Reitmans (Canada) Limited

ANNUAL REPORT 2008

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.

TO OUR SHAREHOLDERS

2007 was a year of continued growth for Reitmans (Canada) Limited. It was a year in which we achieved record sales of $1,057,720,000 and record net earnings of $114,902,000 or $1.60 per share. In fiscal 2008, we opened 65 new stores, remodelled 42 stores and closed 27 stores. We operate 958 stores under seven banners, throughout Canada.

We are growing all areas of our business. In fiscal 2009, we expect to open 55 new stores and remodel 31 stores. We are continuing the upgrades to our technology platform and distribution centre. We continue to invest in our people with skills development and management training programs. Our cash resources and infrastructure allow us to seek out new business opportunities through acquisition and development.

We note that Cyril Reitman has retired from the Board of Directors of the Company after serving as a director for 39 years and thank him for his dedication and contribution to the Company. We welcome John J. Swidler, FCA to our Board. John is a senior partner of RSM Richter, an accounting and consulting firm, whose professional practice includes providing business advisory services to publicly-owned and privately-held companies.

We are proud of our achievements over the past 82 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,

Jeremy H. Reitman, President

Montreal, April 2, 2008

THE YEAR AT A GLANCE

$1,057,720,000 SALES **+ 1.5%**

$199,176,000 EBITDA[1] **+ 6.6%**

$159,216,000 PRE-TAX EARNINGS **+ 3.8%**

$107,753,000 ADJUSTED NET EARNINGS[1] **+ 5.1%**

$1.50 ADJUSTED EPS[1] **+ 4.9%**

$244,354,000 CASH AND INVESTMENTS **+ 1.3%**

958 STORES **+ 4.1%**

[1] These highlights include reference to certain Non-GAAP financial measures such as EBITDA, which is defined as earnings before interest, taxes, depreciation and amortization and investment income, adjusted net earnings and adjusted earnings per share ("EPS"), which are defined as net earnings and fully diluted earnings per share excluding the impact of the retroactive Québec income tax reassessments of $7,149,000 ($0.10 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)

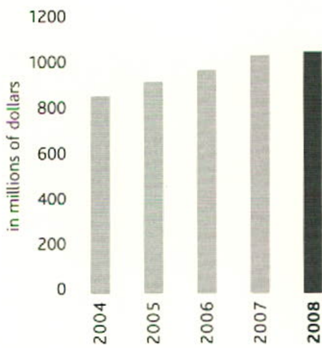
	2008	2007	2006	2005	2004
SALES					
1st Quarter	**$ 230,695**	$ 222,969	$ 213,732	$ 193,420	$ 177,750
2nd Quarter	**291,942**	278,828	261,785	246,002	233,225
3rd Quarter	**265,465**	258,602	238,613	236,281	215,683
4th Quarter	**269,618**	282,110	255,128	236,770	224,976
Total	**$ 1,057,720**	$ 1,042,509	$ 969,258	$ 912,473	$ 851,634
OPERATING EARNINGS					
1st Quarter	**$ 23,052**	$ 27,564	$ 25,014	$ 14,547	$ 4,709
2nd Quarter	**47,801**	51,048	42,066	33,048	24,217
3rd Quarter	**39,698**	33,781	27,200	24,118	17,252
4th Quarter	**38,527**	29,473	22,766	16,801	4,720
Total	**$ 149,078**	$ 141,866	$ 117,046	$ 88,514	$ 50,898
ADJUSTED NET EARNINGS[2]					
1st Quarter	**$ 18,838[2]**	$ 21,674	$ 19,667	$ 13,038	$ 4,105
2nd Quarter	**32,540[2]**	33,593[2]	29,224	23,868	17,296
3rd Quarter	**27,869[2]**	23,823[2]	19,238	17,638	12,654
4th Quarter	**28,506[2]**	23,433[2]	16,760	12,363	5,980
Total	**$ 107,753[2]**	$ 102,523[2]	$ 84,889	$ 66,907	$ 40,035
ADJUSTED BASIC EARNINGS PER SHARE[1,2]					
1st Quarter	**$ 0.27[2]**	$ 0.31	$ 0.28	$ 0.19	$ 0.06
2nd Quarter	**0.46[2]**	0.48[2]	0.42	0.35	0.25
3rd Quarter	**0.40[2]**	0.34[2]	0.28	0.25	0.19
4th Quarter	**0.40[2]**	0.33[2]	0.24	0.18	0.09
Total	**$ 1.53[2]**	$ 1.46[2]	$ 1.22	$ 0.97	$ 0.59
ADJUSTED NET EARNINGS[2]	**$ 107,753[2]**	$ 102,523[2]	$ 84,889	$ 66,907	$ 40,035
ADJUSTED BASIC EARNINGS PER SHARE[1,2]	**$ 1.53[2]**	$ 1.46[2]	$ 1.22	$ 0.97	$ 0.59
SHAREHOLDERS' EQUITY	**$ 495,119**	$ 436,119	$ 390,257	$ 331,524	$ 276,402
PER SHARE[1]	**$ 6.98**	$ 6.12	$ 5.56	$ 4.77	$ 4.02
NUMBER OF STORES	**958**	920	887	867	845
DIVIDENDS PAID	**$ 46,930**	$ 40,893	$ 29,345	$ 14,171	$ 7,573
STOCK PRICE AT YEAR-END[1]					
CLASS A NON-VOTING	**$ 17.12**	$ 23.05	$ 17.90	$ 13.75	$ 6.18
COMMON	**$ 16.50**	$ 23.30	$ 18.70	$ 14.00	$ 6.25

[1] Adjusted to account for 100% stock dividends paid in April 2004 and April 2005

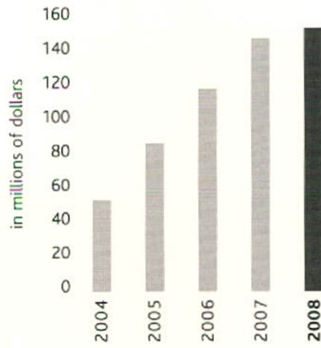
[2] Adjusted net earnings and adjusted basic earnings per share all exclude the impact of the retroactive Québec income tax reassessments.

CONTINUED GROWTH

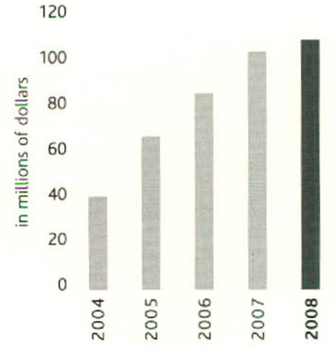
SALES



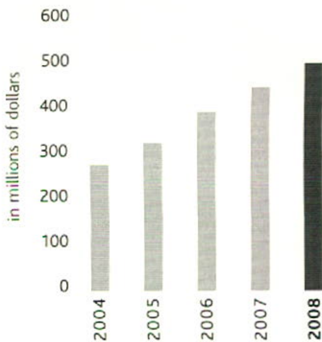
OPERATING EARNINGS



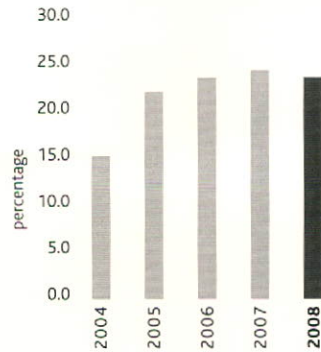
ADJUSTED NET EARNINGS[1]



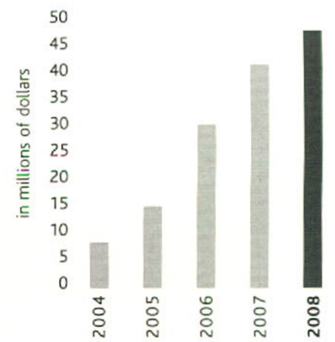
SHAREHOLDERS' EQUITY



RETURN ON EQUITY[1]



DIVIDENDS

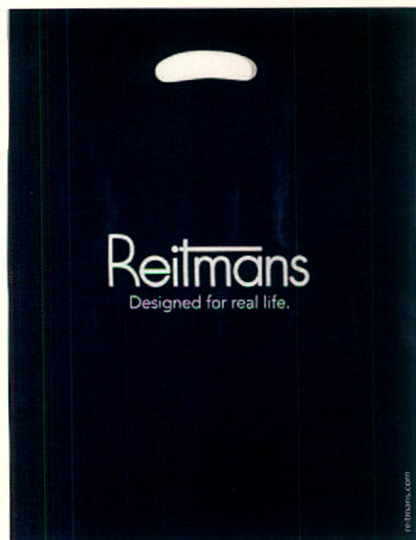


[1] Adjusted net earnings and return on equity exclude the impact of the retroactive Québec income tax reassessments in 2007 and 2008.

958 STORES ACROSS CANADA

	REITMANS	SMART SET	RW & CO.	THYME	CASSIS	PENNINGTONS	ADDITION ELLE	TOTAL
NEWFOUNDLAND	14	3	-	-	-	3	2	**22**
PRINCE EDWARD ISLAND	3	3	-	-	-	2	-	**8**
NOVA SCOTIA	20	6	1	2	-	10	2	**41**
NEW BRUNSWICK	16	6	2	1	1	4	5	**35**
QUÉBEC	87	37	13	19	5	27	34	**222**
ONTARIO	115	65	25	27	8	59	46	**345**
MANITOBA	14	6	-	2	-	6	4	**32**
SASKATCHEWAN	9	3	-	2	-	8	3	**25**
ALBERTA	48	18	3	11	-	22	14	**116**
BRITISH COLUMBIA	41	15	9	9	-	21	15	**110**
NORTHWEST TERRITORIES	1	-	-	-	-	-	-	**1**
YUKON	1	-	-	-	-	-	-	**1**
	369	**162**	**53**	**73**	**14**	**162**	**125**	**958**

Petites Encore Contrast Jeans



reitmans.com

Operating **369 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 to 45 year old female customers.

Smart Set – your fashion workshop

smartset.ca

The Smart Set brand, with **162 STORES** averaging 3,400 sq. ft., is Canada's major fashion destination for young women in their mid-twenties and is newly positioned as a "do-it-yourself fashion toolbox". Smart Set offers current styles designed to mix and match for work, after hours and week-end wear, all of which are designed and manufactured specifically and exclusively for the chain and carry the Smart Set label.

Operating **53 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.

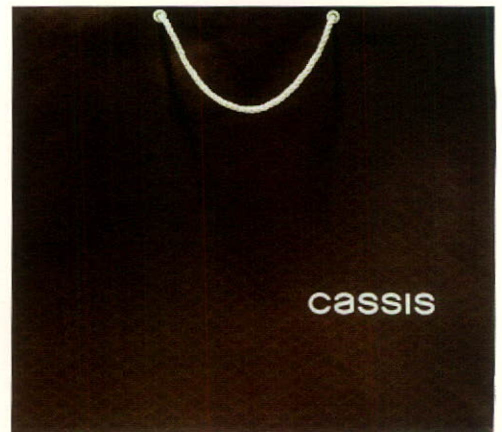
rw-co.com

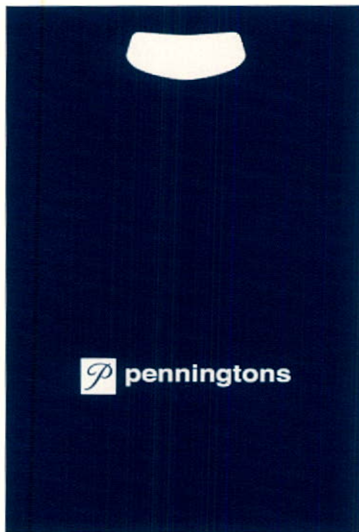
thymematernity.com

Thyme Maternity, Canada's largest specialty retailer of maternity clothing, operates **73 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.

cassis.ca

The newest of the Reitmans (Canada) Limited retail banners, Cassis, has **14 STORES** averaging 3,700 sq. ft., which are located in major regional malls. The Cassis collection is engineered to accent positives. The urban casual and career styles are designed for active, youthful spirited women aged 40 to 54. Key focus points for Cassis are fit, fabric, style and quality.



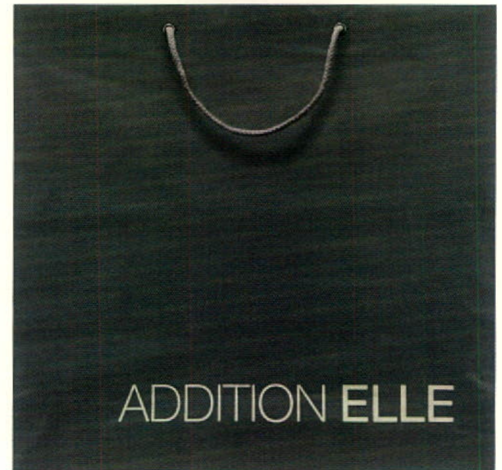


With **162 STORES** from coast to coast, Penningtons is a destination store averaging 5,900 sq. ft. located in strip plazas and power centre locations providing a broad assortment of career, casual, intimate apparel and accessories for the plus-size woman of all ages at competitive prices. The Penningtons brand stands for classic fashion, friendly warm service, quality and value. We also offer the junior plus-size product assortment known as MXM that caters to the trendy, young value-conscious plus-size customer in all Penningtons stores.

penningtons.com

mxm.ca

Operating **125 STORES**, Addition Elle is Canada's fashion leader in ladies plus-size 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 115 Addition Elle stores.



addition-elle.com

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

For the fiscal year ended February 2, 2008

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 fiscal year ended February 2, 2008 and the notes thereto which are available at www.sedar.com. This MD&A is dated April 2, 2008.

All financial information contained in this MD&A and Reitmans' consolidated financial statements have 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 April 2, 2008.

Additional information about Reitmans, including the Company's 2008 Annual Information Form, is available on the Company's website at www.reitmans.ca, or on the SEDAR website at 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 references to certain Non-GAAP financial measures such as operating earnings, which is defined as earnings before interest, taxes and investment income and adjusted net earnings and adjusted earnings per share, which are defined on page 1. 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, these should not be considered in isolation.

CORPORATE OVERVIEW

Reitmans is a Canadian ladies wear specialty apparel retailer. The Company has seven banners: Reitmans, Smart Set, RW & CO., Thyme Maternity, Penningtons, Addition Elle and Cassis. Each banner is focused on a particular niche in the retail marketplace. Each banner has a distinct marketing program as well as a specific website thereby allowing the Company to continue to enhance its brands and strengthen customer loyalty. The Company has several competitors in each niche, including local, regional and national chains of specialty stores and department stores as well as foreign based competitors. The Company's stores are located in malls, strip plazas, retail power centres and major shopping streets 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.

The Company embarked on an e-commerce initiative in its plus-size banners and launched an e-commerce website for these banners in November 2007. The Company is pleased with the acceptance shown by customers using the e-commerce website and anticipates that this initiative will represent an opportunity for the Company to enhance sales while offering customers the convenience of online purchasing.

SELECTED FINANCIAL INFORMATION

(in thousands, except per share amounts)

	For the fiscal years ended		
	February 2, 2008	February 3, 2007*	January 28, 2006
Sales	**$ 1,057,720**	$ 1,042,509	$ 969,258
Earnings before income taxes	**159,216**	153,366	125,011
Net earnings	**114,902**[1]	82,469[2]	84,889
Earnings per share ("EPS")			
Basic	**1.61**[1]	1.17[2]	1.22
Diluted	**1.60**[1]	1.15[2]	1.19
Total assets	**620,960**	600,411	523,233
Long-term debt[3]	**13,951**	15,097	16,173
Dividends per share	**0.66**	0.58	0.42

* 53 week fiscal year

[1] Excluding the impact of the retroactive Québec income tax reassessments, net earnings for the year would have been $107,753, Basic EPS $1.51 and Diluted EPS $1.50.

[2] Excluding the impact of the retroactive Québec income tax reassessments, net earnings for the year would have been $102,523, Basic EPS $1.46 and Diluted EPS $1.43.

[3] 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 under the caption "Highlights".

CONSOLIDATED OPERATING RESULTS FOR THE 52 WEEK FISCAL YEAR ENDED FEBRUARY 2, 2008 ("FISCAL 2008") AND COMPARISON TO CONSOLIDATED OPERATING RESULTS FOR THE 53 WEEK FISCAL YEAR ENDED FEBRUARY 3, 2007 ("FISCAL 2007")

The Company's fiscal year ends on the Saturday closest to January 31.

Sales in fiscal 2008 increased 1.5% to $1,057,720,000 as compared with $1,042,509,000 for fiscal 2007. The increase in sales is attributable to the net addition of 38 stores year over year, despite the inclusion of an extra week in the prior year. Same store sales for the comparable 52 weeks decreased 2.0%. Factors contributing to the challenging sales environment in fiscal 2008 included prolonged unseasonable weather conditions in virtually all significant markets, cross border shopping, which gained significant momentum due to the continuing strength of the Canadian dollar and significant cost increases in certain commodities, most notably oil and gas. These factors led to a decline in consumer confidence and reduced traffic in malls, power centres and street store locations as consumers cut back on spending for apparel.

Sales in the Cassis stores in the first six months were below expectations and as a result, the Company re-positioned its merchandise offerings to better address the targeted market. All Cassis stores were temporarily closed for a two week period in August 2007 to allow for modifications in the store design and to re-merchandise the stores with new and better focused goods. All stores reopened in early September 2007 and results showed improvement with increased customer traffic. As a result of these initiatives, management expects the performance of this banner to continue to improve significantly and is encouraged by the recent results.

Operating earnings for fiscal 2008 increased 5.1% to $149,078,000 as compared with $141,866,000 for fiscal 2007. The Company maintained its gross margin during the year despite a very competitive and highly promotional environment. Gross margin improved by 27 basis points when compared with the prior year (on a comparable 52 week basis). The strengthening of the Canadian dollar continued to favourably impact the gross margin during the year. Spot prices for $1.00 US for the year ranged between a high of $1.19 and a low of $0.91 Canadian ($1.18 and $1.09 respectively for fiscal 2007). Inventory did build up as consumer demand softened, which resulted in all banners taking more markdowns to sell the merchandise. Pressure due to cross border shopping, excess merchandise caused by delayed consumer demand attributable to weather issues and a more competitive retail environment impacted operating earnings. The Company has an employee incentive bonus plan that is based on operating performance targets and the related expense is recorded in relation to the attainment of such targets. Bonus expense in fiscal 2008 was $20,750,000 less than the bonus expense in fiscal 2007 due to a shortfall in attaining operating performance targets set for fiscal 2008.

Depreciation and amortization expense for fiscal 2008 was $50,098,000 compared to $44,946,000 for the prior year. This increase reflects the increased new store construction and store renovation activities of the Company. As well, it includes $1,793,000 of write-offs as a result of closed and renovated stores, compared to $4,216,000 in the prior year.

Investment income for fiscal 2008 decreased 11.4% to $11,128,000 as compared to $12,556,000 in the prior year. Dividend income for fiscal 2008 was $2,398,000 as compared to $3,258,000 for fiscal 2007, while net capital gains for fiscal 2008 were $474,000 as compared to $2,289,000 for the prior year. Interest income increased for fiscal 2008 to $8,256,000 as compared to $7,009,000 for fiscal 2007 due to interest being earned on larger cash balances.

Interest expense on long-term debt decreased to $990,000 in fiscal 2008 from $1,056,000 in fiscal 2007. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Net earnings for fiscal 2008 increased 39.3% to $114,902,000 ($1.60 diluted earnings per share) as compared with $82,469,000 ($1.15 diluted earnings per share) for fiscal 2007. Excluding the impact of the retroactive Québec income tax reassessments of $20,054,000 in fiscal 2007 and the adjustment due to the settlement in fiscal 2008 discussed below, net earnings and diluted earnings per share for fiscal 2008 would have amounted to $107,753,000 or $1.50 per share as compared to $102,523,000 or $1.43 per share in fiscal 2007.

In June 2006, 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 reassessments received, $20,054,000 for retroactive taxes and interest were expensed in fiscal 2007 and an additional amount of $1,877,000 was expensed in fiscal 2008. In January 2008, the Company entered into an agreement with the Canada Revenue Agency, Alberta Finance, the Ontario Ministry of Revenue and Revenue Québec to settle all matters arising from the reassessments. The final agreement called for the Company to pay $12,905,000 to settle all related outstanding matters and as such a reduction in the Company's income tax expense in the amount of $7,149,000, net of the reversal of the current year's interest charges of $1,877,000, has been recognized. The Company paid the outstanding liability subsequent to year-end.

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 2008, these merchandise purchases exceeded $198,000,000 US. The Company uses a variety of 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. For fiscal 2008, these strategies helped the Company's gross margin as the Canadian dollar strengthened.

During fiscal 2008, the Company opened 65 stores comprised of 18 Reitmans, 9 Smart Set, 8 RW & CO., 8 Thyme Maternity, 4 Cassis, 7 Penningtons and 11 Addition Elle; 27 stores were closed. Accordingly, at February 2, 2008, there were 958 stores in operation, consisting of 369 Reitmans, 162 Smart Set, 53 RW & CO., 73 Thyme Maternity, 14 Cassis, 162 Penningtons and 125 Addition Elle as compared with a total of 920 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.

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

Sales for fiscal 2007 increased 7.6% to $1,042,509,000 as compared with $969,258,000 for fiscal 2006. This increase in sales was due primarily to the net addition of 33 stores over the course of the year and an extra week in fiscal 2007. Same store sales increased 2.9% for the comparable 52 weeks.

Operating earnings for fiscal 2007 increased 21.2% to $141,866,000 as compared with $117,046,000 for fiscal 2006. The factors contributing to such increase included improved gross margins (225 basis points better than the comparable period in the prior year) due in part to the Canadian dollar which remained relatively strong. Spot prices for $1.00 US for the year ranged between a high of $1.18 and a low of $1.09 Canadian ($1.27 and $1.14 respectively for fiscal 2006). 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 as a percentage of gross revenue as compared to the prior year.

Depreciation and amortization expense for fiscal 2007 was $44,946,000 compared to $38,564,000 for the prior year. This increase reflected 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.

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 reflected 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 in fiscal 2006. This decrease was a direct result of the retroactive change in the Québec Taxation Act, introduced in May and passed into law in June 2006. This change, which impacted 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 fiscal 2007 income tax expense, and a further amount of $909,000 in respect of interest thereon incurred in the remainder of fiscal 2007. 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 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.

The Company experienced considerable delays in obtaining certain required building permits in Ontario as a result of changes in the regulations governing all construction activity in that province. As a result, the opening of most of the Cassis stores was delayed by as much as ten 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.

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.

To measure the Company's performance from one period to the next, without the variations caused by the impact of the retroactive Québec income tax reassessments as discussed on page 14, the Company uses adjusted net earnings and adjusted earnings per share (basic and diluted), which are calculated as net earnings and earnings per share (basic and diluted) excluding this item. While the inclusion of this item is required by Canadian GAAP, the Company believes that the exclusion of this item allows for better comparability of its financial results and understanding of trends in business performance.

(in thousands, except per share amounts)

			Earnings per share ("EPS")			Adjusted Earnings per share ("EPS")	
	Sales	Net Earnings	Basic	Diluted	Adjusted Net Earnings	Basic	Diluted
February 2, 2008	$ 269,618	$ 37,047	$ 0.52	$ 0.52	$ 28,506	$ 0.40	$ 0.40
November 3, 2007	265,465	27,394	0.39	0.38	27,869	0.40	0.39
August 4, 2007	291,942	32,077	0.45	0.44	32,540	0.46	0.45
May 5, 2007	230,695	18,384	0.26	0.26	18,838	0.27	0.27
February 3, 2007*	282,110	22,957	0.32	0.32	23,433	0.33	0.33
October 28, 2006	258,602	23,390	0.33	0.33	23,823	0.34	0.33
July 29, 2006	278,828	14,448	0.21	0.20	33,593	0.48	0.47
April 29, 2006	222,969	21,674	0.31	0.30	21,674	0.31	0.30

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

The retail business is seasonal and due to the geographical diversity of the Company's stores and product offerings, the Company experiences 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 assumes that this trend will continue in the future.

FOURTH QUARTER RESULTS FOR THE 13 WEEKS ENDED FEBRUARY 2, 2008 AND COMPARISON TO THE 14 WEEKS ENDED FEBRUARY 3, 2007

Sales for the fourth quarter of fiscal 2008 decreased 4.4% to $269,618,000 as compared with $282,110,000 for the fourth quarter of fiscal 2007, while same store sales decreased 2.5% for the comparable 13 weeks. The decrease in sales is attributable to a general softening of consumer demand as consumers reacted to economic indicators that highlighted a continued slowdown in the US economy and higher domestic prices for certain commodities such as gas and oil. Customer traffic in mall, power centre and street store locations decreased in virtually all areas of the country.

Operating earnings for the fourth quarter of fiscal 2008 increased 30.7% to $38,527,000 as compared with $29,473,000 for the fourth quarter of fiscal 2007. Despite the strengthening of the Canadian dollar, gross margin for the fourth quarter did not change significantly year over year. Pressure due to cross border shopping, excess merchandise caused by delayed consumer demand attributable to weather issues and a more competitive retail environment combined to adversely affect sales and impacted margin dollars. The Company has an employee incentive bonus plan that is based on operating performance targets and the related expense is recorded in relation to the attainment of such targets. Bonus expense in the fourth quarter of fiscal 2008 was $13,050,000 less than the bonus expense in the fourth quarter of fiscal 2007 due to a shortfall in attaining operating performance targets set for fiscal 2008.

Depreciation and amortization expense for the fourth quarter of fiscal 2008 was $13,598,000 compared to $12,448,000 for the fourth quarter of fiscal 2007. This increase reflects the increased new store construction and store renovation activities of the Company. As well, it included $522,000 of write-offs as a result of closed and renovated stores, compared to $1,467,000 in the fourth quarter of fiscal 2007.

Investment income for the fourth quarter of fiscal 2008 decreased 54.3% to $1,451,000 as compared to $3,178,000 in the same period last year. Dividend income for the fourth quarter was $565,000 as compared to $841,000 for the fourth quarter of fiscal 2007, while net capital losses for the period were $1,517,000 as compared to net capital gains of $9,000 for the same period last year. Interest income for the fourth quarter of fiscal 2008 was $2,403,000 as compared to $2,328,000 for the fourth quarter of fiscal 2007, which increased due to larger cash balances.

Interest expense on long-term debt decreased to $241,000 in the fourth quarter of fiscal 2008 from $258,000 in the same period last year. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Net earnings and diluted EPS for the fourth quarter of fiscal 2008 increased 61.4% to $37,047,000 or $0.52 per share as compared with $22,957,000 or $0.32 per share last year. Excluding the impact of the retroactive Québec income tax reassessments and the adjustment due to the settlement in the fourth quarter of fiscal 2008, net earnings and diluted earnings per share for the fourth quarter of fiscal 2008 would have amounted to $28,506,000 or $0.40 per share as compared to $23,433,000 or $0.33 per share in the fourth quarter of fiscal 2007.

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 the fourth quarter, these merchandise purchases exceeded $37,000,000 US. The Company uses a variety of 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.

During the fourth quarter of fiscal 2008, the Company opened 14 stores comprised of 4 Reitmans, 4 Smart Set, 2 Thyme Maternity and 4 Addition Elle; 8 stores were closed.

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.

BALANCE SHEET

Cash and cash equivalents amounted to $214,301,000 or 13.7% higher than $188,491,000 last year as the Company continued to reduce its investment portfolio and manage the resulting cash on a short-term basis. The Company does not hold any asset backed commercial paper. Marketable securities held by the Company consist primarily of preferred shares of Canadian public companies. At February 2, 2008, marketable securities amounted to $30,053,000 reported at fair value (cost of $31,249,000) as compared with $52,675,000 last year reported at cost (with a market value of $56,081,000). Due to new accounting standards with respect to financial instruments that were adopted by the Company in the first quarter of fiscal 2008, marketable securities have been measured and reported at their fair value at February 2, 2008, while the comparative year is reported at cost. 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 its investments in income trusts. Marketable securities have been reclassified as current assets based on the liquidity of the investments. Accounts receivable are $3,546,000 or $107,000 higher than last year. The Company's accounts receivable are essentially the credit card sales from the last few days of the fiscal year. Merchandise inventories this year are $52,441,000 or $9,393,000 lower than last year, largely due to the favourable impact of the Canadian dollar, despite an increase in the number of stores. Prepaid expenses are $22,847,000 or approximately $1,442,000 higher than last year.

The Company invested $73,402,000 in additions to capital assets in fiscal 2008 and $63,152,000 in fiscal 2007. This included $59,648,000 in new store construction and existing store renovation costs (2007 - $50,275,000) and $13,754,000 in the Sauvé Street office and distribution centre asset additions (2007 - $12,877,000).

Accounts payable and accrued items are $69,189,000, or $16,128,000 less than last year. The Company's accounts payable consist largely of trade payables and liabilities for unredeemed gift certificates and credit vouchers. The Company has an employee performance incentive plan that is based on operating performance targets and the related expense is recorded in relation to the attainment of such targets. In fiscal 2008, the decrease in accounts payable and accrued items is primarily due to lower employee incentive bonus costs.

Income taxes payable are $16,546,000, or $23,743,000 less than last year. This reduction reflects increased instalments that reduced the current year's tax liability along with a $7,149,000 reduction in the tax liability related to the retroactively imposed Québec income tax reassessments.

In addition to its defined benefit plan, the Company has a Supplemental Executive Retirement Plan ("SERP") for certain senior executives. An actuarial calculation was made in fiscal 2007 to determine the estimated liability the Company incurred with respect to the provisions of the plan. An amount of $1,072,000 (2007 - $1,884,000) was expensed in fiscal 2008 with respect to this plan. The plan is unfunded.

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 fiscal 2008 and to date, and management does not expect that any payments will be made under the plan in the 2009 fiscal year.

FINANCIAL RISK MANAGEMENT

For the year ended February 2, 2008, the Company has early adopted the requirements of the CICA Handbook Section 3862, Financial Instruments – Disclosures, which apply to fiscal years beginning on or after October 1, 2007. This new Handbook section requires disclosures to enable users to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of an entity's exposure to risks arising from financial instruments, including how the entity manages those risks. Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk are provided below.

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, marketable securities, accounts receivable and foreign exchange option contracts. The Company limits its exposure to credit risk with respect to cash equivalents by investing available cash in short-term deposits with Canadian financial institutions and commercial paper with a rating not less than R1. Marketable securities consist primarily of preferred shares of highly rated Canadian public companies. The Company's receivables consist primarily of credit card receivables from the last few days of the fiscal year, which are settled within the first days of the new fiscal year.

As at February 2, 2008, the Company's exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$ 214,301,000
Marketable securities	30,053,000
Accounts receivable	3,546,000
	$ 247,900,000

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of accounts payable is within six months. As at February 2, 2008, the Company had a high degree of liquidity with $244,354,000 in cash and cash equivalents and marketable securities. In addition, the Company has unsecured credit facilities of $125,000,000, subject to annual renewals. The Company has financed its store expansion through internally-generated funds and its unsecured credit facilities are used to finance seasonal working capital requirements for US dollar merchandise purchases. The Company's long-term debt consists of a mortgage bearing interest at 6.40%, due November 2017, which is secured by the Company's distribution centre.

FOREIGN CURRENCY RISK

The Company purchases a significant amount of its merchandise with US dollars. The Company uses a combination of foreign exchange option contracts and spot purchases to manage 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. Credit risks exist in the event of failure by a counterparty to fulfill its obligations. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian financial institutions.

As at February 2, 2008 and February 3, 2007, there were no outstanding foreign exchange option contracts.

The Company has performed sensitivity analysis on its US dollar denominated financial instruments, which consist principally of cash and cash equivalents of $24,138,000 at February 2, 2008, to determine how a change in the US dollar exchange rate would impact net earnings. On February 2, 2008, a 10% rise or fall in the value of the Canadian dollar against the US dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $1,577,000 decrease or increase, respectively, in the Company's net earnings for fiscal 2008.

INTEREST RATE RISK

The Company's exposure to interest rate fluctuations is primarily related to any overdraft denominated in Canadian or US dollars drawn on its bank accounts and interest earned on its cash and cash equivalents. The Company has available unsecured borrowing and working capital credit facilities up to an amount of $125,000,000 that it utilizes for documentary and standby letters of credit, and the Company funds the drawings on these facilities as the payments are due.

The Company has performed sensitivity analysis on interest rate risk at February 2, 2008 to determine how a change in interest rates would impact equity and net earnings. During fiscal 2008, the Company earned $8,194,000 of interest income on its cash and cash equivalents. An increase or decrease of 100 basis points in the average interest rate earned during the year would have increased or decreased equity and net earnings by $1,208,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

EQUITY PRICE RISK

Equity price risk arises from available for sale equity securities. The Company monitors the mix of equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Chief Executive Officer.

The Company has performed sensitivity analysis on equity price risk at February 2, 2008 to determine how a change in the market price of the Company's marketable securities would impact equity and other comprehensive income. The Company's equity investments consist principally of preferred shares of Canadian public companies. The Company believes that changes in interest rates influence the market price of these securities. A 5% increase or decrease in the market price of the securities at February 2, 2008 would result in a $1,244,000 increase or decrease in equity and other comprehensive income. A significant portion of the Company's equity securities are subject to more significant downward market risk and, as a result, the impact on equity and other comprehensive income may ultimately be greater than that indicated above.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Shareholders' equity at February 2, 2008 amounted to $495,119,000 or $6.98 per share as compared to $436,119,000 or $6.12 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 $244,354,000 reported at fair value (cost of $245,550,000) as compared with $241,166,000 last year reported at cost (with a market value of $244,572,000). Short-term cash is conservatively invested in bank bearer deposit notes and bank term deposits with major Canadian chartered banks. The Company closely monitors its risk with respect to short-term cash investments and does not hold any asset backed commercial paper. The Company has borrowing and working capital credit facilities (unsecured) available of $125,000,000. As at February 2, 2008, $48,274,000 (February 3, 2007 - $68,830,000) 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, which 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 2, 2008, the maximum potential liability under these guarantees was $3,550,000. The standby letters of credit mature at various dates during fiscal 2009. The Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for these items.

The Company continued repayment on its long-term debt, relating to the mortgage on the distribution centre, paying down $1,076,000 in fiscal 2008. The Company paid dividends amounting to $46,930,000 (an annual dividend of $0.66 per share) in fiscal 2008 on all Class A non-voting and Common shares outstanding compared to $40,893,000 (an annual dividend of $0.58 per share) in fiscal 2007. In September 2007, the Company purchased for cancellation 560,800 Class A non-voting shares at prevailing market prices pursuant to a normal course issuer bid for a total cash consideration of $11,021,000.

In fiscal 2008, the Company invested $73,402,000 on new and renovated stores, the distribution centre and the Sauvé Street office. The Company has committed approximately $1,000,000 to complete certain equipment upgrades at the distribution centre and ongoing 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 financial institution for $10,000,000 of its merchandise handling equipment. The Company exercised its option to purchase the equipment in the second quarter of fiscal 2008 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.

		Payments Due by Period		
Contractual Obligations	**Total**	**Within 1 year**	**2 to 4 years**	**5 years and over**
Long-term debt	$ 15,097,000	$ 1,146,000	$ 3,904,000	$ 10,047,000
Store leases and equipment	443,315,000	98,998,000	212,548,000	131,769,000
Total contractual obligations	**$458,412,000**	**$100,144,000**	**$216,452,000**	**$141,816,000**

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 and amount. Credit risks exist in the event of failure by a counterparty to fulfill its obligations. The Company reduces this risk by dealing only with highly-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 2, 2008, the Company had no outstanding foreign exchange option contracts.

Included in the determination of the Company's net earnings for fiscal 2008 is a foreign exchange gain of $504,000 (2007 – loss of $915,000).

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 expense under these leases is, in the aggregate, approximately $182,000 (2007 - $188,000).

The Company incurred fees of $302,000 in fiscal 2008 (2007 - $304,000) with a law firm, of which two of the Company's outside directors are partners. The Company believes that such remuneration was based on normal terms for transactions between unrelated parties.

These transactions are recorded at the amount of consideration paid as established and agreed to by the related parties.

FINANCIAL INSTRUMENTS

The Company's significant financial instruments consist of cash and cash equivalents along with marketable securities. 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 bank bearer deposit notes and bank term deposits with major Canadian chartered banks. The Company closely monitors its risk with respect to short-term cash investments. Marketable securities consist primarily of preferred shares of Canadian public companies. The Company has gradually been reducing the size of its investment 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.

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.

PENSION

The Company maintains a contributory, defined benefit plan and sponsors a SERP. The costs 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 unredeemed gift certificates and/or credit vouchers.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2007, the CICA issued Section 3031, Inventories, which replaces Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards ("IFRS"). This section provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing and expands the disclosure requirements to increase transparency. This section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Company will adopt this section standard in the first quarter of its fiscal year ending January 31, 2009. The Company has not yet determined what the impact of adopting this new standard will have on its consolidated financial statements.

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets and amends Section 1000, Financial Statement Concepts. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and other intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This new standard is applicable to fiscal years beginning on or after October 1, 2008. The Company has evaluated the new section and determined that there is no impact of its adoption on its consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These new standards are applicable to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company will implement this standard in its first quarter of fiscal year ending January 28, 2012 and is currently evaluating the impact of their adoption on its consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

On February 4, 2007, the Company adopted the following new accounting standards issued by the CICA. As provided under the standards, the adoption of these recommendations was done without restatement of prior period consolidated financial statements. The transitional adjustments resulting from these standards are recognized in the opening balance of accumulated other comprehensive income.

CICA SECTION 1506 – ACCOUNTING CHANGES

This CICA Handbook section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. Furthermore, this section requires disclosure of when an entity has not applied a new source of generally accepted accounting principles that have been issued but are not yet effective.

CICA SECTION 1530 – COMPREHENSIVE INCOME

This CICA Handbook section introduced a statement of comprehensive income, which is included in the full set of interim and annual financial statements. Comprehensive income represents the change in equity during a period from transactions and other events and circumstances from non-owner sources and includes all changes in equity other than those resulting from investments by owners and distributions to owners.

CICA SECTION 3251 – EQUITY

This CICA Handbook section, which replaced Section 3250, Surplus, establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from (i) net earnings; (ii) other comprehensive income; (iii) other changes in retained earnings; (iv) changes in contributed surplus; (v) changes in share capital; and (vi) changes in reserves. New consolidated statements of changes in shareholders' equity are included in the consolidated financial statements.

CICA SECTION 3855 – FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

This CICA Handbook section establishes standards for recognition and measurement of 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 financial assets and financial liabilities, available-for-sale financial assets, loans and receivables or other financial liabilities. The standard requires that financial instruments within scope, including derivatives, be included on the Company's balance sheet and measured at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Gains and losses on held-for-trading financial assets and financial liabilities are recognized in net earnings in the period in which they arise. Unrealized gains and losses, including changes in foreign exchange rates on available-for-sale financial assets, are recognized in other comprehensive income until the financial assets are derecognized or impaired, at which time any unrealized gains or losses are recorded in net earnings. Transaction costs on available-for-sale financial assets are added to the financial asset on initial recognition and are recognized in net earnings when the asset is derecognized or impaired.

Fair values of available-for-sale financial assets are based on published market prices at month-end.

CICA SECTION 3861 – FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

This CICA Handbook section, which replaced Section 3860 of the same name, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The adoption of these new standards resulted in the following changes in the classification and measurement of the Company's financial instruments, previously recorded at cost:

Cash and cash equivalents are classified as "financial assets held-for-trading" and are measured at fair value. These financial assets are marked-to-market through net earnings and recorded as investment income at each period end. This change had no impact on the Company's consolidated financial statements.

Accounts receivable are classified as "loans and receivables" and are recorded at cost, which at initial measurement corresponds to fair value. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. This change had no impact on the Company's consolidated financial statements.

Marketable securities, which consist primarily of preferred shares of Canadian public companies, are classified as "available-for-sale securities". These financial assets are marked-to-market through other comprehensive income at each period end. The initial impact of measuring the available-for-sale securities at fair value was a net unrealized gain of $2,883,000, net of tax of $523,000, which was recorded in opening accumulated other comprehensive income.

Accounts payable and accrued items and long-term debt are classified as "other financial liabilities". They are initially measured at fair value and subsequent revaluations are recorded at amortized cost using the effective interest rate method. This change had no impact on the Company's consolidated financial statements.

The Company uses a variety of strategies, such as foreign exchange option contracts, with maturities not exceeding three months, to manage its exposure to fluctuations in the US dollar. These derivative financial instruments are not used for speculative purposes. These financial assets are marked-to-market through net earnings at each period end. This change had no impact on the Company's consolidated financial statements.

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at fair value if certain criteria are met. Under an election permitted by the new standard, management reviewed contracts entered into or modified subsequent to February 2, 2003 and determined that the Company did not have any significant embedded derivatives in these contracts that require separate accounting and disclosure.

Effective for the year ended February 2, 2008, the Company has early adopted the CICA Handbook Section 1535, Capital Disclosures, CICA Handbook Section 3862, Financial Instruments – Disclosures, and CICA Handbook Section 3863, Financial Instruments – Presentation, as described below.

CICA SECTION 1535 – CAPITAL DISCLOSURES

Section 1535, Capital Disclosures, establishes guidelines for disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

CICA SECTION 3862 – FINANCIAL INSTRUMENTS – DISCLOSURES, AND CICA SECTION 3863 – FINANCIAL INSTRUMENTS – PRESENTATION

Section 3862, Financial Instruments – Disclosures, describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, Financial Instruments – Presentation, establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, Financial Instruments – Disclosure and Presentation.

OUTSTANDING SHARE DATA

At April 2, 2008, 13,440,000 Common shares of the Company and 57,473,306 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, as at February 2, 2008, 975,000 Class A non-voting shares remain authorized for future issuance. The Company had 1,616,750 options outstanding at an average exercise price of $12.49 at February 2, 2008. 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 560,800 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 $11,021,000 in September 2007.

In November 2007, the Company received approval from the Toronto Stock Exchange to proceed with a normal course issuer bid. Under the bid, the Company may purchase up to 2,870,615 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 9, 2007. The average daily trading volume for the six month period preceding November 9, 2007 is 127,150 shares. In accordance with the Toronto Stock Exchange requirements, a maximum daily repurchase of 25% of this average may be made. The bid commenced on November 28, 2007 and may continue to November 27, 2008. The shares will be purchased on behalf of the Company by a registered broker through the facilities of the Toronto Stock Exchange. The price paid for the shares will be the market price at the time of acquisition, and the number of shares purchased and the timing of any such purchases will be determined by the Company's management. All shares purchased by the Company will be cancelled.

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 Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of February 2, 2008, 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 2, 2008, 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 fiscal 2008 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 958 leased retail outlets operating under seven 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.

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 materially 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. Additionally, 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.

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. In fiscal 2008, 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 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 population. About 25% of RW & CO.'s merchandise is young menswear. Menswear sales account for approximately 3% 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.

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 and that the e-commerce website will enhance sales as it continues to grow. 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 110 full-time employees dedicated to seeking out the highest quality, affordable and fashionable apparel for all our banners. On an annual basis, the Company directly imports approximately 75% of its merchandise, largely from China.

The Company has a strong balance sheet, with excellent liquidity and borrowing capacity. 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.

Jeremy H. Reitman
President

Eric Williams, CA
Vice-President - Treasurer

March 25, 2008

AUDITORS' REPORT

To the Shareholders of Reitmans (Canada) Limited

We have audited the Consolidated Balance Sheets of Reitmans (Canada) Limited as at February 2, 2008 and February 3, 2007 and the related Consolidated Statements of Earnings, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 2, 2008 and February 3, 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Montreal, Canada
March 25, 2008

CONSOLIDATED BALANCE SHEETS

As at February 2, 2008 and February 3, 2007
(in thousands)

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 15)	**$ 214,301**	$ 188,491
Marketable securities (note 5)	**30,053**	52,675
Accounts receivable	**3,546**	3,439
Merchandise inventories	**52,441**	61,834
Prepaid expenses	**22,847**	21,405
Future income taxes (note 9)	**1,772**	-
Total Current Assets	**324,960**	327,844
CAPITAL ASSETS (note 6)	**247,963**	226,734
GOODWILL	**42,426**	42,426
FUTURE INCOME TAXES (note 9)	**5,611**	3,407
	$ 620,960	$ 600,411
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued items	**$ 69,189**	$ 85,317
Income taxes payable	**16,546**	40,289
Future income taxes (note 9)	**761**	248
Current portion of long-term debt (note 8)	**1,146**	1,076
Total Current Liabilities	**87,642**	126,930
DEFERRED LEASE CREDITS	**21,466**	20,858
LONG-TERM DEBT (note 8)	**13,951**	15,097
FUTURE INCOME TAXES (note 9)	**261**	112
ACCRUED PENSION LIABILITY (note 7)	**2,521**	1,295
SHAREHOLDERS' EQUITY		
Share capital (note 10)	**23,777**	21,323
Contributed surplus	**4,001**	3,583
Retained earnings	**468,374**	411,213
Accumulated other comprehensive loss	**(1,033)**	-
Total Shareholders' Equity	**495,119**	436,119
Commitments (note 12)		
	$ 620,960	$ 600,411

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

On behalf of the Board,

JEREMY H. REITMAN
Director

STEPHEN J. KAUSER
Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended February 2, 2008 and February 3, 2007
(in thousands except per share amounts)

	2008	2007
Sales	**$1,057,720**	$ 1,042,509
Cost of goods sold and selling, general and administrative expenses	**858,544**	855,697
	199,176	186,812
Depreciation and amortization	**50,098**	44,946
Operating earnings before the undernoted	**149,078**	141,866
Investment income (note 15)	**11,128**	12,556
Interest on long-term debt	**990**	1,056
Earnings before income taxes	**159,216**	153,366
Income taxes (note 9):		
Current	**54,614**	52,693
Future	**(3,151)**	(1,850)
	51,463	50,843
Québec tax reassessments - current	**(7,149)**	20,054
	44,314	70,897
Net earnings	**$ 114,902**	$ 82,469
Earnings per share (note 11):		
Basic	**$ 1.61**	$ 1.17
Diluted	**1.60**	1.15

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended February 2, 2008 and February 3, 2007
(in thousands)

	2008	2007
Net earnings	**$ 114,902**	$ 82,469
Other comprehensive income (loss):		
Net unrealized loss on available-for-sale financial assets arising during the year (net of tax of $611)	**(3,517)**	-
Reclassification adjustment for net gains included in net earnings (net of tax of $75)	**(399)**	-
	(3,916)	-
Comprehensive income	**$ 110,986**	$ 82,469

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended February 2, 2008 and February 3, 2007
(in thousands)

	2008	2007
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net earnings	$ 114,902	$ 82,469
Adjustments for:		
Depreciation and amortization	50,098	44,946
Future income taxes	(3,151)	(1,850)
Stock-based compensation	932	1,314
Amortization of deferred lease credits	(4,625)	(4,042)
Deferred lease credits	5,233	5,875
Pension contribution	(307)	-
Pension expense	1,533	1,800
Gain on sale of marketable securities	(474)	(2,289)
Unrealized foreign exchange gain	(1,011)	(21)
Changes in non-cash working capital relating to operations	(29,952)	17,206
	133,178	145,408
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Purchases of marketable securities	-	(4,170)
Proceeds on sale of marketable securities	21,900	13,916
Additions to capital assets	(73,402)	(63,152)
	(51,502)	(53,406)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Dividends paid	(46,930)	(40,893)
Purchase of Class A non-voting shares for cancellation	(11,021)	(735)
Repayment of long-term debt	(1,076)	(1,010)
Proceeds from issue of share capital	2,150	3,707
	(56,877)	(38,931)
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	1,011	21
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,810	53,092
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	188,491	135,399
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 214,301	$ 188,491

Supplemental disclosure of cash flow information (note 15)

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.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended February 2, 2008 and February 3, 2007
(in thousands)

	2008	2007
SHARE CAPITAL		
Balance, beginning of year	**$ 21,323**	$ 17,374
Cash consideration on exercise of stock options	**2,150**	3,707
Ascribed value credited to share capital from exercise of stock options	**514**	254
Cancellation of shares pursuant to stock repurchase program	**(210)**	(12)
Balance, end of year	**23,777**	21,323
CONTRIBUTED SURPLUS		
Balance, beginning of year	**3,583**	2,523
Stock option compensation costs	**932**	1,314
Ascribed value credited to share capital from exercise of stock options	**(514)**	(254)
Balance, end of year	**4,001**	3,583
RETAINED EARNINGS		
Balance, beginning of year	**411,213**	370,360
Net earnings	**114,902**	82,469
Dividends	**(46,930)**	(40,893)
Premium on repurchase of Class A non-voting shares	**(10,811)**	(723)
Balance, end of year	**468,374**	411,213
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	**-**	-
Adjustment to opening balance due to the new accounting policies adopted regarding financial instruments (net of tax of $523)	**2,883**	-
Net unrealized loss on available-for-sale financial assets arising during the year (net of tax of $611)	**(3,517)**	-
Reclassification adjustment for net gains included in net earnings (net of tax of $75)	**(399)**	-
Balance, end of year[1]	**(1,033)**	-
Total Shareholders' Equity	**$ 495,119**	$ 436,119

[1]Available-for-sale financial investments constitute the sole item in accumulated other comprehensive income (loss).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 2, 2008 and February 3, 2007
(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. 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 2008 and 2007 represent the fiscal years ended February 2, 2008 and February 3, 2007, 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.

2. CHANGES IN ACCOUNTING POLICIES

On February 4, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). As provided under the standards, the adoption of these recommendations was done without restatement of prior period consolidated financial statements. The transitional adjustments resulting from these standards are recognized in the opening balance of accumulated other comprehensive income.

CICA SECTION 1506 – ACCOUNTING CHANGES

This CICA Handbook section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. Furthermore, this section requires disclosure of when an entity has not applied a new source of generally accepted accounting principles that have been issued but are not yet effective.

CICA SECTION 1530 – COMPREHENSIVE INCOME

This CICA Handbook section introduced a statement of comprehensive income, which is included in the full set of interim and annual financial statements. Comprehensive income represents 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.

CICA SECTION 3251 – EQUITY

This CICA Handbook section, which replaced Section 3250, Surplus, establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from (i) net earnings; (ii) other comprehensive income; (iii) other changes in retained earnings; (iv) changes in contributed surplus; (v) changes in share capital; and (vi) changes in reserves. New consolidated statements of changes in shareholders' equity are included in these financial statements.

CICA SECTION 3855 – FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

This CICA Handbook section establishes standards for recognition and measurement of 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 financial assets and financial liabilities, available-for-sale financial assets, loans and receivables or other financial liabilities. The standard requires that financial instruments within scope, including derivatives, be included on the Company's balance sheet and measured at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Gains and losses on held-for-trading financial assets and financial liabilities are recognized in net earnings in the period in which they arise. Unrealized gains and losses, including changes in foreign exchange rates on available-for-sale financial assets are recognized in other comprehensive income until the financial assets are derecognized or impaired, at which time any unrealized gains or losses are recorded in net earnings. Transaction costs on available-for-sale financial assets are added to the financial asset on initial recognition and are recognized in net earnings when the asset is derecognized or impaired.

Fair values of available-for-sale financial assets are based on published market prices at month-end.

CICA SECTION 3861 – FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

This CICA Handbook section, which replaced Section 3860 of the same name, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The adoption of these new standards resulted in the following changes in the classification and measurement of the Company's financial instruments, previously recorded at cost:

Cash and cash equivalents are classified as "financial assets held-for-trading" and are measured at fair value. These financial assets are marked-to-market through net earnings and recorded as investment income at each period end. This change had no impact on the Company's consolidated financial statements.

Accounts receivable are classified as "loans and receivables" and are recorded at cost, which at initial measurement corresponds to fair value. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. This change had no impact on the Company's consolidated financial statements.

Marketable securities, which consist primarily of preferred shares of Canadian public companies, are classified as "available-for-sale securities". These financial assets are marked-to-market through other comprehensive income at each period end. The initial impact of measuring the available-for-sale securities at fair value was a net unrealized gain of $2,883, net of tax of $523, which was recorded in opening accumulated other comprehensive income.

Accounts payable and accrued items and long-term debt are classified as "other financial liabilities". They are initially measured at fair value and subsequent revaluations are recorded at amortized cost using the effective interest rate method. This change had no impact on the Company's consolidated financial statements.

The Company uses a variety of strategies, such as foreign exchange option contracts, with maturities not exceeding three months, to manage its exposure to fluctuations in the US dollar. These derivative financial instruments are not used for speculative purposes. These financial assets are marked-to-market through net earnings at each period end. This change had no impact on the Company's consolidated financial statements.

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by the new standard, management reviewed contracts entered into or modified subsequent to February 2, 2003 and determined that the Company did not have any significant embedded derivatives in these contracts that require separate accounting and disclosure.

Effective for the year ended February 2, 2008, the Company has early adopted the CICA Handbook Section 1535, Capital Disclosures, CICA Handbook Section 3862, Financial Instruments – Disclosures, and CICA Handbook Section 3863, Financial Instruments – Presentation, as described below.

CICA SECTION 1535 – CAPITAL DISCLOSURES

Section 1535, Capital Disclosures, establishes guidelines for disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

CICA SECTION 3862 – FINANCIAL INSTRUMENTS – DISCLOSURES, AND CICA SECTION 3863 – FINANCIAL INSTRUMENTS – PRESENTATION

Section 3862, Financial Instruments – Disclosures, describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, Financial Instruments – Presentation, establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, Financial Instruments – Disclosure and Presentation.

These sections relate to disclosure and presentation only and did not have an impact on the Company's financial results. See Notes 17 and 18.

3. RECENT ACCOUNTING PRONOUNCEMENTS

CICA SECTION 3031 – INVENTORIES

In June 2007, the CICA issued Section 3031, Inventories, which replaces Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards ("IFRS"). This section provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. This section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Company will adopt this section standard in the first quarter of its fiscal year ending January 31, 2009. The Company has not yet determined what the impact of adopting this new standard will have on its consolidated financial statements.

CICA SECTION 3064 – GOODWILL AND INTANGIBLE ASSETS

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and amends Section 1000, Financial Statement Concepts. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and other intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This new standard is applicable to fiscal years beginning on or after October 1, 2008. The Company has evaluated the new section and determined that there is no impact of its adoption on its consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These new standards are applicable to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company will implement this standard in its first quarter of fiscal year ending January 28, 2012 and is currently evaluating the impact of their adoption on its consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

a) **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.

b) **Cash and Cash Equivalents**

Cash and cash equivalents are classified as "financial assets held-for-trading" and are measured at fair value. These financial assets are marked-to-market through net earnings and recorded as investment income at each period end. Cash and cash equivalents consist of cash and short-term deposits with original maturities of three months or less.

c) **Marketable Securities**

Marketable securities, which consist primarily of preferred shares of Canadian public companies, are classified as "available-for-sale securities". These financial assets are marked-to-market through other comprehensive income at each period end.

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) **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 33¹/₃%
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.

f) **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 2, 2008 and concluded that there was no indication of impairment in the carrying value of goodwill.

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

The Company's income tax provision is based on tax rules and regulations that are subject to interpretation and require estimates and assumptions that may be challenged by taxation authorities. The Company's estimates of income tax assets and liabilities are periodically reviewed and adjusted as circumstances warrant, such as changes to tax laws and administrative guidance, and the resolution of uncertainties through either the conclusion of tax audits or expiration of prescribed time limits within the relevant statutes. The final results of government tax audits and other events may vary materially compared to estimates and assumptions used by management in determining the provision for income taxes and in valuing income tax assets and liabilities.

h) **Pension**

The Company maintains a contributory defined benefit plan that 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 these retirement 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.

i) 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.

j) 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.

k) 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 average rates of exchange prevailing during the year. The resulting gains or losses on translation are included in the determination of net earnings.

l) 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.

The Company does not separately account for embedded US dollar foreign exchange derivatives in its purchase contracts of merchandise from suppliers in China because the US dollar has been determined to be commonly used in that country's economic environment.

m) 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.

5. MARKETABLE SECURITIES

At February 2, 2008, marketable securities amounted to $30,053 reported at fair value (cost of $31,249) as compared with $52,675 last year reported at cost (with a market value of $56,081). Due to new accounting standards with respect to financial instruments that were adopted by the Company in the first quarter of fiscal 2008, marketable securities have been measured and reported at their fair value at February 2, 2008, while the comparative year is reported at cost.

6. CAPITAL ASSETS

	2008			2007		
	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	**49,507**	**11,671**	**37,836**	46,671	8,256	38,415
Fixtures and equipment	**187,333**	**79,282**	**108,051**	166,739	68,799	97,940
Leasehold improvements	**175,457**	**78,608**	**96,849**	151,245	66,097	85,148
Leasehold interests	**910**	**298**	**612**	890	274	616
	$417,822	**$169,859**	**$247,963**	$ 370,160	$ 143,426	$ 226,734

During the year, due to various store closings and renovations, the Company wrote-off assets with a net book value of $1,793 (2007 - $4,216). The write-offs are included in depreciation and amortization expense.

7. PENSION

The Company's contributory defined benefit plan ("Plan") was actuarially valued as at December 31, 2004 and the obligation was projected to December 31, 2007. An actuarial valuation is scheduled to take place with a valuation date of December 31, 2007.

Assumptions, based upon data as of December 31, 2007, used in developing the net pension expense (income) and projected benefit obligation are as follows:

	2008	2007
Discount rate	**5.17%**	4.95%
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 Plan.

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

	2008			2007		
	Plan	**SERP**	**Total**	**Plan**	**SERP**	**Total**
Pension Obligation						
Pension obligation, beginning of year	**$ 10,734**	**$ 9,717**	**$ 20,451**	$ 10,104	$ 8,508	$ 18,612
Employee contributions	**138**	**-**	**138**	130	-	130
Current service cost	**493**	**217**	**710**	465	180	645
Interest cost	**551**	**492**	**1,043**	517	429	946
Benefits paid	**(444)**	**-**	**(444)**	(470)	-	(470)
Actuarial (gains) losses	**(292)**	**(312)**	**(604)**	(12)	600	588
Pension obligation, end of year	**$ 11,180**	**$ 10,114**	**$ 21,294**	$ 10,734	$ 9,717	$ 20,451
Plan Assets						
Market value of plan assets, beginning of year	**$ 11,391**	**$ -**	**$ 11,391**	$ 10,677	$ -	$ 10,677
Employer contributions	**307**	**-**	**307**	-	-	-
Employee contributions	**138**	**-**	**138**	130	-	130
Actual return on plan assets	**291**	**-**	**291**	1,054	-	1,054
Benefits paid	**(444)**	**-**	**(444)**	(470)	-	(470)
Market value of plan assets, end of year	**$ 11,683**	**$ -**	**$ 11,683**	$ 11,391	$ -	$ 11,391
Plan surplus (deficit)	**503**	**(10,114)**	**(9,611)**	657	(9,717)	(9,060)
Unamortized past service cost	**-**	**7,090**	**7,090**	-	7,765	7,765
Pension asset (liability), end of year	**$ 503**	**$ (3,024)**	**$ (2,521)**	$ 657	$ (1,952)	$ (1,295)

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

	2008			2007		
	Plan	**SERP**	**Total**	**Plan**	**SERP**	**Total**
Pension Expense						
Current service cost	**$ 493**	**$ 217**	**$ 710**	$ 465	$ 180	$ 645
Past service cost	**-**	**675**	**675**	-	675	675
Interest cost	**551**	**492**	**1,043**	517	429	946
Actual return on plan assets	**(291)**	**-**	**(291)**	(1,054)	-	(1,054)
Actuarial (gains) losses	**(292)**	**(312)**	**(604)**	(12)	600	588
Net pension expense (income)	**$ 461**	**$ 1,072**	**$ 1,533**	$ (84)	$ 1,884	$ 1,800

The asset allocation of the major asset categories for each of the years was as follows:

	2008	**2007**
Equity securities	**64%**	67%
Debt securities	**34%**	32%
Cash	**2%**	1%
	100%	100%

8. LONG-TERM DEBT

	2008	2007
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	$ 15,097	$ 16,173
Less current portion	1,146	1,076
	$ 13,951	$ 15,097

Principal repayments on long-term debt are as follows:

Fiscal years ending	
2009	$ 1,146
2010	1,220
2011	1,300
2012	1,384
2013	1,474
Subsequent years	8,573
	$ 15,097

9. INCOME TAXES

a) In fiscal 2007, 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 reassessments received, amounts of $20,054 for retroactive taxes and interest were expensed in the year ended February 3, 2007 and an additional amount of $1,877 of interest was expensed in the year ended February 2, 2008. In January 2008, the Company entered into an agreement with the Canada Revenue Agency, Alberta Finance, the Ontario Ministry of Revenue and Revenue Québec to settle all matters arising from the reassessments. The final agreement called for the Company to pay $12,905 to settle all related outstanding matters and as such a reduction in the Company's income tax expense in the amount of $7,149, net of the reversal of the current year's interest charges of $1,877, has been recognized. The Company expects to make payments to settle the outstanding liability by March 31, 2008.

b) In fiscal 2008, the Company released $2,504 of contingent income tax liabilities based upon the outcome of certain tax audits of prior periods resulting in an equivalent decrease in the tax provision for fiscal 2008.

c) 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:

	2008	2007
Current assets		
Marketable securities	$ 163	$ -
Inventory	1,609	-
	$ 1,772	$ -
Long-term assets		
Capital assets	$ 4,861	$ 2,925
Pension liability	690	408
Other	60	74
	$ 5,611	$ 3,407
Current liabilities		
Accrued liabilities	$ (761)	$ (248)
Long-term liabilities		
Marketable securities	$ (27)	$ (112)
Capital assets	(234)	-
	$ (261)	$ (112)

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

	2008	2007
Provision for income taxes based on combined statutory rate of 34.37% (2007 - 33.83%)	**$ 54,723**	$ 51,884
Changes in provision resulting from:		
Reserve for tax contingencies	**(2,504)**	-
Difference in tax rates of subsidiaries	**(826)**	(888)
Tax exempt investment income	**(810)**	(871)
Stock-based compensation	**320**	444
Tax rate differences	**502**	-
Permanent and other differences	**58**	274
Québec tax reassessments	**(7,149)**	20,054
Income taxes	**$ 44,314**	$ 70,897
Represented by:		
Current	**$ 54,614**	$ 52,693
Future	**(3,151)**	(1,850)
Québec tax reassessments - current	**(7,149)**	20,054
	$ 44,314	$ 70,897

10. 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.

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:

	Number of Shares	Book Value
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	57,817	20,841
Shares issued pursuant to exercise of stock options	217	2,664
Shares purchased under issuer bid	(561)	(210)
Balance February 2, 2008	**57,473**	**$ 23,295**

The amounts credited to share capital from the exercise of stock options include a cash consideration of $2,150 (2007 - $3,707), as well as an ascribed value from contributed surplus of $514 (2007 - $254).

The Company has authorized an unlimited number of Common shares. At February 2, 2008, there were 13,440 Common shares issued (2007 - 13,440) with a book value of $482 (2007 - $482).

c) The Company has reserved 5,520 Class A non-voting shares for issuance under its Share Option Plan of which, as at February 2, 2008, 975 Class A non-voting shares remain authorized for future issuance. 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 50 stock options during 2008 (2007 - 105), the cost of 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 28 (2007 - 40) 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:

Expected option life	4.6 years
Risk-free interest rate	3.55%
Expected stock price volatility	31.79%
Average dividend yield	4.53%
Weighted average fair value of options granted	$3.20

Changes in outstanding stock options were as follows:

	2008		2007	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding, at beginning of year	**1,812**	**$ 12.08**	2,858	$ 8.33
Granted	**50**	**15.90**	105	20.37
Exercised	**(217)**	**9.91**	(1,111)	3.34
Forfeited	**(28)**	**11.95**	(40)	9.04
Outstanding, at end of year	**1,617**	**$ 12.49**	1,812	$ 12.08
Options exercisable, at end of year	**772**	**$ 12.18**	555	$ 12.24

The following table summarizes information about share options outstanding at February 2, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$ 4.25 - $ 5.68	139	2.00 years	$ 4.41	50	$ 4.48
$12.23 - $15.90	1,305	4.08	12.37	675	12.23
$19.23 - $22.02	173	4.61	19.92	47	19.74
	1,617	**3.95 years**	**$ 12.49**	**772**	**$ 12.18**

For the year ended February 2, 2008, the Company recognized compensation cost of $932 (2007 - $1,314) with an offsetting credit to contributed surplus.

d) The Company purchased, under the prior year's normal course issuer bid, 561 Class A non-voting shares having a book value of $210 under its stock repurchase program for a total cash consideration of $11,021. The excess of the purchase price over book value of the shares in the amount of $10,811 was charged to retained earnings.

e) The Company received, in November 2007, approval from the Toronto Stock Exchange to proceed with a normal course issuer bid. Under the bid, the Company may purchase up to 2,871 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 9, 2007. The bid commenced on November 28, 2007 and may continue to November 27, 2008.

11. EARNINGS PER SHARE

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

	2008	**2007**
Weighted average number of shares per basic earnings per share calculations	**71,152**	70,442
Effect of dilutive options outstanding	**654**	1,359
Weighted average number of shares per diluted earnings per share calculations	**71,806**	71,801

12. COMMITMENTS

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

Fiscal years ending	
2009	$ 98,998
2010	87,534
2011	70,775
2012	54,239
2013	40,556
Subsequent years	91,213
	$ 443,315

13. CREDIT FACILITY

At February 2, 2008, the Company had unsecured operating lines of credit available with Canadian chartered banks to a maximum of $125,000 or its US dollar equivalent. As at February 2, 2008, $48,274 (February 3, 2007 - $68,830) of the operating lines of credit was committed for documentary and standby letters of credit.

14. 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 2, 2008, the maximum potential liability under these guarantees was $3,550. The standby letters of credit mature at various dates during fiscal 2009. The Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for these items. Management believes that the fair value of the non-contingent obligations requiring performance under the guarantees in the event that specified triggering events or conditions occur approximates the cost of obtaining the standby letters of credit.

15. OTHER INFORMATION

a) Included in determination of the Company's net earnings is a foreign exchange gain of $504 (2007 - loss of $915).

b) Supplementary cash flow information:

	2008	2007
Balance with banks	$ 2,474	$ 6,239
Short-term deposits, bearing interest at 4.0% (February 3, 2007 - 4.3%)	211,827	182,252
	$ 214,301	$ 188,491
Non-cash transactions:		
Capital asset additions included in accounts payable	$ 1,329	$ 3,404
Cash paid during the period for:		
Income taxes	$ 73,305	$ 48,730
Interest	1,045	1,339
Investment income:		
Available-for-sale financial assets:		
Interest income	62	79
Dividends	2,398	3,258
Realized gain on disposal	474	2,289
Held-for-trading financial assets:		
Interest income	8,194	6,930
	$ 11,128	$ 12,556

16. 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 $182 (2007 - $188).

The Company incurred $302 in fiscal 2008 (2007 - $304) with a firm connected to outside directors of the Company for fees 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 amount of consideration paid as established and agreed to by the related parties.

17. 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) **Risk Management**

For the year ended February 2, 2008, the Company has early adopted the requirements of the CICA Handbook Section 3862, Financial Instruments – Disclosures, which apply to fiscal years beginning on or after October 1, 2007. This new Handbook section requires disclosures to enable users to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of an entity's exposure to risks arising from financial instruments, including how the entity manages those risks. Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk are provided below.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, marketable securities, accounts receivable and foreign exchange option contracts. The Company limits its exposure to credit risk with respect to cash equivalents by investing available cash in short-term deposits with Canadian financial institutions and commercial paper with a rating not less than R1. Marketable securities consist primarily of preferred shares of highly rated Canadian public companies. The Company's receivables consist primarily of credit card receivables from the last few days of the fiscal year, which are settled within the first days of the new fiscal year.

As at February 2, 2008, the Company's exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$ 214,301
Marketable securities	30,053
Accounts receivable	3,546
	$ 247,900

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of accounts payable is within six months. As at February 2, 2008, the Company had a high degree of liquidity with $244,354 in cash and cash equivalents and marketable securities. In addition, the Company has unsecured credit facilities of $125,000, subject to annual renewals. The Company has financed its store expansion through internally-generated funds and its unsecured credit facilities are used to finance seasonal working capital requirements for US dollar merchandise purchases. The Company's long-term debt consists of a mortgage bearing interest at 6.40%, due November 2017, which is secured by the Company's distribution centre.

Foreign Currency Risk

The Company purchases a significant amount of its merchandise with US dollars. The Company uses a combination of foreign exchange option contracts and spot purchases to manage 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 2, 2008 and February 3, 2007, there were no outstanding foreign exchange option contracts.

The Company has performed sensitivity analysis on its US dollar denominated financial instruments, which consist principally of cash and cash equivalents of $24,138 at February 2, 2008, to determine how a change in the US dollar exchange rate would impact net earnings. On February 2, 2008, a 10% rise or fall in the Canadian dollar against the US dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $1,577 decrease or increase, respectively, in the Company's net earnings for the year ended February 2, 2008.

Interest Rate Risk

The Company's exposure to interest rate fluctuations is primarily related to any overdraft denominated in Canadian or US dollars drawn on its bank accounts and interest earned on its cash and cash equivalents. The Company has unsecured borrowing and working capital credit facilities available that it utilizes for documentary and standby letters of credit, and the Company funds the drawings on these facilities as the payments are due.

The Company has performed sensitivity analysis on interest rate risk at February 2, 2008, to determine how a change in interest rates would impact equity and net earnings. During fiscal 2008, the Company earned $8,194 of interest income on its cash and cash equivalents. An increase or decrease of 100 basis points in the average interest rate earned during the year would have increased or decreased equity and net earnings by $1,208. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Equity Price Risk

Equity price risk arises from available-for-sale equity securities. The Company monitors the mix of equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Chief Executive Officer.

The Company has performed sensitivity analysis on equity price risk at February 2, 2008, to determine how a change in the market price of the Company's marketable securities would impact equity and other comprehensive income. The Company's equity investments consist principally of preferred shares of Canadian public companies. The Company believes that changes in interest rates influence the market price of these securities. A 5% increase or decrease in the market price of the securities at February 2, 2008, would result in a $1,244 increase or decrease in equity and other comprehensive income. A significant portion of the Company's equity securities are subject to more significant downward market risk and, as a result, the impact on equity and other comprehensive income may ultimately be greater than that indicated above.

18. CAPITAL DISCLOSURES

The Company's objectives in managing capital are:

- to ensure sufficient liquidity to enable the internal financing of capital projects thereby facilitating its expansion;
- to maintain a strong capital base so as to maintain investor, creditor and market confidence;
- to provide an adequate return to shareholders.

The Company's capital is composed of long-term debt, including the current portion and shareholders' equity. The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for new store additions, existing store renovation projects and office and distribution centre improvements. The Company currently funds these requirements out of its internally-generated cash flows. The Company's long-term debt constitutes a mortgage on the distribution centre facility. The Company maintains an unsecured operating line of credit that it uses to satisfy commitments for US dollar denominated merchandise purchases. The Company does not have any long-term debt, other than the mortgage related to the distribution centre, and therefore net earnings generated from operations are available for reinvestment in the Company or distribution to the Company's shareholders. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. On a quarterly basis, the Board of Directors also reviews the level of dividends paid to the Company's shareholders and monitors the share repurchase program activities. The Company does not have a defined share repurchase plan and buy and sell decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. The Company is not subject to any externally imposed capital requirements.

19. COMPARATIVE FIGURES

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

DIRECTORS AND OFFICERS

DIRECTORS

H. JONATHAN BIRKS
STEPHEN J. KAUSER
MAX KONIGSBERG
SAMUEL MINZBERG
JEREMY H. REITMAN
STEPHEN F. REITMAN
HOWARD STOTLAND
JOHN J. SWIDLER
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

DIANE RANDOLPH
VICE-PRESIDENT - CHIEF INFORMATION OFFICER

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

DANIELLE VALLIÈRES
VICE-PRESIDENT - SMART SET

SUZANA VOVKO
PRESIDENT - RW & CO.

CATHRYN ADELUCA
VICE-PRESIDENT - RW & CO.

FIONA HORGAN
VICE-PRESIDENT - RW & CO.

KIMBERLY SCHUMPERT
PRESIDENT - THYME MATERNITY

MARIE FRENNEAUX
VICE-PRESIDENT - THYME MATERNITY

FERNANDA SOUSA
VICE-PRESIDENT - THYME MATERNITY

ISABELLE TASCHEREAU
PRESIDENT - CASSIS

STÉPHANE RENAULD
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

Une version française de ce rapport peut être obtenue en écrivant au secrétaire de Reitmans (Canada) Limitée, 250, rue Sauvé ouest, Montréal, QC H3L 1Z2

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual general meeting of the shareholders of Reitmans (Canada) Limited (the "Corporation") will be held at the distribution centre of the Corporation at 5555 Henri-Bourassa Blvd. West, St-Laurent, Québec, Wednesday, June 4, 2008 at 10:30 a.m. (Montreal time) for the following purposes:

1. To receive and consider the consolidated financial statements of the Corporation for the fiscal year ended February 2, 2008 and the auditors' report thereon;
2. To elect directors for the ensuing year;
3. To appoint KPMG LLP as auditors of the Corporation and to authorize the directors to fix their remuneration; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

By order of the Board of Directors

April 28, 2008

Montreal, Québec

Saul Schipper

Secretary

Shareholders who are unable to attend in person are requested to date, sign and return the enclosed form of proxy in the envelope provided for that purpose.

Reitmans
(CANADA) LIMITED

MANAGEMENT PROXY CIRCULAR

SOLICITATION OF PROXIES

This proxy circular (the "Proxy Circular") is furnished in connection with the solicitation by the management of Reitmans (Canada) Limited (the "Corporation") of proxies of holders of common shares of the Corporation (the "Common Shares") to be voted at the annual general meeting of the shareholders of the Corporation (the "Meeting") to be held on June 4, 2008 at the time and place and for the purposes set forth in the accompanying notice of the Meeting and at any and all adjournments thereof.

The enclosed proxy is being solicited by the management of the Corporation and the costs of solicitation of proxies will be borne by the Corporation. The solicitation will be made primarily by mail, but directors, officers and other employees of the Corporation may also solicit proxies by telephone, telecopier or in person.

Unless otherwise stated, the information herein contained is given as of April 21, 2008.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Corporation. **Each holder of Common Shares is entitled to appoint a person to represent him at the Meeting other than the individuals named in the form of proxy enclosed**. A shareholder desiring to appoint some other person (who need not be a shareholder) to represent him at the Meeting may do so either by striking out the names of the management nominees set forth in the form of proxy and by inserting such person's name in the blank space provided therein or by completing another proper form of proxy, and, in either case, sending the completed proxy to the Secretary of the Corporation, c/o Computershare Investor Services Inc., Stock Transfer Services, 9th floor, 100 University Avenue, Toronto, Ontario M5J 2Y1 for delivery before the Meeting or giving it to the chairman of the Meeting at the Meeting.

A shareholder giving a proxy pursuant to this solicitation may revoke any such proxy by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the office of the Corporation at 250 Sauvé Street West, Montreal, Québec at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or, as to any matter on which a vote has not already been cast pursuant to the authority conferred by the proxy, by depositing such instrument with the chairman of the Meeting at the

Meeting or any adjournment thereof. A shareholder may also revoke the proxy in any other manner permitted by law.

NON-REGISTERED HOLDERS

The information set forth in this section is important to the many shareholders who do not hold shares of the Corporation in their own names (the "Non-Registered Holders"). Non-Registered Holders should note that only proxies deposited by shareholders whose names appear on the records of the Corporation as the registered holders of shares can be recognized and acted upon at the Meeting. However, in many cases, shares of the Corporation beneficially owned by a Non-Registered Holder are registered either:

(a) In the name of an intermediary (an "Intermediary") that the Non-Registered Holder deals with in respect of the shares, such as, among others, banks, trust companies, securities dealers of brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or

(b) In the name of a clearing agency (such as CDS Clearing and Depository Services Inc. or "CDS") of which the Intermediary is a participant.

In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Corporation has distributed copies of the notice of Meeting, this Proxy Circular, the form of proxy and the 2008 Annual Report, including management's discussion and analysis (collectively, the "Meeting Materials") to the clearing agencies and intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward the Meeting Materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Very often, Intermediaries will use service companies to forward the Meeting Materials to Non-Registered Holders. Generally, Non-Registered Holders who have not waived the right to receive the Meeting Materials will either:

(a) Be given a proxy which is signed by the Intermediary (typically by a facsimile, stamped signature) and already sets forth the number of common shares beneficially owned by the Non-Registered Holder but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Holder. The Non-Registered Holder who wishes to submit a proxy should properly complete the form of proxy and deposit it with Computershare Trust Company of Canada as described above; or

(b) More typically, be given a voting instruction form which must be completed and signed by the Non-Registered Holder in accordance with the directions on the voting instruction form received by the Non-Registered Holder.

The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions ("Broadridge" formerly ADP Investor Communications Corporation). Broadridge typically mails a proxy form to the Non-Registered Holders and asks Non-Registered Holders to return the proxy form to Broadridge (the Broadridge form also allows completion of the voting instructions form by telephone). Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be

represented at a shareholders' meeting. A Non-Registered Holder receiving a proxy form from Broadridge cannot use that proxy to vote shares directly at the Meeting. The proxy must be returned to Broadridge well in advance of the Meeting in order to have the shares voted.

Shares held by brokers or their agents or nominees can be voted for or against resolutions only upon the instructions of the Non-Registered Holder. Without specific instructions, brokers and their agents and nominees are prohibited from voting shares for the brokers' clients. The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the common shares they beneficially own.

Should a Non-Registered Holder who receives either a proxy or a voting instruction form wish to attend and vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should strike out the names of the persons named in the proxy and insert the Non-Registered Holder's (or such other person's) name in the blank space provided, or, in the case of a voting instruction form, follow the corresponding directions on the form. In either case, Non-Registered Holders should carefully follow the instructions of their Intermediaries and their service companies and ensure that instructions respecting the voting of their shares are communicated to the appropriate person.

VOTING AND EXERCISE OF DISCRETION OF PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they have been appointed in accordance with the instructions of the shareholders appointing them. **Unless otherwise specifically instructed, such shares will be voted**:

(a) FOR the election as directors of those persons hereinafter named as management's nominees; and

(b) FOR the appointment of KPMG LLP as auditors of the Corporation and the authorization of the directors to fix their remuneration;

as referred to under specific headings in this Proxy Circular.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of the Meeting and with respect to such other matters as may properly come before the Meeting. At the date hereof, the management of the Corporation knows of no such amendments, variations or other matters other than the matters referred to in the notice of the Meeting. Should any amendment, variation or other matter properly come before the Meeting, the persons named in the enclosed form of proxy will vote on such matter in accordance with their best judgment.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

As at April 21, 2008, 13,440,000 Common Shares were outstanding and entitled to vote at the Meeting. Holders of Common Shares listed as shareholders at the close of business on April 21, 2008 will be entitled to one vote for each Common Share held in respect of all matters which may properly come before the Meeting. As at April 21, 2008, 57,491,306 Class A Non-Voting Shares were

outstanding. The holders of Class A Non-Voting Shares are not entitled to receive notice of, attend or vote at meetings of shareholders of the Corporation, except as expressly provided by law or in certain circumstances.

To the knowledge of the directors and officers of the Corporation, as at April 21, 2008, the only person who beneficially owned, directly or indirectly, or exercised control or direction over, more than 10% of the outstanding Common Shares was Sherlex Investments Inc., which owned 6,696,000 Common Shares representing approximately 49.8% of the issued and outstanding Common Shares. In addition, as at April 21, 2008, associates of Jeremy H. Reitman, Stephen F. Reitman and Cyril Reitman, namely Jaysar Equities Limited, Alidan Investments Limited, Standu Investments Limited, Bettreit Investments Limited, Sarbin Investments Limited, Macsy Equities Limited, Dorothy Reitman, Joelreit Inc., Estate John Reitman, Howellen Investments Limited and Danamis Investments Company (of which Samuel Minzberg and Robert S. Vineberg are directors and officers) (collectively, the "Reitman Family Affiliated Group"), and certain members of the Reitman family owned beneficially, directly or indirectly or exercised control or direction over, in the aggregate, 1,432,752 Common Shares, representing approximately 10.7% of the issued and outstanding Common Shares.

ELECTION OF DIRECTORS

Nine directors will be elected at the Meeting to hold office until the next annual meeting of shareholders or until their successors are duly elected or appointed. **Unless otherwise specifically instructed, the persons named in the enclosed form of proxy intend to vote at the Meeting for the election of the nominees whose names are set forth below, all of whom are now members of the board of directors of the Corporation (the "Board of Directors") and have been since the dates indicated.**

Management of the Corporation does not contemplate that any of the nominees will be unable to serve as a director but if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote at the Meeting for another nominee at their discretion, unless the shareholder has specified in the proxy that his shares are to be withheld from voting in the election of directors.

In the following table and the notes thereto is stated the name of each person proposed to be nominated by management for election as a director, all other major positions and offices with the Corporation or any of its significant affiliates presently held by him, his present principal occupation, the year in which he became a director of the Corporation and the approximate number of shares of each class of shares of the Corporation beneficially owned by him or over which he exercises control or direction as at the date hereof. The information as to shares beneficially owned, controlled or directed by the proposed nominees, not being within the knowledge of the Corporation, has been furnished by the respective directors individually.

Name, Major Positions and Offices and Principal Occupation	Period During Which a Director	Number and Class of Shares of the Corporation	
		Common Shares	Class A Non-Voting Shares
H. JONATHAN BIRKS(1) (3) Business consultant Montreal, Québec, Canada	1989-2008	800	-
STEPHEN J. KAUSER(1) (2) Business consultant Ocean Ridge, Florida, United States	1995-2008	-	80,000
MAX KONIGSBERG(3) (former Chairman, Shirmax Fashions Ltd.) Montreal, Québec, Canada	2002-2008	-	26,000
SAMUEL MINZBERG(2) (3) Partner, Davies Ward Phillips & Vineberg LLP (attorneys) Montreal, Québec, Canada	2000-2008	-	35,000
JEREMY H. REITMAN(4) (5) President and Chief Executive Officer of the Corporation Montreal, Québec, Canada	1975-2008	800	160,800
STEPHEN F. REITMAN(4) (5) Executive Vice-President of the Corporation Montreal, Québec, Canada	1984-2008	800	160,800
HOWARD STOTLAND(1) (2) Business consultant Montreal, Québec, Canada	2003-2008	-	103,000
JOHN J. SWIDLER, FCA(1) Partner, RSM Richter (accountants and consultants) Montreal, Québec, Canada	2008	-	5,000
ROBERT S. VINEBERG(2) (3) (4) Partner, Davies Ward Phillips & Vineberg LLP (attorneys) Montreal, Québec, Canada	1987-2008	8,000	80,000

NOTES:

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

(3) Member of Corporate Governance Committee.

(4) Messrs. Jeremy H. Reitman and Stephen F. Reitman are directors and officers of the Corporation. Messrs. Jeremy H. Reitman, Stephen F. Reitman and Robert S. Vineberg are directors and/or officers of Sherlex Investments Inc.

(5) Sherlex Investments Inc., an affiliate of Jaysar Equities Limited (an associate of Jeremy H. Reitman and Stephen F. Reitman), owns 6,696,000 Common Shares representing approximately 49.8% of the issued and outstanding Common Shares and 713,617 Class A Non-Voting Shares of the Corporation ("Class A Non-Voting Shares") representing approximately 1.2% of the issued and outstanding Class A Non-Voting Shares. Messrs. Jeremy H. Reitman and Stephen F. Reitman, together with their associates, beneficially own and/or control 100% of the shares of Sherlex Investments Inc. All of the outstanding voting shares of Jaysar Equities Limited are subject to a voting trust, of which Jeremy H. Reitman and Stephen F. Reitman are the sole voting trustees. In addition, members of the Reitman Family Affiliated Group own beneficially, directly or indirectly, or exercise control or direction over an aggregate of 1,417,552 Common Shares representing approximately 10.5% of the issued and outstanding Common Shares and an aggregate of 6,569,081 Class A Non-Voting Shares representing approximately 11.4% of the issued and outstanding Class A Non-Voting Shares of which 3,781,597 Class A Non-Voting Shares are owned by Macsy Equities Limited, an associate of Messrs. Jeremy H. Reitman and Stephen F. Reitman representing approximately 6.6% of the issued and outstanding Class A Non-Voting Shares. Macsy Equities Limited also owns 67,200 Common Shares.

CORPORATE CEASE TRADE ORDERS OR BANKRUPTCIES

To the knowledge of the directors and officers of the Corporation, except as set forth below, no proposed director of the Corporation:

(a) is, as at the date of this Proxy Circular, or has been, within 10 years before the date of this Proxy Circular, a director, chief executive officer or chief financial officer of any company, that,

    (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer that was in effect for a period of more than 30 consecutive days; or

    (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer that was in effect for a period of more than 30 consecutive days; or

(b) is, as at the date of this Proxy Circular, or has been within 10 years before the date of this Proxy Circular, a director or executive officer of any company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(c) has, within the 10 years before the date of this Proxy Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Stephen F. Reitman was a director of Cinar Inc. ("Cinar"), now the Cookie Jar Group, until April 2002. On March 6, 2000, trading in Cinar's stock was halted on both the Toronto Stock Exchange ("TSX") and the NASDAQ National Market ("Nasdaq"). Trading resumed on March 7, 2000 and was halted again on March 9, 2000. Trading in the shares of Cinar has been halted on TSX and Nasdaq since March 9, 2000. On August 2, 2000, Cinar was de-listed from Nasdaq due to failure to comply with its continuous disclosure requirements. On August 30, 2000, trading in Cinar's shares on TSX was suspended due to failure to meet the continued listing requirements.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The following table sets forth the number of meetings held by the Board of Directors during the fiscal year ended February 2, 2008 and the attendance of each director at these meetings.

Directors	Attendance
H. Jonathan Birks	6 of 6
Stephen J. Kauser	5 of 6
Max Konigsberg	6 of 6
Samuel Minzberg	6 of 6
Cyril Reitman	2 of 6
Jeremy H. Reitman	6 of 6
Stephen F. Reitman	6 of 6
Howard Stotland	5 of 6
Robert S. Vineberg	6 of 6

In the fiscal year ended February 2, 2008, the Audit Committee met 4 times and each of the Compensation and Corporate Governance Committees met twice. All members of each such committee were in attendance at such meetings, except for Mr. Stephen Kauser who attended three out of four audit committee meetings.

APPOINTMENT OF AUDITORS

Unless such authority is withheld, the persons named in the enclosed form of proxy intend to vote at the Meeting for the appointment of KPMG LLP, Chartered Accountants, 600 de Maisonneuve Blvd. West, Suite 1500, Montreal, Québec, as auditors of the Corporation to hold office until the close of the next annual meeting of shareholders and to authorize the directors to fix their remuneration.

EQUITY COMPENSATION PLAN

The Corporation currently has a Plan under which it may grant options to purchase up to 5,520,000 Class A Non-Voting Shares. At April 21, 2008, the total number of Class A Non-Voting Shares issued under the Plan and issuable under outstanding options granted under the Plan and the percentage of the Corporation's issued and outstanding Class A Non-Voting Shares represented by such shares, were as follows:

Class A Non-Voting Shares issued	Class A Non-Voting Shares issuable under outstanding options
2,946,250 (5.12%)	1,598,750 (2.78%)

As at April 21, 2008, options in respect of 975,000 Class A Non-Voting Shares were available for grants under the Plan.

Pursuant to the Plan, the Board of Directors may grant options to full time employees and directors of the Corporation, and the number of Class A Non-Voting Shares subject to each option, the expiration date of each option, the extent to which each option is exercisable from time to time during its term and other terms and conditions relating to each such option shall be determined by the Board of Directors and be subject to approval by the Board of Directors, provided, however, that the period during which an option is exercisable shall not, subject to the provisions of the Plan, exceed 10 years from the date the option is granted.

The option price per share for a Class A Non-Voting Share which is the subject of any option shall not be less than the reported closing price for the Class A Non-Voting Shares on the Toronto Stock Exchange (and if not so listed, on any stock exchange on which the Class A Non-Voting Shares may then be listed) on the last trading day before the day on which the option is granted; provided, however, that if on any day the reported closing price for the Class A Non-Voting Shares on such stock exchange is not based upon a trade in at least a board lot of the Class A Non-Voting Shares, the reported closing price for such shares on such stock exchange shall be deemed to be the last price at which a trade in at least a board lot of the Class A Non-Voting Shares was effected on such stock exchange on that day. If no sale is reported on such stock exchange on that day, the reported closing price shall be deemed to be the mean of the last bid and ask quotations, if any, for such shares on such stock exchange.

The Plan provides that the aggregate number of Class A Non-Voting Shares reserved for issuance at any time to any one individual under the Plan shall not exceed five percent of the aggregate number of the issued and outstanding Class A Non-Voting Shares and Common Shares.

Upon an optionee's employment with the Corporation being terminated for cause or upon an optionee being removed from office as a director or becoming disqualified from being a director by law, any option or the unexercised portion thereof granted to him shall terminate forthwith. Upon an optionee's employment with the Corporations being terminated (except in the case of transfer from one corporation to another corporation as provided in the Plan) otherwise than by reason of death or termination for cause or upon an optionee ceasing to be a director other than by reason of death, removal or disqualification by law, any option or unexercised part thereof granted to such optionee may be exercised by him for that number of shares only which he was entitled to acquire under the

option pursuant to the Plan at the time of such termination or cessation. Such option shall only be exercisable within 30 days after such termination or cessation or prior to the expiration of the term of the option, whichever occurs earlier. Finally, if an optionee dies while employed by the Corporation or while serving as a director of the Corporation, any option or unexercised part thereof granted to such optionee may be exercised by the person to whom the option is transferred by will or the laws of descent and distribution for that number of shares only which he was entitled to acquire under the option pursuant to the Plan at the time of his death. Such option shall only be exercisable within 180 days after the optionee's death or prior to the expiration of the term of the option, whichever occurs earlier.

In the event the Corporation proposes to amalgamate, merge or consolidate with or into any other corporation (other than with a wholly-owned subsidiary of the Corporation) or to liquidate, dissolve or wind-up, or in the event an offer to purchase the Class A Non-Voting Shares of the Corporation or any part thereof shall be made to all holders of Class A Non-Voting Shares of the Corporation, the Corporation shall have the right, upon written notice thereof to each optionee holding options under the Plan, to permit the exercise of all such options within the twenty (20) day period next following the date of such notice and to determine that upon the expiration of such twenty (20) day period, all rights of optionees to such options or to exercise same (to the extent not theretofore exercised) shall ipso facto terminate and cease to have further force or effect whatsoever.

The Board of Directors may amend or discontinue the Plan at any time without notice or approval from the shareholders of the Corporation or any optionee, for any purpose whatsoever, including, without limitation, for the purpose of:

(a) amendments of a "housekeeping" nature, which include, without limitation, amendments to ensure continued compliance with applicable laws, regulations, rules or policies of any regulatory authority and amendments to remove any ambiguity or to correct or supplement any provision contained in the Plan which may be incorrect or incompatible with any other provision of the Plan;

(b) a change to the vesting provisions of an option;

(c) a change to the termination provisions of an option or the Plan which does not entail an extension beyond the original expiration date; and

(d) the addition of a cashless exercise feature payable in cash or securities which provides for a full deduction of the number of underlying Class A Non-Voting Shares from the number of Class A Non-Voting Shares reserved for issuance under the Plan;

provided, however, that no such amendment may increase the maximum number of Class A Non-Voting Shares issuable pursuant to the Plan, change the manner of determining the minimum option price, alter the option exercise period following the expiration of a Blackout Period (as defined in the Plan) or, without the consent of the optionee, adversely alter or impair any option previously granted to an optionee under the Plan.

The Plan also provides that (i) a reduction in the option price, (ii) an extension of the expiration date of an outstanding option, (iii) any amendment to the categories of persons eligible under the Plan, or (iv) any amendment which would permit options to be transferable or assignable other than for normal estate settlement purposes, may not be made without the approval of the shareholders of the Corporation (excluding the votes of securities held directly or indirectly by insiders benefiting from

Aggregated Option Exercises and Year-End Values

The following table indicates, for each of the Named Executives, the total number of unexercised options to purchase Class A Non-Voting Shares, if any, held at February 2, 2008 and the value of such unexercised options at that date.

Aggregated Option Exercises and Year-end Values

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at Fiscal Year-End Exercisable/ Unexercisable (#)	Value of Unexercised In-the-Money Options at Fiscal Year-End Exercisable/ Unexercisable ($)
JEREMY H. REITMAN President and Chief Executive Officer	Nil	Nil	36,000 / 24,000	176,220 / 117,480
STEPHEN F. REITMAN Executive Vice-President	Nil	Nil	36,000 / 24,000	176,220 / 117,480
LESYA MCQUEEN President, Smart Set Division	Nil	Nil	51,000 / 36,000	369,720 / 271,920
HENRY FIEDERER President, Reitmans Division	Nil	Nil	36,000 / 24,000	176,220 / 117,480
DOUGLAS M. DERUCHIE, CA Vice-President, Finance	Nil	Nil	36,000 / 24,000	176,220 / 117,480

Pension Benefits

The Corporation maintains a registered pension plan known as the "Reitmans (Canada) Limited Executive Retirement Pension Plan" (the "Pension Plan") in which all of the Named Executives participate.

The Pension Plan provides defined retirement benefits for covered executives (including the Named Executives) and is qualified under the *Income Tax Act* (Canada) (the "Tax Act"). In order to participate in the Pension Plan an executive must have completed at least one year of service with the Corporation or any of its subsidiaries. The Pension Plan provides for normal retirement benefits beginning at age 65 with reduced participation permitted for any executive who elects early retirement. The normal annual retirement benefit is equal to two percent of the executive's average annual salary for the five highest consecutive years of earnings multiplied by the executive's years of service, but not exceeding the maximum amount permitted to be paid under the Tax Act. For purposes of the Pension Plan, an executive's annual salary for any plan year (being the calendar year) is the executive's annual salary as at January 1 in such year. Currently, the maximum annual benefit payable to an executive under the Pension Plan is $2,333 for each year of service.

The following table shows the normal annual retirement benefit payable under the Pension Plan as at February 2, 2008 to executives with specific years of credited service.

	Years of Credited Service							
Remuneration	**5**	**10**	**15**	**20**	**25**	**30**	**35**	**40**
$116,667 or more[(1)]	$11,667	$23,333	$35,000	$46,667	$58,333	$70,000	$81,667	$93,333

NOTE:

(1) As at February 2, 2008, the maximum annual benefit payable to an executive whose average annual salary for the five highest consecutive years of earnings was $116,667 or more was $2,333 for each year of service. Each of the Named Executives has, for the purposes of the Pension Plan, an average annual salary for his five highest consecutive years of earnings which is in excess of $116,667.

At February 2, 2008, the credited service for Mr. Jeremy H. Reitman was 37 years, for Mr. Stephen F. Reitman it was 36 years, for Mr. Henry Fiederer it was 16 years, for Mr. Douglas M. Deruchie it was 13 years and Ms. Lesya McQueen it was 3 years.

In addition, the Corporation is a party to a retirement agreement with the late Mr. Jack Reitman, a former Named Executive who passed away in October of 1996, which provides that, upon Mr. Reitman's death, his widow is entitled to receive annually for the remainder of her life an amount equal to 75% of the sum of salary and bonus received by him during the twelve-month period immediately prior to his death, indexed for inflation. The amount payable during the year ended February 2, 2008 on account of this agreement was $315,180.

In the fourth quarter of the financial year ended January 28, 2006, the Board of Directors authorized the Corporation to create a Supplemental Executive Retirement Plan. This plan was instituted as of January 1, 2006 and covers certain senior executives. For financial statement presentation purposes, an actuarial calculation was made to determine the estimated expense the Company incurred with respect to the provisions of the plan since January, 2006. This estimated expense was charged to current operations. Management estimates that the annual expense will be $1,639,000 for the 2009 fiscal year. The plan is unfunded and payments are made as obligations arise. These expensed amounts will be accrued as a liability on the Corporation's balance sheet. When a liability arises to make any such payment(s) called for under the plan (e.g. when an eligible plan member retires and begins receiving payments under the plan), the payments will be set off against the accrual amount as the payments are actually made. Management does not expect that any payments will be made under the plan in the 2009 fiscal year.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

The following table provides details with regard to loans outstanding as at April 21, 2008 which were made to executive officers of the Corporation (including the Named Executives). The aggregate indebtedness of all officers, directors, employees and former officers, directors and employees of the Corporation (including the Named Executives) at April 21, 2008 is $206,500.

TABLE OF INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

OTHER THAN SECURITIES PURCHASE PROGRAMS

Name/ Principal Position	Involvement of Issuer or Subsidiary	Largest Amount Outstanding During the Year ($)	Amount Outstanding at April 21, 2008 ($)
DOUGLAS M. DERUCHIE, CA Vice-President, Finance	Lender	206,500 (1)	206,500 (2)

NOTES:

(1) The aggregate amount of such indebtedness owed to the Corporation arose other than under a securities purchase program.

(2) This loan is unsecured, non-interest bearing and payable upon demand.

COMPOSITION OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors consists of Messrs. Stephen J. Kauser, Samuel Minzberg, Howard Stotland and Robert S. Vineberg.

REPORT ON EXECUTIVE COMPENSATION

The Corporation's current compensation policy for its executive officers (including the Named Executives) combines a base salary with an incentive-based bonus plan. For executive officers having responsibility for divisions of the Corporation, bonus payments made under the incentive-based plan are objectively determined by the degree to which targeted financial results are achieved or exceeded within the respective operating divisions of the Corporation. For executive officers having corporate level responsibilities, bonus payments are objectively determined with regard to the achievement of targeted overall corporate financial performance. The market value of the Corporation's shares is not a factor in establishing either base salaries or incentive-based bonuses.

The President and Executive Vice-President recommend the compensation of the Corporation's executive officers to the Compensation Committee. When appropriate, the President makes recommendations to the Compensation Committee for its approval as to the granting of stock options to executive officers.

The compensation of both the President (being the Chief Executive Officer) and the Executive Vice-President is approved by the Compensation Committee, in accordance with the same criteria upon which the compensation of all other executive officers is based. In determining the level of compensation of the President and the Executive Vice-President, the Compensation Committee strives to attain a level of compensation for the President and the Executive Vice-President that

appropriately reflects the Corporation's financial and operational achievements. Bonuses granted to the President and Executive Vice-President are commensurate with the operational results of the Corporation in any given year.

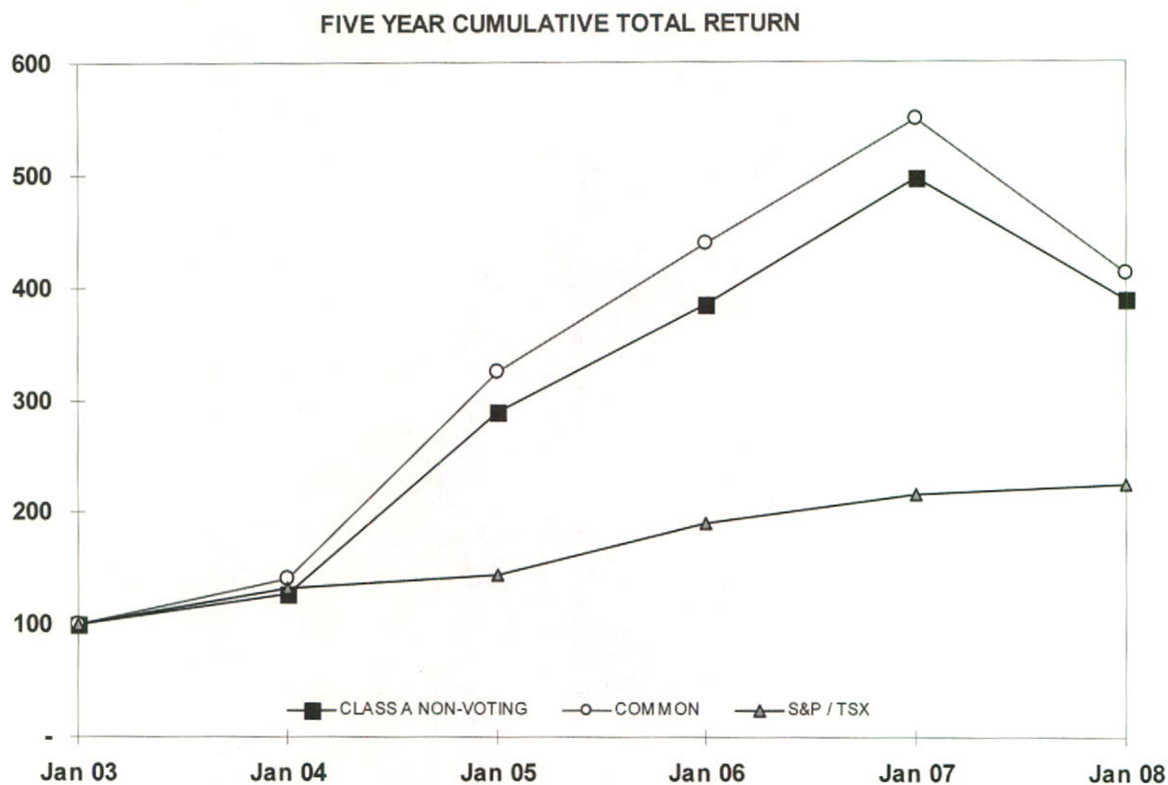
The combined salary and bonus of the President and Chief Executive Officer is viewed as being commensurate with his duties.

The members of the Compensation Committee, whose names are set out below, have approved the issue of the foregoing report and its inclusion in this Proxy Circular.

Stephen J. Kauser
Samuel Minzberg
Howard Stotland
Robert S. Vineberg

PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return on $100 invested at the end of January 2003 in Class A Non-Voting Shares and Common Shares with the cumulative total shareholder return on the S&P/TSX Composite Index, assuming reinvestment of all dividends.



	Jan 03	Jan 04	Jan 05	Jan 06	Jan 07	Jan 08
Class A Non-Voting	$100	$128	$288	$385	$496	$387
Common	$100	$142	$325	$438	$549	$411
S&P/TSX Composite Index	$100	$132	$115	$191	$216	$225

CORPORATE GOVERNANCE

The governance practices of the Corporation are largely consistent with the requirements of National Policy 58-201 - Corporate Governance Guidelines adopted by the Canadian Securities Administrators (the "Guidelines") and the divergences from the Guidelines are set forth below.

The Guidelines (which are not mandatory) deal with the constitution of boards and committees, their functions, their independence from management and other means of ensuring sound corporate governance. In accordance with National Instrument 58-101 - Disclosure of Corporate Governance Practices, the Board of Directors has reviewed its practices and, upon the recommendation of its Corporate Governance Committee, approved the following disclosure.

Board of Directors

The Guidelines recommend that a board of directors should have a majority of independent directors. The Board of Directors is currently composed of nine directors. Based on information provided by directors as to their individual circumstances, the Board of Directors has determined that a majority of directors are "independent", within the meaning of the Guidelines. For the past fiscal year, three directors, Jeremy H. Reitman, President and Chief Executive Officer, Stephen F. Reitman, Executive Vice-President and Cyril Reitman, Vice-President, were not considered "independent" directors because they were members of management. The remaining directors of the Corporation, namely H. Jonathan Birks, Stephen J. Kauser, Max Konigsberg, Samuel Minzberg, Howard Stotland, Robert S. Vineberg and John J. Swidler, are considered "independent", as they do not have any material relationships with the Corporation. While Samuel Minzberg and Robert S. Vineberg are partners of a law firm that provides services to the Corporation, the Board of Directors is of the opinion that this does not constitute a material relationship that could interfere with the exercise of their independent judgment.

Mr. Jeremy H. Reitman is also a director of the Bank of Montreal, listed on TSX and the New York Stock Exchange. Mr. Stephen F. Reitman is a director of Global Brands Acquisition Corp., listed on the American Stock Exchange. Mr. Samuel Minzberg is also a director of HSBC Bank Canada, listed on TSX.

The independent directors hold meetings at which non-independent directors and members of management are not in attendance. In the 2008 fiscal year, four such meetings were held by the independent directors.

While the chairman of the Board of Directors is not an independent director, the Board of Directors has appointed Stephen J. Kauser as lead director, in order to provide leadership to the other independent directors. Mr. Kauser leads sessions attended only by the independent directors and serves as a liaison among the directors and between the Board of Directors and senior management. Mr. Kauser's mandate as lead director also includes dealing with any conflicts of interest between management and the Board of Directors or members thereof.

A record of attendance of each director at meetings of the Board of Directors held in the 2008 fiscal year is included on page 7 of this circular.

Board Mandate

The Board of Directors has adopted a mandate in which it explicitly acknowledges responsibility for the stewardship of the Corporation. The mandate of the Board of Directors can be found as Schedule 1 to this Proxy Circular.

Position Descriptions

The Board of Directors has adopted written position descriptions for the chair of the Board of Directors, the chairs of each committee of the Board of Directors and the President and Chief Executive Officer of the Corporation, outlining the roles and responsibilities of each such office.

Orientation and Continuing Education

The Guidelines suggest a reporting issuer have a process to orient new directors regarding (a) the role of the board, its committees and directors and (b) the nature and operation of the issuer's business. The Guidelines also recommend that a reporting issuer have a continuing education process, to ensure directors maintain the skill and knowledge necessary to fulfill their obligations. Due to the size of the Board of Directors and the low turnover of directors, the need for these formal processes is diminished because effective communication can be readily achieved. Nevertheless, the Corporate Governance Committee has the responsibility for developing such processes as may be necessary and appropriate from time to time.

Ethical Business Conduct

The Board of Directors has adopted a Conflict of Interest Policy and Code of Conduct (the "Code of Conduct"), which is available through SEDAR at www.sedar.com.

On an annual basis, all employees are expected to review the Code of Conduct and certify that they have done so by signing the Annual Certificate of Understanding of the Code of Conduct. The Corporation is also implementing an Employee Ethics hotline, where any employee of the Corporation can submit any concern over possible conflict of interest and/or breach of the Code of Conduct without fear of dismissal or retaliation of any kind.

The Board of Directors has not granted any waiver from the Code of Conduct in favour of any director or officer of the Corporation.

The Code of Conduct has specific provisions dealing with conflicts of interest and provides that no employee should be subject, or even appear to be subject, to influences, interests or relationships which conflict with the best interests of the Corporation. Each employee is expected to avoid any investment, interest or association which interferes, might interfere or might be thought to interfere with the independent exercise of his/her judgment in the Corporation's best interest.

Disclosures of personal interests or of other circumstances which might be thought to cause actual or potential conflicts of interest are to be made promptly by the employee to the President or Executive Vice-President of the Corporation. Such disclosures will be held in confidence to the fullest extent consistent with the circumstances. In the event a conflict is found to be present, an arrangement will be made for resolution in a manner best suited to the interests of the Corporation and the employee.

No director votes or participates in a discussion on a matter in respect of which a director has a material interest and the Board of Directors may also appoint a special committee of independent directors if as and when may be necessary or appropriate from time to time.

Nomination of Directors and Corporate Governance

The Corporate Governance Committee has the responsibility to identify suitable candidates for nominees as directors. The Corporate Governance Committee is composed entirely of independent directors. The Board of Directors has adopted a charter of the Corporate Governance Committee which establishes the Corporate Governance Committee's purpose, responsibilities, member qualifications, appointment and removal, structure, operations and manner of reporting to the Board of Directors. The charter also provides authority to the Corporate Governance Committee to retain outside counsel and any other advisors as the Corporate Governance Committee may deem appropriate with the approval of the Audit Committee.

The Corporate Governance Committee is, notably, responsible for examining the size of the Board of Directors from time to time in order to ensure effective decision-making and assessing the performance and effectiveness of the directors, the committees of the Board of Directors and the contributions of individual directors.

The Corporate Governance Committee is also responsible for assessing and making recommendations with respect to all aspects of the Corporation's corporate governance and monitoring compliance with the Code of Conduct.

Compensation

The Compensation Committee is, notably, responsible for the oversight of executive and director compensation. The Compensation Committee is composed entirely of independent directors. The Board of Directors has adopted a charter of the Compensation Committee which establishes the Compensation Committee's purpose, responsibilities, member qualifications, appointment and removal, structure, operations and manner of reporting to the Board of Directors. The charter also provides authority to the Compensation Committee to retain outside counsel and any other advisors as the Compensation Committee may deem appropriate with the approval of the Audit Committee.

The Compensation Committee is responsible for reviewing and recommending to the Board of Directors compensation for directors, reviewing and approving compensation of the President and Chief Executive Officer and the compensation of other executives, as well as advising and making recommendations to the Board of Directors with respect to incentive-based compensation plans and equity-based plans.

The Compensation Committee is also responsible for reviewing compensation disclosure in public documents, including the annual report on executive compensation, which can be found in this circular, and which describes the process by which the Board of Directors sets the compensation for the Corporation's officers and directors.

Other Board Committees

The Board of Directors has no standing committees other than the Audit Committee, the Corporate Governance Committee and the Compensation Committee. Additional disclosure in respect of the

Audit Committee can be found in the Corporation's Annual Information Form for the year ended February 2, 2008.

Assessments

The Corporate Governance Committee has the mandate, explicitly documented in its charter, to implement a process for assessing the effectiveness of the Board of Directors, its committees and individual directors.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation provides insurance for the benefit of the directors and officers of the Corporation and its subsidiaries against liability incurred by them in these capacities. The current annual policy limit is $25 million. Protection is provided to directors and officers for wrongful acts or omissions done or committed during the course of their duties as such. The insurance excludes from coverage illegal acts and acts which result in personal profit. Under the insurance coverage, the Corporation is reimbursed for payments which it is required or permitted to make to its directors and officers to indemnify them, subject to a deductible of $100,000 per loss; and individual directors and officers are reimbursed for losses incurred in their capacities as such. The annual premium is $136,500, all of which was paid by the Corporation.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

The Corporation leases two retail locations, which are owned by Consol Holdings Canada Limited, an associate of Jeremy H. Reitman, Stephen F. Reitman and Cyril Reitman. The leases for such premises were entered into on commercial terms similar to those for leases entered into with third parties for similar premises.

DIRECTORS' APPROVAL

The contents and the sending of this Proxy Circular have been approved by the directors of the Corporation.

April 28, 2008 — Saul Schipper

Montreal, Québec — Secretary

SCHEDULE 1

BOARD OF DIRECTORS MANDATE

1. MANDATE

1.1 Mandate – In adopting this Mandate, the Board explicitly assumes responsibility for the stewardship of the Corporation, as contemplated by the Canadian securities regulators' governance standards.

2. DEFINITIONS

2.1 Definitions – In this Mandate:

(a) "**Articles**" means the articles of incorporation of the Corporation, as amended from time to time;

(b) "**Board**" means the board of Directors of the Corporation;

(c) "**Chair**" means the chairperson of the board of Directors;

(d) "**CEO**" means the Chief Executive Officer of the Corporation;

(e) "**Corporation**" means Reitmans (Canada) Limited;

(f) "**Director**" means a director of the Corporation;

(g) "**Independent Director**" means a Director that is independent within the meaning of section 1.4 of Multilateral Instrument 52-110 Audit Committees.

(h) "**Mandate**" means this mandate, as amended from time to time.

3. BOARD MEMBERSHIP

3.1 Number of Members – The Board shall consist of such number of Directors as the Board may determine from time to time, provided that such number shall be within the minimum and maximum number of Directors set out in the Articles.

3.2 Independence of Members –

(a) At least one quarter of the Directors shall be resident Canadians.

(b) A majority of the Directors shall be Independent Directors.

3.3 Nomination and Appointment of Directors –

(a) The Board shall nominate individuals for election as Directors by the shareholders and shall require the Governance Committee to make recommendations to it with respect to such nominations.

(b) In selecting candidates for nomination as Directors, the Board shall:

(i) consider what competencies and skills the Board, as a whole, should possess; and

(ii) assess what competencies and skills each existing Director possesses.

(c) The Board shall consider recommendations made to it by the Governance Committee with respect to the size and composition of the Board.

3.4 Election and Appointment of Directors – Directors shall be elected by the shareholders at each annual meeting of shareholders or at such times, in such manner and for such term as the Articles may prescribe, provided that notwithstanding the expiry of his or her term, each Director shall remain in office until he or she is re-elected, replaced or removed.

3.5 Vacancy – The Board may appoint a Director to fill a vacancy which occurs in the Board between annual elections of Directors to the extent permitted by the Articles.

3.6 Removal of Members – Any Director may be removed from office by an ordinary resolution of the shareholders at a special meeting of shareholders.

3.7 Additional Directors – In addition to filling vacancies on the board, the Directors may at any time, without exceeding the number of Directors provided by the Articles, appoint one or more additional Directors who shall hold office for a term expiring not later than the close of the next annual meeting of shareholders, provided that the total number of Directors so appointed may not exceed one-third (1/3) of the number of Directors elected at the previous annual meeting of shareholders.

4. BOARD CHAIR

4.1 Board to Appoint Chair – The Chair shall be an Independent Director, failing which a lead Director will be appointed.

4.2 Chair to be Appointed Annually – The Board shall appoint the Chair annually at the first meeting of the Board after a meeting of the members at which Directors are elected. If the Board does not so appoint a Chair, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

5. MEETINGS OF THE BOARD

5.1 Time and Place of Meetings – Meetings of the Board shall be held from time to time and at such place as the Board, the Chair, the chairperson of the executive committee of the Board (if such a committee is constituted), the president or any two Directors may determine.

5.2 Frequency of Board Meetings – Subject to the Articles, the Board shall meet at least four times per year on a quarterly basis.

5.3 Quorum – Unless otherwise fixed in the Articles, a quorum of the Board shall be a majority of Directors.

5.4 Secretary – The Board shall appoint a person who may, but need not, be a member of the Board, to be secretary and who shall attend and be the secretary of all meetings of the Board, shareholders and committees of the Board.

5.5 Right to Vote – Each Director shall have the right to vote on matters that come before the Board unless precluded by the Articles.

5.6 Invitees – The Board may invite officers and employees of the Corporation or any other person to attend meetings of the Board to assist in the discussion and examination of the matters under consideration by the Board.

5.7 Meeting of Independent Directors – The Independent Directors shall have regularly scheduled meetings at which members of management are not present.

5.8 Board Material Distribution – Information and materials that are important to the Board's understanding of the agenda items and related topics shall be distributed in advance of Board meetings. Management will deliver information on the business, operations and finances of the Corporation to the Board on an as required basis.

5.9 Attendance and Preparedness – Directors are expected to attend regularly scheduled meetings of the Board and of the shareholders and to have prepared for the meetings by, at a minimum, reviewing in advance of the meeting the materials delivered in connection with the meeting. The attendance record of individual directors at meetings of the Board will be disclosed in the Corporation's proxy circular.

6. OUTSIDE ADVISORS

6.1 Retaining and Compensating Advisors – Each Director shall have the authority to retain outside counsel and any other external advisors as appropriate with the approval of the Audit Committee.

7. REMUNERATION OF BOARD MEMBERS

7.1 Remuneration – Members of the Board and the chairperson shall receive such remuneration for their service on the Board as the Board may determine from time to time.

8. DELEGATION OF DUTIES

8.1 Delegation to Committees – The Board may establish and delegate to committees of the Corporation any duties and responsibilities of the Board which the Board is not prohibited by law from delegating. However, no committee of the Board shall have the authority to make decisions which bind the Corporation, except to the extent that such authority has been specifically delegated to such committee by the Board.

8.2 Delegation to Committees –

(a) The Board shall establish and maintain, notably, the following committees of the Board, each having mandates that incorporate all applicable legal and stock exchange listing requirements and with such recommendations of relevant securities regulatory authorities and stock exchanges as the Board may consider appropriate:

(i) Audit Committee;

(ii) Compensation Committee; and

(iii) Governance Committee (which shall also serve as Nominating Committee).

(b) Subject to the Articles, the Board may appoint any other committee of the Board and delegate to such committee any of the powers of the Board.

8.3 Composition of Committees – The Board will appoint and maintain in office members of each of its committees such that the composition of each such committee is in compliance with all applicable legal and stock exchange listing requirements and with such recommendations of relevant securities regulatory authorities and stock exchanges as the Board may consider appropriate and shall require the Governance Committee to make recommendations to it with respect to such matters.

8.4 Review of Charters – The Board will review the charters and the composition of each of its committees on a regular basis and will revise those charters or amend the composition of its committees as it considers appropriate and shall require the Governance Committee to make recommendations to it with respect to such matters.

8.5 Delegation to Management – Subject to the Articles, the Board may appoint officers, specify their duties and delegate to them powers to manage the business and affairs of the Corporation.

8.6 Oversight – The Board retains responsibility for oversight of any matters delegated to any committee of the Board or to management.

8.7 Residual Authority – The Board retains responsibility for any matter that has not been delegated to management or to a committee of the Board.

9. DUTIES AND RESPONSIBILITIES OF THE BOARD

Responsibility for Specific Matters

9.1 Responsibility for Specific Matters – The Board explicitly assumes responsibility for the matters set out in this Mandate, and specifically those matters set out below, recognizing that these matters represent in part responsibilities reflected in requirements and recommendations adopted by applicable securities regulators and the stock exchanges and do not limit the Board's overall stewardship responsibility or its responsibility to manage the affairs of the Corporation.

9.2 Delegation to Committees – Whether or not specific reference is made to committees of the Board in connection with any of the matters referred to below, the Board may direct any committee of the Board to consider such matters and to report and make recommendations to the Board with respect to these matters.

Corporate Governance Generally

9.3 Corporate Governance Matters –

(a) Corporate Governance Guidelines. The Board shall adopt and maintain corporate governance guidelines recommended to it by the Governance Committee and which

comply with all applicable legal and stock exchange listing requirements and with such recommendations of relevant securities regulatory authorities and stock exchanges as the Board may consider appropriate.

(b) Corporate Governance Disclosure. The Board shall review all material disclosure with respect to the Corporation's system of corporate governance and the operation of its system of governance required by the Canadian securities regulators, as submitted to it by its Governance Committee.

Responsibilities Relating to Management

9.4 Integrity of Management – The Board shall, to the extent feasible, satisfy itself:

(a) as to the integrity of the CEO and other senior officers; and

(b) that the CEO and other senior officers create a culture of integrity throughout the organization.

9.5 Succession Planning – The Board shall be responsible for succession planning, including appointing, training and monitoring senior management.

9.6 Executive Compensation Policy –

(a) Executive Compensation Policy. The Board shall review the executive compensation policy submitted to it by the Compensation Committee as well as the overall structure of the Corporation's total compensation strategy, including the elements of the Corporation's annual and long-term incentive plans, including plan design, performance targets, administration and total funds/shares reserved for payments;

(b) Board Approval. The Board shall approve the compensation of the CEO in light of the performance assessment by the Compensation Committee and shall consider and, if appropriate, approve the recommendations of the CEO with respect to the compensation of other members of senior management.

(c) Delegation to Compensation Committee. The Board may direct the Compensation Committee to consider the matters contemplated in Sections 9.4, 9.5 and 9.6 of this Mandate and to report and make recommendations to the Board with respect to these matters.

9.7 Organizational Responsibilities – The Board shall review and approve as appropriate:

(a) appointments for all mission critical positions (as such positions are defined by the Compensation Committee from time to time) and compensation packages for such appointments;

(b) the report on executive compensation that is required to be included in the Corporation's management proxy circular;

and shall require the Compensation Committee to make recommendations to it with respect to such matters.

Oversight of Operation of Business

9.8 Risk Management – Taking into account the reports of management and such other persons as the Board may consider appropriate, the Board shall identify the principal risks of the Corporation's business and satisfy itself as to the implementation of appropriate systems to manage these risks.

9.9 Strategic Planning Process – The Board shall adopt a strategic planning process and shall approve, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the Corporation's business.

9.10 Internal Control and Management Information Systems – The Board shall review the reports of management and the Audit Committee concerning the integrity of the Corporation's internal control and management information systems. Where appropriate, the Board shall require management and the Audit Committee to implement changes to such systems to ensure integrity of such systems.

9.11 Communications Policy – The Board shall review and, if determined appropriate, approve a communication policy for the Corporation for communicating with shareholders, the investment community, the media, governments and their agencies, employees and the general public. The Board shall consider, among other things, the recommendations of management and the Governance Committee with respect to this policy.

9.12 Disclosure and Share Trading Policy – The Board shall review and, if determined appropriate, approve a disclosure and share trading policy for the Corporation which will deal with the disclosure by the Corporation to the public of material information and set standards for share trading by insiders of the Corporation. The Board shall consider, among other things, the recommendations of management and the Governance Committee with respect to this policy.

9.13 Financial Statements – The Board shall review the recommendation of the Audit Committee with respect to the annual and interim financial statements of Corporation to be delivered to shareholders. The Board shall approve such financial statements.

9.14 Pension Plan Matters – Should the Corporation put in place any pension plans, the Board shall receive and review reports from management and from the Compensation Committee covering administration, investment performance, funding, financial impact, actuarial reports and other pension plan related matters regarding any such plans.

9.15 Conflict of Interest Policy and Code of Conduct - The Board will review and approve a Conflict of Interest Policy and Code of Conduct for the Corporation. In adopting this code, the Board will consider the recommendations of the Governance Committee concerning its compliance with applicable legal and stock exchange listing requirements and with such recommendations of relevant securities regulatory authorities and stock exchanges as the Board may consider appropriate.

9.16 Compliance and Disclosure – The Board will direct the Governance Committee to monitor compliance with the Conflict of Interest Policy and Code of Conduct and recommend disclosures with respect thereto. The Board will consider any report of the Governance Committee concerning these matters, and will approve, if determined appropriate, the disclosure of the Conflict of Interest

Policy and Code of Conduct and of any waiver granted to a Director or senior officer of the Corporation from complying with the Conflict of Interest Policy and Code of Conduct.

9.17 Significant Decisions – The Board shall require management to obtain its approval for all significant decisions, including major financings, acquisitions, dispositions, budgets and capital expenditures.

9.18 Information Flow from Management – The Board shall require management to keep it aware of the Corporation's performance and events affecting the Corporation's business, including opportunities in the marketplace and adverse or positive developments.

9.19 Feedback from Stakeholders – The Board shall be responsible for establishing measures for receiving feedback from stakeholders of the Corporation.

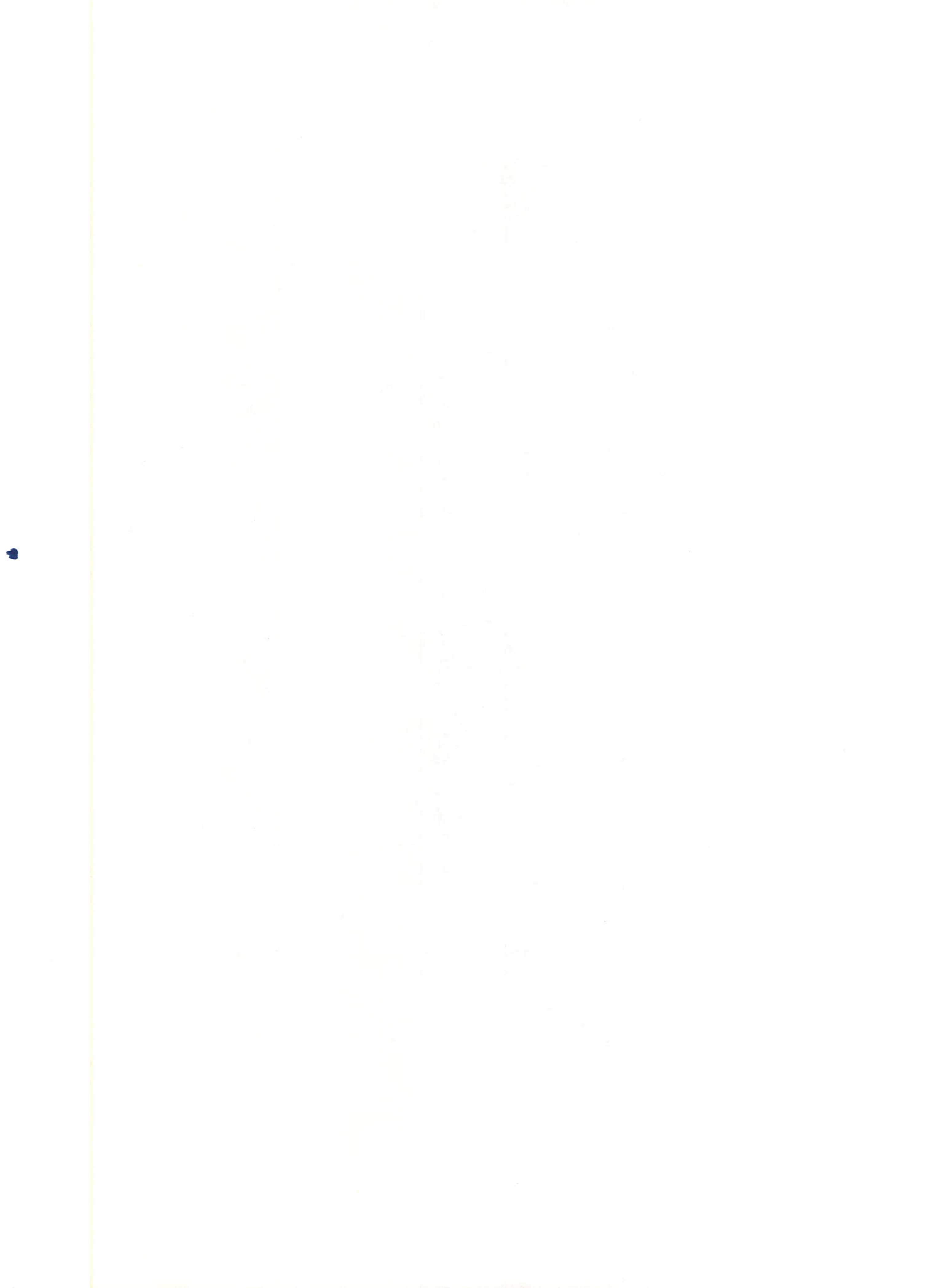
10. EVALUATION OF BOARD PERFORMANCE

10.1 Establish Process – The Board shall establish a process to be carried out by the Governance Committee for assessing the performance of the Board.

10.2 Amendments to Mandate – The Board will review and reassess the adequacy of its Mandate on a regular basis.

11. INTERPRETATION

11.1 Interpretation – The provisions of this mandate shall at all times be subject to the provisions of the Articles.



CORPORATE INFORMATION

Reitmans Distribution Centre, Montreal, Québec

REITMANS (CANADA) LIMITED

ADMINISTRATION OFFICE

250 SAUVÉ STREET WEST
MONTREAL, QC H3L 1Z2

TELEPHONE: **(514) 384-1140**
FAX: **(514) 385-2669**
E-MAIL: **info@reitmans.com**
CORPORATE WEBSITE: **reitmans.ca**

REGISTERED OFFICE

3300 HIGHWAY #7 WEST, SUITE 702
VAUGHAN, ON L4K 4M3

TELEPHONE: **(905) 761-2830**
FAX: **(905) 761-8922**

TRANSFER AGENT AND REGISTRAR

COMPUTERSHARE INVESTOR SERVICES INC.
MONTREAL, TORONTO, CALGARY, VANCOUVER

STOCK SYMBOLS

THE TORONTO STOCK EXCHANGE:

COMMON	**RET**
CLASS A NON-VOTING	**RET. A**

REITMANS

SMART SET

RW & CO.

THYME

CASSIS

PENNINGTONS

ADDITION ELLE

DESIGN AND PRODUCTION:
COMMUNICATIONS MARILYN GELFAND INC.