

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

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 30 – 70 percent or less of what you will find at traditional retail stores.

How do we do it?

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 101 fun, friendly and no frill Liquidation World stores 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.

President's Message

We are pleased to report the results of our third quarter of 2006. For the quarter, the Company enjoyed record revenue of \$49.2 million and erased a \$1.3 million dollar loss experienced in Q3, 2005. The results for this quarter reflect our fourth consecutive quarter of improving performance.

Sales in the quarter were strong, and include a 3.8% increase in same store sales. We continue to increase revenue in same stores primarily through improvements to the quality, variety and desirability of our merchandise and through enhancements to the Liquidation World shopping environment.

Despite record sales during the quarter, planned investments in personnel and infrastructure resulted in only a modest profit. While these expenses have a short term negative impact on net earnings, they are necessary to support future growth and are consistent with our previously stated growth objectives.

With the necessary infrastructure now largely in place, we have turned our attention to further increasing revenue through the addition of new outlets. To that end, we are pleased to announce that we have secured a total of 14 new stores that will be opened before the end of the calendar year. Net of expected closures associated with lease completions and non-performance, we plan to be operating a total of 113 stores before January 2007. This growth in the store base will allow us to further leverage our non-store expenses.

In addition to record revenue, gross margins for the quarter were the best in recent years at 38.8%. This performance is largely attributable to the changes we have made to our merchandising team and we view it as confirmation that the quality, value and selection of our merchandise continues to improve. We are all the more encouraged by these results as inventory quality and assortment are cornerstones of our same store sales growth strategy. Moving forward, we foresee continued improvement in the mix and level of inventory as we further leverage the information available to us through our new merchandise management system.

President's Message (cont'd)

As a percentage of revenue, store operating costs decreased during the quarter. This gives us further confidence that our ability to leverage our non-store costs will not be impaired as we add new stores. We appreciate the effort that our store associates have made to control store costs.

We see a bright future for Liquidation World. Our recent investments in people and systems mean that we are well positioned to capitalize on our increasingly relevant business model. On behalf of everyone at Liquidation World, thank you for your continued support.

A handwritten signature in blue ink, appearing to read "Jonathan Hill". The signature is stylized with a large initial "J" and "H".

JONATHAN HILL

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The following discussion and analysis is effective as of August 2, 2006 and should be read together with the unaudited consolidated financial statements 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 and ancillary services in the United States. Opportunity inventory results from a variety of situations including insolvencies, insurance claims, overruns, cancelled orders, and close-outs. Liquidation World distributes such acquired inventory to value-oriented customers through its network of 101 corporately-owned outlets (84 in Canada and 17 in the US). Liquidation World continues to pursue a strategy to increase profitability by increasing sales and gross margin return on investment (calculated as gross margin percent multiplied by inventory turnover) in existing outlets, closing non-performing outlets, and in the longer term by expanding the outlet network in select urban and rural communities. In order to increase sales in outlets, the Company is increasing its buyer network, seeking new sources of desirable inventory, and implementing a new Merchandise Management System (“MMS”) to provide greater insight into inventory and overall performance.

Management believes that improved efficiencies can be achieved through the information provided by the new MMS resulting in superior overall performance. To increase profitability, the Company is also improving the overall shopping experience through investments in infrastructure, including distribution and technology systems.

OPERATING STRATEGY

Liquidation World’s strategy will continue to focus on the following:

1. *Focused and Accountable Buying Group*

Liquidation World customers expect new deals every shopping trip as well as a constantly changing assortment of merchandise. Changes have been made to further align the buyers with customers by making buyers more responsible for inventory management. 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. Particularly, one team of buyers will focus on traditional sources of supply—namely, inventory closeouts. Buyers within this group 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 differentiate the business. This buyer group will focus on finding these deals to ensure outlets have a steady stream of events for their customers.

2. *Complete the Implementation of the New Merchandise Management System and Leverage its Benefits*

In fiscal 2006, Liquidation World continues to invest in its MMS to support its purchasing, marketing and merchandising teams. The system is starting to enable the organization to improve tracking of inventory from sourcing, to distributing, to selling. Liquidation World will leverage the MMS to provide its customers with a greater variety of inventory and offer a better value proposition through improved inventory management. A component of the MMS is a scan based inventory system which will reduce costs in outlets by eliminating the need to physically ticket inventory and enabling faster checkouts. The ‘tickets off’ initiative is well underway. The system also provides the ability to manage markdowns in a more targeted and effective way. The distribution centres are currently utilizing new equipment and software to enhance productivity and inventory tracking.

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3. *Improve the Shopping Experience*

Liquidation World is adopting a fresh look and feel to all new outlets in response to positive feedback from limited test trials at certain existing locations. 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 believes that these changes will result in an improved shopping experience and increased sales.

The Company will continue to evaluate results from the renovated outlets to guide further renovations and openings in existing and additional markets in 2006.

To further enhance the shopping experience, the Company has adopted a more disciplined policy with respect to aged and non-performing inventory that will ensure a fresh, new selection that is constantly changing.

4. *Geographic Growth*

Liquidation World's strategy is to acquire leases in geographic locations suitable to the business model in both Canada and the United States. In Q3 2006 there was one store opened (Sault Ste. Marie, ON) and 5 stores closed (Steinbach, MB, Uxbridge, ON, Port Alberni, BC, Estevan, SK, and Tukwilla, WA) for a total of 103. Subsequent to the end of the quarter, the Company opened a new location in Clarkston, ID, and outlets were closed in Woodstock, ON, Burlington, ON, and Lewiston, WA. The Company intends to expand on a measured basis as opportunities arise and has secured 14 locations that are expected to open prior to the end of calendar 2006.

5. *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, enhanced perception, and increased sales.

Results of Operations

Revenue

Revenue, which includes sales of merchandise and fee revenue, totaled \$49,239,000 for the quarter ended July 2, 2006, a 6.4% increase over Q3 2005 revenue of \$46,286,000.

Revenue in Canada for Q3 2006 increased 4.7% to \$42,544,000 from \$40,643,000 in Q3 2005. During the quarter, the Company operated on average 87 outlets versus 89 in Q3 2005. Same store sales year over year increased by 6.2% to a total of \$39,351,000 in Q3 2006. Subsequent to the end of the quarter, the Company closed stores in Woodstock, ON and Burlington, ON.

In the United States, Q3 2006 revenue increased 18.6% (28.5% in USD) to \$6,695,000 (\$5,821,000 USD) from \$5,643,000 (\$4,531,000 USD) in Q3 2005. During the quarter, the Company operated on average 17 stores in the United States up from 14 in Q3 2005. Subsequent to the end of the quarter, the Company opened a new location in Clarkston, ID, and closed its store in Lewiston, WA. In the United States same store sales year over year decreased by 13.2%, to \$4,687,000 (\$4,075,000 USD). In addition to its plans for new store openings, the Company has implemented several initiatives, described elsewhere herein, designed to increase revenues in existing outlets.

On a cumulative basis, revenue for the 39 weeks ended July 2, 2006 increased to \$155,294,000 from \$137,338,000 or 13.1% over the same fiscal period in 2005. Same store sales increased by 9.9% to \$44,038,000 Canadian dollars.

Historically, the third quarter typically accounts for approximately 24% of annual revenue.

Gross Margin

Gross margin as a percentage of sales increased in Q3 2006 to 38.8%, or \$19,107,000 compared to 34.7% or \$16,066,000 in Q3 2005. On a cumulative basis, gross margin in fiscal 2006 increased as a percentage of sales to 38.9% from the same fiscal period in 2005 of 32.3%. The low cumulative gross margin in Q3 fiscal 2005 was attributable to lower margins on certain deals, markdowns applied to aged and non-performing inventories, and to an inventory write-down of \$3.2 million during Q3 2005. Liquidation World's pricing policies and strategy is to ensure prices for comparable products are lower than any other in the market, including discount stores, warehouse-type outlets and special promotions. Gross margins can fluctuate as a result of product mix sold.

The Company expects its gross margin in 2006 will become more consistent with historical norms as a result of better inventory performance and tracking provided by the successful implementation of the new MMS. Management remains committed to maintaining margins through better planning, ongoing monitoring and increased accountability.

Selling and Store Operations

Selling and store operations, which includes all costs of occupying and operating outlets and opening new outlets, decreased as a percentage of sales in Q3 2006 to 32.4% (\$15,939,000) from 32.6% (\$15,089,000) in Q3 2005. Despite the improved percentage, selling and store expenses in the quarter were unfavourably impacted by the distribution costs associated with increasing inventory levels. On a cumulative basis, selling and store operations were reduced as a percentage of sales to 30.7% or \$47,698,000 in Q3 2006 compared to 33.2% or \$45,609,000 in the same fiscal period 2005. A continued focus on cost control has resulted in expenses increasing at a slower rate than revenues.

General and Administrative

General and administrative expenses increased as a percentage of sales in Q3 2006 to 4.3% (\$2,108,000) compared to 3.5% (\$1,608,000) in Q3 2005. On a cumulative basis, general and administrative expenses as a percentage of sales were reduced to 3.9%, or \$6,073,000 in Q3 2006 compared to 4.4% or \$6,045,000 in the same fiscal period in 2005. In fiscal 2006, the Company expects the amount of general and administrative expenses to remain relatively consistent as costs associated with strengthening infrastructure and the merchandising group, in particular, are offset by the costs associated with the implementation of the MMS winding down.

Depreciation and Amortization

Depreciation and amortization increased by 35.0% to \$807,000 in Q3 2006 compared to \$598,000 in Q3 2005 reflecting increased investment in capital assets, particularly relating to the MMS and outlet improvements. On a cumulative year-to-date basis, depreciation and amortization increased by 61.0% to \$2,312,000 compared to \$1,436,000 in the same fiscal period of 2005. In fiscal 2006, the Company expects depreciation and amortization to increase as additional capital expenditures associated with the MMS implementation are amortized.

Interest

Interest expenses in Q3 2006 increased to \$110,000 compared to \$57,000 in Q3 2005. This increase is primarily a result of capital leases that finance the acquisition of equipment and MMS. On a

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cumulative basis, interest expenses were \$251,000 in fiscal 2006 compared to \$70,000 in the same period in 2005.

Income Taxes

The effective tax rate of 26.5% in the first three quarters of 2006 is less than the statutory tax rate in effect during the period of 35.1%. In Q3 2006 the effective tax rate was 53.3% due primarily to losses in subsidiaries where potential tax recovery is uncertain. The Company recorded a current tax expense of \$1,066,000 in the first three quarters of 2006 against Canadian income as compared to a recovery of \$2,249,000 during the same period in 2005 due to losses.

In the first three quarters of 2006, the Company recorded a future tax expense of \$288,000 arising from the difference between the book value of its capital assets and the tax value of its assets, which is primarily due to accelerated depreciation for the purposes of capital expenditures associated with the MMS implementation.

Net Earnings

Net earnings in Q3 2006 increased to \$42,000 (\$0.01 per share) from a net loss of \$1,300,000 (\$0.16 per share) in Q3 2005, which was a result of reduced gross margins and increased expenses for the implementation of the MMS project. During the quarter, increased net earnings are the result of increases in sales and gross margins. On a cumulative basis, net earnings during the first three quarters of 2006 increased to \$2,651,000 (\$.31 per share) compared to a loss in the same fiscal period in 2005 of \$6,872,000 (\$.82 per share).

Liquidity and Capital Resources

Liquidation World continues to carry out its plan for growth through the opening of new retail outlets as opportunities become available. By the end of calendar 2006, the Company expects to operate a total of 113 outlets.

Cash flow from operations has been the primary funding source for working capital requirements and capital expenditures over the past several years. Operations before working capital requirements provided cash of \$1,213,000 in Q3 2006 compared with cash used of \$552,000 in Q3 2005. Cash flow related to working capital used \$4,366,000 in Q3 2006 compared to a use of \$2,502,000 in Q3 2005. As a result, cash used by operating activities totaled \$3,153,000 in Q3 2006 compared to total cash used by operations of \$3,054,000 in Q3 2005.

Working capital increased to \$45,267,000 at the end of Q3 2006 compared to \$43,141,000 at the end of Q3 2005. The Company currently has short-term banking and operating facilities of \$15,000,000 of which \$6,748,000 was drawn at the end Q3 2006. The available credit facilities are expected to be sufficient to fund the planned expansions in 2006 including a reserve to fund potential inventory acquisitions.

The Company incurred capital expenditures net of disposals of \$930,000 during Q3 2006 compared to \$1,902,000 in Q3 2005 to provide furniture, fixtures and equipment and make necessary leasehold improvements to new facilities, upgrade or provide new equipment to existing locations and acquire software and hardware related to the MMS implementation. The Company entered into leasing arrangements with a lender to fund the capital portion of its MMS project that carry terms of between two and three years.

During fiscal 2006, the Company expects to invest approximately \$2,000,000 in the MMS and \$3,000,000 in infrastructure upgrades including equipping new outlets. The Company expects to finance a significant portion of the MMS expenditure through leasing arrangements and the balance through cash flow and short-term borrowings.

In accordance with a normal course issuer bid, in Q3 2006 the Corporation repurchased and cancelled 49,100 common shares for a total consideration of \$277,191. The excess of this consideration over the average paid up amount of the related shares has been charged to retained earnings. The total quantity of shares repurchased in accordance with the normal course issuer bid is 52,700.

On March 16, 2006, the Board of Directors of the Corporation adopted a shareholder rights plan designed to provide the Board of Directors and the Shareholders more time to fully consider any unsolicited take-over bid for the Corporation than is provided under Canadian securities laws. It will also allow more time for the Board of Directors to pursue, if appropriate, other alternatives to maximize Shareholder value.

Contractual Obligations

Payments due by period (\$000's)	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Financial Commitments					
Long-term debt	nil	nil	nil	nil	nil
Capital leases	988	2,627	nil	nil	3,615
Contractual Obligations					
Outlet leases	9,386	17,671	3,411	7,604	38,071
Vehicle and equipment leases	77	129	nil	nil	nil
Other long-term obligations	nil	nil	nil	nil	nil
Total	10,450	20,427	3,411	7,604	41,686

Risks and Uncertainties

The Company is principally engaged in the sale of goods through 101 leased retail outlets located across Canada and the northwestern United States. The Company's business is subject to a number of factors, which directly impact retail sales over which it has no control, namely fluctuations in weather patterns, swings in consumer confidence and buying habits and the changes in goods available for purchase.

Geographically, the Company's stores are located in larger population centres and many smaller centres. The Company has good relationships with its landlords and suppliers and has no reason to believe that it is exposed to any material risk that would prevent the Company from acquiring, distributing and/or selling its merchandise on an ongoing basis. While the Company experienced flat sales and lower operating margins in fiscal 2005, it expects to return to historical annual gross margins and realize cost savings and other benefits from the new MMS.

Source of Supply of Inventory

All inventory is acquired from opportunistic situations, so those conditions must exist to provide an occasion to acquire inventory. While surpluses of inventory exist in the global economy, 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 customer traffic in the outlets.

Competition

As a retailer, Liquidation World competes with other retailers in offering the best value for products it has on hand. There is no effective barrier to prevent entry into the retailing marketplace or the

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liquidation retailing marketplace by any potential competitor, foreign or domestic. 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 and profitability. This risk is mitigated due to the unique manner in which Liquidation World acquires its products. The Company is able to purchase inventory at lower cost than other retailers, as most of its inventory is acquired from opportunistic situations at opportunistic prices, generally providing a lower cost base and therefore allowing the Company to further discount its prices and remain profitable.

Real Estate 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.

Foreign Currency Risk

The Company acquires more inventory denominated in US dollars than it sells in US dollars, so it is exposed to fluctuations in the value of the US 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 US 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.

QUARTERLY INFORMATION

The following selected financial information is derived from the consolidated financial statements of the Company and should be read in conjunction with such financial statements and related notes.

(Amounts in 000's except per share amounts)

Quarter ended	July 3 2006	April 2 2006	January 2 2006	October 2 2005
Total revenue	\$ 49,239	\$ 48,909	\$ 57,146	\$ 46,813
Net earnings (loss)	42	663	1,946	418
Net earnings (loss) per common share				
Basic	0.01	0.08	0.23	0.05
Fully diluted	0.00	0.08	0.23	0.05

Quarter ended	July 3 2005	April 3 2005	January 2 2005	October 3 2004
Total revenue	\$ 46,286	\$ 39,367	\$ 51,685	\$ 45,199
Net earnings (loss)	(1,300)	(6,511)	939	(476)
Net earnings (loss) per common share				
Basic	(0.16)	(0.77)	0.11	(0.05)
Fully diluted	(0.16)	(0.77)	0.11	(0.05)

Critical Accounting Estimates

The Company uses the retail method to estimate the value of its inventory. Under the retail method, inventory on hand is counted and totaled at its retail value net of adjustments for markdowns and obsolescence. The ratio of inventory on hand at its retail value to total inventory available for sale at retail is used to determine the portion of inventory remaining at cost as a portion of total inventory available for sale at cost. Accordingly, the costs attributed to inventory are apportioned between inventory remaining and cost of sales.

Changes in Accounting Policy

At the beginning of fiscal 2005, the Company retroactively adopted the new Canadian accounting standards that apply the fair value method to total stock-based compensation. Under the fair value method, the Company calculates the fair value of stock option grants and records that fair value as compensation expense over the vesting period of those grants.

Other Items

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

Outstanding Share Data

As of August 2, 2006, the Company has authorized for issuance unlimited common shares of which 8,330,242 are issued and outstanding. At the quarter ended July 3, 2005 the Company had 8,382,942 shares outstanding. Further, the Company has reserved 753,484 options to acquire common shares of which 692,450 have been granted. At the quarter ended July 3, 2005, 401,500 options remained 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 in existing outlets, leverage the new MMS to gain productivity while lowering risk, 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.

Financial Statements

CONSOLIDATED BALANCE SHEETS

<i>(unaudited)</i> (in thousands of Canadian dollars)	July 2 2006	October 2 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 174	\$ 177
Accounts receivable	391	621
Inventory	58,695	46,552
Prepaid expenses	1,657	2,242
Income tax recoverable	–	2,916
	<u>60,917</u>	<u>52,508</u>
Property and equipment	11,385	9,895
	<u>\$ 72,302</u>	<u>\$ 62,403</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	\$ 6,748	\$ 2,265
Accounts payable and accrued liabilities	7,112	6,387
Income taxes payable	838	–
Current portion of capital lease	952	715
	<u>15,650</u>	<u>9,367</u>
Capital lease	2,732	1,997
Future income taxes	733	445
Shareholders' equity		
Share capital (note 4)	15,665	15,764
Contributed surplus	676	437
Retained earnings	36,846	34,393
	<u>53,187</u>	<u>50,594</u>
	<u>\$ 72,302</u>	<u>\$ 62,403</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



JONATHAN HILL
Director



BOB WIENS
Director

CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

For the periods ended July 2, 2006 and July 3, 2005

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

	13 weeks ended July 2, 2006	13 weeks ended July 3, 2005	39 weeks ended July 2, 2006	39 weeks ended July 3, 2005
Revenue	\$ 49,239	\$ 46,286	\$155,294	\$ 137,338
Cost of sales	30,132	30,220	94,821	92,979
	19,107	16,066	60,473	44,359
Expenses				
Selling and store operations	15,939	15,089	47,698	45,609
General and administrative	2,108	1,608	6,073	6,045
Depreciation and amortization	807	598	2,312	1,436
Stock based compensation	126	70	239	209
Interest	110	57	251	70
Foreign exchange	(73)	(15)	(105)	(1)
	19,017	17,407	56,468	53,368
Earnings (loss)				
before income taxes	90	(1,341)	4,005	(9,009)
Income taxes				
Current	(190)	(121)	1,066	(2,249)
Future	238	80	288	112
	48	(41)	1,354	(2,137)
Net earnings (loss)	42	(1,300)	2,651	(6,872)
Retained earnings, beginning of period	36,989	35,274	34,393	41,220
Excess of repurchase amount over stated capital of repurchased shares (note 4)	(185)	-	(198)	(102)
Adjustment to reflect change in accounting policy (note 3)	-	-	-	(271)
Retained earnings, end of period	\$ 36,846	\$ 33,974	\$ 36,846	\$ 33,975
Earnings per share				
Basic	\$ 0.01	\$ (0.16)	\$ 0.32	\$ (0.82)
Fully diluted	\$ 0.00	\$ (0.16)	\$ 0.31	\$ (0.82)
Weighted average shares outstanding	8,370,652	8,382,810	8,378,810	8,383,799
Diluted shares outstanding	8,468,305	8,395,765	8,425,857	8,420,153

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended July 2, 2006 and July 3, 2005

(unaudited) (in thousands of Canadian dollars)

	13 weeks ended July 2, 2006	13 weeks ended July 3, 2005	39 weeks ended July 2, 2006	39 weeks ended July 3, 2005
Cash provided by (used in):				
Continuing operations				
Net earnings (loss)	\$ 42	\$ (1,300)	\$ 2,651	\$ (6,872)
Add (deduct) non-cash items:				
Depreciation and amortization	807	598	2,312	1,436
Stock based compensation	126	70	239	209
Future income taxes	238	80	288	112
	1,213	(552)	5,490	(5,115)
Changes in non-cash operating working capital				
Accounts receivable	(5)	18	230	926
Inventory	(6,291)	(2,381)	(12,143)	5,967
Prepaid expenses	(40)	(624)	585	(146)
Accounts payable and accrued liabilities	(566)	609	7251	(395)
Income taxes	2,536	(124)	3,754	(3,888)
	(3,153)	(3,054)	(1,359)	(2,651)
Discontinued operations				
Changes in liabilities of discontinued operations	-	-	-	(45)
Investments				
Purchase of capital assets	(930)	(1,902)	(2,369)	(4,624)
Financing				
Increase (decrease) in bank indebtedness	4,594	4,962	4,483	6,752
Repayment of capital lease obligation	(236)	-	(461)	-
Proceeds on issuance of common shares	-	-	-	56
Repurchase of common shares	(277)	-	(297)	(156)
	4,081	4,962	3,725	6,652
Increase (decrease) in cash	(2)	6	(3)	(668)
Cash and cash equivalents, beginning of period	176	202	177	876
Cash and cash equivalents, end of period	\$ 174	\$ 208	\$ 174	\$ 208
Supplemental disclosure of cash paid (recovered) for:				
Income taxes	\$ (2,702)	\$ 327	\$ (2,695)	\$ 1,615
Interest	94	57	253	70
	\$ (2,608)	\$ 384	\$ (2,442)	\$ 1,685

See accompanying notes.

Notes to Consolidated Financial Statements

FOR THE PERIODS ENDED JULY 2, 2006 AND JULY 3, 2005
(AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS.)

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements for Liquidation World Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements dated October 2, 2005. 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. SEASONALITY

As a retailer, the Company experiences stronger sales in its first quarter (particularly in December) and lower sales in its second and third quarters due in part to consumer buying patterns over the holiday season. Additionally, large inventory deals may skew the results in any given quarter. Therefore, the performance of this 13 week period is not necessarily indicative of the performance for the balance of the fiscal year.

3. 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 years' reported amounts, and accordingly, adjusted the 2004 opening retained earnings at October 4, 2004 by \$271 and contributed surplus by the same amount.

4. SHARE CAPITAL

The Corporation has received regulatory approval to repurchase up to 419,000 common shares during the period from March 23, 2006 up to March 22, 2007, pursuant to a normal course issuer bid. In accordance with the normal course issuer bid, the Corporation repurchased and cancelled 49,100 common shares for total consideration of \$277 during the 13 week period ended July 2, 2006. The excess of this consideration over the average paid up amount of the related shares of \$185 has been charged to retained earnings. The cumulative total number of repurchased and cancelled shares in Q1 and Q2 2006 is 52,700.

(a) Issued and Outstanding:

	Number of Shares	Amount
Balance, October 2, 2005	8,382,942	\$ 15,764
Shares repurchased	(52,700)	(99)
Balance, July 2, 2006	8,330,242	\$ 15,665

(b) Stock Options:

The Company granted 244,500 stock options during Q3 2006. The estimated fair value of these options was \$3.02 per option, which will be expensed over their vesting period, and has been determined using the Black-Scholes option-pricing model.

Compensation cost related to stock option awards granted during the quarter under the fair value based approach was calculated using the following weighted average assumptions:

Expected option life	5 years
Risk-free interest rate	5%
Expected stock price volatility	52%
Average dividend yield	0%

A summary of the status of the Company's share option plan as of July 2, 2006 and changes during the fiscal year to date is presented below:

	Number of Options	Amount
Stock options outstanding, October 2, 2005	541,450	\$ 5.36
Granted	244,500	5.89
Cancelled/expired	(92,500)	4.04
Balance, April 2, 2006	693,450	\$ 5.59

5. SEGMENTED INFORMATION

	13 weeks ended July 2, 2006	13 weeks ended July 3, 2005	39 weeks ended July 2, 2006	39 weeks ended July 3, 2005
Revenue				
Canada	\$ 42,544	\$ 40,643	\$ 132,575	\$ 118,443
United States	6,695	5,643	22,719	18,905
Total	\$ 49,239	\$ 46,286	\$ 155,294	\$ 137,338
Property and equipment			As at July 2, 2006	As at October 2, 2005
Canada			\$ 10,758	\$ 8,463
United States			627	491
Total			\$ 11,385	\$ 8,954

Corporate Information

Directors

LESLIE LANDES, Chairman

Les is also a Director and Chairman of Stockgroup Information Systems Inc. and a Director of TIR Systems Ltd., both publicly listed companies. He was formerly President and Chief Operating Officer of Stockgroup Information Systems, a company providing financial news and data to media and financial service companies, and of Jim Pattison Industries, one of Canada's largest private companies. He is also President of Landes Enterprises, a company that has provided interim and turnaround management services in a number of industries.

JONATHAN HILL, President & CEO

Jonathan joined Liquidation World in 1991 and has been responsible for building the eastern operations. In February of 2005, he was appointed President and CEO.

DARREN GILLESPIE, Senior Executive VP & President, Liquidation World U.S.A. Inc.

Darren joined Liquidation World in 1993 after 10 years with a national consumer electronics chain where he played an instrumental role in growing the business across Canada. He has been responsible for much of the growth in BC and the US, and is now focusing on the US market.

HERB LUKOFSKY CA, Corporate Director, Business Consultant

Herb was a partner with Arthur Andersen where he was in charge of the firm's tax practice. In 1984 he established Lukofsky, Lajoie and Associates, a business consulting firm specializing in mergers and acquisitions. Herb joined the Board of Directors for Liquidation World in January 2001.

CHARLES M. (CHAD) MURRAY, President, Chad Murray Sales and Marketing, Inc.

Chad is a long-time shareholder in Liquidation World, and has a solid understanding of retailing in Canada. He served in numerous capacities with Erie Industries Inc., eventually becoming President, CEO, and a member of the Board before founding his own company.

ROBERT THOMSON, QC, President of Rovalex Investments, Inc.

Robert, now President of Rovalex Investments Inc., practiced corporate law with the firm of Fraser Milner in mergers and acquisitions until his retirement in 1999.

BOB WIENS, CA, Business Consultant

Bob was CFO of D-Wave Systems Inc. until March, 2005. Previously Bob was President and CEO of FACS Records Centre Inc., and Managing Partner with Arthur Andersen in Ottawa and Vancouver. Currently, Bob is involved with a number of charitable organizations.

Management

JONATHAN HILL, President & CEO

DARREN GILLESPIE, Senior Executive VP & President, Liquidation World U.S.A. Inc.

ANDREW SEARBY, CA, Executive VP & CFO

MAURICE CHELLI, SVP Merchandising

DENNIS KENNEDY, SVP Operations

BRIAN CALLAGHAN, CMA, VP Finance & Controller

DERRICK GILLESPIE, VP Global Sourcing

DARRELL FLADAGER, VP Business Development

LARRY SCHEFFEE, VP US Logistics

TROY HEATH, Regional Director

DANNY RODGERS, Regional Director

MARK VELLA, Regional Director

MIKE HENAHAN, Director of Business Information and Analysis

TERRY OFFORD, Director of Loss Prevention/Internal Audit

CHAD RICHARDSON, Director of Information Systems

TED SMITH, Director of Distribution and Logistics

Solicitors

Miller Thomson LLP

#3000, 700 - 9th Avenue SW, Calgary, Alberta T2P 3T3

Auditors

Ernst & Young LLP

Chartered Accountants

#1000, 440 - 2nd Avenue SW, Calgary, Alberta T2P 5E9

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

Store Locations

CANADA

ALBERTA

Calgary (3)
Camrose
Cold Lake
Drumheller
Edmonton (2)
Fort Saskatchewan
Grande Prairie
High River
Hinton
Leduc
Lethbridge
Medicine Hat
Peace River
Ponoka
St. Paul
Taber
Westlock

BRITISH COLUMBIA

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

MANITOBA

Swan River
Winnipeg (2)

ONTARIO

Ajax
Arthur
Belleville
Blenheim
Bolton
Brantford
Cambridge
Campbellford
Cobourg
Hamilton (2)
Hawkesbury
Ingersoll
Keswick
London (2)
Oakville
Orillia
Oshawa
Paris
Petawawa
Prescott
Renfrew
Sarnia
Sault Ste. Marie
Smiths Falls
St. Catharines (2)
Sudbury
Trenton
Wallaceburg
Welland
Windsor (2)

SASKATCHEWAN

Lloydminster
Moose Jaw
Prince Albert
Regina
Saskatoon
Yorkton

USA

ALASKA

Anchorage
Soldotna

IDAHO

Boise
Coeur d'Alene
Ponderay

MONTANA

Great Falls

WASHINGTON

Burien
Clarkston
Everett
Kent
Lacey
Moses Lake
Renton
Richland
Spokane (2)
Yakima

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Shares are listed on the
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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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