

News release via CNW Telbec, Montreal 514-878-2520

Attention Business/Financial Editors:
Le Château reports third quarter results

MONTREAL, Dec. 10 /CNW Telbec/ - Le Château Inc. (TSX: CTU.A) today reported that sales for the third quarter ended October 31, 2009 decreased 10.1% to \$75.3 million from \$83.8 million for the third quarter ended October 25, 2008. Comparable store sales decreased 13.1% versus the same period a year ago.

Net earnings for the third quarter ended October 31, 2009 were \$5.6 million compared to \$10.0 million for the third quarter ended October 25, 2008. Earnings per share (diluted) for the third quarter were \$0.23 per share versus \$0.40 per share the previous year. Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the third quarter amounted to \$12.8 million or 17.0% of sales, compared to \$19.6 million or 23.4% of sales last year.

Nine-month Results

Net earnings for the nine-month period were \$18.4 million or \$0.76 per share (diluted) compared to \$25.4 million or \$1.01 per share the previous year. Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the first nine months amounted to \$41.1 million or 18.0% of sales, compared to \$50.6 million or 20.8% of sales last year.

Sales decreased 6.0% to \$228.5 million for the nine months ended October 31, 2009, compared to \$243.1 million last year. Comparable store sales decreased 9.2% versus the same period a year ago.

During the first nine months of the year, the Company opened 10 stores, closed 2 and expanded 8 existing locations, resulting in the addition of 87,000 square feet or 8.3% to the Le Château network, bringing the total floor space at end of period to 1,135,000 square feet.

In June 2009, the Toronto Stock Exchange approved the Company's previously announced normal course issuer bid to purchase up to 987,173 Class A subordinate voting shares. Since June 19, 2009, no Class A subordinate voting shares have been purchased by the Company.

Dividend declaration

The Board of Directors has declared a quarterly dividend (constituting eligible dividends for income tax purposes) of \$0.175 per Class A subordinate voting share and Class B voting share. This is the 65th consecutive dividend declared by Le Château, and is payable on February 16, 2010 to the shareholders of record at the close of business on January 29, 2010.

Online Shopping Launch

Le Château will be launching an online shopping initiative for Autumn-Winter 2010 targeted at further broadening its customer base to online shoppers in both Canada and the United States. The E-Commerce website will provide an important new vehicle for attracting new customers, and will extend the Company's reach well beyond its network of stores.

Profile

Le Château is a leading Canadian brand in specialty retailing, offering a broad array of contemporary fashion apparel, accessories and footwear for style-conscious women and men. The Le Château brand is synonymous with ageless fashion at accessible prices and is sold exclusively through the Company's 231 retail locations, of which 227 are located in Canada and 4 in the New York City area. The Company's outlets are primarily found in major urban shopping malls, complemented with high pedestrian-traffic, street-front locations. In addition, the Company has 9 stores under license in the Middle East.

The Company's 50-year tradition of vertical integration, a design and manufacturing approach to retailing, makes it unique among Canadian fashion merchants.

Non-GAAP Measures

In addition to discussing earnings measures in accordance with Canadian generally accepted accounting principles ("GAAP"), this press release provides earnings before interest, income taxes, depreciation and amortization

("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 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.

Forward-Looking Statements

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

Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its business initiatives and whether such business initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; changes in consumer spending; general economic conditions and normal business uncertainty; 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.

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FINANCIAL HIGHLIGHTS

(Unaudited) (In units except where otherwise stated)	October 31, 2009	October 25, 2008
Working capital (\$'000)	\$ 84,814	\$ 78,411
Current ratio	3.07	2.63
Quick ratio	1.54	1.44
Long-term debt to equity(x)	0.24	0.23
Capital expenditures (\$'000)	\$ 16,403	\$ 19,856
Number of stores at end of quarter	229	220
Total number of square feet ('000)	1,135	1,037
Book value per share	\$ 6.10	\$ 5.62

(x) Including capital lease obligations

CONSOLIDATED BALANCE SHEETS

(Unaudited) (In thousands of dollars)	As at October 31, 2009	As at October 25, 2008	As at January 31, 2009
ASSETS			
Current			
Cash and cash equivalents	\$ 23,510	\$ 2,405	\$ 10,034
Short-term investments (note 3)	30,000	56,643	56,643
Accounts receivable and other assets	2,638	3,506	4,791

Income taxes receivable	5,278	-	-
Derivative financial instruments	254	5,060	1,530
Inventories (note 4)	62,750	57,233	54,012
Prepaid expenses	1,396	1,696	778

Total current assets	125,826	126,543	127,788
Long-term investments (note 3)	10,000	-	-
Fixed assets	91,836	91,666	88,643

	\$ 227,662	\$ 218,209	\$ 216,431

LIABILITIES AND SHAREHOLDERS' EQUITY

Current			
Accounts payable and accrued liabilities	\$ 24,859	\$ 30,681	\$ 25,403
Dividend payable	4,269	4,278	4,239
Income taxes payable	-	824	2,285
Current portion of capital lease obligations	-	1,443	1,008
Current portion of long-term debt (note 5)	11,803	9,297	8,746
Future income taxes	81	1,609	487

Total current liabilities	41,012	48,132	42,168
Long-term debt (note 5)	24,060	20,863	18,982
Future income taxes	3,176	2,891	3,176
Deferred lease inducements	10,491	9,316	9,691

Total liabilities	78,739	81,202	74,017

Shareholders' equity			
Capital stock (note 6)	32,683	31,266	30,997
Contributed surplus (note 6)	2,475	2,270	2,460
Retained earnings	113,592	100,020	107,914
Accumulated other comprehensive income (note 7)	173	3,451	1,043

Total shareholders' equity	148,923	137,007	142,414

	\$ 227,662	\$ 218,209	\$ 216,431

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Unaudited) (In thousands of dollars)	For the three months ended		For the nine months ended	
	October 31, 2009	October 25, 2008	October 31, 2009	October 25, 2008
Balance, beginning of period	\$ 112,263	\$ 99,373	\$ 107,914	\$ 99,884
Excess of cost over stated value of Class A subordinate voting shares purchased and cancelled	-	(5,063)	-	(7,955)
Net earnings	5,599	9,988	18,449	25,454

Dividends declared	117,862	104,298	126,363	117,383
	4,270	4,278	12,771	17,363

Balance, end of period	\$ 113,592	\$ 100,020	\$ 113,592	\$ 100,020

 CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited) (In thousands of dollars, except per share data)	For the three months ended		For the nine months ended	
	October 31, 2009	October 25, 2008	October 31, 2009	October 25, 2008
Sales	\$ 75,305	\$ 83,763	\$ 228,517	\$ 243,059
Cost of sales and expenses				
Cost of sales and selling, general and administrative	62,509	64,187	187,457	192,471
Depreciation and amortization	4,256	4,267	13,043	12,472
Write-off of fixed assets	78	11	167	184
Interest on long-term debt and capital lease obligations	298	444	1,001	1,372
Interest income	(170)	(484)	(605)	(1,794)
	66,971	68,425	201,063	204,705
Earnings before income taxes	8,334	15,338	27,454	38,354
Provision for income taxes	2,735	5,350	9,005	12,900
Net earnings	\$ 5,599	\$ 9,988	\$ 18,449	\$ 25,454
Net earnings per share (note 8)				
Basic	\$ 0.23	\$ 0.40	\$ 0.76	\$ 1.02
Diluted	0.23	0.40	0.76	1.01
Weighted average number of shares outstanding ('000)	24,365	24,752	24,300	24,954

 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited) (In thousands of dollars)	For the three months ended		For the nine months ended	
	October 31, 2009	October 25, 2008	October 31, 2009	October 25, 2008
Net earnings	\$ 5,599	\$ 9,988	\$ 18,449	\$ 25,454
Other comprehensive income				
Change in fair value of forward exchange contracts	329	4,962	(1,374)	5,454
Realized forward exchange contracts reclassified to net earnings	1,202	(242)	98	(644)
Income tax recovery (expense)	(487)	(1,501)	406	(1,525)

		1,044	3,219	(870)	3,285
Comprehensive income	\$	6,643	\$ 13,207	\$ 17,579	\$ 28,739

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands of dollars)		For the three months ended October 31, 2009	October 25, 2008	For the nine months ended October 31, 2009	October 25, 2008
OPERATING ACTIVITIES					
Net earnings	\$	5,599	\$ 9,988	\$ 18,449	\$ 25,454
Adjustments to determine net cash from operating activities					
Depreciation and amortization		4,256	4,267	13,043	12,472
Write-off of fixed assets		78	11	167	184
Amortization of deferred lease inducements		(392)	(372)	(1,121)	(1,056)
Stock-based compensation (note 6)		160	193	323	646
Future income taxes		-	-	-	(927)
		9,701	14,087	30,861	36,773
Net change in non-cash working capital items related to operations		(610)	(5,923)	(15,310)	(14,439)
Deferred lease inducements		745	373	1,921	1,799
Cash flows related to operating activities		9,836	8,537	17,472	24,133
FINANCING ACTIVITIES					
Repayment of capital lease obligations		(341)	(321)	(1,008)	(949)
Proceeds of long- term debt		15,000	-	15,000	18,000
Repayment of long- term debt		(2,231)	(2,507)	(6,865)	(7,642)
Issue of capital stock upon exercise of options		368	212	1,378	614
Purchase of Class A subordinate voting shares for cancellation		-	(6,239)	-	(9,234)
Dividends paid		(4,263)	(9,952)	(12,741)	(16,218)
Cash flows related to financing activities		8,533	(18,807)	(4,236)	(15,429)
INVESTING ACTIVITIES					
Decrease (increase) in short-term investments		(10,000)	(2,915)	26,643	9,711
Increase in long- term investments		-	-	(10,000)	-
Additions to fixed					

assets	(4,485)	(4,626)	(16,403)	(19,856)

Cash flows related to investing activities	(14,485)	(7,541)	240	(10,145)

Increase (decrease) in cash and cash equivalents	3,884	(17,811)	13,476	(1,441)
Cash and cash equivalents, beginning of period	19,626	20,216	10,034	3,846

Cash and cash equivalents, end of period	\$ 23,510	\$ 2,405	\$ 23,510	\$ 2,405

Supplementary information:				
Interest paid during the period	\$ 298	\$ 444	\$ 1,001	\$ 1,372
Income taxes paid during the period	4,675	4,652	16,019	17,803

Notes to the Interim Consolidated Financial Statements

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(Unaudited - Tabular figures in thousands of dollars except share information)

1. Disclosure

The unaudited interim consolidated financial statements (the "financial statements") have been prepared in accordance with Canadian generally accepted accounting principles with the exception that they do not include all disclosure required for annual financial statements. The financial statements should be read in conjunction with the audited annual consolidated financial statements and related notes contained in the Company's 2008 Annual Report.

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.

2. Accounting policies

These financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements for the 53-week period ended January 31, 2009.

3. Investments

Short-term investments amount to \$30.0 million and include investments with original maturity terms between 90 and 365 days. As at October 31, 2009, the weighted average effective interest rate was 0.92% and their maturity dates vary over periods ending up to September 25, 2010. Long-term investments amount to \$10.0 million and include an investment with an original maturity term of more than 365 days. As at October 31, 2009 its effective interest rate was 3.00% and its maturity date is March 11, 2011. Short and long-term investments are invested in guaranteed investment certificates with major Canadian chartered banks.

4. Inventories

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October 31, October 25,

	2009	2008
Raw materials	\$ 6,047	\$ 5,434
Work-in-process	1,199	1,493
Finished goods	53,115	44,674
Finished goods in transit	2,389	5,632
	\$ 62,750	\$ 57,233

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The cost of inventory recognized as an expense and included in cost of sales and selling, general and administrative expenses for the three and nine-month periods ended October 31, 2009 is \$21.9 million and \$67.4 million, respectively (2008 - \$24.4 million and \$75.3 million, respectively). There were no write-downs to net realizable value in the third quarter of 2009 (2008 - NIL) and no inventory write-downs recognized in prior periods were reversed.

5. Long-Term Debt

On October 30, 2009, the Company borrowed \$15.0 million to finance the renovation and re-fixturing of various stores throughout Canada. Drawdowns under this facility are repayable over 36 months and bear interest at a rate of 5.89%. This facility is collateralized by the store fixtures and equipment financed.

6. Capital Stock

a) Issued and outstanding

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	October 31, 2009	
	Number of shares	\$
Class A subordinate voting shares		
Balance, beginning of period	19,663,464	30,595
Issuance of subordinate voting shares upon exercise of options	171,200	1,378
Reclassification from contributed surplus due to exercise of share options	-	308
Balance, end of period	19,834,664	32,281
Class B multiple voting shares	4,560,000	402
	24,394,664	32,683

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b) Stock option plan

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

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	October 31, 2009	
	Number of options	Weighted average exercise price \$
Outstanding at beginning of period	1,172,800	12.64
Granted	215,500	9.40
Exercised	(171,200)	8.05
Cancelled/Expired	(4,000)	10.75
Outstanding at end of period	1,213,100	12.72

Options exercisable at end of period	402,000	13.64
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During the second quarter ended August 1, 2009, modifications were made to 160,000 options granted to a former director. Of these options, 80,000 were not vested at the time of the modification which resulted in a reversal of previously recognized stock based compensation expense amounting to \$212,000. The modification to vested options was expensed in the second quarter and the modifications to the unvested options will be expensed over their revised vesting period. These modifications are reflected in the table above.

c) Contributed surplus

The changes in contributed surplus are summarized as follows:

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	For the three months ended		For the nine months ended	
	October 31, 2009	October 25, 2008	October 31, 2009	October 25, 2008
Contributed surplus, beginning of period	\$ 2,389	\$ 2,116	\$ 2,460	\$ 1,761
Stock-based compensation expense	160	193	323	646
Exercise of share options	(74)	(39)	(308)	(137)
Contributed surplus, end of period	\$ 2,475	\$ 2,270	\$ 2,475	\$ 2,270

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d) Normal course issuer bid

The Company announced on June 11, 2009 that it intended to proceed with a normal course issuer bid which was subsequently approved by the Toronto Stock Exchange. Under the bid, the Company may purchase up to 987,173 Class A subordinate voting shares of the Company, representing 5% of the issued shares of such class as at June 11, 2009. The bid commenced on June 19, 2009 and may continue to June 18, 2010. The average daily trading volume for the 6-month period preceding June 1, 2009 was 26,815 shares. In accordance with TSX requirements, a maximum daily repurchase of 25% of this average may be made, representing 6,703 shares. The shares will be purchased on behalf of the Company by a registered broker through the facilities of the Toronto Stock Exchange. The price paid for the shares will be the market price at the time of acquisition, and the number of shares purchased and the timing of any such purchases will be determined by the Company. All shares purchased by the Company will be cancelled. Since June 19, 2009, no Class A subordinate voting shares have been purchased by the Company.

7. Accumulated other comprehensive income (loss)

Changes in accumulated other comprehensive income was as follows:

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	For the three months ended		For the nine months ended	
	October 31, 2009	October 25, 2008	October 31, 2009	October 25, 2008
Balance, beginning of period	\$ (871)	\$ 232	\$ 1,043	\$ 166
Other comprehensive income (loss) for the period	1,044	3,219	(870)	3,285

Balance, end of period	\$	173	\$	3,451	\$	173	\$	3,451
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8. Earnings per share

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

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	For the three months ended		For the nine months ended	
	October 31, 2009	October 25, 2008	October 31, 2009	October 25, 2008
Weighted average number of shares outstanding - basic	24,364,510	24,751,977	24,300,113	24,953,677
Dilutive effect of stock options	92,473	124,619	59,594	147,234
Weighted average number of shares outstanding - diluted	24,456,983	24,876,596	24,359,707	25,100,911

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As at October 31, 2009, a total of 642,000 stock options were excluded from the calculation of diluted earnings per share as these were deemed to be anti-dilutive, because the exercise prices were greater than the average market price of the shares during the quarter.

9. Segmented information

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	For the three months ended		For the nine months ended	
	October 31, 2009	October 25, 2008	October 31, 2009	October 25, 2008
Sales by country				
Canada	\$ 74,425	\$ 82,396	\$ 224,943	\$ 238,678
United States	880	1,367	3,574	4,381
	\$ 75,305	\$ 83,763	\$ 228,517	\$ 243,059
Sales by division				
Ladies' Clothing	\$ 42,118	\$ 46,535	\$ 128,690	\$ 137,127
Men's Clothing	12,088	13,576	37,507	39,385
Footwear	9,055	10,033	25,767	27,843
Accessories	12,044	13,619	36,553	38,704
	\$ 75,305	\$ 83,763	\$ 228,517	\$ 243,059
Net earnings (loss)				
Canada	\$ 6,158	\$ 10,165	\$ 19,585	\$ 25,736
United States	(559)	(177)	(1,136)	(282)
	\$ 5,599	\$ 9,988	\$ 18,449	\$ 25,454
Fixed assets				
Canada	\$ 91,037	\$ 90,628	\$ 91,037	\$ 90,628

United States	799	1,038	799	1,038
	\$ 91,836	\$ 91,666	\$ 91,836	\$ 91,666

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10. 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 - Recognition and Measurement" section of note 1 to the Company's 2008 consolidated financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized. As at October 31, 2009, the classification of the financial instruments, as well as their carrying values and fair values are shown in the table below:

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	Avail- able- for- sale \$	Held for tra- ding \$	Loans and recei- vables \$	Other finan- cial liabi- lities \$	Deriva- tives \$	Total car- rying value \$	Fair value \$
October 31, 2009							
Financial assets							
Cash and cash equivalents	-	23,510	-	-	-	23,510	23,510
Short-term investments	30,000	-	-	-	-	30,000	30,000
Accounts receivable and other assets	-	-	2,638	-	-	2,638	2,638
Derivative financial instruments	-	-	-	-	254	254	254
Long-term investments	10,000	-	-	-	-	10,000	10,000
Total	40,000	23,510	2,638	-	254	66,402	66,402

Financial liabilities							
Accounts payable and accrued liabilities(1)	-	-	-	20,310	-	20,310	20,310
Dividend payable	-	-	-	4,269	-	4,269	4,269
Long-term debt	-	-	-	35,863	-	35,863	35,661
Total	-	-	-	60,442	-	60,442	60,240

October 25, 2008							
Financial assets							
Cash and cash equivalents	-	2,405	-	-	-	2,405	2,405
Short-term investments	56,643	-	-	-	-	56,643	56,643
Accounts receivable and other assets	-	-	3,506	-	-	3,506	3,506
Derivative financial instruments	-	-	-	-	5,060	5,060	5,060
Total	56,643	2,405	3,506	-	5,060	67,614	67,614

Financial liabilities					
Accounts payable and accrued liabilities(1)	-	-	- 25,204	- 25,204	25,204
Dividend payable	-	-	- 4,278	- 4,278	4,278
Long-term debt	-	-	- 30,160	- 30,160	29,704
Capital lease obligations	-	-	- 1,443	- 1,443	1,443

Total	-	-	- 61,085	- 61,085	60,629

(1) Excludes commodity taxes and other provisions

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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:

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- The fair values of the short and long-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 was determined by discounting expected cash flows at rates currently offered to the Company for similar debt, and is approximately \$202,000 lower than the carrying value as noted in the table above.

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Financial instrument risk management

There has been no change with respect to the Company's overall risk exposure during the three and nine-month periods ended October 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 and long-term investments and foreign exchange contracts. The Company limits its exposure to credit risk with respect to cash, cash equivalents, short and long-term investments by investing available cash in guaranteed investment certificates with major Canadian chartered banks. The Company enters into foreign exchange contracts only 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 October 31, 2009, the Company had a high degree of liquidity with \$53.5 million in cash and cash equivalents and short-term investments. In addition, the Company has an operating line of credit totalling \$16.0 million of which \$5.6 million is currently used due to outstanding letters of credit. 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 October 31, 2009. 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 elsewhere in these financial statements or as disclosed in its annual financial statements.

Market risk - foreign exchange risk

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

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

<<	Average contractual exchange rate	Nominal foreign currency value \$	Contract value \$
		(000's)	(000's)

Purchase contracts			
U.S. dollars	1.0660	16,000	17,056

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The range of maturity of these contracts is from November 2, 2009 to March 1, 2010. As at October 31, 2009, the fair value of these contracts amounted to an unrealized foreign exchange gain of \$254,000 (2008 - unrealized foreign exchange gain of \$5.0 million), all of which is expected to be reclassified to income within the next 12 months.

Market risk - interest rate risk

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's short and long-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 and long-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.

11. Comparative figures

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

Management's Discussion and Analysis

Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the nine months ended October 31, 2009 and the audited consolidated financial statements and MD&A for the year ended January 31, 2009. The risks and uncertainties faced by the Company are substantially the same as those outlined in the Company's 2008 Annual Information Form and in the annual MD&A contained in the 2008 Annual Report. The MD&A has been prepared as at December 10, 2009.

Results of Operations

Sales for the third quarter ended October 31, 2009 decreased 10.1% to \$75.3 million from \$83.8 million for the third quarter ended October 25, 2008, resulting primarily from a decline of 13.1% in comparable store sales. On a year-to-date basis, sales decreased 6.0% to \$228.5 million as compared with \$243.1 million last year. Comparable store sales decreased 9.2% for the first nine months versus the same period a year ago. For the first nine months of the year, comparable store sales were impacted by reduced traffic as consumers remained cautious on discretionary spending as a result of the weak Canadian economy. Despite the decrease in sales, the Company's inventory position is at a satisfactory level as compared to last year when square footage growth is taken into account (see Financial Position section for further details). As a result the Company was not required to take any additional markdowns in the third quarter as witnessed by its gross margin percentage remaining stable with the previous year at 70.9%.

Net earnings for the third quarter were \$5.6 million or \$0.23 per share (diluted) compared with \$10.0 million or \$0.40 per share last year. For the nine months ended October 31, 2009, net earnings amounted to \$18.4 million or \$0.76 per share (diluted) compared to \$25.4 million or \$1.01 per share the previous year. Net earnings for the three and nine-month periods ended October 31, 2009 were impacted by the decline in sales and by a decline in interest income of \$314,000 and \$1,189,000, respectively, as a result of lower interest rates on the Company's short and long-term investments.

Earnings before interest, income taxes, depreciation and amortization ("EBITDA") (see supplementary measures below) for the third quarter amounted to \$12.8 million or 17.0% of sales, compared to \$19.6 million or 23.4% of sales last year. The decrease of \$6.8 million in EBITDA for the third quarter was primarily the result of a decrease of 10.1% in gross margin from \$59.4 million to \$53.4 million. The Company's gross margin percentage in the third quarter remained in line with the previous year at 70.9%. EBITDA for the first nine months decreased to \$41.1 million or 18.0% of sales, compared to \$50.6 million or 20.8% of sales last year.

Year-to-date, the Company opened 10 stores, closed 2 and expanded 8 existing locations, resulting in the addition of 87,000 square feet or 8.3% to the Le Château network, bringing the total floor space at end of period to 1,135,000 square feet. As at October 31, 2009, there were 229 stores (including 33 fashion outlets) in operation as compared with 220 stores (including 30 fashion outlets) and 1,037,000 square feet at the end of the same period last year.

Le Château will be launching an online shopping initiative for Autumn-Winter 2010 targeted at further broadening its customer base to online shoppers in both Canada and the United States. The E-Commerce website will provide an important new vehicle for attracting new customers, and will extend the Company's reach well beyond its network of stores.

Liquidity and Capital Resources

Cash flow from operating activities amounted to \$9.8 million for the third quarter ended October 31, 2009, compared with \$8.5 million for the same period last year. The increase of \$1.3 million was mainly the result of positive changes in non-cash working capital items offset by lower net earnings of \$4.4 million for the period. On a year-to-date basis, cash flow from operating activities decreased to \$17.5 million from \$24.1 million the previous year. The decrease of \$6.6 million was primarily due to the decrease in net earnings.

The Company continues to be in a strong financial position with cash, cash equivalents, short and long-term investments of \$63.5 million at the end of the third quarter, compared with \$59.0 million as at October 25, 2008 and

\$66.7 million as at January 31, 2009. Short and long-term investments are conservatively invested in guaranteed investment certificates with major Canadian chartered banks. The Company closely monitors its short and long-term cash investments and does not hold any asset backed commercial paper.

Capital expenditures for the third quarter amounted to \$4.5 million, compared to \$4.6 million for the same period last year. Capital expenditures for the first nine months of 2009 totalled \$16.4 million compared to \$19.9 million for the same period last year and related primarily to the opening of ten new stores and the renovation and/or expansion of existing stores. Capital expenditures were financed with cash and cash equivalents as well as a long-term debt financing of \$15.0 million in the third quarter.

Financial Position

Working capital stood at \$84.8 million at the end of the third quarter of 2009, compared to \$78.4 million as at October 25, 2008 and \$85.6 million as at January 31, 2009.

Inventories increased 9.8% to \$62.8 million at the end of the third quarter, from \$57.2 million a year earlier. On a unit basis, finished goods inventories were up 7.4% at the end of the third quarter primarily attributable to a 9.5% increase in total square footage to 1,135,000 year over year. On a per square footage basis, inventory units decreased 1.9% year over year. The increase in inventory carrying value is attributable to the earlier receipts of fall collections and the higher foreign exchange component caused by the decline in the Canadian dollar versus the U.S. dollar resulting in higher unit costs.

Long-term debt and capital lease obligations, including the current portions, amounted to \$35.9 million as at October 31, 2009, compared with \$31.6 million as at October 25, 2008. The increase of \$4.3 million is attributable to the additional long-term debt financing of \$15.0 million in the third quarter of 2009, net of repayments made during the past 12 months. The long-term debt to equity ratio increased slightly to 0.24:1 as at October 31, 2009 from 0.23:1 the previous year.

Dividends

On September 10, 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 was paid on November 17, 2009 to shareholders of record at the close of business on October 30, 2009.

On December 10, 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 February 16, 2010 to shareholders of record at the close of business on January 29, 2010. This represents the 65th consecutive quarterly dividend declared by Le Château.

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

Share Capital

As at December 10, 2009, there are 19,834,664 Class A subordinate voting shares and 4,560,000 Class B voting shares outstanding. Further, there are 1,213,100 stock options outstanding with exercise prices ranging from \$7.56 to \$15.14, of which 554,400 are exercisable.

The Company announced on June 11, 2009 that it intended to proceed with a normal course issuer bid which was subsequently approved by the Toronto Stock Exchange. Under the bid, the Company may purchase up to 987,173 Class A subordinate voting shares of the Company, representing 5% of the issued shares of such class as at June 11, 2009. The bid commenced on June 19, 2009 and may continue to June 18, 2010. The average daily trading volume for the 6-month period preceding June 1, 2009 was 26,815 shares. In accordance with TSX requirements, a maximum daily repurchase of 25% of this average may be made, representing 6,703 shares. The shares will be purchased on behalf of the Company by a registered broker through the facilities of the Toronto Stock Exchange. The price paid for the shares will be the market price at the time of acquisition, and the number of shares purchased and the timing of any such purchases will be determined by the Company. All shares purchased by the Company will be cancelled. Since June 19, 2009, no Class A subordinate voting shares have been purchased by the Company.

The directors of the Company have concluded that purchases of up to 987,173 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.

Accounting Policies

Critical Accounting Estimates:

The Company's critical accounting estimates are substantially the same as those disclosed in the Management's Discussion and Analysis section of its 2008 Annual Report.

Accounting Standards Implemented in 2009:

There were no new accounting standards implemented during the first nine months of 2009.

International Financial Reporting Standards

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. The Company will be required to begin reporting under IFRS for the quarter ending April 30, 2011 and will be required to prepare an opening balance sheet and provide information that conforms to IFRS for comparative periods presented.

A project team has been formed and a detailed conversion plan has been created outlining the major phases of the transition to IFRS.

The Company has completed the initial scoping and diagnostic phase which included the review and identification of major differences between current Canadian generally accepted accounting principles ("GAAP") and IFRS as well as an initial evaluation of IFRS 1 transition exemptions. Activities in this phase also included the training of key employees.

The Company is currently working on the second phase of its conversion plan which entails a detailed analysis of the significant areas, as identified in the initial scoping and diagnostic phase, which will be impacted by the conversion to IFRS. This phase includes the identification, evaluation and selection of accounting policies required for the transition to IFRS. During this phase, the Company will also evaluate the implication of these changes on business processes, information systems and internal control over financial reporting. To date the Company has completed the majority of the detailed analysis of the significant areas and expects to complete the balance by year-end.

The final phase of the Company's IFRS changeover plan will entail the implementation of the changes identified in the second phase as well as the preparation of draft financial statements and related note disclosure.

As the conversion plan progresses, the Company will be able to provide a more detailed assessment of the financial impact of the transition to IFRS.

Supplementary Measures

In addition to discussing earnings measures in accordance with 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 unaudited interim consolidated statements of earnings for the three and nine-month periods ended October 31, 2009 and October 25, 2008:

<<	For the three months ended		For the nine months ended	
(in thousands of dollars)	October 31, 2009	October 25, 2008	October 31, 2009	October 25, 2008
Earnings before income taxes	\$ 8,334	\$ 15,338	\$ 27,454	\$ 38,354
Depreciation and				

amortization	4,256	4,267	13,043	12,472
Write-off of fixed assets	78	11	167	184
Interest on long-term debt and capital lease obligations	298	444	1,001	1,372
Interest income	(170)	(484)	(605)	(1,794)
EBITDA	\$ 12,796	\$ 19,576	\$ 41,060	\$ 50,588

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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.

Summary of Quarterly Results

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

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(in thousands of dollars of dollars, except per share amounts)	Sales	Earnings before Income Taxes		Earnings per Share	
		Net Earnings	Basic	Diluted	
Third quarter ended October 31, 2009	\$ 75,305	\$ 8,334	\$ 5,599	\$ 0.23	\$ 0.23
Second quarter ended August 1, 2009	81,437	11,550	7,780	0.32	0.32
First quarter ended May 2, 2009	71,775	7,570	5,070	0.21	0.21
Fourth quarter ended January 31, 2009	102,555	19,352	13,167	0.54	0.54
Third quarter ended October 25, 2008	83,763	15,338	9,988	0.40	0.40
Second quarter ended July 26, 2008	88,680	14,536	9,821	0.39	0.39
First quarter ended April 26, 2008	70,616	8,480	5,645	0.23	0.22
Fourth quarter ended January 26, 2008((x))	99,973	19,026	12,359	0.49	0.49

((x)) Restated to reflect the change in the accounting policy affecting inventories as described in note 1 to the audited consolidated financial statements for 2008.

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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.

Controls and Procedures

Disclosure controls and procedures

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

Internal controls over financial reporting

The CEO and CFO have designed internal controls over financial reporting ("ICFR"), or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO have evaluated whether there were changes to its ICFR during the three and nine-month periods ended October 31, 2009 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

Forward-looking Statements

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

Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its business initiatives and whether such business initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; changes in consumer spending; general economic conditions and normal business uncertainty; 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.

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