

Reitman's



**ANNUAL REPORT
1997**

HIGHLIGHTS

For the year ended February 1
(in thousands except per share amounts)
(unaudited)

	1997	1996	1995	1994	1993
SALES¹					
1st Quarter	\$ 70,904	\$ 65,849	\$ 63,272	\$ 64,117	\$ 62,141
2nd Quarter	112,657	98,485	95,520	91,619	80,714
3rd Quarter	96,152	78,009	74,767	80,457	74,469
4th Quarter	121,727	107,543	99,722	103,295	100,566
Total	\$401,440	\$349,886	\$333,281	\$339,488	\$317,890
EARNINGS (LOSS)¹					
1st Quarter	\$ (6,411)	\$ (1,572)	\$ (180)	\$ 136	\$ 513
2nd Quarter	4,204	8,155	7,075	4,978	3,422
3rd Quarter	1,113	(1,798)	618	3,177	3,298
4th Quarter	2,146	4,018	5,035	6,219	7,145
Total	\$ 1,052	\$ 8,803	\$ 12,548	\$ 14,510	\$ 14,378
EARNINGS (LOSS) PER SHARE¹					
1st Quarter	\$ (0.72)	\$ (0.17)	\$ (0.02)	\$ 0.01	\$ 0.06
2nd Quarter	0.47	0.88	0.75	0.54	0.37
3rd Quarter	0.13	(0.19)	0.07	0.33	0.35
4th Quarter	0.24	0.44	0.54	0.67	0.76
Total	\$ 0.12	\$ 0.96	\$ 1.34	\$ 1.55	\$ 1.54
GAIN FROM DISCONTINUED OPERATIONS PER SHARE	\$ -	\$ -	\$ -	\$ -	\$ 3,895
	\$ -	\$ -	\$ -	\$ -	\$ 0.42
NET EARNINGS PER SHARE	\$ 1,052	\$ 8,803	\$ 12,548	\$ 14,510	\$ 18,273
	\$ 0.12	\$ 0.96	\$ 1.34	\$ 1.55	\$ 1.96
SHAREHOLDERS' EQUITY PER SHARE	\$135,004	\$140,531	\$143,442	\$135,664	\$125,104
	\$ 15.31	\$ 15.67	\$ 15.26	\$ 14.44	\$ 13.41
NUMBER OF STORES¹					
REITMANS	363	379	389	391	384
SMART SET	146	171	181	190	196
PENNINGTONS WEARHOUSE	53	43	-	-	-
ANTELS	40	-	-	-	-
DALMYS	28	-	-	-	-
CACTUS	16	-	-	-	-
OTHER	-	5	-	-	7
TOTAL	646	598	570	581	587

¹From continuing operations.

To Our Shareholders



The year ended February 1, 1997 was a most challenging year for the Company. It was a year which produced significant achievements in the evolving infrastructure of the Company, yet produced disappointing operating results.

Sales for the 52 week period increased 14% to \$401 million, as compared with \$350 million last year (53 weeks). Net earnings amounted to just over \$1 million or 12 cents per share as compared with \$8.8 million or 96 cents per share last year.

The increase in sales is attributable to the inclusion of the Dalmys group of stores, which was acquired on March 2, 1996, and the significant expansion of the Penningtons Wearhouse division. Comparable store sales increased 2% in Reitmans, 5% in Smart Set and declined 1% in Penningtons Wearhouse. The decline in profitability was largely attributable to the costs incurred in integrating the Dalmys group of stores. The resulting losses from these operations overshadowed the progress made in both Smart Set and Penningtons. Operating profit in Reitmans decreased significantly as a result of weaker than expected sales and depressed margins, particularly in the first half of the year, as well as nonrecurring infrastructure expenses.

During the year, the Company acquired the Dalmys group of stores, consisting of 28 Dalmys, 37 Antels and 14 Cactus stores. A further 35 new stores (6 Reitmans, 7 Smart Set, 13 Penningtons Wearhouse, 1 Dalmys, 5 Antels and 3 Cactus) were opened and 66 stores (22 Reitmans, 32 Smart Set, 3 Penningtons Wearhouse, 5 Studio Pennington, 1 Dalmys, 2 Antels and 1 Cactus) were closed. At year-end, the Company operated 646 stores (as compared with 598 last year), consisting of 363 Reitmans, 146 Smart Set, 53 Penningtons Wearhouse, 28 Dalmys, 40 Antels and 16 Cactus.

Our expansion program in 1997 will continue to be highly selective. We plan to open approximately 17 stores (7 Reitmans, 2 Smart Set, 5 Penningtons Wearhouse, 1 Dalmys and 2 Antels). Other locations are under consideration. We anticipate closing approximately 26 stores that are not profitable. Our store renovation program involved the substantial renovation of 42 stores last year; we plan to remodel 30 stores this year.

To address today's market conditions, we have made substantial investments in technology and hardware, new store designs, staff sales training programs, and a customer

loyalty program (Air MilesTM). The investment of \$10 million in the automation of our distribution centre and management information systems, made in the last two and a half years, is virtually complete and we expect to begin to realize the benefits of improved merchandising and distribution functions in the coming year. The new store designs in Reitmans and Smart Set, where tested in existing locations, have proven successful in generating increased sales and will be implemented in new store locations and renovated stores where appropriate. The sales training program is now in place at a nonrecurring cost of \$2.5 million. Appropriate standards were developed regarding customer service, store appearance and employee conduct. The Company has revised its compensation policies, including a comprehensive bonus plan, to ensure that they are consistent with the stated corporate and financial goals of each division, as well as those of the overall Company.

Under the provisions of its normal course issuer bid, the Company purchased 147,000 Class A non-voting shares at \$13.56 per share and a further 142,000 shares at \$15.56 per share subsequent to year-end. Furthermore, on April 8, 1997, the Board authorized the Company to purchase up to an additional 400,000 Class A non-voting shares pursuant to the 1997 normal course issuer bid. We believe that at current levels the Company's shares are significantly undervalued and as such represent an appropriate investment of its funds.

The Company has a 21% interest in NetStar Communications Inc. ("NetStar") which, through subsidiaries, operates The Sports Network ("TSN"), Réseau des Sports ("RDS"), The Discovery Channel, and other broadcast related assets. Important initiatives were undertaken at NetStar to grow the business. Agreements were signed for significant properties including the Toronto Blue Jays, Major League Baseball Playoffs, World Series and All Star Game, Formula 1 and CART auto racing, international hockey, and a comprehensive golf package. NetStar continues to meet its business plan objectives. We are most pleased with this investment and look forward to its continued growth.

The past few years have seen the bankruptcy of several major Canadian retailers. The creditor protection filing of Eatons and the resulting uncertainty as to its future reflects the risks faced by retailers in the highly competitive Canadian marketplace. Quite apart from the obvious store

closings and inevitable staff layoffs, which attract immediate media attention, the ripple effect is much broader and threatens all levels of suppliers, landlords and lenders. These types of events exacerbate the already difficult economic environment. While the “war on the deficit” being waged by the federal government and some of the provinces and the attempted “harmonization” of the GST are commendable, the execution has a negative impact on the retail industry. The resulting increases in personal income taxes and GST result in reduced disposable income. Harmonization, with the specific provision of GST included pricing on a regional basis significantly increases the costs to a national operation without providing any real benefit to the consumer.

We are pleased to welcome R. James McCoubrey as a Director of the Company. Mr. McCoubrey is the retiring President and CEO of Telemedia Inc., a leading Canadian publisher and broadcaster, prior to which he was President of Young & Rubicam (Canada), a leading advertising agency.

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

On behalf of the Board of Directors,



Jeremy H. Reitman,
President

Montreal, April 18, 1997



JACK REITMAN
(1910-1996)

We acknowledge with deep regret the passing on October 26 of Jack Reitman, Chairman of the Board. A founder of the Company, together with his father Herman, and brothers Louis, Sam, and John, “Mr. Jack” was instrumental in building the Company to its leading position in the Canadian retail industry. His years of leadership and guidance were invaluable. His deep sense of community and compassion earned him the appreciation and respect of associates and friends alike.

Management Discussion and Analysis



OPERATING RESULTS

Sales for the fifty-two weeks ended February 1, 1997 increased 14.6% to \$401.4 million from \$349.9 million for the fifty-three week period ended February 3, 1996. The increase in sales in 1997 was attributable to the acquisition of a restructured Dalmys Canada Limited (“Dalmys”) consisting of 79 stores (28 Dalmys, 37 Antels, 14 Cactus) as of March 2, 1996 and to the expansion of the Penningtons Warehouse division. While comparable store sales increased 2% in Reitmans and 5% in Smart Set, total sales in both divisions were basically flat as a result of the closure of 22 Reitmans and 32 Smart Set stores during the year.

Despite the increase in sales, earnings before interest and depreciation/amortization declined from \$7.1 million to \$1.1 million, principally as a result of the Dalmys acquisition one month into our fiscal year, after it had been under the protection of the Companies’ Creditors Arrangement Act (CCAA) since November of 1995. As a result, the Dalmys stores were poorly stocked at the date of acquisition and there were several problems that were encountered in the integration of the three chains into our systems. The resulting losses from these operations overshadowed the improved retailing operations of both Penningtons and Smart Set. Operating profit in Reitmans decreased significantly as a result of weaker than expected sales and depressed margins, particularly in the first half of the year, as well as nonrecurring infrastructure expenses. Depreciation and amortization expense increased from \$7.8 million to \$9.2 million principally as a result of the Dalmys acquisition and the Penningtons expansion.

To address evolving market conditions, we have made substantial investments in technology and hardware, new

store designs, staff sales training programs, and a customer loyalty program (Air Miles™). The investment of \$10 million in the automation of our distribution centre and management information systems, made in the last two and a half years, is virtually complete and we expect to begin to realize the benefits of improved merchandising and distribution functions in the 1998 fiscal year. The sales training program is now in place at a nonrecurring cost of \$2.5 million. The new store designs in Reitmans and Smart Set, where tested in existing locations, have proven very successful in generating increased sales volumes on a comparable store basis.

Interest on long-term debt relates to our investment in NetStar Communications Inc. (“NetStar”), principally funded (to the extent of \$29 million) using banker’s acceptances over the course of this fiscal year. The annualized average rate of interest incurred on these instruments was 5.25%.

The increase in the recovery of income taxes is a result of the operating loss incurred in the current fiscal year being applied to recover income taxes paid in previous years. Following the acquisition of Dalmys, the Company has approximately \$34 million of income tax loss carry-forwards to apply against future operating income.

INVESTMENTS

Investments consist of marketable securities (principally high quality preferred shares rated P-1) and our investment in NetStar Communications Inc. At February 1, 1997, marketable securities amounted to \$47.2 million (market value \$50.3 million) as compared with \$80.7 million (market value \$83.5 million) last year. Realized capital gains

Management Discussion and Analysis



amounted to \$2.5 million as compared to \$2.9 million last year. Dividend income was \$3.1 million compared to \$7.1 million for the previous year. This decrease reflected the continuing drop in the prime rate in Canada (from 7% at the beginning of the year to 4.75% at the end of the year), and the fact that we reduced the portfolio by \$36 million principally to fund our acquisition of Dalmys, to build and renovate new and existing stores, and to complete the redevelopment of our distribution centre and technology platform. Primarily as a result of reorganizing the capital structure of NetStar (see below), we earned \$2.7 million interest income (\$0.6 million in 1996).

Our investment in NetStar amounted to \$38.6 million at February 1, 1997, as compared to \$36.9 million last year. In July 1996, the shareholders of NetStar reorganized the capital of the Company, without changing their overall equity interests, whereby a shareholder that participated in the reorganization converted approximately 95% of its equity interest in NetStar into subordinated debentures (“original debentures”) of NetStar, paying 12% interest annually. On receipt of each interest payment, the holder of an original debenture must contribute back to NetStar 56% of each interest payment in the form of contributed capital, and reinvest a further 14% of such interest payment in other interest paying subordinated debentures (“second debentures”) of NetStar. At February 1, 1997, the Company held, directly or indirectly, \$35.3 million of original debentures and \$0.3 million of second debentures. As of February 1, 1997, NetStar, which has an April 30 fiscal year-end, exceeded its 1996 business plan, is on track with its fiscal 1997 plan and has accelerated its long-term acquisition debt repayment schedule. We continue to be very pleased with the performance of this investment.

LIQUIDITY AND CAPITAL ASSETS

Shareholders’ equity at February 1, 1997 amounted to \$135 million or \$15.31 per share as compared to \$140.5 million or \$15.67 per share last year. The Company continues to be in a strong financial position. The Company’s sources of liquidity are its cash and investments in marketable securities of \$75.3 million at February 1, 1997 compared with \$91.7 million at February 3, 1996. Cash provided by operations amounted to \$8.1 million in fiscal 1997. The increase in inventories of \$4.6 million is principally attributable to the increased number of stores in operation at year-end (48). The increase in current liabilities is primarily the result of required governmental sales and payroll tax remittances payable shortly after year-end coupled with a marginal increase in merchandise trade payables. Investing and financing activities during the year included the completion of the renovation and automation of the distribution centre, the near completion of our new merchandising and management information systems (hardware and software), and the purchase of 147,000 Class A non-voting shares. Cash dividends of \$4.6 million or 52 cents a share were paid during the year. The Company has budgeted \$10 million relating to store development for fiscal 1998, and another \$1 million to complete the merchandising and management information systems now under development. These expenditures together with the payment of cash dividends will be funded by the Company’s existing financial resources and funds derived from its operations.

Management Discussion and Analysis



OUTLOOK

Management of the Company is watching closely the developments in the global economy, the North American retailing environment and the unsettled Canadian scene. Continued economic and political uncertainty has eroded the level of consumer confidence. The Company believes that it is well positioned to compete effectively in the Canadian ladies' wear specialty retail environment. We have tested new store designs and layouts in our Reitmans and Smart Set divisions, and will be implementing these designs in new and renovated stores where appropriate. The Company has revised its compensation policies, including a comprehensive bonus plan, to ensure that they are consistent with the stated corporate and financial goals of each division, as well as those of the overall Company. As a result of an extensive store training program implemented in fiscal 1997, specific standards were developed regarding customer service, store appearance and employee conduct. At store level these measures have been combined with sales, wage cost and shrinkage targets in a new comprehensive compensation plan.

Important initiatives were undertaken at NetStar to grow the business. Rights agreements were signed for three to five year terms for significant properties. Our partner ESPN has formally requested permission to convert its NetStar debenture into equity, subject to CRTC and shareholder approval, in which event ESPN's equity interest will rise to 33.33% of NetStar and the Company's ownership will decline to approximately 18%.

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

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 a majority of 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, Chartered Accountants, and their report is presented hereafter.



Jeremy H. REITMAN
President



Eric WILLIAMS, C.A.
Vice-President – Treasurer

Auditors' Report

To the Shareholders of Reitmans (Canada) Limited

We have audited the Consolidated Balance Sheets of Reitmans (Canada) Limited as at February 1, 1997 and February 3, 1996 and the Consolidated Statements of Earnings and Retained Earnings and Changes in Financial Position 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 audit.

We conducted our audit in accordance with 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 1, 1997 and February 3, 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



KPMG, Chartered Accountants

Montreal, Canada
April 4, 1997

Consolidated Balance Sheets

As at February 1, 1997 and February 3, 1996
(in thousands)

ASSETS	1997	1996
CURRENT ASSETS		
Cash and short-term deposits	\$ 28,149	\$ 11,029
Accounts receivable	2,462	2,124
Merchandise inventories	27,946	23,370
Prepaid expenses	2,284	5,722
Income taxes recoverable	2,226	2,912
Total Current Assets	63,067	45,157
INVESTMENTS (note 3)	85,747	117,612
CAPITAL ASSETS (note 4)	42,052	30,525
DEFERRED PENSION COSTS (note 5)	5,608	5,308
DEFERRED INCOME TAXES	2,911	-
	\$199,385	\$198,602
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued items	\$ 35,381	\$ 27,395
LONG-TERM DEBT (note 6)	29,000	29,000
DEFERRED INCOME TAXES	-	1,676
SHAREHOLDERS' EQUITY		
Share capital (note 7)	3,548	3,611
Retained earnings	131,456	136,920
Total Shareholders' Equity	135,004	140,531
	\$199,385	\$198,602

On behalf of the Board



JEREMY H. REITMAN, Director



STEPHEN F. REITMAN, Director

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

Consolidated Statements of Earnings and Retained Earnings

For the years ended February 1, 1997 and February 3, 1996 (in thousands except per share amounts)	1997	1996
Sales	\$401,440	\$349,886
Cost of goods sold and selling, general and administrative expenses exclusive of items shown hereunder	400,347	342,768
Earnings before items shown hereunder	1,093	7,118
Investment income	8,233	10,592
	9,326	17,710
Deduct:		
Depreciation and amortization	9,221	7,750
Interest on long-term debt	1,523	1,436
Other interest	17	256
	10,761	9,442
(Loss) earnings before income taxes	(1,435)	8,268
Income tax recovery (note 8)	2,487	535
Net earnings	1,052	8,803
Retained earnings at beginning of year	136,920	139,644
	137,972	148,447
Deduct:		
Premium on purchase of Class A shares (note 7)	1,930	6,801
Dividends:		
Class A non-voting shares	3,713	3,853
Common shares	873	873
	4,586	4,726
Retained earnings at end of year	\$131,456	\$136,920
Earnings per share	\$ 0.12	\$ 0.96

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

Consolidated Statements of Changes in Financial Position

For the years ended February 1, 1997 and February 3, 1996 (in thousands)	1997	1996
CASH PROVIDED BY (USED FOR)		
Operations:		
Net earnings	\$ 1,052	\$ 8,803
Items not involving cash from operations:		
Depreciation and amortization	9,221	7,750
Deferred income taxes	(745)	(1,083)
Deferred pension costs	277	(500)
Investment income including gain on sale of marketable securities of \$2,456 (1996 - \$2,932)	(8,233)	(10,592)
Changes in non-cash working capital items	6,525	(11,038)
Cash provided by (used for) operations	8,097	(6,660)
Investments:		
Net decrease in marketable securities	35,979	16,376
Investment income, excluding gain on sale of marketable securities	5,777	7,660
Net additions to capital assets	41,756	24,036
Acquisition of Dalmys, net of cash of \$3,598	(17,039)	(15,031)
Investment in NetStar	(7,457)	-
Investment in NetStar	(1,658)	(36,908)
Cash provided by (used for) investments	15,602	(27,903)
Financing:		
Purchase of Class A non-voting shares for cancellation	(1,993)	(6,988)
Proceeds from long-term debt	-	29,000
Cash (used for) provided by financing	(1,993)	22,012
Dividends paid	(4,586)	(4,726)
INCREASE (DECREASE) IN CASH DURING THE YEAR	17,120	(17,277)
CASH AT BEGINNING OF YEAR	11,029	28,306
CASH AT END OF YEAR	\$28,149	\$11,029

Cash includes cash and short-term deposits, but does not include the marketable securities portfolio of \$47,181,000 (1996 - \$80,704,000).

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

Notes to Consolidated Financial Statements

As at February 1, 1997
(tabular amounts in thousands)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects to International Accounting Standards. The Company operates using a retail calendar which resulted in a 52 week year for fiscal 1997 (53 weeks for fiscal 1996).
- b) Merchandise inventories are valued at the lower of cost, determined principally on an average basis using the retail inventory method, and net realizable value.
- c) Marketable securities are carried at cost. Income is recorded on the accrual basis. The Company's investment in NetStar Communications Inc. is accounted for at cost as it does not exercise significant influence over the investee company.
- d) Capital assets are recorded at cost and are depreciated at the following annual rates applied to their cost, commencing with the year of acquisition:

Fixtures and equipment	- 10% to 33 1/3%
Leasehold improvements	- 10%
Systems development	- 20%
Leasehold interests	- 15%

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

- e) The Company carries on all its operations in leased premises under leases having varying terms, which are accounted for as operating leases.
- f) Expenditures associated with the opening of new stores, other than fixtures, equipment and leasehold improvements, are expensed as incurred.
- g) Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rate. Revenues and expenses are translated into Canadian dollars at the average rate of exchange for the year. The resulting gains or losses on translation are included in the determination of net earnings.

2. ACQUISITION

As of March 2, 1996, the Company acquired all of the outstanding shares of Dalmys (Canada) Limited for a total cash consideration of \$11,055,000. The acquisition has been accounted for by the purchase method with the results of operations included in the consolidated financial statements from the date of acquisition. The assets acquired included seventy-nine retail locations, inventories, fixtures and equipment and all trade names used by Dalmys, Antels and Cactus.

Net assets acquired:

Cash	\$ 3,598
Other current assets	1,957
Inventory, at assigned values	1,378
Fixed assets, at assigned values	3,709
Deferred pension cost	577
Deferred income taxes	3,842
Accounts payable	(4,006)
	\$ 11,055

3. INVESTMENTS

	1997	1996
Marketable securities (Market value \$50,321; 1996 - \$83,453)	\$47,181	\$ 80,704
Investment in NetStar	38,566	36,908
	\$85,747	\$117,612

Notes to Consolidated Financial Statements

The Company's marketable securities portfolio consists principally of preferred shares of Canadian public companies. Income from marketable securities and short-term deposits is included in investment income.

In July 1996, the capital structure of NetStar was reorganized, whereby each of the NetStar shareholders converted approximately 95% of their shares into subordinated debentures ("original debentures") paying interest at 12% annually. As a result, the Company received original debentures aggregating approximately \$35,200,000. In order to facilitate this capital reorganization, the Company is required for the duration of the term that the original debentures are outstanding, to reinvest in NetStar, in the form of contributed capital and other debentures, 70% of the interest income it receives from the original debentures. Interest income of \$2,179,000 earned on all the debentures since the reorganization is included in investment income.

4. CAPITAL ASSETS

	1997		1996	
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Fixtures and equipment	\$37,584	\$17,418	\$20,166	\$13,174
Leasehold improvements	34,048	16,057	17,991	13,808
Systems development	2,887	406	2,481	1,752
Leasehold interests	1,980	566	1,414	1,791
	\$76,499	\$34,447	\$42,052	\$30,525

5. PENSION PLANS

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

The cost of the pension plans is determined periodically by independent actuaries. Pension expense/credit is included annually in operations and comprises the following:

- the cost of pension benefits provided in exchange for employees' services rendered during the year, as calculated using the projected benefit method prorated on service;
- amortization over the employees' expected average remaining service life, of (i) adjustments arising from changes in the plans or in assumptions, (ii) experience gains or losses and (iii) the surplus of the plans.

The cumulative difference between pension expense and contributions made to the pension fund is reflected in deferred pension costs.

At February 1, 1997, the estimated market value of the pension plans' assets was \$36,127,000 and the estimated cost of accrued benefits was \$20,448,000.

The Pension Plan for Employees of Dalmys (Canada) Limited was terminated effective March 2, 1996 subject to approval from regulatory authorities.

6. LONG-TERM DEBT

During the year, the Company completed a long-term financing agreement whereby up to \$29,000,000 of bank borrowings was made available under a five-year committed facility, expiring in July, 2001, at floating rates of interest. At February 1, 1997, the cost of financing was approximately 3.4%. The debt is secured by a first-ranking charge on the Company's marketable securities.

7. SHARE CAPITAL

	1997	1996
a) Class A non-voting shares		
- authorized unlimited		
- issued 7,140,082 (1996 - 7,287,082)	\$3,066	\$3,129
Common shares		
- authorized unlimited		
- issued 1,680,000	482	482
	\$3,548	\$3,611

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

Notes to Consolidated Financial Statements

- c) During the year, the Company purchased for cancellation 147,000 Class A non-voting shares at prevailing market prices pursuant to its Share Purchase Program for a total cash consideration of \$1,993,000. The excess of \$1,930,000 over the stated value of the shares was charged to retained earnings.
- d) The Company has reserved 763,448 Class A non-voting shares for issuance under its Share Option Plan. During the year, 288,000 options expired, 69,000 options were cancelled and 606,000 options were granted. At February 1, 1997, options have been granted for 684,000 shares at prices ranging from \$15.00 to \$18.75 per share and are exercisable at various dates until 2002. The exercise of outstanding options would not have a dilutive effect on earnings per share.

8. INCOME TAXES

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

	1997	1996
Recovery of (provision for) income taxes based on combined statutory rate of 42.86% (1996 - 42.83%)	\$ 615	\$(3,542)
Changes in provision resulting from:		
Tax exempt investment income	1,523	3,322
Utilization of prior years' losses	838	955
Permanent and other differences	(489)	(200)
Income tax recovery	\$2,487	\$ 535

- b) The Company has non-capital losses of \$34,144,000 and capital losses of \$7,200,000 available for application against future income. The benefits of these items will be recognized in the financial statements when realized. The non-capital losses expire as follows:

Years ending	
2000	\$ 353
2001	2,379
2002	31,412
	\$34,144

9. COMMITMENTS

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

Years ending	
1998	\$ 30,378
1999	26,567
2000	22,318
2001	16,913
2002	10,843
Subsequent years	18,039
	\$125,058

10. FINANCIAL INSTRUMENTS

In 1997, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to financial instruments. The adoption of the new standards does not affect the reported earnings of the Company.

- a) Foreign Currency Risk

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

As at February 1, 1997, the Company has call options of U.S. \$9,000,000 (\$12,173,000) at the rate of 1.3525 and put options of U.S. \$18,000,000 (\$23,593,000) at rates ranging from 1.2989 to 1.3232.

- b) Fair Value Disclosure

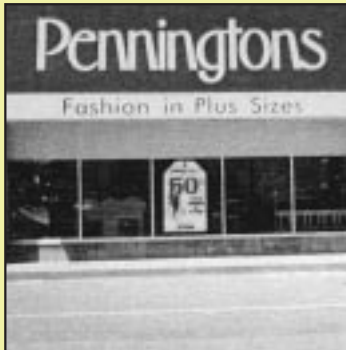
The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value at February 1, 1997 due to the short-term maturity of these instruments. The fair values of the marketable securities are based on published market prices as at February 1, 1997.

The fair value of the Company's investment in NetStar, for which there is no published market price, could not be reasonably estimated without a formal valuation.

The carrying value of long-term debt approximates fair value as the debt bears interest at floating rates.

Reitman's

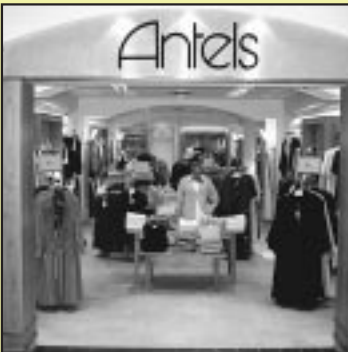
smart
s e t



Penningtons
WEARHOUSE

DALMYS

CACTUS



Antels

	Reitmans	Smart Set	Penningtons	Antels	Dalmys	Cactus	Total
Newfoundland	15	5	1	-	-	-	21
Prince Edward Island	3	2	-	1	1	-	7
Nova Scotia	18	8	3	1	-	-	30
New Brunswick	18	7	3	1	1	-	30
Québec	93	18	12	6	2	4	135
Ontario	114	55	18	18	13	5	223
Manitoba	10	5	2	-	-	-	17
Saskatchewan	14	7	2	1	1	-	25
Alberta	35	13	5	5	4	4	66
British Columbia	41	25	7	7	6	3	89
Northwest Territories	1	1	-	-	-	-	2
Yukon	1	-	-	-	-	-	1
	363	146	53	40	28	16	646

Store

Reitmans

Serving Canadian women for over seventy years, Reitmans is Canada's leading ladies' apparel retailer. With stores averaging 3,500 square feet – Reitmans caters to the broadest sector of Canadian shoppers - budget and fashion conscious women and their children.

Smart Set

Now twenty-five years old, Smart Set caters to the 16-30 year old junior customer, emphasizing basic fashion at the best quality/prime value. The stores average 1,800 square feet and are located in both urban and suburban malls.

Penningtons Wearhouse

A destination store of approximately 8,000 square feet in a strip mall or plaza, Penningtons Wearhouse offers a broad assortment of coordinated career and casual fashion, together with a core assortment of basic traditional items for the plus size, value-conscious woman.

Antels

Averaging 2,200 square feet in size in superior mall locations, Antels provides a focused assortment of current career and casual classic looks that deliver a fashion lifestyle message to the quality and brand sensitive segment of the moderate/better plus size market.

Dalmys

Offering a full range of apparel for the 25-40 year old woman who is fashion conscious in the moderate price market. Averaging 3,000 square feet, the stores are of a contemporary design, complementing the customer's attitudes.

Cactus

An 1,800 square foot store in upscale locations, Cactus provides both brand and private label fashions to contemporary and sophisticated women aged 25-50.

Reitman (CANADA) LIMITED

DIRECTORS

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

OFFICERS

Jeremy H. Reitman
President

Stephen F. Reitman
Executive Vice-President

Nadia Cerantola
Vice-President - Reitmans

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

Bruno Eller
Vice-President - Store Planning

Henry Fiederer
Vice-President - Reitmans

Joanne Nemeroff
Vice-President -
Penningtons / Antels / Cactus

Jonathan Plens
Vice-President -
Penningtons / Antels / Cactus

Cyril Reitman
Vice-President - Reitmans

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

Philip Sacks
Vice-President - Reitmans

Allan Salomon
Vice-President -
Real Estate and Secretary

Kimberly Schumpert
Vice-President - Reitmans

Isabelle Taschereau
Vice-President - Smart Set / Dalmys

Suzana Vovko
Vice-President - Smart Set / Dalmys

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

Louis Waxman
Vice-President - Reitmans

Jay Weiss
Vice-President - Loss Prevention

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

Robert S. Vineberg
Assistant Secretary

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Halifax, Montreal, Toronto,
Calgary, Vancouver

STOCK SYMBOLS

RET, RET.A

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NETSTAR™

TSN - The Sports Network

An English-language, all-sports specialty television service. TSN is the most successful, most watched specialty channel in the history of Canadian television. TSN is available in 90% of all English cable television homes and viewed by more than 60% of all males (18+) in this market.

RDS - Réseau des sports

The French-language counterpart to TSN is the world's only 24-hour French language all-sports network. RDS presents the best sporting events from Canada and around the world, and focuses on Quebec athletes, teams and events, wherever they compete. Available in all of Quebec's cabled homes, and in selected markets outside Quebec, RDS reaches over 2.1 million subscribers.

NetStar Sales

An advertising sales representation agency whose principal clients are TSN, RDS and Discovery. The team of NetStar Sales serving English Canada and Ventec NetStar servicing French Canada is the largest specialty television sales organization in Canada. NetStar Sales accounts for over half of all specialty television advertising revenues, while representing just 3 of the 15 Canadian specialty channels.

Viewer's Choice Canada

Viewer's Choice Canada holds a licence to provide English language pay-per-view programming to Eastern Canada, as well as an equity position in the French language pay-per-view service Canal Première, together with the DTH licenses in Canada for English and French pay-per-view.

The Discovery Channel

A Canadian non-fiction specialty television service, Discovery explores the riches of nature, science, technology, and human adventure. International programming is obtained from a strategic alliance with the world's leading documentary producer U.S. counterpart Discovery Communications Inc. Discovery Channel also has commitments and support from more than 50 major scientific, environmental and academic institutions.

Dome Productions

A television-event production facility at the SkyDome, a video and audio post-production facility, computer animation studio, and provider of mobile, satellite and other transmission services. Dome Productions' state-of-the-art services include live event production, mobile production, reselling of satellite and fibre facilities and Dome Audio Video & Effects (DAVE), North America's largest integrated video and audio post-production facility.

St. Clair Group

Canada's leading-event marketing company with expertise in event execution, television broadcast rights management, television production, specialty publications and on-site signage.

NTN Canada

The exclusive Canadian licensee for NTN Communications Inc. of California, which is a world leader in interactive television including interactive games, sports and special events.

