

To our Shareholders:

As you will see in the report which follows, Groupe Bikini Village inc. ("Groupe Bikini Village" or the "Company") delivered a strong second quarter 2010, marked by a 25% increase in sales volume, growth in gross margins, continued tight control over direct and indirect expenses, and a further reduction of our inventory level, thanks to a disciplined approach to inventory management.

The second quarter of 2010 offered a return to normal conditions for Groupe Bikini Village, after its results in the comparable quarter of 2009 were affected by the economic recession; unseasonable weather conditions; and the H1N1 influenza virus, which had a chilling effect on its customers.

As we reported our results in that difficult quarter last year, we explained how our strategies looked beyond the challenges of the times, and aimed to prepare the Company for a strong performance once outside factors turned back in our favour. Now, with these adverse conditions behind us, our performance in the second quarter of this year has validated the appropriateness of our sustained investments of the last three years in retail renovations, upgraded systems and supply chain. We are – and will remain – committed to focusing on operational excellence to deliver increased sales and profitability.

2010 second quarter and first six-month period results

Reflecting the Company's response to the improved sales conditions in the market, net sales for the second quarter and the six-month period ended July 31, 2010 were \$14.2 million and \$24.3 million respectively, compared to \$11.4 million and \$21.3 million in the corresponding periods of the previous year. Comparable sales, which is the comparison of the sales from the same number of stores from year to year, increased by 27.9% for the quarter and 13.9% for the six-month period.

Groupe Bikini Village delivered EBITDA¹ of \$2.2 million in the second quarter of 2010 and \$2.5 million in the first six-month period, compared to EBITDA¹ of \$332,000 for the second quarter of 2009 and \$581,000 for the first six-month period of the previous year. The \$1.9 million increase in operating income in the second quarter of 2010 compared to the second quarter of 2009 was primarily the result of increased gross margin on sales attributable to both, the increase in sales volume and our strategy to focus on full-price selling and to tightly manage inventories.

For the quarter ended July 31, 2010, the Company's net earnings was \$1.2 million (\$0.01 per share, basic and diluted), as compared to net loss of \$221,000 (nil per share, basic and diluted) for the same quarter in the previous year. For the six-month period ended on that date, net earnings totalled \$957,000 (\$0.01 per share basic and diluted), as compared to net loss of \$479,000 (nil per share, basic and diluted) in the same period in 2009

Outlook ²⁾

The patient and disciplined approach Groupe Bikini Village initiated three years ago has made us more competitive, and we are confident and enthusiastic as we look ahead. This approach will remain central to our activities in the months to come, as we continue to focus on sales and profitability.

We have also undertaken activities under our capital strategy which will provide increased latitude to build shareholder value, either by creating our own opportunities or by taking advantage of other strategic alternatives. At our annual shareholders' meeting on June 11, 2010, a resolution was approved to authorize the directors to consolidate the Company's common shares within a range of one new share for every 100 shares currently outstanding to one new share for every 150 shares

¹ Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 4 of the MD&A for the six-month period ended July 31, 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 six-month period ended July 31, 2010.



President and CEO's Message to Shareholders

currently outstanding. The consolidation ratio has now been determined to be one new share for every 125 shares currently outstanding and should take effect on or about September 27, 2010. In addition, on August 17, 2010, the Company completed its previously-announced rights offering and concurrent private placement, raising gross proceeds of \$2.1 million.

Between the improved balance sheet which resulted from our second quarter performance and successful rights offering and private placement, Groupe Bikini Village enters the second half of the year with a stronger cash position. We look forward to employing these strengths and the flexibility they afford us, to further our efforts in building 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. We would also like to thank our shareholders for having recognized the strength of our strategies to see the Company through a difficult market; we will continue to work to build value for you in the months ahead.

A handwritten signature in black ink, appearing to read "Yves Simard".

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

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

	Three months ended		Six months ended	
	July 31, 2010	August 1, 2009 Restated ²	July 31, 2010	August 1, 2009 Restated ²
Operating results				
Operating revenue	\$14,230	\$11,408	\$24,258	\$21,322
Operating income - EBITDA ¹	2,212	332	2,501	581
In % of sales	15.5 %	2.9 %	10.3 %	2.7 %
Net earnings (loss)	1,195	(221)	957	(479)
In % of sales	8.4 %	(1.9)%	3.9 %	(2.2)%
Earnings (loss) per share				
Basic and diluted	0.01	-	0.01	-
Weighted average number of shares outstanding (in thousands)				
Basic and diluted	167,678	167,678	167,678	167,678
Other statistics				
Investment activities - net (in thousands \$)	370	932	809	1,255
Number of stores at the end of the period	60	62	60	62
Number of employees	500	550	500	550

1 Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 4 of the MD&A for the six-month period ended July 31, 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 September 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 and six month periods ended July 31, 2010 and should be read in conjunction with the unaudited financial statements for the period ended July 31, 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 women’s 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 September 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 earnings for the quarter ended July 31, 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, Lanaï, offers the most popular clothing brands for young women in Brossard, Quebec. Headquartered in Sainte-Julie, Quebec, Groupe Bikini Village inc. operates 60 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

Groupe Bikini Village today enjoys a competitive advantage due to the energy and resources the Company invested in rejuvenating its retail network in recent years. With the opening last quarter of a new store in Waterloo, Ontario, the relocation of a store in Quebec, the renovation of our Toronto Eaton Centre store and the closing of four underperforming stores, we have made further progress on our objective to improve our retail network’s performance.

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

	Quebec	Ontario	New Brunswick	Nova Scotia	Total
Bikini Village	29	26	1	1	57
Ocean Bikini Village	2				2
Lanaï	1				1
TOTAL :	32	26	1	1	60
Recently opened or fully renovated	19	13	1	1	34
New or renovated stores (in %)	59%	50%	100%	100%	57%

In the pages which 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. 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 periods of three and six months ended July 31, 2010 and for the periods of three and six-months ended August 1st, 2009.

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		Six months ended	
	July 31, 2010	August 1, 2009 Restated ³	July 31, 2010	August 1, 2009 Restated ³
	\$	\$	\$	\$
Operating revenue	14,230	11,408	24,258	21,322
Operating income - EBITDA ¹	2,212	332	2,501	581
Less:				
Interest	170	196	349	389
Amortization	370	401	763	786
Earnings (loss) before income taxes	1,672	(265)	1,389	(594)
Income taxes (recovery)	477	(44)	432	(115)
Net earnings (loss)	1,195	(221)	957	(479)
Earnings (loss) per share				
Basic and diluted	0.01	-	0.01	-
Weighted average number of outstanding shares (in thousands)				
Basic and diluted	167,678	167,678	167,678	167,678
Cash flows from				
Operating activities	3,626	1,678	2,631	(431)
Financing activities	(219)	95	(506)	38
Investing activities	(370)	(932)	(809)	(1,255)
Total assets	20,121	20,966	20,121	20,966
Total long-term debt ²	2,520	3,274	2,520	3,274

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

Second quarter and six months period ended July 31, 2010 compared to second quarter and six-month period ended August 1st, 2009*Operating Revenues*

The Company's sales for the three-month period ended July 31, 2010 increased by 24.7%, to \$14.2 million, from \$11.4 million for the same three-month period last year. This result also represents an increase of 27.9% on comparable sales, which is the comparison of the sales of the same number of stores from year to year. In its second quarter of 2010, the Company was once again able to operate in normal market conditions, a significant improvement over the sales environment in the first half of 2009, which was marked by economic recession, unseasonable weather conditions, and the impacts of the H1N1 influenza virus.

In the six-month period ended July 31, 2010, sales totalled \$24.3 million, an increase of 13.8% over the same period last year, when sales were \$21.3 million. In the first half of the year, the comparable sales increased by 13.9% as compared to the same period in 2009.

Operating Income - EBITDA¹

For the second quarter of 2010, the Company delivered EBITDA¹ (as previously defined in "Non-GAAP Financial Measures") of \$2.2 million, or 15.5%, compared to EBITDA¹ of \$332,000, or 2.9%, for the restated second quarter of 2009.

The \$1.9 million increase in operating income in the second quarter of 2010 compared to the second quarter of 2009 was primarily the result of increased gross margin on sales attributable to both the increase in sales volume and our strategy to focus on full-price selling and tightly manage inventories. Variable operating costs, mainly salaries, increased to provide for; more hours scheduled in our retail stores to properly serve customers during periods of increased sales volume; higher performance-based compensation costs and also changes to the minimum wages in Quebec and Ontario.

For the six-month period ended July 31, 2010, EBITDA¹ totalled \$2.5 million, or 10.3%, compared to \$581,000, or 2.7%, in the restated corresponding period last year. The underlying reasons for the positive variance in EBITDA¹ for the first half of 2010 compared to 2009 are consistent with the factors discussed above for the quarter.

Financing Charges and Amortization

Financing charges decreased from \$196,000 in the second quarter of 2009 to \$170,000 in the second quarter of 2010, due to lower interest charges on convertible debentures because of the capital repayments that began in July 2009.

Financing charges for the six-month period ended July 31, 2010 decreased to \$ 349,000 from \$389,000 in the corresponding period of 2009, for the same reasons stated above. The financing charges include a \$135,000 (\$146,000 in 2009) non-cash interest expense, calculated on the debt component of the convertible debentures.

The amortization expense for the quarter ended July 31, 2010 decreased by 7.7% to \$370,000, compared to \$401,000 for the quarter ended August 1, 2009. In 2009, the Company accelerated amortization of certain capital assets in order to align their book value with their remaining useful lives.

For the six-month period ended on July 31, 2010, amortization expense decreased to \$763,000 from \$786,000 in 2009, a decrease of 2.9%.

¹ Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 4 of this MD&A for the six-month period ended July 31, 2010. Reconciliation with the most directly comparable financial GAAP measures is presented on page 7 of this report.

Earnings (Loss) Before Income Taxes

For the quarter ended July 31, 2010, the Company registered \$1.7 million in earnings before income taxes, compared to a loss of \$265,000 before taxes in the comparable restated period the previous year. For the six-month period ending on that same date, the Company registered \$1.4 million in earnings before taxes, compared to a \$594,000 loss before taxes for the comparable restated period in 2009.

Income Taxes

Groupe Bikini Village recorded income tax expense in the amount of \$432,000 during the first half of 2010, representing a tax rate of 31.1%, compared to income tax recovery of \$115,000 or 19.4% 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) earnings (loss) before income taxes.

Net Earnings (Net Loss)

Net earnings in the quarter ending July 31, 2010 was \$1.2 million (\$0.01 per share, basic and diluted), as compared to net loss of \$221,000 (nil per share, basic and diluted) in the corresponding restated period last year.

In the first half of 2010, net earnings totalled \$957,000 (\$0.01 per share, basic and diluted), compared to net loss of \$479,000 (nil per share, basic and diluted) in the restated first half of 2009.

CASH POSITION

Operating Activities

Cash flows generated by operations in the second quarter of 2010 increased by \$1.9 million as compared to cash flows generated in the comparable restated period of the previous year (from \$1.7 million to \$3.6 million). This increase resulted primarily from the net earnings of the period compared to the net loss for the comparable period of 2009, as well as the reduction of future income tax assets.

For the six-month period ended July 31, 2010, cash flows generated by operations increased by \$3.1 million (from \$0.4 million used in operations to \$2.6 million generated by operations). This increase resulted primarily from the net earnings compared to the net loss, the reduction of future income tax assets and the reduction of the inventory.

Financing Activities

During the second quarter of 2010, the Company obtained a long-term loan of \$75,000 for improvements to its distribution centre and repaid \$69,000 toward its obligations under capital leases and its long-term debt and \$225,000 on convertible debentures, for a net total used of \$219,000. For the corresponding period in 2009, the Company repaid \$57,000 on its obligations under capital leases and \$75,000 on convertible debentures. Capital repayments on convertible debentures began in July 2009. Also, during the second quarter of 2009, the Company recorded \$227,000 in lease inducements receivable. A net total of \$95,000 was generated in 2009 by financing activities.

During the six-month period ended July 31, 2010, the Company obtained a long-term loan of \$75,000 for improvements to its distribution centre and repaid \$131,000 in accordance with its obligations under capital leases and its long-term debt as well as \$450,000 on convertible debentures, for a net total used of \$506,000. During the six-month period ended August 1, 2009, the Company repaid \$114,000 in accordance with its obligations under capital leases and \$75,000 on convertible debentures; the Company also recorded \$227,000 in lease inducements receivable. A net total of \$38,000 was generated in 2009 by financing activities.

Investment Activities

Investment activities in the second quarter of 2010 required \$370,000, compared to \$932,000 during the corresponding period one year earlier. During the second quarter of 2010, we renovated one store in Ontario, we initiated preliminary work for the relocation of a store in a new premise, and we completed additional improvements at the distribution centre. In the second quarter of 2009, we completely renovated an existing store and made progress on construction for another, we completed three new stores, and we made investments in our distribution centre.

For the first six months of 2010, investment activities totalled \$809,000, compared to \$1.3 million in 2009. We completed the construction of one store, a new store was built, we renovated one store in Ontario, we initiated preliminary work for the relocation of a store in a new premise, and we completed additional improvements at the distribution centre. During the first six months of 2009, we completely renovated an existing store and made progress on construction for another, we completed three new stores, and we made investments in our distribution centre.

FUTURE CASH POSITION ¹⁾

At July 31, 2010, the Company had available cash of \$5.2 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 half of 2010.

While working capital is always central to Groupe Bikini Village's focus, on August 17, 2010 the Company announced the completion of its rights offering and concurrent private placement, as a further means of proactively managing its cash requirements. Under the Offering and the Private Placement, the Company issued a total of 71,218,178 common shares at a price of \$0.03 each, for total gross proceeds of \$2.1 million. Our improved cash situation following our second quarter performance and successful rights offering and private placement will give Groupe Bikini Village greater flexibility in the future.

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 (6 months)	2012	2013	2014	2015	Subsequently
\$2,591	\$4,960	\$4,383	\$2,959	\$2,074	\$2,847

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

USE OF ESTIMATES

In the six-month period ended July 31, 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 HALF OF 2010

During the first half of fiscal 2010, the Company followed the same accounting policies and procedures used for the year ended on January 30, 2010

FUTURE CHANGES IN ACCOUNTING POLICIES

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the Canadian Institute of Chartered Accountants ("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 these standards 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 will be minimal as well.

The Company is actually designing and developing 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 quarterly to the Audit Committee 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 statement of financial position variations in the fair value of fixed assets and the corresponding impact on statement of comprehensive income.
	<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>	We conducted an analysis which concluded that there is no other material component in our capital assets than those already indicated by notes to the financial statements.
Intangible assets (IAS 38)	<p><i>IFRS:</i> After initial recognition, we can measure our intangible 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 statement of financial position variations in the fair value of fixed assets and the corresponding impact on statement of comprehensive income.
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> <p>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</p> <p>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.</p>	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>	The impact on our provisions should not be material.

Some of the differences between IFRS and our current accounting policies are bound with the financial statement presentation:

Standards	Comparisons between IFRS and GAAP	Preliminary Findings as Warranted
Statement of financial position	<p><i>IFRS:</i> A statement of financial position as at the beginning of the comparative period has to be presented when:</p> <ul style="list-style-type: none"> • an accounting policy is applied retrospectively; • items in financial statements are retrospectively restated or reclassified; <p><i>GAAP:</i> This third balance sheet column is not required.</p>	
	<p><i>IFRS:</i> Deferred tax assets (liabilities) are classified as non-current items.</p> <p><i>GAAP:</i> The short-term and long-term future income tax assets (liabilities) are to be presented.</p>	

Standards	Comparisons between IFRS and GAAP	Preliminary Findings as Warranted
Statement of comprehensive income	<p><i>IFRS:</i> All items of income and expense recognized in a period are to be presented:</p> <ul style="list-style-type: none"> • in a single statement of comprehensive income; or • in two statements: a separate income statement and a second statement beginning with profit or loss and displaying components of other comprehensive income. <p><i>GAAP:</i> All comprehensive income items may be presented:</p> <ul style="list-style-type: none"> • immediately under total net income; or • in a separate statement beginning with net income. 	We chose to present all items of income and expense in a single statement of comprehensive income.
	<p><i>IFRS:</i> Expenses are classified based on their nature or their function.</p> <p><i>GAAP:</i> This classification of expenses is not required.</p>	We chose to classify expenses by function and we will disclose, through a note to the financial statements, expenses by nature, as required in IAS 1.
Statement of changes in equity	<p><i>IFRS:</i> A statement of changes in equity must show reconciliation between the carrying amount at the beginning and the end of the period for each component of equity.</p> <p><i>GAAP:</i> Only a statement of retained earnings has to be presented.</p>	
Statement of cash flows	<p><i>IFRS:</i> In the statement of cash flows, interest and dividends may be classified as follows:</p> <ul style="list-style-type: none"> • interest and dividends paid: operating cash flows or financing cash flows; • interest and dividends received: operating cash flows or investing cash flows. <p><i>GAAP:</i> They may be classified as follows in the cash flow statement:</p> <ul style="list-style-type: none"> • interest paid and received: operating cash flows; • dividends paid: financing cash flows; • dividends received and included in net income: operating cash flows. 	We will keep the existing classification of interest in the statement of cash flows.
	<p><i>IFRS:</i> Interim reports must present a statement of cash flow cumulatively for the current financial year-to-date and for the</p>	

Standards	Comparisons between IFRS and GAAP	Preliminary Findings as Warranted
Statement of cash flows (cont'd)	<p>comparable period of the preceding financial year.</p> <p><i>GAAP:</i> Besides a cash flow statement cumulatively for the current financial year-to-date and for the comparable period, interim reports must present a cash flow statement for the interim period and one for the comparable period.</p>	
Notes to financial statements	<p><i>IFRS:</i> Reconciliations of the carrying amount at the beginning and end of the period for several components of the statement of financial position are presented in the notes to financial statements.</p> <p><i>GAAP:</i> Reconciliations are limited to certain balance sheet components.</p>	
	<p><i>IFRS:</i> The total amount of key management personnel compensation must be disclosed, by large categories, in the notes to financial statements.</p> <p><i>GAAP:</i> This information is not required in financial statements.</p> <p>However, the Regulation 51-102 of the Canadian Securities Administrators demands disclosure of similar information in the proxy circular.</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	<p>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.</p> <p>* We have decided not to avail ourselves of this exemption.</p>
Share-based payment	<p>This exemption would excuse us from applying the standard to equity instruments acquired before the IFRS transition date.</p> <p>* We have decided to avail ourselves of this exemption when possible.</p>
Compound financial instruments	<p>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.</p> <p>* We have decided to avail ourselves of this exemption when possible</p>

Optional Exemptions	Preliminary Findings
Decommissioning liabilities included in the cost of property, plant and equipment	<p>This exemption allows us to measure the liability as at the date of transition to IFRS, in accordance with IAS 37.</p> <p>* We have decided to avail ourselves of this exemption.</p>

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 July 31, 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 July 31, 2010, inclusive, 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 six-month period ended July 31, 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 currently 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, Lanaï (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 \$20.1 million as at July 31, 2010, compared to \$20 million as at January 30, 2010.

As at July 31, 2010, accounts receivable stood at \$68,000, compared to \$167,000 as at January 30, 2010.

Income tax receivables were \$4,000 as at July 31, 2010, and as at January 30, 2010.

As at July 31, 2010, our inventories stood at \$5.6 million compared to \$6.2 million as at January 30, 2010. At the end of the second quarter last year, we held inventories worth \$7.8 million. Our dynamic inventory management has permitted this reduction, while ensuring a level of inventory sufficient to meet our business needs.

Prepaid expenses totalled \$561,000 as at July 31, 2010, compared to \$580,000 as at January 30, 2010. The difference is explained partly by a decrease in down payments to suppliers for import activities and by disbursements for an advertising campaign beginning in September 2010.

Short-term and long-term future income taxes were \$298,000 and (\$21,000), respectively, for a total of \$277,000 as at July 31, 2010, as compared to \$266,000 and \$443,000, respectively, for a total of \$709,000 as at January 30, 2010. The decrease in our net future income tax assets results largely from lower unused non-capital tax losses.

The book value of Groupe Bikini Village's capital assets totalled \$7.9 million as at July 31, 2010, unchanged from \$7.9 million as at January 30, 2010. Capital asset investments during the first half of 2010 almost offset the amortization in that period.

The book value of the Company's intangible assets amounted to \$436,000 as at July 31, 2010, compared to \$497,000 as at January 30, 2010.

As at July 31, 2010, total debt amounted to \$9.1 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 the repayment of convertible debentures, as well as the decrease in accounts payable and sales taxes payable.

Shareholders' equity increased to \$11.1 million during the six-month period ended July 31, 2010, having been positively impacted by the net earnings of \$957,000.

Groupe Bikini Village's working capital totalled \$5.9 million as at July 31, 2010, compared to \$4.7 million as at January 30, 2010; as a result, our working capital ratio was 2.0 at the end of the second quarter, as compared to 1.7 at the end of 2009.

OUTSTANDING SHARE DATA

As at July 31, 2010, the Company had 167,678,115 common shares outstanding (167,678,115 as at January 30, 2010). On that same date, 3,175,000 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 \$0.10 (\$0.09 as at January 30, 2010), exercisable on dates ranging to 2018. During the six-month period ended July 31, 2010, 1,525,000 stock options expired or were cancelled (501 in 2009).

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

On August 17, 2010, the Company announced the completion of its previously-announced rights offering and concurrent private placement. Under the Offering and the Private Placement, the Company issued a total of 71,218,178 common shares at a price of \$0.03 each.

At the Company's annual shareholders' meeting on June 11, 2010, a resolution was approved to authorize the directors to consolidate Groupe Bikini Village's common shares within a range of one new share for every 100 shares currently outstanding to one new share for every 150 shares currently outstanding. The consolidation ratio has now been determined to be one new share for every 125 shares currently outstanding and should take effect on or about September 27, 2010.

ADDITIONAL INFORMATION

This MD&A is dated September 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)

	Second quarter		First quarter		Fourth quarter		Third quarter	
Fiscal year	2010	2009	2010	2009	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$	\$	\$
		Restated ¹		Restated ¹		Restated ¹	Restated ¹	Restated ¹
Operating revenue	14,230	11,408	10,028	9,914	13,042	12,988	6,658	5,167
Net earnings (loss)	1,195	(221)	(238)	(258)	796	615	(1,794)	(2,134)
Per share amounts								
Basic and diluted earnings (loss)	0.01	-	-	-	-	-	(0.01)	(0.01)
Weighted average number of shares (in thousands)								
Basic	167,678	167,678	167,678	167,678	167,678	170,128	167,678	172,502

The fluctuations between quarters are principally seasonal.

OUTLOOK ²⁾

The patient and disciplined approach Groupe Bikini Village initiated three years ago has made us more competitive, and we are confident and enthusiastic as we look ahead. This approach will remain central to our activities in the months to come, as we continue to focus on sales and profitability.

We have also undertaken activities under our capital strategy which will provide increased latitude to build shareholder value, either by creating our own opportunities or by taking advantage of other strategic alternatives. At the Company's annual shareholders' meeting on June 11, 2010, a resolution was approved to authorize the directors to consolidate Groupe Bikini Village's common shares within a range of one new share for every 100 shares currently outstanding to one new share for every 150 shares currently outstanding. The consolidation ratio has now been determined to be one new share for every 125 shares currently outstanding and should take effect on or about September 27, 2010. In addition, on August 17, 2010, the Company completed its previously-announced rights offering and concurrent private placement, raising gross proceeds of \$2.1 million.

Between the improved balance sheet which resulted from our second quarter performance and successful rights offering and private placement, Groupe Bikini Village enters the second half of the year with a stronger cash position. We look forward to employing these strengths and the flexibility they afford us, to further our efforts in building shareholder value.



Yves Simard
President and Chief Executive Officer

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 July 31, 2010.

Statements of Operations and Comprehensive Income (Loss)

(in thousands of dollars)

(unaudited)

	Three months ended		Six months ended	
	July 31, 2010	August 1, 2009 Restated Note 2	July 31, 2010	August 1, 2009 Restated Note 2
	\$	\$	\$	\$
Operating revenue	14,230	11,408	24,258	21,322
Cost of goods sold, operating and administrative expenses (Note 4)	12,018	11,076	21,757	20,741
Interest (Note 5)	170	196	349	389
Amortization	370	401	763	786
	12,558	11,673	22,869	21,916
Earnings (loss) before income taxes	1,672	(265)	1,389	(594)
Income taxes (recovery) (Note 6)	477	(44)	432	(115)
Net earnings (net loss) and comprehensive income (loss)	1,195	(221)	957	(479)
Earnings (loss) per share				
Basic and diluted (Note 7)	0.01	-	0.01	-
Weighted average number of shares outstanding (in thousands)				
Basic and diluted	167,678,115	167,678,115	167,678,115	167,678,115

Statements of Deficit

(in thousands of dollars)

(unaudited)

	Three months ended		Six months ended	
	July 31, 2010	August 1, 2009 Restated Note 2	July 31, 2010	August 1, 2009 Restated Note 2
	\$	\$	\$	\$
Deficit, beginning of period as previously reported	(21,360)	(19,903)	(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	(21,360)	(19,903)	(21,122)	(19,645)
Net earnings (loss)	1,195	(221)	957	(479)
Deficit, end of period	(20,165)	(20,124)	(20,165)	(20,124)

See accompanying notes

Balance Sheets

(in thousands of dollars)

As at	July 31, 2010	August 1, 2009 <small>Restated Note 2</small>	January 30, 2010
	\$ (Unaudited)	\$ (Unaudited)	\$ (Audited)
Assets			
Current assets			
Cash	5,245	2,698	3,929
Accounts receivable	68	259	167
Income taxes	4	270	4
Inventories	5,643	7,786	6,223
Prepaid charges	561	531	580
Future income taxes	298	668	266
	11,819	12,212	11,169
Capital assets (Note 8)	7,866	8,209	7,903
Intangible assets (Note 9)	436	545	497
Future income taxes	-	-	443
	20,121	20,966	20,012
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4,715	4,673	5,268
Current portion of long-term debt and convertible debentures (Note 10 and 11)	1,199	1,138	1,159
	5,914	5,811	6,427
Deferred lease credits	608	635	629
Long-term debt (Note 10)	475	606	528
Liability component of convertible debentures (Note 11)	2,045	2,668	2,360
Future income taxes	21	232	-
	9,063	9,952	9,944
Shareholders' equity			
Share capital (Note 12)	27,702	27,702	27,702
Equity component of convertible debentures (Note 11)	891	1,118	1,004
Contributed surplus	2,630	2,318	2,484
Deficit	(20,165)	(20,124)	(21,122)
	11,058	11,014	10,068
	20,121	20,966	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		Six months ended	
	July 31, 2010	August 1, 2009 Restated Note 2	July 31, 2010	August 1, 2009 Restated Note 2
	\$	\$	\$	\$
Operating activities				
Net earnings (loss)	1,195	(221)	957	(479)
Adjustments (Note 14)	909	447	1,342	873
	2,104	226	2,299	394
Net changes in non-cash working capital items (Note 14)	1,522	1,452	332	(825)
Operating activities	3,626	1,678	2,631	(431)
Financing activities				
Increase of long-term debt	75	-	75	-
Repayment of convertible debentures	(225)	(75)	(450)	(75)
Rental inducement	-	227	-	227
Reimbursement of long-term debt	(69)	(57)	(131)	(114)
Financing activities	(219)	95	(506)	38
Investing activities				
Acquisition of capital assets	(365)	(832)	(804)	(1,143)
Acquisition of intangible assets	(5)	(100)	(5)	(112)
Investing activities	(370)	(932)	(809)	(1,255)
Net changes in cash	3,037	841	1,316	(1,648)
Cash at beginning	2,208	1,857	3,929	4,346
Cash at end	5,245	2,698	5,245	2,698

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 earnings for the quarter ended July 31, 2010 is not necessarily indicative of the results of the operations for a full year. Certain comparative figures have been reclassified to conform to the current period presentation.

2. Accounting policies

During the six-month period ended July 31, 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 July 31, 2010 and for the three-month and six-month periods ended on that date, from the figures previously reported.

Increase (decrease) in thousands of dollars	As at August 1, 2009 and for the three-month period ended a this date \$	As at August 1, 2009 and for the six-month period ended a this date \$
Accounts receivables	-	-
Prepaid charges	(96)	(96)
Accounts payable and accrued liabilities	20	20
Future income taxes	24	24
Net loss	52	24
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 these standards 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 second quarter ending July 31, 2010, the cost of inventories recognized as an expense and included in cost of goods sold, operating and administrative expenses totalled \$6.1 million (\$5.3 million in 2009) and \$10.4 million (\$9.7 million in 2009) for the six-month period ended at the same date. The amount reflecting the cost of inventories, recognized as an expense for the six-month period included \$600,000 (\$484,000 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		Six months ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
	\$	\$	\$	\$
Long-term debt	149	175	305	348
Others	21	21	44	45
	170	196	349	393
Interest income	-	-	-	(4)
	170	196	349	389

Notes to the Financial Statements (continued)

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

6. Income taxes

Income tax expenses (recovery) are as follows:

	Three months ended		Six months ended	
	July 31, 2010	August 1, 2009 Restated Note 2	July 31, 2010	August 1, 2009 Restated Note 2
	\$	\$	\$	\$
Income taxes	-	-	-	-
Future income taxes	477	(44)	432	(115)
	477	(44)	432	(115)

7. Earnings (loss) per share

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

	Three months ended		Six months ended	
	July 31, 2010	August 1, 2009 Restated Note 2	July 31, 2010	August 1, 2009 Restated Note 2
	\$	\$	\$	\$
Basic and Diluted				
Net earnings (loss)	1,195	(221)	957	(479)
Earnings (loss) per share				
Basic and diluted	0.01	-	0.01	-
Weighted average number of shares outstanding				
Basic and diluted	167,678,115	167,678,115	167,678,115	167,678,115

Options giving the right to buy 3,175,000 shares during the period ended July 31, 2010 (4,900,000 in 2009), and likely to dilute the basic earnings per share in the future, were not taken into account in the calculation of diluted earnings (loss) per share because of their anti-dilutive effect.

Debentures for \$3,525,000 (\$4,425,000 in 2009) which can be converted into 17,625,000 common shares (22,125,000 in 2009) likely to dilute the basic earnings per share in the future were not taken into account in the calculation of diluted earnings (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	July 31, 2010		August 1, 2009		January 30, 2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$	\$	\$
Equipment	1,302	502	1,634	733	1,241	376
Leasehold improvements	11,104	4,038	10,816	3,508	10,505	3,467
	12,406	4,540	12,450	4,241	11,746	3,843
Accumulated amortization	4,540		4,241		3,843	
Net book value	7,866		8,209		7,903	

The net book value of the capital assets includes \$820,000 in capital leases (\$879,000 as at August 1, 2009 and \$863,000 as at January 30, 2010). Respectively \$345,000 in equipment (\$406,000 as at August 1, 2009 and \$359,000 as at January 30, 2010) and \$475,000 in leasehold improvements (\$473,000 as at August 1, 2009 and \$504,000 as at January 30, 2010).

9. Intangible assets

As at	July 31, 2010		August 1, 2009		January 30, 2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$	\$	\$
Software	647	211	726	181	642	145
Net book value	436		545		497	

10. Long-term debt

As at	July 31, 2010	August 1, 2009	January 30, 2010
	\$	\$	\$
Capital lease, payable by 48 payments, expiring in November 2012, the carrying interest rate is 5.63 %	605	844	727
Capital lease, payable by 48 payments, expiring in March 2014, the carrying interest rate is 6.56 %	96	-	60
Long term debt, payable by 36 payments, expiring in June 2013, the carrying interest rate is the lender preferred rate + 4.50 %	73	-	-
	774	844	787
Current portion	299	238	259
	475	606	528

Notes to the Financial Statements (continued)

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10. Long-term debt (continued)

On June 4, 2010, the Company secured a long term debt with RBC Royal Bank to finance leasehold improvements for the distribution centre.

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.

As at July 31, 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 July 31, 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 July 31, 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 (6 months)	2012	2013	2014	2015
\$166	\$333	\$286	\$40	\$5

11. Liability component of the convertible debentures

As at	July 31, 2010	August 1, 2009	January 30, 2010
Unsecured convertible debentures with carrying annual interest rate of 8 %, payable monthly	\$ 3,525	\$ 4,425	\$ 3,975
Convertible right value presented in equity	(891)	(1,118)	(1,004)
Financing fees	2,634 (105)	3,307 (130)	2,971 (119)
Interest capitalized	416	391	408
Liability component of the convertible debentures	2,945	3,568	3,260
Current portion	900	900	900
	2,045	2,668	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.

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
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11. Liability component of the convertible debentures (continued)

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

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.

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.

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.

Considering the repayments of the debt that began in July, 2009, the convertible right value presented in equity is gradually transferred to the contributed surplus.

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	July 31, 2010	August 1, 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 hereunder, the vesting period and other terms and conditions of exercise of each option shall,

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
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13. Stock option plan (continued)

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.

The table below is a summary of the information related to the July 31, 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	1,800,000	7.7	\$ 0.08	1,800,000	\$ 0.08
0.11 to 0.13	1,375,000	6.1	0.12	1,375,000	0.12
	3,175,000	7.1	0.10	3,175,000	0.10

During the first semester ended July 31, 2010, the compensation expense recorded on the Statement of Operations with regard to those stock options was \$33,000 (\$52,000 in 2009).

During the period of six months ended July 31, 2010, 1,525,000 stock options expired or have been cancelled (501 in 2009) and no stock options were granted during the first semester of 2010 (nil in 2009).

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
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14. Supplementary cash flow information

	Three months ended		Six months ended	
	July 31, 2010	August 1, 2009 Restated Note 2	July 31, 2010	August 1, 2009 Restated Note 2
	\$	\$	\$	\$
i) Adjustments for:				
Amortization - Capital assets	337	374	697	732
Amortization - Intangible assets	33	27	66	54
Interest capitalized on the liability component of debentures and financing fees amortization	66	75	135	146
Stock-based compensation plan	17	26	33	52
Future income taxes	477	(44)	432	(115)
Amortization of deferred lease credit	(21)	(26)	(42)	(44)
Deferred lease credit	-	15	21	48
	909	447	1,342	873
ii) Net changes in non-cash working capital items				
Accounts receivable	(21)	(220)	99	(110)
Inventories	426	245	580	136
Prepaid charges	117	919	19	(90)
Accounts payable and accrued liabilities	1,000	508	(366)	(761)
	1,522	1,452	332	(825)
iii) Supplementary information				
Cash amount paid (recovered):				
Interest	85	103	173	234
Income taxes	-	-	-	-
Non-cash operations:				
Capital assets additions included in accounts payable and accrued liabilities	25	239	25	239
Capital assets acquired through capital leases	-	-	43	-

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
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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 (6 months)	2012	2013	2014	2015	Subsequently
\$2,591	\$4,960	\$4,383	\$2,959	\$2,074	\$2,847

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, non-guaranteed convertible debentures 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 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.

The following table presents summary quantitative data with respect to the Company's capital:

As at	July 31, 2010	August 1, 2009	January 30, 2010
	\$	\$	\$
Long term debt including current portion	774	844	787
Liability component of convertible debentures including current portion	2,945	3,568	3,260
Shareholders' equity	11,058	11,014	10,068
	14,777	15,426	14,115

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.

Notes to the Financial Statements (continued)

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

17. Financial risks and financial instruments (continued)

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 July 31, 2010, the Company had forward contracts denominated in U.S. dollars amounting to \$1,075,000 (\$803,000 as at August 1, 2009), with maturity dates until March 2011 (until April 2010 as at August 1st, 2009), and rates between 1.031 and 1.055 (1.16 and 1.219 in 2009). As of July 31, 2010, the fair value of unrealized gains or losses on the forward contracts has been recorded to the operations and represents a loss of \$18,000 (\$85,000 in 2009). The fair value of these foreign exchange contracts is \$1,106,000 (\$866,000 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 July 31, 2010 was \$21,000 (nil as at August 1, 2009).

The Company has performed sensitivity analysis on its U.S. dollar denominated financial instruments, at July 31, 2010, to determine how a change in the U.S. dollar exchange rate would impact on shareholders' equity and net earnings. On July 31, 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 \$89,000 decrease or increase, respectively, in the Company's shareholders' equity and net earnings for the semester ended July 31, 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 July 31, 2010, to determine how a change in interest rates would impact shareholders' equity and net earnings. During the first semester 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 increased net earnings by \$7,000. 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);

Notes to the Financial Statements (continued)

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17. Financial risks and financial instruments (continued)

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 semester, 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.

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 July 9, 2010, the Company has filed its final 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 \$1.2 million (the "Rights Offering").

The Company also intends, following 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 the record date, July 19, 2010, received one right (a "Right") for each Share held. It took four Rights plus the sum of \$0.03 to subscribe for one pre-consolidation Share.

On August 17, 2010, the Company announced the completion of its rights offering and its concurrent private placement. All rights having been exercised under the Offering, therefore, the Company issued 41,919,528 shares. In addition, as previously disclosed, the Company extended to the guarantor the opportunity to subscribe for Shares at a price of \$0.03 each under the Private Placement, subject to the TSX approval. Then, 29,298,650 Shares have been subscribed under the Private Placement. Therefore, under the Offering and the Private Placement, the Company issued a total of 71,218,178 common shares at a price of \$0.03 each, for total gross proceeds of \$2.1 million.

Consolidation

At the Annual and Special Meeting of shareholders, a resolution was approved to authorize directors of the Company to proceed with the Consolidation. On September 9, 2010, the consolidation ratio has been determined to be one new share for every 125 shares currently outstanding and should take effect on or about September 27, 2010. 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.

GROUPE
Bikini Village
 inc.