Bikini Village

ANNUAL REPORT 2010

GROUPE
Bikini Village
inc.

www.bikinivillage.com

President and CEO's Message to Shareholders

To our Shareholders:

Groupe Bikini Village inc. ("Groupe Bikini Village" or the "Corporation") delivered a stronger performance in fiscal 2010 than it had in 2009, on the strength of effective expense management, inventory control, and retail strategy.

In the fourth quarter of 2010, the Corporation delivered increased sales, an overall increase in gross margins, tight control on direct and indirect expenses, and a disciplined approach to inventory management – all of which led to increased profitability and an improvement of our overall financial situation.

Over the last three years, we have addressed operational issues and, clearly, it has worked. The changes we have made to our business, our efficient operational management, and the cohesive approach of our leadership team have had a positive impact on Groupe Bikini Village, and now position the Corporation well for continued strong performance at all levels of the organization.

Fourth quarter 2010 results

Net sales for the fourth quarter of 2010 were $13.8 million, an increase of 6.1% compared to the $13 million posted in the fourth quarter of last year. Comparable sales, which compares the sales from the same number of stores year-over-year, increased by 8.1% over the same period.

Groupe Bikini Village delivered EBITDA[1] of $2 million, or 14.2%, in the fourth quarter of 2010, compared to EBITDA[1] of $1.8 million, or 13.7%, for the fourth quarter of 2009.

Net earnings for the quarter ended January 29, 2011 were $939,000 ($0.49 per share*, basic and diluted), as compared to net earnings of $796,000 ($0.59 per share*, basic and diluted) for the same quarter in the previous year.

Results for fiscal 2010

Net sales for fiscal 2010, at $44.6 million, increased by 8.8% over the $41 million earned in fiscal 2009. Comparable sales also increased, by 10.2% year-over-year. The increase in our sales in 2010 is largely due to the efficiency of the Corporation's dynamic inventory management strategy, which allowed Groupe Bikini Village to maximize full-price sales throughout the year while taking full advantage of favourable market conditions that presented themselves at different points in 2010.

Groupe Bikini Village delivered EBITDA[1] of $3 million in the fiscal year ended January 29, 2011 compared to $487,000 for the comparable period in the previous year. Our $2.5 million increase in operating income in fiscal 2010 is the direct result of our strategy to tightly manage inventories, focus on full-price selling and control costs – all of which led to stronger overall gross margin and better store results.

For fiscal 2010, net earnings totalled $418,000 ($0.26 per share*, basic and diluted), as compared to a net loss totalling $1.5 million (($1.10) per share*, basic and diluted) in fiscal 2009.

---

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

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 29, 2011; reconciliation with the most directly comparable financial GAAP measures is presented on page 8 of this report.

Outlook [1]

Our 2010 results offer tangible proof of the appropriateness of our approach. Over the last three years we have addressed operational and structural issues, and we have consistently applied a prudent and disciplined management approach: as a result, we enter 2011 more competitive, confident and enthusiastic for the future. Recognizing the successes these strategies have yielded, we will continue to execute them, paying particular attention to performance at all levels of the Corporation, to increase our business volumes while further improving profitability. Our key strategic levers will be:

- To continue building perception of our stores as shopping destinations;
- To maintain our strategy to reduce the size of our stores: smaller stores reinforce the "destination" status, and we can immediately re-invest occupancy cost savings in value-creating initiatives;
- To choose only those suppliers/brand owners who proactively manage their brands' distribution, and are firmly committed to supporting their brands' value and prolonging their life cycles;
- To raise brand owners' awareness of the importance of a targeted distribution, in terms of both strengthening their own brands and preparing for increasing competition from vertically-integrated challengers promoting their own brands.

Groupe Bikini Village's improved performance and successful rights offering and private placement in 2010 led to a strengthened balance sheet – and as a result, the Corporation enters 2011 with solid positions in both inventory and cash.

In fiscal 2011, we look forward to leveraging these strengths – and the flexibility they afford us – to further improve our competitive position and build shareholder value. As always, we will keep our eyes on the long-term, seeking out ways to do this both by creating our own opportunities and by considering other strategic alternatives that may arise.

Acknowledgements

While our 2010 results have allowed us to show our strategies' appropriateness and strength, Groupe Bikini Village's management team thanks our shareholders for their continued confidence as we worked through recent difficult economic conditions. We also recognize that our successes could not be achieved – in good times or in bad – without our customers, our Board, our employees, and our landlords, suppliers, and lenders.

We look forward to working together to create more value for both our customers *and* our shareholders in the year ahead.

Yves Simard, C.A.
President and Chief Executive Officer
Sainte-Julie, April 21, 2011

1 To be read in conjunction with "Forward-Looking Statements" on page 6 of the MD&A for the year ended January 29, 2011.

Financial Highlights

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

	Year ended		
	January 29, 2011	January 30, 2010	January 31, 2009 Restated[2]
Operating results			
Operating revenue	**$44,622**	$41,022	$40,844
Operating income (loss) - EBITDA[1]	**2,975**	487	1,285
In % of sales	**6.7 %**	1.2 %	3.1 %
Net (earnings) loss	**418**	(1,477)	(440)
In % of sales	**0.9 %**	(3.6)%	(1.1)%
Earnings (loss) per share *			
Basic	**0.26**	(1.10)	(0.32)
Diluted	**0.26**	(1.10)	(0.32)
Weighted average number of oustanding shares * (in thousands)			
Basic	**1,603**	1,341	1,376
Diluted	**1,604**	1,341	1,376
Other statistics			
Investment activities - net (in thousands $)	**1,650**	1,672	3,254
Number of stores at the end of the period	**61**	63	59
Number of employees	**515**	515	510

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

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 29, 2011; reconciliation with the most directly comparable financial GAAP measures is presented on page 8 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.

(In thousands of dollars, except per share amounts)

	Year ended January 29, 2011 (52 weeks)	Year ended January 30, 2010 (52 weeks)	Year ended January 31, 2009 Restated [3] (52 weeks)	Year ended February 2, 2008 (52 weeks)	Year ended February 3, 2007 (53 weeks)
OPERATING RESULTS					
Operating revenue	**$44,622**	**$41,022**	$40,844	$39,827	$40,523
Cost of goods sold, operating and administrative expense	**41,647**	**40,535**	39,559	37,401	38,191
Operating income - EBITDA [1]	**2,975**	**487**	1,285	2,426	2,332
Operating margin	**6.7 %**	**1.2 %**	3.1 %	6.1 %	5.8 %
Interest	**653**	**766**	446	125	4
Amortization	**1,614**	**1,590**	1,385	989	771
Unusual items	**-**	**-**	-	-	448
Income taxes (recovery)	**290**	**(392)**	(106)	501	(848)
Net earnings (loss) related to					
Continuing operations	**418**	**(1,477)**	(440)	811	1,957
Continuing operations/net sales	**0.9 %**	**(3.6 %)**	(1.1 %)	2.0 %	4.8 %
Discontinued operations	**-**	**-**	-	478	-
Net earnings (loss)	**418**	**(1,477)**	(440)	1,289	1,957
Net earnings (loss)/net sales	**0.9 %**	**(3.6 %)**	(1.1 %)	3.2 %	4.8 %
PER SHARE *					
Net earnings (loss) related to					
Continuing operations	**0.26**	**(1.10)**	(0.32)	0.59	1.50
Discontinued operations	**-**	**-**	-	0.34	-
Net earnings (loss)					
Basic	**0.26**	**(1.10)**	(0.32)	0.93	1.50
Diluted	**0.26**	**(1.10)**	(0.32)	0.92	1.49
Shareholders' equity	**7.87**	**7.51**	8.31	8.50	7.21
Number of shares outstanding at year-end (in thousands)	**1,911**	**1,341**	1,341	1,381	1,379
Basic weighted average number of shares outstanding (in thousands)	**1,603**	**1,341**	1,376	1,381	1,303
Diluted weighted average number of shares outstanding (in thousands)	**1,604**	**1,341**	1,376	1,394	1,311
FINANCIAL POSITION					
Working capital	**6,950**	**4,742**	7,587	8,174	6,597
Current ratio of working capital	**2.10:1**	**1.74:1**	2.27:1	2.61:1	2.29:1
Capital and intangible assets	**8,306**	**8,400**	8,086	5,180	2,366
Total assets	**21,548**	**20,012**	21,664	18,449	14,505
Total long-term debt [2]	**2,039**	**2,888**	3,699	1,420	-
Shareholders' equity	**12,621**	**10,068**	11,441	11,741	9,397
Total long-term debt [2] / shareholders' equity	**0.16:1**	**0.29:1**	0.32:1	0.12:1	-
Return on average shareholders' equity	**3.7 %**	**(13.7 %)**	(3.8 %)	12.2 %	24.0 %
OTHER STATISTICS					
Capital & intangible expenditures	**1,650**	**1,672**	3,254	3,803	649
Number of stores opened or renovated and expanded during the year	**8**	**6**	9	17	4
Number of stores at year-end	**61**	**63**	59	58	56
Retail square-footage (in square feet)	**93,500**	**98,900**	94,400	92,100	86,600
Number of employees	**515**	**515**	510	500	460

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

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 29, 2011; reconciliation with the most directly comparable financial GAAP measures is presented on page 8 of this report.

2 Excluding current portion of long-term debt and convertible debentures, deferred lease inducements 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.

This management report, dated April 21, 2011, focuses on the commercial activities and financial results of Groupe Bikini Village inc. ("Groupe Bikini Village" or "the Corporation") for the year ended January 29, 2011. The financial information is in Canadian dollars.

TABLE OF CONTENTS

CORPORATION PROFILE

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

In late 2009, the Corporation also officially opened its first "Lanaï", 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 Corporation’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 Corporation’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 Corporation's current Annual Information Form. Consequently, all prospective information contained in this document is provided subject to these risks and uncertainties, and it cannot be guaranteed that expected results or events will actually materialize or materialize in large part, or that they will have the expected impact on our Corporation.

The current outlooks set forth in this document represent our expectations as of April 21, 2011 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 Corporation'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 Corporation were taken into account.

OVERVIEW

Groupe Bikini Village inc., serving Canadians for almost a quarter-century, is a leader in the retail sale of beachwear products with a network of new and renovated boutiques across Eastern Canada. In its bright and inviting stores with comfortable change rooms and knowledgeable staff, Groupe Bikini Village helps its customers choose from among Canada's widest selection of swimsuits, beach accessories, and cruise wear, in the most popular brands the industry has to offer and in styles to suit every figure. An addition to its retail network, Lanaï, offers the most popular clothing brands for young women, in Brossard, Quebec. Headquartered in Sainte-Julie, Quebec, Groupe Bikini Village inc. operates 60 stores and employs approximately 500 people; its securities trade on the Toronto Stock Exchange under the stock symbol GBV. For more information about Groupe Bikini Village inc., please visit our website at **www.bikinivillage.com**.

OPERATING RESULTS

The investments Groupe Bikini Village has made in updating its retail network over the last few years allowed the Corporation to streamline its structure and to strengthen its strategic positioning. In 2011 and beyond, we will continue to invest in our network, to keep uncovering new opportunities to increase sales and improve the experience we offer our customers. In 2010, we:

- Opened two new stores; one in Waterloo, Ontario and another one in St-Sauveur, Quebec;
- Took advantage of expired leases to relocate three Quebec stores and one Ontario store in new premises better aligned with our needs and our performance conditions;
- Completely renovated two of our stores in Ontario, including our Toronto Eaton Centre store; and
- Closed four underperforming stores.

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

	Quebec	Ontario	New Brunswick	Nova Scotia	Total
Bikini Village	**30**	**26**	**1**	**1**	**58**
Ocean Bikini Village	**1**				**1**
Lanaï	**1**				**1**
TOTAL :	**32**	**26**	**1**	**1**	**60**
Recently opened or fully renovated	**23**	**15**	**1**	**1**	**40**
New or renovated stores (in %)	**72%**	**58%**	**100%**	**100%**	**67%**

The report which follows outlines the strides we have made in tweaking our operating strategy to suit changing market conditions. It also examines a number of factors that affected our results in the fiscal years of 2010 and 2009 under discussion.

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

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

	Three months ended		Year ended		
	January 29, 2011	January 30, 2010	**January 29, 2011**	January 30, 2010	January 31, 2009 Restated[3]
	$	$	**$**	$	$
Operating revenue	**13,836**	13,042	**44,622**	41,022	40,844
Operating income - EBITDA[1]	**1,970**	1,791	**2,975**	487	1,285
Less:					
Interest	**148**	184	**653**	766	446
Amortization	**485**	413	**1,614**	1,590	1,385
Earnings (loss) before income taxes	**1,337**	1,194	**708**	(1,869)	(546)
Income taxes (recovery)	**398**	398	**290**	(392)	(106)
Net earnings (loss)	**939**	796	**418**	(1,477)	(440)
Earnings (loss) per share *					
Basic	**0.49**	0.59	**0.26**	(1.10)	(0.32)
Diluted	**0.49**	0,59	**0,26**	(1,10)	(0,32)
Weighted average number of outstanding shares * (in thousands)					
Basic	**1,911**	1,341	**1,603**	1,341	1,341
Diluted	**1,911**	1,341	**1,604**	1,341	1,376
Cash flows from					
Operating activities	**3,662**	3,850	**3,062**	1,784	(506)
Financing activities	**(300)**	(283)	**892**	(529)	1,936
Investing activities	**(444)**	(174)	**(1,650)**	(1,672)	(3,254)
Total assets	**21,548**	20,012	**21,548**	20,012	21,664
Total long-term debt [2]	**2,039**	2,888	**2,039**	2,888	3,699

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

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

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

3 Restated to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of the new accounting standard for Goodwill and Intangible Assets.

Fourth quarter and year ended January 29, 2011 compared to fourth quarter and year ended January 30, 2010

Operating Revenues

Groupe Bikini Village inc.'s sales for the three-month period ended January 29, 2011 amounted to $13.8 million, an increase of 6.1% compared to 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, grew by 8.1% during the same period.

While the months of November and December of 2010 were in line with our expectations and comparable to 2009, our performance in January was beyond our expectations, and compared particularly well against the same period in 2009.

The Corporation's sales for fiscal 2010, which ended January 29, 2011, totalled $44.6 million – an increase of 8.8% over fiscal 2009, when sales were $41 million. Comparable sales increased by 10.2% 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 2010 and 2009.

Groupe Bikini Village has enjoyed a return to normal market conditions throughout 2010, a significant improvement over the sales environment in the first half of 2009, which was marked by economic recession, unseasonable weather conditions, and the impacts of the H1N1 influenza virus on travel. The Corporation's dynamic inventory management strategy, which allowed us to focus on full-price selling and to fully benefit from recovering market conditions, further enhanced the benefits of that improved market environment.

Operating Income - EBITDA[1]

For the fourth quarter of 2010, the Corporation delivered EBITDA[1] (as previously defined in "Non-GAAP Financial Measures") of $2 million, or 14.2%, compared to EBITDA[1] of $1.8 million, or 13.7%, for the fourth quarter of 2009. The $179,000 increase in operating income in the fourth quarter of 2010 compared to the fourth quarter of 2009 resulted from increased gross margin on sales, offset by an increase in variable expenses associated with the greater sales volume.

EBITDA[1] for fiscal 2010 totalled $3 million, or 6.7%, compared to $487,000, or 1.2%, in fiscal 2009. The positive variance of $2.5 million in EBITDA[1] for fiscal 2010 compared to 2009 was primarily the result of increased gross margin on sales of $3.1 million, attributable to both the increase in sales volume ($2 million) and our strategy to focus on full-price selling ($1.1 million). Variable operating costs increased by $0.6 million due to higher business volume and increased salaries which followed the raise in the minimum wages in Quebec and Ontario.

Financing Charges and Amortization

Financing charges for the three-month period ended January 29, 2011 decreased from $184,000 in the fourth quarter of 2009, to $148,000, due to lower interest charges on convertible debentures after the capital repayments.

Financing charges for the year ended January 29, 2011 decreased from $766,000 in fiscal 2009 to $653,000, for the same reasons stated above. The financing charges include a $259,000 ($288,000 in 2009) non-cash interest expense, calculated on the debt component of the convertible debentures.

1 Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 5 of this MD&A; reconciliation with the most directly comparable financial GAAP measures is presented on page 8 of this MD&A.

The amortization expense for the quarter ended January 29, 2011 increased by 17.4% to $485,000, compared to $413,000 for the quarter ended January 30, 2010. This was the result of the Corporation's decision to accelerate the amortization of one of its Ocean Bikini Village stores, which has been closed in February 2011, to reflect its new useful life expectancy.

For the year ended January 29, 2011, amortization was stable at $1.6 million, consistent with the comparable result from 2009.

Earnings (Loss) Before Income Taxes

For the quarter ended January 29, 2011, the Corporation registered $1.3 million in earnings before income taxes, compared to $1.2 million in the comparable period the previous year.

The Corporation's earnings before income taxes increased by $143,000, due to the marginal contribution of sales, increases in variable expenses and amortization and the decrease in interest charges as previously discussed.

For the fiscal year ending on that same date, the Corporation registered earnings before income taxes of $708,000, compared to a loss before income taxes of $1.9 million for the fiscal 2009.

The earnings before income taxes for fiscal 2010 increased by $2.6 million mainly due to the improved contribution of sales, while the increase in variable expenses was offset by management's strict management of direct and administrative costs, as well as the decrease in interest charges.

Income taxes

Groupe Bikini Village recorded income taxes in the amount of $398,000 during the fourth quarter of 2010, representing a tax rate of 29.8%, compared to income taxes of $398,000 or 33.3% for the corresponding period in 2009.

The Corporation recorded income taxes in the amount of $290,000 during the year ended January 29, 2011, representing a tax rate of 41%, compared to income tax recovery of $392,000 using an effective rate of 21% during the previous fiscal year. The difference in tax rates is mainly due to the ratio between the amount of fiscally non-deductible charges and earnings (loss) before income taxes.

Net Earnings (Net Loss)

Net earnings in the quarter ending January 29, 2011 were $939,000 ($0.49 per share*, basic and diluted), as compared to net earnings of $796,000 ($0.59 per share*, basic and diluted) in the corresponding period last year.

The calculations of the amounts per share were done on a weighted average number of shares of 1,910,597 (1,911,323 on a diluted basis) in circulation for the quarter ended January 29, 2011 and on a weighted average number of shares of 1,341,425 for the quarter ended January 30, 2010. The difference in the number is due to the rights offering and concurrent private placement which took place in August, 2010.

For the year ended January 29, 2011, net earnings totalled $418,000 ($0.26 per share*, basic and diluted), compared to net loss of $1.5 million (($1.10) per share*, basic and diluted) for the year ended January 30, 2010. The difference of $1.9 million in net earnings is due to the $2.6 million increase in earnings before income taxes, offset by a higher income tax charge, $682,000, as explained previously.

The calculations of the amounts per share were done on a weighted average number of shares of 1,603,182 (1,604,088 on a diluted basis) in circulation for the year ended January 29, 2011 and on a weighted average number of shares of 1,341,425 for the year ended January 30, 2010. The

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

difference in the number is due to the rights offering and concurrent private placement which took place in August, 2010.

Year ended January 30, 2010 compared to year ended January 31, 2009

Groupe Bikini Village's sales totalled $41 million in the year ended January 30, 2010, an increase of 0.4% over the previous year, when sales were $40.8 million. The comparable sales decreased by 4% in fiscal 2009 over fiscal 2008.

The EBITDA[1] for the year ended January 30, 2010 was $487,000, or 1.2%, compared to $1.3 million, or 3.1%, for the restated year ended January 31, 2009. 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 for fiscal 2009 increased to $766,000 from $446,000 in fiscal 2008 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.

Amortization expense increased by 14.8%, year-over-year, from $1.4 million in fiscal 2008 to $1.6 million in fiscal 2009. This increase is the result of sustained investment in our network, our information systems and our distribution centre over the past three years.

For the 2009 fiscal year, the Corporation 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.

The Corporation registered an income tax recovery of $392,000 during the year ended January 30, 2010, representing a tax rate of 21%, compared to an income tax recovery of $106,000 using an effective rate of 19.4% registered during the restated previous fiscal year.

For the year ended January 30, 2010, net loss totalled $1.5 million (($1.10) per share*, basic and diluted), compared to net loss of $440,000 (($0.32) per share*, basic and diluted), in the year 2008.

For the year ended January 30, 2010, cash flows generated by operations increased by $2.3 million over the cash flows generated in the previous restated year. This positive impact on cash flow is the net result of our effective inventory management, which was the key element of our 2009 adapted strategy to ensure our operational activities were appropriate for existing market realities and largely exceeding the negative impact of the 2009 net loss.

During fiscal 2009, the Corporation 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 Corporation 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.

In fiscal 2009, investment activities totalled $1.7 million, compared to $3.3 million in 2008. During fiscal 2009, in addition to investments made in its distribution centre, the Corporation completed the renovation of two stores and the construction of four new stores. In 2008, the Corporation 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.

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

1 Not a Canadian generally accepted accounting principle (Canadian "GAAP") measure, as described on page 5 of the MD&A for the year January 29, 2011; reconciliation with the most directly comparable financial GAAP measures is presented on page 8 of this report.

CASH POSITION

Operating Activities

Cash flows generated from operations in the fourth quarter of 2010 decreased by $188,000 as compared to cash flows generated in the comparable period of the previous year, from $3.9 million in 2009 to $3.7 million in 2010.

For the fiscal year ended January 29, 2011, cash flows generated by operations increased by $1.3 million over the cash flows generated in the previous year, from $1.8 million in 2009 to $3.1 million.

This increase resulted from several factors including:

- the positive variance totalling $1.9 million between net earnings in 2010 and net loss in 2009;
- a reduction in future income tax assets of $678,000 which was largely due to the reduction in reportable losses;

The impact of these was moderated by:

- the collection in 2009 of $266,000 in income taxes receivable compared to $4,000 in 2010;
- the strategic decrease of inventories in 2009, for a net difference of $1.2 million compared to 2010.

Financing Activities

During the fourth quarter of 2010, the Corporation repaid $74,000 toward its obligations under capital leases and its long-term debt and $225,000 on convertible debentures, for a total of $299,000. For the corresponding period in 2009, the Corporation repaid $58,000 on its obligations under capital leases and $225,000 on convertible debentures, for a total of $283,000.

During fiscal 2010, the Corporation obtained a long-term loan of $75,000 for improvements to its distribution centre, and repaid $278,000 in accordance with its obligations under capital leases and its long-term debt, as well as $900,000 on convertible debentures. During this fiscal year, the Corporation also proceeded to a rights offering as well as a concurrent private placement, which generated $2 million net of fees. A total of $892,000 was generated during fiscal 2010. During the corresponding period in 2009, the Corporation repaid $231,000 in accordance with its obligations under capital leases and $525,000 on convertible debentures; the Corporation also received $227,000 in lease inducements. A total of $529,000 was used in 2009 for financing activities.

Investment Activities

Investment activities in the fourth quarter of 2010 used $444,000, compared to $174,000 during the corresponding period one year earlier. During the fourth quarter of 2010, one new store was built and the relocation of one store in new premises in Ontario was completed, while in the fourth quarter of 2009, construction was in progress for one store. The financing obtained in August 2010 and discussed in the "Financing Activities" section above was used to support these investment activities.

In fiscal 2010, investment activities totalled $1.7 million, level with the $1.7 million invested in 2009. During 2010, two new stores were built one in Ontario and another one in Quebec; three stores in Quebec and one in Ontario were relocated to new premises; two stores in Ontario were renovated and, finally, we completed additional improvements at the distribution centre. During fiscal 2009, in addition to investments made in its distribution centre, the Corporation completed the renovation of two stores and the construction of four new stores. The investment activities of the third and fourth quarters of 2010 were financed through the financing obtained in August, 2010.

FUTURE CASH POSITION [1)]

At January 29, 2011, the Corporation had available cash of $6.2 million and an on-demand credit facility of up to $1.5 million, renewable annually of which none had been used. This credit facility consists of two segments: a first segment of $1.5 million is available at all times and, if necessary, a seasonal increase of $1.5 million is also available from September 15 to December 15, for a total of $3 million. Availability of the on-demand credit is limited by a margin formula based on the Corporation's assets, net of specific reserves and priority claims. On January 29, 2011, the available amount according to the margination formula was $1.4 million. In the normal course of business in fiscal 2010, the Corporation issued letters of credit and letters of guarantee against this facility, for a total of $162,000, expiring in August 2011. This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Corporation, and bears interest at prime plus 3.95% (3.0% in 2009). At the annual renewal in April, 2011, this credit facility has been improved and will bear interest at prime plus 1.50% (3.95% in 2010). Under the agreements relative to the credit facility, the Corporation is subject to a restrictive clause concerning compliance with a financial ratio. On January 29, 2011, the Corporation was in compliance with the applicable restrictive clause under this credit facility.

Current flexibility and the prospective cash flows from operations will be the primary funding sources for working capital requirements, repayment of long-term debts and convertible debentures. The additional financing obtained in August 2010 through a rights offering and concurrent private placement was used to renovate four stores in the third quarter of 2010, to build a new store in Quebec in the fourth quarter, and will serve to finance, in addition to general needs of working capital if necessary, our prospective needs related to capital expenditures.

Our existing credit facility and our improved cash situation following our last quarter's performance and successful rights offering and private placement will give Groupe Bikini Village greater flexibility in the future.

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):

2012	2013	2014	2015
$1,236	$1,266	$940	$302

The Corporation 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 Corporation's or the lessor's discretion. The minimum lease payments required in the coming years are as follows (in thousands of dollars):

2012	2013	2014	2015	2016	Subsequently
$5,064	$4,424	$3,016	$2,133	$1,240	$1,592

Furthermore as at January 29th, 2011, purchase obligations for goods that is enforceable and legally binding for the Corporation (all within the current year) amounted to $9.3 millions.

CRITICAL ACCOUNTING 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

1 To be read in conjunction with "Forward-Looking Statements" on page 6 of this MD&A.

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 Corporation bases its estimates on historical experience and on various other assumptions deemed reasonable under the circumstances. The Corporation's significant accounting policies are discussed in note 2 of the "Notes to Financial Statements;" critical estimates inherent in these accounting policies are discussed in the following paragraphs.

Inventory Valuation

Inventories are valued at the lower of cost and net realizable value. The cost is comprised of the purchase price plus the costs incurred in bringing the inventories to the present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. A provision for shrinkage and obsolescence is calculated based on historical experience. Given that inventory and cost of sales are significant components of the financial statements, any changes in assumptions and estimates could have a material impact on the Corporation's financial position and results of operations.

Stock-based compensation

A compensation expense is recognized for all stock option awards. We calculate this expense based on the fair value method, using the Black & Scholes model. In order to establish the fair value of stock options, the Corporation uses assumptions regarding the risk-free interest rate, expected life, expected volatility and expected dividend yield. The use of different assumptions could affect the compensation expense in the consolidated statement of earnings.

Income taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are accounted for based on estimated taxes recoverable or payable that would result from the recovery or settlement of the carrying amount of assets and liabilities. Future tax assets and liabilities are measured using substantively enacted tax rates expected to be in effect when the temporary differences are expected to reverse. Determination of income tax expense and future income taxes thus requires the use of estimates, assumptions and judgments, which, if applied differently, could result in different carrying amounts for future income taxes on the balance sheet and, consequently, affect income tax expense in the consolidated statement of earnings.

Convertible debentures

The Corporation presents outstanding convertible debentures in its debt and equity components on the balance sheet. The equity component of the convertible debenture is valued using an option pricing model. These result in an accounting value assigned to the debt component of the convertible debentures which is less than the principal amount due at maturity. Thus, the estimate for determining the fair value of the conversion option included in convertible debentures could affect interest expense for the period recorded in the financial statements if it was inadequate.

Other estimates

The Corporation has made certain other estimates that, while not involving the same degree of judgment as the estimates described above, are important to understanding the Corporation's financial statements. These estimates relate to the estimated useful lives for the amortization of capital assets and intangible assets, the areas of assessing recoverability of long-lived assets, establishing reserves in asset retirement obligations and certain accrued liabilities. On an ongoing basis, management evaluates its estimates and judgments in these areas based on its substantial historical experience and other relevant factors. Management's estimates as of the date of the financial statements reflect its best judgment giving consideration to all currently available facts and circumstances. As such, these estimates may require adjustment in the future, as additional facts become known or as circumstances change.

APPROVAL OF THE FINANCIAL STATEMENTS

The Corporation'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 29, 2011

During the fiscal year ended January 29, 2011, the Corporation followed the same accounting policies and procedures used in the previous fiscal year.

FUTURE CHANGES IN ACCOUNTING POLICIES

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 ("GAAP") for publicly-accountable profit-oriented enterprises. These new standards are applicable to fiscal years beginning on or after January 1, 2011. Accordingly, the Corporation's financial statements issued for its 2010 fiscal year were the last to be prepared in accordance with GAAP. As of the first quarter of 2011, the Corporation's financial statements will be prepared in accordance with IFRS in effect in 2011, with 2010 comparative figures and the January 31, 2010 ("Date of Transition") opening balance sheet restated to conform with IFRS, along with reconciliations from GAAP to IFRS, as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards*.

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

The Corporation completed the detailed assessment phase, which involved a complete impact analysis of the differences between GAAP and IFRS identified in the initial assessment phase.

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

The Corporation completed designing and developing detailed solutions to address the differences identified in the first and second phases of the changeover plan.

Finally, during the implementation phase, Groupe Bikini Village implemented the identified necessary changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. Overall, this phase is globally complete – however, certain changes and/or improvements may be made before the end of the first quarter of 2011.

Furthermore, the Corporation does not foresee any significant impact on the clause in its credit facility agreement which refers to GAAP.

The Corporation has ensured that the personnel involved in the process of changeover to IFRS have received all necessary training. Management reports quarterly to the Audit Committee on the progress of the changeover plan.

We continue to monitor and assess the impact of evolving differences between GAAP and IFRS, since the International Accounting Standards Board ("IASB") is expected to continue issuing new accounting standards during the transition period. Most adjustments required on transition to IFRS will be made, retrospectively, against the opening deficit as of the date of the first comparative statement of financial position presented, based on standards applicable at that time.

First-time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from retrospective application. The Corporation has applied the mandatory exceptions and has made choices concerning certain optional exemptions, which are presented in the following table:

Optional Exemptions	Preliminary Findings
Share-based payment	This exemption allows us to refrain from applying the standard to equity instruments acquired before the IFRS transition date. * We have decided to avail ourselves of this exemption when possible; there will be no impact on the stock-based options which were acquired before the IFRS transition date.
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.

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

Exception to retroactive application of other IFRS

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

Summary of main accounting differences

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the historical GAAP accounting policies and the new IFRS accounting policies that the Corporation must apply for its fiscal year 2011. Only the differences having an impact on Groupe Bikini Village are described below. The following is not a complete summary of all of the differences between GAAP and IFRS. The impacts on the Corporation are discussed in the sections below, each of which refers to the corresponding letters to the opening balance sheet and the reconciliation of equity reported below.

Opening Balance Sheet as at January 31, 2010

(in thousands of Canadian dollars)

GAAP accounts	GAAP balance	Note	IFRS reclassifi-cation	IFRS adjustments	IFRS balance	IFRS accounts
	$		$	$	$	
Assets						**Assets**
Current assets						*Current assets*
Cash	3,929		-	-	3,929	Cash
Accounts receivable	167		-	-	167	Accounts receibable
Income taxes	4		-	-	4	Current tax asset
Inventories	6,223		-	-	6,223	Inventories
Prepaid charges	580		-	-	580	Prepaid charges
Future income taxes	266	*g*	(266)	-	-	
Current assets	11,169		(266)	-	10,903	*Current assets*
Non-current assets						*Non-current assets*
Capital assets	7,903	*a-b-c*	-	(563)	7,340	Fixed assets
Intangible assets	497		-	-	497	Intangible assets
Future income taxes	443	*f-g*	266	(293)	416	Deferred tax assets
Non-current assets	8,843		266	(856)	8,253	*Non-current assets*
Total assets	**20,012**		-	(856)	**19,156**	**Total assets**
Liabilities						**Liabilities**
Current liabilities						*Current liabilities*
Accounts payable and accrued liabilities	5,268	*g*	(247)		5,021	Trades and other payables
	-	*b-g*	164	(121)	43	Provisions
Current portion of long-term debt and convertible debentures	1,159		-		1,159	Current portion of long-term debt and convertible debentures
Current liabilities	6,427		(83)	(121)	6,223	*Current liabilities*
Non-current liabilities						*Non-current liabilities*
Deferred lease inducements	629	*g*	83	-	712	Deferred lease inducements
	-	*b-g*	-	88	88	Provisions
Long-term debt	528		-	-	528	Long-term debt
Liabilities component of convertible debentures	2,360	*d*	-	(980)	1,380	Liabilities component of convertible debentures
Non-current liabilities	3,517		83	(892)	2,708	*Non-current liabilities*
Total liabilities	**9,944**		-	(1,013)	**8,931**	**Total liabilities**
Shareholders' equity						**Equity**
Share capital	27,702		-	-	27,702	Issued capital
Equity component of convertible debentures	1,137	*d*	(133)	522	1,526	Equity component of convertible debentures
Contributed surplus	2,351	*d-e*	(1,356)	151	1,146	Contributed surplus
Deficit	(21,122)	*e*	1,489	(516)	(20,149)	Deficit
Total shareholders' equity	**10,068**		-	157	10,225	**Total equity**
Total liabilities and shareholders' equity	**20,012**		-	(856)	**19,156**	**Total liabilities and equity**

Reconciliation of equity

(in thousands of Canadian dollars)	Note	January 31, 2010
		$
Shareholders' equity under GAAP		10,068
Differences between GAAP and IFRS increasing (decreasing) published shareholders' equity		
Fixed assets - initial direct costs of leases	*a*	2
Fixed assets - costs of dismantling and removing the item and restoring the site	*b*	18
Fixed assets - decreasing due to the impairment	*c*	(583)
Decommissioning liabilities	*b*	33
Convertible debentures	*d*	980
Share-based payments	*e*	-
Deferred tax	*f*	(293)
Total IRFS impact		157
Shareholder's equity under IFRS		10,225

a. Leases

GAAP - Initial direct costs of the lessee are expensed.

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

Impact – At the transition date, the accounting impact of the direct costs depreciated on the leasehold property amounted to $2,000 on the fixed assets and the deficit.

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

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

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

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

The Corporation elected not to retrospectively redeem its provision for dismantling and restoration of sites undertaken before the transition date, as set out in IFRIC 1 "Changes in existing decommissioning, restoration and similar liabilities." In application of the IFRS 1 exemption, the Corporation:

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

Impact – Following this reassessment of the costs of decommissioning and site restoration at the transition date, the positive effects on fixed assets amounted to $18,000, with a decrease in provisions of $33,000 (an increase of the non-current portion of provisions of $88,000 and a decrease in the current portion of provisions of $121,000). Thus, the impact on the deficit is $51,000.

c. Impairments

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

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

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

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

Impact – Following the impairment test as required by IFRS, fixed assets of some stores have been depreciated to $583,000, which has the effect of increasing the deficit at the transition date.

In the future, this impairment will reduce the impact of amortization expense in the statement of comprehensive income.

d. Convertible debentures

GAAP - The measurement approaches permitted for the separation of compound financial instruments include: 1) assigning to the less easily measurable component the residual amount after deducting from the instrument as a whole the amount separately determined for the component that is more easily measurable; and 2) measuring the liability and equity components separately and, to the extent necessary, adjusting these amounts on a pro rata basis so that the sum of the components equals the amount of the instrument as a whole.

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

IFRS - When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting the amount separately determined for the liability component from the fair value of the instrument as a whole.

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

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

In the liability component, the net impact at the transition date is a decrease of $980,000, while the net impact on the equity component results in an increase of $522,000 from the equity component and an increase of $69,000 from contributed surplus following the gradual transfer of the equity component to contributed surplus as the debt gets paid. The impact on the deficit at the date of transition is an increase to $62,000.

An amount of $133,000 from the equity component of the debenture has been reclassified to contribute surplus following the repayment of debt.

Following this reassessment, interest capitalized on the liability component of debenture presented in the statement of operation and comprehensive earnings in the future will be higher.

e. Share-based payments

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

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

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

Impact - At the transition date, the impact of faster recognition of the charge to the statement of operations and comprehensive earnings amounted to an increase in contributed surplus and deficit of $82,000.

f. Income taxes

Convertible debentures

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

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

Impact - At the transition date, there is an impact after accounting for the equity component of convertible debentures in counterpart of deferred tax liability following the initial recognition of the convertible debenture. Thus, a net deferred tax liability of $451,000 was generated.

Income Tax Effect of Other Reconciling Differences between GAAP and IFRS

Differences for income tax recognition include the impact of recording the deferred tax effect of other differences between GAAP and IFRS. The impact at the transition date is an increase in deferred tax asset of $158,000 and a lower deficit.

g. Reclassification affecting the balance sheet

Some balance sheets accounts have been reclassified to conform to the requirements of IFRS. The main reclassifications at January 31, 2010 are as follows:

- ✓ Deferred taxes must be classified as non-current item. Balances presented in the current section under GAAP have been reclassified.
- ✓ The balance of the account "Accounts payable and accrued liabilities" has mainly been ventilated on three accounts, respectively:
  - in "Trade and others payable" for $5,021,000;
  - in "Current provisions" for $164,000;
  - in "Deferred lease inducements" for $83,000.

Other differences between current GAAP and IFRS do not affect the opening balance sheet, but may have an impact on the Corporation in the future. Here is a summary of these differences:

Standards	Comparisons between IFRS and GAAP	Preliminary Findings
Fixed assets (IAS 16)	*IFRS*: After initial recognition, we can measure our fixed assets using the cost model or the revaluation model. *GAAP*: The revaluation model is not allowed.	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 statements of operations and comprehensive earnings. There is not impact on the opening balance sheet.
	IFRS: We must amortize our fixed assets based on their components. *GAAP*: Component identification rules are less stringent.	We conducted an analysis which concluded that there are no material components in our capital assets other than those already indicated by notes to the financial statements. There is no impact on the opening balance sheet.

Standards	Comparisons between IFRS and GAAP	Preliminary Findings
Intangible assets (IAS 38)	*IFRS*: After initial recognition, we can measure our intangible assets using the cost model or the revaluation model. *GAAP*: The revaluation model is not allowed.	We will continue to use the cost model in order to avoid variations in the fair value of fixed assets in the balance sheet and the corresponding impact on statement of operating and comprehensive earnings. There is no impact on the opening balance sheet.
	IFRS: Advertising costs must be recognized as an expense at the time the expense is incurred. *GAAP*: Allows for advertising costs to be deferred (as prepaid items) and expensed at the time the advertising occurs.	There is no impact on the opening balance sheet. In quarters following the transition date, advertising costs will be recognized more quickly.
Earnings per share (IAS 33)	*IFRS*: We must independently determine, for each quarter and year-to-date, the number of potentially dilutive shares to consider in calculating diluted earnings per share. *GAAP*: The number is independently determined for each quarter, but the year-to-date is a weighted average of the periods.	Diluted earnings per share will change in the future.
	IFRS: 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. *GAAP*: The cost of vested stock options is not considered when accounting for remuneration expenses.	Diluted earnings per share will change in the future.
Provisions, contingent liabilities and contingent assets (IAS 37)	*IFRS*: A provision is recognized in the case of any of the following circumstances: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. *GAAP*: The criterion for recognition in the financial statements is "likely", which represents a higher threshold than "probable."	There is no impact on the opening balance sheet

Standards	Comparisons between IFRS and GAAP	Preliminary Findings
Leases (IAS17)	*IFRS:* There are no specific quantitative guidelines to determine whether the risks and rewards of ownership of the leased asset have been transferred. Each asset must be assessed qualitatively to make the determination as to whether or not it is an operating for finance lease. *GAAP:* Quantitative guidelines have been established to distinguish between operating leases and capital (finance) leases. Leases are treated as finance leases if, at the inception of the lease: ✓ there is reasonable assurance that the lessee will obtain ownership of the leased asset at the end of the lease term or if there is a bargain purchase option; ✓ the lease term is 75% or more of the economic life of the leased asset; or ✓ the present value of the minimum lease payments is 90% or more of the fair value of the leased asset at the inception of the lease.	After evaluation, the Corporation determined that assets under finance leases for GAAP purposes will also be treated as finance leases under IFRS. This will have no impact on the opening balance sheet.
	** During our analyses of the IFRS, we followed the evolution of the project concerning the replacement of the IAS 17 standard on leases. In August 2010, the IASB published an exposure draft that significantly changes the way entities account for leases. The key objective of the proposed standard is to ensure that assets and liabilities arising from lease contracts are recognized in the statement of financial position. This standard, if adopted as proposed in the exposure draft, would have a significant effect on the Corporation's statement of financial position. The new standard should be published in June 2011. This standard is not expected to be in effect prior to the Corporation's initial adoption of IFRS.*	

Financial statement presentation

Some of the differences between IFRS and our current accounting policies are more related to the presentation of the financial statements:

Standards	Comparisons between IFRS and GAAP	Preliminary Findings as Warranted
Balance sheet	*IFRS*: A balance sheet as at the beginning of the comparative period has to be presented when: • an accounting policy is applied retrospectively; • items in financial statements are retrospectively restated or reclassified; *GAAP*: This third balance sheet column is not required.	

Standards	Comparisons between IFRS and GAAP	Preliminary Findings as Warranted
Balance sheet (cont'd)	*IFRS:* Provisions must be presented distinctly in the balance sheet. *GAAP:* Provisions are not generally presented distinctly, because they are not the object of specific Canadian standards	
Statement of operations and comprehensive earnings	*IFRS*: All items of income and expense recognized in a period can be presented: • in a single statement of compre-hensive income; or • in two statements: a separate income statement and a second statement beginning with profit or loss and displaying components of other comprehensive income. *GAAP*: All comprehensive income items may be presented: • immediately, under total net income; or • in a separate statement beginning with net income.	We chose to present all items of income and expense in a single statement of operations and comprehensive earnings.
	IFRS: Expenses are classified based on their nature or their function. *GAAP*: This classification of expenses is not required.	We chose to classify expenses by function and we will disclose, through a note to the financial statements, expenses by nature, as required in IAS 1.
Statement of changes in equity	*IFRS*: A statement of changes in equity must show reconciliation between the carrying amount at the beginning and the end of the period for each component of equity. *GAAP*: Only a statement of retained earnings has to be presented.	
Statement of cash flows	*IFRS*: In the statement of cash flows, interest and dividends may be classified as follows: • interest and dividends paid: operating activities or financing activities; • interest and dividends received: operating activities or investing activities. *GAAP*: They may be classified as follows in the cash flow statement: interest paid and received: operating activities;	We will maintain the existing classification of interest in the statement of cash flows.

Standards	Comparisons between IFRS and GAAP	Preliminary Findings as Warranted
Statement of cash flows (cont'd)	• dividends paid: financing activities; • dividends received and included in net income: operating activities	
	IFRS: Cash flows from operating activities may be presented using either the direct or the indirect method. *GAAP:* Cash flows from operating activities may be presented using either the direct or the indirect method.	We will continue to employ the indirect method for presenting cash flows from operating activities.
	IFRS: Interim reports must present a statement of cash flow cumulatively for the current financial year-to-date and for the comparable period of the preceding fiscal year. *GAAP*: Besides a cumulative cash flow statement for the current fiscal year-to-date and for the comparable period, interim reports must present a cash flow statement for the interim period and one for the comparable period.	
Notes to financial statements	*IFRS*: In general, reconciliations of the carrying amount at the beginning and end of the accounting period must be presented in the notes to financial statements. *GAAP*: Reconciliations are limited to certain balance sheet components.	
	IFRS: The total amount of key management personnel compensation must be disclosed, by large categories, in the notes to financial statements. *GAAP*: This information is not required in financial statements. However, Regulation 51-102 of the Canadian Securities Administrators demands disclosure of similar information in the proxy circular.	

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

CONCLUSION ON THE EFFICIENCY OF THE DISCLOSURE CONTROLS AND PROCEDURES

Groupe Bikini Village inc. management 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 Corporation's disclosure controls and procedures were effective as at January 29, 2011.

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 Corporation's internal control over financial reporting was effective as at January 29, 2011.

No changes were made to Groupe Bikini Village's internal control over financial reporting during the period beginning on October 31, 2010 and ending January 29, 2011, 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 Corporation'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 Corporation may encounter; additional risks and uncertainties not presently known to the Corporation may also negatively impact financial performance.

Seasonality

Many of the Corporation'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 Corporation works proactively to control variable costs as a means of mitigating the impact of this risk, many other costs, such as occupancy costs, are fixed, causing the Corporation to report a disproportionate level of earnings across its quarters. Because our industry is characterized by seasonality, the results of each quarter are not necessarily indicative of the full year's performance.

Economic conditions

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

Leases

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

Distribution

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

Competition

The Corporation's key lines of business, which is to say women's and men's bathing suits, beachwear, travel clothing and certain beach accessories, continue to evolve within a very competitive environment. Our two corporate brands, Bikini Village and Ocean Bikini Village, and our 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 Corporation's ability to achieve its objectives. An inability by the Corporation to compete effectively with current or future competitors could result in, among other things, a reduction of market share.

However, 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.

Financial Risks

Liquidity risks

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

Currency risk

The Corporation is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Corporation conducts certain commodities transactions in foreign currencies. The Corporation manages this risk with forward contracts.

Interest Rate Risk

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

For further information, please refer to the "Risk Factors" Section of the Corporation's 2011 Annual Information Form, which is incorporated by reference in this MD&A and can also be found on our website at **www.bikinivillage.com** and on SEDAR at **www.sedar.com**.

FINANCIAL POSITION

The Corporation's total assets amounted to $21.5 million as at January 29, 2011, compared to $20 million as at January 30, 2010, mainly due to the increase in cash and cash equivalents following the rights offering and concurrent private placement which took place in August, 2010.

As at January 29, 2011, accounts receivable stood at $210,000, compared to $167,000 as at January 30, 2010, mainly related to sales tax which was yet to be received on January 29, 2011.

As at January 29, 2011, our inventories stood at $5.7 million, a decrease of 8.6%, compared to $6.2 million a year earlier. Our inventories on January 29, 2011 were at a lower level than our planned target due to better-than-expected performance in the latter weeks of January 2011

Prepaid expenses totalled $652,000 as at January 29, 2011, compared to $580,000 as at January 30, 2010. The difference is explained mainly by the increase in down payments to certain suppliers for import activities.

Short-term future income tax assets were $457,000 as at January 29, 2011, as compared to $266,000 short-term and $443,000 long-term, for a total of $709,000 as at January 30, 2010. The decrease of our net future income tax assets results mainly from the use of a portion of non-capital tax losses.

The book value of Groupe Bikini Village's capital assets totalled $7.9 million as at January 29, 2011, consistent with $7.9 million as at January 30, 2010. Capital asset investments during fiscal 2010 essentially compensate for the amortization of the fiscal year.

The book value of the Corporation's intangible assets amounted to $370,000 as at January 29, 2011 compared to $497,000 as at January 30, 2010. The variation was essentially due to the amortization during 2010.

As at January 29, 2011, total debt amounted to $8.9 million, compared to $9.9 million as at January 30, 2010. The decrease in debt is mainly attributable to the repayment of long-term debt and convertible debentures

Shareholders' equity increased $2.5 million during fiscal 2010. The rights offering and the concurrent private placement in August 2010 have increased the shareholder equity by $2 million, net of fees. Share-based compensation increased the contributed surplus of $102,000, while the net earnings for the fiscal year impacted shareholders' equity by $418,000.

Groupe Bikini Village's working capital totalled $7 million as at January 29, 2011, compared to $4.7 million as at January 30, 2010; as a result, our working capital ratio was 2.1 at the end of the fiscal year, as compared to the ratio of 1.7 at the end of fiscal 2009.

OUTSTANDING SHARE DATA AND STOCK OPTIONS

Outstanding shares

On August 17, 2010, the Corporation completed its rights offering and concurrent private placement; accordingly, the Corporation issued a total of 71,218,178 common shares at a price of $0.03 each.

At the Annual and Special Meeting of Shareholders held on June 11, 2010, a resolution was approved to authorize directors of the Corporation to proceed with the consolidation of its common shares (the "Consolidation"). On September 9, 2010, the consolidation ratio was determined to be one new share for every 125 shares outstanding. On September 27th, 2010, the Consolidation was announced and took effect on September 30th, 2010; 236,985,696 shares were cancelled under the Consolidation. No fractions of shares were issued as a result of the Consolidation, with all fractions rounded down.

Following the September 30, 2010 Consolidation and at the date of this report, the Corporation has 1,910,597 common shares outstanding (1,341,425 as at January 30, 2010).

Stock options

On September 9, 2010, the Corporation granted 3,600,000 common stock option shares to certain Officers of the Corporation at an exercise price of $0.03; these options can be exercised at any time over the subsequent three years, at a rate of 33 1/3% per year. These options mature in 2020. During the fiscal year ended January 29, 2011, the compensation expense recorded on the Statement of Operations with regard to this allocation is $36,000. The compensation expense recorded on the Statement of Operations with regard to the previous year's allocation is $66,000 ($104,000 in 2009).

Following the September 30, 2010 Consolidation and at the date of this report, 54,200 stock options were outstanding (January 30, 2010 – 37,600), at prices varying between $3.75 and $16.25, for a weighted average exercise price of $7.81 ($11.25 as at January 30, 2010), exercisable on dates ranging to 2020. During the fiscal year 2010, 12,200 stock options (1,071 in 2009) expired and none were cancelled (533 in 2009).

ADDITIONAL INFORMATION

This MD&A is dated April 21, 2011, and is intended to facilitate the understanding and assessment of significant changes and trends, as well as risks and uncertainties, related to the Corporation's operating results and financial position. For other information pertaining to the Corporation, including the annual financial statements and Annual Information Form, please consult our website at **www.bikinivillage.com** or SEDAR at **www.sedar.com**.

SUMMARY OF QUARTERLY RESULTS

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

(in thousands of dollars, except per share amounts)

	Fourth quarter		Third quarter		Second quarter		First quarter	
Fiscal year	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $ Restated[1]	2010 $	2009 $ Restated[1]
Operating revenue	13,836	13,042	6,527	6,658	14,230	11,408	10,028	9,914
Net earnings (loss)	939	796	(1,478)	(1,794)	1,195	(221)	(238)	(258)
Per share amounts								
Basic earnings (loss)	0.49	0.59	(0.81)	(1.34)	0.89	(0.16)	(0.18)	(0.19)
Diluted earnings (loss)	0.49	0.59	(0.81)	(1.34)	0.89	(0.16)	(0.18)	(0.19)
Weighted average number of outstanding shares * (in thousands)								
Basic	1,911	1,341	1,819	1,341	1,341	1,341	1,341	1,341
Diluted	1,911	1,341	1,819	1,341	1,341	1,341	1,341	1,341

The fluctuations between quarters are principally seasonal. However, a key difference for the second quarter of 2010 is related to the fact that the Corporation was once again able to operate in normal market conditions, a significant improvement over the sales environment in the first half of 2009, which was marked by economic recession, unseasonable weather conditions, and the impacts of the H1N1 influenza virus.

While the months of November and December 2010 were in line with our expectations and comparable to 2009, our performance in January was beyond our expectations and compared particularly well against the same period in 2009.

OUTLOOK [2)]

Our 2010 results offer tangible proof of the appropriateness of our approach. Over the last three years we have addressed operational and structural issues, and we have consistently applied a prudent and disciplined management approach: as a result, we enter 2011 more competitive, confident and enthusiastic for the future. Recognizing the successes these strategies have yielded, we will continue to execute them, paying particular attention to performance at all levels of the Corporation, to increase our business volumes while further improving profitability. Our key strategic levers will be:

- To continue building perception of our stores as shopping destinations;
- To maintain our strategy to reduce the size of our stores: smaller stores reinforce the “destination” status, and we can immediately re-invest occupancy cost savings in value-creating initiatives;
- To choose only those suppliers/brand owners who proactively manage their brands’ distribution, and are firmly committed to supporting their brands’ value and prolonging their life cycles;
- To raise brand owners’ awareness of the importance of a targeted distribution, in terms of both strengthening their own brands and preparing for increasing competition from vertically-integrated challengers promoting their own brands.

---

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

1 Restated to reflect the changes following the retrospective application of the change in accounting policy related to the adoption of the new accounting standard for Goodwill and Intangible Assets.

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

Groupe Bikini Village's improved performance and successful rights offering and private placement in 2010 led to a strengthened balance sheet – and as a result, the Corporation enters 2011 with solid positions in both inventory and cash.

In fiscal 2011, we look forward to leveraging these strengths – and the flexibility they afford us – to further improve our competitive position and build shareholder value. As always, we will keep our eyes on the long-term, seeking out ways to do this both by creating our own opportunities and by considering other strategic alternatives that may arise.

Yves Simard
President and Chief Executive Officer

Management's Responsibility for the Financial Statements

The financial statements of Groupe Bikini Village inc. and the financial information contained in this Annual Report are the responsibility of management. This responsibility is based on a judicious choice of accounting procedures and principles, the application of which require the informed judgement of management. These financial statements were prepared in accordance with Canadian generally accepted accounting principles, and were approved by the Board of Directors. 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 Corporation'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 independent auditor, 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
April 21, 2011

Independent Auditors' Report

To the Shareholders of Groupe Bikini Village inc.

We have audited the accompanying financial statements of Groupe Bikini Village inc. which comprise the balance sheets as at January 29, 2011 and January 30, 2010, and the statements of operations and comprehensive earnings (loss), statements of shareholders' equity and cash flows for the years then ended as well as the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion of these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained during our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Groupe Bikini Village inc. as at January 29, 2011 and January 30, 2010, and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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

Montreal, Québec, April 21, 2011

[1] Chartered accountant auditor permit No. 10511

Statements of Operations and Comprehensive Earnings (Loss)

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

	Year ended	
	January 29, 2011	January 30, 2010
	$	$
Operating revenue	**44,622**	41,022
Cost of goods sold, operating and administrative expenses (Note 4)	**41,647**	40,535
Interest (Note 5)	**653**	766
Amortization	**1,614**	1,590
	43,914	42,891
Earnings (loss) before income taxes	**708**	(1,869)
Income taxes (recovery) (Note 6)	**290**	(392)
Net earnings (net loss) and comprehensive income (loss)	**418**	(1,477)
Earnings (loss) per share * (Note 7)		
Basic	**0.26**	(1.10)
Diluted	**0.26**	(1.10)
Weighted average number of outstanding shares *		
Basic	**1,603,182**	1,341,425
Diluted	**1,604,088**	1,341,425

See accompanying notes

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

Statements of Shareholders' Equity

(in thousands of Canadian dollars)

Year ended January 29, 2011

	Share capital					
	Common shares	Amount	Contributed surplus	Equity component of convertible debentures	Deficit	Total shareholders' equity
		$	$	$	$	$
Balance at beginning	**167,678,115**	**27,702**	**2,484**	**1,004**	**(21,122)**	**10,068**
Net income					**418**	**418**
Stock-based compensation plan (Note 13)			**102**			**102**
Repayment of convertible debentures (Note 11)			**227**	**(227)**		**-**
Issuance of shares, rights placement and private placement (Note 12)	**71,218,178**	**2,137**				**2,137**
Fees related to rights placement and private placement, net of income taxes of $38,000		**(100)**				**(100)**
Share consolidation (Note 12)	**(236,914,041)**					**-**
Purchase and cancellation of shares at the term of consolidation (Note 12)	**(71,655)**	**(9)**	**5**			**(4)**
Balance at end	**1,910,597**	**29,730**	**2,818**	**777**	**(20,704)**	**12,621**

Year ended January 30, 2010

	Share capital					
	Common shares	Amount	Contributed surplus	Equity component of convertible debentures	Deficit	Total shareholders' equity
		$	$	$	$	$
Balance at beginning	167,678,115	27,702	2,247	1,137	(19,645)	11,441
Net income					(1,477)	(1,477)
Stock-based compensation plan (Note 13)			104			104
Repayment of convertible debentures (Note 11)			133	(133)		-
Balance at end	167,678,115	27,702	2,484	1,004	(21,122)	10,068

See accompanying notes

Balance Sheets

(in thousands of Canadian dollars)

As at	January 29, 2011	January 30, 2010
	$	$
Assets		
Current assets		
Cash and cash equivalents (Note 14)	**6,233**	3,929
Accounts receivable	**210**	167
Income taxes	**-**	4
Inventories	**5,690**	6,223
Prepaid charges	**652**	580
Future income taxes (Note 6)	**457**	266
	13,242	11,169
Capital assets (Note 8)	**7,936**	7,903
Intangible assets (Note 9)	**370**	497
Future income taxes (Note 6)	**-**	443
	21,548	20,012
Liabilities and shareholders' equity		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**5,085**	5,268
Current portion of long-term debt and convertible debentures (Note 10 and 11)	**1,207**	1,159
	6,292	6,427
Deferred lease inducements	**596**	629
Long-term debt (Note 10)	**320**	528
Liability component of convertible debentures (Note 11)	**1,719**	2,360
	8,927	9,944
Shareholders' equity		
Share capital (Note 12)	**29,730**	27,702
Equity component of convertible debentures (Note 11)	**777**	1,004
Contributed surplus	**2,818**	2,484
Deficit	**(20,704)**	(21,122)
	12,621	10,068
	21,548	20,012

See accompanying notes

Commitments (Note 15)

Approved by the Board

J. Marsili

Nathalie Carrier

Joe Marsilii
Director

Nathalie Carrier
Director

Statements of Cash Flows

(in thousands of Canadian dollars)

	Year ended January 29, 2011	Year ended January 30, 2010
	$	$
Operating activities		
Net earnings (loss)	**418**	(1,477)
Adjustments (Note 14)	**2,236**	1,592
	2,654	115
Net changes in non-cash working capital items (Note 14)	**408**	1,669
Operating activities	**3,062**	1,784
Financing activities		
Increase of long-term debt	**75**	-
Repurchase of share capital	**(4)**	-
Issuance of shares, rights placement and private placement	**2,137**	-
Repayment of convertible debentures	**(900)**	(525)
Fees related to rights placement and private placement	**(138)**	-
Deferred lease credit	**-**	227
Reimbursement of long-term debt	**(278)**	(231)
Financing activities	**892**	(529)
Investing activities		
Acquisition of capital assets	**(1,645)**	(1,518)
Acquisition of intangible assets	**(5)**	(154)
Investing activities	**(1,650)**	(1,672)
Net changes in cash and cash equivalents	**2,304**	(417)
Cash and cash equivalents at beginning of year	**3,929**	4,346
Cash and cash equivalents at end of year	**6,233**	3,929

See accompanying notes

Notes to the Financial Statements

(all tabular figures are in thousands of Canadian dollars)

1. Corporation 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 "Lanaï" stores.

2. Summary of significant accounting policies

The Corporation'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, the area of assessing recoverability of long-lived assets, determination of accrued liabilities, the determination of income taxes charges and future income taxes, 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 Corporation 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 estimated useful lives foreseen according to the following table. Concerning the leasehold improvements, the amortization 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 Corporation's intangible assets are comprised of software costs and are amortized on a straight-line basis over their estimated useful lives, or 5 years.

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 Corporation 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 substantively enacted tax rates and laws 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 dilative. 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 Corporation does not use hedge accounting.

Stock-based compensation and other stock-based payments

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

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 Corporation 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.

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 contribute surplus.

Financing charges

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

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 Corporation's designation of such instruments. Settlement date accounting is used.

Classification

Cash and cash equivalents	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 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 (i.e. as prices) or indirectly (i.e. derived from prices);

(all tabular figures are in thousands of Canadian dollars)

2. Summary of significant accounting policies (continued)

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

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

Financial year

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

3. Future changes in accounting policies

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 GAAP for publicly accountable enterprises. The authoritative new accounting pronouncements are applicable to fiscal years beginning on or after January 1, 2011. Accordingly, the Corporation will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Starting from the first quarter of 2011, the Corporation's financial statements will be prepared in accordance with IFRS in effect in 2011, with 2010 comparative figures and January 30, 2011 ("Date of Transition") opening balance sheet restated to conform with such IFRS, along with reconciliations from Canadian GAAP to IFRS, as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards.*

4. Additional information on the cost of goods sold

For the year ended January 29, 2011, the cost of inventories recognized as an expense and included in cost of goods sold, operating and administrative expenses totalled $19 million ($18.6 million in 2009). The amount reflecting the cost of inventories, recognized as an expense for the period included $738,000 ($722,000 in 2009) relating to write-downs taken as a result of net realizable value being lower than cost. No inventory write-downs recognized in previous years were reversed.

5. Interest

	Year ended	
	January 29, 2011	January 30, 2010
	$	$
Long-term debt	**579**	680
Others	**87**	92
	666	772
Interest income	**(13)**	(6)
	653	766

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of Canadian dollars)

6. Income taxes

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

	Year ended	
	January 29, 2011	January 30, 2010
	%	%
Combined base rate	**30.1**	31.6
Effect of rate change on future income taxes	**(3.0)**	(4.5)
Stock-based compensation	**4.3**	(1.8)
Non-deductible interest on debentures	**9.3**	(4.2)
Other	**0.3**	(0.1)
	41.0	21.0

Income tax expense (recovery) is as follows:

	Year ended	
	January 29, 2011	January 30, 2010
	$	$
Income taxes	**-**	(4)
Future income taxes	**290**	(388)
	290	(392)

The main components of the Corporation's future income tax were as follows:

As at	**January 29, 2011**	January 30, 2010
	$	$
Provisions and other reserves that are tax-deductible only when disbursed	**267**	298
Capital assets and other assets	**(227)**	(108)
Unused non-capital tax losses	**417**	519
Future income tax	**457**	709
Presented on Balance Sheet as follows		
Future income tax assets - current portion	**457**	266
Future income tax assets - long-term	**-**	443

(all tabular figures are in thousands of Canadian dollars)

6. Income taxes (continued)

As at January 29, 2011, the Corporation has a balance of non-capital tax losses available to be carried forward in the amount of $1,568,000 ($1,955,000 in 2009) which can be used to reduce income taxes of future years. These losses expire in 2030 and future income tax assets relative to these losses were accounted for.

Also as at January 29, 2011, the Corporation has capital losses to carry forward for an amount of $1,178,000 ($1,178,000 as at January 30, 2010). These losses can be applied indefinitely against future capital gains. The future income tax assets related to these capital losses were not accounted for.

7. Earnings (loss) per share *

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

	Year ended	
	January 29, 2011	January 30, 2010
	$	$
Basic		
Net earnings (loss)	**418**	(1,477)
Weighted average number of shares * ouststanding	**1,603,182**	1,341,425
Basic earnings (loss) per share *	**0.26**	(1.10)
	$	$
Diluted		
Net earnings (loss)	**418**	(1,477)
Weighted average number of shares * outstanding	**1,603,182**	1,341,425
Dilution effect from stock option plan	**906**	-
Adjusted weighted average number of shares * outstanding	**1,604,088**	1,341,425
Earnings (loss) per share *, diluted	**0.26**	(1.10)

Options giving the right to buy 25 400 shares* during the year ended January 29, 2011 (37,600 in 2009), and likely to dilute the basic earnings per share in the future, were not taken into account in the calculation of diluted earnings per share because of their anti-dilutive effect.

Debentures for $3,075,000 ($3,975,000 in 2009) which can be converted into 123,000 common shares* (159,000 in 2009) likely to dilute the basic earnings per share in the future were not taken into account in the calculation of diluted earnings per share because of their anti-dilutive effect.

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

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of Canadian dollars)

8. Capital assets

As at	January 29, 2011		January 30, 2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
	$	**$**	$	$
Equipment	**786**	**385**	763	257
Equipment - capital leases	**521**	**228**	478	119
Leasehold improvements	**10,765**	**3,968**	9,923	3,389
Leasehold improvements - capital leases	**582**	**137**	582	78
	12,654	**4,718**	11,746	3,843
Accumulated amortization	**4,718**		3,843	
Net book value	**7,936**		7,903	

9. Intangible assets

As at	January 29, 2011		January 30, 2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
	$	**$**	$	$
Software	**647**	**277**	642	145
Accumulated amortization	**277**		145	
Net book value	**370**		497	

10. Long-term debt

As at	January 29, 2011	January 30, 2010
	$	$
Capital lease, payable by 48 payments, expiring in November 2012, the carrying interest rate is 5.63 %	**483**	727
Capital lease, payable by 48 payments, expiring in March 2014, the carrying interest rate is 6.56 %	**84**	60
Long term debt, payable by 36 payments, expiring in June 2013, the carrying interest rate is the lender prefered rate + 4,50 %	**60**	-
	627	787
Current portion	**307**	259
	320	528

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

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of Canadian dollars)

10. Long-term debt (continued)

On September 8, 2009, the Corporation secured a second capital lease to finance computer equipment and leasehold improvements for the distribution centre.

As at January 29, 2011, the Corporation has an on-demand credit facility for a maximum amount of $1,500,000, renewable annually, of which none was used as at January 29, 2011. A first segment of $1.5 million is available at all times and, if necessary, a seasonal increase of $1.5 million is also available from September 15 to December 15, for a total of $3 million**.** The maximum allowable amount is limited to a percentage of the value of inventories less specific reserves and priority claims. On January 29, 2011, the available amount according to the margination formula was $1.4 million. In the normal course of business in 2010, the Corporation issued letters of credit and letters of guarantee against this facility for a total of $162,000, which are expiring in August 2011.

This facility is secured by a universal first mortgage on inventories, receivables and capital assets of the Corporation and bears interest at prime plus 3.95% (3.0% in 2009). At the annual renewal in April, 2011, this credit facility has been improved and will bear interest at prime plus 1.50% (3.95% in 2010). Under the agreements relative to the credit facility, the Corporation is subject to a restrictive clause concerning compliance with a financial ratio. As at January 29, 2011, the Corporation was in compliance with the applicable restrictive clause under the credit facility.

The future capital payments for the next years are as follows:

2012	2013	2014	2015
$307	$279	$39	$2

11. Liability component of the convertible debentures

As at	**January 29, 2011**	January 30, 2010
	$	$
Unsecured convertible debentures with annual interest rate of 8 %, payable monthly	**3,075**	3,975
Convertible right value presented in equity	**(777)**	(1,004)
	2,298	2,971
Financing fees	**(80)**	(119)
Interest capitalized	**401**	408
Liability component of the convertible debentures	**2,619**	3,260
Current portion	**900**	900
	1,719	2,360

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

(all tabular figures are in thousands of Canadian dollars)

11. Liability component of the convertible debentures (continued)

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

These debentures bear an annual interest rate of 8%, payable monthly, and bought back by the Corporation 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 Corporation, at the conversion rate of $0.20 per share. In case of default or change of control of the Corporation, the Fund may potentially convert its debentures at a more advantageous rate.

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

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

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

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

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

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

12. Share capital

Authorized

The Corporation is authorized to issue an unlimited number of common shares with voting rights and an unlimited number of preferred shares without voting rights.

Rights Offering

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

Under the rights offering, each registered holder of common shares (the "Shares") as of the record date, July 19, 2010, received one right (a "Right") for each Share held. It took four Rights plus the sum of $0.03 to subscribe for one pre-consolidation Share.

(all tabular figures are in thousands of Canadian dollars)

12. Share capital (continued)

On August 17, 2010, the Corporation announced the completion of its rights offering and its concurrent private placement. Since all rights were exercised under the Offering, the Corporation issued 41,919,528 shares. In addition, the Corporation extended to the guarantor the opportunity to subscribe for Shares at a price of $0.03 each under the Private Placement; 29,298,650 Shares were subscribed to under the Private Placement. Therefore, under the Offering and the Private Placement, the Corporation issued a total of 71,218,178 common shares at a price of $0.03 each, for total gross proceeds of $2.1 million.

Consolidation

At the Annual and Special Meeting of Shareholders held on June 11, 2010, a resolution was approved to authorize directors of the Corporation to proceed with the Consolidation of its common shares (the "Consolidation"). On September 9, 2010, the consolidation ratio was determined to be one new share for every 125 shares outstanding. On September 27th, 2010, the Consolidation was announced and took effect on September 30th, 2010. No fractions of shares were issued as a result of the Consolidation, with all fractions were rounded down. Thus, a total of 236,914,041 shares were cancelled under the Consolidation. For each pre-Consolidation Share that did not form part of a post-Consolidation Share, shareholders received a cash payment of the greater of (i) $0.05 and (ii) the market price (as defined in the TSX's rules) on the date that the Consolidation took effect. Consequently, shareholders received $0.05 per share. The amount posted to share capital for the buy back of 71,655 shares following the Consolidation includes cash consideration of $4,000, while a $5,000 discount on repurchase was recorded in contributed surplus.

13. Stock option plan *

The Stock Option Plan (the "Plan") in place provides its optionees with additional inducement to promote, to the best of their ability, the interest of the Corporation 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 rules of the Toronto Stock Exchange, be determined, by way of a resolution, by the Board of Directors of the Corporation at the time the option is granted to the optionee.

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

The table below presents the status of the Corporation's stock option plan as at January 29, 2011 and as at January 30, 2010 and the changes to this Plan during the fiscal year then ended.

	Year ended January 29, 2011		Year ended January 30, 2010	
	Number of options	**Weighted avg. exercise price $**	Number of options	Weighted avg. exercise price $
Balance at beginning	37,600	11.25	39,204	11.25
Granted	28,800	3.75	-	-
Expired	(12,200)	10.31	(1,071)	10.23
Cancelled	-	-	(533)	10.00
Balance at end	54,200	7.81	37,600	11.25
Options exercisable at end	35,000	10.04	26,400	11.25

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of Canadian dollars)

13. Stock option plan * (continued)

The table below is a summary of the information related to the January 29, 2011 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
$			$		$
3.75	28,800	9.6	3.75	9,600	3.75
10.00	14,400	7.2	10.00	14,400	10.00
13.75 to 16.25	11,000	5.6	15.57	11,000	15.57
	54,200	8.2	7.81	35,000	10.04

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
$			$		$
10.00	25,600	8.2	10.00	17,067	10.00
13.75 to 16.25	12,000	6.6	15.00	9,333	15.00
	37,600	7.8	11.25	26,400	11.25

On September 9, 2010, the Corporation granted 28,800 common stock option shares to certain Officers of the Corporation at an exercise price of 3.75; these options can be exercised at any time over the subsequent three years, at a rate of 33 1/3% per year. These options mature in 2020. The fair value of these options was estimated at $110,000 on the grant date using the *Black-Scholes* option pricing model according to the following assumptions: interest rate without risk of 2.35%, nil dividends, estimated useful life of seven years, predicted volatility of 85%. During the fiscal year ended January 29, 2011, the compensation expense recorded on the Statement of Operations with regard to this allocation is $36,000. The compensation expense recorded on the Statement of Operations with regard to the previous year's allocation is $66,000 ($104,000 in 2009).

During the fiscal year ended January 29, 2011, 12,200 stock options (1,071 in 2009) expired and none have been cancelled (533 in 2009).

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

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of Canadian dollars)

14. Supplementary information

a) Included in determination of the Corporation's net earnings (net loss) was a foreign exchange loss of $94,000 ($119,000 in 2009).

b) Supplementary information on cash and cash equivalents

As at	**January 29, 2011**	January 30, 2010
	$	$
Balance with banks	**3,233**	3,929
Short-term deposits	**3,000**	-

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of Canadian dollars)

14. Supplementary information (continued)

c) Supplementary cash flow information

	Year ended	
	January 29, 2011	January 30, 2010
	$	$
i) Adjustments for:		
Amortization - Capital assets	**1,314**	1,473
Amortization - Capital assets - capital leases	**168**	150
Amortization - Intangible assets	**132**	117
Interest capitalized on the liability component of debentures and financing fees amortization	**259**	288
Stock-based compensation plan	**102**	104
Future income taxes	**290**	(388)
Amortization of deferred lease inducements	**(85)**	(94)
Deferred lease inducements	**56**	92
	2,236	1,742
ii) Net changes in non-cash working capital items		
Accounts receivable	**(43)**	(18)
Income taxes	**4**	266
Inventories	**533**	1,699
Prepaid charges	**(72)**	(139)
Accounts payable and accrued liabilities	**(14)**	(139)
	408	1,669
iii) Supplementary information		
Cash amount paid (recovered):		
Interest	**328**	431
Income taxes	**(4)**	(270)
Non-cash operations:		
Capital assets additions included in accounts payable and accrued liabilities	**11**	212
Capital assets acquired through capital leases	**43**	60
Capital assets acquired through support of asset retirement obligations included in accounts payable and accrued liabilities	**28**	-

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of Canadian dollars)

15. Commitments

The Corporation 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 Corporation's or lessor's option. The minimum lease payments required in the forthcoming years are as follows:

2012	2013	2014	2015	2016	Subsequently
$5,064	$4,424	$3,016	$2,133	$1,240	$1,592

16. Capital disclosures

The Corporation's objectives in managing capital are i) to have sufficient liquidity to enable the financing of capital projects and working capital needs, thereby facilitating its expansion, ii) to maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Corporation's capital is composed of long-term debt including current portion of the debt, non-guaranteed convertible debentures and shareholders' equity. The Corporation's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for new store additions and existing store renovation projects. Groupe Bikini Village inc. funds these requirements out of its internally-generated cash flows and its financing facilities already in place. However, during the third quarter of 2010, in a way to pro-actively manage its cash requirements, the Corporation realized a rights offering and a concurrent private placement.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather, promotes year-over-year sustainable profitable growth.

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

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

As at	**January 29, 2011**	January 30, 2010
	$	$
Long term debt including current portion	**627**	787
Liability component of convertible debentures including current portion	**2,619**	3,260
Shareholders' equity	**12,621**	10,068
	15,867	14,115

17. Financial risks and financial instruments

Liquidity risks

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

17. Financial risks and financial instruments (continued)

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 10 and 11 Long-term debt and Liability component of the convertible debentures. Accounts payable and accrued liabilities are all current.

Currency risk

The Corporation is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Corporation conducts certain commodities transactions in foreign currencies. The Corporation manages this risk with forward contracts. As at January 29, 2011, the Corporation had forward contracts denominated in U.S. dollars amounting to $1.5 million ($537,000 as at January 30, 2010), with maturity dates until September 30, 2011 (until August 31, 2010 as at January 30, 2010), and rates between 1.017 and 1.05 (1.055 and 1.1725 in 2009). As of January 29, 2011, the fair value of unrealized gains or losses on the forward contracts has been recorded to the operations and represents a loss of $39,000 ($22,000 in 2009). These amounts were recorded in "accounts payables and accrued liabilities". The fair value of these foreign exchange contracts is $1.5 million ($571,000 in 2009). The U.S. accounts payable included in the balance sheet as at January 29, 2011 was $4,000 ($22,000 as at January 30, 2010).

The Corporation has performed sensitivity analysis on its U.S. dollar denominated financial instruments, at January 29, 2011, to determine how a change in the U.S. dollar exchange rate would impact on shareholders' equity and net loss. On January 29, 2011, a 10% rise or fall in the Canadian dollar against the U.S. dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $230,000 increase or decrease, respectively, in the Corporation's shareholders' equity and net earnings for the year ended January 29, 2011.

Interest Rate Risk

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

The Corporation has performed sensitivity analysis on interest rate risk at January 29, 2011, to determine how a change in interest rates would impact shareholders' equity and net loss. During fiscal 2010, the Corporation earned $13,000 of interest income and incur interest charges of $3,000 on its long term debt. An increase or decrease of 100 basis points in the average interest rate earned during the year would have increased by $27,000 or decreased by $14,000 on equity and net earnings. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Fair Value

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are all short-term financial instruments; consequently, their fair values approximate their carrying values. Cash and cash equivalents are classified according to the level 1 of the fair value hierarchy. The fair value of forward contracts is classified according to the level 2 of the fair value hierarchy.

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

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

Notes to the Financial Statements (continued)

(all tabular figures are in thousands of Canadian dollars)

18. Segment information

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

19. Comparative figures

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

CORPORATE INFORMATION

Board of Directors

Paul Delage Roberge ●▲
Chairman
GlobeCorp Tradings Inc.

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

Nathalie Carrier ■●▲
President
NC Collections

Hélène F. Fortin, FCA, ISA.A ■●▲
Assurance partner
CA firm Demers Beaulne

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

Me Pascal DeGuise
Secretary

Head Office

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

www.bikinivillage.com

The Annual Meeting of Shareholders will be held at 10h00 A.M. on May 26th, 2011 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.

Disponible également en version française

GROUPE
Bikini Village
inc.

2101-A Nobel, Sainte-Julie, Québec J3E 1Z8
www.bikinivillage.com