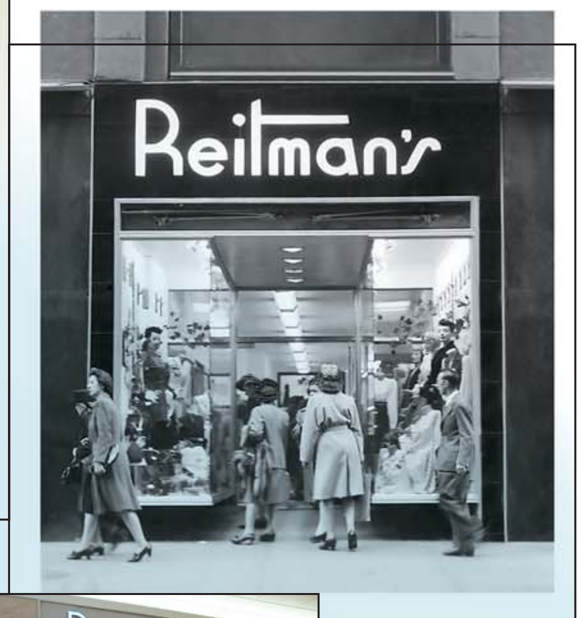
ANNUAL REPORT **2006**

1926 - 2006



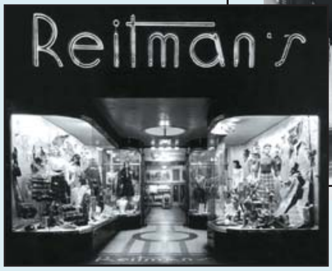
SERVING CANADIAN WOMEN FOR **EIGHTY YEARS**

1926 - 2006

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

A preeminent force in the retail industry for 80 years, Reitmans has evolved from a single chain of fashion retail stores "where smart women shop" to an 887 store, multi-banner operation where all women shop.

The first Reitman's store,
St. Lawrence Blvd., Montreal - 1926



Park Avenue, Montreal - 1952

CELEBRATING 80 YEARS

As we celebrate our 80th anniversary, Reitmans (Canada) Limited has continued to grow to record levels of sales and profitability.

The Company is the largest and most profitable public ladies' wear retailer in Canada with 887 stores generating a record $969,258,000 in sales, $155,610,000 in EBITDA and $84,889,000 in net earnings. At year-end, we had cash and investments on hand aggregating $195,531,000.

We operate six banners in highly competitive markets. Our banners experienced significant growth in gross margin and net operating margin as a result of a stronger Canadian dollar, effective cost containment at both store and overhead levels and significant operating efficiencies in our supply chain activities. In fiscal 2006, we opened 46 new stores, remodelled 45 stores and closed 26 stores. In fiscal 2007, we plan to open 60 new stores (including 10 new Cassis stores) and remodel 42 stores.

We are growing all areas of our business. Our stores are growing in number, size, sales and profitability. Dividends paid have grown almost 300% over the past 3 years. We continue to invest in stores, technology and people. Our cash resources and infrastructure allow us to seek out new business opportunities through acquisition and development.

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

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman
President

Montreal, April 13, 2006

COVER PHOTOS:
McGill Street, Montreal - 1931
St. Catherine Street West, Montreal - 1946
Les Galeries d'Anjou, Montreal - 2006

2006

CONTINUED GROWTH

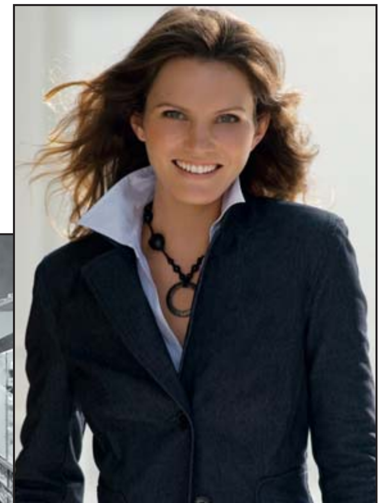
$969,258,000	SALES + 6%
$155,610,000	EBITDA + 26%
$125,011,000	PRE-TAX EARNINGS + 30%
$84,889,000	NET EARNINGS + 27%
$1.22	EARNINGS PER SHARE + 26%
$195,531,000	CASH AND INVESTMENTS + 16%
887	STORES + 2%

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

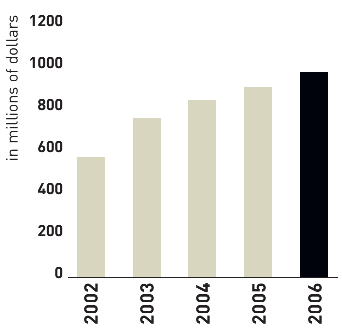
	2006	2005	2004	2003	2002
SALES					
1st Quarter	**$ 213,732**	$ 193,420	$ 177,750	$ 126,028	$ 116,256
2nd Quarter	**261,785**	246,002	233,225	201,730	142,816
3rd Quarter	**238,613**	236,281	215,683	207,323	143,513
4th Quarter	**255,128**	236,770	224,976	217,413	163,435
Total	**$ 969,258**	$ 912,473	$ 851,634	$ 752,494	$ 566,020
OPERATING EARNINGS (LOSS)					
1st Quarter	**$ 25,014**	$ 14,547	$ 4,709	$ 4,896	$ 3,365
2nd Quarter	**42,066**	33,048	24,217	21,156	9,543
3rd Quarter	**27,200**	24,118	17,252	11,678	9,153
4th Quarter	**22,766**	16,801	4,720	(6,554)	11,362
Total	**$ 117,046**	$ 88,514	$ 50,898	$ 31,176	$ 33,423
EARNINGS (LOSS)					
1st Quarter	**$ 19,667**	$ 13,038	$ 4,105	$ 5,127	$ 4,250
2nd Quarter	**29,224**	23,868	17,296	13,590	7,964
3rd Quarter	**19,238**	17,638	12,654	8,213	7,488
4th Quarter	**16,760**	12,363	5,980	(2,395)	7,232
Total	**$ 84,889**	$ 66,907	$ 40,035	$ 24,535	$ 26,934
BASIC EARNINGS (LOSS) PER SHARE[1]					
1st Quarter	**$ 0.28**	$ 0.19	$ 0.06	$ 0.08	$ 0.06
2nd Quarter	**0.42**	0.35	0.25	0.20	0.12
3rd Quarter	**0.28**	0.25	0.19	0.12	0.12
4th Quarter	**0.24**	0.18	0.09	(0.04)	0.10
Total	**$ 1.22**	$ 0.97	$ 0.59	$ 0.36	$ 0.40
NET EARNINGS	**$ 84,889**	$ 66,907	$ 40,035	$ 24,535	$ 26,934
PER SHARE[1]	**$ 1.22**	$ 0.97	$ 0.59	$ 0.36	$ 0.40
SHAREHOLDERS' EQUITY	**$ 390,257**	$ 331,524	$ 276,402	$ 243,521	$ 225,579
PER SHARE[1]	**$ 5.56**	$ 4.77	$ 4.02	$ 3.54	$ 3.29
NUMBER OF STORES	**887**	867	845	820	623
DIVIDENDS PAID	**$ 29,345**	$ 14,171	$ 7,573	$ 6,876	$ 6,749
STOCK PRICE AT YEAR-END[1]					
CLASS A NON-VOTING	**$ 17.90**	$ 13.75	$ 6.18	$ 4.88	$ 3.19
COMMON	**$ 18.70**	$ 14.00	$ 6.25	$ 4.75	$ 3.16

[1] Adjusted to account for 100% stock dividends paid in October 2002, April 2004 and April 2005

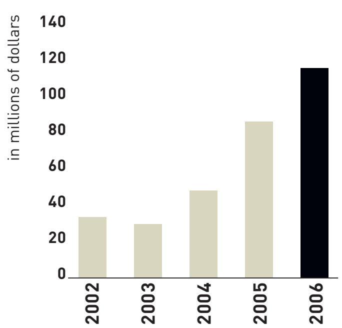
Yonge Street, Toronto - 1947



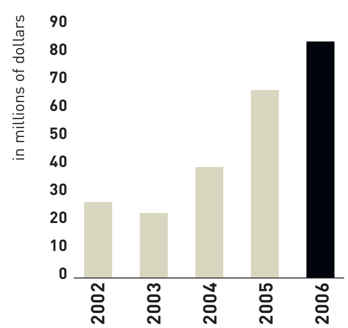
SALES



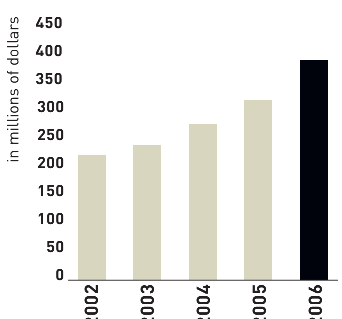
OPERATING EARNINGS



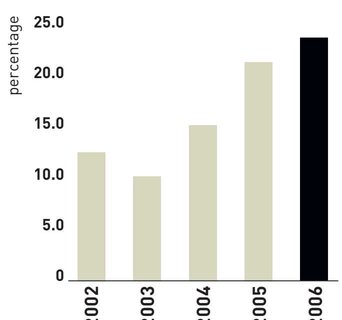
NET EARNINGS



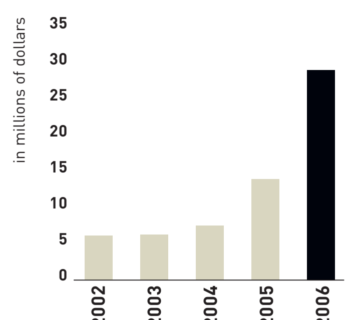
SHAREHOLDERS' EQUITY



RETURN ON EQUITY



DIVIDENDS



1926 - 2006

"WHERE SMART WOMEN SHOP"

1920's The Reitman's Dry Goods General Store was opened on St. Lawrence Blvd. in Montreal in 1926 by Herman and Sarah Reitman who were assisted by their four sons, Louis, Sam, John and Jack. Soon after, a second store was opened, simply named "Reitman's" and restricted its offerings to hosiery, lingerie and gloves. By 1929, the family was operating four stores in Montreal, with total sales of $323,000.

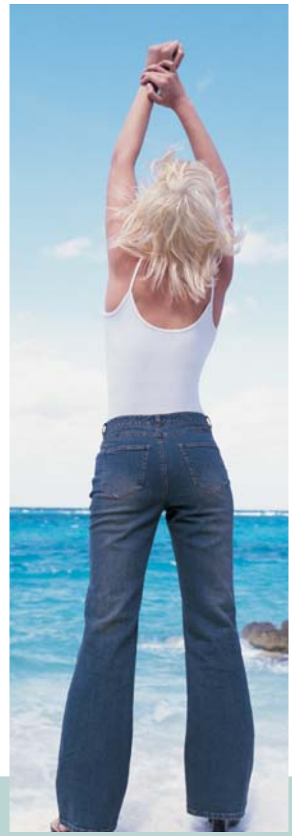
1930's In 1936, the first store was opened in Ottawa and in 1939 the first store opened in Toronto, at which point the chain was comprised of 22 stores with annual sales of $936,000 and net earnings of $9,000.

1940's In April 1947, with sales of $2,173,821, earnings of $57,000 and 23 stores in operation, the Company issued shares to the public and was listed on the Montreal Stock Exchange. In its first annual report for the year ending December 31, 1947, the Company reported sales of $3,833,469 and net earnings of $119,532.

1950's By 1950, Reitman's operated 35 stores, 15 in Québec and 20 in Ontario and annual sales had increased to $6,000,000. In July 1951, the Head Office and Distribution Centre were moved to a 25,000 sq. ft. facility at 3510 St. Lawrence Blvd. in downtown Montreal, across the street from the first store. During the 1950's, the development of open-air shopping plazas in Canada's major cities enabled the Company to expand substantially. The first store in Western Canada was opened in 1958 in North Hills Shopping Centre in Calgary, Alberta. The first store in Eastern Canada was opened in 1959 in Dartmouth Plaza in Halifax, Nova Scotia. At January 31, 1959, with 104 stores in operation, sales increased to $17,329,000 and net earnings increased to $721,000.

1960's The 1960's saw the evolution of the enclosed shopping mall which offered customers year-round comfort and convenience, and over 100 stores were opened during the decade, including stores in British Columbia and Newfoundland. In 1965, the Company moved its office and Distribution Centre to a three floor facility comprised of 165,000 sq. ft. at 250 Sauvé Street West in the Ahuntsic area of northern Montreal. In 1967, a fourth floor of 40,000 sq. ft. was added to the Sauvé Street Distribution Centre, which then comprised of 205,000 sq. ft. At January 31, 1969, with 222 stores in operation, sales increased to $42,737,000 and net earnings increased to $1,389,000.

1970's In 1970, the Company opened two smaller stores of approximately 1,000 sq. ft. called Smart Set, a boutique-type operation specializing in sportswear. In 1972, a fifth floor of 40,000 sq. ft. was added to the Sauvé Street Distribution Centre, which then comprised of 245,000 sq. ft. In 1975, the Company acquired the Sweet Sixteen chain with 81 stores in British Columbia and Alberta. In 1976, an additional 140,000 sq. ft. was added to the Sauvé Distribution Centre, which then comprised of 385,000 sq. ft. In 1979, the Company acquired Worth's stores of St. Louis, Missouri, a chain of 42 stores in the United States Midwest. At January 31, 1980, with 589 stores in operation, sales increased to $213,867,000 and net earnings increased to $10,579,000.



1980's The Smart Set and Sweet Sixteen operations were merged. New store formats including Chablis, Un-Deux-Trois and Kookai were developed and subsequently converted to Smart Set operations. In 1983, the Company opened a sourcing office in Seoul, South Korea. At January 31, 1990, 579 stores were in operation in Canada; 177 Worths stores were in operation in the U.S. Consolidated sales amounted to $368,261,000 and net earnings amounted to $6,976,000.

1990's In 1992, Worths was sold. Also, in 1992, the Company opened its Hong Kong sourcing office and closed its Seoul office in 1993. In 1995, Penningtons was acquired – a chain of 29 "strip plaza" stores and 10 mall stores offering large-size women's apparel. In 1995, the Company acquired a 21% interest in NetStar Communications Inc., which owned The Sports Network (TSN), Le Réseau des Sports (RDS) and The Discovery Channel Canada. In 1996, we acquired Dalmys (Canada) Limited and its 79 stores consisting of 28 Dalmys, 37 Antels and 14 Cactus stores. In 1999, we launched RW & CO., offering active, casual and city wear clothing and accessories to junior (18 to 30) ladies and men. In 1999, the NetStar investment was sold. At January 29, 2000, with 588 stores in operation, sales increased to $477,730,000 and net earnings increased to $15,407,000, excluding a non-recurring gain on the sale of NetStar of $36,300,000.

2000 AND BEYOND

In June 2001, construction started on the Henri-Bourassa Distribution Centre in Ville St. Laurent, Québec, a suburb of Montreal. In June 2002, Reitmans acquired Shirmax Fashions Ltd., which operated 175 stores consisting of 69 mall stores operating under the Addition-Elle, A/E Sport & Co. and Lingerie by Addition-Elle banners, 40 Addition-Elle Fashion Outlet stores and 66 Thyme Maternity stores. At year-end February 1, 2003, Reitmans (Canada) Limited, with 820 stores in operation, reported sales of $752,494,000 and net earnings of $24,535,000. In August 2003, the Henri-Bourassa Distribution Centre, comprising 566,000 sq. ft. of work area, was officially opened and currently serves all of the Company's banners. In September 2005, the Company opened a sourcing office in Shanghai, China. In January 2006, the Company acquired its Sauvé Street facility. For the year ended January 28, 2006, with 887 stores in operation, sales amounted to $969,258,000 and net earnings amounted to $84,889,000. In August 2006, Cassis, a new banner, catering to the mature baby boomer will be launched.

Dundas Street, London - 1949

	REITMANS	SMART SET	RW & CO.	THYME	PENNINGTONS	ADDITION ELLE	**TOTAL**
NEWFOUNDLAND	14	3	-	1	3	2	**23**
PRINCE EDWARD ISLAND	3	3	-	-	2	-	**8**
NOVA SCOTIA	20	5	1	1	8	2	**37**
NEW BRUNSWICK	17	6	1	1	4	3	**32**
QUÉBEC	85	34	8	17	24	35	**203**
ONTARIO	112	69	12	26	56	43	**318**
MANITOBA	11	6	-	2	5	5	**29**
SASKATCHEWAN	9	3	-	2	7	3	**24**
ALBERTA	47	19	3	11	19	13	**112**
BRITISH COLUMBIA	35	14	7	8	22	13	**99**
NORTHWEST TERRITORIES	1	-	-	-	-	-	**1**
YUKON	1	-	-	-	-	-	**1**
	355	**162**	**32**	**69**	**150**	**119**	**887**

In July 1951, Reitman's opened its Head Office and Distribution Centre in a 25,000 sq. ft. facility at 3510 St. Lawrence Blvd. in downtown Montreal, across the street from the first Reitman's store. In 1965, the Company moved its office and Distribution Centre to a three floor facility comprised of 165,000 sq. ft. at 250 Sauvé Street West in the Ahuntsic area of northern Montreal. In 1967, a fourth floor of 40,000 sq. ft. was added to the Sauvé Street premises, which then comprised of 205,000 sq. ft. In 1972, a fifth floor of 40,000 sq. ft. was added to the premises, which then comprised of 245,000 sq. ft. In 1976, an additional 140,000 sq. ft. was added to the premises and now comprises 385,000 sq. ft., which has been converted to office premises. In August 2003, the Henri-Bourassa Distribution Centre, comprising 566,000 sq. ft. of work area, was officially opened and serves all of the Company's banners.

566,000 SQ. FT. OF DISTRIBUTION SPACE

The Reitmans Distribution Centre, located in Ville St. Laurent, Québec, a suburb of Montreal, has 566,000 sq. ft. of working area, serving all six banners. Set on 1,100,000 sq. ft. of land, the facility has over 40 shipping and receiving docks and is capable of processing more than 55,000,000 units of merchandise per year. Computerized sortation equipment for both hanging garments and flat items is capable of serving over 1,100 stores.

Reitmans

reitmans.com

355 STORES

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

SMART SET

smart-set.com

The Smart Set banner, with 162 stores averaging 3,100 sq. ft., is a major fashion destination for junior customers offering 18 to 30 year old women a complete coordinated line of affordable fashion and accessories at the best quality, price and value. All Smart Set clothing and accessories are designed and manufactured specifically and exclusively for the chain and carry the Smart Set label.

162 STORES

RW&CO.

A unique and comfortable store environment, genuine customer care and exceptional marketing support distinguishes the RW&CO. lifestyle brand. Operating 32 stores, which average 4,100 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.

rw-co.com

32 STORES

thyme maternity

69 STORES

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

penningtons

penningtons.com

With 150 stores from coast to coast, Penningtons is a destination store averaging 6,200 sq. ft. located in strip plazas and power centres providing a broad assortment of career, casual, intimate apparel and accessories for the plus-size woman of all ages at competitive prices. The Penningtons brand stands for classic fashion, friendly warm service, quality and value. We expanded the junior plus-size product assortment known as MXM that caters to the trendy, young value-conscious plus-size customer in all Penningtons stores.

150 STORES

mxm.bz

ADDITION **ELLE**

Operating 119 stores, Addition Elle is Canada's fashion leader in ladies plus-sized clothing, providing our customers with a contemporary collection of career, casual, intimate apparel and accessories at affordable prices. Our stores average 5,800 sq. ft. and are located in malls and power centres across Canada. The junior MXM assortment is available in 98 Addition Elle stores.

addition-elle.com

119 STORES

cassis

OPENING IN AUGUST 2006

cassis.ca

Targetting the 45 to 60 year old mature baby boomer, Cassis will average 4,500 sq. ft. in major regional malls, offering a refreshing combination of novelty and proven classic merchandise. Key focus points for this new retail concept will be fit, quality, atmosphere and customer service. The first stores will open in Ontario and Québec in August 2006.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Reitmans (Canada) Limited ("Reitmans" or the "Company") should be read in conjunction with the audited consolidated financial statements of Reitmans for the period ended January 28, 2006 and the notes thereto which are available at www.sedar.com. This MD&A is dated March 21, 2006.

The purpose of the following discussion is to provide an update to the information contained in Management's Discussion and Analysis included in Reitmans' 2005 Annual Report and Management's Discussion and Analysis included in the Company's Interim Report for the three months ended October 29, 2005. Reitmans assumes that the reader of the following discussion has access to and has read such reports. Reitmans' 2005 Annual Report and its Interim Report for the three month period ended October 29, 2005 can be downloaded from Reitmans' website at www.reitmans.ca.

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.

SELECTED FINANCIAL INFORMATION

(in thousands, except per share amounts)

	2006	2005	2004
Sales	**$ 969,258**	$ 912,473	$ 851,634
Earnings before income taxes	**125,011**	96,234	55,690
Net earnings	**84,889**	66,907	40,035
Net earnings per share[1]			
Basic	**1.22**	0.97	0.59
Diluted	**1.19**	0.95	0.58
Total assets	**523,233**	467,059	469,865
Long-term debt[2]	**16,173**	17,183	85,082
Dividends per share[1]	**0.420**	0.205	0.110

[1] Adjusted to account for 100% stock dividends paid April 2004 and April 2005.
[2] Including capital lease obligations. Excluding current portion of long-term debt and deferred lease credits.

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

OVERVIEW OF FINANCIAL CONDITION AND CONSOLIDATED OPERATING RESULTS FOR THE FISCAL YEAR ENDED JANUARY 28, 2006 ("fiscal 2006") **AND COMPARISON TO FINANCIAL CONDITION AND CONSOLIDATED OPERATING RESULTS FOR THE COMPARABLE PERIOD ENDED JANUARY 29, 2005** ("fiscal 2005")

The consolidated financial statements for the year ended January 28, 2006 reflect the consolidated operations of Reitmans.

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

Operating earnings for fiscal 2006 increased 32.2% to $117,046,000 as compared with $88,514,000 for the prior year. Net earnings after tax increased 26.9% to $84,889,000 or $1.22 per share ($1.19 fully diluted) as compared with $66,907,000 or $0.97 per share ($0.95 fully diluted) last year. The factors contributing to such increases included significantly improved gross margins enhanced by a strengthening Canadian dollar, effective cost containment at both store and overhead levels and efficiency improvements in the operation of the Company's supply chain activities.

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 8 months. Many of these purchases must be paid for in US dollars. During fiscal 2006, these purchases exceeded $150,000,000 US. The Company uses a variety of defensive strategies designed to fix the cost of its continuing US dollar long-term commitments at the lowest possible cost while at the same time allowing itself the opportunity to take advantage of an increase in the value of the Canadian dollar vis-à-vis the US dollar. For fiscal 2006, these strategies helped the gross margin performance as the Canadian dollar strengthened over the course of the year.

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

OVERVIEW OF FINANCIAL CONDITION AND CONSOLIDATED OPERATING RESULTS FOR THE THREE MONTH PERIOD ENDED JANUARY 28, 2006 ("fourth quarter") **AND COMPARISON TO FINANCIAL CONDITION AND CONSOLIDATED OPERATING RESULTS FOR THE COMPARABLE PERIOD ENDED JANUARY 29, 2005**

Sales for the fourth quarter increased 7.8% to $255,128,000 as compared with $236,770,000 for the three month period ended January 29, 2005. Comparable store sales increased 5.1%.

Operating earnings for the fourth quarter increased 35.5% to $22,766,000 as compared with $16,801,000 for the comparable period last year. This increase reflects a strong sales performance throughout the fourth quarter and in particular the Holiday Season, resulting in reduced markdowns in the post Holiday Season, a strong gross margin performance enhanced by a strengthening Canadian dollar and effective cost containment across all operations. Net earnings after tax increased 35.6% to $16,760,000 or $0.24 per share ($0.23 fully diluted) as compared with $12,363,000 or $0.18 per share ($0.18 fully diluted) for the comparable period last year.

During the fourth quarter, the Company opened 19 new stores and closed 8 stores.

Cash and cash equivalents are $135,399,000 or 32.8% higher than last year ($101,939,000) reflecting the very strong positive cash flow generated by the retailing operations of the Company. In fiscal 2005, the Company repaid the remaining $74,000,000 of long-term debt related to the acquisition of Shirmax Fashions Ltd. in 2002 during the first quarter, some 14 months in advance of the term of the loan agreement (see the Consolidated Statements of Cash Flows forming part of the Company's report). Merchandise inventories this year are $66,445,000 or $7,282,000 higher than last year. This increase relates to the number of new stores opened, the planned build up of seasonal merchandise together with the planned increase in the new stores to be opened in the first quarter of the new fiscal year. Accounts receivable are $3,135,000, $721,000 more than last year. The Company's accounts receivable are essentially the debit and credit card sales from the last day of the fiscal year. Prepaid expenses are $7,471,000 or approximately $774,000 more than last year.

Total current liabilities decreased by $2,316,000 over the same period last year. This decrease is principally accounted by the net decrease in income taxes payable of approximately $2,489,000.

At the end of fiscal 2006, the Company was still responsible for the rent and maintenance of the now vacant Jarry Street office and Distribution Centre, which lease it assumed on the acquisition of Shirmax. During the first quarter of fiscal 2005, management believed it had a definitive agreement with the Jarry Street landlord to cancel the lease thereon as of May 31, 2004. The relevant costs associated with the cancellation of this lease were therefore accrued and expensed in the Company's accounts as of January 31, 2004, as required under current Canadian accounting rules. Subsequent to the end of the first quarter of fiscal 2005, the aforementioned agreement was not consummated. As a result, the monthly rent and the related maintenance expense arising from the Company's obligations under this lease continued to be charged against current operations until November 2005. Since that time, the previously accrued amount for lease cancellation costs has been reversed on a monthly pro rata basis on the Company's Consolidated Statement of Earnings, with a corresponding reduction of the liability on the Company's balance sheet. The lease term expires in December 2006 and as a result, this accrued liability ($1,185,000) will be eliminated in the current fiscal year ending February 3, 2007.

The Company has announced that it will introduce a new ladies wear retailing concept which will operate under the name of Cassis. This will constitute the Company's seventh banner, which will initially be mall-based stores of approximately 4,500 sq. ft. The target market for these stores is youth oriented fashion conscious women aged 45 to 60 and will include assortments of career, sportswear, casual and loungewear apparel. The Company currently plans to open 10 Cassis stores during the 2006 fall season, 6 in Ontario and 4 in Québec. The Company believes that there is a market for approximately 80 Cassis stores in Canada.

In the fourth quarter, the Board authorized the Company to create a Supplemental Executive Retirement Plan. This plan was instituted as of January 1, 2006 and covers certain senior executives. For financial statement presentation purposes, an actuarial calculation was made to determine the estimated expense the Company incurred with respect to the provisions of the plan for the month of January 2006. This estimated expense was charged to current operations. Management estimates that the annual expense will be $1,356,000 for the 2007 fiscal year. The plan is unfunded and payments are made as obligations arise. These expensed amounts will be accrued as a liability on the Company's balance sheet. When a liability arises to make any such payment(s) called for under the plan (e.g. when an eligible plan member retires and begins receiving payments under the plan), the payments will be set off against the accrual amount as the payments are actually made. Management does not expect that any payments will be made under the plan in the 2007 fiscal year.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Shareholders' equity at January 28, 2006 amounted to $390,257,000 or $5.56 per share as compared to $331,524,000 or $4.77 per share last year. The Company continues to be in a strong financial position. The Company's principal sources of liquidity are its cash and cash equivalents and investments in marketable securities of $195,531,000 (market value of $201,745,000) at January 28, 2006, compared with $168,134,000 (market value of $175,907,000) at January 29, 2005. The Company has also negotiated operating lines of credit with two major Canadian chartered banks, which are used principally to secure letters of credit issued to non-Canadian vendors for merchandise purchases. During fiscal 2006, these lines were not used for any other purpose.

Major financing activities in the fourth quarter included paying down $270,000 of long-term debt, consisting of the mortgage on the Distribution Centre. The Company also paid a cash dividend of $0.12 per share for an aggregate amount of $8,396,000 and issued 300,250 Class A non-voting shares under its employee stock option plan for an aggregate consideration of $1,147,000.

During the fourth quarter, as permitted under the terms of its outstanding normal course issuer bid, the Company purchased for cancellation 91,600 Class A non-voting shares for $1,401,000, or an average price per share of $15.2987.

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

During the fourth quarter, the Company invested $6,419,000 in new and renovated stores, $660,000 in improvements to the Distribution Centre and $2,698,000 in renovating and refurbishing its Sauvé Street office. In total for fiscal 2006, the Company expended $58,669,000 on new and renovated stores, the Distribution Centre and the Sauvé Street office. The Company has committed $2,000,000 to complete certain equipment upgrades at the Distribution Centre and to complete the renovation of its Sauvé Street office. These expenditures, together with ongoing store construction and renovation programs, the payment of cash dividends and the quarterly repayments related to the Company's bank credit facility and other long-term debt obligations, are expected to be funded by the Company's existing financial resources and funds derived from its operations.

The current portion of long-term debt as reflected on the Balance Sheet represents the principal repayments on the mortgage due on the Distribution Centre during the next twelve months and the balance of the long-term debt relates to such mortgage.

On May 30, 2003, the Company entered into a sale leaseback transaction with a third party financial institution for $10,000,000 of its merchandise handling equipment. The lease calls for 48 monthly payments of $193,175, following which the Company has an option to extend the lease or buy back the equipment at market value.

DEFERRED LEASE CREDITS

Prior to the Company's 2005 fiscal year, any amounts received from landlords as tenant allowances were deducted, for depreciation purposes, from the relevant capital cost of the Company's leasehold assets otherwise acquired with such allowances. The Company treated all rent expense as a period cost and depreciated the leasehold assets over the period of their expected useful lives or the term of the relevant lease, whichever was lesser. This accounting practice was followed for many years and management believes that such practice was consistent with that applied in the industry in which it operates.

On February 7, 2005, the U.S. Securities and Exchange Commission clarified generally accepted accounting principles applicable to retail store leases and leasehold improvements. The Company, like many other North American retailers, conducted an internal review of its accounting practices and after consultation with its Audit Committee and the external auditors determined that tenant allowances, historically treated as a reduction of capital assets in the balance sheet and amortized over the term of the related leases as a reduction of depreciation and amortization expense in the statements of earnings, required reclassification. The Company therefore reclassified these amounts in its 2005 Financial Statements as "Deferred Lease Credits" in the balance sheet and the amortization of the credits as a reduction of rent expense.

FINANCIAL COMMITMENTS

		Payments Due by Period		
Contractual Obligations	**Total**	**Within 1 year**	**2 to 4 years**	**5 years and over**
Long-term debt	$17,183,000	$1,010,000	$3,442,000	$12,731,000

		Payments Due by Period		
Contractual Obligations	**Total**	**Within 1 year**	**2 to 4 years**	**5 years and over**
Store leases and equipment	$362,720,000	$82,901,000	$190,233,000	$89,586,000

FINANCIAL INSTRUMENTS

At year-end, the Company had no financial commitments with respect to future purchases of US Dollars. Subsequent to the year-end, the Company entered into a series of puts and calls designed to limit the Company's exposure on the future purchases of $20,000,000 US at rates no less than $1.12 and no greater than $1.15 Canadian to the US Dollar.

RELATED PARTY TRANSACTIONS

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

INVESTMENTS

Investments consist of marketable securities, primarily high quality preferred shares and income trusts. At January 28, 2006, marketable securities amounted to $60,132,000 (market value $66,346,000) as compared with $66,195,000 (market value $73,968,000) last year. Investment income for fiscal 2006 amounted to $9,097,000 including net capital gains of $2,287,000 compared to $9,639,000 with $3,651,000 of net capital gains for last year.

DISCLOSURE CONTROLS AND PROCEDURES

The Company has created a Disclosure Committee, instituted a Disclosure Policy and hired a Director of Compliance. Under the direction of the Director of Compliance, the Company is finalizing the documentation of its disclosure processes and is in the process of documenting its internal controls related thereto.

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

An evaluation of the effectiveness of the design and operations of the Company's disclosure controls and procedures was conducted as of January 28, 2006 by and under the supervision of the Company's management, including the CEO, the CFO and the Director of Compliance. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed that the Company file or submit under Canadian securities legislation is recorded, processed, summarized, and reported within the time specified in those rules and forms.

TRENDS, UNCERTAINTIES AND RISKS

The Company is principally engaged in the sale of women's apparel through 887 leased retail outlets operating under six different banners located across Canada. The Company's business is seasonal and is also subject to a number of factors, which directly impact retail sales of apparel over which it has no control, namely fluctuations in weather patterns, swings in consumer confidence and buying habits and the potential of rapid changes in fashion preferences. As well, there is no effective barrier to prevent entry into the Canadian apparel retailing marketplace by any potential competitor, foreign or domestic.

To mitigate these risk exposures, each banner is directed to and focused on a different niche in the Canadian women's apparel market. Virtually all the Company's merchandise is private label. During fiscal 2006, no supplier represented more than 7% of our purchases (in dollars and/or units) and there are a variety of alternative sources (both domestic and offshore) for virtually all the Company's merchandise. When merchandise is sourced offshore and must be paid for in US dollars, the Company uses a variety of defensive strategies to fix the cost of US dollars to ensure it is protected against any material adverse fluctuations in the value of the Canadian dollar between the time the relevant merchandise is ordered and when it must be paid for.

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

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

While the Company has experienced significantly improved sales and operating margins in fiscal 2006, the Company cautions that past financial performance is not necessarily indicative of future results.

OUTSTANDING SHARE DATA

On April 18, 2005, the Company paid a dividend on the Common shares of the Company payable by the issuance of one Common share for each Common share held and also paid a dividend on the Class A non-voting shares of the Company payable by the issuance of one Class A non-voting share for each Class A non-voting share held. These stock dividends were paid to the respective shareholders of record on April 7, 2005. As of January 28, 2006, 13,440,000 Common shares of the Company and 56,746,906 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.

OUTLOOK

The Company believes that it is well positioned to compete effectively in the Canadian specialty retail apparel market through its different banners. The Company has continued to expand and strengthen its offshore capabilities in Asia, principally through its Hong Kong office. The Company's Hong Kong office now has in excess of 100 employees engaged in sourcing, quality control, transportation and logistics and the Company opened an office in Shanghai, China, which is engaged in the same activities.

The Company is in a very strong financial position. It has good relationships with its vendors and suppliers, both in Canada and globally and has invested in technology and people. The Company believes that the prospects for the future remain positive.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors of Reitmans (Canada) Limited.

These consolidated financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles and include amounts that are based on best estimates and judgments. The financial information used elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management of the Company has developed and maintains a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurances that financial records are reliable and form a proper basis for the preparation of the consolidated financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in this annual report principally through its Audit Committee, consisting of all outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The auditors appointed by the shareholders have full access to the Audit Committee, with and without management being present.

These consolidated financial statements have been examined by the auditors appointed by the shareholders, KPMG LLP, Chartered Accountants and their report is presented hereafter.

(signed)
Jeremy H. REITMAN
President

(signed)
Eric WILLIAMS, CA
Vice-President - Treasurer

March 10, 2006

AUDITORS' REPORT

To the Shareholders of Reitmans (Canada) Limited

We have audited the Consolidated Balance Sheets of Reitmans (Canada) Limited as at January 28, 2006 and January 29, 2005 and the Consolidated Statements of Earnings, Retained Earnings and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these Consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 28, 2006 and January 29, 2005, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montreal, Canada
March 10, 2006

As at January 28, 2006 and January 29, 2005
(in thousands)

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 135,399**	$ 101,939
Accounts receivable	**3,135**	2,414
Merchandise inventories	**66,445**	59,163
Prepaid expenses	**7,471**	6,697
Total Current Assets	**212,450**	170,213
INVESTMENTS (note 2)	**60,132**	66,195
CAPITAL ASSETS (note 3)	**206,184**	185,673
GOODWILL	**42,426**	42,426
FUTURE INCOME TAXES (note 6)	**1,536**	1,183
ACCRUED PENSION ASSET (note 4)	**505**	1,369
	$ 523,233	$ 467,059
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued items	**$ 81,784**	$ 81,497
Income taxes payable	**14,645**	17,134
Current portion of long-term debt (note 5)	**1,010**	1,124
Total Current Liabilities	**97,439**	99,755
DEFERRED LICENSING REVENUE	**-**	167
DEFERRED LEASE CREDITS	**19,025**	17,736
LONG-TERM DEBT (note 5)	**16,173**	17,183
FUTURE INCOME TAXES (note 6)	**339**	694
SHAREHOLDERS' EQUITY		
Share capital (note 7)	**17,374**	14,712
Contributed surplus	**2,523**	621
Retained earnings	**370,360**	316,191
Total Shareholders' Equity	**390,257**	331,524
	$ 523,233	$ 467,059

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

On behalf of the Board,

(signed)
JEREMY H. REITMAN
Director

(signed)
STEPHEN J. KAUSER
Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended January 28, 2006 and January 29, 2005
(in thousands except per share amounts)

	2006	2005
Sales	**$ 969,258**	$ 912,473
Cost of goods sold and selling, general and administrative expenses	**813,648**	788,876
	155,610	123,597
Depreciation and amortization	**38,564**	35,083
Operating earnings before the undernoted	**117,046**	88,514
Investment income	**9,097**	9,639
Interest on long-term debt	**1,132**	1,919
Earnings before income taxes	**125,011**	96,234
Income taxes (note 6)	**40,122**	29,327
Net earnings	**$ 84,889**	$ 66,907
Earnings per share (note 8):		
Basic	**$ 1.22**	$ 0.97
Diluted	**1.19**	0.95

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended January 28, 2006 and January 29, 2005
(in thousands)

	2006	2005
Balance at beginning of year	**$ 316,191**	$ 263,455
Net earnings	**84,889**	66,907
	401,080	330,362
Deduct:		
Dividends (note 7)	**29,345**	14,171
Premium on purchase of Class A non-voting shares (note 7)	**1,375**	-
Balance at end of year	**$ 370,360**	$ 316,191

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

For the years ended January 28, 2006 and January 29, 2005
(in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	**$ 84,889**	$ 66,907
Adjustments for:		
Depreciation and amortization	**38,564**	35,083
Future income taxes	**(708)**	(453)
Stock-based compensation	**2,100**	524
Amortization of deferred licensing revenue	**(167)**	(200)
Amortization of deferred lease credits	**(3,652)**	(3,041)
Deferred lease credits	**4,941**	4,379
Pension expense	**997**	54
Pension contribution	**(133)**	-
Amortization of deferred financing costs	**-**	292
Investment income	**(9,097)**	(9,639)
Changes in non-cash working capital	**(11,385)**	23,198
	106,349	117,104
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of marketable securities	**(12,632)**	(30,872)
Proceeds on sale of marketable securities	**20,982**	42,208
Additions to capital assets	**(58,669)**	(45,503)
Investment income, excluding gain on sale of marketable securities of $2,287 (2005 - $3,651)	**6,810**	5,988
	(43,509)	(28,179)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Dividends paid	**(29,345)**	(14,171)
Purchase of Class A non-voting shares for cancellation	**(1,401)**	-
Repayment of long-term debt	**(1,124)**	(76,514)
Issue of share capital	**2,490**	1,862
	(29,380)	(88,823)
NET INCREASE IN CASH	**33,460**	102
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**101,939**	101,837
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 135,399**	$ 101,939

Cash and cash equivalents consist of cash balances with banks and investments in short-term deposits.

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

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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) The financial statements and accompanying notes have been prepared on a consolidated basis and reflect the consolidated financial position of the Company and its wholly-owned subsidiaries. Balances and transactions between the companies have been eliminated from these financial statements.

b) Cash and cash equivalents consist of cash and short-term deposits with maturities of less than three months.

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

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

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

Building	4%
Fixtures and equipment	10% to 33⅓%
Leasehold interests	15%
Assets under capital lease	10% to 20%

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 gains and losses on disposals of capital assets.

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

The Company conducted the annual impairment test on January 28, 2006 and concluded that there was no indication of impairment in the carrying value of goodwill.

g) The Company uses the asset and liability method when accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using enacted 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.

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

The cost of the pension plan is determined periodically by independent actuaries. Pension expense/income is included annually in operations.

The Company records its pension costs according to the following policies:

- The cost of pensions is actuarially determined using the projected benefit method prorated on service.
- For the purpose of calculating expected return on plan assets, the valuation of those assets are based on market related 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 reflected in the balance sheet as an accrued pension asset or an accrued pension liability as the case may be.

i) The Company accounts for stock-based compensation and other stock-based payments using the fair value based method.

j) Basic earnings per share is determined using the weighted average number of Class A non-voting and Common shares outstanding during the period. The standard requires that the treasury stock method be used for calculating diluted earnings per share. In calculating diluted earnings per share, the weighted average shares outstanding are increased to include additional shares from the assumed exercise of options, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises are used to repurchase Class A non-voting and Common shares at the average market price during the reporting period.

k) Deferred licensing revenue is amortized on a straight-line basis over the terms of the agreements.

l) Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rate. Revenues and expenses are translated into Canadian dollars at the average rate of exchange for the year. The resulting gains or losses on translation are included in the determination of net earnings.

m) In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

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INVESTMENTS

The Company's marketable securities portfolio consists primarily of preferred shares of Canadian public companies. Income from marketable securities and short-term deposits is included in investment income. The market value of the portfolio at January 28, 2006 was $66,346 (2005 - $73,968).

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CAPITAL ASSETS

	2006			2005
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Land	**$ 4,615**	**$ -**	**$ 4,615**	$ 4,115
Building	**42,147**	**5,364**	**36,783**	19,948
Fixtures and equipment	**157,372**	**66,823**	**90,549**	81,711
Leasehold improvements	**132,155**	**58,365**	**73,790**	79,798
Leasehold interests	**621**	**174**	**447**	101
	$ 336,910	**$ 130,726**	**$ 206,184**	$ 185,673

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PENSION ASSET

The Company's defined benefit plan was actuarially valued as at December 31, 2004 and the obligation was projected to December 31, 2005. The next actuarial valuation is scheduled for December 2007.

Assumptions, based upon data as of December 31, 2005, used in developing the net pension expense (income) and projected benefit obligation are as follows:

	2006	2005
Discount rate	**4.94%**	5.80%
Rate of increase in salary levels	**3.00%**	3.00%
Expected long-term rate of return on plan assets	**7.50%**	7.50%

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

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

	2006	2005
Pension Obligation		
Pension obligation, beginning of year	**$ 8,326**	$ 7,845
Employee contributions	**95**	-
Current service cost	**208**	199
Interest cost	**488**	473
Benefits paid	**(421)**	(440)
Plan amendments	**8,496**	-
Actuarial losses	**1,420**	249
Pension obligation, end of year	**$ 18,612**	$ 8,326
Plan Assets		
Market value of plan assets, beginning of year	**$ 9,695**	$ 9,268
Employer contributions	**133**	-
Employee contributions	**95**	-
Actual return on plan assets	**1,175**	867
Benefits paid	**(421)**	(440)
Market value of plan assets, end of year	**$ 10,677**	$ 9,695
Plan (deficit) surplus	**(7,935)**	1,369
Unamortized past service cost	**8,440**	-
Pension Asset		
Pension asset, end of year	**$ 505**	$ 1,369

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

	2006	2005
Current service cost	**$ 208**	$ 199
Past service cost	**56**	-
Interest cost	**488**	473
Actual return on plan assets	**(1,175)**	(867)
Actuarial losses	**1,420**	249
Net pension expense	**$ 997**	$ 54

The asset allocation of the major asset categories as at December 31, 2005 is as follows:

Asset Category	Allocation
Equity securities	65%
Debt securities	33%
Cash	2%
	100%

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LONG-TERM DEBT

	2006	2005
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	$ 17,183	$ 18,131
Obligations under capital leases, expired December 2005 bearing interest at varying rates	-	176
	17,183	18,307
Less current portion	1,010	1,124
	$ 16,173	$ 17,183

Principal repayments on long-term debt are as follows:

Years ending	
2007	$ 1,010
2008	1,076
2009	1,146
2010	1,220
2011	1,299
Subsequent years	11,432

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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:

	2006	2005
Long-term assets		
Capital assets	$ 1,217	$ 740
Deferred expenses for income tax purposes	108	267
Other	211	176
	$ 1,536	$ 1,183
Long-term liabilities		
Marketable securities	$ (162)	$ (227)
Pension asset	(177)	(467)
	$ (339)	$ (694)

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

	2006	2005
Provision for income taxes based on combined statutory rate of 32.07% (2005 - 31.77%)	**$ 40,092**	$ 30,574
Changes in provision resulting from:		
Tax exempt investment income	**(1,162)**	(1,504)
Utilization of unrecognized loss	**-**	(202)
Stock-based compensation	**717**	172
Large corporations tax	**34**	19
Tax rate differences	**87**	-
Permanent and other differences	**354**	268
Income taxes	**$ 40,122**	$ 29,327
Represented by:		
Current	**$ 40,830**	$ 29,780
Future	**(708)**	(453)
	$ 40,122	$ 29,327

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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 number of shares used in the calculation of earnings per share has been adjusted to reflect the 100% stock dividends paid on April 18, 2005 to Class A non-voting and Common shareholders. Comparative figures have been restated on the same basis.

c)

	2006	2005
Class A non-voting shares (authorized – unlimited) - issued 56,746,906 (2005 – 56,108,256)	**$ 16,892**	$ 14,230
Common shares (authorized - unlimited) - issued 13,440,000	**482**	482
	$ 17,374	$ 14,712

Dividends paid on Class A non-voting and Common shares were $23,700 (2005 - $11,416) and $5,645 (2005 - $2,755) respectively.

d) The Company has reserved 5,520,000 Class A non-voting shares for issuance under its Share Option Plan of which 2,858,000 options are outstanding. 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 Company granted 80,000 stock options during 2006, 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.

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

Expected option life	4.8 years
Risk-free interest rate	3.35%
Expected stock price volatility	30.29%
Average dividend yield	2.50%
Weighted average fair value of options granted	$4.64

A summary of the status of the Company's Share Option Plan as of January 28, 2006 and January 29, 2005 and changes during the years ending on those dates is presented below:

	2006		2005	
	Options	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
Outstanding at beginning of year	**3,528,000**	**$ 7.09**	2,648,000	$ 3.09
Granted	**80,000**	**19.23**	1,530,000	12.23
Exercised	**(730,000)**	**3.41**	(650,000)	2.87
Forfeited	**(20,000)**	**12.23**	-	-
Outstanding at end of year	**2,858,000**	**8.33**	3,528,000	7.09
Options exercisable at end of year	**894,000**		862,000	

The following table summarizes information about share options outstanding at January 28, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding at 01/28/2006**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable at 01/28/2006**	**Weighted Average Exercise Price**
$ 2.38 - $2.79	939,000	1.00	$ 2.77	587,000	$ 2.76
$ 4.25 - $5.68	356,000	4.00	4.34	32,000	4.25
$12.23	1,483,000	6.00	12.23	275,000	12.23
$19.23	80,000	6.00	19.23	-	19.23
	2,858,000	4.11	$ 8.33	894,000	$ 5.72

For the year ended January 28, 2006, the Company recognized compensation cost of $2,100 (2005 - $524) with an offsetting credit to contributed surplus.

Amounts credited to share capital from the exercise of stock options during the year includes a cash consideration of $2,490 (2005 - $1,862) and $198 (2005 - $52) from contributed surplus.

e) The Company purchased for cancellation 91,600 Class A non-voting shares at prevailing market prices pursuant to its Share Repurchase Program for a total cash consideration of $1,401. The excess of $1,375 over the stated value of the shares was charged to retained earnings.

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EARNINGS PER SHARE

The comparative number of shares for 2005 has been adjusted to reflect the stock dividend.

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

	2006	2005
Weighted average number of shares for basic earnings per share calculations	**69,801,356**	69,088,360
Effect of dilutive options outstanding	**1,544,210**	1,436,880
Weighted average number of shares for diluted earnings per share calculations	**71,345,566**	70,525,240

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COMMITMENTS

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

Years ending	
2007	**$ 82,901**
2008	**75,213**
2009	**63,759**
2010	**51,261**
2011	**35,160**
Subsequent years	**54,426**
	$ 362,720

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STATEMENTS OF CASH FLOWS

Supplementary information:

	2006	2005
Balances with banks	**$ (2,971)**	$ 471
Short-term deposits	**138,370**	101,468
	$ 135,399	$ 101,939
Cash paid during the year for:		
Income taxes	**$ 44,834**	$ 21,316
Interest	**1,262**	1,426
Non-cash transactions:		
Capital asset additions included in accounts payable	**1,060**	654

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FINANCIAL INSTRUMENTS

Fair Value Disclosure

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

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

The fair value of long-term debt is not significantly different from its carrying value.

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

OUR FOUNDERS

1926 - 2006

HERMAN REITMAN
1870 - 1941

LOUIS REITMAN
1900 - 1968

SAM REITMAN
1903 - 1982

JOHN REITMAN
1906 - 1975

JACK REITMAN
1910 - 1996

CORPORATE INFORMATION

DIRECTORS

H. Jonathan Birks
Stephen J. Kauser
Max Konigsberg
Samuel Minzberg
Cyril Reitman
Jeremy H. Reitman
Stephen F. Reitman
Howard Stotland
Robert S. Vineberg

OFFICERS

Jeremy H. Reitman
President

Stephen F. Reitman
Executive Vice-President

Douglas M. Deruchie, CA
Vice-President - Finance

Geneviève Fortier, CHRP
Vice-President - Human Resources

Claude Martineau
Vice-President - Information Technology

Cyril Reitman
Vice-President

Allen F. Rubin
Vice-President - Operations

Allan Salomon
Vice-President - Real Estate

Saul Schipper
Vice-President - Secretary

Richard Wait, CGA
Vice-President - Comptroller

Jay Weiss
Vice-President - Distribution and Logistics

Eric Williams, CA
Vice-President - Treasurer

Henry Fiederer
President - Reitmans

Stephanie Bleau
Vice-President - Reitmans

Nadia Cerantola
Vice-President - Reitmans

Donna Flynn
Vice-President - Reitmans

Stefanie Ravenda
Vice-President - Reitmans

Kimberly Schumpert
Vice-President - Reitmans

Isabelle Taschereau
President - Smart Set

Sylvain Forest
Vice-President - Smart Set

Nicole Lapointe
Vice-President - Smart Set

Stéphane Renauld
Vice-President - Smart Set

Danielle Vallières
Vice-President - Smart Set

Suzana Vovko
President - RW & CO.

Cathryn Adeluca
Vice-President - RW & CO.

Lesya McQueen
President - Thyme Maternity

William Penney
Vice-President - Thyme Maternity

Kerry Mitchell
President - Penningtons / Addition Elle

Trudy Crane
Vice-President - Penningtons / Addition Elle

Doug Edwards
Vice-President - Penningtons / Addition Elle

Jonathan Plens
Vice-President - Penningtons / Addition Elle

Sally Firth
Vice-President - Penningtons

Rhonda Sandler
Vice-President - Addition Elle

Leah Daley
Vice-President - Cassis

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Corporate Website:	**www.reitmans.ca**

REGISTERED OFFICE:
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TRANSFER AGENT AND REGISTRAR

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

STOCK SYMBOLS

THE TORONTO STOCK EXCHANGE

Common	RET
Class A non-voting	RET. A

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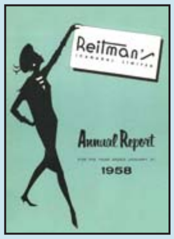
1948

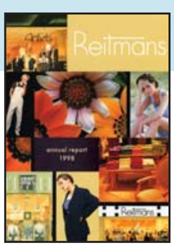


1958

1963

1979

1989



1998

2004

REITMANS

SMART SET

RW & CO.

THYME

PENNINGTONS

ADDITION ELLE

CASSIS

DESIGN AND PRODUCTION:
COMMUNICATIONS MARILYN GELFAND INC.