

The unaudited consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All references to dollars are in Canadian funds unless otherwise indicated. The Annual Report and other related documents can be found at www.sedar.com

Management's discussion and analysis provides an overview of the performance of The Forzani Group Ltd. ("FGL" or the "Company"), and its subsidiaries, for the 13-week second quarter and 26-week period ended August 1, 2004 ("fiscal 2005"), compared to the 13-week second quarter and 26-week period ended August 3, 2003 ("fiscal 2004"). It should be read in conjunction with the consolidated financial statements and notes contained in the fiscal 2004 Annual Report.

REVIEW OF OPERATIONS

For the 13 weeks ended August 1, 2004 and August 3, 2003

Retail system sales for the 13 weeks ended August 1, 2004 were \$256.4 million, a \$6.3 million decrease from sales for the 13 weeks ended August 3, 2003 of \$262.7 million. Comparable sales in corporate stores decreased 4.6%, while franchise stores decreased 4.1%, with total comparable retail system sales decreasing 4.4%. The decrease in comparable store sales was primarily weather related, with this summer being much cooler than in the prior year, in all parts of the country. Though sales were challenging in the quarter, the Company realized improved margins over the prior year, increasing 240 basis points to 36.6%.

During the quarter, the Company opened 2 corporate stores (1 Sport Chek and 1 Sport Mart) and closed 1 corporate store (Sport Chek). In the franchise division, 1 store was opened (Intersport) and 1 store was closed (Intersport). In addition, the Company closed 4 outerwear stores that had been operated during the first quarter. As a result, at the end of the second quarter, the Company had 218 corporate stores and 174 franchise locations. This was a net decrease of 2,727 square feet of retail selling space, a 0.1% decrease versus the previous quarter. The Company now has 392 stores from coast to coast (fiscal 2004 - 380 stores).

Revenue was \$216.4 million, a \$0.7 million, or 0.3% increase over the 13-week period last year. Revenue consists of corporate store sales, wholesale sales, service income, equipment rentals, franchise fees and franchise royalties. Combined gross margin for the 13 weeks ended August 1, 2004 was up 240 basis points to 36.6% of revenue, from 34.2% in the prior year. In absolute dollars, the combined gross margin increased \$5.4 million, to \$79.1 million, from the 13-week period last year.

Store operating expenses increased, as a percent of corporate revenue, to 27.5% from 26.6% in the prior year, due to the relationship of the fixed cost components of store expenses against the decline in comparable store sales. General and administrative expenses, excluding stock-based compensation, were 8.3% of total revenue or \$18.0 million, an increase of 220 basis points compared to the 13-week period last year. This increase in expenses is due, in part, to the Company's strategic plan to drive sales by investing more heavily in advertising in the quarter. In addition, the Company has recently moved into a new, larger distribution centre in Mississauga, Ontario, and, due to the larger size, incurred increased fixed costs over the prior year. Further, the quarter reflects increased legal fees resulting from the recently announced settlement with the Competition Bureau, as well as the impact of the general and administrative costs of the recently acquired opportunity-buy business, Gen-X Sports Inc. ("Gen-X").

Earnings, before interest, taxes, depreciation, and amortization ("EBITDA")¹, remained static with the 13-week period last year at \$15.5 million. As a percent of revenue, EBITDA also remained static at 7.2%, when compared to the 13-week period in the prior year.

¹Earnings before interest, taxes, depreciation and amortization (EBITDA) is not a recognized performance measure under GAAP. Management believes that, in addition to net earnings, this measure is useful supplemental information, which provides the reader with an indication of operating earnings prior to amortization, debt service and provision for income taxes.





During the quarter ended August 1, 2004, the Company reviewed the carrying value of its investment in a wholesale distribution company, Huffey Corporation (“Huffey”). The initial investment resulted from the purchase, in fiscal 2003, by Huffey, of a company in which FGL held an investment. This transaction resulted in, a pre-tax gain of \$1.4 million, and the holding of Huffey shares by FGL. As a result of reviewing the carrying value of its remaining investment in Huffey, the Company determined that a decline in the value of this investment, that is other than temporary, has occurred and, as a result, has recorded a write-down in the amount of \$1.8 million against the carrying value of the investment. The remaining investment is valued at \$0.4 million.

Exclusive of the investment write-down, earnings before income taxes for the 13 weeks ended August 1, 2004 were \$6.0 million, or 2.8% of revenues, compared to \$6.3 million, or 2.9% of revenues, for the 13-week period in the prior year. Basic and diluted earnings per share for the 13-week period ended August 1, 2004, excluding the write-down, were \$0.12, compared to \$0.13 and \$0.12 in the prior year.

After accounting for the write-down of the investment, earnings before income taxes for the 13 weeks ended August 1, 2004 were \$4.2 million, or 1.9% of revenues, compared to \$6.3 million, or 2.9% of revenues, for the 13-week period in the prior year. Basic and diluted earnings per share for the 13-week period ended August 1, 2004 were \$0.08, compared to \$0.13 and \$0.12 in the prior year.

For the 26 weeks ended August 1, 2004 and August 3, 2003

Retail system sales for the 26 weeks ended August 1, 2004 were \$484.2 million, a \$0.2 million decrease from sales for the 26 weeks ended August 3, 2003 of \$484.4 million. Comparable sales in corporate stores decreased 3.6%, while franchise stores decreased 0.7%, with total comparable retail system sales decreasing 2.6%.

On March 19, 2004, the Company purchased all of the outstanding shares of Gen-X, an opportunity-buy business specializing in the sourcing, purchase and subsequent resale of manufacturers' excess capacity product. The acquisition will provide the Company with an opportunity-buy arm that will deliver profitable close out products to our corporate and franchise stores, as well as to other North American retailers.



Revenue was \$445.0 million, an \$8.0 million, or 1.8% increase over the 26-week period last year. Combined gross margin for the 26 weeks ended August 1, 2004 was up 140 basis points to 33.7% of revenue, from 32.3% in the prior year. In absolute dollars, the combined gross margin increased \$8.8 million, to \$150.0 million, from the 26-week period last year.

Store operating expenses increased slightly, as a percent of corporate revenue, to 28.6% from 27.8% in the prior year. General and administrative expenses, excluding stock-based compensation, were 7.1% of total revenue or \$31.4 million, an increase of 100 basis points compared to the 26-week period last year.

EBITDA was \$27.4 million, a 4.2% increase from \$26.3 million for the 26-week period last year. As a percent of revenue, EBITDA increased 20 basis points to 6.2%, when compared to the 26-week period in the prior year.

Exclusive of the investment write-down taken in the second quarter (refer above), earnings before income taxes for the 26 weeks ended August 1, 2004 were \$8.5 million or 1.9% of revenues compared to \$8.2 million, or 1.9% of revenues in the prior year. Basic and diluted earnings per share for the 26-week period ended August 1, 2004, excluding the write down, were \$0.17 compared \$0.16 in the prior year.

Earnings before income taxes for the 26 weeks ended August 1, 2004, after taking into account the investment write-down, were \$6.7 million, or 1.5% of revenues, compared to \$8.2 million, or 1.9% of revenues, for the 26-week period in the prior year. Basic and diluted earnings per share for the 26-week period ended August 1, 2004 were \$0.13, compared to \$0.16 in the prior year. Cash flow from operations² increased to \$20.4 million from \$17.2 million. On a per share basis, cash flow increased 14.5% to \$0.63 compared to \$0.55 the prior year.

FINANCIAL CONDITION

The Company's financial position continues to be strong. As at August 1, 2004, the Company had a working capital surplus of \$120.4 million, compared to \$101.0 million in the prior year. Accounts receivable days outstanding

²Cash flow from operations is not a recognized measure under GAAP. Cash flow per share is defined to be cash from operating activities before non-cash changes in working capital divided by the weighted average shares outstanding. Management believes that cash flow per share is a key measure, as it demonstrates the Company's ability to generate cash flow necessary to fund future growth.



increased to 113 days from 109 days in the prior year, due to the impact of Gen-X. Inventory increased due to the acquisition of Gen-X and increased square footage. Inventory intensity³, exclusive of Gen-X has increased 4.7% to \$90 versus the prior year of \$86; this is primarily due to the decrease in comparative store sales. Accounts payable financing of inventory and receivables from franchisees, decreased to 51.1%, versus 55.5% in the prior year, due to the acquisition of Gen-X (1.1%) and increased inventory levels due to lower than expected sales (3.3%).

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal capital requirements are to fund working capital needs, develop private-label brands and open new stores in connection with its expansion strategy. These capital requirements have generally been satisfied by a combination of cash flow from operations and borrowings under its credit facility and term loans (more fully described in Note 7 to the fiscal 2004 Consolidated Financial Statements) and the periodic issuance of shares. For the period ended August 1, 2004, these sources of capital included: \$25.0 million in long-term debt; cash generated from operating activities, before changes in non-cash working capital elements, of \$20.4 million, an increase of 18.6% over the prior year; and an available credit facility of \$115.0 million with an option to increase the maximum revolving credit commitment by \$35.0 million, to \$150.0 million, via exercising of a single, irreversible option (see Subsequent Event). Based on current operating levels and available funds, there will be sufficient means to satisfy the Company's working capital needs, debt-service requirements and expansion strategies for the coming fiscal year. Capital expenditures, net of lease inducements and disposals, were \$15.8 million for the 26-week period ended August 1, 2004, an increase of \$1.0 million over the previous year.

RETAIL RISKS AND UNCERTAINTIES

The risks and uncertainties faced by the Company are substantially the same as those disclosed in the Management's Discussion and Analysis section of the Company's fiscal 2004 Annual Report. Traditionally, the retail industry is influenced by a number of external factors that are difficult to actively manage. These include the overall economy, consumer spending and debt levels. Other factors, such as retail competition, seasonality, changes in fashion trends and adverse movements in foreign exchange and interest rates, can be managed.

ACCOUNTING POLICIES

Our critical accounting policies are disclosed in the Company's Management's Discussion and Analysis report in the Company's fiscal 2004 Annual Report. Effective February 2, 2004 the Company has adopted the following new accounting policies, none of which had a material impact on the financial statements of the Company for the 26 weeks ended August 1, 2004.

Hedging Relationships - Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 13. This guideline is effective for fiscal years beginning on or after July 1, 2003. Under this policy the Company formally documents the relationship between the hedging instruments, hedged items, its risk management objective and risk management strategy. This documentation links all derivatives to specific assets, liabilities, firm commitments or forecasted transactions. The Company formally assesses the effectiveness of derivatives in offsetting changes or cash flow hedged items at inception and on an ongoing basis.

Impairment of Long-Lived Assets - CICA Section 3063. This standard is effective for fiscal years beginning on or after April 1, 2003. The standard provides guidance on recognizing, measuring and disclosing the impairment of long-lived assets and replaces the previous standard regarding write-down of property, plant and equipment. There is a requirement to recognize an impairment loss for a long-lived asset when its carrying value exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition (fair value). The impairment loss is measured as the amount by which the carrying value exceeds its fair value.

Asset Retirement Obligations - CICA Section 3110. This standard is effective for fiscal years beginning on or after January 1, 2004. The Standard provides guidance on the recognition and measurement of liabilities or obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. The obligation is recorded in the period when a reasonable estimate of the fair value can be determined, with a corresponding increase in the carrying value of the related asset. The asset is then amortized over the length of its useful life and the actual asset retirement expenditures are charged against the obligation.

SUBSEQUENT EVENT

On August 6, 2004, in the normal course of operations, the Company exercised its single, irreversible option to increase the maximum available credit under its revolving loan by \$35 million to \$150.0 million. This will provide additional liquidity for ongoing operations, new business ventures and potential business acquisitions.

³Defined as inventory on hand, at cost, per square foot of retail space.





FUTURE EVENTS AND TRENDS

The Company anticipates continued consolidation in the sporting-goods retail industry. This will create opportunities for the Company to further increase its market share. As independent retailers continue to see reductions in their profit margins, and as buying groups weaken, this will create opportunities for the franchise division to attract quality independents. Furthermore, as less productive retailers exit the market, it will create opportunities for further corporate expansion. In fiscal 2005, the Company anticipates opening at least 20 new corporate stores and 18 franchise stores.

This document may contain forward-looking statements relating to the future performance of The Forzani Group Ltd. Forward-looking statements, specifically those concerning future performance, are subject to certain risks and uncertainties, and actual results may differ materially. The Company, with the appropriate securities commissions, details these risks and uncertainties from time to time. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they were made. The Company disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

