

To our Shareholders:

In the third quarter of 2011, Groupe Bikini Village inc. ("Groupe Bikini Village" or the "Corporation") matched its total sales performance from the same period a year earlier – with fewer stores in operation. For the third consecutive year, the traditionally slower third quarter was marked by solid sales at Groupe Bikini Village.

2011 third quarter results

Net sales for the third quarter, which ended October 29, 2011, were \$6.6 million, compared to \$6.5 million in the corresponding quarter of the previous year. Comparable sales, which compares the sales from the same number of stores year over year, increased by 3.1% for the quarter.

The Company's operating loss (EBITDA¹) for the third quarter, at \$1,495,000, was reduced from its \$1,565,000 operating loss (EBITDA¹) in the same period in 2010, due to a reduction in operating expenses offset negatively by a slight decrease in the marginal contribution. The reduction in operating expenses was mostly related to reduced occupancy costs following the closure of underperforming stores.

For the quarter ended October 29, 2011, the Company's net loss was \$1,465,000 ((\$0.77) per share, basic and diluted), as compared to net loss of \$1,538,000 ((\$0.85) per share, basic and diluted) for the same quarter in the previous year.

Results for the first nine months of 2011

Net sales for the nine-month period ended October 29, 2011 were \$30.1 million, down from \$30.8 million in the corresponding period of the previous year. Comparable sales were 0.4% lower in the first nine months of 2011 than they were in the first nine months of 2010.

Groupe Bikini Village delivered EBITDA¹ of \$432,000 in the nine-month period ended October 29, 2011, compared to EBITDA¹ of \$957,000 in the comparable nine-month period in the previous year. The underlying reason for the negative variance in EBITDA¹ for the first nine months of 2011 compared to 2010 is a decrease in sales volume (principally in the second quarter) due to the late arrival of summer weather conditions, and targeted promotional activities.

For the nine-month period ended on October 29, 2011, net loss totalled \$928,000 ((\$0.49) per share basic and diluted), as compared to net loss of \$566,000 ((\$0.39) per share, basic and diluted) in the same period of 2010.

Outlook ²

Operating in a challenging retail environment, Groupe Bikini Village worked diligently to preserve its positions in both inventory and cash throughout the third quarter of 2011, and to limit the operational loss characteristic of the third quarter. Recognizing the continuing difficult market conditions forecast for the months and quarters ahead, we will continue to apply our prudent and proven strategies, paying close attention to performance at all levels of the Corporation.

1 Not a Canadian generally accepted accounting principle measure applicable to publicly accountable enterprises ("GAAP") as described on page 4 of the MD&A for the nine-month period ended October 29, 2011; reconciliation with the most directly comparable financial GAAP measures is presented on page 5 of this report.

2 To be read in conjunction with "Forward-Looking Statements" on page 5 of the MD&A for the nine-month period ended October 29, 2011.

Our disciplined management approach allows Groupe Bikini Village to enter its fourth quarter with the financial resources and the flexibility we need to perform. The resources we have invested to strengthen our retail offering over the last few years have given us an excellent platform from which to reinforce our competitive position – and we will continue to do that, as we work to increase our earnings. As we look for further opportunities to improve shareholder value, we will continue to explore strategic prospects that arise, and to create opportunities of our own.

Acknowledgements

Groupe Bikini Village's management team joins me in thanking our customers, our employees, our landlords, suppliers, lenders, shareholders and Board members for their continuing support. We will work toward delivering more on our commitments to you, and look forward to reporting on our progress in the upcoming quarters.



Yves Simard, C.A.
President and Chief Executive Officer
Sainte-Julie, December 7, 2011

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

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
Operating results				
Revenues	6,594	6,527	30,126	30,785
Operating income (loss) - EBITDA ¹	(1,495)	(1,565)	432	957
In % of sales	(22.7)%	(24.0)%	1.4 %	3.1 %
Net loss	(1,465)	(1,538)	(928)	(566)
In % of sales	(22.2)%	(23.6)%	(3.1)%	(1.8)%
Loss per share				
Basic and diluted	(0.77)	(0.85)	(0.49)	(0.39)
Weighted average number of outstanding shares (in thousands)				
Basic and diluted	1,911	1,819	1,911	1,461
Other statistics				
Investment activities - net (in thousands \$)	459	396	917	1,206
Number of stores at the end of the period	58	60	58	60
Number of employees	435	470	435	470

¹ Not a Canadian generally accepted accounting principle measure applicable to publicly accountable enterprises ("GAAP"), as described on page 4 of the MD&A for the nine-month period ended October 29, 2011; reconciliation with the most directly comparable financial GAAP measures is presented on page 5 of this report.

This management report, dated December 7, 2011, focuses on the financial situation and operating results of Groupe Bikini Village inc. ("Groupe Bikini Village" or "the Corporation") for the three and nine-month periods ended October 29, 2011, and should be read in conjunction with the unaudited interim condensed financial statements for the nine-month period ended October 29, 2011 and the notes thereto. The financial information is provided in Canadian dollars.

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CORPORATION 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" stores.

In late 2009, the Corporation also officially opened a "Lanai" store, a destination of choice for a full range of lifestyle products bearing the signature styles from of young girls' favourite brands.

NON-GAAP FINANCIAL MEASURES

EBITDA, which is defined as earnings before finance costs, income taxes, depreciation, amortization, impairment, 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 Corporation's financial return according to Canadian Generally Accepted Accounting Principles applicable to publicly accountable enterprises ("GAAP"). It should not be used out of context, and cannot replace net earnings (loss), 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 Corporation's definition of EBITDA may not be identical to similarly-titled measures reported by other companies.

The following table reconciles EBITDA to net loss disclosed in the unaudited interim condensed statements of net loss and comprehensive loss, for the periods of three and nine months ended October 29, 2011 and October 30, 2010:

(in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
Net loss	(1,465)	(1,538)	(928)	(566)
Income tax recovery	(545)	(596)	(297)	(229)
Net finance costs	188	231	607	735
Depreciation, amortization and impairment of capital and intangible assets	327	338	1,050	1,017
EBITDA	(1,495)	(1,565)	432	957

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 Corporation’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 Corporation.

The current outlooks set forth in this document represent our expectations as at December 7, 2011 and 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 Corporation’s forward-looking statements.

NOTE ABOUT UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

The unaudited interim condensed financial statements have been prepared in accordance with GAAP; they do not include all the notes and information required by GAAP for annual financial statements. In management’s opinion, all the adjustments (which constitute normal adjusting entries) considered necessary for proper presentation of the Corporation’s financial situation were taken into account. The unaudited interim condensed financial statements should be read in conjunction with the audited annual financial statements for the year ended January 29, 2011, as well as the notes therein concerned.

Since the first quarter of 2011, Groupe Bikini Village has reported its financial results in accordance with International Financial Reporting Standards (“IFRS”), including comparative information. A number of areas of financial reporting are impacted by the changeover to IFRS; these are highlighted in note 24 to the unaudited interim condensed financial statements.

All financial information contained in this MD&A and Groupe Bikini Village’s unaudited interim condensed financial statements is in line with IFRS. These reports were prepared in accordance

with IAS 34 Interim Financial Reporting, IFRS 1 First-time Adoption of IFRS, and with the accounting policies the Corporation will adopt in its first annual IFRS financial statements, January 28, 2012. These accounting policies are based on the IFRS and interpretations made by the International Financial Reporting Interpretations Committee (“IFRIC”) which the Corporation expects to be applicable at that time. The policies were consistently applied to all the periods presented, unless otherwise stated.

SEASONALITY OF BUSINESS

The Corporation’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 October 29, 2011 is not necessarily indicative of the operating results for a full year.

OVERVIEW

Groupe Bikini Village, serving Canadians for more than a quarter-century, is a leader in the retail sale of beachwear products, with 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 cruise wear, in the most popular brands the industry has to offer and in styles to suit every figure. An addition to the Bikini Village retail network, our Lanai store offers the most popular clothing brands for young girls, in Brossard, Quebec. Headquartered in Sainte-Julie, Quebec, Groupe Bikini Village operates 58 stores and employs approximately 450 people; its securities trade on the Toronto Stock Exchange under the stock symbol GBV. For more information about Groupe Bikini Village, please visit our website at www.bikinivillage.com.

ANALYSIS OF ACTIVITIES

Over the course of recent quarters, Groupe Bikini Village has consistently moved forward on a multi-year strategy to update its retail network, to streamline its operational structure, and to strengthen its strategic positioning. We are focused on building on our successes to date, in the pursuit of further enhanced revenues and profits.

In the first nine months of 2011, we opened one new store in the Quebec City area, renovated two stores in Quebec, relocated one store in Ontario, and closed four underperforming stores. As our sales performance in the third quarter demonstrates, we continue to find ways to improve our retail network’s performance.

At the date of this MD&A, our retail network is distributed as follows:

	Quebec	Ontario	New Brunswick	Nova Scotia	Total
Bikini Village	31	24	1	1	57
Lanai	1				1
TOTAL :	32	24	1	1	58

This quarterly report discusses our approaches and achievements in ensuring our operating strategy remains closely tied to – and appropriate for – our changing retail market environment. It also examines a number of factors that affected our results in the periods of 2011 and 2010 under discussion.

The following is a summary of selected financial information, together with the comparative results, for the periods of three and nine months ended October 29, 2011 and October 30, 2010, respectively.

SELECTED FINANCIAL INFORMATION

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

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
Revenues	6,594	6,527	30,126	30,785
Gross profit	3,663	3,688	16,833	17,595
Less:				
Operating and administrative expenses	5,485	5,591	17,451	17,655
Net finance costs	188	231	607	735
Loss before income tax recovery	(2,010)	(2,134)	(1,225)	(795)
Income tax recovery	(545)	(596)	(297)	(229)
Net loss	(1,465)	(1,538)	(928)	(566)
Loss per share				
Basic and diluted	(0.77)	(0.85)	(0.49)	(0.39)
Weighted average number of outstanding shares (in thousands)				
Basic and diluted	1,911	1,819	1,911	1,461
Cash flows from				
Operating activities	(2,555)	(3,152)	(1,845)	(348)
Financing activities	(361)	1,618	(1,093)	940
Investing activities	(459)	(396)	(917)	(1,206)
Total assets	17,720	18,715	17,720	18,715
Total non-current financial liabilities ¹	837	1,535	837	1,535

¹ Excluding current portion of long-term debt and convertible debentures, deferred lease inducements, provisions and deferred income taxes.

Third quarter and nine-month period ended October 29, 2011 compared to third quarter and nine-month period ended October 30, 2010*Revenues*

Groupe Bikini Village inc.'s sales for the three-month period ended October 29, 2011 amounted to \$6.6 million, an increase of 1% compared to the \$6.5 million achieved in the comparable three-month period last year. Comparable sales, which compare sales generated from the same number of stores from year to year, increased by 3.1% during the same period.

Sales during the nine-month period ended October 29, 2011 totalled \$30.1 million, a decrease of 2.1% over the same period last year, when sales were \$30.8 million. In the first nine months of the year, the comparable sales decreased by 0.4% from the same period in 2010. Second quarter 2011 sales, affected by both late-arriving summer weather and related targeted promotional activities, were the main cause of the decrease in nine-month sales from 2010.

Operating Loss - EBITDA¹

In the third quarter of 2011, the Corporation delivered an operating loss (EBITDA¹) (as previously defined in "Non-GAAP Financial Measures") of \$1,495,000, or (22.7%), lower than its operating loss (EBITDA¹) of \$1,565,000, or (24%), in the third quarter of 2010. This improvement in results is due to a reduction in operating expenses, offset negatively by a slight decrease in the marginal contribution. Our decisions to close underperforming stores led to the reduction in operating expenses, and the reduced marginal contribution on sales was due to a decrease of 0.9% in gross margin, partially offset by the increase in the sales volume.

For the nine-month period ended October 29, 2011, EBITDA¹ totalled \$432,000, or 1.4%, compared to \$957,000, or 3.1%, in the corresponding period last year. The underlying reason for the negative variance in EBITDA¹ for the first nine months of 2011 compared to 2010 is a decrease in sales volume (principally in the second quarter) due to the late arrival of summer weather conditions, and targeted promotional activities aimed at mitigating its impact partially offset by a reduction in occupancy costs associated to fewer stores in operations.

Net Finance costs, Amortization and Depreciation

Net finance costs decreased from \$231,000 in the third quarter of 2010 to \$188,000 in the third quarter of 2011, due mainly to lower interest charges on convertible debentures after the capital repayments. The net finance costs include a \$121,000 (\$140,000 in 2010) non-cash interest expense, calculated on the debt component of the convertible debentures.

Net finance costs for the nine-month period ended October 29, 2011 decreased to \$607,000 from \$735,000 in the corresponding period of 2010, for the same reasons stated above. The finance costs include a \$386,000 (\$432,000 in 2010) non-cash interest expense, calculated on the debt component of the convertible debentures.

The depreciation and amortization expense for the quarter ended October 29, 2011 decreased by 3.3% to \$327,000, compared to \$338,000 for the quarter ended October 30, 2010.

For the nine-month period ended on October 29, 2011, depreciation and amortization expense increased to \$1,050,000 from \$1,017,000 in the comparable period in 2010, an increase of 3.2%, primarily due to the acceleration of the amortization of leasehold improvements in a store moved to a new location sooner than expected.

¹ Not a GAAP measure, as described on page 4 of this MD&A; reconciliation with the most directly comparable financial GAAP measures is presented on page 5 of this MD&A.

Loss Before Income Tax Recovery

For the quarter ended October 29, 2011, the Corporation registered \$2,010,000 in loss before income tax recovery, compared to a loss before income tax recovery of \$2,134,000 in the comparable period the previous year. The \$124,000 decrease in the Corporation's loss before income tax recovery was due to a decrease in expenses associated with having fewer stores in operation, negatively offset by a decrease in the marginal contribution, the decrease in net finance costs and the decrease in depreciation and amortization, as previously discussed.

For the nine-month period ending on that same date, the Corporation registered \$1,225,000 in loss before income tax recovery, compared to \$795,000 loss before income tax recovery for the comparable period in 2010. The \$430,000 increase in the Corporation's loss before income tax recovery was due to a decrease in marginal contribution, partially offset by decreases in expenses associated with having fewer stores in operation, as well as the decrease in net finance costs and the increase in depreciation and amortization, as previously discussed.

Income tax recovery

Groupe Bikini Village recorded income tax recovery in the amount of \$297,000 during the third quarter of 2011, representing a tax rate of 24.2%, compared to income tax recovery of \$229,000 or 28.8% for the corresponding period in 2010.

The difference in tax rates is due to a lower effective tax rate in 2011 versus 2010 and to the proportion between i) the amount of fiscally non-deductible charges and ii) the loss before income tax recovery.

Net loss

Net loss in the quarter ending October 29, 2011 was \$1,465,000 ((\$0.77) per share, basic and diluted), as compared to net loss of \$1,538,000 ((\$0.85) per share, basic and diluted) in the corresponding period last year.

In the first nine months of 2011, net loss totalled \$928,000 ((\$0.49) per share, basic and diluted), compared to net loss of \$566,000 ((\$0.39) per share, basic and diluted) in the first nine months of 2010. The difference of \$362,000 in net loss is due to the \$430,000 increase in loss before income tax recovery, offset by higher income tax recovery of \$68,000, as explained previously.

Per-share values were calculated based on a weighted average number of shares of 1,910,597 in circulation for the quarter and nine-month period ended October 29, 2011, and on a weighted average number of shares of 1,819,280 for the quarter ended October 30, 2010 and 1,460,889 for the nine-month period ended October 30, 2010. The difference in the number is due to the rights offering and concurrent private placement which took place in August 2010.

CASH POSITION*Operating Activities*

Cash flows used in operating activities in the third quarter of 2011 decreased by \$597,000 over the comparable period of the previous year, from \$3.2 million in 2010 to \$2.6 million in 2011. This decrease in the third quarter resulted from several factors, of which the principal ones were:

- The positive variance in the loss before income tax recovery \$124,000;
- The variance in the increase in inventories in the third quarter (\$111,000);
- The \$273,000 variance in prepaid expenses related to the advances to suppliers for import activities;
- The \$196,000 variance in the increase in sales tax receivable.

For the nine-month period ended October 29, 2011, cash flows used by operating activities increased by \$1.5 million, from \$348,000 in the first nine months of 2010 to \$1.8 million this year. This increase resulted from several factors, of which the principal were:

- The variance in inventories: inventories at the end of the third quarter of 2011 were \$529,000 higher than they were at the end of fiscal 2010, due to slow sales during the second quarter of 2011 and to an acceleration in receiving inventory as we prepared to maximize sales for the "cruise" season; at the end of the third quarter of 2010, inventories had decreased by \$566,000 for a net impact of (\$1.1 million);
- The variance in loss before income tax recovery (\$430,000).

Financing Activities

During the third quarter of 2011, the Corporation repaid \$78,000 in principal and \$7,000 in interest toward its obligations under finance leases and its long-term debt and \$225,000 in principal and \$51,000 in interest on convertible debentures, for a total paid of \$361,000. For the corresponding period in 2010, the Corporation repaid \$73,000 in principal and \$11,000 in interest on its obligations under finance leases and \$225,000 in principal and \$69,000 in interest on convertible debentures. The Company also proceeded to a rights offering as well as a concurrent private placement, which generated \$2 million net of fees. A total of \$1.6 million was generated during the third quarter of 2010.

During the nine-month period ended October 29, 2011, the Corporation repaid \$228,000 in principal and \$25,000 in interest in accordance with its obligations under finance leases and its long-term debt, as well as \$675,000 in principal and \$165,000 in interest on convertible debentures, for a total of \$1.1 million. During the nine-month period ended October 30, 2010, the Corporation repaid \$204,000 in principal and \$33,000 in interest in accordance with its obligations under capital leases and \$675,000 in principal and \$219,000 in interest on convertible debentures, and obtained a long-term loan of \$75,000 for improvements to its distribution centre. During this period, the Company also proceeded to a rights offering as well as a concurrent private placement, which generated \$2 million net of fees. A total of \$940,000 was generated during the first nine months of 2010.

Investment Activities

Investment activities in the third quarter of 2011 used \$459,000, compared to \$396,000 during the corresponding period one year earlier. During the third quarter of 2011, we completed work on the construction of a new store; renovated one store; and had work underway for the construction of a new store, all in Quebec. In addition, we invested in replacing our payroll and time and attendance systems with an outsourced solution which meets our needs more efficiently. In the third quarter of 2010, two stores in Quebec were relocated to improved locations, we renovated one store in Ontario, and we initiated preliminary work for the relocation of a store to a new site.

Investment activities in the first nine months of 2011 totalled \$917,000, compared to \$1.2 million in 2010. Two Quebec stores were renovated, we relocated one Ontario store, we built a new store in the Quebec City area, and we undertook work on the construction of a new store. In addition, we invested in updating display units and mannequins, and in the replacement of our payroll and time and attendance systems. In the first nine months of 2010, a new store was built in Ontario; two Quebec stores were relocated to new premises; two Ontario stores were renovated; we initiated preliminary work for the move of a store to an improved location in Ontario and, finally, we completed additional improvements at the distribution centre.

FUTURE CASH POSITION ¹

At October 29, 2011, the Corporation had available cash of \$2.4 million and an on-demand credit facility of up to \$1.5 million, renewable annually, of which none had been used. This credit facility consists of two segments: a first segment of \$1.5 million is available at all times and, if necessary, a

¹ To be read in conjunction with "Forward-Looking Statements" on page 5 of this MD&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 value of the Corporation's inventories, net of specific reserves and priority claims. In the normal course of business, the Corporation issued letters of credit and letters of guarantee against this facility, for a total of \$146,000, expiring in August 2012. On October 29, 2011, the available amount according to the margination formula was \$1.3 million. This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Corporation, and bears interest at prime plus 1.50% (3.95% in 2010). Under the agreements relative to the credit facility, the Corporation is subject to a restrictive clause concerning compliance with a financial ratio. On October 29, 2011, the Corporation was in compliance with the applicable restrictive clause under this credit facility.

Current flexibility and the prospective cash flows from operations will be the primary funding sources for working capital requirements, repayment of long-term debts and convertible debentures in the quarters to come. The additional financing obtained in 2010 through a rights offering and concurrent private placement has been used to renovate seven stores and to build two new stores in Quebec, to date; it will also serve to finance our prospective needs related to capital expenditures, in addition to general working capital needs as required.

Contractual obligations

The table below presents, as at October 29, 2011, the Corporation's contractual obligations for minimum lease payments under operating leases for retail stores, the head office and the distribution centre, as well as amounts pertaining to agreements to purchase goods and services that are enforceable and legally binding on the Corporation and the Corporation's other commitments.

(in thousands of Canadian dollars)

Contractual Obligations	Total	Within 1 year	1 to 5 years	After 5 years
	\$	\$	\$	\$
Operating leases ¹⁾	17,215	4,873	9,530	2,812
Purchase obligations	12,053	11,678	375	-
Trade and other payables	3,224	3,224	-	-
Debts	2,799	1,220	1,579	-
Interest on debts	269	169	100	-
Total contractual obligations	35,560	21,164	11,584	2,812

¹⁾ The Corporation is committed under long-term leases for commercial space. Most of these leases have a minimum annual rent and a contingent rent based on a percentage of gross sales, and renewal options which can be exercised at the Corporation's or the lessor's option.

ACCOUNTING POLICIES AND CRITICAL USE OF ESTIMATES

The accounting policies used for the preparation of the financial statements are described in Note 3 to the unaudited interim condensed financial statements for the third quarter of 2011. There were no significant changes in our critical accounting estimates for the nine-month period ended October 29, 2011 from those described in our fiscal 2010 MD&A.

APPROVAL OF THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AND MD&A

Prior to their release, the Corporation's unaudited interim condensed financial statements and MD&A were approved by its Board of Directors upon recommendation of its audit committee.

ACCOUNTING STANDARDS IMPLEMENTED IN THE FIRST NINE MONTHS OF 2011

The Corporation has adopted IFRS for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Corporation provided information

on its transition to IFRS in its 2010 Annual MD&A. The assessments and impacts discussed in the 2010 MD&A remain largely unchanged.

The Corporation has provided a detailed explanation of the impacts of this transition in Note 24 to the Corporation's third quarter 2011 unaudited interim condensed financial statements ("Note 24"). Note 24 includes reconciliations of the unaudited statements of financial position and the shareholders' equity from pre-changeover accounting standards to IFRS as at January 29, 2011 and October 30, 2010, and reconciliations of the unaudited statements of net earnings (loss) and comprehensive income (loss) and the reconciliation of the comprehensive income (loss) for the periods of three and nine months ended October 29, 2010, as well as fiscal 2010. Explanations of the individual impacts of adopting IFRS identified in the reconciliations are also provided, as are the Corporation's elections under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. For a description of the significant accounting policies, please refer to Note 3 of the Corporation's unaudited interim condensed financial statements for the first quarter, which ended April 30, 2011.

FUTURE CHANGES IN ACCOUNTING POLICIES

The Corporation monitors the standard-setting process for new standards issued by the International Accounting Standards Board ("IASB"), which the Corporation may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Corporation doesn't comment publicly on such cases until the standard has been finalized and its effects have been determined.

Financial Instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. This standard provides guidance on the classification and measurement of financial assets. In October 2010, the IASB amended IFRS 9 to add guidance on the classification and measurement of financial liabilities, and requirements for the de-recognition of financial assets and financial liabilities. The required date of application of IFRS 9 is for all annual fiscal periods beginning on or after January 1, 2013. The Corporation has yet to assess the impact of the classification of financial assets and financial liabilities which will require disclosure in the notes to the financial statements.

On May 12, 2011, the IASB issued IFRS 13, *Fair Value Measurement* which is applicable to annual fiscal periods beginning on or after January 1, 2013. This standard provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy.' This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions, and measurements that are similar to but are not fair value. The Corporation has yet to assess the impact of adopting this standard on its financial statements.

Other standards have been published but have no impact on the Corporation.

DISCLOSURE CONTROLS AND PROCEDURES

The President and Chief Executive Officer and the Comptroller (acting as Chief Financial Officer) have evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*), and have concluded that such disclosure controls and procedures operated effectively as at October 29, 2011.

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 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.

The Corporation's internal controls were not materially affected by the transition to IFRS. During the period beginning July 31, 2011 and ending October 29, 2011, inclusively, no changes were made to Groupe Bikini Village's internal control over financial reporting which 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 Corporation's risk factors in the nine-month period ended October 29, 2011 from those described in our fiscal 2010 MD&A.

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

Seasonality

Demand for many of the Corporation's products is 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 Corporation 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 Corporation to report a disproportionate level of earnings (loss) 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.

Economic conditions

The Corporation remains cautiously aware that economic factors impacting consumer spending patterns could deteriorate. The Corporation 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 Corporation's performance, particularly if they occur during or otherwise impact a peak season. Management regularly monitors economic conditions and estimates their impact on the Corporation's operations, incorporating those estimates in short-term operating and longer-term strategic decisions.

Leases

If the Corporation were to suddenly become unable to obtain or renew certain rental spaces at favourable terms, it could potentially experience a negative impact on its business and its operating results.

Distribution

The Corporation depends on the efficient operation of its distribution centre, such that any significant disruption in its operation (e.g. 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, causing a loss of future sales which could have a significant effect on the Corporation's operating results.

Competition

The Corporation'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 corporate brand, Bikini Village, and our Lanai store (girls' favourite clothing brands) face various types of competition, from independent stores, chains, and traditional department stores. Groupe Bikini Village continually reviews its strategies to ensure its leadership in the marketplace; increased competition could adversely affect the Corporation's ability to achieve its objectives. An inability by the Corporation to compete effectively with current or future competitors could result in, among other things, a reduction of market share.

However, we enjoy numerous competitive advantages at Groupe Bikini Village, including our 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 strategically convenient locations of our stores, and the warm welcome and personalized attention our customers receive, just to mention a few. Another key competitive advantage of Bikini Village stores is our year-round offering of this specialty merchandise, since many other retailers only carry competing products during the summer season.

Financial Risks

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to fulfil its obligations on a timely basis or at a reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements. Its liquidities follow a seasonal curve according to the sales calendar, purchases of inventory, and capital asset expenditures. The Corporation prepares budget and cash forecasts to ensure it has sufficient funds to fulfil its obligations.

Currency risks

The Corporation 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 Corporation conducts certain commodities transactions in foreign currencies. The Corporation manages this risk with forward contracts.

Interest Rate Risks

The Corporation's exposure to interest rate fluctuations is on interest earned on its cash and cash equivalents and interest paid on its credit line and its long-term debt. Facilities for short-term credit and long-term debt bear interest at variable rates, while long-term debt related to finance leases has a fixed rate.

For further information, please refer to the "Risk Factors" Section of the Corporation's 2011 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 Corporation's total assets amounted to \$17.7 million as at October 29, 2011, compared to \$20.6 million as at January 29, 2011, mainly due to the decrease in cash and cash equivalents primarily related to payments of the long-term debt and convertible debentures and to the payments on trade and other payables.

As at October 29, 2011, our inventories stood at \$6.2 million, an increase of 9.3% compared to \$5.7 million as at January 29, 2011. Our inventories on October 29, 2011 were higher due to sales not materialized during the second quarter of 2011 and to an acceleration in receiving inventory as we prepared to maximize sales for the "cruise" season.

Prepaid expenses totalled \$764,000 as at October 29, 2011, compared to \$647,000 as at January 29, 2011. The difference is due to down payments on future promotional activities.

Deferred income tax assets were \$694,000 as at October 29, 2011, as compared to \$397,000 as at January 29, 2011. The increase in our deferred income tax assets results mainly from an increase in unused non-capital tax losses as compared to the end of January 2011.

The book value of Groupe Bikini Village's capital assets totalled \$7.1 million as at October 29, 2011, at the same level as at January 29, 2011. The level of our investments during the first nine months of 2011 is similar to the depreciation expense of this period.

As at October 29, 2011, total liabilities amounted to \$6.1 million, compared to \$8.2 million as at January 29, 2011. The decrease in liabilities is attributable to the repayment of long-term debt and convertible debentures, the seasonal reduction in trade accounts payable and the reduction in sales taxes payable.

Shareholders' equity decreased by \$771,000 during the nine-month period ended October 29, 2011, related to the quarter's net loss of \$928,000 as well as the increase in contributed surplus of \$157,000 related to the stock-based compensation.

Groupe Bikini Village's working capital totalled \$5.1 million as at October 29, 2011, compared to \$6.7 million as at January 29, 2011; our working capital ratio was 2.1 at the end of the third quarter, similar to the ratio of 2.1 at the end of fiscal 2010.

RELATED PARTY TRANSACTIONS

Related party transactions involve key management personnel (members of the board of directors and/or executive officers of the Corporation). Key management personnel remuneration includes the following expenses:

(in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
			\$	\$
Salaries and short-term benefits	145	140	452	551
Stock-based compensation	58	16	124	16
Total remuneration	203	156	576	567

The annual proxy circular issued by management contains further information regarding the compensation of directors and officers.

OUTSTANDING SHARE DATA AND STOCK OPTIONS

Outstanding shares

At the date of this report, the Corporation has 1,910,597 common shares outstanding (1,910,597 as at January 29, 2011).

Stock options

On April 29, 2011, the Corporation granted 75,000 common stock option shares to certain officers and directors of the Corporation at an exercise price of \$4.11; these options could be exercised at any time over the subsequent three years, at a rate of 33 1/3% per year. These options mature in 2021.

On September 9, 2010, the Corporation granted to certain of its officers 28,800 common stock option shares at a price of \$3.75; these options could be exercised at any time over the subsequent three years at a rate of 33 1/3% per year. These options expire in 2020.

During the nine-month period ended October 29, 2011, 6,700 stock options were cancelled (12,200 in 2010).

At the date of this report, 122,500 stock options were outstanding (54,200 as at January 29, 2011), at prices varying between \$3.75 and \$16.25, for a weighted average exercise price of \$5.75 (\$7.81 as at January 29, 2011), exercisable on dates ranging to 2021.

ADDITIONAL INFORMATION

This MD&A is dated December 7, 2011, and is intended to facilitate the understanding and assessment of significant changes and trends, as well as risks and uncertainties, related to the Corporation's operating results and financial position. For other information pertaining to the Corporation, 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 interim condensed financial statements of the Corporation, for the eight most recently completed quarters. This unaudited quarterly information has been prepared under IFRS, unless otherwise indicated.

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

	Third quarter		Second quarter		First quarter		Fourth quarter	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	2010 \$	2009 ¹ \$
Revenues	6,594	6,527	13,642	14,230	9,890	10,028	13,836	13,042
Net earnings (loss)	(1,465)	(1,538)	890	1,310	(353)	(338)	651	796
Earnings (loss) per share* amount								
Basic and diluted	(0.77)	(0.85)	0.47	0.98	(0.18)	(0.25)	0.34	0.59
Weighted average number of outstanding shares * (in thousands)								
Basic and diluted	1,911	1,819	1,911	1,341	1,911	1,341	1,911	1,341

The fluctuations between quarters are principally seasonal.

The difference in sales in the second quarter is primarily due to a late arrival of summer weather conditions and targeted promotional activities.

In the fourth quarter of 2010, we delivered expected sales levels in November and December, which were similar to those months' performance in 2009, and then exceptional sales in January 2011, which were beyond our expectations and compared particularly well against the same period in fiscal 2009.

OUTLOOK ²

Operating in a challenging retail environment, Groupe Bikini Village worked diligently to preserve its positions in both inventory and cash throughout the third quarter of 2011, and to limit the operational loss characteristic of the third quarter. Recognizing the continuing difficult market conditions forecast for the months and quarters ahead, we will continue to apply our prudent and proven strategies, paying close attention to performance at all levels of the Corporation.

* After taking into account the 1 for 125 stock consolidation which took effect on September 30, 2010.

1 The selected information that is presented for quarterly periods in fiscal 2009 does not reflect the impact of the adoption of IFRS.

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

Our disciplined management approach allows Groupe Bikini Village to enter its fourth quarter with the financial resources and the flexibility we need to perform. The resources we have invested to strengthen our retail offering over the last few years have given us an excellent platform from which to reinforce our competitive position – and we will continue to do that, as we work to increase our earnings. As we look for further opportunities to improve shareholder value, we will continue to explore strategic prospects that arise, and to create opportunities of our own.



Yves Simard
President and Chief Executive Officer

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Interim Condensed Statements of Net Loss and Comprehensive Loss

(in thousands of Canadian dollars, except amounts related to shares)
(unaudited)

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
Revenues	6,594	6,527	30,126	30,785
Cost of goods sold (Note 5)	2,931	2,839	13,293	13,190
Gross profit	3,663	3,688	16,833	17,595
Operating and administrative expenses (Note 6)	5,485	5,591	17,451	17,655
Net finance costs (Note 7)	188	231	607	735
	5,673	5,822	18,058	18,390
Loss before income tax recovery	(2,010)	(2,134)	(1,225)	(795)
Income tax recovery (Note 8)	(545)	(596)	(297)	(229)
Net loss and comprehensive loss	(1,465)	(1,538)	(928)	(566)
Loss per share (Note 9)				
Basic and diluted	(0.77)	(0.85)	(0.49)	(0.39)
Weighted average number of outstanding shares				
Basic and diluted	1,910,597	1,819,280	1,910,597	1,460,889

See accompanying notes

Interim Condensed Statements of Financial Position

(in thousands of Canadian dollars)
(unaudited)

As at	October 29, 2011	October 30, 2010	January 29, 2011
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents (Note 18)	2,378	3,315	6,233
Accounts receivable	219	241	210
Current tax assets	-	4	-
Inventories (Note 5)	6,219	5,657	5,690
Prepaid expenses	764	725	647
	9,580	9,942	12,780
Non-current assets			
Capital assets (Note 10)	7,135	7,690	7,099
Intangible assets (Note 11)	311	403	370
Deferred tax assets (Note 12)	694	680	397
Total assets	17,720	18,715	20,646
Liabilities and Shareholders' equity			
Current liabilities			
Trade and other payables	3,224	3,422	4,842
Provisions (Note 13)	26	27	32
Current portion of long-term debt and convertible debentures (Notes 14 et 15)	1,220	1,203	1,207
	4,470	4,652	6,081
Non-current liabilities			
Deferred lease inducements	670	702	683
Provisions (Note 13)	117	117	118
Long-term debt (Note 14)	79	398	320
Liability component of convertible debentures (Note 15)	758	1,137	1,047
Total liabilities	6,094	7,006	8,249
Shareholders' equity			
Capital stock (Note 16.1)	29,730	29,728	29,730
Equity component of convertible debentures (Note 15)	922	1,267	1,181
Contributed surplus (Note 16.2)	1,966	1,429	1,550
Deficit	(20,992)	(20,715)	(20,064)
Total shareholders' equity	11,626	11,709	12,397
Total liabilities and shareholders' equity	17,720	18,715	20,646

See accompanying notes

Commitments (Note 19)

Interim Condensed Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars, except amounts related to shares)
(unaudited)

Nine-month period ended October 29, 2011

	Capital stock		Equity component of convertible debentures	Contributed surplus	Deficit	Total shareholders' equity
	Common shares	Amount				
		\$	\$	\$	\$	\$
Balance at beginning	1,910,597	29,730	1,181	1,550	(20,064)	12,397
Net loss					(928)	(928)
Stock-based compensation plan (Note 17)				157		157
Repayment of convertible debentures (Note 15)			(259)	259		-
Balance at end	1,910,597	29,730	922	1,966	(20,992)	11,626

Nine-month period ended October 30, 2010

	Capital stock		Equity component of convertible debentures	Contributed surplus	Deficit	Total shareholders' equity
	Common shares	Amount				
		\$	\$	\$	\$	\$
Balance at beginning	1,341,425	27,702	1,526	1,146	(20,149)	10,225
Net loss					(566)	(566)
Stock-based compensation plan (Note 17)				19		19
Repayment of convertible debentures (Note 15)			(259)	259		-
Issuance of shares, rights placement and private placement (Note 16)	569,745	2,137				2,137
Fees related to rights placement and private placement, net of income taxes of \$29,000 (Note 16)		(76)				(76)
Fees related to shares consolidation, net of income taxes of \$6,000 (Note 16)		(26)				(26)
Purchase and cancellation shares at the term of consolidation (Note 16)	(573)	(9)		5		(4)
Balance at end	1,910,597	29,728	1,267	1,429	(20,715)	11,709

See accompanying notes

Interim Condensed Statements of Cash Flows

(in thousands of Canadian dollars)
(unaudited)

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
Operating activities				
Loss before income tax recovery	(2,010)	(2,134)	(1,225)	(795)
Adjustments (Note 18)	528	599	1,671	1,721
Net changes in non-cash working capital items (Note 18)	(1,083)	(1,622)	(2,316)	(1,279)
Interest received	10	5	25	5
Cash flow generated from operating activities	(2,555)	(3,152)	(1,845)	(348)
Financing activities				
Increase of long-term debt	-	-	-	75
Repayment of long-term debt	(78)	(73)	(228)	(204)
Repayment of convertible debentures	(225)	(225)	(675)	(675)
Interest paid	(58)	(80)	(190)	(252)
Purchase of shares	-	(4)	-	(4)
Fees related to rights placement, private placement and share consolidation	-	(137)	-	(137)
Issuance of shares, rights placement and private private placement	-	2,137	-	2,137
Cash flow generated from financing activities	(361)	1,618	(1,093)	940
Investing activities				
Acquisition of capital assets	(437)	(396)	(877)	(1,201)
Acquisition of intangible assets	(22)	-	(40)	(5)
Cash flow generated from investing activities	(459)	(396)	(917)	(1,206)
Net changes in cash and cash equivalents	(3,375)	(1,930)	(3,855)	(614)
Cash and cash equivalents at beginning of period	5,753	5,245	6,233	3,929
Cash and cash equivalents at end of period	2,378	3,315	2,378	3,315

See accompanying notes

Notes to the Financial Statements

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

1. Corporation description

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

2. General information and statement of compliance with International Financial Reporting Standards (“IFRS”)

2.1 Statement of compliance

These unaudited interim condensed IFRS financial statements are prepared in accordance with IAS 34, *Interim Financial Reporting* (“IAS 34”), and IFRS 1, *First-time Adoption of International Financial Reporting Standards* (“IFRS 1”). These unaudited interim condensed financial statements have been prepared in accordance with the accounting policies the Corporation expects to adopt in its January 28, 2012 financial statements.

The Corporation’s financial statements for the year ending January 28, 2012 will be its first annual financial statements to comply with IFRS. IFRS 1 requires an entity to include an explicit and unreserved statement of compliance with IFRS in its first annual financial statements prepared in accordance with IFRS. The Corporation will include this statement of compliance when it issues its 2011 annual financial statements. These unaudited interim condensed financial statements for the three and nine-month periods ended October 29, 2011 should be read together with the annual financial statements for the year ended January 29, 2011 prepared in accordance with previous Canadian GAAP as well as the unaudited interim condensed financial statements for the three month period ended April 30, 2011 as these last ones contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended January 29, 2011 prepared in accordance with previous Canadian GAAP.

These unaudited interim condensed financial statements were prepared by Groupe Bikini Village senior management and were not examined by the Corporation’s auditors.

2.2 Basis of preparation

The principal accounting policies have been applied consistently in the preparation of the unaudited interim condensed financial statements for all periods presented, unless otherwise indicated.

The accounting policies set out in Note 3 are based on the IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that the Corporation expects to be applicable for the period ending January 28, 2012.

The Corporation’s unaudited interim condensed financial statements are presented in Canadian dollars, which is the Corporation’s functional currency.

2.3 Basis of measurement

These unaudited interim condensed financial statements were prepared on a going concern basis, under the historical cost convention, except for financial assets evaluated at fair value through profit or loss.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation’s accounting policies. For additional information on significant judgements and sources of estimation uncertainty, refer to Note 5 of the unaudited interim condensed financial statements for the quarter ended April 30, 2011 outlining the areas that involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements. There were no changes for the quarters ended October 29, 2011 and October 30, 2010.

Notes to the Financial Statements (continued)

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

2. General information and statement of compliance with International Financial Reporting Standards (“IFRS”) (continued)

2.4 Seasonality

The Corporation’s activities are seasonal, with merchandise sales traditionally being higher in the second and fourth quarters. As a result, the operating results for the three-month period ended October 29, 2011 is not necessarily indicative of the operating results for a full year.

3. Significant accounting policies

The Corporation’s IFRS accounting policies presented in Note 3 of the unaudited interim condensed financial statements for the quarter ended April 30, 2011 were applied in preparing the unaudited interim condensed financial statements for the three and nine-month periods ended October 29, 2011 and October 30, 2010 and the fiscal year ended January 29, 2011.

4. Issued standards not yet adopted

The Corporation monitors the standard-setting process for new standards issued by the International Accounting Standards Board (“IASB”), which the Corporation may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Corporation doesn’t comment publicly on such cases until the standard has been finalized and the effects have been determined.

Financial Instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. This standard provides guidance on the classification and measurement of financial assets. In October 2010, the IASB amended IFRS 9 to add guidance on the classification and measurement of financial liabilities, and requirements for the derecognition of financial assets and financial liabilities. The required date of application of IFRS 9 is for all annual fiscal periods beginning on or after January 1, 2013. The Corporation has yet to assess the impact on the classification of financial assets and financial liabilities which will require disclosure in the financial statement notes.

On May 12, 2011, the IASB issued IFRS 13, *Fair Value Measurement*, which is applicable to annual fiscal periods beginning on or after January 1, 2013. This standard provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a ‘fair value hierarchy’. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value. The Corporation has yet to assess the impact of adopting this standard on its financial statements.

Other standards have been published but have no impact on the Corporation.

5. Inventories

For the nine-months period ended October 29, 2011, the Corporation recorded \$767,000 (\$534,000 in 2010) of write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous periods were reversed. The write-downs are included in cost of goods sold.

All the inventories are pledged as securities against liabilities (see Note 14).

Notes to the Financial Statements (continued)

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

6. Expenses by nature

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
Salaries and employee benefits	2,387	2,357	7,749	7,694
Stock-based compensation (note 17)	77	19	157	19
Depreciation, amortization and impairment	327	338	1,050	1,017
Occupancy costs	2,070	2,202	6,365	6,731
Other expenses	624	675	2,130	2,194
Operating and administrative expenses	5,485	5,591	17,451	17,655

7. Net finance costs

Net finance costs of the Corporation can be detailed as follows:

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
Interest expenses:				
Long-term debt	7	11	24	33
Convertible debentures	170	207	547	647
	177	218	571	680
Other finance expenses	19	20	59	62
Interest revenue	(8)	(7)	(23)	(7)
Net finance costs	188	231	607	735

Notes to the Financial Statements (continued)

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

8. Income tax recovery

The reconciliation between the income tax recovery calculate on the combined base rate from the federal government and the provinces concerned and the income tax recovery in the financial statements can be detailed as follows:

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
Loss before income tax recovery	(2,010)	(2,134)	(1,225)	(795)
Combined base tax	28.24%	30.14%	28.24%	30.14%
	(568)	(643)	(346)	(239)
Adjustments due to the following elements:				
Stock-based compensation	21	6	44	6
Non-deductible interest on convertible debentures	33	41	106	126
Equity component of convertible debentures	(31)	(36)	(99)	(112)
Impact of tax rate change on deferred tax	-	36	(2)	(10)
Income tax recovery	(545)	(596)	(297)	(229)

The income tax recovery is detailed as follows:

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
Current				
Tax expense in the current period	-	-	-	-
Tax expense in the previous periods	-	-	-	-
	-	-	-	-
Deferred				
Origination and reversal of temporary differences	35	24	72	46
Variation of unused non-capital tax losses	(580)	(620)	(376)	(281)
Impact of tax rate change on deferred tax	-	-	7	6
	(545)	(596)	(297)	(229)
Income tax recovery	(545)	(596)	(297)	(229)

Notes to the Financial Statements (continued)

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

8. Income tax recovery (continued)

In interim periods, the income tax provision is based on an estimate of earnings (loss) for the year by jurisdiction. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings (loss) by jurisdiction. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods.

Note 12 provides information on the Corporation's deferred tax assets.

9. Loss per share

The amount used as the numerator in calculating basic and diluted loss per share is the same as that attributable to shareholders. No reconciliation was necessary for the net loss of 2011 and 2010.

The weighted average number of common shares during the three and nine-month periods ended October 29, 2011 and October 30, 2010 used to calculate the basic and diluted loss per share were as follows:

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Weighted average number of shares used in basic and diluted loss per share	1,910,597	1,819,280	1,910,597	1,460,889

Options giving the right to buy 122,500 shares during the nine-month period ended October 29, 2011 (54,200 shares in 2010), 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 \$2,400,000 (\$3,300,000 in 2010) which can be converted into 96,000 common shares (132,000 in 2010) 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)

10. Capital assets

	Equipment	Leasehold improvements	Equipment under finance lease	Leasehold improvements under finance lease	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance as at January 29, 2011	786	10,783	523	584	12,676
Additions	153	834	-	-	987
Write-off	-	(286)	-	-	(286)
Balance as at October 29, 2011	939	11,331	523	584	13,377
Depreciation and impairment					
Balance as at January 29, 2011	405	4,799	235	138	5,577
Write-off	-	(286)	-	-	(286)
Depreciation	119	713	74	45	951
Balance as at October 29, 2011	524	5,226	309	183	6,242
Net book value as at October 29, 2011	415	6,105	214	401	7,135

	Equipment	Leasehold improvements	Equipment under finance lease	Leasehold improvements under finance lease	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance as at January 31, 2010	720	9,941	522	584	11,767
Additions	70	1,197	1	-	1,268
Balance as at October 30, 2010	790	11,138	523	584	13,035
Depreciation and impairment					
Balance as at January 31, 2010	253	3,962	133	79	4,427
Depreciation	112	685	77	44	918
Balance as at October 30, 2010	365	4,647	210	123	5,345
Net book value as at October 30, 2010	425	6,491	313	461	7,690

Notes to the Financial Statements (continued)

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

10. Capital assets (continued)

	Equipment	Leasehold improvements	Equipment under finance lease	Leasehold improvements under finance lease	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance as at January 31, 2010	720	9,941	522	584	11,767
Additions	85	1,431	1	-	1,517
Write-off	(19)	(589)	-	-	(608)
Balance as at January 29, 2011	786	10,783	523	584	12,676
Depreciation and impairment					
Balance as at January 31, 2010	253	3,962	133	79	4,427
Write-off	(19)	(589)	-	-	(608)
Depreciation	151	1,035	102	59	1,347
Impairment	20	479	-	-	499
Reversals of impairment	-	(88)	-	-	(88)
Balance as at January 29, 2011	405	4,799	235	138	5,577
Net book value as at January 29, 2011	381	5,984	288	446	7,099

All depreciation and impairment charges (or reversals if any) are included within "Depreciation, amortization and impairment". Capital assets have been pledged as security against liabilities (see Note 14).

11. Intangible assets

As at	October 29, 2011	October 30, 2010	January 29, 2011
	\$	\$	\$
Gross carrying amount			
Balance at the beginning of period	647	642	642
Additions	40	5	5
Balance at the end of period	687	647	647
Amortization and impairment			
Balance at the beginning of period	277	145	145
Amortization	99	99	132
Balance at the end of period	376	244	277
Net book value at the end of period	311	403	370

All amortization and impairment charges (or reversals if any) are included within "Depreciation, amortization and impairment".

Notes to the Financial Statements (continued)

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

12. Deferred tax assets

Deferred tax arising from temporary differences and unused tax losses can be summarized as follows as at October 29, 2011:

Deferred tax assets (liabilities)	Balance as at January 29, 2011	Recognized in profit and loss	Balance as at October 29, 2011
	\$	\$	\$
Current assets			
Inventories	182	(10)	172
Non-current assets			
Capital assets	(211)	(175)	(386)
Intangible assets	40	21	61
Current liabilities			
Provisions	9	-	9
Non-current liabilities			
Provisions	32	(1)	31
Deferred lease inducements	183	(6)	177
Shareholders' equity			
Capital stock	30	(6)	24
Convertible debentures	(291)	98	(193)
Unused tax losses	423	376	799
Deferred tax asset	397	297	694

Deferred tax for the comparable period as at October 30, 2010 can be summarized as follows:

Deferred tax assets (liabilities)	Balance as at January 31, 2010	Recognized in Shareholders' equity	Recognized in profit and loss	Balance as at October 30, 2010
Current assets				
Inventories	217	-	(14)	203
Non-current assets				
Capital assets	(118)	-	(171)	(289)
Intangible assets	9	-	29	38
Current liabilities				
Provisions	13	-	(4)	9
Non-current liabilities				
Provisions	24	-	7	31
Deferred lease inducements	196	-	(8)	188
Shareholders' equity				
Capital stock	-	35	(11)	24
Convertible debentures	(444)	-	121	(323)
Unused tax losses	519	-	280	799
Deferred tax asset	416	35	229	680

Notes to the Financial Statements (continued)

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

12. Deferred tax assets (continued)

Deferred tax as at January 29, 2011 can be summarized as follows:

Deferred tax assets (liabilities)	Recognized in			Balance as at January 29, 2011
	Balance as at January 31, 2010	Shareholders' equity	Recognized in profit and loss	
	\$	\$	\$	\$
Current assets				
Inventories	217	-	(35)	182
Non-current assets				
Capital assets	(118)	-	(93)	(211)
Intangible assets	9	-	31	40
Current liabilities				
Provisions	13	-	(4)	9
Non-current liabilities				
Provisions	24	-	8	32
Deferred lease inducements	196	-	(13)	183
Shareholders' equity				
Capital stock	-	38	(8)	30
Convertible debentures	(444)	-	153	(291)
Unused tax losses	519	-	(96)	423
Deferred tax asset	416	38	(57)	397

All deferred tax assets, except those relating to capital losses, have been recognized in the unaudited interim condensed statement of financial position.

As at October 29, 2011, the Corporation has a balance of non-capital tax losses available to be carried forward in the amount of \$2,916,000 (\$2,902,000 in 2010) which can be used to reduce income tax in future years. These losses expire in 2030 and 2032; deferred tax assets relative to these losses were accounted for.

Also as at October 29, 2011, the Corporation has capital losses to carry forward for an amount of \$1,178,000 (\$1,178,000 in 2010). These losses can be applied indefinitely against future capital gains. The deferred tax assets related to these capital losses have not been recognized.

Notes to the Financial Statements (continued)

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

13. Provisions

As at	October 29, 2011	October 30, 2010	January 29, 2011
	\$	\$	\$
Balance at beginning	150	131	131
Provisions created during the period	26	51	56
Provisions used during the period	(33)	(37)	(37)
Provisions reversed during the period	(3)	(4)	(4)
Accretion charge	3	3	4
Balance at the end	143	144	150
Current	26	27	32
Non-current	117	117	118
	143	144	150

The provisions of the Corporation consist of allowance for returns on sales and asset retirement obligations. Allowances for returns on sales are recognized because of the obligation which the Corporation has towards its customers to refund them according to its exchange and refund policy. The best estimate of the fair value of the obligation is based on the judgment of the Corporation and its previous experience. Allowances for returns on sales as at January 29, 2011 were settled during nine-month period ended as at October 29, 2011 or reversed.

Under its site leases, the Corporation is generally committed to returning each site to its original state, assuming normal use. In order to calculate a provision for asset retirement obligations, the Corporation used the following significant assumptions:

- ✓ the Corporation expects its asset retirement obligation would expire at the end of the lease terms;
- ✓ it can estimate remediation costs indicative of what third party vendors would charge the Corporation to remediate the sites;
- ✓ expected inflation rates would be consistent with historical inflation rates; and
- ✓ it can use pre-tax risk-free adjusted for risk specific to these obligations.

Notes to the Financial Statements (continued)

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

14. Long-term debt

As at	October 29, 2011	October 30, 2010	January 29, 2011
	\$	\$	\$
Finance lease, payable by 48 payments, expiring in November 2012, the carrying interest rate is 5.63 %	292	544	483
Finance lease, payable by 48 payments, expiring in March 2014, the carrying interest rate is 6.56 %	65	90	84
Long-term debt, payable by 36 payments, expiring in June 2013, the carrying interest rate is the lender preferred rate + 4.50 %	42	67	60
	399	701	627
Current portion	320	303	307
	79	398	320

On June 4, 2010, the Corporation secured long-term debt to finance leasehold improvements for the distribution centre.

As at October 29, 2011, the Corporation has an on-demand credit facility for a maximum amount of \$1,500,000, renewable annually, of which none was used as at October 29, 2011. A first segment of \$1.5 million is available anytime 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. As at October 29, 2011, the available amount according to the margination formula was \$1.3 million. In the normal course of business in 2011, the Corporation issued letters of credit and letters of guarantee against this facility for a total of \$146,000, which are expiring in August 2012.

This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Corporation and bears interest at prime plus 1.5% (3.95% in 2010). Under the agreements relative to the credit facility, the Corporation is subject to a restrictive clause concerning compliance with a financial ratio. As at October 29, 2011, the Corporation was in compliance with the applicable restrictive clause under the credit facility.

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
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14. Long-term debt (continued)

Future minimum finance lease payments at the end of each reporting period considered were as follows:

	Minimum lease payments due			
	Within 1 year	1 to 5 years	After 5 years	Total
As at October 29, 2011	\$	\$	\$	\$
Lease payments	308	64	-	372
Finance charges	(13)	(2)	-	(15)
Net present values	295	62	-	357
As at October 30, 2010				
Lease payments	308	373	-	681
Finance charges	(30)	(17)	-	(47)
Net present values	278	356	-	634
As at January 29, 2011				
Lease payments	308	296	-	604
Finance charges	(26)	(11)	-	(37)
Net present values	282	285	-	567

Future minimum long-term debt payments at the end of each reporting period considered were as follows:

	Within 1 year	1 to 5 years	After 5 years	Total
As at October 29, 2011	\$ 25	\$ 17	\$ -	\$ 42
As at October 30, 2010	25	42	-	67
As at January 29, 2011	25	35	-	60

15. Convertible debentures

As at	October 29, 2011	October 30, 2010	January 29, 2011
	\$	\$	\$
Liability component of the convertible debentures	1,658	2,037	1,947
Current portion	900	900	900
	758	1,137	1,047

On May 25, 2007, Groupe Bikini Village 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 Corporation. 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 Corporation and subject to certain conditions, to additional debentures of up to \$2 million, 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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15. Convertible debentures (continued)

On October 21, 2008 at the request of the Corporation, 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 Corporation in 60 equal monthly payments which began July 1, 2009.

Since June 1, 2009, the Fund has the option to convert its debentures into common shares of the Corporation, at the conversion rate of \$25.00 per share (after taking into account the 1 for 125 stock consolidation which took effect on September 30, 2010). In case of default or change of control of the Corporation, the Fund may potentially convert its debentures at a more advantageous rate.

The Corporation has accounted separately the liability and the shareholders' equity components of the unsecured convertible debentures, in accordance with the IFRS. The first \$1,004,000 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 on the date of issue have been posted in 2007, and then a liability component of \$858,000 has been posted in regards of the 2008 debentures' emissions.

As at May 25, 2007, the equity component representing the residual attributable to the option to convert the financial liability has been credited to equity in the amount of \$1,496,000. As at October 21, 2008, the equity component of the second part has been accounted for in the amount of \$1,142,000.

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 allocated to the liability and equity components in proportion to the allocation of the fair value of the instrument upon initial recognition.

The interest expense for the period is calculated by applying an effective interest rate of 41.3%. The liability component is measured at amortized cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported in the unaudited interim condensed statement of financial position as at October 29, 2011 represents the effective interest rate less interest paid and capital payments made at that date.

The principal portions of the instalments for the next years are as follows:

	Within 1 year	1 to 5 years	After 5 years	Total
	\$	\$	\$	\$
As at October 29, 2011	900	1,500	-	2,400
As at October 30, 2010	900	2,400	-	3,300
As at January 29, 2011	900	2,175	-	3,075

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
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16. Shareholders' equity

16.1 Capital stock

The capital stock of the Corporation consists of an unlimited number of common shares with voting rights and an unlimited number of preferred shares without voting rights. Common shares confer upon the registered holder a voting right per share and the right to receive dividends, on a per share basis, as shall be determined by the Board, whereas preferred shares shall not allow holders to vote at meeting of the shareholders, or to receive notices of meetings or be present at such meetings. However, preferred shares confer the right to receive cumulative or non-cumulative preferential dividends. Preferred shares have priority row over common shares as pertains to the payment of dividends and reimbursement of capital in the event of dissolution, liquidation or any other distribution of the Corporation's assets.

The aggregate number of shares reserved for issuance under the stock-based compensation plan is equal to 10% of the number of common shares outstanding at the time of grant excluding those issued under options. (See Note 17 for detail on stock-based compensation)

Rights Offering

On July 9, 2010, the Corporation filed a final rights offering circular with the Toronto Stock Exchange (the "TSX") and the securities regulators in respect of a rights offering (the "Rights Offering").

Under the Rights Offering, each registered holder of common shares (the "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 Corporation announced the completion of its Rights Offering and its concurrent private placement. Since all Rights were exercised under the Rights Offering, the Corporation issued 41,919,528 Shares. In addition, the Corporation extended to the guarantor the opportunity to subscribe for Shares at a price of \$0.03 each under the private placement; 29,298,650 Shares were subscribed to under the private placement. Therefore, under the Rights Offering and the private placement, the Corporation 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 held on June 11, 2010, a resolution was approved to authorize directors of the Corporation to proceed with the consolidation of its common shares (the "Consolidation"). On September 9, 2010, the Consolidation ratio was determined to be one new Share for every 125 Shares outstanding. On September 27th, 2010, the Consolidation was announced and took effect on September 30th, 2010. No fractions of Shares were issued as a result of the Consolidation, with all fractions rounded down. Thus, a total of 236,914,041 Shares were cancelled under the Consolidation. For each pre-Consolidation Share that did not form part of a post-Consolidation Share, shareholders received 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 took effect. Consequently, shareholders received \$0.05 per Share. The amount posted to capital stock for the buy back of 71,655 Shares following the Consolidation includes cash consideration of \$4,000, while a \$5,000 discount on repurchase was recorded in contributed surplus into 2010 third quarter.

Notes to the Financial Statements (continued)

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

16. Shareholders' equity (continued)

16.2 Contributed surplus

The contributed surplus contained in shareholder's equity includes:

As at	October 29, 2011	October 30, 2010	January 29, 2011
	\$	\$	\$
Discount on repurchase of shares	601	601	601
Stock-based compensation	558	367	401
Conversion options on convertible debentures that are expired	807	461	548
	1,966	1,429	1,550

17. Stock-based compensation

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

The expiration date of each option, the exercise price thereof, the number of shares issuable under the Plan, 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 Corporation 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 Corporation, 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.

Share options and weighted average exercise prices are as follows for the reporting periods presented:

	Nine months ended October 29, 2011		Nine months ended October 30, 2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning	54,200	7.81	37,600	11.73
Granted	75,000	4.11	28,800	3.75
Forfeited	(6,700)	4.11	(12,200)	10.31
Balance at end	122,500	5.75	54,200	7.81
Options exercisables at end	35,000	10.04	25,400	12.41

Notes to the Financial Statements (continued)

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

17. Stock-based compensation (continued)

The table below is a summary of the information related to the October 29, 2011 purchase options:

Range of exercise price \$	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 \$
3.75 to 4.11	97,100	9.20	4.00	9,600	3.75
10.00	14,400	6.50	10.00	14,400	10.00
13.75 to 16.25	11,000	4.90	15.57	11,000	15.57
	122,500	8.60	5.75	35,000	10.04

On April 29, 2011, the Corporation granted 75,000 common stock option shares to certain officers and directors of the Corporation at an exercise price of \$4.11 which could be exercised at any time during the subsequent three years, at a rate of 33 1/3% per year. These options mature in 2021. The fair value of these options was estimated at \$321,000 on the grant date using the *Black-Scholes* option pricing model according to the following assumptions: interest rate without risk of 2.76%, zero dividends, estimated useful life of seven years, predicted volatility of 85%.

On September 9, 2010, the Corporation granted 28,800 common stock option shares to certain officers of the Corporation at an exercise price of \$3.75; these options can be exercised at any time over the subsequent three years, at a rate of 33 1/3% per year. These options mature in 2020. The fair value of these options was estimated at \$110,000 on the grant date using the *Black-Scholes* option pricing model according to the following assumptions: interest rate without risk of 2.35%, zero dividends, estimated useful life of seven years, predicted volatility of 85%.

During the nine-month period ended October 29, 2011, 6,700 stock options were cancelled (12,200 in 2010).

The table below is a summary of the information related to the October 30, 2010 purchase options:

Range of exercise price \$	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 \$
3.75	28,800	9.90	3.75	-	-
10.00	14,400	7.50	10.00	14,400	10.00
13.75 to 16.25	11,000	5.90	15.57	11,000	15.57
	54,200	8.50	7.81	25,400	12.41

The underlying expected volatility was determined by reference to historical data of the Corporation's shares over a period of time after the capital reorganization of the Corporation which took place on August 2, 2004.

In total, \$157,000 in stock-based compensation expense has been included in the unaudited interim condensed statement of net loss and comprehensive loss for the nine-month period ended October 29, 2011 (\$19,000 in 2010) and credited to contributed surplus.

Notes to the Financial Statements (continued)

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

18. Supplementary information

a) Included in determination of the Corporation's net loss and comprehensive loss was a foreign exchange loss of \$47,000 (loss of \$80,000 in 2010).

b) Supplementary information on cash and cash equivalents

As at	October 29, 2011	October 30, 2010	January 29, 2011
	\$	\$	\$
Balance with banks	2,378	3,315	3,233
Short-term deposits	-	-	3,000
Cash and cash equivalents	2,378	3,315	6,233

c) Supplementary cash flow information

Adjustments for non-cash operations and adjustments for non-cash working capital items were made to loss before income tax recovery to obtain operational cash flows:

Notes to the Financial Statements (continued)

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

18. Supplementary information (continued)

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	\$	\$	\$	\$
i) Adjustments for:				
Depreciation - Capital assets	257	265	833	797
Depreciation - Capital assets - finance leases	37	40	118	121
Amortization - Intangible assets	33	33	99	99
Interest capitalized on the liability component of convertible debentures and financing fee amortization	121	140	386	432
Accretion charge	1	1	3	3
Interest on long-term debt	7	11	24	33
Interest on convertible debentures	49	67	161	215
Interest revenue	(8)	(7)	(23)	(7)
Stock-based compensation	77	19	157	19
Unrealised foreign exchange loss (gain)	(41)	19	(38)	19
Amortization of deferred lease inducements	(23)	(21)	(65)	(63)
Deferred lease inducements	18	32	16	53
	528	599	1,671	1,721
ii) Net changes in non-cash working capital items				
Accounts receivable	137	(171)	25	(72)
Inventories	(125)	(14)	(529)	566
Prepaid expenses	44	(164)	(117)	(145)
Trade and other payables	(1,135)	(1,265)	(1,680)	(1,609)
Provisions	(4)	(8)	(15)	(19)
	(1,083)	(1,622)	(2,316)	(1,279)
iii) Supplementary information				
Non-cash operations:				
Capital assets additions included in trade and other payables	116	207	116	207
Capital assets acquired through finance leases	-	-	-	43
Capital assets acquired through support of asset retirement obligations included in provisions	2	26	5	29
Rental inducement received included in accounts receivable	36	-	36	-

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)
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19. Commitments

The Corporation is committed under long-term leases for commercial space. Most of these leases have a minimum annual rent and a contingent rent based on a percentage of gross sales, and renewal options which can be exercised at the Corporation's or lessor's option. The majority of the leases are "net" leases, which require additional payments for the cost of insurance, taxes, maintenance and utilities.

Operating lease payments recognized as an expense during the nine-month period ended October 29, 2011 amount to \$3,829,000 (\$4,059,000 in 2010). This amount consists of minimum operating lease payments. Furthermore, contingent rent payments recognized as an expense during the period amount to \$12,000 (\$9,000 in 2010).

The table below presents as at October 29, 2011, the financial commitments for minimum lease payments under operating leases for retail stores, the head office and the distribution centre, exclusive of additional amounts based on sales, taxes and other costs, as well as amounts relating to agreements to purchase goods and services that are enforceable and legally binding on the Corporation:

	Within 1 year	1 to 5 years	After 5 years	Total
	\$	\$	\$	\$
Obligations under operating leases	4,873	9,530	2,812	17,215
Purchase obligations	11,678	375	-	12,053
	16,551	9,905	2,812	29,268

20. Related party transactions

Related party transactions involve key management personnel (the members of the board of directors and/or the executive officers of the Corporation). Key management personnel remuneration includes the following expenses:

	Three months ended		Nine months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
			\$	\$
Salaries and short-term benefits	145	140	452	551
Stock-based compensation	58	16	124	16
Total remuneration	203	156	576	567

21. Capital management

The Corporation's objectives in managing capital are:

- ✓ to have sufficient liquidity to enable the financing of capital projects and working capital needs, thereby facilitating its expansion; and
- ✓ to maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Corporation's capital is composed of:

- ✓ long-term debt including current portion;
- ✓ non-guaranteed convertible debentures including current portion; and
- ✓ shareholders' equity.

Notes to the Financial Statements (continued)

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21. Capital management (continued)

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

As at	October 29, 2011	October 30, 2010	January 29, 2011
	\$	\$	\$
Long-term debt including current portion	399	701	627
Liability component of convertible debentures including current portion	1,658	2,037	1,947
Shareholders' equity	11,626	11,709	12,397
	13,683	14,447	14,971

The Corporation manages and makes adjustment to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the Corporation and the condition of capital markets.

The Corporation'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. The Corporation 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 Corporation is subject to a financial covenant under on demand credit facilities. As at October 29, 2011, the Corporation was in accordance with the applicable restrictive clause under the credit facility.

22. Financial risks and financial instruments

22.1 Financial risks management

The Corporation is exposed to various risks in relation to financial instruments. The main types of risks are market risk and liquidity risk. Market risk consists of foreign exchange risk and interest rate risk. The Corporation's risk management approach is to minimize the potential adverse effects from these risks on its financial performance.

Market risks

Market risk exists as a result of potential losses caused by changes in market factors such as interest rates and foreign currency exchange.

Currency risk

The Corporation 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 Corporation conducts certain commodities transactions in foreign currencies. The Corporation manages this risk with forward contracts. As at October 29, 2011, the Corporation had forward contracts denominated in U.S. dollars amounting to \$3.3 million (\$1.4 million as at October 30, 2010), with maturity dates until July 2012 (until June 2011 as at October 30, 2010), and rates between 0.969 and 0.0188 (1.031 and 1.0532 in 2010).

Notes to the Financial Statements (continued)

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

22. Financial risks and financial instruments (continued)

As of October 29, 2011, the fair value of unrealized gains or losses on the forward contracts has been recorded to the operations and represents a loss of \$1,000 (\$37,000 in 2010). These amounts were recorded in "trade and other payables". The fair value of these foreign exchange contracts is \$3.3 million (\$1.5 million in 2010). The U.S. accounts payable included in the unaudited interim condensed statement of financial position as at October 29, 2011 was \$59,000 (\$2,000 as at October 30, 2010).

The Corporation has performed a sensitivity analysis on its U.S. dollar denominated financial instruments, as at October 29, 2011, to determine how a change in the U.S. dollar exchange rate would impact shareholders' equity and net loss and comprehensive loss. On October 29, 2011, 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 \$232,000 increase or decrease, respectively, in the Corporation's shareholders' equity and net loss and comprehensive loss for the nine-month period ended October 29, 2011.

Interest Rate Risk

The Corporation's exposure to interest rate fluctuations is on interest earned on its cash and cash equivalents and interest paid on its credit line and its long-term debt. Facilities for short-term credit described in Note 14 and long-term debt bear interest at variable rates, while long-term debt related to finance lease and convertible debentures have a fixed rate.

The Corporation has performed a sensitivity analysis on interest rate risk as at October 29, 2011, to determine how a change in interest rates would impact shareholders' equity and net loss and comprehensive loss. During the nine-month period ending October 29, 2011, the Corporation earned \$22,000 of interest revenue and incurred interest charges of \$3,000 on its long-term debt. An increase or decrease of 25 basis points in the average interest rate earned during the period would have increased or decreased equity and net loss and comprehensive loss by \$8,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Liquidity risks

Liquidity risk is the risk that the Corporation will be unable to fulfil its obligations on a timely basis or at a reasonable cost. The Corporation 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 asset expenditure. The Corporation prepares budget and cash forecasts to ensure that it has sufficient funds to fulfil its obligations.

The Corporation actively maintains access to credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

Notes to the Financial Statements (continued)

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

22. Financial risks and financial instruments (continued)

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at October 29, 2011.

	Carrying amount	Contractual cash flow maturities		
		Within 1 year	1 to 5 years	Beyond 5 years
Trade and other payables	\$ 3,224	\$ 3,224	\$ -	\$ -
Long-term debt including current portion	399	335	82	-
Convertible debentures including current portion	1,658	1,053	1,596	-
Operating leases ¹	-	4,873	9,530	2,812
Purchase obligations ¹	-	11,678	375	-
	5,281	21,163	11,583	2,812

¹ Operating leases and purchase obligations are not reported in the unaudited interim condensed statement of financial position.

Management believes that cash on hand, future cash flow generated from operations and availability of current and future funding will be adequate to support these financial liabilities.

22.2 Classification of financial instruments

The carrying amounts presented in the unaudited interim condensed statements of financial position relate to the following categories of assets and liabilities:

As at	October 29, 2011	October 30, 2010	January 29, 2011
	\$	\$	\$
Financial assets - Fair value through profit or loss			
Cash and cash equivalents	2,378	3,315	6,233
	2,378	3,315	6,233
Financial assets - Loan and receivables			
Accounts receivable	219	241	210
	219	241	210
Financial liabilities - Amortized costs			
Trade and others payables	3,224	3,422	4,842
Long-term debt including current portion	399	701	627
Convertible debentures including current portion	1,658	2,037	1,947
	5,281	6,160	7,416

Notes to the Financial Statements (continued)

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

22. Financial risks and financial instruments (continued)

22.3 Fair value of financial instruments

Financial instruments recorded at fair value on the unaudited interim condensed statement of financial position are classified using a 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 (i.e. as prices) or indirectly (i.e. 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.

Cash and cash equivalents, accounts receivable, trade and other payables are all current financial instruments; consequently, their fair values approximate their carrying values. Cash and cash equivalents are classified according to the level 1 of the fair value hierarchy. The fair value of forward contracts is classified according to the level 2 of the fair value hierarchy.

The fair value of the liability component of convertible debentures is not significantly different from its carrying value. The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements, based on the Corporation's current estimated borrowing rate for loans with similar terms and conditions. The estimated fair value could differ from the amount that would be obtained if there was an immediate settlement of the instruments.

During the period, there has been no significant transfer of amounts between the different levels.

23. Approval of unaudited interim condensed financial statements

The unaudited interim condensed financial statements for the nine-month period ended October 29, 2011 (including comparatives) were approved by the board of directors on December 7, 2011.

24. Transition to IFRS

As stated in Note 2, these unaudited interim condensed financial statements were prepared in accordance with IFRS.

The accounting policies set out in Note 3 of the unaudited interim condensed financial statements of the first quarter ended April 30, 2011 have been applied for the establishment of the unaudited interim condensed financial statements for the three and nine-month periods ended October 29, 2011, the comparative information presented in these unaudited interim financial statements for both the three and nine-month periods ended October 30, 2010 and the fiscal year ended January 29, 2011.

The financial information on the transition to IFRS is established in accordance with IFRS 1 "*First Adoption of International Financial Reporting*" which requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date of its first annual financial statements, which for the Corporation will be January 28, 2012.

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

First-time adoption exemptions applied

Upon transition, IFRS 1 authorizes certain optional exemptions from retrospective application. The Corporation has applied the mandatory exceptions and has made choices concerning certain optional exemptions. The following exemptions have been adopted by the Corporation:

i. Stock-based compensation:

A new adopter is encouraged to apply IFRS 2, Share-based Payments, to equity instruments granted on or before November 7, 2002, and to equity instruments granted after November 7, 2002 and vested before the transition date. The Corporation decided to avail itself of this exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 which were not vested at the transition date.

ii. Decommissioning liabilities included in the cost of capital asset:

IFRIC 1, Changes in existing decommissioning, restoration or similar liabilities requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter is not required to comply with these requirements for changes in such liabilities that occurred before the transition date to IFRS. The Corporation decided to avail itself of this exemption provided under IFRS 1.

Exception to retroactive application of other IFRS

The Corporation has applied the mandatory exception to retroactive application of other IFRS on estimates; the other exceptions of IFRS 1 have no impact on the Corporation. Thus, estimates made under IFRS as of January 31, 2010 are consistent with those made for the same date under pre-changeover accounting standards, taking into consideration all the adjustments needed to reflect the difference between the accounting methods.

IFRS 1 – Reconciliations

These unaudited interim condensed financial statements were prepared in accordance with IAS 34 and IFRS 1. IFRS 1 requires that the Corporation prepare reconciliations between pre-changeover accounting standards (“Canadian GAAP”) and IFRS equity and comprehensive income for the comparative fiscal 2010 period. These reconciliations are presented below.

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

24.1 Reconciliation of Canadian GAAP to IFRS 2010 unaudited statements of financial position

Unaudited interim condensed statement of financial position as at October 30, 2010

Post under Canadian GAAP	Canadian GAAP	Note	Reclassification	Conversion Impact	IFRS	Post under IFRS
	\$		\$	\$	\$	
ASSETS						ASSETS
Current assets						Current assets
Cash and cash equivalents	3,315		-	-	3,315	Cash and cash equivalents
Accounts receivable	241		-	-	241	Accounts receivable
Income taxes	4		-	-	4	Current tax assets
Inventories	5,657		-	-	5,657	Inventories
Prepaid charges	789	d	-	(64)	725	Prepaid expenses
Future income taxes	468	h	(468)	-	-	
Current assets	10,474		(468)	(64)	9,942	Current assets
Non-current assets						Non-current assets
Capital assets	8,140	a-b-c	-	(450)	7,690	Capital assets
Intangible assets	403		-	-	403	Intangible assets
Future income taxes	384	g-h	468	(172)	680	Deferred tax assets
Non-current assets	8,927		468	(622)	8,773	Non-current assets
Total assets	19,401		-	(686)	18,715	Total assets
LIABILITIES AND SHAREHOLDERS' EQUITY						LIABILITIES AND SHAREHOLDERS' EQUITY
Liabilities						Liabilities
Current liabilities						Current liabilities
Accounts payable and accrued liabilities	3,656	h	(247)	13	3,422	Trade and other payables
	-	b-h	164	(137)	27	Provisions
Current portion of long-term debt and convertible debentures	1,203		-	-	1,203	Current portion of long-term debt and convertible debentures
Short-term liabilities	4,859		(83)	(124)	4,652	Current liabilities
Non-current liabilities						Non-current liabilities
Deferred lease inducements	619	h	83	-	702	Deferred lease inducements
	-	b	-	117	117	Provisions
Long-term debt	398		-	-	398	Long-term debt
Liability component of convertible debentures	1,883	e	-	(746)	1,137	Liability component of convertible debentures
Future income taxes	-	g-h	-	-	-	
Non-current liabilities	2,900		83	(629)	2,354	Non-current liabilities
Total liabilities	7,759		-	(753)	7,006	Total liabilities
Shareholders' equity						Shareholders' equity
Share capital	29,728		-	-	29,728	Capital stock
Equity component of convertible debentures	834	e	-	433	1,267	Equity component of convertible debentures
Contributed surplus	2,723	e-f	(1,489)	195	1,429	Contributed surplus
Deficit	(21,643)	f	1,489	(561)	(20,715)	Deficit
Total shareholders' equity	11,642		-	67	11,709	Total shareholders' equity
Total liabilities and shareholders' equity	19,401		-	(686)	18,715	Total liabilities and shareholders' equity

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

Unaudited statement of financial position as at January 29, 2011

Post under Canadian GAAP	Canadian GAAP	Note	Reclassification	Conversion Impact	IFRS	Post under IFRS
	\$		\$	\$	\$	
ASSETS						ASSETS
Current assets						Current assets
Cash and cash equivalents	6,233		-	-	6,233	Cash and cash equivalents
Accounts receivable	210		-	-	210	Accounts receivable
Income taxes	-		-	-	-	Current tax assets
Inventories	5,690		-	-	5,690	Inventories
Prepaid charges	652	d	-	(5)	647	Prepaid expenses
Future income taxes	457	h	(457)	-	-	
Current assets	13,242		(457)	(5)	12,780	Current assets
Non-current assets						Non-current assets
Capital assets	7,936	a-b-c	-	(837)	7,099	Capital assets
Intangible assets	370		-	-	370	Intangible assets
Future income taxes	-	g-h	457	(60)	397	Deferred tax assets
Non-current assets	8,306		457	(897)	7,866	Non-current assets
Total assets	21,548		-	(902)	20,646	Total assets
LIABILITIES AND SHAREHOLDERS' EQUITY						LIABILITIES AND SHAREHOLDERS' EQUITY
Liabilities						Liabilities
Current liabilities						Current liabilities
Accounts payable and accrued liabilities	5,085	d-h	(259)	16	4,842	Trade and other payables
	-	b-h	172	(140)	32	Provisions
Current portion of long-term debt and convertible debentures	1,207		-	-	1,207	Current portion of long-term debt and convertible debentures
Short-term liabilities	6,292		(87)	(124)	6,081	Current liabilities
Non-current liabilities						Non-current liabilities
Deferred lease inducements	596	h	87	-	683	Deferred lease inducements
	-	b	-	118	118	Provisions
Long-term debt	320		-	-	320	Long-term debt
Liability component of convertible debentures	1,719	e	-	(672)	1,047	Liability component of convertible debentures
Non-current liabilities	2,635		87	(554)	2,168	Non-current liabilities
Total liabilities	8,927		-	(678)	8,249	Total liabilities
Shareholders' equity						Shareholders' equity
Share capital	29,730		-	-	29,730	Capital stock
Equity component of convertible debentures	777	e	-	404	1,181	Equity component of convertible debentures
Contributed surplus	2,818	e-f	(1,489)	221	1,550	Contributed surplus
Deficit	(20,704)	f	1,489	(849)	(20,064)	Deficit
Total shareholders' equity	12,621		-	(224)	12,397	Total shareholders' equity
Total liabilities and shareholders' equity	21,548		-	(902)	20,646	Total liabilities and shareholders' equity

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

24.2 Reconciliation of Canadian GAAP to IFRS 2010 equity

As at	Note	January 29, 2011	October 30, 2010
		\$	\$
Total shareholders' equity under Canadian GAAP		12,621	11,642
Differences with Canadian GAAP increasing (decreasing) shareholders' equity issued:			
Capital assets - initial direct costs of the lease	a	2	2
Capital assets - costs of dismantling and restoring the site	b	14	12
Capital assets - decrease due to impairment	c	(853)	(464)
Advertising costs	d	(21)	(77)
Provision relating to costs of dismantling and restoring the site	b	22	20
Convertible debentures	e	672	746
Stock-based compensation	f	-	-
Deferred tax	g	(60)	(172)
Subtotal of the IFRS impact		(224)	67
Total shareholders' equity under IFRS		12,397	11,709

24.3 Reconciliation of Canadian GAAP to IFRS 2010 unaudited statements of net earnings (loss) and comprehensive income (loss)

For the nine-months period ended October 30, 2010

Post under Canadian GAAP	Canadian GAAP	Reclassification	Conversion impact	IFRS	Post under IFRS
	\$	\$	\$	\$	
Operating revenue	30,785	-	-	30,785	Revenues
Cost of goods sold, operating and administrative expenses	29,781	(16,591)	-	13,190	Cost of goods sold
				17,595	Gross profit
					Operating and administrative expenses
Interest	-	17,719	(64)	17,655	Net finance costs
Amortization	505	(1,128)	230	735	
	1,128	(1,128)	-	-	
	31,414	-	166	18,390	
Loss before income taxes	(629)	-	(166)	(795)	Loss before income tax recovery
Income tax recovery	(108)	-	(121)	(229)	Income tax recovery
Net loss and comprehensive loss	(521)	-	(45)	(566)	Net loss and comprehensive loss

Loss per share

Basic (0.37)
Diluted (0.37)

Loss per share

(0.39) Basic
(0.39) Diluted

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

For the three-months period ended October 30, 2010

Post under Canadian GAAP	Canadian GAAP	Reclassification	Conversion impact	IFRS	Post under IFRS
	\$	\$	\$	\$	
Operating revenue	6,527	-	-	6,527	Revenues
Cost of goods sold, operating and administrative expenses	8,024	(5,185)	-	2,839	Cost of goods sold
				3,688	Gross profit
					Operating and administrative expenses
Interest	-	5,550	41	5,591	Net finance costs
Amortization	156	(365)	75	231	
	365		-	-	
	8,545	-	116	5,822	
					Loss before income tax recovery
Loss before income taxes	(2,018)	-	120	(2,134)	
Income tax recovery	(540)	-	(56)	(596)	Income tax recovery
Net loss and comprehensive loss	(1,478)	-	176	(1,538)	Net loss and comprehensive loss

Loss per share

Basic	(0.81)
Diluted	(0.81)

Loss per share

Basic	(0.85)
Diluted	(0.85)

For the year ended January 29, 2011

Post under Canadian GAAP	Canadian GAAP	Reclassification	Conversion impact	IFRS	Post under IFRS
	\$	\$	\$	\$	
Operating revenue	44,622	-	-	44,622	Revenues
Cost of goods sold, operating and administrative expenses	41,647	(22,673)	-	18,974	Cost of goods sold
				25,648	Gross profit
					Operating and administrative expenses
Interest	-	24,287	262	24,549	Net finance costs
Amortization	653	-	304	957	
	1,614	(1,614)	-	-	
	43,914	-	566	25,506	
					Earnings before income tax expense
Earnings before income taxes	708	-	(566)	142	
Income tax expense	290	-	(233)	57	Income tax expense
Net earnings and comprehensive income	418	-	(333)	85	Net earnings and comprehensive income

Earnings per share

Basic	0.26
Diluted	0.26

Earnings per share

Basic	0.05
Diluted	0.05

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

24.4 Reconciliation of Canadian GAAP to IFRS 2010 net earnings (loss) and comprehensive income (loss)

	Note	Year ended January 29, 2011	Three months ended October 30, 2010	Nine months ended October 30, 2010
		\$	\$	\$
Net earnings (loss) and comprehensive income (loss) under Canadian GAAP		418	(1,478)	(521)
Capital assets - initial direct costs of the lease	a	-	(1)	-
Capital assets - costs of dismantling and restoring the site	b	(4)	(5)	(6)
Capital assets - variation due to impairment	c	(270)	31	119
Provision relating to costs of dismantling and restoring the site	b	(11)	(13)	(13)
Advertising costs	d	(21)	(63)	(77)
Convertible debentures	e	(308)	(77)	(234)
Stock-based compensation	f	48	12	45
Total adjustments before income tax expense under IFRS		(566)	(116)	(166)
Income tax expense	g	233	56	121
Net earnings (loss) and comprehensive income (loss) under IFRS		85	(1,538)	(566)

24.5 Explanation of significant IFRS adjustments to equity and net earnings (loss) and comprehensive income (loss)

Changes in accounting policies

The following is an explanation of the adjustments disclosed in the reconciliations in Notes 24.1, 24.2 and 24.4:

a. Leases

Canadian GAAP – Initial direct costs of the lessee are expensed.

IFRS – Initial direct costs of the lessee are added to the amount recognized as an asset. Therefore, at the commencement of the lease term, the asset and the liability are recognized in the statement of financial position at the same amounts except for any initial direct costs of the lessee.

The accounting impact of the direct costs recognized as assets is summarized below:

As at	January 29, 2011	October 30, 2010
	\$	\$
Capital assets	2	2
<i>Decrease of deficit and increase of shareholders' equity</i>	2	2

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

b. Costs of dismantling and removing the item and restoring the site

Canadian GAAP – Asset retirement obligations are measured at fair value, incorporating market assumptions. Discount rates for asset retirement obligations are based on the entity's credit-adjusted risk-free rate. Adjustments are made to asset retirement obligations for changes in the schedule or the amount of cash flows, and the passage of time. However, changes in discount rates alone do not result in a revaluation of the provision. Changes in estimates that decrease the liability are discounted using the discount rate applied upon initial recognition of the liability; and as in IFRS when changes in estimates increase the liability, the additional liability is discounted using the current discount rate. When asset retirement obligations are recognized, the corresponding adjustment is always made to the cost of the related asset.

IFRS – Decommissioning provisions are measured based on management's best estimate of the expenditures that will be made. Discount rates used should reflect the risks specific to the decommissioning provision. Adjustments to decommissioning provisions are made each period to account for changes to the schedule or amount of cash flows, changes in the discount rate, and the passage of time.

In applying IAS 16, the cost of the asset has to include, during its initial recognition, the estimate of the costs of dismantling and removing the item and restoring the site as soon as there is in the entry date a current, legal or implicit obligation to dismantle or to restore the site. A provision is recognized from then on in counterpart of the dismantling asset.

In application of the IFRS 1 retain exemption, the Corporation elected not to retrospectively redeem its provision for dismantling and restoring the site undertaken before the transition date, as set out in IFRIC 1. In application of this exemption, the Corporation:

- ✓ measured the liability as at the transition date in accordance with IAS 37 – taking into account the assumptions of cash flows and discount rates current at that date;
- ✓ estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to the date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
- ✓ calculated the accumulated depreciation of assets retrospectively based on the current estimate of the useful life of the asset, using the depreciation policy adopted in accordance with IFRS.

The impact resulting from of the reassessment of decommissioning costs and site restoration is summarized below:

As at	January 29, 2011	October 30, 2010
	\$	\$
Capital assets	14	12
Provisions - current	140	137
Provisions - non-current	(118)	(117)
	22	20
<i>Decrease of deficit and increase of shareholders' equity</i>	36	32

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

c. Impairments

Canadian GAAP – Assets are tested for impairments when events or changes in circumstances indicate that their carrying amounts may not be recoverable. This test has two steps. A recoverability test is performed by first comparing the undiscounted expected future cash flows to be generated from the asset or the group of assets to their carrying amount. If the asset or the group of assets does not recover its carrying value, an impairment loss is calculated as the excess of the asset's carrying amount over its fair value.

Impairment testing is conducted at the level of a group of assets or a reporting unit, the lowest level for which there are identifiable cash flows that largely are independent of the cash flows of other groups of assets.

IFRS – Assets are tested for impairment separately, in a single step, at each cash generating unit (CGU). The impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. The value-in-use is equal to the present value of expected future cash flow that could be generated from the asset or the CGU.

Impairment testing is required when there is an indicator of impairment. Impairment testing of assets is conducted at the level of the CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent on the cash inflows from other assets or groups of assets.

The impact resulting from the impairment test as required by IFRS is summarized below:

As at	January 29, 2011	October 30, 2010
	\$	\$
Capital assets	(853)	(464)
	<i>Increase of deficit and decrease of shareholders' equity</i>	
	(853)	(464)

As a result of the impairment test performed as of the transition date, the Corporation recognized an impairment loss of \$583,000 (before tax) for certain stores in which the recoverable amount did not exceed the carrying amount of the assets. The recoverable amount was based on the value in use of the assets belonging to the CGU and takes into account expected future cash flows deriving from the use of these assets. The cash flows were discounted at a pre-tax rate of 5.45 %. The effect of these adjustments was to decrease capital assets by \$583,000 as at January 31, 2010.

For the nine-months period ended October 30, 2010, due to the impairment charge recorded at the transition date, depreciation expense was reduced by \$119,000. No additional impairment charge was recorded during the nine-months period ended October 30, 2010, nor was any part of the impairment charge reversed.

For the fiscal year ended January 29, 2011, due to the impairment charge recorded at the transition date, depreciation expense was reduced by \$142,000. An additional impairment charge of \$500,000 was recorded during the fiscal year ended January 29, 2011, while \$88,000 of the opening impairment charge was reversed. The cash flows were discounted at a pre-tax rate of 6.44 %.

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

d. Advertising costs

Canadian GAAP – Allows for advertising costs to be deferred (as prepaid items) and expensed at the time the advertising occurs.

IFRS – Advertising costs must be recognized as an expense at the time the expense is engaged.

The impact from the conversion of advertising costs to IFRS is summarized below:

As at	January 29, 2011	October 30, 2010
	\$	\$
Prepaid expenses	(5)	(64)
Trade and other payables	(16)	(13)
	<i>Increase of deficit and decrease of shareholders' equity</i>	
	(21)	(77)

e. Convertible debentures

Canadian GAAP - The measurement approaches permitted for the separation of compound financial instruments include: 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 instruments as a whole.

Transaction costs related to financial instruments classified as held for trading are recognized in expense immediately. For those related to other financial instruments, entities are allowed to choose an accounting method allowing them to include transaction costs in the amount recorded during the initial assessment of the financial instrument, or to recognize them immediately in net earnings (loss).

IFRS – 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.

Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of the fair value of the instrument at initial recognition, except those classified at fair value through profit or loss.

Since the method used by the Corporation under Canadian GAAP is not converging with which permitted by IFRS, the Corporation has had to reassess the liability component of convertible debentures to effect the allocation in accordance with the requirements of the IAS 32. In addition, the Corporation recognized transition costs in full in the liability component. Thus, at the transition date, transaction costs have been added to the liability and equity components in proportion to the allocation of the fair value of the instrument, as the Corporation has not classified the financial instrument to fair value through profit or loss.

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

The impact of the conversion of convertible debentures to IFRS is summarized below:

As at	January 29, 2011	October 30, 2010
Note		
<u>Liability component</u>	\$	\$
Reassessment of the convertible debentures at the date of issue	(1,500)	(1,500)
Transaction costs related to the issue assigned to the liability component	117	117
<i>Subtotal</i>	(1,383)	(1,383)
Depreciation of transaction costs	(79)	(74)
Accumulated capitalized interest on the liability component	790	711
<i>Increase of deficit</i>	711	637
<i>Increase of shareholders' equity and decrease of liability component</i>	(672)	(746)
<u>Equity component</u>		
Reassessment of the convertible debentures at the date of issue	1,500	1,500
Transaction costs related to the issue assigned to the equity component	(117)	(117)
<i>Subtotal</i>	1,383	1,383
Deferred tax related to the equity component	(791)	(791)
<i>Subtotal of equity component</i>	592	592
Reclassification of equity component in contributed surplus	(188)	(159)
<i>Increase of shareholders' equity</i>	404	433

As at January 31, 2010, an amount of \$133,000 of the equity component of the debenture has been reclassified to contributed surplus following the repayment of debt.

f. Stock-based compensation

Canadian GAAP – For grant of stock-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS – Each portion in a stock-based award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Corporation adjusted its expense for stock-based awards to reflect this difference in accounting policies.

The Corporation will make no subsequent adjustment to total equity after the vesting date. However, this does not preclude it from recognizing a transfer within equity, i.e. a transfer from a component of equity to another.

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

The impact of the faster recognition of the expense in earnings (loss) is summarized below:

As at	January 29, 2011	October 30, 2010
	\$	\$
Contributed surplus	(33)	(36)
	<i>Increase of deficit</i>	(36)
	(33)	(36)

Furthermore, at the transition date, the Corporation decided to transfer \$1,489,000 from contributed surplus to deficit for stock options and warrants which could no longer be exercised on that date.

g. Income taxes

Convertible debentures

Canadian GAAP – If a compound instrument can be settled without the tax incidence, the tax basis of the liability component is considered the same as its carrying amount, and, therefore, there is no temporary difference, resulting in no deferred tax.

IFRS – When a taxable temporary difference arises from the initial recognition of the equity component separately from the liability component of a compound financial instrument, the resulting deferred tax liability is charged directly to the carrying amount of the equity component.

The impact from the allocation of deferred tax liability directly to the carrying amount of the equity component of convertible debentures is summarized below:

As at	January 29, 2011	October 30, 2010
Note	2011	2010
	\$	\$
Initial recognition of deferred tax liability	(791)	(791)
Recognition of deferred tax liability variation	500	465
	<i>Decrease of deficit</i>	465
	<i>Decrease of shareholders' equity and deferred tax assets</i>	(326)
	(291)	(326)

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

Income tax effect of other reconciling differences between Canadian GAAP and IFRS

Differences for income tax recognition include the impact of recording the deferred tax effect of other differences between Canadian GAAP and IFRS. The impact on the statement of financial position following the temporary difference variation in deferred tax assets is summarized below:

As at	Note	January 29, 2011	October 30, 2010
		\$	\$
Capital assets - initial direct costs of the lease	a	(1)	(1)
Capital assets - increase due to impairment	c	228	124
Advertising costs	d	6	19
Liability component of convertible debentures - transaction costs	e	9	10
Others		-	12
	<i>Subtotal</i>	242	164
Capital assets - costs for dismantling and restoring the site		(3)	(3)
Provisions - costs for dismantling and restoring the site		(8)	(7)
	<i>Impact of deferred tax on costs for dismantling and restoring the site</i>	(11)	(10)
	<i>Increase of deferred tax assets and shareholders' equity and decrease of deficit</i>	231	154

Total impact

As at	January 29, 2011	October 30, 2010
	\$	\$
From convertible debentures	(291)	(326)
From other differences between the two standards	231	154
	<i>Decrease of deferred tax assets and shareholders' equity</i>	(60)
		(172)

h. Reclassification affecting the presentation

Some accounts of the unaudited statements of financial position have been reclassified to conform to the requirements of IFRS. The following reclassifications have been made in the unaudited statement of financial position:

- ✓ Deferred tax assets must be classified as non-current item. Balances presented in the current section under Canadian GAAP have been reclassified.
- ✓ The balance of the account "Accounts payable and accrued liabilities" has mainly been distributed among three accounts, namely:
 - in "Trade and other payables";
 - in "Current provisions"; and
 - in "Deferred lease inducements".

Notes to the Financial Statements (continued)

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

24. Transition to IFRS (continued)

The following reclassifications have been made in the unaudited statements of net earnings (loss) and comprehensive income (loss):

- ✓ “Cost of goods sold” was disaggregated and removed from “Cost of goods sold, operating and administrative expenses”;
- ✓ “Depreciation, amortization and impairment” were combined in “Operating and administrative expenses,” because the Corporation selected the function classification method.

24.6 Material Adjustments to the Statements of Cash Flows

IFRS require cash flows from interest and dividends received and paid, and income taxes received and paid, to be disclosed directly in the statement of cash flows. Under Canadian GAAP, the Corporation disclosed interest and income taxes received and paid in the notes to the financial statements. This has resulted in a change to the presentation of the statements of cash flows for all periods presented in these unaudited condensed interim financial statements. There are no other material differences between the Corporation’s statements of cash flows presented under IFRS and the statements of cash flows presented under Canadian GAAP.

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