Bikini Village

GROUPE
Bikini Village
inc.

ANNUAL REPORT 2006

President and CEO's Message to Shareholders

Net sales for the fourth quarter and year ended February 3, 2007 were $12.3 million and $40.5 million respectively, compared to net sales of $9.5 million and $37.6 million for the corresponding period of the previous year. Comparable sales increased by 18.2% for the quarter compared to the previous year and are up 6.4% for the year ended February 3, 2007.

Operating income ("EBITDA" [1]) from continuing operations for the fourth quarter rose to $983,000, compared to $914,000 for the fourth quarter of last year. EBITDA for the year ended February 3, 2007 was $2.3 million compared to $2.6 million for the previous year.

The last quarter of the year was strong, principally due to favourable conditions for travel, an efficient strategy in offer of products and the clientele generated by the launch of the magazine TROPIK, in mid-October 2006. The EBITDA, however, does not totally reflect the positive impact of this, due to the full absorption of certain administrative costs that had previously been allocated proportionally to the subsidiary Les Ailes de la Mode Incorporées which was divested and to severance paid.

For the fourth quarter ended February 3, 2007, the Company recorded net earnings of $1.6 million ($0.01 per basic and diluted share) compared to net earnings of $441,000 ($0.02 per basic and nil diluted share) for the same period in the previous year. Net earnings for the quarter ended February 3, 2007 includes, however, an income tax credit of $829,000 relative to future income taxes, for which in past years a valuation allowance was registered.

The net earnings for the year ended February 3, 2007 were $2 million ($0.01 per basic and diluted share) compared to a net loss of $15.9 million (($0.88) per basic and diluted share) for the year ended January 28, 2006. The net loss for the fourth quarter of the previous year included a loss of $14.6 million (($0.81) per basic and diluted share) from discontinued operations related to the subsidiary Les Ailes de la Mode Incorporées.

I would also take advantage of this occasion to underline the arrival of Ms. Melinda Lee, CA, Vice-President of Investments, Clarke inc. to the Company's Board of Directors. The Board members are pleased to welcome her experience and contribution.

Looking ahead

The Company continues to consider other different possible growth and added value strategies.

The principal avenues of added value being pursued are as follows: i) an increase in points of sales, primarily in Ontario; ii) an acceleration in the concept renovation schedule; and iii) the development in new territories and distribution channels of the Company's know-how in designing and developing products, trademarks and distribution network operation tools.

However, the development of these strategic alternatives and growth strategies is conditional on putting in place adequate financing before these projects are undertaken. The Company is currently pursuing financing opportunities and has some viable options.

Acknowledgements

The management team and myself would like to thank our employees for their dedication and commitment and our landlords, suppliers, customers and shareholders for their continual support.

Yves Simard, C.A.
President and Chief Executive Officer

Boucherville, April 16, 2007

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[1] a non GAAP measure, as previously defined on page 4 of the 2006 Annual Report

Financial Highlights

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

	Year ended February 3, 2007	January 28, 2006
Operating results		
Operating revenue	**40,523**	37,644
Operating income (EBITDA[1])	**2,332**	2,643
In % of sales	**5.8 %**	7.0 %
Net earnings before income taxes & unusual items	**1,557**	(859)
In % of sales	**3.8 %**	(2.3)%
Related to continuing operations		
Net earnings (loss)	**1,957**	(1,279)
In % of sales	**4.8 %**	(3.4)%
Net loss from discontinued operations	**-**	(14,609)
Net earnings (loss)	**1,957**	(15,888)
Per share amounts from		
Continuing operations	**0.01**	(0.07)
Discontinued operations	**-**	(0.81)
Net earnings (loss), basic	**0.01**	(0.88)
Weighted average number of shares outstanding, basic (in thousands)	**162,894**	18,003
Continuing operations	**0.01**	(0.07)
Discontinued operations	**-**	(0.81)
Net earnings (loss), diluted	**0.01**	(0.88)
Weighted average number of shares outstanding, diluted (in thousands)	**169,257**	171,779
Other statistics		
Capital expenditures	**649**	841
Number of stores at the end of fiscal year	**56**	57
Number of employees	**460**	450

Period ended (in thousands of dollars)	**Year ended February 3, 2007**	Year ended January 28, 2006	For the period five months 26 days ended January 29,	Before reorganization: For the period six months and 2 days ended August 2, 2004	Before reorganization: Year ended January 31, 2004 (As presented)	Before reorganization: Year ended February 1st, 2003 (As presented)
OPERATING RESULTS						
Operating revenue	**$40,523**	$37,644	$13,345	$19,641	$163,631	$227,189
Cost of goods sold, operating and administrative expense	**38,191**	35,001	15,250	17,498	161,854	223,197
Operating income (losses) (EBITDA[1])	**2,332**	2,643	-1,905	2,143	1,777	3,992
Operating margin	**5.75%**	7.02%	-14.27%	10.91%	1.09%	1.76%
Interest	**4**	2,865	1,754	355	2,237	1,822
Amortization	**771**	637	430	1,083	7,587	11,295
Unusual items	**448**	343	-	1,982	41,317	33,585
Income taxes	**-848**	77	-621	-	-	-7,008
Non-controlling interest	**-**	-	-	-	93	-540
Net earnings (loss) related to						
Continuing operations	**1,957**	-1,279	-3,468	-1,277	-49,457	-35,162
Continuing operations/net sales	**4.83%**	-3.40%	-25.99%	-6.50%	-30.22%	-15.48%
Discontinued operations	**-**	-14,609	-3,229	-10,696	-10,790	-1,308
Net earnings (loss)	**1,957**	-15,888	-6,697	-11,973	-60,247	-36,470
Net earnings (loss)/net sales	**4.83%**	-42.21%	-50.19%	-60.96%	-36.82%	-16.05%
PER SHARE						
Net earnings (loss) related to						
continuing operations	**0.01**	-0.07	-0.23	-0.15	-4.10	-2.92
discontinued operations	**-**	-0.81	-0.21	-0.87	-0.88	-0.11
Net earnings (loss), basic and diluted	**0.01**	-0.88	-0.44	-1.02	-4.98	-3.03
Internally generated cash flows	**0.01**	0.03	-0.16	0.01	-0.58	-1.12
Shareholders' equity	**0.06**	0.38	0.64	1.28	-1.05	2.66
Number of shares outstanding at year-end	**172,677,515**	18,901,446	17,072,448	12,226,205	12,226,205	12,225,499
Weighted average number of shares outstanding	**162,894,228**	18,002,870	15,391,646	12,226,205	12,226,205	12,225,499
FINANCIAL POSITION						
Working capital	**6,597**	4,428	4,258	10,776	-26,804	4,040
Current ratio of working capital	**2.29:1**	1.87:1	1.23:1	1.46:1	0.61:1	1.05:1
Fixed assets	**2,366**	2,475	2,529	2,495	24,904	67,965
Total assets	**14,505**	11,965	44,645	50,249	69,430	165,329
Long-term debt	**-**	-	13,995	11,471	12,026	43,044
Preferred shares, subject to compromise	**-**	-	-	4,000	4,000	-
Shareholders' equity	**9,397**	6,903	9,793	-29,031	-17,057	43,002
Long-term debt / shareholders' equity	**-**	-	1.43:1	-0.40:1	-0.71:1	1.00:1
Average return on shareholders' equity	**24.01%**	-190.32%	-52.53%	51.96%	-464.42%	-59.35%
STATISTICS						
Capital expenditures	**649**	841	380	90	3,425	33,582
Number of stores opened or renovated and expanded during the year	**4**	4	-	-	2	4
Number of stores and specialty department stores at year-end	**56**	57	57	57	115	188
Retail square-footage (in square feet)	**86,600**	87,000	87,000	87,000	493,000	858,000
Number of employees	**460**	450	500	640	2,400	4,200

This management report, dated April 16, 2007, focuses on the commercial activities and financial results of Groupe Bikini Village inc. for the year ended February 3, 2007. The financial information is in Canadian dollars.

Company Profile

The Company, incorporated pursuant to the Canadian Business Corporation Act, creates, contractually produces and commercialises beachwear products. Through its "Bikini Village" and "Ocean Bikini Village" boutiques, the Company offers customers all types of swimwear for men and women, beachwear and travel clothing as well as various beach and swimming accessories.

The company shares are registered on the Toronto Stock Exchange (TSX) under the symbol GBV.

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 Management Discussion & Analysis (MD&A) but should not be considered a measure of the financial return according to generally accepted accounting principles (the Canadian 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[1] is a measure that has not been established according to GAAP, EBITDA[1] as presented herein cannot be compared to other similar measures used by other companies as the Company's definition of EBITDA[1]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, including the risks and uncertainties described under the heading "Risks and uncertainties" from the present MD&A 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 April 16, 2007, 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

The financial statements have been prepared in accordance with the Canadian "GAAP" for financial information. 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.

OPERATING RESULTS

The financial statements are presented for the period of three and twelve months ended February 3, 2007, compared to the period of three and twelve months ended January 28, 2006.

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

With this divestiture, the Company's only remaining operating unit is its swimwear division "Bikini Village". In the third quarter of the year ended January 28, 2006, the Company proceeded with reducing two-thirds of its administrative personnel as well as reducing the occupancy space of its head office and distribution centre. However 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 statements for the year ended February 3, 2007.

The following is a summary of selected financial information together with the comparative results for the period of three and twelve months ended February 3, 2007 and for the corresponding periods of 2006.

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

	Period of three months ended	
	February 3, 2007 (14 weeks)	January 28, 2006 (13 weeks)
	$	$
Operating revenue	**12,333**	9,527
Operating income (EBITDA[1])	**983**	914
Less:		
Interest	**(7)**	69
Amortization	**256**	159
Unusual items -		
Restructuring fees	**-**	343
Earnings before income taxes	**734**	343
Income taxes	**(848)**	(24)
Earnings related to		
Continuing operations	**1,582**	367
Discontinued operations	**-**	74
Net earnings	**1,582**	441
Per share amounts		
Continuing operations	**0.01**	0.02
Discontinued operations	**-**	-
Total basic net earnings	**0.01**	0.02
Continuing operations	**0.01**	-
Discontinued operations	**-**	-
Total diluted net earnings	**0.01**	-
Weighted average number of shares outstanding (in thousands)		
Basic	**172,428**	18,733
Diluted	**178,790**	172,509
Cash flows from continuing operations		
Operating activities	**2,197**	994
Financing activities	**-**	(150)
Investing activities	**(106)**	(219)
Total assets	**14,505**	11,965
Total long-term debt	**-**	-

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

	Year ended February 3, 2007 (53 weeks)	Year ended January 28, 2006 (52 weeks)	Period of six months & 2 days ended August 2, 2004	Period of five months & 26 days ended January 29, 2005	Year ended January 29, 2005 (52 weeks)
	$	$	$	$	$
Operating revenue	**40,523**	37,644	19,641	13,345	32,986
Operating income (loss) (EBITDA[1])	**2,332**	2,643	2,143	(1,905)	239
Less:					
Interest	**4**	2,865	355	1,754	2,109
Amortization	**771**	637	1,083	430	1,513
Unusual items -					
Restructuring fees	**-**	343	1,982	-	1,982
Stock based compensation	**448**	-	-	-	-
Earnings (loss) before income taxes	**1,109**	(1,202)	(1,277)	(4,089)	(5,365)
Income taxes	**(848)**	77	-	(621)	(621)
Earnings (loss) related to					
Continuing operations	**1,957**	(1,279)	(1,277)	(3,468)	(4,745)
Discontinued operations	**-**	(14,609)	(10,696)	(3,229)	(13,925)
Net earnings (loss)	**1,957**	(15,888)	(11,973)	(6,697)	(18,670)
Per share amounts:					
Continuing operations	**0.01**	(0.07)	(0.15)	(0.23)	
Discontinued operations	**-**	(0.81)	(0.87)	(0.21)	
Total basic net earnings (loss)	**0.01**	(0.88)	(1.02)	(0.44)	
Continuing operations	**0.01**	(0.07)	(0.15)	(0.23)	
Discontinued operations	**-**	(0.81)	(0.87)	(0.21)	
Total diluted net earnings (loss)	**0.01**	(0.88)	(1.02)	(0.44)	
Weighted average number of shares outstanding (in thousands)					
Basic	**162,894**	18,003	12,226	17,072	
Diluted	**169,257**	171,779	12,226	15,392	
operations					
Operating activities	**1,775**	(1,684)	4,330	(5,751)	(1,421)
Financing activities	**-**	(3,625)	18,102	(122)	17,980
Investing activities	**(649)**	2,089	(4)	(380)	(384)
Total assets	**14,505**	11,965	50,249	44,645	
Total long-term debt	**-**	-	12,300	15,295	

Fourth quarter and year ended February 3, 2007 compared to fourth quarter and year ended January 28, 2006.

Revenues

The Company's sales from continuing operations for the three-month period ended February 3, 2007 were $12.3 million, compared to $9.5 million for the same period last year representing an increase of 29.5% (an increase of 18.2% on comparable sales), resulting in sales totalling $40.5 million during the year ended February 3, 2007, an increase of 7.6% over the same period last year when sales were at $37.6 million. The comparable sales (which are the comparison of the sales of the same number of stores from year to year) increased by 6.4% for the year ended February 3, 2007.

On a 53 week comparable basis, the average sales per square feet had an increase of 8.3%, while the amount for average sales per transaction increased by 4.9%, for the year ended February 3, 2007 comparatively to 2006.

The last quarter of the year performed well, particularly due to the favourable conditions for travel, an efficient strategy in the selection of products offered (brands vs private label) and the clientele generated by the magazine TROPIK which was launched in mid-October 2006. It should be noted that the fourth quarter ended February 3, 2007, consisted of 14 weeks compared to 13 weeks the previous year and that the Company operated one less store.

Operating income (EBITDA[1])

	Period of three months ended				**Year ended**			
	February 3, 2007 (14 weeks)		January 28, 2006 (13 weeks)		**February 3, 2007 (53 weeks)**		January 28, 2006 (52 weeks)	
	$	**%**	$	%	**$**	**%**	$	%
EBITDA[(1)] before the following items	**1,233**	**10.0 %**	914	9.6 %	**2,582**	**6.4 %**	2,643	7.0 %
Severance package to former President and CEO	**200**	**1.6 %**	-	- %	**200**	**0.5 %**	-	- %
Stock-based compensation - Stock options granted and completely exercisable by former CEO	**50**	**0.4 %**	-	- %	**50**	**0.1 %**	-	- %
Operating income (EBITDA[(1)])	**983**	**8.0 %**	914	9.6 %	**2,332**	**5.8 %**	2,643	7.0 %

For the fourth quarter ended February 3, 2007, the Company shows an EBITDA (as previously defined in the section "Non-GAAP Financial Measures") of $983,000, 8%, compared to the corresponding period of the previous year which showed $914,000, or 9.6%.

The EBITDA[1] for the fourth quarter of the year ended February 3, 2007 before the payment of the severance to the former CEO has increased by $319,000 (0.4%). This increase is explained primarily by an increase in gross margin of 1% and a sensible increase in business volume, net of related expenses, counterbalanced negatively 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 introduction of the current section "Operating Results".

The result is that the EBITDA[1] for the year ended February 3, 2007, came to $2.3 million, or 5.8% compared to $2.6 million, or 7% for the year ended January 28, 2006. The EBITDA[1], before payment of the severance to the former CEO for the twelve months ended February 3, 2007, shows a decrease of 0.6%, going from 7% for the year ended January 28, 2006, to 6.4% in 2007. Despite the increase in gross margin during the third and fourth quarter, the gross margin on an annual basis maintained itself at the same level as the previous year. On the other hand, the increase in administrative fees absorbed by Bikini Village of certain expenses that were previously proportionally allocated with the subsidiary Les Ailes de la Mode, sold in July 2005, had an impact.

Financing charges and amortization

Financing charges for the three-month period ended February 3, 2007, decreased from $69,000 in 2005 to net revenue of $7,000. Financing charges for the year ended February 3, 2007, decreased from $2.9 million in the year ended January 28, 2006 to $4,000. This decrease is in direct relation to the conversion of debentures into common shares on February 20, 2006.

The amortization expense for the three-month period ended February 3, 2007, increased by 61% to $256,000 compared to $159,000 for the quarter ended January 28, 2006 and it increased by 21% for the year ended at the same date, from $637,000 to $771,000 for the year ended February 3, 2007. This increase was the result of four store renovations during the year compared to three store renovations the previous year.

Unusual items – stock-based compensation

During the year, the Company 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 under the stock option plan currently in place, carrying on 8,633,875 common shares of the Company at an exercise price of $0.09, exercisable on the date granted. These options mature on June 20, 2016. During the year ended February 3, 2007, the fair value of these options representing a compensation charge of $448,000 was recorded on the statement of operations under the heading of unusual items.

Income taxes

The Company registered an income taxes credit amount of ($848,000) during the year ended February 3, 2007, representing a tax rate of (76.5%) compared to an income taxes charge of $77,000 using an effective rate of (6.4%) during the previous 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 7 of the annual financial statements for the year ended February 3, 2007. Moreover, the Company registered $829,000 in future income tax assets, for which a valuation allowance was registered during the previous year.

Discontinued operations

During the year 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 was still included as a receivable in the current assets as at February 3, 2007. (This amount was however cashed on the present). The effective date of the sale was July 30, 2005. The results of these operations have been accounted for on a discontinued basis.

The earnings for discontinued operations for the three-month period ended February 3, 2007, was nil compared to earnings of $74,000 (nil per share) for the same period a year earlier. The loss from discontinued operations for the year ended February 3, 2007, was nil compared to $14.6 million for the previous year or ($0.81) per basic and diluted share.

The losses from discontinued operations for the three-month and twelve-month periods ended January 28, 2006 included a loss from disposal of investment in the subsidiary Les Ailes de la Mode Incorporées for an amount of $10.6 million, including $1.2 million in various fees and adjustments related to the sales transaction.

Net earnings (net loss)

For the three-month period ended February 3, 2007, earnings from continuing operations totalled $1.6 million or $0.01 per basic and diluted share. Over the same period last year, earnings for continuing operations amounted to $367,000, $0.02 per basic share and zero per diluted share, including reorganization fees of $343,000.

The calculation of the amounts per share were done on a weighted average number of shares of 172,427,515 (178,790,226 on a diluted basis) in circulation for the quarter ended February 3, 2007 and on a weighted average number of shares of 18,732,517 (172,508,586 on a diluted basis) for the quarter ended January 28, 2006, a significant difference in the number due to the conversion of all the convertible debentures in circulation on February 20, 2006

For the year ended February 3, 2007, earnings for continuing operations totalled $2 million ($0.01 per basic and diluted share). For the year ended January 28, 2006, losses from continuing operations before reorganization costs totalled $936,000. During this period, reorganization costs and unusual items totalling $343,000 were incurred, and total losses for continuing operations amounted to $1.3 million or $0.07 per share, basic and diluted.

The calculation of the amounts per share were done on a weighted average number of shares of 162,894,228 in circulation for the year ended February 3, 2007 and on a weighted average number of shares of 18,002,870 for the year ended January 28, 2006. For the calculation of earnings (losses) per diluted share, the number of shares for the current year is 169,256,939 and 171,778,939 for the previous year.

CASH POSITION

Operating activities

Cash flows from continuing operations for the three-month period ended February 3, 2007, increased by $1.2 million compared to funds generated in the same period of the previous year, mostly due to the increase in the net earnings for the period in comparison to the corresponding period of the previous year. For the year ended February 3, 2007, cash flows from continuing operations increased by $3.5 million compared to last year. The main variance for the year comes from the positive results in net earnings compared to the previous year and the significant decrease at the end of the previous year in accounts payables and accrued liabilities over the previous year.

Financing activities

For the fourth quarter ended February 3, 2007 as well as cumulatively for the twelve-month period, there were no funds generated or reimbursed related to financing activities compared to funds of $150,000 that were used during the fourth quarter ended January 28, 2006 following a repurchase of shares. Financing activities for the year ended January 28, 2006 utilized a net $3.6 million, primarily as a result of obtaining financing of $1.7 million convertible debentures issued in the second quarter, the reimbursement in the third quarter of $3.7 million in secured debentures and the reimbursement of the mortgage loan on the building that houses the Company's head office made possible following the sale of the head office building.

Investment activities

Investment activities amounted to $106,000 during the three-month period ended February 3, 2007 compared to $219 000 used during the corresponding period one year earlier. During the fourth quarter of the previous year ended January 28, 2006, two stores were renovated while in the fourth quarter ended February 3, 2007, one store was renovated and another was refreshed. For the twelve months ended February 3, 2007, investment activities totalled $649,000, compared to $2.1 million in net funds provided in the year ended January 28, 2006.

During the year ended January 28, 2006, $2.9 million funds came from the sale of the building that houses the Company's head office, while $841,000 were invested in the renovation and opening of stores.
During the year ended February 3, 2007, four stores were renovated, whereas in the previous year, one new store was added and three other stores were renovated.

Year ended January 28, 2006 compared to the year ended January 29, 2005

The Company's sales from continuing operations had amounted to $37.6 million during the twelve-month period ended January 28, 2006, an increase of 14.1% over the same period one year before when sales were at $33 million.

The increase of 14.1% in registered sales during the period ended January 28, 2006 was explained principally by i) an increase in average sales, which can be attributed to better merchandising product offers and tighter inventory management, reducing the mark-down of products; ii) an increase in sales volume which can be explained by a hotter and more humid summer in 2005 than in 2004 and by the negative affects on sales, during the first six months of the period ended January 29, 2005, of the capital reorganisation of the Company completed August 2, 2004; and iii) in a smaller measure, an improvement of sales in the three renovated and expanded stores during that period.

EBITDA[1] (as previously defined in the section "Non-GAAP Financial Measures") for continuing activities was at $2.6 million for the twelve-month period ended January 28, 2006 and at $239,000 for the same period a year before. The operating margin for the twelve-month period ended January 28, 2006, had been 7%, and compared to 0.7% a year before, this increase was mostly due to the increase in gross margin. The gross margin had increased by 5.2 %. That increase had been the result of a better product offer and better management of inventory, thereby reducing the mark-down of products.

Financing charges for the twelve months ending January 28, 2006, had increased from $2.1 million a year earlier to $2.9 million. For the same period of the previous year, the convertible debentures had been in place for six months compared with nine months in 2005.

For the twelve-month period of the current fiscal year, the amortization expense had fallen 57.9%, going from $1.5 million the previous year to $637,000, due to the revaluation of assets as at August 2, 2004 following the application of the fresh start accounting, as well as the sale of the head office building and the closing of the distribution centre.

The loss from discontinued operations for the twelve-month period ended January 28, 2006, was $14.6 million, compared to $13.9 million for the same period a year earlier.

The loss from discontinued operations for the twelve-month period ended January 28, 2006, had included a loss from disposal of investment in the subsidiary Les Ailes de la Mode Incorporées for an amount of $10.6 million, including $1.2 million in various fees and adjustments related to the sales transaction.

For the twelve months of the year ended January 28, 2006, losses for continuing operations before reorganization costs had totalled $936,000. During that year, reorganization costs and unusual items totalling $343,000 had been incurred, and total losses for continuing operations had amounted to $1.3 million or $0.07 per share, basic and diluted. For the corresponding period of the previous year, losses for continuing operations had amounted to $4.7 million or a $0.15 loss per share, basic and diluted, for the period of six months and two days before reorganization ended on August 2, 2004 and a $0.23 loss per share, basic and diluted, for the period of five months and 26 days ended on January 29, 2005, and included reorganization costs in the amount of $2 million.

Cash flows from continuing operations for the year ended January 28, 2006, had decreased by $263,000 compared with the same period a year before.

Financing activities had used $3.6 million in cash, assigned mainly to the refunding of debt, during the period of twelve months ending on January 28, 2006, compared to funds of $18 million generated for the comparable period of the year before, following a new investment.
For the year ended January 28, 2006, investment activities had generated $2.1 million, whereas $384,000 had been used the previous year. The sale of the building in the third quarter of 2005 accounts for a significant injection of $2.9 million, other than investments of $841,000 mostly in the renovation and opening of stores.

FUTURE CASH POSITION

As at February 3, 2007, the Company had available cash of $5.3 million and an on-demand credit facility of up to $3 million, of which none had been used as at February 3, 2007. This credit facility was automatically renewed on March 31, 2007. Availability of the on-demand credit is limited by a margin formula based on the Company's assets net of specific allowances and priority claims. Over the last twelve months the average amount available according to this formula was equal to $600,000. In the normal course of business, the Company issued letters of credit and letters of guarantee for a total of $125,000, until August 2007. This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Company. This facility bears an interest at prime plus 1.65%. Under the agreements relative to the credit facility, the Company is subject to certain restrictive clauses concerning compliance with financial ratios. Efforts with a view to replace and improve this credit facility are currently deployed by the Company.

Conditions of renewal of leases and the average age of the concepts (9.3 years) are forcing the Company to make important renovations, partially or completely to the spaces occupied. A renovation strategy limited only to renovations as per our outstanding lease agreements would limit Company's growth. Status quo is not an option and could lead to unilateral lease terminations or renewals at unfavourable conditions. In our budgets for the upcoming year, which include only leasehold improvements obliged by our leases, it is foreseen that an investment of $1.3 million is required to meet minimum lease conditions. The credit facilities in place, our working capital, and the cash flow generated by the operations are sufficient to cover the $1.3 million needs.

Company has to maintain a material working capital to insure sustained delivery and to leverage its negotiation position with its suppliers due to past insolvency events.

An acceleration of the schedule of concept renovations, an organic expansion strategy or the leveraging strategy of the Company's intangible assets in new territories and distribution channels would bring forward a need for adequate financing before the realization of these projects. The Company is currently pursuing financing opportunities and has some viable options.

Commitments

The Company is committed under long-term operating leases for commercial space. Most of these leases have a minimum annual rent and an additional rent based on the percentage of gross sales and renewal options that can be exercised at the Company's or the lessor's discretion. The minimum lease payments required in the forthcoming years are as follows:

2008	2009	2010	2011	2012	Subsequently
$4,182	$3,313	$2,169	$1,332	$553	$779

However, as part of the sale of certain assets in previous years, the Company assigned its leases to other retail operators, but remained obligated to the landlord on those leases as the original tenant despite the assignment. If the assignee were to default on the lease agreement, the Company would remain obligated to the landlord for payment of the lease. The terms of these assigned leases can extend up to 2008. As at February 3, 2007, these leases had future minimum payments of $250,000 in addition to other related expenses such as property taxes and common area maintenance expenses.

<u>Guarantees</u>

The Company has guarantees and general indemnification commitments to counterparties which are disclosed in Note 18 to the financial statements for the year ended February 3, 2007. Historically, the Company has not made any payments with respect to these guarantees and indemnification provisions, and Management believes that the risk of significant loss is negligible.

USE OF ESTIMATES

The preparation of the financial statements in conformity with Canadian GAAP requires management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities at the date of the financial statements. They may also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates are the following: inventory valuation, determination of accrued liabilities, future income tax and the evaluation of the fair value of stock options granted. The Company bases its estimates on historical experience and on various other assumptions deemed reasonable under the circumstances.

FUTURE CHANGES IN ACCOUNTING POLICIES

Financial Instruments

The CICA issued section 3855 of the CICA Handbook, "Financial Instruments-Recognition and Measurement," which describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section requires that (i) all financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held to maturity, (ii) all financial liabilities be measured at fair value when they are derivatives or classified as held-for-trading (other financial liabilities must be measured at their carrying value), and (iii) all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship. The CICA also reissued section 3860 (as section 3861) of the CICA Handbook, "Financial Instruments-Disclosure and Presentation," which establishes standards for the presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. These revisions come into effect for years beginning on or after October 1, 2006. The Company will adopt these new sections effective February 4, 2007 and the adoption of this section is not expected to have a material impact on the Company's financial statements.

Hedges

The CICA issued section 3865 of the CICA Handbook, "Hedges." The section is effective for years beginning on or after October 1, 2006. It describes when and how hedge accounting may be applied. Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between changes in the fair value of a hedged item and the hedging item, between changes in the cash flows attributable to a hedged item and the hedging item, or between changes resulting from a risk exposure relating to a hedged item and the hedging item. Hedge accounting changes the normal basis for recording gains, losses, revenues and expenses associated with a hedged item or a hedging item in a company's statement of operations. It ensures that all offsetting gains, losses, revenues and expenses are recorded in the same period. The Company will adopt this section February 4, 2007 and the adoption of this section is not expected to have a material impact on the Company's financial statements.

Comprehensive income

The CICA issued section 1530 of the CICA Handbook, "Comprehensive Income." The section is effective for the years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than just the company's shareholders. It includes items that would normally be excluded from net earnings, such as changes in the currency translation adjustment relating to self-sustaining foreign operations, the unrealized gains or losses on available-for-sale investments and the additional minimum liability for pension obligations.

Furthermore, the CICA also made changes to section 3250 of the CICA Handbook, "Surplus," and reissued it as section 3251, "Equity." The section is also effective for years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, "Comprehensive Income."

Adopting these sections on February 4, 2007 will require the Company to begin reporting the following items in the financial statements:

- Comprehensive income and its components
- Accumulated other comprehensive income and its components

The adoption of this section will not have a material impact on the Company's financial statements.

Accounting changes

In July 2006, the CICA issued section 1506 of the CICA Handbook, "Accounting Changes." This section revises current standards on changes in accounting policy, estimates or errors. An entity is permitted to change an accounting policy only when it results in financial statements that provide more reliable and more relevant information or results from a requirement under a primary source of Canadian GAAP. The guidance also addresses how to account for a change in accounting policy, estimate or corrections of errors, and establishes enhanced disclosures about their effects on the financial statements. These recommendations are effective for fiscal years beginning on or after January 1, 2007. The Company will apply these recommendations as required on a prospective basis.

Capital disclosures

In December 2006, the CICA issued section 1535, "*Capital Disclosures.*" This section establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a company regards as capital are required. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will apply them in the first quarter of 2008.

RELATED PARTY TRANSACTIONS

During the year ended February 3, 2007, fees in the amount of $200,000 were paid to the Chairman of the Board of the Company ($200,000 in 2006). In 2006, consulting fees totalling $64,062 were committed to a former director of the Company for services primarily related to exploring financing alternatives for the Company. Moreover, financing fees of $45,000 were committed in 2006 as well as interest of $39,315 within the framework of a temporary financing in place with an entity of which one of the shareholders was in 2006 a director of the Company. In addition, the Company received $22,557 in occupancy revenues ($8,676 in 2006) 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.

CONCLUSION ON THE EFFICIENCY OF THE 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 February 3, 2007.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Groupe Bikini Village inc.'s management is responsible for designing such internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian GAAP. No changes were made in Groupe Bikini Village inc.'s internal control over financial reporting during the year ended February 3, 2007, that have materially affected, or are reasonably likely to materially affect, Groupe Bikini Village inc.'s internal control over financial reporting.

RISKS AND UNCERTAINTIES

Many of the Company's products are seasonal by nature, with merchandise sales traditionally being the higher in the second quarter than in other periods. Furthermore, the second quarter activities are subject to a certain degree of risk from unseasonable weather patterns. Variable costs can be adjusted, but many other costs, such as occupancy costs are fixed, resulting in the Company reporting a disproportionate level of earnings throughout its quarters. The seasonal character of the business sector is such that the results of each quarter are not necessarily indicative of the full year's performance.

Several external factors affect economic variables and consumer confidence over which the Company exerts no influence, including economic cycles, interest rates, personal debt levels, unemployment rates and levels of personal disposable income. Events such as political or social unrest, natural disasters, disease outbreaks or acts of terrorism could have a material adverse effect on the Company's performance, particularly during a peak season.

The retail market remains highly competitive and the Company should continually review its strategies to insure its competitiveness on the market. The Company's target markets, which is to say women's and men's bathing suits, beachwear, 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 and exclusivity, wide range of selections available, customer service, location of boutiques, warm welcome, private labels and exclusive collections, just 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.

Increased competition could adversely affect the Company's ability to achieve its objectives. The Company's inability to compete effectively with its current or any future competitors could result in, among other things, a reduction of market share.

We refer you to the heading "Risk Factors" of the Company's Annual Notice Information Form which is incorporated by reference in this Management Report and is also found on SEDAR at www.sedar.com.

FINANCIAL POSITION

The Company's total assets amounted to $14.5 million as at February 3, 2007, compared to $12 million as at January 28, 2006, the cash and future income tax assets increase being the principal elements for the variance.

Accounts receivable were at $89,000 as at February 3, 2007, compared to $87,000 as at January 28, 2006.

The amount due following the sale of a subsidiary was $560,000 as at February 3, 2007, compared to $1.9 million as at January 28, 2006. As at the date of the present MD&A, this amount was cashed.

Income taxes were at $65,000 as at February 3, 2007, compared to $46,000 as at January 28, 2006.

Inventories have increased by 2.7 % and totalled $4.5 million as at February 3, 2007, compared to $4.3 million as at January 28, 2006

Prepaid expenses totalled $860,000 as at February 3, 2007, compared to $304,000 as at January 28, 2006, due in major part to the February 2007 prepaid occupancy, as at February 3, 2007.

Short-term and long-term future income taxes were respectively at $395,000 and $434,000 as at February 3, 2007, whereas future income taxes do not appear on the balance sheet of January 28, 2006, due to a valuation allowance registered at this date.

The book value of capital assets totalled $2.4 million as at February 3, 2007 which was of equal value to the amount at January 28, 2006 which amounted to $2.5 million, regardless of the renovations, taking into account the amortization.

As at February 3, 2007, total debt amounted to $5.1 million, same as at January 28, 2006.

As at February 3, 2007, shareholders' equity was at $9.4 million compared to $6.9 million as at January 28, 2006, due to net earnings for the period of $2 million, and the increase of contributed surplus of $537,000 relative to the granting of stock options.

Working capital of the Company had increased to $6.6 million as at February 3, 2007, compared to $4.4 million as at January 28, 2006, for a ratio of 2.3 compared to 1.9.

OUTSTANDING SHARES DATA

As at February 3, 2007, the Company had 172,677,515 commons shares outstanding (18,901,446 as at January 28, 2006). At the same date 9,885,127 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 to 2016. During the year ended February 3, 2007, 4,255 stock options (312,116 in 2005) were cancelled, while 1,652 stock options (nil in 2005) had expired.

During the year ended February 3, 2007, 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 of arrangement. For the twelve months ended January 28, 2006, debentures of $914,500 were converted into 1,828,998 common shares.

On April 19, 2006, the Company had granted options on 1,250,000 of the Company's common shares at an exercise price of $0.11, which could be exercised during the next three years at the rate of 33 1/3% per year. These options mature on January 31, 2016. Following the departure of the President and Chief Executive Officer on December 6, 2006, all of the options that were granted to him became entirely exercisable (750,000 options), maturing March 6, 2007. During the period ended February 3, 2007, the fair value of the compensation expense recorded on the Statement of Operations with regard to this allocation was $89,000. As of the date of the present MD & A, these options expired without being exercised.

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. On December 1, 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.

The agreement between the Chairman of the Board and Founder of the Company, provides that up to August 1st, 2008, he is entitled to request a granting of options representing 50% of the options available, as per the Company's Stock Options Plan ("Plan"). As of the date of this MD&A, all the options available under this agreement were asked for and granted. An increase in the number of options available under the Plan would automatically increase the number of options available to a request for granting.

As of February 22nd, 2007, 1,000,000 common stock option shares were granted to the President and Chief Executive Officer.

The following is a summary of selected financial information from the unaudited quarterly financial statements of the Company for the eight most recent completed quarters.

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

	Fourth quarter		Third quarter		Second quarter		First quarter	
Fiscal year	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $
Operating revenue	12,333	9,527	5,628	5,418	14,069	14,998	8,494	7,701
Earnings (loss) from								
Continuing operations	1,582	367	(1,384)	(1,625)	1,776	1,140	(17)	(1,161)
Discontinued operations	-	74	-	55	-	(13,060)	-	(1,678)
Net earnings (loss)	1,582	441	(1,384)	(1,570)	1,776	(11,920)	(17)	(2,839)
Per share amounts from								
Continuing operations	0.01	0.02	(0.01)	(0.09)	0.01	0.06	-	(0.07)
Discontinued operations	-	-	-	-	-	(0.73)	-	(0.10)
Basic earnings (loss)	0.01	0.02	(0.01)	(0.09)	0.01	(0.67)	-	(0.17)
Continuing operations	0.01	-	(0.01)	(0.09)	0.01	0.03	-	(0.07)
Discontinued operations	-	-	-	-	-	(0.73)	-	(0.10)
Diluted earnings (loss)	0.01	-	(0.01)	(0.09)	0.01	(0.70)	-	(0.17)
Weighted average number of shares (in thousands)								
Basic	172,428	18,733	172,428	18,182	172,438	17,690	47,448	17,118
Diluted	178,790	172,509	172,428	18,182	173,337	50,681	47,448	17,118

The fluctuations between quarters are principally seasonal, the second quarter being historically higher then the other quarters. In addition it should be noted that the interest charges related to the debentures up to the third quarter of the year ended January 28, 2006 had an effect on the results.

In the second quarter of 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.

As at the fourth quarter of 2006, net earnings include income taxes credit of $829,000, related to future tax assets for which in the past a valuation allowance was registered. Moreover, this quarter includes 14 weeks compared to 13 weeks for all of the seven other quarters.

OUTLOOK

The Company continues to consider other different possible growth and creation of added value strategies.

The principal avenues of added value being pursued are as follows: i) increasing points of sales, primarily in Ontario and ii) accelerating the renovation schedule and iii) developing in new territories and distribution channels of its knowledge of concepts and development of product, of trademarks and tools for operating a distribution network.

However, the development of these strategic alternatives and growth strategies is conditional on putting in place adequate financing before these projects are undertaken.

ADDITIONAL INFORMATION

This MD&A is dated April 16, 2007. This MD&A is intended to facilitate the understanding and assessment of significant changes and trends, as well as risks and uncertainties, related to the Company's operating results and financial position. The reader will find other information pertaining to the Company, including the annual financial statements, and Annual Information Form, on SEDAR's website at www.sedar.com.

(Signed) Yves Simard
Yves Simard
President and Chief Executive Officer

Management's Responsibility for the Financial Statements

The financial statements of Groupe Bikini Village inc. and the financial information contained in this Annual Report are the responsibility of management. This responsibility is based on a judicious choice of accounting procedures and principles, the application of which require the informed judgement of management. These financial statements were prepared in accordance with Canadian generally accepted accounting principles, and were approved by the Board of Directors. In addition, the financial information included in the Annual Report is consistent with that in the financial statements.

Groupe Bikini Village inc. maintains accounting and administrative control systems which, in the opinion of management, ensure reasonable accuracy of financial information and well ordered efficient management of the Company's affairs.

The Board of Directors discharges its responsibilities for the financial statements includes in this Annual Report principally through its audit committee. This committee, which holds periodic meetings with members of management and the external auditors, reviewed the financial statements of Groupe Bikini Village inc. and recommended their approval to the Board of Directors.

The enclosed financial statements were audited by Samson Bélair/Deloitte & Touche, chartered accountants, and their report indicated the extent of their audit and their opinion on the financial statements.

Yves Simard
President and Chief Executive Officer
April 16, 2007

Auditors' Report

To the Shareholders of
Groupe Bikini Village inc.

We have audited the balance sheets of Groupe Bikini Village inc. as at February 3, 2007 and January 28, 2006 and the statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at February 3, 2007 and January 28, 2006 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.

Chartered Accountants
March 23, 2007
Montréal, Canada

Statements of Operations

(in thousands of dollars, except per share amounts)

	Year ended February 3, 2007	January 28, 2006
	$	$
Operating revenue	**40,523**	37,644
Cost of goods sold, operating and administrative expenses	**38,191**	35,001
Interest (Note 4)	**4**	2,865
Amortization	**771**	637
	38,966	38,503
Earnings (loss) before income taxes and the undernoted items	**1,557**	(859)
Unusual items		
Reorganization costs (Note 5)	**-**	343
Stock-based compensation (Note 6)	**448**	-
Earnings (loss) before income taxes from continuing operations	**1,109**	(1,202)
Income taxes (Note 7)	**(848)**	77
Earnings (loss) from continuing operations	**1,957**	(1,279)
Discontinued operations, net of related income taxes (Note 8)	**-**	(14,609)
Net earnings (loss)	**1,957**	(15,888)
Earnings (loss) per share (Note 9)		
Continuing operations	**0.01**	(0.07)
Discontinued operations	**-**	(0.81)
Basic earnings (loss) per share	**0.01**	(0.88)
From continuing operations	**0.01**	(0.07)
From discontinued operations	**-**	(0.81)
Diluted earnings (loss) per share	**0.01**	(0.88)
Weighted average number of shares outstanding	**162,894,228**	18,002,870

Statements of Deficit

(in thousands of dollars)

	Year ended February 3, 2007	January 28, 2006
	$	$
Deficit, beginning of year	**(22,585)**	(6,697)
Net earnings (loss)	**1,957**	(15,888)
Deficit, end of year	**(20,628)**	(22,585)

See accompanying notes

Balance Sheets
(in thousands of dollars)

As at	February 3, 2007	January 28, 2006
	$	$
Assets		
Current assets		
Cash and cash equivalents	**5,276**	2,848
Accounts receivable	**89**	87
Amount receivable following the sale of a subsidiary (Note 8)	**560**	1,862
Income taxes	**65**	46
Inventories	**4,460**	4,343
Prepaid expenses	**860**	304
Future income taxes (Note 7)	**395**	-
	11,705	9,490
Capital assets (Note 10)	**2,366**	2,475
Future income taxes (Note 7)	**434**	-
	14,505	11,965
Liabilities and shareholders' equity		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**5,108**	5,062
Shareholders' equity		
Share capital (Note 13)	**28,528**	11,495
Convertible debentures (Note 12)	**-**	12,339
Equity component of convertible debentures (Note 12)	**-**	4,694
Contributed surplus (Note 15)	**1,497**	960
Deficit	**(20,628)**	(22,585)
	9,397	6,903
	14,505	11,965

Guarantees, commitments and contingencies (Note 18)

See accompanying notes

Approved by the Board

Paul Delage Roberge
Director

Richard Soly
Director

Statements of Cash Flows

(in thousands of dollars)

	Year ended February 3, 2007	January 28, 2006
	$	$
Operating activities		
Net earnings (loss) from continuing operations	**1,957**	(1,279)
Adjustments (Note 17)	**479**	1,778
	2,436	499
Net changes in non-cash working capital items (Note 17)	**(661)**	(2,183)
Operating activities from		
Continuing operations	**1,775**	(1,684)
Discontinued operations	**-**	(5,914)
Financing activities		
Increase in debt	**-**	1,700
Purchase of share-capital	**-**	(150)
Reimbursement of debt	**-**	(5,175)
Financing activities from		
Continuing operations	**-**	(3,625)
Discontinued operations	**-**	-
Investing activities		
Acquisition of capital assets	**(649)**	(841)
Disposal of capital assets	**-**	2,930
Investing activities from		
Continuing operations	**(649)**	2,089
Discontinued operations	**1,302**	4,104
Changes in cash and cash equivalents related to		
Continuing operations	**1,126**	(3,220)
Discontinued operations	**1,302**	(1,810)
Net changes in cash and cash equivalents	**2,428**	(5,030)
Cash at beginning	**2,848**	7,878
Cash and cash equivalents at end	**5,276**	2,848

See accompanying notes

Notes to the Financial Statements

(all tabular figures are in thousands of dollars)

1. Company description

The Company, incorporated pursuant to the Canadian Business Corporation Act, creates, contractually produces and commercialises beachwear products. Through its “Bikini Village” and “Ocean Bikini Village” boutiques, the Company offers customers all types of swimwear, beachwear and travel clothing as well as various beach and swimming accessories.

2. Summary of significant accounting policies

The Company’s financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”).

Use of estimates

The preparation of the financial statement in conformity with Canadian GAAP requires management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities at the date of the financial statements. They may also affect the reported amounts of revenues and expenses presented. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates are the following: inventory valuation, determination of accrued liabilities, future income tax and the evaluation of the fair value of stock options granted. The Company bases its estimates on historical experience and on various other assumptions deemed reasonable under the circumstances.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid financial instruments having an expiration of three months or less.

Revenue recognition

Revenue from the sale of merchandise is presented net of estimated returns and discounts. Revenues exclude sales tax and are recognized at the time of sale.

Inventories

Inventories are valued at the lower of cost or net realizable value less the normal profit margin. Cost is substantially determined on a first in, first out basis.

Capital assets

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis using the lesser of their estimated useful lives or the length of the leases concerning the leasehold improvements, and is detailed as follows:

Equipment and software	5 years
Leasehold improvements	10 years

For capital assets that existed as at August 2, 2004, the above-mentioned amortization periods were subject to a review of estimated useful lives as a result of applying fresh-start accounting.

Impairment of long-lived assets

Long-lived assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

2. Summary of significant accounting policies (continued)

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are accounted for based on the estimated taxes recoverable or payable that would give rise to the recovery or settlement of the carrying amount of the assets and liabilities recorded in the financial statements and the use of tax losses. Future income tax assets and liabilities are measured using the tax rates expected to apply in the years in which the temporary differences are expected to reverse. Changes in these balances are charged to earnings of the year in which they occur. The future income tax assets are registered only when in management's opinion; it is more likely than not that it will be realized.

Earnings per share

Earnings per share are calculated using the weighted daily average number of shares outstanding. The net diluted loss per share presented in the Statements of Operations equals the net loss per share for the year 2006, since the exercise effect of the stock options and the conversion of the debentures are anti-dilutive.

Foreign currency translation

Transactions concluded in foreign currencies are translated using the temporal method. In accordance with this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, non-monetary assets and liabilities at the historical exchange rate, and revenues and expenses at the exchange rate in effect at the transaction dates. Exchange gains or losses are current in nature and are included in earnings.

Stock-based compensation and other stock-based payments

The Company uses the fair value method to account for all stock-based compensation. This method requires awards of stock options to be measured on their date of grant using the fair value method. They are expensed and credited to contributed surplus over their vesting period. This credit is reclassified to share capital when stock options are exercised.

Financial year

The Company's fiscal year ends on the last Saturday closest to January 31.

3. Future changes in accounting policies

Financial Instruments

The CICA issued section 3855 of the CICA Handbook, "Financial Instruments-Recognition and Measurement," which describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section requires that (i) all financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held to maturity, (ii) all financial liabilities be measured at fair value when they are derivatives or classified as held-for-trading (other financial liabilities must be measured at their carrying value), and (iii) all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship. The CICA also reissued section 3860 (as section 3861) of the CICA Handbook, "Financial Instruments-Disclosure and Presentation," which establishes standards for the presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. These revisions come into effect for years beginning on or after October 1, 2006. The Company will adopt these new sections effective February 4, 2007 and the adoption of this section is not expected to have a material impact on the Company's financial statements.

3. Future changes in accounting policies (continued)

Hedges

The CICA issued section 3865 of the CICA Handbook, "Hedges." The section is effective for years beginning on or after October 1, 2006. It describes when and how hedge accounting may be applied. Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between changes in the fair value of a hedged item and the hedging item, between changes in the cash flows attributable to a hedged item and the hedging item, or between changes resulting from a risk exposure relating to a hedged item and the hedging item. Hedge accounting changes the normal basis for recording gains, losses, revenues and expenses associated with a hedged item or a hedging item in a company's statement of operations. It ensures that all offsetting gains, losses, revenues and expenses are recorded in the same period. The Company will adopt this section February 4, 2007 and the adoption of this section is not expected to have a material impact on the Company's financial statements.

Comprehensive income

The CICA issued section 1530 of the CICA Handbook, "Comprehensive Income." The section is effective for the years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than just the company's shareholders. It includes items that would normally be excluded from net earnings, such as changes in the currency translation adjustment relating to self-sustaining foreign operations, the unrealized gains or losses on available-for-sale investments and the additional minimum liability for pension obligations.

Furthermore, the CICA also made changes to section 3250 of the CICA Handbook, "Surplus," and reissued it as section 3251, "Equity." The section is also effective for years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, "Comprehensive Income."

Adopting these sections on February 4, 2007 will require the Company to begin reporting the following items in the financial statements:

- Comprehensive income and its components
- Accumulated other comprehensive income and its components

The adoption of this section will not have a material impact on the Company's financial statements.

Accounting changes

In July 2006, the CICA issued section 1506 of the CICA Handbook, "Accounting Changes." This section revises current standards on changes in accounting policy, estimates or errors. An entity is permitted to change an accounting policy only when it results in financial statements that provide more reliable and more relevant information or results from a requirement under a primary source of Canadian GAAP. The guidance also addresses how to account for a change in accounting policy, estimate or corrections of errors, and establishes enhanced disclosures about their effects on the financial statements. These recommendations are effective for fiscal years beginning on or after January 1, 2007. The Company will apply these recommendations as required on a prospective basis.

Capital disclosures

In December 2006, the CICA issued section 1535, "*Capital Disclosures*." This section establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a company regards as capital are required. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will apply them in the first quarter of 2008.

(all tabular figures are in thousands of dollars)

4. Interest

	Year ended February 3, 2007	January 28, 2006
	$	$
Convertible debentures	**-**	2,592
Other	**127**	311
	127	2,903
Interest income	**123**	38
	4	2,865

5. Reorganization costs and unusual items

Reorganization costs and unusual items include the results of operations and events directly linked to the plan of transaction and arrangement related to the conversion of debentures, which was approved on January 27, 2006 as well as those directly linked to the sale of the subsidiary Les Ailes de la Mode Incorporées.

	Year ended February 3, 2007	January 28, 2006
	$	$
Loss related to disposal of fixed assets	**-**	146
Professional fees	**-**	298
Expenses related to leases and other charges	**-**	198
Severance pay	**-**	474
Write-off of current assets	**-**	210
	-	1,326
Less:		
Reorganization costs and unusual items from discontinued operations (Note 8)	**-**	983
	-	343

6. Unusual items – stock- based compensation

During the year, the Company 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 under the stock option plan currently in place, carrying on 8,633,875 common shares of the Company at an exercise price of $0.09, exercisable on the date granted. These options mature on June 20, 2016.

(all tabular figures are in thousands of dollars)

6. Unusual items – stock- based compensation (continued)

During the year ended February 3, 2007, the fair value of these options (Note 14) representing a compensation charge of $448,000 was recorded on the statement of operations under the heading of unusual items. The fair value of these options was estimated at the grant date using the Black-Scholes option pricing model, according to the following assumptions: interest rate without risk of 4.4%, no dividends, estimated useful life of two years, predicted volatility of 110%.

7. Income taxes

The Company's effective tax rate related to continuing operations, is detailed as follows:

	Year ended **February 3, 2007**	January 28, 2006
	%	%
Combined base rate	**33.3**	32.6
Previously unrecorded future income taxes	**(124.3)**	(5.5)
Stock-based compensation	**16.1**	0.3
Other	**(1.6)**	(33.8)
	(76.5)	(6.4)

Income tax expense is as follows:

	Year ended **February 3, 2007**	January 28, 2006
	$	$
Income taxes (recoverable) payable including deferred losses	**(19)**	19
Future income taxes	**(829)**	-
Income taxes recoverable on discontinued operations	**-**	(58)
	(848)	77

(all tabular figures are in thousands of dollars)

7. Income taxes (continued)

At the end of the year, the main components of the Company's future income taxes are as follows:

As at	**February 3, 2007**	January 28, 2006
	$	$
Future income tax assets		
Provisions and other reserves that are tax-deductible only when disbursed	**253**	189
Excess of the tax base of capital assets and other assets over their net book value	**514**	852
Unused non-capital tax losses	**62**	397
	829	1,438
Allowance for impairment	**-**	1,438
Future income taxes assets recognized	**829**	-
Current portion	**(395)**	-
Long-term portion	**434**	-

As at February 3, 2007, the Company has a balance of non-capital tax losses available to be carried forward in the amount of $97,000 at the federal level and $ 954,000 in Ontario, which can be used to reduce income taxes of future years. These losses expire in 2016 and future income tax assets relative to these losses were accounted for.

Also as at February 3, 2007, the Company has capital losses to carry forward for an amount of $2,183,000. These losses can be applied indefinitely against future capital gains. The future income tax assets related to these capital losses were not accounted for.

8. Discontinued operations

In July 2005, the Company sold 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 (bearing interest at a rate of approximately 2.5 %). Accordingly, the results of these operations have been accounted for on a discontinued basis.

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

8. Discontinued operations (continued)

The results related to the discontinued operations are as follows:

	Year ended February 3, 2007	January 28, 2006
	$	$
Operating revenue	-	32,177
Cost of goods sold, operating and administrative expenses	-	34,392
Interest	-	23
Amortization	-	891
Reorganization costs and unusual items (Note 5)	-	983
Income taxes	-	(58)
	-	36,231
Loss on discontinued operations	-	(4,054)
Loss on disposal of investment	-	(10,555)
Loss on discontinued operations	-	(14,609)

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

9. Earnings (loss) per share

Presented below is the detailed reconciliation of the numerators and denominators of the calculation of the basic and diluted loss per share.

	Year ended February 3, 2007	January 28, 2006
	$	$
Basic		
Net earnings (loss) from		
Continuing operations	**1,957**	(1,279)
Discontinued operations	**-**	(14,609)
Net earnings (loss)	**1,957**	(15,888)
Weighted average number of shares outstanding	**162,894,228**	18,002,870
	$	$
Basic earnings (loss) per share related to		
Continuing operations	**0.01**	(0.07)
Discontinued operations	**-**	(0.81)
Basic earnings (loss) per share	**0.01**	(0.88)
	$	$
Diluted		
Net earnings (loss) from continuing operations	**1,957**	(1,279)
Ajustment related to debentures	**-**	1,539
Adjusted earnings from continuing operations	**1,957**	260
Weighted average number of shares outstanding	**162,894,228**	18,002,870
Dilution effect from convertible debentures and stock option plan	**6,362,711**	153,776,069
Adjusted weighted average number of shares outstanding	**169,256,939**	171,778,939
	$	$
Diluted earnings (loss) per share related to		
Continuing operations	**0.01**	(0.07)
Discontinued operations	**-**	(0.81)
Earnings (loss) per share, diluted	**0.01**	(0.88)

Warrants giving in the right to buy 750,000 common shares (13,910,000 in 2006) and, in 2006, $15,571,500 of debentures available to be converted into 31,143,000 common shares likely to dilute the basic earnings per share in the future were not taken into account in the calculation of diluted earnings per share because of their anti-dilutive effect.

(all tabular figures are in thousands of dollars)

10. Capital assets

As at	**February 3, 2007**		January 28, 2006	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
	$	**$**	$	$
Equipment	**566**	**259**	509	128
Software	**194**	**125**	165	46
Leasehold improvements	**3,137**	**1,147**	2,582	607
	3,897	**1,531**	3,256	781
Accumulated amortization	**1,531**		781	
Net book value	**2,366**		2,475	

11. Credit facilities

As at February 3, 2007, the Company has an on-demand credit facility for a maximum amount of $3,000,000, renewable annually on March 31st and of which none had been used as at February 3, 2007. The maximum allowable amount is limited to a percentage of the value of inventories less specific reserves and senior debt. In the normal course of business, the Company issued letters of credit and letters of guarantee for a total of $125,000 due August 2007.

This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Company. This facility bears interest at prime plus 1.65% (0.75% in 2006). Under the agreements relative to the credit facility, the Company is subject to certain restrictive clauses concerning compliance with financial ratios.

12. 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 amount of $17,597,000 and bearing interest at a rate of 12%, payable monthly and which were to mature on August 4, 2008.

The Company has accounted for the liability and equity components of the convertible subordinate debentures separately in accordance with Canadian GAAP in force at the date of 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 at the date of issue. As at August 2, 2004, the equity component (recorded separately in shareholders' equity) represented the current value of the conversion option held by the holders of convertible debentures.

During the year ended January 28, 2006, par value debentures totalling $914,500 plus accrued interest for an amount of $54,500 were converted into 1,828,998 common shares.

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.

(all tabular figures are in thousands of dollars)

12. Convertible debentures (continued)

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 the five-day average share prior to the judgment that approved the arrangement accepted by the debenture holders.

On January 27, 2006, the transaction plan was approved by the Court. Consequently, the convertible debentures, including the accrued interest 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 prepared for the debenture hoders was approved by the Court, the Company finalized the exchange of its debentures into common shares of the Company. As a result, the Company 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 as of November 4, 2005, inclusively, for an exchange ratio of $0.102387921.

13. Share capital

As at	**February 3, 2007**	January 28, 2006
	$	$
Authorized		
Unlimited number of common shares with voting rights		
Unlimited number of preferred shares without voting rights		
Issued and outstanding		
172,677,515 common shares (18,901,446 at January 28, 2006)	**28,528**	11,495

During the year ended February 3, 2007, par value debentures of $15,541,500 ($914,500 in 2006) plus unpaid accrued interest of $17,003 were converted into 153,776,069 common shares (1,828,998 in 2006) pursuant to the terms of the plan of arrangement.

(all tabular figures are in thousands of dollars)

13. Share capital (continued)

The table below summarizes the share capital information for the period ended February 3, 2007:

As at	**February 3, 2007**		January 28, 2006	
	Book Value $	**Number of shares**	Book Value $	Number of shares
Opening balance	**11,495**	**18,901,446**	10,676	17,072,448
Debentures converted	**17,033**	**153,776,069**	969	1,828,998
	28,528	**172,677,515**	11,645	18,901,446
Less: repurchased shares	-	-	(150)	-
	28,528	**172,677,515**	11,495	18,901,446

On August 8, 2005, the Company repurchased the 250,000 shares that had been issued on November 5, 2004 to an officer, for an amount of $150, 000.

14. Stock option plan

At the time of the general and extraordinary annual meeting of the Company on July 21, 2005, the shareholders voted for the change to the Stock Option Plan for Common Shares for the benefit of the Company's executive officers and managerial staff (the "Plan"), such that the maximum number of reserved shares that may be issued pursuant to the Plan and any other securities compensation mechanism be raised to 10% of the common shares of the Company's issued and outstanding shares as of the date the option is granted, that administrators and service providers become eligible for the Plan and that outstanding options may be exercised within 90 days after the end of employment of the holder, except in cases of dismissal for serious reasons.

The Plan foresees that the maximum duration of options should not surpass 10 years beginning with the grant date of the options.

The table below presents the status of the Company's stock option plan as at February 3, 2007 and January 28, 2006 and the changes to this plan during the periods then ended.

	Year ended February 3, 2007		Year ended January 28, 2006	
	Number of options	**Weighted avg. exercise price $**	Number of options	Weighted avg. exercise price $
Balance at beginning	**7,159**	**0.58**	319,275	1.81
Granted	**9,883,875**	**0.09**	-	-
Expired	**(1,652)**	**0.58**	-	-
Cancelled	**(4,255)**	**0.58**	(312,116)	0.68
Balance at end	**9,885,127**	**0.09**	7,159	0.58
Options exercisable at end	**9,551,794**	**0.09**	7,159	0.58

(all tabular figures are in thousands of dollars)

14. Stock option plan (continued)

The table below is a summary of the information related to the February 3, 2007 purchase options;

Range of exercise prices	Options outstanding: Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Exercisable options: Number of exercisable options	Weighted average exercise price
$			$		$
0.09 to 0.11	9,883,875	9.3	0.09	9,550,542	0.09
0.58	1,252	1.7	0.58	1,252	0.58
	9,885,127	9.4	0.09	9,551,794	0.09

On April 19, 2006, the Company had granted options on 1,250,000 of the Company's common shares at an exercise price of $0.11, which could be exercised during the next three years at the rate of 33 1/3% per year. These options mature on January 31, 2016. Following the departure of the President and Chief Executive Officer on December 6, 2006, all of the options that were granted to him became entirely exercisable (750,000 options), maturing March 6, 2007. The fair value of these options was estimated at $120,000 on the grant date using the Black-Scholes option pricing model according to the following assumptions: interest rate without risk of 4.4%, nil dividends, estimated useful life of seven years, predicted volatility of 110%. During the period ended February 3, 2007, the fair value of the compensation expense recorded on the Statement of Operations with regard to this allocation was $89,000.

On October 19, 2004, the Company had granted options concerning 300,000 of the Company's common shares at an exercise price of $0.68, which could be exercised during the next three years at the rate of 33 1/3% per year. These options mature on October 19, 2014. During the fiscal year ended January 28, 2006, the fair value of the compensation expense recorded on the Statement of Operations with regard to this allocation was $19,000. As at January 28, 2006, an amount of $32,000 was charged to earnings in order to cancel the accrued expense related to the options.

Moreover, 4,255 stock options (312,116 in 2006) were cancelled and 1,652 stock options (nil in 2006) expired.

15. Contributed surplus

On June 3, 2005, the Company issued, by way of a private investment, $1,700,000 in subordinated debentures of 8% secured, which were attached 1,700,000 warrants. Each warrant gave its holder, for a period of 18 months, the right to a common share of the share capital of the Company at an exercise price of $0.27. The fair value attributed to these warrants was $129,000. The fair value of these warrants was estimated at the date of allocation by means of the binominal option pricing model, according to the following assumptions: interest rate without risk of 3.25%, dividends nil, estimated useful life of 18 months and a predicted volatility of 80%. On August 8, 2005, the debentures were entirely repurchased following the sale of the subsidiary "Les Ailes de la Mode Incorporées." On December 1, 2006, these warrants expired.

(all tabular figures are in thousands of dollars)

16. Related party transactions

During the year ended February 3, 2007, fees in the amount of $200,000 was paid to the chairman of the board of the Company ($200,000 in 2006). In 2006, consulting fees totalling $64,062 were committed to a former director of the Company for services primarily related to exploring financing alternatives for the Company. Moreover, financing fees of $45,000 were committed in 2006 as well as interest of $39,315 to an entity in which one of the shareholders was a director of the Company in 2006. In addition, the Company received $22,557 in rental income ($8,676 in 2006) 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.

17. Supplementary cash flow information

	Year ended February 3, 2007	January 28, 2006
	$	$
i) Adjustments for:		
Amortization	**771**	637
Interest capitalized on the liability component of debentures	**-**	1,038
Financing costs	**-**	129
Stock-based compensation plan	**89**	(13)
Future income taxes	**(829)**	-
Gain on disposal of capital assets	**-**	(13)
Unusual items - stock-based compensation	**448**	-
	479	1,778
ii) Net changes in non-cash working capital items		
Accounts receivable	**(2)**	215
Income taxes	**(19)**	96
Inventories	**(117)**	(443)
Prepaid expenses	**(556)**	416
Accounts payable and accrued liabilities	**33**	(2,467)
	(661)	(2,183)
iii) Supplementary information		
Interest paid	**-**	1,730
Income taxes recovered	**-**	(19)

(all tabular figures are in thousands of dollars)

18. Guarantees, commitments

Guarantees

When selling all or part of a business or asset, the Company may accept to grant an indemnity for claims related to an enterprise's previous operations in addition to potential indemnities related to non-performance, misrepresentation and breach of guarantee clauses. The nature of these indemnity agreements prevents the Company from estimating the maximum potential amount that it may be required to pay to counterparties, since the agreements to sell assets do not prescribe the duration or maximum amounts covered, and because these amounts are contingent on future potential events the nature and probability of which cannot be determined at that time. The Company has never been obliged to pay substantial indemnity amounts under such agreements and has not recorded any amount for these indemnity guarantees in its financial statements.

However, as part of the sale of certain assets, the Company assigned its leases to other retail operators but remains obligated to the landlord as the original tenant despite the assignment. If the assignee were to default on the lease agreement, the Company would remain obligated to the landlord for payment of the rent. The terms of these assigned leases can extend up to 2008. As at February 3, 2007, of the minimum future rent on these leases was $250,000 in addition to other related expenses such as property taxes and common-area maintenance expenses.

Commitments

The Company is committed under long-term leases for commercial space. Most of these leases have a minimum annual rent and an additional rent based on the percentage of gross sales and renewal options that can be exercised at the Company's or lessor's option. The minimum lease payments required in the forthcoming years are as follows:

2008	**2009**	**2010**	**2011**	**2012**	**Subsequently**
$4,182	**$3,313**	**$2,169**	**$1,332**	**$553**	**$779**

19. Financial risks and financial instruments

Interest and currency risk

The Company is exposed to financial risks as a result of interest and exchange rate fluctuations and the volatility of these rates. The credit facilities described in Note 11 bear interest at floating rates. Also, in the normal course of business, the Company conducts certain commodities transactions in foreign currencies. The Company holds no financial instruments to mitigate the risk.

Fair value

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and the amount receivable following the sale of a subsidiary are all short-term financial instruments; consequently, their fair values approximate their carrying values.

The estimated fair value could be different from the amount that would be obtained if there was an immediate settlement of the instruments.

20. Segment information

The Company considers its retail sales activities as a single operating segment.

21. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION

Board of Directors

Paul Delage Roberge
Chairman of the Board
President – REZOpdr Québec inc.

Jean Desmarais ■●
Vice-President
Valeur mobilières Desjardins

Sylvie Lalande ●
Corporate Director

Melinda Lee, CA
Vice-President, Investments
Clarke inc.

Joe Marsilii, CA, ■
Vice-President, Investments and Finance
Jolina Capital inc..

Richard Soly ■●
Consultant

■ *Member of the Audit Committee*
● *Member of the Corporate Governance Committee and the Human Resources Committee*

Me Lucien Perron
Secretary

Officers

Yves Simard, C.A.
President and CEO

Sophie Gagnon
Director, Merchandising, Planning and Distribution

Lise Lahaise
Director of Operations, Stores

Chantal Létourneau, C.G.A.
Comptroller

Head Office

200-50, de Lauzon Street
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The Annual Meeting of Shareholders will be held at 10h00 A.M. on June 14, 2007 at the Hôtel Mortagne
1228 Rue Nobel
Boucherville (Québec) J4B 5H1

Legal Counsel
BCF LLP

Banks
Royal Bank of Canada

Registrar and Transfer Agent
Computershare Trust Company of Canada

Auditors
Samson Bélair/Deloitte & Touche, LLP

Exchange Listing
Toronto Stock Exchange
Symbols : GBV

Shareholders may obtain Annual Information Form on the SEDAR site at: www.sedar.com.

Disponible également en version française

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