le château
ANNUAL REPORT 2008

CORPORATE PROFILE

Le Château is a leading Canadian specialty retailer offering fashion-forward apparel, accessories and footwear to style-conscious women and men. Our brand's success is built on quick identification of and response to fashion trends through our design, product development and vertically integrated operations.

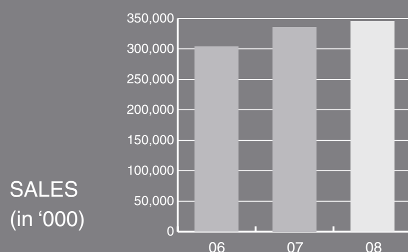
Le Château brand name merchandise is sold exclusively through our 221 retail locations. All stores are in Canada, except for four locations in the New York City area. In addition, the Company has nine stores under license in the Middle East.

Le Château, committed to research, design and product development, manufactures approximately 35% of the Company's apparel in its own Canadian production facilities.

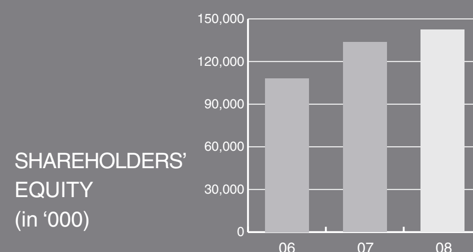
STORES AND SQUARE FOOTAGE

	JANUARY 31, 2009		JANUARY 26, 2008	
	STORES	SQUARE FOOTAGE	STORES	SQUARE FOOTAGE
ONTARIO	73	352,214	69	330,986
QUEBEC	65	319,762	62	296,280
BRITISH COLUMBIA	27	128,768	24	109,308
ALBERTA	26	117,321	24	102,055
MANITOBA	7	35,575	7	34,254
NOVA SCOTIA	7	28,083	7	26,428
NEW BRUNSWICK	5	19,332	5	19,292
SASKATCHEWAN	4	16,200	4	16,200
NEWFOUNDLAND	2	9,203	2	9,203
P.E.I.	1	3,480	1	3,480
TOTAL CANADA	217	1,029,938	205	947,486
TOTAL UNITED STATES	4	17,591	4	17,591
TOTAL LE CHÂTEAU STORES	221	1,047,529	209	965,077

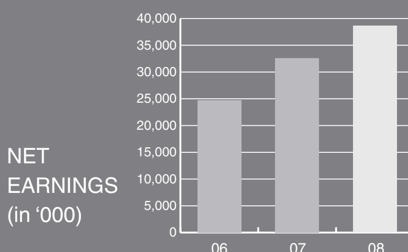
SALES (in '000)



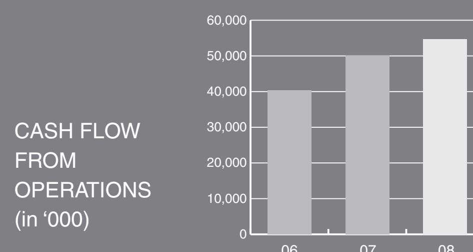
SHAREHOLDERS' EQUITY (in '000)



NET EARNINGS (in '000)



CASH FLOW FROM OPERATIONS (in '000)



FINANCIAL HIGHLIGHTS

(in thousands of dollars except per share data and ratios)

FISCAL YEARS ENDED	January 31, 2009 (53 weeks)	January 26, 2008	January 27, 2007	January 28, 2006	January 29, 2005
RESULTS					
Sales	345,614	336,070	303,879	279,064	241,131
Earnings before income taxes	57,706	50,523	38,406	35,963	24,336
Net earnings	38,621	32,596	24,751	23,513	15,886
• Per share (basic)	1.56	1.30	1.02	0.99	0.74
Dividends per share					
• Ordinary	0.625	0.50	0.28	0.20	0.16
• Special	0.25	—	0.75	—	—
Average number of shares outstanding (000)	24,796	24,978	24,181	23,812	21,448
FINANCIAL POSITION					
Working capital	85,620	74,384	45,928	60,491	47,781
Shareholders' equity	142,414	133,605	108,174	105,245	85,244
Total assets	216,431	206,876	185,709	166,236	128,198
FINANCIAL RATIOS					
Current ratio	3.03	2.55	1.75	2.52:1	2.61:1
Quick ratio	1.75	1.59	1.08	1.63:1	1.62:1
Long-term debt to equity (1)	0.20:1	0.17:1	0.14:1	0.20:1	0.16:1
OTHER STATISTICS (units as specified)					
Cash flow from operations (in '000)	54,691	50,125	40,374	36,311	25,291
Capital expenditures (in '000)	21,467	24,091	27,701	27,655	16,491
Number of stores at year-end	221	209	195	185	174
Square footage	1,047,529	965,077	853,767	762,093	686,830
Sales per square foot (2)	385	408	407	416	394

SHAREHOLDERS' INFORMATION

Ticker symbol: **CTU.A**

Listing: **TSX**

Number of participating shares outstanding (as of April 28, 2009):

19,663,464 Class A Subordinate Voting Shares

4,560,000 Class B Voting Shares

Float: (3)

14,799,884 Class A Shares held by the public

As of April 28, 2009:

High/low of Class A Shares (12 months ended April 28, 2009): **$14.24 / $6.31**

Recent price: **$9.45**

Dividend yield: **7.4%**

Price/earnings ratio: **6.1 X**

Price/book value ratio: **1.6 X**

Earnings per share: (4) **$1.56**

Book value per share: (5) **$5.88**

(1) Including capital leases and current portion of debt. Excluding deferred lease inducements.
(2) Excluding Le Château outlet stores.
(3) Excluding shares held by officers and directors of the Company.
(4) For the year ended January 31, 2009.
(5) As at January 31, 2009.

MESSAGE TO SHAREHOLDERS

I am excited that our Company is entering its fiftieth year of fashion history. The longevity of the Le Château brand is due to staying true to our vision of beautiful clothing, footwear and accessories designed right here in Canada, and all at sensible prices.

We will stay true to our core values of fifty years ago – the delivering of new exciting merchandise and the love of serving our customers. As well, we will remain focused on inventory controls and expanding our product mix to include a larger segment of the marketplace.

Despite a challenging retail environment, our earnings increased 18% in 2008 from $32.6 million to $38.6 million and our annual dividend rate increased from $0.50 to $0.70 per share plus a special one-time dividend of $0.25.

In 2009, we will further reinforce the original vision of our Company and be more focused on design and "just in time delivery" with our vertically integrated operations.

Thank you to our customers, our dedicated team members and our shareholders for making Le Château again so successful.

JANE SILVERSTONE SEGAL, B.A.LLL

Chairman and Chief Executive Officer

April 30, 2009

The 2008 year refers, in all cases, to the 53-week period ended January 31, 2009 while the 2007 and 2006 years refer to the 52-week periods ended January 26, 2008 and January 27, 2007, respectively. Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements for the 2008 fiscal year of Le Château Inc. and the Annual Information Form. All amounts in this report are expressed in Canadian dollars and all amounts in the tables of this report are in thousands of Canadian dollars, unless otherwise indicated.

Additional information relating to the Company, including the Company's Annual Information Form, is available online at www.sedar.com.

SELECTED ANNUAL INFORMATION

(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)

	2008 $	2007 $	2006 $
	(53 weeks)		
Sales	345,614	336,070	303,879
Earnings before income taxes	57,706	50,523	38,406
Net earnings	38,621	32,596	24,751
Net earnings per share			
Basic	1.56	1.30	1.02
Diluted	1.55	1.29	1.00
Total assets	216,431	206,876	185,709
Long term debt (1)	18,982	13,697	8,222
Dividends per share			
Ordinary	0.625	0.50	0.28
Special	0.25	—	0.75
Cash flow from operations (2)	54,691	50,125	40,374
Comparable store sales increase (decrease) %	(2.7) %	5.6 %	3.8 %
Square footage of gross store space at year-end	1,047,529	965,077	853,767
Sales per square foot, excluding fashion outlet stores (in dollars)	385	408	407

(1) Including capital lease obligations. Excluding current portion of debt and deferred lease inducements.

(2) Before net change in non-cash working capital items related to operations.

SALES

Sales increased 2.8% in 2008 to reach a record level of $345.6 million, compared to $336.1 million the previous year. Comparable store sales decreased 2.7% in the year.

Sales per square foot of retail space – excluding fashion outlets – decreased to $385 from $408 in 2007. Although sales per square foot is an important performance indicator, the Company maintains its focus on profit contribution per square foot.

Profit optimization continued to be a key component of our business strategies as we remained focused on broadening our customer base and brand differentiation by offering the most innovative blend of quality fashion and value on a timely and continuous basis. Our vertically integrated approach to retailing enables us to reduce product risk and enhance speed to market.

In 2008 we continued with the rollout of our new store concept, a remodeling program implemented in approximately 80% of our stores to date. This store design concept reflects our efforts to elevate the quality of our brand and broaden our customer base through a cleanly designed and clearly merchandised store environment that allows each division to become a distinct destination with greater visibility and impact.

Pilot Licensing: During the third quarter of 2005, Le Château entered into a pilot licensing agreement with a retail developer in the Middle East regarding the opening of Le Château branded stores in the region. As at January 31, 2009, there were nine stores under licensee arrangement in this region. The Company will seek to further expand its offering and brand awareness internationally, to accelerate revenue generation through foreign licensing and franchising opportunities.

TOTAL SALES BY DIVISION (IN THOUSANDS OF DOLLARS)

	2008	2007	2006	% CHANGE 2008-2007	% CHANGE 2007-2006
	$	$	$		
Ladies' Clothing	190,676	191,549	170,160	(0.5) %	12.6 %
Men's Clothing	57,847	52,053	45,970	11.1 %	13.2 %
Footwear	38,562	39,579	36,905	(2.6) %	7.2 %
Accessories	58,529	52,700	48,870	11.1 %	7.8 %
JUNIOR GIRL Clothing	—	189	1,974	(100.0) %	(90.4) %
	345,614	336,070	303,879	2.8 %	10.6 %

Ladies' Wear: The Ladies' clothing division posted a sales decrease of 0.5%; it continues to be the main revenue driver among the Company's divisions, accounting for 55.2% of total sales as compared to 57.0% the previous year. Our continued focus on a broader customer base, an extended range of clothing sizes and a continuous flow of unique and quality product all contributed to a margin expansion in this division.

Growth and Expansion in Menswear: Sales in the Men's division increased 11.1% and accounted for 16.7% of total sales compared to 15.5% last year. During the year seven more existing stores were expanded to provide adjacent, but distinct, premises for menswear, bringing the total number of stores with a separate men's entrance to sixty-two. Altogether, 12% more footage was added to this division in 2008.

Footwear: Sales decreased 2.6% in 2008, accounting for 11.2% of total sales as compared to 11.8% the previous year. Furthermore, we continued to coordinate our footwear offering more closely with our clothing and overall lifestyle brand. We recognize that this division has still further growth potential and we plan on strengthening our product offering to capture a larger market share. Our footwear offering is typically a "shop within a shop," but in some larger markets we are introducing full concept shoe stores, adjacent to our ladies store, with their own separate entrance (similar to the separate entrances for Menswear that have proven successful). We now have eleven such footwear operations, all contiguous to existing stores.

Accessories: Sales in the Accessories division increased 11.1% in 2008 and accounted for 16.9% of total sales compared to 15.7% last year.

TOTAL SALES BY REGION (IN THOUSANDS OF DOLLARS)

	2008 $	2007 $	2006 $	% CHANGE 2008-2007	2007-2006
Ontario	118,135	114,395	104,358	3.3 %	9.6 %
Quebec	94,268	89,677	82,265	5.1 %	9.0 %
Prairies	65,396	61,776	53,352	5.9 %	15.8 %
British Columbia	44,157	45,281	40,317	(2.5) %	12.3 %
Atlantic	17,704	17,559	15,316	0.8 %	14.6 %
United States	5,954	7,382	8,271	(19.3) %	(10.7) %
	345,614	336,070	303,879	2.8 %	10.6 %

In 2008, the strongest sales growth came from Prairies with an increase of 5.9% in total sales and 2.0% in comparable sales. In Quebec, total sales increased 5.1% while comparable store sales decreased 0.7%. Total sales increased 3.3% in Ontario while same store sales decreased 4.7%. Comparable store sales declined in British Columbia and the Atlantic region by 5.9%.

The Company's U.S. stores reported a decrease in comparable store sales of 7.0% (8.0% in US$). Total sales declined 19.3% as a result of the lower comparable store sales and the closure of one store in January 2008.

During the year, Le Château opened 12 new stores and renovated 17 existing stores. As at January 31, 2009, the Company operated 221 stores (including 31 fashion outlet stores) compared to 209 stores (including 25 fashion outlets) at the end of the previous year. Total floor space at the end of the year was 1,048,000 square feet compared to 965,000 square feet at the end of the preceding year, an increase of 83,000 square feet or 8.6%. Of the 83,000 square feet added during year, 63,000 square feet was attributable to new stores and 20,000 square feet to the expansion of 9 existing stores. In 2009, the Company expects to add approximately 50,000 to 75,000 square feet. This footage will result from the addition of 7 to 10 new stores, as well as from the expansion (where possible) of existing stores.

EXPENSES

Cost of sales and selling, general and administrative expenses totalled $271.1 million for the year or 78.4% of sales, as compared to $267.9 million or 79.7% of sales in 2007. The decrease in the percentage of sales resulted primarily from continued improvements in gross margins due to a higher yielding product mix and in part to the Canadian dollar which continued to remain relatively strong until the fourth quarter of 2008.

Interest expense increased to $1.8 million in 2008 from $1.4 million in 2007, due to additional long-term financing of $18.0 million obtained during the first quarter of 2008.

Depreciation and amortization increased to $16.7 million from $16.1 million in 2007, due to the additional investments in fixed assets of $21.5 million.

The $19.1 million provision for income taxes in 2008 represents an effective income tax rate of 33.1% compared to 35.4% the previous year. The reduction in the effective income tax rate is the result of a decrease in the statutory corporate income tax rates.

EARNINGS

Net earnings reached a record level of $38.6 million or $1.56 per share (basic) in 2008 compared to $32.6 million or $1.30 per share in 2007. Earnings before interest, income taxes, depreciation and amortization (“EBITDA”) for the year increased 9.2% to $74.5 million or 21.6% of sales, compared to $68.2 million or 20.3% of sales last year.

Net earnings attributable to Canadian operations amounted to $39.3 million or $1.58 per share (basic) in 2008 compared to $34.7 million or $1.39 per share in 2007. The Company’s U.S. operations recorded a net loss of $638,000 Cdn or $(0.02) Cdn per share in 2008 as compared to $2.1 million or $(0.09) Cdn per share the previous year. Included in the net loss for 2007 is an amount of $1.2 million related to the write-off of certain assets located in the United States.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a high level of liquidity, more than sufficient to cover its operating requirements, as well as a strong financial position. The Company’s liquidity follows a seasonal pattern based on the timing of inventory purchases and capital expenditures.

The Company’s cash position, including short-term investments, amounted to $66.7 million or $2.75 per share in 2008, compared to $70.2 million or $2.80 per share in 2007. Short-term cash is conservatively invested in bank bearer deposit notes and bank term deposits with a major Canadian chartered bank. The Company closely monitors its short-term cash investments and does not hold any asset backed commercial paper. Cash flows from operating activities (excluding net changes in non-cash working capital items) increased to $54.7 million in 2008, compared to $50.1 million the previous year, mainly as a result of higher net earnings before depreciation. Cash flows from operating activities (including net changes in non-cash working capital items) decreased to $41.8 million from $54.1 million in 2007 due to the timing of payments related to the accounts payable and accrued liabilities and an increase in inventories as further explained in the financial position section below.

Cash provided by operating and financing activities was used in the following financing and investing activities:

- Capital expenditures of $21.5 million, consisting of:

CAPITAL EXPENDITURES (IN THOUSANDS OF DOLLARS)

	2008 $	2007 $	2006 $
New Stores (12 stores; 2007 – 18 stores; 2006 – 10 stores)	5,552	8,180	4,658
Renovated Stores (17 stores; 2007 – 12 stores; 2006 – 32 stores)	11,912	10,878	19,234
Information Technology	1,764	1,887	1,657
Other	2,239	3,146	2,152
	21,467	24,091	27,701

- Dividend payments of $20.5 million, including a special dividend of $6.2 million
- Capital lease and long-term debt repayments of $11.5 million

The following table identifies the timing of contractual obligation amounts due after January 31, 2009:

CONTRACTUAL OBLIGATIONS (IN THOUSANDS OF DOLLARS)

	Total $	Less than 1 year $	1-3 years $	4-5 years $	After 5 years $
Long-term debt	27,728	8,746	14,369	4,613	—
Capital Lease Obligations	1,008	1,008	—	—	—
Operating leases [1]	256,248	38,233	71,574	63,480	82,961
	284,984	47,987	85,943	68,093	82,961

[1] Minimum rentals payable under long-term operating leases excluding percentage rentals.

For 2009, the projected capital expenditures are $16.0 million, of which $12.0 million is expected to be used for the opening of 7 to 10 stores and the renovation of 10 to 12 existing stores, with the balance of $4.0 million to be used for investments in information technology and infrastructure.

Management expects to be able to continue financing the Company's operations and a portion of its capital expenditure requirements through cash flow from operations. If necessary, it can also draw upon its financial resources, which include cash and cash equivalents and short-term investments of $66.7 million at year-end, as well as a revolving line of credit of $16.0 million with its bank.

The Company does not have any off-balance sheet financing arrangements.

FINANCIAL POSITION

Working capital increased 15.1% to $85.6 million at the end of the fiscal year, compared to $74.4 million at the end of 2007.

Total inventories as at January 31, 2009 increased 17.6% to $54.0 million from $45.9 million a year earlier. Approximately half of this increase is related to the following two factors. Firstly, an earlier Chinese New Year resulted in the acceleration of import spring receipts and secondly, there was an additional week of spring deliveries due to a 53-week period which ended one week later on January 31, 2009 as compared to a 52-week period the previous year which ended January 26, 2008. The balance of the increase was due to the additional square footage year over year of 8.6% or 83,000 square feet.

Long-term debt and capital lease obligations, including the current portions, increased to $28.7 million from $22.2 million in 2007, due to the additional long-term debt financing of $18.0 million obtained in the first quarter of 2008, net of repayment of $11.5 million during the year. The long-term debt to equity ratio remained conservative at 0.20:1, compared to 0.17:1 the previous year.

Shareholders' equity increased to $142.4 million at year-end, after deducting $21.6 million in dividends and $9.0 million related to the purchase and cancellation of 920,700 Class A subordinate voting shares. Book value per share increased to $5.88 at year-end, compared to $5.33 as at January 26, 2008, and included $2.75 per share in cash and cash equivalents (including short-term investments).

DIVIDENDS AND OUTSTANDING SHARE DATA

In 2008, Le Château continued – for the fifteenth consecutive year – its policy of paying quarterly dividends on the Class A subordinate voting and Class B voting shares. Total regular dividends per Class A and Class B share amounted to $0.625 in 2008 as compared to $0.50 in 2007. In addition, there was a special dividend of $0.25 per share paid in 2008.

On September 16, 2008, the principal shareholder of the Company converted 2,000,000 Class B voting shares with a paid-up capital of $176,153 into Class A subordinate voting shares.

On April 8, 2009, the Board of Directors declared a quarterly dividend of $0.175 per Class A subordinate voting share and Class B voting share. The dividend is payable on May 19, 2009 to shareholders of record at the close of business on May 5, 2009. This represents the 62nd consecutive quarterly dividend declared by Le Château. The Company's annual regular dividend of $0.70 per share currently yields 7.4%, based on the April 28, 2009 closing price of $9.45 per share.

The Company designated the above dividends to be eligible dividends pursuant to the Income Tax Act (Canada) and its provincial equivalents.

As at April 28, 2009, there were 19,663,464 Class A subordinate voting and 4,560,000 Class B voting shares outstanding. Further, there were 1,387,100 options outstanding with exercise prices ranging from $7.56 to $15.14, of which 480,400 were exercisable.

The Company proceeded with a normal course issuer bid to purchase up to 925,148 Class A subordinate voting shares of the Company, representing 5% of the issued shares of such class as at June 5, 2008. The bid commenced June 19, 2008 and may continue to June 18, 2009. In accordance with TSX requirements, a maximum daily repurchase of 25% of previous six month's average daily trading volume may be made, representing 6,839 shares. The TSX has temporarily (from November 3, 2008 until March 31, 2009 unless extended) increased the daily limit on purchases to 50%. The number of shares purchased and the timing of any such purchases will be determined by the Company. All shares purchased by the Company will be cancelled. Since June 19, 2008, the Company purchased 920,700 Class A subordinate voting shares at an average price of $11.44 per share for a total of $10.5 million. The excess of the total purchase price over the stated value has been charged to retained earnings in the amount of $9.0 million.

The directors of the Company have concluded that purchases of up to 925,148 of the issued and outstanding Class A subordinate voting shares are an appropriate and desirable use of the Company's available funds and, therefore, would be in the best interests of the Company. As a result of such purchases, the number of issued shares will be decreased and, consequently, the proportionate share interest of all remaining shareholders will be increased on a pro rata basis.

NON-GAAP MEASURES

In addition to discussing earnings measures in accordance with Canadian generally accepted accounting principles ("GAAP"), this MD&A provides EBITDA as a supplementary earnings measure. Depreciation and amortization include the write-off of fixed assets. 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 EBITDA to GAAP measures disclosed in the audited consolidated statements of earnings for the years ended January 31, 2009 and January 26, 2008:

(In thousands of dollars)	2008 $	2007 $
Earnings before income taxes	57,706	50,523
Depreciation and amortization	16,705	16,048
Write-off of fixed assets	585	2,220
Interest on long-term debt and capital lease obligations	1,798	1,429
Interest income	(2,299)	(2,028)
EBITDA	74,495	68,192

This MD&A also discloses cash flow from operations as a supplementary measure. Cash flow from operations is defined as cash flow from operating activities before the net change in non-cash working capital items related to operations and deferred lease inducements. This measure provides an indication of the Company's ability to generate cash flows without considering certain timing and other factors causing variations in non-cash items.

The Company also discloses comparable store sales which are defined as sales generated by stores that have been opened for at least one year.

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

ACCOUNTING STANDARDS IMPLEMENTED IN 2008

On January 27, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ["CICA"]:

Section 3031, Inventory, was issued by the CICA in June 2007, which replaces Section 3030, Inventory. The new standard was developed based on International Financial Reporting Standards ("IFRS"). The standard was revised to provide more extensive guidance than Section 3030, to facilitate the CICA's move towards IFRS, and to reduce the number of alternatives for the measurement of inventories. Section 3031 requires inventories to be measured at the lower of cost and net realizable value. The Company values inventory at the lower of average cost and net realizable value. The Company previously valued its inventory at the lower of average cost and net realizable value less a normal profit margin, using the retail inventory method.

The Company has adopted this new standard retrospectively, with restatement of prior period amounts. The initial impact of measuring the inventories under the new standard was an increase to the carrying amount of opening inventories as at January 27, 2008 of $2.9 million ($4.4 million as at January 28, 2007). Opening retained earnings as at January 27, 2008 have been increased by $2.0 million, equal to the change in opening inventories net of tax of $927,000. For the previous year, opening retained earnings as at January 28, 2007 have been increased by $3.0 million, equal to the change in opening inventories net of tax of $1.4 million.

The adoption of the new standard resulted in a decrease in net earnings for the year ended January 31, 2009 of $736,000 or $0.03 per share. The carrying amount of inventories as at January 31, 2009 increased by $1.8 million to $54.0 million. As a result of the restatement, net earnings for the year ended January 26, 2008 decreased by $1.0 million or $0.05 per share. The carrying amount of inventories as at January 26, 2008 increased by $2.9 million to $45.9 million. The cost of inventory recognized as an expense and included in cost of sales and selling, general and administrative expenses for the year ended January 31, 2009 is $109.5 million (2007 - $114.9 million), including write-downs to net realizable value of $5.7 million (2007 - $5.3 million). No inventory write-downs recognized in prior periods were reversed.

Section 1535, Capital Disclosures establishes guidelines for disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new disclosure is included in note 15 of the Company's consolidated financial statements.

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation replace Section 3861, Financial Instruments – Disclosure and Presentation to revise and enhance the disclosure requirements, and to carry forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new disclosures are included in note 14 of the Company's consolidated financial statements.

Section 1400, General Standards of Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this section had no impact on the Company's consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS CHANGEOVER PLAN

In February 2008, the Canadian Accounting Standards Board confirmed that publicly-accountable enterprises would be required to use International Financial Reporting Standards ["IFRS"] in the preparation of interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

Management is working to develop an IFRS changeover plan. The Company expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems. The Company is currently assessing the impact of the transition to IFRS on these areas.

CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), Certification of Disclosure in Issuers' Annual and Interim Filings, the Corporation has filed certificates signed by the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures ("DC&P") and the design and effectiveness of internal controls over financial reporting ("ICFR").

Disclosure controls and procedures

The CEO and the CFO have designed 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 regulatory filings.

As of January 31, 2009, an evaluation was carried out, under the supervision of the CEO and CFO, of the effectiveness of the Company's DC&P as defined in NI 52-109. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these DC&P were effective.

Internal controls over financial reporting

The CEO and CFO have designed 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 Canadian GAAP. The CEO and CFO have evaluated whether there were changes to its ICFR during the year ended January 31, 2009 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

As of January 31, 2009, an evaluation was carried out, under the supervision of the CEO and CFO, of the effectiveness of the Company's ICFR as defined in NI 52-109. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these ICFR were effective.

The evaluations were conducted in accordance with the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of NI 52-109.

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 judgement 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 condition, changes in financial condition or results of operations. The Company's significant accounting policies are discussed in note 1 of the "Notes to Consolidated Financial Statements"; 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 a provision for disposal costs and obsolescence based on historical experience. Management continually reviews the provision, to assess whether it is adequate, based on economic conditions and an assessment of sales trends.

Fixed Asset Impairment

Management evaluates the ongoing value of assets associated with retail stores. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value, generally determined on a discounted expected cash flow basis.

Stock-based Compensation

A stock based compensation expense for stock options is calculated based on the fair value method using the Black-Scholes model and is recorded for all options granted after January 25, 2003. In order to establish fair value, the Company uses estimates and assumptions to determine risk-free interest rate, expected term, anticipated volatility and anticipated dividend yield. The use of different assumptions could result in different stock-based compensation amounts.

RISKS AND UNCERTAINTIES

The risks included below are not exhaustive and are in addition to other risks mentioned herein or in Le Château's publicly filed documents. A more complete list of the risks and uncertainties can be found in the Company's most recent Annual Information Form. Le Château operates in a competitive and rapidly changing environment. New risk factors may emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on Le Château's business.

Competitive and Economic Environment

Fashion is a highly competitive global business that is subject to rapidly changing consumer demands. In addition, there are several external factors that affect the economic climate and consumer confidence over which the Company has no influence.

This environment intensifies the importance of in-store differentiation, quality of service and continually exceeding customer expectations, thereby delivering an outstanding total customer experience.

With this view, Le Château believes that its distinctive edge in fashion, its innovative store design and merchandising, its strong financial position and its winning team of vibrant employees dedicated to providing the best whole store experience will facilitate continued success.

Changes in customer spending

The Company must anticipate and respond to changing customer preferences and merchandising trends in a timely manner. Although the Company attempts to stay abreast of emerging lifestyle and consumer preferences affecting its merchandise, failure by the Company to identify and respond to such trends could have a material effect on the Company's business. Changes in customer shopping patterns could also affect sales. The majority of the Company's stores are located in enclosed shopping malls. The ability to sustain or increase the level of sales depends in part on the continued popularity of malls as shopping destinations and the ability of malls, tenants and other attractions to generate a high volume of customer traffic. Many factors that are beyond the control of the Company may decrease mall traffic, including, economic downturns, closing of anchor department stores, weather, concerns of terrorist attacks, construction and accessibility, alternative shopping formats such as e-commerce, discount stores and lifestyle centres, among other factors. Any changes in consumer shopping patterns could adversely affect the Company's financial condition and operating results.

General economic conditions and normal business uncertainty

Shifts in the economic health of the environment in which the Company operates – such as economic growth, inflation, exchange rates and levels of taxation – can impact consumer confidence and spending and impact the Company's ability to source products at a competitive cost. Some other external factors over which the Company exercises no influence, including interest rates, personal debt levels, unemployment rates and levels of personal disposable income, may also affect economic variables and consumer confidence. The Company monitors economic developments in the markets where it operates and uses this information in its continuous strategic and operational reviews to adjust its initiatives as economic conditions dictate and to facilitate ongoing innovation of stores, merchandising concepts and products. The Company is monitoring the general softening of consumer demand that seems to be affecting the market presumably as a reaction to slowdown in the economy, but is uncertain what effect, if any, it will have on sales.

Leases

All of the Company's stores are held under long-term leases, except for the Company owned St. Jean street store in Quebec City. Any increase in retail rental rates would adversely impact the Company.

Foreign Exchange

The Company's foreign exchange risk mainly relates 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 expected U.S. dollar requirements. The contracts are matched with anticipated foreign currency purchases. As at January 31, 2009 the Company had $15.0 million of contracts outstanding to buy US dollars (2007 – $14.9 million). The Company only enters into foreign exchange contracts with Canadian chartered banks to minimize credit risk.

Seasonality

The Company offers many seasonal goods. The Company sets budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer spending changes. Businesses that generate revenue from the sale of seasonal merchandise are subject to the risk of changes in consumer spending behaviour as a result of unseasonable weather patterns.

QUARTERLY RESULTS (IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)

	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		TOTAL	
	2008	2007(*)	2008	2007(*)	2008	2007(*)	2008	2007(*)	2008	2007(*)
	$	$	$	$	$	$	$	$	$	$
Sales	70,616	70,385	88,680	83,609	83,763	82,103	102,555	99,973	345,614	336,070
Earnings before income taxes	8,480	6,492	14,536	10,099	15,338	14,906	19,352	19,026	57,706	50,523
Net earnings	5,645	4,181	9,821	6,305	9,988	9,751	13,167	12,359	38,621	32,596
Net earnings per share										
Basic	0.23	0.17	0.39	0.25	0.40	0.39	0.54	0.49	1.56	1.30
Diluted	0.22	0.17	0.39	0.25	0.40	0.38	0.54	0.49	1.55	1.29

(*) Restated to reflect the change in the accounting policy affecting inventories as described in note 1 to the audited consolidated financial statements.

The Company's business is seasonal in nature. As the Company executes its strategy of broadening its customer base, the Company expects that its business will become less seasonal. However, 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.

Fourth Quarter Results

The Company recorded a sales increase of 2.6% to $102.6 million for the 14-week period ended January 31, 2009, compared with sales of $100.0 million for the 13-week period ended January 26, 2008. Comparable stores sales decreased by 5.4% over the same period a year ago.

Net earnings rose 6.5% to $13.2 million or $0.54 per share for the fourth quarter, as compared with $12.4 million or $0.49 per share last year. EBITDA for the fourth quarter increased 3.0% to $23.9 million or 23.3% of sales, compared to $23.2 million or 23.2% of sales last year, resulting primarily from continued improvements in gross margins due to a higher yielding product mix.

Cash flows from operating activities (excluding net changes in non-cash working capital items) increased to $17.9 million for the fourth quarter of 2008, compared to $16.9 million the previous year, mainly as a result of higher net earnings reported for the period.

OUTLOOK

The Company continues to expand its customer base and remains committed to enhancing the customer experience by elevating our service standards and by focusing on product innovation. In view of the general sentiment that the economy will not recover quickly, we remain centered on improving all aspects of our business through ongoing brand-building efforts, better inventory management, tighter cost controls, and continued investments in research, design and development, renovations, and new technologies. The Company will also continue to study and draw on opportunities for revenue generation through foreign licensing of its offering and brand.

The Company has a high level of liquidity, more than sufficient to cover its operating requirements, as well as a strong financial position. In addition, for the fiscal year just completed working capital stood at $85.6 million, a 15% increase from the previous year. This allows the Company to maintain its growth strategy.

FORWARD-LOOKING STATEMENTS

This MD&A along with the Annual Report 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.

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; customer preferences towards product offerings; seasonal weather patterns; fluctuations in foreign currency exchange rates; changes in the Company's relationship with its suppliers; interest rate fluctuations and other changes in borrowing costs; and changes in laws, rules and regulations applicable to the Company.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY

For Financial Information

The accompanying consolidated financial statements of **Le Château Inc.** and all the information in this annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the Annual Report and has ensured that it is consistent with that in the financial statements.

The Company maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through the Audit Committee which consists of three outside directors appointed by the Board. The Committee meets quarterly with management as well as with the independent external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the consolidated financial statements and the external auditors' report thereon and reports its findings to the Board for consideration when the Board approves the financial statements for issuance to the Company's shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors. The external auditors have full and free access to the Audit Committee.

On behalf of the shareholders, the financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards.

(Signed)
Jane Silverstone Segal, B.A.LLL
Chairman and Chief Executive Officer

(Signed)
Emilia Di Raddo, CA
President and Secretary

AUDITORS' REPORT

To the Shareholders of
Le Château Inc.

We have audited the consolidated balance sheets of **Le Château Inc.**, as at January 31, 2009 and January 26, 2008 and the consolidated statements of retained earnings, earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2009 and January 26, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Montréal, Canada
March 26, 2009

Ernst & Young LLP [1]
Chartered Accountants

[1] CA Auditor Permit no. 8500

CONSOLIDATED BALANCE SHEETS As at January 31, 2009 and January 26, 2008
[In thousands of Canadian dollars]

	2009 $	2008 $ [restated - note 1]
ASSETS [note 2]		
Current		
Cash and cash equivalents	10,034	3,846
Short-term investments [note 3]	56,643	66,354
Accounts receivable and other assets	4,791	4,350
Derivative financial instruments	1,530	250
Inventories [note 4]	54,012	45,903
Prepaid expenses	778	1,707
Total current assets	127,788	122,410
Fixed assets [notes 5, 6 and 7]	88,643	84,466
	216,431	206,876
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	25,403	30,377
Dividend payable	4,239	3,133
Income taxes payable	2,285	5,092
Current portion of capital lease obligations [note 6]	1,008	1,384
Current portion of long-term debt [note 7]	8,746	7,113
Future income taxes [note 9]	487	927
Total current liabilities	42,168	48,026
Capital lease obligations [note 6]	—	1,008
Long-term debt [note 7]	18,982	12,689
Future income taxes [note 9]	3,176	2,975
Deferred lease inducements	9,691	8,573
Total liabilities	74,017	73,271
Shareholders' equity		
Capital stock [note 8]	30,997	31,794
Contributed surplus [note 8]	2,460	1,761
Retained earnings	107,914	99,884
Accumulated other comprehensive income [note 17]	1,043	166
Total shareholders' equity	142,414	133,605
	216,431	206,876

Commitments, contingencies and guarantees [notes 11 and 16]
See accompanying notes

On behalf of the Board:

[Signed]
Jane Silverstone Segal, B.A.LLL
Director

[Signed]
Emilia Di Raddo, CA
Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS Years ended January 31, 2009 and January 26, 2008

[In thousands of Canadian dollars]

	2009 $ [53 weeks]	2008 $ [restated - note 1] [52 weeks]
Balance, beginning of year – as previously reported	97,914	76,814
Adjustment to opening retained earnings resulting from adoption of new accounting standards for Inventories, net of income taxes of $927 [2008 – $1,400]	1,970	2,978
Excess of cost over stated value of Class A subordinate voting shares purchased and cancelled	(8,989)	—
Net earnings	38,621	32,596
	129,516	112,388
Dividends declared [note 8]	21,602	12,504
Balance, end of year	107,914	99,884

See accompanying notes

CONSOLIDATED STATEMENTS OF EARNINGS Years ended January 31, 2009 and January 26, 2008

[In thousands of Canadian dollars]

	2009 $ [53 weeks]	2008 $ [restated - note 1] [52 weeks]
Sales	345,614	336,070
Cost of sales and expenses		
Cost of sales and selling, general and administrative	271,119	267,878
Depreciation and amortization	16,705	16,048
Write-off of fixed assets [note 5]	585	2,220
Interest on long-term debt and capital lease obligations	1,798	1,429
Interest income	(2,299)	(2,028)
	287,908	285,547
Earnings before income taxes	57,706	50,523
Provision for income taxes [note 9]	19,085	17,927
Net earnings	38,621	32,596
Net earnings per share [note 10]		
Basic	1.56	1.30
Diluted	1.55	1.29
Weighted average number of shares outstanding	24,795,576	24,977,824

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME Years ended January 31, 2009 and January 26, 2008

[In thousands of Canadian dollars]

	2009 $ [53 weeks]	2008 $ [restated - note 1] [52 weeks]
Net earnings	38,621	32,596
Other comprehensive income		
Change in fair value of foreign exchange contracts	5,260	(1,825)
Realized forward exchange contracts reclassified to net earnings	(3,980)	1,755
Income tax (expense) recovery	(403)	24
	877	(46)
Comprehensive income	39,498	32,550

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS Years ended January 31, 2009 and January 26, 2008

[In thousands of Canadian dollars]

	2009 $	2008 $
		[restated - note 1]
	[53 weeks]	[52 weeks]
OPERATING ACTIVITIES		
Net earnings	38,621	32,596
Adjustments to determine net cash from operating activities		
Depreciation and amortization	16,705	16,048
Write-off of fixed assets	585	2,220
Amortization of deferred lease inducements	(1,414)	(1,095)
Future income taxes	(642)	(473)
Stock-based compensation	836	829
	54,691	50,125
Net change in non-cash working capital items related to operations [note 13]	(15,402)	(392)
Deferred lease inducements	2,532	4,384
Cash flows related to operating activities	41,821	54,117
FINANCING ACTIVITIES		
Repayment of capital lease obligations	(1,384)	(1,947)
Proceeds of long-term debt	18,000	16,344
Repayment of long-term debt	(10,074)	(6,868)
Issue of capital stock upon exercise of options	614	1,366
Purchase of Class A subordinate voting shares for cancellation	(10,537)	—
Dividends paid	(20,496)	(30,363)
Cash flows related to financing activities	(23,877)	(21,468)
INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	9,711	(7,455)
Additions to fixed assets	(21,467)	(24,091)
Cash flows related to investing activities	(11,756)	(31,546)
Increase in cash and cash equivalents	6,188	1,103
Cash and cash equivalents, beginning of year	3,846	2,743
Cash and cash equivalents, end of year	10,034	3,846
Supplementary information:		
Interest paid during the year	1,798	1,429
Income taxes paid during the year	22,009	14,203

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 2009 AND JANUARY 26, 2008

[Tabular amounts in thousands of Canadian dollars except per share amounts and where otherwise indicated.]

1. SIGNIFICANT ACCOUNTING POLICIES

Year-end

The Company's fiscal year ends on the last Saturday in January. The year ended January 31, 2009 covered a 53-week fiscal period while the year ended January 26, 2008 covered a 52-week fiscal period.

Use of estimates

The consolidated financial statements of Le Château Inc. [the "Company"] have been prepared by Management in accordance with Canadian generally accepted accounting principles [GAAP]. The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in Management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany transactions have been eliminated. The Company has no interests in variable interest entities.

Foreign currency translation

Transactions denominated in foreign currencies and those of an integrated foreign operation are translated using the temporal method. Monetary assets and liabilities are translated into Canadian dollars at the rates in effect at the balance sheet date. Other assets and liabilities are translated at the rates prevailing at the transaction dates. Revenues and expenses are translated at the average exchange rates prevailing during the year, except for the cost of inventory used and depreciation and amortization, which are translated at exchange rates prevailing when the related assets were acquired. Gains and losses arising from the fluctuations in exchange rates are reflected in earnings.

Revenue recognition

Revenue from merchandise sales are net of estimated returns and allowances, exclude sales taxes and are recorded upon delivery to the customer. Revenue from gift cards or gift certificates [collectively referred to as "gift cards"] is recognized at the time of redemption or in accordance with the Company's accounting policy for breakage. Breakage income is included in other income and represents the estimated value of gift cards that are not expected to be redeemed by customers and is estimated based on the terms of the gift cards and historical redemption patterns, including available industry data.

Cash and cash equivalents

Cash consists of cash on hand and balances with banks. Cash equivalents are restricted to investments that are readily convertible into a known amount of cash, that are subject to minimal risk of changes in value and which have a maturity of three months or less at acquisition. Cash equivalents are carried at fair value.

Short-term investments

Short-term investments include investments with original maturity terms of 90 days or more. Short-term investments are classified as available-for-sale and are carried at fair value.

Inventories

Raw materials, work-in-process and finished goods are valued at the lower of average cost, which include vendor rebates, and net realizable value.

1. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Fixed assets

Fixed assets are recorded at cost. Depreciation and amortization are charged to earnings on the following bases:

Building	4% to 10% diminishing balance
Point-of-sale cash registers and computer equipment	3 to 10 years straight-line
Other furniture and fixtures	5 to 10 years straight-line
Automobiles	30% diminishing balance

Leasehold improvements are amortized on the straight-line basis over the initial term of the leases, plus one renewal period, not to exceed 10 years.

Gains and losses arising on the disposal of individual assets are recognized in income in the period of disposal.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value [net recoverable value]. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value, generally determined on a discounted expected cash flow basis. Any impairment results in a write-down of the asset and a charge to earnings during the year.

Deferred lease inducements

Deferred lease inducements are amortized on the straight-line basis over the initial term of the leases, plus one renewal period, not to exceed 10 years.

Stock-based compensation

All awards granted or modified after January 25, 2003, are accounted for under the fair value method. Under this method, the value of the compensation is measured at the grant date using the Black Scholes option pricing model. The value of the compensation expense is recognized over the vesting period of the stock options as an expense included in cost of sales and selling, general and administrative expenses, with a corresponding increase to contributed surplus in shareholders' equity.

All awards granted or modified prior to January 26, 2003 are accounted for as capital transactions. No compensation expense is recorded in the consolidated financial statements for these awards. Had the Company used the fair value method, the earnings would not have been materially different.

Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

Store opening costs

Store opening costs are expensed as incurred.

Income taxes

The Company uses the liability method of accounting for income taxes, which requires the establishment of future tax assets and liabilities, as measured by enacted or substantively enacted tax rates, for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the financial statements. A valuation allowance is recorded to the extent that it is more likely than not that future income tax assets will not be realized.

1. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Earnings per share

Basic earnings per share are calculated using the weighted average number of shares outstanding for the year.

The diluted earnings per share are calculated using the treasury stock method. Under the treasury stock method, the diluted weighted average number of shares outstanding is calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of issuance, and the proceeds from the exercise of such dilutive options are used to repurchase common shares at the average market price for the period.

Leases

A lease which transfers substantially all of the benefits and risks incidental to ownership of property is classified as a capital lease and recorded as the acquisition of an asset and the assumption of an obligation. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Financial instruments

Financial instruments are recognized depending on their classification with changes in subsequent measurements being recognized in net earnings or other comprehensive income ["OCI"].

The Company has made the following classifications:

- Cash and cash equivalents are classified as "Held for Trading" and measured at fair value. Changes in fair value are recorded in net earnings.

- Short-term investments are classified as "Available-for-Sale". After their initial fair value measurement, unrealized gains and losses are recognized in other comprehensive income, except for impairment losses which are recognized immediately in net earnings. Upon derecognition of the financial asset, the cumulative gains or losses previously recognized in accumulated other comprehensive income are reclassified to net earnings.

- Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

- Accounts payable, dividend payable, long-term debt and capital lease obligations are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Hedges

Section 3865, Hedges, whose application is optional, establishes how hedge accounting may be applied. The Company, in keeping with its risk management strategy, continues to apply hedge accounting for its foreign exchange contracts and designates them as cash flow hedges. In a cash flow hedge relationship, the portion of the gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net earnings. The amounts recognized in OCI are reclassified to net earnings when the hedged item affects earnings.

1. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Changes in accounting policies

On January 27, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ["CICA"]:

Section 3031, Inventory, was issued by the CICA in June 2007, which replaces Section 3030, Inventory. The new standard was developed based on International Financial Reporting Standards ["IFRS"]. The standard was revised to provide more extensive guidance than Section 3030, to facilitate the CICA's move towards IFRS, and to reduce the number of alternatives for the measurement of inventories. Section 3031 requires inventories to be measured at the lower of cost and net realizable value. The Company values inventory at the lower of average cost and net realizable value. The Company previously valued its inventory at the lower of average cost and net realizable value less a normal profit margin, using the retail inventory method.

The Company has adopted this new standard retrospectively, with restatement of prior period amounts. The initial impact of measuring the inventories under the new standard was an increase to the carrying amount of opening inventories as at January 27, 2008 of $2.9 million [$4.4 million as at January 28, 2007]. Opening retained earnings as at January 27, 2008 have been increased by $2.0 million, equal to the change in opening inventories net of tax of $927,000. For the previous year, opening retained earnings as at January 28, 2007 have been increased by $3.0 million, equal to the change in opening inventories net of tax of $1.4 million.

The adoption of the new standard resulted in a decrease in net earnings for the year ended January 31, 2009 of $736,000 or $0.03 per share. The carrying amount of inventories as at January 31, 2009 increased by $1.8 million to $54.0 million. As a result of the restatement, net earnings for the year ended January 26, 2008 decreased by $1.0 million or $0.05 per share. The carrying amount of inventories as at January 26, 2008 increased by $2.9 million to $45.9 million. The cost of inventory recognized as an expense and included in cost of sales and selling, general and administrative expenses for the year ended January 31, 2009 is $109.5 million [2008 – $114.9 million], including write-downs to net realizable value of $5.7 million [2008 - $5.3 million]. No inventory write-downs recognized in prior periods were reversed.

Section 1535, Capital Disclosures establishes guidelines for disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new disclosure is included in note 15.

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation replace Section 3861, Financial Instruments – Disclosure and Presentation to revise and enhance the disclosure requirements, and to carry forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new disclosures are included in note 14.

Section 1400, General Standards of Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this section had no impact on the Company's consolidated financial statements.

International Financial Reporting Standards changeover plan

In February 2008, the Canadian Accounting Standards Board confirmed that publicly-accountable enterprises would be required to use International Financial Reporting Standards ["IFRS"] in the preparation of interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

Management is working to develop an IFRS changeover plan. The Company expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems. The Company is currently assessing the impact of the transition to IFRS on these areas.

2. CREDIT FACILITIES

The Company has an operating line of credit totalling $16 million which is collateralized by the Company's accounts receivable, inventories and a moveable hypothec providing a charge on the Company's assets. This credit agreement is renewable annually. Amounts drawn under this line of credit are payable on demand and bear interest at rates based on the prime bank rate for loans in Canadian dollars, U.S. base rate for loans in U.S. dollars and banker's acceptance plus 1.25% for banker's acceptances in Canadian dollars. Furthermore, the terms of the banking agreement require the Company to meet certain non-financial covenants. As at January 31, 2009, the Company had outstanding letters of credit in the amount of $6,620,000 of which $3,082,000 had been accepted at year-end. The letters of credit represent guarantees for payment of purchases from foreign suppliers and reduce available credit under this facility. Aside from the outstanding letters of credit, no other amounts were drawn under this facility as at January 31, 2009. Subsequent to year-end, the credit agreement was renewed with interest rates based on the prime bank rate plus 1.5% for loans and banker's acceptance plus 2.75% for banker's acceptances.

3. SHORT-TERM INVESTMENTS

As at January 31, 2009, the carrying value of the Company's short-term investments, comprised of bankers' acceptances provided by a major Canadian chartered bank, approximated their fair value and their average effective interest rate was 3.13% [2008 – 4.53%] with maturity dates varying over the period ending March 10, 2009 [2008 – June 12, 2008]. All short-term investments are denominated in Canadian dollars.

4. INVENTORIES

	January 31, 2009 $	January 26, 2008 $
		[restated – note 1]
Raw materials	7,075	5,668
Work-in-process	1,117	1,684
Finished goods	40,192	33,346
Finished goods in transit	5,628	5,205
	54,012	45,903

5. FIXED ASSETS

	Cost $	Accumulated depreciation and amortization $	Net book value $
January 31, 2009			
Land and building	1,651	698	953
Leasehold improvements	54,795	17,778	37,017
Point-of-sale cash registers and computer equipment	17,073	11,712	5,361
Other furniture and fixtures	69,678	24,411	45,267
Automobiles	168	123	45
	143,365	54,722	88,643

5. FIXED ASSETS [Cont'd]

	Cost $	Accumulated depreciation and amortization $	Net book value $
January 26, 2008			
Land and building	1,651	664	987
Leasehold improvements	48,863	15,483	33,380
Point-of-sale cash registers and computer equipment	16,179	9,600	6,579
Other furniture and fixtures	64,372	20,881	43,491
Automobiles	163	134	29
	131,228	46,762	84,466

An amount of $4,943,000 [2008 – $4,943,000], comprised of leasehold improvements and other furniture and fixtures, is held under capital leases. Accumulated depreciation relating to these fixed assets amounts to $2,048,000 [2008 – $1,488,000]. Write-off of fixed assets, net of accumulated amortization, for the current year amounted to $585,000 and was related to leasehold improvements and furniture and fixtures as a result of store renovations [2008 – $2,220,000 of which $1,150,000 was related to the write-off of US store fixed assets].

6. CAPITAL LEASE OBLIGATIONS

The future minimum lease payments required under the capital lease agreements are as follows:

	$
2010	1,032
Total minimum lease payments	1,032
Amount representing interest at a rate of 5.6%	24
	1,008
Less: current portion	1,008
	—

The fair value of fixed rate capital leases is based on estimated future cash flows discounted using the current market rate for debt of the same remaining maturities. The fair value of these capital leases approximates the carrying value.

7. LONG-TERM DEBT

	January 31, 2009 $	January 26, 2008 $
Loans bearing interest at rates varying from 5.09% to 5.98% and maturing between July 2008 and July 2009	260	2,198
6.05% Specific Security Agreement, maturing November 1, 2009	1,846	3,942
5.30% Specific Security Agreement, maturing February 7, 2012	10,584	13,662
5.18% Specific Security Agreement, maturing February 15, 2013	15,038	—
	27,728	19,802
Less: current portion	8,746	7,113
	18,982	12,689

The loans are collateralized by the fixed assets acquired with the long-term debt proceeds.

7. LONG-TERM DEBT [Cont'd]

Principal repayments are due in the following fiscal years:

	$
2010	8,746
2011	6,997
2012	7,372
2013	4,274
2014	339
	27,728

The fair values of the loans described above approximate their carrying values.

8. CAPITAL STOCK

Authorized

An unlimited number of non-voting First, Second and Third Preferred Shares issuable in series

An unlimited number of Class A subordinate voting shares

An unlimited number of Class B voting shares

Principal features

[a] With respect to the payment of dividends and the return of capital, the shares rank as follows:

First Preferred
Second Preferred
Third Preferred
Class A and Class B

[b] Subject to the rights of the Preferred shareholders, the Class A subordinate voting shareholders are entitled to a non-cumulative preferential dividend of $0.0125 per share, after which the Class B shareholders are entitled to a non-cumulative dividend of $0.0125 per share; any further dividends declared in a fiscal year must be declared and paid in equal amounts per share on all the Class A and Class B Shares then outstanding without preference or distinction.

[c] Subject to the foregoing, the Class A and Class B Shares rank equally, share for share, in earnings.

[d] The Class A subordinate voting shares carry one vote per share and the Class B Shares carry 10 votes per share.

[e] The Articles of the Corporation provide in effect that if there is an accepted or completed offer for more than 20% of the Class B Shares or an accepted or completed offer to more than 14 holders thereof at a price in excess of 115% of their market value [as defined in the Articles of the Corporation], each Class A subordinate voting share will be, at the option of the holder, converted into one Class B Share for the purposes of accepting such offer, unless at the same time an offer is made to all holders of the Class A subordinate voting shares for a percentage of such shares at least equal to the percentage of Class B Shares which are the subject of the offer and otherwise on terms and conditions not less favourable. In addition, each Class A subordinate voting share shall be converted into one Class B Share if at any time the principal shareholder of the Company or any corporation controlled directly or indirectly by him ceases to be the beneficial owner, directly or indirectly, and with full power to exercise in all circumstances the voting rights attached to such shares, of shares of the Corporation having attached thereto more than 50% of the votes attached to all outstanding shares of the Corporation.

8. CAPITAL STOCK [Cont'd]

Issued and outstanding

	January 31, 2009		January 26, 2008	
	Number of shares	$	Number of shares	$
Class A subordinate voting shares				
Balance – beginning of year	18,502,964	31,216	16,719,764	29,502
Conversion of multiple voting shares	2,000,000	176	1,600,000	141
Issuance of subordinate voting shares upon exercise of options	81,200	614	183,200	1,366
Cancellation of shares pursuant to stock repurchase program	(920,700)	(1,548)	—	—
Reclassification from contributed surplus due to exercise of share options	—	137	—	207
Balance, end of year	19,663,464	30,595	18,502,964	31,216
Class B multiple voting shares				
Balance, beginning of year	6,560,000	578	8,160,000	719
Conversion to subordinate voting shares	(2,000,000)	(176)	(1,600,000)	(141)
Balance, end of year	4,560,000	402	6,560,000	578
	24,223,464	30,997	25,062,964	31,794

In September 2008, the principal shareholder of the Company converted 2,000,000 Class B voting shares with a paid-up capital of $176,153 into Class A subordinate voting shares.

In May 2007, the principal shareholder of the Company converted 1,600,000 Class B voting shares with a paid-up capital of $140,922 into Class A subordinate voting shares.

Dividends

During the year the Company declared dividends in the amount of $21,602,000 [2008 – $12,504,000], which included a one-time dividend of $0.25 per Class A subordinate voting share and Class B voting share amounting to $6,220,000 that was paid on August 19, 2008.

Stock option plan

Under the provisions of the stock option plan, the Company may grant options to key employees, directors and consultants to purchase Class A subordinate voting shares. The maximum number of Class A subordinate voting shares issuable from time to time under the Plan is 12% of the aggregate number of Class A subordinate voting shares and Class B Shares issued and outstanding from time to time. The option price may not be less than the closing price for the Class A subordinate voting shares on the Toronto Stock Exchange on the last business day before the date on which the option is granted. The stock options may be exercised by the holder progressively over a period of 5 years from the date of granting. Under certain circumstances, the vesting period can be accelerated.

8. CAPITAL STOCK [Cont'd]

A summary of the status of the Company's stock option plan as of January 31, 2009 and January 26, 2008, and changes during the years then ended is presented below:

	January 31, 2009		January 26, 2008	
	Shares	Weighted average exercise price $	Shares	Weighted average exercise price $
Outstanding at beginning of year	1,267,600	12.26	1,171,000	9.14
Granted	—	—	643,200	15.14
Exercised	(81,200)	7.56	(183,200)	7.45
Cancelled / expired	(13,600)	7.56	(363,400)	9.70
Outstanding at end of year	1,172,800	12.64	1,267,600	12.26
Options exercisable at end of year	352,640	11.99	145,600	9.86

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

Range of exercise prices $	Number outstanding at January 31, 2009 #	Weighted average remaining life	Weighted average exercise price $	Number of options exercisable at January 31, 2009 #	Weighted average exercise price $
7.56	269,600	1.3 years	7.56	84,000	7.56
11.75 – 13.37	262,000	1.9 years	11.76	140,400	11.75
15.14	641,200	3.2 years	15.14	128,240	15.14
	1,172,800	2.4 years	12.64	352,640	11.99

Compensation expense recorded in the consolidated financial statements during the year for stock options amounted to $836,000 [2008 – $829,000].

	January 31, 2009 $	January 26, 2008 $
Contributed surplus, beginning of year	1,761	1,139
Stock-based compensation expense	836	829
Exercise of share options	(137)	(207)
Contributed surplus, end of year	2,460	1,761

8. CAPITAL STOCK [Cont'd]

During the year ended January 31, 2009, the Company did not grant any stock options [2008 – 643,200]. The weighted-average grant date fair value of stock options granted during 2008 was $3.13 per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted-average assumptions:

	Assumptions
Risk-free interest rate	4.04%
Expected life	3.3 years
Expected volatility in the market price of the shares	34.8%
Expected dividend yield	3.3%

Stock purchase plan

Under the provisions of the stock purchase plan, the Company may grant the right to key employees to subscribe for Class A Shares. The plan, which was amended on May 28, 1997, provides that the maximum number of shares that may be issued thereunder, from and after May 28, 1997, is 10,000 Class A Shares. The subscription price may not be less than the closing price for the Class A Shares on the Toronto Stock Exchange on the last business day before the date on which the right to subscribe is granted. Since May 28, 1997, no shares have been issued under the stock purchase plan.

Normal course issuer bid

The Company proceeded with a normal course issuer bid to purchase up to 925,148 Class A subordinate voting shares of the Company, representing 5% of the issued shares of such class as at June 5, 2008. The bid commenced June 19, 2008 and may continue to June 18, 2009. In accordance with TSX requirements, a maximum daily repurchase of 25% of previous six month's average daily trading volume may be made, representing 6,839 shares. The TSX has temporarily [from November 3, 2008 until March 31, 2009 unless extended] increased the daily limit on purchases to 50%. The number of shares purchased and the timing of any such purchases will be determined by the Company. All shares purchased by the Company will be cancelled.

Since June 19, 2008, the Company purchased 920,700 Class A subordinate voting shares at an average price of $11.44 per share for a total of $10.5 million. The excess of the total purchase price over the stated value has been charged to retained earnings in the amount of $9.0 million.

9. INCOME TAXES

As at January 31, 2009, a U.S. subsidiary has accumulated losses amounting to $9.3 million [US $6.8 million] which expire during the years 2010 to 2029. A full valuation allowance has been taken against the related future income tax asset and accordingly, the tax benefits pertaining to these loss carry-forwards have not been recognized in the financial statements.

The U.S. tax losses expire in the following years:

	$
2010	234
2011	505
2012	—
2013	—
2014	—
2015 – 2029	8,603
	9,342

9. INCOME TAXES [Cont'd]

A reconciliation of the statutory income tax rate to the effective tax rate is as follows:

	January 31, 2009 %	January 26, 2008 %
Statutory tax rate	31.6	33.6
Increase (decrease) in income tax rate resulting from:		
Unrecognized benefit on U.S. tax losses	0.4	1.4
Non-deductible items and translation adjustment	1.2	0.2
Effect of change in income tax rate	—	(0.5)
Other	(0.1)	0.7
Effective tax rate	33.1	35.4

The details of the provision for income taxes are as follows:

	January 31, 2009 $	January 26, 2008 $
Current income taxes	18,800	17,927
Future income taxes	285	—
Provision for income taxes	19,085	17,927

The tax effects of temporary differences that give rise to future income tax assets and liabilities are as follows:

	January 31, 2009 $	January 26, 2008 $
Future income tax liabilities		
Carrying values of capital assets in excess of tax bases	6,279	6,186
Unrealized foreign exchange gain on forward contracts	487	84
Restatement of opening inventories	—	927
Total future income tax liabilities	6,766	7,197
Future income tax assets		
Operating leases	292	687
Deferred lease inducements	2,811	2,574
Share issue costs	—	34
U.S. tax losses	3,672	2,957
Valuation allowance	(3,672)	(2,957)
Total future income tax assets	3,103	3,295
Net future income taxes	3,663	3,902

10. EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators used for the computation of the basic and diluted earnings per share:

	January 31, 2009 $	January 26, 2008 $
Net earnings (numerator)	38,621	32,596
Weighted average number of shares outstanding (denominator)		
Weighted average number of shares outstanding – basic	24,796	24,978
Dilutive effect of stock options	113	312
Weighted average number of shares outstanding – diluted	24,909	25,290

11. COMMITMENTS AND CONTINGENCIES

The minimum annual rentals payable under long-term operating leases are as follows:

	$
2010	38,233
2011	36,653
2012	34,921
2013	33,023
2014	30,457
2015 and thereafter	82,961
	256,248

Certain of the operating leases provide for additional annual rentals based on store sales and for annual increases in operating charges of the landlord.

In the normal course of doing business, the Company is involved in various legal actions. In the opinion of management, potential liabilities that may result from these actions are not expected to have a material adverse effect on the Company's financial position or its results of operations.

12. SEGMENTED INFORMATION

The Company's only operating segment is the retail of apparel, accessories and footwear aimed at young-spirited, fashion-conscious men and women.

Segmented information is attributed to geographic areas based on the locations of the Company's stores. The following is a summary of the Company's operations and assets by geographic area:

	January 31, 2009 $	January 26, 2008 $
Sale to customers		
Canada	339,660	328,688
United States	5,954	7,382
	345,614	336,070
Net earnings (loss)		
Canada	39,259	34,706
United States	(638)	(2,110)
	38,621	32,596
Fixed assets		
Canada	87,667	83,222
United States	976	1,244
	88,643	84,466

The following table summarizes the Company's sales by division:

	January 31, 2009 $	January 26, 2008 $
Ladies' Clothing	190,676	191,738
Men's Clothing	57,847	52,053
Footwear	38,562	39,579
Accessories	58,529	52,700
	345,614	336,070

13. CHANGES IN NON-CASH WORKING CAPITAL

The cash generated from (used for) non-cash working capital items is made up of changes related to operations in the following accounts:

	January 31, 2009 $	January 26, 2008 $
Accounts receivable and other assets	(441)	(1,345)
Inventories	(8,109)	(558)
Prepaid expenses	929	(255)
Accounts payable and accrued liabilities	(4,974)	(2,493)
Income taxes payable	(2,807)	4,259
Net change in non-cash working capital items related to operations	(15,402)	(392)

14. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the "Financial Instruments" section of note 1 describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized. The classification of the financial instruments, as well as their carrying values and fair values are shown in the tables below:

	Available-for-sale $	Held for trading $	Loans and receivables $	Other financial liabilities $	Derivatives $	Total carrying value $	Fair value $
January 31, 2009							
Financial assets							
Cash and cash equivalents	—	10,034	—	—	—	10,034	10,034
Short-term investments	56,643	—	—	—	—	56,643	56,643
Accounts receivable and other assets	—	—	4,791	—	—	4,791	4,791
Derivative financial instruments	—	—	—	—	1,530	1,530	1,530
Total	56,643	10,034	4,791	—	1,530	72,998	72,998
Financial liabilities							
Accounts payable and accrued liabilities	—	—	—	19,119 [1]	—	19,119 [1]	19,119
Dividend payable	—	—	—	4,239	—	4,239	4,239
Long-term debt	—	—	—	27,728	—	27,728	27,668
Capital lease obligations	—	—	—	1,008	—	1,008	1,008
Total	—	—	—	52,094	—	52,094	52,034
January 26, 2008							
Financial assets							
Cash and cash equivalents	—	3,846	—	—	—	3,846	3,846
Short-term investments	66,354	—	—	—	—	66,354	66,354
Accounts receivable and other assets	—	—	4,350	—	—	4,350	4,350
Derivative financial instruments	—	—	—	—	250	250	250
Total	66,354	3,846	4,350	—	250	74,800	74,800
Financial liabilities							
Accounts payable and accrued liabilities	—	—	—	24,381 [1]	—	24,381 [1]	24,381
Dividend payable	—	—	—	3,133	—	3,133	3,133
Long-term debt	—	—	—	19,802	—	19,802	19,800
Capital lease obligations	—	—	—	2,392	—	2,392	2,392
Total	—	—	—	49,708	—	49,708	49,706

[1] Excludes commodity taxes and other provisions

14. FINANCIAL INSTRUMENTS [Cont'd]

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 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 fair values of the short-term investments have been determined by reference to published price quotation.

- Given their short-term maturity, the fair value of cash and cash equivalents, accounts receivable and other assets, accounts payable and accrued liabilities and dividend payable approximates their carrying value.

- The estimated fair value of long-term debt and capital lease obligations was determined by discounting expected cash flows at rates currently offered to the Company for similar debt, and approximates carrying values.

Financial instrument risk management

There has been no change with respect to the Company's overall risk exposure during the year ended January 31, 2009. 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 cash equivalents, short-term investments and foreign exchange contracts. The Company limits its exposure to credit risk with respect to cash, cash equivalents and short-term investments by conservatively investing available cash in bank bearer deposit notes and bank term deposits with a major Canadian chartered bank. The Company only enters into foreign 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 issuer.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The Company has a high level of liquidity, more than sufficient to cover its operating requirements, as well as a strong financial position. The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases and capital expenditures. As at January 31, 2009, the Company had a high degree of liquidity with $66.7 million in cash and cash equivalents and short-term investments. In addition, the Company has an operating line of credit totaling $16.0 million of which $9.4 million is unused and available to finance working capital requirements. The Company finances its store expansion and renovation program through cash flows from operations and long-term debt. The Company expects that its accounts payable and accrued liabilities and dividends payable will be discharged within 90 days and its long-term debt and capital lease obligations discharged as contractually agreed and as disclosed in notes 6 and 7.

14. FINANCIAL INSTRUMENTS [Cont'd]

Market risk – foreign exchange risk

The Company's foreign exchange risk is primarily limited to currency fluctuations between the Canadian and U.S. dollars. The significant balances in U.S. dollars as at January 31, 2009 consist of cash and cash equivalents of $443,000, accounts receivable of $212,000 and accounts payable and accrued liabilities of $4.9 million. Assuming that all other variables remain constant, a revaluation of these balances due to a 5% rise or fall in the Canadian dollar against the U.S. dollar would amount to $170,000.

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.

Their nominal values and contract values as at January 31, 2009 are as follows:

	Average contractual exchange rate	Nominal foreign currency value	Contract value
		$	$
Purchase contracts			
U.S. dollars	1.1249	15,000	16,874

The range of maturity of these contracts is from February 6, 2009 to June 5, 2009. As at January 31, 2009, the fair value of these contracts amounted to an unrealized foreign exchange gain of $1.5 million [2008 – unrealized foreign exchange gain of $250,000], all of which is expected to be reclassified to income 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 cash and cash equivalents. As at January 31, 2009, cash and cash equivalents consisted only of cash.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's short-term investments are the only financial assets bearing fixed interest rate, and the long-term debt and capital lease obligations are the only financial liabilities bearing a fixed interest rate. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to fixed interest rates on the short-term investments, owing to their relative short-term nature. The long-term debt and capital lease obligations are other financial liabilities and are recorded at amortized cost.

To manage the interest rate risk, the Company's investments are made to achieve the highest rate of return while complying with the two primary objectives for its investment portfolio: liquidity and capital preservation.

15. MANAGEMENT OF CAPITAL

The Company's objectives in managing capital are:

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

15. MANAGEMENT OF CAPITAL [Cont'd]

As at January 31, 2009, the Company's capital is composed of long-term debt and capital lease obligations, including the current portions, and shareholders' equity as follows:

	$
Long-term debt	27,728
Capital lease obligations	1,008
Shareholders' equity (excluding accumulated other comprehensive income)	141,371
	170,107

The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for its store expansion and renovation program as well as information technology and infrastructure improvements. The Company currently funds these requirements from cash flows from operations and can also draw upon its financial resources, which include cash and cash equivalents and short-term investments of $66.7 million as at January 31, 2009 and the unused portion of its line of credit. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. On a quarterly basis, the Company reviews the level of dividends paid to the Company's shareholders. The Company is not subject to any externally imposed capital requirements.

The Company is subject to certain non-financial covenants related to the long-term debt and the Company complied with these covenants as at January 31, 2009. There has been no change with respect to the overall capital risk management strategy during the year ended January 31, 2009.

16. GUARANTEES

Generally, it is not the Company's policy to issue guarantees to non-controlled affiliates or third parties, with limited exceptions.

Many of the Company's agreements include indemnification provisions where the Company may be required to make payments to a vendor or purchaser for breach of fundamental representation and warranty terms in the agreements with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material liabilities. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is not reasonably quantifiable as certain indemnifications are not subject to a monetary limitation. At January 31, 2009, Management does not believe that these indemnification provisions would require any material cash payment by the Company.

The Company indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income were as follows:

	January 31, 2009 $	January 26, 2008 $
Balance, beginning of year	166	212
Other comprehensive income for the year	877	(46)
Balance, end of year	1,043	166

18. COMPARATIVE FIGURES

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

BOARD OF DIRECTORS

Herschel H. Segal
Former Chairman of the Board and Chief Executive Officer of the Company

Jane Silverstone Segal, B.A.LLL
Chairman of the Board and
Chief Executive Officer of the Company

Emilia Di Raddo, CA
President and Secretary

Herbert E. Siblin, CM, FCA*
President
Siblin and Associates Ltd.

David Martz*
Management Consultant

Maurice Tousson
President and Chief Executive Officer
of CDREM Group Inc.

Richard Cherney
Co-managing Partner of
Davies Ward Phillips & Vineberg LLP

Max Mendelsohn*
Partner of McMillan LLP

*Member of the Audit Committee

OFFICERS

Jane Silverstone Segal, B.A.LLL
Chairman of the Board
and Chief Executive Officer

Emilia Di Raddo, CA
President and Secretary

Franco Rocchi
Senior Vice-President
Sales and Operations

Johnny Del Ciancio, CA
Vice-President
Finance

Auditors
Ernst and Young LLP
Chartered Accountants

Registrar and Transfer Agent
Computershare Investor Services Inc.

Corporate Counsel
Davies Ward Phillips & Vineberg LLP

Bankers
Royal Bank of Canada

Annual Meeting of Shareholders
Wednesday, June 17, 2009
at 10:00 am at our head office

Produced by:
MaisonBrison Inc.

HEAD OFFICE

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