

First Quarter, Fiscal 2009 Report

Management's Discussion & Analysis

As at June 10, 2008

The unaudited interim consolidated financial statements as at, and for the period ended May 4, 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 first quarter ended May 4, 2008 ("fiscal 2009"), compared to the 13-week first quarter ended April 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 May 4, 2008 and April 29, 2007

Retail system sales¹ for the quarter ended May 4, 2008 were \$334.0 million, a \$25.6 million increase from sales for the quarter ended April 29, 2007 of \$308.4 million. Revenue, consisting of corporate store sales, wholesale sales, service income, equipment rentals, franchise fees and franchise royalties, was \$307.5 million, a \$12.9 million, or 4.4% increase over the 13-week period last year.

Same store sales in corporate locations were down 5.2% as continuing winter weather and the addition of a new provincial statutory holiday in Ontario negatively impacted sales in the quarter. Excluding the impact of the additional Ontario holiday, same store sales in corporate locations were down 4.7%. In the franchise division, same store sales were up 3.1% over the fiscal 2008 first quarter. These changes were against same store increases of 0.4% for corporate stores and 9.6% in franchise in the first quarter of fiscal 2008. Overall, same store retail system sales for the quarter declined 2.1% from the prior year.

Combined gross margin for the 13 weeks ended May 4, 2008 was up 100 basis points to 34.3% of revenue, from 33.3% in the prior year. In absolute dollars, combined gross margin increased \$7.4 million to \$105.4 million compared to \$98.0 million in the 13-week period last year. The revenue and margin gains were primarily the result of the acquisition of Athletes World, in the fourth quarter of fiscal 2008, which contributed \$24.7 million in sales and \$7.4 million in margin. Corporate store category sales results were mixed with weak performance in winter categories, particularly ski, snowboard, hockey, outerwear and accessories, casual clothing and footwear. The winter category results were hampered by reduced clearance event sales due to depleted inventories, the result of the strong results seen in the prior quarter. Spring category performance, particularly in bicycles, camping, fitness and racquets while improved versus the prior year, were below expectations due to the unseasonably cool weather. Margin rate performance continued to post strong year over year gains in corporate stores and the franchise division.

Store operating expenses, as a percent of corporate store revenue, were 33.5% against the prior year of 29.6%. In absolute dollars, store operating expenses rose by \$12.9 million. Excluding the impact of the Athletes World acquisition and the franchising of Fitness Source in April 2007, the overall store operating expense as a percentage of sales was 30.7% vs 28.1% in the prior year, a result of the reduced sales volumes. Same store costs, in absolute dollars, increased \$1.5 million or 2.8% over the same period last year.

General and administrative expenses were up 10 basis points to 8.9% of total revenue compared to 8.8% in the prior year. The absolute dollar increase of \$1.3 million was due to \$2.8 million in additional overhead associated with the Athletes World acquisition and standard, planned year over year cost increases, offset by a reduction of \$2.6 million in performance-based compensation costs.

Earnings, before interest, taxes and amortization (“EBITA”)², were \$7.7 million compared to \$14.5 million for the same period last year. Excluding the impact of Athletes World, EBITA was \$9.7 million.

Earnings before income taxes for the 13 weeks ended May 4, 2008 was a loss of \$4.5 million compared to pre-tax income of \$1.2 million for the 13-week period in the prior year. Net loss of \$2.9 million compares to a net income of \$0.7 million in the prior year’s first quarter. Excluding Athletes World, the net loss for the quarter was \$1.6 million.

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.

Basic and diluted earnings per share for the 13-week period ended May 4, 2008 were a loss of \$0.09 compared to earnings of \$0.02 in the prior year. The impact of Athletes World was to reduce earnings by \$0.04 per share. Cash flow from operations³ decreased to \$5.7 million from \$12.4 million, \$0.17 from \$0.37 on a per share basis.

During the quarter, the Company opened 2 Nevada Bob's Golf stores and closed a total of 5 stores (1 Sport Chek, 1 Nevada Bob's Golf, 2 Sport Mart and 1 corporately owned Econosport). In the franchise division, 6 new stores were opened (1 Atmosphere, 1 Nevada Bob's Golf, 1 Pegasus, 1 Fitness Source, 1 S3 and 1 Hockey Experts), 2 stores converted from Buying Members to S3, and 2 stores closed (1 Intersport and 1 RnR). As a result, at the end of the first quarter, the Company had 341 corporate stores and 227 franchise locations. This was a net decrease of 16,795 square feet of retail selling space, a 0.3% decrease versus the previous quarter. The Company now has 568 stores from coast to coast (April 29, 2007 – 478 stores).

Quarterly Data

(In thousands, except per share data)

	Revenue	EBITA	Net Earnings (Loss)	EPS	Diluted EPS
	\$	\$	\$	\$	\$
July 30, 2006	283,996	16,075	1,948	0.06	0.06
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)

³ Cash flow from operations and cash flow per share from operations are not recognized measures under GAAP. Cash flow per share is defined by the Company 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.

Financial Condition

As at May 4, 2008, the Company had working capital of \$101.7 million, compared to \$168.6 million in the prior year and \$125.1 as at February 3, 2008. The decline in working capital from the prior year is the result of a reclassification during the 2nd quarter of fiscal 2008, to current, of \$50 million of term financing due for repayment on June 30, 2008. Accounts receivable have decreased as a result of the year over year decline in sales in the Company's franchise and wholesale networks. Inventory increased due to the acquisition of Athletes World and former Nevada Bob's franchise locations in the prior year. Inventory intensity⁴ has decreased 8.6% to \$74 versus the prior year of \$81. Accounts payable financing of inventory and receivables from franchisees, was 64.9% versus 59.3% 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 2008 Consolidated Financial Statements) and the periodic issuance of shares. For the first quarter of fiscal 2009, these sources of capital included: cash generated from operating activities, before changes in non-cash working capital elements, of \$5.7 million, a decrease of \$6.7 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. As at May 4, 2008, 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. The company expects to renew its credit facility prior to expiry on June 30, 2008.

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 first quarter ended May 4, 2008, the Company purchased and cancelled 632,300 shares (fiscal 2008 – 360,800) at a cost of \$11,704,000 (fiscal 2008 - \$7,555,000). An additional 402,400 shares were purchased during the quarter for \$7,346,000 and cancelled subsequent to quarter end.

⁴ Defined as inventory at 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 May 4, 2008, the Company had 32,520,121 shares outstanding and had not issued any Preferred shares. The Company has 1,774,676 options outstanding of which 1,253,141 are exercisable. As at the date of writing, the Company has 32,117,721 shares issued outstanding and has not issued any Preferred shares.

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 June 10, 2008, the Company declared its fiscal 2009 second quarter dividend of \$0.075 per Class A share, payable on August 4, 2008 to shareholders of record on July 21, 2008.

Accounting Policies

The interim consolidated financial statements (the "financial statements") follow the same accounting policies and methods of application as the most recent annual consolidated financial statements as at 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 5.

(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 6.

(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 period 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 is a new standard, not yet in effect, which 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in internal control over financial reporting during the period ended May 4, 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.