Annual Report **2002**

Reitmans

Reitmans • Smart Set / Dalmys • SM2 • Penningtons • RW & CO.

REITMANS (CANADA) LIMITED

Reitmans is Canada's leading specialty fashion retailer. We are customer focused, value oriented and committed to excellence. By promoting innovation, growth, development and teamwork, we have succeeded in offering our customers the best combination of quality and value in the marketplace.

Over 75 years, Reitmans has evolved from the store "Where smart young women shop" to a 623 store, multi-banner operation where all women shop.

Highlights

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

	2002	2001	2000	1999	1998
Sales[1]					
1st Quarter	$ 116,256	$ 98,192	$ 91,618	$ 81,935	$ 72,162
2nd Quarter	142,816	139,059	132,758	118,514	103,104
3rd Quarter	143,513	126,847	112,744	103,144	93,100
4th Quarter	163,435	154,286	140,610	127,872	115,449
Total	$ 566,020	$ 518,384	$ 477,730	$ 431,465	$ 383,815
Operating Earnings (Loss)[1]					
1st Quarter	$ 3,365	$ (391)	$ 3,466	$ 446	$ (3,539)
2nd Quarter	9,543	8,444	14,081	9,263	3,376
3rd Quarter	9,153	6,080	2,704	3,228	2,499
4th Quarter	11,362	9,451	6,649	3,852	1,916
Total	$ 33,423	$ 23,584	$ 26,900	$ 16,789	$ 4,252
Earnings (Loss)[1]					
1st Quarter	$ 4,250	$ 1,523	$ 38,465	$ 3,015	$ (1,084)
2nd Quarter	7,964	7,629	10,764	8,498	6,503
3rd Quarter	7,488	5,938	2,822	3,437	4,707
4th Quarter	7,232	5,112	3,163	2,296	5,136
Total	$ 26,934	$ 20,202	$ 55,214	$ 17,246	$ 15,262
Earnings (Loss) Per Share[1]					
1st Quarter	$ 0.51	$ 0.18	$ 4.40	$ 0.34	$ (0.13)
2nd Quarter	0.95	0.88	1.23	0.97	0.75
3rd Quarter	0.89	0.69	0.31	0.38	0.53
4th Quarter	0.85	0.60	0.36	0.26	0.60
Total	$ 3.20	$ 2.35	$ 6.30	$ 1.95	$ 1.75
Loss from Discontinued Operations	$ -	$ -	$ (3,507)	$ (3,374)	$ (2,872)
Per Share	$ -	$ -	$ (0.40)	$ (0.38)	$ (0.33)
Net Earnings	$ 26,934	$ 20,202	$ 51,707	$ 13,872	$ 12,391
Per Share	$ 3.20	$ 2.35	$ 5.90	$ 1.57	$ 1.42
Shareholders' Equity	$ 225,579	$ 202,507	$ 194,121	$ 149,347	$ 144,723
Per Share	$ 26.28	$ 24.14	$ 22.37	$ 17.12	$ 16.17
Number of Stores	623	601	588	564	575

[1] From continuing operations

To Our Shareholders

I do not believe that anyone will soon forget the events that took place over the 12 months of our fiscal period ended February 2, 2002. Many segments of the Canadian economy struggled, not the least of which was the apparel retailing sector. Those conditions were compounded by the catastrophic events of September 11, 2001 and the pervasive uncertainty that followed and tainted just about every phase of our lives thereafter. Yet despite these conditions, it is with an enormous sense of pride and satisfaction that I report that the Company had its most successful year ever in terms of our retailing operations.

Sales for the year ended February 2, 2002 (52 weeks) increased 9% to $566,020,000 as compared with $518,384,000 last year (53 weeks). Sales increased 10% on a comparable week basis while comparable store sales increased 5%. Operating earnings before depreciation and amortization (EBITDA) increased 29% to $51,208,000 as compared with $39,578,000 last year. Net earnings increased 33% from $20,202,000 to $26,934,000 and on an earnings per share basis from $2.35 to $3.20 per share.

During the year, the Company opened 53 new stores (22 Reitmans, 9 Smart Set / Dalmys, 17 Penningtons and 5 RW & CO.) and closed 31 stores (27 Reitmans and 4 Smart Set / Dalmys). At year-end, the Company operated 623 stores, consisting of 328 Reitmans, 148 Smart Set / Dalmys, 119 Penningtons and 28 RW & CO. as compared with a total of 601 stores last year.

As a result of anticipated growth in our retailing businesses, the Company commenced construction in 2001 of a 330,000 square foot state-of-the-art distribution centre. We expect that this facility will be fully operational by August 2003. As of the date of this report, the four-wall construction is complete and the process of installing the automated merchandise handling equipment is well underway. This facility will be capable of handling merchandise for up to 1,000 stores and the new facility will eliminate the necessity previously experienced by the Company of outsourcing some warehousing operations in peak receiving and shipping periods. The project is on budget (estimated total cost of $30 million) and has been financed to date out of operating cash flow.

We continue to lever our technology investments, focusing on productivity gains at the retail store level. Any potential systems investment is first measured against that standard. Any such investment so made is then fully supported with commensurate employee training both at the inception of the project and on an on-going basis. Our POS system, installed in our 2000 fiscal year, combined with our PeopleSoft™ Payroll and HR systems has been particularly effective in this regard. As well, a number of upgrades were made to our core merchandising system to enable all divisions to make and track more sophisticated promotional selling and customer relations activities.

As previously announced, Shirmax Fashions Ltd. has entered into agreements by which Reitmans will offer to purchase all of the outstanding shares of Shirmax by way of a take-over bid in a cash transaction at $7.00 per Shirmax share, or a total of approximately $85 million. The transaction is subject to certain conditions in favour of Reitmans as well as subject to the receipt of normal regulatory approvals, including with respect to the Competition Act (Canada). We expect the transaction to close at the end of May 2002.

At year-end, Shirmax operated 174 stores consisting of 69 mall stores operating under the "Addition-Elle", "A/E Sport & Co." and "Lingerie by Addition-Elle" banners, 39 Addition-Elle Fashion Outlet and 66 Thyme Maternity stores. For the year ended January 26, 2002, Shirmax reported sales of $195,985,552 and net earnings of $6,468,909 or 56 cents per share.

Subsequent to closing, Reitmans will operate 7 divisions – Reitmans, Smart Set / Dalmys, Penningtons, RW & CO., Addition-Elle, Addition-Elle Outlet and Thyme Maternity – in approximately 800 retail locations across Canada with estimated sales on an annual basis of approximately $800 million.

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 17, 2002

Management Discussion and Analysis

OPERATING RESULTS

In spite of the general downturn that prevailed throughout most of the Canadian economy during our 2002 fiscal year, the Company is proud to report its best retail operating results in its history.

Sales for the year ended February 2, 2002 (52 weeks) increased 9% to $566,020,000 as compared with $518,384,000 last year (53 weeks). Sales increased 10% on a comparable week basis while comparable store sales increased 5%. Operating earnings before depreciation and amortization (EBITDA) increased 29% to $51,208,000 as compared with $39,578,000 last year. Net earnings increased 33% from $20,202,000 to $26,934,000 and on an earnings per share basis from $2.35 to $3.20 per share.

Strong sales growth in the year resulted in significantly increased gross and operating margins, particularly in the Reitmans and RW & CO. divisions.

We continue to lever our technology investments, focusing on productivity gains at the retail store level. Any potential systems investment is first measured against that standard. Any such investment so made is then fully supported with commensurate employee training both at the inception of the project and on an on-going basis. Our POS system, installed in our 2000 fiscal year, combined with our PeopleSoft™ Payroll and HR systems has been particularly effective in this regard. As well, a number of upgrades were made to our core merchandising system to enable all divisions to make and track more sophisticated promotional selling and customer relations activities.

During the year, the Company opened 53 new stores (22 Reitmans, 9 Smart Set / Dalmys, 17 Penningtons and 5 RW & CO.) and closed 31 stores (27 Reitmans and 4 Smart Set / Dalmys). At year-end, the Company operated 623 stores, consisting of 328 Reitmans, 148 Smart Set / Dalmys, 119 Penningtons and 28 RW & CO. as compared with a total of 601 stores last year.

INVESTMENTS

Investments consist of marketable securities, principally high quality preferred shares rated P-1. At February 2, 2002, marketable securities amounted to $75,284,000 (market value $78,674,000) as compared with $81,399,000 (market value $85,594,000) last year. Investment income amounted to $9,869,000, including net capital gains of $3,127,000 compared to $8,995,000 with $754,000 of net capital gains last year.

LIQUIDITY AND CAPITAL ASSETS

Shareholders' equity at February 2, 2002 amounted to $225,579,000 or $26.28 per share as compared to $202,507,000 or $24.14 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 $109,146,000 at February 2, 2002 compared with $101,407,000 at February 3, 2001. Major financing activities during the year included the issuance of 250,000 Class A non-voting shares under its employee stock option plan at a weighted average exercise price of $15.05 per share, the purchase of 54,800 Class A non-voting shares at an average price of $15.99 per share, pursuant to the 2000 Normal Course Issuer Bid and the payment of cash dividends of $6,749,000 or 80 cents a share.

The Company invested $20,627,000 in new and renovated stores for the year. 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.

The Company is continuing with the construction of its new Montreal distribution centre, comprising of 330,000 square feet on a land area of 1,100,000 square feet, with the capacity to service up to 1,000 store locations. The Company has budgeted approximately $18,000,000 for land and building with a further $12,000,000 for equipment. As of the date of this report, the four-wall construction is complete and within budget and the process of installing the automated merchandise handling equipment is well underway. We expect that this facility will be fully operational by August 2003. The Company anticipates financing the project using internal financial resources and funds derived from its operations. The Company made progress payments of $18,000,000 related to building construction during the year.

Management Discussion and Analysis

OUTLOOK

The Company, through its four 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.

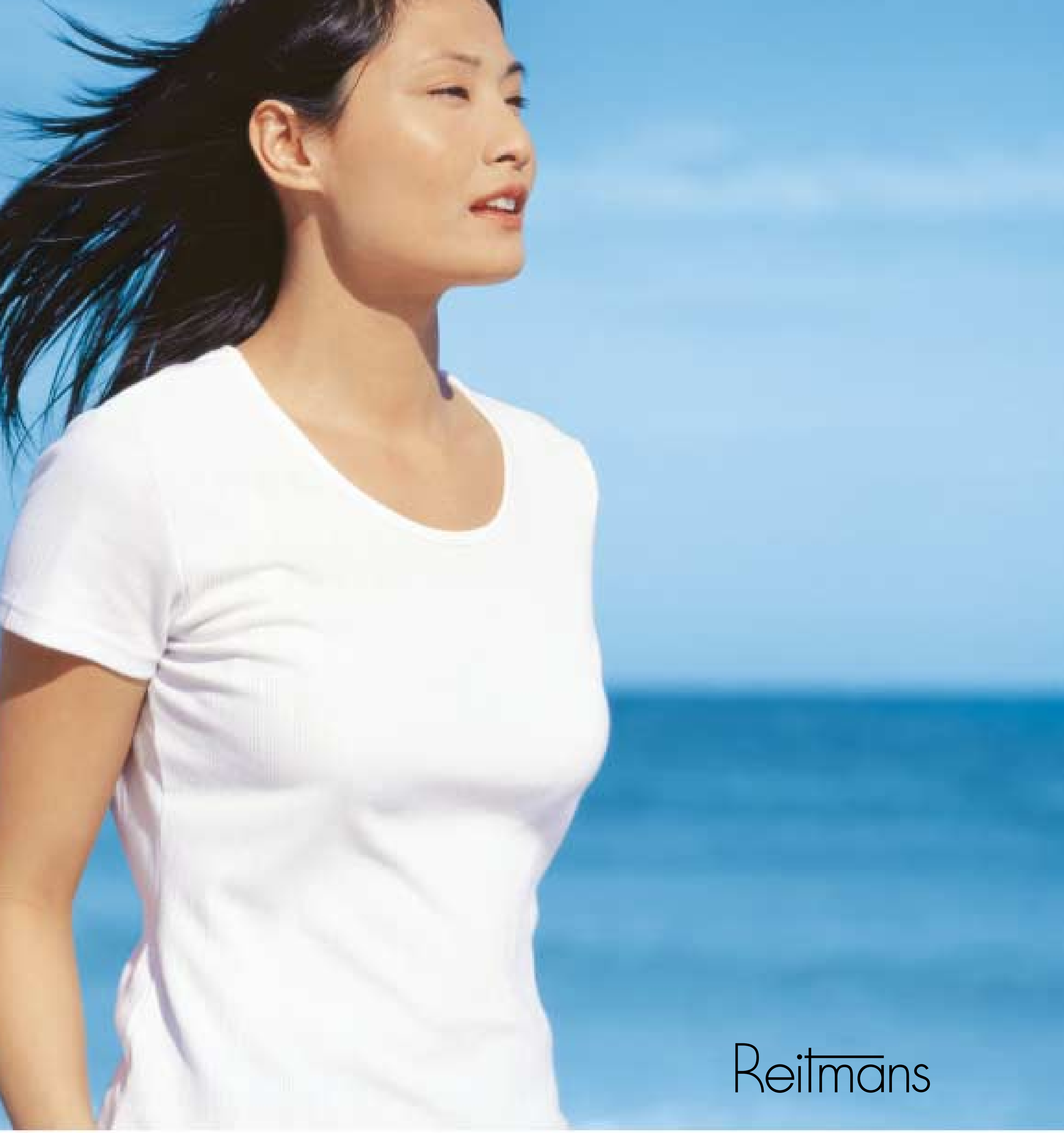
We have successfully tested off-mall locations and new store designs and layouts in our Reitmans and Smart Set divisions, and will continue to implement these designs in new and renovated stores where appropriate. The Company has revised and refined its compensation policies, including comprehensive 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.

The Company is continuing with the construction of its new Montreal distribution centre, comprising of 330,000 square feet on a land area of 1,100,000 square feet, with the capacity to service up to 1,000 store locations

	Reitmans	Smart Set / Dalmys	Penningtons	RW & CO.	Total
Newfoundland	14	3	3	-	20
Prince Edward Island	3	3	1	-	7
Nova Scotia	19	7	3	-	29
New Brunswick	17	5	3	1	26
Québec	83	24	23	8	138
Ontario	103	61	43	10	217
Manitoba	11	5	5	-	21
Saskatchewan	7	4	4	-	15
Alberta	36	17	16	3	72
British Columbia	33	19	18	6	76
Northwest Territories	1	-	-	-	1
Yukon	1	-	-	-	1
	328	**148**	**119**	**28**	**623**

623 STORES


Reitmans


www.reitmans.com

Operating 328 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.

Petites • Encore • Contrast Jeans • E.K.O • Air Miles™

S M A R T S E T | DALMYS SM2

www.smart-set.com

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 30 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.

A new model, SM2, averaging 6,500 sq. ft. in power centre locations, debuted in July 2001. With 5 stores in operation, this second generation Smart Set offers a refreshing, affordable alternative to our traditional mall stores, offering a broad assortment of fashion apparel and accessories.

www.penningtons.com

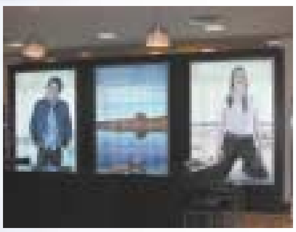
With 119 stores from coast to coast, Penningtons has established itself as a major plus-size retailer in Canada. Penningtons is a destination store averaging 6,800 sq. ft. located in a strip mall or plaza, that provides a broad assortment of career, casual and intimates for the plus-size woman of all ages. Penningtons stores offer a "feel at home" concept with exceptionally knowledgeable, caring and friendly service. The Penningtons brand means fashion, selection, service, quality, value and unbeatable prices.

Penningtons

RW & CO. has been associated with Speed Skating Canada as an official sponsor and supplier since 1999. The speed skaters accounted for nine of Canada's record 17 medals at the 2002 Winter Olympics. We are most proud of their accomplishment.

www.rw-co.com

A unique and comfortable store environment, genuine customer care and exceptional marketing support the RW & CO. lifestyle brand. Averaging 4,000 sq. ft., in major malls, RW & CO. caters to junior (18 to 30) ladies and men, offering active, casual and city clothing and accessories at moderate prices. After opening the first stores in August 1999, RW & CO. now operates 28 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, CA
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 2, 2002 and February 3, 2001 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 2, 2002 and February 3, 2001, 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 22, 2002

Consolidated Balance Sheets

As at February 2, 2002 and February 3, 2001
(in thousands)

	2002	2001
Assets		
CURRENT ASSETS		
Cash and short-term deposits	$ 33,862	$ 20,008
Accounts receivable	1,912	2,556
Merchandise inventories	39,197	38,481
Prepaid expenses	10,440	8,816
Total Current Assets	85,411	69,861
INVESTMENTS (note 2)	75,284	81,399
CAPITAL ASSETS (note 3)	109,377	86,036
ACCRUED PENSION ASSET (note 4)	8,121	6,903
	$ 278,193	$ 244,199
Liabilities and Shareholders' Equity		
CURRENT LIABILITIES		
Accounts payable and accrued items	$ 40,785	$ 35,187
Income taxes payable	9,473	5,124
Total Current Liabilities	50,258	40,311
FUTURE INCOME TAXES (note 5)	2,356	1,381
SHAREHOLDERS' EQUITY		
Share capital (note 6)	12,245	8,547
Retained earnings	213,334	193,960
Total Shareholders' Equity	225,579	202,507
	$ 278,193	$ 244,199

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 2, 2002
and February 3, 2001
(in thousands except per share amounts)

	2002	2001
Sales	$ 566,020	$ 518,384
Cost of goods sold and selling, general and administrative expenses	514,812	478,806
	51,208	39,578
Depreciation and amortization	17,785	15,994
Operating earnings	33,423	23,584
Investment income	9,869	8,995
Earnings before income taxes	43,292	32,579
Income taxes (note 5)	16,358	12,377
Net earnings	26,934	20,202
Retained earnings at beginning of year	193,960	185,256
Deduct:		
Dividends (note 6)	6,749	6,853
Premium on purchase of Class A shares (note 6)	811	4,639
Change in accounting policies	-	6
Retained earnings at end of year	$ 213,334	$ 193,960
Net earnings per share (note 7):		
Basic	$ 3.20	$ 2.35
Diluted	3.19	2.34

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

Consolidated Statements of Cash Flows

For the years ended February 2, 2002
and February 3, 2001
(in thousands)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 26,934	$ 20,202
Adjustments for:		
Depreciation and amortization	17,785	15,994
Future income taxes	975	3,254
Accrued pension asset	(1,218)	(1,071)
Investment income	(9,869)	(8,995)
Changes in non-cash working capital	8,135	(30,074)
Cash from (used for) continuing operations	42,742	(690)
Discontinued operations	-	(369)
	42,742	(1,059)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(63,163)	(24,494)
Proceeds on sale of marketable securities	72,405	27,697
Net additions to capital assets	(41,010)	(31,669)
Investment income, excluding gain on sale of marketable securities of $3,127 (2001 - $754)	6,742	8,241
Acquisition	-	(125)
	(25,026)	(20,350)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(6,749)	(6,853)
Purchase of Class A non-voting shares for cancellation	(876)	(4,986)
Issue of share capital	3,763	30
	(3,862)	(11,809)
NET INCREASE (DECREASE) IN CASH POSITION	13,854	(33,218)
CASH POSITION AT BEGINNING OF YEAR	20,008	53,226
CASH POSITION AT END OF YEAR	$ 33,862	$ 20,008

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 2, 2002
(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 52 week year for fiscal 2002 (53 week year for 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.

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.

A decision was taken to terminate the Reitmans Employee Retirement Pension Plan effective December 31, 2001 (see note 4).

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) In 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the calculation of earnings per share. Basic earnings per share are determined using the weighted average number of common shares outstanding during the period. The standard requires that the treasury stock method be used for calculating diluted earnings per share. In calculating diluted earnings per share, the weighted average shares outstanding are increased to include additional shares from the assumed exercise of options, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises are used to purchase common shares at the average market price during the reporting period.

Previously, fully diluted earnings per share were calculated on the assumption that the funds derived from the exercise of options are invested at the Company's annual after tax cost of short-term financing and the net earnings available to shareholders would be adjusted for this imputed interest.

m) The Company uses derivative financial instruments, principally through a combination of spot currency purchases, zero-cost range forward options, Canadian dollar puts and US dollar calls, to manage risks from fluctuations in exchange rates. The intent is to fix the Canadian dollar cost of the Company's merchandise purchases. Derivative financial instruments are not used for trading purposes.

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 2, 2002 was $78,674 (2001 - $85,594).

3. Capital Assets

	2002			2001
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Land	$ 3,883	$ -	$ 3,883	$ -
Building in progress	14,133	-	14,133	-
Fixtures and equipment	84,814	31,354	53,460	49,737
Leasehold improvements	58,581	21,082	37,499	35,434
Systems development	1,446	1,157	289	579
Leasehold interests	136	23	113	286
	$ 162,993	$ 53,616	$ 109,377	$ 86,036

Building in progress represents the progress payments for the construction of a new distribution centre covering 330,000 square feet on a land area of 1,100,000 square feet. The Company is committed to further construction and equipment costs of approximately $12,000,000.

Notes to Consolidated Financial Statements

4. Accrued Pension Asset

The Company's defined benefit plans were actuarially valued as at December 31, 1999 and the obligations were projected to December 31, 2001.

Assumptions, based upon data as of December 31, 2001, used in developing the net pension expense (income) and projected benefit obligation are as follows:

	2002	2001
Discount rate	6.55%	7.00%
Rate of increase in salary levels	3.00%	3.00%
Expected long-term rate of return on plan assets	8.50%	8.50%

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

	2002	2001
Accrued Pension Obligation		
Accrued pension obligation, beginning of year	$ 22,810	$ 21,370
Current service cost	379	321
Employee contributions	425	440
Interest cost	1,583	1,609
Benefits paid	(1,991)	(2,372)
Curtailments	740	-
Actuarial losses	1,053	1,442
Accrued pension obligation, end of year	$ 24,999	$ 22,810
Plan Assets		
Market value of plan assets, beginning of year	$ 41,965	$ 40,371
Actual return on plan assets	(1,229)	3,526
Employee contributions	425	440
Benefits paid	(1,991)	(2,372)
Market value of plan assets, end of year	$ 39,170	$ 41,965
Accrued Pension Asset		
Funded status - plan surplus	$ 14,171	$ 19,155
Valuation allowance	(6,050)	(12,252)
Accrued pension asset, net of valuation allowance, end of year	$ 8,121	$ 6,903

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

	2002	2001
Current service cost	$ 379	$ 321
Interest cost	1,583	1,609
Expected return on plan assets	(3,500)	(3,390)
Net experience losses	5,782	1,307
Curtailments	740	-
Change in valuation allowance	(6,202)	(918)
Net pension income	$ (1,218)	$ (1,071)

During the year, a decision was taken to terminate the Reitmans Employee Retirement Pension Plan effective December 31, 2001. The impact of this termination has been accounted for as a plan curtailment. It is anticipated that the pension plan will be settled in August 2002.

5. Income Taxes

a) 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 are as follows:

	2002	2001
Capital assets	$ 1,143	$ 1,862
Marketable securities	(149)	(341)
Accrued pension asset	(3,350)	(2,902)
	$ (2,356)	$ (1,381)

b) The Company's provision for income taxes is made up as follows:

	2002	2001
Provision for income taxes based on		
combined statutory rate of 41.25% (2001 - 42.03%)	$ 17,859	$ 13,694
Changes in provision resulting from:		
Tax exempt investment income	(1,485)	(1,714)
Utilization of prior years' non-capital losses	-	(644)
Large corporations tax	64	90
Permanent and other differences	(80)	951
Income taxes	$ 16,358	$ 12,377
Represented by:		
Current	$ 15,383	$ 9,123
Future	975	3,254
	$ 16,358	$ 12,377

6. Share Capital

	2002	2001
a) Class A non-voting shares (authorized - unlimited)		
- issued 6,904,782 (2001 - 6,709,582)	$ 11,763	$ 8,065
Common shares (authorized - unlimited)		
- issued 1,680,000	482	482
	$ 12,245	$ 8,547

Dividends paid on Class A non-voting and Common shares were $5,405 (2001 - $5,509) and $1,344 (2001 - $1,344) 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.

Notes to Consolidated Financial Statements

c) The Company purchased for cancellation 54,800 (2001 - 289,200) Class A non-voting shares at prevailing market prices pursuant to its Share Purchase Program for a total cash consideration of $876 (2001 - $4,986). The excess of $811 (2001 - $4,639) over the stated value of the shares was charged to retained earnings.

d) The Company has reserved 331,000 Class A non-voting shares for issuance under its Share Option Plan of which 291,000 options are outstanding. 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 2, 2002 and February 3, 2001 and changes during the years ending on those dates is presented below:

	2002		2001	
Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	334,000	$ 16.36	342,000	$ 16.37
Granted	220,000	22.30	10,000	19.05
Exercised	(250,000)	15.05	(2,000)	15.00
Forfeited	(13,000)	18.42	(16,000)	18.25
Outstanding at end of year	291,000	21.89	334,000	16.36
Options exercisable at end of year	31,000		217,000	

The following table summarizes information about share options outstanding at February 2, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 02/02/2002	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 02/02/2002	Weighted-Average Exercise Price
$17.50 - $19.05	26,000	2.63	$ 18.27	12,000	$ 18.02
$20.00 - $22.30	265,000	4.94	22.24	19,000	21.85
	291,000	4.74	21.89	31,000	20.37

7. Earnings Per Share

The number of shares used in the earnings per share calculation is as follows:

	2002	2001
Weighted average number of shares per basic earnings per share calculations	8,405,137	8,580,101
Effect of dilutive options outstanding	38,863	35,894
Weighted average number of shares per diluted earnings per share calculations	8,444,000	8,615,995

8. 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	
2003	$ 48,763
2004	43,846
2005	35,522
2006	25,580
2007	18,347
Subsequent years	37,860
	$ 209,918

9. Statements of Cash Flows

Supplementary information:	2002	2001
Balances with banks	$ 1,872	$ 4,708
Short-term deposits	31,990	15,300
	$ 33,862	$ 20,008
Capital asset additions included in accounts payable	$ 876	$ 760
Income taxes paid	11,592	21,135
Interest paid	18	-

10. Financial Instruments

a) Foreign Currency Risk

At year-end, the Company has entered into call options of U.S. $37,000 ($58,580) and put options of U.S. $74,000 ($117,160) at rates ranging from $1.5800 to $1.5850 maturing up to August 2002.

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 $58,856 and put options as disclosed above is $117,712.

Corporate Information

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R. James McCoubrey

Samuel Minzberg

Cyril Reitman

Jeremy H. Reitman

Stephen F. Reitman

Robert S. Vineberg

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Richard Wait, CGA
Vice-President - Comptroller

Jay Weiss
Vice-President - Loss Prevention

Eric Williams, CA
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

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