

LIQUIDATION WORLD INC.

LIQUIDATION WORLD

**ANNUAL REPORT
1999**



**ENTREPRENEUR
OF THE YEAR**

COMPANY PROFILE

Liquidation World Inc. is a Calgary, Alberta based company specializing in marketing merchandise from distress situations, such as bankruptcies, receiverships, close-outs, inventory overruns and insurance claims. To date our 85 retail outlets are located in Alberta, B.C., Ontario, Saskatchewan, Manitoba, Washington State, Idaho, Ohio and Alaska.

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

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

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

MISSION STATEMENT

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

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

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

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

SUMMARY OF SELECTED FINANCIAL DATA

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Sales (\$,000)	148,958	134,691	96,574	71,705	56,268	35,912	24,313	18,980	13,173	11,319	5,204	1,781	790
Cost of Sales (\$,000)	89,919	81,229	57,877	43,627	35,708	22,084	14,971	11,707	7,631	6,730	3,265	947	502
Gross Margin (\$,000)	59,039	53,462	38,697	28,078	20,560	13,828	9,342	7,273	5,542	4,589	1,939	834	288
Expenses (\$,000)	49,095	42,981	31,493	21,805	16,042	12,047	7,940	6,232	4,897	3,667	1,538	765	278
EBIT (\$,000)	9,944	10,481	7,204	6,273	4,518	1,781	1,402	1,041	645	922	401	69	10
Interest (\$,000)	522	213	53	169	280	128	189	250	280	227	77	4	-
Income Taxes (\$,000)	4,362	4,474	3,067	2,584	1,867	755	511	369	171	305	132	37	2
Net Earnings (\$,000)	5,060	5,794	4,084	3,520	2,371	898	702	422	194	390	192	28	8
Earnings per Share (\$)													
Basic	0.62	0.73	0.53	0.51	0.39	0.15	0.16	0.12	0.06	0.12	0.06	0.01	0.01
Fully diluted	0.59	0.69	0.49	0.46	0.36	0.14	0.14	0.11	0.05	0.11	0.06	0.01	0.01
% Increase in Sales	11%	39%	35%	27%	57%	48%	28%	44%	16%	118%	193%	126%	-
Number of Outlets													
at year end	74	67	58	39	29	22	14	10	7	5	4	2	1
Inventory													
at year end (\$,000)	44,090	41,031	27,734	18,427	15,527	11,027	6,425	5,435	3,745	3,357	2,430	673	286

NOTE:

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

PRESIDENT'S REPORT

1999 was a very eventful year for Liquidation World. It was a year in which many good things happened for our Company and it also provided new challenges.

Financially, sales increased 11% on the year to \$148 million from \$135 million in fiscal 1998. Net earnings decreased 13% to \$ 5.1 million during the year ended October 3, 1999 from \$5.8 million during the year ended October 4, 1998.

Liquidation World opened 7 new outlets in the first quarter. During 1999 the Company expanded to brand new markets in Ohio, Manitoba and as far north as Anchorage, Alaska. We also further increased our penetration with new outlets in existing markets.

A major challenge, however, resulted from a contract with a major U.S. retailer. The start up costs were significant and, unfortunately, the arrangement did not work out as expected. Our 1999 results were negatively impacted by this one transaction.

We have learned from that experience and, even with that situation to deal with, I am proud of the fact that Liquidation World was able to continue to be profitable. In fact, our Company has been profitable in every one of our 52 quarters since inception 13 years ago. We saw cash flow from operations in excess of \$6 million and, with fewer opportunities for expansion, we were able to pay down bank indebtedness by \$1.5 million. Our balance sheet is the strongest it has ever been with working capital and equity at all-time highs.

New initiatives in the areas of merchandising and marketing included the set up of an entirely new area in every outlet called "Last Chance". This area highlights the Liquidation World concept of progressive markdowns on a continually changing assortment of selected merchandise and allows each Outlet Manager to deal with specific inventory situations on a local level. We also implemented a "top shelf" display technique which has been very effective in cross-merchandising products.

We continued to develop our website presence with new technologies in e-commerce. The web site has proven to be a very valuable tool, particularly in the area of promoting our Auction business. An intranet site has also enabled us to provide improved communications within the Company. 1999 also saw Liquidation World implement a new information system which now provides us with better and more timely information about our operations. This new system gives Liquidation World more tools which will help us to manage our business more effectively.

Our Company is continually looking for new opportunities to take us forward. We know they are out there. The big box retailers continue to change the face of the retail industry. The retail turmoil we have seen over the past year has provided Liquidation World with new opportunities for locations, merchandise and people. Our network of sources of supply is now more global than ever. Contacts made over the past year have proven to be very fruitful, particularly in the Far East. Several new inventory acquisition programs have already resulted in new merchandise in our outlets.

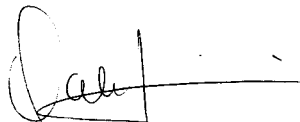
My wife, Dianne, and I were on the road 250 days last year visiting each and every one of the Liquidation World outlets. It is very important for us to maintain a close relationship with all our people and it is something we also enjoy very much. We hear first hand what is happening on the front lines and that information is critical for our Company to continue to grow.

The priority for all of us at Liquidation World is to take what we have experienced over the past year and use it to our advantage as we go into the new millennium. We have just recently concluded a meeting of the Company's Executive Team where we focused on streamlining all areas of our operation. As a result of that meeting new initiatives are being implemented now.

Liquidation World is very well positioned as we enter the Year 2000. Our strength is our people, who are dedicated to providing our customers with excellent value and excellent service with a commitment to controlling costs in every facet of our business.

The experiences of the past year will be a springboard for Liquidation World as we renew our efforts to make our Company stronger than ever. I thank you, our Shareholders, for your continued support. I would like to also thank every one of the over 1600 Liquidation World Associates and the Company's Management Team for your belief in and dedication to a Company we are all very proud to be a part of.

Sincerely,



Dale Gillespie,
President & C.E.O.

December 10, 1999

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

The Company's fiscal year ends are the first Sunday in October and ended October 3, 1999, October 4, 1998 and October 5, 1997. Each comprised 52 weeks of operations.

Sales:

Sales of merchandise totalled \$148,958,000 for the year ended October 3, 1999, an increase of 10.6% from \$134,691,000 in fiscal 1998. The increase was the result of 7 new outlets opened (net of 5 being closed) during the year and a full year of operations from 18 stores opened in 1998. Sales increased 39.5% to \$134,691,000 in 1998 from \$96,574,000 in 1997 primarily on the strength of the new stores opened in 1998 and a full year's operations of 20 outlets opened in 1997.

Sales increases in 2000 as a result of stores opened in 1999 operating for a full year are expected to approximate 3%. The Company expects to open 12 stores in 2000, however, this will vary depending upon opportunities available in real estate.

Gross Margin

Gross margin as a percentage of sales decreased slightly in 1999 to 39.6% compared to 39.7% in 1998 and 40.1% in 1997. Small fluctuations in gross margin occur from year to year as a result of changes in the product mix throughout the stores. Liquidation World's pricing policy obliges the Company to use selling prices that are lower than any other in the market including discount stores, warehouse-type outlets and special promotions.

Selling and Store Operations

Selling and store operations, which includes all costs of occupying and operating the outlets and opening new outlets, increased as a percentage of sales in fiscal 1999 to 29.2% (\$43,507,000) from 28.2% (\$37,990,000). The increase is primarily the result of cost associated with the handling of inventory from a major transaction that proved to be unprofitable.

Selling and store operations decreased as a percentage of sales in fiscal 1998 to 28.2% (\$37,990,000) compared to 28.6% (\$27,620,000) in fiscal 1997. The improvement is a result of opening fewer outlets in 1998 than in 1997. Pre-opening costs are expensed as incurred.

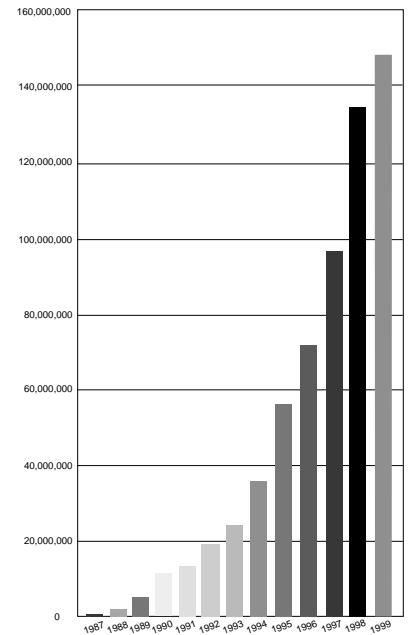
General and Administrative Expenses

General and administrative expenses remained constant as a percentage of sales in fiscal 1999 at 3.0% (\$4,500,000). General and administrative expenses decreased as a percentage of sales in fiscal 1998 to 3.0% (\$4,100,000) from 3.4% (\$3,260,000) in fiscal 1997 as a result of the infrastructure growing at a slower rate than sales.

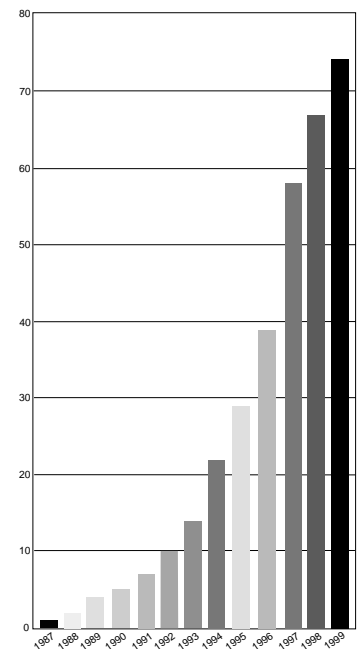
Depreciation and Amortization

Depreciation and amortization increased 23.1% to \$1,088,000 compared to \$891,000 in 1998. The 1998 increase was 45.4% from \$613,000 in 1997. Both increases reflect the increases in the underlying capital assets of 26.5% and 30.2% in 1999 and 1998 respectively. The corollary increases are not perfect due to the timing within each year of store openings. The growth in expenditures on capital and other assets exceeded the growth in the number of outlets in each year because, as the number of fixtures sought increases, the availability of inexpensive fixtures decreases. Further, the Company acquired and installed a new information system in 1999.

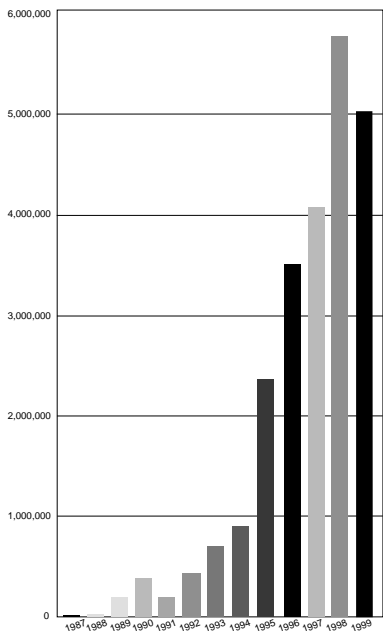
SALES



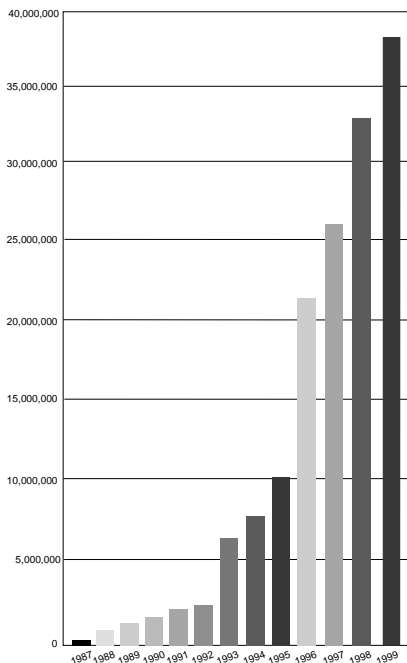
NUMBER OF OUTLETS



NET EARNINGS



SHAREHOLDERS' EQUITY



Interest

Interest increased 145.5% in 1999 to \$522,000 from \$213,000 in 1998. Interest increased 301.9% in 1998 from \$53,000 in 1997. New store expansion and significant inventory acquisitions were financed partially by increased bank indebtedness which resulted in increased interest costs. The Company had cash surpluses through the third quarter of 1997.

Income Taxes

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

The effective income tax rates of 46.3% in 1999, 43.6% in 1998 and 42.9% in 1997 approximate statutory tax rates in effect during each year (44.6% each year) except for small timing differences, non-deductible expenditures and other items.

Liquidity and Capital Resources

Liquidation World is continuing to carry out its plan for growth through opening new outlets. Twelve outlets were opened in fiscal 1999 and five were closed for a net increase of seven outlets. Eighteen outlets were opened and nine were closed in fiscal 1998. The Company incurred capital expenditures, net of disposals, of \$1,663,000 during fiscal 1999 (\$1,507,000 during fiscal 1998 and \$1,505,000 in fiscal 1997) to provide fixtures and equipment and make necessary leasehold improvements to new outlets and upgrade or provide equipment in existing locations. Additional working capital required to provide inventory for the locations ranged between \$250,000 and \$600,000 depending on the size of the outlet. Cash flow from operations before working capital requirements totalled \$6,121,000 in fiscal 1999 (1998 - \$6,659,000; 1997 - \$4,624,000).

Working capital requirements for expansion totalled \$3,503,000 in fiscal 1999 (1998 - \$10,105,000; 1997 - \$8,502,000). Accordingly, net cash flow provided from operations totalled \$2,618,000 and was sufficient to finance expansion and equipment improvements and pay down bank indebtedness to \$3,232,000. During fiscal 1998 net cash flow consumed in operations totalled \$3,446,000. This net cash shortfall along with expenditures for capital assets were financed from cash generated from operations and short term borrowings totalling \$4,776,000 at year end. During 1997, net cash flow consumed in operations totalled \$3,878,000. This net cash shortfall along with expenditures for capital assets were financed from cash on hand at the beginning of the year, cash generated from operations and short term borrowings totalling \$612,000 at year end.

Working capital improved to \$34,016,000 at the end of fiscal 1999 (1998 - \$28,964,000; 1997 - \$22,993,000). The Company currently has short-term borrowing facilities established totalling \$25,000,000 which is sufficient for planned expansion in 2000 including a reserve for any potential inventory acquisitions.

Year 2000

Liquidation World has identified and tested information systems and their components to ensure their continued functioning in and through the year 2000. To date most of the Company's hardware and software has been tested and modifications have been made where necessary. Expenditures relating to this process have not been significant. Liquidation World is currently attempting to assess the Year 2000 readiness of key non-inventory suppliers. The Company is developing contingency plans for a number of areas of operations. Due to the nature of the computer systems and the preponderance of processors in equipment and other systems, the Company may be adversely affected by the failure of a system or a supplier's system in the year 2000.

The Edmonton Journal, Monday, January 25, 1999

SUCCESS FROM DISTRESS

Liquidation World racks up Success by 'bottom feeding'

Calgary based business turns others' misery into money

Calgary's Liquidation World Inc. keeps climbing the charts, its share price unrattled by market turbulence, its quarterly sales shattering records, and its thirst for expansion unquenched.

The company that builds success from distress reported record sales of \$41.9 million for the first quarter of its fiscal 1999 year, up 20 per cent from a year

Liquidation World Inc.

- ESTABLISHED: 1986
- HEAD OFFICE: Calgary
- NUMBER OF EMPLOYEES: 1,500
- NUMBER OF OUTLETS: 74
- REVENUES: \$134.7 million
- EARNINGS: \$5.8 million

moved into Ohio, opening two facilities there.

After Hurricane George last year, it bought \$5.1 million worth of inventory in Puerto Rico.

"We're known as bottom feeders," Gillespie said, adding that the rationale is: "Let's get close to the action, but not too close."



The liquidation guy travels the world to bring you

GREAT STUFF! REAL CHEAP!

• BANKRUPTCIES • RECEIVERSHIPS • INSURANCE CLAIMS
We rescue quality merchandise from all sorts of distress situations!

ESSEX PINE
TRESTLE TABLE

CHILDRENS
FLEECE SETS



BRAND NAME
10 PIECE

CLOSE
OUT!

HURRICANE
FLOYD
FLOODS THE
CAROLINAS!

HURRICANE FLOYD INSURANCE CLAIM

OUR BUYER WAS THERE & RESCUED THESE BEAUTIFUL FURNITURE BARGAINS!

DESIGNER HIGH END LEATHER CHAIRS

- Wing Back Chairs • Recliners
- Arm Chairs & More!

40% OFF

COMPARATIVE
RETAIL



LEATHER TOP GRADE



Red Deer 1999



Kootenay 1999



Kootenay 1998



Uxbridge 1998



Calgary 1997



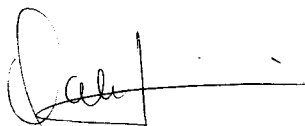
Calgary 1996

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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

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

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



Dale Gillespie
President, C.E.O.



Andrew Searby, C.A.
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Liquidation World Inc. as at October 3, 1999 and October 4, 1998 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the three year period ended October 3, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated 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 3, 1999 and October 4, 1998 and the results of its operations and cash flows for each of the years in the three year period ended October 3, 1999, in accordance with generally accepted accounting principles.



Chartered Accountants

Calgary, Canada

November 19, 1999

LIQUIDATION WORLD INC.

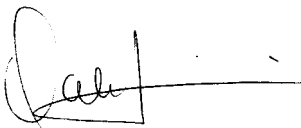
Consolidated Balance Sheets

As at October 3, 1999 and October 4, 1998
(In thousands of dollars)

	October 3, 1999	October 4, 1998
Assets		
Current assets:		
Cash and equivalents	\$ 152	\$ 147
Accounts receivable	630	308
Inventory	44,090	41,031
Prepaid expenses	1,151	972
	<u>46,023</u>	<u>42,458</u>
Capital assets (note 2)	4,366	3,791
Investment in affiliate	—	120
	<u>\$ 50,389</u>	<u>\$ 46,369</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 3)	\$ 3,232	\$ 4,776
Accounts payable and accrued liabilities	8,353	7,897
Income taxes payable	422	821
	<u>12,007</u>	<u>13,494</u>
Shareholders' equity:		
Share capital (note 4)	14,771	14,324
Retained earnings	23,611	18,551
	<u>38,382</u>	<u>32,875</u>
Commitments (note 7)		
	<u>\$ 50,389</u>	<u>\$ 46,369</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Dale Gillespie

Director



Azriel Presma

Director

LIQUIDATION WORLD INC.

Consolidated Statement of Earnings and Retained Earnings

For the years ended October 3, 1999, October 4, 1998 and October 5, 1997

(In thousands of dollars, except per share amounts)

	Years ended		
	October 3, 1999	October 4, 1998	October 5, 1997
Sales	\$ 148,958	\$ 134,691	\$ 96,574
Cost of sales	89,919	81,229	57,877
	59,039	53,462	38,697
Expenses:			
Selling and store operations	43,507	37,990	27,620
General and administrative	4,500	4,100	3,260
Depreciation and amortization	1,088	891	613
Interest	522	213	53
	49,617	43,194	31,546
Earnings before income taxes	9,422	10,268	7,151
Income taxes, current (note 5)	4,362	4,474	3,067
Net earnings	5,060	5,794	4,084
Retained earnings, beginning of year	18,551	12,757	8,673
Retained earnings, end of year	\$ 23,611	\$ 18,551	\$ 12,757
Earnings per share:			
Basic	\$ 0.62	\$ 0.73	\$ 0.53
Fully diluted	\$ 0.59	\$ 0.69	\$ 0.49

See accompanying notes to consolidated financial statements.

Note: Earnings per share information has been retroactively restated to reflect the 2 for 1 stock split effected April 14, 1998.

LIQUIDATION WORLD INC.

Consolidated Statements of Cash Flows

For the years ended October 3, 1999, October 4, 1998 and October 5, 1997
(In thousands of dollars)

	Years ended		
	October 3, 1999	October 4, 1998	October 5, 1997
Cash provided by (used in):			
Operations:			
Net earnings	\$ 5,060	\$ 5,794	\$ 4,084
Add (deduct) non-cash items:			
Depreciation and amortization	1,088	891	613
Gain on disposal of capital assets	—	—	(46)
Equity in income of affiliate	(27)	(26)	(27)
	6,121	6,659	4,624
Changes in non-cash operating working capital:			
Accounts receivable	(322)	64	(178)
Inventory	(3,059)	(13,297)	(9,308)
Accounts payable and accrued liabilities	456	(363)	(44)
Prepaid expenses	(179)	2,985	1,632
Income taxes	(399)	506	(604)
	2,618	(3,446)	(3,878)
Investments:			
Purchase of capital assets	(1,663)	(1,507)	(1,570)
Proceeds on disposal of capital assets	—	—	65
Proceeds on disposal of investment in affiliate	147	—	—
	(1,516)	(1,507)	(1,505)
Financing:			
Increase (decrease) in bank indebtedness	(1,544)	4,164	612
Proceeds on issuance of common shares	447	819	481
	(1,097)	4,983	1,093
Increase (decrease) in cash	5	30	(4,290)
Cash and equivalents, beginning of year	147	117	4,407
Cash and equivalents, end of year	\$ 152	\$ 147	\$ 117
Supplemental disclosure of cash paid for:			
Income taxes	\$ 4,765	\$ 4,256	\$ 3,519
Interest	506	212	53
	\$ 5,271	\$ 4,468	\$ 3,572

See accompanying notes to consolidated financial statements.

LIQUIDATION WORLD INC.

Notes to Consolidated Financial Statements

Years ended October 3, 1999, October 4, 1998 and October 5, 1997
(amounts in thousands of dollars, except per share amounts)

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Company, conform in all material respects with those in the United States, except as outlined in note 9.

These consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiary. The Company's 50% interest in an affiliate company is accounted for using the equity method. This investment was sold effective October 3, 1999 for proceeds equal to net book value.

(b) Inventory:

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

(c) Capital assets:

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

(d) Pre-opening costs:

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

(e) Foreign currency translation:

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

(f) Earnings per share:

Basic earnings per share are calculated using the weighted average number of common shares and common share equivalents outstanding during the year. Fully diluted earnings per share reflect the exercise of options as if issued at the beginning of the year.

The imputed interest rate used for purposes of calculating fully diluted earnings per share in the current year is 3% (1998 – 3%, 1997 – 2.5%)

(g) Fiscal year:

The Company's fiscal year ends on the first Sunday of October. Accordingly, the 1999 year end was on October 3, 1999, the 1998 year end was on October 4, 1998 and the 1997 year end was on October 5, 1997, each comprised 52 weeks of operations.

(h) Measurement uncertainty:

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

(i) Cash and equivalents:

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

(j) Deferred income taxes:

The Company follows the deferral method of tax allocation accounting under which the provision for corporate income taxes is based on the earnings reported in the accounts and takes into account the tax effects of timing differences between financial statement income and taxable income.

Notes to Consolidated Financial Statements (Continued)

Years ended October 3, 1999, October 4, 1998 and October 5, 1997
(amounts in thousands of dollars, except per share amounts)

2. Capital assets:

October 3, 1999	Cost	Accumulated depreciation and amortization	Net book value
Furniture and equipment	\$ 6,016	\$ 2,512	\$ 3,504
Leasehold improvements	1,698	836	862
	\$ 7,714	\$ 3,348	\$ 4,366
October 4, 1998			
Furniture and equipment	\$ 4,716	\$ 1,733	\$ 2,983
Leasehold improvements	1,383	575	808
	\$ 6,099	\$ 2,308	\$ 3,791

3. Bank indebtedness:

The Company has an operating line of credit facility at a Canadian bank in the maximum amount of \$25,000 (reviewed annually), bearing interest at the bank's prime rate (6.5% at October 3, 1999). The facility is secured by an assignment of book debts, inventory, insurance, leases on retail premises and a general security agreement providing a charge over all assets.

4. Share capital:

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

	Number of Shares	Amount
Balance, October 6, 1996	7,548,900	\$ 13,024
Issued on exercise of share options	222,440	481
Balance, October 5, 1997	7,771,340	\$ 13,505
Issued on exercise of share options	293,680	819
Balance, October 4, 1998	8,065,020	\$ 14,324
Issued on exercise of share options	179,140	447
Balance, October 3, 1999	8,244,160	\$ 14,771

Notes to Consolidated Financial Statements (Continued)

Years ended October 3, 1999, October 4, 1998 and October 5, 1997
(amounts in thousands of dollars, except per share amounts)

(c) Stock options

Stock options are held by officers, directors and employees of the Company and are exercisable at prices ranging from \$1.625 to \$14.50 per share and expire at various dates to 2003. Options outstanding at the end of the fiscal year are as follows:

	Years ended		
	October 3, 1999	October 4, 1998	October 5, 1997
Outstanding, beginning of year	756,560	848,640	923,080
Granted	230,600	215,800	148,000
Exercised	(179,140)	(293,680)	(222,440)
Cancelled	(14,500)	(14,200)	-
Outstanding, end of year	793,520	756,560	848,640

(d) Stock split:

On April 14, 1998 the Company split its common shares on a 2-for-1 basis. The above information has been restated to give retroactive application of the split.

5. 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 3, 1999	October 4, 1998	October 5, 1997
Statutory income tax rate	44.6%	44.6%	44.6%
Calculated tax expense	\$ 4,202	\$ 4,580	\$ 3,189
Capital taxes	60	60	40
Variation in foreign tax rates	149	(125)	(61)
Other items	(49)	(41)	(101)
	\$ 4,362	\$ 4,474	\$ 3,067

6. Related party transactions:

The Company leases three buildings (20,000 square feet, 22,000 square feet and 34,000 square feet) for three of its retail locations from a company owned by an officer of the Company and a partnership of which the same company is a partner. Base rents approximate \$45 per year to 2003, \$52 per year to 2000 and \$111 per year to 2008, respectively.

During the year the Company disposed of its 50% interest in an affiliated company. Sales to that company were \$34 for the year ended October 3, 1999 (October 4, 1998 - \$43; October 5, 1997 - \$42). Receivables from that company totaled \$nil at October 3, 1999 (October 4, 1998 - \$104; October 5, 1997 - \$26).

Notes to Consolidated Financial Statements (Continued)

Years ended October 3, 1999, October 4, 1998 and October 5, 1997

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

7. Commitments:

- a) The Company leases properties under operating leases covering various years up to 2009. The minimum future payments, excluding tenant operating costs, under these leases in each of the next five years are approximately as follows:

2000	\$	4,832
2001		4,441
2002		4,032
2003		3,610
2004		2,723
Thereafter		6,615
	\$	26,253

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

- b) The Company sells merchandise on a consignment basis and may guarantee a return to a consignor. At October 3, 1999, the total of such guarantees in excess of remittances was \$175 (October 4, 1998 – \$nil; October 5, 1997 – \$2,200).

8. Segmented information:

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

1999	Canada		U.S.		Total
Sales	\$	115,161	\$	33,797	\$ 148,958
Capital assets	\$	3,635	\$	731	\$ 4,366

1998	Canada		U.S.		Total
Sales	\$	105,138	\$	29,553	\$ 134,691
Capital assets	\$	3,073	\$	718	\$ 3,791

1997	Canada		U.S.		Total
Sales	\$	84,273	\$	12,301	\$ 96,574
Capital assets	\$	2,745	\$	430	\$ 3,175

9. Reconciliation to United States accounting principles:

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

- (a) Under U.S. GAAP it is not appropriate to disclose a sub-total for cash provided by operations before working capital requirements in the statements of cash flows. If the statements of cash flows were shown on the U.S. GAAP basis, these sub-totals would not appear.

10. Year 2000:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

CORPORATE INFORMATION

Board of Directors:

Dale Gillespie President C.E.O.
Hubert Marleau President & Managing Director, Palos Capital Corporation
Azriel Presma Retired Businessman
Robert Aaron Roberts Liquidation World Inc.
R. Gordon Marantz Q.C. Barrister & Solicitor, Olser Hoskin & Harcourt

Senior Management Team:

Dale Gillespie President C.E.O.
Wayne Mantika Senior Vice-President
Andrew Searby, C.A. Chief Financial Officer
Derrick Gillespie Vice President, Corporate Purchasing
Ross Roberts Vice President, Prairie Operations
Darren Gillespie Vice President, Pacific Northwest Operations
Jonathan Hill Vice President, Eastern Operations
Robert Aaron Roberts Director, Liquidation World Inc.

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"C", 2410 – 50 Avenue
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LIQUIDATION WORLD

Shares are listed on The Toronto Stock
Exchange under the symbol – LQW
and on NASDAQ under the symbol – LIQWF

LIQUIDATION WORLD INC.