



LE CHÂTEAU

INTERIM REPORT
FOR THE NINE MONTHS ENDED OCTOBER 26, 2013

MESSAGE TO SHAREHOLDERS

Dear shareholders,

Sales for the third quarter ended October 26, 2013 increased 2.5% to \$65.4 million from \$63.7 million for the third quarter ended October 27, 2012. Comparable store sales increased 3.1% for the third quarter versus the same period a year ago. On a year-to-date basis, sales increased 2.0% to \$197.9 million as compared with \$194.0 million last year. Comparable store sales increased 2.7% for the first nine months as compared to last year. Included in comparable store sales are online sales which increased 84% for the third quarter and 117% year-to-date. The e-commerce business continues to gain traction and is expanding customer reach.

The positive comparable store sales for the three and nine-month periods ended October 26, 2013 reflect product assortment improvements, some regional strengths, the performance of new concept stores and momentum of top-tier performing stores.

Net loss for the third quarter amounted to \$5.0 million or \$(0.18) per share (diluted), compared to a net loss of \$3.6 million or \$(0.14) per share last year. For the nine months ended October 26, 2013, the net loss amounted to \$12.1 million or \$(0.44) per share (diluted), compared to a net loss of \$8.9 million or \$(0.35) per share the previous year.

For the first five weeks of the fourth quarter (up to November 30, 2013), total retail sales decreased 2.2% and comparable store sales decreased 1.6% compared to the same period last year.

I wish to thank our employees, customers, suppliers and our shareholders for their continued support.

(signed)

Jane Silverstone Segal, B.A.LLL

Chairman of the Board and Chief Executive Officer

December 6, 2013

Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim condensed consolidated financial statements for the nine months ended October 26, 2013 and the audited consolidated financial statements and MD&A for the year ended January 26, 2013. The risks and uncertainties faced by Le Château Inc. (the "Company") are substantially the same as those outlined in the Company's Annual Information Form and in the annual MD&A contained in the Annual Report for the year ended January 26, 2013. The MD&A has been prepared as at December 6, 2013.

Results of Operations

Sales for the third quarter ended October 26, 2013 increased 2.5% to \$65.4 million from \$63.7 million for the third quarter ended October 27, 2012. Comparable store sales increased 3.1% for the third quarter versus the same period a year ago (see supplementary measures below). On a year-to-date basis, sales increased 2.0% to \$197.9 million as compared with \$194.0 million last year. Comparable store sales increased 2.7% for the first nine months as compared to last year.

The positive comparable store sales for the three and nine-month periods ended October 26, 2013 reflect product assortment improvements, some regional strengths, the performance of new concept stores and momentum of top-tier performing stores.

Adjusted EBITDA (see supplementary measures below) for the third quarter amounted to \$(1.9) million, compared to \$252,000 last year. The decrease of \$2.2 million in adjusted EBITDA for the third quarter was primarily attributable to a decrease of \$1.1 million in gross margin dollars, an increase of \$891,000 in marketing related initiatives and an increase of \$184,000 in stock based compensation expense. The decline in gross margin dollars was the result of a decrease in the Company's gross margin percentage to 63.2% from 66.6%, due to increased promotional activity primarily in the outlet stores where prior season discounted merchandise is being offered as part of the Company's previously stated inventory management plan. As for the regular stores, the gross margin remained relatively stable when compared with the same period last year.

Adjusted EBITDA for the first nine months ended October 26, 2013 amounted to \$1.2 million or 0.6% of sales, compared to \$5.5 million or 2.9% of sales last year. The decrease of \$4.3 million in adjusted EBITDA for the first nine months was primarily attributable to a decline of \$3.1 million in gross margin dollars. The reduction in gross margin dollars was the result of the decrease in the Company's gross margin percentage to 65.2% from 68.1%, due to increased promotional activity. In addition, the decline in adjusted EBITDA was also the result of an increase of \$477,000 in stock based compensation expense and an increase of \$775,000 in selling, general and administrative expenses.

Depreciation and amortization for the third quarter amounted to \$4.6 million compared to \$4.8 million last year. Write-off and/or net impairment of property and equipment and intangible assets relating to store closures, store renovations and underperforming stores, amounted to \$96,000 in the third quarter of 2013 (2012 – \$149,000). For the first nine months ended October 26, 2013, depreciation and amortization decreased to \$14.2 million from \$14.8 million in 2012, due to the reduced investment in non-financial assets over the past year. On a year-to-date basis, write-off and/or net impairment of property and equipment and intangible assets amounted to \$1.7 million (2012 – \$1.0 million).

Finance costs for the third quarter decreased to \$690,000 from \$823,000 in 2012 and for the first nine months ended October 26, 2013, finance costs decreased to \$2.1 million from \$2.4 million the previous year. The decreases in finance costs for the three and nine-month periods ended October 26, 2013 were the result of reductions in the outstanding balance in the Company's long-term debt.

Net loss for the third quarter amounted to \$5.0 million or \$(0.18) per share (diluted), compared to a net loss of \$3.6 million or \$(0.14) per share last year. For the nine months ended October 26, 2013, the net loss amounted to \$12.1 million or \$(0.44) per share (diluted), compared to a net loss of \$8.9 million or \$(0.35) per share the previous year.

During the first nine months of 2013, the Company opened one store, closed six stores and renovated three existing locations. As at October 26, 2013, the Company operated 230 stores (including 45 fashion outlet stores) compared to 235 stores (including 48 fashion outlet stores) as at October 27, 2012. Total floor space as at October 26, 2013 was 1,256,000 square feet compared to 1,282,000 square feet at the end of the third quarter last year and 1,282,000 square feet as at January 26, 2013.

The e-commerce business launched at the end of 2010 has been exceeding expectations in 2013. While the contribution from online sales remains a relatively small percentage of overall sales, the e-commerce platform continues to gain traction and is expanding customer reach. Included in comparable store sales for the three and nine-month periods ended October 26, 2013, are online sales which increased 84% and 117%, respectively, compared to the same periods last year.

Liquidity and Capital Resources

Cash flow used for operating activities amounted to \$6.4 million for the third quarter ended October 26, 2013, compared with \$5.7 million for the same period last year. On a year-to-date basis, cash flow used for operating activities amounted to \$14.7 million, compared with \$13.2 million last year. The increase of \$1.5 million in cash flow used for operating activities during the first nine months of 2013 was mainly the

result of: (a) the higher net loss of \$3.3 million, (b) the increase of \$360,000 in income tax recovery net of income taxes refunded, (c) the increase of \$1.9 million in the amortization of deferred lease credits net of deferred lease credits received, offset by (d) the decrease of \$3.4 million in non-cash working capital requirements and increase of \$705,000 in write-offs and net impairment of property and equipment.

The Company's bank indebtedness, net of cash, amounted to \$38.0 million at the end of the third quarter, compared with \$26.5 million as at October 27, 2012 and \$11.3 million as at January 26, 2013. The increase in bank indebtedness, year over year, was partially attributable to the capital expenditures that were financed with the Company's credit facility.

On April 25, 2012, the Company entered into a Credit Agreement for an asset based credit facility of \$70.0 million, replacing its previous credit facility of \$22.0 million. The revolving credit facility is collateralized by the Company's credit card accounts receivable and inventories, as defined in the agreement. The facility has a term of 3 years and consists of revolving credit loans, which include both a swing line loan facility limited to \$15.0 million and a letter of credit facility limited to \$15.0 million. The available borrowings bear interest at a rate based on the Canadian prime rate, plus an applicable margin ranging from 0.75% to 1.50%, or a banker's acceptance rate, plus an applicable margin ranging from 2.00% to 2.75%. The Company is required to pay a standby fee ranging from 0.25% to 0.375% on the unused portion of the revolving credit. The Credit Agreement requires the Company to comply with certain covenants, including restrictions with respect to the payment of dividends and the purchase of the Company's shares under certain circumstances. As at October 26, 2013, the Company had drawn \$40.1 million under this credit facility and in addition had an outstanding standby letter of credit totaling \$700,000 which reduced the availability under this credit facility. Financing costs related to obtaining the above facility have been deferred and netted against the amounts drawn under the facility, and are being amortized over the term of the facility.

In addition, the Company has an import line of credit of \$25.0 million which includes a \$1.0 million loan facility. The import line is for letters of credit which guarantee the payment of purchases from foreign suppliers. Amounts drawn under these facilities are payable on demand and bear interest at rates based on the bank's prime rate plus 0.50% for loans in Canadian and U.S. dollars. As at October 26, 2013, the Company had outstanding letters of credit totaling \$3.4 million and had drawn \$9,000 under this loan facility.

Aside from the letters of credit outstanding, the Company did not have any other off-balance sheet financing arrangements as at October 26, 2013.

Capital expenditures for the third quarter amounted to \$1.3 million, compared to \$1.3 million for the same period last year. Capital expenditures for the nine-month period ended October 26, 2013 amounted to \$5.7 million, compared to \$8.3 million for the same period last year and are primarily related to the opening of one new store, the renovation and/or expansion of certain existing stores and investments in information technology. Capital expenditures in 2013 were financed with the Company's credit facility.

Financial Position

Working capital stood at \$77.1 million at the end of the third quarter of 2013, compared to \$82.1 million as at October 27, 2012 and \$84.8 million as at January 26, 2013.

Long-term debt, including the current portion, amounted to \$17.8 million as at October 26, 2013, compared with \$24.1 million as at January 26, 2013. The decrease is attributable to the repayment of \$6.3 million during the nine months ended October 26, 2013. As at October 26, 2013, the long-term debt to equity ratio decreased to 0.14:1 from 0.17:1 as at January 26, 2013.

During the nine-month period ended October 26, 2013, the repayment terms of the \$5.0 million outstanding loan from a company that is controlled by a director of the Company were modified to provide for an obligation to repay the principal in full at maturity in January 2016 instead of monthly principal repayments commencing in February 2013. Furthermore, the annual interest rate on the \$5.0 million loan outstanding was reduced from 7.5% to 5.5% effective July 1, 2013.

Inventories

Total inventories as at October 26, 2013 amounted to \$136.6 million compared to \$134.2 million as at October 27, 2012 and \$123.2 million as at January 26, 2013. The increase in the finished goods inventory of \$3.7 million, year over year, is primarily the result of higher inventory levels in the footwear division which experienced the strongest growth in sales at 13.5% for the first nine months of the year.

As part of the Company's inventory management plan, the Company continues to use 45 outlets (402,000 square feet) in its network to sell prior season discounted merchandise. On-line selling of these goods was enabled last year during the first quarter ended April 28, 2012 through an on-line outlet division.

Outstanding Share Data

As at December 6, 2013, there are 22,771,461 Class A subordinate voting shares and 4,560,000 Class B voting shares outstanding. Furthermore, there are 3,166,200 stock options outstanding with exercise prices ranging from \$1.44 to \$13.25, of which 607,300 are exercisable. During the nine month period ended October 26, 2013, the Company granted 1,026,000 options to purchase Class A subordinate voting shares at an exercise price of \$4.59.

Critical Accounting Policies and Estimates**Critical Accounting Estimates:**

The preparation of financial statements requires the Company to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on the Company's reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact the Company's financial position, changes in financial position or results of operations. The Company's significant accounting policies are discussed in notes 3 and 4 of the audited consolidated financial statements for the year ended January 26, 2013; critical estimates inherent in these accounting policies are discussed in the following paragraphs.

Inventory valuation

The Company records a provision to reflect management's best estimate of the net realizable value of inventory which includes assumptions and estimates for future sell-through of units, selling prices, as well as disposal costs, where appropriate, based on historical experience. Management continually reviews the provision, to assess whether it is adequate, based on current economic conditions and an assessment of sales trends.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for impairment is conducted by comparing the carrying amount of the cash generating unit's ("CGU") assets with their respective recoverable amounts based on value in use. Value in use is determined based on management's best estimate of expected future cash flows, which includes estimates of growth rates, from use over the remaining lease term and discounted using a pre-tax weighted average cost of capital.

Management is required to make significant judgments in determining if individual commercial premises in which it carries out its activities are individual CGUs, or if these units should be aggregated at a district or regional level to form a CGU.

Deferred revenue

The Company measures the gift card liability and breakage income by estimating the value of gift cards that are not expected to be redeemed by customers, based on historical redemption patterns.

Provisions

When a provision for onerous contracts is recorded, the provision is determined based on management's best estimate of the present value of the lower of the expected cost of terminating the contract and the expected net cost of operating under the contract. Assumptions and estimates are made in relation to discount rates, the expected cost to terminate a contract and the related timing of those costs.

Stock-based compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the assumptions with respect to the expected life of the option, volatility and dividend yield.

Accounting Standards Implemented in 2013:

IAS 1, "Presentation of Financial Statements", has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has assessed this standard and determined it does not have a material impact on the consolidated financial statements.

IFRS 13, "Fair Value Measurement", is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing

IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company has assessed this standard and determined it does not have a material impact on the consolidated financial statements.

New Standards Not Yet Effective:

IFRS 9, "Financial Instruments", partially replaces the requirements of IAS 39, "Financial Instruments: Recognition and Measurement". This standard is the first step in the project to replace IAS 39. The IASB intends to expand IFRS 9 to add new requirements for the classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting to become a complete replacement of IAS 39. These changes are applicable for annual periods beginning on or after January 1, 2015, with earlier application permitted. The Company has not yet assessed the future impact of this new standard on its consolidated financial statements.

Supplementary Measures

In addition to discussing earnings measures in accordance with IFRS, this MD&A provides adjusted EBITDA as a supplementary earnings measure, which is defined as earnings (loss) before interest, income taxes, depreciation, amortization, write-off and/or impairment of property and equipment and intangible assets. Adjusted EBITDA is provided to assist readers in determining the ability of the Company to generate cash from operations and to cover financial charges. It is also widely used for valuation purposes for public companies in our industry.

The following table reconciles adjusted EBITDA to loss before income taxes disclosed in the unaudited interim condensed consolidated statements of loss for the three and nine-month periods ended October 26, 2013 and October 27, 2012:

<i>(in thousands of Canadian dollars)</i>	For the three months ended		For the nine months ended	
	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
Loss before income taxes	\$ (7,286)	\$ (5,565)	\$ (16,696)	\$ (12,595)
Depreciation and amortization	4,625	4,849	14,194	14,768
Write-off and net impairment of property and equipment and intangible assets	96	149	1,690	985
Finance costs	690	823	2,050	2,391
Finance income	(2)	(4)	(10)	(12)
Adjusted EBITDA	\$ (1,877)	\$ 252	\$ 1,228	\$ 5,537

The Company also discloses comparable store sales which are defined as sales generated by stores that have been open for at least one year. The following table reconciles comparable store sales to total sales disclosed in the unaudited interim condensed consolidated statements of loss for the three and nine-month periods ended October 26, 2013 and October 27, 2012:

<i>(in thousands of Canadian dollars)</i>	For the three months ended		For the nine months ended	
	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
Total sales	\$ 65,360	\$ 63,736	\$ 197,922	\$ 194,027
Non-comparable store sales	(1,126)	(1,416)	(4,024)	(5,156)
Comparable store sales	\$ 64,234	\$ 62,320	\$ 193,898	\$ 188,871

The above measures do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

Summary of Quarterly Results

The table below presents selected financial data for the eight most recently reported quarters. This unaudited quarterly information has been prepared under IFRS. The operating results for any quarter are not necessarily indicative of the results to be expected for any future period.

<i>(In thousands of Canadian dollars, except per share amounts)</i>	Sales	Earnings (loss)		Earnings (loss) per share	
		before income taxes	Net earnings (loss)	Basic	Diluted
Third quarter ended October 26, 2013	\$ 65,360	\$ (7,286)	\$ (5,016)	\$ (0.18)	\$ (0.18)
Second quarter ended July 27, 2013	75,680	1,707	1,077	0.04	0.04
First quarter ended April 27, 2013	56,882	(11,117)	(8,187)	(0.30)	(0.30)
Fourth quarter ended January 26, 2013	80,800	409	158	0.01	0.01
Third quarter ended October 27, 2012	63,736	(5,565)	(3,625)	(0.14)	(0.14)
Second quarter ended July 28, 2012	72,514	2,042	1,282	0.05	0.05
First quarter ended April 28, 2012	57,777	(9,072)	(6,532)	(0.26)	(0.26)
Fourth quarter ended January 28, 2012	82,526	1,986	1,142	0.05	0.05

Retail sales are traditionally higher in the fourth quarter due to the holiday season. In addition, fourth quarter earnings results are usually reduced by post holiday sale promotions.

Controls and Procedures
Disclosure Controls and Procedures

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed disclosure controls and procedures ("DC&P"), or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company has been made known to them and has been properly disclosed in the annual and quarterly regulatory filings.

Internal Controls over Financial Reporting

The CEO and CFO have designed internal controls over financial reporting ("ICFR"), or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The CEO and CFO have evaluated whether there were changes to its ICFR during the three and nine-month periods ended October 26, 2013 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

Forward-looking Statements

This "Management's Discussion and Analysis" may contain forward-looking statements relating to the Company and/or the environment in which it operates that are based on the Company's expectations, estimates and forecasts. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict and/or are beyond the Company's control. A number of factors may cause actual outcomes and results to differ materially from those expressed. These factors include those set forth in other public filings of the Company. Therefore, readers should not place undue reliance on these forward-looking statements. In addition, these forward-looking statements speak only as of the date made and the Company disavows any intention or obligation to update or revise any such statements as a result of any event, circumstance or otherwise, except to the extent required under applicable securities law.

Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its business initiatives and whether such business initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; changes in consumer spending; general economic conditions and normal business uncertainty; seasonal weather patterns; fluctuations in foreign currency exchange rates; changes in the Company's relationship with its suppliers; interest rate fluctuations; and changes in laws, rules and regulations applicable to the Company.

FINANCIAL HIGHLIGHTS

(Unaudited)

(In units except where otherwise stated)

	October 26, 2013	October 27, 2012
Working capital (\$'000)	\$ 77,060	\$ 82,117
Current ratio	2.08	2.28
Quick ratio	0.16	0.19
Long-term debt to equity ratio	0.14	0.20
Capital expenditures (\$'000)	\$ 5,666	\$ 8,265
Number of stores at end of quarter	230	235
Total number of square feet ('000)	1,256	1,282
Book value per share	\$ 4.70	\$ 5.12

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands of Canadian dollars)

	As at October 26, 2013	As at October 27, 2012	As at January 26, 2013
ASSETS			
Current assets			
Cash	\$ 1,779	\$ 3,269	\$ 1,783
Accounts receivable (note 3)	1,566	2,259	1,906
Income taxes refundable	5,952	4,504	3,211
Derivative financial instruments	136	188	215
Inventories (notes 3 and 4)	136,602	134,190	123,218
Prepaid expenses	2,283	1,746	1,890
Total current assets	148,318	146,156	132,223
Property and equipment (note 5)	73,731	88,570	83,315
Intangible assets (note 6)	4,038	5,030	4,672
	\$ 226,087	\$ 239,756	\$ 220,210
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness (note 3)	\$ 39,762	\$ 29,814	\$ 13,034
Trade and other payables (note 7)	19,952	20,065	20,718
Deferred revenue	3,059	3,209	3,558
Current portion of provisions (note 8)	248	128	228
Current portion of long-term debt	8,237	10,823	9,844
Total current liabilities	71,258	64,039	47,382
Long-term debt	9,618	16,711	14,290
Provisions (note 8)	415	359	530
Deferred income taxes	2,275	2,970	2,298
Deferred lease credits	14,068	16,177	15,912
Total liabilities	97,634	100,256	80,412
Shareholders' equity			
Share capital (note 9)	42,939	42,740	42,740
Contributed surplus	3,302	2,544	2,664
Retained earnings	82,113	94,081	94,239
Accumulated other comprehensive income	99	135	155
Total shareholders' equity	128,453	139,500	139,798
	\$ 226,087	\$ 239,756	\$ 220,210

See accompanying notes

CONSOLIDATED STATEMENTS OF LOSS

<i>(Unaudited)</i>	For the three months ended		For the nine months ended	
<i>(In thousands of Canadian dollars, except per share information)</i>	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
Sales (note 11)	\$ 65,360	\$ 63,736	\$ 197,922	\$ 194,027
Cost of sales and expenses				
Cost of sales (note 4)	24,068	21,311	68,784	61,832
Selling (note 5)	38,699	38,157	116,711	115,021
General and administrative (notes 5 and 6)	9,191	9,014	27,083	27,390
	71,958	68,482	212,578	204,243
Results from operating activities	(6,598)	(4,746)	(14,656)	(10,216)
Finance costs	690	823	2,050	2,391
Finance income	(2)	(4)	(10)	(12)
Loss before income tax recovery	(7,286)	(5,565)	(16,696)	(12,595)
Income tax recovery	(2,270)	(1,940)	(4,570)	(3,720)
Net loss	\$ (5,016)	\$ (3,625)	\$ (12,126)	\$ (8,875)
Net loss per share (note 10)				
Basic	\$ (0.18)	\$ (0.14)	\$ (0.44)	\$ (0.35)
Diluted	(0.18)	(0.14)	(0.44)	(0.35)
Weighted average number of shares outstanding ('000)	27,322	25,814	27,274	25,130

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

<i>(Unaudited)</i>	For the three months ended		For the nine months ended	
<i>(In thousands of Canadian dollars)</i>	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
Net loss	\$ (5,016)	\$ (3,625)	\$ (12,126)	\$ (8,875)
Other comprehensive income (loss)				
Change in fair value of forward exchange contracts	139	188	140	90
Income tax expense	(38)	(53)	(38)	(25)
	101	135	102	65
Realized forward exchange contracts reclassified to net loss	(7)	(69)	(219)	(31)
Income tax recovery	2	19	61	9
	(5)	(50)	(158)	(22)
Total other comprehensive income (loss)	96	85	(56)	43
Comprehensive loss	\$ (4,920)	\$ (3,540)	\$ (12,182)	\$ (8,832)

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Unaudited)</i>	For the three months ended		For the nine months ended	
<i>(In thousands of Canadian dollars)</i>	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
SHARE CAPITAL				
Balance, beginning of period	\$ 42,876	\$ 37,729	\$ 42,740	\$ 37,729
Issuance of subordinate voting shares upon conversion of long-term debt (notes 9 and 13)	-	5,011	-	5,011
Issuance of subordinate voting shares upon exercise of options	19	-	144	-
Reclassification from contributed surplus due to exercise of share options	44	-	55	-
Balance, end of period	\$ 42,939	\$ 42,740	\$ 42,939	\$ 42,740
CONTRIBUTED SURPLUS				
Balance, beginning of period	\$ 3,044	\$ 2,426	\$ 2,664	\$ 2,328
Stock-based compensation expense	302	118	693	216
Exercise of share options	(44)	-	(55)	-
Balance, end of period	\$ 3,302	\$ 2,544	\$ 3,302	\$ 2,544
RETAINED EARNINGS				
Balance, beginning of period	\$ 87,129	\$ 97,706	\$ 94,239	\$ 102,956
Net loss	(5,016)	(3,625)	(12,126)	(8,875)
Balance, end of period	\$ 82,113	\$ 94,081	\$ 82,113	\$ 94,081
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Balance, beginning of period	\$ 3	\$ 50	\$ 155	\$ 92
Other comprehensive income (loss) for the period	96	85	(56)	43
Balance, end of period	\$ 99	\$ 135	\$ 99	\$ 135
Total shareholders' equity	\$ 128,453	\$ 139,500	\$ 128,453	\$ 139,500

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Unaudited)</i>	For the three months ended		For the nine months ended	
<i>(In thousands of Canadian dollars)</i>	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
OPERATING ACTIVITIES				
Net loss	\$ (5,016)	\$ (3,625)	\$ (12,126)	\$ (8,875)
Adjustments to determine net cash from operating activities				
Depreciation and amortization (notes 5 and 6)	4,625	4,849	14,194	14,768
Write-off and net impairment of property and equipment and intangible assets (notes 5 and 6)	96	149	1,690	985
Amortization of deferred lease credits	(610)	(338)	(1,883)	(914)
Deferred lease credits	-	482	39	982
Stock-based compensation	302	118	693	216
Provisions	(57)	56	(95)	67
Finance costs	690	823	2,050	2,391
Finance income	(2)	(4)	(10)	(12)
Interest paid	(598)	(820)	(1,826)	(2,253)
Interest received	3	5	11	17
Income tax recovery	(2,270)	(1,940)	(4,570)	(3,720)
	(2,837)	(245)	(1,833)	3,652
Net change in non-cash working capital items related to operations	(5,642)	(6,073)	(15,017)	(18,449)
	(8,479)	(6,318)	(16,850)	(14,797)
Income taxes refunded	2,108	625	2,108	1,618
Cash flows related to operating activities	(6,371)	(5,693)	(14,742)	(13,179)
FINANCING ACTIVITIES				
Increase in bank indebtedness	9,947	10,943	26,539	30,443
Repayment of long-term debt	(2,002)	(4,258)	(6,279)	(12,923)
Issue of capital stock upon exercise of options	19	-	144	-
Cash flows related to financing activities	7,964	6,685	20,404	17,520
INVESTING ACTIVITIES				
Additions to property and equipment and intangible assets (notes 5 and 6)	(1,321)	(1,292)	(5,666)	(8,265)
Cash flows related to investing activities	(1,321)	(1,292)	(5,666)	(8,265)
Increase (decrease) in cash	272	(300)	(4)	(3,924)
Cash, beginning of period	1,507	3,569	1,783	7,193
Cash, end of period	\$ 1,779	\$ 3,269	\$ 1,779	\$ 3,269

See accompanying notes

(Unaudited – Tabular figures in thousands of Canadian dollars, except share information)

1. Corporate information

The unaudited condensed interim consolidated financial statements of Le Château Inc. (the “Company”) for the three and nine-month periods ended October 26, 2013 were authorized for issue in accordance with a resolution of the Board of Directors on December 6, 2013. The Company is incorporated and domiciled in Canada and its shares are publicly traded. The registered office is located in Montreal, Quebec, Canada. The Company’s principal business activity is the retail of fashion apparel, accessories and footwear aimed at style-conscious women and men.

Retail sales are traditionally higher in the fourth quarter due to the holiday season. In addition, fourth quarter earnings results are usually reduced by post holiday sale promotions.

2. Basis of preparation

The unaudited interim condensed consolidated financial statements for the three and nine-month periods ended October 26, 2013 have been prepared in accordance with IAS 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). The same accounting policies were followed in the preparation of these unaudited interim condensed consolidated financial statements as those used in the preparation of the most recent audited annual consolidated financial statements for the year ended January 26, 2013. These interim condensed consolidated financial statements for the three and nine-month periods ended October 26, 2013 should be read together with the audited annual consolidated financial statements for the year ended January 26, 2013 prepared in accordance with International Financial Reporting Standards (“IFRS”).

New Accounting Standards Implemented

IAS 1, “Presentation of Financial Statements”, has been amended to require entities to separate items presented in other comprehensive income (“OCI”) into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has assessed this standard and determined it does not have a material impact on the consolidated financial statements.

IFRS 13, “Fair Value Measurement”, is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company has assessed this standard and determined it does not have a material impact on the consolidated financial statements.

The Company has not early adopted any standard or amendments that have been issued but are not yet effective.

Basis of consolidation

The unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. The unaudited interim financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains or losses have been eliminated. The Company has no interests in special purpose entities.

3. Credit facilities

On April 25, 2012, the Company entered into a Credit Agreement for an asset based credit facility of \$70.0 million, replacing its previous banking facility. The revolving credit facility is collateralized by the Company’s credit card accounts receivable and inventories, as defined in the agreement. The facility has a term of 3 years, and consists of revolving credit loans, which include both a swing line loan facility limited to \$15.0 million and a letter of credit facility limited to \$15.0 million. The available borrowings bear interest at a rate based on the Canadian prime rate, plus an applicable margin ranging from 0.75% to 1.50%, or a banker’s acceptance rate, plus an applicable margin ranging from 2.00% to 2.75%. The Company is required to pay a standby fee ranging from 0.25% to 0.375% on the unused portion of the revolving credit. The Credit Agreement requires the Company to comply with certain covenants, including restrictions with respect to the payment of dividends and the purchase of the Company’s shares under certain circumstances. As at October 26, 2013, the Company had drawn \$40.1 million under this credit facility and in addition had an outstanding standby letter of credit totaling \$700,000 which reduced the availability under this credit facility.

In addition, the Company has an import line of credit of \$25.0 million which includes a \$1.0 million loan facility. The import line is for letters of credit which guarantee the payment of purchases from foreign suppliers. Amounts drawn under these facilities are payable on demand and bear interest at rates based on the bank's prime rate plus 0.50% for loans in Canadian and U.S. dollars. Furthermore, the terms of the banking agreement require the Company to meet certain non-financial covenants. As at October 26, 2013, the Company had outstanding letters of credit totaling \$3.4 million and had drawn \$9,000 under this loan facility.

4. Inventories

	October 26, 2013	October 27, 2012	January 26, 2013
Raw materials	\$ 7,164	\$ 8,909	\$ 9,033
Work-in-process	2,685	2,180	2,745
Finished goods	124,116	120,436	106,017
Finished goods in transit	2,637	2,665	5,423
	\$ 136,602	\$ 134,190	\$ 123,218

The cost of inventory recognized as an expense and included in cost of sales for the three and nine-month periods ended October 26, 2013 was \$24.1 million and \$68.8 million, respectively (2012 – \$21.3 million and \$61.8 million). For the three-month period ended October 26, 2013, there were no write-downs as a result of net realizable value being lower than cost (2012 - \$727,000) and no reversals of prior period inventory write-downs (2012 – NIL). For the nine-month period ended October 26, 2013, the Company recorded write-downs of \$1.8 million as a result of net realizable value being lower than cost (2012 – \$1.7 million) and \$1.4 million of reversals of inventory write-downs recognized in prior periods (2012 – NIL).

5. Property and equipment

Depreciation for the three and nine-month periods ended October 26, 2013 and October 27, 2012 is reported in the consolidated statements of loss as follows:

	For the three months ended		For the nine months ended	
	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
Selling expenses	\$ 3,463	\$ 3,668	\$ 10,622	\$ 10,980
General and administrative expenses	700	760	2,216	2,490
	\$ 4,163	\$ 4,428	\$ 12,838	\$ 13,470

Additions to property and equipment for the three and nine-month periods ended October 26, 2013 amounted to \$952,000 and \$4.7 million, respectively (2012 – \$1.3 million and \$7.3 million).

Write-off of property and equipment for the three and nine-month periods ended October 26, 2013 amounted to \$81,000 and \$823,000, respectively (2012 – \$64,000 and \$463,000). This property and equipment was primarily related to leasehold improvements and furniture and fixtures, which are no longer in use as a result of store renovations and closures.

An assessment of impairment indicators was performed which caused the Company to review the recoverable amount of the property and equipment for certain cash generating units ("CGUs") with an indication of impairment. The CGU's reviewed included non-performing stores that no longer met the Company's criteria for the brand repositioning, some of which are scheduled for closure in the current fiscal year.

Impairment losses for the three and nine-month periods ended October 26, 2013 amounted to NIL and \$852,000 (2012 – \$85,000 and \$522,000). These losses, related to store leasehold improvements and furniture and fixtures, were determined by comparing the carrying amount of the CGU's assets with their respective recoverable amounts based on value in use and are included in selling expenses. Value in use was determined based on management's best estimate of expected future cash flows from use over the remaining lease term, and was then discounted using a pre-tax weighted average cost of capital of 19.4% (12.5% after-tax). During the three and nine-month periods ended October 26, 2013, \$307,000 of impairment losses were reversed and included against selling expenses following the redistribution of certain commercial premises aggregated at a regional level within the CGU's to reflect changes in customer behavior as a result of rebranding strategies (2012 – NIL). These changes recognise that groups of stores in the same geographic area have cash inflows that are not largely independent given that customers could interchangeably shop in any of the stores within the area.

6. Intangible assets

Additions to intangible assets for the three and nine-month periods ended October 26, 2013 amounted to \$369,000 and \$1.0 million (2012 – \$33,000 and \$984,000). Amortization for the three and nine-month periods ended October 26, 2013 amounted to \$462,000 and \$1.4 million, respectively (2012 – \$421,000 and \$1.3 million) and is reported in the consolidated statements of loss under general and administrative expenses. Write-off of intangible assets for the three month and nine-month periods ended October 26, 2013 amounted to \$322,000 (2012 –

NIL). These intangible assets were related to software which was upgraded. No impairment of intangible assets was recorded during the three and nine-month periods ended October 26, 2013 (2012 – NIL).

7. Trade and other payables

	October 26, 2013	October 27, 2012	January 26, 2013
Trade payables	\$ 11,340	\$ 11,803	\$ 11,250
Non-trade payables due to related parties	23	31	31
Other non-trade payables	2,038	1,919	4,223
Accruals related to employee benefit expenses	6,551	6,312	5,214
	\$ 19,952	\$ 20,065	\$ 20,718

8. Provisions

	\$
Balance, January 26, 2013	758
Arising during the period	70
Amortization	(165)
Balance, October 26, 2013	663
Less: current portion	(248)
	415

Provisions for onerous contracts have been recognized in respect of store leases where the unavoidable costs of meeting the obligations under the lease agreements exceed the economic benefits expected to be received from the contract. The provision was determined based on the present value of the lower of the expected cost of terminating the contract and the expected net cost of operating under the contract.

9. Share capital

a) Issued and outstanding

	October 26, 2013		January 26, 2013	
	Number of shares	\$	Number of shares	\$
Class A subordinate voting shares				
Balance, beginning of period	22,682,961	42,338	20,228,864	37,327
Issuance of subordinate voting shares upon conversion of long-term debt	-	-	2,454,097	5,011
Issuance of subordinate voting shares upon exercise of options	88,500	144	-	-
Reclassification from contributed surplus due to exercise of share options	-	55	-	-
Balance, end of period	22,771,461	42,537	22,682,961	42,338
Class B voting shares	4,560,000	402	4,560,000	402
	27,331,461	42,939	27,242,961	42,740

All issued shares are fully paid.

b) Stock option plan

The status of the Company's stock option plan is summarized as follows:

	October 26, 2013		October 27, 2012	
	Options	Weighted Average Exercise price	Options	Weighted Average Exercise price
Outstanding at beginning of period	2,255,700	\$ 3.63	1,039,800	\$ 13.56
Granted	1,026,000	4.59	1,945,000	2.09
Exercised	(88,500)	1.62	-	-
Expired	-	-	(638,000)	15.14
Forfeited	(21,000)	2.15	(86,100)	3.64
Outstanding at end of period	3,172,200	\$ 4.01	2,260,700	\$ 3.63
Options exercisable at end of period	607,900	\$ 6.22	178,900	\$ 10.93

During the nine-month period ended October 26, 2013, the Company granted 1,026,000 options to purchase Class A subordinate voting shares (2012 – 1,945,000). The weighted-average grant date fair value of stock options granted during the quarter was \$2.14 per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted average inputs and assumptions:

Expected dividend yield	0%
Expected volatility in the market price of the shares	76.9%
Risk-free interest rate	1.05%
Expected option life	3.0 years
Share price at grant date	\$4.59

10. Earnings per share

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

	For the three months ended		For the nine months ended	
	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
Weighted average number of shares outstanding - basic	27,322,000	25,813,652	27,273,592	25,130,460
Dilutive effect of stock options	917,133	439,802	751,218	148,191
Weighted average number of shares outstanding - diluted	28,239,133	26,253,454	28,024,810	25,278,651

As at October 26, 2013, a total of 1,400,700 stock options (2012 – 1,183,200) were excluded from the calculation of diluted earnings per share as these were deemed to be anti-dilutive.

11. Segmented information

The Company operates in a single business segment which is the retail of apparel, accessories and footwear aimed at fashion-conscious women and men. The Company's assets are located in Canada.

	For the three months ended		For the nine months ended	
	October 26, 2013	October 27, 2012	October 26, 2013	October 27, 2012
Sales by division				
Ladies' Clothing	\$ 37,544	\$ 37,656	\$ 113,753	\$ 112,973
Men's Clothing	11,294	11,570	34,415	34,987
Footwear	7,633	6,033	22,533	19,848
Accessories	8,889	8,477	27,221	26,219
	\$ 65,360	\$ 63,736	\$ 197,922	\$ 194,027

12. Financial instruments

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The classification of financial instruments, as well as their carrying values and fair values, are shown in the tables below:

	October 26, 2013		January 26, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Fair value through profit or loss				
Cash	\$ 1,779	\$ 1,779	\$ 1,783	\$ 1,783
Loans and receivables				
Accounts receivable	1,566	1,566	1,906	1,906
Derivatives				
Derivative financial instruments	136	136	215	215
	\$ 3,481	\$ 3,481	\$ 3,904	\$ 3,904
Financial liabilities				
Other financial liabilities				
Bank indebtedness	\$ 40,130	\$ 40,130	\$ 13,600	\$ 13,600
Trade and other payables ¹	17,995	17,995	16,531	16,531
Long-term debt	17,855	17,803	24,134	24,014
	\$ 75,980	\$ 75,928	\$ 54,265	\$ 54,145

¹ Excludes commodity taxes and other provisions

Fair values

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, the estimated fair values are not necessarily indicative of the amounts the Company could realize or would pay in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

- The only financial assets or liabilities measured at fair value on a recurring basis are the derivative financial instruments.
- The fair values of derivative financial instruments have been determined by reference to quoted market prices of instruments with similar characteristics (Level 2).
- Given their short-term maturity, the fair value of cash, accounts receivable, bank indebtedness and trade and other payables approximates their carrying value.
- The estimated fair value of long-term debt was determined by discounting expected cash flows at rates currently offered to the Company for similar debt.

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the periods presented.

Financial instrument risk management

There has been no change with respect to the Company's overall risk exposure during the three and nine-month periods ended October 26, 2013. Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign exchange risk and interest rate 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 forward exchange contracts. The Company limits its exposure to credit risk with respect to cash by investing available cash with major Canadian chartered banks. The Company only enters into forward exchange contracts with Canadian chartered banks to minimize credit risk.

The Company's cash is not subject to any external restrictions. The Company has an investment policy that monitors the safety and preservation of principal and investments, which limits the amount invested by the issuer.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due. The

Company's liquidity follows a seasonal pattern based on the timing of inventory purchases and capital expenditures. As at October 26, 2013, as outlined in note 3, the Company had a committed asset based credit facility of \$70.0 million as well as an import line of credit of \$25.0 million, which included a \$1.0 million loan facility. The import line is for letters of credit which guarantee the payment of purchases from foreign suppliers. The Company expects to finance its store renovation program through cash flows from operations and long-term debt as well as its asset based credit facility. The Company expects that its trade and other payables will be discharged within 90 days and its long-term debt discharged as contractually agreed and as disclosed elsewhere in these interim condensed consolidated financial statements or as disclosed in its annual consolidated financial statements.

Market risk – foreign exchange risk

The Company's foreign exchange risk is primarily limited to currency fluctuations between the Canadian and U.S. dollar. In order to protect itself from the risk of losses should the value of the Canadian dollar decline compared to the foreign currency, the Company uses forward contracts to fix the exchange rate of a substantial portion of its expected U.S. dollar requirements. The contracts are matched with anticipated foreign currency purchases.

The nominal and contract values as at October 26, 2013 are as follows:

	Average contractual exchange rate	Nominal foreign currency value	Contract value \$
		(000's)	(000's)
Purchase contracts			
U.S. dollar	1.0373	18,030	18,703

The range of maturity of these contracts is from October 28, 2013 to April 17, 2014. As at October 26, 2013, the fair value of these contracts resulted in an unrealized foreign exchange gain of \$136,000 (2012 – \$188,000), all of which is expected to be reclassified to earnings within the next 12 months.

Market risk – interest rate risk

Financial instruments that potentially subject the Company to cash flow interest rate risk include financial assets and liabilities with variable interest rates and consist of bank indebtedness.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's long-term debt is the only financial liability bearing a fixed interest rate. It is recorded at amortized cost.

13. Related party transactions

In addition to compensation earned by key management during the three and nine-month periods ended October 26, 2013, the following are related party transactions that have occurred.

Companies that are directly or indirectly controlled by a director sublease real estate from the Company. Total amounts earned under the sublease during the three and nine-month periods ended October 26, 2013 amounted to \$62,000 and \$217,000, respectively (October 27, 2012 – \$87,000 and \$171,000).

During the year ended January 28, 2012, the Company borrowed \$10.0 million from a company that is directly controlled by a director of the Company. During the year ended January 26, 2013, \$5.0 million of the loan was converted into 2,454,097 Class A subordinate voting shares. The loan amount outstanding as at October 26, 2013 was \$5.0 million. For the three and nine-month periods ended October 26, 2013, the Company recorded interest expense of \$68,000 and \$247,000, respectively (October 27, 2012 – \$146,000 and \$521,000). During the nine-month period ended October 26, 2013, the repayment terms for the above loan were modified to provide for an obligation to repay the principal in full at maturity in January 2016 instead of monthly principal repayments commencing in February 2013. Furthermore, the annual interest rate on the \$5.0 million loan outstanding was reduced from 7.5% to 5.5% effective July 1, 2013. Subject to the terms of its other indebtedness for borrowed money, the Company may prepay the loan, in whole or in part, at any time without premium or penalty. The principal amount of the loan may also be converted, in whole or in part, at any time by the Company into Class A subordinate voting shares of the Company at a price per share to be agreed upon with the lender and subject to applicable securities laws and the rules of the Toronto Stock Exchange.

Amounts payable to related parties as at October 26, 2013 totalled \$23,000 (January 26, 2013 – \$31,000).

These amounts are recorded at their exchange value and are made at terms equivalent to those that prevail in arms' length transactions. There are no guarantees provided or received with respect to these transactions.

14. Comparative figures

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