

THE FORZANI GROUP LTD.
fiscal 2006 second quarter report



THE GAME PLAN

THE FORZANI GROUP LTD. MANAGEMENT'S DISCUSSION & ANALYSIS

As at August 30, 2005

The unaudited consolidated interim financial statements as at, and for the period ended, July 31, 2005, 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 July 31, 2005 ("fiscal 2006"), compared to the 13-week second quarter and 26-week period ended August 1, 2004 ("fiscal 2005"). It should be read in conjunction with the consolidated financial statements and notes contained in the fiscal 2005 Annual Report.

REVIEW OF OPERATIONS

For the 13 weeks ended July 31, 2005 and August 1, 2004

Retail system sales¹ for the quarter ended July 31, 2005 were \$305.1 million, a \$48.7 million increase from sales for the quarter ended August 1, 2004 of \$256.4 million. Revenue, consisting of corporate store sales, wholesale sales, service income, equipment rentals, franchise fees and franchise royalties, was \$243.6 million, a \$27.2 million, or 12.6% increase over the 13-week period last year, due largely to the sales stemming from the acquisition of National Gym Clothing Limited ("National Sports") on January 31, 2005. Combined gross margin for the 13 weeks ended July 31, 2005 was down 2.2% to 34.1% of revenue, from 36.3% in the prior year. As was the case in the first quarter, overall gross margin performance was negatively impacted by corporate store results in the inline skates and licensed product categories which, together, represented a reduction in gross margin dollars of \$3.3 million over the prior year. In absolute dollars, combined gross margin increased \$4.6 million to \$83.2 compared to \$78.6 million in the 13-week period last year.

Comparable store sales from corporate locations were up 0.2%, primarily a result of strong footwear sales, which were up 9.5%. These gains were offset to a large degree by the continued declines in the inline skates category. Comparable corporate clothing sales, exclusive of licensed products, were down 1.2%. Licensed clothing sales continued to suffer, as a result of the NHL dispute, and ended the quarter down substantially. Franchise comparable store sales were up 4.6% on the strength of summer clothing and footwear. On a combined basis, comparable store sales were up 1.8%.

Comparable store operating costs were 27.1% of corporate store revenues, versus 26.7% in the prior year. The comparable store costs in absolute dollars increased \$0.8 million or 2.0%. The overall store operating expense increase reflects the addition of 19 National Sports stores coupled with the opening, in the past year, of 18 corporate stores (net of closings).

General and administrative expenses were 8.0% of total revenue or \$19.4 million, a decrease of 0.7% compared to the 13-week period last year. In absolute dollars, expenses increased \$0.6 million, in part, due to the acquisition of National Sports.

Earnings, before interest, taxes, depreciation, and amortization ("EBITDA")², were \$8.6 million, compared to \$14.7 million for the 13-week period last year.

Earnings before income taxes for the 13 weeks ended July 31, 2005 were a loss of \$3.7 million compared to a \$3.1 million profit for the 13-week period in the prior year.

The Company had a net loss in the quarter of \$2.3 million in comparison to net income of \$2.0 million in the comparable period last year.

Basic and diluted earnings (loss) per share for the 13-week period ended July 31, 2005 were (\$0.07), compared to \$0.06 in the prior year. Cash flow from operations³ decreased from \$11.0 million to \$5.4 million. On a per share basis, cash flow decreased to \$0.16 from \$0.34 in the prior year.

¹ Retail system sales are retail sales from corporate and franchise stores and are not a recognized performance measure under GAAP. Management believes that this measure is useful supplemental information which provides the reader with an indication of the Company's total retail sales, but may not be comparable to measures used by other companies.

² Earnings 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, but may not be comparable to measures used by other companies.

³ Cash flow from operations and cash flow per share from operations are not recognized measures 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, but may not be comparable to measures used by other companies.

The accounting changes which resulted in the restatement of the prior year's results had the effect, in the current year, of a decrease in net earnings of \$0.5 million on account of EIC 144 and \$0.3 million as a result of the change in accounting for certain lease costs. The restatement of prior years is explained on pages 4, 5 and 6.

During the quarter, the Company opened 4 corporate stores (3 Sport Chek and 1 Coast Mountain Sports) and closed 1 Sport Chek store. In the franchise division, 5 stores were opened (4 Nevada Bob's and 1 Buying member) and 2 Intersport stores were closed. As a result, at the end of the second quarter, the Company had 255 corporate stores and 197 franchise locations. This was a net increase of 102,000 square feet of retail selling space, a 1.85% increase versus the previous quarter. The Company now has 452 stores from coast to coast (August 1, 2004 – 392 stores).

For the 26 weeks ended July 31, 2005 and August 1, 2004

Retail system sales for the 26 weeks ended July 31, 2005 were \$564.9 million, an \$80.7 million increase from sales for the 26 weeks ended August 1, 2004. As mentioned above, this is primarily a result of the acquisition of National Sports in the first quarter of fiscal 2005. Comparable sales in corporate stores decreased 2.3%, while franchise stores increased 6.8%, with total comparable retail system sales increasing 0.9%.

Revenue was \$481.8 million, a \$36.8 million, or 8.3% increase over the 26-week period last year. Combined gross margin for the 26 weeks ended July 31, 2005 was down 1.8% to 31.6% of revenue, from 33.4% in the prior year. In absolute dollars, the combined gross margin increased \$3.4 million, to \$152.2 million, from the 26-week period last year.

Store operating expenses, as a percent of corporate store revenue, were 29.8% versus 28.8% in the prior year. General and administrative expenses were 7.7% of total revenue versus 7.4% in the prior year.

EBITDA was \$8.6 million, or 1.8% of total revenue, compared to 5.8% for the same period last year. Earnings before income taxes for the 26 weeks ended July 31, 2005 were a loss of \$15.3 million compared to a \$4.4 million profit for the 26-week period in the prior year.

Basic and diluted earnings (loss) per share for the 26-week period ended July 31, 2005 were (\$0.30), compared to \$0.09 in the prior year. Cash flow from operations decreased from \$19.2 million to \$7.1 million. On a per share basis, cash flow decreased 62.7% to \$0.22 compared to \$0.59 the prior year.

QUARTERLY DATA

(unaudited)

(In thousands except per share data) ¹	Revenue	EBITDA	Net Earnings	Diluted EPS	EPS
	\$	\$	\$	\$	\$
November 2, 2003	250,164	18,771	5,886	0.18	0.19
February 1, 2004	280,903	35,109	16,127	0.50	0.51
May 2, 2004	228,627	10,955	863	0.03	0.03
August 1, 2004	216,369	14,715	1,959	0.06	0.06
October 31, 2004	265,726	20,044	6,043	0.18	0.18
January 30, 2005	274,332	30,755	12,680	0.39	0.39
May 1, 2005	238,202	19	(7,417)	(0.23)	(0.23)
July 31, 2005	243,630	8,590	(2,323)	(0.07)	(0.07)

¹ Fiscal 2004 and 2005 restated to reflect the change in accounting for certain lease costs more fully explained on page 59 and 60 of the Fiscal 2005 Annual Report. Fiscal 2004 and Quarter 1 and 2 of Fiscal 2005 restated in compliance with EIC 144 more fully explained on page 58 of the Fiscal 2005 Annual Report.

FINANCIAL CONDITION

As at July 31, 2005, the Company had a working capital surplus of \$106.9 million, compared to \$110.9 million in the prior year and \$126.4 as at January 30, 2005. Accounts receivable have increased as a result of year over year growth in the Company's franchise network including the addition of Nevada Bob's licensees. Inventory increased due to the addition of National Sports and increased corporate store square footage. Inventory intensity¹ has decreased 12.5% to \$77 versus the prior year of \$88. Exclusive of National Sports, inventory intensity decreased 9.1% to \$80. Accounts payable financing of inventory and receivables from franchisees was 50%, versus 55% in the prior year.

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 of the fiscal 2005 Consolidated Financial Statements) and the periodic issuance of shares. For fiscal 2006, these sources of capital included: cash generated from operating activities, before changes in non-cash working capital elements, of \$7.1 million, a decrease of \$12.1 million when compared to the prior year; and a credit facility with GE Canada Finance Holding Company, National Bank of Canada and The Royal Bank of Canada. On June 30, 2005, the Company extended its previous credit agreement to June 30, 2008. The amended and restated credit agreement increased the previous \$175 million facility to \$235 million, comprised of a \$150 million revolving loan, a \$50 million term loan (2005 - \$25 million), repayable at maturity, and a one-time option, not yet exercised, to increase the maximum revolving credit commitment to \$185 million. Under the terms of the credit agreement, the interest rate payable on both the revolving and term loans is based on the Company's financial performance as determined by its interest coverage ratio. The facility is secured by general security agreements against all existing and future acquired assets of the Company. As at July 31, 2005, the Company is in compliance with all covenants. 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.

RETAIL RISKS AND UNCERTAINTIES

The risks and uncertainties faced by the Company are substantially the same as those disclosed in Management's Discussion and Analysis in the Company's fiscal 2005 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

The interim consolidated financial statements (the "financial statements") follow the same accounting policies and methods of application as the most recent annual consolidated financial statements as at January 30, 2005.

PRIOR YEAR RESTATEMENTS

During fiscal 2005, the adoption of accounting policy EIC 144 – Accounting by a customer for Certain Consideration Received from a Vendor, Generally Accepted Accounting Principles - Canadian Institute of Chartered Accountants ("CICA") – Section 1100 and the clarification, in February 2005, of appropriate lease accounting policies of the U.S. Securities and Exchange Commission ("SEC") has caused the Company to restate its financial statements retroactively (see Note 3 in the Company's Annual Report).

¹ Defined as inventory on hand, at cost, per square foot of retail space, but may not be comparable to measures used by other companies.

The following tables illustrate the impact of the restatements due to changes in accounting policies, for the 13 weeks and 26 weeks ended August 1, 2004, on consolidated earnings, retained earnings and balance sheet accounts:

Consolidated Statements of Operations and Retained Earnings

	As Reported	EIC 144	For the thirteen weeks ended August 1, 2004		Restated
			Leased Premises	Rent Expense	
	\$	\$	\$	\$	\$
Cost of sales	137,240	528	-	-	137,768
Store operating	44,823	-	(274)	564	45,113
Amortization	8,533	-	265	-	8,798
Earnings before income taxes	4,167	(528)	9	(564)	3,084
Income tax expense	1,521	(193)	3	(206)	1,125
Net earnings	2,646	(335)	6	(358)	1,959
Retained earnings, beginning of period	107,942	(5,453)	248	(346)	102,391
Retained earnings, end of period	110,588				104,350
Earnings and diluted earnings per share	0.08				0.06

Consolidated Statements of Operations and Retained Earnings

	As Reported	EIC 144	For the twenty-six weeks ended August 1, 2004		Restated
			Leased Premises	Rent Expense	
	\$	\$	\$	\$	\$
Cost of sales	294,997	1,166	-	-	296,163
Store operating	89,617	-	(540)	1,108	90,185
Amortization	16,945	-	526	-	17,471
Earnings before income taxes	6,706	(1,166)	14	(1,108)	4,446
Income tax expense	2,448	(425)	5	(404)	1,624
Net earnings	4,258	(741)	9	(704)	2,822
Retained earnings, beginning of period	106,330	(5,047)	245	-	101,528
Retained earnings, end of period	110,588				104,350
Earnings and diluted earnings per share	0.13				0.09

Consolidated Balance Sheet

	As at August 1, 2004				
	As Reported	EIC 144	Leased Premises	Rent Expense	Restated
	\$	\$	\$	\$	\$
Inventory	302,244	(9,571)	-	-	292,673
Capital assets	163,003	-	7,061	-	170,064
Deferred lease inducements	51,018	-	6,673	-	57,691
Deferred rent liability	-	-	-	1,108	1,108
Future income tax liability (asset)	1,100	(3,783)	134	(404)	(2,953)
Retained earnings	110,588	(5,788)	254	(704)	104,350

ACQUISITIONS

Effective January 31, 2005, the Company acquired 100% of the outstanding shares of National Gym Clothing Ltd. The consolidated financial statements for the 13 weeks and 26 weeks ended July 31, 2005 include the results of operations since the date of the acquisition. The consideration for the transaction was \$13,026,000 in cash for all the outstanding common shares and the allocation of the purchase price is provided in Note 7 to the interim financial statements.

NORMAL COURSE ISSUER BID

An application for a Normal Course Issuer Bid has been accepted by the Toronto Stock Exchange to acquire up to 1,000,000 of the Company's outstanding Class A common shares, for cancellation. The bid will expire on July 25, 2006.

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 the full year fiscal 2006, the Company anticipates opening at least 20 new corporate stores, inclusive of relocations, 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, in compliance with the reporting requirements of the various 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.

CONSOLIDATED BALANCE SHEETS
(In thousands)
(unaudited)

As at	July 31, 2005	January 30, 2005	August 1, 2004
			(restated – see note 2)
ASSETS (note 3)			
Current			
Cash	\$ 1,444	\$ 26,018	\$ 668
Accounts receivable	80,597	54,651	72,694
Inventory	312,867	278,631	292,673
Prepaid expenses	3,887	3,022	12,198
	398,795	362,322	378,233
Capital assets	189,063	179,702	170,064
Goodwill and other intangibles	75,319	52,790	46,632
Other assets	9,423	9,415	7,566
Future income tax asset	4,653	-	2,953
	\$ 677,253	\$ 604,229	\$ 605,448
LIABILITIES			
Current			
Indebtedness under revolving credit facility (note 3)	\$ 94,200	\$ -	\$ 66,822
Accounts payable and accrued liabilities	197,149	234,314	199,670
Current portion of long-term debt	584	1,580	858
	291,933	235,894	267,350
Long-term debt (note 3)	63,583	40,278	35,391
Deferred lease inducements	64,363	62,613	57,691
Deferred rent liability	3,200	2,213	1,108
Future income tax liability	-	384	-
	423,079	341,382	361,540
SHAREHOLDERS' EQUITY			
Share capital (Note 4)	138,003	137,811	135,112
Contributed surplus	3,790	2,915	4,446
Retained earnings	112,381	122,121	104,350
	254,174	262,847	243,908
	\$ 677,253	\$ 604,229	\$ 605,448

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(in thousands, except per share data)
(unaudited)

	For the thirteen weeks ended		For the twenty-six weeks ended	
	July 31, 2005	August 1, 2004	July 31, 2005	August 1, 2004
	(restated – see note 2)		(restated – see note 2)	
Revenue				
Retail	\$ 191,282	\$ 162,706	\$ 358,086	\$ 313,258
Wholesale	52,348	53,663	123,746	131,738
	243,630	216,369	481,832	444,996
Cost of sales	160,467	137,768	329,604	296,163
Gross margin	83,163	78,601	152,228	148,833
Operating and administrative expenses				
Store operating	55,150	45,113	106,739	90,185
General and administrative	19,423	18,773	36,880	32,977
	74,573	63,886	143,619	123,162
Operating earnings before undernoted items	8,590	14,715	8,609	25,671
Amortization	10,536	8,798	20,725	17,471
Interest	1,712	1,019	3,222	1,940
Write-down of investment	-	1,814	-	1,814
	12,248	11,631	23,947	21,225
Earnings (loss) before income taxes	(3,658)	3,084	(15,338)	4,446
Income tax expense (recovery)				
Current	(644)	1,878	(4,954)	2,784
Future	(691)	(753)	(644)	(1,160)
	(1,335)	1,125	(5,598)	1,624
Net earnings (loss) for the period	\$ (2,323)	\$ 1,959	\$ (9,740)	\$ 2,822
Retained earnings, beginning of period	114,704	102,391	122,121	101,528
Retained earnings, end of period	112,381	104,350	112,381	104,350
Basic and diluted earnings (loss) per share	\$ (0.07)	\$ 0.06	\$ (0.30)	\$ 0.09

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	For the thirteen weeks ended		For the twenty-six weeks ended	
	July 31, 2005	August 1, 2004	July 31, 2005	August 1, 2004
		(restated – see note 2)		(restated – see note 2)
Cash provided by (used in) operating activities				
Net earnings (loss) for the period	\$ (2,323)	\$ 1,959	\$ (9,740)	\$ 2,822
Items not involving cash				
Amortization	10,536	8,798	20,725	17,471
Amortization of finance charges	181	164	423	414
Amortization of deferred lease inducements	(2,955)	(2,374)	(5,394)	(4,832)
Straight-line rent expense	96	564	874	1,108
Stock-based compensation	542	793	875	1,559
Future income tax expense (recovery)	(691)	(753)	(644)	(1,160)
Write-down of investment	-	1,814	-	1,814
	5,386	10,965	7,119	19,196
Changes in non-cash operating elements of working capital (note 5)	1,422	5,476	(95,227)	(82,639)
	6,808	16,441	(88,108)	(63,443)
Cash provided by (used in) financing activities				
Proceeds from issuance of share capital	84	560	192	2,308
Increase (decrease) in long-term debt	23,845	(2,706)	23,800	(2,046)
Increase (decrease) in revolving credit facility	(13,183)	(3,644)	76,278	66,822
Proceeds from deferred lease inducements	1,816	1,162	3,774	2,358
	12,562	(4,628)	104,044	69,442
Cash (used in) investing activities				
Acquisition of wholly owned subsidiary, net of cash acquired	-		(12,428)	(9,589)
Net addition of capital assets	(19,104)	(11,173)	(26,939)	(18,683)
Net addition of other assets	(615)	(595)	(1,143)	(374)
	(19,719)	(11,768)	(40,510)	(28,646)
Increase (decrease) in cash	(349)	45	(24,574)	(22,647)
Net cash position, beginning of period	1,793	623	26,018	23,315
	\$ 1,444	\$ 668	\$ 1,444	\$ 668

See accompanying notes

NOTES TO INTERIM CONSOLIDATED STATEMENTS

(Tabular amounts in thousands, except share data)

(Unaudited)

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 January 30, 2005.

The interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements as at January 30, 2005.

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 July 31, 2005, which is not necessarily indicative of performance for the balance of the year.

2. Prior Year Restatements

The Company has restated the 13-week and 26-week periods ended August 1, 2004 due to:

(a) Effective October 31, 2004 the Company 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 has been applied retroactively. The abstract provides guidance on how a company 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 13 weeks and 26 weeks ended August 1, 2004, the impact of the application of EIC-144 is fully described in the tables at the end of this note.

(b) Effective January 30, 2005, the Company adopted the following accounting policies:

(i) Leased premises

Following a clarification of accounting policies under generally accepted accounting principles in the United States, the Company has reviewed its lease accounting practices and determined that in order to present its financial position and results of operations in accordance with Canadian generally accepted accounting principles, a change to the treatment of rent expense during stores' fixturing periods was required. The Company now capitalizes, to the cost of leasehold improvements, any rent expense during the fixturing period. For the 13 weeks and 26 weeks ended August 1, 2004, the impact of the application of these changes to lease accounting are fully described in the tables at the end of this note.

(ii) Rent Expense

The Company has changed its method of accounting for scheduled increases in rent in accordance with Canadian Institute of Chartered Accountants section 1100 and the clarification of account policy in accordance with GAAP regarding lease premise (referred to above). In the past, rent had been expensed based on rent payments as they were incurred and paid, in accordance with industry practice. Rent is now expensed on a straight-line basis over the life of the lease. For the 13 weeks and 26 weeks ended August 1, 2004, the impact of the application of these changes to lease accounting are fully described in the following tables.

(c) For the 13 weeks and 26 weeks ended August 1, 2004, the impact of the application of the above-noted changes are fully described as follows:

Consolidated Statement of Operations and Retained Earnings

	For the thirteen weeks ended August 1, 2004				
	As Reported	EIC 144	Leased Premises	Rent Expense	Restated
	\$	\$	\$	\$	\$
Cost of sales	137,240	528	-	-	137,768
Store operating	44,823	-	(274)	564	45,113
Amortization	8,533	-	265	-	8,798
Earnings before income taxes	4,167	(528)	9	(564)	3,084
Income tax expense	1,521	(193)	3	(206)	1,125
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Retained earnings, end of period	110,588				104,350
Earnings and diluted earnings per share	0.08				0.06

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Earnings before income taxes	6,706	(1,166)	14	(1,108)	4,446
tax expense	2,448	(425)	5	(404)	1,624
Net earnings	4,258	(741)	9	(704)	2,822
Retained earnings, beginning of period	106,330	(5,047)	245	-	101,528
Retained earnings, end of period	110,588				104,350
Earnings and diluted earnings per share	0.13				0.09

Consolidated Balance Sheet

	As at August 1, 2004				
	As Reported	EIC 144	Leased Premises	Rent Expense	Restated
	\$	\$	\$	\$	\$
Inventory	302,244	(9,571)	-	-	292,673
Capital assets	163,003	-	7,061	-	170,064
Deferred lease inducements	51,018	-	6,673	-	57,691
Deferred rent liability	-	-	-	1,108	1,108
Future income tax liability (asset)	1,100	(3,783)	134	(404)	(2,953)
Retained earnings	110,588	(5,788)	254	(704)	104,350

3. Credit Facilities

Effective as of June 30, 2005, the Company has extended its existing credit agreement to June 30, 2008. The amended and restated agreement with GE Canada Finance Holding Company, National Bank of Canada and Royal Bank of Canada increased the \$175 million credit facility to \$235 million, comprised of a \$150 million revolving loan, a \$50 million term loan (2005 - \$25 million) repayable at maturity, and a one-time option, not yet exercised, to increase the maximum revolving credit commitment to \$185 million. Under the terms of the credit agreement, the interest rate payable on both the revolving and term loans is based on the Company's financial performance as determined by its interest coverage ratio. As at July 31, 2005, the interest rate paid was 3.80% (January 30, 2005 - 4.05%). The facility is secured by general security agreements against all existing and future acquired assets of the Company.

4. 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 January 30, 2005	32,874,889	\$ 137,811
Shares issued upon employees exercising stock options	13,334	108
Balance May 1, 2005	32,888,223	\$ 137,919
Shares issued upon employees exercising stock options	20,000	84
Balance July 31, 2005	32,908,223	\$ 138,003

(c) Stock Option Plans

The Company has granted stock options to directors, officers and employees to purchase 2,555,167 Class A shares at prices between \$4.21 and \$19.19 per share. These options expire between August 29, 2005 and June 27, 2010.

The Company has two 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 July 31, 2005, 35,000 options were issued under this plan. The second plan has the following general terms: options vest over a period ranging from 3 to 5 years dependent on the Company achieving certain performance targets, and the maximum term of the options granted is 5 years. During the 13-week period ended July 31, 2005, 70,000 options were issued under this plan.

During the 13 weeks ended July 31, 2005, the following options, with strike prices between \$10.25 and \$12.05, were granted:

Options issued	Weighted average fair value per option	Weighted average risk-free rate	Weighted average expected option life	Weighted average expected volatility	Weighted average expected dividend yield
105,000	4.56	3.27%	5.0	46%	0.00%

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

	Number of options
Opening	2,470,167
Exercised	(20,000)
Granted	105,000
Closing	2,555,167

(d) Earnings Per Share

The Company uses the treasury-stock method to calculate diluted earnings per share. 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	
	July 31, 2005	August 1, 2004	July 31, 2005	August 1, 2004
Weighted average number of shares outstanding (basic)	32,891,849	32,681,021	32,886,904	32,442,070
Effect of dilutive securities	128,436	136,483	216,394	267,067
Weighted average number of common shares outstanding (diluted)	33,020,285	32,817,504	33,103,298	32,709,137

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 twenty-six weeks ended	
	July 31, 2005	August 1, 2004	July 31, 2005	August 1, 2004
Anti-dilutive options	855,000	1,568,792	796,923	1,577,730

5. Supplementary Cash Flow Information

	For the thirteen weeks ended		For the twenty-six weeks ended	
	July 31, 2005	August 1, 2004 (restated)	July 31, 2005	August 1, 2004 (restated)
	\$	\$	\$	\$
Accounts receivable	444	9,379	(25,633)	(36,375)
Inventory	5,659	(4,172)	(10,321)	(27,648)
Prepaid expenses	10,193	62	(100)	(906)
Accounts payable and accrued liabilities	(14,874)	207	(59,173)	(17,710)
	1,422	5,476	(95,227)	(82,639)
Cash taxes paid	6,278	10,756	9,034	15,465
Cash interest paid	1,739	1,128	3,128	2,071

6. Segmented Financial Information

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

	For the thirteen weeks ended		For the twenty-six weeks ended	
	July 31, 2005	August 1, 2004 (restated)	July 31, 2005	August 1, 2004 (restated)
Revenues:				
Retail	\$ 191,282	\$ 162,706	\$ 358,086	\$ 313,258
Wholesale	52,348	53,663	123,746	131,738
	\$ 243,630	\$ 216,369	\$ 481,832	\$ 444,996
Operating Profit:				
Retail	\$ 9,413	\$ 15,339	\$ 9,619	\$ 23,560
Wholesale	4,786	6,077	8,831	12,583
	14,199	21,416	18,450	36,143
Non-segment specific administrative expenses	5,609	6,701	9,841	10,472
Amortization	10,536	8,798	20,725	17,471
Interest expense	1,712	1,019	3,222	1,940
Write-down of investment	-	1,814	-	1,814
	17,857	18,332	33,788	31,697
Earnings (loss) before income taxes	(3,658)	3,084	(15,338)	4,446
Income tax expense (recovery)	(1,335)	1,125	(5,598)	1,624
Net earnings (loss) for the period	\$ (2,323)	\$ 1,959	\$ (9,740)	\$ 2,822

7. Acquisition

Effective January 31, 2005, the Company acquired 100% of the outstanding shares of National Gym Clothing Ltd. The consolidated financial statements for the 13 weeks and 26 weeks ended July 31, 2005 include the results of operations since the date of the acquisition.

The consideration for the transaction was \$13,026,000 in cash for all the outstanding common shares.

The assigned fair values of the underlying assets and liabilities acquired by the company as at January 31, 2005, are summarized as follows:

Cash	\$ 598
Accounts receivable	313
Inventory	23,915
Prepaid expenses	765
Trademarks	2,535
Fixed assets	2,261
Goodwill	21,848
Future income tax asset	4,393
Total assets acquired	\$ 56,628
Secured indebtedness	\$ 17,922
Accounts payable	23,815
Long-term debt	189
Deferred rent liability (see note below)	113
Deferred lease inducements (see note below)	1,563
Total liabilities acquired	\$ 43,602
Cash consideration	\$ 13,026

During the quarter there was a reclassification between deferred rent liability and deferred lease inducements of \$381,000, upon review of leases.

8. Related Party

An officer of the Company holds an interest in a franchise store operation. During the quarter, that franchise operation opened a prototype store in Kirkland Quebec in which, in the normal course of opening prototype stores, the Company owns equipment and fixtures in the amount of \$330,000.

9. Comparative Figures

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