



**60th ANNUAL REPORT**  
**ONE BILLION IN SALES**  
**81 YEARS 920 STORES**

Reitmans  
(CANADA) LIMITED

Reitmans is Canada's  
leading specialty retailer.

We are customer driven, value  
oriented and committed to excellence.

By promoting innovation, growth, development  
and teamwork, we strive to serve our customers  
the best quality/value proposition in the marketplace.

A preeminent force in the retail industry for over 80  
years and a public company for 60 years, Reitmans  
has evolved from a single chain of fashion retail  
stores "where smart women shop" to a  
920 store, multi-banner operation  
where all women shop.

## TO OUR SHAREHOLDERS

Celebrating 80 years of operations and 60 years as a public company, 2006 was certainly a landmark year for Reitmans (Canada) Limited. It was a year in which we recorded sales in excess of \$1,000,000,000 and net earnings in excess of \$100,000,000 (before giving effect to the retroactive Québec income tax assessments).

We operate 920 stores under seven banners in highly competitive markets. Our banners experienced significant growth in sales, gross margin and net operating margin as a result of a stronger Canadian dollar, effective cost containment at both store and overhead levels and significant operating efficiencies in our supply chain and distribution processes. In fiscal 2007, we opened 74 new stores, remodelled 45 stores and closed 41 stores. In fiscal 2008, we expect to open 75 new stores and remodel 37 stores.

We are growing all areas of our business. Our stores are growing in number, size, sales and profitability. Dividends paid have grown over 400% over the past 3 years. We continue to invest in stores, technology and people. Our cash resources and infrastructure allow us to seek out new business opportunities through acquisition and development.

This is a very exciting time for your Company. We are proud of our achievements over the past 80 years and most confident of our future. We believe that we have the very best specialty retailing assets in Canada. Our operations are led and staffed by highly motivated, extremely competent professionals. I extend sincere thanks and appreciation to all our associates, suppliers, customers and shareholders. These are the people who have made possible our many years of success and on whom we rely for the continued success of the Company.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman  
President

Montreal, April 2, 2007



# A LANDMARK YEAR

<b>\$1,042,509,000</b>	<b>SALES + 8%</b>
<b>\$186,812,000</b>	<b>EBITDA<sup>1</sup> + 20%</b>
<b>\$153,366,000</b>	<b>PRE-TAX EARNINGS + 23%</b>
<b>\$102,523,000</b>	<b>ADJUSTED NET EARNINGS<sup>1</sup> + 21%</b>
<b>\$1.46</b>	<b>ADJUSTED EPS<sup>1</sup> + 20%</b>
<b>\$241,166,000</b>	<b>CASH AND INVESTMENTS + 23%</b>
<b>920</b>	<b>STORES + 4%</b>

<sup>1</sup> These highlights include reference to certain Non-GAAP financial measures such as operating earnings, which is defined as earnings before interest, taxes and investment income, EBITDA, which is defined as earnings before interest, taxes, depreciation and amortization and investment income, adjusted net earnings and adjusted earnings per share, which are defined as net earnings and earnings per share (EPS) excluding the impact of Québec income tax assessments of \$20,054,000 (\$0.29 per share). The Company believes such measures provide meaningful information on the Company's performance and operating results. However, readers should know that such Non-GAAP financial measures have no standardized meaning as prescribed by GAAP and may not be comparable to similar measures presented by other companies. Accordingly, they should not be considered in isolation.

# HIGHLIGHTS

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

	2007	2006	2005	2004	2003
<b>SALES</b>					
1 <sup>st</sup> Quarter	\$ 222,969	\$ 213,732	\$ 193,420	\$ 177,750	\$ 126,028
2 <sup>nd</sup> Quarter	278,828	261,785	246,002	233,225	201,730
3 <sup>rd</sup> Quarter	258,602	238,613	236,281	215,683	207,323
4 <sup>th</sup> Quarter	282,110	255,128	236,770	224,976	217,413
<b>Total</b>	<b>\$ 1,042,509</b>	<b>\$ 969,258</b>	<b>\$ 912,473</b>	<b>\$ 851,634</b>	<b>\$ 752,494</b>
<b>OPERATING EARNINGS (LOSS)</b>					
1 <sup>st</sup> Quarter	\$ 27,564	\$ 25,014	\$ 14,547	\$ 4,709	\$ 4,896
2 <sup>nd</sup> Quarter	51,048	42,066	33,048	24,217	21,156
3 <sup>rd</sup> Quarter	33,781	27,200	24,118	17,252	11,678
4 <sup>th</sup> Quarter	29,473	22,766	16,801	4,720	(6,554)
<b>Total</b>	<b>\$ 141,866</b>	<b>\$ 117,046</b>	<b>\$ 88,514</b>	<b>\$ 50,898</b>	<b>\$ 31,176</b>
<b>ADJUSTED NET EARNINGS (LOSS)<sup>2</sup></b>					
1 <sup>st</sup> Quarter	\$ 21,674	\$ 19,667	\$ 13,038	\$ 4,105	\$ 5,127
2 <sup>nd</sup> Quarter	33,593 <sup>2</sup>	29,224	23,868	17,296	13,590
3 <sup>rd</sup> Quarter	23,823 <sup>2</sup>	19,238	17,638	12,654	8,213
4 <sup>th</sup> Quarter	23,433 <sup>2</sup>	16,760	12,363	5,980	(2,395)
<b>Total</b>	<b>\$ 102,523<sup>2</sup></b>	<b>\$ 84,889</b>	<b>\$ 66,907</b>	<b>\$ 40,035</b>	<b>\$ 24,535</b>
<b>ADJUSTED BASIC EARNINGS (LOSS) PER SHARE<sup>1,2</sup></b>					
1 <sup>st</sup> Quarter	\$ 0.31	\$ 0.28	\$ 0.19	\$ 0.06	\$ 0.08
2 <sup>nd</sup> Quarter	0.48 <sup>2</sup>	0.42	0.35	0.25	0.20
3 <sup>rd</sup> Quarter	0.34 <sup>2</sup>	0.28	0.25	0.19	0.12
4 <sup>th</sup> Quarter	0.33 <sup>2</sup>	0.24	0.18	0.09	(0.04)
<b>Total</b>	<b>\$ 1.46<sup>2</sup></b>	<b>\$ 1.22</b>	<b>\$ 0.97</b>	<b>\$ 0.59</b>	<b>\$ 0.36</b>
<b>NET EARNINGS</b>	<b>\$ 82,469</b>	<b>\$ 84,889</b>	<b>\$ 66,907</b>	<b>\$ 40,035</b>	<b>\$ 24,535</b>
<b>BASIC EARNINGS PER SHARE<sup>1</sup></b>	<b>\$ 1.17</b>	<b>\$ 1.22</b>	<b>\$ 0.97</b>	<b>\$ 0.59</b>	<b>\$ 0.36</b>
<b>SHAREHOLDERS' EQUITY PER SHARE<sup>1</sup></b>	<b>\$ 436,119</b>	<b>\$ 390,257</b>	<b>\$ 331,524</b>	<b>\$ 276,402</b>	<b>\$ 243,521</b>
	<b>\$ 6.12</b>	<b>\$ 5.56</b>	<b>\$ 4.77</b>	<b>\$ 4.02</b>	<b>\$ 3.54</b>
<b>NUMBER OF STORES</b>	<b>920</b>	<b>887</b>	<b>867</b>	<b>845</b>	<b>820</b>
<b>DIVIDENDS PAID</b>	<b>\$ 40,893</b>	<b>\$ 29,345</b>	<b>\$ 14,171</b>	<b>\$ 7,573</b>	<b>\$ 6,876</b>
<b>STOCK PRICE AT YEAR-END<sup>1</sup></b>					
<b>CLASS A NON-VOTING COMMON</b>	<b>\$ 23.05</b>	<b>\$ 17.90</b>	<b>\$ 13.75</b>	<b>\$ 6.18</b>	<b>\$ 4.88</b>
	<b>\$ 23.30</b>	<b>\$ 18.70</b>	<b>\$ 14.00</b>	<b>\$ 6.25</b>	<b>\$ 4.75</b>

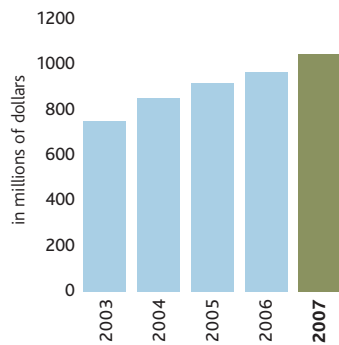
<sup>1</sup> Adjusted to account for 100% stock dividends paid in April 2004 and April 2005

<sup>2</sup> Adjusted net earnings and adjusted basic earnings per share exclude the impact of the retroactive Québec income tax assessments in 2007.

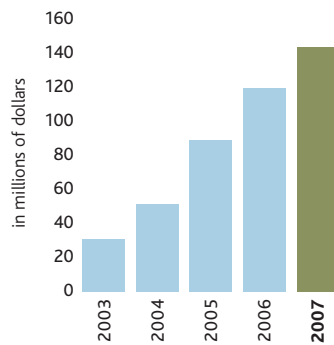


# GROWING

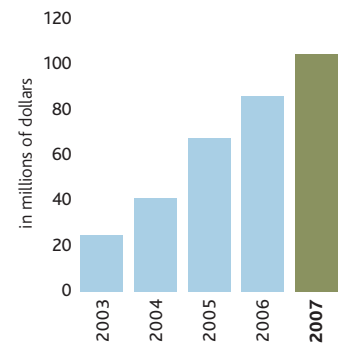
**SALES**



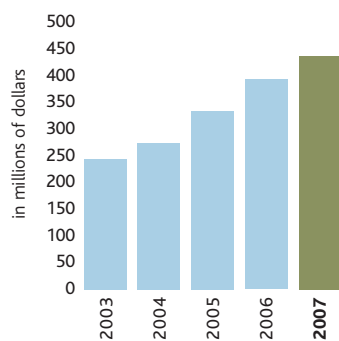
**OPERATING EARNINGS**



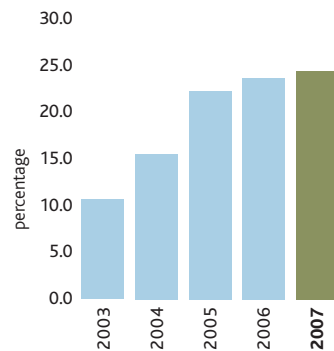
**ADJUSTED NET EARNINGS<sup>1</sup>**



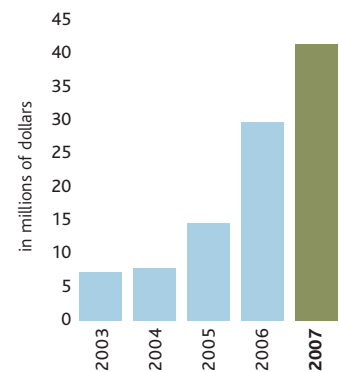
**SHAREHOLDERS' EQUITY**



**RETURN ON EQUITY<sup>1</sup>**



**DIVIDENDS**

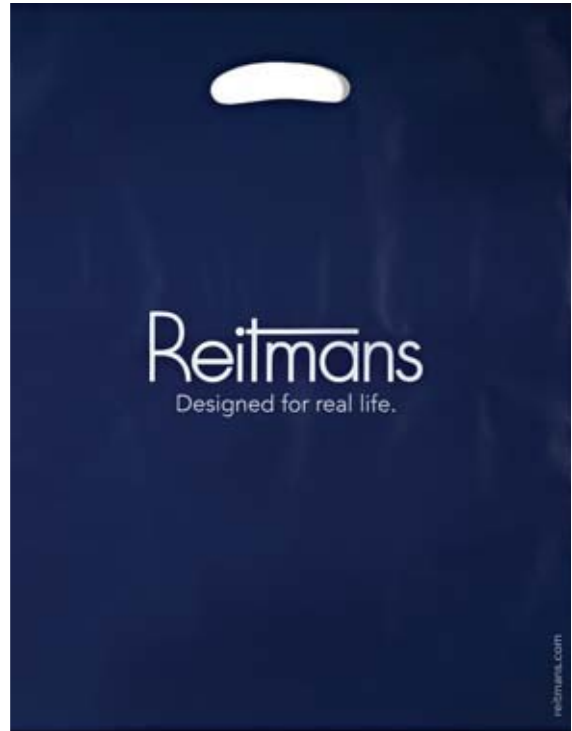


<sup>1</sup> Adjusted net earnings and return on equity exclude the impact of the retroactive Québec income tax assessments in 2007.



# 920 STORES ACROSS CANADA

	REITMANS	SMART SET	RW & CO.	THYME	CASSIS	PENNINGTONS	ADDITION ELLE	TOTAL
Newfoundland	14	3	-	-	-	4	2	23
Prince Edward Island	3	3	-	-	-	2	-	8
Nova Scotia	20	5	1	1	-	8	2	37
New Brunswick	15	6	2	1	-	4	4	32
Québec	87	36	12	18	3	26	36	218
Ontario	110	63	18	26	7	57	44	325
Manitoba	12	6	-	2	-	6	5	31
Saskatchewan	9	3	-	2	-	8	3	25
Alberta	47	18	3	10	-	21	13	112
British Columbia	36	15	9	9	-	22	16	107
Northwest Territories	1	-	-	-	-	-	-	1
Yukon	1	-	-	-	-	-	-	1
	355	158	45	69	10	158	125	920



**Petites    Encore    Contrast Jeans**



Operating **355 STORES** averaging 4,400 sq. ft., Reitmans is Canada's largest ladies apparel specialty chain. Reitmans offers Canadian women affordable fashions "designed for real life" in regular, plus and petite sizes. Through highly effective merchandising strategies, superior service and insightful marketing programs, the Reitmans brand has developed powerful consumer relationships and loyalty, steadily growing its base of 25-45 year old female customers.





s m a r t - s e t . c o m



The Smart Set banner, with **158 STORES** averaging 3,300 sq. ft., is a major fashion destination for junior customers offering 18 to 30 year old women a complete coordinated line of affordable fashion and accessories at the best quality, price and value. All Smart Set clothing and accessories are designed and manufactured specifically and exclusively for the chain and carry the Smart Set label.







r w - c o . c o m



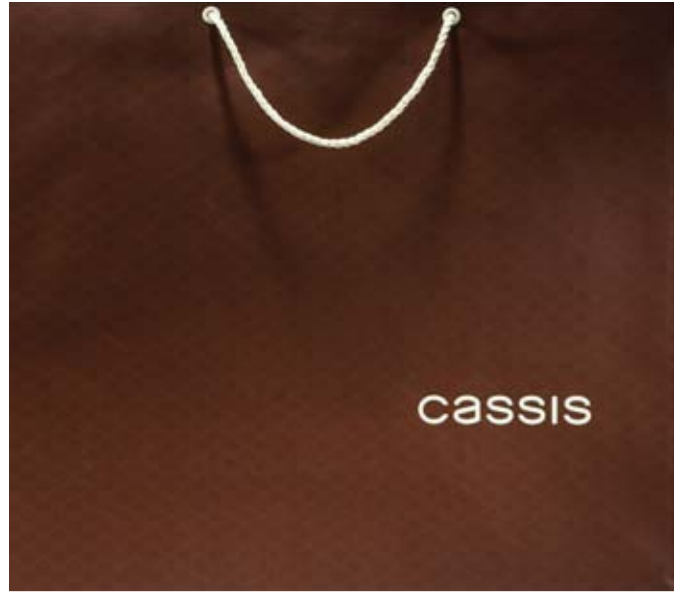
Operating **45 STORES**, which average 4,300 sq. ft., in major malls, RW & CO. caters to junior (18 to 30) ladies and men, featuring fashionable, original and quality urban and casual wear at moderate prices. A unique and comfortable store environment, genuine customer care and exceptional marketing support distinguishes the RW & CO. lifestyle brand.



t h y m e m a t e r n i t y . c o m



Thyme Maternity, Canada's largest specialty retailer of maternity clothing, operates **69 STORES** averaging 2,200 sq. ft., in malls and power centres. Thyme Maternity sells clothing and accessories that are designed to meet an expectant mother's entire fashion needs including her career, casual, lingerie, special occasion and nursing apparel needs, all at affordable prices.



c a s s i s . c a



With **10 STORES** in operation averaging 3,700 sq. ft. in major regional malls, Cassis offers a refreshing combination of novelty and proven classic merchandise to the 45 to 60 year old mature baby boomer. Key focus points for this new retail concept are fit, quality, atmosphere and customer service.





penningtons.com



mxm.bz



With **158 STORES** from coast to coast, Penningtons is a destination store averaging 5,900 sq. ft. located in strip plazas and power centre locations providing a broad assortment of career, casual, intimate apparel and accessories for the plus-size woman of all ages at competitive prices. The Penningtons brand stands for classic fashion, friendly warm service, quality and value. We expanded the junior plus-size product assortment known as MXM that caters to the trendy, young value-conscious plus-size customer to all Penningtons stores.





a d d i t i o n - e l l e . c o m



Operating **125 STORES**, Addition Elle is Canada's fashion leader in ladies plus-sized clothing, providing our customers with a contemporary collection of career, casual, intimate apparel and accessories at affordable prices. Our stores average 5,800 sq. ft. and are located in malls and power centre locations across Canada. The junior MXM assortment is available in 117 Addition Elle stores.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the 53 week fiscal period ended February 3, 2007

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Reitmans (Canada) Limited ("Reitmans" or the "Company") should be read in conjunction with the audited consolidated financial statements of Reitmans for the 53 week fiscal period ended February 3, 2007 and the notes thereto which are available at [www.sedar.com](http://www.sedar.com). This MD&A is dated March 28, 2007.

All financial information contained in this MD&A and Reitmans' consolidated financial statements has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), except for certain information referred to as Non-GAAP financial measures discussed below. All amounts in this report are in Canadian dollars, unless otherwise noted. The consolidated financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on March 28, 2007.

Additional information about Reitmans, including the Company's 2007 Annual Information Form, is available on the Company's website at [www.reitmans.ca](http://www.reitmans.ca), or on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### FORWARD-LOOKING STATEMENTS

All of the statements contained herein, other than statements of fact that are independently verifiable at the date hereof, are forward-looking statements. Such statements, based as they are on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown, many of which are beyond the Company's control. Such risks include but are not limited to: the impact of general economic conditions, general conditions in the retail industry, seasonality, weather and other risks included in public filings of the Company. Consequently, actual future results may differ materially from the anticipated results expressed in forward-looking statements. The reader should not place undue reliance on the forward-looking statements included herein. These statements speak only as of the date made and the Company is under no obligation and disavows any intention to update or revise such statements as a result of any event, circumstances or otherwise, except to the extent required under applicable securities law.

### NON-GAAP FINANCIAL MEASURES

This MD&A includes reference to certain Non-GAAP financial measures such as operating earnings, which is defined as earnings before interest, taxes and investment income. The Company believes such a measure provides meaningful information on the Company's performance and operating results. However, readers should know that such a Non-GAAP financial measure has no standardized meaning as prescribed by GAAP and may not be comparable to similar measures presented by other companies. Accordingly, it should not be considered in isolation.

### CORPORATE OVERVIEW

Reitmans is a Canadian ladieswear specialty apparel retailer. The Company operates under seven banners: Reitmans, Smart Set, RW & CO., Thyme Maternity, Penningtons, Addition Elle and its newest banner, Cassis. Each banner is focused on a particular niche in the retail market place. The Company has several competitors in each such niche, including local, regional and national chains of specialty stores and department stores. As well, there is no barrier to entry into any one of these niches. Over the past few years, the Company has witnessed a number of foreign based competitors commence operations in Canada in virtually every one of the market niches in which the Company operates. The Company's stores are located in malls, strip plazas and retail power centres across Canada. The Company continues to grow all areas of its business by investing in stores, technology and people. The Company's growth has been driven by continuing to offer Canadian consumers affordable fashions and accessories at the best value reflecting price and quality. In doing so, the Company continues to enhance its brands and strengthen its consumer loyalty.

On August 1, 2006, the Company opened the first store of its new ladies wear retail concept called Cassis. This constitutes the Company's seventh banner and consists of mall-based stores of approximately 3,700 sq. ft. The target market for these stores is youth-oriented fashion-conscious women aged 45 to 60 and includes assortments of career, sportswear, casual and loungewear apparel. The Company has opened 10 Cassis stores as of February 3, 2007 and believes that there may be a market for approximately 80 Cassis stores in Canada.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SELECTED FINANCIAL INFORMATION

(in thousands, except per share amounts)

	For the fiscal years ended		
	February 3, 2007*	January 28, 2006	January 29, 2005
Sales	\$ 1,042,509	\$ 969,258	\$ 912,473
Earnings before income taxes	153,366	125,011	96,234
Net earnings	82,469 <sup>1</sup>	84,889	66,907
Earnings per share ("EPS")			
Basic	1.17 <sup>1</sup>	1.22	0.97
Diluted	1.15 <sup>1</sup>	1.19	0.95
Total assets	600,411	523,233	467,059
Long-term debt <sup>2</sup>	15,097	16,173	17,183
Dividends per share	0.580	0.420	0.205

\* 53 week fiscal year

<sup>1</sup> Excluding the impact of the retroactive Québec income tax assessments (included as required by Canadian GAAP), net earnings for the year would have been \$102,523, Basic EPS \$1.46 and Diluted EPS \$1.43.

<sup>2</sup> Excluding current portion of long-term debt, deferred lease credits and accrued pension liability.

For more information concerning Sales, Operating Earnings, Net Earnings and Earnings Per Share for the last five fiscal years and their relevant quarterly components, the reader is directed to page 2 of the Company's printed annual report captioned "Highlights".

### CONSOLIDATED OPERATING RESULTS FOR THE 53 WEEK FISCAL YEAR ENDED FEBRUARY 3, 2007 AND COMPARISON TO CONSOLIDATED OPERATING RESULTS FOR THE 52 WEEK FISCAL YEAR ENDED JANUARY 28, 2006

The Company's fiscal year ends on the Saturday closest to the end of January. All references to fiscal 2007 and fiscal 2006 represent the fiscal years ended February 3, 2007 and January 28, 2006, respectively. Fiscal 2007 includes 53 weeks instead of the normal 52 weeks. The inclusion of an extra week occurs every fifth or sixth fiscal year due to the Company's floating year-end.

Sales for fiscal 2007 increased 7.6% to \$1,042,509,000 as compared with \$969,258,000 for the year ended January 28, 2006. This increase in sales is due primarily to the net addition of 33 stores over the course of the year, a comparable store sales increase of 2.9% and an extra week in the fiscal year.

Operating earnings for fiscal 2007 increased 21.2% to \$141,866,000 as compared with \$117,046,000 for the prior year. The factors contributing to such increase included improved gross margins, 225 basis points better than the comparable period last year, due in part to the Canadian dollar which continues to remain relatively strong. Spot prices for \$1.00 US for the year have ranged between a high of Canadian \$1.18 and a low of \$1.09 (\$1.27 and \$1.14 respectively for fiscal 2006). As well, the Company continues to open stores in less expensive power centres and strip malls allowing the Company to build somewhat larger, more profitable stores. As a substantial amount of the Company's non-merchandise operating expenses are fixed, store operating costs in several instances have decreased as a percentage of gross revenue as compared to the prior year.

Depreciation and amortization expense for the year was \$44,946,000 compared to \$38,564,000 for the prior year. This increase reflects the increased new store construction and store renovation activities of the Company. As well, it included \$4,216,000 of write-offs as a result of closed and renovated stores, compared to \$2,187,000 in the prior year.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Investment income for fiscal 2007 increased 38.0% to \$12,556,000 as compared to \$9,097,000 in the prior year. Dividends and interest income for fiscal 2007 were \$10,267,000 as compared to \$6,810,000 for fiscal 2006 while net capital gains for fiscal 2007 were \$2,289,000 as compared to \$2,287,000 for fiscal 2006. Interest income for the year was significantly higher than the prior year due to larger cash balances earning higher rates of interest.

Interest expense on long-term debt decreased to \$1,056,000 in fiscal 2007 from \$1,132,000 in fiscal 2006. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Net earnings and diluted EPS decreased 2.9% to \$82,469,000 or \$1.15 per share as compared with \$84,889,000 or \$1.19 per share last year. This decrease was a direct result of the unprecedented retroactive change in the Québec Taxation Act, introduced in May and passed into law in June 2006. This change, which impacts the prior three fiscal years' computation of income tax expense, required the Company to recognize a one-time charge of \$19,145,000 in computing its second quarter income tax expense, and a further amount of \$909,000 in respect of interest thereon incurred in the remainder of fiscal 2007. The Company has filed formal objection notices for the assessments it received in June giving rise to this one-time charge. At this time, management is not in a position to make a judgment about the likelihood of success of the formal objection process. Without this retroactive change in the law, net earnings for fiscal 2007 would have been \$102,523,000 or \$1.43 diluted EPS, a 20.8% increase over the prior year.

The Company in its normal course of business makes long lead time commitments for a significant portion of its merchandise purchases, in some cases as long as eight months. Most of these purchases must be paid for in US dollars. In fiscal 2007, these merchandise purchases exceeded \$170,000,000 US. The Company uses a variety of defensive strategies designed to fix the cost of its continuing US dollar long-term commitments at the lowest possible cost, while at the same time allowing itself the opportunity to take advantage of an increase in the value of the Canadian dollar vis-à-vis the US dollar. For fiscal 2007, these strategies helped the gross margin performance as the Canadian dollar strengthened over the course of much of the year.

During fiscal 2007, the Company opened 74 stores comprised of 16 Reitmans, 8 Smart Set, 13 RW & CO., 5 Thyme Maternity, 10 Cassis, 10 Penningtons and 12 Addition Elle; 41 stores were closed. Accordingly, at February 3, 2007, there were 920 stores in operation, consisting of 355 Reitmans, 158 Smart Set, 45 RW & CO., 69 Thyme Maternity, 10 Cassis, 158 Penningtons and 125 Addition Elle as compared with a total of 887 stores last year.

Store closings take place for a variety of reasons as the viability of each store and its location is constantly monitored and assessed for continuing profitability. In most cases when a store is closed, merchandise at that location is sold off in the normal course of business and any unsold merchandise remaining at the closing date is generally transferred to other stores operating under the same banner for sale in the normal course of business.

The Company experienced considerable delays in obtaining the requisite building permits in Ontario as a result of changes in the regulations governing all construction activity in that province. As a result, most of the Cassis stores planned to be opened early in the fiscal year were late, as much as 10 weeks in some cases. This had a negative impact on the sales in Cassis in that seasonal merchandise that had been purchased in anticipation of the planned opening dates and would have been in the stores on a timely basis, had to be held back in the distribution centre and subsequently liquidated at markdown prices as out of season goods once the delayed stores were finally opened. This was an unfortunate set of circumstances which was beyond the Company's control.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CONSOLIDATED OPERATING RESULTS FOR THE 52 WEEK FISCAL YEAR ENDED JANUARY 28, 2006 AND COMPARISON TO CONSOLIDATED OPERATING RESULTS FOR THE 52 WEEK FISCAL YEAR ENDED JANUARY 29, 2005

The Company's fiscal year ends on the Saturday closest to the end of January. All references to fiscal 2006 and fiscal 2005 represent the fiscal years ended January 28, 2006 and January 29, 2005, respectively.

Sales for fiscal 2006 increased 6.2% to \$969,258,000 as compared with \$912,473,000 for the year ended January 29, 2005. This increase in sales is due primarily to the net addition of 20 stores over the course of the year and a comparable store sales increase of 2.9%.

Operating earnings for fiscal 2006 increased 32.2% to \$117,046,000 as compared with \$88,514,000 for the prior year. The factors contributing to such increase included improved gross margins, 321 basis points better than the comparable period last year, due in part to the Canadian dollar which continued to remain relatively strong. Spot prices for \$1.00 US for fiscal 2006 ranged between a high of Canadian \$1.27 and a low of \$1.14 (\$1.40 and \$1.17 respectively for fiscal 2005). As well, the Company continued to open stores in less expensive power centres and strip malls allowing the Company to build somewhat larger, more profitable stores. As a substantial amount of the Company's non-merchandise operating expenses are fixed, store operating costs in several instances decreased in fiscal 2006 as a percentage of gross revenue as compared to the prior year.

Depreciation and amortization expense for fiscal 2006 was \$38,564,000 compared to \$35,083,000 for the prior year. This increase reflects the increased new store construction and store renovation activities of the Company. As well, it included \$2,187,000 of write-offs as a result of closed and renovated stores, compared to \$1,786,000 in the prior year.

Investment income for fiscal 2006 amounted to \$9,097,000 as compared to \$9,639,000 in the prior year. Dividends and interest income for fiscal 2006 were \$6,810,000 as compared to \$5,988,000 for fiscal 2005 while net capital gains for fiscal 2006 were \$2,287,000 as compared to \$3,651,000 for fiscal 2005. Interest income for fiscal 2006 was significantly higher than the prior year due to larger cash balances earning higher rates of interest.

Interest expense on long-term debt decreased to \$1,132,000 in fiscal 2006 from \$1,919,000 in fiscal 2005. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Net earnings and diluted EPS increased 26.9% to \$84,889,000 or \$1.19 per share in fiscal 2006 as compared with \$66,907,000 or \$0.95 per share in fiscal 2005.

The Company in its normal course of business makes long lead time commitments for a significant portion of its merchandise purchases, in some cases as long as eight months. Most of these purchases must be paid for in US dollars. In fiscal 2006, these merchandise purchases exceeded \$150,000,000 US. The Company uses a variety of defensive strategies designed to fix the cost of its continuing US dollar long-term commitments at the lowest possible cost, while at the same time allowing itself the opportunity to take advantage of an increase in the value of the Canadian dollar vis-à-vis the US dollar. For fiscal 2006, these strategies helped the gross margin performance as the Canadian dollar strengthened over the course of much of the year.

During fiscal 2006, the Company opened 46 stores comprised of 16 Reitmans, 3 Smart Set, 2 RW & CO., 4 Thyme Maternity, 11 Penningtons, and 10 Addition Elle; 26 stores were closed. Accordingly, at January 28, 2006, there were 887 stores in operation, consisting of 355 Reitmans, 162 Smart Set, 32 RW & CO., 69 Thyme Maternity, 150 Penningtons and 119 Addition Elle as compared with a total of 867 stores in the prior year.

Store closings take place for a variety of reasons as the viability of each store and its location is constantly monitored and assessed for continuing profitability. In most cases when a store is closed, merchandise at that location is sold off in the normal course of business and any unsold merchandise remaining at the closing date is generally transferred to other stores operating under the same banner for sale in the normal course of business.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected consolidated financial data for the eight most recently completed quarters. This unaudited quarterly information has been prepared on the same basis as the annual consolidated financial statements. The operating results for any quarter are not necessarily indicative of the results to be expected for any future period.

(in thousands, except per share amounts)

	Sales*	Net Earnings*	Earnings per share ("EPS")	
			Basic	Diluted
February 3, 2007	\$ 282,110	\$ 22,957 <sup>1</sup>	\$ 0.32 <sup>1</sup>	\$ 0.32 <sup>1</sup>
October 28, 2006	258,602	23,390 <sup>2</sup>	0.33 <sup>2</sup>	0.33 <sup>2</sup>
July 29, 2006	278,828	14,448 <sup>3</sup>	0.21 <sup>3</sup>	0.20 <sup>3</sup>
April 29, 2006	222,969	21,674	0.31	0.30
January 28, 2006	255,128	16,760	0.24	0.23
October 29, 2005	238,613	19,238	0.28	0.27
July 30, 2005	261,785	29,224	0.42	0.41
April 30, 2005	213,732	19,667	0.28	0.28

\*Results for the fourth quarter ended February 3, 2007 include 14 weeks instead of the normal 13 weeks.

<sup>1</sup> Excluding the impact of the retroactive Québec income tax assessments, net earnings for the fourth quarter would have been \$23,433, Basic EPS \$0.33 and Diluted EPS \$0.33.

<sup>2</sup> Excluding the impact of the retroactive Québec income tax assessments, net earnings for the third quarter would have been \$23,823, Basic EPS \$0.34 and Diluted EPS \$0.33.

<sup>3</sup> Excluding the impact of the retroactive Québec income tax assessments, net earnings for the second quarter would have been \$33,593, Basic EPS \$0.48 and Diluted EPS \$0.47.

The retail business is seasonal and due to the geographical diversity of the Company's stores and product offerings, the Company has experienced quarterly fluctuations in operating results. Sales have traditionally been higher in the fourth quarter compared to other quarterly periods due to consumer holiday buying patterns. However, with the growth of the Company's plus-size and maternity businesses, second and third quarters' merchandise sales have been positively impacted resulting in higher sales revenues relative to the fourth quarter. Management anticipates and assumes that this trend will continue in the future. The fourth quarter of fiscal 2007 benefited from increased sales due to the additional week.

### FOURTH QUARTER RESULTS

Results for the fourth quarter ended February 3, 2007 include 14 weeks instead of the normal 13 weeks. The inclusion of an extra week occurs every fifth or sixth fiscal year due to the Company's floating year-end.

Sales for the fourth quarter increased 10.6% to \$282,110,000 as compared with \$255,128,000 for the three month period ended January 28, 2006. This increase in sales is due primarily to the increased number of stores, an additional week of sales and a comparable store sales increase of 1.1%.

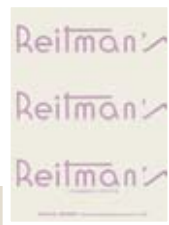
Operating earnings for the fourth quarter increased 29.5% to \$29,473,000 as compared with \$22,766,000 for the comparable period last year. The factors contributing to such increase included improved gross margins, up in excess of 294 basis points for the fourth quarter as compared to the same period last year, due in part to the Canadian dollar which continued to remain relatively strong. Spot prices for \$1.00 US for the fourth quarter have ranged between a high of Canadian \$1.18 and a low of \$1.12 (\$1.19 and \$1.14 respectively for the same period last year). As well, the Company continues to open stores in less expensive power centres and strip malls allowing the Company to build somewhat larger, more profitable stores. As a substantial amount of the Company's non-merchandise operating expenses are fixed, store operating costs in several instances have decreased as a percentage of gross revenue as compared to the same period last year.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Depreciation and amortization expense for the fourth quarter was \$12,448,000 compared to \$10,012,000 for the comparable period last year. This increase reflects the increased new store construction and store renovation activities of the Company. As well it included \$1,467,000 of write-offs as a result of closed and renovated stores, compared to \$367,000 in the comparable period last year. During the fourth quarter, the Company opened 19 new stores and closed 18 stores.

Investment income for the fourth quarter increased 93.0% to \$3,178,000 as compared to \$1,647,000 in the comparable period last year. Dividends and interest income for the fourth quarter were \$3,169,000 as compared to \$2,018,000 for the same period last year, while net capital gains for the fourth quarter were \$9,000 as compared to the net capital losses for the same period last year of \$371,000. Interest income for the quarter was significantly higher than the prior year due to larger cash balances earning higher rates of interest.

Interest expense on long-term debt decreased to \$258,000 in the fourth quarter of 2007 from \$281,000 in 2006. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Net earnings and diluted EPS increased 37.0% to \$22,957,000 or \$0.32 per share as compared with \$16,760,000 or \$0.23 per share for the comparable period last year. Without the retroactive change in the Québec tax law, the net earnings for the fourth quarter would have been \$23,433,000 or \$0.33 per share.

### BALANCE SHEET

Cash and cash equivalents amounted to \$188,491,000 or 39.2% higher than \$135,399,000 last year reflecting the very strong positive cash flow generated from operations of the Company. Merchandise inventories this year are \$61,834,000 or \$4,611,000 lower than last year. This decrease reflects the very strong sell through of seasonal merchandise, the continuation of the effect of a strong Canadian dollar and the tight control of inventories in general. Accounts receivable are \$3,439,000 or \$304,000 more than last year. The Company's accounts receivable are essentially the debit and credit card sales from the last day of the fiscal year. Prepaid expenses are \$21,405,000 or approximately \$13,934,000 more than last year, principally due to February 2007 rent that was paid and classified as a prepaid item.

Investments consist of marketable securities, primarily high quality preferred shares and units of income trusts. At February 3, 2007, marketable securities amounted to \$52,675,000 (market value \$56,081,000) as compared with \$60,132,000 (market value \$66,346,000) last year. The Company has been gradually reducing the size of its investment portfolio and managing the resulting cash on a short-term basis, and in particular, reducing the percentage of its funds invested in income trusts in relation to the overall funds in its investment portfolio.

The Company invested \$63,152,000 and \$58,669,000 in additions to capital assets in fiscal 2007 and fiscal 2006, respectively. This included \$50,275,000 in new store construction and existing store renovation costs (\$37,716,000 in fiscal 2006) and \$12,877,000 in head office and distribution centre asset additions (2006 - \$12,784,000). In fiscal 2006, the Company purchased its previously leased office premises for \$8,169,000.

Accounts payable and accrued items are \$85,317,000 or approximately \$3,533,000 more than last year. The Company's accounts payable consist largely of trade payables, liabilities for unredeemed gift certificates and credit vouchers and amounts payable under the Company performance incentive plan.

Income taxes payable of \$40,289,000 includes \$20,054,000 for taxes and interest related to the retroactively imposed Québec income tax assessments received in June 2006 with respect to the three previous taxation years.

In addition to its defined benefit plan, the Company sponsors a Supplemental Executive Retirement Plan for certain senior executives. An actuarial calculation was made to determine the estimated liability the Company incurred with respect to the provisions of the plan for fiscal 2007. An amount of \$1,884,000 (fiscal 2006 - \$68,000) was expensed in the year ended February 3, 2007 with respect to this plan. The plan is unfunded. The expensed amount is accrued as a liability on the Company's balance sheet. When the obligation arises to make any payment called for under the plan (e.g. when an eligible plan member retires and begins receiving payments under the plan), the payments will reduce the accrual amount as the payments are actually made. No payments were made in 2006 and 2007 fiscal years and management does not expect that any payments will be made under the plan in the 2008 fiscal year.



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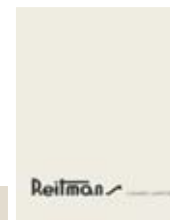
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Shareholders' equity at February 3, 2007 amounted to \$436,119,000 or \$6.12 per share as compared to \$390,257,000 or \$5.56 per share last year. The Company continues to be in a strong financial position. The Company's principal sources of liquidity are its cash, cash equivalents and investments in marketable securities of \$241,166,000 (market value of \$244,572,000) at February 3, 2007, compared with \$195,531,000 (market value of \$201,745,000) at January 28, 2006. The Company has borrowing and working capital credit facilities (unsecured) available of \$125,000,000. As at February 3, 2007, \$68,830,000 (January 28, 2006 - \$58,066,000) of the operating line of credit was committed for documentary and standby letters of credit. These credit facilities are used principally for US dollar letters of credit to satisfy offshore third party vendors who require such backing before confirming purchase orders issued by the Company. The Company rarely uses such credit facilities for other purposes.

The Company has granted irrevocable standby letters of credit, issued by highly-rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at February 3, 2007, the maximum potential liability under these guarantees was \$4,249,000. The standby letters of credit mature at various dates during fiscal 2008. The Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for these items.

Major financing activities in fiscal 2007 included paying down \$1,010,000 of long-term debt, consisting of the mortgage on the distribution centre. The Company paid dividends amounting to \$40,893,000 in fiscal 2007 compared to \$29,345,000 in fiscal 2006.

On January 25, 2006, the Company purchased its previously leased office premises comprising 385,000 sq. ft. located at 250 Sauvé Street West in Montreal for \$8,169,000.

In fiscal 2007, the Company invested \$63,152,000 on new and renovated stores, the distribution centre, other office and related equipment and the Sauvé Street office. The Company has committed \$2,000,000 to complete certain equipment upgrades at the distribution centre and to complete the renovation of its Sauvé Street office. These expenditures, together with ongoing store construction and renovation programs, the payment of cash dividends and the repayments related to the Company's bank credit facility and long-term debt obligations, are expected to be funded by the Company's existing financial resources and funds derived from its operations.

On May 30, 2003, the Company entered into a sale leaseback transaction with a third party financial institution for \$10,000,000 of its merchandise handling equipment. The lease calls for 48 monthly payments of \$193,000, following which the Company has an option to extend the lease or buy back the equipment at market value. The Company intends to exercise its option to purchase the equipment at the end of the lease for its estimated fair market value of \$2,000,000.

### FINANCIAL COMMITMENTS

The following table sets forth our financial commitments the details of which are described in the previous commentary.

Contractual Obligations	Total	Payments Due by Period		
		Within 1 year	2 to 4 years	5 years and over
Long-term debt	\$ 16,173,000	\$ 1,076,000	\$ 3,665,000	\$ 11,432,000
Store leases and equipment	420,727,000	93,436,000	206,983,000	120,308,000
Total contractual obligations	\$ 436,900,000	\$ 94,512,000	\$ 210,648,000	\$ 131,740,000



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OFF-BALANCE SHEET ARRANGEMENTS

#### Derivative Financial Instruments

The Company in its normal course of business must make long lead-time commitments for a significant portion of its merchandise purchases, in some cases as long as eight months. Most of these purchases must be paid for in US dollars. The Company uses a variety of strategies, such as foreign exchange option contracts, designed to fix the cost of its continuing US dollar commitments at the lowest possible cost, while at the same time allowing itself the opportunity to take advantage of an increase in the value of the Canadian dollar vis-à-vis the US dollar.

A foreign exchange option contract represents an option to buy a foreign currency from a counterparty at a predetermined date. Credit risks exist in the event of failure by a counterparty to fulfill its obligations. The Company reduces this risk by dealing only with higher-rated counterparties, normally Canadian chartered banks.

The Company does not use derivative financial instruments for speculative purposes. Foreign exchange option contracts are entered into with maturities not exceeding three months. As at February 3, 2007, there were no outstanding foreign exchange option contracts.

Subsequent to the end of the 2007 fiscal year, the Company entered into a series of European call options which limit the Company's exposure on future purchases during the first quarter of fiscal 2008 of \$30,000,000 US at a rate of \$1.19 Canadian.

Included in determination of the Company's net earnings for fiscal 2007 is a foreign exchange loss of \$915,000 (2006 - \$315,000).

### RELATED PARTY TRANSACTIONS

The Company leases two retail locations which are owned by a related party. The leases for such premises were entered into on commercial terms similar to those for leases entered into with third parties for similar premises. The annual rent payable under these leases is, in the aggregate, approximately \$188,000 (2006 - \$177,000).

The Company incurred fees of \$304,000 in fiscal 2007 (2006 - \$338,000) with a firm, of which two of the Company's outside directors are partners, in conjunction with general legal advice. The Company believes that such remuneration was based on normal terms for business transactions between unrelated parties.

These transactions are recorded at the exchange amount.

### FINANCIAL INSTRUMENTS

The Company's significant financial instruments consist of cash and cash equivalents along with investments. Financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents. The Company uses its cash resources to fund ongoing store construction and renovations along with working capital needs. The Company reduces its credit risks by investing available cash in short-term deposits with Canadian financial institutions and commercial paper with a rating not less than R1. Investments consist primarily of preferred shares of various Canadian public companies. The Company has gradually been reducing the size of its portfolio and managing its cash on a short-term basis.

### CRITICAL ACCOUNTING ESTIMATES

#### Inventory Valuation

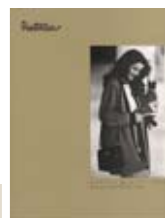
The Company uses the retail inventory method in arriving at cost. Merchandise inventories are valued at the lower of cost and net realizable value. Excess or slow moving items are identified and a provision is taken using management's best estimate. In addition, a provision for shrinkage and sales returns are also recorded using historical rates experienced. Given that inventory and cost of sales are significant components of the consolidated financial statements, any changes in assumptions and estimates could have a material impact on the Company's financial position and results of operations.



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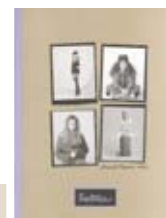
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Stock-Based Compensation

The Company accounts for stock-based compensation and other stock-based payments using the fair value method. Stock options granted result in an expense over their vesting period based on their estimated fair values on the date of grant, determined using the Black-Scholes option pricing model. In computing the compensation cost related to stock option awards granted during the year under the fair value approach, various assumptions are used to determine the expected option life, risk-free interest rate, expected stock price volatility and average dividend yield. The use of different assumptions could result in a stock compensation expense that differs from that which the Company has recorded.

### Pensions

The Company maintains a contributory, defined benefit plan and sponsors a supplemental executive retirement plan ("SERP"). The cost of the defined benefit plan and SERP are determined periodically by independent actuaries. Pension expense is included annually in operations. Assumptions used in developing the net pension expense and projected benefit obligation include a discount rate, rate of increase in salary levels and expected long-term rate of return on plan assets. The use of different assumptions could result in a pension expense that differs from that which the Company has recorded. The defined benefit plan is fully funded and solvent and the SERP is an unfunded pay as you go plan.

### Goodwill

Goodwill is not amortized but rather is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the Company determines that in the future impairment has occurred, the Company would be required to write-off the impaired portion of goodwill.

### Gift Certificates and Credit Vouchers

Gift certificates sold are recorded as a liability and revenue is recognized when the gift certificate is redeemed. Customers may receive a credit voucher in exchange for returned goods. Credit vouchers are recorded as a liability until redeemed. The Company, for each reporting period, reviews the gift certificate and credit voucher liability and assesses its adequacy. In its review the Company estimates expected usages and evaluates specific trends and patterns which can result in an adjustment to the liability for gift certificates and/or credit vouchers.

### RECENT ACCOUNTING PRONOUNCEMENTS

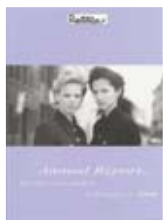
The Company monitors all relevant Accounting Standards and Emerging Issue Committee pronouncements with a view to adopting them as necessary. Recent pronouncements include:

#### CICA Section 1530 – Comprehensive Income

This CICA handbook section introduces a statement of comprehensive income which will be included in the full set of interim and annual financial statements. Comprehensive income will represent the change in equity during a period from transactions and other events and circumstances from non-owner sources and will include all changes in equity other than those resulting from investments by owners and distributions to owners. The Company will be adopting this standard for the first quarter of the fiscal year ending February 2, 2008.

#### CICA Section 3855 – Financial Instruments

This CICA handbook section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments must be classified into a defined category, namely, held-to-maturity investments, held for trading or available-for-sale. This classification will determine how each instrument is measured and how gains and losses are recognized. In addition, the recommendations define derivatives to include non-financial derivatives and embedded derivatives which meet certain criteria. All such derivatives must be classified as held for trading and therefore recorded at fair value. The Company will be adopting this standard for the first quarter of the fiscal year ending February 2, 2008.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CICA Section 3865 – Hedges

The recommendations of this section are optional and are only required if the Company is applying hedge accounting. This section establishes standards for the accounting treatment of qualifying hedge relationships and the necessary disclosures. The Company has evaluated this standard and has determined that it will not be adopting hedge accounting.

### OUTSTANDING SHARE DATA

At March 28, 2007, 13,440,000 Common shares of the Company and 57,817,106 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. The Company has reserved 5,520,000 Class A non-voting shares for issuance under its Share Option Plan of which 1,811,750 options are outstanding at an average exercise price of \$12.08. Each stock option entitles the holder to purchase one Class A non-voting share of the Company at an exercise price established based on the market price of the shares at the date the option was granted.

The Company purchased for cancellation 40,800 Class A non-voting shares at prevailing market prices pursuant to its Share Repurchase Program (normal course issuer bid) for a total cash consideration of \$735,000 in September 2006. The Company received, in November 2006, approval from the Toronto Stock Exchange to proceed with a normal course issuer bid. Under the bid, the Company may purchase up to 2,847,230 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 14, 2006. The bid commenced on November 28, 2006 and may continue to November 27, 2007.

### DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of February 3, 2007, an evaluation was carried out of the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of those disclosure controls and procedures were effective. Also at February 3, 2007, an evaluation was carried out of the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation the Chief Executive Officer and Chief Financial Officer concluded that the design of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of Multilateral Instrument 52-109. There were no changes to the Company's internal controls over financial reporting during the year ended February 3, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### TRENDS, UNCERTAINTIES AND RISKS

The Company is principally engaged in the sale of women's apparel through 920 leased retail outlets operating under seven different banners located across Canada. The Company's business is seasonal and is also subject to a number of factors, which directly impact retail sales of apparel over which it has no control, namely fluctuations in weather patterns, swings in consumer confidence and buying habits and the potential of rapid changes in fashion preferences.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company depends on the efficient operation of its sole distribution centre such that any significant disruption in the operation thereof (e.g. natural disaster, system failures, destruction or major damage by fire) could delay or impair its ability to replenish its stores on a timely basis causing a loss of future sales which could have a significant effect on the Company's results of operations. The Company is structured in a manner that management considers to be most effective to conduct its business in every Canadian province and territory and is therefore subject to all manner of material and adverse changes that can take place in any one or more of these jurisdictions as they might impact income and sales, taxation, duties, quota impositions or re-impositions and other legislated or government regulated matters. As well, there is no effective barrier to entry into the Canadian apparel retailing marketplace by any potential competitor, foreign or domestic, and in fact the Company has witnessed the arrival over the past few years of a number of foreign-based competitors now operating in virtually all the Company's Canadian retail sectors. As well, Canadian women have a significant number of e-commerce shopping alternatives available to them on a global basis.

The Company depends on information systems to manage its operations, including a full range of retail, financial, merchandising and inventory control, planning, forecasting, reporting and distribution systems. The Company regularly invests to upgrade, enhance, maintain and replace these systems. Any significant disruptions in the performance of these systems could have a material adverse impact on the Company's operations and financial results.

The Company has introduced a new banner, Cassis, designed to meet another specific apparel market niche in Canada. There can be no assurance that this new concept will be successful or that the Company's overall profitability will increase as a result of introducing this new concept.

To mitigate these risk exposures, each banner is directed to and focused on a different niche in the Canadian women's apparel market. Virtually all the Company's merchandise is private label. During fiscal 2007, no supplier represented more than 9% of the Company's purchases (in dollars and/or units) and there are a variety of alternative sources (both domestic and offshore) for virtually all the Company's merchandise. When merchandise is sourced offshore and must be paid for in US dollars, the Company uses a variety of defensive strategies to fix the cost of US dollars to ensure it is protected against any material adverse fluctuations in the value of the Canadian dollar between the time the relevant merchandise is ordered and when it must be paid for.

Geographically, the Company's stores are located generally according to Canada's female population. About 30% of RW & CO.'s merchandise is young men's. Menswear sales account for approximately 2% of all apparel sales made by the Company.

The Company has good relationships with its landlords and suppliers and has no reason to believe that it is exposed to any material risk that would operate to prevent the Company from acquiring, distributing and/or selling merchandise on an ongoing basis.

While the Company has experienced significantly improved sales and operating margins in fiscal 2007, the Company cautions that past financial performance is not necessarily indicative of future results.

### OUTLOOK

The Company believes that it is well positioned for the future. The Reitmans banner has continued to successfully expand its offerings in off-mall, lower cost locations, while serving its target market in larger stores with a deeper merchandise assortment. The Company's more youth-oriented banners, namely Smart Set and RW & CO. are positioned for further growth. The Company also believes that the Cassis banner will be successful. The Company continues to close marginal or unprofitable stores as appropriate.

The Company's Hong Kong office continues to serve the Company well, with over 100 full-time employees dedicated to seeking out the highest quality, affordable and fashionable apparel for all our banners. A branch of the Hong Kong office was opened in Shanghai to allow a closer point of contact in that area of China where a number of the Company's larger vendors are located. On an annual basis, the Company directly imports approximately 70% of its merchandise, largely from China.

The Company has a strong balance sheet, with excellent liquidity and borrowing capacity should it need to avail itself thereof. Its systems, including merchandise procurement, inventory control, planning, allocation and distribution, distribution centre management, point-of-sale, financial management and information technology, are fully integrated. The Company is committed to continue to invest in training for all levels of its employees.



## 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

March 22, 2007

(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 3, 2007 and January 28, 2006 and the Consolidated Statements of Earnings, 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, 2007 and January 28, 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**KPMG LLP**

Chartered Accountants

Montreal, Canada  
March 22, 2007

## CONSOLIDATED BALANCE SHEETS

As at February 3, 2007 and January 28, 2006  
(in thousands)

	2007	2006
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 188,491	\$ 135,399
Accounts receivable	3,439	3,135
Merchandise inventories	61,834	66,445
Prepaid expenses	21,405	7,471
Total Current Assets	<u>275,169</u>	212,450
INVESTMENTS (note 2)	52,675	60,132
CAPITAL ASSETS (note 3)	226,734	206,184
GOODWILL	42,426	42,426
FUTURE INCOME TAXES (note 6)	3,407	1,536
ACCRUED PENSION ASSET (note 4)	-	505
	<u>\$ 600,411</u>	<u>\$ 523,233</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES		
Accounts payable and accrued items	\$ 85,317	\$ 81,784
Income taxes payable	40,289	14,645
Future income taxes (note 6)	248	-
Current portion of long-term debt (note 5)	1,076	1,010
Total Current Liabilities	<u>126,930</u>	97,439
DEFERRED LEASE CREDITS	20,858	19,025
LONG-TERM DEBT (note 5)	15,097	16,173
FUTURE INCOME TAXES (note 6)	112	339
ACCRUED PENSION LIABILITY (note 4)	1,295	-
SHAREHOLDERS' EQUITY		
Share capital (note 7)	21,323	17,374
Contributed surplus (note 8)	3,583	2,523
Retained earnings	411,213	370,360
Total Shareholders' Equity	<u>436,119</u>	390,257
Commitments (note 10)	<u>\$ 600,411</u>	<u>\$ 523,233</u>

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

On behalf of the Board,

(signed)

JEREMY H. REITMAN  
Director

(signed)

STEPHEN J. KAUSER  
Director

## CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended February 3, 2007 and January 28, 2006  
(in thousands except per share amounts)

	2007	2006
Sales	<b>\$1,042,509</b>	\$ 969,258
Cost of goods sold and selling, general and administrative expenses	<b>855,697</b>	813,648
	<b>186,812</b>	155,610
Depreciation and amortization	<b>44,946</b>	38,564
Operating earnings before the undernoted	<b>141,866</b>	117,046
Investment income	<b>12,556</b>	9,097
Interest on long-term debt	<b>1,056</b>	1,132
Earnings before income taxes	<b>153,366</b>	125,011
Income taxes (note 6):		
Current	<b>52,693</b>	40,830
Future	<b>(1,850)</b>	(708)
	<b>50,843</b>	40,122
Québec tax assessments - current	<b>20,054</b>	-
	<b>70,897</b>	40,122
Net earnings	<b>\$ 82,469</b>	\$ 84,889
Earnings per share (note 9):		
Basic	<b>\$ 1.17</b>	\$ 1.22
Diluted	<b>1.15</b>	1.19

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended February 3, 2007 and January 28, 2006  
(in thousands)

	2007	2006
Balance at beginning of year	<b>\$ 370,360</b>	\$ 316,191
Net earnings	<b>82,469</b>	84,889
	<b>452,829</b>	401,080
Deduct:		
Dividends	<b>40,893</b>	29,345
Premium on purchase of Class A non-voting shares (note 7)	<b>723</b>	1,375
Balance at end of year	<b>\$ 411,213</b>	\$ 370,360

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended February 3, 2007 and January 28, 2006  
(in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 82,469	\$ 84,889
Adjustments for:		
Depreciation and amortization	44,946	38,564
Future income taxes	(1,850)	(708)
Stock-based compensation	1,314	2,100
Amortization of deferred licensing revenue	-	(167)
Amortization of deferred lease credits	(4,042)	(3,652)
Deferred lease credits	5,875	4,941
Pension expense	1,800	997
Pension contribution	-	(133)
Gain on sale of marketable securities	(2,289)	(2,287)
Changes in non-cash working capital items relating to operations	17,206	(11,385)
	<b>145,429</b>	113,159
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of marketable securities	(4,170)	(12,632)
Proceeds on sale of marketable securities	13,916	20,982
Additions to capital assets	(63,152)	(58,669)
	<b>(53,406)</b>	(50,319)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Dividends paid	(40,893)	(29,345)
Purchase of Class A non-voting shares for cancellation	(735)	(1,401)
Repayment of long-term debt	(1,010)	(1,124)
Proceeds from issue of share capital	3,707	2,490
	<b>(38,931)</b>	(29,380)
NET INCREASE IN CASH AND CASH EQUIVALENTS	53,092	33,460
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	135,399	101,939
CASH AND CASH EQUIVALENTS, END OF YEAR	<b>\$ 188,491</b>	<b>\$ 135,399</b>

Supplemental disclosure of cash flow information (note 13)

Cash and cash equivalents consist 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

For the years ended February 3, 2007 and January 28, 2006  
(all amounts in thousands except per share amounts)

Reitmans (Canada) Limited ("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) Basis of Presentation

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. All significant intercompany balances and transactions have been eliminated from these financial statements. The Company's fiscal year ends on the Saturday closest to the end of January. All references to 2007 and 2006 represent the fiscal years ended February 3, 2007 and January 28, 2006, respectively. Fiscal 2007 includes 53 weeks instead of the normal 52 weeks. The inclusion of an extra week occurs every fifth or sixth fiscal year due to the Company's floating year-end date.

#### b) Revenue Recognition

Sales are recognized when a customer purchases and takes delivery of the product. Reported sales are net of returns and an estimated allowance for returns and excludes sales taxes. Gift certificates sold are recorded as a liability and revenue is recognized when the gift certificate is redeemed. Customers may receive a credit voucher in exchange for returned goods. Credit vouchers are recorded as a liability until redeemed.

#### c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term deposits with original maturities of three months or less.

#### d) Inventories

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

#### e) Investments

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

#### f) Capital Assets

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

Buildings and improvements	4% to 15%
Fixtures and equipment	10% to 33 <sup>1</sup> / <sub>3</sub> %
Leasehold interests	15%

Leasehold improvements are depreciated at the lesser of the estimated useful life of the asset and the lease term. Tenant allowances are recorded as deferred lease credits and amortized as a reduction of rent expense over the term of the related leases.

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

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

Depreciation and amortization expense includes the write-off of assets associated with store closings and renovations.

Long-lived assets are reviewed for recoverability whenever events indicate an impairment may exist. An impairment loss is measured as the amount by which the carrying value of an asset or a group of assets exceeds its fair value. If such assets or group of assets are considered impaired, an impairment loss is recognized and the carrying value of the long-lived asset is adjusted.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### g) Goodwill

Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any.

The Company conducted the annual impairment test on February 3, 2007 and concluded that there was no impairment in the carrying value of goodwill.

### h) Income Taxes

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 or substantively 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 or substantively enacted date. Future income tax assets are evaluated and if realization is not considered to be more likely than not, a valuation allowance is provided.

### i) Pensions

The Company maintains a contributory defined benefit plan, the Reitmans Executive Retirement Pension Plan ("Plan"). The Plan provides for pensions based on length of service and average earnings in the best five consecutive years.

The Company also sponsors a Supplemental Executive Retirement Plan ("SERP"), which is neither registered nor pre-funded.

The costs of the pension plans are 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 quoted market 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 recorded on the balance sheet as an accrued pension asset or an accrued pension liability as the case may be.

### j) Stock-Based Compensation

The Company accounts for stock-based compensation and other stock-based payments using the fair value based method. Compensation cost is measured at the fair value at the date of grant and is expensed over the vesting period, which is normally five years. The Company accounts for forfeitures as they occur.

### k) Earnings per Share

Basic earnings per share is determined using the weighted average number of Class A non-voting and Common shares outstanding during the year. The treasury stock method is used for calculating diluted earnings per share. In calculating diluted earnings per share, the weighted average number of shares outstanding are increased to include additional shares issued from the assumed exercise of options, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises, as well as the amount of unrecognized stock-based compensation, are used to purchase Class A non-voting shares at the average market share price during the reporting period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### l) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rate. Other balance sheet items denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the respective transaction date. Revenues and expenses denominated in foreign currencies 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.

### m) Financial Instruments

The Company makes use of foreign exchange option contracts to manage its US dollar exposure. These derivative financial instruments are not used for trading or speculative purposes and are reported on a mark-to-market basis. The related gains and losses are included in the determination of net earnings.

### n) Use of Estimates

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. Financial results as determined by actual events may differ from these estimates.

Significant areas requiring the use of management estimates and assumptions include the key assumptions used in determining the useful life and recoverability of capital assets, stock-based compensation costs, future income tax assets and liabilities, inventory valuation, sales returns provision and gift certificate and credit voucher liabilities.

### o) Guarantees

In the normal course of business, the Company enters into various agreements that may contain guarantees. A liability is recorded when the Company considers it probable that a payment relating to the guarantee has to be made to the other party.

## 2. INVESTMENTS

The Company's marketable securities portfolio consists primarily 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, 2007 was \$56,081 (2006 - \$66,346).

## 3. CAPITAL ASSETS

	2007			2006		
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	\$ 4,615	\$ -	\$ 4,615	\$ 4,615	\$ -	\$ 4,615
Buildings and improvements	46,671	8,256	38,415	42,147	5,364	36,783
Fixtures and equipment	166,739	68,799	97,940	157,372	66,823	90,549
Leasehold improvements	151,245	66,097	85,148	132,155	58,365	73,790
Leasehold interests	890	274	616	621	174	447
	<b>\$370,160</b>	<b>\$143,426</b>	<b>\$226,734</b>	\$ 336,910	\$ 130,726	\$ 206,184

During the year, due to various store closings and renovations, the Company wrote-off assets with a net book value of \$4,216 (2006 - \$2,187). The write-offs are included in depreciation and amortization expense.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. PENSIONS

The Company's contributory defined benefit plan was actuarially valued as at December 31, 2004 and the obligation was projected to December 31, 2006. The next actuarial valuation is scheduled for December 2007.

Assumptions, based upon data as of December 31, 2006, used in developing the net pension expense (income) and projected benefit obligation are as follows:

	2007	2006
Discount rate	4.95%	4.94%
Rate of increase in salary levels	3.00%	3.00%
Expected long-term rate of return on plan assets	7.50%	7.50%

In addition, the Company sponsors a Supplemental Executive Retirement Plan ("SERP") covering certain pension plan members. This special plan is subject to the same actuarial assumptions and methods as the Reitmans Executive Retirement Pension Plan ("Plan").

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

	2007			2006		
	Plan	SERP	Total	Plan	SERP	Total
<b>Pension Obligation</b>						
Pension obligation, beginning of year	\$ 10,104	\$ 8,508	\$ 18,612	\$ 8,326	\$ -	\$ 8,326
Employee contributions	130	-	130	95	-	95
Current service cost	465	180	645	196	12	208
Interest cost	517	429	946	488	-	488
Benefits paid	(470)	-	(470)	(421)	-	(421)
Plan amendments	-	-	-	-	8,496	8,496
Actuarial losses	(12)	600	588	1,420	-	1,420
Pension obligation, end of year	<u>\$ 10,734</u>	<u>\$ 9,717</u>	<u>\$ 20,451</u>	<u>\$ 10,104</u>	<u>\$ 8,508</u>	<u>\$ 18,612</u>
<b>Plan Assets</b>						
Market value of plan assets, beginning of year	\$ 10,677	\$ -	\$ 10,677	\$ 9,695	\$ -	\$ 9,695
Employer contributions	-	-	-	133	-	133
Employee contributions	130	-	130	95	-	95
Actual return on plan assets	1,054	-	1,054	1,175	-	1,175
Benefits paid	(470)	-	(470)	(421)	-	(421)
Market value of plan assets, end of year	<u>\$ 11,391</u>	<u>\$ -</u>	<u>\$ 11,391</u>	<u>\$ 10,677</u>	<u>\$ -</u>	<u>\$ 10,677</u>
Plan (deficit) surplus	657	(9,717)	(9,060)	573	(8,508)	(7,935)
Unamortized past service cost	-	7,765	7,765	-	8,440	8,440
Pension asset (liability), end of year	<u>\$ 657</u>	<u>\$ (1,952)</u>	<u>\$ (1,295)</u>	<u>\$ 573</u>	<u>\$ (68)</u>	<u>\$ 505</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's net annual benefit plans expense consists of the following:

	2007			2006		
	Plan	SERP	Total	Plan	SERP	Total
<b>Pension Expense</b>						
Current service cost	\$ 465	\$ 180	\$ 645	\$ 196	\$ 12	\$ 208
Past service cost	-	675	675	-	56	56
Interest cost	517	429	946	488	-	488
Actual return on plan assets	(1,054)	-	(1,054)	(1,175)	-	(1,175)
Actuarial losses	(12)	600	588	1,420	-	1,420
Net pension (income) expense	\$ (84)	\$ 1,884	\$ 1,800	\$ 929	\$ 68	\$ 997

The asset allocation of the major asset categories as at December 31, 2006 is as follows:

Asset Category	Allocation
Equity securities	67%
Debt securities	32%
Cash	1%
	<b>100%</b>

### 5. LONG-TERM DEBT

Mortgage bearing interest at 6.40%, payable in monthly instalments of principal and interest of \$172, due November 2017 and secured by the Company's distribution centre

Less current portion

	2007	2006
	\$ 16,173	\$ 17,183
	1,076	1,010
	<b>\$ 15,097</b>	<b>\$ 16,173</b>

Principal repayments on long-term debt are as follows:

Fiscal years ending	
2008	\$ 1,076
2009	1,146
2010	1,220
2011	1,299
2012	1,384
Subsequent years	10,048
	<b>\$ 16,173</b>

### 6. INCOME TAXES

- a) During the year, the Québec National Assembly enacted legislation (Bill 15) that retroactively changed certain tax laws that subject the Company to additional taxes and interest for the 2003, 2004 and 2005 years. In accordance with Canadian generally accepted accounting principles, as a result of Québec income tax assessments received, amounts of \$20,054 for retroactive taxes and interest have been expensed in the year.

The Company has filed formal objection notices for these unpaid assessments and will pursue all avenues to mitigate the tax liability. However, the Company is unable to judge the likelihood of success.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 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 assets (liabilities) are as follows:

	2007	2006
<b>Long-term assets</b>		
Capital assets	\$ 2,925	\$ 1,217
Deferred expenses for income tax purposes	-	108
Pension liability	408	-
Other	74	211
	<u>\$ 3,407</u>	<u>\$ 1,536</u>
<b>Current liabilities</b>		
Accrued liabilities	\$ (248)	\$ -
<b>Long-term liabilities</b>		
Marketable securities	\$ (112)	\$ (162)
Pension asset	-	(177)
	<u>\$ (112)</u>	<u>\$ (339)</u>

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

	2007	2006
Provision for income taxes based on combined statutory rate of 33.83% (2006 - 34.22%)	\$ 51,884	\$ 42,779
Changes in provision resulting from:		
Difference in tax rates due to subsidiaries	(888)	(2,687)
Tax exempt investment income	(871)	(1,162)
Stock-based compensation	444	717
Permanent and other differences	274	475
Québec tax assessments	20,054	-
Income taxes	<u>\$ 70,897</u>	<u>\$ 40,122</u>
Represented by:		
Current	\$ 52,693	\$ 40,830
Future	(1,850)	(708)
Québec tax assessments - current	20,054	-
	<u>\$ 70,897</u>	<u>\$ 40,122</u>

## 7. SHARE CAPITAL

- a) The Class A non-voting shares and the Common shares of the Company rank equally and pari passu with respect to the right to receive dividends and upon any distribution of the assets of the Company. However, in the case of stock dividends, the holders of Class A non-voting shares shall have the right to receive Class A non-voting shares and the holders of Common shares shall have the right to receive Common shares.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- b) The Company has authorized an unlimited number of Class A non-voting shares.

The following table summarizes Class A non-voting shares issued for each of the years listed:

	Class A	
	Number of Shares	Book Value
Balance January 29, 2005	56,108	\$ 14,230
Shares issued pursuant to exercise of stock options	730	2,688
Shares purchased under issuer bid	(91)	(26)
Balance January 28, 2006	56,747	16,892
Shares issued pursuant to exercise of stock options	1,111	3,961
Shares purchased under issuer bid	(41)	(12)
Balance February 3, 2007	<b>57,817</b>	<b>\$ 20,841</b>

The amounts credited to share capital from the exercise of stock options include a cash consideration of \$3,707 (2006 - \$2,490) as well as an ascribed value from contributed surplus of \$254 (2006 - \$198).

The Company has authorized an unlimited number of Common shares. At February 3, 2007, there were 13,440 common shares issued (2006 - 13,440) with a value of \$482 (2006 - \$482).

- c) The Company has reserved 5,520 Class A non-voting shares for issuance under its Share Option Plan of which 1,812 options are outstanding as at February 3, 2007. 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. The exercise price payable for each Class A non-voting share covered by a stock option is determined by the Board of Directors at the date of grant, but may not be less than the closing price of the Company's shares on the trading day immediately preceding the effective date of the grant.

The Company granted 105 stock options during 2007 (2006 - 80), which will be expensed over their vesting period based on their estimated fair values on the date of grant, determined using the Black-Scholes option-pricing model, while 40 (2006 - 20) stock options were cancelled.

Compensation cost related to stock option awards granted during the year under the fair value based approach was calculated using the following assumptions:

	95 Options Granted August 24, 2006	10 Options Granted November 22, 2006
Expected option life	4.8 years	4.6 years
Risk-free interest rate	3.87%	3.88%
Expected stock price volatility	29.67%	29.67%
Average dividend yield	2.77%	2.91%
Weighted average fair value of options granted	\$4.79	\$5.15

Changes in outstanding stock options were as follows:

	2007		2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	2,858	\$ 8.33	3,528	\$ 7.09
Granted	105	20.37	80	19.23
Exercised	(1,111)	3.34	(730)	3.41
Forfeited	(40)	9.04	(20)	12.23
Outstanding at end of year	1,812	\$ 12.08	2,858	\$ 8.33
Options exercisable at end of year	555	\$ 12.24	894	\$ 5.72

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about share options outstanding at February 3, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 4.25 - \$ 5.68	215	3.00 years	\$ 4.41	15	\$ 5.01
\$ 12.23	1,412	5.00	12.23	524	12.23
\$ 19.23 - \$ 22.02	185	5.57	19.88	16	19.23
	<b>1,812</b>	<b>4.82 years</b>	<b>\$ 12.08</b>	<b>555</b>	<b>\$ 12.24</b>

For the year ended February 3, 2007, the Company recognized compensation cost of \$1,314 (2006 - \$2,100) with an offsetting credit to contributed surplus.

- d) The Company purchased, under the prior year's normal course issuer bid, 41 Class A non-voting shares having a book value of \$12 under its stock repurchase program for a total cash consideration of \$735. The excess of the purchase price over book value of the shares in the amount of \$723 was charged to retained earnings.
- e) The Company received, in November 2006, approval from the Toronto Stock Exchange to proceed with a normal course issuer bid. Under the bid, the Company may purchase up to 2,847 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 14, 2006. The bid commenced on November 28, 2006 and may continue to November 27, 2007.

### 8. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus for each of the years listed:

Balance January 29, 2005	\$ 621
Stock option compensation costs	2,100
Ascribed value credited to share capital from exercise of stock options	(198)
Balance January 28, 2006	<u>2,523</u>
Stock option compensation costs	1,314
Ascribed value credited to share capital from exercise of stock options	(254)
Balance February 3, 2007	<u><b>\$ 3,583</b></u>

### 9. EARNINGS PER SHARE

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

	<b>2007</b>	<b>2006</b>
Weighted average number of shares for basic earnings per share calculations	<b>70,442</b>	69,801
Effect of dilutive options outstanding	<b>1,359</b>	1,544
Weighted average number of shares for diluted earnings per share calculations	<u><b>71,801</b></u>	<u>71,345</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 10. COMMITMENTS

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

Fiscal years ending	
2008	\$ 93,436
2009	82,785
2010	69,999
2011	54,199
2012	38,142
Subsequent years	82,166
	<b>\$ 420,727</b>

### 11. CREDIT FACILITY

At February 3, 2007, the Company had an unsecured operating line of credit available with Canadian chartered banks to a maximum of \$125,000 or its US dollar equivalent. As at February 3, 2007, \$68,830 (January 28, 2006 - \$58,066) of the operating line of credit was committed for documentary and standby letters of credit.

### 12. GUARANTEES

The Company has granted irrevocable standby letters of credit, issued by highly-rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at February 3, 2007, the maximum potential liability under these guarantees was \$4,249. The standby letters of credit mature at various dates during fiscal 2008. The Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for these items.

### 13. OTHER INFORMATION

- Included in determination of the Company's net earnings is a foreign exchange loss of \$915 (2006 - \$315).
- Supplementary cash flow information:

	2007	2006
Balances with banks (overdraft)	\$ 6,239	\$ (2,971)
Short-term deposits, bearing interest at 4.3% (2006 - 3.5%)	<b>182,252</b>	138,370
	<b>\$ 188,491</b>	\$ 135,399
Cash paid during the year for:		
Income taxes	\$ 48,730	\$ 44,834
Interest	<b>1,339</b>	1,262
Non-cash transactions:		
Capital asset additions included in accounts payable	<b>3,404</b>	1,060

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14. RELATED PARTY TRANSACTIONS

The Company leases two retail locations which are owned by a related party. The leases for such premises were entered into on commercial terms similar to those for leases entered into with third parties for similar premises. The annual rent payable under these leases is, in the aggregate, approximately \$188 (2006 - \$177).

The Company incurred fees of \$304 in fiscal 2007 (2006 - \$338) with a firm connected to outside directors of the Company in conjunction with general legal advice. The Company believes that such remuneration was based on normal terms for business transactions between unrelated parties.

These transactions are recorded at the exchange amount.

### 15. FINANCIAL INSTRUMENTS

#### a) 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 long-term debt is not significantly different from its carrying value.

The fair value of the Company's long-term debt bearing interest at a fixed rate was calculated using the present value of future payments of principal and interest discounted at the current market rates of interest available to the Company, for the same or similar debt instruments with the same remaining maturities.

#### b) Foreign Currency Risk Management

The Company purchases a significant amount of its goods with US dollars. The Company uses a combination of foreign exchange option contracts and spot purchases to hedge its foreign exchange exposure on cash flows related to these purchases. These option contracts generally do not exceed three months. A foreign exchange option contract represents an option to buy a foreign currency from a counterparty to meet its obligations. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian financial institutions.

As at February 3, 2007 and January 28, 2006 there were no outstanding foreign exchange option contracts.

#### c) Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents.

The Company invests available cash in short-term deposits with Canadian financial institutions and commercial paper with a rating not less than R1.

### 16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year. In particular, investment income, which had been previously classified as part of cash flows from investing activities, is now included in cash flows from operating activities.

## DIRECTORS

H. Jonathan Birks  
Stephen J. Kauser  
Max Konigsberg

Samuel Minzberg  
Cyril Reitman  
Jeremy H. Reitman

Stephen F. Reitman  
Howard Stotland  
Robert S. Vineberg

## OFFICERS

**Jeremy H. Reitman**  
President

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

**Diane Archibald**  
Vice-President - Store Planning

**Douglas M. Deruchie, CA**  
Vice-President - Finance

**Claude Martineau**  
Vice-President - Information Technology

**Isabelle Oliva**  
Vice-President - Human Resources

**Cyril Reitman**  
Vice-President

**Allen F. Rubin**  
Vice-President - Operations

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

**Saul Schipper**  
Vice-President - Secretary

**Richard Wait, CGA**  
Vice-President - Comptroller

**Jay Weiss**  
Vice-President - Distribution and Logistics

**Eric Williams, CA**  
Vice-President - Treasurer

**Henry Fiederer**  
President - Reitmans

**Stephanie Bleau**  
Vice-President - Reitmans

**Nadia Cerantola**  
Vice-President - Reitmans

**Donna Flynn**  
Vice-President - Reitmans

**Bruce MacKeracher**  
Vice-President - Reitmans

**Stefanie Ravenda**  
Vice-President - Reitmans

**Jacqueline Tardif**  
Vice-President - Reitmans

**Lesya McQueen**  
President - Smart Set

**Cathy Cockerton**  
Vice-President - Smart Set

**Sylvain Forest**  
Vice-President - Smart Set

**Stéphane Renaud**  
Vice-President - Smart Set

**Danielle Vallières**  
Vice-President - Smart Set

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

**Cathryn Adeluca**  
Vice-President - RW & CO.

**Isabelle Taschereau**  
President - Thyme Maternity

**William Penney**  
Vice-President - Thyme Maternity

**Kimberly Schumpert**  
President - Cassis

**Leah Daley**  
Vice-President - Cassis

**Kerry Mitchell**  
President - Penningtons / Addition Elle

**Trudy Crane**  
Vice-President - Penningtons / Addition Elle

**Doug Edwards**  
Vice-President - Penningtons / Addition Elle

**Jonathan Plens**  
Vice-President - Penningtons / Addition Elle

**Sally Firth**  
Vice-President - Penningtons

**Rhonda Sandler**  
Vice-President - Addition Elle

# CORPORATE INFORMATION

### REITMANS (CANADA) LIMITED

#### Administration Office:

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Montreal, QC H3L 1Z2

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Fax: (514) 385-2669  
e-mail: [info@reitmans.com](mailto:info@reitmans.com)  
Corporate Website: [www.reitmans.ca](http://www.reitmans.ca)

#### Registered Office:

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Vaughan, ON L4K 4M3

Telephone: (905) 761-2830  
Fax: (905) 761-8922

#### TRANSFER AGENT AND REGISTRAR

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

#### STOCK SYMBOLS

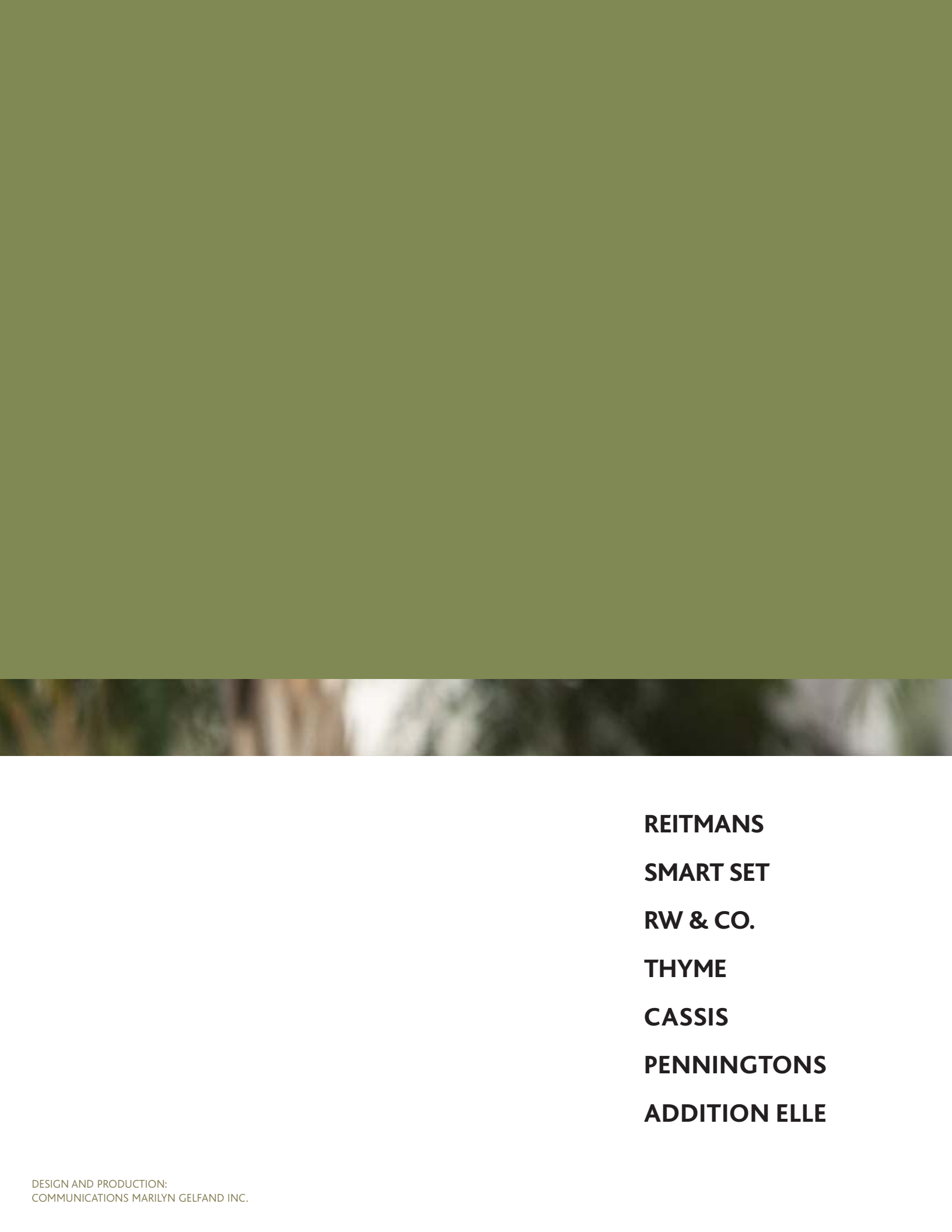
THE TORONTO STOCK EXCHANGE

Common RET  
Class A non-voting RET.A



Reitmans Distribution Centre, Montreal, Québec

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SMART SET  
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CASSIS  
PENNINGTONS  
ADDITION ELLE**