

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®**
BRAND NEW • BRAND NAMES

our corporate profile

Brand new, brand name merchandise. Much of what you need for daily living – food, furniture, clothing, house wares, 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 18 profitable years running?

Liquidation World works closely with manufacturers, retailers, banks and insurance companies to help them deal with merchandise of almost every description 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 105 fun, friendly and no frill Liquidation World outlets in Canada and the US. And that's where we have the most fun. Sharing our great bargains 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 deal and neither should you.
Shop Liquidation World.
Brand new.
Brand names.***

from our president and ceo

August 4th, 2005

We have seen progress in the past quarter, as a number of our new initiatives designed to improve our standing in the marketplace and position our company for a strong, healthy future got under way. Between the work we are completing on implementing a new merchandise management system, which will allow us to track and understand our inventory and our customers' tastes like never before, and the investment we're making in human resources, to find the right person with the right skills for every job, I feel confident about our company's future.

At the same time, I am not satisfied with the results from the past quarter. I feel that we can and will do better as we strive to meet and exceed the company's historical averages as we focus on the future.

Our results from this quarter reflect the following:

Gross margins:

As we indicated would be the case following our second quarter, we continued to experience pressure on our gross margins. Gross margins for the quarter were 400 basis points less than the same period last year. At 34.7%, these were better than the 28.8% we experienced prior to the inventory write down in Q2 and we also achieved some improvement over the course of the quarter. These results are further evidence of the appropriateness of the company's strategy to develop a more focused and accountable, merchandise procurement team. This will be supported by better current and historical information as well as better forecasting tools with the implementation of our new merchandise management system.

We expect to see more normalized gross margins early in 2006.

Store sales:

Sales increased in certain key markets of the company although overall average store sales declined slightly during the period. We are confident that the implementation of a new organizational structure that takes advantage of our history of strong local market leadership will deliver increasing sales in the future. This new structure includes three regional directors, two of whom are new to Liquidation World.

U.S. operations:

We are pleased with the recent decision to relocate Darren Gillespie to the U.S. so as to dedicate his full time, talents and attention to the business. Darren has successfully developed and managed various areas of our business over the years including

profitable results in the US. Although the U.S. business turned in a weak quarter, it continues to play an important role to the company, providing access to a wealth of inventory opportunities south of the border.

Expenses:

We are reasonably happy with the management of the company's day-to-day expenses. Additionally, the past quarter included a number of special expenses directly related to the long-term growth of the business. In particular, \$300,000 was spent during the quarter on the implementation of our new merchandise management system that will support our objectives of improving sales and gross margins and inventory count efficiency.

This quarter also saw \$500,000 spent on an additional quarterly inventory and store refurbishment. The refurbishing our three Calgary stores has gone very well, and we will continue to test a more brand-focused marketing campaign in those locations. We also expect that costs associated with refurbishing other outlets will be lower in the future.

In addition to these items, we are also progressing with our Deal Hunter initiative, whereby customers are rewarded for calling our new 1-866-676-LEAD line with tips on local inventory opportunities that result in successful purchases. These would include small business closures, insurance claims and the like, which we are uniquely suited to acquire and sell. Our results in test markets have been very positive, and approximately half of our stores have begun to promote the program. While these types of inventories are not necessarily significant in direct sales, they have consistently demonstrated their impact in driving overall sales within our stores.

As you can see, we have many initiatives in place to hone our business. By putting these plans into action, we can better position the company not only to take advantage of the popularity among shoppers for extreme value and bargain shopping but use the expertise of our dedicated staff to our best advantage.

Thank you for your ongoing support of our business. I look forward to a promising future.



JONATHAN HILL
President and CEO

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The following discussion and analysis is effective as of August 4, 2005 and should be read together with the unaudited interim consolidated financial statement and the accompanying notes.

OVERVIEW

Liquidation World Inc. ("Liquidation World" or the "Company") is the largest liquidator of opportunity inventory in Canada, with additional liquidation outlets in the US and supporting ancillary services in the US. Opportunity inventory results from a myriad of situations including insolvencies, insurance claims, overruns, cancelled orders and close-outs. Liquidation World distributes such acquired inventory to value-oriented consumers through its 105 corporately operated outlets (91 in Canada and 14 in the US). Liquidation World is pursuing a strategy to increase profitability by increasing sales and gross margins in existing outlets, closing non-performing outlets, and in the longer term by expanding the number of outlets. In order to increase sales in outlets, the Company is increasing its buyer network, seeking new sources of desirable inventory and implementing a merchandise management system to provide greater insight into inventory and its performance. Management believes that sales can be increased with modest increases in costs, resulting in improved overall performance. To increase profitability, the Company is also improving the shopping experience through focusing on basic principles of the business and improving infrastructure, including distribution and technology systems.

OPERATING STRATEGY

Over the next several years, Liquidation World's operating strategy will focus on the following:

1. Geographic Growth

Liquidation World's strategy is to acquire leases in geographic locations suitable to the Liquidation World business model. One outlet was opened in Renfrew, Ontario in Q3 2005, and one outlet (Peterborough) was closed during the period. Subsequent to the end of the quarter, outlets were opened in Trail and Nanaimo, B.C. with two more stores planned to be opened in Q4 2005. The Company will explore new opportunities as they arise.

2. Improve The Shopping Experience

Liquidation World will adopt a fresh look and feel to all new outlets. The new outlets consist of an inviting exterior, a well lit interior, as well as greater interior signage to further convey our brand message. The Company feels that these changes will result in an overall improved shopping experience, and thus increase sales. During the course of the year Liquidation World plans to update a number of stores to reflect the new Liquidation World

look. The Company is very pleased with the results of the renovation prototypes (upgraded fixtures, signage, lighting and flooring), and is testing the hypothesis that sensible investing in established markets will result in increased sales. To that end, Liquidation World upgraded the three stores in the key Calgary market through “Extreme Makeover: Liquidation World” initiative. The Company will continue to evaluate results and use the project as a template to create a schedule of store improvements.

3. Restructure Buying Group

Liquidation World customers expect new deals every shopping trip as well as a constantly changing assortment of merchandise. To that extent, the Company has reorganized its buyers in such a way as to take advantage of their different strengths and skills and the two major types of buys it transacts. On the one hand, a team of buyers will focus on traditional sources of supply—namely, inventory close-outs. Buyers will be responsible for specific product categories and will play a more integrated role in inventory management, planning, analysis, marketing, merchandising, competitive analysis, global sourcing and purchasing. At the same time, a dedicated business development team has been created, whose members have expertise in finding and handling the “event deals,” such as bankruptcies and insurance claims, that drive the business. They will focus on finding these deals to ensure outlets have a steady stream of events for their customers.

4. Strengthen the Liquidation World Brand

Liquidation World enjoys a unique retail heritage. The Company will strive to update and reinforce its points of differentiation in a competitive environment where discount retailing has become mainstream. Through newspapers, flyers, radio and other media, the Company will continue to promote its distinctive brand by emphasizing the unique source of its merchandise, as well as its quality, variety, and extreme value. The Company will also work to enhance the shopping experience through improved in-store signage and marketing collateral. Strengthening the brand will result in increased customer count, heightened consumer awareness and enhanced perception.

5. Implement a New Merchandise Management System

During fiscal 2005 and 2006 Liquidation World plans to invest \$10 million in a new merchandise management system (“MMS”) to support its purchasing, marketing and merchandising teams. The new system will enable the organization to improve tracking of inventory from sourcing, to distributing, to selling. Liquidation World will leverage the new merchandise management system to provide its customers with greater variety of inventory and offer a better value proposition through improved inventory management. A scan based inventory system will reduce costs in outlets by the elimination of ticketing inventory and enable faster checkouts. The system will also provide the ability to manage markdowns in a more targeted and effective way. Liquidation World has incurred \$3 million of costs related to the MMS in fiscal 2005. The Company plans to have all of the new cash registers installed by the end of the fiscal year, and the new Ontario Distribution Centre will be utilizing both these registers as well as other new equipment and software. Other distribution facilities will follow in Q2 2006 and the Company will be utilizing perpetual inventory record keeping by the end of fiscal 2006.

RESULTS OF OPERATIONS

Revenue

Revenue, which includes sales of merchandise, totaled \$46,286,000 for the 13 weeks ended July 3, 2005, a 2.9% increase from \$44,989,000 in the corresponding period in fiscal 2004. The Company operated, on average, five (5.1%) more outlets than in Q3 of fiscal 2004 and experienced a 2.1% decrease in average sales per outlet. The decrease in average sales per outlet in Q3 2005 is attributed to a general change in mix of inventory secured for liquidation. Revenues in Canada increased 4.2% to \$40,643,000 in Q3 2005 compared to \$38,993,000 in Q3 2004 through, on average, 90 outlets (2004 Q3 - 87 outlets). Revenues in the United States decreased 5.9% to \$5,643,000 (USD \$4,531,000) in Q3 2005, from \$5,996,000 (USD \$4,408,000) in Q3 2004 through, on average, 14 outlets (2004 Q3 - 13 outlets). The decline in U.S. revenue is a result of conversion to Canadian dollars, which has strengthened 8.4% year over year. The third quarter is an average quarter for revenue and typically accounts for approximately 24% of annual revenue. On a cumulative basis, revenue for the 39 weeks ended July 3, 2005 decreased 1.4% to \$137,338,000 from \$139,219,000 in the same period in fiscal 2004.

Gross Margin

Gross margin in Q3 2005 declined as a percentage of sales to 34.7% from 38.7% in Q3 2004. The decline in gross margin is attributed to inherent low margin in inventory on hand due to higher freight costs, low margins on certain deals and markdowns applied to slow moving and aged inventory. On a cumulative basis gross margin in fiscal 2005 declined as a percentage of sales, to 32.3% compared to 39.1% in fiscal 2004 as a result of weak margins (28.8%) and a \$3.2 million write-down of inventory during Q2 2005. As other plans are implemented, the Company must also become more disciplined in recognizing under-performing inventory and the cost associated with carrying these goods, in terms of the financial repercussions and reputation among customers. While the Company will likely continue to face some pressure on margins in the short term, management believes the most significant adjustments have been made, and remain committed to improving margins through better planning, ongoing monitoring and increased accountability.

Selling and Store Operations

During Q3 2005, selling and store operations, which include all costs of occupying and operating outlets and opening new outlets, increased as a percentage of sales to 32.6% (\$15,089,000) from 31.6% (\$14,219,000) in Q3 2004. Selling and store operations increased 6.1% as the Company operated 5.1% more outlets, incurred costs associated with opening outlets during the quarter and an additional outlet that opened early in Q4, renovating three Calgary outlets and implementation of the MMS. On a cumulative basis, selling and store operations increased as a percentage of sales to 33.2% (\$45,609,000) in 2005 compared to 31.0% (\$43,118,000) in 2004. In addition to the above reasons, the increase is the result of generally higher store labour and additional marketing initiatives experienced in the first quarter.

General and Administrative Expenses

During Q3 2005, general and administrative expenses increased as a percentage of sales to 3.5% (\$1,608,000) compared to 3.3% (\$1,503,000) in Q3 2004. General and

administrative expense increases relate to soft costs for the implementation of the MMS which totaled approximately \$300,000 in the quarter. Therefore, general and administrative costs excluding the MMS Project decreased year over year. On a cumulative basis, general and administrative expenses increased as a percentage of sales to 4.4% (\$6,045,000) from 3.6 % (\$5,002,000) primarily as a result of severance costs in the second quarter and MMS implementation costs indicated above. In fiscal 2005, the Company expects general and administrative expenses to increase as a percentage of revenue as increased costs associated with the implementation of a merchandise management system are absorbed.

Depreciation and Amortization

Depreciation and amortization increased 82.6% to \$598,000 in Q3 2005 compared to \$327,000 in Q3 2004 reflecting the balances of the underlying property and equipment. During fiscal 2005 the Company has invested \$4,624,000 in property and equipment. A significant portion of the investment is attributable to building the infrastructure for the new MMS. The remainder was invested in equipment upgrades and renovation of existing stores. The corollary increases in depreciation and amortization and comparative property and equipment are not perfect due to the timing of store openings and asset acquisitions in the period. On a cumulative basis, depreciation and amortization increased 52.7% to \$1,436,000 from \$940,000 in 2004 reflecting an increase in property and equipment as described above.

Income Taxes

The effective tax recovery rate of 23.7% in the first three quarters of 2005 is lower than the statutory tax rate in effect during the period (36.1%) due primarily to losses in subsidiaries where potential tax recovery is uncertain. The Company provided for current income tax recoveries in the first three quarters of 2005 of \$2,249,000 against Canadian income. The Company did not recognize a tax recovery related to losses in the US as there is no certainty that US tax losses will be utilized in the future. In the first three quarters of 2005, the Company recorded a future tax expense of \$112,000 arising from the difference between the book value of its property and equipment and the tax value of these assets. The effective tax rate of 37.1% in the first three quarters of 2004 is equivalent to the statutory tax rate in effect during the period (38.5%) except for small timing differences and non deductible amounts.

Earnings from Continuing Operations

During Q3 2005, net earnings from continuing operations decreased to a loss of \$1,300,000 (\$0.16 per share) from net earnings of \$822,000 (\$0.10 per share) in Q3 2004, as a result of reduced gross margins, and increased expenses relating to outlets opened since Q3 2004 and the MMS implementation project as discussed above. On a cumulative basis, earnings from continuing operations decreased to a loss of \$6,872,000 (\$0.82 per share) from earnings of \$3,476,000 (\$0.41 per share) in the first three quarters of 2004.

Discontinued Operations

During the 2004 fiscal year, the Company sold the business operations of 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 presented as discontinued operations in Q3 2004 results. Net results indicate a net loss of

\$601,000 from discontinued operations in Q3 2004 and a loss of \$707,000 on a cumulative basis in 2004.

Net Earnings

Net earnings in Q3 2005 decreased to a net loss of \$1,300,000 (\$0.16 per share) from net earnings of \$221,000 (\$0.03 per share) in Q3 2004. The decrease is the result of reduced gross margins, increased expenses relating to outlets opened since Q3 2004, and the MMS implementation project as discussed above. On a cumulative basis, and for the same reasons as well as inventory write-downs in Q2, net earnings decreased during the first three quarters of 2005 to a loss of \$6,872,000 (\$0.82 per share) from earnings of \$2,769,000 (\$0.32 per share) during the first three quarters of 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations has been the primary funding source for working capital requirements and capital expenditures over the past several years. Cash flows from operations before discontinued operations used \$3,054,000 in Q3 2005 compared with cash provided totaling \$2,531,000 in Q3 2004. The decrease in cash flow from operating activities was mostly due to purchases of inventory. Cash flow consumed in operations totaled \$2,651,000 during the first three quarters of 2005 compared to cash flow consumed totaling \$1,049,000 during the first three quarters of 2004.

During Q3 of 2005, the Company did not repurchase and cancel any common shares pursuant to its normal course issuer bid (which has expired). The Company incurred capital expenditures net of disposals of \$4,624,000 during the first three quarters of 2005 (\$1,032,000 during the first three quarters of 2004) to provide fixtures and equipment and make necessary leasehold improvements to new facilities, upgrade or provide equipment to existing locations and acquire software and hardware related to the MMS implementation. During the balance of 2005, the Company expects to invest approximately \$2,500,000 in infrastructure upgrades. The Company intends to enter into a lease arrangement for a significant portion of this expenditure with the balance financed through short term borrowings and cash flow from operations.

Working capital decreased to \$41,630,000 at the end of Q3 2005 compared to \$51,469,000 at the end of Q3 2004. The decrease is a result of a write-down of inventory of \$3,200,000 in Q2 2005 and cash required for capital expenditures and to replace inventory. The Company currently has short-term borrowing facilities totaling \$15,000,000, of which \$6,752,000 are drawn. These facilities are sufficient for planned expansion in 2005, including a reserve for potential inventory acquisitions.

Contractual Obligations

Payments due by period (amounts in 000's)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
CONTRACTUAL OBLIGATIONS					
Operating leases	\$ 42,599	\$ 9,308	\$ 14,507	\$ 8,875	\$ 9,909
Purchase obligations	Nil	Nil	Nil	Nil	Nil
Other long term obligations	Nil	Nil	Nil	Nil	Nil
Total contractual obligations	\$ 42,599	\$ 9,308	\$ 14,507	\$ 8,875	\$ 9,909

RISKS AND UNCERTAINTIES

The Company is exposed to various risk factors and uncertainties that may affect the performance of the Company. The risks and uncertainties faced by the Company are disclosed in the MD&A section of its 2004 Annual Report.

Quarterly Information

(Amounts in 000's except per share amounts)				
Quarter ended	July 3 2005	April 3 2005	January 2 2004	October 3 2004
Total revenue	\$46,286	\$ 39,367	\$ 51,685	\$ 45,199
Net earnings (loss) from continuing operations	(1,300)	(6,511)	939	(533)
Earnings (loss) per share				
Basic	(0.16)	(0.77)	0.11	(0.05)
Fully diluted	(0.16)	(0.77)	0.11	(0.05)
Net income (loss)	\$(1,300)	\$(6,511)	\$ 939	\$(476)
Earnings (loss) per share from continuing operations				
Basic	(0.16)	(0.77)	0.11	(0.05)
Fully diluted	(0.16)	(0.77)	0.11	(0.05)

Quarter ended	July 4 2004	April 4 2004	January 4 2004	October 5 2003
Total revenue	\$44,989	\$ 43,668	\$ 50,562	\$ 41,999
Net earnings (loss) from continuing operations	822	615	2,039	2,590
Earnings (loss) per share				
Basic	0.10	0.07	0.24	0.30
Fully diluted	0.10	0.07	0.24	0.30
Net income (loss)	\$ 221	\$ 660	\$ 1,887	\$ 2,237
Earnings (loss) per share from continuing operations				
Basic	0.03	0.08	0.22	0.26
Fully diluted	0.03	0.07	0.22	0.26

Transactions with Related Parties

The Corporation leases three buildings (22,000 square feet, 34,000 square feet and 20,000 square feet) for three of its retail locations from a company owned by Dale Gillespie, Founder and Chairman Emeritus of the Corporation, and from a partnership that includes the same company. Liquidation World was offered the opportunity to purchase the properties but decided not to own real estate at that time. Base rents for each of these three buildings approximate \$61,000 per year to 2005, \$111,000 per year to 2008 and \$73,000 per year to 2013, respectively, which are considered to be equal to or less than market rates.

Other Items

Additional information relating to Liquidation World is available on the SEDAR website at www.sedar.com.

Outstanding Share Data

As of August 4, 2005, the Company has authorized for issuance unlimited common shares of which 8,382,942 are issued and outstanding. Further, the Company has reserved 753,484 options to acquire common shares of which 401,500 are outstanding.

OUTLOOK

The Company intends to build on its dominance as Canada's largest liquidator. The focus for the current year is to increase sales and gross margins in existing outlets, ensure established standards are met at outlets and ensure infrastructure will accommodate future growth. To that end, the Company has set standards for outlet presentation 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 continues to assess its current processes and information systems to optimize the efficiency in handling and managing inventory from sourcing through to 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 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.

See accompanying notes to consolidated financial statements.

statements

CONSOLIDATED BALANCE SHEETS

	05 July 3 2005	04 October 3 2004
For the periods ended July 3, 2005 and October 3, 2004 (In thousands of Canadian dollars, except per share amounts)		
	(unaudited)	
ASSETS		
Current assets		
Cash and equivalents	\$ 208	\$ 876
Accounts receivable	295	1,221
Inventory (note 3)	49,738	55,705
Prepaid expenses	2,427	2,281
Income taxes recoverable	3,025	–
	55,693	60,083
Property and equipment	8,954	5,766
	\$ 64,647	\$ 65,849
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	\$ 6,752	\$ –
Accounts payable and accrued liabilities	7,311	7,706
Income taxes payable	–	863
Liabilities of discontinued operations	–	45
	14,063	8,614
Future income taxes	370	258
Shareholders' equity		
Share capital	15,759	15,757
Contributed surplus	480	–
Retained earnings	33,975	41,220
	50,214	56,977
	\$ 64,647	\$ 65,849

See accompanying notes to consolidated financial statements.

On behalf of the Board:



JONATHAN HILL
Director



HERB LUKOFSKY
Director

CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

For the periods ended July 3, 2005 and July 4, 2004 (unaudited) (In thousands of Canadian dollars, except per share amounts)	05 13 weeks ended July 3, 2005	04 13 weeks ended July 4, 2004	05 39 weeks ended July 3, 2005	04 39 weeks ended July 4, 2004
REVENUE	\$ 46,286	\$ 44,989	\$ 137,338	\$ 139,219
Cost of sales (note 3)	30,220	27,599	92,979	84,609
	16,066	17,390	44,359	54,610
EXPENSES				
Selling and store operations	15,089	14,219	45,609	43,118
General and administrative	1,608	1,503	6,045	5,002
Depreciation and amortization	598	327	1,436	940
Stock based compensation	70	–	209	–
Interest	57	–	70	–
Foreign exchange	(15)	5	(1)	20
	17,407	16,054	53,368	49,080
Earnings (loss) from continuing operations before income taxes	(1,341)	1,336	(9,009)	5,530
Income taxes				
Current (recovery)	(121)	514	(2,249)	2,054
Future	80	–	112	–
	(41)	514	(2,137)	2,054
Earnings (loss) from continuing operations	(1,300)	822	(6,872)	3,476
Discontinued operations	–	(601)	–	(707)
Net earnings (loss)	(1,300)	221	(6,872)	2,769
Retained earnings, beginning of period	35,275	42,246	41,220	39,700
Excess of repurchase amount over stated capital of repurchased shares	–	(677)	(102)	(679)
Adjustment to reflect change in accounting policy (note 2)	–	–	(271)	–
Retained earnings, end of period	\$ 33,975	\$ 41,790	\$ 33,975	\$ 41,790
Earnings (loss) per share from continuing operations				
Basic	\$ (0.16)	\$ 0.10	\$ (0.82)	\$ 0.41
Fully diluted	\$ (0.16)	\$ 0.10	\$ (0.82)	\$ 0.40
Earnings (loss) per share				
Basic	\$ (0.16)	\$ 0.03	\$ (0.82)	\$ 0.32
Fully diluted	\$ (0.16)	\$ 0.03	\$ (0.82)	\$ 0.32
Shares outstanding at period end	8,382,942	8,420,156	8,382,942	8,420,156
Weighted average shares outstanding	8,382,810	8,533,847	8,383,799	8,540,526
Diluted shares outstanding	8,395,765	8,639,681	8,420,153	8,610,197
Options outstanding at period end	401,500	415,400	401,500	415,400

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended July 3, 2005 and July 4, 2004 (unaudited) (In thousands of Canadian dollars, except per share amounts)	05 13 weeks ended July 3, 2005	04 13 weeks ended July 4, 2004	05 39 weeks ended July 3, 2005	04 39 weeks ended July 4, 2004
Cash provided by (used in):				
CONTINUING OPERATIONS				
Earnings (loss) from continuing operations	\$ (1,300)	\$ 822	\$ (6,872)	\$ 3,476
Add (deduct) non-cash items:				
Depreciation and amortization	598	327	1,436	940
Loss on disposal of capital asset	-	278	-	278
Equity in loss of affiliate	-	2	-	(54)
Stock based compensation	70	-	209	-
Future income taxes	80	-	112	-
	(552)	1,429	(5,115)	4,640
Changes in non-cash operating working capital				
Accounts receivable	18	113	926	52
Inventory	(2,381)	(41)	5,967	(6,566)
Prepaid expenses	(624)	(347)	(146)	347
Accounts payable and accrued liabilities	609	141	(395)	(1,920)
Income taxes	(124)	1,236	(3,888)	2,398
	(3,054)	2,531	(2,651)	(1,049)
DISCONTINUED OPERATIONS				
Funds provided by (used in) discontinued operations	-	601	-	(707)
Changes in non-cash operating working capital balances of discontinued operations				
Assets of discontinued operations	-	218	-	656
Liabilities of discontinued operations	-	143	(45)	65
	-	(240)	(45)	14
INVESTMENTS				
Purchase of capital assets	(1,902)	(590)	(4,624)	(1,067)
Proceeds on disposable property and equipment	-	35	-	35
	(1,902)	(555)	(4,624)	(1,032)
FINANCING				
Increase in bank indebtedness	4,962	-	6,752	-
Proceeds on issuance of common shares	-	-	56	58
Repurchase of common shares	-	(926)	(156)	(929)
	4,962	(926)	6,652	(871)
Increase (decrease) in cash	6	810	(668)	(2,938)
Cash and cash equivalents, beginning of period	202	746	876	4,494
Cash and cash equivalents, end of period	\$ 208	\$ 1,556	\$ 208	\$ 1,556
Supplemental disclosure of cash paid for:				
Income taxes	\$ -	\$ (566)	\$ 1,615	\$ (5)
Interest	57	-	70	-
	\$ 57	\$ (566)	\$ 1,685	\$ (5)

notes

TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIODS ENDED JULY 3, 2005 AND JULY 4, 2004
(AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

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 3, 2004 except as to the accounting policy for stock-based compensation (note 2). 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. CHANGE IN ACCOUNTING POLICY:

Prior to October 4, 2004, the Company applied the fair value based method of accounting, only to stock options granted to non-employees, and applied the intrinsic value method of accounting to employee stock options. Under the intrinsic value method, any consideration paid by employees on the exercise of stock options or purchase of stock was credited to share capital and no compensation expense was recognized.

Effective October 4, 2004, the Company adopted the fair value based method for all stock based compensation. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. In accordance with one of the transitional provisions permitted, the Company has retroactively applied the fair value based method to all employee stock options granted on or after October 7, 2002 and prior to October 4, 2004. The Company has not restated prior year's reported amounts, and accordingly, has adjusted 2004 opening retained earnings at October 4, 2004 by \$271 and contributed surplus by the same amount. Options granted in fiscal 2005 are expensed in the current financial statements in accordance with the standard previously described.

3. INVENTORY:

During the year, the Company initiated a new operating strategy to deal with aged and certain other inventory whereby accelerated markdowns are applied to encourage more timely sales and increased inventory turnover. The application of this initiative results in reduced gross margins and a lower estimated realizable value for ending inventory. At April 3, 2005 the estimated value of inventory was reduced by \$3,200, reflecting this estimated reduction in net realizable value of ending inventory.

4. SHARE CAPITAL:

(a) Issued and outstanding:

	Number of Shares	Amount
Balance, October 3, 2004	8,398,582	\$ 15,757
Issued on exercise of share options	13,160	61
Shares repurchased	(28,800)	(54)
	8,382,942	\$ 15,769

(b) Stock Options:

	Number of Options	Amount
Stock options outstanding, October 3, 2004	564,400	\$ 6.15
Exercised	(13,160)	4.62
Cancelled/expired	(149,740)	6.52
	401,500	\$ 6.06

5. SEGMENTED INFORMATION:

(unaudited) 13 weeks ended 13 weeks ended 39 weeks ended 39 weeks ended
(In thousands of Canadian dollars, except per share amounts) July 3, 2005 July 4, 2004 July 3, 2005 July 4, 2004

REVENUE

Canada	\$ 40,643	\$ 38,993	\$ 118,433	\$120,106
United States	5,643	5,996	18,905	19,113
Total	\$ 46,286	\$ 44,989	\$ 137,338	\$139,219

PROPERTY AND EQUIPMENT

Canada	\$ 8,463	\$ 4,725
United States	491	495
Total	\$ 8,954	\$ 5,220

6. RELATED PARTY TRANSACTIONS:

The Company leases three buildings for three of its retail locations from a company owned by a former 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.

corporate information

Directors LESLIE LANDES, Chairman of the Board, Chairman of Stockgroup Information Systems, Inc., Director of TIR Systems Ltd.
DARREN GILLESPIE, Senior Executive VP, Liquidation World Inc.
JONATHAN HILL, President and CEO, Liquidation World Inc.
HERB LUKOFSKY, CA, Corporate Director, Business Consultant
CHARLES M. (CHAD) MURRAY, President of Chad Murray Sales and Marketing, Inc.
ROBERT THOMSON, QC, President of Rovalex Investments, Inc.

Management JONATHAN HILL, President and CEO
DARREN GILLESPIE, SEVP, and President Liquidation World U.S.A. Inc.
ANDREW SEARBY, CA, Executive VP and CFO
DERRICK GILLESPIE, VP Merchandising
DARRELL FLADAGER, VP Business Development
ZORA ROBERTS, CMA, Controller
TROY HEATH, Director Eastern Region
DAN RODGERS, Regional Director
MARK VELLA, Regional Director
TERRY OFFORD, Director Loss Prevention/Internal Audit
CHAD RICHARDSON, Director Information Systems

Solicitors Phillips Sevalrud LLP
900, 521 - 3rd Avenue SW
Calgary, Alberta T2P 3T3

Auditors KPMG LLP
Chartered Accountants
1200, 205 - 5th Avenue SW
Calgary, Alberta T2P 4B9

Bank Royal Bank of Canada
335 - 8th Avenue SW
Calgary, Alberta T2P 1C9

Transfer agent Computershare Investor Services
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

Corporate Office 3900 - 29th Street NE, Calgary, Alberta T1Y 6B6
Phone 403.250.1222 Fax 403.291.1306
Web www.liquidationworld.com

outlet locations

CANADA

ALBERTA
 Calgary (3)
 Camrose
 Cold Lake
 Drumheller
 Edmonton (4)
 Fort Saskatchewan
 Grande Prairie
 High River
 Hinton
 Leduc
 Lethbridge
 Medicine Hat
 Peace River
 Ponoka
 Red Deer
 St. Paul
 Taber
 Wainwright
 Westlock

BRITISH
 COLUMBIA
 Aldergrove
 Chilliwack
 Coquitlam
 Courtenay
 Cranbrook
 Duncan
 Gibsons
 Kamloops
 Kelowna
 Langley
 Maple Ridge
 Mission
 Nanaimo
 North Vancouver
 Penticton
 Port Alberni
 Prince George
 Quesnel
 Richmond
 Surrey
 Trail
 Victoria

MANITOBA
 Steinbach
 Swan River
 Winnipeg (2)

ONTARIO
 Ajax
 Arthur
 Belleville
 Bleinheim
 Bolton
 Brantford
 Burlington
 Cambridge
 Campbellford
 Cobourg
 Hamilton (2)
 Hawkesbury
 Ingersoll
 Keswick
 London (2)
 Oakville
 Orillia
 Oshawa
 Paris
 Prescott
 Renfrew
 Sarnia
 Smith Falls
 St. Catherines
 Sudbury
 Trenton
 Uxbridge
 Wallaceburg
 Welland
 Windsor (2)
 Woodstock

SASKATCHEWAN
 Estevan
 Lloydminster
 Moose Jaw
 Prince Albert
 Regina
 Saskatoon
 Yorkton

USA

ALASKA
 Anchorage

IDAHO
 Boise
 Coeur d'Alene
 Lewiston

MONTANA
 Great Falls

WASHINGTON
 Everett
 Kent
 Lacey
 Renton
 Richland
 Spokane (2)
 Tukwilla
 Yakima

Liquidation World has become a destination store for millions of value and quality conscious consumers.

So, who shops at Liquidation World?

High-income treasure hunters searching for unbelievable deals on goods and merchandise unavailable anywhere else.

Those who insist on paying the absolutely lowest price for everything they buy, regardless of their social class or walk of life.

And those on a budget who have to make the most of every dollar they earn.

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



3900 - 29th Street NE, Calgary, Alberta T1Y 6B6

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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