

GROUPE
Bikini Village
inc.

**Bikini
Village**

Océan
Bikini
Village



Third quarter 2006

For the three and nine months period ended October 28, 2006

PRESIDENT AND CEO'S MESSAGE TO SHAREHOLDERS

Despite the fact that the third quarter is historically the weakest quarter with respect to sales and profitability, we are overall pleased with our year-to-date performance. Our sales and gross margins for the period increased over last years.. The increase in the gross margin was offset by the increase of administrative costs as a result of the full absorption by Bikini Village of certain previously allocated expenses to the subsidiary Les Ailes de la Mode. The costs that are now being absorbed totally are however generally in line with our budget for the year.

I am also pleased to announce that the Company launched its new "Beachwear Shopping Magazine" TROPIK, in mid-October, being sold on newsstands and in all of Bikini Village and Ocean Bikini Village boutiques. This should help in positioning us as a leader in its specialized field.

THIRD QUARTER RESULTS

Net sales for the third quarter and the period of nine months ended October 28, 2006 were \$5.6 million and \$28.2 million respectively, compared to net sales of \$5.4 million and \$28.1 million for the corresponding period of the previous year. Comparable sales increased by 5.8 % for the quarter compared to 2005, and are up 1.9% for the period of nine months ended October 28, 2006 of 2006.

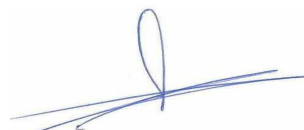
Operating income ("EBITDA"¹, a non GAAP measure) from continuing operations for the third quarter ended October 28, 2006 reflects a deficit of \$1.3 million, which was similar to the EBITDA for the corresponding period of the previous year, which showed a negative amount of \$1.4 million. For the period of nine months ended October 28, 2006, the EBITDA is \$1.3 million, as compared to \$1.7 million for the period corresponding in 2005.

For the three-month period ended October 28, 2006, the Company recorded net losses of \$1.5 million ((\$0.01) per basic and diluted share) compared to a net loss of \$1.6 million ((\$0.09) per basic and diluted share) for the same period in 2005. Net earnings for the period of nine months ended October 28, 2006 was \$375,000 (nil per share) compared to a net loss of \$16.3 million ((\$0.92) per basic and diluted share) for the nine months ended October 29, 2005. The 2005 net loss included a loss from discontinued operations related to the subsidiary Les Ailes de la Mode Incorporées of \$55,000 (nil per share) for the third quarter of 2005 and of \$14.7 million ((\$0.83) per basic and diluted share) for the period of nine months ended October 29, 2005.

ACKNOWLEDGEMENTS

Once again I would like to thank our employees for their hard work and dedication in making Bikini Village a unique shopping destination and continue to thank all of our partners for their continued support.

We are truly excited about building on the momentum achieved and look forward to the future.



Leslie E. Glazerman
President and Chief Executive Officer

Boucherville, December 6, 2006

Financial highlights

(in thousands of dollars, except per share amounts and statistics)

	Three months ending		Nine months ending	
	October		October	
	28, 2006	29, 2005	28, 2006	29, 2005
Operating results				
Net sales	5,628	5,418	28,190	28,117
Operating income (loss) (EBITDA)	(1,307)	(1,372)	1,348	1,728
Operating margin (loss) - in %	(23.2)%	(25.3)%	4.8 %	6.1 %
<u>Related to continuing operations</u>				
Net earnings (loss)	(1,384)	(1,625)	375	(1,647)
Net earnings (loss) - in %	(24.6)%	(30.0)%	1.3 %	(5.9)%
Net earnings (loss) from discontinued operations	-	55	-	(14,682)
Net earnings (loss)	(1,384)	(1,570)	375	(16,329)
Per share amounts from:				
Continuing operations	(0.01)	(0.09)	-	(0.09)
Discontinued operations	-	-	-	(0.83)
Net loss, basic and diluted	(0.01)	(0.09)	-	(0.92)
Weighted average number of shares outstanding, basic and diluted (in thousands)	172,428	18,182	122,274	17,670
Other statistics:				
Capital expenditures	76	187	544	622
Number of stores at the end of the period			56	59
Number of employees			400	430

Management Discussion & Analysis

This management report, dated December 6, 2006, focuses on the commercial activities and financial results of Groupe Bikini Village inc. for the nine-month period ended October 28, 2006 and should be read in conjunction with the unaudited financial statements for the period ended October 28, 2006 and the notes thereto.

NON-GAAP FINANCIAL MEASURES

The EBITDA defined as earnings before interest, taxes, amortization, and reorganisation fees and unusual items is a measure used in this MD&A but should not be considered a measure of the financial return according to generally accepted accounting principles (GAAP). It should not be used out of context and cannot replace net earnings (net loss), cash flows provided by operating, investing and financing activities, or any other financial statement data presented in the financial statements as indicators of financial performance or of liquid assets. Management believes that this measure is useful supplemental information as it provides an indication of the profitability of operations prior to the effect of income taxes, debt service and capital expenditures. Since EBITDA is a measure that has not been established according to GAAP, EBITDA as presented herein cannot be compared to other similar measures used by other companies as the Company's definition of EBITDA may not be identical to similarly titled measures reported by other companies.

FORWARD-LOOKING STATEMENTS

The present document contains prospective information concerning our activities, financial output, financial position and future financing projects. This information is based on certain hypotheses and analyses carried out in the light of our experience and our perception of historic trends, current conditions and expected future events, as well as other factors considered appropriate under the circumstances. However, the question of whether actual events should conform to our expectations and our predictions is subject to a certain number of risks, uncertainties and hypotheses, included are the risks and uncertainties described under the heading "Risks and uncertainties" from the modified annual Management Discussion and Analysis of the Company. Consequently, all prospective information contained in this document is provided subject to these risks and uncertainties, and it cannot be guaranteed that expected results

or events will actually materialize, even materialize in the main or that they will have the expected impact on us.

The current outlooks set forth in this document represent our expectations as of December 6, 2006, and consequently, could conceivably change after this date. We have neither the intention nor the obligation to update or revise one or another of the projected outlooks, whether in light of new information, future events or otherwise.

OVERALL PERFORMANCE

Basis of Presentation

The interim financial statements have been prepared in accordance with GAAP for intermediate financial information. Consequently, they do not include all the notes and information required by Canadian GAAP that apply to annual financial statements. In the opinion of management, all the adjustments (which constitute normal adjusting entries) considered necessary for a proper presentation of the financial situation of the Company were taken into account. The interim financial statements should be read in conjunction with the consolidated audited annual financial statements for the year ended January 28, 2006, as well as the notes therein concerned. The principles and accounting methods used in the preparation of the interim financial statements are the same as those used in the audited consolidated financial statements for the year ended January 28, 2006.

The Company's continuing activities are seasonal, with merchandise sales traditionally being higher in the second quarter than in other periods. As a result, the operating loss before discontinued operations for the period of three months ended October 28, 2006 is not necessarily indicative of the results of the operations for a full year.

The financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

In 2005, subsequent to the divestiture of its subsidiary, Les Ailes de la Mode Incorporées, the Company continued its financial and operational restructuring plans and on

Management Discussion & Analysis (cont'd)

November 4, 2005 filed for a request and obtained an order from the Superior Court of Québec (the "Court") providing protection from certain of its creditors under the Companies' Creditors Arrangement Act ("CCAA"). The request was to obtain a court order allowing for a proposal to be made to the holders of its outstanding 12% unsecured debentures due in 2008 to exchange their debentures for common shares of the Company. On January 27, 2006, the plan of transaction and arrangement was sanctioned by the Court.

On March 31, 2006, a new agreement of a renewable credit facility of \$3 million was authorized by the bank. The methods of this bank credit are in all points similar to the old credit facilities except for certain adjustments to the financial ratios.

Reorganization of capital

On February 20, 2006, twenty-one days after the homologation by the Court of the plan of transaction and arrangement aimed at the debentures' holders, the Company completed the exchange of its debentures into common shares of the Company. As a result, the Company has issued 153,776,069 new common shares of the Company in exchange for all of the Company's obligations on the outstanding unsecured 12% debentures which were due in 2008. There was \$15,541,500 in principal amount plus unpaid accrued interest up to and including November 4, 2005, bearing an exchange ratio of \$0.102387921. The Company now counts 172,677,515 outstanding common shares compared to 18,901,446 outstanding common shares as at January 28, 2006, and has no long-term debt.

OPERATING RESULTS

The financial statements are presented for the comparable period of three and nine months ended October 28, 2006, to the period of three and nine months ended October 29, 2005.

In July 2005, the company sold its subsidiary Les Ailes de la Mode Incorporées. Accordingly, the results for these operations for the comparable period have been accounted for on a discontinued basis. Moreover, certain figures for the previous period have been reclassified in order to conform to the presentation adopted in the current period.

With this divestiture, the Company's only remaining operating unit is its swimwear division under the banner names "Bikini Village" and "Ocean Bikini Village".

In the third quarter of 2005, the Company proceeded with the restructuring of its head office and administrative personnel, effectively reducing approximately two-thirds of this personnel as well as reducing the occupancy space of its head office and distribution center. It should be noted however that the Company did not necessarily reduce all its expenses in direct proportion to this.

Before the divestiture of the Company, the expenses were allocated proportionally between the swimwear division and the subsidiary Les Ailes de la Mode on a prorata basis based upon sales. With the sale of the Les Ailes department stores, the swimwear division absorbed the remaining expenses entirely. Although a large part of the expenses were reduced as a consequence, the remaining expenses were proportionally higher than the previously allocated costs. These costs are fully recognized in the nine month statements ended October 28, 2006.

Some of the performance indicators used by the Company are as follows for the nine-month period ended October 28, 2006 compared to 2005:

- average sales by square feet ;
increase of 4.9 %
- average price by transaction ;
increase of 2.1 %
- comparable store sales * ;
increase of 1.9 %

* (The comparable store sales are defined as the comparison of sales for the same number of stores year over year.)

The following is a summary of selected financial information together with the comparative results for the period of three and nine-month ended October 28, 2006 and for the corresponding periods of 2005.

Management Discussion & Analysis (cont'd)

SELECTED FINANCIAL INFORMATION *(in thousands of dollars, except per share amounts)*

	Period of three months ended		Period of nine months ended	
	October 28, 2006	October 29, 2005	October 28, 2006	October 29, 2005
	\$	\$	\$	\$
Net sales	5,628	5,418	28,190	28,117
Operating income (loss) (EBITDA)	(1,307)	(1,372)	1,348	1,728
Less:				
Interest	(5)	783	11	2,796
Amortization	180	153	514	478
Unusual items -				
Stock based compensation	-	-	448	-
Income taxes	(98)	(683)	-	101
Earnings (loss) related to				
Continuing operations	(1,384)	(1,625)	375	(1,647)
Discontinued operations	-	55	-	(14,682)
Net earnings (loss)	(1,384)	(1,570)	375	(16,329)
<u>Per share amounts:</u>				
Continuing operations	(0.01)	(0.09)	-	(0.09)
Discontinued operations	-	-	-	(0.83)
Total basic and diluted net loss	(0.01)	(0.09)	-	(0.92)
Weighted average number of shares outstanding (in thousands);	172,428	18,182	122,274	17,670
Cash flows from continuing operations				
Operating activities	(3,230)	(2,646)	(421)	(2,679)
Financing activities	-	(5,088)	-	(3,475)
Investing activities	(76)	2,744	(544)	2,309
Total assets	11,421	11,507	11,421	11,507
Total long-term debt	-	12,142	-	12,142

Third quarter and nine-month period ended October 28, 2006 compared to third quarter and nine-month period ended October 29, 2005.

Revenues

The Company's sales from continuing operations for the three-month period ended October 28, 2006 were \$5.6 million, compared to \$5.4 million for the same period last year representing an increase of 3.9 % (an increase of 5.8 % on comparable sales), resulting in sales totalling \$28.2 million during the nine month period ended

October 28, 2006, a slight increase of 0.3 % over the same period last year when sales were at \$28.1million.

The increase in Company's sales for the third quarter of 2006 is related in large part to the increase in average sales price in comparison to 2005. It should be noted that the Company operated three less stores in 2006 compared to 2005, impacting sales negatively for a net effect of 3.9 % increase.

The comparable sales (which are the comparison of the sales of the same number of stores from year to year) increased by

Management Discussion & Analysis (cont'd)

1.9 % for the nine-month period ended October 28, 2006.

Operating income (EBITDA)

For the third quarter ended October 28, 2006, the Company shows a negative EBITDA (as previously defined in the section "Non-GAAP Financial Measures") of \$1.3 million (23.2 %), which was similar to the EBITDA for the corresponding period of the previous year which showed \$1.4 million deficit, or (25.3 %).

The important element that affected the EBITDA was an improvement in gross margin for the quarter in comparison to 2005, an increase of approximately 6%. However, in that the third quarter is proportionally the weakest, the cumulative impact for the first nine months of 2006 results in a less than 1% unfavourable variance compared to 2005. The increase in this gross margin was offset by the increase of administrative costs as a result of the full absorption of certain previously allocated expenses by Bikini Village, as discussed in more detail in the Company's Modified Annual MD&A and as discussed in the introduction of the current section "Operating Results".

This has resulted in the EBITDA for the nine-month period ended October 28, 2006, being \$1.3 million, or 4.8 % compared to \$1.7 million, or 6.1 % for the same period a year earlier.

Financing charges and amortization

Financing charges for the three-month period ended October 28, 2006, decreased from \$783,000 in 2005 to net revenue of \$5,000. Financing charges for the nine-month period ended October 28, 2006, decreased from \$2.8 million in the corresponding period of 2005 to \$11,000. This decrease is directly related to the conversion of debentures. As described more fully in Note 19 of the fiscal 2005 annual consolidated financial statements, the long-term debt related to debentures was converted into common shares on February 20, 2006.

The amortization expense for the three-month period ended October 28, 2006, increased by 17.6 % to \$180,000 compared to \$153,000 in 2005 and it increased by 7.5 % for the nine month period ended at the same date, from \$478,000 to \$514,000 in 2006. For the nine month period, the increase in the amortization expense was the result of two

store renovations completed in the second quarter of 2006 and two store renovations completed in the fourth quarter of 2005.

Unusual items – stock based compensation

During the second quarter, the Company had granted to the Chairman of its Board, in accordance with the existing agreement entered into between him and the Company in 2004, at the time of reorganization and recapitalization, options representing 50 % of the options available as per the stock option plan actually in place for 8,633,875 common shares of the Company at an exercise price of \$0.09 to be exercised on the date granted. These options would mature on June 20, 2016. During the period ending July 29, 2006, the fair value of the compensation recorded on the statement of operations under the heading of unusual items with regard to this allocation was \$448,000.

Income taxes

The Company recognized an income taxes charge of (\$98,000) during the third quarter, representing a tax rate of 6.6 % compared to an income taxes charge of (\$683,000) using a rate of 29.6 % during the corresponding quarter of last year. This amount takes into account certain tax advantages that were available to the Company at its last fiscal year relating to loss carry forwards and certain deductible temporary differences as discussed in Note 6 of the annual consolidated audited financial statements for the year ended January 28, 2006, as well as Note 4 of the interim unaudited financial statements for the period ended October 28, 2006.

Discontinued operations

In 2005, the Company sold its subsidiary Les Ailes de la Mode Incorporées for proceeds of \$7.6 million including the assumption of debts, for which an amount of \$560,000 is still included as a receivable in the current assets. Since the effective date of the sale was July 30, 2005, the results of these operations for the comparable period have been accounted for on a discontinued basis.

The earnings for discontinued operations for the three-month period ended October 28, 2006, was nil compared to earnings of \$55,000 (nil per share) for the same period a year earlier. The loss from discontinued operations for the nine-month

Management Discussion & Analysis (cont'd)

period ended October 28, 2006, was nil compared to \$14.7 million for the same period a year earlier or \$0.83 per basic and diluted share.

The losses from discontinued operations for the three-month and nine-month period ended October 29, 2005 included a loss from disposal of investment in the subsidiary Les Ailes de la Mode Incorporées for an amount of \$10.7 million including \$1.4 million in various fees and adjustment related to the sales transaction.

Net earnings (net loss)

For the three-month period ended October 28, 2006, loss from continuing operations totalled \$1.4 million or \$(0.01) per basic and diluted share. Over the same period last year, loss for continuing operations amounted to \$1.6 million, (\$0.09) per basic and diluted share.

The calculation of the amounts per share were done on a weighted average number of shares of 172,427,515 in circulation for the quarter ended October 28, 2006 and on a weighted average number of shares of 18,181,924 for the quarter ended October 29, 2005, a significant difference in the number due to the conversion of all the convertible debentures in circulation, on February 20, 2006

For the first nine months, earnings for continuing operations totalled \$375,000, (nil per share). During this same period last year, loss for continuing operations amounted to \$1.6 million corresponding to a loss of \$ 0.09 per basic and diluted share.

CASH POSITION

Operating activities

Cash flows from continuing operations for the three-month period ended October 28, 2006, decreased by \$584,000 compared to funds used in the same period of the previous year, mostly due to the net changes in the non-cash operating working capital items. Notwithstanding a decrease in funds used from continuing operations in the third quarter, for the nine-month period ended October 28, 2006, cash flows from continuing operations increased by \$2.3 million compared to the same period last year. The main variance for the nine months comes from the positive results in the net earnings compared to the corresponding period in

2005 and the decrease in accounts payables and accrued liabilities.

Financing activities

For the third quarter ended October 28, 2006 as well as cumulatively for the nine-month period, there were no funds generated or reimbursed related to financing activities compared to net funds of \$5.1 million that were used during the third quarter in 2005, related to the reimbursement of guaranteed debentures of \$1.7 million (issued in the second quarter) reimbursement of \$2 million of guaranteed debentures (issued in August 2004) also the balance from the mortgage loan on the building that houses the Company's head office and sold during the third quarter. Financing activities for the nine month period ended October 29, 2005, utilized a net \$3.5 million, primarily as a result of obtaining financing of \$1.7 million convertible debentures issued in the second quarter, and the reimbursement in the third quarter of all the guaranteed debentures of \$3.7 million, also the reimbursement of the mortgage loan, as previously mentioned.

Investment activities

Investment activities amounted to \$76,000 during the three-month period ended October 28, 2006, compared to \$2.7 million net funds provided a year earlier. For the first nine months of 2006, investment activities totalled \$544,000, compared to \$2.3 million net funds provided in 2005.

During the third quarter of 2005, \$2.9 million funds provided came from the sale of the building that houses the Company's head office. Also in 2005, a store was under construction, where as, compared to the third quarter of 2006 there were no renovations.

For the nine month period ended October 28, 2006, two stores were renovated, where as, in 2005, one store was renovated, one new store was added, and two other stores were under renovation, during the third quarter of 2005.

FUTURE CASH POSITION

As at October 28, 2006, the Company has available cash of \$3.2 million and had an on-demand credit facility of up to \$3 million, of which none had been used as at October 28, 2006. The maximum permitted under this facility is limited to a percentage of the value of inventories less specific reserves

Management Discussion & Analysis (cont'd)

and senior debt. In the normal course of business, the Company issued letters of credit and letters of guarantee for a total of \$140,000, until August 2007.

This facility is guaranteed by a universal first mortgage on inventories, claims and capital assets of the Company. This facility carries an interest at the preferential rate plus 1.65%. Under the agreements relative to the credit facility, the Company is subject to certain restrictive clauses concerning compliance with financial ratios.

With its credit facility terms and its generated funds, the Company has the capacity to obtain sufficient cash, at short and long term, to exploit its stores to their actual activity level. If the Company adopts a further growth strategy, it must ensure adequate financing will be in place in order to accomplish same.

Commitments and guarantees

During the nine-month period ended October 28, 2006, there was no material change.

USE OF ESTIMATES

For the nine-month period ended October 28, 2006, there has been no significant change in our critical accounting estimates from those described in our fiscal 2005 Annual Report.

RELATED PARTY TRANSACTIONS

During the nine-month period ended October 28, 2006, consulting fees in the amount of \$136,625 were incurred with the Chairman of the Board of the Company (\$135,125 in 2005). In 2005, consulting fees totalling \$64,062 were also incurred to a former director of the Company for services primarily related to exploring financing alternatives for the Company. Moreover, financing fees of \$30,000 were incurred in 2005 as well as interest of \$37,808 with an entity of which one of the shareholders was a director of the Company in 2005, within the framework of temporary financing. In addition, the Company received \$15,617 of rent revenues (\$3,470 in 2005) for the rental of space to a company owned by the Chairman of the Board.

These transactions were carried out in the normal course of business and have been accounted for at the exchange amount, which

is the amount of consideration established and agreed to by the related parties.

DISCLOSURE CONTROLS AND PROCEDURES

The President and Chief Executive Officer and the Comptroller (acting as Chief Financial Officer), have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and have concluded that such disclosure controls and procedures operated effectively as at October 28, 2006.

RISKS AND UNCERTAINTIES

For the nine-month period ended October 28, 2006, there has been no significant change in our risk factors from those described in our fiscal 2005 Annual Report.

The Company's target markets, which is to say women's and men's bathing suits, beachwear and travel clothing and certain beach and swimming accessories, continue to evolve within a very competitive environment in both Québec and Ontario. The two corporate banners face various types of competition, whether from single boutiques, chains of boutiques or traditional superstores.

The elements that make it possible for the Company to remain competitive are numerous and may be described as follows: product quality, wide range of choices offered, customer service, location of boutiques, warm welcome underlined by original decor, advertising and marketing, private labels, to mention a few. Also many of the competitors outlined above carry the products during the summer season, whereas the Company carries this specialty merchandise year round.

FINANCIAL POSITION

The Company's total assets amounted to \$11.4 million as at October 28, 2006, compared to \$12 million as at January 28, 2006.

Accounts receivable are \$218,000 as at October 28, 2006, compared to \$87,000 as at January 28, 2006. The difference is due to the variation of the sales taxes receivables. The amount due following the sale of a

Management Discussion & Analysis (cont'd)

subsidiary is \$560,000 as at October 28, 2006, compared to \$1.9 million as at January 28, 2006.

Inventories have increased by 5.4 % and totalled \$4.6 million as at October 28, 2006, compared to \$4.3 million as at January 28, 2006. This increase is a result of higher quantity of inventory levels planned leading into the fourth quarter in comparison to the inventory levels required at the end of January 2006.

Prepaid expenses totalled \$331,000 as at October 28, 2006, compared to \$304,000 as at January 28, 2006, due partially to the decrease of the portion of taxes and insurances prepaid and an increase to marketing fees incurred related to the future period.

The book value of capital assets totalled \$2.5 million as at October 28, 2006 which was equal to the amount at January 28, 2006.

As at October 28, 2006, total debt amounted to \$3.7 million compared to \$5.1 million as at January 28, 2006. The most significant item in this variation is the amounts due to suppliers, as the level of merchandise received is higher at January than in October. In addition, the amount of sales taxes payable for the period which was proportionate with the lower sales volume for September and October as compared to the sales volume in the December and January time frame, constituting the second most important variance.

As at October 28, 2006, shareholders' equity was at \$7.8 million compared to \$6.9 million as at January 28, 2006, due to net earnings of the period of \$375,000, also the increase of surplus contribution of \$479,000 relative to the granting of stock options.

Working capital of the Company increased to \$5.3 million as at October 28, 2006, compared to \$4.4 million as at January 28, 2006, for a ratio of 2.4 compared to 1.9.

OUTSTANDING SHARES DATA

As at October 28, 2006, the Company had 172,677,515 commons shares outstanding (18,901,446 as at January 28, 2006). At the same date 9,886,779 stock options (7,159 as at January 28, 2006) were outstanding at a price varying between \$0.09 and \$0.58 for a weighted average exercise price of \$0.09 (\$0.58 as at January 28, 2006) maturing up until 2016. During the nine-month period ended October 28, 2006, 4255 (312,116 in 2005) stock options were cancelled.

During the nine months period ended October 28, 2006, par value debentures of \$15,541,500 plus unpaid accrued interest were converted into 153,776,069 common shares pursuant to the terms of the plan arrangement.

On April 19, 2006, the Company had granted options on 1,250,000 common shares of the Company at an exercise price of \$0.11, which can be exercised during the next three years at the rate of 33 1/3% per year. These options mature on January 31, 2016. During the period ending October 28, 2006, the fair value of the compensation recorded on the statement of operations with regard to this allocation is \$31,000.

On June 20, 2006, the Company had granted to the Chairman of the Board, in accordance with the existing agreement entered into between him and the Company in 2004, options for 8,633,875 common shares of the Company at an exercise price of \$0.09 to be exercised on the date granted. These options would mature on June 20, 2016. During the period ending October 28, 2006, the fair value of the compensation recorded on the statement of operations with regard to this allocation is \$448,000.

On August 2, 2006, 11,460,000 warrants giving the right to purchase 11,460,000 common shares expired and in the future cannot dilute the declared net earnings per share.

Management Discussion & Analysis (cont'd)

SUMMARY OF QUARTERLY RESULTS *(in thousands of dollars, except per share amounts)*

	Third quarter		Second quarter		First quarter		Fourth quarter	
Fiscal year	2006	2005	2006	2005	2006	2005	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$
Net sales	5,628	5,418	14,069	14,998	8,494	7,701	9,527	9,294
Earnings (loss) from:								
Continuing operations	(1,384)	(1,625)	1,776	1,140	(17)	(1,163)	367	(586)
Discontinued operations	-	55	-	(13,060)	-	(1,676)	74	(904)
Net earnings (loss)	(1,384)	(1,570)	1,776	(11,920)	(17)	(2,839)	441	(1,490)
Per share amounts from:								
Continuing operations	(0.01)	(0.09)	0.01	0.06	-	(0.07)	0.02	(0.03)
Discontinued operations	-	-	-	(0.73)	-	(0.10)	-	(0.06)
Basic earnings (loss)	(0.01)	(0.09)	0.01	(0.67)	-	(0.17)	0.02	(0.09)
Continuing operations	(0.01)	(0.09)	0.01	0.03	-	(0.07)	-	(0.03)
Discontinued operations	-	-	-	(0.73)	-	(0.10)	-	(0.06)
Diluted earnings (loss)	(0.01)	(0.09)	0.01	(0.70)	-	(0.17)	-	(0.09)
Weighted average number of shares (in thousands):								
Basic	172,428	18,182	172,438	17,690	47,448	17,118	18,263	15,392
Diluted	172,428	18,182	173,337	50,681	47,448	17,118	172,040	61,787

The fluctuations between quarters are principally seasonal, the second quarter being historically higher than the other quarters. In addition it should be noted that the interest charges related to the debentures up to the third quarter of 2005 had an effect on the results.

It should be noted that for the second quarter of fiscal 2006, a one time non-cash charge of \$448,000 affected the net results, representing the fair value of the granted stock options during the quarter.

SUBSEQUENT EVENTS

On December 1st, 2006, 1,700,000 warrants giving the right to purchase 1,700,000 common shares expired and in the future cannot dilute the declared net earnings per share.

OUTLOOK

As at this date, there has been no significant change in our strategies, and our expectations remain consistent with those

described in the Outlook section of the modified Annual Management's Discussion and Analysis included in our fiscal 2005 Annual Report.

The Company launched its new "Beachwear Shopping Magazine" TROPIK in mid-October, which seems to have been well accepted in the marketplace. The objective is to reinforce our leadership as a "Beachwear" authority in our markets.

This initiative together with the Company's continued focus on organic growth in sales, are expected to make positive contributions to EBITDA in the fourth quarter of the year. Furthermore, the increases to gross margins are expected to remain consistent with the trend experienced year-to-date.

Although the Company continues to consider certain strategic alternatives and growth strategies (i.e. geographic expansion, strategic acquisitions, alliances, renovations, financing, etc.), no definite plans are actively being pursued.

Management Discussion & Analysis (cont'd)

ADDITIONAL INFORMATION

Effective March 31, 2004, Canadian securities regulators require that interim financial statements not reviewed by an auditor contain a notice to this effect. The interim financial statements for the period ended October 28, 2006 have not been reviewed by our auditors. This MD&A is dated December 6, 2006. The reader will find other information pertaining to the Company, including the annual financial

statements, modified annual MD&A and Annual Information Form on SEDAR's Web site at www.sedar.com.

(Signed) Leslie E. Glazerman

Leslie E. Glazerman

President and Chief Executive Officer

Statements of Operations

(in thousands of dollars, except per share amounts)
(unaudited)

	Three months ended October		Nine months ended October	
	28, 2006	29, 2005	28, 2006	29, 2005
	\$	\$	\$	\$
Net sales	5,628	5,418	28,190	28,117
Cost of goods sold, operating and administrative expenses	6,935	6,790	26,842	26,389
Interest (Note 2)	(5)	783	11	2,796
Amortization	180	153	514	478
	7,110	7,726	27,367	29,663
Earnings (loss) before income taxes and the undernoted items;	(1,482)	(2,308)	823	(1,546)
Unusual items - stock based compensation (Note 3)	-	-	448	-
Earnings (loss) before income taxes from continuing operations	(1,482)	(2,308)	375	(1,546)
Income taxes (Note 4)	(98)	(683)	-	101
Earnings (loss) from continuing operations	(1,384)	(1,625)	375	(1,647)
Discontinued operations, net of related income taxes (Note 5)	-	55	-	(14,682)
Net earnings (loss)	(1,384)	(1,570)	375	(16,329)
Loss per share (Note 6)				
Continuing operations	(0.01)	(0.09)	-	(0.09)
Discontinued operations	-	-	-	(0.83)
Basic and diluted loss per share	(0.01)	(0.09)	-	(0.92)
Weighted average number of shares outstanding	172,427,515	18,181,924	122,274,134	17,669,549

Statements of Deficit

(in thousands of dollars)
(unaudited)

	Three months ended October		Nine months ended October	
	28, 2006	29, 2005	28, 2006	29, 2005
	\$	\$	\$	\$
Deficit, beginning of period	(20,826)	(21,456)	(22,585)	(6,697)
Net earnings (loss)	(1,384)	(1,570)	375	(16,329)
Deficit, end of period	(22,210)	(23,026)	(22,210)	(23,026)

See accompanying notes

Balance Sheets

(in thousands of dollars)
(unaudited)

As at	October 28 2006	October 29, 2005	January 28, 2006
	\$ (Unaudited)	\$ (Unaudited)	\$ (Audited)
Assets			
Current assets			
Cash and marketable securities	3,185	2,093	2,848
Accounts receivable	218	43	87
Amount due following sale of a subsidiary (Note 5)	560	1,941	1,862
Income taxes	46	123	46
Inventories	4,576	4,313	4,343
Prepaid expenses	331	424	304
Future income taxes	-	157	-
	8,916	9,094	9,490
Capital assets (Note 7)	2,505	2,413	2,475
	11,421	11,507	11,965
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3,664	5,084	5,062
Long-term debt (Note 8)	-	12,142	-
	3,664	17,226	5,062
Shareholders' equity			
Share capital (Note 9)	28,528	11,612	11,495
Convertible debentures (Note 8)	-	-	12,339
Component of shareholders' equity in convertible debentures (Note 8)	-	4,703	4,694
Contributed surplus (Note 10)	1,439	992	960
Deficit	(22,210)	(23,026)	(22,585)
	7,757	(5,719)	6,903
	11,421	11,507	11,965

See accompanying notes

Approved by the Board



Paul Delage Roberge
Director



Yves Simard
Director

Statements of Cash Flows

(in thousands of dollars)

(unaudited)

	Three months ended October		Nine months ended October	
	28, 2006	29, 2005	28, 2006	29, 2005
	\$	\$	\$	\$
Operating activities				
Net earnings (loss) from continuing operations	(1,384)	(1,625)	375	(1,647)
Adjustments (Note 12)	190	403	993	1,429
	(1,194)	(1,222)	1,368	(218)
Net changes in working capital items (Note 12)	(2,036)	(1,423)	(1,789)	(2,461)
Operating activities from:				
Continuing operations	(3,230)	(2,646)	(421)	(2,679)
Discontinuing operations	-	(426)	1,302	(8,186)
Financing activities				
Increase in debt	-	-	-	1,700
Reimbursement of debt	-	(5,088)	-	(5,175)
Financing activities from:				
Continuing operations	-	(5,088)	-	(3,475)
Discontinuing operations	-	-	-	-
Investing activities				
Acquisition of capital assets	(76)	(187)	(544)	(622)
Disposal of capital assets	-	2,931	-	2,931
Investing activities from:				
Continuing operations	(76)	2,744	(544)	2,309
Discontinuing operations	-	2,181	-	6,246
Varations in cash and cash equivalents related to;				
Continuing operations	(3,306)	(4,990)	(965)	(3,845)
Discontinued operations	-	1,755	1,302	(1,940)
Net variations in cash and cash equivalents	(3,306)	(3,235)	337	(5,785)
Cash and cash equivalents at beginning	6,491	5,328	2,848	7,878
Cash and cash equivalents at end	3,185	2,093	3,185	2,093

See accompanying notes

Notes to the Financial Statements

(all tabular figures are in thousands of dollars)

(unaudited)

1. Basis of presentation

The interim financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian “GAAP”) for interim financial information. Consequently, they do not include all the notes and information required by Canadian GAAP that apply to annual financial statements. In the opinion of management, all the adjustments (which constitute normal adjusting entries) considered necessary for a proper presentation of the financial situation of the Company were taken into account. These interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended January 28, 2006, as well as the notes therein contained. The principles and accounting methods used in the preparation of these interim financial statements are the same as those used in the audited consolidated financial statements for the year ended January 28, 2006.

The Company’s continuing activities are seasonal, with merchandise sales traditionally being higher in the second quarter than in the other periods. As a result, the operating loss before discontinued operations for the period ended October 28, 2006 is not necessarily indicative of the results of the operations for a full year.

The financial statements have been prepared on the hypothetical basis of a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business.

In 2005, subsequent to the divestiture of its subsidiary, Les Ailes de la Mode Incorporées, the Company continued its financial and operational restructuring plans and on November 4, 2005 filed for a request and obtained an order from the Superior Court of Québec (the “Court”) providing protection from certain of its creditors under the Companies’ Creditors Arrangement Act (“CCAA”). The request was to obtain a court order allowing for a proposal to be made to the holders of its outstanding 12% unsecured debentures due in 2008 to exchange their debentures for common shares of the Company. On January 27, 2006, the plan of transaction and arrangement was sanctioned by the Court and on February 20, 2006, the Company finalized the exchange of its debentures into common shares of the Company.

On March 31, 2006, a new agreement of a renewable credit facility of \$3 million was authorized by the bank. The methods of this bank credit are in all points similar to the old credit facilities except for certain adjustments to the financial ratios.

2. Interest

	Three months ended		Nine months ended	
	October		October	
	28, 2006	29, 2005	28, 2006	29, 2005
	\$	\$	\$	\$
Long-term debt	-	752	-	2,640
Other	35	44	93	183
	35	796	93	2,823
Interest income	40	13	82	27
	(5)	783	11	2,796

Notes to the Financial Statements (cont'd)

(all tabular figures are in thousands of dollars)

(unaudited)

3. Unusual items – stock based compensation

During the second quarter, the Company had granted to the Chairman of its Board, in accordance with the existing agreement entered into between him and the Company in 2004 at the time of reorganization and recapitalization, options representing 50 % of the options available as per the stock option plan actually in place for 8,633,875 common shares of the Company at an exercise price of \$0.09 to be exercised on the date granted. These options would mature on June 20, 2016. During the period ending July 29, 2006, the fair value of the compensation recorded on the statement of operations under the heading of unusual items with regard to this allocation was \$448,000.

4. Income taxes

The future income tax assets were offset by a valuation allowance as at January 28, 2006. However, the future income tax reduction at the origin of the future income tax assets remains available for later use in reduction of the taxable income. For the period ended October 28, 2006, an amount of \$286,000 (\$148,000 in 2005) of income taxes was offset by the valuation allowance taken as at January 28, 2006.

	Three months ended		Nine months ended	
	October		October	
	28,	29,	28,	29,
	2006	2005	2006	2005
	\$	\$	\$	\$
Income taxes	(488)	(631)	286	249
Future income taxes unrecorded	390	(52)	(286)	(148)
	(98)	(683)	-	101

Notes to the Financial Statements (cont'd)

(all tabular figures are in thousands of dollars)

(unaudited)

5. Discontinued operations

The Company sold in July 2005 its subsidiary "Les Ailes de la Mode Incorporées" for proceeds of \$7,600,000 including the assumption of debts, of which an amount of \$560,000 is a current asset receivable. Accordingly, the results of these operations for the comparable period have been accounted for on a discontinued basis.

The results related to discontinued operations are as follows:

	Three months ended		Nine months ended	
	October		October	
	28,	29,	28,	29,
	2006	2005	2006	2005
	\$	\$	\$	\$
Net sales	-	-	-	32,177
Cost of goods sold, operating and administrative expenses	-	-	-	34,391
Interest	-	-	-	23
Amortization	-	-	-	891
Reorganizing costs and unusual items	-	(4)	-	1,129
Income taxes	-	(51)	-	(316)
	-	(55)	-	36,118
Earnings (loss) on discontinued operations	-	55	-	(3,941)
Loss on disposal of investment	-	-	-	(10,741)
Earnings (loss) on discontinued operations	-	55	-	(14,682)

Notes to the Financial Statements (cont'd)

(all tabular figures are in thousands of dollars)

(unaudited)

6. Loss per share

The following table presents the details of the numerators and denominators of the calculation of the basic and diluted loss per share.

	Three months ended October		Nine months ended October	
	28, 2006	29, 2005	28, 2006	29, 2005
	\$	\$	\$	\$
Basic				
Net earnings (loss) from continuing operations	(1,384)	(1,625)	375	(1,647)
Discontinued operations	-	55	-	(14,682)
Net earnings (loss)	(1,384)	(1,570)	375	(16,329)
Weighted average number of shares outstanding	172,427,515	18,181,924	122,274,134	17,669,549
	\$	\$	\$	\$
Basic and diluted loss per share related to:				
Continuing operations	(0.01)	(0.09)	-	(0.09)
Discontinued operations	-	-	-	(0.83)
Basic and diluted loss per share	(0.01)	(0.09)	-	(0.92)

Options giving the right to buy 1,252,904 shares during the period ended October 28, 2006 (307,159 in 2005), and likely to dilute the basic profit per share in the future, were not taken into account in the calculation of diluted loss per share because of their anti-dilutive effect.

Warrants giving the right to buy 2,450,000 common shares (13,910,000 in 2005) and in 2005, \$15,571,500 of debentures available to be converted into 31,143,000 common shares likely to dilute the basic profit per share in the future, were not taken into account in the calculation of diluted loss per share because of their anti-dilutive effect.

7. Capital assets

As at	October 28, 2006		October 29, 2005		January 28, 2006	
	Cost	Accum. Amort.	Cost	Accum. Amort.	Cost	Accum. Amort.
	\$	\$	\$	\$	\$	\$
Equipment	537	218	509	98	509	128
Software	241	81	165	34	165	46
Leasehold improvements	3,022	996	2,360	489	2,582	607
	3,800	1,295	3,034	621	3,256	781
Accumulated amortization	1,295		621		781	
Net book value	2,505		2,413		2,475	

Notes to the Financial Statements (cont'd)

(all tabular figures are in thousands of dollars)

(unaudited)

8. Convertible debentures

On August 2, 2004, the Company issued unsecured subordinate debentures convertible into common shares of the Company at a price of \$0.50 per share, redeemable after three years, for a total sum of \$17,597,000 and bearing an interest rate of 12%, payable monthly and which were to mature on August 4, 2008.

The Company has accounted for the liability and the shareholders' equity components of the convertible subordinate debentures separately in accordance with Canadian GAAP in force at the date of the issuance of these debentures. The liability component represented the current value of the future payments of interest required toward the debentures, calculated by means of the interest rates that prevailed for the non-convertible financial instruments as of the date of issue. As at August 2, 2004, the shareholders' equity component (recorded separately in shareholders' equity) represented the current value of the conversion option for the convertible debentures.

On November 4, 2005, the Company filed for and obtained an order from the Court providing protection from certain of its creditors under the CCAA. The request was a court order allowing for a proposal to be made to the holders of its outstanding 12% unsecured debentures due in 2008 to exchange their debentures for common shares of the Company.

On January 24, 2006, during the debenture holders' meeting, all those who voted were in favour of the suggested transaction and arrangement plan relating to the conversion of convertible debentures into common shares of the Company, under which the proposed exchange ratio was the lower of the volume of weighted average five-day share price prior to the announcement of the Court filing, or such five-day average prior to the judgment homologating the arrangement accepted by the debenture holders.

On January 27, 2006, the transaction plan was sanctioned by the Court. Consequently, the convertible debentures of \$12,339,000 were reclassified as shareholders' equity instruments as at January 28, 2006.

On February 20, 2006, twenty-one days after the plan of transaction and arrangement aimed at the debentures' holders was sanctioned by the Court, the Company finalized the exchange of its debentures into common shares of the Company. As a result, the Company has issued 153,776,069 new common shares of the Company in exchange for all of the Company's obligations on the outstanding unsecured 12% debentures, which were due in 2008. There was \$15,541,500 in principal amount plus unpaid accrued interest, up to and including November 4, 2005, given an exchange ratio of \$0.102387921.

Notes to the Financial Statements (cont'd)

(all tabular figures are in thousands of dollars)

(unaudited)

9. Share capital

As at	October 28, 2006	October 29, 2005	January 28, 2006
	\$	\$	\$
Authorized Unlimited number of common and preferred shares			
Issued and in circulation			
172,677,515 common shares	28,528	11,612	11,495
(18,841,446 at October 29, 2005)			
(18,901,446 at January 28, 2006)			

On August 2, 2004, following the revaluation of the assets and liabilities according to the fresh start accounting method related to the reorganisation of the Company's capital, a negative adjustment of \$18,657,000 was carried to the share capital account.

During the period ended October 28, 2006, par value debentures of \$15,541,500 plus unpaid accrued interest were converted into 153,776,069 common shares pursuant to the term of the plan of arrangement.

The table below summarizes the information related to share capital for the period ended October 28, 2006;

As at	October 28, 2006		October 29, 2005		January 28, 2006	
	Book Value \$	Number of share units	Book Value \$	Number of share units	Book Value \$	Number of share units
Opening balance	11,495	18,901,446	10,676	17,072,448	10,676	17,072,448
Debentures converted	17,033	153,776,069	936	1,768,998	969	1,828,998
	28,528	172,677,515	11,612	18,841,446	11,645	18,901,446
Less: repurchased shares	-	-	-	-	(150)	-
	28,528	172,677,515	11,612	18,841,446	11,495	18,901,446

Notes to the Financial Statements (cont'd)

(all tabular figures are in thousands of dollars)

(unaudited)

9. Share capital (cont'd)

The table below is a summary of the information related to the October 28, 2006 purchase options;

Range of exercise prices	Options outstanding			Exercisable options	
	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercisable price	Number of exercisable options	Weighted average exercisable price
\$			\$		\$
0.09 to 0.11	9,883,875	9.6	0.09	8,633,875	0.09
0.58	2,904	1.1	0.58	2,904	0.58
	9,886,779	9.6	0.09	8,636,779	0.09

On April 19, 2006, the Company had granted options on 1,250,000 common shares of the Company at an exercise price of \$0.11, which can be exercised during the next three years at the rate of 33 1/3% per year. These options mature on January 31, 2016. During the period ending October 28, 2006, the fair value of the compensation recorded on the statement of operations with regard to this allocation is \$31,000 (\$19,000 in 2005). Moreover, 4,255 (312,116 in 2005) stock options were cancelled.

On June 20, 2006, the Company had granted to the Chairman of the Board in accordance with the existing agreement entered into between him and the Company in 2004, options concerning 8,633,875 common shares of the Company at an exercise price of \$0.09 to be exercised on the date granted. These options would mature on June 20, 2016. During the period ending October 28, 2006, the fair value of the compensation recorded on the statement of operations with regard to this allocation is \$448,000.

10. Contributed surplus

Further to the granting of 1,250,000 options to purchase shares within the framework of the existing share purchase option plan, a fair value of \$31,000 was recorded in contributed surplus. The fair value of these options was estimated at the date of granting by means of the Black-Scholes option pricing model, according to the following hypotheses: interest rate without risk of 4.3% dividends \$0, predicted life cycle of 3 years, predicted volatility of 110%.

Also on June 20, 2006, further to the granting of 8,633,875 options to purchase shares within the framework of the existing share purchase option plan, a fair value of \$448,000 was recorded in contributed surplus. The fair value of these options was estimated at the date of granting by means of the Black-Scholes option pricing model, according to the following hypotheses: interest rate without risk of 4.1% dividends \$0, predicted life cycle of 2 years, predicted volatility of 110%.

11. Related party transactions

During the period ended October 28, 2006, consulting fees in the amount of \$136,625 was incurred with the chairman of the board of the Company (\$135,125 in 2005). In 2005, consulting fees totalling \$64,062 were also incurred to a former director of the Company for services primarily related to exploring financing alternatives for the Company. Moreover, financing fees of \$30,000 were incurred in 2005 as well as interest of \$37,808 with an entity of which one of the shareholders was in 2005 a director of the Company within the framework of a temporary

Notes to the Financial Statements (cont'd)

(all tabular figures are in thousands of dollars)

(unaudited)

11. Related party transactions (cont'd)

financing in place. In addition, the Company received \$15,617 of rent revenues (\$3,470 in 2005) for the rental of space to a company owned by the Chairman of the Board.

These transactions were carried out in the normal course of business and have been accounted for at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. Supplementary cash flow information

	Three months ended		Nine months ended	
	October		October	
	28, 2006	29, 2005	28, 2006	29, 2005
	\$	\$	\$	\$
i) Adjustments for:				
Amortization of capital assets	180	153	514	478
Interest on liability component of debentures	-	263	-	945
Stock-based compensation plan	10	-	31	19
Unusual items - stock-based compensation	-	-	448	-
Loss (gain) on disposal of capital assets	-	(13)	-	(13)
	190	403	993	1,429
ii) Net changes in working capital items				
Accounts receivable	(13)	761	(131)	312
Income taxes	(98)	(526)	-	277
Inventories	(165)	2,321	(233)	(413)
Prepaid expenses	(182)	313	(27)	296
Future income taxes	-	(157)	-	(157)
Accounts payable and accrued liabilities	(1,578)	(4,135)	(1,398)	(2,776)
	(2,036)	(1,423)	(1,789)	(2,461)
iii) Supplementary information				
Interest paid	-	528	-	1,728
Income taxes paid (recovered)	-	-	-	(19)

13. Comparative figures

The presentation of certain items for the preceding period has been modified to conform to the current period's presentation.

GROUPE
Bikini Village
 inc.