



## News Release

For Immediate Release

# Liquidation World Returns to Profitability in 2006

## Growth plans on track for further improvements in 2007

CALGARY, December 13, 2006 - Liquidation World Inc. (LQW – TSX) today announces the results of operations for the 52 weeks ended October 1, 2006. For the year, revenue increased by 13.1% to \$208.2 million from \$184.2 million, and set a new annual record. Net earnings for the year increased \$8.0 million to \$1.5 million (\$0.18 per share) from a loss of \$6.5 million (\$0.77 per share) in 2005.

For the 13-week period ending October 1, 2006, revenue increased 13.0% to \$52.9 million from \$46.8 million, and set a new Q4 record. A net loss of \$1.1 million (\$0.13 per share) was recorded during the quarter, compared with net earnings of \$0.4 million (\$0.05 per share) during Q4 of 2005.

Additional details are provided in the financial statements below.

Jonathan Hill, President & CEO, said:

*Fiscal 2006 was an important year for the Company. During the year, we embarked on a strategy to build a platform for growth. In particular, we added three experienced senior retail executives to our strong existing team in key merchandising, operations and real estate roles; we expanded our buying team and reorganized it along product lines for greater inventory accountability and control; and, we went live with our new merchandise management system (MMS).*

*The effort expended during the year did result in noteworthy improvements to the business and a return to profitability. However, the year was not without setbacks. Our year end procedures brought to light certain process and data issues associated with the transition to our new merchandise management system which negatively impacted gross margins during the fourth quarter. As part of our previously stated strategy, we have been working aggressively to increase excitement for our customers by keeping the merchandise in our stores new and interesting. An important tool in our day-to-day pricing decisions has been the information generated by our new merchandise management system. During the quarter, this information indicated that gross margins were ahead of plan and, on that basis, we acted to accelerate markdowns associated with our strategic inventory objectives.*

*The accelerated markdown activity caused a margin shortfall that resulted in an unforeseen loss for the quarter. We have since identified substantially all of the causes, and have taken corrective measures to address them.*

*While the Company's increased markdown activity may have had an effect on same store sales gains for quarter, it was not the sole driver; indeed, the Company enjoyed solid same store sales growth in each quarter of 2006. Furthermore, a comparison to 2005 reveals a substantial increase in the number of same store transactions and a consistent basket size, which implies higher customer shopping frequency and the successful recruitment of new customers which are both desired outcomes of our growth strategy.*

*The investments we have made to strengthen our buying team have resulted in growth in several underdeveloped categories, more product selection in general, and higher quality product in our stores. That means that our customers are finding fresh inventory when they visit our stores, and have reason to return sooner. Indeed, over the past year, the percentage of inventory aged 18 months or greater has been reduced to less than 1.5%. It is important to note that the accelerated inventory markdowns taken in the fourth quarter were not particularly related to aged and non-performing inventory.*

Commenting on Liquidation World's plans for fiscal 2007, Mr. Hill said:

*The Company's expense ratio improved over the prior fiscal year. However, our modest earnings for the year demonstrate that our infrastructure investments are not yet fully leveraged. In the coming year, we will add revenue from same store sales growth and the addition of new outlets. As a result, we expect our expense ratio will continue to decline and overall profitability will continue to improve.*

*In terms of new stores, our plan during fiscal 2007 is to grow from 106 to 125 stores with no significant additional investments in infrastructure. These plans are unfolding in line with expectations. Two months into the year, we have 114 stores open and leases in place on several additional locations.*

*Notwithstanding the margin shortfalls experienced in Q4, we also believe that improvements we have made to the quality, freshness and selection of product in our stores will continue to deliver gains in same store sales during fiscal 2007.*

*The Q4 results are a disappointing end to our year, however, they do not undermine the appropriateness of our strategy nor should they detract from the accomplishments we have achieved during the year. Going forward, we will continue to work diligently to effectively manage merchandise, deliver great deals to our customers and grow our business to the benefit of our shareholders.*

## **About Liquidation World**

Liquidation World liquidates consumer merchandise through 114 retail outlets located throughout Canada and the northwest US. The Company solves asset recovery problems in a professional manner for the financial services industry, insurance companies, manufacturers, wholesalers and other organizations. Liquidation World opened its first retail outlet in Calgary, Alberta in 1986 and, today, with more than 1,800 employees, is one of the largest liquidators in North America.

## **Forward-Looking Statements**

This release includes forward-looking statements and potential future circumstances and developments. Forward-looking statements regarding future performance are subject to risks and uncertainties, and actual results may differ materially. Due to fluctuations in gross margins and other expenses, an increase in revenue does not directly correlate to an increase in net earnings.

**Liquidation World has scheduled a conference call to begin promptly at 11:00 a.m. Calgary time (1:00 p.m. EST) on December 13<sup>th</sup>, 2006.**

**Conference call dial in number is 1-877-888-4210 or 416-695-5259**

A replay of the conference call will be accessible on Liquidation World's website within twenty-four hours at [www.liquidationworld.com](http://www.liquidationworld.com) by selecting "Investor Info", "News Releases", and "Annual Conference Call".

### **For more information, please contact:**

Jonathan Hill, President and CEO  
416-587-0688 phone  
866-237-3778 fax  
jonathanh@liquidationworld.com

Andrew Searby, CA, Executive VP and CFO  
403-250-1222 phone  
866-484-4504 fax  
andrews@liquidationworld.com

# LIQUIDATION WORLD INC.

## Consolidated Balance Sheets

(In thousands of Canadian dollars)

|   | October 1, 2006  | October 2, 2005  |
|---|------------------|------------------|
| <b>Assets</b>                                       |                  |                  |
| <b>Current assets</b>                               |                  |                  |
| Cash and equivalents                                | \$ 184           | \$ 177           |
| Accounts receivable                                 | 309              | 621              |
| Inventory   | 55,184           | 46,552           |
| Prepaid expenses                                    | 2,121            | 2,242            |
| Income taxes recoverable                            | -                | 2,916            |
|   | <u>57,798</u>    | <u>52,508</u>    |
| Property and equipment                              | 12,710           | 9,895            |
|   | <u>\$ 70,508</u> | <u>\$ 62,403</u> |
| <b>Liabilities and Shareholders' Equity</b>         |                  |                  |
| <b>Current liabilities</b>                          |                  |                  |
| Bank indebtedness                                   | \$ 5,397         | \$ 2,265         |
| Accounts payable and accrued liabilities            | 8,398            | 6,387            |
| Income taxes payable                                | 332              | -                |
| Current portion of obligations under capital leases | 979              | 715              |
|   | <u>15,106</u>    | <u>9,367</u>     |
| Obligations under capital leases                    | 2,898            | 1,997            |
| Future income tax commitments                       | 754              | 445              |
| <b>Shareholders' equity</b>                         |                  |                  |
| Share capital                                       | 15,507           | 15,764           |
| Contributed surplus (note 6)                        | 800              | 437              |
| Retained earnings                                   | <u>35,443</u>    | <u>34,393</u>    |
|   | <u>51,750</u>    | <u>50,594</u>    |
|   | <u>\$ 70,508</u> | <u>\$ 62,403</u> |

## LIQUIDATION WORLD INC.

Consolidated Statements of Earnings and Retained Earnings  
For the years ended October 1, 2006 and October 2, 2005  
(In thousands of Canadian dollars, except per share amounts)

|  | 13 weeks ended<br>October 1, 2006 | 13 weeks ended<br>October 2, 2005 | Year ended<br>October 1, 2006 | Year ended<br>October 2, 2005 |
|--|-----------------------------------|-----------------------------------|-------------------------------|-------------------------------|
| Revenue  | \$ 52,911                         | \$ 46,813                         | \$ 208,205                    | \$ 184,151                    |
| Cost of sales  | 35,026                            | 28,892                            | 129,847                       | 121,871                       |
|  | 17,885                            | 17,921                            | 78,358                        | 62,280                        |
| Expenses   |                                   |                                   |                               |                               |
| Selling, general and administrative                                      | 18,420                            | 16,753                            | 72,191                        | 68,407                        |
| Depreciation and amortization  | 884                               | 642                               | 3,196                         | 2,078                         |
| Stock based compensation   | 123                               | (43)                              | 362                           | 166                           |
| Interest   | 125                               | 55                                | 376                           | 125                           |
| Foreign exchange   | (34)                              | (14)                              | (139)                         | (15)                          |
|  | 19,518                            | 17,393                            | 75,986                        | 70,761                        |
| Earnings (loss)  |                                   |                                   |                               |                               |
| before income taxes  | (1,633)                           | 528                               | 2,372                         | (8,481)                       |
| Income taxes   |                                   |                                   |                               |                               |
| Current (recovery)   | (523)                             | 35                                | 543                           | (2,214)                       |
| Future   | 21                                | 75                                | 309                           | 187                           |
|  | (502)                             | 110                               | 852                           | (2,027)                       |
| Net earnings (loss)  | (1,131)                           | 418                               | 1,520                         | (6,454)                       |
| Retained earnings, beginning of year                                     | 36,846                            | 33,975                            | 34,393                        | 41,220                        |
| Excess of repurchase amount over stated<br>capital of repurchased shares | (272)                             | -                                 | (470)                         | (102)                         |
| Adjustment to reflect change in accounting policy                        |                                   |                                   | -                             | (271)                         |
| Retained earnings, end of year   | \$ 35,443                         | \$ 34,393                         | \$ 35,443                     | \$ 34,393                     |
| Earnings (loss) per share  |                                   |                                   |                               |                               |
| Basic  | \$ (0.13)                         | \$ 0.05                           | \$ 0.18                       | \$ (0.77)                     |
| Fully diluted  | \$ (0.13)                         | \$ 0.05                           | \$ 0.18                       | \$ (0.77)                     |

### Segmented Information

(In thousands of Canadian dollars)

|                        | 13 weeks ended<br>October 1, 2006 | 13 weeks ended<br>October 2, 2005 | Year ended<br>October 1, 2006 | Year ended<br>October 2, 2005 |
|------------------------|-----------------------------------|-----------------------------------|-------------------------------|-------------------------------|
| Revenue                |                                   |                                   |                               |                               |
| Canada                 | \$ 45,947                         | \$ 41,356                         | \$ 178,522                    | \$ 159,789                    |
| United States          | 6,964                             | 5,457                             | 29,683                        | 24,362                        |
| Total                  | \$ 52,911                         | \$ 46,813                         | \$ 208,205                    | \$ 184,151                    |
| Property and equipment |                                   |                                   | As at October 1,<br>2006      | As at October 2,<br>2005      |
| Canada                 |                                   |                                   | \$ 11,902                     | \$ 9,413                      |
| United States          |                                   |                                   | 808                           | 482                           |
| Total                  |                                   |                                   | \$ 12,710                     | \$ 9,895                      |

## LIQUIDATION WORLD INC.

### Consolidated Statements of Cash Flows

For the years ended October 1, 2006 and October 2, 2005

(In thousands of Canadian dollars)

|   | 13 weeks ended<br>October 1, 2006 | 13 weeks ended<br>October 2, 2005 | Year ended<br>October 1, 2006 | Year ended<br>October 2, 2005 |
|---|-----------------------------------|-----------------------------------|-------------------------------|-------------------------------|
| Cash provided by (used in):                           |                                   |                                   |                               |                               |
| Continuing operations                                 |                                   |                                   |                               |                               |
| Net earnings (loss)                                   | \$ (1,131)                        | \$ 418                            | \$ 1,520                      | \$ (6,454)                    |
| Add (deduct) non-cash items:                          |                                   |                                   |                               |                               |
| Depreciation and amortization                         | 884                               | 642                               | 3,196                         | 2,078                         |
| Stock based compensation                              | 123                               | (43)                              | 362                           | 166                           |
| Future income taxes                                   | 21                                | 75                                | 309                           | 187                           |
|   | (103)                             | 1,092                             | 5,387                         | (4,023)                       |
| Changes in non-cash operating working capital         |                                   |                                   |                               |                               |
| Accounts receivable                                   | 82                                | (1,116)                           | 312                           | (190)                         |
| Inventory   | 3,511                             | 3,186                             | (8,632)                       | 9,153                         |
| Prepaid expenses                                      | (464)                             | 185                               | 121                           | 39                            |
| Accounts payable and accrued liabilities              | 1,286                             | (924)                             | 2,011                         | (1,319)                       |
| Income taxes recoverable / payable                    | (506)                             | 109                               | 3,248                         | (3,779)                       |
|   | 3,806                             | 2,532                             | 2,447                         | (119)                         |
| Discontinued operations                               |                                   |                                   |                               |                               |
| Changes in non-cash operating working capital         | -                                 | -                                 | -                             | (45)                          |
|   | -                                 | -                                 | -                             | (45)                          |
| Investments   |                                   |                                   |                               |                               |
| Purchase of capital assets                            | (2,015)                           | (1,583)                           | (4,845)                       | (6,207)                       |
| Proceeds on disposal of equity interest               | -                                 | 725                               | -                             | 725                           |
| Proceeds on disposal of discontinued operations       | -                                 | 65                                | -                             | 65                            |
|   | (2,015)                           | (793)                             | (4,845)                       | (5,417)                       |
| Financing   |                                   |                                   |                               |                               |
| Increase in bank indebtedness                         | (1,351)                           | (4,487)                           | 3,132                         | 2,265                         |
| Proceeds from capital lease                           | -                                 | 2,712                             | -                             | 2,712                         |
| Proceeds on issuance of common shares                 | -                                 | 5                                 | -                             | 61                            |
| Repurchase of common shares                           | (430)                             | -                                 | (727)                         | (156)                         |
|   | (1,781)                           | (1,770)                           | 2,405                         | 4,882                         |
| Increase (decrease) in cash                           | 10                                | (31)                              | 7                             | (699)                         |
| Cash and cash equivalents, beginning of year          | 174                               | 208                               | 177                           | 876                           |
| Cash and cash equivalents, end of year                | \$ 184                            | \$ 177                            | \$ 184                        | \$ 177                        |
| Supplemental disclosure of cash paid (recovered) for: |                                   |                                   |                               |                               |
| Income taxes  | \$ -                              | \$ 327                            | \$ (2,695)                    | \$ 1,637                      |
| Interest  | 123                               | 55                                | 376                           | 125                           |
|   | \$ 123                            | \$ 382                            | \$ (2,319)                    | \$ 1,762                      |