Liquidation World Annual Report 2007

LIQUIDATION WORLD®

Corporate Profile

Quality, 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% below normal retail.

Liquidation World works closely with manufacturers, retailers, wholesalers, 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 seasonal goods or goods from bankruptcies, receiverships and insurance claims. The majority of our merchandise comes from helthy, going-concern businesses who view Liquidation World as an indispensable part of their inventory management strategy.

We buy these goods at deep discounts and pass the savings along to our retail customers through 105 fun, friendly and no-frill Liquidation World outlets in Canada.

We never stop looking for a deal and neither should you.

Summary of Selected Financial Data

(all dollar amounts in Canadian currency)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenues ($,000) (1)	211,956	208,205	184,151	184,418	170,535	174,342	183,400	160,639	148,958	134,691
Cost of sales ($,000) (1)	140,669	129,847	121,871	112,841	102,337	106,592	112,670	95,063	89,919	81,229
Gross margin ($,000)	71,287	78,358	62,280	71,577	68,198	67,750	70,730	65,576	59,039	53,462
Expenses ($,000)	85,955	75,986	68,558	64,828	63,965	60,715	57,176	52,818	48,007	42,090
EBITDA ($,000) (2)	(9,661)	5,944	(6,278)	6,749	4,233	7,035	13,554	12,758	11,032	11,372
Depreciation & amortization ($,000)	4,061	3,196	2,078	1,283	1,442	1,460	1,427	1,322	1,088	891
Interest ($,000)	946	376	125	–	–	7	125	384	522	213
Income taxes (recovery) ($,000)	(2,957)	323	(2,027)	2,523	1,304	2,397	5,021	4,754	4,362	4,474
Loss from discontinued operations	–	–	–	650	718	966	–	–	–	–
Net earnings (loss) ($,000)	(11,711)	1,520	(6,454)	2,293	769	2,205	6,981	6,298	5,060	5,794
Earnings (loss) per share ($)										
Basic	(1.42)	0.18	(0.77)	0.27	0.09	0.26	0.83	0.76	0.62	0.73
Fully diluted	(1.42)	0.18	(0.77)	0.27	0.09	0.25	0.81	0.75	0.59	0.69
% Increase (decrease) in revenue	2%	13%	0%	8%	(2%)	(5%)	14%	8%	11%	39%
Number of outlets at year end	118	106	104	102	98	97	87	87	74	67
Inventory at year end ($,000)	49,920	55,184	46,552	55,705	48,831	44,677	49,778	49,858	44,090	41,031

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

(1) Revenues prior to fiscal 2000 include gross consignment revenue and cost of sale include payments to consignors. Revenues in fiscal 2000 and thereafter include only commissions earned on consignment sales.

(2) EBITDA is calculated before discontinued operations. The Company recognizes that EBITDA is not a standard measure under generally accepted accounting principles, and therefore may not be comparable to similar measures presented by other Canadian public companies.

The **ANNUAL MEETING** of the Shareholders of Liquidation World Inc. will be held
Friday, February 15th, 2008 at 2:00 pm:
Cambridge Inns & Suites
15 Richmond St. E., Toronto, ON M5C 1N2
Those Shareholders who are unable to attend are encouraged to complete and return the form of proxy mailed with this annual report.

President's Message

We started our 2007 fiscal year with renewed optimism after having re-established profitability in 2006. However, in the second quarter, our performance started to deteriorate with declining sales and gross margin. This trend continued through the fourth quarter, resulting in a terrible loss for the year.

As fiscal 2007 unfolded, we made a number of important changes to address our challenges:

1. Personnel Changes

During the year, we took steps to reduce overhead expenses and flatten the organizational structure. This involved consolidating several functions at the executive level, removing a management layer in our buying group and reducing the number of non-store related personnel. These changes should result in a more efficient cost structure in fiscal 2008.

In March, Mr. Darryl Chenoweth was named Senior Vice President, Operations, responsible for the Company's Canadian retail operations. Since then, Darryl has introduced a successful store labour management system, implemented more sales focused incentive plans and has prepared a series of training tools that will be rolled out to the field during fiscal 2008.

Subsequent to year end, the Company announced the appointment of Mr. Mark Calaiezzi who will assume the position of Chief Financial Officer following the completion of year end activities. Mark has more than 30 years of experience in senior finance positions, the majority of which were spent with multi-national consumer product companies. Mark will ensure that our finance team is properly integrated with all aspects of the business in order to more effectively manage expenses and gross margins, among other things.

2. Consolidation of Corporate Offices

In the third quarter, we announced that we would consolidate our Calgary office with our Brantford office. The move was completed in the fourth quarter. The results for 2007 include approximately $1.1 million in non-recurring costs associated with the move.

As previously discussed, it is expected that the integration of all the business functions of the Company in a single, cost effective location will enable better communication, planning, execution and control and should help reduce expenses over the long term.

3. Suspension of New Store Activity

At the start of fiscal 2007, we had set out to grow our store base from 106 to 125 stores to make better use of our buying and distribution infrastructure. Early on, we made commitments to a significant number of new locations, but later curtailed new store openings. The decision to ease back was intended to benefit short-term performance by allowing us to focus on existing stores, reduce new store expenses and reduce cash requirements associated with inventory for new stores. We ended the year with 119 locations, including 18 stores in the US. Residual contractual commitments will see us open 5 new stores in fiscal 2008, however, we will look for improved same store sales and gross margin performance before contemplating the addition of further new stores.

4. Closure of US Retail Operations

In the mid 1990's we began to open stores in the United States and by fiscal 2007 we had 18 stores there. Our US stores had historically underperformed their Canadian counterparts, and had generated losses in a number of years. In August, we announced that we would wind down our US retail operations and have since closed 15 of the 18 US outlets. This move was taken to stem losses associated with US operations, improve cashflow and allow more deal inventory to flow to our Canadian stores. We continue to maintain a US buying office to manage key US supply relationships. The majority of goods previously destined for US stores are now being shipped to our Canadian stores, where we are beginning to see their impact. The three remaining US outlets are utilized to liquidate inventory that, due to federal regulations, cannot be imported to Canada.

5. Changes to Merchandising Strategy

Enabled by our new Merchandise Management System, our merchandise strategy evolved during 2006 to include both sales and purchasing plans at a detailed category level. While this is a reasonable way to plan and manage a mainstream retail business, it does not allow enough emphasis on the event deals for which Liquidation World is most famous. We have learned that opportunity or deal merchandise from bankruptcies, business closures and insurance claims is a key sales driver for Liquidation World and our current merchandising strategy puts a priority on these types of deals.

As previously described, our decision to close our US retail outlets was intended to support this strategy by directing more deal merchandise to the core Canadian operations.

Our intention in 2008 is to stabilize, minimize the disruptions associated with major change and focus on core buying and selling activities, with an emphasis on acquiring more and better deal merchandise In the process, we can allow appropriate time to evaluate the effect of the changes made last year.

We expect that softness in same store sales will carry through the first quarter of fiscal 2008 and will begin to improve in the second quarter. The changes we have made leave us better positioned to respond to inventory opportunities that may arise as a result of economic or environmental circumstances and there is reason to believe the worst is behind us. However, we must nonetheless remain open to any strategic option that will help us to achieve continued success.

In closing, I would like to express my sincere appreciation to both the employees and the shareholders of Liquidation World for your continued commitment during a very difficult year.

Yours truly,

Jonathan Hill

MD&A

The following discussion and analysis is effective as of December 21, 2007 and should be read together with the 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. Opportunity inventory results from a variety of situations including insolvencies, insurance claims, overruns, cancelled orders, and close-outs. A large proportion of opportunity inventory is made available from healthy, going-concern businesses and this is reflected in the composition of the Company's inventory. Liquidation World distributes such acquired inventory to value-oriented customers through its network of 105 corporately run outlets (102 in Canada and 3 in the US). A typical Liquidation World outlet occupies between 20,000 and 25,000 square feet, although there are some smaller and some larger outlets.

The success of Liquidation World's business model is predicated on its ability to service 2 key constituents, namely vendors and consumers. Manufacturers, wholesalers and retailers look to Liquidation World as a channel for effectively managing excess inventory. Consumers look to Liquidation World to provide new, quality products at excellent prices.

Among liquidators, Liquidation World is unique insofar as it maintains a national network of retail outlets and distribution centres; Liquidation World is particularly appealing to US suppliers because it is big enough to transact large buys and can effectively move merchandise away from key US markets. With its financial resources, scale and positive reputation among vendors, the Company expects to be able to capitalize on inventory opportunities as they arise.

OVERALL PERFORMANCE

Liquidation World has been challenged in recent years with stagnant same store sales growth and declining profitability. In response, the Company has spent considerable time, money and energy in fiscal 2005 and 2006 to re-position itself for long-term success by improving its buying infrastructure, information systems, and outlet portfolio. During fiscal 2007, the Company continued to make changes, including implementing further refinements to its buying organization and planning methods, consolidating its corporate offices and initiating the closure of its US outlets. These are all strategic changes that have demanded significant effort from a variety of operational and management personnel, arguably to the detriment of short-term results; however, management believes that the underlying changes remain valid.

Liquidation World, which was established in Canada in 1986, began to open stores in the northwest United States in the mid 1990's. Over the years, these stores underperformed their Canadian counterparts and in the fourth quarter of the 2007 fiscal year, the Company elected to wind down its US operations, subsequently closing 15 of 18 outlets during the first quarter of fiscal year 2008. The liquidation sale in the US outlets commenced prior to year end, which negatively affected gross margin and profitability of the US operations in the fourth quarter. Since the Company continues to acquire a significant portion of its inventory from the US, it maintains a sourcing office there, and its 3 remaining US stores provide an outlet for certain goods that, due to federal regulations, cannot easily cross the border into Canada.

At this point in the evolution of the business, the costs associated with all of these changes are overshadowing the potential benefits as fiscal 2007 resulted in the greatest annual loss in the Company's history. During the year, the Company experienced lower than expected sales and negative same store sales growth combined with sub-standard gross margin performance.

A summary of results for the 2007 fiscal year, comprising 53 weeks ended October 7, 2007:

• Sales increased 1.8% to $212.0 million from $208.2 million in the prior year
• Same store sales decreased 4.4% from the prior year
• Gross margin decreased to 33.6% from 37.6% in the prior year
• Net 12 new stores were opened during the year (19 opened and 7 closed)
• A net loss of $11.7 million was recorded for the year, including a $6.7 million net loss from Canadian operations and a $5.0 million net loss from US operations. In the prior year, the Company recorded net earnings of $1.5 million, including net earnings from Canadian operations of $1.3 million and net earnings of $0.2 million from US operations.

These results are a reminder that, as an opportunistic buyer, the Company is always subject to a mix of environmental and macroeconomic factors related to sourcing which may be either beneficial or detrimental to its financial performance. For example, fiscal 2006 saw an abundance of quality big-ticket merchandise become available to Liquidation World as a result of natural disasters like Hurricane Katrina, a situation that was not duplicated in fiscal 2007. Conversely, a weakening US economy and relatively strong Canadian dollar may yield new and different buying opportunities during fiscal 2008.

RESULTS OF OPERATIONS

Revenue

Revenue, which includes sales of merchandise and fee revenue, totaled $211,956,000 for the 2007 fiscal year versus $208,205,000 in fiscal 2006. This represents an increase of 1.8%. Revenue was positively impacted by new store openings. During the year, 19 new outlets were added and 7 existing outlets were closed, for a net increase of 12 outlets. From a historical perspective, this represents a high level of new store activity; in the coming year, the new outlets will help to offset the revenue lost as a result of the closure of the US outlets. At year end, the Company had a total of 118 outlets. Subsequent to year end 3 new outlets were opened in Canada and 15 US outlets were closed.

Same store sales, defined as sales from stores open a full 13 months or more, decreased 4.4% for the year.

Overall, the Company recorded lower than expected sales in fiscal 2007 as a result of declining same store sales performance. In fiscal 2006, revenue was positively impacted by compelling merchandise made available to Liquidation World as a result of hurricanes Katrina and Wilma. The quantity and desirability of that merchandise could not be duplicated in fiscal 2007, resulting in negative same store sales performance.

In Canada, revenue for the year increased by 2.9% to $183,740,000 from $178,522,000 in fiscal 2006. In the United States, revenue declined by 4.9% to $28,216,000 from $29,683,000.

Gross Margin

Gross margin as a percentage of sales decreased to 33.6% in fiscal 2007 from 37.6% in fiscal 2006. Gross margins were weakened by certain markdowns taken to stimulate sales, further markdowns taken in conjunction with the closure of US stores, much lower than expected gross margin on one major deal and higher than expected freight costs. Gross margins can fluctuate as a result of product mix sold, and the mix of consumable merchandise, which typically delivers a lower margin than other product categories, was greater in fiscal 2007.

Notwithstanding the above, Liquidation World's pricing policy is to ensure prices for comparable products are lower than any other in the market, including discount stores, warehouse-type outlets and special promotions. Where specific price matching is concerned, Liquidation World will continue to mark down product.

Selling, General and Administrative

Selling, general and administrative, which includes all costs of occupying, operating and supporting outlets, including opening new outlets, increased to 37.7% of sales from 34.7% in the prior year. This reflects significant expenses associated with opening 19 new stores and closing 7 stores. It also includes costs associated with the consolidation of the Calgary, Alberta office with the Brantford, Ontario office which totaled $1,145,000 during the year. Non-store expenses were controlled in line with expectations and were reduced further during the year in reaction to lower than expected second quarter sales.

Depreciation and Amortization

Depreciation and amortization increased 27.1% to $4,061,000 from $3,196,000 in the prior year, reflecting increased investment in capital assets, particularly relating to MMS and new outlets. In fiscal 2008, the Company expects depreciation and amortization to remain comparable to fiscal 2007 as no significant capital expenditures are anticipated.

Interest

Interest expenses were $946,000 in fiscal 2007 versus $376,000 in the prior year. These increases are the result of generally higher borrowing levels related to funding capital additions and operating losses offset by reductions in working capital.

Foreign Exchange

During the year, a subsidiary company experienced a significant loss on foreign exchange related to its inter-company debt maintained in a foreign currency in a year of significant movement in exchange rates. Net foreign exchange loss in the 2007 fiscal year totaled $675,000 compared to a foreign exchange gain of $139,000 in fiscal 2006.

Income Taxes

The Company recorded a current tax recovery of $2,203,000 in fiscal 2007 compared to an income tax expense of $543,000 in fiscal 2006. The effective tax rate of 20.2% in 2007 is lower than the statutory tax rate in effect of 34.7% due to losses incurred in the current year that are carried forward and are available for potential future tax relief but have not been recognized because future recovery is uncertain. Between losses from Canadian operations and losses from the wind down of US operations, the Company has loss carry-forwards totaling approximately $9 million in Canada and $4 million in the US of which $2.3 million have been recognized in the financial statements.

The effective tax rate of 35.9% in fiscal 2006 is similar to the statutory rate in effect of 35.5% except for capital taxes and non deductible items.

Net Earnings

The Company recorded a net loss of $11,711,000 ($1.42 per share) in fiscal 2007 versus net earnings of $1,520,000 ($0.18 per share) in the prior year. Lower than expected sales compounded by lower than expected gross margin were the key reasons behind the loss.

Fourth Quarter (Q4) Results

Revenue for Q4 2007 comprising 14 weeks of operations ended October 7, 2007 increased 0.5% to $53,177,000 from $52,911,000 in Q4 2006. During Q4 2007 there were 118 stores in operation compared to 106 in Q4 2006. Same store sales in Q4 decreased 13.6% from prior year.

Gross margin as a percentage of sales for Q4 2007 decreased to 26.2% from 33.8% in Q4 2006 and was affected by markdowns taken in conjunction with the impending closure of 15 US stores.

Selling, general and administrative expenses for Q4 2007 increased 14.9% to $21,174,000 from $18,420,000 in Q4 2006, reflecting costs associated with the office consolidation and the costs of operating 12 additional outlets.
Depreciation and amortization for Q4 2007 increased 35.9% to $1,201,000 from $884,000 in Q4 2006.

Interest expenses for Q4 2007 increased to $294,000 compared to $125,000 in Q4 2006. The increase in interest charges relates to funds borrowed to setup and supply inventory for 12 new stores.

During Q4 2007, the Company recorded a net loss of $7,579,000 ($0.92 per share) compared to a net loss of $1,131,000 ($0.13 per share) in Q4 2006.

Subsequent Event

During the fourth quarter, the Company announced that it would wind down its US operations and subsequent to year end closed 15 of 18 stores there. These operations will be described as 'discontinued operations' beginning in the first quarter of fiscal 2008.

The stores that were closed subsequent to year end commenced liquidating their inventory during the fourth quarter of fiscal 2007. This liquidation and the associated inventory markdowns had impact on the fourth quarter results in the US, particularly on sales, gross margin and profitability.

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 thousands of Canadian dollars, except per share amounts):

	October 7 2007	July 1 2007	April 1 2007	December 31 2006
Quarter Ended				
Total Revenue	53,177	46,541	47,567	64,671
Net Earnings (loss)	(7,579)	(2,895)	(3,032)	1,795
Net Earnings (loss) per common share				
Basic	(0.92)	(0.35)	(0.37)	0.22
Fully Diluted	(0.92)	(0.35)	(0.37)	0.21

Quarter Ended	October 1 2006	July 2 2006	April 2 2006	January 1 2006
Total Revenue	52,911	49,239	48,909	57,146
Net Earnings (loss)	(1,131)	42	663	1,946
Net Earnings (loss) per common share				
Basic	(0.13)	0.01	0.08	0.23
Fully Diluted	(0.13)	0.00	0.08	0.23

LIQUIDITY AND CAPITAL RESOURCES

Bank borrowings and cash flow from operations have been the primary funding sources of working capital and capital expenditures over the past several years. Cash flow used in operations prior to working capital charges totaled $7,699,000 in 2007 compared with cash generated of $5,387,000 in 2006. Working capital provided cash flow of $10,817,000 in 2007 versus cash used of $2,940,000 in 2006. As a result, cash generated in operating activities totaled $3,118,000 in 2007 compared to cash generated of $2,447,000 in 2006.

Working capital decreased 31.6% to $29,207,000 at the end of 2007 compared to $42,692,000 at the end of fiscal 2006 due to a reduction in inventory and an increase in accounts payable and accrued liabilities.

At October 7, 2007 the Company had short-term banking and operating facilities of $25,000,000 of which $9,950,000 was drawn. The short-term borrowing facilities should sufficiently fund its planned activities for 2008 including a reserve to fund potential inventory acquisitions.

The Company incurred capital expenditures net of disposals of $4,031,000 during fiscal 2007 compared to $4,845,000 in fiscal 2006 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 MMS implementation and the office consolidation.

During fiscal 2008, the Company expects to invest approximately $1,800,000 in capital equipment, reflecting a modest maintenance program for computer equipment and commitments to open 5 new stores during the year.

Contractual Obligations

Payments due by period ($000's)	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Financial Commitments:					
Long-term debt	$ nil	$ nil	$ nil	$ nil	$ nil
Capital leases	1,256	1,461	51	nil	2,768
Contractual Obligations:					
Outlet leases	11,933	19,254	13,992	20,588	65,768
Vehicle and equipment leases	133	87	nil	nil	220
Other long-term obligations	nil	nil	nil	nil	nil
Total	$ 13,322	$ 20,802	$ 14,043	$ 20,588	$ 68,756

RISKS AND UNCERTAINTIES

The Company is principally engaged in the sale of goods through 105 leased retail outlets located across Canada and in the US state of Washington. 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 cities and towns of various sizes. 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.

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 must successfully identify each opportunity and negotiate a price that enables the inventory to be sold for a profit. Certain brands, categories and sources of inventory are more desirable and create more customer traffic in the outlets.

Valuation of Inventory

The Company routinely buys merchandise resulting from closeouts, bankruptcies and insurance claims, and often bids for inventory on a lot basis, without the benefit of complete product details. Company representatives typically view the merchandise and, based on their expertise, draw subjective conclusions about its liquidated value and potential realizable value at retail. Lot purchases are routinely made on the basis of these subjective evaluations.

Over time, the Company's realized revenue and margin, determined using the retail inventory method (see "CRITICAL ACCOUNTING ESTIMATES") in conjunction with periodic physical inventory counts, serve to validate its assumptions about inventory value. On a historic basis, these measures have proven the subjective inventory valuations to be reasonably accurate; however, it still remains a possibility that, in the future, realizable inventory value may differ from its recorded value.

Seasonality

As a retailer, the Company experiences its strongest sales in its first quarter, buoyed by the holiday shopping season. Sales during the second and third quarters are typically weakest, although large inventory deals can skew the results in any given quarter.

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 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. The Company has experienced increasing sales but lower than historical average gross margins in fiscal 2006 and 2007.

This risk is mitigated somewhat by the scale, scope and reputation of the Company. The liquidation industry is characterized by numerous small regional players. Liquidation World's country-wide base of retail outlets gives it the scale to purchase very large deals and the channel to effectively liquidate them. Its core Canadian operations enable the Company to move goods away from US suppliers' local markets. Liquidation World's 21-year history of respecting its suppliers' brands along with its status as a public company provide a level of comfort and transparency that makes the Company an attractive business partner over lesser known startups and regional players. The unique opportunistic circumstances under which Liquidation World acquires its products enable the Company to purchase inventory at lower cost than other retailers. This cost advantage allows the Company to discount its prices further than most competitors when necessary.

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.

TRANSACTIONS WITH RELATED PARTIES

The Company does not have any transactions with related parties.

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 during the course of the year 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.

New Accounting Pronouncements

Effective on October 2, 2006 the Company adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants: Section 1530, Comprehensive Income, Section 3855, Financial Instruments - Recognition and Measurement, Section 3861 - Financial Instruments - Disclosure and Presentation, and Section 3865 - Hedges.

Section 1530 introduces comprehensive income, which includes net income and other comprehensive income ("OCI"). OCI represents changes in unitholders' equity during a period arising from such items as unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, unrealized gains and losses on available for-sale investments, and changes in the fair value of the effective portion of cash flow hedging instruments. The application of this new standard did not result in comprehensive income being different from net income for the periods presented.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. All financial instruments must be classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Initial and subsequent recognition and measurement of changes in the value of financial instruments depends on their initial classification:

- Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in OCI until the asset is removed form the balance sheet.
- Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization.
- Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

The application of Section 3855 did not have an impact on the Company's consolidated financial statements.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes, and specifies how hedge accounting is applied and what disclosures are necessary when it is applied. The application of Section 3865 did not have an impact on the Company's consolidated financial statements as there are no transactions which have been designated as hedges for accounting purposes.

Recent Accounting Pronouncements Issued But Not Yet Adopted

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535 "Capital Disclosures"; Handbook Section 3862 "Financial Instruments – Disclosures"; Handbook Section 3863 "Financial Instruments – Presentation". These standards are effective for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Handbook Sections 3862 and 3863 replace Handbook Section 3861 "Financial Instruments - Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In March 2007, the CICA approved Handbook Section 3031 "Inventories" which replaces the existing Handbook Section 3030 "Inventories". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

OUTSTANDING SHARE DATA

As of October 7, 2007, the Company has authorized for issuance unlimited common shares of which 8,248,042 are issued and outstanding. As of October 1, 2006 the Company had 8,246,242 shares outstanding. Further, the Company has reserved 751,684 options to acquire common shares of which 715,850 have been granted. At October 1, 2006, 683,950 options were outstanding.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of disclosure controls and procedures was conducted as of October 1, 2006, by and under the supervision of management, including the Chief Executive Officer and the Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that disclosure controls and procedures, as defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

An evaluation of the design of internal controls over financial reporting was conducted as of October 1, 2006 by and under the supervision of management, including the Chief Executive Officer and the Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that internal controls and procedures, defined under Multilateral Instrument 52-109, have been designed to reasonably ensure the reliability of financial reporting and that the preparation of financial statements for external purposes are in accordance with those rules.

In the process of evaluating the design of the internal controls over financial reporting, certain weaknesses were identified related to the implementation of the MMS. Management has instituted a number of changes to address these weaknesses and is continuing to monitor and refine its internal processes to ensure the accuracy of reported gross margins and inventory values. Furthermore, the Company performs semi-annual physical inventory counts to confirm data provided by the information systems.

OTHER ITEMS

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

OUTLOOK

The Company has undergone significant change over the past two years in order to build a stronger foundation for the future. It is acknowledged that the Company's strategic transition has impeded short-term financial performance. Barring any unforeseen circumstances, the primary objective in the coming year is to slow the pace of change and to focus on tactical initiatives related to buying merchandise, operating stores and promoting the business. Above all, the Company will aggressively pursue a larger, stronger, more compelling mix of deal merchandise and continue to offer the greatest possible value proposition available to consumers in all the markets it 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.

Management & Auditor's Report

Management's Report

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in this report are the responsibility of management. The consolidated 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 presented in this 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 finanacial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfills its responsbilities for financial reporting and internal control through an Audit Committee 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 Ernst & Young, LLP, Chartered Accountants. Their report stating the scope of their audit and their opinion on the consolidated financial statements is presented alongside.

Jonathan Hill
President and CEO
December 21, 2007

Auditor's Report

To the Shareholders of
Liquidation World Inc.

We have audited the consolidated balance sheets of Liquidation World Inc. as at October 7, 2007 and October 1, 2006 and the consolidated statements of earnings (loss) and comprehensive income (loss) and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, 2007 and October 1, 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants
London, Canada
December 21, 2007

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

As at October 7, 2007 and October 1, 2006
(In thousands of Canadian dollars)

		2007		2006
Assets				
Current assets				
Cash and equivalents	$	216	$	184
Accounts receivable		293		309
Inventory		49,920		55,184
Prepaid expenses		1,852		2,121
Income taxes recoverable		2,221		-
		54,502		57,798
Property and equipment (note 3)		12,714		12,710
	$	67,216	$	70,508
Liabilities and Shareholders' Equity				
Current liabilities				
Bank indebtedness (note 4)	$	7,820	$	5,397
Accounts payable and accrued liabilities		16,219		8,398
Income taxes payable		-		332
Current portion of obligations under capital leases (note 5)		1,256		979
		25,295		15,106
Obligations under capital leases (note 5)		1,512		2,898
Future income tax (note 7)		-		754
Commitments and contingencies (note 8)				
Shareholders' equity				
Share capital (note 6)		15,518		15,507
Contributed surplus (note 6)		1,159		800
Retained earnings		23,732		35,443
		40,409		51,750
	$	67,216	$	70,508

See accompanying notes.

On behalf of the Board:

Director, Jonathan Hill

Director, Robert Wiens

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS) AND RETAINED EARNINGS

For the years ended October 7, 2007 and October 1, 2006
(In thousands of Canadian dollars, except per share amounts)

		2007		2006
Revenue	$	211,956	$	208,205
Cost of sales		140,669		129,847
		71,287		78,358
Expenses				
Selling, general and administrative		79,910		72,191
Depreciation and amortization		4,061		3,196
Stock based compensation		363		362
Interest				
Short Term		719		146
Long Term		227		230
Foreign exchange		675		(139)
		85,955		75,986
Earnings (loss) before income taxes		(14,668)		2,372
Income taxes (recovery)				
Current		(2,203)		543
Future		(754)		309
		(2,957)		852
Net earnings (loss) and comprehensive income (loss)		(11,711)		1,520
Retained earnings, beginning of year		35,443		34,393
Excess of repurchase amount over stated capital of repurchased shares		-		(470)
		-		-
Retained earnings, end of year	$	23,732	$	35,443
Earnings (loss) per share				
Basic	$	(1.42)	$	0.18
Diluted	$	(1.42)	$	0.18

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended October 7, 2007 and October 1, 2006
(In thousands of Canadian dollars)

		2007		2006
Cash provided by (used in):				
Operating activities				
Net earnings (loss)	$	(11,711)	$	1,520
Add (deduct) non-cash items:				
Depreciation and amortization		4,061		3,196
Loss on disposal of capital asset		342		-
Stock based compensation		363		362
Future income taxes		(754)		309
		(7,699)		5,387
Changes in non-cash operating working capital				
Accounts receivable		16		312
Inventory		5,264		(8,632)
Prepaid expenses		269		121
Accounts payable and accrued liabilities		7,821		2,011
Income taxes recoverable / payable		(2,553)		3,248
		3,118		2,447
Investing activities				
Purchase of capital assets		(4,187)		(4,845)
Proceeds on disposal of capital assets		156		-
		(4,031)		(4,845)
Financing activities				
Increase in bank indebtedness		2,423		3,132
Repayment of capital lease		(1,486)		-
Proceeds on issuance of common shares		8		-
Repurchase of common shares		-		(727)
		945		2,405
Increase (decrease) in cash		32		7
Cash and equivalents, beginning of year		184		177
Cash and equivalents, end of year	$	216	$	184
Supplemental disclosure of cash paid for:				
Income taxes	$	397	$	(2,695)
Interest		983		376
	$	1,380	$	(2,319)

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended October 7, 2007 and October 1, 2006 (amounts in thousands of Canadian dollars, except per share amounts)

1. Summary of Significant Accounting Policies:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies followed in the preparation of these consolidated financial statements.

(a) Basis of presentation: These consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries. All significant intercompany balances and transactions are eliminated on consolidation.

(b) Revenue recognition: Sales revenue is recognized when a customer purchases and takes delivery of the product. Fee revenue is recognized as the related services are rendered.

(c) Inventory: Merchandise inventories are carried at the lower of cost and net realizable value. The cost of inventories and the net realizable value are determined on an average basis by the use of the retail inventory method.

(d) Property and equipment: Property and equipment is recorded at cost. Depreciation and amortization is provided as follows:
Furniture and equipment - 20% to 30% diminishing balance basis
Software - 30% diminishing balance basis
Computer equipment - 30% diminishing balance basis
Leasehold improvements - Straight line over the lesser of 5 years or the term of the lease
Equipment held under capital leases - 30% diminishing balance basis

(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 earnings.

(g) Fiscal year: The Company's fiscal year ends on the first Sunday of October. Accordingly, the 2007 year end was on October 7, 2007 and comprised 53 weeks of operations. The 2006 year end was on October 1, 2006, and 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. Other significant areas requiring the use of estimates relate to the determination of future tax assets and liabilities, provisions relating to returns, obsolete inventory, and the remaining useful life of capital assets. Actual results could differ from those estimates.

(i) Cash and cash equivalents: Cash and equivalents are represented by cash in bank and short term deposits with original maturities of three months or less.

(j) Stock-based compensation plans: The Company has a stock-based compensation plan, which is described in Note 6(c). Any consideration paid on the exercise of stock options is credited to share capital.

The Company applies the fair value method to all stock-based payments and awards. Under the fair value method, the Company calculates the fair value of stock option grants or direct awards of stock and records that fair value as compensation expense over the vesting period of those grants and awards, and an equal amount is recorded in contributed surplus. Upon exercise of stock options, the proceeds received together with the amount of compensation expense previously recorded in contributed surplus is recorded in share capital.

(k) Capital lease policy: The Company classifies leases that transfer substantially all of the risks and benefits of ownership of the leased property as capital leases. All other leases are accounted for as operating leases, and rental payments are amortized on a straight line basis over the term of the lease including rent-free periods.

(l) Income taxes: The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and future income tax liabilities 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, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(m) Per share data: Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method.

(n) Impairment of long-lived assets: The Company reviews long-lived assets such as capital assets and intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of impairment of the carrying value of assets exists, and the carrying value is greater than the total undiscounted future cash flows expected from its use and eventual disposition, an impairment loss is recognized to the extent the fair value is below the carrying value.

2. Change in Accounting Policy

Effective October 2, 2006, the Company adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants: Section 1530, Comprehensive Income, Section 3855, Financial Instruments - Recognition and Measurement, Section 3861 - Financial Instruments - Disclosure and Presentation, and Section 3865 - Hedges.

Section 1530 introduces comprehensive income, which includes net income and other comprehensive income ("OCI"). OCI represents changes in unitholders' equity during a period arising from such items as unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, unrealized gains and losses on available for-sale investments, and changes in the fair value of the effective portion of cash flow hedging instruments. The application of this new standard did not result in comprehensive income being different from net income for the periods presented.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. All financial instruments must be classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Initial and subsequent recognition and measurement of changes in the value of financial instruments depends on their initial classification:

- Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in OCI until the asset is removed from the balance sheet.
- Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization.
- Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

The Company has implemented the following classifications:

(a) Cash and equivalents are classified as 'held for trading'. These financial assets are marked-to-market through net earnings each period end.

(b) Accounts receivable are classified as 'loans and receivables'. After their initial fair value measurement, they are measured at amortized cost.

(c) Bank indebtedness is classified as 'liabilities held for trading' and measured at fair value. These financial liabilities are marked–to-market through net earnings each period end.

(d) Accounts payable and accrued liabilities are classified as 'other financial liabilities'. After their initial fair value measurement, they are measured at amortized cost.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes, and specifies how hedge accounting is applied and what disclosures are necessary when it is applied. The application of these sections did not have an impact on the Company's consolidated financial statements.

3. Property and Equipment

October 7, 2007	Cost	Accumulated Depreciation and Amortization	Net Book Value
Furniture and equipment	$ 9,646	$ 5,277	$ 4,369
Computer equipment	3,979	2,819	1,160
Software	1,080	846	234
Equipment held under capital leases	5,349	2,051	3,298
Leasehold improvements	7,207	3,554	3,653
	$ 27,261	$ 14,547	$ 12,714

October 1, 2006	Cost	Accumulated Depreciation and Amortization	Net Book Value
Furniture and equipment	$ 9,060	$ 4,980	$ 4,080
Computer equipment	3,485	2,104	1,381
Software	1,438	664	774
Equipment held under capital leases	4,714	1,414	3,300
Leasehold improvements	6,360	3,185	3,175
	$ 25,057	$ 12,347	$ 12,710

4. Bank Indebtedness

At October 7, 2007 the Company had an operating line of credit facility at a Canadian chartered bank in the maximum amount of $25,000 (reviewed annually), bearing interest at the bank's prime rate of 6.25% at October 7, 2007 (6.00% at October 1, 2006). This debt is repayable on demand. An assignment of book debts, inventory, insurance, leases on retail premises and a general security agreement providing a charge over all assets has been provided as collateral. The balance outstanding under this facility as at October 7, 2007 was $9,950 (October 1, 2006 - $5,397).

5. Obligations Under Capital Leases

Obligations under capital leases is comprised of the following:

	2007	2006
Obligation under capital lease, bearing interest at prime, payable in monthly installments of $70 including interest, due on January 30, 2009	$ 1,948	$ 2,650
Obligation under capital lease, bearing interest at prime, payable in monthly installments of $38 including interest, due on January 30, 2008	115	561
Obligation under capital lease, bearing interest at prime, payable in monthly installments of $2 including interest, due on April 27, 2008	9	27
Obligation under capital lease, bearing interest at prime, payable in monthly installments of $2 including interest, due on May 26, 2011	117	137
Obligation under capital lease, bearing interest at prime, payable in monthly installments of $10 including interest, due on November 15, 2008	122	213
Obligation under capital lease, bearing interest at prime, payable in monthly installments of $15 including interest, due on December 31, 2008	205	289
Obligation under capital lease, bearing interest at prime, payable in monthly installments of $10 including interest, due on March 1, 2010	252	n/a
	2,768	3,877
Less current portion	(1,256)	(979)
	$ 1,512	$ 2,898

Minimum payments on capital lease obligations due in each of the next five fiscal years are as follows:

	Principal	Interest	Minimum Payment
2008	$ 1,256	$ 127	$ 1,383
2009	1,390	34	1,424
2010	71	4	75
Thereafter	51	2	53
	$ 2,768	$ 167	$ 2,935

6. Share Capital

(a) Authorized: Unlimited number of common shares without par value

(b) Issued:	Number of Shares		Amount
Balance, October 2, 2005	8,382,942	$	15,764
Shares repurchased	(136,700)		(257)
Balance, October 1, 2006	8,246,242	$	15,507
Issued on exercise of share options	1,800		11
Balance, October 7, 2007	8,248,042	$	15,518

The Corporation had 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 nil (2006 - 136,700) common shares for total consideration of nil (2006 - $727) during the year. In 2006, the excess of this consideration over the average carrying value of the related shares of $470 was charged to retained earnings.

(c) Stock options:

The Company has a stock option plan under which a total of 715,850 options to purchase common shares are reserved to be granted to directors, officers, employees, key consultants and agents of the Company subject to certain terms and conditions. The granting of options and the related vesting period are at the discretion of the Board of Directors. Stock options granted vest over a period of up to five years and expire at various dates through June 2012. At October 7, 2007, the exercise price of outstanding stock options ranged from $3.50 to $7.00 per common share.

The Company granted 140,000 stock options during 2007 (2006 - 244,500).The estimated weighted average fair value of these options was $2.83 (2006 - $3.02) per option, which is being 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 year under the fair value based approach was calculated using the following weighted average assumptions:

	2007	2006
Expected option life	5 years	5 years
Risk-free interest rate	5%	5%
Expected stock price volatility	44 to 54%	52%
Average dividend yield	nil	nil

A summary of the status of the Company's share option plan as of October 7, 2007 and October 1, 2006 and changes during these fiscal years are presented below:

	October 7, 2007		October 1, 2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding beginning of year	683,950	$5.59	541,450	$5.36
Granted	140,000	5.65	244,500	5.89
Exercised	(1,800)	4.20	-	-
Cancelled/expired	(106,300)	7.51	(102,000)	5.10
Stock options outstanding, end of year	715,850	$5.32	683,950	$5.59

The following table summarizes information about share options outstanding at October 7, 2007:

Options outstanding				Options exercisable	
Range of exercise price outstanding	Number outstanding at October 7, 2007	Weighted average remaining contractual life (months)	Weighted average exercisable price	Number exercisable at October 7, 2007	Weighted average exercise price
$ 2.50-3.99	139,950	36	3.50	67,980	3.50
4.00-5.49	168,200	25	4.57	94,400	4.26
5.50-6.99	278,700	46	5.91	90,500	5.91
7.00-8.49	129,000	24	7.00	77,400	7.00
	715,850	35	$ 5.32	330,280	$ 5.20

For the year ended October 7, 2007 the Company recognized compensation expense of $363, (2006 - $362) with an offsetting credit to contributed surplus.

The Company recognizes stock-based compensation expense using the fair value method, when options are issued to employees. Such cost is recorded as an expense and an increase to contributed surplus, on a straight-line basis, over the vesting period related to such options.The amount is included in contributed surplus on the consolidated balance sheets and selling, general and administrative expenses on the consolidated statements of operations.

The following is a continuity schedule of contributed surplus:

	2007	2006
Balance, beginning of year	800	438
Stock-based compensation expense	363	362
Exercise of options	(4)	-
Balance, end of year	1,159	800

(d) Per share amounts:

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding for the year ended October 7, 2007 was 8,246,912 (2006 – 8,360,212).

In computing diluted earnings per share, 42,506 shares were added to the weighted average number of common shares outstanding during the year ended October 7, 2007 (2006 – 51,996) for the dilutive effect of employee stock options.

7. 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, 2007	October 1, 2006
Statutory Income Tax Rate	34.7 %	35.5%
Calculated tax expense (recovery)	$ (5,090)	$ 842
Capital taxes	60	54
Stock option benefit	126	128
Change in valuation allowance	1,939	(289)
Other items	8	117
	$ (2,957)	$ 852

The tax effects of temporary differences that give rise to significant portions of the future tax asset (liability) at October 7, 2007 are presented below:

	Assets (Liability)		Total	
	Canada	United States	2007	2006
Non-capital loss carry forwards	$3,272	$1,204	$4,476	$1,364
Capital assets	(836)	-	(836)	(685)
Inventory of US subsidiaries	-	-	-	268
	2,436	1,204	3,640	947
Valuation allowance	(2,436)	(1,204)	(3,640)	(1,701)
Net future tax asset (liability)	$ -	$ -	$ -	$(754)

As at October 7, 2007, the Comany has non-capital loss carry-forwards that expire as follows:

	Amount	Expiry
Canada	$ 9,428	2027
United States	$ 4,428	2017-2022

8. Commitments and Contingencies

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:

Fiscal	2008	$ 12,066
	2009	10,503
	2010	8,838
	2011	7,502
	2012	6,491
	Thereafter	20,588
	Total	$ 65,988

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.

The Company is involved and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Management assesses such claims and where it is considered likely that the claim will result in a material loss and where the amount of the loss is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. The Company does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable. Although such matters cannot be predicted with certainty, management currently considers the exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to these consolidated financial statements.

9. Segmented Information:

2007	Canada	U.S.	Total
Revenue	$183,740	$28,216	$211,956
Capital assets	$12,459	$255	$12,714
2006			
Revenue	$178,522	$29,683	$208,205
Capital assets	$11,902	$808	$12,710

10. Financial Instruments:

(a) Fair value:
The carrying value of cash and equivalents, accounts receivable and accounts payable approximate their fair value due to the relatively short period to maturity of the instruments. Bank indebtedness and obligations under capital leases are assumed to be at fair value given the variable interest rate attached to these instruments.

(b) Credit risk:
The Company does not grant credit in the normal course of its retail operations and therefore assesses credit risk as minimal.

(c) Interest rate risk:
At October 7, 2007 the Company had available an operating credit facility at a Canadian Chartered Bank in the maximum amount of $25,000, and capital lease obligations in the aggregate amount of $2,769. The exposure to interest rate risk is managed through the use of a floating interest rate.

(d) Foreign currency risk:
The Company is exposed to foreign currency fluctuations in relation to its operations in the United States. Management believes this exposure is not material to its overall operations.

11. Subsequent Events:

The Company operated 18 stores in the US which are reported in segmented information under Geographical Information as US. During the fourth quarter, the Company announced that it would wind down its US operations and subsequent to year end closed 15 of 18 stores there. These operations will be described as 'discontinued operations' beginning in the first quarter of fiscal 2008. The following table provides additional information regarding the stores that are now closed.

Balance sheets

		2007		2006
Assets				
Accounts receivable	$	-	$	98
Inventory		1,104		6,462
Prepaid expenses		133		171
Current assets		1,237		6,731
Property and equipment (net)		172		754
		1,409		7,485
Liabilities				
Accounts payable and accrued liabilities		1,265		1,837

Statements of loss

		2007		2006
Revenue	$	23,693	$	24,939
Net loss		(5,070)		(596)

Corporate Information

DIRECTORS

Leslie Landes, Chairman
Les is a former Director and Chairman of publicly listed Stockgroup Information Systems Inc., as well as a consultant in his private company, Landes Enterprises, which provides interim and turn around management services in a number of industries. Les is a former director of TIR Systems Ltd., and formerly held various senior executive positions with the Jim Pattison Group.

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

Darren Gillespie, Senior Executive VP and President, LQW Traders Inc.
Darren joined Liquidation World in 1993 and led the Company's expansion in British Columbia before relocating to Seattle to launch the Company's US retail and buying operations. Today, as President of LQW Traders Inc., Darren develops and manages key supply relationships within US retail, freight, insurance, legal and banking channels to provide inventory for Liquidation World's Canadian outlets. Prior to joining Liquidation World, Darren spent 10 years with a startup consumer electronics business in Canada and helped build it into a nation-wide chain.

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 Thomsom, QC, President, 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 Weins, CA, Business Consultant
Bob was CFO of D-Wave Systems Inc., until March 2005. Previously Bob was President and CEO of FACS Record 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 and CEO
Darren Gillespie, Senior Executive VP and President, LQW Traders Inc.
Andrew Searby, CA, Executive VP and CFO
Maurice Chelli, SVP Merchandising
Darryl Chenoweth, SVP Operations

SOLICITORS

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TRANSFER AGENT

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Web: www.liquidationworld.com

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

Outlet Locations

BRITISH COLUMBIA

Abbotsford
Aldergrove
Chilliwack
Colwood
Coquitlam
Courtenay
Cranbrook
Duncan
Gibsons
Kamloops
Langley
Maple Ridge
Merritt
Mission
Nanaimo
Penticton
Powell River
Prince George
Quesnel
Richmond
Surrey (2)
Terrace
Trail
Vernon
Victoria

ALBERTA

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

YUKON

Whitehorse

SASKATCHEWAN

Lloydminster
Moose Jaw
Prince Albert
Regina
Saskatoon
Swift Current
Yorkton

MANITOBA

Swan River
Winnipeg (3)

ATLANTIC

Amherst
Dartmouth
Fredericton
Halifax
Saint John
Truro

ONTARIO

Ajax
Arthur
Belleville
Blenheim
Bolton
Brantford
Cambridge
Campbellford
Chatham
Cobourg
Hamilton
Hawkesbury
Ingersoll
Keswick
Kingston
Leamington
London (2)
Mississauga
Oakville
Orillia
Oshawa
Paris
Petawawa
Port Colborne
Prescott
Renfrew
Sarnia
Sault Ste. Marie
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