



News Release

For Immediate Release

Liquidation World Announces Second Quarter 2011 Results

BRANTFORD, ON, May 18, 2011 – Liquidation World Inc. (LQW - TSX) (the “Company”), today announces unaudited financial results for the second three month fiscal quarter ending April 3, 2011 and cumulatively for the six months ending April 3, 2011.

As was previously announced, revenue in the second quarter was \$30.0 million, compared with \$37.9 million in the second quarter 2010, a decline of approximately 21% from the second quarter of 2010. On a year-to-date basis, revenue was \$73.4 million compared with \$82.0 million in the first half of 2010.

During the quarter, the Company recorded a net loss of \$14.0 million, (being a loss of \$0.47 per share), compared with a net loss of \$ 2.9 million (being a loss of \$0.18 per share) in the second quarter of fiscal 2010. On a year-to-date basis, the net loss was \$ 20.0 million compared with \$2.2 million in the first half of 2010. Included in the net loss in the quarter was \$3.3 million of write downs and reserves to capital asset values (\$1.8 million) and inventory (\$1.5 million). The comparable amount of write downs and reserves to capital asset values (\$.6 million) and a positive inventory adjustment (\$0.1 million) totalled \$0.5 million in the second quarter of 2010. On a year-to-date basis, the write downs and reserves totalled \$4.1 million in 2011 (capital assets - \$2.0 million; inventory - \$2.1 million) and \$0.7 million in fiscal 2010 (capital assets - \$0.6 million; inventory - \$0.1 million).

Gross margin was \$4.1 million or 13.6% of sales for the second quarter of fiscal 2011 versus \$14.2 million, or 37.4% of sales in the second quarter of fiscal 2010. On a year-to-date basis, gross margin was \$16.8 million or 22.9% compared with \$31.4 million or 38.3% in the first half of 2010. Gross margin, net of inventory reserves, was 18.5% in the second quarter of 2011 and 37.7% in the second quarter of 2010; on a year-to-date basis the adjusted gross margin was 25.7% for 2011 and 38.4% for 2010.

The second quarter of fiscal 2011 proved extremely challenging as the company's liquidity position impacted its ability to refresh its inventory, which is an important driver of the Company's sales. The Company secured additional capital in the second quarter through an \$8.1 million junior secured note offering. This financing, together with the focus on inventory reduction, is reflected in the Q2 financial results by the reduction in bank debt and accounts payable.

The Company's second quarter cash loss from operating activities was \$0.9 million in 2011 versus \$3.4 million in 2010. This differential was due to a higher net loss in Q2 2011 (\$14.0 million) versus Q2 2010 (\$2.9 million) offset by an increase in depreciation amortization and

impairment charges of \$1.2 million and working capital items as follows. In Q2 2011, inventory was reduced by \$15.3 million whereas inventory increased by \$8.1 during the same quarter in 2010. Also, in Q2 2011, accounts payable was reduced by \$5.9 million whereas accounts payable and accrued liabilities increased by \$6.3 million during the same quarter in 2010. The change in prepaid expenses accounted for an additional \$0.9 million.

The decrease in inventory noted above resulted in a reduction in the Company's borrowing under its asset based lending facility due to the borrowing base formula used by the bank to afford the Company credit. The reduction in the Company's ability to borrow funds under its lending facility is one of the principal causes of its liquidity shortfall in the quarter. This reduced borrowing capacity under its asset based lending facility continues to negatively impact the Company during the third quarter of 2011.

The Company is in default of certain financial covenants in its asset based lending facility with its operating lenders. The Company continues to communicate on a regular basis with its bank and other stakeholders to keep them apprised of the Company's efforts to return to positive operational cash flow.

The special committee of the board of directors of the Company continues to work with its advisor, RBC Capital Markets, to secure additional financing, strategic partnerships, and/or M&A opportunities.

Forward-Looking Statements

This release 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. Due to fluctuations in gross margins and expenses, an increase in revenue does not directly correlate to an increase in net earnings.

About Liquidation World

Liquidation World operates 92 stores in Canada. Liquidation World is based in Brantford, Ontario. The Company opened its first store in Calgary, Alberta in 1986 and today, with more than 1,200 employees, is Canada's largest operator of closeout retail stores.

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Consolidated Financial Statements

Consolidated Balance Sheets

As at April 3, 2011 and October 3, 2010

Unaudited

(in thousands of Canadian dollars)

	2011	2010
Assets		
Current assets		
Accounts receivable	\$ 750	\$ 533
Deposits	22	120
Inventory	23,178	39,619
Prepaid expenses	838	1,679
	<u>24,788</u>	<u>41,951</u>
Lease deposits	377	376
Property and equipment	7,698	9,074
	<u>\$ 32,863</u>	<u>\$ 51,401</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness	\$ 3,468	\$ 15,797
Accounts payable and accrued liabilities	20,688	15,623
Current portion of obligations under capital leases	40	127
	<u>24,196</u>	<u>31,547</u>
Subordinated notes	7,709	1,557
Deferred lease inducements	3,133	2,272
Shareholders' equity		
Share capital	32,278	32,224
Warrants	2,674	1,020
Contributed surplus	1,713	1,595
Deficit	<u>(38,840)</u>	<u>(18,814)</u>
	<u>(2,175)</u>	<u>16,025</u>
	<u>\$ 32,863</u>	<u>\$ 51,401</u>

Consolidated Statements Of Loss And Comprehensive Loss And Deficit

For the periods ended April 3, 2011 and April 4, 2010

Unaudited

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

	13 weeks ended April 3, 2011	13 weeks ended April 4, 2010	26 weeks ended April 3, 2011	26 weeks ended April 4, 2010
Revenue	\$ 29,998	\$ 37,885	\$ 73,419	\$ 82,015
Cost of sales	25,914	23,721	56,596	50,573
Gross margin	4,084	14,164	16,823	31,442
Expenses				
Selling, general and administrative	15,166	15,468	32,550	31,026
Depreciation and amortization	2,513	745	3,449	1,491
Impairment of intangibles	-	618	-	618
Interest				
Short term	281	324	657	605
Long term	224	9	322	17
Foreign exchange (gain) loss	(73)	(82)	(129)	(116)
	18,111	17,082	36,849	33,641
Net loss	(14,027)	(2,918)	(20,026)	(2,199)
Deficit, beginning of period	(24,813)	(5,764)	(18,814)	(6,483)
Deficit, end of period	\$ (38,840)	\$ (8,682)	\$ (38,840)	\$ (8,682)
Basic and diluted loss per share	\$ (0.47)	\$ (0.18)	\$ (0.67)	\$ (0.14)

Consolidated Statements Of Cash Flows

For the periods ended April 3, 2011 and April 4, 2010

Unaudited

(in thousands of Canadian dollars)

	13 weeks ended April 3, 2011	13 weeks ended April 4, 2010	26 weeks ended April 3, 2011	26 weeks ended April 4, 2010
Cash provided by (used in):				
Operating activities				
Net loss	\$ (14,027)	\$ (2,918)	\$ (20,026)	\$ (2,199)
Add (deduct) non-cash items:				
Depreciation and amortization	2,513	745	3,449	1,491
Impairment of intangibles	-	618	-	618
Leasehold inducements	128	86	160	91
Loss on disposal of capital assets	4	51	10	59
Stock based compensation	47	32	118	68
Accretion on long term debt	94	4	134	4
Changes in non-cash working capital items	10,309	(2,061)	22,395	(7,616)
	(932)	(3,443)	6,240	(7,484)
Investment activities				
Purchase of capital assets	(669)	(788)	(2,099)	(1,787)
Proceeds on disposal of capital assets	5	4	17	4
	(664)	(784)	(2,082)	(1,783)
Financing activities				
Increase (decrease) in bank indebtedness	(6,616)	1,754	(12,329)	6,755
Repayment of capital leases	(6)	(227)	(87)	(518)
Deposits	2	(13)	(1)	98
Lease inducement	532	760	532	979
Proceeds from subordinated notes and warrant financing	8,100	2,000	8,100	2,000
Fees for issue of subordinated notes and warrant financing	(416)	(47)	(416)	(47)
Proceeds on exercise of warrants	-	-	43	-
	1,596	4,227	(4,158)	9,267
Increase (decrease) in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Supplemental disclosure of cash paid for:				
Income taxes - net	\$ -	\$ -	\$ -	\$ -
Interest paid	457	427	716	611
	\$ 457	\$ 427	\$ 716	\$ 611