

The Forzani Group Ltd.

Consolidated Balance Sheets
(in thousands)
(unaudited)

As at	November 2, 2008	February 3, 2008	October 28, 2007
ASSETS			
Current			
Cash and cash equivalents	\$ 1,996	\$ 47,484	\$ 9,854
Accounts receivable	154,455	75,506	138,548
Inventory (Note 1)	378,978	319,445	376,620
Prepaid expenses	2,863	14,501	3,647
	538,292	456,936	528,669
Capital assets	191,761	188,621	185,812
Goodwill and other intangibles	91,499	89,335	89,338
Other assets	8,423	3,863	3,950
Future income tax asset	16,013	16,209	309
	\$ 845,988	\$ 754,964	\$ 808,078
LIABILITIES			
Current			
Indebtedness under revolving credit facility	\$ 90,643	\$ -	\$ -
Accounts payable and accrued liabilities	381,214	279,910	349,058
Current portion of long-term debt	2,398	51,863	51,671
	474,255	331,773	400,729
Long-term debt	4,623	6,586	6,685
Deferred lease inducements	49,824	55,089	55,367
Deferred rent liability	5,927	6,033	6,140
	534,629	399,481	468,921
SHAREHOLDERS' EQUITY			
Share capital (Note 3)	147,161	157,105	160,105
Contributed surplus	6,401	7,210	6,821
Accumulated other comprehensive earnings (loss)	928	(8)	(166)
Retained earnings (Note 1)	156,869	191,176	172,397
	311,359	355,483	339,157
	\$ 845,988	\$ 754,964	\$ 808,078

see accompanying notes to the consolidated financial statements

The Forzani Group Ltd.

Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	November 2, 2008	October 28, 2007	November 2, 2008	October 28, 2007
Revenue				
Retail	\$ 245,325	\$ 224,158	\$ 676,945	\$ 630,458
Wholesale	117,569	109,313	289,001	289,950
	362,894	333,471	965,946	920,408
Cost of sales	241,948	219,545	633,835	606,332
Gross margin	120,946	113,926	332,111	314,076
Operating and administrative expenses				
Store operating	66,302	60,915	202,545	177,401
General and administrative	27,310	20,065	79,690	68,330
	93,612	80,980	282,235	245,731
Operating earnings before undernoted items	27,334	32,946	49,876	68,345
Amortization of capital assets	12,076	11,137	34,861	33,039
Interest	2,609	1,831	4,568	4,737
Loss on sale of investment	-	-	-	864
	14,685	12,968	39,429	38,640
Earnings before income taxes	12,649	19,978	10,447	29,705
Income tax expense (recovery)				
Current	5,667	7,428	5,095	11,146
Future	396	(36)	198	(194)
	6,063	7,392	5,293	10,952
Net earnings for the period	\$ 6,586	\$ 12,586	\$ 5,154	\$ 18,753
Earnings per share (Note 3)	\$ 0.22	\$ 0.37	\$ 0.16	\$ 0.55
Diluted earnings per share (Note 3)	\$ 0.22	\$ 0.36	\$ 0.16	\$ 0.55

see accompanying notes

The Forzani Group Ltd.

Consolidated Statements of Retained Earnings, Comprehensive Earnings and Accumulated Other Comprehensive Earnings (Loss) (in thousands) (unaudited)

Consolidated Statement of Retained Earnings	For the thirteen weeks ended		For the thirty-nine weeks ended	
	November 2, 2008	October 28, 2007	November 2, 2008	October 28, 2007
Retained earnings, beginning of period	\$ 152,567	\$ 169,410	\$ 191,176	\$ 171,095
Adjustment arising from adoption of new accounting policy (Note 1)	-	-	(1,357)	-
Adjusted Retained earnings, beginning of period	152,567	169,410	189,819	171,095
Net earnings	6,586	12,586	5,154	18,753
Dividends (Note 3(e))	(2,284)	-	(7,042)	-
Adjustment arising from shares purchased under a normal course issuer bid (Note 3 (b))	-	(9,599)	(31,062)	(17,451)
Retained earnings, end of period	\$ 156,869	\$ 172,397	\$ 156,869	\$ 172,397

Consolidated Statement of Comprehensive Earnings

Net earnings	\$ 6,586	\$ 12,586	\$ 5,154	\$ 18,753
Other comprehensive earnings (loss):				
Unrealized foreign currency gains and losses on cash flow hedges	1,391	(264)	1,439	(389)
Tax impact	(486)	98	(503)	144
Other comprehensive earnings (loss)	905	(166)	936	(245)
Comprehensive earnings	\$ 7,491	\$ 12,420	\$ 6,090	\$ 18,508

Consolidated Statement of Accumulated Other Comprehensive Earnings (Loss) ("AOCE")

Accumulated other comprehensive earnings (loss), beginning of period	\$ 23	\$ -	\$ (8)	\$ -
Reclassification of foreign currency translation (transitional adjustment)	-	-	-	79
Accumulated other comprehensive earnings (loss), beginning of period, as restated	23	-	(8)	79
Other comprehensive earnings (loss)	905	(166)	936	(245)
Accumulated other comprehensive earnings (loss), end of period	\$ 928	\$ (166)	\$ 928	\$ (166)

see accompanying notes

The Forzani Group Ltd.

Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	November 2, 2008	October 28, 2007	November 2, 2008	October 28, 2007
Cash provided by (used in) operating activities				
Net earnings for the period	\$ 6,586	\$ 12,586	\$ 5,154	\$ 18,753
Items not involving cash:				
Amortization of capital assets	12,076	11,137	34,860	33,039
Amortization of deferred finance charges	37	189	333	731
Amortization of deferred lease inducements	(2,821)	(2,754)	(8,591)	(8,260)
Rent expense (Note 5)	70	151	74	606
Stock-based compensation (Note 3(c))	(1,120)	76	(174)	2,338
Future income tax expense (recovery)	395	(36)	196	(194)
Loss on sale of investment	-	-	-	864
Unrealized loss on ineffective hedges	345	8	344	37
	15,568	21,357	32,196	47,914
Changes in non-cash elements of working capital related to operating activities (Note 5)	39,469	27,042	(31,087)	(30,629)
	55,037	48,399	1,109	17,285
Cash provided by (used in) financing activities				
Proceeds from issuance of share capital (Note 3(b))	-	1,087	2,384	13,115
Share repurchase via normal course issuer bid (Note 3(b))	-	(12,785)	(44,027)	(22,695)
Decrease in long-term debt	(879)	(64)	(1,762)	(2,011)
Increase (decrease) in revolving credit facility	(38,801)	(18,809)	90,643	-
Dividends paid (Note 3(e))	(2,284)	-	(7,042)	-
Lease inducements received	2,028	2,690	3,327	5,084
	(39,936)	(27,881)	43,523	(6,507)
Changes in non-cash elements of financing activities (Note 5)	(555)	(150)	(50,675)	(1,462)
	(40,491)	(28,031)	(7,152)	(7,969)
Cash provided by (used in) investing activities				
Capital assets	(11,538)	(11,740)	(34,611)	(26,743)
Other assets	(2,373)	269	(2,402)	3,303
	(13,911)	(11,471)	(37,013)	(23,440)
Changes in non-cash elements of investing activities (Note 5)	(1,429)	213	(2,432)	1,220
	(15,340)	(11,258)	(39,445)	(22,220)
Increase (decrease) in cash	(794)	9,110	(45,488)	(12,904)
Cash position, opening	2,790	744	47,484	22,758
Cash position, closing	\$ 1,996	\$ 9,854	\$ 1,996	\$ 9,854

see accompanying notes

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

1. Summary of Significant Accounting Policies

The unaudited interim consolidated financial statements (the “financial statements”) of The Forzani Group Ltd. (the “Company” or “FGL”) 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 53-week period ended February 3, 2008.

The interim financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements as at February 3, 2008, except as noted below.

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 November 2, 2008 which is not necessarily indicative of performance for the balance of the year.

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

CICA Section 1535, *Capital Disclosures*, 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.

CICA Sections 3862, *Financial Instruments - Disclosures*, and 3863 *Financial Instruments - Presentation*, 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.

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

CICA Section 3031, *Inventories*, 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 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 year and a corresponding adjustment to opening retained earnings by the difference in the measurement of opening inventory. Prior periods have not been restated.

2. Future Accounting Policy

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 relating to fiscal years 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.

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 the current and comparative information will be prepared under IFRS.

The Company is in the process of completing the scoping and 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.

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

3. Share Capital

(a) Authorized

An unlimited number of Class A common shares

An unlimited number of Preferred shares, issuable in series

(b) Issued

Class A shares	Number		Consideration
Balance February 3, 2008	32,970	\$	157,105
Shares issued upon employees exercising stock option	182		2,257
Stock-based compensation related to options exercised	-		605
Shares redeemed pursuant to normal course issuer bid	(632)		(3,013)
Balance May 4, 2008	32,520	\$	156,954
Shares issued upon employees exercising stock options	10		127
Stock-based compensation related to options exercised	-		32
Shares redeemed pursuant to normal course issuer bid	(2,062)		(9,952)
Balance August 3, 2008 and November 2, 2008	30,468	\$	147,161

During the 13-week period ended November 2, 2008, no (2008 – 670,000) Class A shares were repurchased and cancelled pursuant to the Company's Normal Course Issuer Bid for a total expenditure of \$Nil (2008 – \$12,785,000). For the 39-week period ended November 2, 2008, 2,694,376 (2008 – 1,132,900) Class A shares were repurchased and cancelled for a total expenditure of \$44,027,000 (2008 - \$22,695,000) or \$16.34 per share, and the consideration in excess of stated value of \$31,062,000 was charged to retained earnings.

(c) Stock Option and Unit Plans

As at November 2, 2008, the Company has outstanding stock options to officers and employees to purchase 1,683,509 Class A shares at prices between \$10.25 and \$23.00 per share. These options expire on dates between March 2009 and June 2013.

The Company has three 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 November 2, 2008, there were no options issued under this plan (2008 – Nil) and no stock-based compensation expense was recognized (2008 – \$15,000). For the 39-week period ended November 2, 2008, there were no options (2008 - Nil) issued under this plan and \$25,077 in stock-based compensation expense was recognized (2008 - \$308,000).

The second plan has the following general terms: options vest over a period ranging from 2 to 5 years dependent on the Company achieving certain performance targets and the maximum term of the options granted is 5 years. All performance targets related to this plan were achieved in fiscal 2007, and therefore any new grants under this plan vest and are expensed immediately. During the 13-week period ended November 2, 2008, there were

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

no options issued under this plan (2008 – Nil) and no stock-based compensation expense was recognized (2008 - \$Nil). For the 39-week period ended November 2, 2008, there were 120,000 options (2008 – 200,000) issued under this plan and \$382,800 in stock-based compensation expense was recognized (2008 - \$1,886,192).

The third plan, which forms part of a Long Term Incentive Plan (“LTIP”), has the following general terms: option grants are made annually and options vest over 3 years with a maximum term of 5 years. Under the terms of the plan, options issued carry a tandem share appreciation right (“TSAR”) which allows holders to exercise vested options in either the traditional fashion, where shares are issued from treasury, or surrender their option in exchange for an amount of cash equalling the difference between the market price for a common share on the date of surrender and the strike price of the option. The final details of this plan were approved by the Company in the third quarter of fiscal 2008. During the quarter, as a result of the TSAR exercise history being predominantly for cash, the Company deemed the plan to be cash-settled and accounted for it as a liability-classified award with TSARs measured at their fair value on the date of issuance, and re-measured at each reporting period, until settlement.

During the 13-week period ended November 2, 2008, 1,900 options (2008 – Nil) were issued under this plan and a credit of \$1,119,878 to stock-based compensation expense was recognized (2008 - \$61,216 expensed). For the 39-week period ended November 2, 2008, there were 264,760 options (2008 – 150,000) issued under this plan and a credit of \$581,904 to stock-based compensation expense was recognized (2008 - \$141,680 expense).

The total number of shares authorized for option grants under all option plans is 3,406,622.

Weighted Average

Options issued	Strike price	Fair value per option	Risk-free rate	Expected option life	Expected volatility	Expected dividend yield
1,900	\$12.83	\$2.42	3.00%	3.00	28.37%	2.34%

The following table summarizes the movement in stock options during the 39-week period ended November 2, 2008:

	Number
Opening	1,658
Granted	385
Exercised	(192)
Converted (TSAR Exercise)	(11)
Forfeited	(156)
Closing	1,684

The Company issues director stock units (“DSU”), restricted stock units (“RSU”) and performance stock units (“PSU”) from time to time. These units are accounted for as liability-classified awards and are measured at their fair value on the date of issuance, and re-measured at each reporting period, until settlement.

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

During the 13-week period ended November 2, 2008, 993 (2008 – Nil) PSUs were issued and a credit of \$18,056 (2008 – \$Nil) was recorded to compensation expense. For the 39-week period ended November 2, 2008, there were 145,073 (2008 – 100,000) PSUs issued under this plan and \$1,606,520 in compensation expense was recognized (2008 - \$2,369,341).

During the 13-week period ended November 2, 2008, 884 (2008 – Nil) RSUs were issued and \$1,844 (2008 - \$Nil) was charged to compensation expense. For the 39-week period ended November 2, 2008, there were 45,209 (2008 - Nil) RSUs issued under this plan and \$479,676 in compensation expense was recognized (2008 - \$Nil)

During the 13-week period ended November 2, 2008, 5,170 (2008 – 4,004) DSUs were issued and \$640,013 (2008 - \$328,516) was credited to compensation expense due to a reduction in the fair value of units. For the 39-week period ended November 2, 2008, there were 14,683 DSUs (2008 – 11,959) issued under this plan and \$736,267 was credited to compensation expense due to a reduction in the fair value of units. (2008 - \$352,682 expense).

As at November 2, 2008, the Company has recorded a total amount payable for all units outstanding of \$2,102,191 (2008 - \$3,303,080) of which \$1,472,480 relates to DSUs, paid when a director leaves the Board of Directors.

(d) Earnings per Share

The Company uses the treasury-stock method to calculate diluted earnings per share. Under the treasury-stock method, the numerator remains unchanged from the basic earnings per share calculation as the assumed exercise of the Company's stock options does not result in an adjustment to earnings. The reconciliation of the denominator in calculating diluted earnings per share is as follows:

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	November 2, 2008	October 28, 2007	November 2, 2008	October 28, 2007
Weighted average number of Class A shares outstanding (basic)	30,468	34,212	31,575	33,973
Effect of dilutive securities	37	428	94	431
Weighted average number of Class A shares outstanding (diluted)	30,505	34,640	31,669	34,404

Anti-dilutive options 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	
	November 2, 2008	October 28, 2007	November 2, 2008	October 28, 2007
Anti-dilutive options	1,381	40	1,153	21

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

(e) Dividends

On December 7, 2007 the Company declared its first quarterly dividend of \$0.075 per Class A common share, payable on February 4, 2008 to shareholders of record on January 21, 2008. The Company's stated intention is to declare annual dividends of \$0.30 per share, payable quarterly, subject to the Board of Directors discretion.

The Company has declared quarterly dividends of \$0.075 per Class A common share, payable to shareholders of record as follows:

Dated Declared	For Shareholders of Record Dated
April 9, 2008	May 5, 2008
June 10, 2008	August 4, 2008
September 2, 2008	October 20, 2008
December 12, 2008	January 19, 2009

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.

4. Long-term Debt

Effective June 11, 2008, the Company renewed its credit agreement with GE Canada Finance Holding Company. The renewed agreement increased the \$235 million credit facility, which was comprised of a \$185 million revolving loan and a \$50 million term loan, to a \$250 million facility, comprised entirely of a revolving loan and having a June 11, 2013 expiry date. 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 November 2, 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 November 2, 2008, the Company is in compliance with its financial covenant.

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

5. Supplementary Cash Flow Information

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	November 2, 2008	October 28, 2007	November 2, 2008	October 28, 2007
Rent expense				
Straight-line rent expense	\$ (42)	\$ 137	\$ (109)	\$ 403
Non-cash free rent	112	14	183	203
	\$ 70	\$ 151	\$ 74	\$ 606
Changes in non-cash elements of working capital related to operating activities				
Accounts receivable	\$ (53,272)	\$ (30,770)	\$ (78,949)	\$ (73,173)
Inventory	(44,374)	(53,141)	(65,727)	(74,413)
Prepaid expenses	11,720	1,002	11,638	(959)
Non-cash free rent	-	22	-	138
Financial instruments	662	-	675	-
Accounts payable and accrued liabilities	124,733	109,929	101,276	117,778
	\$ 39,469	\$ 27,042	\$ (31,087)	\$ (30,629)
Changes in non-cash elements of financing activities				
Lease inducements	\$ (453)	\$ (248)	\$ (592)	\$ (992)
Long-term debt	-	-	(50,000)	(568)
AOCE	905	(166)	936	(166)
Other assets	-	264	-	264
Net financial assets	(1,007)	-	(1,019)	-
	\$ (555)	\$ (150)	\$ (50,675)	\$ (1,462)
Changes in non-cash elements of investing activities				
Capital assets	\$ 319	\$ 213	\$ 441	\$ 652
Other assets	(1,748)	-	(2,873)	568
	\$ (1,429)	\$ 213	\$ (2,432)	\$ 1,220
Cash interest paid	\$ 1,315	\$ 1,630	\$ 3,045	\$ 4,152
Cash taxes paid	\$ 912	\$ 4,240	\$ 23,094	\$ 27,542

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

6. Capital Disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to deploy capital to provide an appropriate return on investment to its shareholders. The Company's overall strategy remains unchanged from the prior year. The capital structure of the Company consists of cash, short and long-term debt and shareholders' equity comprised of retained earnings and share capital. The Company manages its capital structure and makes adjustments to it in light of economic conditions and the risk characteristics of the underlying assets. The Company's primary uses of capital are to finance non-cash working capital requirements, capital expenditures and acquisitions, which are currently funded from its internally-generated cash flows. The Company is in compliance with all externally imposed capital requirements, including its debt covenant.

7. Financial Instruments and Hedges

Financial Instruments

Financial assets and financial liabilities are initially recorded at fair value and are subsequently measured based on their classification as described below. The Company classifies its financial instruments into various categories based on the purpose for which the financial instruments were acquired and their characteristics.

Held-for-trading

Financial assets that are purchased and held with the intention of generating profits in the short-term are classified as held-for-trading. These investments are accounted for at fair value with the change in fair value recognized in net earnings during the period. Cash and cash equivalents and any derivatives not designated as hedges are classified as held for trading as of November 2, 2008.

Held-to-maturity

Securities that have a fixed maturity date and which the Company has a positive intention and ability to hold to maturity are classified as held-to-maturity and are accounted for at amortized cost using the effective interest rate method. The Company does not recognize gains and losses arising from changes in the fair value of these instruments until the gains and losses are realized, or there is impairment in the value of an asset. When recognized, such gains and losses are recorded directly in net income. No investments are classified as held-to-maturity investments. The Company does not own any asset-backed commercial paper.

Available-for-sale

Available-for sale investments are carried at fair market value, except where the instrument does not have a quoted market price in an active market, with foreign exchange and revaluation gains and losses included in other comprehensive income or loss until the gains and losses are realized when equities are sold in the market or there is impairment in the value. The Company does not have any assets classified as available-for-sale.

Loans and Receivables

The Company's accounts receivable are classified as current assets and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of trade receivables is at amortized cost, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements
(Tabular amounts in thousands)
(unaudited)

Other Financial Liabilities

Accounts payable, accrued liabilities, dividends payable and income tax payable are classified as other financial liabilities and are measured at amortized cost.

Fair value of Financial Instruments

The Company has determined the fair value of its cash and cash equivalents, accounts receivable and financial liabilities (trade payables and accrued liabilities), approximates their respective carrying amounts as at the balance sheet dates due to their short-term nature.

The Company has determined the fair value of the current and long term portions of its mortgage debts are \$7,225,000 versus a carrying value of \$7,021,000. The change in fair value is created by movements in interest rates for similar maturity debt instruments which are used to discount the remaining payment obligations of the Company's mortgage debts.

Risks

Exposure to credit risk and interest rate risk arises in the normal course of the Company's business. The Company does not currently enter into derivative financial instruments to reduce exposure to fluctuations in any credit or interest risks impacting the operations of the Company.

i. Credit risk

The Company is exposed to credit risk on its accounts receivable from franchisees. The accounts receivable are net of applicable allowances for doubtful accounts, which are established based on the specific credit risks associated with individual franchisees and other relevant information. Concentration of credit risk with respect to receivables is limited, due to the large number of franchisees.

ii. Interest rate risk

The Company is exposed to interest rate risk on the credit facility as the rate is based on bank prime and on the Company's financial performance as determined by its interest coverage ratio. As at November 2, 2008, the interest rate paid was bank prime less 0.45%. For the third quarter of fiscal 2009, a 1% change in interest rates would change interest expense by \$330,044 (2008 - \$199,101).

The Company is not exposed to interest rate risk on long-term receivables, mortgages and vendor take-back loans as the rates are fixed.

iii. Liquidity risk

The Company is exposed to liquidity risk in that it may be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements and using various funding sources to ensure its financial flexibility. The Company prepares budget and cash forecasts to ensure that it has sufficient funds to fulfill its obligations. In recent years, the Company has financed the growth of its capacity and sales primarily through cash flows from operations and the use of its revolving credit on a regular basis.

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

iv. Foreign Exchange Risk

The Company is exposed to exchange risk as a result of its foreign currency denominated purchases, primarily in U.S. dollars, and its U.S. dollar denominated accounts receivable. However, it mitigates its exposure to foreign exchange risk through active hedging programs. The Company does not use derivative financial instruments for speculative or trade purposes.

Hedging

The Company currently uses forward currency contracts and options to hedge anticipated transactions whose terms do not exceed one year.

The Company has recorded an unrealized gain in the consolidated statement of comprehensive earnings (loss) for the thirteen week period ended November 2, 2008 of \$1,391,000 relating to foreign currency contracts that qualify for hedge accounting.

The outstanding forward foreign exchange contracts to which hedge accounting was applied at November 2, 2008 have notional amounts of \$3,418,000 and terms ranging from November 28, 2008 to April 9, 2009 at forward rates ranging from \$1.0207 to \$1.1060.

Items currently reported in accumulated other comprehensive earnings will be reclassified to net earnings as the hedge is completed and the related non-financial asset is expensed or when a hedge is deemed ineffective.

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

8. Segmented Financial Information

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

	For the thirteen weeks ended		For the thirty-nine weeks ended	
	November 2, 2008	October 28, 2007	November 2, 2008	October 28, 2007
Revenues:				
Retail	\$ 245,325	\$ 224,158	\$ 676,945	\$ 630,458
Wholesale	117,569	109,313	289,001	289,950
	\$ 362,894	\$ 333,471	\$ 965,946	\$ 920,408
Operating Profit:				
Retail	\$ 29,063	\$ 33,470	\$ 58,345	\$ 77,519
Wholesale	12,730	9,764	29,711	26,451
	41,793	43,234	88,056	103,970
Non-segment specific administrative expenses	14,459	10,228	38,180	35,625
Operating profit before under-noted items	27,334	32,946	49,876	68,345
Amortization	12,076	11,137	34,861	33,039
Interest expense	2,609	1,831	4,568	4,737
Loss on sale of investment	-	-	-	864
	14,685	12,968	39,429	38,640
Earnings before income taxes	12,649	19,978	10,448	29,705
Income tax expense	6,063	7,392	5,293	10,952
Net earnings for the period	\$ 6,586	\$ 12,586	\$ 5,154	\$ 18,753

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

As at	November 2, 2008	February 3, 2008	October 28, 2007
Accounts Receivable			
Retail	\$ 1,727	\$ 2,796	\$ 22,031
Wholesale	142,625	71,036	125,337
Non-segment specific	10,103	1,674	(8,820)
	\$ 154,455	\$ 75,506	\$ 138,548
Capital Assets			
Retail	\$ 167,914	\$ 164,740	\$ 161,536
Wholesale	21,132	20,596	20,832
Non-segment specific	2,715	3,285	3,444
	\$ 191,761	\$ 188,621	\$ 185,812
Goodwill/Other Assets			
Retail	\$ 64,711	\$ 63,291	\$ 56,360
Wholesale	29,119	20,336	33,425
Non-segment specific	6,092	9,571	3,503
	\$ 99,922	\$ 93,198	\$ 93,288
Total Assets			
Retail	\$ 549,350	\$ 515,739	\$ 559,066
Wholesale	241,003	164,541	223,659
Non-segment specific	55,635	74,684	25,353
	\$ 845,988	\$ 754,964	\$ 808,078

9. Employee Benefits Plan

The Company has a defined contribution plan and an employee profit sharing plan (replaces the previous deferred profit sharing plan). Defined contributions are paid to employee retirement savings plans and are expensed when incurred.

Under the employee profit sharing plan, the Company creates a pool of funds to distribute to participating employees on a predetermined basis. Distributions are tied to the value of the Company's common shares and the employees' achievement of individual financial and operational targets. Payouts under the employee profit sharing plan are made annually. The deferred profit sharing contributions were previously paid to a Trustee for the purchase of shares of the Company and then distributed to participating employees on a predetermined basis, upon retirement from the Company. Contributions to both the employee profit sharing plan and previously to the deferred profit sharing plan are recognized as an expense when incurred.

During the 13-week period ended November 2, 2008, the Company has expensed \$253,656 (2008 - \$192,399) to the defined contribution plan and has accrued \$123,590 for the employee profit sharing plan (2008 - \$239,800 accrued to the deferred profit sharing plan). During the 39-week period ended November 2, 2008, the Company has expensed \$875,182 (2008 - \$777,535) to the defined contribution plan and has accrued \$337,113 (2008 - \$667,201) for the employee profit sharing plan.

The Forzani Group Ltd.

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands)

(unaudited)

10. Acquisitions

Effective November 26, 2007, the Company acquired 100% of the outstanding shares of Athletes World Limited (“AWL”) which was operating under Companies’ Creditors Arrangement Act (“CCAA”) protection. While under CCAA protection, FGL maintained its usual role in the management of the day-to-day operation of Athletes World under the supervision of a court appointed monitor who was responsible for reviewing Athletes World’s ongoing operations, assisting with the development and filing of the Court documents, liaising with creditors and other stakeholders and reporting to the Court. On June 30, 2008 AWL successfully exited from CCAA protection.

The acquisition was accounted for using the purchase method and accordingly the consolidated financial statements include the results of operations since the date of acquisition. The assigned fair values of the underlying assets and liabilities acquired by the Company as at November 26, 2007, are summarized as follows:

Inventory	\$ 26,171
Capital assets	2,626
Intangible asset - trademark	2,212
Future income tax asset	13,215
<u>Total assets acquired</u>	<u>44,224</u>

Bank indebtedness	108
Accounts payable	17,254
Long-term debt	18,196
<u>Total liabilities acquired</u>	<u>35,558</u>
<u>Net assets acquired</u>	<u>\$ 8,666</u>

Consideration given:	
Cash	\$ 1,500
Acquisition costs	7,166
<u>Total consideration</u>	<u>\$ 8,666</u>

11. Income Taxes

During the year, the Company received proposals from various tax jurisdictions to reassess a tax planning strategy implemented by the Company relating to the 2004 and 2005 taxation years. The proposals challenge the tax treatment of certain intercompany transactions. Although formal reassessments have not been received, the Company is negotiating a settlement with Alberta Finance who is representing all affected jurisdictions. The potential amount owing for these taxation years, including interest, as a result of the proposed settlement is \$3,900,000, which has been accrued within the quarter.

12. Comparative Figures

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