Third Quarter Report
F2005

Focused Forward

The Forzani Group Ltd.

THE FORZANI GROUP LTD.
Consolidated Balance Sheets
(in thousands)
(unaudited, except where otherwise noted)

As at	October 31, 2004	February 1, 2004 (audited) (restated)	November 2, 2003 (restated)
ASSETS			
Current			
Cash	**$ 584**	$ 23,315	$ 596
Accounts receivable	**104,437**	36,319	81,121
Inventory	**323,382**	258,816	308,968
Prepaid expenses	**3,337**	11,292	12,707
	431,740	329,742	403,392
Capital assets	**165,722**	160,625	152,092
Goodwill and other intangibles (Note 5)	**46,392**	39,682	39,928
Other assets (Note 6)	**7,133**	10,105	10,840
Future income tax asset	**155**	1,923	4,967
	$ 651,142	$ 542,077	$ 611,219
LIABILITIES			
Current			
Indebtedness under revolving credit facility	**$ 78,146**	$ -	$ 71,900
Accounts payable and accrued liabilities	**233,339**	217,777	239,533
Current portion of long-term debt	**658**	887	425
	312,143	218,664	311,858
Long-term debt	**36,326**	37,408	32,732
Deferred lease inducements	**52,609**	52,954	51,862
	401,078	309,026	396,452
SHAREHOLDERS' EQUITY			
Share capital (Note 3)	**133,713**	128,880	127,452
Contributed surplus	**5,161**	2,888	2,154
Retained earnings	**111,190**	101,283	85,161
	250,064	233,051	214,767
	$ 651,142	$ 542,077	$ 611,219

THE FORZANI GROUP LTD.

Consolidated Statements of Operations and Retained Earnings

(in thousands, except per share data)

(unaudited)

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 31, 2004	November 2, 2003 (restated)	**October 31, 2004**	November 2, 2003 (restated)
Revenue				
Retail	**176,013**	179,178	**489,271**	493,688
Wholesale	**89,713**	70,986	**221,451**	193,487
	265,726	250,164	**710,722**	687,175
Cost of sales	**183,152**	168,796	**479,315**	463,025
Gross margin	**82,574**	81,368	**231,407**	224,150
Operating and administrative expenses				
Store operating	**47,108**	46,537	**136,725**	133,838
General and administrative	**14,436**	15,759	**45,854**	42,238
Stock-based compensation	**714**	557	**2,273**	1,608
	62,258	62,853	**184,852**	177,684
Operating earnings before undernoted items	**20,316**	18,515	**46,555**	46,466
Amortization	**8,731**	7,791	**25,675**	23,056
Interest	**1,522**	1,239	**3,462**	4,125
Write-down of investment	**-**	-	**1,814**	-
	10,253	9,030	**30,951**	27,181
Earnings before income taxes	**10,063**	9,485	**15,604**	19,285
Income tax expense (recovery)				
Current	**1,145**	6,406	**3,929**	9,960
Future	**2,528**	(2,802)	**1,768**	(2,633)
	3,673	3,604	**5,697**	7,327
Net earnings for the period	**6,390**	5,881	**9,907**	11,958
Retained earnings, beginning of period (restated)	**104,800**	79,280	**101,283**	73,203
Retained earnings, end of period	**$ 111,190**	$ 85,161	**$ 111,190**	$ 85,161
Earnings per share	**$ 0.20**	$ 0.19	**$ 0.30**	$ 0.38
Diluted earnings per share	**$ 0.20**	$ 0.18	**$ 0.30**	$ 0.37
Total number of common shares outstanding	**32,552**	31,351	**32,552**	31,351
Weighted average number of common shares outstanding	**32,667**	31,345	**32,517**	31,140

THE FORZANI GROUP LTD.
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 31, 2004	November 2, 2003 (restated)	**October 31, 2004**	November 2, 2003 (restated)
Cash provided by (used in) operating activities	**$ 6,390**	$ 5,881	**$ 9,907**	$ 11,958
Net earnings for the period				
Items not involving cash				
Amortization	**8,731**	7,791	**25,675**	23,056
Amortization of finance charges	**182**	134	**598**	365
Amortization of deferred lease inducements	**(2,150)**	(2,026)	**(6,444)**	(6,033)
Stock-based compensation	**714**	557	**2,273**	1,608
Future income tax expense (recovery)	**2,528**	(2,802)	**1,768**	(2,633)
Write-down of investment (Note 6)	**-**	-	**1,814**	-
Cash flow from operations	**16,395**	9,535	**35,591**	28,321
Changes in non-cash operating elements of working capital				
Accounts receivable	**(47,932)**	(23,401)	**(68,118)**	(42,846)
Inventory	**(30,709)**	(43,623)	**(58,358)**	(48,952)
Prepaid expenses	**8,861**	242	**7,955**	(1,584)
Accounts payable and accrued liabilities	**49,858**	56,537	**15,463**	29,660
	(19,922)	(10,245)	**(103,058)**	(63,722)
	(3,527)	(710)	**(67,467)**	(35,401)
Cash provided by (used in) financing activities				
Increase (decrease) of share capital	**(1,398)**	99	**909**	2,586
Increase (decrease) of long-term debt	**735**	880	**(1,311)**	(2,543)
Increase in revolving credit facility	**11,324**	12,763	**100,858**	67,696
Proceeds from deferred lease inducements	**3,741**	1,784	**6,099**	5,644
	14,402	15,526	**106,555**	73,383
Cash provided by (used in) investing activities				
Acquisition of wholly-owned subsidiary	**-**	-	**(9,589)**	-
Addition of capital assets	**(10,943)**	(12,881)	**(29,132)**	(31,986)
Disposal of capital assets	**-**	68	**-**	468
Net addition of other assets	**(16)**	(1,997)	**(386)**	(6,391)
	(10,959)	(14,810)	**(39,107)**	(37,909)
Increase (decrease) in cash	**(84)**	6	**(19)**	73
Net cash position, beginning of period	**668**	590	**603**	523
Net cash position, end of period	**$ 584**	$ 596	**$ 584**	$ 596

1. Accounting Policies

The unaudited interim consolidated financial statements (the "financial statements") 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, 2004.

The interim financial statements follow the same accounting policies and methods of applications as the most recent annual consolidated financial statements as at February 1, 2004, except as reported in Note 2.

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 from these estimates. Estimates are used when accounting for items such as employee benefits, product warranties, inventory provisions, amortization, uncollectible accounts 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 than in other quarterly periods 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 October 31, 2004, which is not necessarily indicative of performance for the balance of the year.

2. Adoption of New Accounting Policies

Effective February 2, 2004 the Company has adopted the following accounting policies:

a) Hedging Relationships - 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 of hedged items at inception and on an ongoing basis. The adoption of this standard has had no material impact on the financial statements of the Company for the periods ended October 31, 2004.

b) 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. The adoption of this standard has had no material impact on the financial statements of the Company for the periods ended October 31, 2004.

c) 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. The adoption of this standard has had no material impact on the financial statements of the Company for the periods ended October 31, 2004.

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.

For the thirteen and thirty-nine weeks ended October 31, 2004, application of EIC-144 resulted in an increase in cost of sales 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**

3. Share Capital

(a) Authorized

An unlimited number of Class A shares
An unlimited number of Preferred shares, issuable in series

(b) Issued

Class A shares

	Number	Consideration
Balance February 1, 2004	31,791,327	**$ 128,880**
Shares issued upon employees exercising stock options	537,002	**1,747**
Shares issued March 19, 2004 as part of an acquisition (Note 5)	300,000	**3,924**
Balance May 2, 2004	32,628,329	**134,551**
Shares issued upon employees exercising stock options	65,000	**560**
Balance August 1, 2004	32,693,329	**135,111**
Shares issued upon employees exercising stock options	26,500	**113**
Shares redeemed pursuant to normal course issuer bid	(168,100)	**(1,511)**
Balance October 31, 2004	**32,551,729**	**$ 133,713**

(c) Stock Option Plan

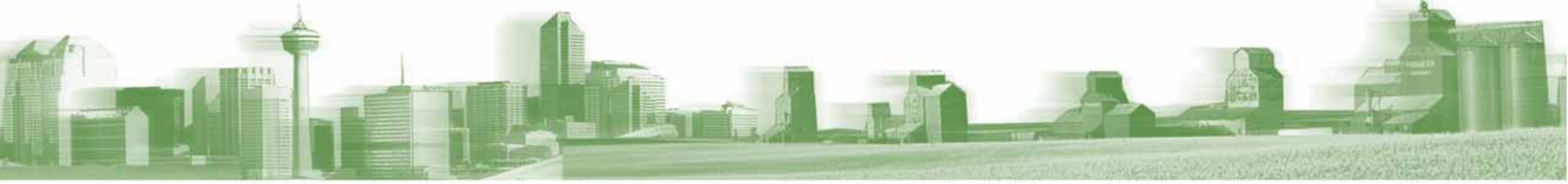
The Company has granted stock options to directors, officers and employees to purchase 2,341,001 Class A shares at prices between $4.21 and $19.19 per share. These options expire on dates between August 29, 2005 and March 23, 2009.

The plan includes the following general terms: options vest over a period ranging from 2 to 5 years, the maximum term of options granted was 5 years and the number of shares authorized for option grants was 3,262,833.

No options were granted during the thirteen weeks ended October 31, 2004.

The following table summarizes the movement in stock options during the quarter:

	Number of options
Opening	2,372,501
Exercised	(26,500)
Cancelled	(5,000)
Granted	-
Closing	2,341,001



(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 thirty-nine weeks ended	
	October 31, 2004	November 2, 2003	**October 31, 2004**	November 2, 2003
Weighted average number of shares outstanding (basic)	**32,667,452**	31,345,332	**32,517,197**	31,139,894
Effect of dilutive securities	**73,526**	1,182,743	**200,174**	1,354,482
Weighted average number of common shares outstanding (diluted)	**32,740,978**	32,528,075	**32,717,371**	32,494,376

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

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 31, 2004	November 2, 2003	**October 31, 2004**	November 2, 2003
Anti-dilutive options	**1,755,000**	572,108	**1,576,252**	290,495

4. 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. Identifiable assets, depreciation and amortization, interest expense and capital expenditures are not disclosed by segment, as they are substantially retail in nature.

In determining the reportable segments, the Company considered the distinct business models of the Retail and Wholesale operations, the division of responsibilities, and the reporting to the Board of Directors.

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 31, 2004	November 2, 2003 (restated)	**October 31, 2004**	November 2, 2003 (restated)
Revenues:				
Retail	**$ 176,013**	$ 179,178	**$ 489,271**	$ 493,688
Wholesale	**89,713**	70,986	**221,451**	193,487
	265,726	250,164	**710,722**	687,175
Operating Profit:				
Retail	**16,355**	19,350	**40,484**	46,590
Wholesale	**8,239**	5,744	**20,822**	16,568
	24,594	25,094	**61,306**	63,158
Non-segment specific administrative expenses	**4,278**	6,579	**14,751**	16,692
Amortization	**8,731**	7,791	**25,675**	23,056
Interest expense	**1,522**	1,239	**3,462**	4,125
Write-down of investment	**-**	-	**1,814**	-
	14,531	15,609	**45,702**	43,873
Earnings before income taxes	**10,063**	9,485	**15,604**	19,285
Income tax expense	**3,673**	3,604	**5,697**	7,327
Net earnings for the period	**$ 6,390**	$ 5,881	**$ 9,907**	$ 11,958

5. Acquisition

Effective March 19, 2004, the Company acquired 100% of the outstanding shares of Gen-X Sports Inc. The acquisition is accounted for using the purchase method and accordingly the consolidated financial statements include the results of operations since the date of the acquisition.

The consideration for the transaction was $13,513,000 for all the outstanding class A and class B common shares. The purchase consideration consisted of $9,589,000 cash and the remainder in the form of a vendor take-back loan, payable over four years. The loan payments are in the form of 300,000 escrowed Company class A shares distributed over the four-year period.

The assigned fair values of the underlying assets and liabilities acquired by the company as at March 19, 2004, are summarized as follows:

Inventory	$ 6,208
Trademarks	3,280
Fixed Assets	200
Goodwill	3,924
Total Assets Acquired	13,612
Current Liabilities	(99)
Total Liabilities Acquired	(99)
	$13,513

6. Write-down of Investment

During the quarter ended August 1, 2004, the Company reviewed the carrying value of its investment in a wholesale distribution company. As a result of this review, the Company determined that a decline in the value of this investment, that is other than temporary, has occurred and has recorded a write-down in the amount of $1,814,396 against the carrying value of the investment. The carrying value of this investment at October 31, 2004 is $393,556.

7. Comparative Figures

Certain comparative or prior year's figures have been reclassified to conform with the presentation adopted for the current year ending January 30, 2005.

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