2004 SECOND QUARTER REPORT

It's like walking into a new store every day You never know what you'll find I am always surprised to find something in store I'd never find anywhere else Always shop here first - you'll find lots of what your family needs and save money as well It's a shopping experience like no other It's a treasure hunt Furniture, food, paint, housewares, hardware, clothing, sporting goods, toys, health and beauty … Liquidation World sells it all 1000's of everyday items Brand new, brand names The fun is contagious & the savings are too!

LIQUIDATION WORLD®

LiquidationWorld.com

CORPORATE PROFILE

BRAND NEW, BRAND NAME MERCHANDISE. MUCH OF WHAT YOU NEED FOR DAILY LIVING – FOOD, FURNITURE, CLOTHING, HOUSEWARES, HARDWARE, PAINT, AND MORE – LIQUIDATION WORLD SELLS IT ALL AT PRICES THAT ARE OFTEN 50 PERCENT OR LESS OF WHAT YOU WILL FIND AT TRADITIONAL RETAIL STORES.

How do we do it? And how have we done it for 17 profitable years running?

Liquidation World works closely with manufacturers, retailers, banks and insurance companies to help them deal with distressed merchandise of almost every description. Distressed doesn't mean damaged or used. It's just industry jargon for goods that won't, or can't be sold through typical retail channels.

That may include merchandise from inventory overruns or packaging changes. Sometimes it means goods from bankruptcies, receiverships and insurance claims. But most of our goods are sourced from healthy, ongoing businesses – manufacturers who view Liquidation World as an indispensable part of their sales channel, and retailers who occasionally need help clearing excess stock.

We buy these goods with cash and at deep discounts, and pass the savings on to our retail customers through 99 Liquidation World Outlets in Canada and the U.S., through our in-house auction, on-site store closures, and "Going Out of Business" sales. And that's where we have the most fun – sharing our deals with value and quality conscious consumers.

We'll go half way around the world to buy a multi-million dollar deal. And, we'll go around the block to buy from a local business in need.

WE NEVER STOP LOOKING FOR A GREAT DEAL AND NEITHER SHOULD YOU.
SHOP LIQUIDATION WORLD.
SHOP IT FIRST.
SHOP IT WEEKLY.

FROM THE OFFICE OF THE CEO

As we watch other publicly-traded retailers report earnings, good and bad, we are heartened by the fact we occupy a secure niche in a dynamic and unpredictable retail world, because with change, there will always be a need for the menu of services Liquidation World offers.

Retailers will forever cancel orders, close stores, have trouble selling entire inventories, and be forced to deal with underutilized assets. Product manufacturers will always have to make the most of production overruns and packaging changes. Bankers, meanwhile, will continue to cope with troubled loan portfolios, and move swiftly to minimize exposure to the effects of bankruptcy. And, for their part, insurance companies will always act quickly to maximize recovery when the unexpected occurs.

Our second-quarter results reflect this reality with characteristic consistency. With revenues of $44.4 million, the Company made the most of hundreds of opportunistic deals it uncovered in the second quarter.

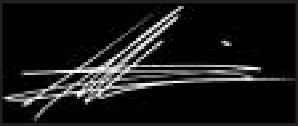
Obviously, we continue to realize value where others can't. We own a lot of great quality merchandise that is now working its way through the system, a fact that is accurately reflected on this quarter's balance sheet as the Company has just completed its first, mid-year physical inventory count. In keeping with our desire to examine key performance indicators more closely, we felt it was imperative we precisely monitor the effect inventory levels have on our current and future cash positions. By nature, we have always conservatively recorded the value of our assets, and such measures will help us better report our success to you in a timely manner.

Other initiatives we feel will have a great impact on how we work are also underway, or otherwise under our belt. In February, the Company held its first ever department heads' meeting in conjunction with our annual buyers' and district managers' gathering. Our goal was to ensure each division within the company is clear in how it can best serve the others, and in turn our customers. That is important, as we feel there will be more opportunities to uncover in the years ahead. Readying ourselves for greater capacity, we have also launched an intensive study of our information and enterprise resource needs.

On the storefront, our newest Outlet opened on May 13th, in the predominantly Francophone town of Hawkesbury, Ontario, and another is slated to open in Campbellford, Ontario early in June. That will make for a total of 100 Outlets operating in every province from Ontario west to British Columbia, as well as in Washington State, Montana, Idaho, and Alaska.

We are proud of these developments and equally proud of the people that made them happen. We truly believe much of what has been accomplished in the past nine months is a direct result of our return to a "Brilliance in the Basics" approach. By holding true to the valuable work we do for our vendors, and the ensuing savings we pass along to consumers, we will continue to create value where others are unable.

Thank you for your continued interest in, and support of Liquidation World. On behalf of the Office of the CEO, the Management and Executive teams, the Board of Directors, and 1700 associates, we are honored to work on your behalf.



WAYNE MANTIKA
President
and Co-CEO

DARREN GILLESPIE
Senior Executive VP
and Co-CEO

JONATHAN HILL
Senior Executive VP
and Co-CEO

The second quarter of fiscal 2004 ("Q2 2004") ended April 4, 2004 and the second quarter of 2003 ("Q2 2003") ended April 6, 2003. Each comprised 13 weeks of operations.

OVERVIEW

Liquidation World Inc. is the largest liquidator of distressed inventory in Canada with additional liquidation outlets in the U.S. and supporting ancillary services in Canada and the U.S. Distressed inventory results from a myriad of situations including insolvencies, insurance claims, overruns, cancelled orders and close outs. Liquidation World distributes such acquired inventory to extreme value oriented consumers through its 98 corporately operated outlets (86 in Canada and 12 in the U.S.).

Liquidation World is pursuing a strategy to increase profitability by increasing sales in existing outlets and in the longer term by expanding the number of outlets. In order to increase the sales in outlets the Company is increasing its buyer network and seeking new sources of desirable inventory. Management believes that sales can be increased with modest increases in costs resulting in improved overall performance.

RESULTS OF OPERATIONS

Revenue

Revenue, which includes sales of merchandise and fee revenue, totaled $44,397,000 for the 13 weeks ended April 4, 2004, a 14.0% increase from $38,934,000 in the corresponding period in fiscal 2003. The Company operated 4.3% more outlets (98 in Q2 fiscal 2004 versus 94 in Q2 fiscal 2003), and therefore experienced increases in average sales per outlet. Revenues in Canada increased 18% to $37,407,000 in Q2 2004 compared to $31,690,000 in Q2 2003 with an average of 5 more outlets in Q2 2004 versus same time period last year. Revenues in the United States decreased 3.6% to $6,989,000 ($5,309,000 USD) in Q2 2004, from $7,244,000 (USD $4,825,000) in Q2 2003 through, on average, 14 outlets (Q2 2003 – 17 outlets). The decline in U.S. revenue is primarily a result of conversion to Canadian dollars, which has strengthened 14% year over year. Overall increases in sales in outlets are the result of an improved selection of inventory. On a cumulative basis revenue increased 8.7% to $95,710,000 for the 26 weeks ended April 4, 2004, from $88,036,000 for the same period in fiscal 2003. The Company is focussing on acquiring inventory in categories it has not previously carried and anticipates increased revenues from existing outlets. The company expects to open outlets that will more or less offset outlets closed in 2004, however, this will vary depending upon opportunities available in real estate.

Gross Margin

Gross margin as a percentage of sales increased to 40.5% in Q2 2004 compared to 38.7% in Q2 2003. The increase resulted from the relief of competitive pricing pressures from other retailers that occurred during 2003. A stronger gross margin is also due to a semi-annual inventory adjustment, resulting from the inventory count conducted at the end of Q2. In previous years the Company conducted inventory counts on an annual basis only. Gross margin as a percentage of revenue increased 1.2% during the twenty six weeks ended April 4, 2004 to 40.4% ($38,700,000) from 39.2% ($34,496,000) in the same time period in the previous year. Liquidation World's pricing policy obliges the Company to use selling prices that are lower than any other in the market including discount stores, warehouse-type outlets and special promotions. Small fluctuations in gross margin occur from year to year as a result of changes in the product mix throughout the stores.

Selling and Store Operations

Selling and store operations, which include all costs of occupying and operating the outlets and opening new outlets, decreased as a percentage of sales in the second Quarter of 2004 to 32.1% ($14,241,000) from 34.0% ($13,256,000) in Q2 2003. The Company operated slightly more outlets in the second quarter of 2004 versus the second quarter of 2003, and, with continued focus on cost control, decreased expenses slightly despite increased sales and activity associated with planned increases in inventory levels. On a cumulative basis, selling and store operations decreased as a percentage of sales to 30.2% ($28,914,000) for the 26 weeks ended April 4, 2004 from 31.9% ($28,114,000) for the 26 weeks ended April 6, 2003.

General and Administrative Expenses

General and administrative expenses decreased as a percentage of sales in Q2 2004 to 5.5% ($2,454,000) compared to 6.4% in Q2 2003 ($2,508,000). This modest decrease was primarily due to continued focus on cost controls. General and administrative expenses decreased as a percentage of sales to 5.3% ($5,086,000) for the 26 weeks ended April 4, 2004 compared to 5.9% ($5,189,000) for the 26 weeks ended April 6, 2003.

Depreciation and Amortization

Depreciation and amortization decreased to $305,000 in Q2 2004 compared to $408,000 in 2003. The change is a result of higher than normal depreciation charges with respect to outlets closed in Q2 2003 and reflects the balances of the underlying net capital assets, which decreased year over year. The corollary decrease is not perfect due to the timing within each quarter of store openings and asset acquisitions.

Interest

The Company incurred no interest costs as a result of maintaining cash surpluses during both quarters.

Income Taxes

The effective tax rate of 37.7% in the first half of 2004, approximates the statutory tax rate in effect during the period (38.5%), except for small timing differences, non-deductible expenditures and other items. The effective income tax rate of 91.7% in the first half of fiscal 2003 results from unrealized foreign exchange losses and the inability to tax effect losses in certain jurisdictions.

Net Earnings

Net earnings increased to $660,000 in Q2 2004 ($0.08 per share) compared to a net loss of $848,000 ($0.10 per share) in Q2 2003 primarily as a result of increased revenue and gross margin while modestly reducing selling and store operations and general and administrative expenses, as discussed above. Net earnings increased on a cumulative basis to $2,547,000 in Q2 2004 ($0.30 per share), compared to $37,000 for the first two quarters in 2003 (nil per share).

LIQUIDITY AND CAPITAL RESOURCES

Liquidation World is continuing to carry out its plan for growth through opening new outlets when opportunities for economical leases become available. One outlet was closed in the second quarter of 2004, three new outlets were opened, and one outlet was relocated. The Company incurred capital expenditures net of disposals of $330,000 during Q2 2004 ($370,000 during Q2 2003) to provide fixtures and equipment and make necessary leasehold improvements to new outlets and upgrade or provide equipment in existing locations. Additional working capital required to provide inventory for the locations ranges between $250,000 and $600,000 depending on the size of the outlet. The Company increased average inventory levels in its outlets from the lower levels that existed at the close of Q2 2003 that had been intentionally reduced in anticipation of opportunities available to acquire inventory as the economy weakened. Cash flow from operations before working capital requirements totaled $3,104,000 in the first half of 2004 (2003 – $751,000). Working capital requirements totaled $6,806,000 in the first half of 2004. Working capital requirements totaled $3,021,000 in the first half of 2003. During the first half of 2004, net cash flow consumed in operations totaled $3,702,000 (first half 2003 – $2,270,000) and along with the existing cash required to finance expansion and equipment improvements, decreased cash balances by $4,117,000 (first half 2003 – $3,089,000) to $1,195,000 at the end of Q2 2004 (Q2 2003 – $2,358,000).

Working capital improved to $52,207,000 at the end of Q2 2004 (Q2 2003 – $48,220,000). The Company currently has short-term borrowing facilities established totaling $15,000,000 which is sufficient for planned expansion in 2004 including a reserve for any potential inventory acquisitions.

RISKS AND UNCERTAINTIES

Source of Supply of Inventory

All inventory is acquired from distress situations so distress conditions must exist to provide an opportunity to acquire inventory. While surpluses of inventory exists constantly, the Company's success is predicated on identifying the opportunities and successfully negotiating a price for inventory that may ultimately be sold for a profit. Certain categories and sources of inventory are more desirable and create more excitement in the outlets.

Competition

As a retailer, Liquidation World competes with other retailers in offering the best value for products that it has on hand. Accordingly, when retailers offer significant savings through price reductions, the Company's competitive advantage is diminished and may need to be addressed by reducing prices, which reduces margins. However, Liquidation World acquires its products for less than other retailers as all inventory is acquired from distress situations at distress prices allowing the Company to further discount its prices and remain profitable.

Leases

The Company is opportunistic as it leases outlets and pays less than market rates in most cases. If the Company is unable to extend or replace existing leases, it may face increasing costs or a reduction in its number of outlets. In order to mitigate the risks of reducing its outlet count, the Company is constantly looking for new real estate opportunities to maximize its access to potential outlet locations.

Seasonality

As a retailer, the Company experiences stronger sales in its first quarter (particularly in December) and lower sales in its second quarter (particularly January). Historically, sales have averaged 27%, 24%, 24% and 25% of total annual sales for each quarter respectively. Large inventory deals may skew the results in any given quarter.

Foreign Currency Risk

The Company acquires more inventory denominated in U.S. dollars than it sells in U.S. dollars so is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. Since inventory is acquired and sold in a relatively short period of time, such fluctuations have limited impact. The Company has assets in its U.S. subsidiaries that, when converted to Canadian dollars on consolidation, are impacted by changes in the exchange rate creating gains or losses. The Company has determined that such fluctuations are not material to its overall operations and, accordingly, has not adopted a hedging strategy to mitigate those risks.

OUTLOOK

The Company intends to build on its dominance as Canada's largest liquidator. The focus for the current year is to increase sales in existing outlets, ensure minimum standards are met at outlets and to ensure infrastructure will accommodate future growth. To that end, the Company initiated its "Brilliance in the Basics" campaign whereby standards for outlet presentation are set but much of the operations of the outlets are left up to the entrepreneurial outlet manager who will focus on increasing sales while keeping costs under control. The Company is also assessing its current processes and information systems to optimize the efficiency in handling and managing inventory from the sourcing through to the sale and emulating those processes in the information system.

With confidence in its infrastructure, the Company will aggressively seek opportunities for growth through opening new outlets and broadening its reach to acquire the greatest possible value for product proposition available to consumers in all the markets the Company services.

FORWARD-LOOKING STATEMENTS

The foregoing 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.

CONSOLIDATED BALANCE SHEETS

For the periods ended April 4, 2004 and October 5, 2003
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

	04 April 4 2004	03 October 5 2003
ASSETS		
Current assets		
Cash and equivalents	**$ 1,195**	$ 5,312
Accounts receivable	**612**	579
Inventory	**55,356**	48,831
Income taxes receivable	**409**	1,571
Prepaid expenses	**1,882**	2,610
	59,454	58,903
Capital assets	**5,059**	5,202
Investment in affiliate	**748**	692
Goodwill	**278**	278
	$ 65,539	$ 65,075
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 7,247**	$ 9,385
Shareholders' equity		
Share capital	**16,047**	15,990
Retained earnings	**42,245**	39,700
	58,292	55,690
	$ 65,539	$ 65,075

See accompanying notes to consolidated financial statements.

On behalf of the Board:

DALE GILLESPIE
Director

HERB LUKOFSKY
Director

CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

For the periods ended April 4, 2004 and April 6, 2003 (unaudited) (In thousands of Canadian dollars, except per share amounts)	04 13 weeks ended April 4, 2004	03 13 weeks ended April 6, 2003	04 26 weeks ended April 4, 2004	03 26 weeks ended April 6, 2003
REVENUE	**$ 44,397**	$ 38,934	**$ 95,710**	$ 88,036
Cost of sales	**26,437**	23,886	**57,010**	53,540
	17,960	15,048	**38,700**	34,496
EXPENSES				
Selling and store operations	**14,241**	13,256	**28,914**	28,114
General and administrative	**2,454**	2,508	**5,086**	5,189
Depreciation and amortization	**305**	408	**613**	746
	17,000	16,172	**34,613**	34,049
Earnings (loss) before income taxes	**960**	(1,124)	**4,087**	447
Income taxes	**300**	(276)	**1,540**	410
Net earnings (loss)	**660**	(848)	**2,547**	37
Retained earnings, beginning of period	**41,585**	39,816	**39,700**	38,931
Excess of repurchase amount over stated capital of repurchased shares	**–**	–	**(2)**	–
Retained earnings, end of period	**$ 42,245**	$ 38,968	**$ 42,245**	$ 38,968
Earnings (loss) per share				
Basic	**$ 0.08**	$ (0.10)	**$ 0.30**	$ –
Diluted	**$ 0.08**	$ (0.10)	**$ 0.30**	$ –
Shares outstanding	**8,553,056**	8,542,756	**8,553,056**	8,542,756
Diluted shares outstanding	**8,642,962**	8,551,114	**8,614,052**	8,554,897
Options outstanding	**465,600**	468,005	**465,600**	468,005

SEGMENTED INFORMATION

(unaudited) (In thousands of Canadian dollars, except per share amounts)	13 weeks ended April 4, 2004	13 weeks ended April 6, 2003	26 weeks ended April 4, 2004	26 weeks ended April 6, 2003
REVENUE				
Canada	**$ 37,407**	$ 31,690	**$ 81,113**	$ 71,433
United States	**6,990**	7,244	**14,597**	16,603
Total	**$ 44,397**	$ 38,934	**$ 95,710**	$ 88,036
CAPITAL ASSETS				
Canada			**$ 4,521**	$ 5,277
United States			**538**	564
Total			**$ 5,059**	$ 5,841

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended April 4, 2004 and April 6, 2003 (unaudited) (In thousands of Canadian dollars, except per share amounts)	04 13 weeks ended April 4, 2004	03 13 weeks ended April 6, 2003	04 26 weeks ended April 4, 2004	03 26 weeks ended April 6, 2003
Cash provided by (used in):				
OPERATIONS				
Net earnings (loss)	**$ 660**	$ (848)	**$ 2,547**	$ 37
Add (deduct) non-cash items:				
Depreciation and amortization	**305**	408	**613**	746
Equity in income of affiliate	**(20)**	(17)	**(56)**	(32)
	945	(457)	**3,104**	751
CHANGES IN NON-CASH OPERATING WORKING CAPITAL				
Accounts receivable	**71**	1,306	**(33)**	224
Inventory	**(5,572)**	(5,061)	**(6,525)**	(317)
Prepaid expenses	**(336)**	(206)	**728**	297
Accounts payable and accrued liabilities	**(1,190)**	(3,487)	**(2,138)**	(1,300)
Income taxes	**49**	(1,442)	**1,162**	(1,925)
	(6,033)	(9,347)	**(3,702)**	(2,270)
INVESTMENTS				
Purchase of capital assets	**(330)**	(370)	**(470)**	(838)
FINANCING				
Proceeds on issuance of common shares	**58**	10	**58**	19
Repurchase of common shares	**–**	–	**(3)**	–
	58	10	**55**	19
Decrease in cash	**(6,305)**	(9,707)	**(4,117)**	(3,089)
Cash and cash equivalents, beginning of period	**7,500**	12,065	**5,312**	5,447
Cash and cash equivalents, end of period	**$ 1,195**	$ 2,358	**$ 1,195**	$ 2,358
Supplemental disclosure of cash paid for:				
Income taxes	**$ 281**	$ 1,175	**$ 561**	$ 2,336
Interest	**–**	–	**–**	–
	$ 281	$ 1,175	**$ 561**	$ 2,336

See accompanying notes to consolidated financial statements.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 26 WEEKS ENDED APRIL 4, 2004

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

1. BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements for Liquidation World Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The financial information included herein is unaudited. These interim financial statements follow the same accounting policies and methods of application as the most recent annual audited financial statements dated October 5, 2003. The disclosures herein are incremental to those included within the annual financial statements. These interim financial statements should be read in conjunction with the annual statements.

2. SHARE CAPITAL:

(a) Issued:

	Number of Shares	Weighted Average Exercise Price
Balance, October 5, 2003	8,542,756	$ 15,990
Issued on exercise of share options	10,800	58
Shares repurchased	(500)	(1)
	8,553,056	$ 16,047

(b) Stock Options:

	Number of Shares	Weighted Average Exercise Price
Stock options outstanding, October 5, 2003	558,725	$ 5.82
Exercised	(10,800)	5.39
Cancelled/expired	(82,325)	6.75
	465,600	$ 5.67

3. RELATED PARTY TRANSACTIONS:

The Company leases three buildings for three of its retail locations from a company owned by an officer of the Company and a partnership of which the same company is a partner. Base rents approximate $61 per year to 2005, $111 per year to 2008 and $73 per year to 2013. Purchases from an affiliated company were $533 for the 26 weeks ended April 4, 2004.

CORPORATE INFORMATION

DIRECTORS

DALE GILLESPIE, Founder and Chairman of the Board
ROB BAKSHI, President, Panarim Enterprises Inc.
DARREN GILLESPIE, Senior Executive Vice President and Co-CEO
LESLIE LANDES, President, Stockgroup Information Systems Inc.
HERB LUKOFSKY, Corporate Director, Business Consultant
CHARLES M. (CHAD) MURRAY, President, Chad Murray Sales and Marketing Inc.
ROBERT THOMSON, Q.C., President, Rovalex Investments Inc

MANAGEMENT

WAYNE MANTIKA, President & Co-CEO
DARREN GILLESPIE, Senior Executive VP & Co-CEO
JONATHAN HILL, Senior Executive VP & Co-CEO
ANDREW SEARBY, C.A., Executive VP & CFO
DERRICK GILLESPIE, VP Corporate Purchasing
DARRELL FLADAGER, VP U.S.A. Operations
LARRY SCHEFFEE, VP Liquidation World Enterprises
ZORA ROBERTS, CMA, Controller
DAVID MOULTON, Director of Marketing
TERRY OFFORD, Director of Loss Prevention/Internal Audit
ROY ROGERS, Director of Distribution and Logistics
CHAD RICHARDSON, Director of Information Systems

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Shares are listed on the Toronto Stock Exchange under the symbol LQW.

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RETAILERS > Convert inventory into cash. On-site store closures. Complete inventory lifts. Mitigate lease and staff expenses. MANUFACTURERS > Cancelled orders, packaging changes, inventory overruns, discontinued products. Complete brand protection through managed distribution. Tightly controlled advertising in accordance with your instructions. **INSURANCE COMPANIES > Maximize recovery. Settle quickly. We have the financial and logistical ability to make it happen.** BANKS > Minimize exposure. Act fast. Maximize recovery. Quick and accurate reads on portfolio value.

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