

Second Quarter, Fiscal 2009 Report

Management's Discussion & Analysis

As at September 2, 2008

The unaudited interim consolidated financial statements as at, and for the 13 week and 26 week periods ended August 3, 2008, 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 3, 2008 ("fiscal 2009"), compared to the 13-week second quarter and 26-week period ended July 29, 2007 ("fiscal 2008"). It should be read in conjunction with the consolidated financial statements and notes and MD&A contained in the fiscal 2008 Annual Report.

REVIEW OF OPERATIONS

For the 13 weeks ended August 3, 2008 and July 29, 2007

Retail system sales¹ for the quarter ended August 3, 2008 were \$356.7 million, a \$5.4 million increase from sales for the quarter ended July 29, 2007 of \$351.3 million. Revenue, consisting of corporate store sales, wholesale sales, service income, equipment rentals, franchise fees and franchise royalties, was \$295.6 million, a \$3.2 million, or 1.1% increase over the same 13-week period last year.

Same store sales in corporate locations were down 6.5% and, in franchise, down 0.6% over the fiscal 2008 second quarter, for an overall decrease of 4.2%.

Combined gross margin for the 13 weeks ended August 3, 2008 was up 90 basis points to 35.8% of revenue, from 34.9% in the prior year, as a result of a change in the mix of revenue between higher margined retail and lower margined wholesale sales. In absolute dollars, combined gross margin increased \$3.7 million to \$105.8 million compared to \$102.1 million in the 13-week period last year. These revenue and margin results were a combination of solid wholesale and franchise results, and solid corporate results excluding the impact of continued liquidation of aged inventory in the Athletes World division.

Store operating expenses, as a percent of corporate store revenue, were 29.7% against the prior year of 27.7%, a reflection of the addition of Athletes World and reduced sales volumes. Same store operating costs were at 28.2% of corporate store revenues. Same store costs, in absolute dollars, increased \$0.1 million or 0.1%.

General and administrative expenses were up 90 basis points to 8.5% of total revenue compared to 7.6% in the prior year. The absolute dollar increase of \$2.9 million was primarily the result of the additional \$2.7 million in infrastructure costs related to the Athletes World acquisition.

Earnings, before interest, taxes and amortization (“EBITA”)², were \$14.9 million compared to \$20.9 million for the same period last year.

Earnings before income taxes for the 13 weeks ended August 3, 2008 were \$2.3 million, a \$6.2 million decrease compared to \$8.5 million for the 13-week period in the prior year.

Net earnings for the second quarter were \$1.5 million, or \$0.05 per share, compared to \$5.4 million, or \$0.16 per share in the prior year. Cash flow from operations³ decreased to \$10.9 million from \$13.8 million, \$0.35 from \$0.41 on a per share basis.

During the quarter, the Company opened 1 Nevada Bob’s Golf corporately owned store, acquired 1 Econosport store from a franchisee and closed 5 Athletes World stores. In the franchise division, 2 stores were opened (1 Atmosphere and 1 Hockey Experts), 1 RnR store was closed and 1 Econosport was converted to a Corporate store. As a result, at the end of the second quarter, the Company had 338 corporate stores and 227 franchise locations. This was a net decrease of 6,081 square feet of retail selling space, a 0.1% decrease versus the previous quarter. The Company now has 565 stores from coast to coast (July 29, 2007 – 488 stores).

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.

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.

For the 26 weeks ended August 3, 2008 and July 29, 2007

Retail system sales for the 26 weeks were \$690.8 million, a \$31.1 million increase from sales for the comparative fiscal 2008 period. Same store sales in corporate stores decreased 5.3%, while franchise stores increased 1.1%, with total same store retail system sales decreasing 2.9%

Revenue was \$603.1 million, a \$16.2 million, or 2.7% increase over the 26-week period last year. Combined gross margin for the 26 weeks ended August 3, 2008 was up 90 basis points to 35.0% of revenue, from 34.1% in the prior year. In absolute dollars, combined gross margin increased \$11.0 million, to \$211.2 million, from the 26-week period last year.

Store operating expenses, as a percent of retail revenue, were 31.6% versus 28.7% in the prior year. General and administrative expenses were 8.7% of total revenue due to the impact of the Athletes World acquisition. Overall, the absolute dollar increase in general and administrative expenses was \$4.1 million. Excluding the \$5.5 million in Athletes World infrastructure costs, general and administrative costs fell by \$1.4 million and represented 8.3% of total revenue versus 8.2% in the prior year.

EBITA was \$22.5 million, or 3.7% of total revenue, compared to 6.0% for the same period last year. Losses before income taxes for the 26 weeks ended August 3, 2008 were \$2.2 million compared to a pre-tax profit of \$9.7 million for the 26-week period in the prior year.

Net loss was \$1.4 million versus a net income of \$6.2 million in the prior year. Excluding the impact of Athletes World, net income for the year would have been \$0.4 million.

Basic and diluted loss per share for the 26-week period ended August 3, 2008, were \$0.04 compared to earnings of \$0.18 in the prior year. Cash flow from operations decreased to \$16.6 million from \$26.2 million in the prior year. On a per share basis, cash flow decreased 32.5% to \$0.52 compared to \$0.77 in the prior year.

Quarterly Data

(unaudited)

(In thousands, except per share data)

	Revenue	EBITA	Net Earnings (Loss)	EPS	Diluted EPS
	\$	\$	\$	\$	\$
October 29, 2006	346,349	31,416	11,878	0.36	0.35
January 28, 2007	353,176	46,941	21,097	0.63	0.62
April 29, 2007	294,558	14,459	739	0.02	0.02
July 29, 2007	292,381	20,940	5,428	0.16	0.16
October 28, 2007	333,471	32,946	12,586	0.37	0.36
February 3, 2008	410,559	54,625	28,698	0.85	0.85
May 4, 2008	307,490	7,682	(2,907)	(0.09)	(0.09)
August 3, 2008	295,562	14,861	1,476	0.05	0.05

Financial Condition

As at August 3, 2008, the Company had working capital of \$64.1 million, compared to \$127.5 million in the prior year and \$125.1 as at February 3, 2008. Accounts receivable have decreased despite the year over year growth in the Company's franchise and wholesale networks. Inventory increased \$11.1 million or 3.4% on the \$15.5 million additional inventory in the Athletes World division. Overall, inventory intensity¹ has decreased 6.4% to \$73 versus the prior year of \$78. Accounts payable financing of inventory and receivables from franchisees, was 58.9%, versus 55.4% 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 2008 Consolidated Financial Statements) and the periodic issuance of shares. For the second quarter of fiscal 2009, these sources of capital included: cash generated from operating activities, before changes in non-cash working capital elements, of \$10.9 million, a decrease of \$2.9 million when compared to the prior year; and a credit facility with GE Canada Finance Holding Company as noted below.

Effective June 11, 2008, the Company renewed its credit agreement with GE Canada Finance Holding Company to June 11, 2013. The renewed agreement increased the \$235 million credit facility to \$250 million, comprised entirely of a revolving loan. Under the terms of the credit agreement, the interest rate payable on the revolving loan is based on the Company's financial performance as determined by its interest coverage ratio. As at August 3, 2008, the interest rate paid was bank prime less 0.45%. The facility is collateralized by general security agreements against all existing and future acquired assets of the Company. As at August 3, 2008, the Company is in compliance with its financial 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 March 26, 2008, that it had received approval from the Toronto Stock Exchange to extend its normal course issuer bid for its common shares from March 27, 2008 to March 26, 2009. During that period, the Company may purchase, on the Toronto Stock Exchange, up to 2,664,376 or 10% of the Company's public float. The price the Company will pay for any such shares purchased will be the market price at the time of acquisition and the purchased common shares will be cancelled. The actual number of common shares purchased, and the timing of any such purchases, will be determined by the Company.

During the second quarter ended August 3, 2008, the Company purchased and cancelled 2,062,076 shares (fiscal 2008 - 102,100) at a cost of \$32,953,000 (fiscal 2008 - \$2,355,000) to complete its normal course issuer bid for the fiscal 2009 year.

¹ Defined as inventory on hand, at cost, per square foot of retail space.

Share Capital

The Company has authorized an unlimited number of Class A shares and an unlimited number of Preferred shares, issuable in series. The Class A shares of the Company are publicly traded on the Toronto Stock Exchange under the symbol "FGL".

As at August 3, 2008, the Company had 30,468,045 shares outstanding and had not issued any Preferred shares. The Company has 1,766,583 options outstanding of which 1,255,967 are exercisable.

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 Director's 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 2, 2008, the Company declared its fiscal 2009 third quarter dividend of \$0.075 per Class A share, payable on November 3, 2008 to shareholders of record on October 20, 2008.

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 3, 2008, except as stated below.

New Accounting Policies

Effective February 4, 2008, the Company adopted the following standards related to recent accounting pronouncements;

(i) CICA Section 1535 - *Capital Disclosures*

The standard establishes disclosure requirements about an entity's capital and how it is managed. The new standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what an entity regards as capital and whether the entity has complied with any externally imposed capital requirements and the consequences of any non-compliance. Additional disclosure required as a result of the adoption of this standard is contained in Note 6.

(ii) CICA Sections 3862 - *Financial Instruments Disclosures*, and 3863 *Financial Instruments Presentation*

The standards replace Section 3861 Financial Instruments Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward, substantially unchanged, its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Additional disclosure required as a result of the adoption of this standard is contained in Note 7.

(iii) CICA Section 3031 – *Inventories*

The standard introduces 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 or 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. Prior periods have not been restated.

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

(i) CICA Section 3064 - *Goodwill and Intangible Assets*

In November 2007, the CICA issued Section 3064, Goodwill and Intangible Assets (“Section 3064”). Section 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This standard is effective for the Company for interim and annual consolidated financial statements beginning on or after October 1, 2008. The Company is currently assessing the impact that this section will have on its financial position and results of operations.

(ii) International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA announced that Canadian generally accepted accounting principles “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 Canadian GAAP to IFRS will be applicable to the Company’s reporting for the first quarter of fiscal 2012 for which the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting, financial reporting, IT systems and processes as well as certain contractual arrangements. The Company is currently assessing the impact of the transition to IFRS. Training and additional resources will be engaged to ensure the timely conversion to IFRS.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in internal control over financial reporting during the period ended August 3, 2008, 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 2008 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 2008 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.

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 labor 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 of 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 2009, the Company plans to focus on driving up existing corporate store sales per door, while continuing to expand its Franchise store base by approximately 23 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.