Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim condensed consolidated financial statements for the nine months ended October 31, 2015 and the audited consolidated financial statements and MD&A for the year ended January 31, 2015. The risks and uncertainties faced by Le Château Inc. (the "Company") are substantially the same as those outlined in the Company's Annual Information Form and in the annual MD&A contained in the Annual Report for the year ended January 31, 2015. The MD&A has been prepared as at December 11, 2015. The 2015 year refers to the 39-week period ended October 31, 2015 while the 2014 year refers to the 39-week period ended October 25, 2014.

Results of Operations

Sales for the third quarter ended October 31, 2015 were $57.6 million as compared with $58.1 million for the third quarter ended October 25, 2014, a decrease of 0.8%, with 7 fewer stores in operation. Comparable store sales increased 2.5% for the third quarter as compared to last year (see supplementary measures below). As expected, the benefits of the Canada-wide media campaign starting in August were well reflected in regular stores, online sales and also in the Ladies and Footwear divisions. Comparable store sales for the Company's 150 regular stores (excluding fashion outlets) increased 5.6% for the third quarter as compared to last year. On a year-to-date basis, sales decreased 4.5% to $171.7 million as compared with $179.7 million last year. Comparable store sales decreased 2.6% for the first nine months of 2015 as compared to last year. Included in comparable store sales are online sales which increased 34.8% and 31.1% for the three and nine-month periods ended October 31, 2015.

During the preceding three years, in response to significant new competition entering the Company's markets, 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 mid-August, launched a marketing campaign across Canada in collaboration with Sid Lee, a world renowned agency that offers marketing communication strategies. The campaign combines TV, billboards and social media, and aims to raise brand awareness. Consumers are rediscovering our brand and products, and we believe this will have a sustainable impact. Direct benefits of the media campaign were reflected in the sale of the Ladies and Footwear divisions with year-over-year increases of 5.6% and 10.5% in comparable store sales for the third quarter, respectively. We also observed some important provincial disparities with solid sales increases in Ontario and Quebec partially offset by weakness in Alberta as a result of economic conditions. Overall, we remain optimistic about the opportunity to grow our business and improve our margins.

Earnings (loss) before interest, income taxes, depreciation, amortization, write-off and/or impairment of property and equipment ("Adjusted EBITDA") (see supplementary measures below) for the third quarter amounted to $(7.2) million, compared to $(4.9) million for the same period last year. The decrease of $2.3 million in adjusted EBITDA for the third quarter was primarily attributable to the increase of $3.4 million in selling, general and administrative ("SG&A") expenses, offset by an increase in gross margin dollars of $1.1 million. SG&A expenses increased primarily due to the cost of the Canada-wide media campaign that started in August. The increase of $1.1 million in gross margin dollars was the result of the increase in gross margin percentage to 63.9% from 61.6% in 2014. The gross margin improvement in the third quarter of 2015 resulted from reduced promotional activity.

Adjusted EBITDA for the nine months ended October 31, 2015 amounted to $(12.1) million, compared to $(11.3) million last year. The decrease of $851,000 in adjusted EBITDA for the first nine months was primarily attributable to an increase of $458,000 in SG&A expenses, as well as a decrease of $393,000 in gross margin dollars. SG&A expenses increased due to the launch of our media campaign, as indicated above, partially offset by reductions in store operating costs and head office expenses. The decrease of $393,000 million in gross margin dollars was the result of the 4.5% decline in sales for the first nine months of 2015, offset by the increase in gross margin percentage to 65.0% from 62.3% in 2014. The gross margin improvement for the nine months ended October 31, 2015 resulted from reduced promotional activity.

Depreciation and amortization for the third quarter amounted to $3.8 million compared to $4.3 million last year. Write-off and impairment of property and equipment relating to store closures and underperforming stores, amounted to $351,000 in the third quarter of 2015 (2014 – $1.1 million). For the nine months ended October 31, 2015, depreciation and amortization decreased to $12.6 million from $13.5 million in 2014, due to the reduced investments in non-financial assets over the last several years. On a year-to-date basis, write-off and impairment of property and equipment amounted to $1.2 million (2014 – $1.8 million).

Finance costs for the third quarter increased to $1.0 million from $757,000 in 2014 and for the nine months ended October 31, 2015, finance costs increased to $2.9 million from $2.2 million the previous year. The increases in finance costs for both periods were due to the additional borrowings during the current year.

Net loss for the third quarter amounted to $12.5 million or $(0.42) per share compared to a net loss of $11.1 million or $(0.37) per share last year. For the nine-month period ended October 31, 2015, the net loss amounted to $28.9 million or $(0.96) per share compared to a net loss of $27.1 million or $(0.95) per share the previous year.

During the first nine months of 2015, the Company closed four stores and, as planned, expects to close another 8 stores before the year ending January 30, 2016. As at October 31, 2015, the Company operated 218 stores (including 68 fashion outlet stores) compared to 225 stores (including 42 fashion outlet stores) as at October 25, 2014. Total square footage for the Le Château network as at October 31, 2015 amounted to 1,192,000 square feet (including 475,000 square feet for fashion outlet stores), compared to 1,230,000 square feet (including 391,000 square feet for fashion outlet stores) as at October 25, 2014. During the next three years, the Company plans on reducing its retail floor space by 250,000 square feet, predominantly coming from the fashion outlet stores.

Liquidity and Capital Resources

Cash flow used for operating activities amounted to $15.2 million for the third quarter ended October 31, 2015, compared with $9.6 million for the same period last year. The increase of $5.6 million in cash flow used for operating activities during the third quarter was mainly the result of: (a) the decrease of $905,000 of income taxes refunded, (b) the increase of $2.3 million in non-cash working capital requirements, and (c) an increase of $2.7 million in the net loss before depreciation, amortization, write-off and impairment of property and equipment.

On a year-to-date basis, cash flow used for operating activities amounted to $24.8 million, compared with $14.8 million last year. The increase of $9.9 million in cash flow used for operating activities during the first nine months of 2015 was mainly the result of: (a) the decrease of $4.4 million of income taxes refunded, net of income tax recovery, (b) the increase of $2.5 million in non-cash working capital requirements, (c) an increase of $3.3 million in the net loss before depreciation, amortization, write-off and impairment of property and equipment.

The Company's bank indebtedness (net of cash) and credit facility, including the current portions, amounted to $61.4 million at the end of the third quarter, compared with $52.8 million as at October 25, 2014 and $47.2 million as at January 31, 2015.

On June 5, 2014, the Company renewed its asset based revolving 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. The Credit Agreement requires the Company to comply with certain covenants, including restrictions with respect to the payment of dividends and the purchase of the Company's shares under certain circumstances. As at October 31, 2015, the Company had drawn $62.7 million (2014 - $55.6 million) under this credit facility and had outstanding standby letters of credit totaling $2.0 million (2014 - $1.5 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.

Aside from the letters of credit outstanding, the Company did not have any other off-balance sheet financing arrangements as at October 31, 2015.

Capital expenditures for the third quarter amounted to $2.2 million, compared to $1.0 million for the same period last year. Capital expenditures for the first nine months of 2015 amounted to $7.3 million, compared to $7.6 million for the same period last year and are primarily related to the renovation of certain existing stores and investments in information technology. Capital expenditures were financed with the Company's credit facility as well as the $20.0 million long-term debt financing obtained during the first nine months of 2015.

Financial Position

Working capital stood at $84.2 million at the end of the third quarter of 2015, compared to $93.9 million as at October 25, 2014 and $83.3 million as at January 31, 2015.

Long-term debt, including the current portion, amounted to $23.7 million as at October 31, 2015, 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 of $20.0 million, net of $2.4 million of unamortized fair value adjustment and net of repayments of $1.7 million made during the first nine months of 2015. As at October 31, 2015, the long-term debt to equity ratio increased to 1.30 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 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 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. 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 (see note 13 of the unaudited interim condensed consolidated financial statements).

Inventory

Total inventories as at October 31, 2015 amounted to $122.0 million compared to $128.4 million as at October 25, 2014 and $115.4 million as at January 31, 2015. Total finished goods inventory, including goods in transit, at the end of the third quarter decreased by 3.3% compared to October 25, 2014 and increased by 8.3% compared to January 31, 2015.

As part of the Company's inventory management plan, the Company continues to use 68 outlets (475,000 square feet) in its network to sell prior season discounted merchandise. In addition, the online outlet division has also played an important role in the selling of these goods.

Outstanding Share Data

As at December 11, 2015, there are 25,403,762 Class A subordinate voting shares and 4,560,000 Class B voting shares outstanding. Furthermore, there are 2,642,500 stock options outstanding with exercise prices ranging from $1.06 to $4.59, of which 1,412,800 are exercisable.

Critical Accounting Policies and Estimates

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 and 5 of the audited consolidated financial statements for the year ended January 31, 2015; 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 cash generating unit's ("CGU") 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 make significant judgments 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.

Provisions
When a provision for onerous contracts is recorded, the provision is determined based on management's best estimate of the present value of the lower of the expected cost of terminating the contract and the expected net cost of operating under the contract. Assumptions and estimates are made in relation to discount rates, the expected cost to terminate a contract and the related timing of those costs.

Income Taxes
From time to time, the Company is subject to audits related to tax risks, and uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded. The Company establishes provisions if required, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the entity and the responsible tax authority, which may arise on a wide variety of issues.

Stock-based compensation
The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the assumptions with respect to the expected life of the option, volatility and dividend yield.

Accounting Standards Implemented in 2015:

There were no new accounting standards implemented during the nine months ended October 31, 2015.

New Standards Not Yet Effective:

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.

Supplementary 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. 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 disclosed in the unaudited interim condensed consolidated statements of loss for the three and nine-month periods ended October 31, 2015 and October 25, 2014:

(Unaudited)	For the three months ended		For the nine months ended	
(In thousands of Canadian dollars)	October 31, 2015	October 25, 2014	October 31, 2015	October 25, 2014
Loss before income tax recovery	$ (12,478)	$ (11,052)	$ (28,858)	$ (28,783)
Depreciation and amortization	3,849	4,297	12,582	13,497
Write-off and impairment of property and equipment	351	1,134	1,240	1,847
Finance costs	1,037	757	2,909	2,170
Finance income	(2)	(5)	(9)	(16)
Adjusted EBITDA	$ (7,243)	$ (4,869)	$ (12,136)	$ (11,285)

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 unaudited interim condensed consolidated statements of loss for the three and nine-month periods ended October 31, 2015 and October 25, 2014:

(Unaudited)	For the three months ended		For the nine months ended	
(In thousands of Canadian dollars)	October 31, 2015	October 25, 2014	October 31, 2015	October 25, 2014
Comparable store sales – Regular stores	$ 43,581	$ 41,251	$ 130,268	$ 132,044
Comparable store sales – Outlet stores	10,185	11,207	30,598	33,089
Total comparable store sales	53,766	52,458	160,866	165,133
Non-comparable store sales	3,874	5,676	10,812	14,610
Total sales	$ 57,640	$ 58,134	$ 171,678	$ 179,743

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

Summary of Quarterly Results

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

(Unaudited)		Loss before		Loss per share	
(In thousands of Canadian dollars, except per share amounts)	Sales	income tax recovery	Net loss	Basic	Diluted
Third quarter ended October 31, 2015	$ 57,640	$ (12,478)	$ (12,478)	$ (0.42)	$ (0.42)
Second quarter ended August 1, 2015	63,292	(4,022)	(4,022)	(0.13)	(0.13)
First quarter ended May 2, 2015	50,746	(12,358)	(12,358)	(0.41)	(0.41)
Fourth quarter ended January 31, 2015	70,467	(11,609)	(11,609)	(0.39)	(0.39)
Third quarter ended October 25, 2014	58,134	(11,052)	(11,052)	(0.37)	(0.37)
Second quarter ended July 26, 2014	68,304	(2,970)	(2,970)	(0.10)	(0.10)
First quarter ended April 26, 2014	53,305	(14,761)	(13,045)	(0.48)	(0.48)
Fourth quarter ended January 25, 2014	76,918	(5,012)	(3,860)	(0.15)	(0.15)

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

Controls and Procedures

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

The CEO and CFO have designed internal controls over financial reporting ("ICFR"), or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The CEO and CFO have evaluated whether there were changes to its ICFR during the three and nine-month periods ended October 31, 2015 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

Forward-looking Statements

This "Management's Discussion and Analysis" may contain forward-looking statements relating to the Company and/or the environment in which it operates that are based on the Company's expectations, estimates and forecasts. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict and/or are beyond the Company's control. A number of factors may cause actual outcomes and results to differ materially from those expressed. These factors 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.