



To our Shareholders:

In Groupe Bikini Village inc. ("Groupe Bikini Village" or the "Company")'s fourth quarter 2009 results, you will see stable sales volumes, an overall increase in gross margins, a tight control on direct and indirect expenses, and a disciplined approach to inventory management, all of which led to an increased profitability, a material reduction in our inventory levels and an improved cash situation.

Clearly, our increased focus on expense control and inventory management – the key element of our strategy in 2009, as we adapted to match market realities – served us well. As a result of this, in addition to our renewed and expanded retail network, modern merchant systems and efficient distribution centre, we now stand in an excellent position to capitalize on rebounding consumer markets.

### **Fourth quarter 2009 results**

Net sales for the fourth quarter of 2009, were \$13 million, unchanged from the \$13 million posted in the fourth quarter of last year. Comparable sales decreased by 1.9% over the same period.

The Company delivered EBITDA<sup>1</sup> of \$1.8 million, or 13.7%, in the fourth quarter of 2009, compared to EBITDA<sup>1</sup> of \$1.4 million, or 11%, for the fourth quarter of 2008. This \$0.4 million increase in operating income resulted primarily from the positive impact of our strategy to tightly manage inventories, focus on full-price selling, and control costs – which, together, led to stronger overall gross margins and improved store contribution.

For the quarter ended January 30, 2010, our net earnings were \$796,000 (nil per basic and diluted share), as compared to a net earnings of \$615,000 (nil per basic and diluted share) for the same quarter in the previous year.

Cash flows generated from operation in the fourth quarter of 2009 were \$3.8 million, an increase of \$1.5 million compared with the fourth quarter of 2008, as a direct result of effective and dynamic management of our inventories.

### **2009 Year end results**

Net sales for the fiscal year ended January 30, 2010, at \$41 million, increased by 0.4%, compared to \$40.8 million in fiscal 2008. Comparable sales decreased by 4% year-over-year.

While our improved performance in the last six months of fiscal 2009 was encouraging and enabled us to regain some ground, it was unable to fully make up for the challenges we faced in the first half of the year. Consequently, EBITDA<sup>1</sup> for the year ended January 30, 2010 totalled \$487,000, or 1.2%, compared to \$1.3 million, or 3.1%, in the previous year.

For fiscal 2009, net loss totalled \$1.5 million ((\$0.01) per share, basic and diluted), as compared to a net loss totalling \$440,000 (nil per share, basic and diluted) in fiscal 2008.

### **Outlook <sup>2)</sup>**

There are a number of factors suggesting an improvement in the prospects for Groupe Bikini Village in fiscal 2010: among them, recent improvements in market conditions, increasing consumer confidence, and the success of our strategy to fine-tune our operations to suit a changing market – a strategy, which has allowed us to improve our position with respect to both inventory and cash flow. However, we are also disciplined, and remain prepared for a continued challenging retail environment in the near future. While our improved performance in the last six months was certainly encouraging, we recognize that the market rebound is ahead of us yet.

Given the continuing difficult conditions, we remain committed to our strategy to adapt our operations to suit market realities: we strongly believe this strategy will best position us for success as economic conditions improve. In particular, we will focus on managing working capital, inventories, supply risk, capital expenditures and debt level, as well as direct and indirect costs.

Despite challenging markets over the last two years, we have continued to push forward with improvements to our retail network which we believe will improve our performance as conditions improve. We have undertaken renovations in stores that are likely to deliver improved results, and have closed stores that haven't performed as we'd hoped. We have exited expiring leases where we've seen opportunities to achieve our desired sales objectives more efficiently in smaller locations in higher-traffic areas of malls. We have upgraded our systems and supply chain, to make our operations more effective and efficient. And in 2010, we will continue to execute on these smart strategies, as well as sharpening our focus on store-level execution and performance, as a means of unlocking our full business potential.

In fiscal 2010, we will persist in our work to build shareholder value, by continuing to push for operational improvements, by ensuring our actions remain appropriate for the times, by capitalizing on opportunities that may present themselves, by addressing our capital requirements and capital structure in order to create our own opportunities, such as strategic alternatives wherever we can.

### **Acknowledgements**

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

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

Yves Simard, C.A.  
President and Chief Executive Officer  
Sainte-Julie, April 22, 2010

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1 Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 5 of the MD&A for the year ended January 30, 2010; reconciliation with the most directly comparable financial GAAP measures is presented on page 7 of this report.

2 To be read in conjunction with "Forward-Looking Statements" on page 5 of the MD&A for the year ended January 30, 2010.

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

	Year ended		
	January 30, 2010	January 31, 2009 Restated <sup>2</sup>	February 2, 2008
<b>Operating results</b>			
Operating revenue	\$41,022	\$40,844	\$39,827
Operating income - EBITDA <sup>1</sup>	487	1,285	2,426
In % of sales	1.2 %	3.1 %	6.1 %
Earnings (loss) before income taxes related to continuing operations	(1,869)	(546)	1,312
In % of sales	(4.6)%	(1.3)%	3.3 %
Net earnings (loss) related to continuing operations	(1,477)	(440)	811
In % of sales	(3.6)%	(1.1)%	2.0 %
Net earnings from discontinued operations	-	-	478
Net loss	(1,477)	(440)	1,289
In % of sales	(3.6)%	(1.1)%	3.2 %
<b>Per share amounts</b>			
Continuing operations	(0.01)	-	0.01
Discontinued operations	-	-	-
Loss per share, basic and diluted	(0.01)	-	0.01
<b>Weighted average number of shares outstanding, basic (in thousands)</b>	<b>167,678</b>	171,996	172,678
<b>Other statistics</b>			
Investment activities - net (in thousands \$)	1,672	3,254	3,803
Number of stores at the end of the period	63	59	58
Number of employees	515	510	500

1 Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 5 of the MD&A for the year ended January 30, 2010; reconciliation with the most directly comparable financial GAAP measures is presented on page 7 of this report.

2 Restated to reflect the changes as a result of the retrospective application of the change in accounting policy related to the adoption of the new accounting standard for Goodwill and Intangible Assets. See section "Accounting Standards Implemented in the Year Ended January 30, 2010" on page 12 of the MD&A for the year ended January 30, 2010.

(In thousands of dollars, except per share amounts)

	Year ended January 30, 2010 (52 weeks)	Year ended January 31, 2009 Restated <sup>3</sup> (52 weeks)	Year ended February 2, 2008 (52 weeks)	Year ended February 3, 2007 (53 weeks)	Year ended January 28, 2006 (52 weeks)
<b>OPERATING RESULTS</b>					
Operating revenue	\$41,022	\$40,844	\$39,827	\$40,523	\$37,644
Cost of goods sold, operating and administrative expense	40,535	39,559	37,401	38,191	35,001
Operating income - EBITDA <sup>1</sup>	487	1,285	2,426	2,332	2,643
Operating margin	1.2 %	3.1 %	6.1 %	5.8 %	7.0 %
Interest	766	446	125	4	2,865
Amortization	1,590	1,385	989	771	637
Unusual items	-	-	-	448	343
Income taxes (recovery)	(392)	(106)	501	(848)	77
Net earnings (loss) related to					
Continuing operations	(1,477)	(440)	811	1,957	(1,279)
Continuing operations/net sales	(3.6 %)	(1.1 %)	2.0 %	4.8 %	(3.4 %)
Discontinued operations	-	-	478	-	(14,609)
Net earnings (loss)	(1,477)	(440)	1,289	1,957	(15,888)
Net earnings (loss)/net sales	(3.6 %)	(1.1 %)	3.2 %	4.8 %	(42.2 %)
<b>PER SHARE</b>					
Net earnings (loss) related to					
Continuing operations	(0.01)	-	0.01	0.01	(0.07)
Discontinued operations	-	-	-	-	(0.81)
Net earnings (loss), basic and diluted	(0.01)	-	0.01	0.01	(0.88)
Shareholders' equity	0.06	0.07	0.07	0.06	0.38
Number of shares					
outstanding at year-end (in thousands)	167,678	167,678	172,678	172,678	18,901
Weighted average number of shares outstanding (in thousands)	167,678	171,996	172,678	162,894	18,003
<b>FINANCIAL POSITION</b>					
Working capital	4,742	7,587	8,174	6,597	4,428
Current ratio of working capital	1.74:1	2.27:1	2.61:1	2.29:1	1.87:1
Capital and intangible assets	8,400	8,086	5,180	2,366	2,475
Total assets	20,012	21,664	18,449	14,505	11,965
Total long-term debt <sup>2</sup>	2,888	3,699	1,420	-	-
Shareholders' equity	10,068	11,441	11,741	9,397	6,903
Total long-term debt <sup>2</sup> / shareholders' equity	0.29:1	0.32:1	0.12:1	-	-
Return on average shareholders' equity	(13.7 %)	(3.8 %)	12.2 %	24.0 %	(190.3 %)
<b>OTHER STATISTICS</b>					
Capital & intangible expenditures	1,672	3,254	3,803	649	841
Number of stores opened or renovated and expanded during the year	6	9	17	4	4
Number of stores at year-end	63	59	58	56	57
Retail square-footage (in square feet)	98,900	94,400	92,100	86,600	87,000
Number of employees	515	510	500	460	450

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

3 Restated to reflect the changes as a result of the retrospective application of the change in accounting policy related to the adoption of the new accounting standard for Goodwill and Intangible Assets. See section "Accounting Standards Implemented in Year Ended January 30, 2010" on page 12 of the MD&A for the year ended January 30, 2010.

This management report, dated April 22, 2010, focuses on the commercial activities and financial results of Groupe Bikini Village inc. ("Groupe Bikini Village" or "the Company") for the year ended January 30, 2010. The financial information is in Canadian dollars.

## **COMPANY PROFILE**

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

During the third quarter of 2009, the Company also officially opened its first "Lanaï" pilot store, a destination of choice for a full range of lifestyle products bearing young girls' favourite brands' signature styles.

## **NON-GAAP FINANCIAL MEASURES**

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

## **FORWARD-LOOKING STATEMENTS**

This document contains prospective information concerning our activities, financial output, financial position and future financing projects. This information is based on certain hypotheses and analyses carried out in light of our experience and our perception of historic trends, current conditions, and expected future events, as well as other factors considered appropriate under the circumstances. However, the question of whether actual events should conform to our expectations and our predictions is subject to a certain number of risks, uncertainties and hypotheses, including the risks and uncertainties described under the heading "Risks and Uncertainties" in this MD&A and in the "Risk Factors" section of the Company's current Annual Information Form. Consequently, all prospective information contained in this document is provided subject to these risks and uncertainties, and it cannot be guaranteed that expected results or events will actually materialize or materialize in large part, or that they will have the expected impact on our Company.

The current outlooks set forth in this document represent our expectations as of April 22, 2010 and, consequently, could conceivably change after that date. We have neither the intention nor the obligation to update or revise any of the projected outlooks, whether in light of new information, future events or otherwise except as may be required under applicable law. Readers are urged to consider these and other such factors carefully, and not to place undue emphasis on the Company's forward-looking statements.

## **OVERALL PERFORMANCE**

The financial statements have been prepared in accordance with the Canadian GAAP for financial information. In the opinion of management, all the adjustments (which constitute normal adjusting entries) considered necessary for a proper presentation of the financial situation of the Company were taken into account.

## OVERVIEW

Groupe Bikini Village inc., serving Canadians for almost a quarter-century, is a leader in the commercialization 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 cruisewear, in the most popular brands the industry has to offer and in styles to suit every figure. Headquartered in Sainte-Julie, Quebec, Groupe Bikini Village inc. operates 64 stores and employs approximately 500 people; its securities trade on the Toronto Stock Exchange under the stock symbol GBV. For more information about Groupe Bikini Village inc., please visit our website at [www.bikinivillage.com](http://www.bikinivillage.com).

## OPERATING RESULTS

The significant rejuvenation of Groupe Bikini Village's retail network over the last few years has made our stores more attractive to customers – and helped us claim our share of the market. In fiscal 2009, we renovated two of our key Quebec stores and opened new stores in both Cambridge and Scarborough, Ontario, and in the Quebec City area. In addition, we officially opened our very first Lanāi pilot store (a girls' shop) in the centre of the Quartier Dix30 in Brossard, Quebec.

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

	Quebec	Ontario	New Brunswick	Nova Scotia	Total
<b>Bikini Village</b>	29	28	1	1	59
<b>Ocean Bikini Village</b>	4				4
<b>Lanāi</b>	1				1
<b>TOTAL :</b>	<b>34</b>	<b>28</b>	<b>1</b>	<b>1</b>	<b>64</b>
<b>Recently opened or fully renovated</b>	19	12	1	1	33
<b>New or renovated stores ( in % )</b>	<b>56%</b>	<b>43%</b>	<b>100%</b>	<b>100%</b>	<b>52%</b>

The analysis on the pages that follow discusses our strategy to deliver shareholder value, and the initiatives we have undertaken to fine-tune it in response to changing market conditions. It also examines a number of factors that impacted on our results in the periods of 2009 and 2008 under discussion.

The following is a summary of selected financial information, together with the comparative results, for the periods of three months and twelve months ended January 30, 2010 and January 31, 2009, respectively.

As noted, certain comparative figures have been restated due to the adoption of new accounting standards which have been retroactively applied and/or reclassified to conform to the current year's presentation. See Section "Accounting Standards Implemented in the Year Ended January 30, 2010" of this MD&A, page 12.

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

	Three months ended		Year ended		
	January 30, 2010	January 31, 2009 Restated <sup>3</sup>	January 30, 2010	January 31, 2009 Restated <sup>3</sup>	February 2, 2008
	\$	\$	\$	\$	\$
Operating revenue	13,042	12,988	41,022	40,844	39,827
Operating income (loss) - EBITDA <sup>1</sup>	1,791	1,423	487	1,285	2,426
Less:					
Interest	184	178	766	446	125
Amortization	413	344	1,590	1,385	989
Earnings (loss) before income taxes	1,194	901	(1,869)	(546)	1,312
Income taxes (recovery)	398	286	(392)	(106)	501
Net earning (loss) from continuing operations	796	615	(1,477)	(440)	811
Discontinued operations, net of related income taxes	-	-	-	-	478
Net earnings (loss)	796	615	(1,477)	(440)	1,289
<u>Per share amounts from</u>					
Continuing operations	-	-	(0.01)	-	0.01
Discontinued operations	-	-	-	-	-
Earnings (loss) per share, basic and diluted	-	-	(0.01)	-	0.01
Weighted average number of shares outstanding (in thousands) - basic	167,678	170,128	167,678	171,996	172,678
Cash flows from					
Operating activities	3,850	2,310	1,784	(506)	1,755
Financing activities	(283)	(140)	(529)	1,936	2,382
Investing activities	(174)	(193)	(1,672)	(3,254)	(3,803)
Total assets	20,012	21,664	20,012	21,664	18,449
Total long-term debt <sup>2</sup>	2,888	3,699	2,888	3,699	1,420

1 Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as defined on page 5 of this MD&A; this table provides a reconciliation with the most directly comparable financial GAAP measures.

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

3 Restated to reflect the changes as a result of the retrospective application of the change in accounting policy related to the adoption of the new accounting standard for Goodwill and Intangible Assets. See section "Accounting Standards Implemented in the Year Ended January 30, 2010 on page 12 of this 2009 Annual Report.

## **Fourth quarter and year ended January 30, 2010 compared to fourth quarter and year ended January 31, 2009**

### *Operating Revenues*

The Company's sales for the three-month period ended January 30, 2010 amounted to \$13 million, consistent with the \$13 million achieved in the comparable three-month period last year. Comparable sales, which compare the sales of the same number of stores from year to year, reflected a decrease of 1.9% during the same period.

The Company's sales for fiscal 2009, which ended January 30, 2010, totalled \$41 million -- an increase of 0.4% over fiscal 2008, when sales were \$40.8 million. Comparable sales decreased by 4% for the same period. For the purposes of this MD&A, a "comparable store" is a store that was open for all of both fiscal 2009 and 2008.

The 28.9% increase in sales we delivered in the third quarter of 2009, and our sustained performance in the fourth quarter, allowed us to fully recover the sales shortfall from the first half of 2009, which had resulted from the combined effect of the recession, the early termination of the travel season at the end of April 2009 with the first signs of H1N1 influenza virus in Mexico, and by the unseasonable weather conditions of last summer.

### *Operating Income - EBITDA<sup>1</sup>*

For the fourth quarter of 2009, the Company delivered EBITDA<sup>1</sup> (as previously defined in "Non-GAAP Financial Measures") of \$1.8 million, or 13.7%, compared to EBITDA<sup>1</sup> of \$1.4 million, or 11%, for the restated fourth quarter of 2008. The \$0.4 million increase in operating income in the fourth quarter of 2009, compared to the restated fourth quarter of 2008, was primarily the result of the positive impact of our strategy to tightly manage inventories, to focus on full-price selling, and to control costs – all of which led to stronger overall gross margin and improved store contribution.

EBITDA<sup>1</sup> for fiscal 2009 totalled \$487,000, or 1.2%, compared to \$1.3 million, or 3.1%, in the restated results for fiscal 2008. The \$798,000 decrease in operating income is due to a combination of factors. These include the general slowdown our industry witnessed in the first two quarters of 2009, as well as the higher operating costs that came with having a greater number of stores open, increased rental expenses on existing stores, and increased salary expenses caused primarily by the increase in the minimum wages in Quebec and Ontario.

### *Financing Charges and Amortization*

Financing charges for the three-month period ended January 30, 2010 increased slightly from \$178,000 in the fourth quarter of 2008, to \$184,000, due to the reduction in interest revenues.

Financing charges for the year ended January 30, 2010 increased from \$446,000 in fiscal 2008 to \$766,000, due to the interest payable on \$2 million in additional financing received at the end of October 2008 as well as the interest on capital leases and a reduction in interest revenues. The Company's short-term cash is conservatively invested in a Canadian chartered bank. The financing charges also include a \$288,000 (\$209,000 in 2008) non-cash interest expense, calculated on the debt component of the convertible debentures.

The amortization expense for the quarter ended January 30, 2010 increased by 20% to \$413,000, compared to \$344,000 for the quarter ended January 31, 2009. For the year ended January 30, 2010, it increased by 14.8%, from \$1.4 million in 2008 to \$1.6 million in 2009. These increases are the result of sustained investment in our network, our information systems and our distribution centre over the past three years.

<sup>1</sup> Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 5 of the MD&A for the year January 30, 2010; reconciliation with the most directly comparable financial GAAP measures is presented on page 7 of this report.

## *Earnings (Loss) before Income Taxes*

For the quarter ended January 30, 2010, the Company registered \$1.2 million in earnings before income taxes, compared to \$901,000 in the comparable period restated the previous year. For the fiscal year ending on that same date, the Company registered a loss before income taxes of \$1.9 million, compared to a loss before income taxes of \$546,000 for the restated fiscal 2008.

## *Income taxes*

Groupe Bikini Village recorded income taxes in the amount of \$398,000 during the fourth quarter of 2009, representing a tax rate of 33.3%, compared to income taxes of \$286,000 or 31.7% for the restated corresponding period in 2008.

The Company recorded income tax recovery in the amount of \$392,000 during the year ended January 30, 2010, representing a tax rate of 21%, compared to income tax recovery of \$106,000 using an effective rate of 19.4% during the restated previous fiscal year. The difference in tax rates is mainly due to the proportion between i) the amount of non-deductible charges and ii) loss before income taxes. The November 2009 Province of Ontario announcement on the decrease in its tax rate has also had an effect on future taxes.

## *Net Earnings (Net Loss)*

Net earnings in the quarter ending January 30, 2010 were \$796,000 (nil per basic and diluted share), as compared to net earnings of \$615,000 (nil per basic and diluted share) in the corresponding restated period last year. For the year ended January 30, 2010, net loss totalled \$1.5 million ((\$0.01) per basic and diluted share), compared to net loss of \$440,000 (nil per share, basic and diluted) for the restated year ended January 31, 2009.

## **CASH POSITION**

### *Operating Activities*

Cash flows generated from operations in the fourth quarter of 2009 increased by \$1.5 million as compared to cash flows generated in the comparable restated period of the previous year, from \$2.3 million in 2008 to \$3.8 million in 2009. This increase resulted primarily from our success in reducing inventory.

For the fiscal year ended January 30, 2010, cash flows generated by operations increased by \$2.3 million over the cash flows used in the previous year, from \$506,000 used by operations in 2008 to \$1.7 million in cash flow generated in fiscal 2009. This positive impact over cash flow is the net result of our effective inventory management, which was the key element of our 2009 adapted strategy to match our operations to market realities largely exceeding the negative impact of the 2009 net loss.

### *Financing Activities*

During the fourth quarter of 2009, the Company repaid \$58,000 toward its obligations under capital leases and \$225,000 on convertible debentures, for a total of \$283,000. For the corresponding period in 2008, the Company repaid \$42,000 on its obligations under capital leases and used \$98,000 to purchase its own shares for cancellation under the normal course issuer bid program, for a total of \$140,000.

During fiscal 2009, the Company repaid \$231,000 in accordance with its obligations under capital leases and \$525,000 on convertible debentures; it also received \$227,000 in lease inducements, with a net of \$529,000 used for financing activities. In fiscal 2008, the Company repaid \$42,000 on its obligations under capital leases, used \$230,000 to purchase its own shares for cancellation under the normal course issuer bid program, received \$208,000 in lease inducements and

generated \$2 million in financing from the issuance of unsecured convertible debentures, for a net total of \$1.9 million generated in 2008.

### *Investment Activities*

Investment activities in the fourth quarter of 2009 used \$134,000, compared to \$193,000 during the corresponding period one year earlier. During the fourth quarter of 2009, construction was in progress for one store; during the fourth quarter of 2008, in addition to construction in progress for one store, the Company incurred additional capital expenditures in establishing its new information systems.

In fiscal 2009, investment activities totalled \$1.6 million, compared to \$3.3 million in 2008. During fiscal 2009, in addition to investments made in its distribution centre, the Company completed the renovation of two stores and the construction of four new stores. In 2008, the Company renovated five stores, opened four stores, replaced its entire merchant and financial systems, and invested in leasehold improvements in its new corporate headquarters and distribution centre.

### **Year ended January 31, 2009 compared to the year ended February 2, 2008**

Groupe Bikini Village's sales from continuing operations totalled \$40.8 million in the year ended January 31, 2009, an increase of 2.6% over the previous year, when sales were \$39.8 million. The comparable sales decreased by 3.4% in fiscal 2008 over fiscal 2007.

The EBITDA<sup>1</sup> for the restated year ended January 31, 2009 was \$1.3 million, or 3.1%, compared to \$2.4 million, or 6.1%, for the year ended February 2, 2008. The \$1.1 million decrease in operating income in the restated fiscal 2008 is due to higher store operating costs, mostly related to increased lease expenses, a greater number of stores in operation, an increase in minimum wages and higher yearly business volume. The additional gross margin arising from our \$1 million increase in business volume was entirely offset by an overall decrease in gross margins due to markdowns necessitated by both unseasonable summer weather in 2008 and challenging retail conditions that have continued since fall of that year.

Financing charges for fiscal 2008 increased to \$446,000 from \$125,000 in fiscal 2007. The increase in the expense is due to the interest payable on the \$2.5 million initial financing received at the end of May 2007, the interest on the additional \$2 million in financing received at the end of October 2008, and the reduction in interest revenues.

Amortization expense increased by 40% year-over-year, from \$989,000 in fiscal 2007 to \$1.4 million in fiscal 2008. These increases were the result of 13 complete store renovations and the opening of four new stores in 2007, as well as the renovation of five existing stores and the opening of four new stores in 2008.

For the restated 2008 fiscal year, the Company registered \$546,000 in losses before income taxes on continuing operations, compared to earnings before income taxes related to continuing operations of \$1.3 million for fiscal 2007.

The Company registered an income tax recovery of \$106,000 during the restated year ended January 31, 2009, representing a tax rate of 19.4%, compared to an income tax amount of \$501,000 using an effective rate of 38.2% during the previous year.

For the restated year ended January 31, 2009, net loss on continuing operations totalled \$440,000 (nil per share, basic and diluted), compared to net earnings related to continuing operations of \$811,000 (\$0.01 per share, basic and diluted), in the year ended February 2, 2008.

<sup>1</sup> Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 5 of the MD&A for the year January 30, 2010; reconciliation with the most directly comparable financial GAAP measures is presented on page 7 of this report.

In the year ending February 2, 2008, the Company recorded a gain of \$478,000 resulting from discontinued activities related to the sale of its subsidiary Les Ailes de la Mode Incorporées in 2005. This gain is related to re-assessments by the *Commission de la santé et de la sécurité du travail du Québec (CSST)* following a review of the years prior to the sale of the subsidiary, and to the reversal of accruals related to circumstances that did not materialize, net of related income taxes.

Earnings from discontinued operations for the year ended January 31, 2009 were nil, compared to \$478,000 for the comparable period a year earlier.

For the restated year ended January 31, 2009, net loss totalled \$440,000 (nil per basic and diluted share), compared to net earnings of \$1.3 million (\$0.01 per share, basic and diluted) for the year ended February 2, 2008.

Cash flows generated by operations in restated fiscal 2008 decreased by \$2.3 million as compared to the cash flows generated in the previous year. The decrease was due to lower net earnings and an increase in the level of inventory.

In the fiscal year ended January 31, 2009, financing activities generated \$2 million (\$2.3 million in 2007) following the issuance of convertible debentures to the Solidarity Fund QFL (the "Fund"); the Company received \$208,000 (\$79,000 in fiscal 2007) as deferred lease inducements.

These debentures will bear interest at an annual rate of 8%, payable monthly, and must be bought back by the Company in 60 equal monthly payments starting July 1, 2009. As of June 1, 2009, the Fund has the option to convert its debentures into common shares of the Company, at the conversion rate of \$0.20 per share. In case of default or change of control of the Company, the Fund may potentially convert its debentures at a more advantageous rate.

During fiscal 2008 Groupe Bikini Village inc. used \$230,000 to purchase its own shares for cancellation under its normal course issuer bid program. Finally, during the fourth quarter of 2008, the Company repaid \$42,000 in accordance with its obligations under capital lease.

In fiscal 2008, investment activities totalled \$3.3 million, compared to \$3.8 million in 2007. In fiscal 2008, the Company renovated five stores, opened four stores, replaced its entire merchant and financial systems, and invested in leasehold improvements in its new corporate headquarters and distribution centre. The investment activities in fiscal 2007 included the renovation of 13 existing stores, the opening of four new ones, and investments into security systems for specific stores.

## **FUTURE CASH POSITION <sup>1)</sup>**

As at January 30, 2010 the Company had available cash of \$3.9 million and an on-demand credit facility of up to \$3 million renewable annually and, of which none was used as at January 30, 2010. Availability of the on-demand credit is limited by a margin formula based on the Company's assets, net of specific reserves and priority claims. In the normal course of business in fiscal 2009, the Company issued letters of credit and letters of guarantee against this facility, for a total of \$180,000, expiring in August 2010. This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Company, and bears interest at prime plus 3% (1.15% in 2008). Under the agreements relative to the credit facility, the Company is subject to a restrictive clause concerning compliance with financial ratio.

Cash flow from operations and credit facilities were the primary funding sources for working capital requirements, repayment of long-term debts and capital expenditures in fiscal 2009.

Groupe Bikini Village has a strong focus on working capital; while this is always an imperative; the Company has made it a particular priority in the near term. Groupe Bikini Village's continued focus on working capital management and the financing facilities it currently has in place will allow it to leverage some of its existing stores and meet its long-term debt repayment schedules.

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

## Commitments

In the coming fiscal years, minimum payments on long-term debt and the liability component of convertible debentures are as follows (in thousands of dollars):

2011	2012	2013	2014	2015
\$1,196	\$1,196	\$1,224	\$917	\$300

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

2011	2012	2013	2014	2015	Subsequently
\$5,203	\$4,791	\$4,150	\$2,746	\$1,841	\$2,687

## **USE OF ESTIMATES**

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

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

## **APPROVAL OF THE FINANCIAL STATEMENTS**

The Company's annual financial statements have been approved by its Board of Directors upon recommendation of its audit committee, prior to release.

## **ACCOUNTING STANDARDS IMPLEMENTED IN THE YEAR ENDED JANUARY 30, 2010**

During the fiscal year ended January 30, 2010, the Company followed the same accounting policies and procedures used in the previous fiscal year, except as noted below.

### *Goodwill and Intangible Assets*

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064 "Goodwill and Intangible Assets", which replaces Section 3064 "Goodwill and Other Intangible Assets," and Section 3450 "Research and Development Costs." The new Section 3064 is effective for interim and annual financial statements beginning on October 1<sup>st</sup>, 2008, and establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally-generated intangible assets, are aligned with International Financial Reporting Standards ("IFRS") International Accounting Standard 38 "Intangible Assets"

The Company has adopted this new accounting standard on February 1<sup>st</sup>, 2009. The primary impact of implementing this standard was on the accounting policy for marketing expenses. According to this new standard, marketing expenses will be entirely expensed at the beginning of a campaign. Prior to the adoption of this standard, marketing expenses were deferred and amortized

over the duration of the campaign. As a result, certain figures from the prior year have been restated due to the retrospective application of the accounting standard. The following table summarizes the increase (decrease) to the 2008 comparative figures contained herein, both as of January 31, 2009 and for the year ended on that date, from the figures previously reported.

Increase (decrease) in thousands of dollars	As at and for twelve month period ended January 31, 2009 \$
Accounts receivables	57
Prepaid charges	(173)
Accounts payable and accrued liabilities	(73)
Future income taxes	15
Net loss	(45)
Opening deficit	73
Closing deficit	28

The Company's intangible assets are comprised of software costs. These costs were previously recorded as a Capital Asset prior to the adoption of Section 3064. Intangible assets are now reported separately as "Intangible Assets" in the Balance Sheet.

#### *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In the second quarter of 2009, the Company adopted EIC-173 from the Emerging Issues Committee, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." The EIC specifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of these guidelines did not have any impact on the Company's annual financial statements.

#### *Financial Instruments – Disclosures*

The Company also adopted the changes made by CICA to Section 3862, "Financial instruments – Disclosures," whereby an entity shall classify and disclose fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have 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.

The Company adopted these modifications in the fourth quarter of 2009. The application of these modifications did not have an effect on the financial statements of the Company.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

### *Business combinations, consolidated financial statements and non-controlling interests*

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

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

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

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

### *Adoption of international financial reporting standards in Canada*

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

The Company planned its changeover from current Canadian GAAP to IFRS by first installing a professional resource, formally reporting to the Comptroller, to manage the transition. A project plan was subsequently established.

Groupe Bikini Village’s IFRS transition project plan consists of four phases: an initial assessment, detailed assessment, design and implementation.

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

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

Groupe Bikini Village is now able to evaluate that the impact of the application of the IFRS on business process and financial systems will not be significant. The Company is now evaluating the impacts on accounting policies, disclosure controls and internal controls over financial reporting.

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

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

The Company makes sure that the personnel involved in the process of change-over to IFRS have access to all the necessary training. Quarterly, the Audit Committee receives from management, monitoring on the change-over plan.

At this time, the impact on Groupe Bikini Village’s future financial position and results of operations cannot reasonably be determined or estimated. However, further to the complete analysis of the IFRS standards, we have made choices, as warranted, with regard to these standards and noted the differences between some of these standards and our current accounting policies. The most significant ones are set out in the following table.

Standards	Comparisons between IFRS and GAAP	Preliminary Findings
Fixed assets	<p><i>IFRS</i>: After initial recognition, we can measure our fixed assets using the cost model or the revaluation model.</p> <p><i>GAAP</i>: The revaluation model is not allowed.</p>	We will continue to use the cost model in order to avoid balance sheet variations in the fair value of fixed assets and the corresponding impact on P&L statements.
	<p><i>IFRS</i>: We have to amortize our fixed assets based on their components.</p> <p><i>GAAP</i>: Component identification rules are less stringent.</p>	No components will be amortized separately because we conducted an analysis which concluded that there is no material component in our fixed assets.
Share-based payment	<p><i>IFRS</i>: When stock option awards vest gradually, each block is to be considered as a separate award.</p> <p><i>GAAP</i>: The gradually vested blocks are considered as a single award.</p>	The compensation expense will have to be recognized over the expected term of each vested block.
Convertible debentures	<p><i>IFRS</i>: When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting the amount separately determined for the liability component from the fair value of the instrument as a whole.</p> <p><i>GAAP</i>: The measurement approaches permitted for the separation of compound financial instruments include:</p> <p>1) Assigning to the less easily measurable component the residual amount after deducting from the instrument as a whole the amount separately determined for the</p>	The components of the convertible debentures must be revalued to conform to IAS 32.

Standards	Comparisons between IFRS and GAAP	Preliminary Findings
Convertible debentures (continued)	<p>component that is more easily measurable; and</p> <p>2) Measuring the liability and equity components separately and, to the extent necessary, adjusting these amounts on a pro rata basis so that the sum of the components equals the amount of the instrument as a whole.</p>	
Earnings per share	<p><i>IFRS:</i> We have to independently determine, for the interim period and the year-to-date, the number of potentially dilutive shares to consider in calculating diluted earnings per share.</p> <p><i>GAAP:</i> The number is independently determined for the interim period, but the year-to-date is a weighted average of the periods.</p>	Diluted earnings per share will be different.
	<p><i>IFRS:</i> For the purpose of calculating diluted earnings per share, we must include the exercise price of the options that could be exercised in our accounting for the cost of compensation plans; this amount should be included for the duration of the vesting period, during which their effect could be dilutive.</p> <p><i>GAAP:</i> The cost of vested stock options is not considered when accounting for remuneration expenses.</p>	Diluted earnings per share will be different.

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

Optional Exemptions	Preliminary Findings
Fair value or revaluation as deemed cost	<p>This exemption allows us to measure an item of property, plant or equipment at the date of transition to IFRS at its fair value, and to use that fair value as its deemed cost at that date. It also allows us to use a previous GAAP revaluation of an item of property, plant or equipment at or before the date of transition to IFRS as deemed cost at the date of the revaluation.</p> <p>We have decided to avail ourselves of this exemption for property, plant and equipment affected by the revaluation made in 2004.</p>
Share-based payment	This exemption would excuse us from applying the standard to equity instruments acquired before the IFRS transition date.

Optional Exemptions	Preliminary Findings
Share-based payment (continued)	* We have decided to avail ourselves of this exemption when possible.
Compound financial instruments	On the IFRS transition date, a first-time adopter need not separate the liability component and the equity component, if the liability component is no longer outstanding at the date of transition to IFRS.  * We have decided to avail ourselves of this exemption when possible.
Decommissioning liabilities included in the cost of property, plant and equipment	This exemption allows us to measure the liability as at the date of transition to IFRS in accordance with IAS 37.  * We have decided to avail ourselves of this exemption.

## RELATED PARTY TRANSACTIONS

During the year ended January 30, 2010, no fees were paid to the former Chairman of the Board of the Company, who is currently a Director (\$94,750 in fiscal 2008). In conjunction with the relocation of its corporate headquarters in 2008, the Company no longer receives occupancy revenues from the former Chairman of the Board (it received \$9,750 in occupancy revenues in 2008).

## CONCLUSION ON THE EFFICIENCY OF THE DISCLOSURE CONTROLS AND PROCEDURES

Management of Groupe Bikini Village inc. evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined under National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*. The evaluation was performed under the supervision of the President and Chief Executive Officer and the Comptroller (acting as Chief Financial Officer). Based on this evaluation of disclosure controls and procedures, the President and Chief Executive Officer and the Comptroller have concluded that the Company's disclosure controls and procedures were effective as at January 30, 2010.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Groupe Bikini Village's management is responsible for designing internal controls over financial reporting that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with Canadian GAAP.

Groupe Bikini Village's management evaluated the effectiveness of the design and operation of its internal control over financial reporting, as defined under National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*. The evaluation was performed under the supervision of the President and Chief Executive Officer and the Comptroller (acting as Chief Financial Officer). Based on this evaluation of internal control over financial reporting, the President and Chief Executive Officer and the Comptroller have concluded that the Company's internal control over financial reporting was effective as at January 30, 2010.

No changes were made to Groupe Bikini Village's internal control over financial reporting during the period beginning on November 1, 2009 and ending January 30, 2010, which have materially affected, or are reasonably likely to materially affect, Groupe Bikini Village's internal control over financial reporting. However, it should be noted that a control system, no matter how well conceived or operated, can only provide reasonable assurance that its objectives are met.

## RISKS AND UNCERTAINTIES

This section highlights risks and uncertainties that are inherent in the Company's normal course of business and have the potential to impact its financial performance. The risks and uncertainties described below are not the only risks the Company may encounter; additional risks and uncertainties not presently known to the Company may also negatively impact financial performance.

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

Although the economic conditions in Canada have improved since the beginning of the year, the Company remains cautious aware that economic factors impacting consumer spending patterns could deteriorate. The Company exerts no influence over several external factors that affect economic variables and general consumer confidence, including economic cycles, interest rates, personal debt levels, unemployment rates, and levels of personal disposable income. Events such as political or social unrest, natural disasters, disease outbreaks, and acts of terrorism also have the potential to have a material adverse effect on the Company's performance, particularly if they occur during or otherwise impact a peak season. Management regularly monitors economic conditions and estimates their impact on the Company's operations, incorporating those estimates in short-term operating and longer-term strategic decisions.

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

The Company depends on the efficient operation of its distribution centre, such that any significant disruption in its operation (e.g. 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 Company's results of operations.

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

However, at Groupe Bikini Village, we enjoy numerous competitive advantages, 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. A key competitive advantage of Bikini Village and Ocean Bikini Village stores is our year-round offering of this specialty merchandise, since many other retailers only carry competing products during the summer season.

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

**FINANCIAL POSITION**

The Company's total assets amounted to \$20 million as at January 30, 2010, compared to \$21.7 million restated as at January 31, 2009, mainly due to a reduction in inventory levels. As at January 30, 2010, accounts receivable stood at \$167,000, compared to \$149,000 restated as at January 31, 2009.

Income taxes receivable were \$4,000 as at January 30, 2010, compared to \$270,000 as at January 31, 2009 following the receipt of payments from the different levels of government.

As at January 30, 2010, our inventories stood at \$6.2 million compared to \$7.9 million a year earlier, reflecting our rigorous and conservative inventory management approach, this was a key element of our strategy in 2009 to tailor our operations to market realities. This allowed Groupe Bikini Village to reduce inventory by \$1.7 million, and to achieve our objective of managing working capital while maintaining our sales and ensuring adequate levels of inventory to support future sales.

Prepaid expenses totalled \$580,000 as at January 30, 2010, compared to \$441,000 restated as at January 31, 2009. The difference is explained mainly by the increase in down payments to certain suppliers for import activities.

Short-term and long-term future income taxes were \$266,000 and \$443,000, respectively, for a total of \$709,000 as at January 30, 2010, as compared to \$450,000 and (\$129,000), respectively, for a total of \$321,000 restated as at January 31, 2009. Our net future income tax assets were increased mainly due to the increase in unused non-capital tax losses.

The book value of Groupe Bikini Village's capital assets totalled \$7.9 million as at January 30, 2010 compared to \$7.6 million as at January 31, 2009. The capital assets total at the end of fiscal 2009 includes the renovation of two existing stores and the construction of four new stores, offset by amortization.

The book value of the Company's intangible assets amounted to \$497,000 as at January 30, 2010 compared to \$487,000 as at January 31, 2009.

As at January 30, 2010, total debt amounted to \$9.9 million, compared to \$10.2 million as at restated January 31, 2009. The decrease in debt is principally attributable to the reimbursement of long-term debt and repayment of convertible debentures, partially mitigated by the increase in sales taxes payable.

Despite an increase of \$104,000 in contributed surplus relating to the stock option plan during the fiscal year ended January 30, 2010, shareholders' equity decreased to \$10 million during the year, having been negatively impacted by the net loss of \$1.5 million.

Groupe Bikini Village's working capital totalled \$4.7 million as at January 30, 2010, compared to \$7.6 million restated as at January 31, 2009; as a result, our working capital ratio was 1.7 at the end of the fiscal year, as compared to the restated ratio of 2.3 at the end of 2008.

**OUTSTANDING SHARE DATA**

As at January 30, 2010, the Company had 167,678,115 common shares outstanding (167,678,115 as at January 31, 2009). On that same date, 4,700,000 stock options were outstanding (January 31, 2009 – 4,900,501), at prices varying between \$0.08 and \$0.13, for a weighted average exercise price of \$0.09 (\$0.09 as at January 31, 2009), exercisable at dates ranging to 2018. During the fiscal year ended January 30, 2010, 501 stock options (8,634,626 in 2008) expired while 200,000 stock options (nil in 2008) were cancelled.

On April 28, 2008, the Company announced its intention to proceed with a normal course issuer bid to repurchase its own shares for cancellation, thereby increasing the proportionate value of each remaining shareholder's holdings. Under the bid, the Company could purchase up to 13,740,779 common shares of the Company (the "Shares"), representing 10% of the public float as

at April 22, 2008. The bid started on April 30, 2008 and ended on April 29, 2009. The price paid for the Shares was the market price at the time of acquisition, and the number of Shares purchased and the timing of any such purchases were determined by the Company's management. Shares purchased by the Company have subsequently been cancelled. Between April 30, 2008 and April 29, 2009, the Company repurchased 4,999,400 shares at an average price of \$0.046 per share, for a total of \$230,000.

On April 29, 2008, the Company granted 3,400,000 common stock option shares to certain Officers and Directors of the Company at an exercise price of \$0.08; these options can be exercised at any time during the ensuing three years, at a rate of 33 1/3% per year. These options mature in 2018. During the fiscal year ended January 30, 2010, the compensation expense recorded on the Statement of Operations with regard to this allocation is \$70,000 (\$54,000 in 2008). The compensation expense recorded on the Statement of Operations with regard to the previous year's allocation is \$34,000 (\$50,000 in 2008).

## ADDITIONAL INFORMATION

This MD&A is dated April 22, 2010, and is intended to facilitate the understanding and assessment of significant changes and trends, as well as risks and uncertainties, related to the Company's operating results and financial position. For other information pertaining to the Company, including the annual financial statements and Annual Information Form, please consult our website at [www.bikinivillage.com](http://www.bikinivillage.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

## SUMMARY OF QUARTERLY RESULTS

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

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

	Fourth quarter		Third quarter		Second quarter		First quarter	
	2009	2008	2009	2008	2009	2008	2009	2008
Fiscal year	\$	\$	\$	\$	\$	\$	\$	\$
	Restated <sup>2</sup>		Restated <sup>2</sup>		Restated <sup>2</sup>	Restated <sup>2</sup>	Restated <sup>2</sup>	Restated <sup>2</sup>
Operating revenue	13,042	12,988	6,658	5,167	11,408	12,768	9,914	9,921
Net earnings (loss)	796	615	(1,794)	(2,134)	(221)	839	(258)	240
Per share amounts								
Basic and diluted earnings (loss)	-	-	(0.01)	(0.01)	-	-	-	-
Weighted average number of shares (in thousands)								
Basic	167,678	170,128	167,678	172,502	167,678	172,678	167,678	172,678

The fluctuations between quarters are principally seasonal.

## OUTLOOK <sup>1)</sup>

There is cause for optimism when we look at Groupe Bikini Village's potential for the year ahead: in particular, market conditions have improved in late 2009 and early 2010, consumer confidence appears to be increasing, and we stand on stronger financial footing with improved cash flow and a better approach to inventory. While we are encouraged by all of these factors, as well as our demonstrated successes in adapting our strategies to the realities of our markets, we remain disciplined, and prepared for the retail environment to remain challenging in the near-term.

In the year ahead, we will continue to respond to the realities of the marketplace by adapting our operations to ensure our approaches continue to make sense, and to keep driving us toward improved shareholder value. We firmly believe that by following this approach, we will ensure we're at the ready to seize every opportunity – and in a strong position to leverage the rebound as economic conditions improve. In addition to our ongoing retail network improvements, 2010 will see a particular focus on managing working capital, inventories, supply risk, capital expenditures and debt level at Groupe Bikini Village, as well as direct and indirect costs. We will sharpen our focus on store-level execution and performance, as a means of unlocking our full business potential.

In fiscal 2010, we will continue our work to build shareholder value, by continuing to push for operational improvements, by ensuring our actions remain appropriate for the times, by capitalizing on opportunities that may present themselves, by addressing our capital requirements and capital structure in order to create our own opportunities, such as strategic alternatives, wherever we can.



Yves Simard  
President and Chief Executive Officer

1 To be read in conjunction with "Forward-Looking Statements" on page 5 of the MD&A for the year ended January 30, 2010.

2 Restated to reflect the changes as a result of the retrospective application of the change in accounting policy related to the adoption of the new accounting standard for Goodwill and Intangible Assets. See section "Accounting Standards Implemented in the Year Ended January 30, 2010" on page 12 of the MD&A for the year ended January 30, 2010.

# Management's Responsibility for the Financial Statements

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

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

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

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



Yves Simard  
President and Chief Executive Officer  
March 26, 2010

## Auditors' Report

To the Shareholders of  
Groupe Bikini Village inc.

We have audited the balance sheets of Groupe Bikini Village inc. as at January 30, 2010 and January 31, 2009, and the statements of operations and comprehensive earnings (loss), deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 30, 2010 and January 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Montreal, March 26, 2010

<sup>1</sup> Chartered accountant auditor permit No. 10511

## Statements of Operations and Comprehensive Loss

(in thousands of dollars, except per share amounts)

	Year ended	
	January 30, 2010	January 31, 2009
		Restated Note 3
	\$	\$
<b>Operating revenue</b>	<b>41,022</b>	40,844
Cost of goods sold, operating and administrative expenses (Note 5)	<b>40,535</b>	39,559
Interest (Note 6)	<b>766</b>	446
Amortization	<b>1,590</b>	1,385
	<b>42,891</b>	41,390
Loss before income taxes	<b>(1,869)</b>	(546)
Income taxes recovery (Note 7)	<b>(392)</b>	(106)
<b>Net loss and comprehensive loss</b>	<b>(1,477)</b>	(440)
<b>Loss per share, basic and diluted (Note 8)</b>	<b>(0.01)</b>	-
<b>Weighted average number of shares outstanding</b>	<b>167,678,115</b>	171,996,196

## Statements of Deficit

(in thousands of dollars)

	Year ended	
	January 30, 2010	January 31, 2009
		Restated Note 3
	\$	\$
<b>Deficit, beginning of period as previously reported</b>	<b>(19,617)</b>	(19,339)
Adjustment to opening deficit resulting from adoption of new accounting standard Section 3031- Inventories net of income taxes of \$103,000	-	207
Adjustment to opening deficit resulting from adoption of new accounting standard Section 3064 - Intangible assets, net of income taxes of \$15,000 ( \$36,000 in 2008)	<b>(28)</b>	(73)
Deficit, beginning of period as restated	<b>(19,645)</b>	(19,205)
Net loss	<b>(1,477)</b>	(440)
<b>Deficit, end of period</b>	<b>(21,122)</b>	(19,645)

See accompanying notes

# Balance Sheets

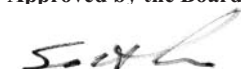
(in thousands of dollars)

As at	January 30, 2010	January 31, 2009 Restated Note 3
	\$	\$
<b>Assets</b>		
Current assets		
Cash	3,929	4,346
Accounts receivable	167	149
Income taxes	4	270
Inventories	6,223	7,922
Prepaid charges	580	441
Future income taxes (Note 7)	266	450
	<b>11,169</b>	13,578
Capital assets (Note 9)	7,903	7,599
Intangible assets (Note 10)	497	487
Future income taxes (Note 7)	443	-
	<b>20,012</b>	21,664
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	5,268	5,235
Current portion of long-term debt and convertible debentures (Note 11 and 12)	1,159	756
	<b>6,427</b>	5,991
Deferred lease credits	629	404
Long-term debt (Note 11)	528	727
Liability component of convertible debentures (Note 12)	2,360	2,972
Future income taxes (Note 7)	-	129
	<b>9,944</b>	10,223
<b>Shareholders' equity</b>		
Share capital (Note 13)	27,702	27,702
Equity component of convertible debentures (Note 12)	1,137	1,137
Contributed surplus	2,351	2,247
Deficit	(21,122)	(19,645)
	<b>10,068</b>	11,441
	<b>20,012</b>	21,664

See accompanying notes

Commitments (Note 17)

Approved by the Board



Scott Leckie  
Director



Joe Marsilii  
Director

# Statements of Cash Flows

(in thousands of dollars)

	Year ended	
	January 30, 2010	January 31, 2009  Restated Note 3
	\$	\$
<b>Operating activities</b>		
Net loss	(1,477)	(440)
Adjustments (Note 16)	1,592	1,718
	115	1,278
Net changes in non-cash working capital items (Note 16)	1,669	(1,784)
Operating activities	1,784	(506)
<b>Financing activities</b>		
Purchase of share capital	-	(230)
Issuance of convertible debentures	-	2,000
Repayment of convertible debentures	(525)	-
Rental inducement	227	208
Reimbursement of long-term debt	(231)	(42)
Financing activities	(529)	1,936
<b>Investing activities</b>		
Acquisition of capital assets	(1,518)	(2,766)
Acquisition of intangible assets	(154)	(488)
Investing activities	(1,672)	(3,254)
Net changes in cash	(417)	(1,824)
Cash at beginning	4,346	6,170
<b>Cash at end</b>	<b>3,929</b>	<b>4,346</b>

See accompanying notes

# Notes to the Financial Statements

(all tabular figures are in thousands of dollars)

## 1. Company description

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

## 2. Summary of significant accounting policies

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

### *Use of estimates*

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

The most significant areas requiring the use of management estimates are the following: inventory valuation, the estimated useful lives for the amortization of capital assets and intangible assets, determination of accrued liabilities, income taxes charges, the evaluation of the fair value of stock options granted and also the evaluation of the fair value of the equity component of convertible debenture. The Company bases its estimates on historical experience and on various other assumptions deemed reasonable under the circumstances.

### *Cash and cash equivalents*

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

### *Revenue recognition*

Revenue from the sale of merchandise is presented net of estimated returns and discounts. Revenue is recognized at the time of sale.

### *Inventories*

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

### *Capital assets*

Capital assets are recorded at cost and are amortized on a straight-line basis on their useful lives according to the following table. Concerning the leasehold improvements, the depreciation is calculated on the lesser of their estimated useful lives or the length of the leases

Equipment	3 to 5 years
Leasehold improvements	10 years

Certain equipment and leasehold improvements are lead under capital leases and are presented under capital assets on the balance sheet.

### *Intangible assets*

The Company’s intangible assets are comprised of software costs and are amortized on a straight-line basis over their estimated useful lives, or 5 years.

# Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

## 2. Summary of significant accounting policies (continued)

### *Impairment of long-lived assets*

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

### *Income taxes*

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

### *Earnings per share*

Earnings per share are calculated using the weighted daily average number of shares outstanding. The treasury stock method is used for calculating diluted earnings per share. In calculating diluted earnings per share, the weighted average number of shares outstanding is increased to include additional shares issued from the assumed exercise of options, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises are used to purchase shares at the average market share price during the reporting period.

### *Foreign currency translation*

Transactions concluded in foreign currencies are translated using the temporal method. In accordance with this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, non-monetary assets and liabilities at the historical exchange rate, and revenues and expenses at the exchange rate in effect at the transaction dates. Exchange gains or losses are current in nature and are included in earnings. The company does not use hedge accounting.

### *Stock-based compensation and other stock-based payments*

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

### *Deferred lease inducements*

Deferred lease inducements represent leasehold improvements paid for by the landlord. Deferred lease inducements are presented as distinct item on the balance sheet and are amortized on a straight-line basis over the periods of the leases, and the amortization is recorded as a reduction of rent expense.

### *Convertible debentures*

The Company presents outstanding convertible debentures in their debt and equity components on the balance sheet. The equity component of the convertible debenture is valued using an option pricing model. These results in an accounting value assigned to the debt component of the convertible debentures which is less than the principal amount due at maturity.

# Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

## 2. Summary of significant accounting policies (continued)

The debt component presented on the balance sheet increases over the term of the debenture to the full face value of the outstanding debentures at maturity. The difference, representing the accretion on convertible debentures, is reflected as increased interest expense with the result that adjusted interest expense reflects the effective yield of the debt component of the convertible debentures.

The equity component of the convertible debenture is presented under shareholders' equity in the balance sheet. The equity component represents the fair value of the conversion right granted to the holder, which remains a fixed amount over the term of the related debentures. Upon conversion of the debentures into common shares by the holders, the debt and equity components are transferred to common share capital. Upon the repayment of the face value of the debt the equity component of the convertible debentures not converted is transferred to contributed surplus.

### *Financing charges*

Financing charges are presented as a reduction of the debt and amortized according to the effective interest rate.

### *Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

#### Classification

Cash	Held for trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities
Convertible debentures	Other liabilities
Forward contracts	Held for trading

#### Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date

#### Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

#### Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

### *Financial year*

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

# Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

## 3. Changes in accounting policies

### *Goodwill and Intangible Assets*

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064 “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets,” and Section 3450 “Research and Development Costs”. The new Section 3064 is effective for interim and annual financial statements beginning on October 1<sup>st</sup>, 2008, and establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally-generated intangible assets, are aligned with International Financial Reporting Standards (“IFRS”) International Accounting Standard (“IAS”) 38 “Intangible Assets”.

The Company has adopted this new accounting standard on February 1<sup>st</sup>, 2009. The primary impact of implementing this standard was on the accounting policy for marketing expenses. According to this new standard, marketing expenses will be immediately entirely expensed at the beginning of a campaign. Prior to the adoption of this standard, marketing expenses were deferred and amortized over the duration of the campaign. As a result, certain figures from the prior year have been restated due to the retrospective application of the accounting standard. The following table summarizes the increase (decrease) to the 2008 comparative figures contained herein both as of January 31, 2009 and for the year ended on that date, from the figures previously reported.

Increase (decrease) in thousands of dollars	As at and for twelve month period ended January 31, 2009 \$
Accounts receivables	57
Prepaid charges	(173)
Accounts payable and accrued liabilities	(73)
Future income taxes	15
Net loss	(45)
Opening deficit	73
Closing deficit	28

The Company’s intangible assets are comprised of software costs. These costs were previously recorded as a Capital Asset prior to the adoption of Section 3064. Intangible assets are now reported separately as “Intangible Assets” in the Balance Sheet.

### *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In the second quarter of 2009, the Company adopted EIC-173 from the Emerging Issues Committee, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities.” The EIC specifies that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of these guidelines did not have any impact on the Company’s annual financial statements.

### *Financial Instruments – Disclosures*

The Company also adopted the changes made by CICA to Section 3862, “Financial instruments – Disclosures,” whereby an entity shall classify and disclose fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

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

# Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

## 3. Changes in accounting policies (continued)

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

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

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

The Company adopted these modifications in the fourth quarter of 2009. The application of these modifications did not involve effect on the financial statements of the Company.

The required information is provided in Note 19.

## 4. Future changes in accounting policies

*Business combinations, consolidated financial statements and non-controlling interests*

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

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

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

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

*Adoption of international financial reporting standards in Canada*

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

## Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

### 5. Additional information on the cost of goods sold

For the year ended January 30, 2010, the cost of inventories recognized as an expense and included in cost of goods sold, operating and administrative expenses totalled \$18.6 million (\$18.6 million in 2008). The amount reflecting the cost of inventories, recognized as an expense for the period included \$722,000 (\$912,000 in 2008) relating to write-downs taken as a result of net realizable value being lower than cost. No inventories write-downs recognized in previous years were reversed.

### 6. Interest

	Year ended	
	January 30, 2010	January 31, 2009
	\$	\$
Long-term debt	680	462
Others	92	97
	772	559
Interest income	(6)	(113)
	766	446

### 7. Income taxes

The Company's effective tax rate is detailed as follows:

	Year ended	
	January 30, 2010	January 31, 2009
		Restated note 3
	%	%
Combined base rate	31.6	31.8
Effect of rate change on future income taxes	(4.5)	4.4
Stock-based compensation	(1.8)	(6.1)
Non-deductible interests on debentures	(4.2)	(10.9)
Other	(0.1)	0.2
	21.0	19.4

## Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

### 7. Income taxes (continued)

Income tax expense (recovery) is as follows:

	Year ended	
	January 30, 2010	January 31, 2009 Restated Note 3
	\$	\$
Income taxes	(4)	(106)
Future income taxes	(388)	-
	(392)	(106)

The future income taxes reflect the net tax impact of timing differences between the value of assets and liabilities for accounting and tax purposes. The main components of the Company's future income tax were as follows:

As at	January 30, 2010	January 31, 2009 Restated Note 3
	\$	\$
Provisions and other reserves that are tax-deductible only when disbursed	298	303
Capital assets and other assets	(108)	(9)
Unused non-capital tax losses	519	27
Future income tax	709	321
<b>Presented on Balance Sheet as follows</b>		
Future income tax assets - current portion	266	450
Future income tax assets - long-term	443	-
Future income tax liabilities - long-term	-	(129)

As at January 30, 2010, the Company has a balance of non-capital tax losses available to be carried forward in the amount of \$1,955,000 (\$49,000 in 2008) which can be used to reduce income taxes of future years. These losses expire until 2030 and future income tax assets relative to these losses were accounted for.

Also as at January 30, 2010, the Company has capital losses to carry forward for an amount of \$1,178,000 (\$1,178,000 as at January 31, 2009). These losses can be applied indefinitely against future capital gains. The future income tax assets related to these capital losses were not accounted for.

## Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

### 8. Loss per share

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

	Year ended	
	January 30, 2010	January 31, 2009 Restated Note 3
	\$	\$
<b>Basic and diluted</b>		
Net loss	(1,477)	(440)
Loss per share, basic and diluted	(0.01)	-
Weighted average number of shares outstanding, basic	167,678,115	171,996,196

Options giving the right to buy 4,700,000 shares during the year ended January 30, 2010 (4,900,501 in 2009), and likely to dilute the basic earnings per share in the future, were not taken into account in the calculation of diluted loss per share because of their anti-dilutive effect.

Debentures for \$3,975,000 (\$4,500,000 in 2008) which can be converted into 19,875,000 common shares (22,500,000 in 2008) 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.

### 9. Capital assets

As at	January 30, 2010		January 31, 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Equipment	1,241	376	1,552	619
Leasehold improvements	10,505	3,467	9,556	2,890
	11,746	3,843	11,108	3,509
Accumulated amortization	3,843		3,509	
Net book value	7,903		7,599	

The net book value of the capital assets includes \$863,000 in capital leases (\$953,000 as at January 31, 2009). Respectively \$359,000 in equipment (\$454,000 as at January 31, 2009) and \$504,000 in leasehold improvements (\$499,000 as at January 31, 2009).

## Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

### 10. Intangible assets

As at	January 30, 2010		January 31, 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Software	642	145	615	128
Accumulated amortization	145		128	
Net book value	497		487	

### 11. Long-term debt

As at	January 30, 2010	January 31, 2009
	\$	\$
Capital lease, payable by 48 payments, expiring in November 2012, the carrying interest rate is 5.63 %	727	958
Capital lease, payable by 48 payments, expiring in March 2014, the carrying interest rate is 6.56 %	60	-
	787	958
Current portion	259	231
	528	727

On September 8, 2009, the Company secured a second capital lease with RBC Royal Bank to finance computer equipments and leasehold improvements for the distribution centre. This capital lease will be payable in 48 instalments and will bear a fixed interest rate of 6.56%.

As at January 30, 2010, the Company has an on-demand credit facility for a maximum amount of \$3,000,000, renewable annually, of which none was used as at January 30, 2010. The maximum allowable amount is limited to a percentage of the value of inventories less specific reserves and priority claims. In the normal course of business in 2009, the Company issued letters of credit and letters of guarantee against this facility for a total of \$180,000, which are expiring in August 2010.

This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Company and bears interest at prime plus 3.00% (1.15% in 2008). Under the agreements relative to the credit facility, the Company is subject to a restrictive clause concerning compliance with a financial ratio. As at January 30, 2010, the Company was in accordance with the applicable restrictive clause under the credit facility.

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

2011	2012	2013	2014
\$296	\$296	\$249	\$17

## Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

### 12. Liability component of the convertible debentures

As at	January 30, 2010	January 31, 2009
	\$	\$
Unsecured convertible debentures with carrying annual interest rate of 8 %, payable monthly	3,975	4,500
Convertible right value presented in equity	(1,137)	(1,137)
	2,838	3,363
Financing fees	(119)	(159)
Interest capitalized	541	293
Liability component of the convertible debentures	3,260	3,497
Current portion	900	525
	2,360	2,972

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

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

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

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

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

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

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

## Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

### 12. Liability component of the convertible debentures (continued)

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

2011	2012	2013	2014	2015
\$900	\$900	\$975	\$900	\$300

### 13. Share capital

As at	January 30, 2010	January 31, 2009
	\$	\$
Authorized		
Unlimited number of common shares with voting rights		
Unlimited number of preferred shares without voting rights		
Issued and outstanding		
Common shares		
167,678,115 (168,677,515 as at January 31, 2009,	27,702	27,867
- treasury stock ((999,400) as at January 31, 2009)	-	(165)
167,678,115 (167,678,115 as at January 31, 2009)	27,702	27,702

On April 28, 2008, the Company announced its intention to proceed with a normal course issuer bid to repurchase its own shares for cancellation, thereby increasing the proportionate value of each remaining shareholder's holdings. Under the bid, the Company could purchase up to 13,740,779 common shares of the Company (the "Shares"), representing 10% of the public float as at April 22, 2008. The bid started on April 30, 2008 and ended on April 29, 2009. The price paid for the Shares has been the market price at the time of acquisition, and the number of Shares purchased and the timing of any such purchases have been determined by the Company's management. Shares purchased by the Company have been subsequently cancelled. Between April 30, 2008 and April 29, 2009, the Company repurchased 4,999,400 Shares at an average price of \$0.046 per share, for a total of \$230,000. As of January 31, 2009, discount of \$596,000 was recorded in contributed surplus.

### 14. Stock option plan

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

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

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

## Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

### 14. Stock option plan (continued)

The table below presents the status of the Company's stock option plan as at January 30, 2010 and as at January 31, 2009 and the changes to this Plan during the fiscal year then ended.

	Year ended January 30, 2010		Year ended January 31, 2009	
	Number of options	Weighted avg. exercise price \$	Number of options	Weighted avg. exercise price \$
Balance at beginning	4,900,501	0.09	10,135,127	0.09
Granted	-	0.08	3,400,000	0.08
Expired	(501)	0.58	(8,634,626)	0.09
Cancelled	(200,000)	0.08	-	-
Balance at end	4,700,000	0.09	4,900,501	0.09
Options exercisable at end	3,299,997	0.09	1,800,499	0.09

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

Range of exercise prices	Options outstanding			Exercisable options	
	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Number of exercisable options	Weighted average exercise price
\$			\$		\$
0.08	3,200,000	8.2	0.08	2,133,330	0.08
0.11 to 0.13	1,500,000	6.6	0.12	1,166,667	0.12
	4,700,000	7.8	0.09	3,299,997	0.09

The table below is a summary of the information related to the January 31, 2009 purchase options;

Range of exercise prices	Options outstanding			Exercisable options	
	Number of outstanding options	Weighted average remaining contractual life	Weighted average exercise price	Number of exercisable options	Weighted average exercise price
\$			\$		\$
0.08	3,400,000	9.2	0.08	1,133,331	0.08
0.11 to 0.13	1,500,000	7.6	0.12	666,667	0.12
0.58	501	0.3	0.58	501	0.58
	4,900,501	8.8	0.09	1,800,499	0.09

## Notes to the Financial Statements (continued)

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

### 14. Stock option plan (continued)

On April 29, 2008, the Company granted 3,400,000 common stock options to certain Officers and Directors of the Company at an exercise price of \$0.08; these options can be exercised at any time during the ensuing three years, at a rate of 33 1/3% per year. These options mature in 2018. The fair value of these options was estimated at \$209,000 on the grant date using the Black-Scholes option pricing model according to the following assumptions: interest rate without risk of 3.4%, nil dividends, estimated useful life of seven years, predicted volatility of 85%. During the fiscal year ended January 30, 2010, the compensation expense recorded on the Statement of Operations with regard to this allocation was \$70,000 (\$54,000 in 2008). In addition, the compensation expense recorded on the Statement of Operations with regard to the previous year's allocation was \$34,000 (\$50,000 in 2008).

During the fiscal year ended January 30, 2010, 501 stock options (8,634,626 in 2008) expired while 200,000 stock options (nil in 2008) have been cancelled.

### 15. Related party transactions

During the year ended January 30, 2010, no fees were paid to the former Chairman of the Board of the Company, who is currently a Director (\$94,750 in 2008). In conjunction with the relocation of its corporate headquarters in 2008, the Company no longer receives occupancy revenues from the former Chairman of the Board (it received \$9,750 in occupancy revenues in 2008).

In 2008, these amounts were presented in the cost of goods sold, operating costs and administrative expenses in the statements of operations and comprehensive earnings. These transactions were carried out in the normal course of business and have been accounted for at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

### 16. Supplementary cash flow information

	Year ended	
	January 30, 2010	January 31, 2009 Restated Note 3
	\$	\$
i) Adjustments for:		
Amortization	1,590	1,385
Interest capitalized on the liability component of debentures and financing fees amortization	288	209
Stock-based compensation plan	104	104
Future income taxes	(388)	-
Amortization of deferred lease credit	(94)	(54)
Deferred lease credit	92	71
Loss on disposal of capital assets	-	3
	1,592	1,718
ii) Net changes in non-cash working capital items		
Accounts receivable	(18)	7
Income taxes	266	(380)
Inventories	1,699	(2,368)
Prepaid charges	(139)	725
Accounts payable and accrued liabilities	(139)	232
	1,669	(1,784)
iii) Supplementary information		
Cash amount paid (recovered):		
Interest	431	224
Income taxes	(270)	274
Non-cash operations:		
Capital assets additions included in accounts payable and accrued liabilities	212	40
Capital assets acquired through capital leases	60	1,000

# Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

## 17. Commitments

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

2011	2012	2013	2014	2015	Subsequently
\$5,203	\$4,791	\$4,150	\$2,746	\$1,841	\$2,687

## 18. Capital disclosures

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

The Company's capital is composed of long-term debt including current portion of the debt and shareholders' equity. The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for new store additions and existing store renovation projects. Groupe Bikini Village inc. currently funds these requirements out of its internally-generated cash flows and its financing facilities already in place. The Company's long-term debt consists of convertible, unsecured debentures and capital leases. The Board of Directors does not establish quantitative return on capital criteria for management, but rather, promotes year-over-year sustainable profitable growth. The board of directors monitored the activities of the program of buyback of shares which ended in 2009. The Company is subject to financial covenant under on demand credit facilities.

## 19. Financial risks and financial instruments

### *Liquidity risks*

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

### *Currency risk*

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Company conducts certain commodities transactions in foreign currencies. The Company manages this risk with forward contracts. As at January 30, 2010, the Company had forward contracts denominated in U.S. dollars amounting to \$537,000 (\$362,000 as at January 31, 2009), with maturity dates until August 31, 2010 (until July 31, 2009 as at January 31, 2009), and rates between 1.055 and 1.1725 (1.19 and 1.20 in 2008). As of January 30, 2010, the fair value of unrealized gains or losses on the forward contracts has been recorded to the operations and represents a loss of \$22,000 (gains of \$14,000 in 2008). The fair value of these foreign exchange contracts is \$571,000 (\$448,000 in 2008). The fair value is classified according to the level 2 of the fair value hierarchy. The U.S. accounts payable included in the balance sheet as at January 30, 2010 was \$22,000 (\$103,000 as at January 31, 2009).

# Notes to the Financial Statements (continued)

(all tabular figures are in thousands of dollars)

## 19. Financial risks and financial instruments (continued)

The Company has performed sensitivity analysis on its U.S. dollar denominated financial instruments, at January 30, 2010, to determine how a change in the U.S. dollar exchange rate would impact on shareholders' equity and net loss. On January 30, 2010, a 10% rise or fall in the Canadian dollar against the U.S. dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a \$193,000 decrease or increase, respectively, in the Company's shareholders' equity and net loss for the year ended January 30, 2010.

### *Interest Rate Risk*

The Company's exposure to interest rate fluctuations is on interest earned on its cash, cash equivalents and interest paid on the credit line. Facilities for short-term credit described in Note 11 bear interest at variable rates, while long-term debt has a fixed rate.

The Company has performed sensitivity analysis on interest rate risk at January 30, 2010, to determine how a change in interest rates would impact shareholders' equity and net loss. During fiscal 2009, the Company earned \$6,000 of interest income on its cash and cash equivalents and paid \$4,000 in interest on the credit line used. An increase or decrease of 100 basis points in the average interest rate earned during the year would have increased by \$7,000 or decreased net loss by \$11,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

### *Fair Value*

#### a) Classification

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

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

#### b) Fair value hierarchy

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

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

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

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

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

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

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

## Notes to the Financial Statements (continued)

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

### 19. Financial risks and financial instruments (continued)

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

### 20. Segment information

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

### 21. Comparative figures

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

# CORPORATE INFORMATION

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## Board of Directors

**Mardiros Ounanian** ●  
Chairman of the Board until March 9, 2010  
President N.A.T. Co

**Paul Delage Roberge** ■  
President and Chief Executive Officer  
Le Département Square DIX30

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

**Scott Leckie, CFA** ■ ●  
Vice-President, Investment advisor  
Portfolio Manager  
National Bank Financial

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

**Me Pascal DeGuise**  
Secretary

## Head Office

2101-A, Nobel street  
Sainte-Julie, Quebec  
Canada  
J3E 1Z8

[www.bikinivillage.com](http://www.bikinivillage.com)

The Annual Meeting of Shareholders will be held  
at 10h00 A.M. on June 11<sup>th</sup>, 2010 at the  
Hotel Holiday Inn  
900, St-Charles East  
Longueuil (Qc)  
J4H 3Y2

**Legal Counsel**  
BCF LLP

## Officers

**Yves Simard, CA**  
President and Chief Executive Officer

**Lise Lahaise**  
Director of Operations, Stores

**Chantal Létourneau, CGA**  
Comptroller

## Banks

Royal Bank of Canada

## Registrar and Transfer Agent

Computershare Trust Company of Canada

## Auditors

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

## Exchange Listing

Toronto Stock Exchange  
Symbols : GBV

*Shareholders may obtain Annual Information Form on the SEDAR site at:  
[www.sedar.com](http://www.sedar.com).*

**Disponible également en version française**

GROUPE  
**Bikini Village**  
 inc.