ANNUAL REPORT 2011

Reitmans (CANADA) LIMITED

Reitmans is Canada's leading specialty retailer. We are customer driven, value oriented and committed to excellence. By promoting innovation, growth, development and teamwork, we strive to serve our customers the best quality/value proposition in the marketplace.

To Our Shareholders

Fiscal 2011 was a year of contrast. Early positive signs of increased consumer confidence gave way to a more challenging second half of the year.

The first six months of the fiscal year the Company marked significant improvement with strong sales and improved margins contributing to a very positive first half. However, a highly competitive environment and signs of more modest consumer spending in the last six months of the fiscal year resulted in challenges to our performance.

Sales for the year ended January 29, 2011 increased 1.3% to $1,070,277,000 as compared with $1,056,527,000 for the year ended January 30, 2010. Same store sales decreased 0.1%. Earnings before interest, taxes, depreciation and amortization and investment income ("EBITDA") increased 15.2% to $182,604,000 as compared with $158,488,000 last year. The Company's gross margin for the year ended January 29, 2011 increased to 67.2% from 64.2% last year, primarily due to the strengthening of the Canadian dollar vis-à-vis the US dollar. Net earnings increased 29.4% to $87,021,000 or $1.29 diluted earnings per share as compared with $67,236,000 or $0.98 diluted earnings per share last year.

In the fourth quarter of fiscal 2011, EBITDA decreased by $5,735,000 or 15.4% to $31,582,000 as compared with $37,317,000 for the fourth quarter of fiscal 2010. The Company's gross margin for the fourth quarter of fiscal 2011 decreased slightly to 64.7% from 65.0% for the fourth quarter of fiscal 2010. An improvement in the gross margin attributable to the strength of the Canadian dollar in the fourth quarter of fiscal 2011 was offset by a reduction due to increased promotional activity.

The Company generated cash flow from operations of $147,180,000, which funded new store construction and renovation costs of $37,501,000, increased our marketable securities portfolio by $20,803,000, purchased Class A non-voting shares for cancellation of $30,112,000, paid dividends to our shareholders of $51,895,000, and contributed to increasing cash and investments at January 29, 2011 by $23,844,000 to $300,447,000.

During the year, the Company opened 31 new stores and closed 40. Accordingly, at January 29, 2011, there were 968 stores in operation, consisting of 364 Reitmans, 158 Smart Set, 67 RW & CO., 75 Thyme Maternity, 22 Cassis, 161 Penningtons and 121 Addition Elle, as compared with a total of 977 stores as at January 30, 2010.

We continue to grow all areas of our business. In fiscal 2012, we expect to open 33 new stores, close 14 stores and remodel 34 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.

The Company continues to execute its strategy of delivering fashionable clothing at excellent prices to Canadian consumers. We are proud of our achievements over the past 80 years and most confident of our future. We believe that we have the very best specialty retailing assets in Canada. Our operations are led and staffed by highly motivated, extremely competent professionals. I extend sincere thanks and appreciation to all our associates, suppliers, customers and shareholders. These are the people who have made possible our many years of success and on whom we rely for the continued growth of the Company.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman
Chairman and Chief Executive Officer

Montreal, March 30, 2011

2011

The Year at a Glance

Sales **$1,070,277,000**	+ 1.3%
EBITDA[1] **$182,604,000**	+ 15.2%
Pre-tax earnings **$125,137,000**	+ 26.4%
Net earnings **$87,021,000**	+ 29.4%
Earnings per share[2] **$1.29**	+ 31.6%
Cash and investments **$300,447,000**	+ 8.6%
Stores **968**	- 0.9%

[1] These highlights include a reference to EBITDA, a Non-GAAP financial measure. EBITDA is defined as earnings before interest, taxes, depreciation and amortization and investment income. The Company believes this measure provides meaningful information on the Company's performance and operating results. However, readers should know that such a Non-GAAP financial measure has no standardized meaning as prescribed by GAAP and may not be comparable to similar measures presented by other companies. Accordingly, it should not be considered in isolation.

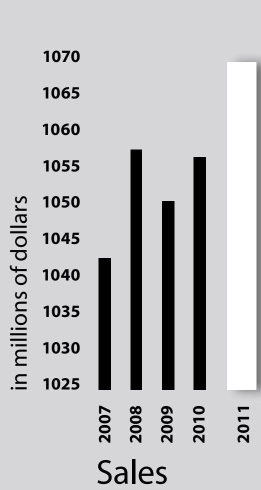
[2] Earnings per share on a fully diluted basis.

Highlights

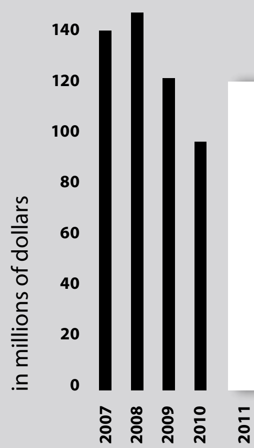
For the years ended:
(in thousands except per share amounts)
(unaudited)

	2011	2010	2009	2008	2007
SALES					
1st Quarter	**$ 238,978**	$ 231,652	$ 228,318	$ 230,695	$ 222,969
2nd Quarter	**295,653**	286,071	289,502	291,942	278,828
3rd Quarter	**266,162**	270,684	271,240	265,465	258,602
4th Quarter	**269,484**	268,120	261,801	269,618	282,110
Total	**$ 1,070,277**	$1,056,527	$1,050,861	$1,057,720	$1,042,509
OPERATING EARNINGS					
1st Quarter	**$ 22,780**	$ 10,814	$ 25,372	$ 23,052	$ 27,564
2nd Quarter	**56,364**	38,100	49,165	47,801	51,048
3rd Quarter	**26,803**	27,076	33,358	39,698	33,781
4th Quarter	**16,201**	21,879	14,852	38,527	29,473
Total	**$ 122,148**	$ 97,869	$ 122,747	$ 149,078	$ 141,866
ADJUSTED NET EARNINGS [1]					
1st Quarter	**$ 16,471**	$ 7,801	$ 18,436	$ 18,838[1]	$ 21,674
2nd Quarter	**39,875**	26,426	35,385	32,540[1]	33,593[1]
3rd Quarter	**19,274**	18,921	23,004	27,869[1]	23,823[1]
4th Quarter	**11,401**	14,088	8,981	28,506[1]	23,433[1]
Total	**$ 87,021**	$ 67,236	$ 85,806	$ 107,753[1]	$ 102,523[1]
ADJUSTED BASIC EARNINGS PER SHARE [1]					
1st Quarter	**$ 0.24**	$ 0.11	$ 0.26	$ 0.27[1]	$ 0.31
2nd Quarter	**0.59**	0.38	0.50	0.46[1]	0.48[1]
3rd Quarter	**0.29**	0.28	0.33	0.40[1]	0.34[1]
4th Quarter	**0.17**	0.21	0.13	0.40[1]	0.33[1]
Total	**$ 1.30**	$ 0.98	$ 1.21	$ 1.53[1]	$ 1.46[1]
ADJUSTED NET EARNINGS [1]	**$ 87,021**	$ 67,236	$ 85,806	$ 107,753[1]	$ 102,523[1]
ADJUSTED BASIC EARNINGS PER SHARE [1]	**$ 1.30**	$ 0.98	$ 1.21	$ 1.53[1]	$ 1.46[1]
SHAREHOLDERS' EQUITY	**$ 523,700**	$ 510,166	$ 522,539	$ 495,119	$ 436,119
PER SHARE	**$ 7.90**	$ 7.55	$ 7.43	$ 6.98	$ 6.12
NUMBER OF STORES	**968**	977	973	958	920
DIVIDENDS PAID	**$ 51,895**	$ 49,351	$ 50,885	$ 46,930	$ 40,893
STOCK PRICE AT YEAR-END					
CLASS A NON-VOTING	**$ 17.81**	$ 16.14	$ 10.68	$ 17.12	$ 23.05
COMMON	**$ 18.18**	$ 15.00	$ 8.75	$ 16.50	$ 23.30

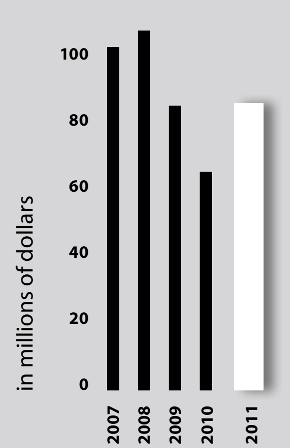
[1] Adjusted net earnings and adjusted basic earnings per share exclude the impact of the retroactive Québec income tax reassessments in 2007 and 2008.



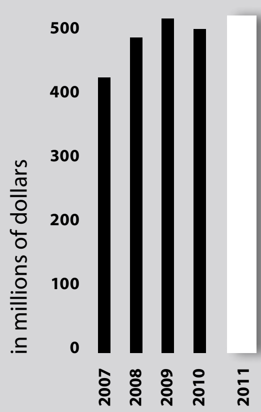
Sales



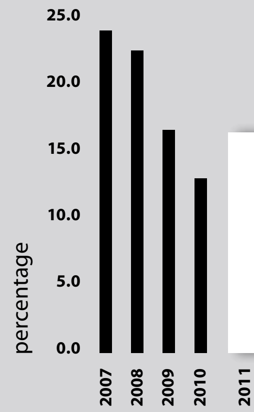
Operating Earnings



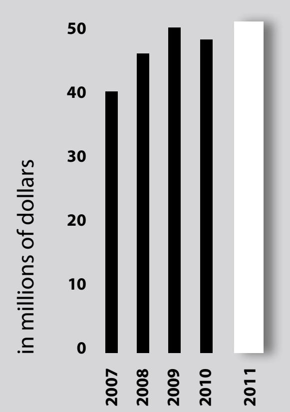
Adjusted Net Earnings[1]



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.

968

Stores Across Canada

	Reitmans	Smart Set	RW & CO.	Thyme	Cassis	Penningtons	Addition Elle	Total
Newfoundland	14	3	1	-	-	4	2	**24**
Prince Edward Island	3	3	-	-	-	1	-	**7**
Nova Scotia	19	6	1	2	-	10	2	**40**
New Brunswick	16	6	3	1	1	4	5	**36**
Québec	83	37	16	19	8	25	33	**221**
Ontario	116	61	25	28	8	57	42	**337**
Manitoba	14	5	2	2	-	6	3	**32**
Saskatchewan	13	3	-	2	-	8	4	**30**
Alberta	43	18	8	12	4	22	16	**123**
British Columbia	41	16	11	9	1	24	14	**116**
Northwest Territories	1	-	-	-	-	-	-	**1**
Yukon	1	-	-	-	-	-	-	**1**
	364	**158**	**67**	**75**	**22**	**161**	**121**	**968**

Inspired by role models not supermodels, **REITMANS** offers affordable, stylish fashions designed to fit everybody and every body. Operating **364 STORES** averaging 4,600 sq. ft., Reitmans, Canada's largest women's apparel specialty chain and leading fashion brand, has developed strong customer loyalty through superior service, insightful marketing and quality merchandise. Reitmans, designed for real life. Reitmans fashions can also be purchased online at reitmans.com.

With **158 STORES**, **SMART SET** is Canada's fashion destination for young stylish women aged 25 to 35. Averaging 3,400 sq. ft., Smart Set's energetic environment provides our customer with the fashions she needs to create her own lifestyle wardrobe. Smart Set offers great value in a wide assortment of styles from workwear essentials and accessories, to activewear and city casual clothing.

Operating **67 STORES**, which average 4,500 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 distinguish the RW & CO. lifestyle brand.

THYME, Canada's leading maternity fashion brand, offers all pregnant women current maternity styles with expert and friendly staff. Thyme caters to all pregnant women who want to stay fun-loving and stylish throughout their pregnancy. Thyme operates **75 STORES** averaging 2,400 sq. ft. in major malls and power centres.

The newest of the Reitmans (Canada) Limited retail banners, **CASSIS** has **22 STORES** averaging 3,400 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. Cassis offers styles, cuts and fabrics that flatter the figure of the forty-something woman, while showcasing the energy and attitude of her 35-year-old mindset.

With **161 STORES** across the country, **PENNINGTONS** offers its plus-size customers a great selection of career, casual, intimate apparel and accessories that fit her lifestyle. Featuring an assortment of classic, as well as contemporary styling, Penningtons has affordable fashions that fit, with sizes ranging from 14 to 32 and 1X to 6X. Also, available in all Penningtons locations is our MXM line catering to the younger, trendy plus-size customer. Stores average 6,000 sq. ft. and are situated in power centres and strip malls. Penningtons fashions can also be purchased online at penningtons.com.

Operating in **121 STORES** across Canada, **ADDITION ELLE** invites its customers to "Make a Statement" with their exciting array of body-confident contemporary and classic fashions that are both stylish and affordable. In addition to unique collections of work to weekend styles, Addition Elle carries a selection of intimate apparel, sleepwear, active wear, outerwear and accessories, as well as offering a more junior line for young, trendy customers called MXM. Averaging 6,100 sq. ft., Addition Elle stores are located in power centres and malls across Canada. Addition Elle fashions can also be purchased online at additionelle.com.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the fiscal year ended January 29, 2011

MD&A

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 financial statements of Reitmans for the fiscal year ended January 29, 2011 and the notes thereto which are available at www.sedar.com. This MD&A is dated March 30, 2011.

All financial information contained in this MD&A and Reitmans' 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 financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on March 30, 2011.

Additional information about Reitmans 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

In addition to discussing earnings measures in accordance with GAAP, this MD&A provides earnings before interest, taxes, depreciation and amortization and investment income ("EBITDA") as a supplementary earnings measure. Depreciation and amortization includes the write-off of capital assets. The Company also discloses same store sales, which are defined as sales generated by stores that have been open for at least one year. The Company believes these measures provide meaningful information on the Company's performance and operating results. However, readers should know that these 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.

The following table reconciles EBITDA to GAAP measures disclosed in the statements of earnings for the twelve and three months ended January 29, 2011 and January 30, 2010:

	For the twelve months ended		For the three months ended	
	January 29, 2011	**January 30, 2010**	**January 29, 2011**	**January 30, 2010**
Earnings before income taxes	**$ 125,137,000**	$ 99,015,000	**$ 17,099,000**	$ 21,647,000
Interest on long-term debt	**767,000**	846,000	**184,000**	204,000
Investment income	**(3,756,000)**	(1,992,000)	**(1,082,000)**	28,000
Depreciation and amortization	**60,456,000**	60,619,000	**15,381,000**	15,438,000
EBITDA	**$ 182,604,000**	$ 158,488,000	**$ 31,582,000**	$ 37,317,000

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 offers e-commerce website shopping in the Reitmans banner and its plus-size banners (Penningtons and Addition Elle). This online channel offers customers convenience, selection and ease of purchase, while enhancing customer loyalty and continuing to build the brands.

SELECTED FINANCIAL INFORMATION

	For the fiscal years ended		
	January 29, 2011	**January 30, 2010**	**January 31, 2009**
Sales	**$ 1,070,277,000**	$ 1,056,527,000	$ 1,050,861,000
Earnings before income taxes	**125,137,000**	99,015,000	127,177,000
Net earnings	**87,021,000**	67,236,000	85,806,000
Earnings per share ("EPS")			
Basic	**1.30**	0.98	1.21
Diluted	**1.29**	0.98	1.21
Total assets	**657,624,000**	631,392,000	633,165,000
Long-term debt [1]	**10,047,000**	11,431,000	12,731,000
Dividends per share	**0.78**	0.72	0.72

[1] Excluding current portion of long-term debt, deferred lease credits and accrued pension liability.

OPERATING RESULTS FOR THE 52 WEEK FISCAL YEAR ENDED JANUARY 29, 2011 ("FISCAL 2011") AND COMPARISON TO OPERATING RESULTS FOR THE 52 WEEK FISCAL YEAR ENDED JANUARY 30, 2010 ("FISCAL 2010")

Sales for fiscal 2011 increased 1.3% to $1,070,277,000 as compared with $1,056,527,000 for fiscal 2010. Same store sales decreased 0.1%. Earlier patterns of challenging sales in western Canada continued while eastern Canada, notably Québec and Ontario, showed stronger sales. In the first six months of fiscal 2011 the Company experienced strong sales, however a more challenging retail environment was experienced in the third and fourth quarters. Statistics Canada reported in the January 2011 Consumers Price Index Report that although the consumer price index rose in many sectors, prices in the clothing and footwear sector continued to decline on a year-over-year basis with a 2.4% decline in January 2011 following a 2.0% decline in December 2010. This downward pressure on retail clothing prices is considered largely due to increased competition along with pressure from value conscious customers. Despite these factors, the Company has been able to maintain its comparative store sales by continuing to offer value reflecting price and quality.

For fiscal 2011, EBITDA increased by $24,116,000 or 15.2% to $182,604,000 as compared with $158,488,000 for fiscal 2010. The Company's gross margin increased by $41,371,000 to 67.2% for fiscal 2011 as compared to 64.2% for fiscal 2010. 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 impacts earnings. Despite a modest increase in sales from the prior year, gross margin increased significantly, primarily attributable to the positive impact of the Canadian dollar vis-à-vis the US dollar. The average rate for a US dollar in fiscal 2011 was $1.03 Canadian as compared to $1.13 Canadian in fiscal 2010. Spot prices for $1.00 US

during fiscal 2011 ranged between a high of $1.08 and a low of $0.99 Canadian ($1.30 and $1.03 respectively during fiscal 2010). For fiscal 2011 as compared to fiscal 2010, the fluctuation of the US dollar positively impacted gross margin by approximately $22,000,000. Significant components of operating costs that increased as a percentage of sales included a 24 basis point increase in store wage costs, primarily due to increases in minimum wage rates in various jurisdictions and a 29 basis point increase in rent and occupancy costs.

Depreciation and amortization expense for fiscal 2011 was $60,456,000 compared to $60,619,000 for fiscal 2010. Included in fiscal 2011 were $1,761,000 of write-offs as a result of closed and renovated stores, compared to $1,670,000 for fiscal 2010.

Investment income for fiscal 2011 increased 88.6% to $3,756,000 as compared to $1,992,000 for fiscal 2010. Interest income increased for fiscal 2011 to $1,225,000 as compared to $677,000 for fiscal 2010 due to improved rates of interest earned on short-term investments. Dividend income for fiscal 2011 was $2,640,000 as compared to $2,109,000 for fiscal 2010. The disposal of marketable securities in the fourth quarter of fiscal 2011 resulted in net capital losses of $109,000 for fiscal 2011 as compared to net capital losses of $794,000 for fiscal 2010.

Interest expense on long-term debt decreased to $767,000 for fiscal 2011 from $846,000 for fiscal 2010. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Income tax expense for fiscal 2011 amounted to $38,116,000, for an effective tax rate of 30.5% as compared to $31,779,000, for an effective tax rate of 32.1%, for fiscal 2010. The reduction in the effective tax rate reflects the impact of changes in substantively enacted tax rates in various tax jurisdictions.

Net earnings for fiscal 2011 increased 29.4% to $87,021,000 ($1.29 diluted earnings per share) as compared with $67,236,000 ($0.98 diluted earnings per share) for fiscal 2010.

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 2011, these merchandise purchases, payable in US dollars, approximated $225,000,000 US. The Company considers a variety of strategies designed to manage the cost of its continuing US dollar commitments, including spot rate purchases and foreign exchange option contracts with maturities not exceeding three months. Due to the strengthening of the Canadian dollar throughout most of fiscal 2011, the Company satisfied its US dollar requirements through spot rate purchases.

During fiscal 2011, the Company opened 31 stores comprised of 10 Reitmans, 2 Smart Set, 2 RW & CO., 2 Thyme Maternity, 5 Cassis, 5 Penningtons and 5 Addition Elle; 40 stores were closed. Accordingly, at January 29, 2011, there were 968 stores in operation, consisting of 364 Reitmans, 158 Smart Set, 67 RW & CO., 75 Thyme Maternity, 22 Cassis, 161 Penningtons and 121 Addition Elle, as compared with a total of 977 stores at the end of fiscal 2010.

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.

OPERATING RESULTS FOR THE 52 WEEK FISCAL YEAR ENDED JANUARY 30, 2010 ("FISCAL 2010") AND COMPARISON TO OPERATING RESULTS FOR THE 52 WEEK FISCAL YEAR ENDED JANUARY 31, 2009 ("FISCAL 2009")

Sales for fiscal 2010 increased 0.5% to $1,056,527,000 as compared with $1,050,861,000 for fiscal 2009. Same store sales decreased 1.0%. This reflects reduced consumer spending as households felt the impact of the recession throughout much of fiscal 2010. Modest sales increases did materialize in the fourth quarter as the economic conditions improved and consumer confidence in a recovery appeared to grow. This was further evidenced as seasonally adjusted sales in the clothing sector showed a 1.2% increase from November to December 2009 and a 1.5% increase for December 2009 as compared to December 2008, as reported by Statistics Canada. Regionally, sales were most impacted in the west with Alberta continuing to show a slower rate of recovery as compared to elsewhere in Canada. Sales can be heavily influenced by weather conditions that, on a Canada-wide basis, were temperate with most provinces experiencing near normal temperatures during most of 2009 despite a cooler spring across the country. Precipitation levels were more than 20% below normal in Western Canada while Eastern Canada experienced precipitation levels more than 20% wetter than normal. With a high concentration of stores in Ontario and Québec, this contributed to softer sales in the summer months.

For fiscal 2010, EBITDA decreased by $22,443,000 or 12.4% to $158,488,000 as compared with $180,931,000 for fiscal 2009. The Company's gross margin of 64.2% for fiscal 2010 decreased as compared to 65.4% for fiscal 2009, or $8,973,000. Despite sales remaining virtually unchanged from the prior year, the reduction in gross margin was primarily attributable to the negative impact of the Canadian dollar vis-à-vis the US dollar. The average rate for a US dollar in fiscal 2010 was $1.13 Canadian as compared to $1.08 Canadian in fiscal 2009. The Canadian dollar remained weak against the US dollar throughout the first quarter of fiscal 2010, strengthening throughout the remainder of fiscal 2010. Spot prices for $1.00 US during fiscal 2010 ranged between a high of $1.30 and a low of $1.03 Canadian ($1.30 and $0.97 respectively during fiscal 2009). For fiscal 2010 as compared to fiscal 2009, the fluctuation of the US dollar negatively impacted gross margin by approximately $10,000,000. Significant components of operating costs that contributed to the decrease in EBITDA included a $10,000,000 increase in the expense related to the Company's performance incentive plan along with rent and occupancy costs, which increased by approximately $4,000,000.

Depreciation and amortization expense for fiscal 2010 was $60,619,000 compared to $58,184,000 for fiscal 2009. This increase reflects the increased new store construction and store renovation activities of the Company. As well, it includes $1,670,000 of write-offs as a result of closed and renovated stores, compared to $2,577,000 for fiscal 2009.

Investment income for fiscal 2010 decreased 62.8% to $1,992,000 as compared to $5,351,000 for fiscal 2009. Interest income decreased for fiscal 2010 to $677,000 as compared to $5,982,000 for fiscal 2009 due to lower amounts invested at significantly reduced rates of interest. Dividend income for fiscal 2010 was $2,109,000 as compared to $1,719,000 for fiscal 2009. The disposal of marketable securities in the fourth quarter of fiscal 2010 resulted in net capital losses of $794,000 for fiscal 2010, which allowed net capital losses to be carried back for income tax purposes to recover previous years' taxes, as compared to net capital losses of $2,350,000 for fiscal 2009.

Interest expense on long-term debt decreased to $846,000 for fiscal 2010 from $921,000 for fiscal 2009. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Income tax expense for fiscal 2010 amounted to $31,779,000, for an effective tax rate of 32.1% as compared to $41,371,000, for an effective tax rate of 32.5%, for fiscal 2009. The reduction in the effective tax rate reflects the impact of changes in substantively enacted tax rates in various tax jurisdictions.

Net earnings for fiscal 2010 decreased 21.6% to $67,236,000 ($0.98 diluted earnings per share) as compared with $85,806,000 ($1.21 diluted earnings per share) for fiscal 2009.

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 2010, these merchandise purchases, payable in US dollars, approximated $200,000,000 US. The Company considers a variety of strategies designed to manage the cost of its continuing US dollar commitments, including spot rate purchases and foreign exchange option contracts with maturities not exceeding three months. Due to the strengthening of the Canadian dollar throughout most of fiscal 2010, the Company satisfied its US dollar requirements through spot rate purchases.

During fiscal 2010, the Company opened 24 stores comprised of 7 Reitmans, 3 Smart Set, 7 RW & CO., 1 Thyme Maternity, 2 Cassis, 3 Penningtons and 1 Addition Elle; 20 stores were closed. Accordingly, at January 30, 2010, there were 977 stores in operation, consisting of 369 Reitmans, 164 Smart Set, 66 RW & CO., 76 Thyme Maternity, 17 Cassis, 162 Penningtons and 123 Addition Elle, as compared with a total of 973 stores at the end of fiscal 2009.

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.

OPERATING RESULTS FOR THE THREE MONTHS ENDED JANUARY 29, 2011 ("FOURTH QUARTER OF FISCAL 2011") AND COMPARISON TO OPERATING RESULTS FOR THREE MONTHS ENDED JANUARY 30, 2010 ("FOURTH QUARTER OF FISCAL 2010")

The fourth quarter of fiscal 2011 resulted in a more challenging retail environment for the Company. Earlier patterns of challenging sales in western Canada continued while eastern Canada, notably Québec and Ontario, showed stronger sales. Sales for the fourth quarter of fiscal 2011 increased 0.5% to $269,484,000 as compared with $268,120,000 for the fourth quarter of fiscal 2010. Same store sales decreased by 0.6%. Statistics Canada reported in the January 2011 Consumers Price Index Report that although the consumer price index rose in many sectors, prices in the clothing and footwear sector continued to decline on a year-over-year basis with a 2.4% decline in January 2011 following a 2.0% decline in December 2010. This downward pressure on retail clothing prices is considered largely due to increased competition along with pressure from value conscious customers.

In the fourth quarter of fiscal 2011, EBITDA decreased by $5,735,000 or 15.4% to $31,582,000 as compared with $37,317,000 for the fourth quarter of fiscal 2010. The Company's gross margin for the fourth quarter of fiscal 2011 decreased slightly to 64.7% from 65.0% for the fourth quarter of fiscal 2010. An improvement in the gross margin attributable to the strength of the Canadian dollar in the fourth quarter of fiscal 2011 was offset by a reduction due to increased promotional activity. The average rate for a US dollar for the fourth quarter of fiscal 2011 was $1.01 Canadian as compared to $1.05 for the fourth quarter of fiscal 2010. Spot prices for $1.00 US during the fourth quarter of fiscal 2011 ranged between a high of $1.03 and a low of $0.99 Canadian ($1.07 and $1.03 respectively during the fourth quarter of fiscal 2010). For the fourth quarter of fiscal 2011 as compared to the fourth quarter of fiscal 2010, the fluctuation of the US dollar positively impacted gross margin by approximately $2,000,000. Significant components of store operating costs that impacted EBITDA included store wage costs which increased by 22 basis points as a percentage of sales, primarily due to increases in minimum wage rates in various jurisdictions.

Depreciation and amortization expense for the fourth quarter of fiscal 2011 was $15,381,000 compared to $15,438,000 for the fourth quarter of fiscal 2010. Included in the fourth quarter of fiscal 2011 was $644,000 of write-offs as a result of closed and renovated stores, compared to $473,000 for the fourth quarter of fiscal 2010.

Investment income for the fourth quarter of fiscal 2011 was $1,082,000 as compared to a loss of $28,000 for the fourth quarter of fiscal 2010. Dividend income for the fourth quarter of fiscal 2011 was $699,000 as compared to $547,000 for the fourth quarter of fiscal 2010. Interest income increased for the fourth quarter of fiscal 2011 to $492,000 as compared to $158,000 for the fourth quarter of fiscal 2010 due to improved rates of interest earned on short-term investments. There were net capital losses of $109,000 for the fourth quarter of fiscal 2011 as compared to net capital losses of $733,000 for the fourth quarter of fiscal 2010.

Interest expense on long-term debt decreased to $184,000 for the fourth quarter of fiscal 2011 from $204,000 for the fourth quarter of fiscal 2010. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Income tax expense for the fourth quarter of fiscal 2011 amounted to $5,698,000, for an effective tax rate of 33.3%. For the fourth quarter of fiscal 2010, income tax expense was $7,559,000, for an effective tax rate of 34.9%.

Net earnings for the fourth quarter of fiscal 2011 decreased 19.1% to $11,401,000 ($0.17 diluted earnings per share) as compared with $14,088,000 ($0.21 diluted earnings per share) for the fourth quarter of fiscal 2010.

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, payable in US dollars, approximated $46,000,000 US. The Company considers a variety of strategies designed to manage the cost of its continuing US dollar commitments, including spot rate purchases and foreign exchange option contracts with maturities not exceeding three months. Due to the strengthening of the Canadian dollar in the fourth quarter, the Company satisfied its US dollar requirements through spot rate purchases. The Company did not enter into any foreign exchange option contracts during the fourth quarter.

During the fourth quarter of fiscal 2011, the Company opened 4 stores comprised of 1 Reitmans, 1 Thyme Maternity, 1 Penningtons and 1 Addition Elle; 15 stores were closed. Accordingly, at January 29, 2011, there were 968 stores in operation, consisting of 364 Reitmans, 158 Smart Set, 67 RW&CO., 75 Thyme Maternity, 22 Cassis, 161 Penningtons and 121 Addition Elle, as compared with a total of 977 stores at the end of the fourth quarter of fiscal 2010.

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

			Earnings per Share	
	Sales	**Net Earnings**	**Basic**	**Diluted**
January 29, 2011	$ 269,484,000	$ 11,401,000	$ 0.17	$ 0.17
October 30, 2010	266,162,000	19,274,000	0.29	0.29
July 31, 2010	295,653,000	39,875,000	0.59	0.59
May 1, 2010	238,978,000	16,471,000	0.24	0.24
January 30, 2010	268,120,000	14,088,000	0.21	0.21
October 31, 2009	270,684,000	18,921,000	0.28	0.28
August 1, 2009	286,071,000	26,426,000	0.38	0.38
May 2, 2009	231,652,000	7,801,000	0.11	0.11

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

COMPARISON OF FINANCIAL POSITION AS AT JANUARY 29, 2011 WITH THE FINANCIAL POSITION AS AT JANUARY 30, 2010

Cash and cash equivalents amounted to $230,034,000 or 0.6% higher than $228,577,000 last year. Marketable securities held by the Company consist primarily of preferred shares of Canadian public companies. At January 29, 2011, marketable securities (reported at fair value) amounted to $70,413,000 as compared with $48,026,000 last year, $22,387,000 higher. Marketable securities of $20,803,000 were purchased during the year. The Company's investment portfolio is subject to stock market volatility. Continued market improvement in fiscal 2011 resulted in an increase of approximately 7% in the value of the securities held in the Company's investment portfolio on a year-over-year basis. The Company is highly liquid with its cash and cash equivalents being invested on a short-term basis in bank bearer deposit notes and bank term deposits with major Canadian chartered banks and commercial paper rated not less than R1.

Accounts receivable were $2,866,000 or $60,000 lower than last year. The Company's accounts receivable are essentially the credit card sales from the last few days of the fiscal quarter. Merchandise inventories this year were $73,201,000 or $10,074,000 higher than last year, reflecting planned build-up of spring merchandise combined with a slower sell through of holiday merchandise. Prepaid expenses were $13,258,000 or $1,385,000 higher than last year, largely due to an increase in prepaid insurance and maintenance contracts.

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 invested $46,922,000 in additions to capital assets in fiscal 2011 compared to $33,185,000 last year. This included $37,501,000 (fiscal 2010 - $31,642,000) in new store construction and existing store renovation costs and $9,421,000 (fiscal 2010 - $1,543,000) mainly related to information technology system hardware and software enhancements at the head office and distribution centre. The Company has embarked on a significant upgrade to its merchandising and supply chain operations, important to the Company's growth strategy. The technology initiatives, along with warehouse management systems improvements, will support changes and growth across all areas of the Company with improved integration, while enabling the Company to reduce the overall cost of system maintenance and upgrades. The total project, which is being phased in through to completion in fiscal 2013, is estimated to cost approximately $13,000,000.

Accounts payable and accrued items were $88,372,000, or $10,606,000 higher than last year, due mainly to the timing of payments related to the recently enacted harmonized sales taxes in British Columbia and Ontario. The Company's accounts payable consist largely of trade payables, sales and payroll tax liabilities and liabilities for unredeemed gift cards. Income taxes payable were $5,998,000 as compared to $4,677,000 last year due to higher taxable income.

The Company maintains a contributory defined benefit pension plan ("Plan"). An actuarial valuation for funding purposes was performed as at December 31, 2007 and a triennial actuarial valuation for funding purposes is scheduled to take place with a valuation date of December 31, 2010. 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. As at January 29, 2011, the accrued pension liability of the plans was $9,112,000 compared to $5,443,000 as at January 30, 2010. The increase is due to an amount of $4,298,000 being expensed in fiscal 2011 with respect to both plans while pension contributions paid in the year were $629,000. This increase in expense is due to a reduced discount rate used to value the liabilities of both the Plan and the SERP.

The funded status of the Plan fluctuates with market conditions and impacts funding requirements. Based on the latest actuarial valuation conducted as at December 31, 2007, the Plan was in a funding deficit, which the Company funded in the fiscal year ended January 31, 2009. Total Company contributions to the Plan are expected to be approximately $587,000 in fiscal 2012 based on the Plan's current position. For fiscal 2011, the Company paid $501,000 in contributions to the plan (fiscal 2010 - $510,000). The Company will continue to make contributions to the Plan that as a minimum meet pension legislative requirements. Adverse changes to the assumptions used such as the discount rate and expected long-term rate of return on plan assets could affect the funded status of the Plan and, as such, could have a significant impact on the cash funding requirements of the Plan.

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.

OPERATING RISK MANAGEMENT

Economic Environment

Economic conditions have improved in Canada, however, as noted by The Bank of Canada in its January 2011 Monetary Policy Report, the Canadian economy is in a period of more modest growth. The Company closely monitors economic conditions in order to react to consumer spending habits and constraints in developing both its short-term and long-term operating decisions. Additionally, 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 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. Additionally, Canadian women have a significant number of e-commerce shopping alternatives available to them on a global basis. The Company believes that it is well positioned to compete with any competitor. 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.

Seasonality

The Company is principally engaged in the sale of women's apparel through 968 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 across Canada. 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. On an annual basis, the Company directly imports approximately 80% of its merchandise, largely from China. In fiscal 2011, no supplier represented more than 11% 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.

A recent surge in the price of cotton to record high prices, an important component in clothing fabrication, along with a significant shortage of supply is anticipated to place strains on certain product margins. The Company continues to closely monitor this development in an effort to maintain its value pricing proposition.

The Company endeavours to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted sourcing and other business practices to address the environmental concerns of its customers. The Company has established guidelines that require compliance with all applicable environmental laws and regulations. Although the Company requires its suppliers to adhere to these guidelines, there is no guarantee that these suppliers will not take actions that hurt the Company's reputation, as they are independent third parties that the Company does not control. However, if there is a lack of apparent compliance, it may lead the Company to search for alternative suppliers. This may have an adverse effect on the Company's financial results, by increasing costs and potentially causing delays in delivery.

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 bank bearer deposit notes and bank term deposits with major 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 29, 2011, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$ 230,034,000
Marketable securities	70,413,000
Accounts receivable	2,866,000
	$ 303,313,000

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 29, 2011, the Company had a high degree of liquidity with $300,447,000 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 and as such significant volatility in the US dollar vis-à-vis the Canadian dollar can have an adverse impact on the Company's gross margin. The Company considers a combination of foreign exchange option contracts, not to exceed three months, and spot rate purchases to manage its foreign exchange exposure on cash flows related to these purchases. A foreign exchange option contract represents an option to buy a foreign currency from a counterparty. 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. For fiscal 2011, the Company satisfied its US dollar requirements through spot rate purchases.

As at January 29, 2011 and January 30, 2010, there were no outstanding foreign exchange option contracts.

The Company has performed a sensitivity analysis on its US dollar denominated financial instruments, which consisted as at January 29, 2011 principally of cash and cash equivalents of $93,432,000 and accounts payable of $853,000 to determine how a change in the US dollar exchange rate would impact net earnings. On January 29, 2011, a 10% rise or fall in the Canadian dollar against the US dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $6,488,000 decrease or increase, respectively, in the Company's net earnings for fiscal 2011.

Interest Rate Risk

Interest rate risk exists in relation to the Company's cash and cash equivalents, defined benefit pension plan and Supplemental Executive Retirement Plan. Market fluctuations in interest rates impacts the Company's earnings with respect to interest earned on cash and cash equivalents that are invested in bank bearer deposit notes and bank term deposits with major Canadian financial institutions and commercial paper with a rating not less than R1. Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuation may have a material adverse effect on the funded status of the retirement benefit plans and on the Company's results of operations. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $125,000,000 or its US dollar equivalent 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 29, 2011 to determine how a change in interest rates would impact equity and net earnings.

For fiscal 2011, the Company earned interest income of $1,225,000 on its cash and cash equivalents. An increase or decrease of 25 basis points in the average interest rate earned during the year would have increased equity and net earnings by $367,000 or decreased equity and net earnings by $317,000, respectively. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The Company has performed a sensitivity analysis as at January 29, 2011 to determine how a change in interest rates, in relation to the Company's retirement benefit plans, would impact the net periodic benefit costs. A one percentage point decrease in the year-end discount rate would have resulted in an increase of approximately $3,500,000 on the net periodic benefit costs, for the year ended January 29, 2011, whereas a one percentage point increase would have resulted in a decrease of approximately $3,100,000. The Company's expected long-term rate of return on plan assets reflects management's view of long-term investment returns. The effect of a 1% variation in such rate of return would have a nominal impact on the net periodic benefit costs.

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 29, 2011, 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 29, 2011, would result in a $2,993,000 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 29, 2011 amounted to $523,700,000 or $7.90 per share as compared to $510,166,000 or $7.55 per share last year. In fiscal 2010, the impact of the recession on the Canadian equity markets resulted in a significant drop in the Toronto Stock Exchange composite index, however, the Company by virtue of its holdings of cash and cash equivalents, sustained minimal loss in value in its liquid assets. Due to market improvement in fiscal 2011, the market value of the Company's investment portfolio has recovered significantly. 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 $300,447,000 as compared with $276,603,000 last year. Cash is conservatively invested on a short-term basis in bank bearer deposit notes and bank term deposits with major Canadian financial institutions and commercial paper rated not less than R1. The Company closely monitors its risk with respect to short-term cash investments. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $125,000,000 or its US dollar equivalent. As at January 29, 2011, $60,888,000 (January 30, 2010 - $53,624,000) of the operating lines of credit were 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 29, 2011, the maximum potential liability under these guarantees was $5,060,000 (January 30, 2010 - $5,139,000). The standby letters of credit mature at various dates during fiscal 2012. 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 internal security and loss prevention programs aimed at mitigating the financial impact of theft.

The Company continued repayment on its long-term debt, relating to the mortgage on the distribution centre, paying down $1,300,000 in fiscal 2011. The Company paid $0.78 dividends per share totalling $51,895,000 in fiscal 2011 compared to $0.72 dividends per share totalling $49,351,000 in fiscal 2010. In fiscal 2011, the Company purchased, under the prior year's normal course issuer bid, Class A non-voting shares for a total cash consideration of $30,112,000 compared to $40,835,000 in fiscal 2010.

In fiscal 2011, the Company invested $46,922,000 on new and renovated stores and information technology system enhancements at the head office and distribution centre. The Company has embarked on a significant upgrade to its merchandising and supply chain operations, important to the Company's growth strategy. The technology initiatives, along with warehouse management systems improvements, will support changes and growth across all areas of the Company, with improved integration while enabling the Company to reduce the overall cost of system maintenance and upgrades. The total project, which is being phased in through to completion in fiscal 2013, is estimated to cost approximately $13,000,000. In the fiscal year ending January 28, 2012, the Company expects to invest approximately $40,000,000 in capital expenditures related to new stores and renovations. These expenditures, together with the payment of cash dividends, the repayments related to the Company's bank credit facility and long-term debt obligations and purchases of Class A non-voting shares 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, excluding accounts payable and accrued items, as at January 29, 2011, the details of which are described in the previous commentary.

Contractual Obligations	Total	Within 1 year	2 to 4 years	5 years and over
Store & office operating leases [1]	$ 469,943,000	$ 99,614,000	$ 223,208,000	$ 147,121,000
Purchase obligations [2]	124,365,000	123,205,000	1,160,000	–
Other operating leases [3]	16,826,000	4,466,000	10,062,000	2,298,000
Long-term debt	11,431,000	1,384,000	4,716,000	5,331,000
Interest on long-term debt	2,669,000	682,000	1,483,000	504,000
Total contractual obligations	**$ 625,234,000**	**$ 229,351,000**	**$ 240,629,000**	**$ 155,254,000**

[1] Represents the minimum lease payments under long-term leases for store locations and office space as at January 29, 2011.
[2] Includes amounts pertaining to agreements to purchase goods or services that are enforceable and legally binding on the Company.
[3] Includes lease payments for computer equipment, automobiles and office equipment.

OUTSTANDING SHARE DATA

At March 30, 2011, 13,440,000 Common shares of the Company and 52,868,306 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. The Company has 2,973,100 stock options outstanding at an average exercise price of $14.58. 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.

In November 2010, 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 2,638,115 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 17, 2010. The average daily trading volume for the six-month period preceding November 1, 2010 was 71,905 shares. In accordance with Toronto Stock Exchange rules, a maximum daily repurchase of 25% of this average may be made, representing 17,976 shares. The bid commenced on November 28, 2010 and may continue to November 27, 2011. 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. In fiscal 2011, the Company purchased, under the prior year's normal course issuer bid, 1,583,000 Class A non-voting shares having a book value of $731,000 for a total cash consideration of $30,112,000. The excess of the purchase price over book value of the shares in the amount of $29,381,000 was charged to retained earnings.

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 considers a variety of strategies designed to manage the cost of its continuing US dollar long-term commitments, including spot rate purchases and foreign exchange option contracts with maturities not exceeding three months. Due to the continued strengthening of the Canadian dollar throughout most of fiscal 2011, 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 considered with maturities usually not exceeding three months. As at January 29, 2011, the Company had no outstanding foreign exchange option contracts.

Included in the determination of the Company's net earnings for fiscal 2011 was a foreign exchange gain of $473,000 (fiscal 2010 - loss of $231,000).

RELATED PARTY TRANSACTIONS

The Company leases two retail locations which are owned by companies controlled by the major shareholders of the Company. The leases for such premises were entered into on commercial terms similar to those for leases entered into with third parties for similar premises. In fiscal 2011, the rent expense under these leases was, in the aggregate, approximately $190,000 (fiscal 2010 - $197,000).

The Company incurred $606,000 in fiscal 2011 (fiscal 2010 - $474,000) with professional service firms connected to outside directors of the Company for fees in conjunction with general legal advice and other consultation. 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 financial institutions. 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. Due to recent market improvement, the market value of the Company's investment portfolio has recovered significantly. The Company is highly liquid with its cash and cash equivalents being invested on a short-term basis in bank bearer deposit notes and bank term deposits with major Canadian financial institutions and commercial paper rated not less than R1.

The volatility of the Canadian dollar impacts earnings and while the Company considers a variety of strategies designed to manage the cost of its continuing US dollar commitments, such as spot rate purchases and foreign exchange option contracts, this volatility 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 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. Effective the beginning of the fiscal year ended January 30, 2010, due to the performance in the equity markets in North America, the Company reduced the expected long-term rate of return on plan assets from 7.5% to 7.0%. The Company's expected long-term rate of return on plan assets reflects management's view of long-term investment returns and the effect of a 1% variation in such rate of return would have a nominal impact on the net periodic benefit cost. Management's assumption of the expected long-term rate of return is subject to risks and uncertainties that could cause the actual rate of return to differ materially from management's assumption. There can thus be no assurance that the plan assets will be able to earn the 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 impact of actual return on plan assets versus the expected return on plan assets is reflected annually in the pension plan expense.

The Company's discount rate assumption, which is set annually at the end of each year, is used to determine the projected benefit obligation at the end of the year and the net periodic benefit cost for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high quality debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for pension benefits as they become due. The discount rate is determined by management with the aid of a third-party actuary. A discount rate, based upon data as of December 31, 2010, of 5.1% for fiscal 2011 (5.8% for fiscal 2010), was considered appropriate by the Company to match the average duration of estimated future benefit payments. The current estimate for the expected average remaining service life of the employee group covered by the plan is approximately 12 years.

For the year ended January 29, 2011, a one percentage point decrease in the year-end discount rate would have resulted in an increase of approximately $3,500,000 in the fiscal 2011 net periodic benefit cost, whereas a one percentage point increase would have resulted in a decrease of approximately $3,100,000.

Based on the most recently filed actuarial valuation report as at December 31, 2007, the defined benefit plan is fully funded and solvent. 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

Gift cards sold are recorded as a liability and revenue is recognized when the gift card is redeemed. The Company, for each reporting period, reviews the gift card 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.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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, which for the Company will be the fiscal year ending January 28, 2012. 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 who provide overall project governance, management and support. Members also include representatives from various areas of the organization as necessary and external advisors who 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 for which details are outlined as follows:

Phase 1: Initial Assessment

Actions	• High-level review of the major differences between current Canadian GAAP and IFRS. • Initial evaluation of the different IFRS 1 exemptions available at date of transition. • High-level assessment of potential consequences on financial reporting, business processes, internal controls and information systems. • Training sessions on IFRS for the various members of the IFRS project team.
Timetable	Third quarter of fiscal 2009
Progress	Completed

Phase 2: Detailed Assessment and Design

Actions	• Each area of accounting differences between Canadian GAAP and IFRS identified in the initial phase is assessed and an IFRS project team member dedicated to review these differences. • This review includes the changes required to existing accounting policies, information systems, and business processes, together with an analysis of policy alternatives allowed under IFRS and impacts on drafting of financial statements under IFRS. • The analysis on these differences are discussed by the Company's IFRS project team and decisions made, including the Company's selection of IFRS 1 exemptions at the date of transition, are included in IFRS memos and approved by the external auditors. • Developing draft IFRS financial statements and notes. • Presentation of major differences and impact to the Audit Committee on a quarterly basis.
Timetable	Second quarter of fiscal 2011
Progress	Completed

Phase 3: Implementation

Actions	• Embedding changes to systems, business processes and internal controls, as required. • Parallel accounting under Canadian GAAP and IFRS. • Preparation of detailed reconciliations of Canadian GAAP to IFRS financial statements. • Training programs for the Company's finance and other staff, as necessary. • Audit Committee approval of IFRS financial statements.
Timetable	Ongoing
Progress	In process and will continue until the first complete annual financial reporting under IFRS is released. The data collection for the IFRS opening balance sheet is complete and the data collection for each quarter in fiscal 2011 is virtually complete. New accounting policies have been approved, as applicable.

The Company's progress-to-date has resulted in the following conclusions:

First-Time Adoption (IFRS 1)
IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion to IFRS shall be directly recognized in retained earnings. IFRS 1 provides a number of optional and mandatory exemptions. The Company currently expects to apply the following exemptions:

Exemption	Application of exemption
Business combinations	The Company intends to use this exemption and not restate the accounting of past business combinations.
Fair value as deemed cost	The Company does not intend to use this exemption but intends to keep property and equipment at original cost.
Pension obligations	The Company intends to use this exemption and only present one year comparative information.

The remaining elective exemptions have limited or no applicability to the Company.

Presentation of Financial Statements
The main relevant differences between IFRS and Canadian GAAP is that under IFRS expenses recognized in the statement of earnings should be analyzed by nature or by function. If an entity categorizes by function, then the additional disclosure on the nature of expenses must be disclosed. The Company has decided to present the expenses in the financial statements by function. In addition, under IFRS, in the statement of cash flows, the Company has the choice of presenting operating cash flows using the direct or indirect method. The Company has decided to use the indirect method.

Accounting Policies
Set out below are selected key areas of accounting differences where changes in accounting policies in conversion to IFRS will impact the Company's financial statements. The list should not be interpreted as a comprehensive list of changes; it highlights those areas of accounting differences the Company currently believes are to be most significant upon conversion to IFRS along with the anticipated transitional adjustments.

Property, Plant and Equipment (IAS 16)
Under IFRS, each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately, over different useful lives. The Company will adopt component accounting for its buildings at the date of conversion to IFRS. Upon implementation of IFRS, the Company expects to record a transitional adjustment to increase property and equipment and decrease future income tax assets. The transitional adjustment will increase retained earnings by approximately $1,100,000. The impact related to this change for fiscal 2011 will be a reduction of the annual depreciation expense and an increase to net earnings of approximately $200,000.

Impairment of Assets (IAS 36)
Canadian GAAP impairment testing involves two steps, the first of which compares the long-lived asset carrying values with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying values are written down to estimated fair value. IAS 36 Impairment of Assets, uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows).

The Company has completed the analysis of its operations and has determined its cash generating units ("CGU") to be used for the purpose of impairment testing and groups of CGU's for goodwill testing purposes. Models have been developed, which will be used for the impairment testing as required at the date of transition to IFRS and on a going forward basis. Upon implementation of IFRS, the Company expects to record a transitional adjustment to decrease property and equipment and increase future income tax assets. The transitional adjustment will decrease retained earnings by approximately $2,800,000. The impact related to this change for fiscal 2011 will be a reduction of the annual depreciation expense and an increase to net earnings of approximately $400,000.

Stock Options
Under IFRS, an estimate of forfeitures must be factored into the calculation of periodic compensation expense. Compensation costs are to be accrued based on the best estimate of the number of options expected to vest, with revision made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from original estimates. The Company will need to modify the calculation to take into account an estimation of future forfeitures. The impact is not expected to be material for past options based on the information collected to date.

Customer Loyalty Programs (IFRIC 13)
IFRS requires the fair value of loyalty programs to be recognized as a separate component of the initial sales transaction. The Company will be required to defer a portion of the initial sales transaction in which the awards are granted until the Company has fulfilled its obligation. Under Canadian GAAP, the Company recognizes the net cost of the program in operating expenses. Upon implementation of IFRS, the Company expects to record a transitional adjustment to decrease accounts payable and accrued items, record deferred revenue and increase future

income tax assets. The transitional adjustment will decrease retained earnings by approximately $5,400,000. The impact related to this change for fiscal 2011 will be a reduction of revenue of approximately $8,200,000 and a reduction in selling and distribution expenses of approximately $7,700,000 with a resulting decrease to net earnings of approximately $400,000.

Employee Benefits (IAS 19)
Under IFRS, liabilities and expenses for vested past service costs under a defined benefit plan are recognized immediately in the statement of operations. The vested past service costs under the Company's defined benefit plan and SERP is recognized over the expected average remaining service period under Canadian GAAP. Upon implementation of IFRS, the Company expects to record a transitional adjustment to increase the accrued pension liability and increase the future income tax assets. The transitional adjustment will decrease retained earnings by approximately $3,900,000. The impact related to this change for fiscal 2011 will be a reduction of administrative expenses and an increase to net earnings of approximately $400,000.

Under IFRS, defined benefit obligation and plan assets are measured at the balance sheet date. Under Canadian GAAP, the Company was measuring the defined benefit obligation and plan assets as of December 31st. Upon implementation of IFRS, the Company expects to record a transitional adjustment to increase the accrued pension liability and increase the future income tax assets. The transitional adjustment will decrease retained earnings by approximately $800,000. The impact related to this change for fiscal 2011 will be a reduction of administrative expenses and an increase to net earnings of approximately $1,000,000.

The Company has also chosen as its accounting policy for its defined benefit plan to recognize actuarial gains and losses directly into other comprehensive income rather than through net earnings. The impact related to this change for fiscal 2011 will be a reduction of administrative expenses and an increase to net earnings of approximately $800,000.

Intangible Assets (IAS 38)
Canadian GAAP allows for advertising costs to be deferred (as prepaid items) and expensed at the time the advertising occurs. Under IFRS advertising costs must be recognized as an expense at the time the expense is incurred. Upon implementation of IFRS, the Company expects to record a transitional adjustment to decrease prepaid expenses and increase future income tax assets. The transitional adjustment will decrease retained earnings by approximately $600,000. The impact related to this change in fiscal 2011 will be nominal.

Financial Instruments (IAS 39)
The Company's marketable securities are classified as "available-for-sale securities". These financial assets are marked-to-market through other comprehensive income at each period end.

Under Canadian GAAP when there is a decline in fair value of a financial asset that is "other than temporary", for assets available-for-sale (carried at fair value), the cumulative loss that had been recognized directly in other comprehensive income is removed from accumulated other comprehensive income and recognized in net earnings even though the financial asset has not been sold.

Under IFRS, an impairment on "available-for-sale securities" is recognized when there has been a "significant or prolonged" decline in its fair value below cost. The amount of any impairment loss is recognized in net earnings.

Due to the change in determination of impairment from "other than temporary" to "significant or prolonged", upon implementation of IFRS, the Company expects to record a transitional adjustment to reclassify impairment losses from accumulated other comprehensive income and decrease retained earnings by approximately $6,300,000. The impact related to this change in fiscal 2011 will be an increase in investment income and an increase in net earnings of approximately $200,000.

A number of other areas of IFRS will impact the Company to a lesser extent.

Impact on Information Systems and Technology
At this time, the transition is expected to have minimal impact on information systems used by the organization.

Impact on Internal Controls and Disclosure Controls and Procedures
The Company's internal controls will not be materially affected by the transition to IFRS. The IFRS differences may lead to presentation and process changes to report more detailed information in the notes to the financial statements, but it is not currently expected to lead to many differences in the accounting treatments used by the Company.

Disclosure controls and procedures may change due to the transition to IFRS, but the impact is expected to be minimal as well.

Impact on Financial Reporting Expertise
Training and education has been provided to all members of the finance team who are directly affected by the transition to IFRS. IFRS training to other financial staff will be done as deemed necessary.

General

Management has implemented a system for the parallel recording of financial information in accordance with IFRS at the transition date and for each of the fiscal 2011 financial periods to be presented as comparative figures in the fiscal 2012 IFRS financial statements.

The Company continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the International Accounting Standards Board ("IASB") is expected to continue issuing new accounting standards during the transition period.

The Company's IFRS conversion project is progressing according to schedule. As the project advances, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in development, or in light of new information or other external factors that could arise between now and when the changeover is completed.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chairman 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 29, 2011. Based on this evaluation, the CEO and the CFO have concluded that, as of January 29, 2011, 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 29, 2011. 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 29, 2011 that would have materially affected or would reasonably be likely to materially affect the Company's internal controls over financial reporting.

OUTLOOK

Despite signs of an economic recovery emerging, the Canadian economy has not returned to pre-recession levels. The Bank of Canada, in its January 2011 Monetary Policy Report, has predicted a more modest pace of growth than previously anticipated, projecting that the economy will grow by 2.4% in calendar 2011 and 2.8% in 2012. Employment levels in Canada have shown gradual improvement, retail trade sales reports are more favorable while the inflation level has remained stable with projections that it will remain low. The strength of the Canadian dollar favours importers, however it creates a drag on the economic activity of other sectors in Canada. The apparel marketplace continued to be faced with rising cotton prices and other input costs. The price of cotton, an important component in clothing fabrication, has risen to record high prices and along with a significant shortage of supply is anticipated to place strains on certain product margins. The Company continues to closely monitor this development in an effort to maintain its value pricing proposition. The Company believes that consumer demand will remain weak as consumers feel the effects of the recent rising gas and food prices. 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 by offering a broad assortment of quality merchandise at affordable prices. 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 of our banners.

We believe that, in general, our merchandise offerings will continue to remain attractive values to the consumer. 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 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 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 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 financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, consisting of all outside directors. The Audit Committee reviews the Company's annual 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 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
Chairman and Chief Executive Officer

(signed)

Eric Williams, CA
Vice-President - Finance and Chief Financial Officer

March 30, 2011

Independent Auditors' Report

To the Shareholders of Reitmans (Canada) Limited

We have audited the accompanying financial statements of Reitmans (Canada) Limited, which comprise the balance sheets as at January 29, 2011 and January 30, 2010 and the statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

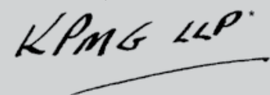
Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Reitmans (Canada) Limited as at January 29, 2011 and January 30, 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Montreal, Canada
March 30, 2011

* 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 Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Statements of Earnings

For the years ended January 29, 2011 and January 30, 2010
(in thousands except per share amounts)

	2011	2010
Sales	**$ 1,070,277**	$ 1,056,527
Cost of goods sold and selling, general and administrative expenses (note 4)	**887,673**	898,039
	182,604	158,488
Depreciation and amortization	**60,456**	60,619
Operating earnings before the undernoted	**122,148**	97,869
Investment income (note 15)	**3,756**	1,992
Interest on long-term debt	**767**	846
Earnings before income taxes	**125,137**	99,015
Income taxes (note 9):		
Current	**41,669**	34,705
Future	**(3,553)**	(2,926)
	38,116	31,779
Net earnings	**$ 87,021**	$ 67,236
Earnings per share (note 11):		
Basic	**$ 1.30**	$ 0.98
Diluted	**1.29**	0.98

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

Statements of Comprehensive Income

For the years ended January 29, 2011 and January 30, 2010
(in thousands)

	2011	2010
Net earnings	**$ 87,021**	$ 67,236
Other comprehensive income:		
Net unrealized gain on available-for-sale financial assets arising during the year (net of tax of $427; 2010 - $960)	**2,866**	5,991
Reclassification of losses on available-for-sale financial assets to net earnings (net of tax of $14; 2010 - $103)	**95**	691
	2,961	6,682
Comprehensive income	**$ 89,982**	$ 73,918

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

Balance Sheets

As at January 29, 2011 and January 30, 2010
(in thousands)

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 15)	**$ 230,034**	$ 228,577
Marketable securities (note 15)	**70,413**	48,026
Accounts receivable	**2,866**	2,926
Inventories (note 4)	**73,201**	63,127
Prepaid expenses	**13,258**	11,873
Future income taxes (note 9)	**2,001**	2,395
Total Current Assets	**391,773**	356,924
CAPITAL ASSETS		
Property and equipment (note 5)	**194,612**	210,612
Intangibles (note 6)	**13,841**	9,964
Total Capital Assets	**208,453**	220,576
GOODWILL	**42,426**	42,426
FUTURE INCOME TAXES (note 9)	**14,972**	11,466
	$ 657,624	$ 631,392
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued items	**$ 88,372**	$ 77,766
Income taxes payable	**5,998**	4,677
Current portion of long-term debt (note 8)	**1,384**	1,300
Total Current Liabilities	**95,754**	83,743
DEFERRED LEASE CREDITS	**19,011**	20,609
LONG-TERM DEBT (note 8)	**10,047**	11,431
ACCRUED PENSION LIABILITY (note 7)	**9,112**	5,443
SHAREHOLDERS' EQUITY		
Share capital (note 10)	**29,614**	25,888
Contributed surplus	**6,266**	5,164
Retained earnings	**486,367**	480,622
Accumulated other comprehensive income (loss)	**1,453**	(1,508)
	487,820	479,114
Total Shareholders' Equity	**523,700**	510,166
Commitments (note 12)		
	$ 657,624	$ 631,392

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

On behalf of the Board,

(signed) (signed)

Jeremy H. Reitman, Director Stephen J. Kauser, Director

Statements of Changes in Shareholders' Equity

For the years ended January 29, 2011 and January 30, 2010
(in thousands)

	2011	2010
SHARE CAPITAL		
Balance, beginning of year	**$ 25,888**	$ 23,830
Cash consideration on exercise of stock options	**3,569**	2,614
Ascribed value credited to share capital from exercise of stock options	**888**	655
Cancellation of shares pursuant to stock repurchase program (note 10)	**(731)**	(1,211)
Balance, end of year	**29,614**	25,888
CONTRIBUTED SURPLUS		
Balance, beginning of year	**5,164**	4,538
Stock option compensation costs	**1,990**	1,281
Ascribed value credited to share capital from exercise of stock options	**(888)**	(655)
Balance, end of year	**6,266**	5,164
RETAINED EARNINGS		
Balance, beginning of year	**480,622**	502,361
Net earnings	**87,021**	67,236
Dividends	**(51,895)**	(49,351)
Premium on repurchase of Class A non-voting shares (note 10)	**(29,381)**	(39,624)
Balance, end of year	**486,367**	480,622
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	**(1,508)**	(8,190)
Net unrealized gain on available-for-sale financial assets arising during the year (net of tax of $427; 2010 - $960)	**2,866**	5,991
Reclassification of losses on available-for-sale financial assets to net earnings (net of tax of $14; 2010 - $103)	**95**	691
Balance, end of year [1]	**1,453**	(1,508)
Total Shareholders' Equity	**$ 523,700**	$ 510,166

[1] Marketable securities are classified as available-for-sale financial investments and constitute the sole item in accumulated other comprehensive income (loss).

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

Statements of Cash Flows

For the years ended January 29, 2011 and January 30, 2010
(in thousands)

	2011	2010
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings	**$ 87,021**	$ 67,236
Adjustments for:		
Depreciation and amortization	**60,456**	60,619
Future income taxes	**(3,553)**	(2,926)
Stock-based compensation	**1,990**	1,281
Amortization of deferred lease credits	**(4,956)**	(5,254)
Deferred lease credits	**3,358**	3,738
Pension contribution	**(629)**	(612)
Pension expense	**4,298**	2,137
Loss on sale of marketable securities	**109**	794
Foreign exchange (gain) loss	**(31)**	1,382
Changes in non-cash working capital relating to operations	**(883)**	17,744
	147,180	146,139
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Purchases of marketable securities	**(20,803)**	(12,951)
Proceeds on sale of marketable securities	**1,709**	4,694
Additions to capital assets	**(46,922)**	(33,185)
	(66,016)	(41,442)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Dividends paid	**(51,895)**	(49,351)
Purchase of Class A non-voting shares for cancellation	**(30,112)**	(40,835)
Repayment of long-term debt	**(1,300)**	(1,220)
Proceeds from exercise of stock options	**3,569**	2,614
	(79,738)	(88,792)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN FOREIGN CURRENCY	**31**	(1,382)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,457**	14,523
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**228,577**	214,054
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 230,034**	$ 228,577

Supplemental disclosure of cash flow information (note 15)

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

Notes

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 Company's fiscal year ends on the Saturday closest to the end of January. All references to 2011 and 2010 represent the fiscal years ended January 29, 2011 and January 30, 2010, respectively. Certain comparative figures have been reclassified to conform to the 2011 financial statement presentation.

2. ADOPTION OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

The Canadian Accounting Standards Board has confirmed that the use of International Financial Reporting Standards ("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.

3. 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 sold are recorded as a liability and revenue is recognized when the gift cards are redeemed. An estimate is made of gift cards not expected to be redeemed based on the terms of the gift cards and historical redemption patterns.

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 on a straight-line basis at the following annual rates applied to their cost, commencing with the year of acquisition:

Buildings and improvements	4% to 10%
Fixtures and equipment	5% to 33 1/3%
Software	20% to 33 1/3%

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, including intangibles, 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.

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 statements 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 benefit plans are determined periodically by independent actuaries. Pension expense/income is included in the determination of net earnings.

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 is 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

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value with the exception of loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net earnings in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Financial assets and liabilities measured at fair value use a fair value hierarchy to prioritize the inputs used in measuring fair value. Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Derivative instruments are recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in net earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The Company has classified its cash and cash equivalents as held for trading. The Company has also classified its accounts receivables as loans and receivables and its marketable securities as available-for-sale. Accounts payable and accrued items and long-term debt have been classified as other financial liabilities and are measured at amortized cost.

The Company accounts for its transactions costs related to financial instruments, other than held-for-trading, in the initial measurement of the instrument and amortizes such costs using the effective interest rate method.

The Company considers the use of foreign exchange option contracts, with maturities not exceeding 3 months, to manage its US dollar exposure. 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) Comprehensive Income

Comprehensive income, which consists of net earnings and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net earnings calculated in accordance with generally accepted accounting principles and includes unrealized gains and losses on financial assets classified as available-for-sale.

n) Use of Estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the year. 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, assets and obligations related to employee pension benefits, future income tax assets and liabilities, inventory valuation, sales returns provision and gift card liabilities.

4. INVENTORIES

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 29, 2011 was $350,671 (January 30, 2010 - $378,292). During the year, the Company recorded $1,955 (January 30, 2010 - $1,873) 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.

5. PROPERTY AND EQUIPMENT

	2011			**2010**		
	Cost	**Accumulated Depreciation**	**Net Book Value**	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Land	**$ 5,860**	**$ –**	**$ 5,860**	$ 5,860	$ –	$ 5,860
Buildings and improvements	**51,925**	**21,284**	**30,641**	52,411	19,499	32,912
Fixtures and equipment	**175,386**	**101,880**	**73,506**	177,874	97,398	80,476
Leasehold improvements	**194,904**	**110,299**	**84,605**	194,782	103,418	91,364
	$ 428,075	**$ 233,463**	**$ 194,612**	$ 430,927	$ 220,315	$ 210,612

During the year, due to various store closings and renovations, the Company wrote off assets with a net book value of $1,761 (January 30, 2010 - $1,670). The write-offs are included in depreciation and amortization expense. Property and equipment includes an amount of $3,548 (January 30, 2010 - $3,128) that is not being depreciated. Depreciation will begin when the assets have been put into service.

6. INTANGIBLES

	2011			2010		
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Software	**$ 22,184**	**$ 8,343**	**$ 13,841**	$ 17,072	$ 7,108	$ 9,964

Software includes an amount of $6,930 (January 30, 2010 - $2,334) that is not being amortized. Amortization will begin when the software has been put into service.

7. PENSION

The Company's contributory defined benefit plan ("Plan") was actuarially valued as at December 31, 2007. An actuarial valuation is scheduled to take place with a valuation date of December 31, 2010.

Actuarial assumptions, based upon data as of December 31, 2010, used in calculating the Company's accrued benefit plan obligations and the net pension cost were as follows:

	2011	2010
Accrued benefit obligation		
Discount rate	**5.10%**	5.80%
Rate of increase in salary levels	**3.00%**	3.00%
Net pension cost		
Discount rate	**5.80%**	6.30%
Expected long-term rate of return on plan assets	**7.00%**	7.00%
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 retirement benefit plans:

	2011			2010		
	Plan	**SERP**	**Total**	**Plan**	**SERP**	**Total**
Pension obligation						
Pension obligation, beginning of year	**$ 10,940**	**$ 10,775**	**$ 21,715**	$ 9,676	$ 9,635	$ 19,311
Employee contributions	**135**	**–**	**135**	135	–	135
Current service cost	**444**	**217**	**661**	380	223	603
Interest cost	**651**	**634**	**1,285**	624	618	1,242
Benefits paid	**(515)**	**(128)**	**(643)**	(576)	(102)	(678)
Actuarial losses	**1,148**	**1,777**	**2,925**	701	401	1,102
Pension obligation, end of year	**$ 12,803**	**$ 13,275**	**$ 26,078**	$ 10,940	$ 10,775	$ 21,715
Plan assets						
Fair value of plan assets, beginning of year	**$ 10,529**	**$ –**	**$ 10,529**	$ 8,976	$ –	$ 8,976
Employer contributions	**501**	**128**	**629**	510	102	612
Employee contributions	**135**	**–**	**135**	135	–	135
Actual return on plan assets	**1,248**	**–**	**1,248**	1,484	–	1,484
Benefits paid	**(515)**	**(128)**	**(643)**	(576)	(102)	(678)
Fair value of plan assets, end of year	**$ 11,898**	**$ -**	**$ 11,898**	$ 10,529	$ –	$ 10,529
Funded status						
Accrued benefit obligation	**$ 12,803**	**$ 13,275**	**$ 26,078**	$ 10,940	$ 10,775	$ 21,715
Fair value of plan assets	**11,898**	**–**	**11,898**	10,529	–	10,529
Funded status	**(905)**	**(13,275)**	**(14,180)**	(411)	(10,775)	(11,186)
Unamortized past service cost	**–**	**5,068**	**5,068**	–	5,743	5,743
Accrued pension liability	**$ (905)**	**$ (8,207)**	**$ (9,112)**	$ (411)	$ (5,032)	$ (5,443)

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

	2011			2010		
	Plan	**SERP**	**Total**	**Plan**	**SERP**	**Total**
Pension costs						
Current service cost	**$ 444**	**$ 217**	**$ 661**	$ 380	$ 223	$ 603
Interest cost	**651**	**634**	**1,285**	624	618	1,242
Actual return on plan assets	**(1,248)**	**–**	**(1,248)**	(1,484)	–	(1,484)
Actuarial losses	**1,148**	**1,777**	**2,925**	701	401	1,102
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	**995**	**2,628**	**3,623**	221	1,242	1,463
Difference between expected return and actual return on plan assets for year	**512**	**–**	**512**	856	–	856
Difference between actuarial (gains)/losses recognized for year and actual actuarial (gains)/losses on accrued benefit obligation for year	**(512)**	**–**	**(512)**	(856)	–	(856)
Difference between amortization of past service costs and actual plan amendments for year	**–**	**675**	**675**	–	674	674
Net pension costs recognized	**$ 995**	**$ 3,303**	**$ 4,298**	$ 221	$ 1,916	$ 2,137

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

	2011	2010
Equity securities	**61%**	61%
Debt securities	**37%**	37%
Cash and cash equivalents	**2%**	2%
	100%	100%

8. LONG-TERM DEBT

	2011	2010
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 with a net book value of $19,282 (January 30, 2010 - $20,304)	**$ 11,431**	$ 12,731
Less current portion	**1,384**	1,300
	$ 10,047	$ 11,431

Principal repayments on long-term debt are as follows:

Fiscal years ending	
2012	$ 1,384
2013	1,474
2014	1,570
2015	1,672
2016	1,780
Subsequent years	3,551
	$ 11,431

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:

	2011	2010
Current assets		
Marketable securities	**$ –**	$ 142
Accrued liabilities	**3,381**	3,313
	3,381	3,455
Valuation allowance	**–**	(21)
	$ 3,381	$ 3,434
Long-term assets		
Capital assets	**$ 12,583**	$ 10,043
Pension liability	**2,364**	1,411
Other	**45**	50
	$ 14,992	$ 11,504
Current liabilities		
Marketable securities	**$ (299)**	$ –
Inventories	**(1,081)**	(1,039)
	$ (1,380)	$ (1,039)
Long-term liabilities		
Marketable securities	**$ (20)**	$ (38)

Presented on the balance sheet as follows:

	2011	2010
Short-term assets	**$ 2,001**	$ 2,395
Long-term assets	**14,972**	11,466

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

	2011	2010
Provision for income taxes based on combined statutory rate of 30.19% (2010 - 31.72%)	**$ 37,779**	$ 31,408
Changes in provision resulting from:		
Tax recovery due to net capital loss carryback	**–**	134
Tax exempt investment income	**(719)**	(589)
Permanent and other differences	**551**	565
Adjustment to prior years' taxes	**(96)**	(145)
Stock-based compensation	**601**	406
Income taxes	**$ 38,116**	$ 31,779
Represented by:		
Current	**$ 41,669**	$ 34,705
Future	**(3,553)**	(2,926)
	$ 38,116	$ 31,779

10. SHARE CAPITAL

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

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

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

	Number of Shares	Book Value
Balance January 31, 2009	56,864	$ 23,348
Shares issued pursuant to exercise of stock options	277	3,269
Shares purchased under issuer bid	(2,981)	(1,211)
Balance January 30, 2010	54,160	25,406
Shares issued pursuant to exercise of stock options	292	4,457
Shares purchased under issuer bid	(1,583)	(731)
Balance January 29, 2011	**52,869**	**$ 29,132**

The amounts credited to share capital from the exercise of 292 (2010 - 277) stock options include a cash consideration of $3,569 (2010 - $2,614), as well as an ascribed value from contributed surplus of $888 (2010 - $655).

The Company has authorized an unlimited number of Common shares. At January 29, 2011, there were 13,440 Common shares issued (January 30, 2010 - 13,440) with a book value of $482 (January 30, 2010 - $482).

c) The Company's stock option plan provides that up to 10% of the Class A non-voting shares outstanding, from time to time, may be issued pursuant to the exercise of options granted under the plan. 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.

For the year ended January 29, 2011, the Company granted 215 stock options (2010 - 1,920), 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 35 (2010 - 30) 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:

	100 Options Granted April 7, 2010	15 Options Granted June 2, 2010	100 Options Granted January 14, 2011
Expected option life	6.5 years	4.9 years	6.5 years
Risk-free interest rate	3.59%	2.44%	2.90%
Expected stock price volatility	47.18%	37.40%	33.52%
Average dividend yield	4.00%	4.38%	4.44%
Weighted average fair value of options granted	$6.22	$4.25	$4.05

Changes in outstanding stock options were as follows:

	2011		2010	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding, at beginning of year	**3,207**	**$ 14.14**	1,594	$ 12.84
Granted	**215**	**18.02**	1,920	14.50
Exercised	**(292)**	**12.23**	(277)	9.43
Forfeited	**(35)**	**14.50**	(30)	12.23
Outstanding, at end of year	**3,095**	**$ 14.58**	3,207	$ 14.14
Options exercisable, at end of year	**934**	**$ 13.74**	1,171	$ 13.13

The following table summarizes information about stock options outstanding at January 29, 2011:

	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**
$12.23 – $14.50	2,607	4.62 years	$ 13.87	722	$ 12.23
$15.90 – $18.26	315	7.32	17.54	60	16.52
$19.23 – $22.02	173	1.61	19.92	152	19.86
	3,095	**4.73 years**	**$ 14.58**	**934**	**$ 13.74**

For the year ended January 29, 2011, the Company recognized compensation cost of $1,990 (2010 - $1,281) with an offsetting credit to contributed surplus.

d) The Company received, in November 2010, approval from the Toronto Stock Exchange to proceed with a normal course issuer bid. Under the bid, the Company may purchase up to 2,638 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 17, 2010. The bid commenced on November 28, 2010 and may continue to November 27, 2011.

For the year ended January 29, 2011, the Company purchased, under the prior year's normal course issuer bid, 1,583 Class A non-voting shares having a book value of $731 for a total cash consideration of $30,112. The excess of the purchase price over book value of the shares in the amount of $29,381 was charged to retained earnings.

11. EARNINGS PER SHARE

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

	2011	2010
Weighted average number of shares per basic earnings per share calculations	**66,771**	68,780
Effect of dilutive options outstanding	**477**	183
Weighted average number of shares per diluted earnings per share calculations	**67,248**	68,963

As at January 29, 2011, a total of 398 stock options were excluded from the calculation of diluted earnings per share as these were deemed to be anti-dilutive, because the exercise prices were greater than the average market price of the shares during the year.

12. COMMITMENTS

Financial commitments for minimum lease payments under operating leases for retail stores, offices, automobiles and equipment, as well as amounts pertaining to agreements to purchase goods or services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs are payable as follows:

Fiscal Years Ending	Store and Office Operating Leases	Purchases Obligations	Other Operating Leases	Total
2012	$ 99,614	$ 123,205	$ 4,466	$ 227,285
2013	86,311	926	4,218	91,455
2014	73,965	117	3,440	77,522
2015	62,932	117	2,404	65,453
2016	51,723	–	2,298	54,021
Subsequent years	95,398	–	–	95,398
Total	**$ 469,943**	**$ 124,365**	**$ 16,826**	**$ 611,134**

13. CREDIT FACILITY

At January 29, 2011, 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 29, 2011, $60,888 (January 30, 2010 - $53,624) of the operating lines of credit were 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 29, 2011, the maximum potential liability under these guarantees was $5,060 (January 30, 2010 - $5,139). The standby letters of credit mature at various dates during fiscal 2012. The contingent portion of the guarantee is recorded when the Company considers it probable that a payment relating to the guarantee has to be made to the other party of the contract or guarantee. 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 was a foreign exchange gain of $473 (2010 - loss of $231).

b) Supplementary cash flow information:

	2011	2010
Balance with banks	**$ 4,634**	$ 4,677
Short-term deposits, bearing interest at 0.70% (January 30, 2010 - 0.29%)	**225,400**	223,900
Cash and cash equivalents	**$ 230,034**	$ 228,577
Marketable securities:		
Fair value	**$ 70,413**	$ 48,026
Cost	**68,108**	49,123
Non-cash transactions:		
Capital asset additions included in accounts payable and accrued items	**$ 2,819**	$ 1,408
Ascribed value credited to share capital from exercise of stock options	**888**	655
Cash paid during the year for:		
Income taxes	**$ 46,388**	$ 31,164
Interest	**797**	850
Investment income:		
Available-for-sale financial assets:		
Dividends	**$ 2,640**	$ 2,109
Realized loss on disposal	**(109)**	(794)
Held-for-trading financial assets:		
Interest income	**1,225**	677
	$ 3,756	$ 1,992

16. RELATED PARTY TRANSACTIONS

The Company leases two retail locations which are owned by companies controlled by the major shareholders of the Company. The leases for such premises were entered into on commercial terms similar to those for leases entered into with third parties for similar premises. For the year ended January 29, 2011, the rent expense under these leases was, in the aggregate, approximately $190 (2010 - $197).

The Company incurred $606 in the year ended January 29, 2011 (2010 - $474) with professional service firms connected to outside directors of the Company for fees in conjunction with general legal advice and other consultation. 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 instruments. 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, which are considered Level 1 inputs in the fair value hierarchy. The fair value of cash and cash equivalents was measured using Level 2 inputs in the fair value hierarchy.

As at January 29, 2011, the fair value of long-term debt was $12,247 (January 30, 2010 - $13,045) compared to its carrying value of $11,431 (January 30, 2010 - $12,731).

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 29, 2011, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$ 230,034
Marketable securities	70,413
Accounts receivable	2,866
	$ 303,313

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 29, 2011, the Company had a high degree of liquidity with $300,447 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 and as such significant volatility in the US dollar vis-à-vis the Canadian dollar can have an adverse impact on the Company's gross margin. The Company considers a combination of foreign exchange option contracts, not to exceed three months, and spot rate purchases to manage its foreign exchange exposure on cash flows related to these purchases. A foreign exchange option contract represents an option to buy a foreign currency from a counterparty. 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. For fiscal 2011, the Company satisfied its US dollar requirements through spot rate purchases.

As at January 29, 2011 and January 30, 2010, there were no outstanding foreign exchange option contracts.

The Company has performed a sensitivity analysis on its US dollar denominated financial instruments, which as at January 29, 2011 consist principally of cash and cash equivalents of $93,432 and accounts payable of $853 to determine how a change in the US dollar exchange rate would impact net earnings. On January 29, 2011, a 10% rise or fall in the Canadian dollar against the US dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $6,488 decrease or increase, respectively, in the Company's net earnings for the year ended January 29, 2011.

Interest Rate Risk

Interest rate risk exists in relation to the Company's cash and cash equivalents, defined benefit pension plan and Supplemental Executive Retirement Plan. Market fluctuations in interest rates impacts the Company's earnings with respect to interest earned on cash and cash equivalents that are invested in bank bearer deposit notes and bank term deposits with major Canadian financial institutions and commercial paper with a rating not less than R1. Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuation may have a material adverse effect on the funded status of the retirement benefit plans and on the Company's results of operations. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $125,000 or its US dollar equivalent that it utilizes for documentary and standby letters of credit, and the Company funds the drawings on these facilities as the payments are due, consequently, the Company has no exposure to interest rate risk for these facilities.

The Company has performed a sensitivity analysis on interest rate risk at January 29, 2011 to determine how a change in interest rates would impact equity and net earnings. For the year ended January 29, 2011, the Company earned interest income of $1,225 on its cash and cash equivalents. An increase or decrease of 25 basis points in the average interest rate earned during the year would have increased equity and net earnings by $367 or decreased equity and net earnings by $317. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The Company has performed a sensitivity analysis at January 29, 2011 to determine how a change in interest rates, in relation to the Company's retirement benefit plans, would impact the net periodic benefit costs. A one percentage point decrease in the year-end discount rate would have resulted in an increase of approximately $3,500 on the net periodic benefit costs, for the year ended January 29, 2011, whereas a one percentage point increase would have resulted in a decrease of approximately $3,100. The Company's expected long-term rate of return on plan assets reflects management's view of long-term investment returns. The effect of a 1% variation in such rate of return would have a nominal impact on the net periodic benefit costs.

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 29, 2011, 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 29, 2011, would result in a $2,993 increase or decrease in equity and other comprehensive income for the year ended January 29, 2011. 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 unsecured operating lines 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

CORPORATE

Jeremy H. Reitman
Chairman and Chief Executive Officer

Stephen F. Reitman
President and Chief Operating Officer

Pierre Lavallée
Executive Vice-President

Eric Williams, CA
Vice-President - Finance and
Chief Financial Officer

Henry Fiederer
Senior Vice-President

Diane Archibald
Vice-President - Store Design and Development

Domenic Carbone
Vice-President - Distribution and Logistics

Doug Edwards
Vice-President - Online Marketing and Sales

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

DIVISIONS

Nadia Cerantola
President - Reitmans

Stéphanie Bleau
Vice-President - Reitmans

Donna Flynn
Vice-President - Reitmans

Bruce MacKeracher
Vice-President - Reitmans

Stefanie Ravenda
Vice-President - Reitmans

Jacqueline Tardif
Vice-President - Reitmans

Kimberly Schumpert
President - Smart Set

Cathy Cockerton
Vice-President - Smart Set

Sylvain Forest
Vice-President - Smart Set

Danielle Vallières
Vice-President - Smart Set

Isabelle Taschereau
President - Cassis

Stéphane Renauld
Vice-President - Cassis

Henry Fiederer
President - Penningtons / Addition Elle

Janice Leclerc
Vice-President - Addition Elle

Jeff Ronald
Vice-President - Penningtons / Addition Elle

Rhonda Sandler
Vice-President - Penningtons

Suzana Vovko
President - RW&CO.

Cathryn Adeluca
Vice-President - RW&CO.

Frédéric Boivin
Vice-President - RW&CO.

Fiona Horgan
Vice-President - RW&CO.

Jonathan Plens
President - Thyme Maternity

Marie Frenneaux
Vice-President - Thyme Maternity

Fernanda Sousa
Vice-President - Thyme Maternity

Corporate Information 2011

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Computershare Investor Services Inc.
Montreal, Toronto, Calgary, Vancouver

Stock Symbols
THE TORONTO STOCK EXCHANGE

Common	**RET**
Class A non-voting	**RET.A**

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

Reitmans
Smart Set
RW & CO.
Thyme
Cassis
Penningtons
Addition Elle

Design and production:
Communications Marilyn Gelfand Inc.