

Liquidation
World
Annual
Report
2008

**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 or insurance claims. Merchandise often comes from healthy, 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 95 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)

	2008 (3)	2007 (3)	2006	2005	2004	2003	2002	2001	2000	1999
Revenues (\$,000) (1)	182,359	188,262	208,205	184,151	184,418	170,535	174,342	183,400	160,639	148,958
Cost of sales (\$,000) (1)	118,809	122,935	129,847	121,871	112,841	102,337	106,592	112,670	95,063	89,919
Gross margin (\$,000)	63,550	65,327	78,358	62,280	71,577	68,198	67,750	70,730	65,576	59,039
Expenses (\$,000)	73,461	74,925	75,986	68,558	64,828	63,965	60,715	57,176	52,818	48,007
EBITDA (\$,000) (2)	(4,881)	(4,914)	5,994	(6,278)	6,749	4,233	7,035	13,554	12,758	11,032
Depreciation & amortization (\$,000)	3,948	3,875	3,196	2,078	1,283	1,442	1,460	1,427	1,322	1,088
Interest (\$,000)	1,082	809	376	125	-	-	7	125	384	522
Income taxes (recovery) (\$,000)	-	(2,957)	323	(2,027)	2,523	1,304	2,397	5,021	4,754	4,362
Earnings (loss) from discontinued operations	(1,428)	(5,070)	-	-	650	718	966	-	-	-
Net earnings (loss) (\$,000)	(11,339)	(11,711)	1,520	(6,454)	2,293	769	2,205	6,981	6,298	5,060
Earnings (loss) per share (\$)										
Basic	(1.37)	(1.42)	0.18	(0.77)	0.27	0.09	0.26	0.83	0.76	0.62
Fully diluted	(1.37)	(1.42)	0.18	(0.77)	0.27	0.09	0.25	0.81	0.75	0.59
% Increase (decrease) in revenue	-3%	2%	13%	0%	8%	(2%)	(5%)	14%	8%	11%
Number of outlets at year end	99	118	106	104	102	98	97	87	87	74
Inventory at year end (\$,000)	44,178	48,816	55,184	46,552	55,705	48,831	44,677	49,778	49,858	44,090

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.
- (3) Fiscal 2008 and fiscal 2007 reflect continuing operations.

The ANNUAL and SPECIAL MEETING of the Shareholders of Liquidation World Inc. will be held Thursday, March 5th, 2009 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.

Chairman's Message

As we entered the 2008 fiscal year, the consolidation of our corporate offices was complete, we had suspended our new store activity and we were in the process of winding down our US store operations, which we finalized early in the first quarter.

With these significant events behind us, our primary objectives for the year were to settle down and focus on core buying and selling operations. In particular, we looked to increase the mix of deal merchandise related to bankruptcies and insurance claims in order to improve same store sales and gross margin performance.

We expected that soft same store sales would persist in the first quarter and that our efforts to introduce more event deals into our inventory would start to have impact beginning in the second quarter.

Unfortunately, the anticipated improvements in performance did not come. In the second quarter we recorded decreases in same store sales and gross margin did not meet expectations.

The disappointing results of the second quarter precipitated major change:

- In May, the Company's buying function was reorganized to be even leaner and more deal focused and buying plans were made more flexible to help prioritize deal merchandise and higher margin categories.
- We introduced a new markdown policy and process to attack aged and non-performing inventory. At the same time, the use of promotional markdowns on newer merchandise was scaled back.
- We reduced corporate overhead expenses significantly through the elimination of positions and tighter control of non-store costs.
- We announced the closure of 7 outlets to rationalize inventory and provide cash.
- A Special Committee of independent board members was formed to investigate strategic alternatives to the Company to increase shareholder value.

In the second half of the year, we began to reverse the negative trend, recording modest gains in same store sales. In the fourth quarter, gross margin exceeded prior year for the first time in fiscal 2008 and our expense ratio had decreased. Although significant room for improvement remains, these successes in the second half of the year are important to note as they tend to be masked by the overall year-end results.

In 2009, we will seek to bolster margins further by emphasizing higher margin categories like apparel and reducing our mix of lower margin consumables. The reductions in non-store costs implemented in mid-2008 will provide a lower breakeven point for the business. The productivity-based labour control model we introduced in 2008 has been extremely effective at helping us to manage store labour costs and it will continue to be utilized to our benefit in fiscal 2009.

Recent events in the global economy present certain challenges and opportunities. The Company is cautiously optimistic that it will benefit in two ways from the current economic malaise. From a supply standpoint, we believe we will see a greater number of buying opportunities from distressed US manufacturers and retailers. From a sales standpoint, we believe more consumers will turn to discounters and liquidators in order to lower their household expenses. As the pace of economic activity cools, we also

expect that hiring qualified staff will become less challenging than it has been in recent years, especially in western Canada. Our outlook with respect to the macroeconomic environment is tempered with concerns about general price deflation and the potential for the Canadian dollar to weaken against the US dollar, which would negatively impact the Company's purchasing power.

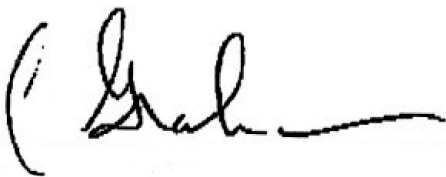
Early in fiscal 2009, the Company announced a new \$20 million asset-based lending facility with Royal Bank of Canada. This three-year facility replaces the prior demand facility and charges a lower interest rate. We believe this new credit arrangement reflects confidence in our business model and the value of our assets and anticipate that it will bring added stability to our business in the coming year.

In addition, at the time of printing of this Annual Report, the work of the Special Committee resulted in the Company announcing on January 27, 2009 that it had entered into a definitive purchase agreement with Talon Merchant Capital, LLC and an affiliate thereof pursuant to which Talon will acquire from treasury 7,600,000 common shares of the Company for an aggregate purchase price of Cdn \$7,600,000. Cdn \$4,750,000 of the purchase price is to be paid to the Company in cash and the balance is to be satisfied by the sale to the Company of Talon's U.S. wholesale business. On the closing of these transactions, the Company will undergo management changes which are expected to provide stability to the Company's business by providing significant depth in liquidation operations.

Our poor performance in fiscal 2008 necessitated significant changes to our business priorities. The Company is implementing these changes and we look forward to continuing along this new path in fiscal 2009 and capitalizing on the opportunities presented by the transactions with Talon to return the Company to profitability.

As previously announced, Jonathan Hill resigned from his duties as President and Chief Executive Officer of Liquidation World and from Liquidation World's Board of Directors effective January 2, 2009. On behalf of the Board, I would like to thank Jonathan for his many years of service and his numerous contributions to the growth of the Company.

In closing, I would like to express my sincere thanks to each and every Liquidation World associate for your hard work and commitment through a difficult year and to our valued investors for your continued support.



Craig Graham
Chairman, Interim President & CEO

The following discussion and analysis is effective as of December 31, 2008 and should be read together with the audited consolidated financial statements and the accompanying notes for the fifty-two weeks ended October 5, 2008.

OVERVIEW

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

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. The Company puts a priority on merchandise from insolvencies and insurance claims, however a proportion of opportunity closeout 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 98 corporately run stores in Canada and the US. A typical Liquidation World store occupies between 20,000 and 25,000 square feet, although there are some smaller and some larger stores.

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

Among liquidators, Liquidation World is unique insofar as it maintains a national network of retail stores 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 capitalizes on inventory opportunities as they arise.

OVERALL PERFORMANCE

During the first quarter of fiscal 2008, the Company completed the wind up of most of its US retail operations, closing 15 of 18 stores. These closed stores are now considered "discontinued operations". The following discussion relates to continuing operations, unless otherwise noted.

A summary of results of continuing operations for the 2008 fiscal year, comprising the 52 weeks ended October 5, 2008:

- Sales from continuing operations decreased 3.1% to \$182,359 from \$188,262 in the prior year
- Same store sales decreased 4.4% from the prior year
- Gross margin increased to 34.8% from 34.7% in the prior year
- Net 4 stores were closed during the year (5 opened and 9 closed)
- A net loss of \$9,911 was recorded for the year; including a \$9,241 net loss from Canadian operations and a \$670 net loss from US operations. In the prior year, the Company recorded a net loss of \$6,641, including a net loss from Canadian operations of \$6,525 and net loss of \$116 from US operations.

STRATEGIC ALTERNATIVES

On June 4, 2008, the Company announced the formation of a Special Committee of independent board members to investigate and evaluate strategic alternatives available to the Company to increase shareholder value.

The Special Committee is comprised of independent board members Craig Graham, Chairman, Jeffrey Mandel, and Robert Wiens, CA. The Special Committee has retained Capital West Partners, an independent financial advisor, to assist in the process and has also retained independent legal counsel.

As of December 31, 2008, the Special Committee has not endorsed any particular course of action. Furthermore, there is no guarantee that the work of the Special Committee will lead to any transaction.

RESULTS OF OPERATIONS

Revenue

Revenue, which includes sales of merchandise and fee revenue, totaled \$182,359 for the 2008 fiscal year versus \$188,262 in fiscal 2007. This represents a decrease of 3.1%. During the year, 5 new stores were added and 9 existing stores were closed, for a net decrease of 4 stores. From a historical perspective, this represents a lower level of new store activity. At year end, the Company had a total of 99 stores. Subsequent to year end, no new stores were opened in Canada and one was 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 2008 as a result of declining same store sales performance. In Canada, revenue for the year decreased by 3.0% to \$178,177 from \$183,740 in fiscal 2007. In the United States, revenue declined by 7.5% to \$4,182 from \$4,522.

Gross Margin

Gross margin as a percentage of sales increased to 34.8% in fiscal 2008 from 34.7% in fiscal 2007. The increase in gross margin rate in fiscal 2008 is mainly due to lower vendor costs as a percentage of sales.

Gross margins can fluctuate as a result of initial pricing, cost of product purchased, freight costs, shrinkage, product mix sold and markdowns taken. Liquidation World's pricing policies and strategy are to ensure prices for comparable products are lower than any other in the market, including discount stores, warehouse type stores and special promotions. Gross margins are subject to pressure under this policy and can fluctuate as a result. Where specific price matching is concerned, Liquidation World will continue to mark down product as required.

Selling, General and Administrative

Selling, general and administrative, which includes all expenses of occupying, operating and supporting stores, including opening new stores, increased to 37.4% as a percentage of sales from 37.3% in the prior year. These expenses were \$68,231 in fiscal 2008 and \$70,271 in fiscal 2007, a decrease of \$2,040. Expenses decreased mainly due to lower store expenses related to lower sales, primarily labour, and lower support expenses arising from staff reductions and other cost-cutting actions.

In fiscal 2008, costs of \$928 were incurred related to severance and the costs of closing 7 under-performing stores in the second half of the year. In fiscal 2007, costs of \$1,145 were incurred in moving the head office from Calgary to Brantford.

Depreciation and Amortization

Depreciation and amortization increased 1.9% to \$3,948 from \$3,875 in the prior year, reflecting mainly depreciation related to significant acquisitions of capital assets in fiscal 2007, partially offset by lower depreciation on older capital assets.

Interest

Interest expense was \$1,082 in fiscal 2008 as compared to \$809 in the prior year. This increase is the result of generally higher borrowing levels related to funding operating losses, partially offset by lower average interest rates.

Foreign Exchange

In fiscal 2008, the Company realized a net foreign exchange gain of \$48 compared to a foreign exchange gain of \$393 in the prior year.

Income Taxes

The statutory tax rate in effect in fiscal 2008 was 32.5% (2007 – 34.7%). The Company recorded no current tax recovery in fiscal 2008 and recorded an income tax recovery of \$2,203 in fiscal 2007. As a result of losses in the current period and prior periods, the Company has accumulated loss carry-forwards totaling approximately \$14,250 in Canada and \$5,250 in the US.

Net Loss

The Company recorded a net loss from continuing operations of \$9,911 (\$1.20 per share) in fiscal 2008 versus a net loss from continuing operations of \$6,641 (\$0.81 per share) in the prior year. The net loss in fiscal 2008 arises from lower same store sales compared to the prior year, partially offset by lower expenses arising mainly from restructuring and other cost-cutting actions.

Fourth Quarter (Q4) Results

Revenue for Q4 2008 comprising 13 weeks of operations ended October 5, 2008 decreased 6.2% to \$43,560 from \$46,456 in the prior year. At the end of Q4 2008 there were 99 stores in operation compared to 118 at year end Q4 2007. Same store sales in Q4 increased 0.5% from the prior year.

Gross margin as a percentage of sales for Q4 2008 increased to 35.6% from 29.3% in Q4 2007

Selling, general and administrative expenses for Q4 2008 decreased 11.1% to \$16,677 from \$18,764 in Q4 2007 reflecting lower expenses from organizational restructuring and other cost-cutting initiatives.

Depreciation and amortization for Q4 2008 decreased 19.1% to \$942 from \$1,164 in Q4 2007.

Interest expense for Q4 2008 increased to \$325 compared to \$239 in Q4 2007.

During Q4 2008, the Company recorded a net loss of \$2,322 (\$0.28 per share) compared to a net loss of \$3,922 (\$0.48 per share) in Q4 2007.

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):

Quarter Ended	October 5 2008	July 6 2008	April 6 2008	January 6 2008
Total Revenue	43,560	43,765	42,222	52,812
Net Earnings (loss) from continuing operations	(2,322)	(3,783)	(4,961)	1,155
Net Earnings (loss) per common share before discontinued operations				
Basic	(0.28)	(0.46)	(0.60)	0.14
Fully Diluted	(0.28)	(0.46)	(0.60)	0.14
Net earnings (loss)	(2,707)	(3,783)	(4,961)	112
Net earnings (loss) per common share				
Basic	(0.33)	(0.46)	(0.60)	0.01
Fully Diluted	(0.33)	(0.46)	(0.60)	0.01

Quarter Ended	October 7 2007	July 1 2007	April 1 2007	December 31 2006
Total Revenue	46,456	41,650	41,985	58,185
Net earnings (loss) from continuing operations	(3,922)	(2,459)	(2,733)	2,473
Net Earnings (loss) per common share before discontinued operations				
Basic	(0.48)	(0.30)	(0.33)	0.30
Fully Diluted	(0.48)	(0.30)	(0.33)	0.30
Net earnings (loss)	(7,588)	(2,887)	(3,032)	1,796
Net earnings (loss) per common share				
Basic	(0.92)	(0.35)	(0.36)	0.21
Fully Diluted	(0.92)	(0.35)	(0.36)	0.21

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 consumed by operations prior to working capital totaled \$5,598 in 2008 compared with \$3,275 in 2007. Working capital provided cash flow of \$5,085 in 2008 versus \$5,895 in 2007. As a result, cash consumed in operating activities totaled \$513 in 2008 compared to cash generated of \$2,620 in 2007.

Working capital decreased 33.0% to \$19,562 at the end of 2008 compared to \$29,207 at the end of fiscal 2007 due mainly to an increase in bank indebtedness, partially offset by lower accounts payable and lower inventory in 2008.

At October 5, 2008 the Company had short-term banking and operating facilities of \$20,000 of which the Company had drawn down \$13,162 (\$11,612 net of outstanding deposits and cheques). Subsequent to year end, the Company entered into a three-year asset-based lending facility for \$20,000 and retired its former demand facility. See Subsequent Events in Notes to Financial Statements. This long-term facility should sufficiently fund planned activities in fiscal 2009.

In fiscal 2008, the Company incurred capital expenditures of \$1,370 for items of a maintenance nature, mainly for existing stores. In fiscal 2007, capital expenditures were \$3,965 net of disposals which included capital expenditures for new and existing stores, and a portion of the software and hardware costs of the merchandise management system (MMS).

Contractual Obligations

Payments due by period (\$000,s)	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Financial Commitments					
Capital leases	\$ 1,588	\$ 470	\$ nil	\$ nil	\$ 2,058
Contractual Obligations					
Store, vehicle and equipment leases	10,698	17,808	15,518	16,055	60,080
Total	\$ 12,286	\$ 18,278	\$ 15,518	\$ 16,055	\$ 62,138

RISKS AND UNCERTAINTIES

The Company is principally engaged in the sale of merchandise through 98 leased retail stores 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 general economic conditions, weather patterns, swings in consumer confidence and buying habits, and 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

The majority of 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 stores.

Valuation of Inventory

The Company routinely buys merchandise resulting from closeouts, bankruptcies and insurance claims, and often bids for inventory on a lot basis, often 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.

The Company uses the retail inventory method for inventory valuation in conjunction with periodic physical inventory counts. The retail inventory method estimates inventory at cost based on the relationship of aggregate purchases at cost to aggregate purchases at retail. As such it is inherently less accurate than costing at an individual item level by location.

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.

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 stores 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 22-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 stores 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 stores.

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. 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 historically not adopted a hedging strategy to mitigate foreign exchange risks.

Financing Risk

Under the new asset based lending facility started in October 2008, the bank at its discretion may effectively decrease the borrowing base and thereby funding availability. The Company is also required to maintain certain financial covenants.

TRANSACTIONS WITH RELATED PARTIES

There were no related party transactions in fiscal 2008 or 2007.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 1 of the 2008 consolidated financial statements.

The Company uses the retail inventory method to estimate the value of its inventory. Under the retail inventory 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 CICA Accounting Pronouncements

Section 3031 Inventories of the CICA Handbook establishes guidance on the determination of cost and its subsequent recognition as an expense including any write down to net realizable value. It also provides guidance in the cost formulas that are used to assign costs to inventories. The Company will adopt this standard in the first quarter of fiscal 2009. The impact of this change has not yet been determined.

CICA Handbook Section 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. This standard is effective for the Company in fiscal year 2009 beginning October 6, 2008.

Future Accounting Standards

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required for publicly accountable profit-oriented enterprises. IFRS will replace Canadian GAAP for those enterprises. These new standards are applicable to fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. The Company is currently working on a conversion plan towards IFRS but it is too early to assess the financial impact of the conversion at this point.

OUTSTANDING SHARE DATA

As of October 5, 2008, the Company has authorized for issuance unlimited common shares of which 8,248,042 are issued and outstanding. As of October 7, 2007 the Company had 8,248,042 shares outstanding. Further, the Company has reserved 751,684 options to acquire common shares. At October 5, 2008, 632,684 options were outstanding (October 7, 2007 - 715,850 options 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 Merchandise Management System (MMS). Management has since 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 in the last year in order to build a stronger foundation for the future. The primary objective in the current fiscal year is to improve processes, to control costs and to focus on 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.

General economic conditions have recently deteriorated in the world and North America specifically. The Company believes it will benefit on balance from these conditions as more inventory buying opportunities arise from distressed retailers and other sources, and as customers increasingly patronize the Company's stores in order to buy more economically.

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.

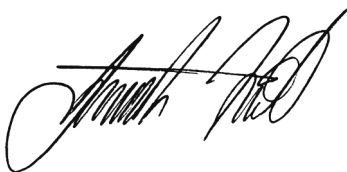
Management & Auditor's Reports

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 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 financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibilities 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 18, 2008

Auditor's Report

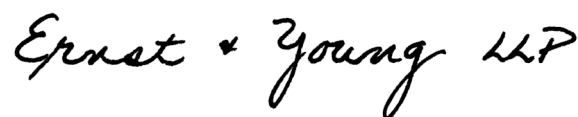
To the Shareholders of
Liquidation World Inc.

We have audited the consolidated balance sheets of Liquidation World Inc. as at October 5, 2008 and October 7, 2007 and the consolidated statements of loss and comprehensive 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 5, 2008 and October 7, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

London, Canada,
December 18, 2008



Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Financial Statements

Consolidated Balance Sheets

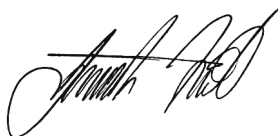
As at October 5, 2008 and October 7, 2007

(In thousands of Canadian dollars)

	2008	2007 Restated (see note 12)
Assets		
Current assets		
Cash	\$ 186	\$ 216
Accounts receivable	119	293
Inventory	44,178	48,816
Prepaid expenses	1,403	1,719
Income taxes recoverable	-	2,221
Current assets of discontinued operations (note 12)	-	1,237
	45,886	54,502
Property and equipment (note 3)	10,226	12,542
Long-term assets of discontinued operations (note 12)	-	172
	\$ 56,112	\$ 67,216
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 4)	\$ 11,612	\$ 7,820
Accounts payable and accrued liabilities	12,690	14,954
Current portion of obligations under capital leases (note 5)	1,588	1,256
Current liabilities of discontinued operations (note 12)	434	1,265
	26,324	25,295
Obligations under capital leases (note 5)	470	1,512
Shareholders' equity		
Share capital (note 6)	15,518	15,518
Contributed surplus (note 6)	1,407	1,159
Retained earnings	12,393	23,732
	29,318	40,409
	\$ 56,112	\$ 67,216

See accompanying notes.

On behalf of the Board:



Director, Jonathan Hill



Director, Robert Wiens

Consolidated Statements of Loss and Comprehensive Loss and Retained Earnings

For the years ended October 5, 2008 and October 7, 2007
(In thousands of Canadian dollars, except per share amounts)

	2008		2007 Restated (see note 12)	
Revenue	\$	182,359	\$	188,262
Cost of sales		118,809		122,935
Gross Margin		63,550		65,327
Expenses				
Selling, general and administrative		68,231		70,271
Depreciation and amortization		3,948		3,875
Stock based compensation		248		363
Interest				
Short term		902		672
Long term		180		137
Foreign exchange		(48)		(393)
		73,461		74,925
Loss before income taxes		(9,911)		(9,598)
Income taxes - recovery				
Current		-		(2,203)
Future		-		(754)
		-		(2,957)
Net loss from continuing operations		(9,911)		(6,641)
Loss from discontinued operations		(1,428)		(5,070)
Net loss and comprehensive loss		(11,339)		(11,711)
Retained earnings, beginning of year		23,732		35,443
Retained earnings, end of year	\$	12,393	\$	23,732
Basic and diluted loss per share				
From continuing operations	\$	(1.20)	\$	(0.81)
From discontinued operations	\$	(0.17)	\$	(0.61)
	\$	(1.37)	\$	(1.42)

See accompanying notes.

Consolidated Statements of Cash Flows

For the years ended October 5, 2008 and October 7, 2007
(In thousands of Canadian dollars)

	2008	2007
		Restated (see note 12)
Cash provided by (used in):		
Operating activities		
Net loss from continuing operations	\$ (9,911)	\$ (6,641)
Add (deduct) non-cash items:		
Depreciation and amortization	3,948	3,875
Loss (gain) on disposal of capital asset	117	(118)
Stock based compensation	248	363
Future income taxes	-	(754)
	(5,598)	(3,275)
Changes in non-cash operating working capital		
Accounts receivable	174	(82)
Inventory	4,638	(94)
Prepaid expenses	316	231
Accounts payable and accrued liabilities	(2,264)	8,393
Income taxes recoverable	2,221	(2,553)
	5,085	5,895
	(513)	2,620
Investing activities		
Purchase of capital assets	(1,370)	(4,121)
Proceeds on disposal of capital assets	-	156
	(1,370)	(3,965)
Financing activities		
Increase in bank indebtedness	3,792	2,423
Repayment of capital leases	(1,474)	(1,487)
Proceeds on issuance of common shares	-	8
	2,318	944
Cash applied to discontinued operations (note 12)	(465)	433
Increase (decrease) in cash	(30)	32
Cash, beginning of year	216	184
Cash, end of year	\$ 186	\$ 216
Supplemental disclosure of cash paid (received) for:		
Income taxes paid	\$ 238	\$ 397
Income taxes received	(2,398)	-
Interest paid	1,002	983
	\$ (1,158)	\$ 1,380

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended October 5, 2008 and October 7, 2007 (amounts in thousands of Canadian dollars, except per share amounts)

I. 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 2008 year end was on October 5, 2008 and comprised 52 weeks of operations. The 2007 year end was on October 7, 2007, and comprised 53 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, the remaining useful life of capital assets and future cash flows used to assess impairment of long-lived assets. Actual results could differ from those estimates.

(i) 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 are credited to share capital and the amount of related compensation expense previously recorded in contributed surplus is reclassified to share capital.

(j) 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.

(k) 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.

(l) Per share data: Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method to account for the dilutive effect of options and similar instruments.

(m) Impairment of long-lived assets: The Company reviews long-lived assets such as capital assets 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.

(n) Comprehensive Income: Comprehensive income measures changes in shareholders' 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 standard did not result in comprehensive income being different from net income for the periods presented.

(o) Comparatives: Certain 2007 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2008.

(p) Hedges: Canadian Institute of Chartered Accountants Handbook Section 3865, Hedges, establishes the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value and cash flow hedges. Hedge accounting is discontinued prospectively when [a] the derivative offsetting the hedged item no longer qualifies as an effective hedge, [b] the derivative is terminated or sold or [c] the hedged item is terminated or sold. The Company has not applied hedge accounting during this and previous reporting periods.

(q) New Accounting Pronouncements: 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 October 8, 2007. 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. This disclosure is discussed in Note 11. 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. The application of sections 3862 and 3863 do not have any material impact on the Company's financial statements. These disclosures are discussed in Note 10.

2. Future Changes in Accounting Policies

(a) Inventories: Section 3031 Inventories of the CICA Handbook establishes guidance on the determination of cost and its subsequent recognition as an expense including any write down to net realizable value. It also provides guidance in the cost formulas that are used to assign costs to inventories. The Company will adopt this standard in the first quarter of fiscal 2009. The impact of this change has not yet been determined.

(b) Going Concern: CICA Handbook Section 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. This standard is effective for the Company in the fiscal year beginning October 6, 2008.

3. Property and Equipment (\$ 000's)

October 5, 2008	Cost	Accumulated Depreciation and Amortization	Net book value
Furniture and equipment	\$ 8,341	\$ 5,142	\$ 3,199
Computer equipment	4,105	2,634	1,471
Software	1,753	1,474	279
Equipment held under capital leases	5,811	3,236	2,575
Leasehold improvements	7,126	4,424	2,702
	\$ 27,136	\$ 16,910	\$ 10,226

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	5,176	2,051	3,125
Leasehold improvements	7,207	3,554	3,653
	\$ 27,088	\$ 14,547	\$ 12,542

During the year, impairment of capital assets of \$108 was identified and has been included in depreciation and amortization expense. The fair value of these assets was determined using the net present value of these assets' expected cash flows.

4. Bank Indebtedness:

At October 5, 2008 the Company had an operating line of credit facility at a Canadian chartered bank in the maximum amount of \$20,000 (reviewed annually and subject to margining limits on accounts receivable and inventory), bearing interest at the bank's prime rate plus 300 bps (prime rate at October 7, 2007). The prime rate of this chartered bank was 4.75% at October 5, 2008 (6.0% at October 7, 2007). 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 5, 2008 was \$13,162 (\$11,612 net of outstanding deposits and cheques) (October 7, 2007 - \$9,950). The Company has outstanding letters of credit issued from the above line of credit in the amount of \$346 (2007 - nil) as collateral to various third parties relative to certain obligations of the Company. See Note 13 Subsequent Events.

5. Obligations Under Capital Leases:

The following comprise the Corporation's obligations under capital leases:

Obligation under capital lease, bearing interest at prime, payable in monthly installments of \$70 including interest, due on January 30, 2009	\$ 1,203	\$ 1,948
Obligation under capital lease, bearing interest at prime, payable in monthly installments of \$38 including interest, due on January 30, 2008	-	115
Obligation under capital lease, bearing interest at prime, payable in monthly installments of \$2 including interest, due on April 27, 2008	-	9
Obligation under capital lease, bearing interest at prime, payable in monthly installments of \$2 including interest, due on May 26, 2011	97	117
Obligation under capital lease, bearing interest at prime, payable in monthly installments of \$10 including interest, due on November 15, 2008	10	122
Obligation under capital lease, bearing interest at prime, payable in monthly installments of \$15 including interest, due on December 31, 2008	30	205
Obligation under capital lease, bearing interest at prime, payable in monthly installments of \$10 including interest, due on March 1, 2010	149	252
Obligation under capital lease, bearing interest at prime, payable in monthly installments of \$3 including interest, due on October 30, 2010	115	-
Obligation under capital lease, bearing 6.006% interest, payable in monthly installments of \$19 including interest, due on December 12, 2010	454	-
	\$ 2,058	\$ 2,768
Less current portion	(1,588)	(1,256)
	\$ 470	\$ 1,512

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

	Principal	Interest	Minimum Payment
2009	\$1,588	\$83	\$1,671
2010	324	19	343
2011	146	2	148
	\$2,058	\$104	\$2,162

6. Share Capital:

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

(b) Issued:	Number of Shares	Amount
Balance, October 1, 2006	8,246,242	\$15,507
Shares repurchased	1,800	11
Balance, October 7, 2007	8,248,042	\$15,518
Balance, October 5, 2008	8,248,042	\$15,518

(c) Stock options:

The Company has a stock option plan under which a total of 751,684 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 have graded vesting over a period of up to five years and expire at various dates through July 2013. At October 5, 2008, the exercise price of outstanding stock options ranged from \$1.40 to \$7.00 per common share.

The Company granted 230,884 stock options during 2008 (2007 - 140,000). The estimated weighted average fair value of these options was \$0.74 (2007 - \$2.83) 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:

	2008	2007
Expected option life	5 years	5 years
Risk-free interest rate	3%	5%
Expected stock price volatility	46 to 52%	44% to 54%
Average dividend yield	nil	nil

A summary of the status of the Company's share option plan as of October 5, 2008 and October 7, 2007 and changes during these fiscal years are presented below:

	October 5, 2008		October 7, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding beginning of year	715,850	\$5.32	683,950	\$5.59
Granted	230,884	1.55	140,000	5.65
Exercised	nil	nil	(1,800)	4.20
Cancelled/expired	(314,050)	5.09	(106,300)	7.51
Stock options outstanding, end of year	632,684	\$4.06	715,850	\$5.32

The following table summarizes information about share options outstanding at October 5, 2008:

Range of exercise price outstanding	Options outstanding		Options exercisable		
	Number outstanding at October 5, 2008	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at October 5, 2008	Weighted average exercise price
\$ 1.00-2.49	230,884	58	\$1.55	25,000	\$2.26
2.50-3.99	107,000	24	3.50	64,200	3.50
4.00-5.49	26,000	36	5.26	6,200	5.28
5.50-6.99	168,300	34	5.91	61,360	5.91
7.00-8.49	100,500	12	7.00	80,400	7.00
	632,684	39	4.06	237,160	\$ 5.25

For the year ended October 5, 2008 the Company recognized compensation expense of \$248 (2007 - \$363) 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, using the accelerated expense allocation method, 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:

	2008	2007
Balance, beginning of year	\$ 1,159	\$ 800
Stock-based compensation expense	248	363
Exercise of options	-	(4)
Balance, end of year	\$ 1,407	\$ 1,159

(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 5, 2008 was 8,248,042 (2007 – 8,248,042).

Diluted loss per share is equal to the basic loss per share for the periods presented since common stock equivalents of options to acquire common shares outstanding at October 5, 2008 and October 7, 2007 are anti-dilutive; they may be dilutive in the future. The number of shares that could potentially dilute basic earnings per share in the future but that were not included in the computation of diluted earnings per share because they were anti-dilutive are 632,684 (715,850 at October 7, 2007).

7. Income Taxes:

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

	Years ended	
	October 5, 2008	October 7, 2007
Statutory Income Tax Rate	32.5 %	34.7%
Calculated tax recovery	\$ (3,225)	\$ (5,090)
Capital taxes	49	60
Stock option benefit	79	126
Change in valuation allowance	2,464	1,939
Other items	633	8
	\$ 0	\$ (2,957)

The tax effects of temporary differences that give rise to significant portions of the future tax asset at October 5, 2008 are presented below:

	Assets		Total	
	Canada	United States	2008	2007
Non-capital loss carry forwards	\$4,545	\$ 2,100	\$6,645	\$4,476
Capital assets	29	-	29	(836)
	4,574	2,100	6,674	3,640
Valuation allowance	(4,574)	(2,100)	(6,674)	(3,640)
Net future tax asset (liability)	\$ -	\$ -	\$ -	\$ -

As of October 5, 2008, the Company has non-capital loss carry-forwards that expire as follows:

	Amount	Expiry
Canada	\$ 14,248	2027-2028
United States	\$ 5,251	2017-2023

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	2009	\$ 10,698
	2010	9,726
	2011	8,083
	2012	8,677
	2013	6,842
	Thereafter	16,055
	Total	\$ 60,081

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:

2008	Canada	U.S.	Total
Revenue	\$ 178,177	\$ 4,182	\$ 182,359
Capital assets	\$ 10,203	\$ 23	\$ 10,226

2007	Canada	U.S.	Total
Revenue	\$ 183,740	\$ 4,522	\$ 188,262
Capital assets	\$ 12,542	-	\$ 12,542

10. Financial Instruments:

Classification and fair value of financial instruments

(i) Cash and bank indebtedness is classified as "Held for Trading". Cash and bank indebtedness is measured at fair value and transaction costs are recorded directly in net income. The gains or losses resulting from the re-measurement at the end of each period are recognized in net income.

(ii) Accounts receivable and income taxes recoverable are classified as "Loans and Receivables". They are recorded at cost, which upon their initial measurement is equal to their fair value. The carrying amounts of accounts receivable and income taxes recoverable approximate their fair values due to the relatively short periods to maturity.

(iii) Accounts payable and accrued liabilities are classified as "Other Financial Liabilities". They are recorded at cost, which upon their initial measurement is equal to their fair value. The carrying amounts of accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity. The carrying amount of the capital lease obligations approximates their fair value as the interest on these leases is charged at variable rates and or current market rates.

Financial Risk Management

(a) Credit risk:

The Company does not grant credit in the normal course of its retail operations. The maximum exposure to credit risk at October 5, 2008 is best represented by the carrying amount of the accounts receivable on the balance sheet. The Company believes its exposure to credit risk is minimal.

(b) Interest rate risk:

The Company has an asset based lending facility with a Canadian chartered bank in the maximum amount of \$20,000 (see Note 13 Subsequent Events) as at October 5, 2008. The interest rate on this facility is based on the prime rate of a Canadian chartered bank which is a floating rate. Based on the Company's average fiscal 2008 bank borrowings, fluctuations of +/- 1% in the average prime rate would have an effect on the results from continuing operations before income taxes of approximately \$128.

(c) Foreign currency risk:

The Company is exposed to foreign currency fluctuations in relation to its operations in the United States. Foreign exchange risk arises because the amount of the local payable for transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the non-Canadian dollar denominated financial statements of the Company may vary on revaluation into the Canadian dollar reporting currency ("translation exposures"). The Company's exposure relates to the fact that a significant portion of its inventory purchases is transacted in U.S. dollars. As a result, the Company may experience transaction and translation exposures because of the volatility in the exchange rate between the U.S. dollar and the Canadian dollar. Based on the Company's U.S. dollar denominated purchases from continuing operations in fiscal 2008, fluctuations of +/- 5% in the U.S. dollar against the Canadian dollar would have an effect on the results from continuing operations before income taxes of approximately \$1,760. The Company does not use derivatives to manage its foreign currency risk.

(d) Liquidity risk:

Liquidity risk addresses the Company's ability to meet its financial obligations when they come due. The Company manages the liquidity risk of forecasted anticipated cash flows from operations by ensuring that there are available cash resources to meet these needs.

The undiscounted contractual maturities of the Company's financial liabilities as at October 5, 2008 are as follows:

	2009	2010	2011
Bank indebtedness	\$11,612	\$ –	\$ –
Capital lease obligations	\$1,588	\$324	\$146

(e) Financing Risk

Under the new asset based lending facility entered into in October 2008 (see Note 13 Subsequent Events), the bank at its discretion may effectively decrease the borrowing base and thereby funding availability. The Company is also required to maintain certain financial covenants.

II. Capital Management

The Company's capital consists of debt and share capital. The Company's objective when managing its capital is to safeguard the Company's assets while at the same time maximizing the growth of its business and the returns to its shareholders. This objective is achieved by prudently managing the capital generated through internal growth, optimizing the use of lower cost capital (capital leases and bank debt) and raising share capital when required to fund growth initiatives. Short term borrowings are managed through managing inventory purchases, scheduling payments and balancing inventory levels and reducing inventory levels to reduce debt when prudent.

The Company is subject to margining requirements under its bank credit facility which limit its borrowings to the lesser of its credit limit and its available borrowing base that is determined mainly by eligible inventory on hand. As at October 5, 2008, the Company was in compliance with these margining requirements.

The Company monitors capital on the basis of the ratio of debt to shareholders' equity (debt divided by the book value of shareholders' equity). The Company has no mandated range or ceiling for its ratio of debt to equity.

The Company's ratio of debt to shareholders' equity on a book and current value basis is as follows:

	2008	2007
Bank indebtedness	\$11,612	\$7,820
Capital leases	2,058	2,768
Debt	13,670	10,588
Capital stock	15,518	15,518
Contributed surplus	1,407	1,159
Retained earnings	12,393	23,732
Shareholder's equity	29,318	40,409
Debt to equity ratio	.47:1	.26:1

12. Discontinued Operations

The Company operated 18 stores in the US which were reported in segmented information under Geographical Information as US at October 7, 2007. During the fourth quarter of fiscal 2007 the Company announced that it would wind down its US operations and subsequently closed 15 of 18 stores in the first quarter of fiscal 2008, and which are described as discontinued operations. The following table provides additional information regarding the stores that are now closed. The assets and liabilities of discontinued operations were as follows:

	2008	2007
Inventory	\$ —	\$ 1,104
Prepaid expenses	—	133
Assets of discontinued operations	\$ —	\$ 1,237
Property and equipment	—	172
Long-term assets of discontinued operations	\$ —	\$ 172
Accounts payable and accrued liabilities	434	1,256
Liabilities of discontinued operations	\$ 434	\$ 1,256

The results of discontinued operations were as follows:

	2008	2007
Revenue	\$ 745	\$ 23,694
Loss from discontinued operations, net of nil tax	\$ (1,428)	\$ (5,070)

Net cash provided by (applied to) discontinued operations for 2008 and 2007 was as follows:

	2008	2007
Operating activities:	\$ (1,428)	\$ (5,070)
Net loss from discontinued operations		
Add (deduct) non-cash items:	—	186
Depreciation and amortization	384	460
Loss on disposal of capital assets	407	4,922
Change in working capital items	(637)	498
Investing activities		
Purchase of capital assets	—	(65)
Proceeds on disposal of capital assets	172	—
Net cash applied to discontinued operations	\$ (465)	\$ 433

13. Subsequent Events

On October 17, 2008, the Company entered into asset-based lending facility with a Canadian Chartered Bank for a maximum \$20 million to replace the former demand facility with the same bank. The facility may be expanded to \$25 million with the bank's consent. This agreement expires on October 17, 2011 if not renewed, is collateralized with the assets of the company and contains certain financial covenants. Interest is charged at the bank's prime rate plus 90 basis points. The Company also has a \$5 million capital lease provision under this facility. The bank at its discretion may effectively decrease the borrowing base and thereby funding availability.

Corporate Information

DIRECTORS

Craig Graham, Chairman, Interim President and CEO

Craig is currently a director and investor in a number of companies including Executive Risk Services Limited, Norsim Equipment Limited, and Twenty First Century Investments Inc. Craig is also a trustee of Specialty Food Income Fund.

Eric Beutel

Eric is a Director, Vice President and Secretary of Oakwest Corporation Limited, a private investment company in Toronto. Mr. Beutel also sits on the Board of Directors and Investment Committee of The Equitable Group, a TSX listed company.

Jeffrey Mandel

Jeffrey is the President of AMR Securities Services Inc. and Vice President, Israel Opportunity Inc. He also is a director of Mitec Telecom (TSX), Goldbard Capital (TSXV) and privately owned companies Tiltan Pharma and Datex Billing Services Inc.

Bob Wiens, 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

Craig Graham, Interim President and CEO

Darren Gillespie, Senior Executive VP and President, LQW Traders Inc.

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Carol Ryan, Director Merchandising

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

Outlet Locations

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Cranbrook
Duncan
Gibsons
Kamloops
Langley
Maple Ridge
Mission
Nanaimo
Penticton
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Prince George
Quesnel
Richmond
Surrey
Terrace
Trail
Vernon

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Hinton
Lethbridge
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St. Paul
Westlock
Wetaskiwin

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Brantford
Cambridge
Campbellford
Chatham
Cobourg
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Kingston
Leamington
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Oshawa
Paris
Petawawa
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Sudbury
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Trenton
Wallaceburg
Welland
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Regina
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Swift Current
Yorkton

MANITOBA

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