

To our Shareholders:

As you will see in the report which follows, Groupe Bikini Village inc. ("Groupe Bikini Village" or the "Company")'s first quarter 2010 results reflect the Company's ongoing success in stabilizing sales volumes, an overall increase in gross margins, continued tight control over direct and indirect expenses, and the Company's disciplined approach to inventory management.

The first quarter of each year, which falls between our two strongest quarters, is traditionally a transitional quarter for Groupe Bikini Village, and is usually marked by a loss. Anticipating the variability in sales, the Company keeps tight control over direct and indirect expenses and focus on inventory management – together, the foundations of our strategy to adapt operations to match market realities – and as a result, entered its second quarter of 2010 on stable ground, ready to immediately take advantage of improved market conditions when they arise.

First quarter 2010 results

Net sales for the first quarter of 2010 have shown a slight increase to \$10 million, compared to \$9.9 million posted in the first quarter of 2009. Comparable sales decreased by 1.2% over the same period.

Groupe Bikini Village delivered EBITDA¹ of \$289,000, or 2.9%, in the first quarter of 2010, compared to EBITDA¹ of \$248,000, or 2.5%, for the first quarter of 2009. The \$41,000 increase in operating income in the first quarter of 2010 was primarily the result of our strategy to focus on full-price selling and to tightly manage inventories – all of which led to stronger overall gross margin by \$244,000. However, this success was mitigated somewhat by higher operating costs of \$203,000, which resulted from having had a greater number of stores open, increased rental expenses on existing stores, and increased salary expenses due to the increase in the minimum wage in both Quebec and Ontario.

For the first quarter of 2010, the Company's net loss was \$238,000 (nil per basic and diluted share), as compared to net loss of \$258,000 (nil per basic and diluted share) for the same quarter in the previous year.

Outlook ²⁾

A number of factors suggest that prospects for Groupe Bikini Village in fiscal 2010 may improve; market conditions have been showing signs of recovery, consumer confidence appears to be on the rise, and our strategy to fine-tune our operations to suit a changing market has allowed us to improve our position with respect to both inventory and cash flow. With that said, we maintain our characteristic discipline, and will continue to operate as we have throughout the economic downturn, until we see the retail environment has turned the corner.

Our experience over the course of the current economic downturn has given us confidence that our strategy of adapting our operations to market conditions is well-taken, and positions us well for success when economic conditions improve. Going forward, we will keep a clear focus on managing working capital, inventories, supply risk, capital expenditures and debt level, as well as direct and indirect costs.

Over the last two years, Groupe Bikini Village has worked to improve its retail network despite the significant challenges the retail swimwear market has presented – because we recognize that such challenges are temporary, and long-term success will be accorded to those who are prepared to take

1 Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 4 of the MD&A for the three-month period ended May 1st, 2010; reconciliation with the most directly comparable financial GAAP measures is presented on page 7 of this report.

2 To be read in conjunction with "Forward-Looking Statements" on page 5 of the MD&A for the three-month period ended May 1st, 2010.

advantage the moment conditions improve. Accordingly, over that period, we renovated stores that are likely to deliver improved results, closed others whose performance didn't meet our standards, and exited expiring leases where we saw opportunities to achieve stronger sales in better locations.

Our efforts haven't been limited to our retail presence: concurrent with our retail renovations, we also upgraded our systems and supply chain to make our operations more effective and efficient. Together, we believe these strategies have made us more competitive, and we are confident and enthusiastic as we look ahead. These strategies will remain central to our activities in the months to come, as we continue to focus on sales and profitability, and await the retail sector turnaround that will give us the opportunity to demonstrate their full benefit to our shareholders.

At the beginning of the second quarter, we also took action on a capital strategy which, we hope, will provide increased latitude to build shareholder value either by creating our own opportunities or by taking advantage of other strategic alternatives. On May 3, 2010, the Company announced its intention to file a proposal for a rights offering and a consolidation of its outstanding shares within a range of one new share for every 100 currently outstanding shares to one new share for every 150 currently outstanding shares. If approved, this rights offering and consolidation would give Groupe Bikini Village a stronger cash position and capital structure – and with them, greater flexibility to build shareholder value.

Acknowledgements

On behalf of the management team, I would like to thank our customers, our Board for their involvement, our employees for their commitment, and our landlords, suppliers, and lenders; finally, we thank our shareholders for your continuing support.



Yves Simard, C.A.
President and Chief Executive Officer
Sainte-Julie, June 9, 2010

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

	Three months ended	
	May 1, 2010	May 2, 2009 Restated ²
Operating results		
Operating revenue	\$10,028	\$9,914
Operating income - EBITDA ¹	289	248
In % of sales	2.9 %	2.5 %
Net loss	(238)	(258)
In % of sales	(2.4)%	(2.6)%
Loss per share, basic and diluted	-	-
Weighted average number of shares outstanding, basic and diluted (in thousands)	167,678	167,678
Other statistics		
Investment activities - net (in thousands \$)	439	323
Number of stores at the end of the period	64	59
Number of employees	500	480

1 Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 4 of the MD&A for the three-month period ended May 1st, 2010; reconciliation with the most directly comparable financial GAAP measures is presented on page 7 of this report.

2 Restated to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of the new accounting standard for Goodwill and Intangible Assets implemented in the year ended January 30, 2010.

This management report, dated June 9, 2010 focuses on the commercial activities and financial results of Groupe Bikini Village inc. (“Groupe Bikini Village” or “the Company”) for the three-month period ended May 1, 2010 and should be read in conjunction with the unaudited financial statements for the period ended May 1, 2010 and the notes thereto. The financial information is in Canadian dollars.

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COMPANY PROFILE

Groupe Bikini Village, incorporated pursuant to the Canadian Business Corporations Act, retails swimwear, beachwear, travel clothing and various beach accessories and products through its “Bikini Village” and “Ocean Bikini Village” stores.

In the third quarter of 2009, the Company also opened its first “Lanaï” pilot store, a destination of choice for a full range of lifestyle products bearing young girls’ favourite brands’ signature styles.

NON-GAAP FINANCIAL MEASURES

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

FORWARD-LOOKING STATEMENTS

This 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 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” in this MD&A and in the “Risk Factors” section of the Company’s current Annual Information Form. 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 or materialize in large part, or that they will have the expected impact on our Company.

The current outlooks set forth in this document represent our expectations as of June 9, 2010 and, consequently, could conceivably change after that date. We have neither the intention nor the obligation to update or revise any of the projected outlooks, whether in light of new information, future events or otherwise, except as may be required under applicable law. Readers are urged to consider these and other such factors carefully, and not to place undue emphasis on the Company’s forward-looking statements.

NOTE ABOUT INTERIM FINANCIAL STATEMENTS

These interim financial statements have been prepared in accordance with Canadian GAAP for intermediate financial information, and consequently, they do not include all the notes and information required by Canadian GAAP for annual financial statements. In management’s opinion, all the adjustments (which constitute normal adjusting entries) considered necessary for proper presentation of the Company’s financial situation were taken into account. The interim financial statements should be read in conjunction with the audited annual financial statements for the year ended January 30, 2010, as well as the notes therein concerned.

SEASONALITY OF BUSINESS

The Company’s activities are seasonal, and merchandise sales are generally higher in the second and fourth quarters. As a result, the operating loss for the quarter ended May 1st, 2010 is not necessarily indicative of the results of the operations for a full year.

OVERVIEW

Groupe Bikini Village inc., serving Canadians for almost a quarter-century, is a leader in the retail sale of beachwear products through a network of new and renovated boutiques across Eastern Canada. In its bright and inviting stores with comfortable change rooms and knowledgeable staff, Groupe Bikini Village helps its customers choose from among Canada’s widest selection of swimsuits, beach accessories, and cruisewear, in the most popular brands the industry has to offer and in styles to suit every figure. The newest addition to its retail network, Lanai, offers the most popular clothing brands for young girls in Brossard, Quebec. Headquartered in Sainte-Julie, Quebec, Groupe Bikini Village inc. operates 63 stores and employs approximately 500 people; its securities trade on the Toronto Stock Exchange under the stock symbol GBV. For more information about Groupe Bikini Village inc., please visit our website at www.bikinivillage.com.

OPERATING RESULTS

The energy and resources we have invested in rejuvenating Groupe Bikini Village’s retail network have made it more attractive to customers, which have given us a competitive advantage. With the opening of a new store in Waterloo, Ontario, the relocation of a store in Quebec and the renovation of our Toronto Eaton Centre store completed in the first quarter of 2010, we are now even better-armed to claim our share of the Eastern Canadian market.

At the date of this report, our retail network is as follows:

	Quebec	Ontario	New Brunswick	Nova Scotia	Total
Bikini Village	29	28	1	1	59
Ocean Bikini Village	3				3
Lanaï	1				1
TOTAL :	33	28	1	1	63
Recently opened or fully renovated	19	13	1	1	34
New or renovated stores (in %)	58%	46%	100%	100%	54%

We plan in fiscal 2010 to close a further five non-performing stores at the end of their current leases. By the end of this fiscal year, our network will be distributed as follows:

	Quebec	Ontario	New Brunswick	Nova Scotia	Total
Bikini Village	29	24	1	1	55
Ocean Bikini Village	2				2
Lanaï	1				1
TOTAL :	32	24	1	1	58
Recently opened or fully renovated	19	12	1	1	33
New or renovated stores (in %)	59%	54%	100%	100%	59%

In the pages that follow, we discuss the steps we've taken to fine-tune our operating strategy in response to changing market conditions, so as to maximize shareholder value despite temporary economic challenges. This report also examines a number of factors that affected our results in the periods of 2010 and 2009 under discussion.

The following is a summary of selected financial information, together with the comparative results, for the three-month periods ended May 1, 2010 and May 2, 2009, respectively.

As noted, certain comparative figures have been restated due to the adoption of new accounting standards which have been retroactively applied and/or reclassified to conform to the current period's presentation.

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

	Three months ended	
	May 1, 2010	May 2, 2009 Restated ³
	\$	\$
Operating revenue	10,028	9,914
Operating income - EBITDA ¹	289	248
Less:		
Interest	179	193
Amortization	393	385
Loss before income taxes	(283)	(330)
Income taxes recovery	(45)	(72)
Net loss	(238)	(258)
Loss per share, basic and diluted	-	-
Weighted average number of shares outstanding (in thousands) - basic and diluted	167,678	167,678
Cash flows from		
Operating activities	(995)	(2,109)
Financing activities	(287)	(57)
Investing activities	(439)	(323)
Total assets	18,122	20,326
Total long-term debt ²	2,701	3,492

1 Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as defined on page 4 of this MD&A; this table provides reconciliation with the most directly comparable financial GAAP measures.

2 Excluding current portion of long-term debt and convertible debentures, deferred lease credits and future income taxes.

3 Restated to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of the new accounting standard for Goodwill and Intangible Assets implemented in the year ended January 30, 2010

First quarter ended May 1, 2010 compared to first quarter ended May 2, 2009*Operating Revenues*

In the three-month period ended May 1, 2010, the Company delivered sales of \$10 million, a slight increase compared to the \$9.9 million achieved in the comparable period last year. Comparable sales, which compare the sales of the same number of stores from year to year, reflected a decrease of 1.2% over the same period.

Operating Income - EBITDA¹

For the first quarter of 2010, the Company delivered EBITDA¹ (as previously defined in “Non-GAAP Financial Measures”) of \$289,000, or 2.9%, compared to EBITDA¹ of \$248,000, or 2.5%, for the restated first quarter of 2009.

The \$41,000 increase in operating income in the first quarter of 2010 compared to the first quarter of 2009 was primarily the result of our strategy to focus on full-price selling and to tightly manage inventories – all of which led to a stronger overall gross margin by \$244,000. However, this success was mitigated somewhat by higher operating costs of \$203,000, which resulted from having had a greater number of stores open, increased rental expenses on existing stores, and increased salary expenses due to increases in the minimum wage in both Quebec and Ontario.

Financing Charges and Amortization

Financing charges decreased from \$193,000 in the first quarter of 2009 to \$179,000 in the first quarter of 2010, due to lower interest due on convertible debentures because of the capital repayments that began in July 2009.

The Company’s short-term cash is conservatively invested in a Canadian chartered bank. The financing charges also include a \$69,000 (\$72,000 in 2009) non-cash interest expense, calculated on the debt component of the convertible debentures along with financing fee amortization.

The amortization expense for the quarter ended May 1, 2010 slightly increased by 2.1% to \$393,000, compared to \$385,000 for the quarter ended May 2, 2009.

Loss Before Income Taxes

For the quarter ended May 1, 2010, the Company registered \$283,000 in loss before income taxes, compared to \$330,000 in the comparable restated period the previous year.

Income Taxes

Groupe Bikini Village recorded income tax recovery in the amount of \$45,000 during the first quarter of 2010, representing a tax rate of 15.9%, compared to income tax recovery of \$72,000 or 21.8% for the restated corresponding period in 2009. The difference in tax rates is partly due to a lower effective tax rate between 2009 and 2010 and the ratio between i) the amount of non-deductible charges and ii) loss before income taxes.

Net Loss

Net loss in the quarter ending May 1, 2010 was \$238,000 (nil per basic and diluted share), as compared to net loss of \$258,000 (nil per basic and diluted share) in the corresponding restated period last year.

¹ Not a Canadian generally accepted accounting principle (Canadian “GAAP”) measure, as described on page 4 of this MD&A for the three-month period ended May 1, 2010 reconciliation with the most directly comparable financial GAAP measures is presented on page 7 of this report.

CASH POSITION*Operating Activities*

Cash flows used for operations in the first quarter of 2010 decreased by \$1.1 million as compared to cash flows used in the comparable restated period of the previous year, from (\$2.1 million) to (\$995,000). This decrease resulted primarily from the decrease in prepaid expenses related to rents in May 2009.

Financing Activities

During the first quarter of 2010, the Company repaid \$62,000 toward its obligations under capital leases and \$225,000 on convertible debentures, for a total of \$287,000. For the corresponding period in 2009, the Company repaid \$57,000 on its obligations under capital leases. Capital repayments on convertible debentures began in July 2009.

Investment Activities

Investment activities in the first quarter of 2010 required \$439,000, compared to \$323,000 during the corresponding period one year earlier. During the first quarter of 2010, we completed the construction of one store, a new store was built and renovation was in progress for one store. During the first quarter of 2009, an existing store was completely renovated, renovation was in progress for another, and three new stores were under construction.

FUTURE CASH POSITION ¹⁾

At May 1, 2010, the Company had available cash of \$2.2 million and an on-demand credit facility of up to \$3 million renewable annually of which none had been used. This credit facility was renewed on April 30th, 2010 with the following terms: a first segment of \$1.5 million is available at all times and, if necessary, a seasonal increase of \$1.5 million is also available from September 15 to December 15, for a total of \$3 million. Availability of the on-demand credit is limited by a margin formula based on the Company's assets, net of specific reserves and priority claims. In the normal course of business in fiscal 2009, the Company issued letters of credit and letters of guarantee against this facility, for a total of \$180,000, expiring in August 2010. This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Company, and bears interest at prime plus 3.95% (3.0% in 2009). Under the agreements relative to the credit facility, the Company is subject to a restrictive clause concerning compliance with a financial ratio.

Cash flows from operations were the primary funding sources for working capital requirements, repayment of long-term debts and convertible debentures as well as capital expenditures in the first quarter of 2010.

While working capital is always central to Groupe Bikini Village's focus, the Company has made it a particular priority in the near term. The Company's management of its working capital and the financing facilities it currently has in place will allow it to leverage some of its existing stores, and meet its long-term debt repayment and convertible debenture schedules.

As a further means of proactively managing its cash requirements and improving its capital structure, the Company announced on May 3, 2010 its intention to file a rights offering circular with the Toronto Stock Exchange and the securities regulators, to enable the launch of a rights offering that would raise net proceeds of approximately \$2 million. The improved cash situation and capital structure resulting from such a rights offering, if it were approved and conducted, would enhance the positive impact of the Company's renewed and expanded retail network, its modern merchant systems and efficient distribution centre – and put the Company in a better position to capitalize on rebounding consumer markets down the line.

1 To be read in conjunction with "Forward-Looking Statements" on page 5 of this MD&A.

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 a 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 coming years are as follows (in thousands of dollars):

2011 (9 months)	2012	2013	2014	2015	Subsequently
\$3,844	\$4,828	\$4,280	\$2,871	\$1,980	\$2,768

USE OF ESTIMATES

In the three-month period ended May 1, 2010, there were no significant changes in our critical accounting estimates from those described in our fiscal 2009 MD&A.

APPROVAL OF THE FINANCIAL STATEMENTS

The Company's interim financial statements were approved by its Board of Directors on the recommendation of its Audit Committee, prior to release.

ACCOUNTING STANDARDS IMPLEMENTED IN THE FIRST QUARTER OF 2010

During the quarter ended May 1, 2010, the Company followed the same accounting policies and procedures used for the exercise ended on January 30, 2010.

FUTURE CHANGES IN ACCOUNTING POLICIES

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued the following new Handbook Sections:

- Section 1582, "Business Combinations"
- Section 1601, "Consolidated Financial Statements" and
- Section 1602, "Non-controlling interests"

Section 1582, which replaces the former Section 1581, requires all business combinations to be accounted for by applying the acquisition method. Under this method, assets acquired and liabilities assumed are measured at their full fair value at the date of acquisition, unless another standard requires otherwise. Section 1582 provides the option of accounting for non-controlling interest at either fair value, or at the non-controlling interest's proportionate share of the identifiable net assets acquired. Acquisition costs associated with a business combination are to be expensed in the periods in which they are incurred. Section 1601 carries forward the standards for the preparation of consolidated financial statements of former Section 1600, while Section 1602 requires non-controlling interests to be reported as a separate component of equity, with net income calculated without deduction for non-controlling interests. Rather, consolidated net income is to be allocated between controlling and non-controlling interest.

These three new Sections are to be implemented concurrently and apply prospectively to all business combinations of the Company for which the acquisition date is on or after January 30, 2011, with earlier application permitted. The Company expects that the adoption of this Section will not carry any impact on the Company's annual financial statements.

Adoption of international financial reporting standards in Canada

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace the current Canadian Generally Accepted Accounting Principles

(“Canadian GAAP”) for publicly-accountable profit-oriented enterprises. These new standards are applicable to fiscal years beginning on or after January 1, 2011, and companies will be required to provide comparative IFRS information for the fiscal year immediately preceding that date. Groupe Bikini Village will implement this standard in the first quarter of its fiscal year ending January 28, 2012. The transition from the current GAAP to IFRS is a significant undertaking, which may materially affect the Company’s reported financial position and results of operations.

The Company planned its changeover from current Canadian GAAP to IFRS by first installing a professional resource, formally reporting to the Comptroller, to manage the transition. A project plan was subsequently established. Groupe Bikini Village’s IFRS transition project plan consists of four phases: an initial assessment, detailed assessment, design and implementation.

The Company has completed the initial assessment phase, which included a high-level review of the major differences between current Canadian GAAP and IFRS, and an initial evaluation of IFRS 1 transition exemptions. During this initial assessment, relevant IFRS standards for the Company and the optional exemptions available for its transition to IFRS were identified. In addition, the significant differences between current Canadian GAAP and IFRS were identified, to enable the Company to set the priorities for its detailed assessment to follow.

The Company has completed the detailed assessment phase, which involves a comprehensive impact analysis of the differences between Canadian GAAP and IFRS identified in the initial assessment phase.

Groupe Bikini Village has now determined that the impact of the application of the IFRS on its business processes and financial systems will not be significant. The Company’s internal controls will not be materially affected by the transition to IFRS. The IFRS differences may lead to presentation and process changes to report more detailed information in the notes to the financial statements, but IFRS is not currently expected to lead to many differences in the accounting treatments used by the Company. Disclosure controls and procedures may change due to the transition to IFRS, but the impact here is expected to be minimal as well.

In the third phase, the “design phase,” the Company will design and develop detailed solutions to address the differences identified in the first and second phases of the changeover plan. This phase should be completed by the end of fiscal 2010.

Finally, during the implementation phase, Groupe Bikini Village will implement the identified changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. This phase will be completed before the end of fiscal 2010.

The Company ensures that the personnel involved in the process of changeover to IFRS have access to all the necessary training. Management reports to the Audit Committee quarterly on the progress of the changeover plan.

At this time, the comprehensive impact of the changeover on the Company’s future financial position and results of operations is not yet determinable. The Company continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the International Accounting Standards Board (“IASB”) is expected to continue issuing new accounting standards during the transition period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening deficit as of the date of the first comparative balance sheet presented based on standards applicable at that time. However, further to the complete analysis of the IFRS standards, we have made choices, as warranted, with regard to these standards and noted the differences between some of these standards and our current accounting policies. The list below should not be interpreted as a comprehensive list of changes; it highlights those areas of accounting differences the Company currently believes will be most significant upon conversion to IFRS.

Standards	Comparisons between IFRS and GAAP	Preliminary Findings
Fixed assets (IAS 16)	<p><i>IFRS:</i> After initial recognition, we can measure our fixed assets using the cost model or the revaluation model.</p> <p><i>GAAP:</i> The revaluation model is not allowed.</p>	We will continue to use the cost model in order to avoid balance sheet variations in the fair value of fixed assets and the corresponding impact on P&L statements.
	<p><i>IFRS:</i> We must amortize our fixed assets based on their components.</p> <p><i>GAAP:</i> Component identification rules are less stringent.</p>	No components will be amortized separately, because we conducted an analysis which concluded that there is no material component in our fixed assets.
Share-based payment (IFRS 2)	<p><i>IFRS:</i> When stock option awards vest gradually, each block is to be considered a separate award.</p> <p><i>GAAP:</i> The gradually vested blocks are considered a single award.</p>	The compensation expense will have to be recognized over the expected term of each vested block.
Convertible debentures (IAS 32)	<p><i>IFRS:</i> When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting the amount separately determined for the liability component from the fair value of the instrument as a whole.</p> <p><i>GAAP:</i> The measurement approaches permitted for the separation of compound financial instruments include:</p> <ol style="list-style-type: none"> 1) Assigning to the less easily measurable component the residual amount after deducting from the instrument as a whole the amount separately determined for the component that is more easily measurable; and 2) Measuring the liability and equity components separately and, to the extent necessary, adjusting these amounts on a pro rata basis so that the sum of the components equals the amount of the instrument as a whole. 	The components of the convertible debentures must be re-valued to conform to IAS 32.

Standards	Comparisons between IFRS and GAAP	Preliminary Findings
Earnings per share (IAS 33)	<p><i>IFRS:</i> We must independently determine, for each quarter and year-to-date, the number of potentially dilutive shares to consider in calculating diluted earnings per share.</p> <p><i>GAAP:</i> The number is independently determined for each quarter, but the year-to-date is a weighted average of the periods.</p>	Diluted earnings per share will change.
	<p><i>IFRS:</i> For the purpose of calculating diluted earnings per share, we must include the exercise price of the options that could be exercised in our accounting for the cost of compensation plans; this amount should be included for the duration of the vesting period during which their effect could be dilutive.</p> <p><i>GAAP:</i> The cost of vested stock options is not considered when accounting for remuneration expenses.</p>	Diluted earnings per share will change.
Provisions, contingent liabilities and contingent assets (IAS 37)	<p><i>IFRS:</i> A provision is recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. “Probable” in this context means more likely than not.</p> <p><i>GAAP:</i> The criterion for recognition in the financial statements is “likely” which is a higher threshold than “probable.”</p>	There may be some provisions or contingent liabilities which would meet the recognition criteria.
Presentation of Financial Statements (IAS 1)	<p><i>IFRS:</i> Classification of the Statement of Operations by function or nature.</p> <p><i>GAAP:</i> No requirement concerning the classification of expenses.</p>	<p>The Statement of Earnings will be presented using the function of expense method.</p> <p>Additional disclosures will be required in the notes to the financial statements.</p>

We have also made choices concerning certain exemptions from retrospective application at the time of changeover provided by IFRS 1; these are set out in the following table.

Optional Exemptions	Preliminary Findings
Fair value or revaluation as deemed cost	This exemption allows us to measure an item of property, plant or equipment at the date of transition to IFRS at its fair value, and use that fair value as its deemed cost at that date. It also allows us to use a previous GAAP revaluation of an item of property, plant or equipment at or before the date of transition to IFRS as deemed cost at the date of the revaluation.
Share-based payment	This exemption would excuse us from applying the standard to equity instruments acquired before the IFRS transition date. * We have decided to avail ourselves of this exemption when possible.
Compound financial instruments	On the IFRS transition date, a first-time adopter need not separate the liability component and the equity component, if the liability component is no longer outstanding at the date of transition to IFRS. * We have decided to avail ourselves of this exemption when possible.
Decommissioning liabilities included in the cost of property, plant or equipment	This exemption allows us to measure the liability as at the date of transition to IFRS, in accordance with IAS 37. * We have decided to avail ourselves of this exemption.

The remaining elective exemptions have limited or no applicability to the Company.

The Company's IFRS conversion project is progressing according to schedule. As the project advances, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in development, or in light of new information or other external factors that could arise between now and when the changeover is completed.

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 May 1st, 2010.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Groupe Bikini Village's management is also responsible for establishing and maintaining adequate internal controls over financial reporting. These controls must provide reasonable assurance as to the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with Canadian GAAP. However, it should be noted that a control system, no matter how well conceived or operated, can only provide reasonable assurance that the objectives of the control system are met.

No changes were made to Groupe Bikini Village's internal control over financial reporting during the period beginning on January 31, 2010 and ending May 1, 2010, inclusively, which have materially affected, or are reasonably likely to materially affect, Groupe Bikini Village's internal control over financial reporting.

RISKS AND UNCERTAINTIES

There has been no significant change in the Company's risk factors in the three-month period ended May 1st, 2010 from those described in our fiscal 2009 MD&A.

The risks and uncertainties described below are not the only risks the Company may encounter; additional risks and uncertainties not presently known to the Company may also negatively impact financial performance.

Many of the Company's products are seasonal by nature, with merchandise sales historically stronger in the second and the fourth quarters. Activities in these quarters are subject to a certain degree of risk from unseasonable weather patterns. While the Company works proactively to control variable costs as a means of mitigating the impact of this risk, many other costs, such as occupancy costs, are fixed, causing the Company to report a disproportionate level of earnings across its quarters. Because our industry is characterized by seasonality, the results of each quarter are not necessarily indicative of the full year's performance.

Although economic conditions in Canada have improved, the Company remains cautious, aware that economic factors impacting consumer spending patterns could deteriorate. Groupe Bikini Village exerts no influence over several external factors that affect economic variables and general consumer confidence, 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, and acts of terrorism also have the potential to have a material adverse effect on the Company's performance, particularly if they occur during or otherwise impact a peak season. Management regularly monitors economic conditions and estimates their impact on the Company's operations, incorporating those estimates in short-term operating and longer-term strategic decisions.

If the Company were to suddenly become unable to obtain or renew certain rental spaces at favourable terms, such a development could potentially cause a negative impact on its business and the results of its operations.

The Company depends on the efficient operation of its distribution centre, such that any significant disruption in its operation (e.g. due to natural disaster, system failures, destruction or major damage by fire), could materially delay or impair its ability to replenish its stores on a timely basis; this could cause a loss of future sales, which could have a significant effect on the Company's results of operations.

The Company's key lines of business, which is to say women's and men's bathing suits, beachwear, travel clothing and certain beach accessories, continue to evolve within a very competitive environment. Our two corporate brands, Bikini Village and Ocean Bikini Village, and our new pilot store, Lanai (young girls' favourite clothing brands) face various types of competition, from independent stores, chains, and traditional department stores. Groupe Bikini Village inc. continually reviews its strategies to ensure its leadership in the marketplace; increased competition could adversely affect the Company's ability to achieve its objectives. An inability by the Company to compete effectively with current or future competitors could result in, among other things, a reduction of market share.

With that said, Groupe Bikini Village enjoys numerous competitive advantages, including excellent product quality (comprising both private labels and exclusive collections), the wide range of choices we offer, our top-quality customer service, the bright, inviting atmosphere in our new and renovated boutiques, the convenient locations of our stores, and the warm welcome and personalized attention our customers receive, just to mention a few. A key competitive advantage of Bikini Village and Ocean Bikini Village stores is our year-round offering of this specialty merchandise, since many other retailers only carry competing products during the summer.

For further information, please refer to the "Risk Factors" Section of the Company's 2010 Annual Information Form, which is incorporated by reference in this MD&A and can also be found on our website at www.bikinivillage.com and on SEDAR at www.sedar.com.

FINANCIAL POSITION

The Company's total assets amounted to \$18.1 million as at May 1, 2010, compared to \$20 million as at January 30, 2010, mainly due to decreased cash principally used to reduce accounts payable.

As at May 1st, 2010, accounts receivable stood at \$47,000, compared to \$167,000 as at January 30, 2010.

Income tax receivables were \$4,000 as at May 1, 2010, and as at January 30, 2010.

As at May 1, 2010, our inventories stood at \$6.1 million compared to \$6.2 million as at January 30, 2010. At the end of the first quarter last year, we held inventories worth \$8 million. Our dynamic inventory management has permitted this reduction, while ensuring an adequate level of inventory to support our sales to come.

Prepaid expenses totalled \$678,000 as at May 1, 2010, compared to \$580,000 as at January 30, 2010. The difference is explained partly by disbursements for an advertising campaign beginning in May 2010 and in part by a decrease in down payments to suppliers for import activities.

Short-term and long-term future income taxes were \$336,000 and \$418,000, respectively, for a total of \$754,000 as at May 1, 2010, as compared to \$266,000 and \$443,000, respectively, for a total of \$709,000 as at January 30, 2010.

The book value of Groupe Bikini Village's capital assets totalled \$7.9 million as at May 1, 2010 unchanged from \$7.9 million as at January 30, 2010. Capital asset investments during the first quarter of 2010 offset the amortization in that period.

The book value of the Company's intangible assets amounted to \$464,000 as at May 1st, 2010, compared to \$497,000 as at January 30, 2010.

As at May 1, 2010, total debt amounted to \$8.3 million, compared to \$9.9 million as at January 30, 2010. The decrease in debt is attributable to the reimbursement of long-term debt and repayment of convertible debentures, as well as the decrease in accounts payable and sales taxes payable.

Despite an increase of \$16,000 in contributed surplus relating to the stock option plan during the three-month period ended May 1, 2010, shareholders' equity decreased to \$9.8 million during the period, having been negatively impacted by the net loss of \$238,000.

Groupe Bikini Village's working capital totalled \$4.4 million as at May 1, 2010, compared to \$4.7 million as at January 30, 2010; as a result, our working capital ratio was 1.9 at the end of the first quarter, as compared to 1.7 at the end of 2009.

OUTSTANDING SHARE DATA

As at May 1, 2010, the Company had 167,678,115 common shares outstanding (167,678,115 as at January 30, 2010). On that same date, 4,700,000 stock options were outstanding (January 30, 2010 – 4,700,000), at prices varying between \$0.08 and \$0.13, for a weighted average exercise price of \$0.09 (\$0.09 as at January 30, 2010), exercisable on dates ranging to 2018. During the three-month period ended May 1, 2010, no stock options expired or were cancelled (nil in 2009).

No stock options were granted during the first quarter of 2010 (nil in 2009).

On May 3rd, 2010, the Company announced its intention to file a rights offering circular with the Toronto Stock Exchange and the securities regulators in respect of a rights offering to raise net proceeds of approximately \$2.0 million.

The Company also intends, subject to the approval of the holders of its common shares, to consolidate the outstanding shares within a range of one new share for every 100 currently outstanding shares to one new share for every 150 currently outstanding shares.

ADDITIONAL INFORMATION

This MD&A is dated June 9, 2010, and 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. For other information pertaining to the Company, including the annual financial statements and Annual Information Form, please consult our website at www.bikinivillage.com or SEDAR at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

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

(in thousands of dollars, except per share amounts)

	First quarter		Fourth quarter		Third quarter		Second quarter	
	2010	2009	2009	2008	2009	2008	2009	2008
Fiscal year	\$	\$	\$	\$	\$	\$	\$	\$
		Restated ¹		Restated ¹		Restated ¹	Restated ¹	Restated ¹
Operating revenue	10,028	9,914	13,042	12,988	6,658	5,167	11,408	12,768
Net earnings (loss)	(238)	(258)	796	615	(1,794)	(2,134)	(221)	839
Per share amounts								
Basic and diluted earnings (loss)	-	-	-	-	(0.01)	(0.01)	-	-
Weighted average number of shares (in thousands)								
Basic	167,678	167,678	167,678	170,128	167,678	172,502	167,678	172,678

The fluctuations between quarters are principally seasonal.

OUTLOOK ²⁾

There are a number of factors suggesting brighter prospects for Groupe Bikini Village in fiscal 2010. Market conditions have been showing signs of recovery, consumer confidence appears to be on the rise, and our strategy to fine-tune our operations to suit a changing market has allowed us to improve our position with respect to both inventory and cash flow. Whatever the environment, we will maintain our characteristic discipline, continuing to operate as we have throughout the economic downturn – with an eye firmly on our bottom line.

Our experience over the course of the current market downturn has shown that our efforts to adapt our operations to changing external realities are effective, and position us well for success when economic conditions improve. Going forward, we will keep a clear focus on managing working capital, inventories, supply risk, capital expenditures and debt level, as well as direct and indirect costs.

¹ Restated to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of the new accounting standard for Goodwill and Intangible Assets implemented in the year ended January 30, 2010.

² To be read in conjunction with "Forward-Looking Statements" on page 5 of this MD&A for the three-month period ended May 1, 2010.

Because we recognize that market fluctuations are natural and temporary, and long-term success is historically accorded to those who are prepared to take advantage the moment conditions improve, Groupe Bikini Village has worked over the last two years to improve its retail network. We have renovated stores that are likely to deliver improved results, closed others whose performance didn't meet our standards, and exited expiring leases where we saw opportunities to achieve stronger sales in better locations.

Our efforts haven't been limited to our retail presence: concurrent with our retail renovations, we also upgraded our systems and supply chain to make our operations more effective and efficient. Together, we believe these strategies have made us more competitive, and we are confident and enthusiastic as we look ahead. Given the positive results they have generated to date, we will remain faithful to these strategies in the coming months, as we continue to focus on sales and profitability, and await the retail sector turnaround that will give us the opportunity to demonstrate their full benefit to our shareholders.

Our outlook is also hopeful on the topic of strengthening our capital situation, given the rights offering and consolidation of shares we filed for permission to conduct on May 3, 2010. This proposal, which, if approved and conducted, would give Groupe Bikini Village a stronger cash position and capital structure, would involve a rights offering and a consolidation of its outstanding shares within a range of one new share for every 100 currently outstanding shares to one new share for every 150 currently outstanding shares. It is management's firm belief that such an action would provide increased latitude to build shareholder value, by creating our own opportunities or taking advantage of other strategic alternatives.



Yves Simard
President and Chief Executive Officer

Statements of Operations and Comprehensive Loss

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

	Three months ended	
	May 1, 2010	May 2, 2009
		Restated Note 2
	\$	\$
Operating revenue	10,028	9,914
Cost of goods sold, operating and administrative expenses (Note 4)	9,739	9,666
Interest (Note 5)	179	193
Amortization	393	385
	10,311	10,244
Loss before income taxes	(283)	(330)
Income taxes recovery (Note 6)	(45)	(72)
Net loss and comprehensive loss	(238)	(258)
Loss per share, basic and diluted (Note 7)	-	-
Weighted average number of shares outstanding	167,678,115	167,678,115

Statements of Deficit

(in thousands of dollars)
(unaudited)

	Three months ended	
	May 1, 2010	May 2, 2009
		Restated Note 2
	\$	\$
Deficit, beginning of period as previously reported	(21,122)	(19,617)
Adjustment to opening deficit resulting from adoption of new accounting standard Section 3064 - Intangible assets, net of income taxes of \$15,000	-	(28)
Deficit, beginning of period as restated	(21,122)	(19,645)
Net loss	(238)	(258)
Deficit, end of period	(21,360)	(19,903)

See accompanying notes

Balance Sheets

(in thousands of dollars)

As at	May 1, 2010	May 2, 2009 <small>Restated Note 2</small>	January 30, 2010
	\$ (Unaudited)	\$ (Unaudited)	\$ (Audited)
Assets			
Current assets			
Cash	2,208	1,857	3,929
Accounts receivable	47	39	167
Income taxes	4	270	4
Inventories	6,069	8,031	6,223
Prepaid charges	678	1,450	580
Future income taxes	336	533	266
	9,342	12,180	11,169
Capital assets (Note 8)	7,898	7,674	7,903
Intangible assets (Note 9)	464	472	497
Future income taxes	418	-	443
	18,122	20,326	20,012
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3,775	4,088	5,268
Current portion of long-term debt and convertible debentures (Note 10 and 11)	1,171	978	1,159
	4,946	5,066	6,427
Deferred lease credits	629	419	629
Long-term debt (Note 10)	497	673	528
Liability component of convertible debentures (Note 11)	2,204	2,819	2,360
Future income taxes	-	140	-
	8,276	9,117	9,944
Shareholders' equity			
Share capital (Note 12)	27,702	27,702	27,702
Equity component of convertible debentures (Note 11)	1,137	1,137	1,137
Contributed surplus	2,367	2,273	2,351
Deficit	(21,360)	(19,903)	(21,122)
	9,846	11,209	10,068
	18,122	20,326	20,012

See accompanying notes

Commitments (Note 15)

Approved by the Board



Scott Leckie
Director



Joe Marsilii
Director

Statements of Cash Flows

(in thousands of dollars)
(unaudited)

	Three months ended	
	May 1, 2010	May 2, 2009
		Restated Note 2
	\$	\$
Operating activities		
Net loss	(238)	(258)
Adjustments (Note 14)	433	426
	195	168
Net changes in non-cash working capital items (Note 14)	(1,190)	(2,277)
Operating activities	(995)	(2,109)
Financing activities		
Repayment of convertible debentures	(225)	-
Reimbursement of long-term debt	(62)	(57)
Financing activities	(287)	(57)
Investing activities		
Acquisition of capital assets	(439)	(311)
Acquisition of intangible assets	-	(12)
Investing activities	(439)	(323)
Net changes in cash	(1,721)	(2,489)
Cash at beginning	3,929	4,346
Cash at end	2,208	1,857

See accompanying notes

Notes to the Financial Statements

(all tabular figures are in thousands of dollars)
(unaudited)

1. Basis of presentation

The interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial information and consequently, they do not include all the notes and information required by Canadian GAAP that applies to annual financial statements. In management’s opinion, all the adjustments (which constitute normal adjusting entries) considered necessary for a proper presentation of the Company’s financial situation were taken into account. The interim financial statements were prepared by Groupe Bikini Village inc.’s (“Groupe Bikini Village” or the “Company”) senior management and were not examined by the Company’s auditors. They should be read in conjunction with the audited annual financial statements for the year ended January 30, 2010, as well as the notes therein contained.

The Company’s activities are seasonal, with merchandise sales traditionally being higher in the second and fourth quarters. As a result, the operating loss for the quarter ended May 1st, 2010 is not necessarily indicative of the results of the operations for a full year.

2. Accounting policies

During the first quarter ended May 1, 2010, the Company followed the same accounting policies and procedures used for the exercise ended on January 30, 2010.

The Company has adopted during the exercise of 2009 the Section 3064 “Goodwill and Intangible Assets”, which replaced Section 3062, “Goodwill and Other Intangible Assets,” and Section 3450 “Research and Development Costs”. The primary impact of implementing this standard was on the accounting policy for marketing expenses. According to this new standard, marketing expenses are immediately entirely expensed at the beginning of a campaign. Prior to the adoption of this standard, marketing expenses were deferred and amortized over the duration of the campaign. As a result, certain figures of the comparative period of 2009 have been restated. The following table summarizes the increase (decrease) to the comparative figures contained herein both as of May 1st, 2010 and for the period ended on that date, from the figures previously reported.

Increase (decrease) in thousands of dollars	As at May 2, 2009 and for the three-month period ended a this date \$
Accounts receivables	-
Prepaid charges	-
Accounts payable and accrued liabilities	-
Future income taxes	-
Net loss	(28)
Opening deficit	28
Closing deficit	-

3. Future changes in accounting policies

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued the following new Handbook Sections:

- Section 1582, « Business Combinations »
- Section 1601, « Consolidated Financial Statements;» and
- Section 1602, « Non-controlling interests ».

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

3. Future changes in accounting policies (continued)

Section 1582, which replaces the former Section 1581, requires all business combinations to be accounted for by applying the acquisition method. Under this method, assets acquired and liabilities assumed are measured at their full fair value at the date of acquisition, unless another standard requires otherwise. Section 1582 provides the option of accounting for non-controlling interest at either fair value, or at the non-controlling interest's proportionate share of the identifiable net assets acquired. Acquisition costs associated with a business combination are to be expensed in the periods in which they are incurred. Section 1601 carries forward the standards for the preparation of consolidated financial statements of former Section 1600, while Section 1602 requires non-controlling interests to be reported as a separate component of equity with net income calculated without deduction for non-controlling interests. Rather, net income is to be allocated between controlling and non-controlling interest.

These three new Sections are to be implemented concurrently and apply prospectively to all business combinations of the Company for which the acquisition date is on or after January 30, 2011, with earlier application permitted. The Company expects that the adoption of this Section does not carry any impact on the Company's annual financial statements.

Adoption of international financial reporting standards in Canada

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards («IFRS») will replace the current Canadian GAAP for publicly-accountable profit-oriented enterprises. These new standards are applicable to fiscal years beginning on or after January 1, 2011, and companies will be required to provide comparative IFRS information for the fiscal year immediately preceding that date. The Company will implement this standard in the first quarter of its fiscal year ending January 28, 2012. The Company expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems. The Company is currently assessing the impact of the transition to IFRS on these areas and will continue to invest in training and resources throughout the transition to facilitate a timely conversion. The external auditors are also consulted throughout the process.

4. Additional information on the cost of goods sold

For the period ending May 1, 2010, the cost of inventories recognized as an expense and included in cost of goods sold, operating and administrative expenses totalled \$4.2 million (\$4.4 million in 2009). The amount reflecting the cost of inventories, recognized as an expense for the period included \$206,000 (\$316,000 in 2009) relating to write-downs taken as a result of net realizable value being lower than cost. No inventories write-downs recognized in previous years were reversed.

5. Interest

	Three months ended	
	May 1, 2010	May 2, 2009
	\$	\$
Long-term debt	157	173
Others	22	24
	179	197
Interest income	-	(4)
	179	193

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

6. Income taxes

Income tax recovery is as follows:

	Three months ended	
	May 1, 2010	May 2, 2009 Restated Note 2
	\$	\$
Income taxes	-	-
Future income taxes	(45)	(72)
	(45)	(72)

7. 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.

	Three months ended	
	May 1, 2010	May 2, 2009 Restated Note 2
	\$	\$
Basic and diluted		
Net loss	(238)	(258)
Loss per share, basic and diluted	-	-
Weighted average number of shares outstanding, basic and diluted	167,678,115	167,678,115

Options giving the right to buy 4,700,000 shares during the period ended May 1, 2010 (4,900,501 in 2009), and likely to dilute the basic earnings per share in the future, were not taken into account in the calculation of diluted loss per share because of their anti-dilutive effect.

Debentures for \$3,750,000 (\$4,500,000 in 2009) which can be converted into 18,750,000 common shares (22,500,000 in 2009) likely to dilute the basic earnings per share in the future were not taken into account in the calculation of diluted loss per share because of their anti-dilutive effect.

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

8. Capital assets

As at	May 1, 2010		May 2, 2009		January 30, 2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$	\$	\$
Equipment	1,250	439	1,559	675	1,241	376
Leasehold improvements	10,851	3,764	9,982	3,192	10,505	3,467
	12,101	4,203	11,541	3,867	11,746	3,843
Accumulated amortization	4,203		3,867		3,843	
Net book value	7,898		7,674		7,903	

The net book value of the capital assets includes \$861,000 in capital leases (\$916,000 as at May 2, 2009 and \$863,000 as at January 30, 2010). Respectively \$371,000 in equipment (\$430,000 as at May 2, 2009 and \$359,000 as at January 30, 2010) and \$490,000 in leasehold improvements (\$486,000 as at May 2, 2009 and \$504,000 as at January 30, 2010).

9. Intangible assets

As at	May 1, 2010		May 2, 2009		January 30, 2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$	\$	\$
Software	642	178	627	155	642	145
Accumulated amortization	178		155		145	
Net book value	464		472		497	

10. Long-term debt

As at	May 1, 2010	May 2, 2009	January 30, 2010
	\$	\$	\$
Capital lease, payable by 48 payments, expiring in November 2012, the carrying interest rate is 5.63 %	667	901	727
Capital lease, payable by 48 payments, expiring in March 2014, the carrying interest rate is 6.56 %	101	-	60
	768	901	787
Current portion	271	228	259
	497	673	528

On September 8, 2009, the Company secured a second capital lease with RBC Royal Bank to finance computer equipments and leasehold improvements for the distribution centre.

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

10. Long-term debt (continued)

As at May 1, 2010, the Company has an on-demand credit facility for a maximum amount of \$3,000,000, renewable annually, of which none was used as at May 1, 2010. A first segment of \$1.5 million is available at all times and, if necessary, a seasonal increase of \$1.5 million is also available from September 15 to December 15, for a total of \$3 million. The maximum allowable amount is limited to a percentage of the value of inventories less specific reserves and priority claims. In the normal course of business in 2009, the Company issued letters of credit and letters of guarantee against this facility for a total of \$180,000, which are expiring in August 2010.

This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Company and bears interest at prime plus 3.95% (3.0% in 2009). Under the agreements relative to the credit facility, the Company is subject to a restrictive clause concerning compliance with a financial ratio. As at May 1st, 2010, the Company was in accordance with the applicable restrictive clause under the credit facility.

The future minimum lease payments for the next years are as follows:

2011	2012	2013	2014	2015
\$301	\$308	\$261	\$29	\$5

11. Liability component of the convertible debentures

As at	May 1, 2010	May 2, 2009	January 30, 2010
Unsecured convertible debentures with carrying annual interest rate of 8 %, payable monthly	\$ 3,750	\$ 4,500	\$ 3,975
Convertible right value presented in equity	(1,137)	(1,137)	(1,137)
Financing fees	2,613	3,363	2,838
Interest capitalized	(112)	(141)	(119)
Liability component of the convertible debentures	603	347	541
Current portion	3,104	3,569	3,260
	900	750	900
	2,204	2,819	2,360

On May 25, 2007, Groupe Bikini Village inc. signed a subscription agreement with the Fonds de solidarité FTQ (the "Fund"), pursuant to which the Fund could invest up to \$ 4.5 million in the Company. By the end of the second quarter of 2007, the Fund had already subscribed to an unsecured convertible debenture in the amount of \$2.5 million. Until May 25, 2009, the Fund could subscribe, at the request of the Company, to additional debentures of up to \$2 million, subject to certain conditions, for a total investment of \$4.5 million.

On October 21, 2008 at the request of the Company, the Fund subscribed to additional unsecured convertible debentures for an amount of \$2 million.

These debentures bear an annual interest rate of 8%, payable monthly, and are bought back by the Company in 60 equal monthly payments since July 1, 2009.

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

11. Liability component of the convertible debentures (continued)

Since June 1, 2009, the Fund has the option to convert its debentures into common shares of the Company, at the conversion rate of \$0.20 per share. In case of default or change of control of the Company, the Fund may potentially convert its debentures at a more advantageous rate.

The Company has accounted for the liability and the shareholders' equity components of the unsecured convertible debentures separately, in accordance with the Canadian generally accepted accounting principles in effect on the date of issuance of these debentures. The first \$1,495,000 liability component representing the current value of the future payments of interest required toward the debentures, using the interest rates that prevailed for the non-convertible financial instruments as of the date of issue have been posted in 2007, and then a passive component of \$1,868,000 has been posted in regards of the 2008 debentures' emissions.

As at May 25, 2007, the equity component of \$1,005,000 (recorded separately in shareholders' equity) represents the current value of the conversion option for the convertible debentures at that date. As at October 21, 2008, the equity component of the second part, \$132,000 (recorded separately in shareholders' equity) represents the current value of the option for the convertible debenture holders at that date.

Charges in the amount of \$197,000 were incurred in 2007 in the course of implementing financing, to a maximum of \$4.5 million, in convertible, unsecured debentures. These charges were capitalized and amortized based on the effective interest rate method (27.1%).

12. Share capital

As at	May 1, 2010	May 2, 2009	January 30, 2010
	\$	\$	\$
Authorized			
Unlimited number of common shares with voting rights			
Unlimited number of preferred shares without voting rights			
Issued and outstanding			
Common shares			
167,678,115	27,702	27,702	27,702

13. Stock option plan

The Stock Option Plan (the "Plan") in place provides its optionees with additional inducement to promote, to the best of their ability, the interest of the Company and to reward their management skills, special contribution, efforts, performance, services rendered or to be rendered and loyalty.

The expiration date of each option, the exercise price thereof, the number of shares issuable thereunder, the vesting period and other terms and conditions of exercise of each option shall, subject to the rule of the Toronto Stock Exchange, be determined, by way of a resolution, by the Board of Directors of the Company at the time the option is granted to the optionee.

Subject to any restriction that may be imposed by the Board of Directors of the Company, the period during which an option granted under the Plan shall be exercisable shall be ten years from the date the option is granted to the optionee.

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

13. Stock option plan (continued)

The table below is a summary of the information related to the May 1, 2010 purchase options;

Range of exercise prices	Options outstanding			Exercisable options	
	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Number of exercisable options	Weighted average exercise price
\$			\$		\$
0.08	3,200,000	8.0	0.08	3,200,000	0.08
0.11 to 0.13	1,500,000	6.4	0.12	1,500,000	0.12
	4,700,000	7.5	0.09	4,700,000	0.09

During the first quarter ended May 1, 2010, the compensation expense recorded on the Statement of Operations with regard to those stock options was \$16,000 (\$26,000 in 2009).

During the period of three months ended May 1, 2010, no stock options expired or have been cancelled (nil in 2009) and no stock options were granted during the first quarter of 2010 (nil in 2009).

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

14. Supplementary cash flow information

	Three months ended	
	May 1, 2010	May 2, 2009 Restated Note 2
	\$	\$
i) Adjustments for:		
Amortization - Capital assets	360	358
Amortization - Intangible assets	33	27
Interest capitalized on the liability component of debentures and financing fees amortization	69	72
Stock-based compensation plan	16	26
Future income taxes	(45)	(72)
Amortization of deferred lease credit	(21)	(18)
Deferred lease credit	21	33
	433	426
ii) Net changes in non-cash working capital items		
Accounts receivable	120	110
Inventories	154	(109)
Prepaid charges	(98)	(1,009)
Accounts payable and accrued liabilities	(1,366)	(1,269)
	(1,190)	(2,277)
iii) Supplementary information		
Cash amount paid (recovered):		
Interest	88	131
Income taxes	-	-
Non-cash operations:		
Capital assets additions included in accounts payable and accrued liabilities	85	162
Capital assets acquired through capital leases	43	-

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

15. 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 over the next few years are as follows:

2011 (9 months)	2012	2013	2014	2015	Subsequently
\$3,844	\$4,828	\$4,280	\$2,871	\$1,980	\$2,768

16. Capital disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to enable the internal financing of capital projects and working capital needs, thereby facilitating its expansion, to maintain a strong capital base so as to maintain investor, creditor and market confidence and to provide an adequate return to shareholders.

The Company's capital is composed of long-term debt including current portion of the debt and shareholders' equity. The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for new store additions and existing store renovation projects. Groupe Bikini Village inc. currently funds these requirements out of its internally-generated cash flows and its financing facilities already in place. The Company's long-term debt consists of convertible, unsecured debentures and capital leases. The Board of Directors does not establish quantitative return on capital criteria for management, but rather, promotes year-over-year sustainable profitable growth. The Company is subject to financial covenant under on demand credit facilities.

17. Financial risks and financial instruments

Liquidity risks

Liquidity risk is the risk that the Company will be unable to fulfil its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. Its liquidities follow a seasonal curve according to the calendar of sales, purchases of inventories and capital assets expenditure. The Company prepares budget and cash forecasts to ensure that it has sufficient funds to fulfil its obligations. The Company has long term debt outstanding, requiring principal payments of \$1.2 million during the next twelve months. The information about the payments in capital during the subsequent years is presented in Notes 11 and 12 Long-term debt and Liability component of the convertible debentures of the 2009 Annual Report. Accounts payable and accrued liabilities are all current.

Currency risk

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Company conducts certain commodities transactions in foreign currencies. The Company manages this risk with forward contracts. As at May 1, 2010, the Company had forward contracts denominated in U.S. dollars amounting to \$1,080,000 (\$790,000 as at May 2, 2009), with maturity dates until November 2010 (until January 2010 as at May 2, 2009), and rates between 1.0518 and 1.16(1.20 and 1.235 in 2009). As of May 1, 2010, the fair value of unrealized gains or losses on the forward contracts has been recorded to the operations and represents a loss of \$61,000 (gains of \$26,000 in 2009). The fair value of these foreign exchange contracts is \$1,093,000 (\$938,000 in 2009). The fair value is classified according to the level 2 of the fair value hierarchy. The U.S. accounts payable included in the balance sheet as at May 1st, 2010 was a debit amount of \$2,000 (nil as at May 2, 2009).

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

17. Financial risks and financial instruments (continued)

The Company has performed sensitivity analysis on its U.S. dollar denominated financial instruments, at May 1, 2010, to determine how a change in the U.S. dollar exchange rate would impact on shareholders' equity and net loss. On May 1, 2010, a 10% rise or fall in the Canadian dollar against the U.S. dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a \$12,000 decrease or increase, respectively, in the Company's shareholders' equity and net loss for the three-month period ended May 1, 2010.

Interest Rate Risk

The Company's exposure to interest rate fluctuations is on interest earned on its cash, cash equivalents and interest paid on the credit line. Facilities for short-term credit described in Note 10 bear interest at variable rates, while long-term debt has a fixed rate.

The Company has performed sensitivity analysis on interest rate risk at May 1, 2010, to determine how a change in interest rates would impact shareholders' equity and net loss. During the first quarter of 2010, the Company has earned no interest revenue on its cash and cash equivalents and did not incur interest costs on its credit line. An increase or decrease of 100 basis points in the average interest rate earned during the period would have reduced net loss by \$5,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Fair Value

a) Classification

The Company has classified its financial assets and liabilities as follows:

- Cash and cash equivalents as "held for trading".
- Accounts receivable are classified as "loans and receivables".
- Account payable and accrued liabilities as well as long term debt are classified as "other financial liabilities"

b) Fair value hierarchy

Financial instruments recorded at fair value on the Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

During the quarter, there has been no significant transfer of amounts between different Levels.

Cash, accounts receivable, accounts payable and accrued liabilities are all short-term financial instruments; consequently, their fair values approximate their carrying values.

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
(unaudited)

17. Financial risks and financial instruments (continued)

The fair value of the liability component of convertible debentures is not significantly different from its carrying value. The estimated fair value could differ from the amount that would be obtained if there was an immediate settlement of the instruments.

18. Segment information

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

19. Subsequent events

On May 3rd, 2010, the Company announced its intention to file a rights offering circular with the Toronto Stock Exchange (the "TSX") and the securities regulators in respect of a rights offering to raise net proceeds of approximately \$2.0 million (the "Offering").

The Company also intends, subject to the approval of the holders of its common shares ("Shares"), to consolidate the outstanding Shares within a range of one new Share for every 100 currently outstanding Shares to one new Share for every 150 currently outstanding Shares (the "Consolidation").

Rights Offering

Under the Offering, each registered holder of Shares as of a record date to be determined in conjunction with the TSX will receive one right (a "Right") for each Share held. Four Rights plus the sum of \$0.05 are required to subscribe for one pre-consolidation Share.

Consolidation

At the Annual and Special Meeting of shareholders, they will be asked to approve the Consolidation. No fractions of shares will be issued as a result of the Consolidation, with all such fractions being rounded down. For each pre-Consolidation Share that does not form part of a post-Consolidation Share, the shareholders will receive a cash payment of the greater of (i) \$0.05 and (ii) the market price (as defined in the TSX's rules) on the date that the Consolidation takes effect.

20. Comparative figures

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

GROUPE
Bikini Village
 inc.