

LIQUIDATION WORLD INC.

**LIQUIDATION
WORLD®**
LiquidationWorld.com

**ANNUAL REPORT
2001**



ENTREPRENEUR
OF THE YEAR



PINNACLE AWARD FOR
ENTREPRENEURIAL
ACHIEVEMENT
2001

COMPANY PROFILE

Liquidation World Inc. is a Calgary, Alberta based company specializing in marketing merchandise from distress situations, such as bankruptcies, receiverships, close-outs, inventory overruns and insurance claims. To date our 93 retail outlets are located in Alberta, B.C., Ontario, Saskatchewan, Manitoba, Washington State, Idaho, Alaska and Texas.

Liquidation World operates with a commitment to providing our clients with a direct, professional approach to solving their inventory problems. This may involve the purchase or consignment of quality merchandise at a discount to manufacturers' wholesale prices and passing those savings on to our value-oriented retail customers. Those purchase situations have involved Canadian, United States and Caribbean businesses as well as businesses in the Far East.

Corporate buyers and buyers located in every outlet have the autonomy to make quick purchase decisions for thousands of dollars should the opportunity arise. This flexibility allows us to evaluate business situations as they are presented, and thereby maximize our ability to obtain premium value merchandise.

Liquidation World's approach to merchandise acquisition and retailing allows it to acquire any and all types of merchandise and to sell to the retail customer while providing a responsible business alternative to clients with distress situations.

MISSION STATEMENT

Liquidation World strives to help organizations with their inventory problems through a commitment to:

OUR SHAREHOLDERS: We have an obligation to provide our shareholders with a superior return on investment, to ensure honesty and integrity is a part of everything we do, and to encourage initiative from our people at all times.

OUR CUSTOMERS: We have a partnership with our Customers that demands value and the lowest prices in the market, a friendly shopping experience in well-maintained facilities, and an ability to exceed Customers' expectations. We are committed to developing long-term relationships with each and every Customer.

OUR PEOPLE: We treat everyone with fairness and respect and demand honesty and integrity in everything we do. We require hard work and teamwork, a commitment to controlling costs and an acute spirit of customer service. We will provide an entrepreneurial environment where advancement is based on superior performance.

SUMMARY OF SELECTED FINANCIAL DATA

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Sales (\$,000)	185,459	164,814	148,958	134,691	96,574	71,705	56,268	35,912	24,313	18,980	13,173	11,319	5,204	1,781	790
Cost of Sales (\$,000)	114,729	99,238	89,919	81,229	57,877	43,627	35,708	22,084	14,971	11,707	7,631	6,730	3,265	947	502
Gross Margin (\$,000)	70,730	65,576	59,039	53,462	38,697	28,078	20,560	13,828	9,342	7,273	5,542	4,589	1,939	834	288
Expenses (\$,000)	57,176	52,818	48,007	42,090	30,880	21,446	15,815	11,870	7,800	6,165	4,860	3,634	1,528	762	277
EBITDA (\$,000)	13,554	12,758	11,032	11,372	7,817	6,632	4,745	1,958	1,542	1,108	682	955	411	72	11
Depreciation & amortization (\$000)	1,427	1,322	1,088	891	613	359	227	177	140	67	37	33	10	3	1
Interest (\$,000)	125	384	522	213	53	169	280	128	189	250	280	227	77	4	-
Income Taxes (\$,000)	5,021	4,754	4,362	4,474	3,067	2,584	1,867	755	511	369	171	305	132	37	2
Net Earnings (\$,000)	6,981	6,298	5,060	5,794	4,084	3,520	2,371	898	702	422	194	390	192	28	8
Earnings per Share (\$)															
Basic	0.83	0.76	0.62	0.73	0.53	0.51	0.39	0.15	0.16	0.12	0.06	0.12	0.06	0.01	0.01
Fully diluted	0.81	0.75	0.59	0.69	0.49	0.46	0.36	0.14	0.14	0.11	0.05	0.11	0.06	0.01	0.01
% Increase in Sales	13	11%	11%	39%	35%	27%	57%	48%	28%	44%	16%	118%	193%	126%	-
Number of Outlets at year end	87	87	74	67	58	39	29	22	14	10	7	5	4	2	1
Inventory at year end (\$,000)	49,778	49,858	44,090	41,031	27,734	18,427	15,527	11,027	6,425	5,435	3,745	3,357	2,430	673	286

NOTE:

The above information has been retroactively re-stated to reflect the Company's current accounting policies and share structure.

PRESIDENT'S REPORT

The year 2001 was an eventful one for Liquidation World on a number of fronts. We continued to focus our efforts on streamlining all areas of the Company and developing new strategies in operations, marketing, inventory acquisition and distribution.

Financially, sales increased 13% on the year to \$185 million from \$164 million in fiscal 2000. Net earnings increased 11% to \$ 6.9 million during the year ended October 7, 2001 from \$6.3 million during the year ended October 1, 2000.

Once again this year I am very proud to report that Liquidation World has continued a trend that began with the inception of the Company. We have never experienced a losing quarter since Liquidation World began in 1986. That's 60 consecutive quarters of making money for our shareholders.

We opened 6 new outlets in fiscal 2001 to further increase our presence in existing markets and to bring the Liquidation World concept to new markets. New outlets opened include: Great Falls (Montana), Camrose (Alberta), Colwood (B.C.), Winnipeg (Manitoba) as well as a second outlet in Hamilton and a new outlet in Burlington (Ontario).

Our Company's reputation for integrity, professionalism and our ability to provide a complete menu of liquidation and salvage services created many new opportunities during fiscal 2001. Several major multi-national companies contacted us this past year and, as a result, Liquidation World is now the liquidator of choice for those businesses.

It became apparent to us earlier this year that the retail environment was softening, and that as the year wore on, retailers would be under significant pressure to discount inventories in an effort to maintain revenues. These deflationary conditions are very evident now, and our focus on cash flow has put us in an enviable position to take advantage of the abundant surplus opportunities that we foresee in calendar 2002.

Liquidation World continues to strive for its goal of being the most complete solution provider in North America for companies with problem inventories. Last year we added reverse logistics and reprocessing capabilities to our menu of services through our investment in Product Management Canada Inc. This year we continued to complement our service menu with the provision of store closure services to our retail clients, through our wholly owned subsidiary Liquidation World Enterprises Inc.

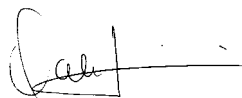
New marketing initiatives announced early last year have proven to be very successful. Our objective over the past year has been to target our efforts on building customer loyalty and we have developed a number of marketing programs that have been very effective. We have also initiated a new financing program that was designed to provide our customers with yet another option to take advantage of the tremendous bargains available in our stores. It has been very well received and consumer participation in the program continues to grow every day.

Liquidation World's performance over the past year garnered quite a bit of media attention. Several national television networks picked up on our story as did the business editors of major daily newspapers across Canada. That free exposure and the positive story about Liquidation World has generated significant interest about our Company in the business community.

2001 was an exciting year for all of us at Liquidation World and, as we look forward, we are anticipating greater opportunities than ever. The first quarter of fiscal 2002 saw Liquidation World achieve an incredible milestone. Our Company reached the one billion dollar mark in sales since Liquidation World began. We celebrated that milestone with a one day special promotion that resulted in our largest single day of sales in the history of the Company in a difficult sales environment. It took us just over 15 years to reach the billion dollar milestone and the challenge is out for us now to reach our second billion. I am very confident that we will do it in a much shorter time.

The tragic events of September 11 have changed the world. Now, more than ever, we appreciate the opportunities we have to do good things in the company of great people. Liquidation World's strength is our people. Our executive group, management teams and every one of our 1780 Associates are loyal, professional and dedicated to achieving success. I thank each and every one of them for their efforts and I would like to express my thanks to you, our shareholders, for your support of Liquidation World.

Sincerely,



Dale Gillespie

President & C.E.O.

December 10, 2001

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Company's fiscal year ends on the first Sunday in October and ended October 7, 2001 and comprised 53 weeks of operations. Fiscal 2000 and 1999 ended October 1, 2000 and October 3, 1999 respectively and each comprised 52 weeks of operations.

Sales:

Sales of merchandise totalled \$185,459,000 for the year ended October 7, 2001, an increase of 12.5% from \$164,814,000 in fiscal 2000. The increase was the result of new revenues from temporary going out of business sales (GOB's), a full year of operations from 13 stores opened in 2000 and an extra week of operations. Sales increased 10.6% to \$164,814,000 in 2000 from \$148,958,000 in 1999 primarily on the strength of the new stores opened in 2000 and a full year's operations of 12 outlets opened in 1999.

Sales increases in 2002 as a result of GOB's are not determinable as it is dependent on opportunities available. The Company expects to open 12 outlets in 2002, however, this will vary depending upon opportunities available in real estate.

Gross Margin

Gross margin as a percentage of sales decreased slightly in 2001 to 38.1% compared to 39.8% in 2000 and 39.6% in 1999. The decrease resulted from competitive pricing pressures from other retailers and the deliberate reduction of inventory levels to better allow the Company to take advantage of anticipated acquisition opportunities as the economic recession deepens in 2002. 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 includes all costs of occupying and operating the outlets and opening new outlets, decreased as a percentage of sales in fiscal 2001 to 27.7% (\$51,372,000) from 28.7% (\$47,328,000) in fiscal 2000. During the year fewer outlets were opened: 5 were opened, 5 were closed and 3 were moved for a net increase of nil. Fewer inventory acquisitions required significant processing and handling than in the prior year.

Selling and store operations decreased as a percentage of sales in fiscal 2000 to 28.7% (\$47,328,000) from 29.2% (\$43,507,000) in fiscal 1999 because processing and handling costs decreased. However, costs associated with opening 21, closing 8 and moving 2 outlets prevented further decreases in selling and store operation costs.

General and Administrative Expenses

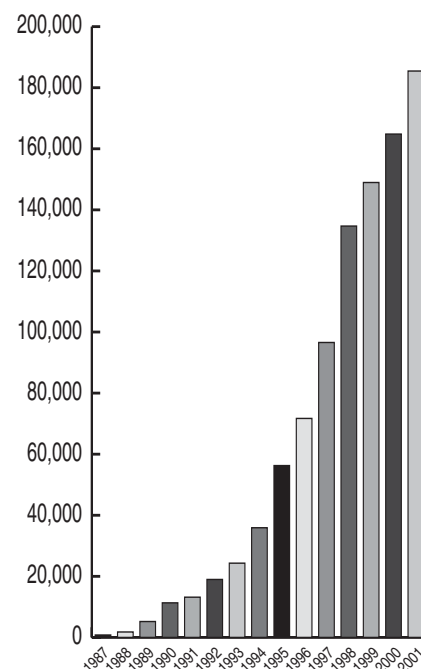
General and administrative expenses decreased as a percentage of sales in fiscal 2001 to 3.1% (\$5,804,000) compared to 3.3% in fiscal 2000 (\$5,490,000) as infrastructure costs increased more slowly than sales.

General and administrative expenses increased as a percentage of sales in fiscal 2000 to 3.3% (\$5,490,000) from 3.0% (\$4,500,000) in fiscal 1999 as a result of restructuring and infrastructure costs growing more rapidly than sales in anticipation of the next phase of growth for the Company.

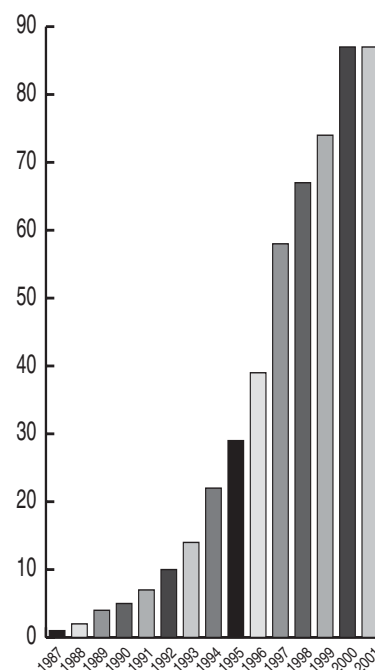
Depreciation and Amortization

Depreciation and amortization increased 7.9% to \$1,427,000 compared to \$1,322,000 in 2000. The 2000 increase was 21.5% from \$1,088,000 in 1999. Both increases reflect the increases in the underlying capital assets of 14.6% and 15.5% in 2000 and 1999 respectively. The corollary increases are not perfect due to the timing within each year of store openings and asset acquisitions.

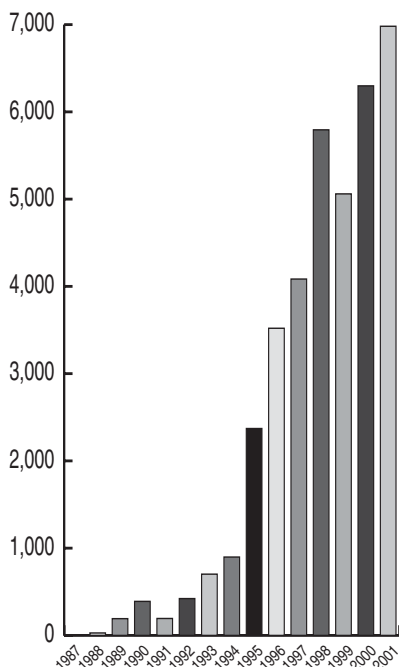
SALES (\$,000)



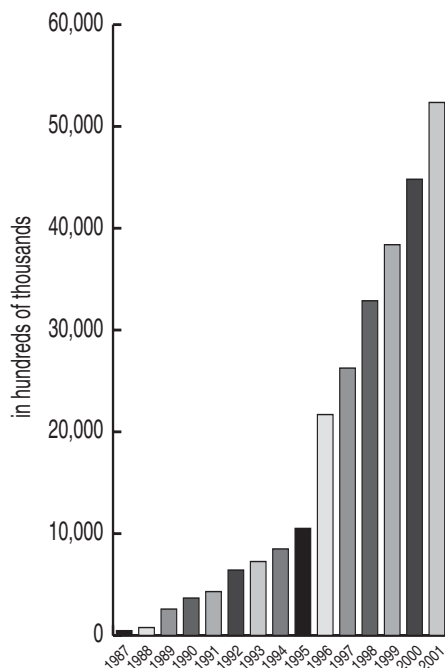
NUMBER OF OUTLETS



NET EARNINGS (\$,000)



SHAREHOLDERS' EQUITY



Interest

Interest decreased 67.5% in fiscal 2001 to \$125,000 from \$384,000 in 2000 as a result of lower average bank indebtedness and reducing interest rates. Interest decreased 26.4% in 2000 to \$384,000 from \$522,000 in 1999 as a result of lower average bank indebtedness in fiscal 2000.

Income Taxes

The effective income tax rates of 41.8% in 2001 and 43.0% in 2000 approximate statutory tax rates in effect during each year (43.4% and 43.6% respectively) except for small timing differences, non-deductible expenditures and other items.

The effective income tax rate of 46.3% in 1999 is higher than the statutory income tax rate of 44.6%. This is primarily a result of capitalization of inventory acquisition and handling costs required for tax purposes in the United States. The Company was first required to apply this legislation in 1999. Application of this legislation in the future will not have a significant divergent impact on the effective tax rate.

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. Five outlets were opened in fiscal 2001, 5 outlets were closed and 3 outlets were relocated within the same market. Twenty-one outlets were opened in fiscal 2000 and eight were closed for a net increase of thirteen outlets. The Company incurred capital expenditures net of disposals, of \$1,673,000 during fiscal 2001 (\$1,334,000 during fiscal 2000 and \$1,663,000 in fiscal 1999) to provide fixtures and equipment and make necessary leasehold improvements to new outlets and upgrade or provide equipment in existing locations. Additional working capital required to provide inventory for the locations ranged between \$250,000 and \$600,000 depending on the size of the outlet.

Cash flow from operations before working capital requirements totalled \$8,337,000 in fiscal 2001 (2000 - \$7,664,000; 1999 - \$6,171,000). Working capital requirements totalled \$3,466,000 in fiscal 2001 (2000 - \$6,185,000; 1999 - \$3,503,000). Accordingly, net cash flow provided from operations totalled \$4,871,000 and was sufficient to finance all expansion and equipment improvements and extinguish bank indebtedness of \$3,435,000 leaving a positive cash balance of \$502,000. During fiscal 2000, net cash flow provided from operations totalled \$1,479,000 and was sufficient to finance most expansion and equipment improvements. Bank indebtedness increased by \$203,000 during fiscal 2000 to \$3,435,000. During fiscal 1999, net cash flow provided from operations totalled \$2,618,000 and was sufficient to finance expansion and equipment improvements and pay down bank indebtedness by \$1,544,000 to \$3,232,000 at year end.

Working capital improved to \$47,249,000 at the end of fiscal 2001 (2000 - \$40,023,000; 1999 - \$34,016,000). The Company currently has short-term borrowing facilities established totalling \$25,000,000 which is sufficient for planned expansion in 2002 including a reserve for any potential inventory acquisitions.

BUSINESS

HARVEY EPSTEIN 603-2530 (E-mail: h.epstein@postmedia.ca) WEDNESDAY, NOVEMBER 7, 2001

Liquidation World adds 7 outlets

Purveyor of 'distress' goods to open at two new locations in Lower Mainland

In what may be another indication "became available as a result of companies, manufacturers and retailers" — describes the economy has tipped its

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MARCH 19, 2001

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"Liquidation World customers are savvy bargain hunters and they demand the lowest prices."
Canadian Business - Mar. 2001

"Liquidation World has been profitable every quarter since it opened its first outlet in Calgary in 1986."
Canadian Business - Mar. 2001

"Nightmares for the business world are dreams come true for Liquidation World."
Canadian Business - Mar. 2001



Calgary 2001

Best of Business



GOLD

DISCOUNT STORE

Kootenay 2001

Best of Business



GOLD

DISCOUNT STORE

Kootenay 2000



WINNER EXPRESS READERS' CHOICE AWARDS 1999

DISCOUNT STORE

Red Deer 1999

Best of Business



GOLD

DISCOUNT STORE

Kootenay 1998



Uxbridge 1998

GOLD

1997



DISCOUNT STORE

Calgary 1997

THE GLOBE AND MAIL

CANADA'S NATIONAL NEWSPAPER • FOUNDED 1844 • GLOBEANDMAIL.COM • WEDNESDAY, NOVEMBER 7, 2001

Liquidation World expands as economy contracts

BY DAVE EBNER

Liquidation World Inc. is opening seven new outlets in the next month and said yesterday it hopes to add more in the coming year to boost growth.

Andrew Searby, Liquidation World chief financial officer, said the company is

claims and inventory overruns. The company's stock rose 4.2 per cent on the Toronto Stock Exchange yesterday to close at \$9.90, up 40 cents. While the stock has more than doubled since last December, it is still well off its record high of \$18.50, reached in April, 1998. The

The company recently said it had sales of \$185.2-million in the 53 weeks ended Oct. 6. That's up 12.4 per cent from \$164.8-million in sales in the 52 weeks ended Oct. 1, 2000. The company didn't disclose its 2001 bottom line. It made \$6.3-million or 76 cents a share in fiscal 2000.

going-out-of-business sales in East Texas for each of these stores," he said. "Now we are able to help mitigate our client's lease and other costs by restarting operations in these stores under our banner."

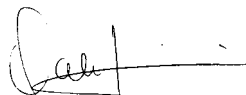
Mark Lagasse, an analyst at Acumen Capital Partners Ltd. in Calgary, said

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in this report is the responsibility of management. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information in the report is consistent with that contained in the financial statements. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control through an Audit Committee which is composed of non-executive directors. The Audit Committee reviewed the consolidated financial statements with management and external auditors and recommended their approval by the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants. Their report stating the scope of their audit and their opinion on the consolidated financial statements is presented below.



Dale Gillespie
President, C.E.O.



Andrew Searby, C.A.
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Liquidation World Inc. as at October 7, 2001 and October 1, 2000 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the three year period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

With respect to the consolidated financial statements for the years ended October 7, 2001 and October 1, 2000, we conducted our audit in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for the year ended October 3, 1999, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 7, 2001 and October 1, 2000 and the results of its operations and its cash flows for each of the years in the three year period then ended, in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years for the three year period ended October 7, 2001 and shareholders' equity as at October 7, 2001 and October 1, 2000 to the extent summarized in Note 10 to the consolidated financial statements.



Chartered Accountants

Calgary, Canada

November 23, 2001

LIQUIDATION WORLD INC.

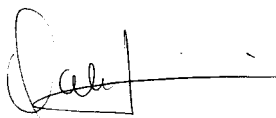
Consolidated Balance Sheets

As at October 7, 2001 and October 1, 2000
(In thousands of dollars)

	October 7, 2001	October 1, 2000
Assets		
Current assets:		
Cash and equivalents	\$ 502	\$ 177
Accounts receivable	1,225	896
Inventory	49,778	49,858
Prepaid expenses	1,374	1,993
	<u>52,879</u>	<u>52,924</u>
Capital assets (note 3)	4,624	4,378
Investment in affiliate	482	411
	<u>\$ 57,985</u>	<u>\$ 57,713</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	\$ —	\$ 3,435
Accounts payable and accrued liabilities	4,721	8,630
Income taxes payable	909	836
	<u>5,630</u>	<u>12,901</u>
Shareholders' equity:		
Share capital (note 5)	15,465	14,903
Retained earnings	36,890	29,909
	<u>52,355</u>	<u>44,812</u>
Commitments (note 8)		
	<u>\$ 57,985</u>	<u>\$ 57,713</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Dale Gillespie Director



R. Gordon Marantz, Q.C. Director

LIQUIDATION WORLD INC.

Consolidated Statement of Earnings and Retained Earnings

For the years ended October 7, 2001, October 1, 2000 and October 3, 1999

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

	Years ended		
	October 7, 2001	October 1, 2000	October 3, 1999
Sales	\$ 185,459	\$ 164,814	\$ 148,958
Cost of sales	114,729	99,238	89,919
	70,730	65,576	59,039
Expenses:			
Selling and store operations	51,372	47,328	43,507
General and administrative	5,804	5,490	4,500
Depreciation and amortization	1,427	1,322	1,088
Interest	125	384	522
	58,728	54,524	49,617
Earnings before income taxes	12,002	11,052	9,422
Income taxes, current (note 6)	5,021	4,754	4,362
Net earnings	6,981	6,298	5,060
Retained earnings, beginning of year	29,909	23,611	18,551
Retained earnings, end of year	\$ 36,890	\$ 29,909	\$ 23,611
Earnings per share:			
Basic	\$ 0.83	\$ 0.76	\$ 0.62
Diluted (restated see note 2)	\$ 0.81	\$ 0.75	\$ 0.59

See accompanying notes to consolidated financial statements.

LIQUIDATION WORLD INC.

Consolidated Statements of Cash Flows

For the years ended October 7, 2001, October 1, 2000 and October 3, 1999
(In thousands of Canadian dollars)

	Years ended		
	October 7, 2001	October 1, 2000	October 3, 1999
Cash provided by (used in):			
Operations:			
Net earnings	\$ 6,981	\$ 6,298	\$ 5,060
Add (deduct) non-cash items:			
Depreciation and amortization	1,427	1,322	1,088
Equity in loss (income) of affiliate	(71)	44	(27)
	8,337	7,664	6,121
Changes in non-cash operating working capital:			
Accounts receivable	(329)	(266)	(322)
Inventory	80	(5,768)	(3,059)
Prepaid expenses	619	(842)	(179)
Accounts payable and accrued liabilities	(3,909)	277	456
Income taxes payable	73	414	(399)
	4,871	1,479	2,618
Investments:			
Purchase of capital assets	(1,673)	(1,334)	(1,663)
Investment in affiliate	–	(455)	–
Proceeds on disposal of affiliate	–	–	147
	(1,673)	(1,789)	(1,516)
Financing:			
Increase (decrease) in bank indebtedness	(3,435)	203	(1,544)
Proceeds on issuance of common shares	562	132	447
	(2,873)	335	(1,097)
Increase in cash	325	25	5
Cash and equivalents, beginning of year	177	152	147
Cash and equivalents, end of year	\$ 502	\$ 177	\$ 152
Supplemental disclosure of cash paid for:			
Income taxes	\$ 4,609	\$ 4,306	\$ 4,765
Interest	148	327	506
	\$ 4,757	\$ 4,633	\$ 5,271

See accompanying notes to consolidated financial statements.

LIQUIDATION WORLD INC.

Notes to Consolidated Financial Statements

Years ended October 7, 2001, October 1, 2000 and October 3, 1999
(amounts in thousands of Canadian dollars, except per share amounts)

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Company, conform in all material respects with those in the United States, except as outlined in note 10.

These consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiaries. The Company's 50% interest in an affiliate company is accounted for using the equity method.

(b) Revenue recognition:

Sales revenue is recognized when a customer purchases and takes delivery of the product.

(c) Inventory:

Merchandise inventories are carried at the lower of cost and net realizable value less normal profit margins. The cost of inventories is determined principally on an average basis by the use of the retail inventory method.

(d) Capital assets:

Capital assets are recorded at cost. Depreciation is provided on furniture and equipment on a diminishing balance basis at annual rates of 20% to 30%. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(e) Pre-opening costs:

Pre-opening costs associated with the opening of new locations are expensed as incurred.

(f) Foreign currency translation:

The accounts of the Company's U.S. subsidiaries are translated into Canadian dollars using the temporal method whereby monetary assets and liabilities are translated at the year end exchange rates, non-monetary items at historical rates and revenues and expenses at the average rate for the year. Gains or losses arising from exchange translations are included in the statement of earnings and retained earnings.

(g) Fiscal year:

The Company's fiscal year ends on the first Sunday of October. Accordingly, the 2001 year end was on October 7, 2001, and comprised 53 weeks of operations. The 2000 year end was on October 1, 2000 and the 1999 year end was on October 3, 1999, and each comprised 52 weeks of operations.

(h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements. In determining the cost amount of inventories, management uses the retail inventory method which is by its nature subjective and therefore actual results could differ from those estimates.

(i) Cash and equivalents:

Cash and equivalents are represented by cash at bank and short term deposits.

(j) Stock-based compensation plans:

The Company has a stock-based compensation plan, which is described in Note 5(c). No compensation expense is recognized for this plan when stock options are issued. Any consideration paid on exercise of stock options is credited to share capital.

(k) Income taxes:

The Company follows the liability method of accounting for income taxes (note 2). Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences - the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis.

(l) Per share data:

Basic net income per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, as described in note 2.

Years ended October 7, 2001, October 1, 2000 and October 3, 1999
(amounts in thousands of Canadian dollars, except per share amounts)

2. Change in accounting policy:

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of per share amounts. Under the new standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only “in the money” dilutive instruments impact the diluted calculations. In computing diluted net earnings per share 124,506 shares were added to the weighted average number of common shares outstanding during the period ending October 7, 2001 (October 1, 2000 – 106,308 shares; October 3, 1999 – 463,991 shares) for the dilutive effect of employee stock options. The new standard has been applied retroactively with the resulting effect of increasing the diluted earnings per share by 2 cents for the period ending October 1, 2000 and 0 cents for the period ending October 3, 1999.

Effective October 4, 1999 the Company adopted the liability method relating to accounting for income taxes. Previously the Company followed the deferral method. The new policy has been applied retroactively and there has been no change in opening retained earnings. Comparative financial statements have not been restated.

3. Capital assets:

October 7, 2001	Cost	Accumulated depreciation and amortization	Net book value
Furniture and equipment	\$ 7,812	\$ 4,083	\$ 3,729
Leasehold improvements	2,395	1,500	895
	\$ 10,207	\$ 5,583	\$ 4,624
October 1, 2000			
Furniture and equipment	\$ 6,848	\$ 3,390	\$ 3,458
Leasehold improvements	2,058	1,138	920
	\$ 8,906	\$ 4,528	\$ 4,378

4. Bank indebtedness:

The Company has an operating line of credit facility at a Canadian bank in the maximum amount of \$25,000 (reviewed annually), bearing interest at the bank’s prime rate (5.25% at October 7, 2001). The facility is secured by an assignment of book debts, inventory, insurance, leases on retail premises and a general security agreement providing a charge over all assets.

Years ended October 7, 2001, October 1, 2000 and October 3, 1999
(amounts in thousands of Canadian dollars, except per share amounts)

5. Share capital:

- (a) Authorized:
Unlimited number of common shares.
- (b) Issued:

	Number of Shares	Amount
Balance, October 4, 1998	8,065,020	\$ 14,324
Issued on exercise of share options	179,140	447
Balance, October 3, 1999	8,244,160	14,771
Issued on exercise of share options	67,960	132
Balance, October 1, 2000	8,312,120	14,903
Issued on exercise of share options	173,776	562
Balance, October 7, 2001	8,485,896	\$ 15,465

(c) Stock options

The Company has a stock option plan, whereby options to purchase common shares may be issued to directors, officers, employees, key consultants and agents of the Company subject to certain terms and conditions. Stock options granted vest over a period of five years and expire at various dates through June 2006. At October 7, 2001, the exercise price of outstanding stock options ranged from \$4.70 to \$9.55 per common share.

Changes in the number of options, with their weighted average exercise prices are summarized below.

	October 7, 2001		October 1, 2000		October 3, 1999	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	854,310	\$ 9.87	793,520	\$ 9.82	756,560	\$ 6.85
Granted	151,000	4.89	133,850	6.23	230,600	14.03
Exercised	(173,776)	3.24	(67,960)	1.94	(179,140)	2.50
Cancelled / expired	(263,944)	6.70	(5,100)	13.22	(14,500)	12.12
	567,590	\$ 6.10	854,310	\$ 9.87	793,520	\$ 9.82

Range of exercise Price outstanding	Options outstanding			Options exercisable		
	Number outstanding at October 7, 2001	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at October 7, 2001	Weighted average exercise price	
		(months)				
4.70 - 5.99	217,190	34	\$ 4.94	35,578	\$ 5.40	
6.00 - 6.49	141,200	37	6.26	30,640	6.26	
6.50 - 10.00	209,200	21	7.20	99,660	\$ 7.10	
	567,590	30	\$ 6.10	165,878	\$ 6.58	

Notes to Consolidated Financial Statements (Continued)

Years ended October 7, 2001, October 1, 2000 and October 3, 1999
(amounts in thousands of Canadian dollars, except per share amounts)

6. Income taxes:

The provision for income taxes differs from the amount obtained by applying the combined applicable income tax rate to earnings before income taxes. The difference relates to the following items:

	Years ended		
	October 7, 2001	October 1, 2000	October 3, 1999
Statutory income tax rate	43.4%	43.6%	44.6%
Calculated tax expense	\$ 5,209	\$ 4,819	\$ 4,202
Capital taxes	66	60	60
Variation in foreign tax rates	(76)	(37)	149
Other items	(178)	(88)	(49)
	\$ 5,021	\$ 4,754	\$ 4,362

7. Related party transactions:

The Company leases three buildings (20,000 square feet, 22,000 square feet and 34,000 square feet) for three of its retail locations from a company owned by an officer of the Company and a partnership of which the same company is a partner. Base rents approximate \$59 per year to 2003, \$61 per year to 2005 and \$111 per year to 2008, respectively.

Purchases from an affiliated company were \$378 for the year ended October 7, 2001 (October 1, 2000 - \$nil).

8. Commitments:

a) The Company leases properties and equipment under operating leases covering various years up to 2037. The minimum future payments, excluding tenant operating costs, under these leases in each of the next five years are approximately as follows:

2002	\$ 6,270
2003	5,987
2004	5,194
2005	4,384
2006	3,332
Thereafter	6,666
	\$ 31,833

In addition to minimum annual rentals, contingent rentals may be payable under certain store leases on the basis of sales in excess of stipulated amounts.

b) The Company sells merchandise on a consignment basis and may guarantee a return to a consignor. At October 7, 2001, the total of such guarantees in excess of remittances was \$38 (October 1, 2000 - \$nil; October 3, 1999 - \$175).

9. Segmented information:

The Company's operations are conducted through one business segment which is retail sales. Information regarding the Company's operations by geographical area is as follows:

2001	Canada	U.S.	Total
Sales	\$ 142,248	\$ 43,211	\$ 185,459
Capital assets	\$ 4,063	\$ 561	\$ 4,624
2000			
Sales	\$ 132,275	\$ 32,539	\$ 164,814
Capital assets	\$ 3,661	\$ 717	\$ 4,378
1999			
Sales	\$ 115,161	\$ 33,797	\$ 148,958
Capital assets	\$ 3,635	\$ 731	\$ 4,366

10. Reconciliation to United States accounting principles:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These financial statements conform, in all material respects, with United States generally accepted accounting principles ("U.S. GAAP"), except for the following:

- Under U.S. GAAP it is not appropriate to disclose a sub-total for cash provided by operations before working capital requirements in the statements of cash flows. If the statements of cash flows were shown on the U.S. GAAP basis, these sub-totals would not appear.
- During the year, the Company repriced certain outstanding options to between 50% and 60% of their exercise prices. APB 25 requires recognition of compensation cost with respect to modification to the terms of fixed stock options granted to employees. Application of the provisions of APB 25 result in a compensation cost of \$349 for the period ended October 7, 2001 for U.S. GAAP purposes.

This would result in net earnings of \$6,632, basic earnings per share of \$0.78, diluted earnings per share of \$0.77 and shareholders' equity of \$52,355 for U.S. GAAP purposes.

CORPORATE INFORMATION

Board of Directors:

Dale Gillespie President & C.E.O.
Hubert Marleau President & Managing Director, Palos Capital Corporation
Azriel Presma Retired Businessman
Robert Aaron Roberts Liquidation World Inc.
R. Gordon Marantz Q.C. Barrister & Solicitor, Osler Hoskin & Harcourt
Wynn Stevenson Vice President, Taxes & Corporate Planning, Terra Industries Inc.
Herb Lukofsky Business Consultant

Senior Management Team:

Dale Gillespie President & C.E.O.
Wayne Mantika Senior Vice-President
Andrew Searby, C.A. Chief Financial Officer
Derrick Gillespie Vice President, Corporate Purchasing
Ross Roberts Chief Operating Officer
Darren Gillespie Vice President, Sales & Marketing
Jonathan Hill Vice President, Eastern Operations
Robert Aaron Roberts Director, Liquidation World Inc.
Darrell Fladager Vice President, U.S. Operations
Larry Scheffee Vice President, U.S. Logistics

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