LE CHÂTEAU OF MONTRÉAL

ANNUAL REPORT

2015

CORPORATE PROFILE

Le Château is a leading Canadian specialty retailer offering contemporary fashion 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 211 retail locations located in Canada. In addition, the Company has 4 stores under license in the Middle East. Le Château's web-based marketing is further broadening the Company's customer base among Internet shoppers in both Canada and the United States.

Le Château, committed to research, design and product development, manufactures approximately 30% of the Company's apparel in its own Canadian production facilities.

ONTARIO - SCARBOROUGH TOWN CENTRE

BRITISH COLUMBIA - GUILDFORD TOWN CENTRE

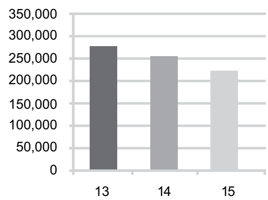
ONTARIO - YORKDALE SHOPPING CENTRE

QUEBEC - FAIRVIEW POINTE-CLAIRE

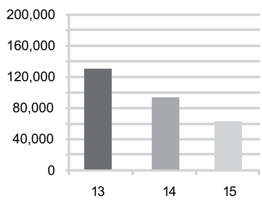
STORES AND SQUARE FOOTAGE

	JANUARY 30, 2016		JANUARY 31, 2015	
	STORES	SQUARE FOOTAGE	STORES	SQUARE FOOTAGE
ONTARIO	68	381,621	71	396,597
QUEBEC	65	356,518	68	375,507
ALBERTA	27	163,539	28	167,409
BRITISH COLUMBIA	22	125,259	24	130,120
MANITOBA	8	39,998	8	39,998
SASKATCHEWAN	7	29,957	7	29,957
NOVA SCOTIA	5	25,251	6	35,326
NEW BRUNSWICK	5	20,738	5	20,738
NEWFOUNDLAND	3	15,314	3	15,314
PRINCE EDWARD ISLAND	1	3,480	1	3,480
TOTAL CANADA	211	1,161,675	221	1,214,446
TOTAL UNITED STATES	—	—	1	5,027
TOTAL LE CHÂTEAU STORES	211	1,161,675	222	1,219,473

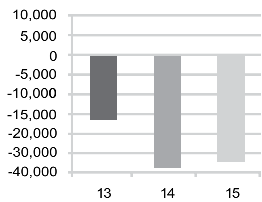
SALES
(in '000)



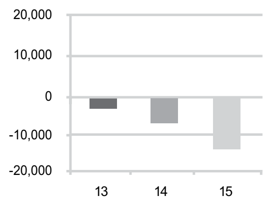
SHAREHOLDERS' EQUITY
(in '000)



NET LOSS
(in '000)



CASH FLOW FROM OPERATIONS
(in '000)



FINANCIAL HIGHLIGHTS

FISCAL YEARS ENDED

	January 30, 2016	January 31, 2015	January 25, 2014	January 26, 2013	January 28, 2012
RESULTS	(52 weeks)	(53 weeks)	(52 weeks)	(52 weeks)	(52 weeks)
Sales	236,876	250,210	274,840	274,827	302,707
Loss before income taxes	(35,745)	(40,392)	(21,708)	(12,186)	(2,982)
Net loss	(35,745)	(38,676)	(15,986)	(8,717)	(2,386)
• Per share - basic	(1.19)	(1.34)	(0.59)	(0.34)	(0.10)
• Per share - diluted	(1.19)	(1.34)	(0.59)	(0.34)	(0.10)
Dividends per share	—	—	—	—	0.43
Average number of shares outstanding (000)	29,964	28,968	27,289	25,659	24,789
FINANCIAL POSITION					
Working capital	80,686	83,268	74,889	84,841	90,345
Shareholders' equity	60,354	91,983	125,099	139,798	143,105
Total assets	168,490	181,327	210,858	220,210	233,794
FINANCIAL RATIOS					
Current ratio	3.24	3.25	2.20	2.79	3.13
Quick ratio	0.09	0.13	0.20	0.19	0.32
Long-term debt to equity (1)	1.24:1	0.61:1	0.37:1	0.27:1	0.32:1
OTHER STATISTICS (units as specified)					
Cash flow from (used for) operations (in '000)	(14,161)	(6,824)	(3,356)	6,036	(11,304)
Capital expenditures (in '000)	9,115	8,527	6,318	9,237	23,755
Number of stores at year-end	211	222	229	235	243
Square footage	1,161,675	1,219,473	1,249,643	1,281,954	1,284,248

SHAREHOLDERS' INFORMATION

TICKER SYMBOL: **CTU.A**
LISTING: TSX

NUMBER OF PARTICIPATING SHARES OUTSTANDING
(AS OF JUNE 3, 2016):

25,403,762 Class A Subordinate Voting Shares
4,560,000 Class B Voting Shares

FLOAT: (2)

13,386,709 Class A Shares held by the public

(1) Including current and long-term portion of credit facility and long-term debt.
(2) Excluding shares held by officers and directors of the Company.

MESSAGE TO SHAREHOLDERS

Over the past few years, the retail landscape has radically evolved. Consumer shopping habits have changed in a revolutionary manner. The advent of e-commerce has played a transformative role and Le Château was among the first Canadian retailer to exploit its potential.

In light of this evolution, the high concentration of stores in large urban markets – a successful model in the pre-digital world – is no longer required. Consequently, in light of this transformation, Le Château's strategy is to continue to recalibrate its retail network and close underperforming stores. The pace of store closures continues to be dedicated in large part by the end of leases.

Our company's strategy began to respond to a new wave of challenges in 2012. In the face of significant new competition, the Company embarked on a major product repositioning and rebranding. In tandem with that initiative, the Company launched a store renovation program, and in August 2015 began a marketing campaign across Canada in collaboration with Sid Lee. This led to the "Le Château of Montréal" brand refreshing. Consumers rediscovered our brand and products, and indications are that the campaign will carry a sustainable impact.

Taking into account the closure of 11 stores, total sales for the 52-week period ended January 30, 2016 decreased 5.3% to $236.9 million from $250.2 million for the 53-week period ended January 31, 2015. For the same period, comparable store sales, which are defined as sales generated by stores that have been open for at least one year, decreased 1.9%. Included in comparable stores sales are online sales which increased 34.8% for the year. Adjusted earnings before interest, taxes, depreciation and amortization for the 52-week period amounted to ($12.8 million), compared with ($17.1 million) last year. The improvement of $4.3 million in adjusted EBITDA for 2015 was primarily attributable to a decrease of $3.9-million in SG&A expenses, as well as an increase of $428,000 in gross margin dollars.

Consequently, in light of the above-mentioned changes and the challenging environment in the retail industry, the Company closed eleven stores in 2015. At year-end, the Company operated 211 stores including 65 fashion outlets. For the same period, total floor space was 1,162,000 square feet compared to 1,219,000 square feet at the end of the preceding year.

In 2016, the Company is planning to close approximately fourteen stores and expects its total square footage to decline to approximately 1,100,000 square feet. Over the next three years, the Company plans on reducing its retail floor space by over 200,000 square feet, which represents approximately 40 stores. The closures will occur predominantly among the fashion outlets.

Clearly, our e-commerce platform has become central to our strategy and we are making the investments to support its growth. While the contribution from online sales remains a small percentage of overall sales, the e-commerce platform continues to gain traction and is expanding customer reach.

We remain confident in our business plan and maintain a positive outlook about the future of our brand. We have proven many times over that Le Château's business model is durable, resilient and authoritative. We know our customers; we know their needs. Despite many challenges, Le Château de Montreal has all the talent, ambition and strategic skills to maintain its leadership in the retail world.

My gratitude goes to all the employees of Le Château de Montréal, and my deepest appreciation to our shareholders for their continued support of our vision. Our commitment is to provide continued fashion leadership and renewed shareholder growth in the years to come.

JANE SILVERSTONE SEGAL, B.A.LLL
Chairman and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

April 15, 2016

The 2015 and 2013 years refer to the 52-week periods ended January 30, 2016 and January 25, 2014, respectively, while the 2014 year refers to the 53-week period ended January 31, 2015. The 2016 year refers to the 52-week period ending January 28, 2017. 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 year ended January 30, 2016. All amounts in this report and in the tables are expressed in Canadian dollars, unless otherwise indicated.

The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with the accounting policies included in the notes to the audited consolidated financial statements for the year ended January 30, 2016.

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)

	2015 $	2014 $	2013 $
	(52 weeks)	(53 weeks)	(52 weeks)
Sales	236,876	250,210	274,840
Loss before income taxes	(35,745)	(40,392)	(21,708)
Net loss	(35,745)	(38,676)	(15,986)
Net loss per share			
Basic	(1.19)	(1.34)	(0.59)
Diluted	(1.19)	(1.34)	(0.59)
Total assets	168,490	181,327	210,858
Credit facility[1]	44,906	48,411	30,767
Long term debt[1]	30,018	7,843	15,830
Cash flow used for operations[2]	(14,161)	(6,824)	(3,356)
Comparable store sales increase (decrease) %	(1.9)%	(9.0)%	0.6%
Square footage of gross store space at year end			
Regular stores	701,395	831,846	853,864
Outlet stores	460,280	387,627	395,779
Total	1,161,675	1,219,473	1,249,643
Number of stores at year end			
Regular stores	146	180	185
Outlet stores	65	42	44
Total	211	222	229

[1] Includes current and long-term portion.

[2] After net change in non-cash working capital items related to operations.

SALES

Comparable store sales, which are defined as sales generated by stores that have been open for at least one year, decreased 1.9% for the year ended January 30, 2016 (see non-GAAP measures below). Included in comparable stores sales are online sales which increased 34.8% for the year. Total sales for the 52-week period ended January 30, 2016 decreased 5.3% to $236.9 million from $250.2 million for the 53-week period ended January 31, 2015. On a comparable week basis, the total sales for the 52-week period ended January 30, 2016 decreased 4.0%, with 11 fewer stores in operations, compared to the 52-week period ended January 31, 2015. In 2015, this decrease not only reflects an on-going highly competitive general retail landscape, but also the notable decline in Alberta, impacted by its economic conditions. Sales for 2015 also continued to be negatively impacted by reduced store traffic which reflects in part new shopping habits of customers via our e-commerce platform.

Starting in 2012, in response to significant new competition, the Company embarked on a major product repositioning and rebranding project. In conjunction with the project, the Company initiated a store renovation program and in August 2015, launched a marketing campaign across Canada in collaboration with Sid Lee which led to the "Le Château of Montréal" brand refreshing. The campaign combined TV, billboards and social media and raised brand awareness. Consumers rediscovered our brand and products, and we believe this will have a sustainable impact. Direct benefits of the media campaign were reflected in the sales of the Ladies and Footwear divisions with year-over-year increases of 3.9% and 11.1% in comparable store sales for the second half of 2015, respectively. Overall, we remain optimistic about the opportunity to grow our business and improve our margins.

In October 2011, the Company introduced its first new concept store with a gradual rollout plan to the top-tier markets and malls. New concept stores are designed to provide an elevated experience consistent with the evolving brand through more sophisticated materials, furniture and fixtures. As of year-end, the new concept has now been rolled out to 20 stores. In addition to the new store at the Guildford Town Centre in British Columbia that opened on March 17, 2016, the Company plans to launch another 2 new concept stores during the year.

Over the past few years, the retail landscape has evolved and consumer shopping habits have changed significantly with e-commerce. In light of this evolution, the high concentration of stores in large urban markets – a successful model in the pre-digital world – is no longer required. Consequently, in light of these changes and situation, our strategy is to continue to recalibrate our retail network and close underperforming stores. During 2015, the Company closed 11 stores. As at January 30, 2016, the Company operated 211 stores including 65 fashion outlet stores. Total floor space at the end of the year was 1,162,000 square feet compared to 1,219,000 square feet at the end of the preceding year. In 2016, the Company is planning to close approximately 14 stores and expects its total square footage to decline to approximately 1,100,000 square feet. Over the next three years, the Company plans on reducing its retail floor space by over 200,000 square feet representing approximately 40 stores, predominantly coming from the fashion outlet stores.

Le Château's vertically integrated approach makes it unique, as a major Canadian retailer that not only designs and develops, but also manufactures its own brand name clothing. The Company currently manufactures approximately 30% of the Company's apparel (excluding footwear and accessories) in its state-of-the-art production facilities located in Montreal, which have long provided it with several key competitive advantages – short lead times and flexibility; improved cost control; the ability to give its customers what they want, when they want it; and allowing the Company to remain connected to the market throughout changing times.

TOTAL SALES BY DIVISION (IN THOUSANDS OF DOLLARS)

The Company operates in a single business segment which is the retail of apparel, accessories and footwear aimed at fashion-conscious women and men. The following table summarizes the Company's sales by division:

	2015 $	2014 $	2013 $	% CHANGE 2015-2014 %	2014-2013 %
	(52 weeks)	(53 weeks)	(52 weeks)		
Ladies' Clothing	138,830	143,229	156,150	(3.1)	(8.3)
Men's Clothing	39,473	42,685	48,215	(7.5)	(11.5)
Footwear	30,017	29,967	31,026	0.2	(3.4)
Accessories	28,556	34,329	39,449	(16.8)	(13.0)
	236,876	250,210	274,840	(5.3)	(9.0)

E-commerce: The e-commerce business with its cross channel capabilities reported a sales increase of 34.8% compared to the same period last year. While the contribution from online sales remains a relatively small percentage of overall sales, the e-commerce platform continues to gain traction and is expanding customer reach.

Licensing: The Company is currently involved in a licensing arrangement with a retail developer in the Middle East to expand the number of Le Château branded stores in the region. As at January 30, 2016, there were 4 stores under licensee arrangement, one of which is in the Dubai Mall, United Arab Emirates.

TOTAL SALES BY REGION (IN THOUSANDS OF DOLLARS)

	2015 $	2014 $	2013 $	% CHANGE 2015-2014 %	2014-2013 %
	(52 weeks)	(53 weeks)	(52 weeks)		
Ontario	80,370	82,245	90,576	(2.3)	(9.2)
Quebec	60,633	64,459	72,533	(5.9)	(11.1)
Prairies	53,709	59,744	63,512	(10.1)	(5.9)
British Columbia	29,031	29,207	32,511	(0.6)	(10.2)
Atlantic	12,031	13,537	14,501	(11.1)	(6.6)
United States	1,102	1,018	1,207	8.3	(15.7)
	236,876	250,210	274,840	(5.3)	(9.0)

In 2015, from a geographic perspective, the economies of some provinces were clearly negatively impacted by difficult market conditions in the resource sector. Excluding stores closures, British Columbia, Ontario and Quebec, representing over 70% of total sales, have performed relatively well compared to other provinces.

EARNINGS

Earnings (loss) before interest, income taxes, depreciation, amortization, write-off and/or impairment of property and equipment, and gain on disposal of property and equipment ("Adjusted EBITDA") (see non-GAAP measures below) for the year ended January 30, 2016 amounted to $(12.8) million, compared to $(17.1) million last year. The improvement of $4.3 million in adjusted EBITDA for 2015 was primarily attributable to a decrease of $3.9 million in selling, general and administrative ("SGA") expenses, as well as an increase of $428,000 in gross margin dollars. SG&A expenses decreased due to reductions in store operating costs and head office expenses, offset by our Canada-wide media campaign that started in August 2015. The increase of $428,000 in gross margin dollars was the result of an increase in gross margin percentage to 64.2% from 60.6% in 2014, offset by the 5.3% decline in sales for 2015. The gross margin improvement for 2015 resulted from reduced promotional activity and fewer write-downs of finished goods inventory, partially offset by the pressure of the weaker Canadian dollar on merchandise purchased. For the year ended January 30, 2016, the Company recorded net write-downs of inventory totaling $300,000, compared to $5.3 million the previous year. The reduced amount reflects our on-going efforts over the past few years to reduce and improve the mix of inventory.

Net loss for the 2015 year amounted to $35.7 million or $(1.19) per share, compared to $38.7 million or $(1.34) per share in 2014.

Depreciation and amortization decreased to $16.5 million from $17.7 million in 2014, due to the reduced investments in non-financial assets over the last 2 years of $9.1 million and $8.5 million, respectively. Write-off and impairment of property and equipment relating to store closures, store renovations and underperforming stores decreased to $2.5 million in 2015 from $3.3 million last year.

Finance costs increased to $3.9 million in 2015 from $2.9 million in 2014 as a result of additional borrowings during the current year.

There was no income tax recovery recorded in 2015 due to the unrecognized benefit on the Canadian tax losses generated for the year ended January 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases and capital expenditures.

The Company's credit facility, including the current portions, net of cash (bank indebtedness), amounted to $45.5 million as at January 30, 2016, compared with $47.2 million as at January 31, 2015. Cash flows used for operating activities amounted to $14.2 million in 2015, compared with $6.8 million the previous year. The increase of $7.4 million was primarily the result of (a) a decrease of $2.8 million in non-cash working capital requirements, (b) a decrease in $4.4 million in income tax refunded net of income tax recovery, and (c) a decrease of $1.6 million in provision/amortization for onerous contracts, offset by (d) a decrease of $1.6 million in the net loss before depreciation, amortization, write-off and impairment of property and equipment and gain on disposal of property and equipment.

Long-term debt, including the current portion, amounted to $30.0 million as at January 30, 2016, compared with $7.8 million as at January 31, 2015. The increase in long-term debt is attributable to the new long-term debt financing totaling $27.5 million (see related party transactions below), net of $3.3 million of unamortized fair value adjustment and net of repayments of $2.0 million made during 2015. As at January 30, 2016, the long-term debt to equity ratio increased to 1.24 from 0.61:1 as at January 31, 2015. Debt includes the credit facility and long-term debt for purposes of the long-term debt to equity ratio.

On June 5, 2014, the Company renewed its asset based credit facility for a three-year term ending on June 5, 2017 with a limit of $80.0 million. The revolving credit facility is collateralized by the Company's cash, cash equivalents, marketable securities, credit card balances in transit and inventories, as defined in the agreement. The facility consists of revolving credit loans, which include both a swing line loan facility limited to $15.0 million and a letter of credit facility limited to $15.0 million. The available borrowings bear interest at a rate based on the Canadian prime rate, plus an applicable margin ranging from 0.50% to 1.00%, or a banker's acceptance rate, plus an applicable margin ranging from 1.75% to 2.25%. The Company is required to pay a standby fee ranging from 0.25% to 0.375% on the unused portion of the revolving credit. As at January 30, 2016, the effective interest rate on the outstanding balance was 3.1% (2014 – 3.4%). The Credit Agreement requires the Company to comply with certain non-financial covenants, including restrictions with respect to the payment of dividends and the purchase of the Company's shares under certain circumstances. As at January 30, 2016, the Company had drawn $45.3 million (2014 - $48.8 million) under this credit facility and had outstanding standby letters of credit totaling $2.5 million (2014 - $3.0 million) which reduced the availability under this credit facility. A portion of the amount drawn under this facility is presented as a current liability based on the Company's estimate of what it expects to settle in the next 12 months. Financing costs related to obtaining the above facility have been deferred and netted against the amounts drawn under the facility, and are being amortized over the term of the facility.

On April 1, 2015 and June 22, 2015, the Company borrowed an additional $5.0 million and $15.0 million, respectively, from a company that is directly controlled by a director of the Company. These secured loans currently bear interest at a variable rate, payable monthly, equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5% (the $5.0 million loan originally had a fixed rate of interest of 7.5% but such rate was modified on June 22, 2015). The loans are repayable, in full, on January 31, 2020, and subject to the terms of its revolving credit facility, the Company may prepay the loans, in whole or in part, at any time without premium or penalty.

On January 15, 2016, the Company entered into a loan agreement for $10.0 million from a company that is directly controlled by a director of the Company, of which $7.5 million was drawn on that date and the balance of $2.5 million drawn subsequent to year end on February 12, 2016. The financing is in the form of a secured loan which bears a variable rate of interest, payable monthly, equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5%. The loan is repayable at maturity on January 31, 2020, and subject to the terms of its revolving credit facility, may be prepaid, in whole or in part, at any time without premium or penalty.

These loans will provide the Company with additional capital and financing flexibility, with proceeds being used primarily for working capital purposes, including the financing of expenditures related to the Company's store renovation program. The loans are secured by all the Company's assets and are subordinated in terms of ranking and repayment to the Company's $80.0 million revolving credit facility.

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

1. Capital expenditures of $9.1 million, consisting of:

CAPITAL EXPENDITURES (IN THOUSANDS OF DOLLARS)

	2015 $	2014 $	2013 $
New stores (NIL stores; 2014 – 1 store; 2013 – 1 store)	—	433	582
Renovated stores (5 stores; 2014 – 5 stores; 2013 – 3 stores)	5,634	6,515	3,561
Information technology	1,671	1,016	1,486
Warehousing equipment	168	—	262
Head office – leasehold improvements	1,148	—	—
Other	494	563	427
	9,115	8,527	6,318

2. Long-term debt and finance lease obligation repayments of $2.0 million

The following table identifies the timing of undiscounted contractual obligations as well as operating lease commitments due as at January 30, 2016:

CONTRACTUAL OBLIGATIONS (IN THOUSANDS OF DOLLARS)

	Total $	Less than 1 year $	1-5 years $	After 5 years $
Bank indebtedness	545	545	—	—
Credit facility	45,306	13,344	31,962	—
Trade and other payables	17,865	17,865	—	—
Long-term debt	32,489	—	32,489	—
Finance lease obligations	848	848	—	—
Operating leases	174,432	38,173	104,868	31,391
	271,485	70,775	169,319	31,391

For 2016, the projected capital expenditures are $7.5 to $8.0 million, of which $4.0 to $4.5 million is expected to be used for the renovation of 3 to 5 existing stores, with $3.5 million to be used for investments in information technology and infrastructure.

Management expects to be able to continue financing the Company's operations and its capital expenditure requirements through cash flow from operations and long-term debt as well as the asset based credit facility of up to $80.0 million.

Aside from the letters of credit outstanding, the Company did not have any other off-balance sheet financing arrangements as at January 30, 2016.

FINANCIAL POSITION

Working capital amounted to $80.7 million as at January 30, 2016, compared to $83.3 million as at January 31, 2015.

Total inventories as at January 30, 2016 decreased 1.5% to $113.6 million from $115.4 million as at January 31, 2015. For the year ended January 30, 2016, the Company recorded net write-downs of inventory totaling $300,000, compared to $5.3 million the previous year.

As part of the Company's inventory management plan, the Company continues to use 65 outlets (460,000 square feet) in its network to sell prior season discounted merchandise. In addition, the on-line outlet division has also played an important role in the selling of these goods.

Shareholders' equity amounted to $60.4 million at year-end compared to $92.0 million the previous year. Book value per share amounted to $2.01 as at January 30, 2016, compared to a book value per share of $3.07 as at January 31, 2015.

DIVIDENDS AND OUTSTANDING SHARE DATA

In 2015 and 2014, the Company did not declare any dividends on the Class A subordinate voting and Class B voting shares.

As at April 15, 2016, there were 25,403,762 Class A subordinate voting and 4,560,000 Class B voting shares outstanding. Furthermore, there were 2,703,500 options outstanding with exercise prices ranging from $0.31 to $4.59, of which 1,406,400 options were exercisable.

On June 18, 2014, a $5.0 million loan payable to a company that is directly controlled by the Chairman and Chief Executive Officer and director of the Company was converted into 2,617,801 Class A subordinate voting shares.

NON-GAAP MEASURES

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

The following table reconciles adjusted EBITDA to loss before income tax recovery for the years ended January 30, 2016 and January 31, 2015:

(In thousands of dollars)	2015 $	2014 $
Loss before income tax recovery	(35,745)	(40,392)
Depreciation and amortization	16,518	17,707
Write-off and impairment of property and equipment	2,504	3,263
Gain on disposal of property and equipment	—	(590)
Finance costs	3,922	2,900
Finance income	(10)	(18)
Adjusted EBITDA	(12,811)	(17,130)

The Company also discloses comparable store sales which are defined as sales generated by stores that have been open for at least one year on a comparable week basis. Comparable store sales exclude sales from stores converted to outlet or clearance stores during the year of conversion.

The following table reconciles comparable store sales to total sales disclosed in the audited consolidated statements of loss for the years ended January 30, 2016 and January 31, 2015:

(In thousands of dollars)	2015 $	2014 $
Comparable store sales – Regular stores	178,933	180,377
Comparable store sales – Outlet stores	41,799	44,582
Total comparable store sales	220,732	224,959
Non-comparable store sales	16,144	25,251
Total sales	236,876	250,210

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

RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Le Château Inc. and its wholly-owned U.S. subsidiary, Château Stores Inc, incorporated under the laws of the State of Delaware.

Key management of the Company includes the Chief Executive Officer, President and Vice-Presidents, as well as the non-executive Directors. The compensation earned by key management in aggregate was as follows:

(In thousands of dollars)	2015 $	2014 $
Salaries and short-term benefits	3,836	3,368
Stock-based compensation	350	594
	4,186	3,962

Companies that are directly or indirectly controlled by a director sublease real estate from the Company. Total amounts earned under the sublease during the year amounted to $34,000 (2014 – $206,000).

During the year ended January 28, 2012, the Company borrowed $10.0 million from a company that is directly controlled by a director of the Company. The loan amount outstanding as at January 31, 2015 was $5.0 million and bore interest at an annual rate of 5.5%, payable monthly, with capital repayment payable at maturity in January 31, 2016. On April 1, 2015, the loan was amended to extend its maturity from January 31, 2016 to January 31, 2020 and to secure it on the same basis as the new $5.0 million loan described below. The loan was to bear interest at an annual rate of 7.5% for the period from February 1, 2016 to January 31, 2020 and is no longer convertible into Class A subordinate voting shares of the Company at the option of the Company. On June 22, 2015, the loan was further amended to bear a variable rate of interest equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5%. These amendments were accounted for as a debt modification with no accounting impact to recognize on the date of the revised agreements.

On April 1, 2015, the Company borrowed $5.0 million from a company that is directly controlled by a director of the Company. The financing is in the form of a secured loan which bore interest at an annual rate of 7.5% and is repayable at maturity on January 31, 2020. Subject to the terms of its revolving credit facility, the Company may prepay the loan, in whole or in part, at any time without premium or penalty. The loan was measured at its fair value on the date of inception with an effective interest rate of 9.6%. The fair value of the loan, which amounted to $4.6 million, was estimated using discounted future cash flows. The residual value between the principal amount of the loan and the fair value was recorded as contributed surplus. On June 22, 2015, the loan was amended to bear a variable rate of interest, payable monthly, equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5%. This amendment was accounted for as a debt modification with no accounting impact to recognize on the date of the revised agreement.

On June 22, 2015, the Company borrowed $15.0 million from a company that is directly controlled by a director of the Company. The financing is in the form of a secured loan which bears a variable rate of interest, payable monthly, equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5%. The loan is repayable at maturity on January 31, 2020, and subject to the terms of its revolving credit facility, may be prepaid, in whole or in part, at any time. The loan was measured at its fair value on the date of inception with an effective interest rate of 9.6%. The fair value of the loan, which amounted to $12.8 million, was estimated using discounted future cash flows. The residual value between the principal amount of the loan and the fair value was recorded as contributed surplus.

On January 15, 2016, the Company entered into a loan agreement for $10.0 million from a company that is directly controlled by a director of the Company, of which $7.5 million was drawn on that date and the balance of $2.5 million drawn subsequent to year end on February 12, 2016. The financing is in the form of a secured loan which bears a variable rate of interest, payable monthly, equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5%. The loan is repayable at maturity on January 31, 2020, and subject to the terms of its revolving credit facility, may be prepaid, in whole or in part, at any time. The loan was measured at its fair value on the date of inception with an effective interest rate of 9.6%. The fair value of the loan drawn on January 15, 2016, which amounted to $6.5 million, was estimated using discounted future cash flows. The residual value between the principal amount of the loan and the fair value was recorded as contributed surplus.

These loans will provide the Company with additional capital and financing flexibility, with proceeds being used primarily for working capital purposes, including the financing of expenditures related to the Company's store renovation program. The loans are secured by all the Company's assets and are subordinated in terms of ranking and repayment to the Company's $80.0 million revolving credit facility. For the year ended January 30, 2016, the Company recorded interest expense of $1.3 million (2014 – $355,000).

Amounts payable to related parties as at January 30, 2016 totalled $131,000 (2014 – nil).

There are no guarantees provided or received with respect to these transactions.

ACCOUNTING STANDARDS IMPLEMENTED IN 2015

There were no new accounting standards implemented during the year ended January 30, 2016.

NEW STANDARDS NOT YET EFFECTIVE

IFRS 16, "Leases" replaces the requirements of IAS 17 "Leases". This new standard is a major revision of the way in which companies account for leases and will no longer permit off balance sheet leases. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted for companies that also apply IFRS 15, "Revenue from contracts with customers". The Company has not yet assessed the future impact of this new standard on its consolidated financial statements.

IFRS 15, “Revenue from contracts with customers” replaces the requirements of IAS 11, “Construction Contracts”, and IAS 18, “Revenue and related interpretations”. This standard specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. These changes are applicable for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company has not yet assessed the future impact of this new standard on its consolidated financial statements.

IFRS 9, “Financial Instruments: Recognition and Measurement” replaces the requirements of IAS 39, “Financial Instruments: Recognition and Measurement”. This final version of IFRS 9 brings together the classification and measurements as well as impairment and hedge accounting phases of the project to replace IAS 39. In addition to the new requirements for classification and measurement of financial assets, a new general hedge accounting model and other amendments issued in previous versions of IFRS 9, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model. These changes are applicable for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the future impact of this new standard on its consolidated financial statements.

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 Company will file 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 30, 2016, an evaluation of the effectiveness of the Company’s DC&P, as defined in NI 52-109, was carried out under the supervision of the CEO and CFO. 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 IFRS. The CEO and CFO have evaluated whether there were changes to its ICFR during the year ended January 30, 2016 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

As of January 30, 2016, an evaluation of the effectiveness of the Company’s ICFR, as defined in NI 52-109, was carried out under the supervision of the CEO and CFO. 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 2013”), 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 judgment involved and its potential impact on the Company's reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact the Company's financial position, changes in financial position or results of operations. The Company's significant accounting policies are discussed in notes 3, 4 and 5 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 write-down to reflect management's best estimate of the net realizable value of inventory which includes assumptions and estimates for future sell-through of units, selling prices, as well as disposal costs, where appropriate, based on historical experience. Management continually reviews the carrying value of its inventory, to assess whether the write-down is adequate, based on current economic conditions and an assessment of sales trends.

Impairment of non-financial assets

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

Management is required to use significant judgment in determining if individual commercial premises in which it carries out its activities are individual CGUs, or if these units should be aggregated at a district or regional level to form a CGU. The significant judgments applied by management in determining if stores should be aggregated in a given geographic area to form a CGU include the determination of expected customer behaviour and whether customers could interchangeably shop in any of the stores in a given area and whether management views the cash flows of the stores in the group as inter-dependent.

Deferred revenue

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

RISKS AND UNCERTAINTIES

The risks presented below are not exhaustive and are in addition to other risks mentioned herein or in Le Château's publicly filed documents. 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.

Business initiatives

The Company's current strategy includes changes to many areas of its business, including repositioning initiatives in certain merchandise categories and store concepts. There can be no guarantee that the business initiatives the Company is implementing to improve its results will be successful, and if they do, there can be no guarantee as to the timing, duration or significance of such improvements. The Company's failure to properly deploy and utilize capital and other resources may adversely affect its initiatives.

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 a total customer experience. There is no effective barrier to entry into the Canadian apparel retailing marketplace by any potential competitor, foreign or domestic, and in fact the Company has witnessed the arrival over the past few years of a number of foreign-based competitors in virtually all of the Company's Canadian retail sectors.

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, such as the continuing trend toward online and mobile channels, could also affect sales and negatively impact store-based retailers. 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 could also impact the Company's ability to source products at a competitive cost. Increases in the cost of raw materials (including cotton and other fabrics) could also impact the Company's profitability. 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.

Seasonality and other factors
The Company's business is seasonal, as are most retail businesses. The Company's results of operations depend significantly upon the sales generated during some specific periods. Any material decrease in sales for such periods could have a material adverse effect upon the Company's profitability. The Company's results of operations may also fluctuate as a result of a variety of other factors, including the timing of new store openings and net sales contributed by new stores, the impact of new stores on existing stores within the same trade area, changes in general traffic levels in its shopping centers, new store concepts, other retail channels, merchandise mix and the timing and level of markdowns and promotions by competitors, as well as consumer shopping patterns and preferences.

Weather
Extreme changes in weather can affect the timing of consumer spending and may have an adverse effect upon the Company's results of operations.

Changes in the Company's relationship with its suppliers
The Company is dependant, to a certain extent, on its suppliers' support of the Company's operations. The Company has no guaranteed supply arrangements with its principal merchandising sources. Accordingly, there can be no assurance that such sources will continue to meet the Company's quality, style and volume requirements. In addition, should suppliers refuse or be unable to extend normal credit terms, refuse to ship manufactured goods within a reasonable period of time or refuse to purchase goods to fill orders made by the Company, the Company would have insufficient inventory for future seasons. The inability of the Company to obtain quality and fashionable merchandise in a timely manner could have a material adverse effect on the Company's business and the results of its operations.

Leases
All of the Company's stores are held under long-term leases. In connection with the expiration of leases, the Company will have to renegotiate new leases, which could result in higher rental rates. Any increase in retail rental rates would adversely impact the Company.

Information technology security and loss of customer data
The Company's business is dependent on payroll, transaction, financial, accounting, information and other data processing systems. Any security breach in the Company's or its information technology suppliers' business processes and/or systems has the potential to impact its customer information, which could result in the potential loss of business. If any of these systems fail to operate properly or become disabled, the Company could potentially lose control of customer data and suffer financial loss, a disruption of business, liability to customers, regulatory intervention or damage to its reputation. In addition, any issue of data privacy as it relates to unauthorized access to, or loss of, customer and/or employee information could result in the potential loss of business, damage to our market reputation, litigation and regulatory investigation and penalties.

Foreign exchange
The Company's foreign exchange risk mainly relates to currency fluctuations between the Canadian and U.S. dollar since a substantial portion of its merchandise purchases are in U.S. dollars. 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 may use forward contracts to fix the exchange rate of a portion of its expected U.S. dollar requirements. The contracts are matched with anticipated foreign currency purchases. The Company only enters into foreign exchange contracts with Canadian chartered banks to minimize credit risk. There were no contracts outstanding as at January 30, 2016 and January 31, 2015.

Interest rate fluctuations
The Company is subject to risk resulting from interest rate fluctuations, as interest on the Company's borrowings under its asset based credit facility and long-term debt from related party are based on variable rates.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due. The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases and capital expenditures. The Company has a committed asset based credit facility of $80.0 million subject to the availability constraints of the borrowing base. The Company has $32.5 million outstanding under a subordinated long-term secured loans from a company that is directly controlled by a director of the Company maturing on January 31, 2020. The Company expects to finance its store renovation program through cash flows from operations and long-term debt as well as its asset based credit facility. The asset based credit facility will mature on June 5, 2017. There can be no assurance that borrowing will be available to the Company, or available on acceptable terms, in an amount sufficient to fund the Company's needs or that additional financing will be provided by the controlling shareholder.

Changes in laws, rules and regulations applicable to the Company
In operating its business, the Company must comply with a variety of laws and regulations to meet its corporate and social responsibilities and to avoid the risk of financial penalties and/or criminal and civil liability for its officers and directors. Areas of compliance include environment, protection of personal information, health and safety, competition law, customs and excise. Regulations related to wages also affect the Company's business. Any appreciable increase in the statutory minimum wage would result in an increase in the Company's labor costs and such cost increase, or the penalties for failing to comply with such statutory minimums, could adversely affect the Company's business, financial condition and results of operations. Any change in the legislation or regulations applicable to the Company's business that is adverse to the Company and its properties could affect the Company's operating and financial performance. In addition, new regulations are proposed from time to time which, if adopted, could have a material adverse effect on the Company's operating results and financial condition.

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

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

	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		TOTAL	
	2015 $	2014 $	2015 $	2014 $	2015 $	2014 $	2015 $	2014 $	2015 $	2014 $
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(14 weeks)	(52 weeks)	(53 weeks)
Sales	50,746	53,305	63,292	68,304	57,640	58,134	65,198	70,467	236,876	250,210
Loss before income taxes	(12,358)	(14,761)	(4,022)	(2,970)	(12,478)	(11,052)	(6,887)	(11,609)	(35,745)	(40,392)
Net loss	(12,358)	(13,045)	(4,022)	(2,970)	(12,478)	(11,052)	(6,887)	(11,609)	(35,745)	(38,676)
Net loss per share										
Basic	(0.41)	(0.48)	(0.13)	(0.10)	(0.42)	(0.37)	(0.23)	(0.39)	(1.19)	(1.34)
Diluted	(0.41)	(0.48)	(0.13)	(0.10)	(0.42)	(0.37)	(0.23)	(0.39)	(1.19)	(1.34)

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
Sales for the 13-week period ended January 30, 2016 amounted to $65.2 million, a decrease of 7.5% from $70.5 million for the 14-week period ended January 31, 2015. On a comparable week basis, the total sales for the 13-week period ended January 30, 2016 decreased 2.1%, with 11 fewer stores in operations, compared to the 13-week period ended January 31, 2015. Comparable store sales increased 0.1% for the fourth quarter as compared to last year. Included in comparable store sales are online sales which increased 41.3% for the fourth quarter.

Adjusted EBITDA for the fourth quarter of 2015 amounted to $(675,000), compared to $(5.8) million for the same period last year. The improvement of $5.2 million in adjusted EBITDA for the fourth quarter was primarily attributable to the decrease of $4.4 million in SG&A expenses, as well as an increase in gross margin dollars of $821,000. The increase of $821,000 in gross margin dollars was the result of an increase in gross margin percentage to 61.9% from 56.1% in 2014. The gross margin improvement in the fourth quarter of 2015 resulted from reduced promotional activity and fewer write-downs of finished goods inventory, partially offset by the pressure of the weaker Canadian dollar on merchandise purchased. For the fourth quarter ended January 30, 2016, the Company recorded net write-downs of inventory totaling $300,000, compared to $3.9 million the previous year. The reduced amount reflects our on-going efforts over the past few years to reduce and improve the mix of inventory.

Net loss for the fourth quarter ended January 30, 2016 amounted to $6.9 million or $(0.23) per share compared to a net loss of $11.6 million or $(0.39) per share for the same period last year.

Depreciation and amortization for the fourth quarter decreased to $3.9 million from $4.2 million last year, due to the reduced investments in non-financial assets over the last 2 years of $9.1 million and $8.5 million, respectively. Write-off and impairment of property and equipment relating to store closures, store renovations and underperforming stores decreased to $1.3 million in the fourth quarter of 2015 from $1.4 million in 2014.

Cash flows from operating activities increased to $10.6 million for the fourth quarter of 2015, from $7.6 million in 2014. The increase of $3.0 million was primarily the result of (a) a decrease of $4.9 million in the net loss before depreciation, amortization, write-off and impairment of property and equipment and gain on disposal of property and equipment, (b) an increase of $195,000 in non-cash working capital requirements, offset by (c) an increase of $621,000 in deposits, and (d) a decrease of $1.6 million in provision/ amortization for onerous contracts.

OUTLOOK

Despite some of the on-ongoing competitive pressures and more difficult economic conditions impacting some provinces related to the resource sector, we remain confident in our business plan and strategy going into 2016 and for the next few years.

Over the past few years, the retail landscape has evolved and consumer shopping habits have changed significantly with e-commerce. In light of this evolution, the high concentration of stores in large urban markets – a successful model in the pre-digital world – is no longer required. Consequently, in light of these changes and situation, our strategy is to continue to recalibrate our retail network and close underperforming stores. In 2016, the Company is planning to close approximately 14 stores and expects its total square footage to decline to approximately 1,100,000 square feet. Over the next three years, the Company plans on reducing its retail floor space by over 200,000 square feet representing approximately 40 stores, predominantly coming from the fashion outlet stores.

For 2016, the projected capital expenditures are $7.5 to $8.0 million, of which $4.0 to $4.5 million is expected to be used for the renovation of 3 to 5 existing stores, with $3.5 million to be used for investments in information technology and infrastructure. The implementation of a new point of sales system is ongoing and will allow the Company to introduce a loyalty program, provide more flexibility with the e-commerce platform and improve business intelligence tools and analysis.

In August 2015, we launched a marketing campaign across Canada in collaboration with Sid Lee which led to the “Le Château of Montréal” brand refreshing. The campaign involved all types of media and brought positive results and sustainable brand awareness.

Overall, we remain optimistic about the opportunity to grow our business and improve our margins.

FORWARD-LOOKING STATEMENTS

This MD&A, including the business outlook section, 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 also 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; seasonality and weather patterns; changes in the Company's relationship with its suppliers; lease renewals; information technology security and loss of customer data; fluctuations in foreign currency exchange rates; interest rate fluctuations; liquidity risk and changes in laws, rules and regulations applicable to the Company. The foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results.

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 consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. 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 judgment. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated 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 consolidated 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 consolidated financial statements. The Board carries out this responsibility principally through the Audit Committee which consists of three outside directors appointed by the Board. The Audit 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 Audit 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 consolidated financial statements for issuance to the Company's shareholders. The Audit 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 consolidated 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, CPA, CA
President

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Le Château Inc.

We have audited the accompanying consolidated financial statements of **Le Château Inc.**, which comprise the consolidated balance sheets as at January 30, 2016 and January 31, 2015, and the consolidated statements of loss, comprehensive loss, changes in shareholders' equity and cash flows for the years ended January 30, 2016 and January 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Le Château Inc.** as at January 30, 2016 and January 31, 2015, and its financial performance and its cash flows for the years ended January 30, 2016 and January 31, 2015 in accordance with International Financial Reporting Standards.

Ernst & Young LLP [1]

[1] CPA auditor, CA, public accountancy permit no. A120254

Montréal, Canada
April 15, 2016

Le Château Inc. Incorporated under the *Canada Business Corporations Act*

CONSOLIDATED BALANCE SHEETS

As at January 30, 2016 and January 31, 2015
[in thousands of Canadian dollars]

	2016 $	2015 $
ASSETS *[notes 12 and 19]*		
Current assets		
Cash *[note 6]*	—	1,195
Accounts receivable	1,180	2,025
Income taxes refundable	569	619
Inventories *[notes 6 and 7]*	113,590	115,357
Prepaid expenses	1,385	1,079
Total current assets	116,724	120,275
Deposits	621	—
Property and equipment *[notes 8 and 12]*	48,332	58,091
Intangible assets *[note 9]*	2,813	2,961
	168,490	181,327
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	545	—
Current portion of credit facility *[note 6]*	12,944	14,737
Trade and other payables *[note 10]*	17,865	16,133
Deferred revenue	3,216	3,452
Current portion of provision for onerous leases *[note 11]*	620	678
Current portion of long-term debt *[note 12]*	848	2,007
Total current liabilities	36,038	37,007
Credit facility *[note 6]*	31,962	33,674
Long-term debt *[note 12]*	29,170	5,836
Provision for onerous leases *[note 11]*	1,453	1,473
Deferred lease credits	9,513	11,354
Total liabilities	108,136	89,344
Shareholders' equity		
Share capital *[note 13]*	47,967	47,967
Contributed surplus	8,555	4,439
Retained earnings	3,832	39,577
Total shareholders' equity	60,354	91,983
	168,490	181,327

Contingencies, commitments and guarantees *[notes 11, 18 and 24]*
Subsequent event *[note 25]*

See accompanying notes

On behalf of the Board:

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

[Signed]
Emilia Di Raddo, CPA, CA
Director

CONSOLIDATED STATEMENTS OF LOSS

Years ended January 30, 2016 and January 31, 2015
[in thousands of Canadian dollars, except per share information]

	2016 $	2015 $
Sales *[note 20]*	236,876	250,210
Cost of sales and expenses		
Cost of sales *[note 7]*	84,903	98,665
Selling *[note 8]*	150,408	153,853
General and administrative *[notes 8 and 9]*	33,398	35,202
	268,709	287,720
Results from operating activities	(31,833)	(37,510)
Finance costs	3,922	2,900
Finance income	(10)	(18)
Loss before income taxes	(35,745)	(40,392)
Income tax recovery *[note 14]*	—	(1,716)
Net loss	(35,745)	(38,676)
Net loss per share *[note 17]*		
Basic	(1.19)	(1.34)
Diluted	(1.19)	(1.34)
Weighted average number of shares outstanding	29,963,762	28,967,650

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years ended January 30, 2016 and January 31, 2015
[in thousands of Canadian dollars]

	2016 $	2015 $
Net loss	(35,745)	(38,676)
Other comprehensive loss to be reclassified to profit or loss in subsequent years		
Change in fair value of forward exchange contracts	—	(267)
	—	(267)
Realized forward exchange contracts reclassified to net loss	—	(151)
Income tax recovery	—	113
	—	(38)
Total other comprehensive loss	—	(305)
Comprehensive loss	(35,745)	(38,981)

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended January 30, 2016 and January 31, 2015
[in thousands of Canadian dollars]

	2016 $	2015 $
SHARE CAPITAL		
Balance, beginning of year	47,967	42,960
Issuance of subordinate voting shares upon conversion of long-term debt *[note 13]*	—	5,000
Issuance of subordinate voting shares upon exercise of options	—	5
Reclassification from contributed surplus due to exercise of share options	—	2
Balance, end of year	47,967	47,967
CONTRIBUTED SURPLUS		
Balance, beginning of year	4,439	3,581
Fair value adjustment of long-term debt	3,601	—
Stock-based compensation expense	515	860
Exercise of share options	—	(2)
Balance, end of year	8,555	4,439
RETAINED EARNINGS		
Balance, beginning of year	39,577	78,253
Net loss	(35,745)	(38,676)
Balance, end of year	3,832	39,577
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	—	305
Other comprehensive loss for the year	—	(305)
Balance, end of year	—	—
Total shareholders' equity	60,354	91,983

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended January 30, 2016 and January 31, 2015
[in thousands of Canadian dollars]

	2016 $	2015 $
OPERATING ACTIVITIES		
Net loss	(35,745)	(38,676)
Adjustments to determine net cash from operating activities		
Depreciation and amortization *[note 8]*	16,518	17,707
Write-off and impairment of property and equipment *[note 8]*	2,504	3,263
Gain on disposal of property and equipment *[note 8]*	—	(590)
Amortization of deferred lease credits	(1,873)	(2,227)
Deferred lease credits	32	169
Stock-based compensation	515	860
Provision for onerous leases	(78)	1,495
Finance costs	3,922	2,900
Interest paid	(3,080)	(2,612)
Deposits	(621)	—
Income tax recovery	—	(1,716)
	(17,906)	(19,427)
Net change in non-cash working capital items related to operations *[note 21]*	3,395	6,155
Income taxes refunded	350	6,448
Cash flows related to operating activities	(14,161)	(6,824)
FINANCING ACTIVITIES		
Increase (decrease) in credit facility	(3,488)	17,712
Financing costs	(470)	(410)
Proceeds of long-term debt	27,500	5,000
Repayment of long-term debt	(2,006)	(7,987)
Issue of share capital upon exercise of options	—	5
Cash flows related to financing activities	21,536	14,320
INVESTING ACTIVITIES		
Additions to property and equipment and intangible assets *[notes 8 and 9]*	(9,115)	(8,527)
Proceeds from disposal of property and equipment *[note 8]*	—	780
Cash flows related to investing activities	(9,115)	(7,747)
Decrease in cash (bank indebtedness)	(1,740)	(251)
Cash, beginning of year	1,195	1,446
Cash (bank indebtedness), end of year	(545)	1,195

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 30, 2016 and January 31, 2015
[Tabular amounts in thousands of Canadian dollars except per share amounts and where otherwise indicated]

1. CORPORATE INFORMATION

The consolidated financial statements of Le Château Inc. [the "Company"] for the year ended January 30, 2016 were authorized for issue on April 15, 2016 in accordance with a resolution of the Board of Directors. The Company is incorporated and domiciled in Canada and its shares are publicly traded. The registered office is located in Montreal, Quebec, Canada. The Company's principal business activity is the retail of fashion apparel, accessories and footwear aimed at style-conscious women and men.

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

2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ["IFRS"]. The consolidated financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies set out in note 3.

The Company's fiscal year ends on the last Saturday in January. The year ended January 30, 2016 refers to the 52-week fiscal period and comparatively, the year ended January 31, 2015 refers to the 53-week fiscal period.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation
The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiary. The functional currency is the currency of the primary economic environment in which each entity operates.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates in effect as at the balance sheet date. Non-monetary items that are measured in terms of historical cost denominated in a foreign currency are translated at the rates prevailing at the initial transaction dates. Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net earnings, except when deferred in accumulated other comprehensive income as qualifying cash flow hedges.

Revenue recognition
Revenue from merchandise sales is net of estimated returns and allowances, excludes sales taxes and is recorded upon delivery to the customer.

Gift cards or gift certificates [collectively referred to as "gift cards"] sold are recorded as deferred revenue and revenue is recognized at the time of redemption or in accordance with the Company's accounting policy for breakage. Breakage income represents the estimated value of gift cards that is not expected to be redeemed by customers and is estimated based on historical redemption patterns.

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Cash
Cash consists of cash on hand and balances with banks.

Credit facility
Financing costs related to obtaining the credit facility have been deferred and netted against the amounts drawn under the facility, and are being amortized over the term of the facility.

Inventories
Raw materials, work-in-process and finished goods are valued at the lower of average cost, which is net of vendor rebates, and net realizable value. Net realizable value is the estimated selling price of inventory in the ordinary course of business, less any estimated selling costs.

Property and equipment
Property and equipment are recorded at cost, net of accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly related to bring the asset to a working condition for its intended use. All repair and maintenance costs are recognized in earnings as incurred.

Depreciation is charged to earnings on the following bases:

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

Leasehold improvements are depreciated on a 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 or derecognition of individual assets, or a part thereof, are recognized in earnings in the period of disposal.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Intangible assets
Intangible assets, consisting of software, are recorded at cost, net of accumulated amortization and impairment losses, if any. Intangible assets are amortized on a straight-line basis over 5 years.

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

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year end and adjusted prospectively, if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that non-financial assets may be impaired. If any indication exists, impairment is assessed by comparing the carrying amount of an asset or cash generating unit ["CGU"] with its recoverable amount, which is the higher of the asset's or CGU's value in use or fair value less costs of disposal. Value in use is based on expected future cash flows from use, together with its residual value, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less costs of disposal is the amount for which an asset or related CGU can be sold in a transaction under normal market conditions between knowledgeable and willing contracting parties, less costs of disposal. Recoverable amount is determined for an individual asset, unless the asset does not generate largely independent cash inflows, in which case the recoverable amount is determined for the CGU to which the asset belongs.

Based on the management of operations, the Company has defined each of the commercial premises in which it carries out its activities as a CGU, although where appropriate these premises are aggregated at a district or regional level to form a CGU.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased and if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited to the extent that an asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized.

Impairment losses and reversals are recognized in earnings during the year.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

A provision for onerous contract is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract. The provision is determined based on the present value of the lower of the expected cost of terminating the contract and the expected net cost of operating under the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with the contract.

Stock-based compensation

The fair value of stock-based compensation awards granted to employees is measured at the grant date using the Black Scholes option pricing model. Measurement inputs include the share price on the measurement date, the exercise price of the option, the expected volatility [based on weighted average historical volatility adjusted for changes expected based on publicly available information], the weighted average expected life of the option [based on historical experience and general option holder behaviour], expected dividends, and the risk-free interest rate (based on government bonds).

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

The value of the compensation expense is recognized over the vesting period of the stock options as an expense included in general and administrative expenses, with a corresponding increase to contributed surplus in shareholders' equity. The amount recognized as an expense is adjusted to reflect the Company's best estimate of the number of awards that will ultimately vest. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The Company uses the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax assets and liabilities for all temporary differences caused when the tax bases of assets and liabilities differ from their carrying amounts reported in the consolidated financial statements. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Government assistance
Government assistance, including investment tax credits and design tax credits, is recognized where there is reasonable assurance that the assistance will be received. When the assistance relates to an expense item, it is recognized as a reduction of the related expense over the period necessary to match the assistance on a systematic basis to the costs that it is intended to compensate.

Earnings per share
Basic earnings per share are calculated using the weighted average number of shares outstanding during the period.

The diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to include additional shares issued from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises are used to purchase common shares at the average market price for the period.

3. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Leased assets

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. The Company carries on its operations in premises under leases of varying terms and renewal options, which are accounted for as operating leases. Payments under an operating lease are recognized in net earnings on a straight-line basis over the term of the lease. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and, consequently, records the difference between the recognized rental expense and the amounts payable under the lease as a deferred lease credit. Contingent [sales-based] rentals are recognized as an expense when incurred.

Tenant allowances are recorded as deferred lease credits and amortized as a reduction of rent expense on a straight-line basis over the initial term of the leases, plus one renewal period, not to exceed 10 years.

Financial instruments

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

The Company has made the following classifications:

- Cash and bank indebtedness are classified as "Fair Value through Profit or Loss", and measured at fair value. Changes in fair value are recorded in earnings.
- After their initial fair value measurement, unrealized gains and losses on derivative financial instruments in a hedging relationship are recognized in OCI. Upon derecognition of the financial instrument, 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.
- Credit facility, trade and other payables and long-term debt are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset [an incurred "loss event"] and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. The losses arising from impairment are recognized in earnings as a finance cost.

When the Company applies hedge accounting for its forward exchange contracts, it designates them as cash flow hedges. At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. In a cash flow hedge relationship, the effective portion of the gains or losses on the hedging item is recognized directly in OCI, while the ineffective portion is recorded in net earnings. The amounts recognized in OCI are reclassified to earnings when the hedged item affects earnings.

4. CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective

IFRS 16, “Leases” replaces the requirements of IAS 17 “Leases”. This new standard is a major revision of the way in which companies account for leases and will no longer permit off balance sheet leases. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted for companies that also apply IFRS 15, “Revenue from contracts with customers”. The Company has not yet assessed the future impact of this new standard on its consolidated financial statements.

IFRS 15, “Revenue from contracts with customers” replaces the requirements of IAS 11, “Construction Contracts”, and IAS 18, “Revenue and related interpretations”. This standard specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. These changes are applicable for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company has not yet assessed the future impact of this new standard on its consolidated financial statements.

IFRS 9, “Financial Instruments: Recognition and Measurement” replaces the requirements of IAS 39, “Financial Instruments: Recognition and Measurement”. This final version of IFRS 9 brings together the classification and measurements as well as impairment and hedge accounting phases of the project to replace IAS 39. In addition to the new requirements for classification and measurement of financial assets, a new general hedge accounting model and other amendments issued in previous versions of IFRS 9, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model. These changes are applicable for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the future impact of this new standard on its consolidated financial statements.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions in the application of the accounting policies, that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates and assumptions are reviewed regularly and are based on historical experience and other factors including expectations of future events. Actual results could differ from those estimates.

The judgments, estimates and assumptions which could result in a material adjustment to the carrying amount of assets and liabilities are discussed below:

Inventory valuation

The Company records a write-down to reflect management’s best estimate of the net realizable value of inventory which includes assumptions and estimates for future sell-through of units, selling prices as well as disposal costs, where appropriate, based on historical experience.

Management continually reviews the carrying value of its inventory, to assess whether the write-down is adequate, based on current economic conditions and an assessment of sales trends.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS [Cont'd]

Impairment of non-financial assets

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

Management is required to use significant judgment in determining if individual commercial premises in which it carries out its activities are individual CGUs, or if these units should be aggregated at a district or regional level to form a CGU. The significant judgments applied by management in determining if stores should be aggregated in a given geographic area to form a CGU include the determination of expected customer behaviour and whether customers could interchangeably shop in any of the stores in a given area and whether management views the cash flows of the stores in the group as inter-dependant.

Deferred revenue

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

6. CREDIT FACILITIES

On June 5, 2014, the Company renewed its asset based credit facility for a three-year term ending on June 5, 2017 with a limit of $80.0 million. The revolving credit facility is collateralized by the Company's cash, cash equivalents, marketable securities, credit card balances in transit and inventories, as defined in the agreement. The facility consists of revolving credit loans, which include both a swing line loan facility limited to $15.0 million and a letter of credit facility limited to $15.0 million. The available borrowings bear interest at a rate based on the Canadian prime rate, plus an applicable margin ranging from 0.50% to 1.00%, or a banker's acceptance rate, plus an applicable margin ranging from 1.75% to 2.25%. The Company is required to pay a standby fee ranging from 0.25% to 0.375% on the unused portion of the revolving credit. As at January 30, 2016, the effective interest rate on the outstanding balance was 3.1% [2015 – 3.4%]. The Credit Agreement requires the Company to comply with certain non-financial covenants, including restrictions with respect to the payment of dividends and the purchase of the Company's shares under certain circumstances. As at January 30, 2016, the Company had drawn $45.3 million [2015 - $48.8 million] under this credit facility and had outstanding standby letters of credit totaling $2.5 million [2015 - $3.0 million] which reduced the availability under this credit facility. A portion of the amount drawn under this facility is presented as a current liability based on the Company's estimate of what it expects to settle in the next 12 months.

Financing costs related to obtaining the above facility have been deferred and netted against the amounts drawn under the facility, and are being amortized over the term of the facility.

7. INVENTORIES

	January 30, 2016 $	January 31, 2015 $
Raw materials	4,634	6,141
Work-in-process	2,304	2,187
Finished goods	99,716	101,062
Finished goods in transit	6,936	5,967
	113,590	115,357

7. INVENTORIES [Cont'd]

The cost of inventory recognized as an expense and included in cost of sales for the year ended January 30, 2016 is $84.9 million [2015 – $98.7 million], including write-downs recorded of $1.1 million [2015 – $5.5 million], as a result of net realizable value being lower than cost and reversals of inventory write-downs recognized in prior periods of $833,000 [2015 – $216,000].

8. PROPERTY AND EQUIPMENT

	Land and building $	Leasehold improve-ments $	Point-of-sale cash registers and computer equipment $	Other furniture and fixtures $	Auto-mobiles $	Total $
Cost						
Balance, January 25, 2014	990	74,530	7,285	81,075	190	164,070
Acquisitions	—	4,311	165	3,200	—	7,676
Disposals	(990)	(7,603)	(395)	(10,259)	—	(19,247)
Balance, January 31, 2015	—	71,238	7,055	74,016	190	152,499
Acquisitions	—	4,390	382	3,044	10	7,826
Disposals	—	(8,972)	(1,259)	(11,617)	(20)	(21,868)
Balance, January 30, 2016	—	66,656	6,178	65,443	180	138,457
Accumulated depreciation and impairment						
Balance, January 26, 2014	786	39,716	5,884	47,670	144	94,200
Depreciation	14	7,550	687	7,737	14	16,002
Impairment	—	1,167	—	1,174	—	2,341
Disposals	(800)	(7,285)	(395)	(9,655)	—	(18,135)
Balance, January 31, 2015	—	41,148	6,176	46,926	158	94,408
Depreciation	—	7,250	522	7,299	10	15,081
Impairment	—	1,878	—	324	—	2,202
Disposals	—	(8,810)	(1,259)	(11,478)	(19)	(21,566)
Balance, January 30, 2016	—	41,466	5,439	43,071	149	90,125
Net carrying value						
Balance, January 31, 2015	—	30,090	879	27,090	32	58,091
Balance, January 30, 2016	—	25,190	739	22,372	31	48,332

8. PROPERTY AND EQUIPMENT [Cont'd]

An amount of $7.2 million [2015 – $7.5 million] of the leasehold improvements and furniture and fixtures is held under finance lease. Accumulated depreciation relating to this property and equipment amounts to $3.7 million [2015 – $3.0 million].

Property and equipment with a net book value of $302,000 [2015 – $992,000] were written-off during the year. The cost of this property and equipment amounted to $21.9 million [2015 – $18.2 million] with accumulated depreciation of $21.6 million [2015 – $17.3 million]. This property and equipment was primarily related to leasehold improvements and furniture and fixtures, which are no longer in use as a result of store renovations and closures. There were no disposals of property and equipment during the year ended January 30, 2016. Property with a net book value of $190,000 was sold during the year ended January 31, 2015 for proceeds of $780,000, resulting in a gain of $590,000. The cost of the property amounted to $990,000 with accumulated depreciation of $800,000.

Depreciation for the year is reported in the consolidated statement of loss as follows:

	January 30, 2016 $	January 31, 2015 $
Selling expenses	12,578	13,290
General and administrative expenses	2,503	2,712
	15,081	16,002

During the year ended January 30, 2016, an assessment of impairment indicators was performed which caused the Company to review the recoverable amount of the property and equipment for certain CGU's with an indication of impairment. The CGU's reviewed included non-performing stores and stores that no longer meet the Company's criteria for the brand repositioning.

An impairment loss of $2.2 million [2015 – $2.3 million] related to store leasehold improvements and furniture and fixtures was determined by comparing the carrying amount of the CGU's net assets with their respective recoverable amounts based on value in use and is included in selling expenses in the consolidated statement of loss. The remaining carrying value of the assets impaired during the year is $3.0 million [2015 – $196,000]. Value in use was determined based on management's best estimate of expected future cash flows from use over the remaining lease terms, considering historical experience as well as current economic conditions, and was then discounted using a pre-tax weighted average cost of capital of 19.9% [2015 – 17.0%] or 12.5% after-tax [2015 – 12.5%]. Included in the calculation of value in use is the contribution generated by e-commerce sales for the CGU. During the year ended January 30, 2016, no impairment losses from prior years were reversed [2015 – nil].

9. INTANGIBLE ASSETS

	Cost $	Accumulated amortization $	Net carrying values $
Balance, January 25, 2014	17,077	13,262	3,815
Acquisitions	851	—	851
Amortization	—	1,705	(1,705)
Disposals	(1,261)	(1,261)	—
Balance, January 31, 2015	16,667	13,706	2,961
Acquisitions	1,289	—	1,289
Amortization	—	1,437	(1,437)
Disposals	(1,170)	(1,170)	—
Balance, January 30, 2016	16,786	13,973	2,813

Amortization for the year is reported in the consolidated statement of loss under general and administrative expenses.

10. TRADE AND OTHER PAYABLES

	January 30, 2016 $	January 31, 2015 $
Trade payables	10,707	8,790
Non-trade payables	411	841
Non-trade payables due to related parties	131	—
Accruals related to employee benefit expenses	6,616	6,502
	17,865	16,133

11. PROVISION FOR ONEROUS LEASES

	$
Balance, January 31, 2015	2,151
Arising during the year	685
Amortization	(763)
Balance, January 30, 2016	2,073
Less: current portion	(620)
	1,453

11. PROVISION FOR ONEROUS LEASES [Cont'd]

Onerous contracts

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

Contingent liabilities

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. LONG-TERM DEBT

	January 30, 2016 $	January 31, 2015 $
4.45% Specific Security Agreement, payable monthly over 48 months, maturing March 23, 2015	—	454
5.4% Secured loans from a related party, maturing January 31, 2020 [2015 - 5.5% unsecured loan, maturing January 31, 2016] *[notes 19 and 25]*	29,170	4,989
4.12% Obligation under finance lease, payable monthly over 60 months, maturing October 31, 2016	848	2,400
	30,018	7,843
Less: current portion	(848)	(2,007)
	29,170	5,836

The finance lease agreement includes a purchase option for a nominal amount.

Principal repayments are due as follows:

	Loans payable $	Obligation under finance lease $	Total $
Within one year	—	848	848
After one year but not more than five years	29,170	—	29,170
	29,170	848	30,018

12. LONG-TERM DEBT [Cont'd]

The balance of minimum lease payments is as follows:

	Future minimum lease payments $	Less interest $	Present value of future minimum lease payments $
Within one year	862	14	848
After one year but not more than five years	—	—	—
	862	14	848

13. SHARE CAPITAL

Authorized

An unlimited number of non-voting first, second and third preferred shares issuable in series, without par value

An unlimited number of Class A subordinate voting shares, without par value

An unlimited number of Class B voting shares, without par value

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 subordinate voting and Class B voting

[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 voting 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 subordinate voting and Class B voting shares then outstanding without preference or distinction.

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

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

13. SHARE CAPITAL [Cont'd]

[e] The Articles of the Company provide that if there is an accepted or completed offer for more than 20% of the Class B voting 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 voting 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 voting 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 voting 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 Company having attached thereto more than 50% of the votes attached to all outstanding shares of the Company.

Issued and outstanding

	January 30, 2016		January 31, 2015	
	Number of shares	$	Number of shares	$
Class A subordinate voting shares				
Balance – beginning of year	25,403,762	47,565	22,782,461	42,558
Issuance of subordinate voting shares upon conversion of long-term debt	—	—	2,617,801	5,000
Issuance of subordinate voting shares upon exercise of options	—	—	3,500	5
Reclassification from contributed surplus due to exercise of share options	—	—	—	2
Balance, end of year	25,403,762	47,565	25,403,762	47,565
Class B voting shares	4,560,000	402	4,560,000	402
Balance, end of year	29,963,762	47,967	29,963,762	47,967

All issued shares are fully paid.

During the year ended January 31, 2015, the Company borrowed $5.0 million from a company that is directly controlled by the Chairman and Chief Executive Officer and director of the Company. In the same year, the $5.0 million loan was converted into 2,617,801 Class A subordinate voting shares at $1.91 per share.

Stock option plan

Under the provisions of the stock option plan [the "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 voting 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. There are no cash settlement alternatives for the employees.

13. SHARE CAPITAL [Cont'd]

A summary of the status of the Company's Plan as of January 30, 2016 and January 31, 2015, and changes during the years then ended is presented below:

	January 30, 2016		January 31, 2015	
	Options	Weighted average exercise price $	Options	Weighted average exercise price $
Outstanding at beginning of year	2,871,000	3.67	3,126,200	4.01
Granted	75,000	0.31	90,000	1.15
Exercised	—	—	(3,500)	1.44
Expired	(200,500)	12.35	(169,200)	9.40
Forfeited	(42,000)	2.52	(172,500)	3.01
Outstanding at end of year	2,703,500	2.95	2,871,000	3.67
Options exercisable at end of year	1,406,400	2.95	1,051,700	4.73

The following table summarizes information about the stock options outstanding at January 30, 2016:

Range of exercise prices $	Number outstanding at January 30, 2016 #	Weighted average remaining life	Weighted average exercise price $	Number of options exercisable at January 30, 2016 #	Weighted average exercise price $
0.31 – 1.91	950,000	1.8 years	1.33	474,000	1.42
2.02 – 3.00	825,000	1.4 years	2.97	495,000	2.97
4.59	928,500	2.5 years	4.59	437,400	4.59
	2,703,500	1.9 years	2.95	1,406,400	2.95

13. SHARE CAPITAL [Cont'd]

During the year ended January 30, 2016, the Company granted 75,000 stock options [2015 – 90,000] to purchase Class A subordinate voting shares. The weighted-average grant date fair value of stock options granted during the year ended January 30, 2016 was $0.19 per option [2015 – $0.43]. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted-average inputs and assumptions:

	January 30, 2016	January 31, 2015
Risk-free interest rate	0.54%	1.15%
Expected option life	3.0 years	2.5 years
Expected volatility in the market price of the shares	107.4%	71.8%
Expected dividend yield	0%	0%
Share price at grant date	$0.31	$1.15

14. INCOME TAXES

As at January 30, 2016, the Company's U.S. subsidiary has accumulated losses amounting to $16.8 million [US $12.0 million] which expire during the years 2018 to 2036. The tax benefits relating to these losses have not been recognized in the consolidated financial statements. As at January 30, 2016, the Company's Canadian operation has accumulated losses amounting to $62.4 million which expire in 2035 and 2036. The tax benefits relating to these losses have not been recognized in the consolidated financial statements.

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

	January 30, 2016 %	January 31, 2015 %
Statutory tax rate	26.7	26.6
Increase (decrease) in income tax rate resulting from:		
Unrecognized benefit on tax losses	(25.4)	(20.7)
Non-deductible items and translation adjustment	(1.4)	(1.7)
Other	0.1	—
Effective tax rate	—	4.2

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

	January 30, 2016 $	January 31, 2015 $
Deferred income taxes		
Origination and reversal of temporary differences	—	(1,716)
Changes in tax rates	—	—
Total deferred income taxes	—	(1,716)
Income tax recovery	—	(1,716)

14. INCOME TAXES [Cont'd]

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

	Consolidated balance sheets		Consolidated statements of loss	
	January 30, 2016 $	January 31, 2015 $	January 30, 2016 $	January 31, 2015 $
Deferred income tax assets (liabilities)				
Obligations under finance lease	227	638	411	437
Deferred lease credits	2,552	3,010	458	541
Eligible capital expenditures	44	47	3	3
Provision for onerous leases	556	501	(55)	(395)
Other	122	84	(38)	(31)
Tax losses	23,563	14,711	(8,852)	(9,231)
Property, equipment and intangible assets	(2,814)	(4,613)	(1,799)	(1,938)
	24,250	14,378	(9,872)	(10,614)
Unrecognized deferred income tax assets	(24,250)	(14,378)	9,872	8,898
Deferred income tax assets	—	—		
Deferred income tax recovery			—	(1,716)

Deferred taxes related to items charged or credited directly to OCI during the year:

	January 30, 2016 $	January 31, 2015 $
Net foreign exchange gain in forward contracts	—	(113)
Income tax charged directly to OCI	—	(113)

15. EMPLOYEE BENEFIT EXPENSES

	January 30, 2016 $	January 31, 2015 $
Wages, salaries and employee benefits	69,820	72,461
Stock-based compensation	515	860
	70,335	73,321

16. GOVERNMENT ASSISTANCE

Government assistance, consisting mainly of income tax credits of $412,000 [2015 – $467,000], has been recorded in relation to certain wages and eligible expenses and is included in general and administrative expenses or cost of sales. There are no unfulfilled conditions or contingencies attached to the assistance received.

17. LOSS PER SHARE

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

	January 30, 2016 $	January 31, 2015 $
Net loss (numerator)	(35,745)	(38,676)
Weighted average number of shares outstanding (denominator)		
Weighted average number of shares outstanding – basic	29,964	28,968
Dilutive effect of stock options	—	—
Weighted average number of shares outstanding – diluted	29,964	28,968

Because the Company reported a net loss for the years ended January 30, 2016 and January 31, 2015, the weighted average number of shares used for basic and diluted loss per share is the same, as the effect of stock options would reduce the loss per share, and therefore be anti-dilutive.

18. COMMITMENTS

The commercial premises from which the Company carries out its retail operations and its head office and warehouse locations are leased from third parties. These rental contracts are classified as operating leases since there is no transfer of risks and rewards inherent to ownership.

These leases have varying terms and renewal rights. In many cases the amounts payable to the lessor include a fixed rental payment as well as a percentage of the sales obtained by the Company in the leased premises. These contingent rental payments may have minimum guaranteed amounts or certain rules of calculation attached.

Many leases include escalating rental payments, whereby cash outflows increase over the lease term. Free rental periods are also sometimes included. The expense is recognized on a straight-line basis.

The minimum rent payable under non-cancellable operating leases are as follows:

	January 30, 2016 $
Within one year	38,173
After one year but not more than five years	104,868
More than five years	31,391
	174,432

18. COMMITMENTS [Cont'd]

During the year ended January 30, 2016 an amount of $39.6 million was recognized as an expense in respect of operating leases [2015 – $42.5 million]. Contingent rentals recognized as an expense for the year amounted to $1.7 million [2015 – $1.1 million]. An amount of $42,000 was recognized in respect of subleases [2015 – $334,000].

19. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Le Château Inc. and its wholly-owned U.S. subsidiary, Château Stores Inc, incorporated under the laws of the State of Delaware.

Key management of the Company includes the Chief Executive Officer, President and Vice-Presidents, as well as the non-executive Directors. The compensation earned by key management in aggregate was as follows:

	January 30, 2016 $	January 31, 2015 $
Salaries and short-term benefits	3,836	3,368
Stock-based compensation	350	594
	4,186	3,962

Companies that are directly or indirectly controlled by a director sublease real estate from the Company. Total amounts earned under the sublease during the year amounted to $34,000 [2015 – $206,000]. These amounts are recorded in the consolidated statement of loss as reductions of selling, general and administrative expenses.

During the year ended January 28, 2012, the Company borrowed $10.0 million from a company that is directly controlled by a director of the Company. The loan amount outstanding as at January 31, 2015 was $5.0 million and bore interest at an annual rate of 5.5%, payable monthly, with capital repayment payable at maturity on January 31, 2016. On April 1, 2015, the loan was amended to extend its maturity from January 31, 2016 to January 31, 2020 and to secure it on the same basis as the new $5.0 million loan described below. The loan was to bear interest at an annual rate of 7.5% for the period from February 1, 2016 to January 31, 2020 and is no longer convertible into Class A subordinate voting shares of the Company at the option of the Company. On June 22, 2015, the loan was further amended to bear a variable rate of interest equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5%. These amendments were accounted for as a debt modification with no accounting impact to recognize on the date of the revised agreements.

On April 1, 2015, the Company borrowed $5.0 million from a company that is directly controlled by a director of the Company. The financing is in the form of a secured loan which bore interest at an annual rate of 7.5% and is repayable at maturity on January 31, 2020. Subject to the terms of its revolving credit facility, the Company may prepay the loan, in whole or in part, at any time without premium or penalty. The loan was measured at its fair value on the date of inception with an effective interest rate of 9.6%. The fair value of the loan, which amounted to $4.6 million, was estimated using discounted future cash flows. The residual value between the principal amount of the loan and the fair value was recorded as contributed surplus. On June 22, 2015, the loan was amended to bear a variable rate of interest, payable monthly, equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5%. This amendment was accounted for as a debt modification with no accounting impact to recognize on the date of the revised agreement.

19. RELATED PARTY DISCLOSURES [Cont'd]

On June 22, 2015, the Company borrowed $15.0 million from a company that is directly controlled by a director of the Company. The financing is in the form of a secured loan which bears a variable rate of interest, payable monthly, equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5%. The loan is repayable at maturity on January 31, 2020, and subject to the terms of its revolving credit facility, may be prepaid, in whole or in part, at any time. The loan was measured at its fair value on the date of inception with an effective interest rate of 9.6%. The fair value of the loan, which amounted to $12.8 million, was estimated using discounted future cash flows. The residual value between the principal amount of the loan and the fair value was recorded as contributed surplus.

On January 15, 2016, the Company entered into a loan agreement for $10.0 million from a company that is directly controlled by a director of the Company, of which $7.5 million was drawn on that date and the balance of $2.5 million drawn subsequent to year end on February 12, 2016. The financing is in the form of a secured loan which bears a variable rate of interest, payable monthly, equal to the lesser of (i) the prime rate of the Royal Bank of Canada multiplied by two and (ii) 7.5%. The loan is repayable at maturity on January 31, 2020, and subject to the terms of its revolving credit facility, may be prepaid, in whole or in part, at any time. The loan was measured at its fair value on the date of inception with an effective interest rate of 9.6%. The fair value of the loan drawn on January 15, 2016, which amounted to $6.5 million, was estimated using discounted future cash flows. The residual value between the principal amount of the loan and the fair value was recorded as contributed surplus.

These loans will provide the Company with additional capital and financing flexibility, with proceeds being used primarily for working capital purposes, including the financing of expenditures related to the Company's new concept store renovation program. The loans are secured by all the Company's assets and are subordinated in terms of ranking and repayment to the Company's $80.0 million revolving credit facility. For the year ended January 30, 2016, the Company recorded interest expense of $1.3 million [2015 – $355,000].

Amounts payable to related parties as at January 30, 2016 totalled $131,000 [2015 – nil].

There are no guarantees provided or received with respect to these transactions.

20. SEGMENTED INFORMATION

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

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

	January 30, 2016 $	January 31, 2015 $
Ladies' clothing	138,830	143,229
Men's clothing	39,473	42,685
Footwear	30,017	29,967
Accessories	28,556	34,329
	236,876	250,210

21. 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 30, 2016 $	January 31, 2015 $
Accounts receivable	845	(549)
Income taxes refundable	(300)	(404)
Inventories	1,767	9,521
Prepaid expenses	(306)	1,213
Trade and other payables	1,625	(3,366)
Deferred revenue	(236)	(260)
Net change in non-cash working capital items related to operations	3,395	6,155

22. 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 3 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 certain financial instruments, as well as their carrying values and fair values, are shown in the tables below:

	January 30, 2016		January 31, 2015	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Financial liabilities				
Credit facility	45,306	45,306	48,794	48,794
Long-term debt	30,018	28,810	7,843	7,835
	75,324	74,116	56,637	56,629

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. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The estimated fair value of the credit facility and long-term debt was determined by discounting expected cash flows at rates currently offered to the Company for similar debt [Level 2].

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the years ended January 30, 2016 and January 31, 2015.

Financial instrument risk management

There has been no change with respect to the Company's overall risk exposure during the year ended January 30, 2016. Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign exchange risk and interest rate risk are provided below.

22. FINANCIAL INSTRUMENTS [Cont'd]

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 its cash balances. The Company limits its exposure to credit risk with respect to cash by investing available cash with major Canadian chartered banks.

The Company's cash is not subject to any external restrictions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due. The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases and capital expenditures. As outlined in note 6, the Company has a committed asset based credit facility of $80.0 million of which $47.8 million was drawn as at January 30, 2016. The Company expects to finance its store renovation program through cash flows from operations and long-term debt as well as its asset based credit facility. The Company expects that its trade and other payables will be discharged within 90 days and its long-term debt discharged as contractually agreed and as disclosed in note 12.

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at January 30, 2016:

	Within one year $	After one year but not more than five years $	After five years $	Total $
Bank indebtedness	545	—	—	545
Credit facility	13,344	31,962	—	45,306
Trade and other payables	17,865	—	—	17,865
Long-term debt	—	32,489	—	32,489
Finance lease obligations	848	—	—	848
	32,602	64,451	—	97,053

Market risk – foreign exchange risk

The Company's foreign exchange risk is primarily limited to currency fluctuations between the Canadian and U.S. dollar.

The significant balances in U.S. dollars as at January 30, 2016 consist of cash of $253,000 and trade and other payables of $3.3 million. Assuming that all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in an increase or decrease to net earnings (loss) in the amount of $154,000.

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 may use forward contracts to fix the exchange rate of a portion of its expected U.S. dollar requirements. The contracts are matched with anticipated foreign currency purchases.

There were no contracts outstanding as at January 30, 2016 [2015 – nil].

22. FINANCIAL INSTRUMENTS [Cont'd]

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, the credit facility and the long-term debt from related party.

As at January 30, 2016, cash and bank indebtedness consisted of cash on hand and balances with banks.

For the year ended January 30, 2016, variable interest expense on the credit facility and long-term debt totalled $3.0 million. Assuming that all other variables remain constant, a 100 basis point change in the average interest rate charged during the year would have resulted in an increase or decrease to net earnings (loss) in the amount of $579,000.

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

23. MANAGEMENT OF CAPITAL

The Company's objectives in managing capital are:

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

As at January 30, 2016, the Company's capital is composed of its credit facility and long-term debt, including the current portions, and shareholders' equity as follows:

	$
Credit facility	44,906
Long-term debt	30,018
Shareholders' equity	60,354
	135,278

The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for its store renovation program as well as information technology and infrastructure improvements.

The Company currently funds these requirements from cash flows related to operations as well as its financial resources, which include its line of credit *[note 6]* and long-term debt *[notes 12 and 25]*. The Company is not subject to any externally imposed capital requirements.

The Company is subject to certain non-financial covenants related to its credit facilities and long term debt, all of which were met as at January 30, 2016 and January 31, 2015. There has been no change with respect to the overall capital risk management strategy during the year ended January 30, 2016.

24. GUARANTEES

Generally, the Company does not 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 30, 2016, 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.

25. SUBSEQUENT EVENT

Long-term debt

On January 15, 2016, the Company entered into a loan agreement for $10.0 million from a company that is directly controlled by a director of the Company, of which $7.5 million was drawn on that date and the balance of $2.5 million drawn subsequent to year end on February 12, 2016 *[note 19]*.

BOARD OF DIRECTORS

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

Herschel H. Segal
Founder of the Company

Emilia Di Raddo, CPA, CA
President

David Martz*
Management Consultant

Norman Daitchman, FCPA, FCA*
Consultant

Michael Pesner, CPA, CA*
President, Hermitage
Canada Finance Inc.

*Member of the Audit Committee

OFFICERS

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

Emilia Di Raddo, CPA, CA
President

Franco Rocchi
Senior Vice-President,
Sales and Operations

Johnny Del Ciancio, CPA, CA
Vice-President, Finance and Secretary

Catriona Belsham
Vice-President,
Design & Merchandising, Ladies

Courtenay Fishman
Vice-President,
Creative Direction

Wendy Stapleford
Vice-President,
Human Resources

Richard Gill
Vice-President,
Information Technology

Paolo Volpe
Vice-President, Marketing

Angie Park
Vice-President, Dressy Dresses

Ronna Kaback
Vice-President,
Ladies Casualwear

Auditors
Ernst & Young LLP

Registrar and Transfer Agent
Computershare Investor
Services Inc.

Corporate Counsel
Stikeman Elliott LLP

Bankers
Wells Fargo Canada
Royal Bank of Canada
HSBC Bank Canada

**Annual Meeting
of Shareholders**
Wednesday, July 13, 2016
at 10:00 am at our head office

Produced by:
MaisonBrison Communications Inc.

HEAD OFFICE

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