

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

# C O R P O R A T E   P R O F I L E

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 100 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

Coming to the end of our first full year in office, we are pleased to report that, with the help of 1,700 associates, Liquidation World continues to solidify its position as one of the largest liquidators in North America.

With third-quarter revenues approaching \$45 million and cumulative profits of \$3.47 million from continuing operations in 2004, we feel our focus on increasing same store sales, and improving the operational excellence of our core business is having its intended effect. In addition, we set out to enhance the shopping experience, and believe our success is evident in the fact our customers' basket size is growing.

We believe further advances are possible, both in the near and the long term, through improved marketing efforts which include an upcoming flyer program that will lead us into the holiday season, and by continuing to improve on one of our historic strengths, the acquisition of an always diverse and exciting mix of inventory.

The recent aftermath of Hurricane Charley makes a case in point. Within 48 hours of the storm's landfall, Liquidation World had buyers on the ground in Florida looking for inventory opportunities.

We are also preparing for the selection of a new merchandise management system that is expected to create operational efficiencies by allowing us to better manage our inventory and its flow through our system. Of course, better knowledge management will benefit every aspect of the organization as we share and make fuller use of the increasingly valuable information that is at our disposal. Implementation of the new system is expected in fiscal 2005.

Early in September, the Company will centralize its eastern operations in a combined regional office and distribution facility in the historic and former Massey-Ferguson plant in Brantford, Ontario. At 125,000 square feet in size, and with an additional 75,000 square-foot mezzanine, we fully expect this new complex will allow the Company to service a greater number of stores in Canada's most densely populated region, and lend us the flexibility to process and realize full value from unexpected and out-of-season purchases. The facility will also house our 102nd retail outlet.

Other new or planned outlets this quarter include locations in Hawkesbury and Campbellford, Ontario (both now open), as well as a site in Aldergrove, BC that is slated to open in September. Also, our Cranbrook, BC outlet has relocated to a much improved retail location. It's a move that is indicative of our philosophy to take full advantage of favourable real estate opportunities when they develop.

Future success will require a continued focus on our core operations, and accordingly, the Company has entered discussions to divest of Clear Thinking Group, Inc., a consulting firm that management felt was not instrumental to the success of its ongoing strategic plans.

The Company has also repurchased 133,400 of its common shares pursuant to a Normal Course Issuer Bid that was approved by the Toronto Stock Exchange on April 27, 2004. As was stated at the time, it is our belief the Company's common shares are undervalued at current market prices, based on the Company's current earnings and future prospects.

All this activity makes us particularly keen as we round out the final quarter of 2004 and turn our attention to 2005. We look forward to sharing news of our progress with you in the months ahead, and appreciate your interest and support in the process.



WAYNE MANTIKA  
President  
and Co-CEO



DARREN GILLESPIE  
Senior Executive VP  
and Co-CEO



JONATHAN HILL  
Senior Executive VP  
and Co-CEO

*The third quarter of fiscal 2004 ("Q3 2004") ended July 4, 2004 and the third quarter of 2003 ("Q3 2003") ended July 6, 2003. Each comprised 13 weeks of operations.*

## **OVERVIEW**

Liquidation World Inc. is the largest public liquidator of distressed inventory in Canada with additional liquidation outlets in the U.S. and supporting ancillary services in Canada and the U.S. Our inventory results from a myriad of situations including overruns, cancelled orders, close outs, insolvency's, and insurance claims, Liquidation World distributes such acquired inventory to extreme value oriented consumers through its 100 corporately operated outlets (87 in Canada and 13 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 and changing marketing which includes a flyer campaign for late Q4 and into Q1 2005. Management believes that sales can be increased with modest increases in costs resulting in improved overall performance.

To also increase profitability, the Company initiated the "Brilliance in the Basics" plan whereby it seeks to achieve operational excellence through focus on basic principles of the business and improving infrastructure including distribution and technology systems.

In the third quarter, management determined the Company should focus on its strength in acquiring distress merchandise and selling it through its network of outlets and, accordingly, entered discussions to divest of Clear Thinking Group, Inc. ("CTG"), a consulting firm management felt was not instrumental to the success of its ongoing strategic plans. The consulting industry has been a difficult one over the past several years experiencing declining work loads and excess capacity. Further, anticipated synergies have been limited. CTG and the carrying value of its assets have been written down to the aggregate estimated sales price. Also, the results of CTG's operations have been moved to discontinued operations for all periods presented.

## **RESULTS OF OPERATIONS**

### **Revenue**

Revenue, which includes sales of merchandise and fee revenue, totaled \$44,989,000 for the 13 weeks ended July 4, 2004, a 7.5% increase from \$41,856,000 in the corresponding period in fiscal 2003. The Company operated 3% more outlets (100 in Q3 fiscal 2004 versus 97 in Q3 fiscal 2003), and therefore experienced increases in average sales per outlet. Revenues have been adjusted to remove the revenue of CTG, which have been netted with expenses and moved to discontinued operations as discussed above. Revenues in Canada increased 9.7% to \$ 38,993,000 in Q3 2004 compared to \$35,537,000 in Q3 2003 with an average of 4 more outlets in Q3 2004 versus same time period last year. Revenues in the United States decreased 5.1% to \$5,996,000 (\$4,408,000 USD) in Q3 2004, from \$6,319,000 (\$4,549,000 USD) in Q3 2003 through, on average, 13 outlets (Q3 2003 - 14 outlets). The decline in U.S. revenue is primarily a result of operating one less outlet in that region. Overall increases in sales in outlets are the result of an improved selection of inventory.

On a cumulative basis revenue increased 8.3 % to \$139,219,000 for the 39 weeks ended July 4, 2004, from \$128,536,000 for the same period in fiscal 2003. The Company is focussing on acquiring inventory in categories it has not previously carried, such as sporting goods, and anticipates increased revenues from existing outlets to continue. 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 38.7% in Q3 2004 compared to 36.7% in Q3 2003. Ocean freight costs associated with shipments from the Far East are included in the landed cost of inventory, and totaled 1.5% of sales in Q3 2004. In previous years the Company experienced less activity in off shore purchases, and expensed the freight costs in the period that they occurred, (1.1% of sales in Q3 2003). The company also experienced relief of competitive pricing pressures from other retailers that occurred during 2003. Gross margin as a percentage of revenue increased during the thirty-nine weeks ended July 4, 2004 to 39.2 % (\$54,610,000) from 37.7% (\$ 48,511,000) 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 third quarter of 2004 to 31.6% (\$14,204,000) from 32.2 % (\$13,490,000) in Q3 2003. The Company operated three more outlets

in the third quarter of 2004 versus the third quarter of 2003, and expenses increased 9.2% (excluding a foreign exchange loss of 485,000 in Q3 2003) as a result of 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 31.0 % (\$43,118,000) for the 39 weeks ended July 4, 2004 from 32.4% (\$41,604,000) for the 39 weeks ended July 6, 2003.

#### **General and Administrative Expenses**

General and administrative expenses decreased as a percentage of sales in Q3 2004 to 3.4% (\$1,523,000) compared to 9.4% in Q3 2003 (\$3,915,000). General and administrative expenses in the third quarter of 2003 included a charge of \$2,326,000 for a retiring allowance of a senior executive. Before this charge, general and administrative expenses totaled 3.8% of sales. The remainder of this decrease was primarily due to continued focus on cost controls, primarily through streamlining of senior management roles and responsibilities. General and administrative expenses decreased as a percentage of sales to 3.6% (\$5,022,000) for the 39 weeks ended July 4, 2004 compared to 5.7% (\$7,304,000) for the 39 weeks ended July 6, 2003 (3.9% or \$4,978,000 before the above mentioned retiring allowance).

#### **Depreciation and Amortization**

Depreciation and amortization decreased to \$327,243 in Q3 2004 compared to \$377,000 in Q3 2003. The change is a result of higher than normal depreciation charges with respect to outlets closed in Q3 2003 and otherwise reflects the balances of the underlying net capital assets, which decreased year over year. The corollary change 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 the three quarters.

#### **Income Taxes**

The effective tax rate of 37.1% in the first three quarters 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. In the first three quarters of fiscal 2003 the Company was in a loss position and the effective income tax rate of only 27.4% resulted from unrealized foreign exchange losses and the inability to tax effect losses in certain jurisdictions.

#### **Earnings from Continuing Operations**

As a result of increased revenues and gross margin, and expenses increasing at a lower rate than revenue and the non-recurrence of the retiring allowance in Q3 2003 as discussed above, earnings from continuing operations increased 151.9% to \$822,000 in Q3 2004 from a loss of \$1,584,000 in Q3 2003. For the same reasons, on a cumulative basis, earnings from continuing operations increased 415.1% to \$3,476,000 during the three quarters of 2004 compared to a loss of \$1,103,000 during the same period in 2003.

#### **Discontinued Operations**

The Company has entered discussions to sell the business operations of the Clear Thinking Group, Inc. ("CTG") to a company controlled by CTG's former principals. Accordingly, its operating results have been removed from the consolidated results of the Company and netted as discontinued operations. Net results indicate a loss of \$601,000, and include a charge for the write down of CTG assets to net realizable value, the write off of goodwill, and a charge for the estimated costs of disposal.

#### **Net Earnings**

Net earnings increased 114.7% to \$221,000 in Q3 2004 (\$0.03 per share) compared to a net loss of \$1,505,000 (\$0.17 per share) in Q3 2003 primarily as a result of increased revenue and gross margin while modestly reducing selling and store operations and general and administrative expenses, and the non-recurrence of the retiring allowance in Q3 2003 as discussed above. Net earnings increased on a cumulative basis 288.6% to \$2,769,000 for the first three quarters in 2004 (\$0.32 per share), compared to a loss of \$1,468,000 for the first three quarters in 2003 (\$0.17 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. Two new outlets were opened, and no outlets were closed in the third quarter of 2004. The Company incurred capital expenditures net of disposals of \$555,000 during Q3 2004 (\$193,000 during Q3 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 new 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 Q3 2003. During 2003 the Company had intentionally reduced inventory levels in anticipation of opportunities that would become available to acquire inventory as the

economy weakened. Cash flow from operations before working capital requirements totaled \$3,933,000 in the first three quarters of 2004 (for the first three quarters of 2003 - cash flow consumed totaled \$425,000). Working capital requirements totaled \$4,968,000 in the first three quarters of 2004. Working capital provided totaled \$2,974,000 in the first three quarters of 2003. During the first three quarters of 2004, net cash flow consumed in operations totaled \$1,035,000 (first three quarters 2003 - cash flow provided totaled \$2,549,000) and along with the cash required to finance expansion, equipment improvements, and share buy-backs, decreased cash balances by \$2,938,000 (increased during the first three quarters 2003 by \$1,548,000) to \$1,556,000 at the end of Q3 2004 (Q3 2003 - \$4,840,000).

Working capital improved to \$51,534,000 at the end of Q3 2004 (Q3 2003 - \$46,845,000). 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 in the market place, 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.

# STATEMENTS

## CONSOLIDATED BALANCE SHEETS

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

**04**  
July 4  
2004

**03**  
October 5  
2003

### ASSETS

#### Current assets

Cash and equivalents	\$ 1,556	\$ 4,494
Accounts receivable	192	244
Inventory	55,397	48,831
Prepaid expenses	2,193	2,540
Income taxes recoverable	–	1,571
Assets of discontinued operations (note 4)	553	1,209

**59,891** 58,889

#### Capital assets

**5,220** 5,132

#### Investment in affiliate

**746** 692

#### Goodwill

– 278

#### Assets of discontinued operations (note 4)

**88** 84

**\$ 65,945** \$ 65,075

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Current liabilities

Accounts payable and accrued liabilities	\$ 7,377	\$ 9,297
Income taxes payable	827	–
Liabilities of discontinued operations (note 4)	153	88

**8,357** 9,385

#### Shareholders' equity

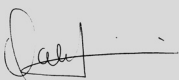
Share capital	<b>15,798</b>	15,990
Retained earnings	<b>41,790</b>	39,700

**57,588** 55,690

**\$ 65,945** \$ 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 July 4, 2004 and July 6, 2003 (unaudited) (In thousands of Canadian dollars, except per share amounts)	<b>04</b> 13 weeks ended July 4, 2004	<b>03</b> 13 weeks ended July 6, 2003	<b>04</b> 39 weeks ended July 4, 2004	<b>03</b> 39 weeks ended July 6, 2003
<b>REVENUE</b>	<b>\$ 44,989</b>	\$ 41,856	<b>\$ 139,219</b>	\$ 128,536
Cost of sales	<b>27,599</b>	26,485	<b>84,609</b>	80,025
	<b>17,390</b>	15,371	<b>54,610</b>	48,511
<b>EXPENSES</b>				
Selling and store operations	<b>14,204</b>	13,490	<b>43,118</b>	41,604
General and administrative	<b>1,523</b>	3,915	<b>5,022</b>	7,304
Depreciation and amortization	<b>327</b>	377	<b>940</b>	1,123
	<b>16,054</b>	17,782	<b>49,080</b>	50,031
Earnings (loss) from continuing operations before income taxes	<b>1,336</b>	(2,411)	<b>5,530</b>	(1,520)
Income taxes	<b>514</b>	(827)	<b>2,054</b>	(417)
Earnings from continuing operations	<b>822</b>	(1,584)	<b>3,476</b>	(1,103)
Discontinued operations (note 4)	<b>(601)</b>	79	<b>(707)</b>	(365)
Net earnings (loss)	<b>221</b>	(1,505)	<b>2,769</b>	(1,468)
Retained earnings, beginning of period	<b>42,246</b>	38,968	<b>39,700</b>	38,931
Excess of repurchase amount over stated capital of repurchased shares	<b>(677)</b>	-	<b>(679)</b>	-
Retained earnings, end of period	<b>\$ 41,790</b>	\$ 37,463	<b>\$ 41,790</b>	\$ 37,463
Earnings per share from continuing operations				
Basic	<b>\$ 0.10</b>	\$ (0.19)	<b>\$ 0.41</b>	\$ (0.13)
Fully diluted	<b>\$ 0.10</b>	\$ (0.19)	<b>\$ 0.40</b>	\$ (0.13)
Earnings (loss) per share				
Basic	<b>\$ 0.03</b>	\$ (0.18)	<b>\$ 0.32</b>	\$ (0.17)
Diluted	<b>\$ 0.03</b>	\$ (0.18)	<b>\$ 0.32</b>	\$ (0.17)
Shares outstanding at period end	<b>8,420,156</b>	8,542,756	<b>8,420,156</b>	8,542,756
Weighted average shares outstanding	<b>8,533,847</b>	8,542,756	<b>8,540,526</b>	8,541,833
Diluted shares outstanding	<b>8,639,681</b>	8,542,756	<b>8,610,197</b>	8,546,047
Options outstanding at period end	<b>415,400</b>	466,125	<b>415,400</b>	466,125
<b>SEGMENTED INFORMATION</b>				
(unaudited) (In thousands of Canadian dollars)	13 weeks ended July 4, 2004	13 weeks ended July 6, 2003	39 weeks ended July 4, 2004	39 weeks ended July 6, 2003
<b>REVENUE</b>				
Canada	<b>\$ 38,993</b>	\$ 35,537	<b>\$ 120,106</b>	\$ 106,970
United States	<b>5,996</b>	6,319	<b>19,113</b>	21,566
Total	<b>\$ 44,989</b>	\$ 41,856	<b>\$ 139,219</b>	\$ 128,536
<b>CAPITAL ASSETS</b>				
Canada			<b>\$ 4,725</b>	\$ 5,130
United States			<b>495</b>	464
Total			<b>\$ 5,220</b>	\$ 5,594

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended July 4, 2004 and July 6, 2003 (unaudited) (In thousands of Canadian dollars, except per share amounts)	<i>04</i> 13 weeks ended July 4, 2004	<i>03</i> 13 weeks ended July 6, 2003	<i>04</i> 39 weeks ended July 4, 2004	<i>03</i> 39 weeks ended July 6, 2003
Cash provided by (used in):				
<b>OPERATIONS</b>				
Net earnings (loss)	\$ 221	\$ (1,505)	\$ 2,769	\$ (1,468)
Add (deduct) non-cash items:				
Depreciation and amortization	327	377	940	1,123
Write-down of goodwill	278	-	278	-
Equity in income of affiliate	2	(48)	(54)	(80)
	<b>828</b>	<b>(1,176)</b>	<b>3,933</b>	<b>(425)</b>
<b>CHANGES IN NON-CASH OPERATING WORKING CAPITAL</b>				
Accounts receivable	113	170	52	380
Inventory	(41)	106	(6,566)	(211)
Prepaid expenses	(347)	(153)	347	228
Assets of discontinued operations (note 4)	218	223	656	870
Accounts payable and accrued liabilities	141	(3,469)	(1,920)	2,102
Income taxes	1,236	1,530	2,398	(395)
Liabilities of discontinued operations (note 4)	143	(67)	65	-
	<b>2,291</b>	<b>4,102</b>	<b>(1,035)</b>	<b>2,549</b>
<b>INVESTMENTS</b>				
Purchase of capital assets	(590)	(193)	(1,067)	(1,020)
Proceeds on disposal of capital assets	35	-	35	-
	<b>(555)</b>	<b>(193)</b>	<b>(1,032)</b>	<b>(1,020)</b>
<b>FINANCING</b>				
Proceeds on issuance of common shares	-	-	58	19
Repurchase of common shares	(926)	-	(929)	-
	<b>(926)</b>	<b>-</b>	<b>(871)</b>	<b>19</b>
Increase (decrease) in cash	<b>810</b>	<b>3,909</b>	<b>(2,938)</b>	<b>1,548</b>
Cash and cash equivalents, beginning of period	<b>746</b>	<b>931</b>	<b>4,494</b>	<b>3,292</b>
Cash and cash equivalents, end of period	<b>\$ 1,556</b>	<b>\$ 4,840</b>	<b>\$ 1,556</b>	<b>\$ 4,840</b>
Supplemental disclosure of cash paid for:				
Income taxes	\$ (566)	\$ (2,376)	\$ (5)	\$ (40)
Interest	-	-	-	-
	<b>\$ (566)</b>	<b>\$ (2,376)</b>	<b>\$ -</b>	<b>\$ (40)</b>

See accompanying notes to consolidated financial statements.

# NOTES

## TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 39 WEEKS ENDED JULY 4, 2004

(Amounts are 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	Amount
Balance, October 5, 2003	8,542,756	\$ 15,990
Issued on exercise of share options	10,800	58
Shares repurchased	(133,400)	(250)
	8,420,156	\$ 15,798

(b) Stock Options:

	Number of Options	Amount
Stock options outstanding, October 5, 2003	558,725	\$ 5.82
Exercised	(10,800)	5.39
Cancelled/expired	(132,525)	6.33
	415,400	\$ 5.67

### 3. RELATED PARTY TRANSACTIONS:

The Company leases three buildings for three of its retail locations from a company owned by a director 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 (Product Management Corporation) were \$650 for the first nine months ending July 4, 2004.

### 4. DISPOSAL OF DISCONTINUED OPERATIONS:

The Company has entered into discussions to divest of Clear Thinking Group, Inc. for proceeds of \$488. The closing of the transaction is anticipated to take place on or about August 27, 2004 and the carrying value of the assets has been written down to the aggregate purchase price. These assets are being disposed of as they not a key factor to the Company's retail business strategy. The following table provides additional information regarding discontinued operations.

	13 weeks ended July 4, 2004	13 weeks ended July 6, 2003	39 weeks ended July 4, 2004	39 weeks ended July 6, 2003
<b>REVENUE</b>	<b>\$ 715</b>	<b>\$ 960</b>	<b>\$ 2,196</b>	<b>\$ 2,316</b>
Earnings (loss) before taxes	(135)	79	(241)	(365)
Loss on disposal	(466)	–	(466)	–
Income taxes (payable) recoverable	–	–	–	–
Discontinued operations	<b>\$ (601)</b>	<b>\$ 79</b>	<b>\$ (707)</b>	<b>\$ (365)</b>

## 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

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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  
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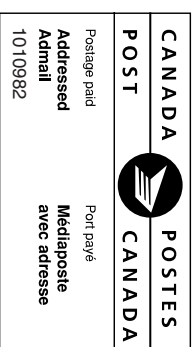
Shares are listed on the  
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under the symbol LQW.



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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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