



le château

QUARTERLY REPORT

FOR THE THREE MONTHS ENDED MAY 2, 2009

MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to provide the results of Le Château Inc. for the first quarter ended May 2, 2009.

Net earnings for the first quarter ended May 2, 2009 were \$5.1 million compared to \$5.6 million for the first quarter ended April 26, 2008. Earnings per share (diluted) for the first quarter were \$0.21 per share versus \$0.22 per share for the previous year.

Sales increased 1.7% to \$71.8 million for the first quarter as compared with sales of \$70.6 million the previous year. Comparable store sales decreased by 5.9% in the first quarter of 2009 compared with the same period a year ago.

At the Board of Directors meeting held June 11, 2009, a quarterly cash dividend of \$0.175 per share was declared on the Class A subordinate voting and Class B voting shares outstanding. The dividend is payable on August 18, 2009 to shareholders of record at the close of business on July 30, 2009.

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

(signed)
Jane Silverstone Segal, B.A.LLL
Chairman of the Board and Chief Executive Officer
June 11, 2009

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 three months ended May 2, 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 June 11, 2009.

Results of Operations

Sales increased 1.7% to reach \$71.8 million for the first quarter May 2, 2009 as compared with \$70.6 million for the first quarter ended April 26, 2008 last year. Comparable store sales decreased 5.9% as compared to the same period last year. During the first quarter, the Company opened 2 stores, closed 1 and expanded 1 existing location, resulting in the addition of 8,000 square feet to the Le Château network, bringing the total floor space at end of period to 1,056,000 square feet. As at May 2, 2009, there were 222 stores (including 32 fashion outlets) in operation as compared with 215 stores (including 28 fashion outlets) at the end of the same period last year.

Net earnings for the first quarter were \$5.1 million or \$0.21 per share (diluted) compared with \$5.6 million or \$0.22 per share last year. Earnings before interest, income taxes, depreciation and amortization (EBITDA) (see supplementary measures below) for the first quarter amounted to \$12.0 million or 16.7% of sales, compared to \$12.4 million or 17.5% of sales last year.

Despite the decline in comparable store sales and in the Canadian dollar, the Company's gross margin dollars increased 4% and the gross margin percentage continued to expand over last year by 160 basis points. The gains in gross margin were partially offset by a \$426,000 decline in interest income as a result of lower interest rates on the Company's short and long-term investments. In addition, the Company's EBITDA margins were negatively impacted by an increase in store compensation costs of 120 basis points as a percentage of sales, mainly as a result of provincially mandated minimum wage hikes.

Liquidity and Capital Resources

Cash flow from operations (see supplementary measures below) amounted to \$9.2 million for the first quarter ended May 2, 2009, compared with \$8.8 million for the same period last year.

The Company continues to be in a strong financial position with cash, cash equivalents, short and long-term investments of \$50.2 million at the end of the first quarter as compared with \$70.0 million at the end of the same period last year. 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 first quarter amounted to \$5.6 million, compared to \$11.9 million for the same period last year and related primarily to the opening of two new stores and the renovation and/or expansion of existing stores. Capital expenditures were financed with cash and cash equivalents.

Financial Position

Working capital stood at \$72.1 million at the end of the first quarter of 2009, compared to \$81.8 million as at April 26, 2008 and \$85.6 million as at January 31, 2009. The decrease in working capital at the end of the first quarter is due to the additional long-term debt financing of \$18.0 million obtained during the first quarter of 2008.

Inventories increased 15.4% to \$57.6 million at the end of the first quarter, from \$49.9 million a year earlier. On a unit basis, finished goods inventories were up 1.8% in units at the end of the first quarter despite a 5% increase in total square footage to 1,056,000 square feet year over year. On a per square footage basis, units were actually down 3%. The increase in inventory carrying value is attributable to the earlier receipts of the fall collections and the higher foreign exchange component caused by the decline in the Canadian dollar vs. the US dollar.

The increase in prepaid expenses from \$2.0 million to \$7.0 million in 2009 is due to the May rents, totalling \$5.6 million, being paid during the first quarter ended May 2, 2009.

Long-term debt and capital lease obligations, including the current portions, amounted to \$25.8 million as at May 2, 2009, compared with \$37.5 million as at April 26, 2008. The decrease of \$11.7 million is the result of repayments made during the past 12 months. The long-term debt to equity ratio decreased to 0.18:1 as at May 2, 2009 from 0.27:1 the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Dividends

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 was paid on May 19, 2009 to shareholders of record at the close of business on May 5, 2009.

On June 11, 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 August 18, 2009 to shareholders of record at the close of business on July 30, 2009. This represents the 63rd 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 June 11, 2009, there are 19,743,464 Class A subordinate voting and 4,560,000 Class B voting shares outstanding. Further, there are 1,307,100 stock options outstanding with exercise prices ranging from \$7.56 to \$15.14, of which 493,200 are exercisable.

The Company announced on June 11, 2009 that it intends, subject to the approval of the Toronto Stock Exchange, to proceed with a normal course issuer bid. 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 will commence 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 is 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. The Company currently has 19,743,464 Class A subordinate voting shares outstanding. During the past 12 months, the Company purchased 920,700 Class A subordinate voting shares at a weighted average price of \$11.41 per share for a total of \$10.5 million.

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 quarter 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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Supplementary 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 unaudited interim consolidated statements of earnings for the three-month periods ended May 2, 2009 and April 26, 2008

<i>(in thousands of dollars)</i>	For the three months ended	
	May 2, 2009	April 26, 2008
Earnings before income taxes	\$ 7,570	\$ 8,480
Depreciation and amortization	4,303	4,039
Write-off of fixed assets	-	100
Interest on long-term debt and capital lease obligations	377	434
Interest income	(273)	(699)
EBITDA	\$ 11,977	\$ 12,354

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.

Summary of Quarterly Results

<i>(in thousands of dollars, except per share amounts)</i>	Sales	Earnings before Income Taxes	Net Earnings	Earnings per Share	
				Basic	Diluted
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 (*)	99,973	19,026	12,359	0.49	0.49
Third quarter ended October 27, 2007 (*)	82,103	14,906	9,751	0.39	0.38
Second quarter ended July 28, 2007 (*)	83,609	10,099	6,305	0.25	0.25

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

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 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-month period ended May 2, 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.

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.

FINANCIAL HIGHLIGHTS

(Unaudited)

(In units except where otherwise stated)

	May 2, 2009	April 26, 2008
Working capital (\$'000)	\$ 72,106	\$ 81,821
Current ratio	2.91	2.82
Quick ratio	1.38	1.71
Long-term debt to equity *	0.18	0.27
Capital expenditures (\$'000)	\$ 5,574	\$ 11,887
Number of stores at end of quarter	222	215
Total number of square feet ('000)	1,056	1,006
Book value per share	\$ 5.86	\$ 5.44

* Including capital lease obligations.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands of dollars)

	As at May 2, 2009	As at April 26, 2008	As at January 31, 2009
ASSETS			
Current			
Cash and cash equivalents	\$ 20,158	\$ 16,929	\$ 10,034
Short-term investments (note 3)	20,000	53,080	56,643
Accounts receivable and other assets	3,616	4,808	4,791
Income taxes refundable	1,371	-	-
Derivative financial instruments	-	-	1,530
Inventories (note 4)	57,590	49,868	54,012
Future income taxes	149	-	-
Prepaid expenses	6,950	1,992	778
Total current assets	109,834	126,677	127,788
Long-term investments (note 3)	10,000	-	-
Fixed assets	89,914	92,214	88,643
	\$ 209,748	\$ 218,891	\$ 216,431
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 24,457	\$ 29,815	\$ 25,403
Dividend payable	4,239	3,133	4,239
Income taxes payable	-	456	2,285
Derivative financial instruments	470	-	-
Current portion of capital lease obligations	677	1,403	1,008
Current portion of long-term debt	7,885	10,049	8,746
Future income taxes	-	-	487
Total current liabilities	37,728	44,856	42,168
Capital lease obligations	-	677	-
Long-term debt	17,267	25,335	18,982
Future income taxes	3,176	2,956	3,176
Deferred lease inducements	9,513	8,704	9,691
Total liabilities	67,684	82,528	74,017
Shareholders' equity			
Capital stock (note 5)	30,997	31,794	30,997
Contributed surplus (note 5)	2,643	2,034	2,460
Retained earnings	108,745	102,396	107,914
Accumulated other comprehensive income (loss) (note 6)	(321)	139	1,043
Total shareholders' equity	142,064	136,363	142,414
	\$ 209,748	\$ 218,891	\$ 216,431

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>(Unaudited)</i> <i>(In thousands of dollars)</i>	For the three months ended	
	May 2, 2009	April 26, 2008
Balance, beginning of period	\$ 107,914	\$ 99,884
Net earnings	5,070	5,645
	112,984	105,529
Dividends declared	4,239	3,133
Balance, end of period	\$ 108,745	\$ 102,396

CONSOLIDATED STATEMENTS OF EARNINGS

<i>(Unaudited)</i> <i>(In thousands of dollars, except per share data)</i>	For the three months ended	
	May 2, 2009	April 26, 2008
Sales	\$ 71,775	\$ 70,616
Cost of sales and expenses		
Cost of sales and selling, general and administrative	59,798	58,262
Depreciation and amortization	4,303	4,039
Write-off of fixed assets	-	100
Interest on long-term debt and capital lease obligations	377	434
Interest income	(273)	(699)
	64,205	62,136
Earnings before income taxes	7,570	8,480
Provision for income taxes	2,500	2,835
Net earnings	\$ 5,070	\$ 5,645
Net earnings per share (note 7)		
Basic	\$ 0.21	\$ 0.23
Diluted	0.21	0.22
Weighted average number of shares outstanding ('000)	24,223	25,063

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Unaudited)</i> <i>(In thousands of dollars)</i>	For the three months ended	
	May 2, 2009	April 26, 2008
Net earnings	\$ 5,070	\$ 5,645
Other comprehensive income		
Change in fair value of forward exchange contracts	(551)	209
Realized forward exchange contracts reclassified to net earnings	(1,449)	(255)
Income tax recovery	636	19
	(1,364)	(27)
Comprehensive income	\$ 3,706	\$ 5,618

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Unaudited)</i> <i>(In thousands of dollars)</i>	For the three months ended	
	May 2, 2009	April 26, 2008
OPERATING ACTIVITIES		
Net earnings	\$ 5,070	\$ 5,645
Adjustments to determine net cash from operating activities		
Depreciation and amortization	4,303	4,039
Write-off of fixed assets	-	100
Amortization of deferred lease inducements	(356)	(338)
Stock-based compensation (note 5)	183	273
Future income taxes	-	(927)
	<u>9,200</u>	<u>8,792</u>
Net change in non-cash working capital items related to operations	(13,177)	(9,702)
Deferred lease inducements	178	469
Cash flows related to operating activities	<u>(3,799)</u>	<u>(441)</u>
FINANCING ACTIVITIES		
Repayment of capital lease obligations	(331)	(312)
Proceeds of long-term debt	-	18,000
Repayment of long-term debt	(2,576)	(2,418)
Dividends paid	(4,239)	(3,133)
Cash flows related to financing activities	<u>(7,146)</u>	<u>12,137</u>
INVESTING ACTIVITIES		
Decrease in short-term investments	36,643	13,274
Increase in long-term investments	(10,000)	-
Additions to fixed assets	(5,574)	(11,887)
Cash flows related to investing activities	<u>21,069</u>	<u>1,387</u>
Increase in cash and cash equivalents	<u>10,124</u>	<u>13,083</u>
Cash and cash equivalents, beginning of period	10,034	3,846
Cash and cash equivalents, end of period	<u>\$ 20,158</u>	<u>\$ 16,929</u>
Supplementary information:		
Interest paid during the period	\$ 377	\$ 434
Income taxes paid during the period	<u>6,096</u>	<u>8,398</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(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 \$20.0 million and include investments with original maturity terms between 90 and 365 days. As at May 2, 2009, the weighted average effective interest rate was 1.05% and their maturity dates vary over periods ending up to March 16, 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 May 2, 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

	May 2, 2009	April 26, 2008
Raw materials	\$ 6,668	5,366
Work-in-process	995	886
Finished goods	47,137	41,096
Finished goods in transit	2,790	2,520
	\$ 57,590	49,868

The cost of inventory recognized as an expense and included in cost of sales and selling, general and administrative expenses for the first quarter ended May 2, 2009 is \$20.4 million (2008 - \$21.2 million). There were no write-downs to net realizable value in the first quarter of 2009 (2008 - NIL) and no inventory write-downs recognized in prior periods were reversed.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Capital stock

a) Issued and outstanding

	As at May 2, 2009	
	Number of shares	\$
Class A subordinate voting shares	19,663,464	30,595
Class B multiple voting shares	4,560,000	402
	24,223,464	30,997

b) Stock option plan

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

	As at May 2, 2009	
	Number of options	Weighted average exercise price \$
Outstanding at beginning of period	1,172,800	12.26
Granted	215,500	9.40
Cancelled/Expired	(1,200)	15.14
Outstanding at end of period	1,387,100	12.14
Options exercisable at end of period	480,400	12.82

During the first quarter ended May 2, 2009, the Company granted 215,500 options to purchase Class A subordinate voting shares (2008 – NIL). The fair value of options granted was determined using the Black Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	7.4%
Expected volatility	41.2%
Risk-free interest rate	1.36%
Expected life	2.9 years

Weighted average grant-date fair value per option \$1.47

c) Contributed surplus

The changes in contributed surplus are summarized as follows:

	For the three months ended	
	May 2, 2009	April 26, 2008
Contributed surplus, beginning of period	\$ 2,460	\$ 1,761
Stock-based compensation expense	183	273
Contributed surplus, end of period	\$ 2,643	\$ 2,034

d) Normal course issuer bid

The Company announced on June 11, 2009 that it intends, subject to the approval of the Toronto Stock Exchange, to proceed with a normal course issuer bid. 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 will commence 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 is 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. The Company currently has 19,743,464 Class A subordinate voting shares outstanding. During the past 12 months, the Company purchased 920,700 Class A subordinate voting shares at a weighted average price of \$11.41 per share for a total of \$10.5 million.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Accumulated other comprehensive income (loss)

Changes in accumulated other comprehensive income (loss) were as follows:

	For the three months ended	
	May 2, 2009	April 26, 2008
Balance, beginning of period	\$ 1,043	\$ 166
Other comprehensive loss for the period	(1,364)	(27)
Balance, end of period	\$ (321)	\$ 139

7. Earnings per share

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

	For the three months ended	
	May 2, 2009	April 26, 2008
Weighted average number of shares outstanding - basic	24,223,464	25,062,964
Dilutive effect of stock options	18,145	165,539
Weighted average number of shares outstanding - diluted	24,241,609	25,228,503

8. Segmented information

	For the three months ended	
	May 2, 2009	April 26, 2008
Sales by country		
Canada	\$ 70,338	\$ 69,206
United States	1,437	1,410
	\$ 71,775	\$ 70,616
Sales by division		
Ladies' Clothing	\$ 41,703	\$ 41,660
Men's Clothing	11,144	10,865
Footwear	7,661	7,471
Accessories	11,267	10,620
	\$ 71,775	\$ 70,616
Net earnings (loss)		
Canada	\$ 5,308	\$ 5,730
United States	(238)	(85)
	\$ 5,070	\$ 5,645
Fixed assets		
Canada	\$ 89,000	\$ 91,054
United States	914	1,160
	\$ 89,914	\$ 92,214

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. 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 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 May 2, 2009, the classification of the financial instruments, as well as their carrying values and fair values are shown in the table below:

	Available- for-sale \$	Held for trading \$	Loans and receivables \$	Other financial liabilities \$	Derivatives \$	Total carrying value \$	Fair value \$
May 2, 2009							
Financial assets							
Cash and cash equivalents	—	20,158	—	—	—	20,158	20,158
Short-term investments	20,000	—	—	—	—	20,000	20,000
Accounts receivable and other assets	—	—	3,616	—	—	3,616	3,616
Long-term investments	10,000	—	—	—	—	10,000	10,000
Total	30,000	20,158	3,616	—	—	53,774	53,774
Financial liabilities							
Accounts payable and accrued liabilities	—	—	—	19,034 ¹	—	19,034 ¹	19,034
Dividend payable	—	—	—	4,239	—	4,239	4,239
Derivative financial instruments	—	—	—	—	470	470	470
Long-term debt	—	—	—	25,152	—	25,152	24,647
Capital lease obligations	—	—	—	677	—	677	677
Total	—	—	—	49,102	470	49,572	49,067
April 26, 2008							
Financial assets							
Cash and cash equivalents	—	16,929	—	—	—	16,929	16,929
Short-term investments	53,080	—	—	—	—	53,080	53,080
Accounts receivable and other assets	—	—	4,604	—	—	4,604	4,604
Derivative financial instruments	—	—	—	—	204	204	204
Total	53,080	16,929	4,604	—	204	74,817	74,817
Financial liabilities							
Accounts payable and accrued liabilities	—	—	—	24,109 ¹	—	24,109 ¹	24,109
Dividend payable	—	—	—	3,133	—	3,133	3,133
Long-term debt	—	—	—	35,384	—	35,384	35,314
Capital lease obligations	—	—	—	2,080	—	2,080	2,080
Total	—	—	—	64,706	—	64,706	64,636

¹ Excludes commodity taxes and other provisions

9. Financial instruments (continued)

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 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 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 three-month period ended May 2, 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 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 May 2, 2009, the Company had a high degree of liquidity with \$40.2 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 \$12.6 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 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Financial instruments (continued)

Their nominal values and contract values as at May 2, 2009 are as follows:

	Average contractual exchange rate	Nominal foreign currency value \$ (000's)	Contract value \$ (000's)
Purchase contracts U.S. dollars	1.2107	18,400	22,277

The range of maturity of these contracts is from May 3, 2009 to October 5, 2009. As at May 2, 2009, the fair value of these contracts amounted to an unrealized foreign exchange loss of \$470,000 (2008 – unrealized foreign exchange gain of \$204,000), 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 May 2, 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 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.

10. Comparative figures

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