

Second Quarter, Fiscal 2010 Report

Management's Discussion & Analysis

As at September 8, 2009

The unaudited interim consolidated financial statements as at, and for the 13 week and 26 week periods ended August 2, 2009, 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 second quarter and 26-week period ended August 2, 2009 ("fiscal 2010"), compared to the 13-week second quarter and 26-week period ended August 3, 2008 ("fiscal 2009"). It should be read in conjunction with the consolidated financial statements and notes and MD&A contained in the fiscal 2009 Annual Report and the unaudited interim consolidated financial statements referenced above.

Review Of Operations

For the 13 weeks ended August 2, 2009 and August 3, 2008

Retail system sales¹ for the quarter ended August 2, 2009 were \$348.4 million, an \$8.3 million decrease from sales for the quarter ended August 3, 2008 of \$356.7 million. Revenue, consisting of corporate store sales, wholesale sales, service income, equipment rentals, franchise fees and franchise royalties, was \$296.5 million, a \$0.9 million, or 0.3% increase over the same 13-week period last year. These revenue results were a combination of solid wholesale and franchise results, and weaker corporate sales results due partially to the closure of Athletes World locations in the prior year.

Same store sales in corporate locations were down 1.6% and, in franchise, down 0.1% from the fiscal 2009 second quarter, for an overall decrease of 1.0%.

Combined gross margin for the 13 weeks ended August 2, 2009 was down 100 basis points to 34.8% of revenue, from 35.8% in the prior year, as a result of a shift in the mix of revenue to lower margined wholesale sales from higher margined retail sales. In absolute dollars, combined gross margin decreased \$2.7 million to \$103.1 million compared to \$105.8 million in the 13-week period last year. On a year over year basis, corporate margins as a percentage of sales were up and met expectations while wholesale margins were down due to the strengthening of the Canadian dollar.

Store operating expenses, as a percent of corporate store revenue, were 32.1% against the prior year of 29.7%, a reflection of the reduced sales volumes, incremental costs associated with new stores opened in the quarter, and the impact of Fitness Source stores converted to corporate ownership at the end of the first quarter. Same store operating costs were at 29.9% of corporate store revenues. Same store costs, in absolute dollars, increased \$1.3 million or 2.4%.

General and administrative expenses were up 50 basis points to 9.0% of total revenue compared to 8.5% in the prior year. The increased run rate and absolute dollar increase of \$1.7 million were the result of \$1.6 million in legal costs related to the dissident shareholders' proxy battle during the quarter.

Earnings, before interest, taxes and amortization ("EBITA")² were \$6.9 million compared to \$14.9 million for the same period last year.

Losses before income taxes for the 13 weeks ended August 2, 2009 were \$6.3 million, an \$8.7 million deterioration compared to \$2.4 million in pre-tax earnings for the 13-week period 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 and amortization (EBITA), 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.

Net losses for the second quarter were \$4.4 million, or \$0.14 per share, compared to a profit of \$1.6 million, or \$0.05 per share in the prior year. Cash flow from operations³ decreased to \$4.7 million from \$10.9 million, \$0.15 from \$0.35 on a per share basis.

During the quarter, the Company opened 4 corporately owned stores (1 Sport Chek, 1 Coast Mountain Sports, 1 Fitness Source and 1 Hockey Experts) and closed 3 stores (1 Nevada Bob's Golf, 1 Athletes World and 1 Sport Mart). In the franchise division, 2 stores were opened (1 Atmosphere and 1 Sports Experts), while 3 stores closed (1 Intersport, 1 Econosports and 1 Nevada Bob's Golf). As a result, at the end of the second quarter, the Company had 344 corporate stores and 217 franchise locations. This was a net increase of 38,299 square feet of retail selling space, a 0.6% increase versus the previous quarter. The Company now has 561 stores from coast to coast (August 3, 2008 – 565 stores).

For the 26 weeks ended August 2, 2009 and August 3, 2008

Retail system sales for the 26 weeks were \$667.0 million, a \$23.8 million decrease from sales for the comparative fiscal 2009 period. Same store sales in corporate stores decreased 0.4%, while franchise stores decreased 1.3%, with total same store retail system sales decreasing 0.7%.

Revenue was \$604.2 million, a \$1.2 million, or 0.2% increase over the 26-week period last year. Combined gross margin for the 26 weeks ended August 2, 2009 was down 80 basis points to 34.2% of revenue, from 35.0% in the prior year. In absolute dollars, combined gross margin decreased \$4.5 million, to \$206.7 million, from the 26-week period last year.

Store operating expenses, as a percent of retail revenue, were 32.6% versus 31.6% in the prior year. General and administrative expenses were flat to the prior year at 8.7% of total revenue despite the impact of \$1.6 million in legal costs associated with the dissident shareholders' proxy battle in the second quarter. Overall, general and administrative expenses were down \$0.1 million versus the prior year.

EBITA was \$18.4 million, or 3.0% of total revenue, compared to 3.7% for the same period last year. Losses before income taxes for the 26 weeks ended August 2, 2009 were \$8.0 million compared to a loss of \$2.0 million for the 26-week period in the prior year.

Net loss was \$5.5 million versus \$1.3 million in the prior year.

Basic and diluted loss per share for the 26-week period ended August 2, 2009, was \$0.18 compared to losses of \$0.04 in the prior year. Cash flow from operations decreased to \$13.0 million from \$16.6 million in the prior year. On a per share basis, cash flow decreased 17.3% to \$0.43 compared to \$0.52 in the prior year.

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.

Quarterly Data⁴

(unaudited)

(in thousands, except per share data)

	Revenue	EBITA	Net Earnings (Loss)	EPS	Diluted EPS
	\$	\$	\$	\$	\$
July 29, 2007	292,381	20,940	5,506	0.16	0.16
October 28, 2007	333,471	32,946	12,666	0.37	0.36
February 3, 2008	410,559	54,625	28,782	0.87	0.86
May 4, 2008	307,490	7,682	(2,819)	(0.09)	(0.09)
August 3, 2008	295,562	14,861	1,560	0.05	0.05
November 2, 2008	362,894	27,334	6,646	0.22	0.22
February 1, 2009	380,812	47,225	24,229	0.79	0.79
May 3, 2009	307,713	11,500	(1,117)	(0.04)	(0.04)
August 2, 2009	296,525	6,888	(4,412)	(0.14)	(0.14)

⁴ Certain prior year figures have been restated in conjunction with Note 1 to the financial statements.

Financial Condition

As at August 2, 2009, the Company had working capital of \$62.3 million, compared to \$64.1 million in the prior year and \$79.8 million as at February 1, 2009. Accounts receivable have increased due to the year over year growth in the Company's franchise and wholesale networks. Inventory increased \$7.1 million or 2.1% due to the year over year increase in the Company's corporate store count. Overall, inventory intensity⁵ at \$73 is flat to the prior year. Accounts payable financing of inventory and receivables from franchisees, was 60.9% versus 58.9% 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 10 of the fiscal 2009 Consolidated Financial Statements) and the periodic issuance of shares. For the second quarter of fiscal 2010, these sources of capital included: cash generated from operating activities, before changes in non-cash working capital elements, of \$4.7 million, a decrease of \$6.2 million when compared to the prior year; and a credit facility with GE Canada Finance Holding Company and National Bank of Canada. As at August 2, 2009, the Company is in compliance with its covenant. 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.

Normal Course Issuer Bid

The Company announced, on April 9, 2009, that it had received approval from the Toronto Stock Exchange ("TSX") for a normal course issuer bid ("the Bid") for its Class A shares from April 14, 2009 to April 13, 2010. During that period, the Company may purchase, on the TSX, up to 2,406,506 or approximately 10% of the Company's public float. Except as permitted under TSX rules, the Company will not purchase on any given trading day under the Bid more than 17,026 Class A shares being 25% of the average daily trading volume of the Class A shares for the six consecutive months prior to the date of the Bid of 68,106 Class A shares per day. The price the Company will pay for any such shares purchased will be the market price at the time of acquisition and the purchased Class A shares will be returned to treasury for cancellation. The actual number of Class A shares purchased, and the timing of any such purchases, will be determined by the Company. During the second quarter ended August 2, 2009, the Company purchased and cancelled no shares (August 3, 2008 – 2,062,076) at a cost of \$Nil (August 3, 2008 - \$32,953,000).

5. Defined as inventory on hand, per square foot of retail space – non-GAAP measure.

Share Capital

The Company has authorized an unlimited number of Class A shares and an unlimited number of Preferred shares, issuable in series. No Preferred Shares have been issued. The Class A shares of the Company are publicly traded on the TSX under the symbol "FGL".

As at August 2, 2009, the Company had 30,622,280 Class A shares outstanding. The Company had 2,065,320 options outstanding of which 1,212,459 were exercisable. As at September 8, 2009, the Company has 30,636,880 Class A shares issued and outstanding.

Dividends

On December 7, 2007, the Company announced its intention to declare annual dividends of \$0.30 per Class A share, payable quarterly, subject to the Board of Directors' discretion. All dividends paid by the Company are, pursuant to subsection 89(14) of the Income Tax Act, designated as eligible dividends. An eligible dividend paid to a Canadian resident is entitled to the enhanced dividend tax credit.

On September 8, 2009 the Company declared its fiscal 2010 third quarter dividend of \$0.075 per Class A share, payable on November 2, 2009 to shareholders of record on October 19, 2009.

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 February 1, 2009, except as stated below.

New Accounting Policies

Effective February 4, 2008, the Company adopted the following accounting standard issued by the Canadian Institute of Chartered Accountants ("CICA"):

CICA Section 3031, *Inventories*, introduced significant changes to the measurement and disclosure of inventories, including the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable for goods and services produced for specific purposes, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. Under the prior guidance, the Company included storage costs in the cost of inventory. This is no longer permitted, resulting in a \$1,357,000

adjustment to opening inventory for the fiscal 2009 year and a corresponding adjustment to opening retained earnings by the difference in the measurement of opening inventory.

Effective February 2, 2009, the Company retroactively adopted CICA Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062 of the same title. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets.

Under the prior guidance, the Company capitalized certain non-compete payments, training costs, and product development costs that no longer meet the requirements of the new section.

The balances in these asset accounts as at February 1, 2009 were restated and included in Retained Earnings and the results of operations of fiscal 2009 were also restated to conform to the fiscal 2010 presentation.

The impact of the recommendations of the new section on the consolidated financial statements follows:

(In thousands except per share data)

Consolidated Balance Sheets	February 1, 2009	August 3, 2008
Increase (decrease)		
Assets		
Goodwill and other intangibles	\$ (47)	\$ (47)
Other assets	(735)	(927)
Future income tax asset	279	341
	\$ (503)	\$ (633)
Shareholders' Equity		
Retained earnings, opening	\$ (804)	\$ (804)
Net income for the period	301	171
Retained earnings, ending	\$ (503)	\$ (633)

Consolidated Earnings	For the 26 weeks ended August 3, 2008
Net loss for the period as previously stated before the following items:	\$ (1,432)
Adjustments to:	
Depreciation and amortization	263
Income tax	(92)
	171
Net loss for the period	\$ (1,261)
Net loss per share – basic and diluted	\$ 0.04

The Emerging Issues Committee issued EIC-173, *Credit risk and the fair value of financial assets and financial liabilities*, which provides guidance on how to measure financial assets and liabilities, taking into account the company's own credit risk and the counterparty credit risk in determining the fair value of financial assets and financial liabilities. The adoption of these recommendations, effective February 2, 2009, had no material impact on the results, financial position and cash flows of the Company.

Future Accounting Pronouncements

The following are new standards, not yet in effect, which may impact the Company:

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests – (CICA Sections 1582, 1601 and 1602)

As of January 30, 2011, the Company will be required to adopt new CICA standards with respect to business combinations, consolidated financial statements and non-controlling interests. The new CICA Section 1582 will replace CICA Section 1581 and is meant to align the accounting for business combinations under Canadian GAAP with the requirements of International Financial Reporting Standards. Likewise, CICA Sections 1601 and 1602 will replace CICA Section 1600 with respect to consolidated financial statements and accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination.

Under sections 1582, 1601 and 1602 the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. In addition, acquisition costs are not part of the purchase consideration and are to be expensed when incurred. With the adoption of these standards, the Company expects that all acquisition related costs will be expensed through the consolidated statement of operations. These standards will be applied on a prospective basis.

International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA announced that GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which current and comparative information will be prepared under IFRS.

The Company is in the process of completing the assessment phase of the transition. This phase identified a number of topics possibly impacting either the Company's financial results and/or the Company's effort necessary to changeover to IFRS. This phase is ongoing, as the Company will continue to assess future International Accounting Standards Board (“IASB”) pronouncements for transitional impacts.

The Company has started the key elements phase of implementation which includes the identification, evaluation and selection of accounting policies necessary for the Company to transition to IFRS. Consideration of impacts on operational

elements such as information technology and internal control over financial reporting are integral to this process.

Although the Company's impact assessment activities are underway and progressing according to plan, continued progress is necessary before the Company can prudently increase the specificity of the disclosure of pre- and post-IFRS changeover accounting policy differences.

Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting during the period ended August 2, 2009, that materially affected, or are reasonably likely to materially affect, internal control over financial reporting. Internal control over financial reporting is the same as that disclosed in Management's Discussion and Analysis in the Company's fiscal 2009 Annual Report.

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 2009 Annual Report and Annual Information Form ("AIF"). 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.

The Company is exposed to risks in hiring and retaining exceptional sales and administrative personnel to operate its business. It competes on a regional basis for these resources with other employers both within and outside the traditional retail market. In order to manage this risk, the Company monitors trends in compensation and benefits and adjusts its offering to employees on a regular basis to remain competitive.

The Company's success is, to a significant extent, attributable to the leadership and experience of its senior management and other key employees. The unexpected loss of the Company's current senior management or other key employees, or its ability to attract, hire and retain such persons in the future could have an adverse effect on the business and prospects of the Company. In order to manage this risk, the Company monitors and adjusts its compensation to the marketplace and has in place a Long Term Incentive Plan for key personnel. The Company has also initiated a program to identify and develop the next generation of high potential leadership candidates from within management ranks.

The Company sources the majority of its product from domestic suppliers. No single vendor accounts for more than 7% of the total annual purchases of the Company. To the extent that these domestic suppliers import their products, the Company may be exposed to the risk of delivery delay caused by a labour disruption at the ports handling this product. To mitigate the risk, the Company has historically worked closely with key vendors to re-schedule or re-route deliveries and/or production that could be delayed in the event of likely port disruptions.

Extreme weather conditions can affect the timing of consumer spending and may have an adverse effect upon the Company's business. In particular, unseasonable weather, especially during the Company's peak selling seasons, may have an adverse effect on the Company's sales and results from operations. The Company's geographic diversity mitigates the risk to some extent as does its ability to adjust local inventories on a timely basis through its precision retail group and supply chain.

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 2010, the Company plans to open 16 new corporate stores and focus on driving up existing corporate store sales per door through the installation of Nevada Bob's Golf concept shops in Sport Chek locations, while continuing to expand its Franchise store base by approximately 12 stores.

This report contains certain statements that may constitute forward-looking information within the meaning of applicable securities laws. This forward-looking information relates to, among other things, the Company's growth objectives, strategic and operating initiatives, revenue, retail system sales, share buy-backs and dividend growth, and can generally be identified by the use of such words as "may", "will", "expect", "believe", "plan", "intend", "are confident" and other similar terminology, including statements concerning possible or assumed future results. Certain material factors or assumptions are applied in making statements regarding forward-looking information, and actual results may differ materially from those expressed or implied in such information. The forward-looking information in this report is based upon material factors and assumptions that management believes are reasonable as of the date of this report, including the successful execution of the initiatives described herein; however, the Company cannot assure actual results will be consistent with this forward-looking information. Information about material factors that could cause actual results to differ materially from expectations include, but are not limited to, the factors discussed herein and those factors discussed in the Company's Annual Information Form filed with the securities regulatory authorities in Canada, available at www.sedar.com.

When relying on the forward-looking information to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Although the Company believes that the expectations reflected in such forward-looking information are reasonable, such information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. While the Company may elect to do so, unless required by applicable law, it undertakes no obligation to update this information to reflect new information or circumstances at any particular time.