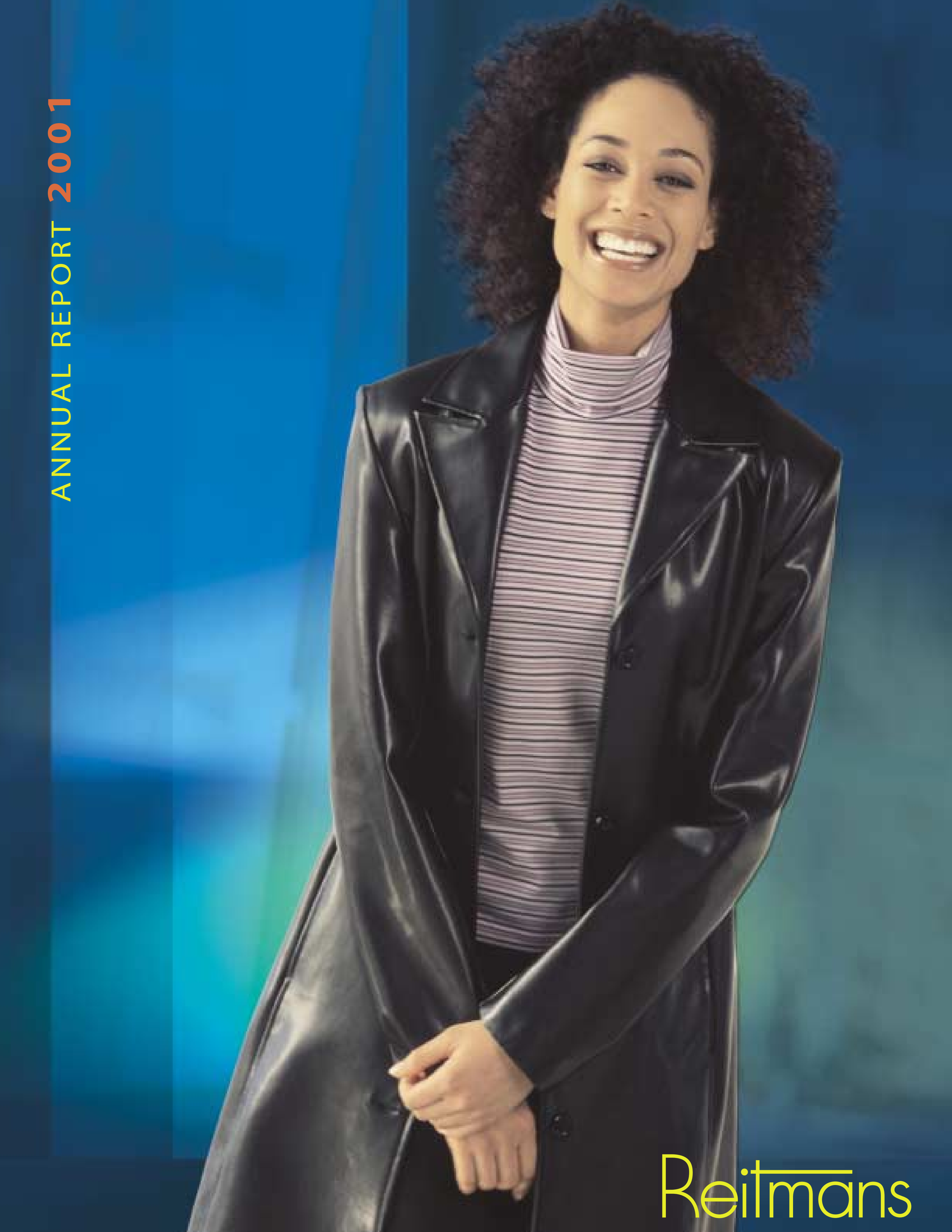

ANNUAL REPORT 2001
Reitmans

REITMANS (CANADA) LIMITED

Reitmans

Smart Set/Dalmys

Penningtons

RW & CO.

# HIGHLIGHTS

For the years ended:
(in thousands except per share amounts)
(unaudited)

| | | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|
| **SALES**[1] | | | | | | |
| | 1st Quarter | **$ 98,192** | $ 91,618 | $ 81,935 | $ 72,162 | $ 67,256 |
| | 2nd Quarter | **139,059** | 132,758 | 118,514 | 103,104 | 104,928 |
| | 3rd Quarter | **126,847** | 112,744 | 103,144 | 93,100 | 88,680 |
| | 4th Quarter | **154,286** | 140,610 | 127,872 | 115,449 | 113,085 |
| | **Total** | **$ 518,384** | $ 477,730 | $ 431,465 | $ 383,815 | $ 373,949 |
| **OPERATING EARNINGS (LOSS)**[1] | | | | | | |
| | 1st Quarter | **$ (391)** | $ 3,466 | $ 446 | $ (3,539) | $ (9,806) |
| | 2nd Quarter | **8,444** | 14,081 | 9,263 | 3,376 | 4,806 |
| | 3rd Quarter | **6,080** | 2,704 | 3,228 | 2,499 | (1,186) |
| | 4th Quarter | **9,451** | 6,649 | 3,852 | 1,916 | 1,851 |
| | **Total** | **$ 23,584** | $ 26,900 | $ 16,789 | $ 4,252 | $ (4,335) |
| **EARNINGS (LOSS)**[1] | | | | | | |
| | 1st Quarter | **$ 1,523** | $ 38,465 | $ 3,015 | $ (1,084) | $ (6,209) |
| | 2nd Quarter | **7,629** | 10,764 | 8,498 | 6,503 | 4,442 |
| | 3rd Quarter | **5,938** | 2,822 | 3,437 | 4,707 | 1,963 |
| | 4th Quarter | **5,112** | 3,163 | 2,296 | 5,136 | 3,034 |
| | **Total** | **$ 20,202** | $ 55,214 | $ 17,246 | $ 15,262 | $ 3,230 |
| **EARNINGS (LOSS) PER SHARE**[1] | | | | | | |
| | 1st Quarter | **$ 0.18** | $ 4.40 | $ 0.34 | $ (0.13) | $ (0.70) |
| | 2nd Quarter | **0.88** | 1.23 | 0.97 | 0.75 | 0.50 |
| | 3rd Quarter | **0.69** | 0.31 | 0.38 | 0.53 | 0.23 |
| | 4th Quarter | **0.60** | 0.36 | 0.26 | 0.60 | 0.34 |
| | **Total** | **$ 2.35** | $ 6.30 | $ 1.95 | $ 1.75 | $ 0.37 |
| **LOSS FROM DISCONTINUED OPERATIONS** | | **$ -** | $ (3,507) | $ (3,374) | $ (2,872) | $ (2,178) |
| | **PER SHARE** | **$ -** | $ (0.40) | $ (0.38) | $ (0.33) | $ (0.25) |
| **NET EARNINGS** | | **$ 20,202** | $ 51,707 | $ 13,872 | $ 12,391 | $ 1,052 |
| | **PER SHARE** | **$ 2.35** | $ 5.90 | $ 1.57 | $ 1.42 | $ 0.12 |
| **SHAREHOLDERS' EQUITY** | | **$ 202,507** | $ 194,121 | $ 149,347 | $ 144,723 | $ 135,004 |
| | **PER SHARE** | **$ 24.14** | $ 22.37 | $ 17.12 | $ 16.17 | $ 15.31 |
| **NUMBER OF STORES** | | **601** | 588 | 564 | 575 | 590 |

[1] From continuing operations

# TO OUR SHAREHOLDERS

WE WILL CONTINUE TO AGGRESSIVELY EXPAND OUR CHAINS

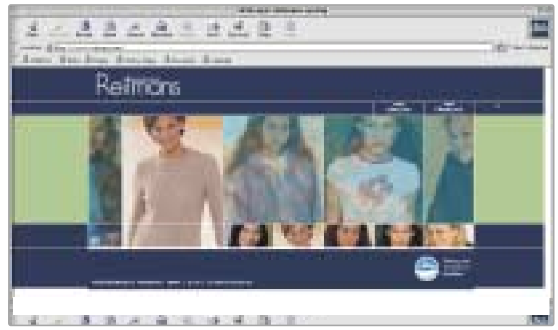
The year ended February 3, 2001 was a challenging year for the Company. It was a year which produced significant progress in the development of the Company yet fell short of targeted operating earnings.

Sales for the year ended February 3, 2001 (53 weeks) increased 8.5% to $518.4 million as compared with $477.7 last year (52 weeks). Operating earnings amounted to $23.6 million as compared with $26.9 million last year. Net earnings amounted to $20.2 million or $2.35 per share as compared with $51.7 million or $5.90 per share last year, which included a non-recurring gain on the sale of NetStar of $45.7 million ($36.3 million after tax or $4.15 per share) and a loss from discontinued operations of the Antels and Cactus divisions of $3.5 million or $0.40 per share. Excluding these items, last year's net earnings amounted to $18.9 million or $2.15 per share.

The increase in sales is primarily attributable to the strong sales increases of 20% in Penningtons, 10% in Smart Set/Dalmys, and by the additional sales generated by the RW & CO. division's rapid expansion, offset by weaker sales in the Reitmans division. Comparable store sales increased 8% in both the Smart Set/Dalmys and Penningtons divisions resulting in strong increases in operating profit. Reitmans experienced a 5% decline in comparable store sales and a significant decline in operating earnings. Our new RW & CO. division had an increased operating loss as a result of the rapid expansion of an additional 10 stores.

During the year, the Company opened 42 new stores (15 Reitmans, 5 Smart Set/Dalmys, 12 Penningtons and 10 RW & CO.) and closed 29 stores (12 Reitmans, 10 Smart Set/Dalmys and 7 Penningtons). At year-end, the Company operated 601 stores, consisting of 333 Reitmans, 143 Smart Set/Dalmys, 102 Penningtons and 23 RW & CO. as compared with a total of 588 stores last year.

We will continue to aggressively expand our chains. We plan to open 15 Reitmans, 5 Smart Set/Dalmys, 13 Penningtons and 5 RW & CO. this year and we anticipate closing approximately 20 stores that are not profitable. Our store renovation program involved the substantial renovation of 63 stores last year; we plan to remodel 26 stores this year.




Under the provisions of its 2000 Normal Course Issuer bid, the Company purchased 289,200 Class A non-voting shares at an average cost of $17.24 per share during the year and a further 54,800 shares at an average cost of $15.95 subsequent to year-end. Furthermore, the Board authorized the Company to purchase up to an additional 332,000 Class A non-voting shares pursuant to the 2001 Normal Course Issuer bid. We believe that at current levels the Company's shares continue to be undervalued and as such represent an appropriate investment of its funds.

The Board of Directors declared the payment of a quarterly cash dividend of 20 cents per Class A non-voting and Common share payable April 27, 2001 to shareholders of record April 17, 2001.

Over the past seven years, the Company has invested in and installed new systems in virtually every aspect of its business. We are satisfied that in doing so, we have not only acquired hardware and software, but most importantly, we have significantly improved our ability to compete in today's and to succeed in tomorrow's retailing world. The management and employees of the Company have been provided with state-of-the-art tools, dynamic training complemented with a culture of self-empowerment and individual accountability, all designed to ensure the best opportunity for the Company to succeed over the long term. Our investment in and our commitment to this principle is ongoing.

On behalf of the Board of Directors, we wish to express our sincere appreciation to our employees for their dedication and loyalty, to our suppliers for their cooperation and to our customers for their continuing patronage. These are the people who have made possible our many years of success and on whom we rely for the future.

On behalf of the Board of Directors,

*(signed)*
Jeremy H. Reitman
President
Montreal, April 19, 2001

# MANAGEMENT DISCUSSION AND ANALYSIS

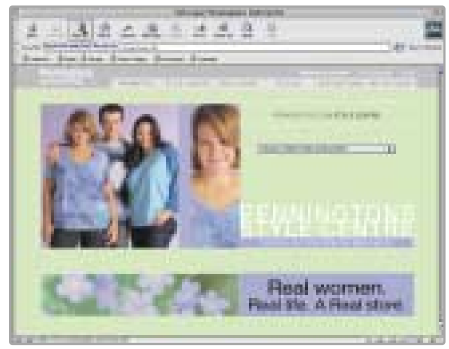
WE CONTINUE TO REALIZE THE BENEFITS OF OUR AUTOMATED DISTRIBUTION SYSTEM, OUR ENHANCED MANAGEMENT AND MERCHANDISING SYSTEMS AND OUR IN-STORE TRAINING PROGRAMS

## OPERATING RESULTS

Sales for the fifty-three weeks ended February 3, 2001 from continuing operations increased 8.5% to $518.4 million from $477.7 million for the fifty-two week period ended January 29, 2000. The increase in sales in 2001 was primarily attributable to the strong performances of the Penningtons division (20% increase) and the Smart Set/Dalmys division (10% increase) and the rapid expansion of our newest chain, RW & CO. Strong comparable store sales (53 weeks vs. 53 weeks) increases of 8% in both SmartSet/Dalmys and Penningtons and 15% in RW & CO. were offset by a decrease of 5% in Reitmans.

Net operating earnings from continuing retail operations before interest, investment income and taxes (EBIT) amounted to $23.6 million, a decrease of 12.3% from $26.9 million last year. While EBIT in the first six months decreased 54%, EBIT in the second half of the year increased 66%. Significant increases were registered in both the Smart Set/Dalmys and Penningtons divisions while Reitmans and RW & CO. had declines.

During the year just completed, we began to realize the significant potential of our new POS system that had been rolled out in the third quarter of last year. Installed to complete and complement our modern merchandising and financial systems, the new POS system has allowed us to dramatically increase employee productivity in stores by eliminating substantial administrative paper work and automating other labour intensive activities at store level. We have a number of other POS initiatives under way to further improve store operations and selling activities. We continue to realize the benefits of our automated distribution system, our enhanced management and merchandising systems and our in-store training programs. After extensive testing, we have now expanded our Reitmans division Air Miles™ loyalty program participation to all Reitmans stores in Canada.




## INVESTMENTS

Investments consist of marketable securities, principally high quality preferred shares rated P-1. At February 3, 2001, marketable securities amounted to $81.4 million (market value $85.6 million) as compared with $83.8 million (market value $79.7 million) last year. Investment income in 2001 amounted to $9 million, composed principally of dividends and net capital gains of $754,000. In 2000, investment income amounted to $3.4 million including net capital losses of $4.8 million, excluding the sale of our investment in NetStar Communications Inc. for a capital gain of $45.7 million.

## LIQUIDITY AND CAPITAL ASSETS

Shareholders' equity at February 3, 2001 amounted to $202.5 million or $24.14 per share as compared to $194.1 million or $22.37 per share last year. The Company continues to be in a strong financial position. The Company's sources of liquidity are its cash and investments in marketable securities of $101.4 million at February 3, 2001 compared with $137.1 million at January 29, 2000. The major financing activities during the year included the buy-back of 289,200 Class A non-voting shares ($5 million) and the payment of cash dividends of $6.9 million or 80 cents a share. The Company also issued 2,000 Class A non-voting shares under its employee stock option plan. The Company invested $22.5 million in new and renovated stores in the year ending February 3, 2001 and has budgeted $15 million for store development for fiscal 2002. These expenditures together with the payment of cash dividends will be funded by the Company's existing financial resources and funds derived from its operations.

# MANAGEMENT DISCUSSION AND ANALYSIS


THE COMPANY IS IN A STRONG FINANCIAL POSITION

THE OUTLOOK REMAINS POSITIVE

## OUTLOOK

The Company, through its four distinct operating divisions, believes that it is well positioned to compete effectively in the Canadian specialty retail market. We have continued to expand and strengthen our offshore sourcing capabilities based in Hong Kong.

We have successfully tested off-mall locations and new store designs and layouts in our Reitmans and Smart Set divisions, and will continue to implement these designs in new and renovated stores where appropriate. The Company has revised and refined its compensation policies, including comprehensive incentive-based bonus plans, to ensure that they are consistent with the stated corporate and financial goals of each division, as well as those of the overall Company. As a result of an extensive store-training program started in fiscal 1997, specific standards were developed regarding customer service, store appearance and employee conduct. At store level these measures have been combined with sales, wage cost and shrinkage targets in a focused comprehensive compensation plan. Our employees have responded very well to these new procedures.

The Company is in a strong financial position. It has excellent relationships with its vendors and suppliers, both in Canada and globally. It has invested in technology and people. The outlook remains positive.

Reitmans

SMART SET | DALMYS

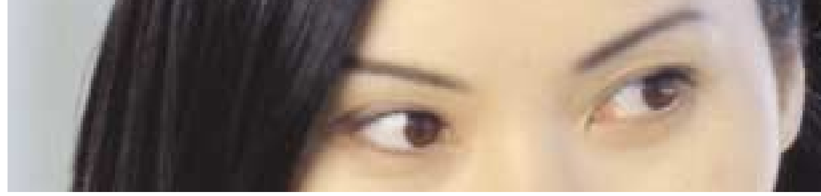
Penningtons

RW & CO.

## STORES

| | Reitmans | Smart Set/ Dalmys | Penningtons | RW & CO. | Total |
|---|---|---|---|---|---|
| Newfoundland | 13 | 3 | 2 | - | 18 |
| Prince Edward Island | 3 | 3 | 1 | - | 7 |
| Nova Scotia | 20 | 7 | 3 | - | 30 |
| New Brunswick | 18 | 5 | 3 | 1 | 27 |
| Québec | 84 | 22 | 16 | 7 | 129 |
| Ontario | 102 | 57 | 40 | 7 | 206 |
| Manitoba | 9 | 5 | 5 | - | 19 |
| Saskatchewan | 10 | 4 | 4 | - | 18 |
| Alberta | 35 | 18 | 14 | 3 | 70 |
| British Columbia | 37 | 19 | 14 | 5 | 75 |
| Northwest Territories | 1 | - | - | - | 1 |
| Yukon | 1 | - | - | - | 1 |
| | 333 | 143 | 102 | 23 | 601 |

# Reitmans



Operating 333 stores, Reitmans is Canada's largest ladies apparel specialty chain. With stores averaging 3,700 sq. ft., Reitmans offers Canadian women a targeted assortment of current fashions and accessories. In addition to broad assortments of sportswear and ready-to-wear, many stores have Petites, Encore (plus-size) and E.K.O (kids, teens, tweens) departments. The Air Miles™ loyalty reward program and Reitmans' website (www.reitmans.com) are effective marketing tools that will drive the business to further success.

# 333 STORES

Petites

Encore

Contrast Jeans

E.K.O

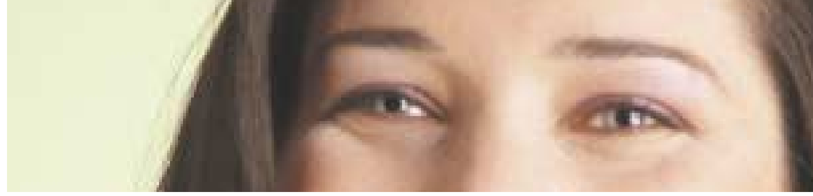
Air Miles™

SMART SET | DALMYS

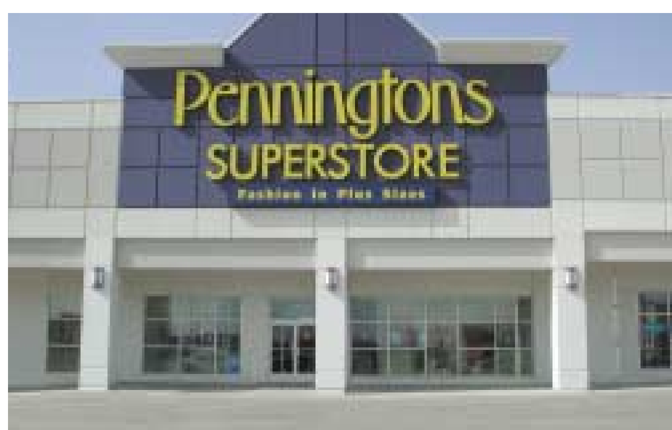
143 STORES


The Smart Set/ Dalmys division, with over 140 stores averaging 2,300 sq. ft. is a major fashion destination for junior customers. It offers 15 to 35 year old women a complete coordinated line of affordable fashion and accessories at the best quality/price/value. All Smart Set clothing and accessories are designed and manufactured specifically and exclusively for the chain and carry the Smart Set label.

# Penningtons

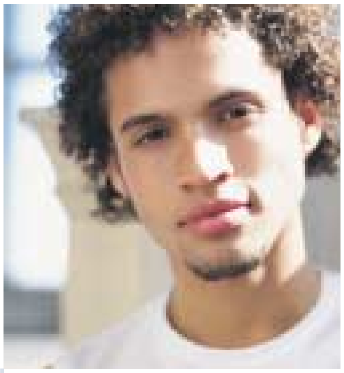


With over 100 stores from coast to coast, Penningtons has established itself as the dominant plus-size retailer in the category. Penningtons is a destination store averaging 6,800 sq.ft. located in a strip mall or plaza, that provides a broad assortment of career, casual and intimates for the plus-size woman of all ages. Penningtons Superstore offers a "feel at home" concept with exceptionally knowledgeable, caring and friendly service. The Penningtons brand means fashion, selection, service, quality, value and unbeatable prices.



102 STORES

# RW & CO.



23 STORES

Averaging 4,000 sq. ft. in major malls, RW & CO. caters to junior (18 to 30) ladies and men, offering active, casual and city wear clothing and accessories at moderate prices under the RW & CO. brand. After opening the first stores in August 1999, RW & CO. now operates 23 stores in major urban and suburban markets throughout the country.

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors of Reitmans (Canada) Limited.

These consolidated financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles and include amounts that are based on best estimates and judgments. The financial information used elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management of the Company has developed and maintains a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurances that financial records are reliable and form a proper basis for the preparation of the consolidated financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in this annual report principally through its Audit Committee, consisting of all outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The auditors appointed by the shareholders have full access to the Audit Committee, with and without management being present.

These consolidated financial statements have been examined by the auditors appointed by the shareholders, KPMG LLP, Chartered Accountants and their report is presented hereafter.

*(signed)*
Jeremy H. REITMAN
President

*(signed)*
Eric WILLIAMS, C.A.
Vice-President - Treasurer

# AUDITORS' REPORT

To the Shareholders of Reitmans (Canada) Limited

We have audited the Consolidated Balance Sheets of Reitmans (Canada) Limited as at February 3, 2001 and January 29, 2000 and the Consolidated Statements of Earnings and Retained Earnings and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 3, 2001 and January 29, 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*(signed)*
KPMG LLP
Chartered Accountants

Montreal, Canada
March 30, 2001

# CONSOLIDATED BALANCE SHEETS

As at February 3, 2001
and January 29, 2000
(in thousands)

| | 2001 | 2000 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and short-term deposits | **$ 20,008** | $ 53,226 |
| Accounts receivable | **2,556** | 2,970 |
| Merchandise inventories | **38,481** | 31,536 |
| Prepaid expenses | **8,816** | 3,628 |
| Total Current Assets | **69,861** | 91,360 |
| INVESTMENTS (note 2) | **81,399** | 83,849 |
| CAPITAL ASSETS (note 3) | **86,036** | 73,332 |
| ACCRUED PENSION ASSET (note 4) | **6,903** | 5,308 |
| FUTURE INCOME TAXES | **-** | 2,402 |
| | **$ 244,199** | $ 256,251 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued items | **$ 35,187** | $ 45,463 |
| Income taxes payable | **5,124** | 16,667 |
| Total Current Liabilities | **40,311** | 62,130 |
| FUTURE INCOME TAXES (note 6) | **1,381** | - |
| SHAREHOLDERS' EQUITY | | |
| Share capital (note 5) | **8,547** | 8,865 |
| Retained earnings | **193,960** | 185,256 |
| Total Shareholders' Equity | **202,507** | 194,121 |
| | **$ 244,199** | $ 256,251 |

On behalf of the Board,

*(signed)*
JEREMY H. REITMAN
Director

*(signed)*
STEPHEN J. KAUSER
Director

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the years ended February 3, 2001 and January 29, 2000 (in thousands except per share amounts)

| | **2001** | **2000** |
|---|---|---|
| Sales | **$ 518,384** | $ 477,730 |
| Cost of goods sold and selling, general and administrative expenses | **478,806** | 438,459 |
| | **39,578** | 39,271 |
| Depreciation and amortization | **15,994** | 12,371 |
| Operating earnings | **23,584** | 26,900 |
| Investment income | **8,995** | 3,415 |
| Gain on sale of NetStar | **-** | 45,666 |
| Interest on long-term debt | **-** | 608 |
| Earnings from continuing operations before income taxes | **32,579** | 75,373 |
| Income taxes (note 6) | **12,377** | 20,159 |
| Earnings from continuing operations | **20,202** | 55,214 |
| Loss from discontinued operations | **-** | (3,507) |
| Net earnings | **20,202** | 51,707 |
| Retained earnings at beginning of year | **185,256** | 141,589 |
| Deduct: | | |
| Dividends (note 5) | **6,853** | 5,605 |
| Premium on purchase of Class A shares (note 5) | **4,639** | 2,435 |
| Change in accounting policies (notes 4 and 6) | **6** | - |
| Retained earnings at end of year | **$ 193,960** | $ 185,256 |
| Earnings per share from continuing operations: | | |
| Basic | **$ 2.35** | $ 6.30 |
| Fully diluted | **2.28** | 6.11 |
| Net earnings per share: | | |
| Basic | **2.35** | 5.90 |
| Fully diluted | **2.28** | 5.72 |

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended February 3, 2001
and January 29, 2000
(in thousands)

| | 2001 | 2000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Earnings from continuing operations | **$ 20,202** | $ 55,214 |
| Adjustments for: | | |
| Depreciation and amortization | **15,994** | 12,371 |
| Future income taxes | **3,254** | 3,256 |
| Accrued pension asset | **(1,071)** | - |
| Investment income | **(8,995)** | (49,081) |
| Changes in non-cash working capital | **(30,074)** | 11,383 |
| Cash (used for) from continuing operations | **(690)** | 33,143 |
| Discontinued operations | **(369)** | (595) |
| | **(1,059)** | 32,548 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of marketable securities | **(24,494)** | (61,680) |
| Proceeds on sale of marketable securities | **27,697** | 41,270 |
| Net additions to capital assets | **(31,669)** | (39,283) |
| Investment income, excluding gain on sale of marketable securities of $754 (2000 - loss of $4,822) | **8,241** | 8,236 |
| Net proceeds on sale of NetStar | **-** | 90,396 |
| Investment in NetStar | **-** | (169) |
| Acquisition | **(125)** | (1,575) |
| | **(20,350)** | 37,195 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | **(6,853)** | (5,605) |
| Purchase of Class A non-voting shares for cancellation | **(4,986)** | (2,590) |
| Issue of share capital | **30** | 1,262 |
| Repayment of long-term debt | **-** | (29,000) |
| | **(11,809)** | (35,933) |
| NET (DECREASE) INCREASE IN CASH POSITION | **(33,218)** | 33,810 |
| CASH POSITION AT BEGINNING OF YEAR | **53,226** | 19,416 |
| CASH POSITION AT END OF YEAR | **$ 20,008** | $ 53,226 |

Cash position consists of cash balances with banks and investments in short-term deposits.

The accompanying notes are an integral part of these consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at February 3, 2001
(dollar amounts in thousands
except per share amounts)

The Company is incorporated under the Canada Business Corporations Act and its principal business activity is the sale of women's wear at retail.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) The financial statements and accompanying notes have been prepared on a consolidated basis and reflect the consolidated financial position of the Company and its wholly-owned subsidiaries. Balances and transactions between the companies have been eliminated from these financial statements. The Company operates using a retail calendar which results in a 53 week year for fiscal 2001.

b) Merchandise inventories are valued at the lower of cost, determined principally on an average basis using the retail inventory method, and net realizable value.

c) Marketable securities are carried at cost. Income is recorded on the accrual basis.

d) Capital assets are recorded at cost and are depreciated at the following annual rates applied to their cost, commencing with the year of acquisition:

| | |
|---|---|
| Fixtures and equipment | - 10% to 33⅓% |
| Leasehold improvements | - 10% |
| Systems development | - 20% to 33⅓% |
| Leasehold interests | - 15% |

Depreciation and amortization expense includes gains and losses on disposals of capital assets. Fully depreciated assets are written off.

e) The Company carries on its operations in leased premises under leases, of varying terms, which are accounted for as operating leases.

f) Expenditures associated with the opening of new stores, other than fixtures, equipment and leasehold improvements, are expensed as incurred.

g) Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rate. Revenues and expenses are translated into Canadian dollars at the average rate of exchange for the year. The resulting gains or losses on translation are included in the determination of net earnings.

h) The Company has a share option plan where options to purchase Class A non-voting shares are issued to directors, officers and key employees. No compensation expense is recognized for these plans when shares or share options are issued to employees. Any consideration paid by employees on the exercise of options is credited to share capital.

i) In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

j) The Company maintains contributory, defined benefit plans which cover full-time and part-time employees. The plans provide for pensions based on length of service and average earnings in the best five consecutive years.

The cost of the pension plans is determined periodically by independent actuaries. Pension expense/income is included annually in operations.

The Company records its pension costs according to the following policies:

- The cost of pensions is actuarially determined using the projected benefit method prorated on service.
- For the purpose of calculating expected return on plan assets, the valuation of those assets are based on market related values.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.
- Experience gains or losses arising on accrued benefit obligations and plan assets are recognized in the period in which they occur.

The difference between the cumulative amounts expensed and the funding contributions is reflected in the balance sheet as an accrued pension asset or an accrued pension liability as the case may be.

k) The Company uses the asset and liability method when accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date.

l) Certain comparative figures have been reclassified to conform to presentation adopted in the current year.

### 2. INVESTMENTS

The Company's marketable securities portfolio consists principally of preferred shares of Canadian public companies. Income from marketable securities and short-term deposits is included in investment income. The market value of the portfolio at February 3, 2001 was $85,594 (2000 - $79,681).

### 3. CAPITAL ASSETS

| | | 2001 | | 2000 |
|---|---|---|---|---|
| | **Cost** | **Accumulated Depreciation and Amortization** | **Net Book Value** | Net Book Value |
| Fixtures and equipment | **$ 72,078** | **$ 22,341** | **$ 49,737** | $ 42,596 |
| Leasehold improvements | **52,032** | **16,598** | **35,434** | 28,991 |
| Systems development | **1,446** | **867** | **579** | 1,274 |
| Leasehold interests | **1,616** | **1,330** | **286** | 471 |
| | **$127,172** | **$ 41,136** | **$ 86,036** | $ 73,332 |

### 4. ACCRUED PENSION ASSET

a) Effective January 30, 2000 the Company retroactively adopted, without restatement of prior years, the new recommendations of the Canadian Institute of Chartered Accountants relating to employee future benefits. The effect of this change was an increase in opening retained earnings of $301 after tax of $223.

b) The Company's defined benefit plans were actuarially valued as at December 31, 1999 and the obligations were projected to December 31, 2000.

Assumptions, based upon data as of December 31, 2000, used in developing the net pension expense (income) and projected benefit obligation are as follows:

| | |
|---|---|
| Discount rate | 7.00% |
| Rate of increase in salary levels | 3.00% |
| Expected long-term rate of return on plan assets | 8.50% |

The following tables present reconciliations of the accrued pension obligation, the plan assets and the funded status of the pension plans:

| | |
|---|---|
| **ACCRUED PENSION OBLIGATION** | |
| Accrued pension obligation, beginning of year | $ 21,370 |
| Current service cost | 321 |
| Employee contributions | 440 |
| Interest cost | 1,609 |
| Benefits paid | (2,372) |
| Actuarial losses | 1,442 |
| Accrued pension obligation, end of year | $ 22,810 |
| **PLAN ASSETS** | |
| Market value of plan assets, beginning of year | $ 40,371 |
| Actual return on plan assets | 3,526 |
| Employee contributions | 440 |
| Benefits paid | (2,372) |
| Market value of plan assets, end of year | $ 41,965 |
| **ACCRUED PENSION ASSET** | |
| Funded status - plan surplus | $ 19,155 |
| Valuation allowance | (12,252) |
| Accrued pension asset, net of valuation allowance, end of year | $ 6,903 |

The Company's net pension expense (income) consists of the following:

| | |
|---|---|
| Current service cost | $ 321 |
| Interest cost | 1,609 |
| Expected return on plan assets | (3,390) |
| Net experience losses | 1,307 |
| Change in valuation allowance | (918) |
| Net pension expense (income) | $ (1,071) |

### 5. SHARE CAPITAL

| | 2001 | 2000 |
|---|---|---|
| a) Class A non-voting shares (authorized - unlimited) | | |
| - issued 6,709,582 (2000 - 6,996,782) | **$ 8,065** | $ 8,383 |
| Common shares (authorized - unlimited) | | |
| - issued 1,680,000 | **482** | 482 |
| | **$ 8,547** | $ 8,865 |

Dividends paid on Class A non-voting and Common shares were $5,509 (2000 - $4,530) and $1,344 (2000 - $1,075) respectively.

b) The holders of Class A non-voting shares are entitled to receive a fixed, cumulative preferential dividend at the rate of five cents per share per annum, payable as and when declared. After the Common shares have received an equal dividend, the Class A non-voting and Common shares rank equally with respect to all further dividends. Both classes of shares rank equally upon any distribution of the assets of the Company. The holders of Class A non-voting shares are entitled to vote in certain circumstances.

c) The Company purchased for cancellation 289,200 (2000 - 129,100) Class A non-voting shares at prevailing market prices pursuant to its Share Purchase Program for a total cash consideration of $4,986 (2000 - $2,590). The excess of $4,639 (2000 - $2,435) over the stated value of the shares was charged to retained earnings.

d) The Company has reserved 581,000 Class A non-voting shares for issuance under its Share Option Plan. The granting of options and the related vesting period are at the discretion of the Board of Directors and have a maximum term of 10 years.

A summary of the status of the Company's Share Option Plan as of February 3, 2001 and January 29, 2000 and changes during the years ending on those dates is presented below:

| | 2001 | | 2000 | |
|---|---|---|---|---|
| **Options** | **Shares** | **Weighted-Average Exercise Price** | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | **342,000** | **$ 16.37** | 384,000 | $ 15.42 |
| Granted | **10,000** | **19.05** | 66,000 | 20.64 |
| Exercised | **(2,000)** | **15.00** | (80,000) | 15.77 |
| Forfeited | **(16,000)** | **18.25** | (28,000) | 15.21 |
| Outstanding at end of year | **334,000** | **16.36** | 342,000 | 16.37 |
| Options exercisable at end of year | **217,000** | | 151,000 | |

The following table summarizes information about share options outstanding at February 3, 2001:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Range of Exercise Prices** | **Number Outstanding at 02/03/2001** | **Weighted-Average Remaining Contractual Life** | **Weighted-Average Exercise Price** | **Number Exercisable at 02/03/2001** | **Weighted-Average Exercise Price** |
| $15.00 - $18.25 | 269,000 | 1.13 | $ 15.21 | 201,000 | $ 15.11 |
| $19.05 - $22.20 | 65,000 | 5.19 | 21.12 | 16,000 | 20.84 |
| | 334,000 | 1.92 | $ 16.36 | 217,000 | $ 15.53 |

### 6. INCOME TAXES

a) Effective January 30, 2000 the Company retroactively adopted, without restatement of prior years, the new recommendations of the Canadian Institute of Chartered Accountants relating to accounting for income taxes. The effect of this change was a reduction in opening retained earnings of $307.

b) Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax liability as at February 3, 2001 are as follows:

| | |
|---|---|
| Capital assets | $ 1,862 |
| Marketable securities | (341) |
| Accrued pension asset | (2,902) |
| | $ (1,381) |

c) The Company's provision for income taxes on continuing operations is made up as follows:

| | **2001** | **2000** |
|---|---|---|
| Provision for income taxes based on combined statutory rate of 42.03% (2000 - 42.50%) | **$ 13,694** | $ 32,034 |
| Changes in provision resulting from: | | |
| Non-taxable portion of NetStar gain | **-** | (4,731) |
| Tax exempt investment income | **(1,714)** | (4,858) |
| Utilization of prior years' capital losses | **-** | (1,482) |
| Utilization of prior years' non-capital losses | **(644)** | (1,408) |
| Permanent and other differences | **1,041** | 604 |
| Income taxes | **$ 12,377** | $ 20,159 |
| Represented by: | | |
| Current | **$ 9,123** | $ 16,903 |
| Future | **3,254** | 3,256 |
| | **$ 12,377** | $ 20,159 |

d) The Company has utilized non-capital losses of $5,577 (2000 - $12,322) to reduce taxable income.

## 7. COMMITMENTS

Minimum lease payments under operating leases for retail stores, distribution centre, automobiles and equipment, exclusive of additional amounts based on sales, taxes and other costs are payable as follows:

| **Years ending** | |
|---|---|
| 2002 | $ 44,557 |
| 2003 | 41,465 |
| 2004 | 36,344 |
| 2005 | 28,295 |
| 2006 | 18,241 |
| Subsequent years | 37,034 |
| | $ 205,936 |

## 8. STATEMENTS OF CASH FLOWS

| Supplementary information: | **2001** | **2000** |
|---|---|---|
| Balances with banks | **$ 4,708** | $ 7,269 |
| Short-term deposits | **15,300** | 45,957 |
| | **$ 20,008** | $ 53,226 |
| | | |
| Capital asset additions included in accounts payable | **$ 760** | $ 3,732 |
| Income taxes paid | **21,135** | 277 |
| Interest paid | **-** | 985 |
| Balance payable on acquisition | **-** | 125 |

## 9. FINANCIAL INSTRUMENTS

a) Foreign Currency Risk

The Company's non-Canadian sourced merchandise is typically priced and paid for in U.S. dollars. The Company actively manages its exposure to U.S./Canadian dollar exchange rate fluctuations through a combination of spot currency purchases, zero-cost range forward options and Canadian dollar puts. The intent is to fix the Canadian dollar cost of the Company's merchandise purchases.

At year-end the Company has entered into call options of U.S. $24,000 ($36,007) and put options of U.S. $48,000 ($72,015) at rates ranging from $1.4850 to $1.5200 maturing up to July 2001.

b) Fair Value Disclosure

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value at the year-end dates due to the short-term maturity of these instruments. The fair values of the marketable securities are based on published market prices at year-end. The fair value of the Company's call options as disclosed above is $35,887 and put options as disclosed above is $71,774.

# CORPORATE INFORMATION

## DIRECTORS

H. Jonathan Birks
Stephen J. Kauser
R. James McCoubrey
Samuel Minzberg
Cyril Reitman
Jeremy H. Reitman
Stephen F. Reitman
Robert S. Vineberg

## OFFICERS

**Jeremy H. Reitman**
President

**Stephen F. Reitman**
Executive Vice-President

**Nadia Cerantola**
Vice-President - Reitmans

**Douglas M. Deruchie, C.A.**
Vice-President - Finance

**Bruno Eller**
Vice-President - Store Planning

**Henry Fiederer**
President - Reitmans

**Daniel Langevin**
Vice-President - Reitmans

**Jonathan Plens**
Vice-President - Penningtons

**Cyril Reitman**
Vice-President

**Allen F. Rubin**
Vice-President - Human Resources and Corporate Services

**Allan Salomon**
Vice-President -
Real Estate and Secretary

**Kimberly Schumpert**
Vice-President - Reitmans

**Isabelle Taschereau**
President - Smart Set / Dalmys

**Suzana Vovko**
President - RW & CO.

**Richard Wait, C.G.A.**
Vice-President - Comptroller

**Jay Weiss**
Vice-President - Loss Prevention

**Eric Williams, C.A.**
Vice-President - Treasurer

## TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Halifax, Montreal, Toronto,
Calgary, Vancouver

## STOCK SYMBOLS

THE TORONTO STOCK EXCHANGE

| | |
|---|---|
| Common | RET |
| Class A non-voting | RET.A |

## REITMANS (CANADA) LIMITED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| | |
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Une version française de ce rapport
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REITMANS

SMART SET/DALMYS

PENNINGTONS

RW & CO.

REITMANS (CANADA) LIMITED