
Reitmans
(CANADA) LIMITED
09
annual report

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

2008 will long be remembered as a year of challenge.

Dramatic changes in the global economy led Canada into recession, which negatively impacted our results, particularly in the fourth quarter.

Sales for the year ended January 31, 2009 decreased 0.6% to $1,050,861,000. Same store sales decreased 4.0%. Operating earnings before depreciation and amortization (EBITDA[1]) decreased 9.2% to $180,931,000. Net earnings decreased 25.3% to $85,806,000 or $1.21 diluted earnings per share.

During the year, the Company opened 47 new stores and closed 32. Accordingly, at year-end, there were 973 stores in operation, consisting of 372 Reitmans, 166 Smart Set, 59 RW & CO., 76 Thyme Maternity, 16 Cassis, 161 Penningtons and 123 Addition Elle, as compared with a total of 958 stores last year.

Notwithstanding the negative factors pervading the Canadian economy, the Company continues to execute its strategy of delivering fashionable clothing at excellent prices to Canadian consumers.

We continue to grow all areas of our business. In fiscal 2010, we expect to open 30 new stores, close 17 stores and remodel 32 stores. We continue to upgrade 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 are proud of our achievements over the past 83 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 growth of the Company.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman, President
Montreal, April 8, 2009

the **year** at a glance

$1,050,861,000	SALES	- 0.6%
$180,931,000	EBITDA[1]	- 9.2%
$127,177,000	PRE-TAX EARNINGS	-20.1%
$85,806,000	ADJUSTED NET EARNINGS[1]	-20.4%
$1.21	ADJUSTED EPS[1]	-19.3%
$246,872,000	CASH AND INVESTMENTS	+ 1.0%
973	STORES	+ 1.6%

[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. 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.

5-year highlights

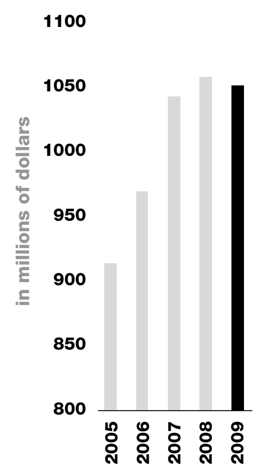
For the years ended:
(in thousands except per share amounts)
(unaudited)

	2009	2008	2007	2006	2005
SALES					
1st Quarter	**$ 228,318**	$ 230,695	$ 222,969	$ 213,732	$ 193,420
2nd Quarter	**289,502**	291,942	278,828	261,785	246,002
3rd Quarter	**271,240**	265,465	258,602	238,613	236,281
4th Quarter	**261,801**	269,618	282,110	255,128	236,770
Total	**$ 1,050,861**	$ 1,057,720	$ 1,042,509	$ 969,258	$ 912,473
OPERATING EARNINGS					
1st Quarter	**$ 25,372**	$ 23,052	$ 27,564	$ 25,014	$ 14,547
2nd Quarter	**49,165**	47,801	51,048	42,066	33,048
3rd Quarter	**33,358**	39,698	33,781	27,200	24,118
4th Quarter	**14,852**	38,527	29,473	22,766	16,801
Total	**$ 122,747**	$ 149,078	$ 141,866	$ 117,046	$ 88,514
ADJUSTED NET EARNINGS[2]					
1st Quarter	**$ 18,436**	$ 18,838[2]	$ 21,674	$ 19,667	$ 13,038
2nd Quarter	**35,385**	32,540[2]	33,593[2]	29,224	23,868
3rd Quarter	**23,004**	27,869[2]	23,823[2]	19,238	17,638
4th Quarter	**8,981**	28,506[2]	23,433[2]	16,760	12,363
Total	**$ 85,806**	$ 107,753[2]	$ 102,523[2]	$ 84,889	$ 66,907
ADJUSTED BASIC EARNINGS PER SHARE[1,2]					
1st Quarter	**$ 0.26**	$ 0.27[2]	$ 0.31	$ 0.28	$ 0.19
2nd Quarter	**0.50**	0.46[2]	0.48[2]	0.42	0.35
3rd Quarter	**0.33**	0.40[2]	0.34[2]	0.28	0.25
4th Quarter	**0.13**	0.40[2]	0.33[2]	0.24	0.18
Total	**$ 1.21**	$ 1.53[2]	$ 1.46[2]	$ 1.22	$ 0.97
ADJUSTED NET EARNINGS[2]	**$ 85,806**	$ 107,753[2]	$ 102,523[2]	$ 84,889	$ 66,907
ADJUSTED BASIC EARNINGS PER SHARE[1,2]	**$ 1.21**	$ 1.53[2]	$ 1.46[2]	$ 1.22	$ 0.97
SHAREHOLDERS' EQUITY	**$ 522,539**	$ 495,119	$ 436,119	$ 390,257	$ 331,524
PER SHARE[1]	**$ 7.43**	$ 6.98	$ 6.12	$ 5.56	$ 4.77
NUMBER OF STORES	**973**	958	920	887	867
DIVIDENDS PAID	**$ 50,885**	$ 46,930	$ 40,893	$ 29,345	$ 14,171
STOCK PRICE AT YEAR-END[1]					
CLASS A NON-VOTING	**$ 10.68**	$ 17.12	$ 23.05	$ 17.90	$ 13.75
COMMON	**$ 8.75**	$ 16.50	$ 23.30	$ 18.70	$ 14.00

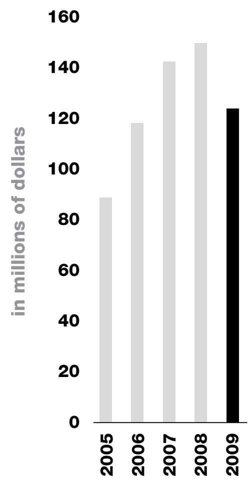
[1] Adjusted to account for 100% stock dividends paid in April 2005

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

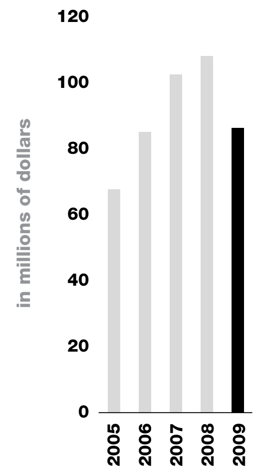
confident in our future



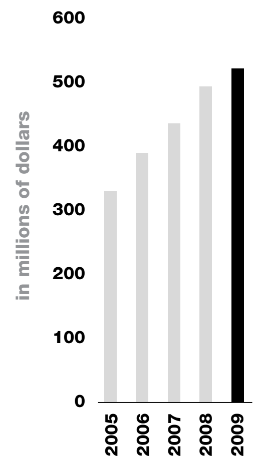
sales



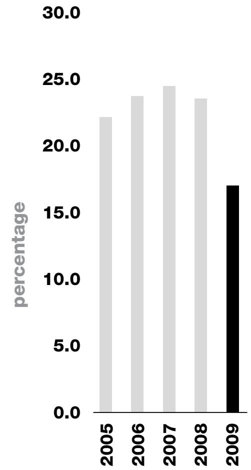
operating earnings



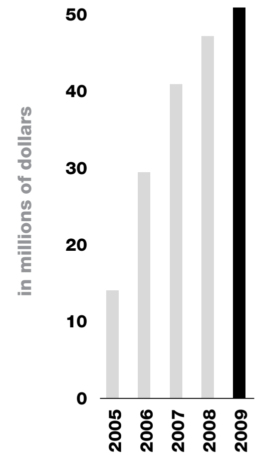
adjusted net earnings[1]



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.

973 stores across Canada

	Reitmans	Smart Set	RW & CO.	Thyme	Cassis	Penningtons	Addition Elle	Total
Newfoundland	14	3	1	-	-	3	2	23
Prince Edward Island	3	3	-	-	-	2	-	8
Nova Scotia	21	6	1	2	-	10	2	42
New Brunswick	16	6	3	1	1	4	5	36
Québec	84	38	15	19	7	25	33	221
Ontario	116	66	24	29	8	58	44	345
Manitoba	14	6	1	2	-	6	4	33
Saskatchewan	11	3	-	2	-	8	3	27
Alberta	47	17	4	12	-	23	15	118
British Columbia	44	18	10	9	-	22	15	118
Northwest Territories	1	-	-	-	-	-	-	1
Yukon	1	-	-	-	-	-	-	1
	372	166	59	76	16	161	123	973

372

Operating 372 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.

166

The Smart Set brand, with 166 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 weekend wear, all of which are designed and manufactured specifically and exclusively for the chain and carry the Smart Set label.

59

Operating 59 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.

76

Thyme Maternity, Canada's largest specialty retailer of maternity clothing, operates 76 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.

16

The newest of the Reitmans (Canada) Limited retail banners, Cassis, has 16 stores averaging 3,700 sq. ft., which are located in major regional malls. Cassis features urban casual and career clothing that reflects the personality of our customer: charismatic and youthful. We offer styles, cuts and fabrics that flatter the figure of the 45-year-old woman while showcasing the energy and attitude of her 35-year-old mindset.

161

With 161 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.

123

Operating 123 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 116 Addition Elle stores.

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 January 31, 2009 and the notes thereto which are available at www.sedar.com. This MD&A is dated April 8, 2009.

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 8, 2009.

Additional information about Reitmans, including the Company's 2009 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 before depreciation and amortization ("EBITDA"), which is defined as earnings before interest, taxes, depreciation and amortization 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, Cassis, Penningtons and Addition Elle. 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 on 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 (Penningtons and Addition Elle) and launched an e-commerce website for these banners in November 2007. The Company is encouraged with the acceptance shown by customers using the e-commerce website which has shown promising results, while offering customers the convenience of online purchasing. The Company is considering launching additional banners in the e-commerce domain in the coming year.

Selected financial information

(in thousands, except per share amounts)

	For the fiscal years ended		
	January 31, 2009	**February 2, 2008**	**February 3, 2007***
Sales	**$ 1,050,861**	$ 1,057,720	$ 1,042,509
Earnings before income taxes	**127,177**	159,216	153,366
Net earnings	**85,806**	114,902[1]	82,469[2]
Earnings per share ("EPS")			
Basic	**1.21**	1.61[1]	1.17[2]
Diluted	**1.21**	1.60[1]	1.15[2]
Total assets	**633,239**	620,960	600,411
Long-term debt[3]	**12,731**	13,951	15,097
Dividends per share	**0.72**	0.66	0.58

* 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 "5-year highlights".

Consolidated operating results for the 52 week fiscal year ended January 31, 2009 ("fiscal 2009") and comparison to consolidated operating results for 52 week fiscal year ended February 2, 2008 ("fiscal 2008")

Sales for fiscal 2009 decreased 0.6% to $1,050,861,000 as compared with $1,057,720,000 for fiscal 2008. Same store sales decreased 4.0%. In the first and second quarters of fiscal 2009, weakness in the US economy and sharp increases in the price of certain commodities in Canada, most notably oil and gas, negatively impacted consumer confidence, which led to reduced traffic in all venues as consumers cut back on spending for apparel. Particularly unfavorable weather conditions yielded close to historical records for snowfall, which persisted into the spring in Central and Eastern Canada, contributing to a softening in the demand for spring merchandise as customers delayed their purchases. Unseasonable weather continued throughout Canada during the months of May, June and July with higher than average levels of rainfall and below normal temperatures. This impacted traditional buying patterns as consumers delayed purchases resulting in the Company's merchandise being more heavily promoted to manage inventory levels. In the third quarter of fiscal 2009, global economic conditions deteriorated significantly. Despite a relatively positive outlook in Canada, consumer confidence continued to weaken over financial markets concerns and the fear of recession. This resulted in downward pressure on retail prices for apparel as concern over inventory levels rose. In the fourth quarter of fiscal 2009, economic conditions deteriorated further as the impact of the US financial crisis moved into Canada and consumer spending patterns reflected increased concern over the recession. Statistics Canada reported sales in the clothing and accessories stores sector fell 3.7% in December 2008, continuing several months of declines. With a continued weakening of consumer confidence and facing rising unemployment, consumers reduced their spending in all areas and particularly on apparel.

For fiscal 2009, EBITDA decreased by $18,245,000 or 9.2% to $180,931,000 as compared with $199,176,000 for fiscal 2008. The Company's gross margin of 65.4% for fiscal 2009 remained unchanged from fiscal 2008 after adjusting for transportation costs and certain distribution centre costs, which were excluded from the computation of gross margin in fiscal 2008 and included in fiscal 2009 as a result of the adoption of a new accounting standard (as explained in "Adoption of New Accounting Standards"). The decline in sales of $6,859,000 in fiscal 2009 as compared to fiscal 2008 resulted in a reduction of approximately $4,500,000 in gross margin (and EBITDA). As the Company purchases the majority of its merchandise with US dollars, a significant fluctuation of the Canadian dollar vis-à-vis the US dollar can impact earnings. Despite the effect of a weaker Canadian dollar vis-à-vis the US dollar in fiscal 2009 as compared to fiscal 2008, EBITDA was not significantly impacted. This was largely the result of a relatively comparable average rate for a US dollar for fiscal 2009 as compared to fiscal 2008. The average rate for a US dollar in fiscal 2009 was $1.08 Canadian as compared to $1.06 Canadian in fiscal 2008. The Canadian dollar was close to par with the US dollar throughout the first six months of fiscal 2009, weakening somewhat in the third quarter and more significantly in the fourth quarter of fiscal 2009. Spot prices for $1.00 US during fiscal 2009 ranged between a high of $1.30 and a low of $0.97 Canadian ($1.19 and $0.91 respectively during fiscal 2008). Significant components of store operating costs that negatively impacted EBITDA included wages, which increased by 48 basis points as a percentage of sales and rent and occupancy costs, which increased by 97 basis points as a percentage of sales. The combined increase of 145 basis points as a percentage of sales negatively impacted EBITDA by approximately $15,000,000, offset by modest improvements in other store expenses.

Depreciation and amortization expense for fiscal 2009 was $58,184,000 compared to $50,098,000 for the prior year. This increase reflects the increased new store construction and store renovation activities of the Company. As well, it includes $2,577,000 of write-offs as a result of closed and renovated stores, compared to $1,793,000 in the prior year.

Investment income for fiscal 2009 decreased 51.9% to $5,351,000 as compared to $11,128,000 in the prior year. The disposal of marketable securities in the fourth quarter of fiscal 2008 contributed to a reduction in dividend income for fiscal 2009 to $1,719,000 as compared to $2,398,000 for fiscal 2008. The disposal of marketable securities in the fourth quarter of fiscal 2009 resulted in net capital losses of $2,350,000 for fiscal 2009, which allowed for net capital losses to be carried back for income tax purposes to recover previous years' taxes, as compared to net capital gains of $474,000 for fiscal 2008. Interest income decreased for fiscal 2009 to $5,982,000 as compared to $8,256,000 for fiscal 2008 due to significantly lower rates of interest.

Interest expense on long-term debt decreased to $921,000 for fiscal 2009 from $990,000 in fiscal 2008. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Income tax expense for fiscal 2009 amounted to $41,371,000, for an effective tax rate of 32.5%. For fiscal 2008, income tax expense was $44,314,000, for an effective tax rate of 27.8% (32.3% prior to a Québec tax reassessments recovery). The variation in the effective tax rate is primarily due to a reduction in the Company's income tax expense in fiscal 2008 of $7,149,000 related to settlement of the retroactive income tax reassessments issued in connection with Bill 15 enacted by the Québec National Assembly.

Net earnings for fiscal 2009 decreased 25.3% to $85,806,000 ($1.21 diluted earnings per share) as compared with $114,902,000 ($1.60 diluted earnings per share) for fiscal 2008.

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. In fiscal 2009, these merchandise purchases, which are payable in US dollars, exceeded $200,000,000 US. The Canadian dollar remained strong through September 2008. In October 2008, the Canadian dollar weakened significantly against the US dollar and continued to remain below rates experienced earlier in the year. Due to the strength of the Canadian dollar throughout most of fiscal 2009, the Company satisfied its US dollar requirements through spot rate purchases. The Company considers a variety of strategies designed to fix the cost of its continuing US dollar long-term commitments, including foreign exchange option contracts with maturities not exceeding three months.

During fiscal 2009, the Company opened 47 stores comprised of 17 Reitmans, 5 Smart Set, 7 RW & CO., 4 Thyme Maternity, 2 Cassis, 4 Penningtons and 8 Addition Elle; 32 stores were closed. Accordingly, at January 31, 2009, there were 973 stores in operation, consisting of 372 Reitmans, 166 Smart Set, 59 RW & CO., 76 Thyme Maternity, 16 Cassis, 161 Penningtons and 123 Addition Elle, as compared with a total of 958 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 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")

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 all venues as consumers cut back on spending for apparel.

Sales in the Cassis stores in the first six months of fiscal 2008 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.

For fiscal 2008, EBITDA increased by $12,364,000 or 6.6% to $199,176,000 as compared to $186,812,000. 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 favorably impact the gross margin during fiscal 2008. 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 the year ended February 2, 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 in fiscal 2008. The Company paid the outstanding liability subsequent to year-end fiscal 2008.

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 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.

Fourth quarter results for the 13 weeks ended January 31, 2009 and comparison to the 13 weeks ended February 2, 2008

Sales for the fourth quarter of fiscal 2009 decreased 2.9% to $261,801,000 as compared with $269,618,000 for the fourth quarter of fiscal 2008. Same store sales decreased 5.6% for the comparable 13 weeks. In the fourth quarter, global economic conditions deteriorated significantly with confirmation of a recession in both Canada and the US. Consumer confidence continued to weaken over financial markets concerns and increasing unemployment. This resulted in a downward pressure on retail prices for apparel as concern over inventory levels rose. Statistics Canada reported sales in the clothing and accessories stores sector fell 3.7% in December 2008, continuing several months of declines. With a continued weakening of consumer confidence and facing rising unemployment, consumers reduced their spending in all areas and particularly on apparel.

In the fourth quarter of fiscal 2009, EBITDA decreased by $22,386,000 or 42.9% to $29,739,000 as compared with $52,125,000 for the fourth quarter of fiscal 2008. The Company's gross margin for the fourth quarter of fiscal 2009 decreased by 340 basis points to 60.8% from 64.2% for the fourth quarter of fiscal 2008 after adjusting for transportation costs and certain distribution centre costs. These costs were excluded from the computation of gross margin in the fourth quarter of fiscal 2008 and included in the fourth quarter of fiscal 2009 as a result of the adoption of a new accounting standard (as explained in "Adoption of New Accounting Standards") . The decline in sales of $7,817,000 in the fourth quarter of fiscal 2009 as compared to the fourth quarter of fiscal 2008 resulted in a reduction of approximately $4,800,000 in gross margin (and EBITDA). As the Company purchases the majority of its merchandise with US dollars, a significant fluctuation of the Canadian dollar vis-à-vis the US dollar in the fourth quarter of fiscal 2009 resulted in a decrease of approximately $12,000,000 in EBITDA. The Canadian dollar was significantly weaker in the fourth quarter of fiscal 2009 as compared to the fourth quarter of fiscal 2008, contributing substantially to the decline in gross profit. The average rate for a US dollar for the fourth quarter of fiscal 2009 was $1.23 Canadian as compared to $1.00 for the fourth quarter of fiscal 2008. Spot prices for $1.00 US during the fourth quarter of fiscal 2009 ranged between a high of $1.30 and a low of $1.15 Canadian ($1.03 and $0.92 respectively during the fourth quarter of fiscal 2008). In the fourth quarter of fiscal 2009, store operating costs were comparable with the same period for the prior year despite an increase in rent and occupancy costs of 129 basis points as a percentage of sales. The Company's overhead expenses increased by approximately $5,000,000, which increase was primarily due to adjustments amounting to $3,250,000 relating to the Company's performance incentive plan.

Depreciation and amortization expense for the fourth quarter was $14,887,000 compared to $13,598,000 for the fourth quarter of fiscal 2008. This increase reflects the increased new store construction and store renovation activities of the Company. As well, it includes $191,000 of write-offs as a result of closed and renovated stores, compared to $522,000 in the fourth quarter of fiscal 2008.

Investment income for the fourth quarter was a loss of $528,000 as compared to income of $1,451,000 in fiscal 2008. Dividend income in the fourth quarter of fiscal 2009 was $495,000 as compared to $565,000 for the fourth quarter of fiscal 2008. There were net capital losses of $2,350,000 for the fourth quarter as compared to net capital losses of $1,517,000 for the fourth quarter of fiscal 2008. Interest income decreased for the fourth quarter to $1,327,000 as compared to $2,403,000 for the fourth quarter of fiscal 2008 due to significantly lower rates of interest.

Interest expense on long-term debt decreased to $224,000 in the fourth quarter of fiscal 2009 from $241,000 in the fourth quarter of fiscal 2008. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Income tax expense for the fourth quarter of fiscal 2009 amounted to $5,119,000, for an effective tax rate of 36.3% (30.0% prior to giving effect to an adjustment for prior year's tax). For the fourth quarter of fiscal 2008, income tax expense was $2,690,000, for an effective tax rate of 6.8% (28.3% prior to a Québec tax reassessments recovery). The variation in the effective tax rate is primarily due to the impact of an income tax recovery recorded in the fourth quarter of fiscal 2008 related to the retroactive income tax reassessments issued in connection with Bill 15 enacted by the Québec National Assembly.

Net earnings for the fourth quarter of fiscal 2009 decreased 75.8% to $8,981,000 ($0.13 diluted earnings per share) as compared with $37,047,000 ($0.52 diluted earnings per share) for the fourth quarter of fiscal 2008.

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. In the fourth quarter, these merchandise purchases, which are payable in US dollars, approximated $37,000,000 US. The Company satisfied its US dollar requirements through spot rate purchases in the fourth quarter, despite the weakening of the Canadian dollar. The Company considers a variety of strategies designed to fix the cost of its continuing US dollar long-term commitments, including foreign exchange option contracts with maturities not exceeding three months. The Company did not enter into any foreign exchange option contracts during the fourth quarter.

During the fourth quarter, the Company opened 8 stores comprised of 1 Reitmans, 1 Smart Set, 1 RW & CO., 1 Thyme Maternity, 2 Cassis, 1 Penningtons and 1 Addition Elle; 13 stores were closed. Accordingly, at January 31, 2009, there were 973 stores in operation, consisting of 372 Reitmans, 166 Smart Set, 59 RW & CO., 76 Thyme Maternity, 16 Cassis, 161 Penningtons and 123 Addition Elle, as compared with a total of 958 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.

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 9, 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**
January 31, 2009	$ 261,801	$ 8,981	$ 0.13	$ 0.13	$ 8,981	$ 0.13	$ 0.13
November 1, 2008	271,240	23,004	0.33	0.32	23,004	0.33	0.32
August 2, 2008	289,502	35,385	0.50	0.50	35,385	0.50	0.50
May 3, 2008	228,318	18,436	0.26	0.26	18,436	0.26	0.26
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

The retail business is seasonal and results of operations for any interim period are not necessarily indicative of the results of operations for the full fiscal year.

Balance sheet

Cash and cash equivalents amounted to $214,054,000 or 0.1% lower than $214,301,000 last year. 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 January 31, 2009, marketable securities (reported at fair value) amounted to $32,818,000 as compared with $30,053,000 last year, $2,765,000 higher. The Company's investment portfolio is subject to stock market volatility and recent widespread declines in the stock market have resulted in reductions in the market value of these securities. The Company is highly liquid with over 85% of its cash, cash equivalents and marketable securities being invested in bank bearer deposit notes and bank term deposits of short duration with major Canadian chartered banks.

Accounts receivable are $2,689,000 or $857,000 lower than last year. The Company's accounts receivable are essentially the credit card sales from the last few days of the fiscal quarter. Income taxes recoverable are $3,826,000 as compared to income taxes payable of $16,546,000 last year. The reduction of the tax liability is attributed to the payment by the Company of $12,905,000 in March 2008 to settle all matters related to the retroactive Québec income tax reassessments issued in connection with Bill 15 enacted by the Québec National Assembly, along with increased instalments that resulted in a reduction of the current year's taxes payable. Merchandise inventories this year were $64,061,000 or $11,620,000 higher than last year, primarily due to the Company adopting a new accounting standard as described in "Adoption of New Accounting Standards". The adoption of this new standard increased the inventory at the end of the fourth quarter by $9,262,000. As a result of the Company's change in accounting policy for inventories, the inventory balance as at January 31, 2009 is not comparable with February 2, 2008. Prepaid expenses are $11,402,000 or $11,445,000 lower than last year, principally due to February 2008 rent that was paid and classified as a prepaid item in fiscal 2008.

Future income taxes are attributable to differences between the carrying values of assets and liabilities and their respective income tax bases and are recognized at enacted or substantively enacted tax rates for the future income tax consequences. The Company has recorded a future income tax valuation allowance of $554,000 on its net unrealized losses on available-for-sale financial assets as realization of these future tax assets did not meet the more likely than not criteria. This valuation allowance reduces the future income tax assets on these unrealized losses with the offsetting amount to accumulated other comprehensive loss. The recording of this valuation allowance does not have any impact on cash, nor does such an allowance preclude the Company from using its unrealized tax loss carry forwards in the future when results demonstrate a pattern of profitability.

The Company invested $58,152,000 in additions to capital assets in fiscal 2009 compared to $73,402,000 last year. This included $52,430,000 (2008 - $59,648,000) in new store construction and existing store renovation costs and $5,722,000 (2008 - $13,754,000) to the Sauvé Street office and Henri-Bourassa Boulevard distribution centre. The Company has reduced its planned capital expenditures for new stores and existing store renovations in fiscal 2010 due to the difficult economic environment.

Accounts payable and accrued items are $70,632,000, or $1,443,000 higher than last year. The Company's accounts payable consist largely of trade payables and liabilities for unredeemed gift cards/certificates.

The Company maintains a defined benefit pension plan ("plan"). An actuarial valuation was performed as at December 31, 2007 to determine the estimated liability the Company incurred with respect to the provisions of the plan. This valuation was updated to consider the widespread stock market declines that occurred during fiscal 2009, which led to declines in the market value of the plan assets. As a result, the Company recognized a larger expense than was projected. In addition, in the third quarter the Company elected to contribute $865,000 to the plan to fully fund a solvency requirement as determined by its actuaries. The Company also sponsors a Supplemental Executive Retirement Plan ("SERP") for certain senior executives. The SERP is unfunded and when the obligation arises to make any payment called for under the SERP (e.g. when an eligible plan member retires and begins receiving payments under the SERP), the payments reduce the accrual amount as the payments are actually made. An amount of $2,825,000 (2008 - $1,533,000) was expensed in fiscal 2009 with respect to both plans.

To develop its expected long-term rate of return assumption used in the calculation of net periodic benefit costs applicable to the fair value of assets, the Company considers both its past experience and future estimates of long-term investment returns, the expected composition of the plan's assets as well as the expected long-term market returns in the future. For fiscal 2009, the Company used a long-term rate of return assumption of 7.50% on the fair value of plan assets to compute net periodic benefit cost. However, given the recent performance of its plan assets and the equity markets in North America, the Company will, effective for 2010, reduce the expected long-term rate of return on plan assets from 7.50% to 7.00% to reflect management's current view of long-term investment returns.

Operating risk management

Economic Environment

Retail sales in Canada remained stronger than in the United States for most of 2008, but they began slowing noticeably in the latter half of 2008 as the impact of the financial crisis moved into Canada. Canadian apparel retailers began discounting further as consumer demand softened. Despite the impact of reduced access to credit for many businesses, the Company is in a strong financial position with significant liquidity available and ample financial credit resources to draw upon as deemed necessary.

Competitive Environment

The apparel business in Canada is highly competitive with competitors including department stores, specialty apparel chains and independent retailers. 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 of the Company's Canadian retail sectors. The Company believes that it is well positioned to compete with any competitors. The Company operates under seven banners and our product offerings are diversified as each banner is directed to and focused on a different niche in the Canadian women's apparel market. Our stores, located throughout Canada, offer affordable fashions to consumers. Additionally, Canadian women have a significant number of e-commerce shopping alternatives available to them on a global basis.

Seasonality

The Company is principally engaged in the sale of women's apparel through 973 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.

Distribution and Supply Chain

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.

Information Technology

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.

Government Regulation

The Company is structured in a manner that management considers to be most effective to conduct its business in every Canadian province and territory. The Company 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.

Merchandise Sourcing

Virtually all of the Company's merchandise is private label. In fiscal 2009, no supplier represented more than 10% 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 of the Company's merchandise. The Company has good relationships with its 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.

Financial risk management

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 and 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 January 31, 2009, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$ 214,054,000
Marketable securities	32,818,000
Accounts receivable	2,689,000
	$ 249,561,000

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 January 31, 2009, the Company had a high degree of liquidity with $246,872,000 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 January 31, 2009 and February 2, 2008, there were no outstanding foreign exchange option contracts.

The Company has performed a sensitivity analysis on its US dollar denominated financial instruments, which consist principally of cash and cash equivalents of $72,000 and accounts payable of $1,081,000 to determine how a change in the US dollar exchange rate would impact net earnings. On January 31, 2009, 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 not have a material impact on the consolidated financial statements.

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 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 a sensitivity analysis on interest rate risk at January 31, 2009 to determine how a change in interest rates would impact equity and net earnings. During fiscal 2009, the Company earned $5,940,000 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 $1,304,000. 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 a sensitivity analysis on equity price risk at January 31, 2009 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 January 31, 2009 would result in a $1,374,000 increase or decrease in equity and other comprehensive income. The Company's equity securities are subject to 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 January 31, 2009 amounted to $522,539,000 or $7.43 per share as compared to $495,119,000 or $6.98 per share last year. Despite recent developments in the Canadian equity market that has resulted in a significant drop in the Toronto Stock Exchange composite index, the Company, by virtue of its holdings in cash and cash equivalents, has sustained minimal loss in value in its liquid assets. 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 (reported at fair value) of $246,872,000 as compared with $244,354,000 last year. 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 January 31, 2009, $61,759,000 (February 2, 2008 - $48,274,000) 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 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 January 31, 2009, the maximum potential liability under these guarantees was $5,774,000. The standby letters of credit mature at various dates during fiscal 2010. 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 is self-insured on a limited basis with respect to certain property risks and also purchases excess insurance coverage from financially stable third-party insurance companies. The Company maintains comprehensive loss prevention programs aimed at mitigating the financial impact of operational risks.

The Company continued repayment on its long-term debt, relating to the mortgage on the distribution centre, paying down $1,146,000 in fiscal 2009. The Company paid dividends amounting to $50,885,000 in fiscal 2009 compared to $46,930,000 in fiscal 2008.

In fiscal 2009, the Company invested $58,152,000 on new and renovated stores, the Sauvé Street office and Henri-Bourassa Boulevard distribution centre. The Company has completed its repairs and renovation of its Sauvé Street office. In the fiscal year ending January 30, 2010, the Company expects to invest approximately $30,000,000 in capital expenditures related to new stores and renovations. 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.

Financial commitments

The following table sets forth the Company's financial commitments as at January 31, 2009, 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	$ 13,951,000	$ 1,220,000	$ 4,158,000	$ 8,573,000
Store leases and equipment	450,078,000	101,065,000	209,365,000	139,648,000
Total contractual obligations	**$ 464,029,000**	**$ 102,285,000**	**$ 213,523,000**	**$ 148,221,000**

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. Due to the strength of the Canadian dollar throughout most of fiscal 2009, the Company satisfied its US dollar requirements through spot rate purchases.

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 January 31, 2009, the Company had no outstanding foreign exchange option contracts.

Included in the determination of the Company's net earnings for fiscal 2009 is a foreign exchange gain of $1,998,000 (2008 - gain of $504,000).

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 $184,000 (2008 - $182,000).

The Company incurred $395,000 in fiscal 2009 (2008 - $302,000) 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.

Financial instruments

The Company's significant financial instruments consist of cash and cash equivalents along with marketable securities. The Company uses its cash resources to fund ongoing store construction and renovations along with working capital needs. Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. 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's investment portfolio is subject to stock market volatility and recent widespread declines in the stock market have resulted in reduction in the market value of these securities. The Company is highly liquid with over 85% of its cash, cash equivalents and marketable securities being invested in bank bearer deposit notes and bank term deposits of short duration with major Canadian chartered banks.

The volatility of the Canadian dollar impacts earnings and while the Company considers a variety of strategies, such as foreign exchange option contracts, designed to fix the cost of its continuing US dollar commitments, this unpredictability can result in exposure to risk.

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 in the future that impairment has occurred, the Company would be required to write off the impaired portion of goodwill.

Gift Cards/Certificates

Gift cards/certificates sold are recorded as a liability and revenue is recognized when the gift card/certificate is redeemed. The Company no longer issues credit vouchers as these have been replaced by gift cards. The Company, for each reporting period, reviews the gift card/certificate 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 cards/certificates.

Recent accounting pronouncements

CICA Section 3064 – Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("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

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS"), for interim and annual reporting purposes, beginning on or after January 1, 2011. The Company will be required to begin reporting under IFRS for the quarter ending April 30, 2011 and will be required to prepare an opening balance sheet and provide information that conforms to IFRS for comparative periods presented.

The Company began planning the transition from current Canadian GAAP to IFRS in 2008 by establishing a project plan and a project team. The project team is led by senior finance executives that provide overall project governance, management and support. Members also include representatives from various areas of the organization as necessary and external advisors that have been engaged to assist in the IFRS conversion project. The project team reports quarterly to the Audit Committee of the Company.

The project plan consists of three phases: the initial assessment, detailed assessment and design, and implementation. The Company has completed the initial assessment phase, which included the completion of a high level review of the major differences between current Canadian GAAP and IFRS, and an initial evaluation of IFRS 1 transition exemptions. The initial assessment also included training sessions for project team members and discussions with the Company's external auditors and advisors.

The Company is now engaged in the detailed assessment and design phase. The detailed assessment and design phase involves completing a comprehensive analysis of the impact of the IFRS differences identified in the initial assessment phase.

During the implementation phase, the Company will implement the identified changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting.

The Company continues to assess the financial reporting impacts of converting to IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable.

Adoption of new accounting standards

CICA Section 3031 – Inventories

In June 2007, the CICA issued Section 3031, Inventories, which replaced Section 3030 and harmonizes the Canadian standards related to inventories with IFRS. This section provided changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrowing the permitted cost formulas; requiring impairment testing and expanding 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 adopted this standard in the first quarter of fiscal 2009 retrospectively, without restatement of prior periods.

Merchandise inventories are valued at the lower of cost, determined principally on an average basis using the retail inventory method and net realizable value. Costs include the cost of purchase, transportation costs that are directly incurred to bring inventories to their present location and condition and certain distribution centre costs related to inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail prices due to seasonality. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to declining selling prices. The transitional adjustments resulting from the implementation of Section 3031 are recognized in the first quarter of fiscal 2009 opening balance of retained earnings and prior periods have not been restated. Upon implementation of these requirements, an increase in opening inventories of $9,846,000, an increase in taxes payable of $3,121,000 and an increase of $6,725,000 to opening retained earnings were recorded on the consolidated balance sheet resulting from the application of this new standard. The cost of inventory recognized as an expense and included in cost of goods sold and selling, general and administrative expenses for fiscal 2009 was $363,523,000. For fiscal 2009, the Company recorded $2,275,000 of write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous periods were reversed. The impact of the adoption of the new accounting standard on net earnings for fiscal 2009 was a decrease of $394,000.

CICA Section 1400 – General Standards of Financial Statement Presentation

In June 2007, the CICA amended Handbook Section 1400, General Standards of Financial Statement Presentation, which is effective for interim periods beginning on or after January 1, 2008 and which includes requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of the amended section had no impact on the consolidated financial statements of the Company.

EIC 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued Emerging Issue Committee Abstract 173 ("EIC 173") Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. EIC 173 requires that a company take into account its own credit risk and the credit risk of its counterparty in determining the fair value of financial assets and financial liabilities. This abstract must be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of these new recommendations had no impact on the Company's consolidated financial results.

Outstanding share data

At April 8, 2009, 13,440,000 Common shares of the Company and 56,863,656 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 952,000 Class A non-voting shares remained authorized for future issuance. The Company has 1,594,000 options outstanding at an average exercise price of $12.84. 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, under the prior year's normal course issuer bid, 275,000 Class A non-voting shares having a book value of $107,000 under its stock repurchase program for a total cash consideration of $4,073,000. The excess of the purchase price over book value of the shares in the amount of $3,966,000 was charged to retained earnings.

In November 2008, 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 2,861,390 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 1, 2008. The average daily trading volume for the six-month period preceding November 1, 2008 is 111,325 shares. In accordance with Toronto Stock Exchange requirements and until March 31, 2009 (unless extended), a maximum daily repurchase of 50% of this average may be made, representing 55,662 shares. Thereafter, the maximum daily repurchase will be 25% of the average, representing 27,831 shares. The bid commenced on November 28, 2008 and may continue to November 27, 2009. 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. To date 380,000 Class A non-voting shares having a book value of $149,000 have been purchased for a total cash consideration of $3,842,000. The excess of the purchase price over book value of the shares in the amount of $3,693,000 was charged to retained earnings.

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 President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of January 31, 2009. Based on this evaluation, the CEO and the CFO have concluded that, as of January 31, 2009, the disclosure controls and procedures, as defined by National Instrument 52-109, were appropriately designed and were operating effectively.

Internal controls over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

An evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting was conducted as of January 31, 2009. Based on that evaluation, the CEO and the CFO concluded that the internal control over financial reporting, as defined by National Instrument 52-109, was appropriately designed and was operating effectively.

The evaluations were conducted in accordance with the framework and criteria established 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 National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings.

The Company did not make any changes to the design of internal controls over financial reporting during the year ended January 31, 2009 that would have materially affected or would reasonably likely to materially affect the Company's internal controls over financial reporting.

Outlook

The downturn in the US economy in 2009 has developed into a recession and despite Canada's economic conditions being more favorable than other global economies, consumer confidence has fallen to a near record low. This has impacted consumer discretionary spending on many consumables, most notably apparel. The Company believes that it is well positioned for the future despite current economic conditions, offering a broad assortment of quality merchandise at affordable prices. The Company operates stores in all provinces and territories of Canada and sources its merchandise domestically and in over twenty different countries around the globe. At the present time we are operating in what we consider to be a global recession, and it is our expectation that this recession will continue to deepen before any significant recovery will be experienced. In Canada, we expect that the employment situation will continue to deteriorate for the rest of this calendar year, that general credit and liquidity will remain constrained and that consumer discretionary spending will be curtailed. We are being guided by these expectations in conducting all facets of our business. On the positive side, we believe that we remain poised to strengthen the Company's market position in all of our market niches. The Company has virtually no debt and has liquid cash reserves which provide us with the ability to act when opportunities present themselves in whatever format including, merchandising, store acquisition/construction, system replacements/upgrading or expansion by acquisition.

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 80% of its merchandise, largely from China.

We believe that, in general, our merchandise offerings will continue to remain attractive values to the consumer, even in these difficult times. 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.

(signed)

Jeremy H. Reitman
President

(signed)

Eric Williams, CA
Vice-President - Treasurer

March 27, 2009

Auditors' Report

To the Shareholders of Reitmans (Canada) Limited

We have audited the consolidated balance sheets of Reitmans (Canada) Limited as at January 31, 2009 and February 2, 2008 and the 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 January 31, 2009 and February 2, 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP*

Chartered Accountants

Montreal, Canada
March 27, 2009

*CA Auditor Permit no. 23443

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Consolidated Balance Sheets

As at January 31, 2009 and February 2, 2008
(in thousands)

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 15)	**$ 214,054**	$ 214,301
Marketable securities (note 5)	**32,818**	30,053
Accounts receivable	**2,689**	3,546
Income taxes recoverable	**3,826**	-
Merchandise inventories (note 2)	**64,061**	52,441
Prepaid expenses	**11,402**	22,847
Future income taxes (note 9)	**3,598**	1,772
Total Current Assets	**332,448**	324,960
CAPITAL ASSETS (note 6)	**249,891**	247,963
GOODWILL	**42,426**	42,426
FUTURE INCOME TAXES (note 9)	**8,474**	5,611
	$ 633,239	$ 620,960

	2009	2008
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued items	**$ 70,632**	$ 69,189
Income taxes payable	**-**	16,546
Future income taxes (note 9)	**-**	761
Current portion of long-term debt (note 8)	**1,220**	1,146
Total Current Liabilities	**71,852**	87,642
DEFERRED LEASE CREDITS	**22,125**	21,466
LONG-TERM DEBT (note 8)	**12,731**	13,951
FUTURE INCOME TAXES (note 9)	**74**	261
ACCRUED PENSION LIABILITY (note 7)	**3,918**	2,521
SHAREHOLDERS' EQUITY		
Share capital (note 10)	**23,830**	23,777
Contributed surplus	**4,538**	4,001
Retained earnings (note 2)	**502,361**	468,374
Accumulated other comprehensive loss	**(8,190)**	(1,033)
	494,171	467,341
Total Shareholders' Equity	**522,539**	495,119
Commitments (note 12)		
	$ 633,239	$ 620,960

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

On behalf of the Board,

(signed)

Jeremy H. Reitman
Director

(signed)

Stephen J. Kauser
Director

Consolidated Statements of Earnings

For the years ended January 31, 2009 and February 2, 2008
(in thousands except per share amounts)

	2009	2008
Sales	**$ 1,050,861**	$ 1,057,720
Cost of goods sold and selling, general and administrative expenses (note 2)	**869,930**	858,544
	180,931	199,176
Depreciation and amortization	**58,184**	50,098
Operating earnings before the undernoted	**122,747**	149,078
Investment income (note 15)	**5,351**	11,128
Interest on long-term debt	**921**	990
Earnings before income taxes	**127,177**	159,216
Income taxes (note 9):		
Current	**46,519**	54,614
Future	**(5,148)**	(3,151)
	41,371	51,463
Québec tax reassessments - current	**-**	(7,149)
	41,371	44,314
Net earnings	**$ 85,806**	$ 114,902
Earnings per share (note 11):		
Basic	**$ 1.21**	$ 1.61
Diluted	**1.21**	1.60

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

Consolidated Statements of Comprehensive Income

For the years ended January 31, 2009 and February 2, 2008
(in thousands)

	2009	2008
Net earnings	**$ 85,806**	$ 114,902
Other comprehensive income (loss):		
Net unrealized loss on available-for-sale financial assets arising during the year (net of tax of $811; 2008 - $611)	**(9,185)**	(3,517)
Reclassification of losses (gains) on available-for-sale financial assets to net earnings (net of tax of $322; 2008 - $75)	**2,028**	(399)
	(7,157)	(3,916)
Comprehensive income	**$ 78,649**	$ 110,986

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

Consolidated Statements of Cash Flows

For the years ended January 31, 2009 and February 2, 2008
(in thousands)

	2009	2008
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net earnings	**$ 85,806**	$ 114,902
Adjustments for:		
Depreciation and amortization	**58,184**	50,098
Future income taxes	**(5,148)**	(3,151)
Stock-based compensation	**600**	932
Amortization of deferred lease credits	**(5,200)**	(4,625)
Deferred lease credits	**5,859**	5,233
Pension contribution	**(1,428)**	(307)
Pension expense	**2,825**	1,533
Loss (gain) on sale of marketable securities	**2,350**	(474)
Foreign exchange gain	**(1,371)**	(1,011)
Changes in non-cash working capital relating to operations	**(13,482)**	(29,952)
	128,995	133,178
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Purchases of marketable securities	**(17,403)**	-
Proceeds on sale of marketable securities	**4,642**	21,900
Additions to capital assets	**(58,152)**	(73,402)
	(70,913)	(51,502)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Dividends paid	**(50,885)**	(46,930)
Purchase of Class A non-voting shares for cancellation	**(7,915)**	(11,021)
Repayment of long-term debt	**(1,146)**	(1,076)
Proceeds from issue of share capital	**246**	2,150
	(59,700)	(56,877)
FOREIGN EXCHANGE GAIN ON CASH HELD IN FOREIGN CURRENCY	**1,371**	1,011
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(247)**	25,810
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**214,301**	188,491
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 214,054**	$ 214,301

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 January 31, 2009 and February 2, 2008
(in thousands)

	2009	2008
SHARE CAPITAL		
Balance, beginning of year	**$ 23,777**	$ 21,323
Cash consideration on exercise of stock options	**246**	2,150
Ascribed value credited to share capital from exercise of stock options	**63**	514
Cancellation of shares pursuant to stock repurchase program	**(256)**	(210)
Balance, end of year	**23,830**	23,777
CONTRIBUTED SURPLUS		
Balance, beginning of year	**4,001**	3,583
Stock option compensation costs	**600**	932
Ascribed value credited to share capital from exercise of stock options	**(63)**	(514)
Balance, end of year	**4,538**	4,001
RETAINED EARNINGS		
Balance, beginning of year	**468,374**	411,213
Adjustment to opening retained earnings due to adoption of new accounting standard (net of tax of $3,121) (note 2)	**6,725**	-
Net earnings	**85,806**	114,902
Dividends	**(50,885)**	(46,930)
Premium on repurchase of Class A non-voting shares	**(7,659)**	(10,811)
Balance, end of year	**502,361**	468,374
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	**(1,033)**	-
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 $811; 2008 - $611)	**(9,185)**	(3,517)
Reclassification of losses (gains) on available-for-sale financial assets to net earnings (net of tax of $322; 2008 - $75)	**2,028**	(399)
Balance, end of year[1]	**(8,190)**	(1,033)
Total Shareholders' Equity	**$ 522,539**	$ 495,119

[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.

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 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 2009 and 2008 represent the fiscal years ended January 31, 2009 and February 2, 2008, respectively.

2. Adoption of new accounting standards

CICA Section 3031 – Inventories

In June 2007, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3031, Inventories, which replaced Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards ("IFRS"). This section provided 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 adopted this standard in the first quarter of fiscal 2009 retrospectively, without restatement of prior periods.

The transitional adjustments resulting from the implementation of Section 3031 were recognized in the first quarter of fiscal 2009 opening balance of retained earnings and prior periods have not been restated. Upon implementation of these requirements, an increase in opening inventories of $9,846, an increase in taxes payable of $3,121 and an increase of $6,725 to opening retained earnings were recorded on the consolidated balance sheet resulting from the application of this new standard. The cost of inventory recognized as an expense and included in cost of goods sold and selling, general and administrative expenses for the year ended January 31, 2009 was $363,523. During the year, the Company recorded $2,275 of write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous periods were reversed. The impact of the adoption of the new accounting standard on net earnings for the year ended January 31, 2009 was a decrease of $394.

CICA Section 1400 – General Standards of Financial Statement Presentation

In June 2007, the CICA amended Handbook Section 1400, General Standards of Financial Statement Presentation, which is effective for interim periods beginning on or after January 1, 2008 and which includes requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of the amended section had no impact on the consolidated financial statements of the Company.

EIC 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued Emerging Issue Committee Abstract 173 ("EIC 173") Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. EIC 173 requires that a company take into account its own credit risk and the credit risk of its counterparty in determining the fair value of financial assets and financial liabilities. This abstract must be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of these new recommendations had no impact on the Company's consolidated financial results.

3. Recent accounting pronouncements

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 the transition to IFRS and will continue to invest in training and resources throughout the transition to facilitate a timely conversion.

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 cards/certificates sold are recorded as a liability and revenue is recognized when the gift cards/certificates are redeemed.

b) Cash and Cash Equivalents

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

c) Marketable Securities

Marketable securities consist primarily of preferred shares of Canadian public companies.

d) Inventories

Merchandise inventories are valued at the lower of cost, determined on an average basis using the retail inventory method and net realizable value. Costs include the cost of purchase, transportation costs that are directly incurred to bring inventories to their present location and condition and certain distribution centre costs related to inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail prices due to seasonality. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to declining selling prices.

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 33⅓%

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 January 31, 2009 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 is 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

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.

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.

Marketable securities are classified as "available-for-sale securities". These financial assets are marked-to-market through other comprehensive income at each period end.

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.

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 card/certificate liabilities.

5. Marketable securities

At January 31, 2009, marketable securities amounted to $32,818 reported at fair value (cost of $41,660) as compared with $30,053 last year (cost of $31,249).

6. Capital assets

	2009			2008		
	Cost	**Accumulated Depreciation and Amortization**	**Net Book Value**	**Cost**	**Accumulated Depreciation and Amortization**	**Net Book Value**
Land	**$ 5,860**	**$ -**	**$ 5,860**	$ 4,615	$ -	$ 4,615
Buildings and improvements	**52,153**	**15,517**	**36,636**	49,507	11,671	37,836
Fixtures and equipment	**198,992**	**92,619**	**106,373**	187,333	79,282	108,051
Leasehold improvements	**192,281**	**91,259**	**101,022**	176,367	78,906	97,461
	$ 449,286	**$ 199,395**	**$ 249,891**	$ 417,822	$ 169,859	$ 247,963

During the year, due to various store closings and renovations, the Company wrote off assets with a net book value of $2,577 (2008 - $1,793). 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, 2007 and the obligation was projected to January 31, 2009.

Actuarial assumptions, based upon data as of December 31, 2008, used in calculating the Company's accrued benefit plan obligations and the net pension cost were as follows:

	2009	2008
Accrued benefit obligation		
Discount rate	**6.30%**	5.17%
Rate of increase in salary levels	**3.00%**	3.00%
Net pension cost		
Discount rate	**5.17%**	4.95%
Expected long-term rate of return on plan assets	**7.50%**	7.50%
Rate of increase in salary levels	**3.00%**	3.00%

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:

	2009			2008		
	Plan	SERP	Total	Plan	SERP	Total
Pension obligation						
Pension obligation, beginning of year	**$ 11,180**	**$ 10,114**	**$ 21,294**	$ 10,734	$ 9,717	$ 20,451
Employee contributions	**140**	**-**	**140**	138	-	138
Current service cost	**521**	**284**	**805**	493	217	710
Interest cost	**594**	**537**	**1,131**	551	492	1,043
Benefits paid	**(1,920)**	**(44)**	**(1,964)**	(444)	-	(444)
Actuarial gains	**(839)**	**(1,256)**	**(2,095)**	(292)	(312)	(604)
Pension obligation, end of year	**$ 9,676**	**$ 9,635**	**$ 19,311**	$ 11,180	$ 10,114	$ 21,294
Plan assets						
Fair value of plan assets, beginning of year	**$ 11,683**	**$ -**	**$ 11,683**	$ 11,391	$ -	$ 11,391
Employer contributions	**1,384**	**44**	**1,428**	307	-	307
Employee contributions	**140**	**-**	**140**	138	-	138
Actual return on plan assets	**(2,311)**	**-**	**(2,311)**	291	-	291
Benefits paid	**(1,920)**	**(44)**	**(1,964)**	(444)	-	(444)
Fair value of plan assets, end of year	**$ 8,976**	**$ -**	**$ 8,976**	$ 11,683	$ -	$ 11,683
Funded status						
Accrued benefit obligation	**$ 9,676**	**$ 9,635**	**$ 19,311**	$ 11,180	$ 10,114	$ 21,294
Fair value of plan assets	**8,976**	**-**	**8,976**	11,683	-	11,683
Funded status	**(700)**	**(9,635)**	**(10,335)**	503	(10,114)	(9,611)
Unamortized past service cost	**-**	**6,417**	**6,417**	-	7,090	7,090
Accrued pension benefit (liability) asset	**$ (700)**	**$ (3,218)**	**$ (3,918)**	$ 503	$ (3,024)	$ (2,521)

The Company's net annual benefit plans costs consist of the following:

	2009			2008		
	Plan	**SERP**	**Total**	**Plan**	**SERP**	**Total**
Pension costs						
Current service cost	**$ 521**	**$ 284**	**$ 805**	$ 493	$ 217	$ 710
Interest cost	**594**	**537**	**1,131**	551	492	1,043
Actual return on plan assets	**2,311**	**-**	**2,311**	(291)	-	(291)
Actuarial gains	**(839)**	**(1,256)**	**(2,095)**	(292)	(312)	(604)
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	**2,587**	**(435)**	**2,152**	461	397	858
Difference between expected return and actual return on plan assets for year	**(3,189)**	**-**	**(3,189)**	(560)	-	(560)
Difference between actuarial (gains)/losses recognized for year and actual actuarial (gains)/losses on accrued benefit obligation for year	**3,189**	**-**	**3,189**	560	-	560
Difference between amortization of past service costs and actual plan amendments for year	**-**	**673**	**673**	-	675	675
Net pension costs recognized	**$ 2,587**	**$ 238**	**$ 2,825**	$ 461	$ 1,072	$ 1,533

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

	2009	2008
Equity securities	**60%**	64%
Debt securities	**37%**	34%
Cash and cash equivalents	**3%**	2%
	100%	100%

8. Long-term debt

		2009		2008
Mortgage bearing interest at 6.40%, payable in monthly instalments of principal and interest of $172, due November 2017 and secured by the Company's distribution centre	**$**	**13,951**	$	15,097
Less current portion		**1,220**		1,146
	$	**12,731**	$	13,951

Principal repayments on long-term debt are as follows:

Fiscal years ending		
2010	$	1,220
2011		1,300
2012		1,384
2013		1,474
2014		1,570
Subsequent years		7,003
	$	**13,951**

9. Income taxes

a) Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets (liabilities) are as follows:

		2009		2008
Current assets				
Marketable securities	**$**	**1,205**	$	163
Inventory		**280**		1,609
Accrued liabilities		**2,667**		-
		4,152		1,772
Valuation allowance		**(554)**		-
	$	**3,598**	$	1,772
Long-term assets				
Capital assets	**$**	**7,351**	$	4,861
Pension liability		**1,068**		690
Other		**55**		60
	$	**8,474**	$	5,611
Current liabilities				
Accrued liabilities	**$**	**-**	$	(761)
	$	**-**	$	(761)
Long-term liabilities				
Marketable securities	**$**	**(33)**	$	(27)
Capital assets		**(41)**		(234)
	$	**(74)**	$	(261)

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

	2009	2008
Provision for income taxes based on combined statutory rate of 32.22% (2008 - 34.37%)	**$ 40,976**	$ 54,723
Changes in provision resulting from:		
Reserve for tax contingencies	**-**	(2,504)
Difference in tax rates of subsidiaries	**(621)**	(826)
Tax recovery due to net capital loss carryback	**402**	-
Tax exempt investment income	**(412)**	(810)
Permanent and other differences	**496**	560
Adjustment to prior years' taxes	**337**	-
Stock-based compensation	**193**	320
Québec tax reassessments	**-**	(7,149)
Income taxes	**$ 41,371**	$ 44,314
Represented by:		
Current	**$ 46,519**	$ 54,614
Future	**(5,148)**	(3,151)
Québec tax reassessments - current	**-**	(7,149)
	$ 41,371	$ 44,314

c) 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 retroactive Québec income tax reassessments. The final agreement called for the Company to pay $12,905 to settle all related outstanding matters, which resulted in reduction in the Company's income tax expense in the amount of $7,149.

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 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
Shares issued pursuant to exercise of stock options	**46**	309
Shares purchased under issuer bid	**(655)**	(256)
Balance January 31, 2009	**56,864**	$ 23,348

The amounts credited to share capital from the exercise of stock options include a cash consideration of $246 (2008 - $2,150), as well as an ascribed value from contributed surplus of $63 (2008 - $514).

The Company has authorized an unlimited number of Common shares. At January 31, 2009, there were 13,440 Common shares issued (2008 - 13,440) with a book value of $482 (2008 - $482).

c) The Company has reserved 5,520 Class A non-voting shares for issuance under its Share Option Plan of which, as at January 31, 2009, 952 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 2009 (2008 - 50), 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 27 (2008 - 28) 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:

	40 Options Granted April 23, 2008	10 Options Granted June 4, 2008
Expected option life	4.2 years	4.1 years
Risk-free interest rate	3.55%	3.55%
Expected stock price volatility	32.29%	31.54%
Average dividend yield	4.27%	3.94%
Weighted average fair value of options granted	$3.46	$3.76

Changes in outstanding stock options were as follows:

	2009		2008	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding, at beginning of year	**1,617**	**$ 12.49**	1,812	$ 12.08
Granted	**50**	**17.14**	50	15.90
Exercised	**(46)**	**5.41**	(217)	9.91
Forfeited	**(27)**	**12.23**	(28)	11.95
Outstanding, at end of year	**1,594**	**$ 12.84**	1,617	$ 12.49
Options exercisable, at end of year	**1,145**	**$ 12.17**	772	$ 12.18

The following table summarizes information about share options outstanding at January 31, 2009:

	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	99	1.00 year	$ 4.43	99	$ 4.43
$12.23 - $16.86	1,312	3.14	12.51	962	12.30
$18.26 - $22.02	183	3.68	19.83	84	19.78
	1,594	**3.07 years**	**$ 12.84**	**1,145**	**$ 12.17**

For the year ended January 31, 2009, the Company recognized compensation cost of $600 (2008 - $932) with an offsetting credit to contributed surplus.

d) The Company purchased, under the prior year's normal course issuer bid, 275 Class A non-voting shares having a book value of $107 under its stock repurchase program for a total cash consideration of $4,073. The excess of the purchase price over book value of the shares in the amount of $3,966 was charged to retained earnings.

The Company received, in November 2008, approval from the Toronto Stock Exchange to proceed with a normal course issuer bid. Under the bid, the Company may purchase up to 2,861 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 1, 2008. The bid commenced on November 28, 2008 and may continue to November 27, 2009. To date 380 Class A non-voting shares having a book value of $149 have been purchased for a total cash consideration of $3,842. The excess of the purchase price over book value of the shares in the amount of $3,693 was charged to retained earnings.

11. Earnings per share

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

	2009	**2008**
Weighted average number of shares per basic earnings per share calculations	**70,731**	71,152
Effect of dilutive options outstanding	**273**	654
Weighted average number of shares per diluted earnings per share calculations	**71,004**	71,806

As at January 31, 2009, there were 1,495 (2008 - 173) stock options that were excluded from the calculation of diluted earnings per share as these options were deemed to be anti-dilutive.

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	
2010	$ 101,065
2011	85,798
2012	68,997
2013	54,570
2014	42,182
Subsequent years	97,466
	$ 450,078

13. Credit facility

At January 31, 2009, 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 January 31, 2009, $61,759 (February 2, 2008 - $48,274) 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 January 31, 2009, the maximum potential liability under these guarantees was $5,774. The standby letters of credit mature at various dates during fiscal 2010. 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 $1,998 (2008 - gain of $504).

b) Supplementary cash flow information:

	2009	2008
Balance with banks	**$ 1,069**	$ 2,474
Short-term deposits, bearing interest at 1.0% (February 2, 2008 - 4.0%)	**212,985**	211,827
	$ 214,054	$ 214,301
Non-cash transactions:		
Capital asset additions included in accounts payable	**$ 3,289**	$ 1,329
Ascribed value accredited to share capital from exercise of stock options	**63**	514
Cash paid during the year for:		
Income taxes	**$ 70,886**	$ 73,305
Interest	**975**	1,045
Investment income:		
Available-for-sale financial assets:		
Interest income	**42**	62
Dividends	**1,719**	2,398
Realized (loss) gain on disposal	**(2,350)**	474
Held-for-trading financial assets:		
Interest income	**5,940**	8,194
	$ 5,351	$ 11,128

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 $184 (2008 - $182).

The Company incurred $395 in fiscal 2009 (2008 - $302) 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 $12,751 compared to its carrying value of $13,951.

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

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 and 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 January 31, 2009, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$ 214,054
Marketable securities	32,818
Accounts receivable	2,689
	$ 249,561

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 January 31, 2009, the Company had a high degree of liquidity with $246,872 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. 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 January 31, 2009 and February 2, 2008, there were no outstanding foreign exchange option contracts.

The Company has performed a sensitivity analysis on its US dollar denominated financial instruments, which consist principally of cash and cash equivalents of $72 and accounts payable of $1,081 to determine how a change in the US dollar exchange rate would impact net earnings. On January 31, 2009, 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 not have a material impact on the consolidated financial statements.

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 up to an amount of $125,000 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 a sensitivity analysis on interest rate risk at January 31, 2009, to determine how a change in interest rates would impact equity and net earnings. During fiscal 2009, the Company earned $5,940 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 $1,304. 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 a sensitivity analysis on equity price risk at January 31, 2009, 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 January 31, 2009, would result in a $1,374 increase or decrease in equity and other comprehensive income. The Company's equity securities are subject to 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.

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

Domenic Carbone
Vice-President - Distribution and Logistics

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

Saul Schipper
Vice-President - Real Estate and Secretary

Richard Wait, CGA
Vice-President - Comptroller

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

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Danielle Vallières
Vice-President - Smart Set

Suzana Vovko
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Cathryn Adeluca
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Fredéric Boivin
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Stock Symbols
THE TORONTO STOCK EXCHANGE

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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

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