Annual Information Form

Le Château Inc.

For the fiscal year ended January 28, 2006

April 24, 2006

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1. Incorporation

1.1 The Company

Château Stores Ltd. was incorporated under the *Companies Act (Québec)* on November 17, 1959. On June 9, 1969, an affiliated company, Le Château Design Ltd., was incorporated under the *Canada Corporations Act*. On April 17, 1973, Le Château Design Ltd. changed its name by supplementary letters patent to Château Stores of Canada Ltd., and at that time, Château Stores of Canada Ltd. acquired all the outstanding shares of Château Stores Ltd. from Herschel H. Segal and a minority shareholder. Over a period of time, the operations carried on by Château Stores Ltd. were transferred to its parent, Château Stores of Canada Ltd. Château Stores of Canada Ltd. was continued under the *Canada Business Corporations Act* on January 27, 1977.

The Company completed its Initial Public Offering on December 3, 1983, issuing 922,300 Class A subordinate voting shares.

On July 6, 2000, Château Stores of Canada Ltd. changed its name to Le Château Inc.

The head office and principal place of business of Le Château Inc. is located at 5695 Ferrier, Town of Mount Royal, Québec, H4P 1N1, tel. (514) 738-7000.

Le Château Inc. owns 100% of the common shares of its U.S. subsidiary, Château Stores Inc., incorporated under the laws of the state of Delaware.

In this Annual Information Form the “Company” and “Le Château” refer collectively to Le Château Inc. and its subsidiary.

2. Business of the Company

2.1 General Business Development

2003

- Net earnings in fiscal 2003-2004 reached $10.6 million or $2.07 per share, compared to $7.6 million or $1.52 per share the previous year.
- Sales increased 4.2% to $226.8 million from $217.7 million, while comparable store sales increased 0.6%.

2004

- Net earnings increased 49% to $15.9 million or $2.96 per share for the 52 weeks period ended January 29, 2005, as compared to $10.6 million or $2.07 per share for the 53 week period ended January 31, 2004.
- Sales increased 6.3% to $241.1 million from $226.8 million, while comparable store sales increased 4.9%.

2005

- Net earnings in fiscal 2005-2006 increased 48% to $23.5 million or $3.95 per share, compared to $15.9 million or $2.96 per share for the previous year.
- Sales increased 15.7% to $279.1 million from $241.1 million, while comparable store sales increased 11.2%.

During the third quarter of fiscal 2005-2006, the Company entered into a pilot licensing agreement with a retail developer in the Middle East regarding the opening of Le Château branded stores in the region. Construction is under way for a small number of test locations, which are expected to be launched over the next several months.

On March 2006, the Company announced that it was evaluating strategic alternatives for enhancing shareholder value, which may include the potential sale of the Company, a business combination, or a capital reorganization. The process is ongoing and the Company anticipates that it will take several months. There can be no assurance that any transaction or other alternative will ultimately be completed. The Company retained Genuity Capital Markets as exclusive financial advisor in connection with this process.

2. Business of the Company [Cont'd]

2.2 Description

2.2.1 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's brand name clothing is largely designed and developed within its vertically integrated operations. The Le Château brand merchandise is sold exclusively through its 185 retail locations. All stores are located in Canada, except for five locations in the New York City area.

Le Château, committed to research, design and product development, manufactures approximately 42% of the Company's goods in its own Canadian production facilities.

2.2.2 The Retail Network

The Company leases store locations both in shopping malls and in downtown areas where pedestrian traffic is heavy. The following table summarizes the geographic distribution of Le Château stores, as at January 28, 2006.

Province	Stores	Square Footage
Ontario	59	236,638
Québec	57	263,309
British Columbia	23	92,139
Alberta	19	71,916
Nova Scotia	6	18,969
Manitoba	6	24,050
Saskatchewan	4	13,209
New Brunswick	4	12,467
Newfoundland	1	5,203
Prince Edward Island	1	3,480
Total Canada	180	741,380
Total United States	5	20,713
Total Le Château stores	185	762,093

2. Business of the Company [Cont'd]

Of the $279.1 million in total sales for the fiscal year ended January 28, 2006, stores situated in Canada accounted for $271.4 million, or 97.2% of consolidated sales, while stores situated in the United States accounted for $7.7 million or 2.8% of sales. Ontario accounted for 35% of total sales, while Québec accounted for 27% of the Company's sales.

Lease expirations, excluding options to renew, are as follows: 11 leases expire in 2006, and the remainder expire in years ranging from 2007 to 2017. The building in which the store on St. Jean Street in Québec City is located, is owned by the Company.

In the normal course of business, the Company is continually looking for promising locations to strengthen its market penetration. Store performance is analyzed regularly. When a store does not meet Company growth criteria, and when corrective measures are not effective, the store in question is closed, usually when the lease for the location expires.

The distribution of store openings and closings over the past three years has been as follows:

	Fiscal 2005-2006	Fiscal 2004-2005	Fiscal 2003-2004
Canada			
Openings	12	10	6
Closings	– 2	– 1	– 2
Net Change	+10	+ 9	+ 4
Number of stores in Canada	180	170	161
U.S.			
Openings	1	0	0
Closings	0	0	0
Net Change	+ 1	+ 0	+ 0
Number of stores in the U.S.	5	4	4
Total number of stores	185	174	165

2. Business of the Company [Cont'd]

Le Château believes that its stores are a direct link to the customer. It is, therefore, vital that the shop atmosphere reflects the dynamism, energy, and style that Le Château symbolizes. Customers are not just buying clothes, but endorsing the Le Château brand image. The Company endeavors to make each location look and feel more like a privately owned street boutique, reflecting the uniqueness of both the market and its clothing. The store decor is a way of enhancing the merchandise, creating confidence in the product and effectively connecting the consumer with the brand. Shop personnel, an integral part of a store's ambiance, further strengthen the Le Château image, and, for this reason, the Company continues to prioritize and nurture a more informed, empowered and ultimately more dynamic staff.

For the year ended January 28, 2006, the Company invested approximately $27.7 million in capital expenditures, of which $22.7 million was for the opening of 13 new stores and the renovation of 27 existing stores. By comparison, capital expenditures in the previous year were $16.5 million, of which $12.7 million was for the opening of 10 new store and the renovation of 20 existing stores, with the balance used primarily for investments in information technology.

Where possible and profitable, stores are expanded into adjacent space during renovation; thereby further adding to sales. The pace of the renovation program depends on the Company's ongoing financial results. Projected capital expenditures for fiscal 2006-2007 are approximately $27 million, of which approximately $23 million is intended to be used for the opening of 8 to 12 new stores and the renovation of 25 to 30 existing stores and the balance of $4 million for investments in information technology and infrastructure. Management expects to be able to continue financing the Company's activities and most of its capital expenditures through cash flow from operations and, if necessary, can draw upon its financial resources, which include cash and cash equivalents (including short-term investments) of approximately $61.1 million at year-end, as well as a revolving line of credit of $16 million with a Canadian chartered bank. Part of the projected capital expenditures could also be financed through a long-term debt facility totalling $15 million.

2. Business of the Company [Cont'd]

Annual sales per square foot is one of several indicators of store performance, and is a function of the number of units sold, and also the markdowns that are necessary to sell the goods.

	Fiscal 2005-2006	Fiscal 2004-2005 $	Fiscal 2003-2004 $
Sales/sq. ft.	385	367	367
Sales/sq. ft. *	416	394	386

* Excluding Le Château outlet stores.

Breakdown of sales according to type of merchandise (as a percentage of total retail sales):

	Fiscal 2005-2006 %	Fiscal 2004-2005 %	Fiscal 2003-2004 %
Ladies' Clothing	55	58	61
Men's Clothing	14	13	12
Junior Girl Clothing	4	6	8
Footwear	9	7	7
Accessories	18	16	12
	100	100	100

2. Business of the Company [Cont'd]

2.2.3 Manufacturing and Distribution

DESIGN AND PRODUCT DEVELOPMENT

Fashion design has always been one of Le Château's major strengths and management recognizes the need to maintain and build upon this. Catering to the demands of a young-spirited, fashion-conscious clientele means staying on the cutting edge.

In order to satisfy the specific needs of its customers, the Company designs and develops entire collections of clothing, footwear and accessories to be sold under its own "Le Château" label. The Company's fashion, design and manufacturing departments contain the essential "Research and Development" ingredients needed for brand building. Le Château maintains its awareness of changing fashions through a program of in-depth research of world-wide fashion trends. The Company's in-house design capability allows it to adapt these trends to the needs of its demographic market in a timely manner. Thus, the Company is able to offer clothing, footwear and accessories that are at the forefront of changing fashions. Le Château's continual brand appeal is the result of close links between designing, buying, manufacturing and selling – a quick response to market demands.

MANUFACTURING

Le Château's vertically integrated approach makes it unique, as a major retailer in Canada that not only designs and develops, but also manufactures its own brand name clothing. The Company's state-of-the-art production facilities, which include CAD/CAM systems and three robotic cutting systems, 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; allowing the Company to remain connected to the market throughout changing times.

Le Château manufactures its exclusively designed apparel at its own 92,896 square foot leased facilities or arranges for the manufacture of these products through other suppliers in Canada and abroad. Goods manufactured by Le Château are cut in its facilities in Montreal and then sent out to be assembled and sewn by independent contractors in the province of Québec.

The goods are quality controlled throughout the manufacturing process and are sent to the Company's distribution facility for final quality inspection before being shipped to stores.

2. Business of the Company [Cont'd]

Le Château's internal manufacturing process is comprised of the following steps:

- design;
- selecting and buying fabric and trimmings;
- sample making;
- pattern making, marking and grading;
- fabric cutting; and
- final quality control inspections.

As with many apparel manufacturers today, Le Château contracts its sewing needs out to various third parties. The Montreal area is one of North America's largest centres of apparel manufacturing. Hence, Le Château's access to Montreal's large supply of manufacturing capacity and skilled, apparel workers allows the Company to manufacture locally in a cost-effective manner. Of the approximately 30 subcontractors used by Le Château for garment construction and stitching, none accounts for more than 15% of the Company's production.

The Company's manufacturing process makes use of state-of-the-art computerized equipment for:

- making patterns using computer assisted design ["CAD"] technology;
- grading patterns using computer assisted manufacturing ["CAM"] technology;
- optimizing the use of raw materials;
- embroidering patterns on fabrics;
- spreading fabric for cutting; and
- robotic cutting of fabrics.

2. Business of the Company [Cont'd]

2.2.4 Sources of Supply

In addition to manufacturing goods in its own facility, Le Château also buys from other Canadian manufacturers, imports goods directly, and buys from Canadian importers. By managing these four elements according to market developments, the Company maximizes its operating flexibility. The Company's sources of supply include over 300 companies which are located in Canada, the United States, Europe and the Far East. The Company has a diversified network of supplier relationships, with its largest suppliers accounting for less than 10% of the Company's annual purchases.

The following table indicates the breakdown of Le Château's clothing merchandise by source:

	Fiscal 2005-2006 %	Fiscal 2004-2005 %	Fiscal 2003-2004 %
Manufacturing	42	45	43
Imports	54	51	50
Canadian suppliers	4	4	7
	100	100	100

Le Château has traditionally preferred to manufacture its apparel in-house, because it gives the Company the best combination of control, flexibility and speed to respond to market changes. However, the Company increases the proportion of its apparel manufactured by other Canadian companies when demand surges unexpectedly and/or the cost of doing so is favourable. In general, Le Château prefers to manufacture domestically to take advantage of the ability to both test products and come to market quickly thereafter.

2. Business of the Company [Cont'd]

2.2.5 Human and Material Resources

As at January 28, 2006, Le Château employed 2,898 employees, of which 1,602 were full time employees and 1,296 were part time employees.

The Company considers its employee relations to be highly satisfactory.

2.2.6 Marketing Strategy

Le Château's marketing strategy is based on selecting the right merchandise and offering appropriate quantities at optimal prices in order to maximize profitability. In order to accomplish this, Le Château conducts extensive market testing of its merchandise on an ongoing basis. The Company also relies extensively on its POS system, which collects sales information for each store and for each product by size, colour and style. Management uses this information on a daily basis to decide on upcoming orders, and depending on market conditions, whether to manufacture merchandise in-house, import the goods or buy them on the domestic market.

Merchandise quality is also an important element of the Company's marketing strategy. The Company has quality controls in place to ensure that the price-to-quality ratio of its merchandise is satisfactory to its customers.

Le Château's fully networked management information systems provide integration of merchandising, POS, manufacturing and financial systems. The Company's vertically integrated approach relies on these systems to achieve cost efficiencies and improve responsiveness to changing market trends and a more demanding consumer. Le Château invests continually in information technology, a key to maintaining its position as a leading provider of fashion.

2.2.7 Intangible Rights

The Company is the registered owner of approximately 63 trademarks in Canada and 22 in the United States. The Company considers that some of its registered trademarks have significant value in the marketing of its merchandise.

2. Business of the Company [Cont'd]

2.2.8 Competition

In Le Château's core business of avant-garde clothing, the Company competes with one-store specialty boutiques as well as with retail specialty chains.

As compared with the one-store specialty boutiques, Le Château believes that it can offer considerably more selection and better prices due to its in-house manufacturing facilities and its larger resources to research emerging trends. Le Château also benefits from a strong brand name and a well-researched store concept that enhances the look of its clothing and makes it easier for customers to find the items they are looking for.

As compared with other retail chains including new international entrants, Le Château offers an exclusive selection of avant-garde clothing and an excellent price-to-quality ratio.

Overall, management believes that Le Château has the assets required to retain its niche in the Canadian retail clothing market. These include: appropriate systems and management expertise to react quickly to market trends, a well defined and distinct retail concept, a strong brand name, flexible manufacturing operations and a new store format that suits the tastes of today's consumers.

2.2.9 Seasonal Variations

The Company's business follows a seasonal pattern, with retail sales traditionally being higher in the third and fourth quarters due to the back-to-school period and the Christmas season, respectively. Traditionally, sales in the first half of the year account for 46% of Le Château's business volume, while they represent 54% in the second half of the year. In addition, fourth quarter earnings results are usually reduced by post Christmas sale promotions.

2. Business of the Company [Cont'd]

2.3 Risk Factors

The risks included here are not exhaustive and are in addition to other risks mentioned herein or in Le Château 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.

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 which 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. With this view, Le Château seeks to address this risk with its distinctive edge on fashion, its innovative store design and merchandising, its strong financial position and its winning team of vibrant employees dedicated to providing the best whole store experience.

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 could also affect sales. 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 impact the Company's ability to source products at a competitive cost. 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. The Company monitors economic developments in the markets where it operates and uses this information in its continuous strategic and operational reviews to adjust its initiatives as economic conditions dictate and to facilitate ongoing innovation of stores, merchandising concepts and products.

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, the merchandise mix and the timing and level of markdowns, the timing and level of markdowns and promotions by competitors and 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 supplier's 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 within a reasonable period of time, refuse to ship manufactured goods or refuse to purchase goods to fill order 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.

FOREIGN EXCHANGE

The Company's foreign exchange risk is limited to currency fluctuations between the Canadian and U.S. dollar. The Company uses forward contracts to fix the exchange rate of its expected requirements for U.S. dollars.

The Company is party to foreign exchange contracts used to manage currency rate risks. Realized gains and losses on foreign exchange contracts entered into to hedge future transactions are included in the measurement of the related foreign currency transaction.

The Company enters into foreign exchange forward contracts that oblige it to purchase specific amounts of foreign currencies at set future dates at forward predetermined exchange rates. The contracts are matched with anticipated foreign currency purchases in the United States. The Company enters into the foreign exchange forward contracts to hedge itself from the risk of losses should the value of the Canadian dollar decline compared to the foreign currency. The Company only enters into foreign exchange contracts with Canadian Chartered Banks to minimize risk.

LEASES

All of the Company's stores are held under long-term leases, except for the Company owned St. Jean street store in Quebec City. Any increase in retail rental rates may adversely impact the Company.

CHANGES IN LAW, 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, 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.

REVIEW OF STRATEGIC ALTERNATIVES

Although the Company is reviewing various strategic alternatives, including the potential sale of the Company, a business combination, or a capital reorganization, there is no assurance that any transaction or other alternative will ultimately be completed and the Company may be required to expend significant resources in connection with such process.

3. Dividends

During fiscal 2005-2006, Le Château continued, for the twelfth consecutive year, with its policy of paying quarterly dividends on the Class A subordinate voting shares and Class B voting shares. Total dividends per Class A and Class B share amounted to $0.80 in fiscal 2005-2006. The cash dividends declared per Class A and Class B share for the 3 most recently completed financial years amount to $0.80 per share for fiscal 2005-2006, $0.625 per share for fiscal 2004-2005 and $0.40 per share for fiscal 2003-2004.

On September 9, 2005, the Board of Directors approved a 14% increase in the quarterly dividend from $0.175 to $0.20 per share. On December 6, 2005, the Board of Directors approved a change in the Company's dividend policy increasing the quarterly dividend 25% from $0.20 to $0.25 per share.

The Class A shareholders are entitled to a non-cumulative preferential dividend of $0.05 per share, after which the Class B shareholders are entitled to a non-cumulative dividend of $0.05 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 and Class B Shares then outstanding without preference or distinction.

4. Description of Capital Structure

The authorized share capital of the Company consists of an unlimited number of Class A subordinate voting shares ("Class A Shares"), an unlimited number of Class B voting shares ("Class B Shares"), an unlimited number of first preferred shares issuable in series ("First Preferred Shares"), an unlimited number of second preferred shares issuable in series ("Second Preferred Shares") and an unlimited number of third preferred shares issuable in series ("Third Preferred Shares"). 3,986,601 Class A Shares, 2,040,000 Class B Shares and no First Preferred Shares, Second Preferred Shares or Third Preferred Shares are issued and outstanding as at April 24, 2006.

4. Description of capital structure [Cont'd]

Class A Shares. Each Class A Share entitles the holder thereof to one vote per share, except if the Company proposes to sell, lease or exchange all or substantially all of its assets or to distribute its assets for the purpose of winding up its affairs, in which case the Class A Shares shall entitle the holder to 10 votes per share. Subject to the prior rights of the holders of the Preferred Shares, the holders of Class A Shares shall be entitled, if and when declared by the directors, to a non-cumulative preferential dividend in each fiscal year equal to $0.05 per share. Subject to the prior rights of the holders of the Preferred Shares, in the event of the liquidation, dissolution or winding-up of the Company, the holders of the Class A Shares shall be entitled to receive, before any distribution of any part of the assets of the Company among holders of any other shares, an amount equal to all preferential dividends declared thereon and still unpaid. Each Class A Share shall be converted into one Class B Share if at any time Herschel H. Segal 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. If there is an offer for more than 20% of Class B Shares at a price in excess of 115% of their market price at that time and such offer is accepted with respect to more than 20% of the Class B Shares then outstanding, each Class A Share will be, at the option of the holder, converted into one Class B Share for the purposes of accepting the aforementioned offer, unless at the same time an offer is made to all holders of the Class A Shares for a percentage of such shares at least equal to the percentage of Class B Shares which are the subject of the offer and otherwise on terms and conditions not less favourable.

Class B Shares. Each Class B Share entitles the holder thereof to 10 votes per share. After the non-cumulative preferential dividend has been paid to the Class A Shares, the holders of Class B Shares shall be entitled, if and when declared by directors, to a non-cumulative preferential dividend in such fiscal year equal to $0.05 per share. Any further dividends declared after the non-cumulative preferential dividend has been paid to Class B Shares shall be paid in equal amount per share on all the Class A Shares and all the Class B Shares without preference or distinction. In the event of the liquidation, dissolution or winding-up of the Company, after all unpaid declared preferential dividends has been paid to the Class A Shares, the holders of Class B Shares shall be entitled to receive, before any distribution of any part of the assets of the Company among holders of any other shares, an amount equal to all preferential dividends declared thereon and still unpaid. Thereafter, the Class A Shares and Class B Shares shall participate equally, share for share, with respect to any further distribution of any of the assets of the Company. The holders of the Class B Shares shall be entitled at any time and from time to time to convert their Class B Shares into Class A Shares on the basis of one Class A Share for each Class B Share converted. Except for the issue of Class B Shares upon the conversion of any Class A Shares, no Class B Shares may be issued by the Company at any time without the prior approval of the holders of the Class A Shares given at least a majority of the votes cast at a meeting of the holders thereof.

4. Description of capital structure [Cont'd]

In the event of any subdivision or consolidation of the Class A Shares or the Class B Shares, the Shares of the other class will be similarly subdivided or consolidated and their attributes will remain the same.

First, Second and Third Preferred Shares. The shares of each class of the Preferred Shares may be issued from time to time in one or more series, the terms of each series including the number of shares, the designation, rights, privileges, restrictions and conditions to be determined by the Board of Directors of the Company by resolution. With respect to payment of dividends and return of capital, the First Preferred Shares shall rank prior to the Second and Third Preferred Shares, the Class A Shares and Class B Shares; the Second Preferred Shares shall rank prior to the Third Preferred Shares, the Class A Shares and Class B Shares; and the Third Preferred Shares shall rank prior to the Class A Shares and Class B Shares. There shall be no voting rights attached to the Preferred Shares.

Changes in the provisions attached to each class of Preferred Shares as a class or to any series thereof as a series, to the Class A Shares as a class or to the Class B Shares as a class require the affirmative vote of two thirds of the votes cast at a meeting of the holders of the shares of the class, classes or series affected.

5. Market for Securities

The Class A Shares of Le Château Inc. are listed on the Toronto Stock Exchange under the symbol "CTU.SV.A".

The price ranges and volume of Class A Shares of Le Château Inc. traded on the Toronto Stock Exchange on a monthly basis from February 2005 to and including January 28, 2006 was as follows:

Month	High	Low	Volume Traded
January 28, 2006.....	47.97	42.30	138,827
December 2005.......	48.99	44.00	176,691
November 2005	45.73	41.58	151,349
October 2005	48.49	41.00	396,072
September 2005	55.75	47.50	638,982
August 2005............	50.90	47.50	149,869
July 2005.................	48.00	40.98	89,399
June 2005................	42.99	30.00	191,196
May 2005................	30.73	29.10	109,665
April 2005...............	31.00	25.80	175,235
March 2005.............	26.90	24.71	27,485
February 2005..........	26.50	24.49	48,144

6. Directors and Officers

The names, province or state and country of residence, and principal occupations of the Board of Directors and executive officers of the Company appear in the following table.

Name	Position held with the Company	Principal Occupation	Director Since
Herschel H. Segal (1) (2) (Québec, Canada)	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer of the Company	1969
Jane Silverstone (2) (Québec, Canada)	Vice-Chairman of the Board and Director	Vice-Chairman of the Board of the Company	1983
Emilia Di Raddo (2) (Québec, Canada)	President, Secretary and Director	President and Secretary of the Company	2000
A.H.A. Osborn (London, England)	Director	Chief Executive Officer of Alexon Group plc (apparel retailing)	1999
Herbert E. Siblin (2) (3) (4) (5) (Québec, Canada)	Director	President of Siblin & Associates Ltd. (management consultants)	2000
William Cleman (2) (3) (4) (5) (Québec, Canada)	Director	Principal of Cleman Consulting Inc. (management consultants)	2002 Resigned as of December 2, 2005
David Martz (2) (3) (4) (5) (Québec, Canada)	Director	Principal of Martz Management Inc. (management consultants)	2002
Richard Cherney (2) (4) (Québec, Canada)	Director	Co-Managing Partner of Davies Ward Phillips & Vineberg LLP, attorneys	2005
Maurice Tousson (2) (3) (5) (Ontario, Canada)	Director	President and Chief Executive Officer of CDREM Group Inc. (a chain of retail stores known as *Centre du Rasoir* or *Personal Edge*)	2005

6. Directors and Officers [Cont'd]

Name	Position held with the Company	Principal Occupation	Director Since
Betty Berliner (Québec, Canada)	Senior Vice-President, Buying and Merchandising	Senior Vice-President, Buying and Merchandising, of the Company	___
Franco Rocchi (Québec, Canada)	Senior Vice-President, Sales and Operation	Senior Vice-President, Sales and Operation, of the Company	___
Franco Niro (Québec, Canada)	Senior Vice-President, Footwear	Senior Vice-President, Footwear, of the Company	___
Johnny Del Ciancio (Québec, Canada)	Vice-President, Finance	Vice-President, Finance, of the Company	___
Enza Allegro (Québec, Canada)	Vice-President, Manufacturing	Vice-President, Manufacturing, of the Company	___

(1) Rainy Day Investments Ltd. owns 19,000 Class B Shares and is the sole shareholder of 125387 Canada Inc. which owns 1,981,000 Class B Shares. These Class B Shares represent 98% of the issued and outstanding Class B Shares. Mr. Segal owns all of the issued and outstanding voting shares of Rainy Day Investments Ltd.

(2) Member of the Executive Committee of the Board (Maurice Tousson as of April 6, 2006).

(3) Member of the Audit Committee of the Board (Maurice Tousson as of December 6, 2006).

(4) Member of the Corporate Governance Committee of the Board.

(5) Member of Compensation Committee of the Board (Maurice Tousson as of April 6, 2006).

Each of the foregoing persons has held the position set forth next to his or her name for the preceding five years except David Martz and Franco Niro. David Martz was employed by the Aldo Group, a privately held retail operator, from 1983 until 2002, where he was Vice President and Corporate Secretary from 1987 until 2002. Franco Niro was employed by the Aldo Group from 1976 to January 31, 2003, where he was Director and Executive Vice President, and from February 2003 to December 2005, acted as consultant in the footwear and retail sector for various retailers, including for the Company, from May 2005 to December 2005.

The term of each director in office expires at the close of the annual meeting of shareholders, unless such director is re-elected at such meeting.

As a group, the directors and executive officers of the Company beneficially own, directly or indirectly, or have control or direction over approximately 12% of the Class A Shares and 100% of the Class B Shares. The information as to shares beneficially owned, controlled or directed, not being within the knowledge of the Company, has been furnished by the respective directors and executive officers individually.

7. Transfer Agents and Registrars

Computershare Investor Services Inc. is the Canadian transfer agent and registrar for the Company's Class A Shares and Class B Shares. The registers of transfers of each class of securities are located at its principal offices in Montreal and Toronto.

8. Legal Proceedings

The Company is not subject to any legal proceedings that could have a material impact on its business or financial conditions.

9. Interest of Management and Others in Material Transactions

To the Company's knowledge, no director, senior executive officer or any of their respective associates or affiliates has any material interest, direct or indirect, in any transaction within the three years prior to the date of this annual information form, or any proposed transaction which has materially affected or will materially affect the Company.

10. Interest of Experts

Ernst & Young LLP have audited the Company's financial statements for the year ended January 28, 2006. Ernst & Young LLP, as a group, do not own, beneficially or of record, any of the Company's outstanding shares.

11. Audit Committee

11.1 The Audit Committee's Charter

The Charter of the Audit Committee is attached hereto as Schedule A.

11.2 Composition of the Audit Committee

The Audit Committee is currently composed of Messrs. Herbert E. Siblin, Maurice Tousson and David Martz. Each of the members of the Audit Committee is (i) independent and (ii) financially literate.

11.3 Relevant Education and Experience

Herbert E. Siblin is a Chartered Accountant. In 1953, he was one of the founders of the chartered accounting firm of Zittrer, Siblin & Co. In 1966, Mr. Siblin became Managing Partner. He guided the firm into becoming Canada's tenth-largest accounting firm. In 1991, Zittrer Siblin merged with Ernst & Young and Mr. Siblin became an Executive Partner of Ernst & Young and then a Senior Partner of Ernst & Young, which functions he occupied until 1999. Since then, he has been president of Siblin & Associates Ltd., a management consulting firm. Mr. Siblin obtained the title of Fellow of the Ordre des comptables agréés du Québec in 1984. In 1999, he was named Life Member of the Ontario Institute of Chartered Accountants and in 2003, Life Member of the Ordre des comptables agréés du Québec. In 2001, Mr. Siblin was named member of the Order of Canada, 2001, in recognition of his contribution to business. During his career, he served a two-year term on the Council of the Ordre des comptables agréés du Québec and served as Chairman of the Rules of Professional Conduct Committee of the Ordre des comptables agréés du Québec. He also occupied different functions at McGill University being named Honorary Treasurer from 1991 to 2004, Chairman, Audit and Finance Committee from 1993 to 1998 and Governor Emeritus in 1997.

Maurice Tousson holds an MBA degree from Long Island University in New York. He is currently the President and Chief Executive Officer of CDREM Group Inc., a chain of retail stores known as *Centre du Rasoir* or *Personal Edge*, a position he has held since January 2000. Mr. Tousson has held executive positions at well known Canadian specialty retailers, including Château Stores of Canada Ltd., Consumers' Distributing and Sports Experts, with responsibilities for operations, finance, marketing and corporate development. Currently Mr. Tousson sits on the board of directors of Dorel Industries Inc. and several privately held companies.

David Martz holds an MBA from McMaster University with a major in finance and worked at Steinberg Inc. in various financial and executive capacities from 1971 to 1983. From 1983 to 2002, he was employed by the Aldo Group, an international footwear and accessory retailer based in Montreal, where he was Vice President and Corporate Secretary at the time of his departure. Since then, Mr. Martz has been the principal of Martz Management Inc. where he is

11. Audit Committee [Cont'd]

responsible for the execution of corporate management consulting mandates and assignments in the "not for profit" sector.

11.4 External Auditor Service Fees

The Company has paid Ernst & Young LLP, the Company's external auditor, the following fees in each of the last two fiscal periods:

11.4.1 Audit Fees

The aggregate fees billed by the Company's external auditor in each of the last two fiscal years for audit services performed in connection with the annual audit and quarterly reviews of the Company's financials statements was $167,000 for fiscal 2005-2006 and $155,135 for fiscal 2004-2005.

11.4.2 Audit-Related Fees

The aggregate fees billed by the Company's external auditor for accounting advisory services that are reasonably related to the performance of the annual audit and quarterly reviews of the Company's financial statements (and not included in the audit fees above) was $22,500 for fiscal 2005-2006 and $28,500 for fiscal 2004-2005.

11.4.3 Tax Fees

The aggregate fees billed by the Company's external auditor in each of the last two fiscal years for Canadian and U.S. tax work not otherwise included in the audit fees and audit-related fees above, was $18,240 for fiscal 2005-2006 and $17,097 for fiscal 2004-2005.

11.4.4 All Other Fees

There were no further fees billed by the Company's external auditor for services performed and not otherwise included in the audit fees, audit-related fees and tax fees above for fiscal 2005-2006. For fiscal 2004-2005, such fees totalled $67,495.

12. Additional Information

Additional information relating to our Company may be found on Sedar at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Company's information circular for its most recent annual meeting of securityholders that involved the election of directors.

Additional financial information is provided in the Company’s financial statements and management discussion and analysis for its most recently completed financial year.

SCHEDULE A

LE CHÂTEAU INC.

AUDIT COMMITTEE CHARTER

1. THE COMMITTEE

1.1 The audit committee of the Board shall have the purpose, constitution and responsibilities set forth herein.

1.2 Certain Definitions – In this Charter:

(a) "Board" means the board of directors of the Company;

(b) "Chair" means the chairperson of the Committee;

(c) "Charter" means this written charter of the Committee and any such charter for the Committee which the Board resolves from time to time shall be the charter of the Committee, as amended from time to time;

(d) "Committee" means the audit committee of the Board;

(e) "Company" means Le Château Inc.;

(f) "Director" means a member of the Board;

(g) "MD&A" means Management's Discussion & Analysis as contemplated in NI 51-102; and

(h) "External Auditor" means the Company's independent auditor.

1.3 Interpretation – The provisions of this Charter are subject to the provisions of the by-laws of the Company and to the applicable provisions of applicable legislation.

2. PURPOSE

2.1 Purpose – The primary purpose of the Committee is to assist Board oversight of:

(a) the integrity of the Company's financial statements;

(b) the Company's compliance with legal and regulatory requirements;

(c) the External Auditor's qualifications and independence; and

(d) the performance of the External Auditor.

3. CONSTITUTION AND FUNCTIONING OF THE COMMITTEE

3.1 Number of Members – The Committee shall consist of not fewer than three members, each of whom shall be a Director.

3.2 Appointment and Removal of Members of the Committee

(a) *Board Appoints Members*. The members of the Committee shall be appointed by the Board, having considered the recommendation of the Nominating Committee of the Board.

(b) *Annual Appointments*. The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the appointment of members of the Committee is not so made, the Directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.

(c) *Vacancies*. The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Directors.

(d) *Removal of Member*. Any member of the Committee may be removed from the Committee by a resolution of the Board.

3.3 Independence of Members – Each member of the Committee shall be independent or unrelated, as the case may be, for the purposes of all applicable regulatory and stock exchange requirements.

3.4 Financial Literacy

(a) *Financial Literacy Requirement*. Each member of the Committee shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

(b) *Definition of Financial Literacy*. "Financially literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

3.5 Audit Committee Financial Expert

(a) *Attributes of an Audit Committee Financial Expert.* To the extent possible, the Board will appoint to the Committee Directors who as a group have the following attributes:

(i) an understanding of Canadian generally accepted accounting principles and financial statements;

(ii) ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

(iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;

(iv) an understanding of internal controls and procedures for financial reporting; and

(v) an understanding of audit committee functions.

(b) *Experience of the Audit Committee Financial Expert.* To the extent possible, the Board will appoint to the Committee at least one Director who acquired the attributes in (a) above through:

(i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions (or such other qualification as the Board interprets such qualification in its business judgment);

(ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;

(iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or

(iv) other relevant experience.

4. COMMITTEE CHAIR

4.1 Board to Appoint Chair – The Board shall appoint the Chair from the members of the Committee (or, if it fails to do so, the members of the Committee shall appoint the Chair of the Committee from among its members).

4.2 Chair to be Appointed Annually – The designation of the Committee's Chair shall take place annually at the first meeting of the Board after a meeting of the members at which Directors are elected, provided that if the designation of Chair is not so made, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

5. COMMITTEE MEETINGS

5.1 Quorum – A quorum of the Committee shall be a majority of its members.

5.2 Secretary – Subject to the by-laws of the Company, the Chair shall designate from time to time a person who may, but need not, be a member of the Committee, to be Secretary of the Committee.

5.3 Time and Place of Meetings - The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee; provided, however, the Committee shall meet at least quarterly.

5.4 *In Camera* Meetings – As part of each meeting of the Committee at which the Committee recommends that the Board approve the annual audited financial statements or at which the Committee approves the quarterly financial statements, the Committee shall meet separately with each of:

(a) management; and

(b) the External Auditor.

5.5 Right to Vote – Each member of the Committee shall have the right to vote on matters that come before the Committee.

5.6 Invitees – The Committee may invite Directors, officers and employees of the Company or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee.

6. AUTHORITY OF COMMITTEE

6.1 Retaining and Compensating Advisors - The Committee shall have the authority to engage independent counsel and other advisors as the Committee may deem appropriate in its sole discretion and to set and pay the compensation for any such advisors. The Committee shall not be required to obtain the approval of the Board in order to retain or compensate such counsel or advisors.

6.2 Recommendations to the Board – The Committee shall have the authority to make recommendations to the Board, but shall have no decision-making authority other than as specifically contemplated in this Charter.

7. REMUNERATION OF COMMITTEE MEMBERS

7.1 Remuneration of Committee Members – Members of the Committee and the Chair shall receive such remuneration for their service on the Committee as the Board may determine from time to time.

7.2 Directors' Fees – No member of the Committee may earn fees from the Company or any of its subsidiaries other than directors' fees (which fees may include cash and/or shares or options or other in-kind consideration ordinarily available to directors, as well as all of the regular benefits that other directors receive). For greater certainty, no member of the Committee shall accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or a subsidiary thereof.

8. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

8.1 Review and Approval of Financial Information

(a) *Annual Financial Statements*. The Committee shall review and discuss with management and the External Auditor, the Company's audited annual financial statements and related MD&A together with the report of the External Auditor thereon and, if appropriate, recommend to the Board that it approve the audited annual financial statements.

(b) *Interim Financial Statements*. The Committee shall review and discuss with management and the External Auditor and, if appropriate, approve, the Company's interim unaudited financial statements and related MD&A.

(c) *Material Public Financial Disclosure*. The Committee shall, to the extent practicable, discuss with management and the External Auditor:

(i) the types of information to be disclosed and the type of presentation to be made in connection with earnings press releases;

(ii) financial information and earnings guidance (if any) provided to analysts and rating agencies; and

(iii) press releases containing financial information.

(d) *Procedures for Review*. The Committee shall satisfy itself that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements (other than financial statements, MD&A and earnings press releases, which are dealt with elsewhere in this Charter) and shall periodically assess the adequacy of those procedures.

(e) *Accounting Treatment*. The Committee shall review and discuss with management and the External Auditor:

(i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies;

(ii) analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;

(iii) the effect of regulatory and accounting initiatives; and

(iv) the management certifications of the financial statements as required under applicable securities laws in Canada or otherwise.

8.2 External Auditor

(a) *Authority with Respect to External Auditor*. The Committee shall be directly responsible for the oversight of the work of the External Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. In the discharge of this responsibility, the Committee shall:

(i) have responsibility for recommending to the Board the person or firm to be proposed to the Company's shareholders for appointment as External Auditor for the above-described purposes as well as the responsibility for recommending such External Auditor’s compensation and determining at any time whether the Board should recommend to the Company's shareholders whether the incumbent External Auditor should be removed from office;

(ii) review the terms of the External Auditor's engagement, discuss the audit fees with the External Auditor and be responsible for approving such audit fees; and

(iii) require the External Auditor to confirm in its engagement letter each year that the External Auditor is accountable to the Board and the Committee as representatives of shareholders.

(b) *Independence*. The Committee shall satisfy itself as to the independence of the External Auditor. As part of this process the Committee shall:

(i) unless and until the Committee adopts pre-approval policies and procedures and subject to subsection 8.2(d)(ii), approve any non-audit services to be provided by the External Auditor and

(ii) review and approve the policy setting out the restrictions on the Company hiring partners, employees and former partners and employees of the Company's current or former External Auditor.

(c) *Issues Between External Auditor and Management*. The Committee shall:

(i) review any problems or concerns experienced by the External Auditor in conducting the audit, including any restrictions on the scope of the External Auditor's activities or an access to requested information;

(ii) review any significant disagreements with management and, to the extent possible, resolve any disagreements between management and the External Auditor; and

(iii) review with the External Auditor.

(A) any accounting adjustments that were proposed by the External Auditor, but were not made by management;

(B) any communications between the audit team and audit firm's national office respecting auditing or accounting issues presented by the engagement; and

(C) any management or internal control letter issued, or proposed to be issued by the External Auditor to the Company.

(d) *Non-Audit Services*.

(i) The Committee shall either:

(A) approve any non-audit services provided by the External Auditor or the external auditor of any subsidiary of the Company to the Company (including its subsidiaries); or

(B) adopt specific policies and procedures for the engagement of non-audit services, provided that such pre-approval policies and procedures are detailed as to the particular service, the audit committee is informed of each non-audit service and the procedures do not include delegation of the audit committee's responsibilities to management.

(ii) The Committee may delegate to one or more members of the Committee the authority to pre-approve non-audit services in satisfaction of the requirement in the previous section, provided that such member or members must present any non-audit services so approved to the full Committee at its first scheduled meeting following such pre-approval.

(iii) The Committee shall instruct management to promptly bring to its attention any services performed by the External Auditor which were not recognized by the Company at the time of the engagement as being non-audit services.

(e) *Evaluation of External Auditor*. The Committee shall evaluate the External Auditor each year, and present its conclusions to the Board. In connection with this evaluation, the Committee shall:

(i) review and evaluate the performance of the lead partner of the External Auditor;

(ii) obtain the opinions of management with respect to the performance of the External Auditor; and

(f) *Review of Management's Evaluation and Response*. The Committee shall:

(i) review management's evaluation of the External Auditor's audit performance;

(ii) review the External Auditor's recommendations, and review management's response to and subsequent follow-up on any identified weaknesses;

(iii) review management's response to significant internal control recommendations of the External Auditor;

(iv) receive regular reports from management and receive comments from the External Auditor, if any, on:

(A) the Company's principal financial risks;

(B) the systems implemented to monitor those risks; and

(C) the strategies (including hedging strategies) in place to manage those risks; and

(v) recommend to the Board whether any new material strategies presented by management should be considered appropriate and approved.

8.3 Related Party Transactions – The Committee shall review and approve all related party transactions in which the Company is involved or which the Company proposes to enter into.

8.4 Whistle Blowing – The Committee shall put in place procedures for:

(a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and

(b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

8.5 Special Outside Advisors – The Committee shall consider and, if determined to be appropriate, approve requests from Directors or committees of the Board for the engagement of special outside advisors from time to time (in addition to any right that a Director or committee of the Board may have to engage outside advisors under general corporate law).

9. SUBCOMMITTEES

9.1 Delegation to Subcommittees – The Committee may form and delegate authority to subcommittees if deemed appropriate by the Committee.

10. REPORTING TO THE BOARD

10.1 Regular Reporting - The Committee shall report to the Board following each meeting of the Committee and at such other times as the Chair may determine to be appropriate.

11. PERFORMANCE EVALUATION

11.1 Performance Evaluation – The Committee shall follow the process established by the Corporate Governance Committee for all committees of the Board for assessing the performance and effectiveness of the Committee.

12. CHARTER REVIEW

12.1 Charter Review – The Committee shall review and assess the adequacy of this Charter on a regular basis and recommend to the Board any changes it deems appropriate.