



ANNUAL INFORMATION FORM

**The Forzani Group Ltd.
824 – 41st Avenue N.E.
Calgary, Alberta
T2E 3R3**

April 7, 2009

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THE FORZANI GROUP LTD.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this document constitute "forward-looking information" (within the meaning of applicable Canadian securities legislation). Such information is generally identifiable by the terminology used such as "anticipate", "continue", "believe", "intend", "plan", "expect", "estimate", "budget", "outlook" or other similar words.

In particular, this Annual Information Form contains forward looking statements and information pertaining to the following:

- consolidation activity in the sporting-goods retail industry;
- corporate expansion by the Company, including the addition of corporate and franchise stores;
- implementation of marketing initiatives;
- expected cost savings;
- operating strategies;
- information technology initiatives; and
- results of litigation.

The forward-looking information is subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such information. Such factors include, among others, the overall economy, consumer spending, retail competition, seasonality, changes in fashion trends, adverse movements in foreign exchange and interest rates and debt levels.

These items and their possible impact are discussed more fully in the section titled "Risk Factors" and on pages 15 through 17 of the Company's MD&A for fiscal 2009, under the section heading "Retail Risks and Uncertainties", which section is specifically incorporated herein by reference. The MD&A is filed on SEDAR and may be accessed under the Company's profile at www.sedar.com. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management's future course of action would depend on its assessment of all information at that time.

Although the Company believes that the expectations conveyed by the forward-looking information are reasonable based on information available on the date such forward-looking information was disclosed, no assurances can be given as to the future results, levels of activity and achievements. Undue reliance should not be placed on the forward-looking information contained herein, which is disclosed as of February 1, 2009 and, except as required by law, the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise. The forward-looking information contained herein is expressly qualified by this cautionary statement.

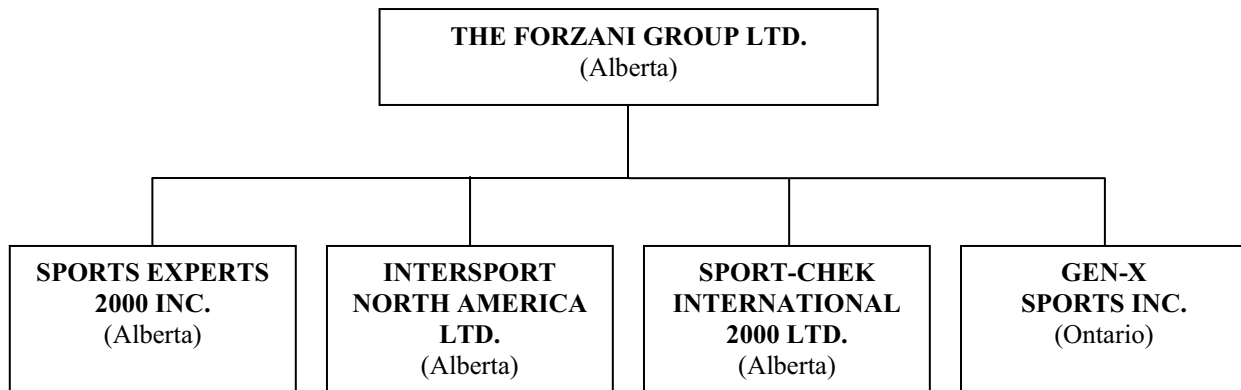
Except where otherwise stated, the information herein is presented as at February 1, 2009. Where used in this AIF, "fiscal 2010" means the 52-week period ending January 31, 2010, "fiscal 2009" means the 52-week period ended February 1, 2009, and "fiscal 2008" means the 53-week period ended February 3, 2008.

CORPORATE STRUCTURE

The Forzani Group Ltd. ("**FGL**" or the "**Company**") is incorporated under the *Business Corporations Act* (Alberta). The Company's head office is located at 824 – 41st Avenue N.E., Calgary, Alberta, T2E 3R3, and its registered office address is 3500, 855 – 2nd Street S.W., Calgary, Alberta, T2P 4J8. The Company maintains its franchise division office at 4855, Louis-B.-Mayer, Laval, Quebec, H7P 6C8.

The Company commenced operations in 1974 as "Forzani's Locker Room". On February 1, 1991, Forzani's Locker Room Ltd., Forzani Sun Sports Ltd., C.S. Athletic Products Ltd. and 304829 Alberta Ltd. amalgamated into The Forzani Group Ltd. Effective June 28, 1993, the Company amalgamated with its largest shareholder, Forzani Investments Ltd. Effective January 31, 2000, the Company amalgamated with certain of its subsidiary companies, namely, Sports Experts Inc., Sport-Chek International Ltd. (which had, earlier on January 31, 2000, amalgamated with its own wholly-owned subsidiary, Nigel Hogarth Holdings Inc.) and 861338 Alberta Ltd. (formerly 2412071 Canada Inc.).

The table below shows the Company's principal operating subsidiaries as at February 1, 2009 and their respective jurisdictions of incorporation. The assets or sales and operating revenues of each of the other subsidiaries of the Company do not constitute more than 10%, individually, of the consolidated assets or the consolidated sales and operating revenues of the Company as at February 1, 2009 and for fiscal 2009, nor do they constitute more than 20%, in the aggregate, of the consolidated assets or consolidated sales and operating revenues of the Company as at February 1, 2009 and for fiscal 2009. The Company beneficially owns, controls and directs 100% of the votes attaching to all voting securities of each subsidiary.



GENERAL DEVELOPMENT OF THE BUSINESS

The Forzani Group Ltd. is Canada's largest national retailer of sporting goods, operating 337 corporate stores and franchising 227 stores from coast to coast. The Company offers a comprehensive assortment of brand-name and private-brand products under the following corporate and franchise banners: Sport Chek, Coast Mountain Sports, Sport Mart, National Sports, Athletes World, Sports Experts, Intersport, Econosports, Atmosphere, Tech Shop/Pegasus, Nevada Bob's Golf, Hockey Experts, S3 and Fitness Source. The Company also has websites for several of its banners which can be accessed through its main website www.forzanigroup.com.

Founded in 1974 by John Forzani and three Calgary Stampeder teammates who opened a 1,200 square foot retail location in Calgary known as "Forzani's Locker Room", the Company has grown, both by opening new stores and acquiring other companies, to become the largest national specialty sporting goods retailer in Canada, with revenues in fiscal 2009 of approximately \$1.3 billion. During the past three fiscal years, the Company has continued to increase its revenues and market share by upgrading and renovating existing stores and by opening new stores. It has also worked to maintain a strong balance sheet with sufficient liquidity and borrowing capacity to facilitate strategic acquisitions.

At the beginning of fiscal 2007, the Company acquired The Fitness Source Inc. ("**Fitness Source**"), a fitness equipment retail chain with nine stores in Ontario and annual sales of approximately \$21 million. The Fitness Source business became part of the Company's franchise business in April 2007.

In November 2006 and September 2007, the Company acquired and is presently operating seventeen stores and associated assets from two former Nevada Bob's Golf franchisees. Effective November 26, 2007, the Company acquired Athletes World Limited ("**Athletes World**"), a retail chain with 137 stores. Athletes World had sought protection under the *Companies' Creditors Arrangement Act* (Canada) ("**CCAA**") in October 2007. While under CCAA protection, the Company managed the day-to-day operation of Athletes World's ongoing operations while restructuring the operations and commitments of Athletes World. See "Retail – Athletes World". On June 30, 2008, Athletes World successfully exited from CCAA protection and at the end of fiscal 2009 was operating 62 stores across Canada.

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 Company's franchise division to attract quality independents. Furthermore, as less productive retailers exit the market, it will create opportunities for further corporate expansion by FGL. In fiscal 2010, the Company plans to add 16 corporate and 12 franchise stores across Canada.

DESCRIPTION OF THE BUSINESS

The Company operates principally in two business segments: corporately-owned and operated retail stores and a wholesale business, selling to franchisees and others. The following table sets out consolidated revenues, on a segmented basis, for each of the Company's two most recently completed financial years.

	<u>Fiscal 2009</u>	<u>Fiscal 2008</u>
Revenues (000's):		
Retail	\$994,043	\$969,256
Wholesale	\$352,715	\$361,753
	<hr/>	<hr/>
	\$1,346,758	\$1,331,009

Retail Revenues

In general, the Company's corporate retail division sells three categories of products: footwear, hardgoods (sporting equipment) and softgoods (clothing and outerwear). The following table sets out the percentage of corporate retail revenues for each product category for each of the Company's two most recently completed financial years:

(Percent)	<u>Fiscal 2009</u>	<u>Fiscal 2008</u>
Footwear	30.6	29.8
Hardgoods	30.7	31.6
Softgoods	38.7	38.6
	<hr/>	<hr/>
	100.0	100.0

Wholesale Revenues

Wholesale revenue consists of wholesale sales to franchisees and third parties, and income from franchise fees, royalties and administrative fees and licenses.

RETAIL

CORPORATE OPERATIONS

The Company's five corporately-owned retail banners are Sport Chek, Sport Mart, Coast Mountain Sports, National Sports and Athletes World. Additionally, the Company has temporarily opened and/or acquired and operates stores under the retail banners Nevada Bob's Golf, Fitness Source and Hockey Experts. It is the Company's intention to either close or franchise these stores once a suitable franchisee is found.

SPORT CHEK

General

Sport Chek is a specialty retailer of sporting goods which includes sports equipment and athletic, leisure and recreational footwear and apparel, and offers an assortment of brand name, special make up ("SMU") and private-label products at mid-price points. Since the acquisition of Sport Chek in 1991, management has expanded operations from four stores to 128 stores. Of these stores, 53 are located in Western Canada, 63 in Ontario and 12 in Atlantic Canada.

In fiscal 2007 and fiscal 2008, the Sport Chek banner's sales management function was reorganized with a view to focussing on store level performance and initiatives. In fiscal 2009, Sport Chek rolled out new apparel merchandising standards and revised its marketing strategies to target the brand at a specific demographic.

In-Store Environment

Each Sport Chek store uses creative in-store environments to merchandise its products. Merchandise displays are carefully laid out to offer merchandise in an attractive setting. Sport Chek uses its own in-store entertainment "Sport Chek TV", providing continuous footage of the latest sporting events, movies and music videos.

As part of the revitalization program for Sport Chek, undertaken in fiscal 2006 and 2007 and continued through fiscal 2008, approximately 50 stores were updated with new paint palettes, improved lighting and reworked visual merchandising. In fiscal 2009, work continued to update the remaining stores, and to evolve the stores with additional in-store branding initiatives and concept shops. In fiscal 2010, Sport Chek will continue to add "Concept Shops" within many of its storefronts including 21 Nevada Bob's Golf boutiques following from a successful test in fiscal 2009.

On-line Operations

FGL operates its own interactive web site www.sportchek.ca. Sportchek.ca is used as an on-line marketing tool, providing consumers with store and product information, including a store locator guide to assist those looking for the nearest physical store location. The site also offers consumers a comprehensive source for sporting goods information and provides consumers with help guides.

Real Estate

Sport Chek operates stores in two freestanding locations, 84 enclosed mall locations and 42 power centres. With typical locations averaging 20,000 square feet and extensive use of advertising to generate high traffic, Sport Chek stores are considered major tenants, enabling the Company to negotiate advantageous terms with landlords.

In entering new markets, the site selection process begins with a market study to identify target locations based on market demographics measured against Sport Chek's known customer base demographics. Generally, locations are leased for a period of 10 years. The Company does not own any of the real estate or buildings used for Sport Chek stores except for the building which houses the Sport Chek/Coast Mountain Sports store at Square One, Mississauga, Ontario.

SPORT MART

General

Sport Mart is a specialty retailer of sporting goods in the lower to mid-price point segment of the market. Sport Mart offers an assortment of branded sports equipment and athletic, leisure and recreational footwear and apparel. There are 82 Sport Mart stores, of which 48 are located in Western Canada and 34 are located in Ontario.

In-Store Environment

Sport Mart stores are merchandised with brand-name and private-label footwear, hardgoods and apparel. Merchandise is displayed along outer walls as well as fixtures throughout the store, achieving an attractive layout that conforms with the typical low to mid-price point concepts. In fiscal 2007, the Company completed its reviews and updating of the assortment, visual merchandising and fixturing for the Sport Mart stores. In fiscal 2008, a market test was conducted to measure the impact and benefits of advertising "Value Defined - Great Brands Low Prices - Every Day". Also tested was the introduction of large in-store signage to better communicate Sport Mart's unique selling propositions. Following the test, consumer research was done confirming a number of positive results. Certain elements of the initiatives tested have been identified for implementation in all stores in fiscal 2010.

On-line Operations

FGL also operates an on-line store www.sportmart.ca. In addition to having a full line of products and merchandise available, the site provides customers with a store locator guide to assist those looking for the nearest physical store location.

Real Estate

Sport Mart stores are based in shopping malls and power centres, and range in size from 5,000 to 11,000 square feet. Generally, locations are leased for a period of 10 years. The Company does not own any of the real estate or buildings used for Sport Mart stores.

COAST MOUNTAIN SPORTS (CMS)

General

Coast Mountain Sports ("**CMS**") is a specialty retailer of brand name, high-end, outdoor technical gear, casual clothing, footwear and accessories and private-label apparel. There are 23 CMS stores, of which 16 are located in Western Canada, six are located in Ontario and one is located in Atlantic Canada.

In-Store Environment

CMS stores are designed to create a unique shopping environment that inspires customers to explore the great outdoors, with bright, open interiors featuring natural-looking stone, wood accents and large, full colour outdoor images.

On-line Operations

FGL operates www.coastmountain.com as an on-line marketing tool, providing customers with store locations and information.

Real Estate

CMS stores are based in both shopping malls and street locations ranging from 3,700 square feet to 24,000 square feet in size. Generally, locations are leased for a period of ten years. The Company does not own any of the real estate or buildings used for CMS stores, with the exception of the Square One location noted on page 5.

NATIONAL SPORTS

General

National Sports is an Ontario-based sporting goods retail chain with a strong position in the hockey and team sports categories. There are 20 National Sports stores, all in Ontario.

In-Store Environment

National Sports stores are merchandised with brand-name hardgoods, footwear and apparel. Merchandise is displayed around the perimeter of the store as well as on fixtures throughout the store.

On-line Operations

FGL operates www.nationalsports.com as an on-line marketing tool, providing customers with store and product information.

Real Estate

National Sports stores are largely freestanding locations, and a typical location is 20,000 square feet. Generally, locations are leased for a period of 10 years. The Company does not own any of the real estate or buildings used for National Sports stores.

ATHLETES WORLD

General

Athletes World is a national retailer of athletic and recreational footwear and apparel. In October, 2007, then operating 137 stores, Athletes World sought and obtained protection under the CCAA. FGL acquired Athletes World effective November 26, 2007. While Athletes World was under CCAA protection, FGL renegotiated Athletes World's commitments with landlords, settled various outstanding accounts and created a plan to reduce overhead by consolidating back office activities and personnel into FGL's Calgary-based head office. On June 30, 2008, Athletes World successfully exited from CCAA protection and as at the end of fiscal 2009 was operating 62 stores across Canada, of which 28 are located in Western Canada, 20 in Ontario and 14 in Atlantic or Northern Canada.

On September 1, 2008, Athletes World was amalgamated with Sport Chek 2000 Ltd., a wholly-owned subsidiary of FGL, and on November 30, 2008, all administrative functions were relocated to FGL's Calgary-based head office, resulting in an expected annual savings of approximately \$7 million. FGL plans to focus on Athletes World operations by freshening store presentation and expanding the store count as profitable opportunities arise.

For fiscal 2010, FGL plans on opening four new Athletes World locations.

In-Store Environment

Athletes World stores are merchandised with brand-name and private-label footwear and apparel.

Real Estate

Athletes World stores are mall-based locations averaging 4,250 square feet in size, ranging from 2,700 square feet to 11,400 square feet. The Company does not own any of the real estate or buildings used for Athletes World stores.

WHOLESALE

INTERSPORT NORTH AMERICA

Intersport North America Ltd. ("**INA**"), a wholly-owned subsidiary of the Company, oversees the development, manufacturing and importing of private-label brands and exclusive licensed brands for the Company for sale in the North American market. Developed through INA in conjunction with Intersport International Corporation ("**IIC**"), one of the world's largest buying groups and retailers of leisure apparel, athletic apparel and sports equipment, of which the Company is a member, these private-label and licensed brands offer consumers quality merchandise at competitive prices. Designed with the North American consumer in mind, these goods are sourced from highly reputable manufacturers who often produce similar products for other major brand-name vendors. Because of the volume that IIC produces and sources globally, it is able to obtain for itself and INA very competitive rates from manufacturers and this, in turn, allows the Company to pass these economies of scale on to its consumers. To ensure these products meet IIC's rigorous standards, products manufactured are subject to quality inspection by IIC personnel based in three international buying offices who travel directly to, and work with, the producing factories. The net result is the availability to consumers of fashionable, quality goods at reasonable prices.

The Company offers a number of different hardgoods, apparel and footwear products carrying the private-label brand names FIREFLY, McKINLEY, TECNOpro, DYNATOUR, NAKAMURA, GRAVITY, MOLE, VIC HOCKEY, HESPELER, DREAM and MATRIX. Currently these private-label brands are available in Sport Chek,

Coast Mountain Sports, Sport Mart, Sports Experts, Intersport, Atmosphere and National Sports stores. The Company continues to expand its private-label brands and product lines and introduce private-label products in its other banners.

Private-label products provide the Company with two principal benefits. First and foremost, because these products are available only at its corporate and franchise stores, they allow the Company to differentiate itself from its competitors. Secondly, these products are generally more profitable than branded goods and thus enhance the Company's own margin while benefiting the consumer.

GEN-X SPORTS INC.

Gen-X Sports Inc. ("**Gen-X**"), a wholly-owned subsidiary of the Company, conducts an opportunity-buy business and a licensed business. The opportunity-buy, or close-out, business consists of the sourcing, purchase and subsequent re-sale of manufacturers' excess capacity product. In its licensed business, Gen-X licenses brands from their owners and designs and sells products bearing those brands. The trademarks which Gen-X currently has license rights to include Airwalk, Vision Street Wear, Alien Golf, Ultra Wheels and Rage. Gen-X also designs, develops, sources and delivers footwear under its Komodo, Alien Golf and Gen-X brands. Gen-X's operations extend the Company's wholesale reach outside of Canada while strengthening its ability to compete within Canada through the addition of additional close-out and licensed product to the retail product mix.

For fiscal 2010, FGL will operate the INA and Gen-X businesses under one umbrella management team. This strategy is designed to leverage the combined Gen-X and INA manufacturing volume for better factory pricing and to utilize the Gen-X international sales force to sell INA produced goods to non-competing US and international retailers.

FRANCHISE OPERATIONS

The Company administers 10 retail franchise banners within its franchise division: Sports Experts, Intersport, Atmosphere, Econosports, Tech Shop/Pegasus, Nevada Bob's Golf, Hockey Experts, Fitness Source, RnR and S3. The Company negotiates a franchise agreement with prospective franchisees, typically having an initial term of 10 years with a minimum term of five years, setting forth the terms upon which a franchisee is entitled to operate one or more franchise store locations under a particular franchise banner. Generally, such agreements provide franchisees with rights to operate under a particular franchise banner, and obligate the franchisee to purchase merchandise from the Company, adhere to Company policies, participate in certain marketing and merchandising programs and campaigns and operate the franchise location in accordance with standards established by the Company. The Company's franchisees and licensees are contractually obligated to pay the Company a royalty based on a percentage of their retail sales. Franchisees and licensees pay the Company additional fees for services rendered for buying, distribution and administration. These services are provided by, and the fees are earned by, the Company's franchise division.

Each year, the Company's franchise division holds several private buying shows for the franchise owners. These events provide owners with an opportunity to meet major suppliers, review new product lines and preview the upcoming year's advertising program.

Merchandise is generally shipped directly from suppliers to franchisees with most invoices directed through the Company's franchise division. For franchise shipments invoiced to the Company's franchise division, franchisees are re-invoiced for their merchandise together with any fees related to their purchases. The supplier payment terms from the original invoice are typically passed on to the franchisee. Invoices sent by the Company's franchise division to franchisees are recorded as accounts receivable by the Company. Payment of the accounts receivable is secured by personal guarantees from franchise shareholders and by registered security against inventory and other franchisee assets.

The Company's franchise division supervisors regularly visit franchise locations with a view to maintaining Company standards and to assist franchisees with store appearance, merchandise displays and profitability.

The Company's franchise division currently provides full accounting services to approximately 141 franchise stores, which allows it to monitor operations and the financial position of its franchisees.

SPORTS EXPERTS

The Sports Experts banner is the largest sporting goods retailer in Québec. The stores carry a broad assortment of branded and private-label products, complemented by low-priced close-out merchandise, including equipment, apparel and footwear.

Sports Experts has 71 franchise outlets, of which three are located in Western Canada, four are located in Ontario, 63 are located in Québec and one is located in Atlantic Canada. The average Sports Experts store is approximately 12,500 square feet in size. The new format Sports Experts store, developed beginning in 2002, is larger, ranging in size from 12,000 to 20,000 square feet. Approximately 44% of the Sports Experts stores are greater than 12,000 square feet. The Company also operates the interactive website www.sportsexperts.ca as an on-line marketing tool.

INTERSPORT

Intersport is a banner known for excellent service and specialized knowledge in selected sports, similar to that of a neighborhood specialty store, with big-box store pricing.

There are 58 Intersport franchise stores, of which 8 are located in Western Canada, two are located in Ontario, 44 are located in Québec and four are located in Atlantic/Northern Canada. Intersport stores are based in both shopping malls and street locations ranging from 1,500 square feet to 12,000 square feet in size.

ATMOSPHERE

Atmosphere is a big-box franchise banner specializing in outdoor sports including snowboarding, cross-country and telemark skiing, cycling and camping. There are 30 Atmosphere stores, of which 29 are located in Québec and one is located in the Yukon.

ECONOSPORTS

Econosports offers close-out merchandise and pre-owned sporting hardgoods at low to mid-price points. The Company currently has four Econosports stores, which are located in Québec.

TECH SHOP/PEGASUS

The Company's speciality running banner is geared to the active runner and walker, offering technical clothing and footwear. The Company currently franchises five such stores, three operating under the name "Tech Shop" and located in Western Canada, and two stores operating under the name "Pegasus" located in Quebec.

NEVADA BOB'S GOLF

There are 18 Nevada Bob's Golf franchise stores, of which eight are located in Western Canada, two in Ontario, six in Québec and two in Atlantic Canada. In fiscal 2007 the Company purchased the assets of a former licensee, and in fiscal 2008, the Company purchased the assets of a former franchisee and has subsequently opened additional stores. The Company plans to close or franchise the 17 stores currently corporately owned. These 17 stores are included in the corporate store count on page 3 of this document.

HOCKEY EXPERTS

In fiscal 2006, the Company opened a prototype store in Quebec under the Hockey Experts banner, specializing in everything to do with hockey. There are now 11 Hockey Experts franchise stores, all of which are located in Québec. The Company also operates three Hockey Experts stores in Ontario. These three stores are included in the corporate store count on page 3 of this document.

THE FITNESS SOURCE

The Fitness Source is a fitness equipment retail chain with 12 stores. There are ten stores in Ontario and two stores in Quebec. The Company acquired the chain at the beginning of fiscal 2007 and franchised the original nine stores during fiscal 2008. The Company also operates one Fitness Source store in Alberta. This store is included in the corporate store count on page 3 of this document.

S3

S3 is a retail chain specializing in branded surf, snow and skate footwear, apparel and accessories, targeted to reach the 15 to 24 year old demographic. There are five stores operating in Quebec, ranging in size from 1500 to 7000 square feet. The Company developed this concept internally, and opened the first test stores in fiscal 2009. Based on the success of those stores, the Company expects to expand the number of stores in the coming years.

OTHER

There are nine store locations that are buying members only, and which do not participate in all of the other programs offered to franchisees of the Company. Such locations independently undertake their own merchandising, purchasing, transportation and general administration. Six of these are located in Québec, two in the Yukon and one in British Columbia. The status of "buying member" is usually employed to test new concepts or evaluate independent retailers prior to their joining the group as franchisees.

GENERAL

PRODUCTS AND MERCHANDISING

Each of the store banners purchases merchandise through the Company's centralized purchasing system. In addition to offering popular brand names, each of the store banners offers a wide selection of the Company's house brands, SMU products and private-label merchandise. A house or private-labelled brand is merchandise bearing a name owned and used exclusively by the Company. SMU products refer to merchandise bearing a well-known brand name in a model that is not available to other retailers in a particular geographic area. The house brand and SMU merchandise, in addition to providing the Company with higher margins than brand-name merchandise, also benefit the consumer as they typically provide a comparable quality product at a lower price than brand-name merchandise.

In addition, each store banner benefits from the Company being the only Canadian member of IIC, the world's largest buying group and retailer of leisure apparel, athletic apparel and sports equipment. Membership in IIC gives the Company access to many brands on an exclusive basis in Canada and the United States of America. IIC members operate over 5,000 stores in 35 countries, with sales of over \$13.6 billion (Cdn \$) in the most recently completed calendar year.

ADVERTISING

The Company uses the Internet, radio, print media and a limited amount of TV for its national, regional and local campaigns for all banners. The Company's advertising budget includes national and regional advertising fees collected from franchise stores, co-operative contributions from suppliers and a budgeted portion relating to corporate stores. Advertising print copy is produced primarily in-house while the creation, production and buying of electronic media is provided by outside agencies.

TRADE MARKS AND TRADE NAMES

The Company owns numerous federally registered trademarks and trade names. Many of these are used for house brands and for in-house merchandising and promotional programs. As well, the Company is the exclusive North American authorized user of trademarks and trade names owned by IIC. The Company is also an authorized user or dealer for many nationally and internationally recognized brands.

OFFICES, WAREHOUSING AND DISTRIBUTION

The Company operates its administrative functions from five locations: in Calgary, Alberta; in Laval, Quebec; in Mississauga, Downsview and Markham, Ontario. The Calgary facility, which is owned by the Company, is a 117,000 square foot office located on approximately nine acres. Approximately 42,000 square feet of the office is sublet to an independent third party. Functions relating to purchasing, operations, advertising, administration, human resources, accounting, payroll, information services and the interactive business are conducted from this location. The Company also occupies a Western distribution centre in Calgary of approximately 88,480 square feet. In fiscal 2004, the Company built and owns a new office and show facility in Laval, Quebec. Contained within the building in Laval is a show facility that the Company uses for its franchise buying shows. Functions relating to franchise administration and distribution for franchise stores are also conducted from this location. FGL's warehousing operations are consolidated in Mississauga, Ontario, in a leased facility of approximately 475,000 square feet. The facility services both franchise and corporate stores and is of sufficient size to accommodate future planned growth. The Company's opportunity-buy and licensed businesses operates out of leased facilities in Downsview, Ontario. In fiscal 2006, the purchasing, operating and advertising functions for National Sports moved into leased premises in Markham, Ontario.

HUMAN RESOURCES

As at February 1, 2009, the Company employed 2,968 full-time employees and 8,921 part-time employees. Of the full-time employees, 518 were administrative, 155 were involved in purchasing functions, 134 were involved in sales management, 223 were engaged in distribution and shipping and 1,938 were retail sales people. Of the part-time employees, 24 were administrative, 64 were engaged in distribution and shipping and 8,833 were retail sales people. These numbers do not include franchise store personnel.

INFORMATION TECHNOLOGY

The Company maintains its data processing facilities for its corporate stores at its office in Calgary, Alberta. All corporate stores have point-of-sale terminals, with price look-up capabilities, and transmit sales results daily to the head office in Calgary. Price changes can be transmitted to stores on a daily basis if necessary. The Company maintains perpetual inventory status by product, size, colour and location which is updated daily upon receipt of sales data. Sales history is maintained to show the rate at which products are selling, permitting better management of prices and inventory requirements.

The Company maintains its human resource information system and payroll information system in its Calgary office. The franchise network continues to be operated on the Company's proprietary software system maintained in Laval, Quebec.

During fiscal 2008, the Company's information technology team completed the deliverables for the new warehouse management system utilized at the Company's Mississauga, Ontario distribution centre. Major initiatives were also undertaken in fiscal 2008 to meet the compliance requirements of National Instrument 52-109 *Certification of Disclosure of Issuers' Annual and Interim Filings* (regarding internal controls over financial reporting) and the PCI (Payment Card Industry) Security Standards Council.

During fiscal 2009, the Company began efforts to deliver Electronic Data Interchange functionality that will automate the delivery of key documents with vendors and also began the process of migrating the Sport Mart and National Sports banners to the core enterprise systems utilized by Sport Chek and Coast Mountain Sports. The Company expects to complete these initiatives in fiscal 2010 and gain synergies through the utilization of common processes among the banners.

SEASONALITY

The Company's business is impacted by general seasonal trends that are characteristic of the apparel and retail industries. Historically, approximately 30% or more of the Company's revenues have been generated during the fourth quarter (from November to January), which includes the holiday selling season, accounting for approximately

71% of the Company's annual net income. The third quarter is also significant and historically accounts for approximately 26% of the Company's annual revenues and 25% of the Company's annual net income. The Company strives to minimize the impact of the seasonality of the business by altering its merchandise mix at certain times of the year, to reflect consumer demand.

COMPETITION

The sporting goods retail industry is highly competitive with price, quality, service, selection, fashion, location and store environment being the principal competitive factors. The Company competes with independent specialty retailers, on a regional basis, in all major markets across Canada and with department stores and mass merchants on a national basis.

The Company operates a combination of "big box" general sporting goods stores, with several specialty "small box" banners, in both corporate and franchise environments. This enables the Company to compete with all retailers in their segments and provides the greatest opportunity for growth.

COMMUNITY INVOLVEMENT

Supporting the community, while promoting health and physical activity, has always been an important tenet of the Company. The Company launched the Power of Sport for Kids program in fiscal 2006. The Power of Sport for Kids is a nationwide program created to recognize organizations and schools that assist and support at-risk and disadvantaged families and youth. Store and Company fundraising initiatives provide the funds for a variety of sports equipment and accessories for children who might not otherwise have the opportunity to experience the joys of sport. In addition, the Company provides support to The Forzani Group Foundation, a registered charity established in 2000, which seeks to promote wellness through physical activity, support the prevention of illness and offer assistance to the disabled, and those less fortunate, who wish to participate in physical activities.

The Company is also involved with Hockey Canada, Canada Games, Sport Quebec and numerous charity fundraisers including Cystic Fibrosis, Leucan and Cancer Cure Runs. The Company supports a great number of amateur sport development projects and competitions.

RISK FACTORS

The retail industry is influenced by a number of external factors that are difficult to actively manage. These include the overall fluctuations in the economy, consumer spending and customer 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 key risks identified by the Company, and the key elements of the Company's strategy for minimizing these risks are set out on pages 15 through 17 of the Company's MD&A for fiscal 2009, under the section heading "Retail Risks and Uncertainties", which section is specifically incorporated herein by reference. The MD&A is filed on SEDAR and may be accessed under the Company's profile at www.sedar.com.

DESCRIPTION OF CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of Class "A" shares ("**Common Shares**") and an unlimited number of preferred shares, issuable in series ("**Preferred Shares**"). As at February 1, 2009, there were 30,468,045 Common Shares and no Preferred Shares issued and outstanding.

COMMON SHARES

The holders of Common Shares are entitled, subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of the Company, to receive any dividends declared by the Company on the Common Shares, to receive notice of, attend and vote at all meetings of the shareholders of the Company and, upon a ballot, shall be entitled to one vote for each Common Share held. In the event of the liquidation or winding-up of

the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, holders of Common Shares have the right, subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of the Company, to share rateably in all such distributions in proportion to the number of Common Shares held by them.

The Company has a shareholder rights plan (the "**Plan**") that was adopted to ensure, to the extent possible, that all shareholders of the Company are treated fairly in connection with any take-over bid for the Company. The Plan creates a right that attaches to each present and subsequently issued Common Share. Until the separation time, which would generally occur at the time of an unsolicited take-over bid whereby a person acquires or attempts to acquire 20% or more of the Common Shares, the rights are not separable from the Common Shares, are not exercisable and no separate rights certificates are issued. When exercisable, each right will entitle the holder (other than the 20% acquirer) to purchase from the Company that number of Common Shares for a purchase price of \$100 which have a market value of \$200. The Plan was reconfirmed at the 2008 annual general meeting of shareholders of the Company and will expire at the close of business on the date of the Company's annual general meeting of shareholders in 2011, unless terminated at an earlier date by the Board of Directors of the Company or unless amended and continued with the approval of shareholders at the Company's annual general meeting of shareholders in 2011.

PREFERRED SHARES

Subject to the provisions of the *Business Corporation Act* (Alberta), the provisions applicable to the Preferred Shares as a class and to the provisions of any outstanding series of Preferred Shares, the Board of Directors of the Company is authorized to fix the designation, rights, privileges, restrictions and conditions attaching to each series of Preferred Shares. The Preferred Shares are non-voting, except as provided by law or as otherwise determined by the Board of Directors of the Company before the issue thereof.

DIVIDENDS

On September 5, 2007, the Company announced that the present intention of the Board of Directors is for the Company to pay an annual dividend of \$0.30 per Common Share, payable quarterly. On December 7, 2007, the Company declared its initial dividend of \$0.075 per Common Share. During fiscal 2009, the Company declared quarterly dividends of \$0.075 per Common Share for an aggregate of \$0.30 per Common Share during fiscal 2009. The declaration, amount and date of payment of dividends is determined by the Board of Directors from time to time and will be subject to the Company's earnings, financial requirements, and other conditions prevailing at that time.

On June 11, 2008, the Company entered into an amended and restated credit agreement (the "**Credit Agreement**") with, among others, GE Canada Finance Holding Company. The Credit Agreement includes a restrictive covenant which limits the dividends the Company may pay in any fiscal year to \$20 million. Management of the Company does not believe this restriction will have a direct correlation or impact on the Company's ability to pay dividends, if any, in the near term. During fiscal 2009, the Company made dividend payments totalling \$9,328,000.

MARKET FOR SECURITIES

The Common Shares are publicly traded on the Toronto Stock Exchange under the symbol "FGL". The following table sets out the share price trading range and volume of shares traded by month in fiscal 2009.

	Month	Trading Price Low	Trading Price High	Volume Traded
2008	February	\$14.90	\$16.36	2,102,700
	March	\$15.50	\$18.09	2,097,000
	April	\$16.32	\$18.13	2,685,900
	May	\$15.51	\$18.99	3,477,000
	June	\$14.41	\$17.73	5,624,300
	July	\$12.54	\$15.00	1,581,200
	August	\$12.66	\$15.47	1,157,100
	September	\$9.58	\$13.87	2,950,100
	October	\$7.26	\$10.84	2,118,500
	November	\$7.77	\$10.84	1,747,200
	December	\$6.56	\$8.50	1,263,200
	2009	January	\$7.02	\$9.61

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

The following are the names and provinces of residence of the directors of the Company as of the end of fiscal 2009 and their respective principal occupations during the last five years. Each director will hold office until the next Annual General Meeting of shareholders of the Company or until a successor is elected or appointed.

<u>Name and Place of Residence</u>	<u>Director Since</u>	<u>Principal Occupation During the Five Preceding Years</u>
Albrecht W. A. Bellstedt, Q.C. ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ Alberta, Canada	1993	Corporate Director and Independent Consultant. Prior to February 1, 2007, Executive Vice-President, Law & Corporate, TransCanada Corporation (a North American energy services company). Prior to June 1, 2006, Executive Vice President, Law and General Counsel, TransCanada Corporation.
Roman Doroniuk, CA ⁽⁵⁾⁽⁶⁾ Ontario, Canada	1997	Corporate Director and Independent Consultant. From January 2003 to October 2003, Chief Operating Officer of Magna Entertainment Corp. (an owner and operator of horse race tracks).
Henri Drouin ⁽⁵⁾ Quebec, Canada	2002	Corporate Director and Independent Consultant.
John M. Forzani ⁽⁷⁾ Alberta, Canada	1974	Corporate Director and Independent Businessman. From February 3, 2003 to January 28, 2007, Executive Chairman of the Board, The Forzani Group Ltd.
William D. Grace, FCA ⁽⁵⁾⁽⁸⁾ Alberta, Canada	1994	Corporate Director.
Jay Peters ⁽¹⁾ Ontario, Canada	2007	Management consultant. President and owner, J. Peters & Company Inc., a marketing and management consulting practice.

<u>Name and Place of Residence</u>	<u>Director Since</u>	<u>Principal Occupation During the Five Preceding Years</u>
Robert Sartor ⁽⁹⁾ Alberta, Canada	2003	Chief Executive Officer, The Forzani Group Ltd. Chief Executive Officer and Chief Financial Officer of the Company from February 2003 to August 2003.
Paul S. Walters ⁽¹⁾ Ontario, Canada	2005	Corporate Director and Independent Consultant.

Notes

- (1) The Governance Committee is comprised of Paul S. Walters as Chairman, Albrecht W.A. Bellstedt and Jay Peters.
- (2) Mr. Bellstedt is the lead director.
- (3) Mr. Bellstedt, who served as a trustee of Atlas Cold Storage Income Trust, was subject to an Ontario Securities Commission cease trade order that was issued in respect of all insiders of Atlas Cold Storage Income Trust on December 2, 2003 due to the late filing of financial statements required to reflect certain re-statements. The cease trade order was rescinded in January 2004.
- (4) Mr. Bellstedt retired from his position with TransCanada Corporation on February 1, 2007.
- (5) The Audit Committee is comprised of Roman Doroniuk as Chairman, William D. Grace and Henri Drouin.
- (6) Mr. Doroniuk became a director of Canadian Airlines Corporation on February 1, 2000 and served as Chair of its Audit Committee. On May 24, 2000 Canadian Airlines Corporation obtained a court order under the *Companies' Creditors Arrangement Act* (Canada), staying proceedings against it. Mr. Doroniuk resigned as director, together with the rest of the board, on July 5, 2000 when a statutory plan of arrangement was implemented under which Canadian Airlines Corporation's operations were acquired by Air Canada.
- (7) Mr. Forzani retired from his position as Executive Chairman of the Board on January 29, 2007 but continues as Chairman of the Board.
- (8) Mr. Grace was a director of Wavepoint Systems Inc. from December 2000 to March 15, 2002. On May 29, 2002, Wavepoint Systems Inc. made an assignment pursuant to the *Bankruptcy and Insolvency Act* (Canada) and a receiver was appointed.
- (9) Mr. Sartor was a director of Hartland Pipeline Services Ltd. on November 24, 1999 when Hartland obtained a court order under the *Companies' Creditors Arrangement Act* (Canada) staying proceedings against it. Mr. Sartor resigned as a director from Hartland in 2000.

EXECUTIVE OFFICERS

The following are the names and provinces of residence of the executive officers of the Company as of the end of fiscal 2009 (unless otherwise noted) and their respective principal occupations during the last five years.

<u>Name and Place of Residence</u>	<u>Principal Occupation During the Five Preceding Years</u>
Richard Burnet, CA Alberta, Canada	Senior Vice-President, Finance and Administration since November 14, 2008 prior thereto, Senior Vice President and Chief Financial Officer since October 2007; prior thereto, Vice-President and Chief Financial Officer since August 2003.
Matthew Handford Alberta, Canada	Senior Vice-President, Human Resources since January 2007. Executive Vice-President, People, WestJet Airlines Ltd. from January 2006 to January 2007; prior thereto, Worldwide Vice-President of Human Resources, Crystal Decisions (a business intelligence software company).
John Hould Alberta, Canada	Senior Vice-President, and President, Sport Mart Division since January 2007 and SVP National Sports division since August 2008. Prior to January 2007, Vice-President, Sport Mart Division.
Keith Lambert Alberta, Canada	Senior Vice-President, Supply Chain and Merchandise Management since June 2008. Prior thereto Vice-President Supply Chain.
Michael Lambert, CA Alberta, Canada	Chief Financial Officer since November 14, 2008; prior thereto Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited since October 2006. Prior thereto, President, Mark's Work Warehouse Ltd. and Executive VP, Canadian Tire Corporation since February 2003.
Thomas G. Quinn Quebec, Canada	President & Chief Operating Officer, Corporate and Franchise Retail since January 11, 2008. Prior thereto, President, Franchise Division.

Name and Place of Residence	Principal Occupation During the Five Preceding Years
Robert Sartor Alberta, Canada	Chief Executive Officer since August 2003. Chief Executive Officer and Chief Financial Officer from February 2003 to August 2003.
Doug Stone Alberta, Canada	Vice-President, Real Estate since January 2004. Prior thereto National Manager, Leasing and Development, Sears Canada Inc.
Jean-Stephane Tremblay Quebec, Canada	Senior Vice-President, Franchise Retail since February, 2008. Prior thereto, Vice-President, Operations, Franchise Division.
Richard White Alberta, Canada	Chief Merchandising Officer and Senior Vice-President since June, 2008. Prior thereto, Senior Vice-President, Gen-X Sports Inc.
Karen Wiwchar ⁽¹⁾ Alberta, Canada	Vice-President Law, General Counsel and Corporate Secretary since November 2004. Senior Legal Counsel, Alberta Securities Commission from July 2003 to November 2004.

Notes:

(1) Ms. Wiwchar's employment with the Corporation ended on February 12, 2009.

As at April 7, 2009, the directors and executive officers of the Company beneficially owned, or controlled or directed, directly or indirectly, approximately 1,357,576 Common Shares of the Company representing approximately 4.5% of the issued and outstanding Common Shares.

LEGAL PROCEEDINGS

Claims and suits have been brought against the Company in the ordinary course of business. In the opinion of management, all such claims and suits are adequately covered by insurance, or if not so covered, the results are not expected to materially affect the Company's financial position. Any costs to the Company arising from these claims and suits will be charged to earnings in the year in which they occur.

TRANSFER AGENT

The Company's transfer agent is Computershare Trust Company of Canada, with transfer facilities in Calgary, Toronto, Vancouver and Montreal.

MATERIAL CONTRACTS

The Company holds an exclusive license to use the trademark/servicemark INTERSPORT in Canada and the United States of America pursuant to the INTERSPORT License Agreement dated effective July 1, 2003 between IIC-INTERSPORT International Corp. as licensor and the Company as licensee. The agreement, which is for an unlimited period of time, sets out the specific terms and conditions on which the Company may use the INTERSPORT mark, provides for sub-licenses by the Company to its franchisees, and requires the Company to pay the licensor an annual management fee together with a marketing fee based on sales in each fiscal year.

A copy of the above license agreement is filed under the Company's profile at www.sedar.com.

INTEREST OF EXPERTS

FGL's independent auditors are Ernst & Young LLP. Ernst & Young LLP has confirmed that it is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

AUDIT COMMITTEE

THE AUDIT COMMITTEE'S CHARTER

The Audit Committee of the Company has adopted a written charter, a copy of which is attached hereto as Schedule A.

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee, as disclosed under "Directors and Executive Officers", are Roman Droniuk, CA (Chair), William D. Grace, FCA and Henri Drouin, each of whom is independent and financially literate within the meaning of National Instrument 52-110.

Relevant Education and Experience

Roman Droniuk, CA - Mr. Droniuk is a chartered accountant with retail experience and is presently a consultant. He graduated from Ryerson University in 1983 with a Bachelor of Business Management degree, and obtained his Chartered Accountant designation in 1984. He has held significant responsibility in the area of financial management for a number of major companies, including Alliance Communications Corporation, Lion's Gate Entertainment Corp., Magna International Inc. and Magna Entertainment Corp.

William D. Grace, FCA – Mr. Grace is a graduate of the University of Alberta and a Fellow Chartered Accountant (FCA). During the period from 1968 to 1985, he served as the chief financial officer with several major Alberta corporations. From 1988 to 1994, he was a managing partner in the Edmonton office of Price Waterhouse. He served as Chairman of the Canadian Institute of Chartered Accountants (CICA) in 1984-85. He currently holds a number of corporate directorships in addition to the Company, including Melcor Developments Ltd., Lockerbie & Hole Inc. and BioMS Medical Corp. as well as several private companies. He is also the independent Chairman of the Edmonton Pipe Industry Pension Trust and Health & Welfare Funds and a director of the Mutual Fund Dealers Association of Canada.

Henri Drouin - After obtaining his B.A. degree in 1961, Mr. Drouin graduated in 1964 from Hautes Etudes Commerciales, the business faculty at the University of Montreal, with a license degree. Mr. Drouin was a director of RONA Inc. for 26 years and its Chairman from 1981 to 2002. In that role he put RONA's Audit Committee in place and participated in all of its meetings. He has been involved in the retail sector since 1966 to date, and has owned franchise food stores and Podium Sports stores.

PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee has adopted a policy for the engagement of non-audit services which provides as follows:

General

The Company and its subsidiaries will not engage the external auditors of the Company to carry out any service that has been designated by the Canadian Institute of Chartered Accountants and the United States Securities and Exchange Commission as "prohibited non-audit services". For services that are not prohibited, the Audit Committee is required to pre-approve the audit and non-audit services performed by the auditor to assure that the provision of such services does not impair the auditor's independence. Unless a type of service to be provided by the independent auditor has received general pre-approval, it will require specific pre-approval by the Audit Committee. Pre-approval fee levels for all services to be provided by the independent auditor will be established periodically by the Audit Committee, and any proposed services exceeding these levels will require specific pre-approval by the Audit Committee.

Audit-Related Services

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are traditionally performed by the independent auditor. The Audit Committee believes that the provision of certain audit-related services does not impair the independence of the auditor. All audit-related services must be pre-approved by the Audit Committee.

Tax Services

The Audit Committee believes that the independent auditor can provide tax services to the Company such as tax compliance and certain tax advice without impairing the auditor's independence. However, the Audit Committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the *Income Tax Act* (Canada) and related regulations. All tax services provided by the independent auditor must be separately pre-approved by the Audit Committee.

All Other Services

The Audit Committee may grant pre-approval to those permissible non-audit services that it believes are routine and recurring services, and that would not impair the independence of the auditor. Other permissible services that do not have pre-approval must be separately approved.

Procedures

Requests or applications to provide services that require separate approval by the Audit Committee will be submitted to the Audit Committee by both the independent auditor and the Chief Financial Officer and must include a joint statement as to whether, in their view, the request or application is consistent with the CICA standard of auditor independence.

EXTERNAL AUDITOR SERVICE FEES (BY CATEGORY)

The Company's external auditor for fiscal 2009 and fiscal 2008 was Ernst & Young LLP.

Audit Fees

The aggregate audit fees billed by Ernst & Young LLP for audit services, comprising the audit of the Company's annual consolidated financial statements and the review of the Company's interim financial statements, for fiscal 2009 were \$664,976. The aggregate audit fees billed by Ernst & Young LLP for audit services, comprising the audit of the Company's annual consolidated financial statements and the review of the Company's interim financial statements, for fiscal 2008 were \$489,000.

Audit-Related Fees

The aggregate fees billed by Ernst & Young LLP for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and that are not reported under "Audit Fees" above were nil for both fiscal 2008 and fiscal 2009.

Tax Fees

Ernst & Young LLP did not render any professional services to the Company for tax compliance, tax advice or tax planning in fiscal 2009 or fiscal 2008.

All Other Fees

The fees billed by Ernst & Young LLP for the provision of services in connection with the requirements to report on internal controls over financial reporting were \$60,000 for fiscal 2009 and \$50,000 for fiscal 2008 and for the translation of financial statements and MD&A were \$30,000 for fiscal 2009 and \$24,750 for fiscal 2008, which constitutes all of the aggregate fees billed by Ernst & Young LLP to the Company in those years other than the fees otherwise disclosed herein.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information, including information on directors' and officers' remuneration and indebtedness, principal shareholders and options to purchase Common Shares, is contained in the Management Proxy Circular for the Company's most recent annual meeting of shareholders that involves the election of directors. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in the Company's management proxy circular dated April 9, 2008 for its 2008 annual general and special meeting of shareholders. Additional financial information is also provided in the Company's audited financial statements and MD&A for the fiscal year ended February 1, 2009.

**Schedule A
to the Annual Information Form of
The Forzani Group Ltd.**

**THE FORZANI GROUP LTD.
AUDIT COMMITTEE**

TERMS OF REFERENCE

A. OVERVIEW AND PURPOSE

1. The Audit Committee (the "Committee") is appointed by, and responsible to the Board of Directors (the "Board"). The Committee approves, monitors, evaluates, advises and makes recommendations, in accordance with these terms of reference, on matters affecting the external and internal audits, risk management matters and the integrity of the financial reporting and accounting control policies and practices of the Company.

The involvement of the Committee in overseeing the financial reporting process, including assessing the reasonableness of management's accounting judgments and estimates and reviewing key filings with regulatory agencies, is an important element of the Company's internal control over financial reporting. The Committee has oversight responsibility for the performance of both the internal auditors and the external auditors. The Committee also has oversight responsibility for the Company's compliance with legal and regulatory requirements.

It is not the duty of the Committee to plan or conduct audits, or to determine that the Company's financial statements are complete, accurate and in accordance with generally accepted accounting principles.

B. MEMBERSHIP & ATTENDANCE AT MEETINGS

1. The members of the Committee shall be composed of three unrelated and independent directors, appointed by the Board, all of whom must be financially literate and at least one member shall have accounting or related financial management expertise. For greater clarity, the Board has adopted the definition of independent director as set out in National Instrument 52-110 of the Canadian Securities Administrators.
2. The Chair of the Committee shall be designated by the Board.
3. Attendance by invitation at all or a portion of Committee meetings is determined by the Committee Chair or its members, and would normally include the CFO of the Company, representatives of the external auditors, the internal auditor and such other officers or support staff as may be deemed appropriate.

C. DUTIES AND RESPONSIBILITIES

1. Review, and recommend to the Board for approval, the annual audited financial statements.
2. Review, and recommend to the Board for approval, the following public disclosure documents:
 - (a) the financial content of the annual report;
 - (b) the annual management information circular and proxy materials;
 - (c) the annual information form, including any regulatory requirements for audit committee reporting obligations;
 - (d) the management discussion and analysis section of the annual report; and

- (e) the year-end news release on the earnings of the Company.
3. Review and, if appropriate, recommend to the Board or, in circumstances where in the opinion of the Board it is necessary or expedient for the Committee to do so, approve and authorize the release of the quarterly unaudited financial statements including management's discussion and analysis, the quarterly interim report to shareholders and the quarterly press release on earnings of the Company. However, and notwithstanding the foregoing, in the event that there is a significant or extraordinary matter that, in the opinion of the Committee, should be reviewed by the Board before the release of such information, then the matter shall necessarily be referred to the Board for review.
 4. Review, and recommend to the Board for approval, all financial statements, reports of a financial nature, and the financial content of prospectuses or any other reports which require approval by the Board prior to submission thereof to any regulatory authority.
 5. Review the audit committee information required as part of the annual information form.
 6. Review the CEO and CFO quarterly and annual certifications regarding disclosure controls and the effectiveness of internal controls and procedures as required by the regulatory authorities.
 7. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
 8. Discuss with management the Company's policies and procedures designed to prevent, identify and detect fraud.
 9. Discuss with management the Company's policies and procedures designed to ensure an effective compliance and ethics program, including the Company's code of ethics.
 10. Review with management on an annual basis, the Company's obligations pursuant to guarantees that have been issued and material obligations that have been entered into, and the manner in which these guarantees and obligations have been, or should be, disclosed in the financial statements.
 11. Review with management quarterly, foreign exchange hedges, forward buys, and any financial derivative transactions.
 12. Review any variable interest entities before financial statements are completed.
 13. Review and assess, in conjunction with management and the external auditor, at least annually or on a quarterly basis where appropriate or required:
 - (a) the appropriateness of accounting policies and financial reporting practices used by the Company, including alternative treatments that are available for consideration;
 - (b) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Company;
 - (c) any new or pending developments in accounting and reporting standards that may affect or impact on the Company;
 - (d) the key estimates and judgements of management that may be material to the financial reporting of the Company; and

- (e) uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole and significant misstatements resulting from errors that were corrected by management.
- 14. Assess the performance and consider the annual appointment of external auditors for recommendation to the Board for ultimate recommendation for appointment by the shareholders.
- 15. Review, approve and execute the annual engagement letter with the external auditor, and ensure there is a clear understanding between the Board, the Committee, the external auditor and the management that the external auditor reports directly to the shareholders and the Board through the Committee. The terms of the engagement letter, in conjunction with the annual audit scope presented to the Committee, should include, but not limited to the following:
 - (a) staffing;
 - (b) objectives and scope of the external audit work;
 - (c) materiality limits;
 - (d) audit reports required;
 - (e) areas of audit risk;
 - (f) timetable; and
 - (g) the proposed fees.
- 16. Obtain and review a report from the external auditor at least annually regarding the auditor's independence and the profession's or audit firm requirements regarding audit partner rotation.
- 17. Approve, before the fact, the engagement of the external auditor for all non-audit services and the fees for such services, and consider the impact on the independence of the external audit work of fees for such non-audit services. For the purpose of this section, audit services are deemed to include the audit of the consolidated financial statements and assurance services and tax compliance services related to the audit of the consolidated financial statements. Assurance services include the annual audit, quarterly reviews, prospectus, translation services, and compliance certification.
- 18. Review all fees paid to the external auditors for audit services and, if appropriate, recommend their approval to the Board.
- 19. Receive an annual certification from the external auditor that they participate in the public oversight program established by the Canadian Public Accountability Board (CPAB) and that they are in good standing with the CPAB.
- 20. Receive a report from the external auditors describing (a) the firm's internal quality control procedures and (b) any material issues raised by the most recent internal quality control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years regarding the audits carried out by the external auditor together with any steps taken to deal with any such issues.
- 21. Receive and resolve any disagreements between management and the external auditors regarding all aspects of the Company's financial reporting.
- 22. Review with the external auditors the results of the annual audit examination including, but not limited to, the following:

- (a) any difficulties encountered, or restrictions imposed by management, during the annual audit;
 - (b) any significant accounting or financial reporting issues;
 - (c) the auditors' evaluation of the Company's internal controls over financial reporting and management's evaluation thereon, including internal control deficiencies identified by the auditor that have not been previously reported to the Committee;
 - (d) the auditor's evaluation of the selection and application of accounting principles and estimates, and the presentation of disclosures;
 - (e) the post-audit or management letter containing any findings or recommendations of the external auditors including management's response thereto and the subsequent follow-up to any identified internal accounting control weaknesses; and
 - (f) any other matters which the external auditors should bring to the attention of the Committee.
23. Meet with the external auditors, at least annually or as requested by the auditors, without management representatives present; and to meet with management, at least annually, without the external auditors present. The Chairman of the Audit Committee should meet with the external auditors at least annually in preparation for the Audit Committee meetings.
24. At least annually, request the external auditor to provide their views on the quality (not just the acceptability) of the Company's annual and interim financial reporting. Such quality assessment should encompass judgements about the appropriateness, aggressiveness or conservatism of estimates and elective accounting principles or methods and judgements about the clarity of disclosures.
25. When there is to be a change in the external auditor, review all issues related to the change, including the information to be included in the notice of change of auditor called for under National Policy 31 and the planned steps for an orderly transition.
26. In regard to the Company's internal audit function,
- (a) coordinate the Board's oversight of the performance of the Company's internal audit function;
 - (b) confirm and assure the independence of the internal audit function, providing the Director of Audit Services with a reporting structure designed to achieve independence with full and unrestricted access to the Committee;
 - (c) review and concur in the appointment, replacement, re-assignment or dismissal of the Director of Audit Services, and the compensation arrangements with the incumbent;
 - (d) meet with the Director of Audit Services on a regular basis to receive reports on completed audits including management response, status of audits-in-progress and planned audits;
 - (e) on an annual basis, review the internal audit plan and the scope thereof, including a review of the internal audit structure, the scope of their ongoing audit activities, and the budget and staffing requirements; and
 - (f) review and approve, at least every three years, the internal audit mandate.
27. Meet with the internal auditor at every meeting of the Committee, or as requested by the internal auditor, without management representatives present.

28. Review any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Company, and the manner in which these matters have been disclosed in the financial statements.
29. Review annually or as required the appropriateness of the system of internal controls and approval policies and practices concerning the expenses of the officers of the Company, including the use of the Company's assets.
30. Review and approve, on a quarterly after-the-fact basis, the expense accounts of the Board Chair and the Chief Executive Officer of the Company.
31. On an annual basis, review the adequacy of the Company's insurance program.
32. Review, as required, any claims of indemnification pursuant to the by-laws of the Company.
33. Engage independent counsel and other advisors as may be deemed or considered necessary, and determine the fees of such counsel and advisors.
34. Review and determine the disposition of any complaints received from any shareholders or any regulatory body.
35. In accordance with the Company's Whistle Blower Policy - Complaint Resolution Process, review and determine the disposition of any complaints or correspondence received under the policy.
36. Conduct a bi-annual assessment of the effectiveness of the Committee and provide a report thereon to the Board.
37. Review and approve the Company's hiring policies regarding employees and former employees of the present and former external auditors of the Company.
38. Request such information and explanations in regard to the accounts of the Company as the Committee may consider necessary and appropriate to carry out its duties and responsibilities.
39. Consider any other matters which, in the opinion of the Committee or at the request of the Board, would assist the directors to meet their responsibilities.
40. Review annually the terms of reference for the Committee and to recommend any required changes to the Board.
41. Provide reports and minutes of meetings to the Board.

D. MEETINGS

1. Regular meetings of the Committee are held at least four times each year.
2. Meetings may be called by the Committee Chair or by a majority of the Committee members, and usually in consultation with the management of the Company.
3. Meetings are chaired by the Committee Chair or, in the Chair's absence, by a member chosen by the Committee from among themselves.
4. A quorum for the transaction of business at any meeting of the Committee is a majority of the appointed members.

5. The Secretary of the Company shall provide for the delivery of notices, agendas and supporting materials to the Committee members at least five (5) days prior to the meeting except in unusual circumstances.
6. Meetings may be conducted with members present, or by telephone or other communications facilities which permit all persons participating in the meeting to hear or communicate with each other.
7. A written resolution signed by all Committee members entitled to vote on that resolution at a meeting of the Committee is as valid as one passed at a Committee meeting.
8. The Secretary of the Company shall be the secretary for the Committee and shall keep a record of minutes of all meetings of the Committee.
9. Minutes of the meetings of the Committee shall be distributed by the Secretary of the Company to all members of the Committee within seven (7) working days of each meeting, and shall be submitted for approval at the next regular meeting of the Committee.