

THE FORZANI GROUP LTD.
fiscal 2006 third quarter report



THE GAME PLAN

THE FORZANI GROUP LTD. MANAGEMENT'S DISCUSSION & ANALYSIS

As at December 1, 2005

The unaudited consolidated interim financial statements as at, and for the period ended, October 30, 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 third quarter and 39-week period ended October 30, 2005 ("fiscal 2006"), compared to the 13-week third quarter and 39-week period ended October 31, 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 October 30, 2005 and October 31, 2004

Retail system sales¹ for the quarter ended October 30, 2005 were \$307.6 million, a \$50.2 million increase from sales for the quarter ended October 31, 2004 of \$257.4 million. Revenue, consisting of corporate store sales, wholesale sales, service income, equipment rentals, franchise fees and franchise royalties, was \$305.4 million, a \$39.7 million, or 14.9% 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 October 30, 2005 was up 200 basis points to 33.1% of revenue, from 31.1% in the prior year, on the strength of improved corporate store results, particularly in the hockey equipment, athletic/casual/outdoor clothing, and footwear categories. In absolute dollars, combined gross margin increased \$18.5 million to \$101.1 compared to \$82.6 million in the 13-week period last year.

Comparable store sales from corporate locations were up 3.2%, a combination of positive results in the categories mentioned above, that contributed to the gross margin improvement, offset by a slow start to the winter categories of ski/snowboard and outerwear. Franchise comparable store sales were up 8.1% on the strength of athletic clothing, footwear and winter clothing. On a combined basis, comparable store sales were up 4.7%.

Store operating expenses, as a percent of corporate store revenue, were flat with the prior year at 26.9%. Comparable store operating costs were flat at 25.6% of corporate store revenues. The comparable store costs in absolute dollars increased \$1.0 million or 2.2%. The overall store operating expense increase reflects the addition of 19 National Sports stores coupled with the opening, in the past year, of 11 corporate stores (net of closings).

General and administrative expenses were 7.5% of total revenue or \$23.0 million. Exclusive of the impact of the acquisition of National Sports the expenses represented 7.2% of revenue, the increase primarily a result of the timing of, and focus on, advertising spend during the quarter.

Earnings, before interest, taxes, depreciation, and amortization ("EBITDA")², were \$21.7 million compared to \$20.0 million for the same period last year.

Earnings before income taxes for the 13 weeks ended October 30, 2005 were \$10.3 million, an 8.4% increase compared to pre-tax earnings of \$9.5 million for the 13-week period in the prior year.

Basic and diluted earnings per share for the 13-week period ended October 30, 2005 were \$0.20, compared to \$0.18 in the prior year. Cash flow from operations³ decreased to \$12.7 million from \$16.4 million. On a per share basis, cash flow decreased to \$0.39 from \$0.50 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. This 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. This 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 \$0.6 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 and 5.

During the quarter, the Company opened 2 Sport Chek stores, closed 2 Sport Mart stores and 1 franchise store was taken on as a corporate store. In the franchise division, 3 stores were opened (1 Nevada Bob's, 1 Intersport and 1 Atmosphere), 1 Buying Member store closed and 1 franchise store became a corporate store. As a result, at the end of the third quarter, the Company had 256 corporate stores and 198 franchise locations. This was a net increase of 53,958 square feet of retail selling space, a 1.0% increase versus the previous quarter. The Company now has 454 stores from coast to coast (October 31, 2004 – 399 stores).

For the 39 weeks ended October 30, 2005 and October 31, 2004

Retail system sales for the 39 weeks ended October 30, 2005 were \$ 872.5 million, a \$130.9 million increase from sales for the 39 weeks ended October 31, 2004. As mentioned above, this is primarily a result of the acquisition of National Sports in the first quarter of fiscal 2006. Comparable sales in corporate stores increased 0.2%, while franchise stores increased 7.2%, with total comparable retail system sales increasing 2.5%.

Revenue was \$787.2 million, a \$76.5 million, or 10.8% increase over the 39-week period last year. Combined gross margin for the 39 weeks ended October 30, 2005 was 32.2% of revenue versus 32.6% in the prior year. In absolute dollars, the combined gross margin increased \$22.0 million, to \$253.4 million, from the 39-week period last year.

Store operating expenses, as a percent of corporate store revenue, were 28.7% versus 28.1% in the prior year. General and administrative expenses were 7.6% of total revenue versus 6.8% in the prior year.

EBITDA was \$30.3 million, or 3.8% of total revenue, compared to 6.4% for the same period last year. Earnings before income taxes for the 39 weeks ended October 30, 2005 were a loss of \$5.0 million compared to a \$14.0 million profit for the 39-week period in the prior year.

Basic and diluted earnings (loss) per share for the 39-week period ended October 30, 2005 were (\$0.10), compared to \$0.27 in the prior year. Cash flow from operations decreased from \$35.6 million to \$19.8 million. On a per share basis, cash flow decreased 45.0% to \$0.60 compared to \$1.09 the prior year.

QUARTERLY DATA

(unaudited)

(In thousands except per share data)¹

	Revenue	EBITDA	Net Earnings	Diluted EPS	EPS
	\$	\$	\$	\$	\$
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)
October 30, 2005	305,388	21,669	6,529	0.20	0.20

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 October 30, 2005, the Company had a working capital surplus of \$106.1 million, compared to \$119.6 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 11.5% to \$85 versus the prior year of \$96. Exclusive of National Sports inventory intensity decreased 6.3% to \$90. Accounts payable financing of inventory and receivables from franchisees, was 60.7%, versus 56.3% 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 \$19.8 million, a decrease of \$15.8 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 to increase the maximum revolving credit commitment to \$185 million. This one-time option was exercised on November 17, 2005 as explained in the Subsequent Events on page 6. 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 October 30, 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.

At the end of the quarter the company had 868,000 options which were exercisable.

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 applications as the most recent annual consolidated financial statements as at January 30, 2005.

PRIOR YEAR RESTATEMENTS

During fiscal 2005, Generally Accepted Accounting Principles - Canadian Institute of Chartered Accountants ("CICA") – Section 1100 and the clarification, in February 2005, of appropriate lease accounting polices 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 at hand, at cost, per square foot of retail space.

The following tables illustrate the impact of the restatements due to changes in accounting policies, for the 13 weeks and 39 weeks ended October 31, 2004, on consolidated earnings, retained earnings and balance sheet accounts:

Consolidated Statements of Operations and Retained Earnings

	For the thirteen weeks ended October 31, 2004			
	As Reported	Leased Premises	Rent Expense	Restated
	\$	\$	\$	\$
Store operating	47,108	(284)	555	47,379
Amortization	8,731	275	-	9,006
Earnings before income taxes	10,063	9	(555)	9,517
Income tax expense	3,673	4	(203)	3,474
Net earnings	6,390	5	(352)	6,043
Retained earnings, beginning of period	104,800	254	(704)	104,350
Retained earnings, end of period	111,190			110,393
Earnings and diluted earnings per share	0.20			0.18

Consolidated Statements of Operations and Retained Earnings

	For the thirty-nine weeks ended October 31, 2004			
	As Reported	Leased Premises	Rent Expense	Restated
	\$	\$	\$	\$
Store operating	136,725	(823)	1,663	137,565
Amortization	25,675	802	-	26,477
Earnings before income taxes	15,604	21	(1,663)	13,962
Income tax expense	5,697	7	(607)	5,097
Net earnings	9,907	14	(1,056)	8,865
Retained earnings, beginning of period	101,283	245	-	101,528
Retained earnings, end of period	111,190			110,393
Earnings and diluted earnings per share	0.30			0.27

Consolidated Balance Sheet

	As at October 31, 2004			
	As Reported	Leased Premises	Rent Expense	Restated
	\$	\$	\$	\$
Capital assets	165,722	7,233	-	172,955
Deferred lease inducements	52,609	6,835	-	59,444
Deferred rent liability	-	-	1,663	1,663
Future income tax liability (asset)	(155)	(265)	(203)	(623)
Retained earnings	111,190	259	(1,056)	110,393

ACQUISITIONS

Effective January 31, 2005, the Company acquired 100% of the outstanding shares of National Gym Clothing Ltd. The acquisition is accounted for using the purchase method and accordingly the consolidated financial statements for the 39 weeks ended October 30, 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 its outstanding Class A common shares, for cancellation. The bid will expire on July 25, 2006. To date, there have been no purchases made under this bid.

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.

SUBSEQUENT EVENTS

On November 17, 2005, 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 \$185 million. This will provide additional liquidity for ongoing operations, new business ventures and potential business acquisitions.

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	October 30, 2005	January 30, 2005	October 31, 2004 (restated – see note 2)
ASSETS (note 3)			
Current			
Cash	\$ 858	\$ 26,018	\$ 584
Accounts receivable	119,191	54,651	121,882
Inventory	347,220	278,631	323,382
Prepaid expenses	2,808	3,022	3,337
	470,077	362,322	449,185
Capital assets	189,155	179,702	172,955
Goodwill and other intangibles	75,491	52,790	46,392
Other assets	10,308	9,415	7,133
Future income tax asset	6,474	-	623
	\$ 751,505	\$ 604,229	\$ 676,288
LIABILITIES			
Current			
Indebtedness under revolving credit facility (note 3)	\$ 75,990	\$ -	\$ 78,146
Accounts payable and accrued liabilities	282,900	234,314	250,784
Current portion of long-term debt	5,105	1,580	658
	363,995	235,894	329,588
Long-term debt (note 3)	58,917	40,278	36,326
Deferred lease inducements	63,972	62,613	59,444
Deferred rent liability	3,713	2,213	1,663
Future income tax liability	-	384	-
	490,597	341,382	427,021
SHAREHOLDERS' EQUITY			
Share capital (note 4)	138,018	137,811	133,713
Contributed surplus	3,980	2,915	5,161
Retained earnings	118,910	122,121	110,393
	260,908	262,847	249,267
	\$ 751,505	\$ 604,229	\$ 676,288

See accompanying notes

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 30, 2005	October 31, 2004 (restated – see note 2)	October 30, 2005	October 31, 2004 (restated – see note 2)
Revenue				
Retail	\$ 210,262	\$ 176,013	\$ 568,348	\$ 489,271
Wholesale	95,126	89,713	218,872	221,451
	305,388	265,726	787,220	710,722
Cost of sales	204,260	183,152	533,866	479,315
Gross margin	101,128	82,574	253,354	231,407
Operating and administrative expenses				
Store operating	56,461	47,379	163,200	137,565
General and administrative	22,998	15,150	59,878	48,127
	79,459	62,529	223,078	185,692
Operating earnings before undernoted items	21,669	20,045	30,276	45,715
Amortization	9,789	9,006	30,513	26,477
Interest	1,598	1,522	4,820	3,462
Write-down of investment	-	-	-	1,814
	11,387	10,528	35,333	31,753
Earnings (loss) before income taxes	10,282	9,517	(5,057)	13,962
Income tax expense (recovery)				
Current	5,574	1,145	619	3,929
Future	(1,821)	2,329	(2,465)	1,168
	3,753	3,474	(1,846)	5,097
Net earnings (loss) for the period	\$ 6,529	\$ 6,043	\$ (3,211)	\$ 8,865
Retained earnings, beginning of period	112,381	104,350	122,121	101,528
Retained earnings, end of period	118,910	110,393	118,910	110,393
Earnings and diluted earnings (loss) per share	\$ 0.20	\$ 0.18	\$ (0.10)	\$ 0.27

See accompanying notes

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

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 30, 2005	October 31, 2004	October 30, 2005	October 31, 2004
	(restated – see note 2)		(restated – see note 2)	
Cash provided by (used in) operating activities				
Net earnings (loss) for the period	\$ 6,529	\$ 6,043	\$ (3,211)	\$ 8,865
Items not involving cash				
Amortization	9,789	9,006	30,513	26,477
Amortization of finance charges	102	182	525	598
Amortization of deferred lease inducements	(2,588)	(2,434)	(7,981)	(7,268)
Straight-line rent expense	513	555	1,387	1,663
Stock-based compensation	190	714	1,065	2,273
Future income tax expense (recovery)	(1,821)	2,329	(2,465)	1,168
Write-down of investment	-	-	-	1,814
	12,714	16,395	19,833	35,590
Changes in non-cash operating elements of working capital (see note 5)	14,065	(19,475)	(81,162)	(102,113)
	26,779	(3,080)	(61,329)	(66,523)
Cash provided by (used in) financing activities				
Increase (decrease) of share capital	15	(1,398)	207	909
Increase (decrease) in long-term debt	(145)	735	23,655	(1,311)
Increase (decrease) in revolving credit facility	(18,210)	11,324	58,068	78,146
Proceeds from deferred lease inducements	2,015	3,741	5,788	6,099
	(16,325)	14,402	87,718	83,843
Cash (used in) investing activities				
Acquisition of wholly owned subsidiary, net of cash acquired	-	-	(12,428)	(9,589)
Net addition of capital assets	(9,247)	(11,390)	(36,185)	(30,076)
Net addition of other assets	(1,793)	(16)	(2,936)	(386)
	(11,040)	(11,406)	(51,549)	(40,051)
Increase (decrease) in cash	(586)	(84)	(25,160)	(22,731)
Net cash position, beginning of period	1,444	668	26,018	23,315
Net cash position, end of period	\$ 858	\$ 584	\$ 858	\$ 584

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 October 30, 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 39-week periods ended October 31, 2004 due to:

(a) 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 39 weeks ended October 31, 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 accounting policy in accordance with GAAP, regarding leased premises (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 39 weeks ended October 31, 2004, the impact of the application of these changes to lease accounting are fully described in the following tables.

- (b) For the 13 weeks and 39 weeks ended October 31, 2004, the impact of the application of the above-noted changes are fully described as follows:

Consolidated Statements of Operations and Retained Earnings

	For the thirteen weeks ended October 31, 2004			
	As Reported	Leased Premises	Rent Expense	Restated
	\$	\$	\$	\$
Store operating	47,108	(284)	555	47,379
Amortization	8,731	275	-	9,006
Earnings before income taxes	10,063	9	(555)	9,517
Income tax expense	3,673	4	(203)	3,474
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Retained earnings, beginning of period	101,283	245	-	101,528
Retained earnings, end of period	111,190			110,393
Earnings and diluted earnings per share	0.30			0.27

Consolidated Balance Sheet

	As at October 31, 2004			
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Capital assets	165,722	7,233	-	172,955
Deferred lease inducements	52,609	6,835	-	59,444
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Future income tax liability (asset)	(155)	(265)	(203)	(623)
Retained earnings	111,190	259	(1,056)	110,393

3. Credit Facilities

Effective June 30, 2005, the Company 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 October 30, 2005, the interest rate paid was 4.30% (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	32,875	\$ 137,811
Shares issued upon employees exercising stock options	13	108
Balance May 1, 2005	32,888	\$ 137,919
Shares issued upon employees exercising stock options	20	84
Balance July 31, 2005	32,908	\$ 138,003
Shares issued upon employees exercising stock options	4	15
Balance October 30, 2005	32,912	\$ 138,018

(c) Stock Option Plans

The Company has granted stock options to directors, officers and employees to purchase 2,721,667 Class A shares at prices between \$9.39 and \$19.19 per share. These options expire between August 22, 2006 and October 28, 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 October 30, 2005, no 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 October 30, 2005, 275,000 options were issued under this plan.

During the 13 weeks ended October 30, 2005, the following options, with strike prices between \$11.50 and \$12.77, 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
275	\$5.37	3.59%	5.0	46.00%	0.00%

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

Number of options	
Opening	2,555
Exercised	(4)
Expired	(105)
Granted	275
Closing	2,721

(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 thirty-nine weeks ended	
	October 30, 2005	October 31, 2004	October 30, 2005	October 31, 2004
Weighted average number of shares outstanding (basic)	32,911	32,667	32,895	32,517
Effect of dilutive securities	253	74	-	200
Weighted average number of common shares outstanding (diluted)	33,164	32,741	32,895	32,717

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 30, 2005	October 31, 2004	October 30, 2005	October 31, 2004
Anti-dilutive options	795	1,755	730	1,576

5. Supplementary Cash Flow Information

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	October 30, 2005	October 31, 2004 (restated)	October 30, 2005	October 31, 2004 (restated)
	\$	\$	\$	\$
Accounts receivable	(38,594)	(49,188)	(64,227)	(85,563)
Inventory	(34,353)	(30,709)	(44,674)	(58,358)
Prepaid expenses	1,079	8,861	979	7,955
Accounts payable and accrued liabilities	85,933	51,561	26,760	33,853
	14,065	(19,475)	(81,162)	(102,113)
Cash taxes paid	2,312	3,308	11,347	18,773
Cash interest paid	1,673	1,441	4,801	3,512

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 thirty-nine weeks ended	
	October 30, 2005	October 31, 2004 (restated)	October 30, 2005	October 31, 2004 (restated)
Revenues:				
Retail	\$ 210,262	\$176,013	\$ 568,348	\$ 489,271
Wholesale	95,126	89,713	218,872	221,451
	\$ 305,388	\$265,726	\$ 787,220	\$ 710,722
Operating Profit:				
Retail	\$ 22,317	\$ 16,084	\$ 31,936	\$ 39,644
Wholesale	8,498	8,239	17,329	20,822
	30,815	24,323	49,265	60,466
Non-segment specific administrative expenses	9,146	4,278	18,989	14,751
Amortization	9,789	9,006	30,513	26,477
Interest expense	1,598	1,522	4,820	3,462
Write-down of investment	-	-	-	1,814
	20,533	14,806	54,322	46,504
Earnings (loss) before income taxes	10,282	9,517	(5,057)	13,962
Income tax expense (recovery)	3,753	3,474	(1,846)	5,097
Net earnings (loss) for the period	\$ 6,529	\$ 6,043	\$ (3,211)	\$ 8,865

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 39 weeks ended October 30, 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
<u>Total assets acquired</u>	<u>56,628</u>
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
<u>Total liabilities acquired</u>	<u>43,602</u>
<u>Cash consideration</u>	<u>\$ 13,026</u>

During the second quarter, upon review of leases, there was a reclassification between Deferred Rent Liability and Deferred Lease Inducements of \$381,000.

8. Related Party

During the quarter the company purchased real estate valued at \$215,000 from an officer of the company in the normal course of operations and on similar terms and conditions to transactions entered into with unrelated parties.

9. Subsequent Event

On November 17, 2005, 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 \$185 million. This will provide additional liquidity for ongoing operations, new business ventures and potential business acquisitions.

10. Comparative Figures

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