Third Quarter Report

F2005

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 ("MD&A") provides an overview of the performance of The Forzani Group Ltd. ("FGL" or the "Company"), and its subsidiaries, for the 13-week and 39-week periods ended October 31, 2004 ("fiscal 2005"), compared to the 13-week and 39-week periods ended November 2, 2003 ("fiscal 2004"). It should be read in conjunction with the consolidated financial statements and notes contained in the fiscal 2004 Annual Report. The reader should note that the results for the 13 and 39-week periods ended November 2, 2003 have been restated in compliance with the Canadian Institute of Chartered Accountants ("CICA") requirement for the adoption of EIC-144 - Accounting by a Customer for Certain Consideration Received from a Vendor, more fully described under the Accounting Policies section of the MD&A.

REVIEW OF OPERATIONS

For the 13 weeks ended October 31, 2004 and November 2, 2003

Retail system sales[1] for the 13 weeks ended October 31, 2004 were $257.5 million, a $3.1 million decrease from sales for the 13 weeks ended November 2, 2003 of $260.6 million. Comparable sales in corporate stores decreased 4.4%, while franchise stores were flat, with total comparable retail system sales decreasing 3.0%. The decrease in comparable store sales was primarily related to the increased competitive environment, specifically in the Ontario market.

During the quarter, the Company opened 9 corporate stores (1 Sport Chek and 8 Sport Mart) and closed 1 corporate store (Sport Chek). In the franchise division, 1 store was closed (Intersport). As a result, at the end of the third quarter, the Company had 226 corporate stores and 173 franchise locations. This was a net increase of 60,073 square feet of retail selling space, a 1.3% increase versus the previous quarter. The Company now has 399 stores from coast to coast (fiscal 2004 - 387 stores).

Revenue was $265.7 million, a $15.5 million, or 6.2% 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 October 31, 2004 was down 140 basis points to 31.1% of revenue, from 32.5% in the prior year. This is due, primarily, to the change in the weighting of the retail versus wholesale components of total revenue, 66% retail and 34% wholesale in fiscal 2005 compared to 72% and 28%, respectively, in fiscal 2004. Retail sales generate a greater gross margin percentage than do wholesale sales, therefore, a decrease in the retail component of revenue will generally reduce the overall gross margin percentage. In absolute dollars, the combined gross margin increased $1.1 million, to $82.5 million, from the 13-week period last year.

Store operating expenses increased, as a percent of retail revenue, to 26.8% from 25.9% 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 5.4% of total revenue or $14.4 million, an improvement of 90 basis points compared to the 13-week period last year.

Earnings, before interest, taxes, depreciation, and amortization ("EBITDA")[2], were $20.3 million a 20 basis

[1]Retail system sales is not a recognized measure under GAAP and is unaudited. Retail system sales is defined as retail sales from corporate and franchise owned stores. Management believes that retail system sales is a key measure, as it demonstrates the Company's performance in the retail sector.
[2]Earnings before interest, taxes, depreciation and amortization (EBITDA) is not a recognized performance measure under GAAP and as such is unlikely to be comparable to similar measures presented by other issuers. This amount is referred to as "Operating earnings before undernoted items" on the Consolidated Statements of Operations and Retained Earnings. 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.

point increase from $18.5 million for the 13-week period last year. As a percent of revenue, EBITDA increased 20 basis points to 7.6%, when compared to the 13-week period in the prior year.

Earnings before income taxes for the 13 weeks ended October 31, 2004, were $10.1 million, or 3.8% of revenues, compared to $9.5 million, or 3.8% of revenues, for the 13-week period in the prior year. Diluted earnings per share for the 13-week period ended October 31, 2004 were $0.20, compared to $0.18 in the prior year.

For the 39 weeks ended October 31, 2004 and November 2, 2003

Retail system sales for the 39 weeks ended October 31, 2004 were $741.6 million, a $3.4 million decrease from sales for the 39 weeks ended November 2, 2003 of $745.0 million. Comparable sales in corporate stores decreased 3.9%, while franchise stores increased 0.5%, with total comparable retail system sales decreasing 2.4%.

Revenue was $710.8 million, a $23.6 million, or 3.4% increase over the 39-week period last year. Combined gross margin for the 39 weeks ended October 31, 2004 was static at 32.6% of revenues when compared to the prior year. In absolute dollars, the combined gross margin increased $7.3 million, to $231.5 million, from the 39-week period last year.

Store operating expenses increased slightly, as a percent of corporate revenue, to 27.9% from 27.1% in the prior year. General and administrative expenses, excluding stock-based compensation, were 6.5% of total revenue or $45.9 million, an increase of 40 basis points compared to the 39-week period last year. This increase in expenses is due, in part, to increased fixed costs over the prior year of the new, larger distribution centre in Mississauga, Ontario, which the Company has recently moved into. Further, the increased legal fees resulting from the announced settlement with the Competition Bureau, as well as the impact of the general and administrative costs of the acquired opportunity-buy business, Gen-X Sports Inc. ("Gen-X").

EBITDA was $46.6 million, a 0.2% increase from $46.5 million for the 39-week period last year. As a percent of revenue, EBITDA decreased 20 basis points to 6.6%, when compared to the 39-week period in the prior year.

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.

On August 1, 2004, the Company reviewed the carrying value of its investment in a wholesale distribution company, Huffy Corporation ("Huffy"). The initial investment resulted from the purchase, in fiscal 2003, by Huffy, of a company in which FGL held an investment. That transaction resulted in a pre-tax gain of $1.4 million, and the holding of Huffy shares by FGL. As a result of reviewing the carrying value of its remaining investment in Huffy, 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 taken in the second quarter (refer above), earnings before income taxes for the 39 weeks ended October 31, 2004 were $17.4 million or 2.5% of revenues compared to $19.3 million, or 2.8% of revenues in the prior year. Diluted earnings per share for the 39-week period ended October 31, 2004, excluding the write down, were $0.34 compared to $0.37 in the prior year.

Earnings before income taxes for the 39 weeks ended October 31, 2004, after taking into account the investment write down, were $15.6 million, or 2.2% of revenues, compared to $19.3 million, or 2.8% of revenues, for the 39-week period in the prior year. Diluted earnings per share for the 39-week period ended October 31, 2004 were $0.30, compared to $0.37 in the prior year. Cash flow from operations[3] increased to $35.6 million from $28.3 million. On a per share basis, cash flow increased 19.8% to $1.09 compared to $0.91 the prior year.

[3]Cash flow from operations is not a recognized measure under GAAP and as such may not be comparable to similar measures presented by other issuers. 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 per share is a key measure, as it demonstrates the Company's ability to generate cash necessary to fund future growth.

FINANCIAL CONDITION

The Company's financial position continues to be strong. As at October 31, 2004, the Company had a working capital surplus of $119.6 million, compared to $91.5 million in the prior year. Accounts receivable days outstanding decreased to 109 days from 114 days in the prior year. Inventory increased due to the acquisition of Gen-X and increased square footage. Inventory intensity[4], exclusive of Gen-X has decreased 2.1% to $94 versus the prior year of $96. Accounts payable financing of inventory and receivables from franchisees, decreased to 55%, versus 61% in the prior year, due to the acquisition of Gen-X (1.0%) and timing of non-trade accounts payable (5.0%).

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 October 31, 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 $35.6 million, an increase of 25.8% over the prior year. On August 6, 2004, in the normal coarse of operations, the Company exercised its single irreversible option to increase the maximum available credit under its revolving loan by $35 million to $150 million. This will provide additional liquidity for ongoing operations, new business ventures and potential business acquisitions. 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 $23.0 million for the 39-week period ended October 31, 2004, a decrease of $2.8 million from the previous year.

On March 3, 2004, the Company announced its intention to implement a normal course issuer bid (the “Bid”) for its common shares. For the twelve-month period commencing March 8, 2004 and ending March 7, 2005, the Company may purchase, on the Toronto Stock Exchange (the “TSX”), up to 1,000,000 Class A shares in total, representing 3.1% of the issued and outstanding Class A shares. The Bid has been put in place because the Company believes that the shares are undervalued in the market and are a good investment for the Company at current and recent prices. All Class A shares purchased through the Bid will be returned to treasury for cancellation.

During the quarter, under the Bid, the Company purchased 168,100 Class A shares at a cost of $1.5 million.

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.

[4] Defined as inventory on hand, at cost, per square foot of retail space.

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 - 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.

Effective October 31, 2004 the Company has adopted the following accounting policy:

Accounting by a Customer for Certain Consideration Received from a Vendor - EIC 144. This abstract is effective for annual or interim periods ending after August 15, 2004 and is to be applied retroactively. The abstract provides guidance on how a customer of a vendor's products should account for cash consideration from a vendor. Cash consideration received by a company from a vendor, as in the case of volume rebates, is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be accounted for as a reduction of cost of sales and related inventory when recognized in the company's income statement and balance sheet. If cash consideration is received as a reimbursement of costs incurred by the customer to sell the vendor's products, as in the case of marketing and advertising funds, it should be characterized as a reduction of that cost when recognized in the company's income statement, provided certain conditions are met.

The application of this new accounting guidance should not materially impact annual net earnings and earnings per share (EPS), assuming inventory levels, inventory turnover and vendor rebates remain relatively constant. However, there will be a greater impact, on a relative basis, to quarterly net earnings and EPS. Due to the seasonal nature of the Company's operations, in quarters where inventory levels are increasing, such as in the third quarter, the impact on net earnings and EPS will be negative. Conversely, in a quarter where inventory levels are decreasing, such as in the fourth quarter, the impact on net earnings and EPS will be positive.

For the thirteen and thirty-nine weeks ended October 31, 2004, application of EIC-144 resulted in an increase in cost of goods sold of $1,558,205 and $2,723,673, respectively, (2003 - $2,589,811 and $989,368) and a decrease in net earnings of $989,460 and $1,729,532 respectively, (2003 - $1,605,683 and $613,409).

The following tables illustrate the impact of applying EIC-144, for the prior year, on consolidated earnings, retained earnings and balance sheet accounts:

	For the thirteen weeks ended November 2, 2003		For the thirty-nine weeks ended November 2, 2003	
	As reported	**As restated**	As reported	**As restated**
Cost of sales	$ 166,206	**$ 168,796**	$ 462,036	**$ 463,025**
Earnings before income taxes	12,075	**9,485**	20,274	**19,285**
Income taxes	4,588	**3,604**	7,703	**7,327**
Net earnings	7,487	**5,881**	12,571	**11,958**
Retained earnings, beginning of period	83,395	**79,280**	78,311	**73,203**
Retained earnings, end of period	$ 90,882	**$ 85,161**	$ 90,882	**$ 85,161**
Earnings per share	$ 0.24	**$ 0.19**	$ 0.40	**$ 0.38**
Diluted earnings per share	$ 0.23	**$ 0.18**	$ 0.39	**$ 0.37**

	February 1, 2004		November 2, 2003	
	As reported	**As restated**	As reported	**As restated**
Inventory	$ 267,221	**$ 258,816**	$ 318,460	**$ 308,968**
Future income tax asset	-	**$ 1,923**	$ 1,196	**$ 4,967**
Future income tax liability	$ 1,435	**-**	-	**-**
Retained earnings	$ 106,330	**$ 101,283**	$ 90,882	**$ 85,161**

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 5 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.

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