,173	188,623	164,751
Operating earnings before undernoted items	14,861	20,940	22,542	35,399
Amortization of capital assets	11,535	10,850	22,785	21,902
Interest	1,055	1,536	1,959	2,906
Loss on sale of investment	-	-	-	864
	12,590	12,386	24,744	25,672
Earnings (loss) before income taxes	2,271	8,554	(2,202)	9,727
Income tax expense (recovery)				
Current	395	3,281	(571)	3,719
Future	400	(155)	(199)	(159)
	795	3,126	(770)	3,560
Net earnings (loss) for the period	\$ 1,476	\$ 5,428	\$ (1,432)	\$ 6,167
Basic and diluted earnings (loss) per share (Note 3)	\$ 0.05	\$ 0.16	\$ (0.04)	\$ 0.18

see accompanying notes

The Forzani Group Ltd.

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

Consolidated Statement of Retained Earnings	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 3, 2008	July 29, 2007	August 3, 2008	July 29, 2007
Retained earnings, beginning of period	\$ 176,377	\$ 165,866	\$ 191,176	\$ 171,095
Adjustment arising from adoption of new accounting policy (Note 1)	-	-	(1,357)	-
Adjusted Retained earnings, beginning of period	176,377	165,866	189,819	171,095
Net earnings (loss)	1,476	5,428	(1,432)	6,167
Dividends (Note 3(e))	(2,285)	-	(4,758)	-
Adjustment arising from shares purchased under a normal course issuer bid (Note 3(b))	(23,001)	(1,885)	(31,062)	(7,853)
Retained earnings, end of period	\$ 152,567	\$ 169,409	\$ 152,567	\$ 169,409

Consolidated Statement of Comprehensive Earnings (loss)

Net earnings (loss)	\$ 1,476	\$ 5,428	\$ (1,432)	\$ 6,167
Other comprehensive earnings (loss):				
Unrealized foreign currency gains and losses on cash flow hedges	(37)	3	48	(126)
Tax impact	13	(1)	(17)	47
Other comprehensive earnings (loss)	(24)	2	31	(79)
Comprehensive earnings (loss)	\$ 1,452	\$ 5,430	\$ (1,401)	\$ 6,088

Consolidated Statement of Accumulated Other Comprehensive Earnings (loss) ("AOCE")

Accumulated other comprehensive earnings (loss), beginning of period	\$ 47	\$ (2)	\$ (8)	\$ -
Reclassification of foreign currency translation (transitional adjustment)	-	-	-	79
Accumulated other comprehensive earnings (loss), beginning of period, as restated	47	(2)	(8)	79
Other comprehensive earnings (loss)	(24)	2	31	(79)
Accumulated other comprehensive earnings (loss), end of period	\$ 23	\$ -	\$ 23	\$ -

see accompanying notes

The Forzani Group Ltd.

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

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 3, 2008	July 29, 2007	August 3, 2008	July 29, 2007
Cash provided by (used in) operating activities				
Net earnings (loss) for the period	\$ 1,476	\$ 5,428	\$ (1,432)	\$ 6,167
Items not involving cash:				
Amortization of capital assets	11,535	10,850	22,785	21,902
Amortization of deferred finance charges	114	4	295	179
Amortization of deferred lease inducements	(2,895)	(2,732)	(5,770)	(5,507)
Rent expense (Note 5)	(17)	329	4	455
Stock-based compensation (Note 3(c))	257	117	946	2,262
Future income tax expense (recovery)	400	(155)	(199)	(159)
Loss on sale of investment	-	-	-	864
Unrealized (gain) loss on ineffective hedges	24	(71)	(1)	29
	10,894	13,770	16,628	26,192
Changes in non-cash elements of working capital related to operating activities (Note 5)	(14,722)	(3,245)	(70,556)	(57,641)
	(3,828)	10,525	(53,928)	(31,449)
Cash provided by (used in) financing activities				
Proceeds from issuance of share capital (Note 3(b))	127	6,520	2,384	12,028
Share repurchase via normal course issuer bid (Note 3(b))	(32,953)	(2,355)	(44,027)	(9,910)
Decrease in long-term debt	(790)	(464)	(883)	(1,583)
Increase (decrease) in revolving credit facility	101,998	(5,002)	129,444	18,809
Dividends paid (Note 3(e))	(2,285)	-	(4,758)	-
Lease inducements received	190	214	1,299	2,393
	66,287	(1,087)	83,459	21,737
Changes in non-cash elements of financing activities (Note 5)	(50,143)	(183)	(50,120)	(1,312)
	16,144	(1,270)	33,339	20,425
Cash provided by (used in) investing activities				
Capital assets	(11,736)	(10,003)	(23,073)	(15,003)
Other assets	(857)	413	(1,154)	3,006
	(12,593)	(9,590)	(24,227)	(11,997)
Changes in non-cash elements of investing activities (Note 5)	122	182	122	1,007
	(12,471)	(9,408)	(24,105)	(10,990)
Decrease in cash	(155)	(153)	(44,694)	(22,014)
Cash position, opening	2,945	897	47,484	22,758
Cash position, closing	\$ 2,790	\$ 744	\$ 2,790	\$ 744

see accompanying notes

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

1. Summary of Significant Accounting Policies

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 53-week period ended February 3, 2008.

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 3, 2008, 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 3, 2008 which is not necessarily indicative of performance for the balance of the year.

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

CICA Section 1535, *Capital Disclosures*, establishes disclosure requirements about an entity’s capital and how it is managed. The new standard requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what an entity regards as capital and whether the entity has complied with any externally imposed capital requirements and the consequences of any non-compliance. Additional disclosure required as a result of the adoption of this standard is contained in Note 6.

CICA Sections 3862, *Financial Instruments - Disclosures*, and 3863 *Financial Instruments-Presentation*, replace Section 3861 *Financial Instruments - Disclosure and Presentation*, revising and enhancing disclosure requirements while carrying forward, substantially unchanged, its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Additional disclosure required as a result of the adoption of this standard is contained in Note 7.

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CICA Section 3031, *Inventories*, introduces 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 period and a corresponding adjustment to opening retained earnings by the difference in the measurement of opening inventory. Prior periods have not been restated.

2. Future Accounting Policy

Goodwill and intangible assets:

In November 2007, the CICA issued Section 3064, *Goodwill and Intangible Assets* (“Section 3064”). Section 3064, which replaces Section 3062, *Goodwill and Intangible Assets*, and Section 3450, *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This standard is effective for the Company for interim and annual consolidated financial statements beginning on or after October 1, 2008. The Company is currently assessing the impact that this section will have on its financial position and results of operations.

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 the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting, financial reporting, IT systems and processes as well as certain contractual arrangements. The Company is currently assessing the impact of the transition to IFRS. Training and additional resources will be engaged to ensure the timely conversion to IFRS.

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3. Share Capital

(a) Authorized

An unlimited number of Class A common shares

An unlimited number of Preferred shares, issuable in series

(b) Issued

Class A shares	Number		Consideration
Balance February 3, 2008	32,970	\$	157,105
Shares issued upon employees exercising stock option	182		2,257
Stock-based compensation related to options exercised	-		605
Shares redeemed pursuant to normal course issuer bid	(632)		(3,013)
Balance May 4, 2008	32,520	\$	156,954
Shares issued upon employees exercising stock options	10		127
Stock-based compensation related to options exercised	-		32
Shares redeemed pursuant to normal course issuer bid	(2,062)		(9,952)
Balance August 3, 2008	30,468	\$	147,161

During the 13-week period ended August 3, 2008, 2,062,076 (2008 –102,100) Class A shares were repurchased and cancelled pursuant to the Company's Normal Course Issuer Bid for a total expenditure of \$32,953,000 (2008 –\$2,355,000) or \$15.98 per share, and the consideration in excess of stated value of \$23,001,000 (amount paid of \$32,953,000 less stated value of \$9,952,000) was charged to retained earnings. For the 26-week period ended August 3, 2008, 2,694,376 (2008 – 462,900) Class A shares were repurchased and cancelled for a total expenditure of \$44,027,412 (2008 - \$9,910,222) or \$16.34 per share, and the consideration in excess of stated value of \$31,062,526 was charged to retained earnings.

(c) Stock Option and Unit Plans

As at August 3, 2008, the Company has outstanding stock options to officers and employees to purchase 1,766,583 Class A shares at prices between \$10.25 and \$23.00 per share. These options expire on dates between August 2008 and June 2013.

The Company has three 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 August 3, 2008, there were no options issued under this plan (2008 – Nil) and \$10,031 in stock-based compensation expense was recognized (2008 – \$59,111). For the 26-week period ended August 3, 2008, there were no options (2008 - Nil) issued under this plan and \$25,077 in stock-based compensation expense was recognized (2008 - \$293,215).

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.

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All performance targets related to this plan were achieved in fiscal 2007, and therefore any new grants under this plan vest and are expensed immediately. During the 13-week period ended August 3, 2008, there were no options issued under this plan (2008 – Nil) and no stock-based compensation expense was recognized (2008 - \$Nil). For the 26-week period ended August 3, 2008, there were 120,000 options (2008 – 200,000) issued under this plan and \$382,800 in stock-based compensation expense was recognized (2008 - \$1,886,192).

The third plan, which forms part of a Long Term Incentive Plan (“LTIP”), has the following general terms: option grants are made annually and options vest over 3 years with a maximum term of 5 years. Under the terms of the plan, options issued carry a tandem share appreciation right (“TSAR”) which allows holders to exercise vested options in either the traditional fashion, where shares are issued from treasury, or surrender their option in exchange for an amount of cash equalling the difference between the market price for a common share on the date of surrender and the strike price of the option. The final details of this plan were approved by the Company in the third quarter of fiscal 2008 and therefore, 40,000 options granted in the second quarter of fiscal 2008 were reclassified as falling under the plan. During the 13-week period ended August 3, 2008, 4,340 options (2008 – 40,000) were issued under this plan and \$245,584 in stock-based compensation expense was recognized (2008 - \$54,805). For the 26-week period ended August 3, 2008, there were 262,860 options (2008 – 150,000) issued under this plan and \$537,974 in stock-based compensation expense was recognized (2008 - \$80,464).

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

Weighted Average

Options issued	Strike price	Fair value per option	Risk-free rate	Expected option life	Expected volatility	Expected dividend yield
4,340	\$14.94	\$3.03	3.60%	3.00	28.72%	2.01%

The following table summarizes the movement in stock options during the 26-week period ended August 3, 2008:

	Number
Opening	1,658
Granted	383
Exercised	(192)
Converted (TSAR Exercise)	(11)
Forfeited	(71)
Closing	1,767

The Company issues director stock units (“DSU”), restricted stock units (“RSU”) and performance stock units (“PSU”) from time to time. These units are accounted for as liability-classified awards and are measured at their fair value on the date of issuance, and re-measured at each reporting period, until settlement.

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During the 13-week period ended August 3, 2008, 1,287 (2008 – Nil) PSUs were issued and \$55,694 (2008 – \$Nil) was charged to compensation expense. For the 26-week period ended August 3, 2008, there were 144,080 (2008 – 100,000) PSUs issued under this plan and \$1,624,576 in compensation expense was recognized (2008 - \$2,369,341).

During the 13-week period ended August 3, 2008, 1,020 (2008 – Nil) RSUs were issued and \$21,079 (2008 - \$Nil) was credited to compensation expense due to a reduction in the fair value of units. For the 26-week period ended August 3, 2008, there were 44,325 (2008 - Nil) RSUs issued under this plan and \$477,832 in compensation expense was recognized (2008 - \$Nil).

During the 13-week period ended August 3, 2008, 4,769 (2008 – 3,965) DSUs were issued and \$421,985 (2008 - \$358,578 expense) was credited to compensation expense due to a reduction in the fair value of units. For the 26-week period ended August 3, 2008, there were 9,513 DSUs (2008 – 7,955) issued under this plan and \$96,254 was credited to compensation expense due to a reduction in the fair value of units (2008 - \$681,198 expense).

As at August 3, 2008, the Company recorded a total amount payable for all units outstanding of \$2,525,504 (2008 - \$3,303,080) of which \$1,879,733 relates to DSUs, paid when a director leaves the Board of Directors.

(d) Earnings per Share

The Company uses the treasury-stock method to calculate diluted earnings per share. Under the treasury-stock method, the numerator remains unchanged from the basic earnings per share calculation as the assumed exercise of the Company's stock options does not result in an adjustment to earnings. The reconciliation of the denominator in calculating diluted earnings per share is as follows:

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 3, 2008	July 29, 2007	August 3, 2008	July 29, 2007
Weighted average number of Class A shares outstanding (basic)	31,362	33,925	32,128	33,853
Effect of dilutive securities	131	562	-	473
Weighted average number of Class A shares outstanding (diluted)	31,493	34,487	32,128	34,326

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

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 3, 2008	July 29, 2007	August 3, 2008	July 29, 2007
Anti-dilutive options	1,277	-	607	12

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(e) Dividends

On December 7, 2007, the Company declared its first quarterly dividend of \$0.075 per Class A common share, payable on February 4, 2008 to shareholders of record on January 21, 2008. The Company's stated intention is to declare annual dividends of \$0.30 per share, payable quarterly, subject to the Board of Directors discretion.

On April 9, 2008, the Company declared a quarterly dividend of \$0.075 per Class A common share, payable on May 5, 2008 to shareholders of record April 21, 2008. On June 10, 2008, the Company declared a quarterly dividend of \$0.075 per Class A common share, payable on August 4, 2008 to shareholders of record July 21, 2008.

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

4. Long-term Debt

Effective June 11, 2008, the Company renewed its credit agreement, with GE Canada Finance Holding Company, to June 11, 2013. The renewed agreement increased the \$235 million credit facility which was comprised of a \$185 million revolving loan and a \$50 million term loan, to a \$250 million facility, comprised entirely of a revolving loan. Under the terms of the credit agreement, the interest rate payable on the revolving loan is based on the Company's financial performance as determined by its interest coverage ratio. As at August 3, 2008, the interest rate paid was bank prime less 0.45%. The facility is collateralized by general security agreements against all existing and future acquired assets of the Company. As at August 3, 2008, the Company is in compliance with its financial covenant.

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5. Supplementary Cash Flow Information

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 3, 2008	July 29, 2007	August 3, 2008	July 29, 2007
Rent expense				
Straight-line rent expense	\$ (76)	\$ 172	\$ (67)	\$ 266
Non-cash free rent	59	157	71	189
	\$ (17)	\$ 329	\$ 4	\$ 455
Changes in non-cash elements of working capital related to operating activities				
Accounts receivable	\$ 24,083	\$ 26,760	\$ (25,677)	\$ (42,403)
Inventory	4,764	7,419	(21,353)	(21,272)
Prepaid expenses	1,501	(84)	(82)	(1,961)
Non-cash free rent	(42)	(157)	(49)	116
Financial instruments	(44)	-	13	-
Accounts payable and accrued liabilities	(44,984)	(37,183)	(23,408)	7,879
	\$ (14,722)	\$ (3,245)	\$ (70,556)	\$ (57,641)
Changes in non-cash elements of financing activities				
Lease inducements	\$ (139)	\$ (182)	\$ (139)	\$ (744)
Long-term debt	(50,000)	-	(50,000)	(568)
AOCE	(24)	2	31	-
Other assets	-	(3)	-	-
Net financial assets	20	-	(12)	-
	\$ (50,143)	\$ (183)	\$ (50,120)	\$ (1,312)
Changes in non-cash elements of investing activities				
Capital assets	\$ 122	\$ 182	\$ 122	\$ 439
Other assets	-	-	-	568
	\$ 122	\$ 182	\$ 122	\$ 1,007
Cash interest paid	\$ 1,007	\$ 1,338	\$ 1,730	\$ 2,521
Cash taxes paid	\$ 7,528	\$ 6,338	\$ 22,182	\$ 23,302

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6. Capital Disclosures

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 any debt covenants.

7. Financial Instruments and Hedges

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 3, 2008.

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. The Company does not own any asset-backed commercial paper.

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.

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Other Financial Liabilities

Accounts payable, accrued liabilities, dividends payable and income tax payable are classified as other financial liabilities and are measured at amortized cost.

Fair value of Financial Instruments

The Company has determined the fair value of its cash and cash equivalents, 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 \$7,754,000 versus a carrying value of \$7,862,000. 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.

ii. Interest rate risk

The Company is exposed to interest rate risk on the credit facility as the rate is based on bank prime and on the Company's financial performance as determined by its interest coverage ratio. As at August 3, 2008, the interest rate paid was bank prime less 0.45%. For the second quarter of fiscal 2009, a 1% change in interest rates would change interest expense by \$277,400 (2008 - \$247,805).

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. Liquidity risk

The Company is exposed to liquidity risk that it may be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements and using various funding sources to ensure its financial flexibility. The Company prepares budget and cash forecasts to ensure that it has sufficient funds to fulfill its obligations. In recent years, the Company has financed the growth of its capacity and sales primarily through cash flows from operations and the use of its revolving credit on a regular basis.

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iv. Foreign Exchange Risk

The Company is exposed to exchange risk as a result of its foreign currency denominated purchases, primarily in U.S. dollars, and its U.S. dollar denominated accounts receivables. However, it mitigates its exposure to foreign exchange risk through active hedging programs. The Company does not use derivative financial instruments for speculative or trade purposes.

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 comprehensive earnings (loss) for the thirteen week period ended August 3, 2008 of \$47,374 relating to forward foreign currency contracts that qualify for hedge accounting.

The outstanding forward foreign exchange contracts to which hedge accounting was applied at August 3, 2008 have notional amounts of \$4,709,654 and terms ranging from August 5, 2008 to April 9, 2009 at forward rates ranging from \$1.0095 to \$1.0250.

Items currently reported in accumulated other comprehensive earnings will be reclassified to net earnings as the hedge is completed and the related non-financial asset is expensed or when a hedge is deemed ineffective.

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

8. Segmented Financial Information

Company operates principally in two business segments: corporately owned and operated retail stores and as a wholesale business selling to franchisees and others. Amortization and interest expense are not disclosed by segment, as they are all substantially retail in nature.

	For the thirteen weeks ended		For the twenty-six weeks ended	
	August 3, 2008	July 29,2007	August 3, 2008	July 29,2007
Revenues:				
Retail	\$ 221,290	\$ 212,107	\$ 431,620	\$ 406,300
Wholesale	74,272	80,274	171,432	180,637
	\$ 295,562	\$ 292,381	\$ 603,052	\$ 586,937
Operating Profit:				
Retail	\$ 18,382	\$ 25,520	\$ 29,282	\$ 44,049
Wholesale	7,381	6,657	16,981	16,687
	25,763	32,177	46,263	60,736
Non-segment specific administrative expenses	10,902	11,237	23,721	25,337
Operating activities before under-noted items	14,861	20,940	22,542	35,399
Amortization	11,535	10,850	22,785	21,902
Interest expense	1,055	1,536	1,959	2,906
Loss on sale of investment	-	-	-	864
	12,590	12,386	24,744	25,672
Earnings (loss) before income taxes	2,271	8,554	(2,202)	9,727
Income tax expense (recovery)	795	3,126	(770)	3,560
Net earnings (loss) for the period	\$ 1,476	\$ 5,428	\$ (1,432)	\$ 6,167

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

As at	August 3, 2008	February 3, 2008	July 29, 2007
Accounts Receivable			
Retail	\$ 1,978	\$ 2,796	\$ 7,035
Wholesale	79,308	71,036	94,842
Non-segment specific	19,897	1,674	5,901
	\$ 101,183	\$ 75,506	\$ 107,778
Capital Assets			
Retail	\$ 168,128	\$ 164,740	\$ 161,970
Wholesale	21,082	20,596	19,331
Non-segment specific	2,861	3,285	3,594
	\$ 192,071	\$ 188,621	\$ 184,895
Goodwill/Other Assets			
Retail	\$ 60,245	\$ 63,291	\$ 56,485
Wholesale	27,804	20,336	33,783
Non-segment specific	7,979	9,571	3,606
	\$ 96,028	\$ 93,198	\$ 93,874
Total Assets			
Retail	\$ 512,717	\$ 515,739	\$ 496,688
Wholesale	179,251	164,541	183,888
Non-segment specific	65,699	74,684	35,115
	\$ 757,667	\$ 754,964	\$ 715,691

9. Employee Benefits Plan

The Company has a defined contribution plan and an employee profit sharing plan (replaces the previous deferred 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 common 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 3, 2008, the Company has expensed \$291,392 (2008 - \$253,175) to the defined contribution plan and has accrued \$111,856 for the employee profit sharing plan (2008 - \$223,710 accrued to the deferred profit sharing plan). During the 26-week period ended August 3, 2008, the Company has expensed \$621,526 (2008 - \$585,136) to the defined contribution plan and has accrued \$213,523 (2008 - \$427,401) for the employee profit sharing plan.

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Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

10. Acquisitions

Effective November 26, 2007, the Company acquired 100% of the outstanding shares of Athletes World Limited (“AWL”) which was operating under Companies’ Creditors Arrangement Act (“CCAA”) protection. While under CCAA protection, FGL maintained its usual role in the management of the day-to-day operation of Athletes World under the supervision of a court appointed monitor who was responsible for reviewing Athletes World’s ongoing operations, assisting with the development and filing of the Court documents, liaising with creditors and other stakeholders and reporting to the Court. On June 30, 2008, AWL successfully exited from CCAA protection.

The acquisition was accounted for using the purchase method and accordingly the consolidated financial statements include the results of operations since the date of acquisition. The assigned fair values of the underlying assets and liabilities acquired by the Company as at November 26, 2007, are summarized as follows:

Inventory	\$ 26,171
Capital assets	2,626
Intangible asset - trademark	2,212
Future income tax asset	13,215
<u>Total assets acquired</u>	<u>44,224</u>

Bank indebtedness	108
Accounts payable	17,254
Long-term debt	18,196
<u>Total liabilities acquired</u>	<u>35,558</u>
<u>Net assets acquired</u>	<u>\$ 8,666</u>

Consideration given:	
Cash	\$ 1,500
Acquisition costs	7,166
<u>Total consideration</u>	<u>\$ 8,666</u>

11. Comparative Figures

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