

MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to provide the results of Le Château Inc. for the first quarter ended April 28, 2007.

Sales increased 15.0% to \$70.4 million for the first quarter ended April 28, 2007 as compared with sales of \$61.2 million for the first quarter ended April 29, 2006. Comparable store sales increased by 10.0% in the first quarter of 2007 compared with the same period a year ago. Net earnings for the first quarter increased 68.6% to \$4.6 million or \$0.74 per share compared to \$2.7 million or \$0.45 per share last year. For the first five weeks ended June 2, 2007, total retail sales have increased 17.8% and comparable store sales have increased 12.5% over the same period a year ago.

At the Board of Directors meeting held June 7, 2007, a quarterly cash dividend of \$0.50 was declared on the Class A subordinate voting and Class B voting shares outstanding, representing the 55th consecutive dividend declared by Le Château. The dividend is payable on August 17, 2007 to shareholders of record at the close of business on July 20, 2007.

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

(signed)

Jane Silverstone Segal, B.A.LLL

Vice-Chairman of the Board and Chief Executive Officer

June 7, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended April 28, 2007 and the audited consolidated financial statements and MD&A for the year ended January 27, 2007. The risks and uncertainties faced by the Company are substantially the same as those outlined in the annual MD&A contained in the Company's 2006 Annual Report. The MD&A has been prepared as at June 7, 2007.

Results of Operations

Sales increased 15.0% to reach \$70.4 million for the first quarter ended April 28, 2007 as compared with \$61.2 million last year. Comparable store sales increased 10.0% as compared to the same period last year. The sales growth achieved during the first quarter resulted from a combination of the strong appeal of the Company's product offerings, as well as increased footage arising from new store openings and the expansion of certain stores. During the first quarter, the Company opened four new stores, closed one store and expanded nine existing locations, resulting in the addition of 27,000 square feet or 3% to the Le Château network.

As the Company executes its strategy of broadening its customer base, the Company expects that its business will become less seasonal. However, retail sales are traditionally higher in the third and fourth quarters due to the back-to-school period and the Christmas season, respectively. In addition, fourth quarter earnings results are usually reduced by post Christmas sale promotions.

Net earnings for the first quarter increased 68.6% to \$4.6 million or \$0.74 per share from \$2.7 million or \$0.45 per share for the same period last year. Earnings before interest, income taxes, depreciation and amortization (EBITDA) (see supplementary measures below) for the first quarter increased 46.6% to \$10.8 million or 15.3% of sales, compared to \$7.4 million or 12.0% of sales last year.

Net earnings attributable to Canadian operations amounted to \$4.8 million or \$0.77 per share for the first quarter, compared to \$3.1 million or \$0.52 per share the previous year. The U.S. operations reported a net loss of \$209,000 Cdn or \$(0.03) Cdn per share for the period, compared to a net loss of \$390,000 Cdn or \$(0.07) Cdn per share for the same period a year ago.

The Company is currently examining its options regarding its two Manhattan stores and the assets related to such stores. These two stores contributed significantly to the net loss of approximately \$1.2 million from the U.S. operations in fiscal 2007. The remaining undepreciated capital assets related to these stores, as at April 28, 2007, were in the amount of approximately \$1.4 million.

Liquidity and Capital Resources

Cash flow from operations (see supplementary measures below) amounted to \$8.4 million for the first quarter of 2007, compared with \$6.1 million for the same period last year, mainly as a result of higher net earnings before depreciation reported for the period.

Capital expenditures for the first quarter amounted to \$11.6 million, compared to \$11.2 million for the same period last year and related primarily to the opening of four new stores and the renovation of 18 existing stores.

Financial Position

Working capital stood at \$50.9 million at the end of the first quarter of 2007, compared to \$52.7 million as at April 29, 2006 and \$45.9 million as at January 27, 2007.

Inventories increased to \$46.3 million at the end of the first quarter, from \$37.2 million a year earlier, due primarily to the 10% increase in square footage when compared to the same period last year.

Long-term debt and capital lease obligations, including the current portions, amounted to \$28.8 million as at April 28, 2007, compared with \$19.8 million as at April 29, 2006, after the additional long-term financing of \$16.3 million obtained during the first quarter of 2007. The long-term debt to equity ratio increased to 0.26:1 as at April 28, 2007 from 0.19:1 the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Dividends

On November 30, 2006, the Board of Directors declared two dividends for the holders of Class A subordinate voting shares and Class B voting shares. The Board of Directors increased the regular quarterly dividend by 50% to \$0.375 per share and declared a one-time dividend of \$3.00 per share. Both dividends were paid on February 13, 2007 to the shareholders of record at the close of business on January 30, 2007.

On April 12, 2007, the Board of Directors declared a quarterly dividend of \$0.50 per Class A subordinate voting share and Class B voting share (on a pre-split basis), representing an increase of 33% from the previous dividend rate of \$0.375 per share. The dividend was paid on May 25, 2007 to shareholders of record at the close of business on May 11, 2007.

On June 7, 2007, the Board of Directors declared a quarterly dividend of \$0.50 per Class A subordinate voting share and Class B voting share (on a pre-split basis). The dividend is payable on August 17, 2007 to shareholders of record at the close of business on July 20, 2007. This represents the 55th consecutive quarterly dividend declared by Le Château.

The Company designated the above dividends to be eligible dividends pursuant to the Income Tax Act and its equivalent in the provincial jurisdictions of Canada.

Share Capital

On April 12, 2007, the Company announced that it intends to propose a four-for-one stock split of its Class A subordinate voting shares and Class B voting shares, subject to approval by the Company's shareholders at the forthcoming meeting of shareholders to be held on June 27, 2007. A majority of 66 2/3% of the votes attached to the Class A subordinate voting shares and Class B voting shares is required to approve the stock split. Further information on the stock split is provided in the Company's information circular dated May 22, 2007. The Company is proposing the stock split to further enhance the liquidity of its shares for the benefit of all shareholders. The record date for and the effective date of the split will be announced by the Company at a later date. All share and per share information presented in the MD&A and the unaudited interim consolidated financial statements do not reflect the effects of the stock split.

In May 2007, the principal shareholder of the Company converted 400,000 Class B voting shares with a paid-up capital of \$140,922 into Class A subordinate voting shares.

As at June 7, 2007, there were 4,587,941 Class A subordinate voting and 1,640,000 Class B voting shares outstanding. Further, there are 444,600 stock options outstanding with exercise prices ranging from \$30.25 to \$60.55, of which 57,000 are exercisable.

Accounting Policies

Critical Accounting Estimates:

The Company's critical accounting estimates are substantially the same as those disclosed in the Management's Discussion and Analysis section of its 2006 Annual Report.

Accounting Standards Implemented in 2007:

On January 28, 2007, the Company adopted the recommendations of the following Sections of the Canadian Institute of Chartered Accountants Handbook: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges. These standards set out, among other things, at what point a financial instrument must be recognized in the balance sheet and in what amount, in addition to specifying the basis of presentation for the gains and losses on the financial instruments. Based on their classification in the balance sheet, the gains and losses on the financial instruments are recognized in the statement of earnings or in the newly introduced financial statement, the statement of comprehensive income.

The Company refers the reader to note 2 to the interim consolidated financial statements for the first quarter, ended April 28, 2007, for further details regarding the adoption of these standards.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Supplementary Measures

In addition to discussing earnings measures in accordance with Canadian generally accepted accounting principles ("GAAP"), this MD&A provides earnings before interest, income taxes, depreciation and amortization ("EBITDA") as a supplementary earnings measure. Depreciation and amortization include the write-off of fixed assets. EBITDA is provided to assist readers in determining the ability of the Company to generate cash from operations and to cover financial charges. It is also widely used for valuation purposes for public companies in our industry.

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

The following table reconciles EBITDA to GAAP measures disclosed in the unaudited interim consolidated statements of earnings for the three-month period ended April 28, 2007:

<i>(in thousands of dollars)</i>	For the three months ended	
	April 28, 2007	April 29, 2006
Earnings before income taxes	\$ 7,083	\$ 4,219
Depreciation and amortization	3,846	3,198
Write-off of fixed assets	-	51
Interest on long-term debt and capital lease obligations	347	304
Interest income	(488)	(411)
EBITDA	\$ 10,788	\$ 7,361

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

Internal Control over Financial Reporting

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with GAAP in its financial statements. The Chief Executive Officer and Chief Financial Officer have evaluated whether there were changes to its ICFR during the three-month period ended April 28, 2007 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such changes were identified through their evaluation.

Forward-looking Statements

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

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

FINANCIAL HIGHLIGHTS

(Unaudited)

(In units except where otherwise stated)

	April 28, 2007	April 29, 2006
Working capital (\$,000)	\$ 50,862	\$ 52,693
Current ratio	2.13	2.60
Quick ratio	1.10	1.47
Long-term debt to equity *	0.26	0.19
Capital expenditures (\$,000)	\$ 11,597	\$ 11,237
Number of stores at end of quarter	198	187
Total number of square feet (,000)	881	799
Book value per share	\$ 17.58	\$ 17.71

* Including capital lease obligations.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands of dollars)

	As at April 28, 2007	As at April 29, 2006	As at January 27, 2007
ASSETS			
Current			
Cash and cash equivalents	\$ 11,720	\$ 5,808	\$ 2,743
Short-term investments (note 3)	32,516	37,276	58,899
Accounts receivable and prepaid expenses	4,410	4,512	4,457
Income taxes refundable	852	796	-
Inventories	46,349	37,249	40,967
Total current assets	95,847	85,641	107,066
Fixed assets	86,394	73,972	78,643
	\$ 182,241	\$ 159,613	\$ 185,709
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 31,948	\$ 24,563	\$ 32,870
Dividend payable	3,114	1,507	20,992
Income taxes payable	-	-	833
Derivative financial instruments (note 2)	829	-	-
Current portion of capital lease obligations	1,680	2,674	2,051
Current portion of long-term debt (note 4)	7,414	4,204	4,392
Total current liabilities	44,985	32,948	61,138
Capital lease obligations	1,975	3,655	2,288
Long-term debt (note 4)	17,703	9,251	5,934
Future income taxes (note 2)	2,612	2,365	2,891
Deferred lease inducements	5,508	4,671	5,284
Total liabilities	72,783	52,890	77,535
Shareholders' Equity			
Capital stock (note 5)	30,367	27,212	30,221
Contributed surplus (note 5)	1,358	722	1,139
Retained earnings	78,283	78,789	76,814
Accumulated other comprehensive income (notes 2 and 6)	(550)	-	-
Total shareholders' equity	109,458	106,723	108,174
	\$ 182,241	\$ 159,613	\$ 185,709

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>(Unaudited)</i> <i>(In thousands of dollars)</i>	For the three months ended	
	April 28, 2007	April 29, 2006
Balance, beginning of period	\$ 76,814	\$ 77,577
Net earnings	4,583	2,719
	81,397	80,296
Dividends	3,114	1,507
Balance, end of period	\$ 78,283	\$ 78,789

CONSOLIDATED STATEMENTS OF EARNINGS

<i>(Unaudited)</i> <i>(In thousands of dollars, except per share data)</i>	For the three months ended	
	April 28, 2007	April 29, 2006
Sales	\$ 70,385	\$ 61,187
Cost of sales and expenses		
Cost of sales and selling, general and administrative	59,597	53,826
Depreciation and amortization	3,846	3,198
Write-off of fixed assets	-	51
Interest on long-term debt and capital lease obligations	347	304
Interest income	(488)	(411)
	63,302	56,968
Earnings before income taxes	7,083	4,219
Provision for income taxes	2,500	1,500
Net earnings	\$ 4,583	\$ 2,719
Net earnings per share (note 7)		
Basic	\$ 0.74	\$ 0.45
Diluted	0.72	0.43
Weighted average number of shares outstanding ('000)	6,221	6,026

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Unaudited)</i> <i>(In thousands of dollars)</i>	For the three months ended	
	April 28, 2007	April 29, 2006
Net earnings	\$ 4,583	\$ 2,719
Other comprehensive income		
Losses on forward exchange contracts designated as cash flow hedges (net of income taxes of \$279)	(550)	-
Gains on forward exchange contracts designated as cash flow hedges prior to January 28, 2007, transferred to net earnings in the current period (net of income taxes of \$108)	(212)	-
	(762)	-
Comprehensive income	\$ 3,821	\$ 2,719

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Unaudited)</i> <i>(In thousands of dollars)</i>	For the three months ended	
	April 28, 2007	April 29, 2006
OPERATING ACTIVITIES		
Net earnings	\$ 4,583	\$ 2,719
Adjustments to determine net cash from operating activities		
Depreciation and amortization	3,846	3,198
Write-off of fixed assets	-	51
Amortization of deferred lease inducements	(205)	(179)
Stock-based compensation	219	264
	8,443	6,053
Net change in non-cash working capital		
items related to operations	(7,942)	(10,212)
Deferred lease inducements	429	650
Cash flows related to operating activities	930	(3,509)
FINANCING ACTIVITIES		
Repayment of capital lease obligations	(684)	(644)
Proceeds of long-term debt	16,344	-
Repayment of long-term debt	(1,553)	(1,083)
Issue of capital stock	146	2
Dividends paid	(20,992)	(1,507)
Cash flows related to financing activities	(6,739)	(3,232)
INVESTING ACTIVITIES		
Decrease in short-term investments	26,383	5,807
Additions to fixed assets	(11,597)	(11,237)
Cash flows related to investing activities	14,786	(5,430)
Increase (decrease) in cash and cash equivalents	8,977	(12,171)
Cash and cash equivalents, beginning of period	2,743	17,979
Cash and cash equivalents, end of period	\$ 11,720	\$ 5,808
Supplementary information:		
Interest paid during the period	\$ 347	\$ 304
Income taxes paid during the period	4,113	6,038

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. Disclosure

The unaudited interim consolidated financial statements (the “financial statements”) have been prepared in accordance with Canadian generally accepted accounting principles with the exception that they do not include all disclosure required for annual financial statements. The financial statements should be read in conjunction with the audited annual consolidated financial statements and related notes contained in the Company’s 2006 Annual Report.

As the Company executes its strategy of broadening its customer base, the Company expects that its business will become less seasonal. However, retail sales are traditionally higher in the third and fourth quarters due to the back-to-school period and the Christmas season, respectively. In addition, fourth quarter earnings results are usually reduced by post Christmas sale promotions.

2. Accounting policies

These financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements for the 52-week period ended January 27, 2007, except as follows:

On January 28, 2007, the Company retroactively adopted, without restatement of prior periods, the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

Section 1530, Comprehensive Income, introduces a new financial statement which shows the change in equity of an enterprise from transactions and other events and circumstances from non-owner sources.

Section 3855, Financial Instruments — Recognition and Measurement, establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives.

The new standard lays out how financial instruments are to be recognized depending on their classification. Depending on financial instruments’ classification, changes in subsequent measurements are recognized in net income or comprehensive income.

The Company has implemented the following classification:

- Cash and cash equivalents are classified as “Financial Assets Held for Trading” and measured at fair value. Changes in fair value are recorded in net earnings.
- Short-term investments are classified as “Available for Sale”. After their initial fair value measurement, unrealized gains and losses are recognized in other comprehensive income, except for impairment losses which are recognized in net earnings. Upon derecognition of the financial asset, the cumulative gains or losses, previously recognized in accumulated other comprehensive income are reclassified to net earnings.
- Accounts receivable are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Accounts payable, long-term debt and capital lease obligations are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Accounting policies (continued)

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

Upon initial application on January 28, 2007, the Company recognized a derivative asset of \$320,000, a deferred tax liability of \$108,000 and accumulated other comprehensive income of \$212,000 related to foreign exchange contracts designated as cash flow hedges.

3. Short-term investments

Short-term investments include investments with original maturity terms of 90 days or more. As at April 28, 2007, the weighted average effective interest rate was 4.26% and their maturity dates vary over periods ending up to July 31, 2007.

4. Long-term debt

The Company has a credit facility in the amount of \$25 million available until June 30, 2007 to finance the renovation and re-fixturing of various stores throughout Canada. Drawdowns under this facility are repayable over 60 months and will bear interest at a fixed rate based on the three year Government of Canada bond interest rate. This facility is collateralized by the store fixtures and equipment financed. On January 31, 2007, the Company borrowed \$16.3 million under the existing facility, at an interest rate of 5.30% per annum, repayable over 60 months. The Company's outstanding debt with this institution, in the amount of \$19.5 million, reduces the amount available under this facility thereby leaving a balance available of \$5.5 million as at April 28, 2007.

5. Capital stock

a) Issued and outstanding

	April 28, 2007	
	Number of shares	\$
Class A subordinate voting shares		
Balance, beginning of period	4,179,941	29,502
Issuance of subordinate voting shares upon exercise of options	8,000	146
Balance, end of period	4,187,941	29,648
Class B multiple voting shares	2,040,000	719
	6,227,941	30,367

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Capital stock (continued)

b) Stock option plan

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

	April 28, 2007	
	Number of options	Weighted average exercise price \$
Outstanding at beginning of period	292,750	36.55
Granted	160,300	60.55
Exercised	(8,000)	18.26
Cancelled/Expired	(450)	6.01
Outstanding at end of period	444,600	45.56
Options exercisable at end of period	17,500	37.14

c) Contributed surplus

The changes in contributed surplus are summarized as follows:

	For the three months ended	
	April 28, 2007	April 29, 2006
Contributed surplus, beginning of period	\$ 1,139	\$ 458
Stock-based compensation expense	219	264
Contributed surplus, end of period	\$ 1,358	\$ 722

During the first quarter ended April 28, 2007, the Company granted 160,300 options to purchase Class A subordinate voting shares (2006 – NIL). The fair value of options granted was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend yield	3.3%
Expected volatility	34.8%
Risk-free interest rate	4.04%
Expected life	3.3 years

Weighted average fair value per option \$12.54

6. Accumulated other comprehensive income

Changes in accumulated other comprehensive income were as follows for the three-month period ended April 28, 2007:

Adjusted opening balance due to the new accounting policies adopted regarding financial instruments (note 2)	212
Other comprehensive income for the period	(762)
Balance, end of period	(550)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Earnings per share

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

	For the three months ended	
	April 28, 2007	April 29, 2006
Weighted average number of shares outstanding - basic	6,220,800	6,026,289
Dilutive effect of stock options	102,053	224,619
Weighted average number of shares outstanding - diluted	6,322,853	6,250,908

8. Segmented information

	For the three months ended	
	April 28, 2007	April 29, 2006
Sales by country		
Canada	\$ 68,304	\$ 59,392
United States	2,081	1,795
	\$ 70,385	\$ 61,187
Sales by division		
Ladies' Clothing	\$ 41,420	\$ 36,128
Men's Clothing	9,754	8,312
Footwear	8,335	7,204
Accessories	10,876	9,543
	\$ 70,385	\$ 61,187
Net earnings (loss)		
Canada	\$ 4,792	\$ 3,109
United States	(209)	(390)
	\$ 4,583	\$ 2,719
Identifiable assets		
Canada	\$ 177,595	\$ 154,668
United States	4,646	4,945
	\$ 182,241	\$ 159,613

9. Subsequent event

In May 2007, the principal shareholder of the Company converted 400,000 Class B voting shares with a paid-up capital of \$140,922 into Class A subordinate voting shares.

10. Comparative figures

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