



Q2 R E P O R T

2010

**LIQUIDATION
WORLD®**

CORPORATE PROFILE

Quality, brand name merchandise. Much of what you need for daily living – food, consumables, furniture, clothing, housewares, hardware 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 79 fun, friendly and no-frill Liquidation World outlets and 10 "LW-Everybody's Outlet Store" locations.

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

The second quarter results demonstrate the continued progress the Company is making in its turnaround efforts. During a typically slow period for retailers, the Company's finances showed a substantial improvement over the same period last year. In addition, the Company (i) closed eight stores that were underperforming financial and operating targets, (ii) began the process of rebranding, renovating and remerchandising existing "Liquidation World" stores into the "LW-Everybody's Outlet Store" brand, (iii) continued to identify locations that can become new "LW-Everybody's Outlet Store", (iv) upgraded the breadth and depth of its in-store inventory and refined the processes used to allocate inventory to store locations, and (v) added industry expertise to its corporate and store management ranks.

Financial Performance

In the Company's second quarter of fiscal 2010, same store revenue had a modest 0.03% improvement. More importantly, the Company's lessened its losses from the same quarter in fiscal 2009. The Company's net loss for the quarter decreased by \$5.0 million from a net loss of \$7.9 million in fiscal 2009 to a net loss of \$2.9 million in fiscal 2010. In addition, the EBITDA loss was \$5.7 million lower in the second quarter of fiscal 2010 than it was in the second quarter of fiscal 2009. On a year to date basis, the Company has generated \$5 million of EBITDA versus having an EBITDA loss of \$6.7 million for the same year to date period last year. The improved results are driven by several factors, but no factor is more important than the improvements the Company has made to its gross margins. The fiscal 2010 second quarter gross margins improved to 37.4% or \$14.2 million from 21.6% or \$8.3 million in the second quarter of fiscal 2009. We are very pleased with this 15.8% increase.

Store Closings, Openings and Rebranding Initiatives

During the second quarter of fiscal 2010, the Company closed eight underperforming stores so it could redeploy the resources devoted to those stores into the new "LW-Everybody's Outlet Store" brand and into existing Liquidation World stores that can better utilize the inventory that would otherwise have flowed into the closed locations.

The Company also initiated its "LW-Everybody's Outlet Store" rebranding initiative during the second quarter of fiscal 2010. The Company rebranded four Ontario locations -- Thunder Bay, Mississauga, London and Cambridge -- in March and April 2010. These stores have experienced double digit same store sales increases since reopening under the "LW-Everybody's Outlet Store" brand.

The Company continues to work to identify existing Liquidation World stores that would perform at a higher level under the new "LW-Everybody's Outlet Store" brand. Throughout the balance of fiscal 2010, the Company intends to convert between 10 and 15 existing Liquidation World stores into "LW-Everybody's Outlet Store" branded locations. While these conversions require capital expenditures, the Company is mitigating certain of the costs by working with landlords to secure financial support for the changes.

A third initiative is to continue to open new stores under the new brand. In the first quarter of 2010, the Company opened five new "LW-Everybody's Outlet Store" locations. These stores have attracted significant interest from landlords throughout Canada and have helped the Company identify several additional locations for the Company to open as new "LW-Everybody's Outlet Store" formats during the balance of fiscal 2010. In early April, the Company opened a new "LW-Everybody's Outlet Store" in Barrie, Ontario. It is currently has the best performance of all the new stores the Company has opened in fiscal 2010.

Inventory

The Company's inventory levels and SKU assortment continues to increase, allowing stores to realize better sales per square foot. Management continues to work diligently to build a wider assortment of inventory and to accelerate the growth of inventory and SKU's in better performing categories such as apparel and consumables.

Personnel

People are the critical component to building great companies. At Liquidation World, we have been successful in continuing to attract talented people to work in our stores and in corporate management. In the second quarter of fiscal 2010, we hired a new VP of Real Estate Operations who is helping us rationalize our existing store portfolio and find new opportunities to expand the "LW-Everybody's Outlet Store" brand throughout Canada. We also hired a new VP of Human Resources, the first person to occupy that chair in the Company's history. We believe that going forward, the company will be much more able to recruit, retain and train its employee base as the human resources function at the Company is enhanced, supporting these employees as they become part of the Liquidation World family.

Conclusion

We are pleased with the changes that have and are continuing to occur on a daily basis at Liquidation World. We have an experienced and committed team of associates who believe and contribute greatly to establishing a world class retail company. We have made great strides and we are staying the path to execute the vision of becoming Canada's Number #1 closeout liquidation retailer. Most importantly, we continue to successfully implement changes at the Company that will allow it to be consistently profitable, a development that will benefit all the Company's stakeholders.

Thanks again for your support.



Seth Marks
President & Chief Executive Officer

The following Management Discussion and Analysis ("MD&A") is a review of our financial condition and results of operations, based upon Canadian Generally Accepted Accounting Principles ("GAAP") and covers the 13 weeks and 26 weeks ended April 4, 2010.

This MD&A is dated as of May 13, 2010 and should be read in conjunction with the unaudited Interim Consolidated Financial Statements and accompanying Notes. This MD&A contains 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.

This document has been reviewed by the Audit Committee and Board of Directors of the Company and contains information that is current as of May 13, 2010. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Dollar amounts shown are in thousands of Canadian dollars, except per share amounts.

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

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 90 corporately run stores and through its Chicago-based US wholesale operation. A typical Liquidation World store occupies between 20,000 and 25,000 square feet.

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 vendors because it is big enough to transact large purchases and can effectively move merchandise away from key US markets.

The success of Liquidation World's business model is predicated on its ability to service key constituents, namely consumers and vendors. Consumers 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. With its financial resources, scale and positive reputation among vendors, the Company capitalizes on inventory opportunities as they arise.

OVERALL PERFORMANCE

A summary of results of operations for the second quarter of 2010 comprising the 13 weeks ended April 4, 2010 is as follows:

- Eight stores were closed during the quarter; no new stores were opened.
- Sales decreased .67% to \$37,885 from \$38,142 in the prior year.
- Same store sales increased .03% from the prior year.
- Gross margin increased to 37.4% from 21.6% in the prior year.
- Selling, general and administrative expenses of \$15,468, including restructuring costs of \$994 in the quarter; increased to 40.8% of sales in Q2, 2010 compared to \$15,192 (39.8% of sales in Q2 2009), which included \$588 of restructuring costs.
- A net loss of \$2,918 was recorded for the quarter. In the corresponding quarter of 2009, the Company recorded a net loss of \$7,927.
- EBITDA for the second quarter of 2010 was \$(1,222) (3.2% of sales), as compared to \$(6,943) (18.2% of sales) in the comparable quarter of 2009.

RESULTS OF OPERATIONS

Revenue

Revenue for the quarter ended April 4, 2010 was \$37,885 as compared to \$38,142 in the same quarter last year representing a decrease of \$257 or .67%. The decrease was attributable to i) an increase in same store sales of .03% or \$11, ii) a net favourable impact of \$389 arising from new store openings (\$2,428) net of store closures (\$2,039), iii) a decrease in liquidation services fee revenue of \$314 and iv) a decrease of \$343 attributable to US wholesale sales.

Revenue for the 26 weeks ended April 4, 2010 decreased by 3.7% or \$3,186 to \$82,015 from \$85,201 during the same period in fiscal 2009. The decrease was attributable to i) a decline in same store sales of 4.37% or \$3,218, ii) a net favourable impact of \$431 arising from new store openings (\$5,457) net of store closures (\$5,026), and iii) a decrease in liquidation services fee revenue of \$391 and iv) a decrease of \$8 attributable to US wholesale sales.

Inventory at the end of the second quarter increased \$12,917 (39.7%) to \$45,481 from \$32,564 in the comparable quarter in 2009.

Gross Margin

Gross margin was \$14,164 in Q2 2010 or 37.4% of sales versus \$8,251 or 21.6% of sales in Q2 2009. The increase in gross margin rate in fiscal 2010 was primarily due to improved merchandise procurement practices, focused on selection and pricing, resulted in higher point of sale margins. The Company undertook significant efforts during Q2 2009 to reduce inventory through aggressive markdowns on slow moving and older inventory, which combined with shrinkage, negatively impacted the Q2 2009 gross margin by \$5,708.

On a year-to-date basis the gross margin was \$31,442 or 38.3% of sales compared to \$24,076 or 28.3% of sales in the corresponding period in fiscal 2009. The Company undertook significant efforts during Q2 2009 to reduce inventory through aggressive markdowns on slow moving and older inventory, which combined with shrinkage, negatively impacted the year-to-date gross margin by \$8,087.

Gross margins can fluctuate as a result of the underlying cost of product purchased, distribution and processing 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 and all head office general and administrative costs, increased to \$15,468 (40.8% of sales) in Q2 2010 from \$15,192 (39.8% of sales) in Q2 2009. Certain expenses, which totaled \$994 in the second quarter of 2010, arose primarily from organizational restructuring, related to costs associated with the setup of new stores and other store closing costs, compared to \$588 incurred in the Q2 2009, principally related to severance costs and store closing costs.

On a year-to-date basis, selling, general and administrative expenses were \$31,026 or 37.8% of sales in 2010 (including restructuring costs of \$1,385) as compared to \$30,775 or 36.1% of sales (including restructuring costs of \$1,485) during the same period in fiscal 2009.

Depreciation and Amortization

Depreciation and amortization decreased in Q2 2010 by \$80 (9.7%) to \$745 from \$825 in Q2 2009. On a year-to-date basis depreciation and amortization decreased by \$190 (11.3%) to \$1,491 in fiscal 2010 compared to \$1,681 in the same period of fiscal 2009. Decreases were attributable to the impact of fully depreciated assets exceeding new capital expenditures, partially offset by amortization of intangible assets.

Impairment of Intangible Assets

The Company recorded an impairment charge of \$618 in Q2 2010, related to the intangible assets which were part of the 2009 Talon acquisition. This resulted in no intangible assets on the Company's consolidated balance sheet as at April 4, 2010.

Interest

Total interest expense in Q2 2010 increased to \$333 as compared to \$159 in Q2 2009. On a year to date basis, interest expense was \$622 in fiscal 2010 as compared to \$372 during the same period in fiscal 2009. Interest expense was higher than the prior year due to higher borrowing levels and higher effective interest rates resulting from an amendment to the Company's credit facility in August 2009, partially offset by declining capital lease obligations.

Foreign Exchange

During the quarter, the Company recorded a net foreign exchange gain of \$82 compared to a foreign exchange loss of \$2 in Q2 2009. On a year-to-date basis, the Company recorded a net foreign exchange gain of \$116 compared to a net foreign exchange gain of \$16 during the same period in fiscal 2009. Exchange gains or losses are incurred on US dollar transactions and period end balances.

Income Taxes

The statutory income tax rate in effect in Q2 2010 was 30.21% (Q2 2009 – 31.5%). The Company recorded no income tax provision in Q2 2010 and Q2 2009. As a result of income tax losses in the current and prior periods, the Company has accumulated income tax loss carry-forwards of approximately \$26,770 in Canada and \$9,112 in the US, at the end of Q2 2010.

Net Loss

The Company recorded a net loss for Q2 2010 of \$2,918 or \$0.18 per share compared with a net loss of \$7,927 or \$0.60 per share in Q2 2009. On a year-to-date basis, the Company recorded a net loss of \$2,199 or \$.14 per share in fiscal 2010 compared to a net loss of \$8,736 or \$0.81 per share during the same period in fiscal 2009.

CASH FLOW, FINANCIAL RESOURCES AND LIQUIDITY

Cash Flow

During the second quarter of 2010, the Company increased bank borrowings, entered into a private placement financing and received proceeds from lease inducements, generating funds to offset operating losses, increase inventory and fund capital expenditures.

Cash Flow From Operating Activities

Cash flow consumed in operating activities in the quarter ended April 4, 2010, before changes in non-cash working capital, was \$1,382 compared to cash consumed of \$7,016 for the same quarter in 2009.

Changes in non-cash working capital in the quarter was a use of cash of \$2,061 compared to a source of cash of \$7,956 in the second quarter of 2009. The quarterly changes in non-cash working capital were comprised of the following:

	Q2 2010	Q2 2009
Accounts receivable	\$ (329)	\$ (538)
Inventory	(8,077)	12,485
Prepaid expenses	17	185
Accounts payable and accrued liabilities	6,328	(4,176)
Total	\$ (2,061)	\$ 7,956

The increase in inventory in the quarter of \$8,077 (\$11,540 year to date) reflects the focus of the Company on rebuilding inventory to planned operating levels in order to increase product quantities and assortment and increase average transaction amounts. The inventory build was effectively financed through a combination of increased bank borrowings and an increase in accounts payable and accrued liabilities.

Cash Flow Used In Investing Activities

During the quarter, the Company incurred capital expenditures of \$788 as compared to \$408 in the second quarter of 2009. Expenditures were focused mainly on new stores and existing store conversions,

compared to expenditures for information technology projects and investment in existing store refurbishments in 2009.

Cash Flow From Financing Activities

In Q2 2010 there was cash provided through an increase in bank indebtedness of \$1,754 and lease inducement receipts of \$760. In addition, on March 19, 2010, the Company received gross proceeds of \$2,000 (net \$1,953 after transaction costs) from the completion of a private placement financing arrangement, repayable no later than March 19, 2013.

Contractual Obligations

Payments due by period (\$000's)	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Financial Commitments					
Subordinated notes	\$ —	\$ 2,000	\$ —	\$ —	2,000
Capital leases	297	41	\$ —	\$ —	338
Contractual Obligations					
Store leases	13,205	22,800	16,959	22,464	75,428
Vehicle and equipment leases	23	8	—	—	31
Total	\$ 13,525	\$ 24,849	\$ 16,959	\$ 22,464	\$ 77,797

Financial Position and Liquidity

On October 17, 2008, the Company entered into an asset-based lending facility with a Canadian Chartered Bank for a maximum of \$20,000 to replace the former demand facility with the same bank. The agreement was subject to certain amendments in fiscal 2009. This agreement expires on October 17, 2011, if not renewed, is collateralized with the assets of the Company and contains certain financial covenants. The Company also has a \$5,000 capital lease provision under this facility. The bank, at its discretion, may effectively decrease the borrowing base and thereby funding availability.

At the end of Q2 2010, \$18,535 had been drawn on the asset-based lending facility with a corresponding borrowing base of \$18,705. The Company had net cash on hand of \$3,022 resulting in net bank indebtedness of \$15,513 as compared with \$8,762 drawn, net cash on hand of \$5,611 and net bank indebtedness of \$3,151 at the end of Q2 2009.

As at the end of Q2 2010 the Company had total liquidity of \$3,192, net of an \$89 outstanding letter of credit and inclusive of cash on hand, and additional availability under the \$20,000 facility of \$1,376 that could be utilized in the partial funding of the continued increases in inventory levels.

The Company was in compliance with its financial debt covenants through the second quarter of 2010. Working capital decreased \$6,468 (37.9%) to \$10,577 at the end of Q2 2010 compared to \$17,045 at the end of Q2 2009 due mainly to the increase in bank indebtedness and account payable exceeding the increase in inventory.

On March 19, 2010, the Company completed a private placement financing (the "Financing"), with Talon Mezzanine Partners LLC and Oakwest Corporation Limited (together, the "Subscribers"). The \$2,000 aggregate Financing involved the purchase by each of the Subscribers of one unit (each a "Unit") issued by the Company, with each Unit consisting of (i) \$1,000 principal amount of newly issued secured non-convertible subordinated notes (the "Notes") of the Company with a three year term due on March 19, 2013; and (ii) common share purchase warrants (the "Warrants") exercisable into 791,614 common shares of the Company, with a five year term and an exercise price of \$0.66 per share. The Notes are not negotiable instruments, ranking equally and ratably with each other and are subordinate to all of the Company's obligations from time to time to its operating lender or lenders.

The Notes are collateralized with a subordinated interest in the assets of the Company and also contain certain provisions with respect to default interest, prepayment rights, and a subsidiary guarantee of the obligations under the Notes.

On March 31, 2010, the Company's senior lender delivered a notification of breach of the loan agreement dated October 17, 2008 as a result of the private placement financing which closed on March 19, 2010.

As a result of that breach, the Company delayed the interest payment due on March 31, 2010 to the subordinated notes holders which resulted in a breach of the subordinated notes. On April 9, 2010 the Company, its senior lender and subordinated notes holders signed a priorities agreement which resolved the breaches.

SENIOR MANAGEMENT CHANGES

The Company's Senior Executive Vice President and Chief Financial Officer resigned, effective March 12, 2010. The Company's Vice-President of Finance, who has been with the Company since May 2008, was appointed to the role of Chief Financial Officer effective March 5, 2010.

On April 30, 2010 the Company announced the transition of the Chief Operating Officer to the role of Operations advisor to Liquidation World. This new role will have a continuing focus on new store openings and conversions. The current Vice President of Store Operations, will assume additional responsibility within the organization.

OUTLOOK

While the Company reported a net loss of \$2,918 in the quarter, a significant portion was due to an impairment charge of \$618, related to the U.S. Talon wholesale business, and costs associated with store closures and new store setups of \$944, the benefits of which are expected to be reflected in future quarters. The Company continues to execute on other business improvement initiatives focused on returning the Company to sustainable profitability. Same store sales trends improved over last quarter and are expected to continue. The additional funding obtained during the quarter is a positive sign of the support that investors have regarding the future of the business. The Company continues to explore additional funding opportunities to finance ongoing store conversions and new store plans.

RISKS AND UNCERTAINTIES

The Company is principally engaged in the sale of goods through 90 leased retail stores. The Company is also engaged in the sale of merchandise through its US wholesale operation based in Chicago Illinois. The Company's business is subject to a number of factors which directly impact sales over which it has no control, namely swings in consumer confidence and buying habits and the changes in goods available for purchase.

Geographically, the Company's stores are located in cities and towns of various sizes. The Company has good relationships with its landlords and suppliers and has no reason to believe that it is exposed to any material risk that would prevent the Company from acquiring, distributing and/or selling its merchandise on an ongoing basis.

Recent Changes in Economic Conditions, Consumer Confidence and Consumer Spending

The Company's performance is subject to general economic conditions and their impact on levels of consumer confidence and consumer spending. Recently, consumer confidence and consumer spending have deteriorated and could remain depressed for an extended period. Some of the factors influencing this deterioration include credit availability, fluctuating commodity prices, higher levels of unemployment, higher consumer debt levels, reductions in net worth based on market declines and general uncertainty regarding the overall future economic environment. Consumer purchases of discretionary items, including some of the Company's merchandise, can decline during periods when disposable income is adversely affected or there is economic uncertainty. This has recently adversely impacted, and could in the future adversely impact, the Company's business, cash flow and results of operations. The Company monitors economic developments in the markets in which it operates and uses this information in its continuous strategic and operational reviews in an effort to adjust its business in response to changing economic conditions.

Customer Shopping Patterns and Preferences

Changes in customer shopping patterns could affect sales. Most of the Company's stores are located in enclosed shopping malls and power centres. The ability to sustain or increase the level of sales depends in part on the continued popularity of malls and/or power centres as shopping destinations and the ability of malls and/or power centres tenants and other attractions to generate a high volume of customer traffic. Many factors that are beyond the control of the Company may decrease shopping mall and/or

power centre traffic, including economic downturns, a general softening of consumer demand, increased customer price sensitivity, rising unemployment rates, closing of anchor department stores, weather conditions, construction and accessibility, and alternative shopping formats such as e-commerce, discount stores and lifestyle centres, among other factors. Any changes in consumer shopping patterns could adversely affect the Company's financial condition and operating results.

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, at times 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.

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

Weather

Extreme changes in weather can affect the planned receipt of inventory, distribution of merchandise and/or the timing of consumer spending and may have an adverse effect upon the Company's business and results of operations. In particular, harsh or unusual weather conditions, especially during the Company's peak selling season, may have an adverse effect on the Company's sales.

Seasonality

The Company's business is seasonal, as are most retail businesses. Historically, 28% of the Company's total annual sales have been generated during its first fiscal quarter, which includes the holiday selling season. The Company's results of operations depend significantly upon the sales generated during this period. Any material decrease in sales for such period could have a material adverse effect upon the Company's business and profitability. The Company's quarterly results of operations may also fluctuate as a result of a variety of other factors, including the timing of new store openings and net sales contributed by new stores, the impact of new stores on existing stores within the same trade area, the impact of selected store closures, the timing of redemption of gift cards, the merchandise mix, the timing and level of markdowns and promotions initiated by the Company, the timing and level of markdowns and promotions initiated by competitors and consumer shopping patterns and preferences. Any significant decline in sales during a particular period or a decrease in sales over a prolonged period of time could have a material adverse impact on the Company's business, cash flow and results of operations.

Competition

The retail industry is highly competitive with price, quality, service, selection, fashion, location and store environment being the principal competitive factors. The Company competes with numerous national and international mass merchandisers, discounters, and department stores, some of which are significantly larger and have substantially greater resources than the Company. The Company faces a variety of competitive challenges including: (a) anticipating and quickly responding to changing consumer demands; (b) competitively pricing products and achieving customer perception of value; and (c) maintaining high levels of consumer traffic. Increased competition may reduce sales, increase operating expenses decrease profit margins which negatively affect the Company's ability to maintain or obtain site locations, and to attract and retain sales associates and other employees.

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 23-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

All of Liquidation World's properties, including its head office, distribution centers and store locations are leased. Competition for prime locations within shopping malls, power centres and for street-front locations is intense and there can be no assurance that Liquidation World will be able to obtain new locations, relocate existing stores, or renew its leases in respect of existing locations at existing or favourable terms. Any increase in retail rental rates or occupancy costs may result in an adverse effect upon the Company's results of operations. In addition, any factors which materially affect the Company's ability to renovate existing locations or the Company's ability to close or relocate undesirable locations, if any, could adversely impact the Company's operations.

Foreign Currency Risk

A significant portion of the Company's products purchases are denominated in US dollars. Accordingly, the Company's foreign currency exposure is mainly related to fluctuations between the Canadian and US dollar. A sudden increase in the US dollar could result in higher costs to the Company which could in turn result in increased prices and reduced sales, decreased profit margins and negatively impact the Company's business and results of operations.

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.

Senior Management

Liquidation World's success depends largely on the efforts and abilities of the current senior management team. In particular Mr. Seth Marks, President and Chief Executive Officer, who has been with the Company since February 2009, has extensive experience and relationships. The senior management team and Mr. Mark's experience and contacts in the industry significantly benefit the Company. If the Company were to lose the benefit of senior managers' experience and contacts, the Company could be adversely affected.

Management Information Systems

In order to support the current and future requirements of the business, the Company is reliant on information technology systems and vendors to support, maintain and periodically upgrade merchandise, distribution, design, accounting and financial reporting packages which are essential in providing management with the appropriate information for decision making. The inability of these vendors to continue to support, maintain and/or upgrade these software programs could disrupt operations if the Company were unable to maintain adequate systems and reporting or convert to alternate systems in an efficient and timely manner.

Financing Risk

The Company believes that existing credit facilities combined with future anticipated cash flow will be adequate to satisfy its needs for the foreseeable future. There is no guarantee that the Company's anticipated cash flow will prove to be accurate or that its existing credit facilities will continue to be available or sufficient in the event of any unanticipated contingencies. Material factors that could result in the Company being unable to fund its working capital needs and planned capital investment program include, (i) a material default or breach of a bank covenant that results in the Company's existing credit facilities being withdrawn, (ii) decreases in sales from existing stores, (iii) changes in consumer shopping patterns that result in lower traffic to the Company's stores or decreased sales, (iv) continued deterioration of economic conditions, consumer confidence or consumer spending, and (v) any material disruption to or contraction of the Company's operations. In addition, the current unfavourable financial

market conditions have resulted in diminished availability of external funding and increased related costs. There can be no assurance that our current levels of liquidity will continue or that our ability to access the credit or capital markets, if required, will not be adversely affected by changes in the financial markets and the global economy.

Under the new asset based lending facility started in October 2008 and amended in 2009, 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.

Other than the breach referred to under the Cash Flow, Financial Resources and Liquidity section, the Company was in compliance with its financial debt covenants through the second quarter of 2010.

Concentration of Head Office and Distribution Centre

Liquidation World's corporate office and main distribution centre are in one location. Operations could be materially and adversely affected if a catastrophic or other event (such as, but not limited to, a fire, tornado, flood, earthquake, or act of terrorism) impacts the use of this facility.

Risks of Business Strategy

There can be no assurance that the Company's business strategy will be successful or that the Company's overall net revenue will increase as a result of an increase in the number of retail stores, the relocation of existing stores or a change in the merchandise offering and/or marketing strategy. The Company's future growth and profitability may be restricted if it is unable to open new stores on a profitable basis, relocate or close underperforming stores, increase sales at existing stores, identify, consummate and integrate strategic acquisitions, renew leases in respect of existing locations at existing or favourable terms, identify, negotiate, lease and open stores in suitable locations on a profitable and timely basis, obtain necessary capital to operate the business and hire, train and retain qualified personnel, including management, executives and sales associates. Additionally, the Company's business strategy and its ability to implement its business plans are dependent upon the availability of cash from the Company's operations and under the Company's credit arrangements to finance such strategies along with its working capital needs. Factors that could negatively impact the Company's availability of cash include any inability to renew its existing credit facilities or to obtain an alternative acceptable credit facility or financing arrangement, decreases in sales from existing stores, changes in consumer shopping patterns that result in lower traffic in the Company's stores, or decreased sales or any other material disruption in the Company's operations. The occurrence of any of the foregoing factors could have a material adverse effect on the Company's business and financial condition.

Legal Proceedings

In the course of its business, the Company may from time to time become involved in various claims and legal proceedings. The results of any such claims or proceedings cannot be predicted with certainty. To the extent any such claims or proceedings are of a material nature, and the Company is unable to resolve the disputes favourably, it may have a material adverse impact on the Company's business, financial condition and results of operations.

TRANSACTIONS WITH RELATED PARTIES

During fiscal 2009, the Company entered into certain agreements with members of the Board of Directors and executive management, or parties related thereto, for the provision of goods and services in connection with the normal course of operations. The Board of Directors was aware of these arrangements as they arose and satisfied that the value, terms and conditions were comparable to similar third party agreements. The value of these goods and services expensed during the second quarter of 2010 was \$32, measured at the exchange amount and has been reflected in selling, general and administrative expenses, of which \$22 represents a reduction in prepaid expenses, with the balance of \$10 included in accounts payable and accrued liabilities as at April 4, 2010. The outstanding related party contractual obligation as at April 4, 2010 was approximately \$401 related to the balance of services to be provided over the next five years.

There was one new related party transaction entered into during the second quarter of 2010 for \$2 related to store upgrades (none in the first quarter of 2010). In addition, the Company completed a private placement financing with entities related to two of the Company's principal shareholders, through

non-convertible junior secured notes and 1,583,228 non-transferable common share purchase warrants, exercisable after July 19, 2010. The transaction will not materially affect control of the Company. The financing closed on March 19, 2010 and provided the Company with \$2,000 in additional term funding, due at the end of three years. The debt bears interest at a stated rate of 12% which increases to 18% in the event of default. The financing contains certain guarantees provided by a subsidiary of the Company, subordinated security against certain assets of the Company and other provisions in the event of future restructuring and reorganization activities, including change of control. The warrants are exercisable over a five year period at a price of \$0.66/common share.

There were no related party transactions in the first two quarters of 2009.

NEW CICA ACCOUNTING PRONOUCEMENTS

In January 2009, the CICA issued CICA Handbook 1582, "Business Combinations", which replaces CICA Handbook Section 1581, "Business Combinations". The CICA also issued CICA Handbook Section 1601, "Consolidated Financial Statements" and CICA Handbook Section 1602, "Non-Controlling Interests", which replaces CICA Handbook Section 1600, "Consolidated Financial Statements". These new sections are based on the International Accounting Standards Board's ("IASB") International Financial Reporting Standard 3, "Business Combinations". The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and US accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items.

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 engaged an advisor to conduct a diagnostic review and has recently received their report which is currently being reviewed by management to determine the IFRS conversion plan. At this time it is too early to assess the financial impact of the conversion. The Company has recently engaged outside consultants to assist with the conversion process.

OUTSTANDING SHARE DATA

As of April 4, 2010 and April 5, 2009, the Company had authorized for issuance unlimited common shares of which 15,848,122 were issued and outstanding, including the increase of 7,600,000 common shares arising from the February 4, 2009 Talon transaction. As of April 4, 2010, the total number of stock options reserved to acquire common shares of the Company was 1,584,812 of which 1,065,400 were outstanding. As of April 5, 2009 the total number of stock options reserved to acquire common shares of the Company was 1,584,812 of which 1,186,300 were outstanding.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) 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 (the "Certifying Officers"), on a timely basis so that appropriate decisions can be made regarding public disclosure within the required time periods specified under securities legislation. The Certifying Officers are responsible for establishing and maintaining the Company's disclosure controls and procedures.

The Company's management, inclusive of the Certifying Officers, does not expect that the Company's disclosure controls and procedures will prevent or detect all error and fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control

issues and instances of fraud or error within the Company, if any, have been detected. Based on the evaluation of the Company's disclosure controls and procedures, the Certifying Officers have concluded that, subject to the inherent limitations referred to above, these controls are appropriately designed and were operating effectively as at October 4, 2009.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with Canadian GAAP. The Certifying Officers are responsible for establishing and maintaining adequate ICFR for the Company.

The Certifying Officers evaluated the effectiveness of the Company's ICFR as at October 4, 2009, in consultation with a third party advisor. Based on that evaluation, the Certifying Officers have concluded that the ICFR, as defined in National Instrument 52-109, are appropriately designed and operating effectively and that no material weaknesses were identified. It is recognized that in reaching this conclusion internal controls over financial reporting, no matter how well designed have inherent limitations. Therefore, internal controls over financial reporting can only provide reasonable, not absolute assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Certifying Officers have evaluated whether there were any changes in the Company's ICFR that occurred during the quarter ended April 4, 2010 that have materially affected, or are reasonably likely to materially affect, its ICFR. No such changes were identified through their evaluation.

SUPPLEMENTARY DATA

SELECTED QUARTERLY FINANCIAL 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	April 4 2010	January 3 2010	October 4 2009	July 5 2009
Total Revenue	\$ 37,885	\$ 44,130	\$ 35,564	\$ 37,044
Net income (loss) and comprehensive income (loss)	(2,918)	719	(3,388)	(5,457)
Net income (loss) per common share Basic and Fully Diluted	(0.18)	0.05	(0.21)	(0.34)

Quarter ended	April 5 2009	January 4 2009	October 5 2008	July 6 2008
Total Revenue	\$ 38,142	\$ 47,059	\$ 43,560	\$ 43,765
Net loss and comprehensive loss	(7,927)	(809)	(2,707)	(3,783)
Net loss per common share Basic and Fully Diluted	(0.60)	(0.10)	(0.33)	(0.46)

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS - see note 1 As at April 4, 2010 and October 4, 2009

Unaudited
(in thousands of Canadian dollars)

	2010	2009
Assets		
Current assets		
Accounts receivable	\$ 863	\$ 1,554
Deposits	39	113
Inventory (note 3)	45,481	33,941
Prepaid expenses	1,634	1,622
	48,017	37,230
Lease deposits	216	247
Property and equipment (note 4)	8,881	8,613
Intangibles (note 5)	-	653
	\$ 57,114	\$ 46,743
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 6)	\$ 15,513	\$ 8,758
Accounts payable and accrued liabilities	21,630	17,408
Current portion of obligations under capital leases	297	710
	37,440	26,876
Obligations under capital leases	41	145
Subordinated notes (note 7)	1,478	-
Deferred lease inducements (note 8)	2,406	2,321
Shareholders' equity (note 10)		
Share capital	22,330	22,330
Warrants	479	-
Contributed surplus	1,622	1,554
Deficit	(8,682)	(6,483)
	15,749	17,401
	\$ 57,114	\$ 46,743

See accompanying notes.

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
AND DEFICIT** - see note 1

For the periods ended April 4, 2010 and April 5, 2009

Unaudited

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

	13 weeks ended April 4, 2010	13 weeks ended April 5, 2009	26 weeks ended April 4, 2010	26 weeks ended April 5, 2009
Revenue	\$ 37,885	\$ 38,142	\$ 82,015	\$ 85,201
Cost of sales	23,721	29,891	50,573	61,125
Gross margin	14,164	8,251	31,442	24,076
Expenses				
Selling, general and administrative	15,468	15,192	31,026	30,775
Depreciation and amortization	745	825	1,491	1,681
Impairment of intangibles	618	–	618	–
Interest				
Short term	324	138	605	321
Long term	9	21	17	51
Foreign exchange (gain) loss	(82)	2	(116)	(16)
	17,082	16,178	33,641	32,812
Net loss	(2,918)	(7,927)	(2,199)	(8,736)
Net loss and comprehensive loss	(2,918)	(7,927)	(2,199)	(8,736)
Retained earnings (deficit), beginning of period	(5,764)	10,289	(6,483)	11,098
Retained earnings (deficit), end of period	\$ (8,682)	\$ 2,362	\$ (8,682)	\$ 2,362
Basic and diluted loss per share	\$ (0.18)	\$ (0.60)	\$ (0.14)	\$ (0.81)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS - see note 1

For the periods ended April 4, 2010 and April 5, 2009

Unaudited

(in thousands of Canadian dollars)

	13 weeks ended April 4, 2010	13 weeks ended April 5, 2009	26 weeks ended April 4, 2010	26 weeks ended April 5, 2009
Cash provided by (used in):				
Operating activities				
Net loss	\$ (2,918)	\$ (7,927)	\$ (2,199)	\$ (8,736)
Depreciation and amortization	745	825	1,491	1,681
Impairment of intangibles	618	—	618	—
Leasehold inducements	86	37	91	—
Loss on disposal of capital assets	51	11	59	25
Stock based compensation (note 10(b))	32	38	68	90
Accretion on long term debt	4	—	4	—
Changes in non-cash working capital items (note 9)	(2,061)	7,956	(7,616)	12,347
	(3,443)	940	(7,484)	5,407
Investment activities				
Purchase of capital assets	(788)	(408)	(1,787)	(482)
Proceeds on disposal of capital assets	4	—	4	—
	(784)	(408)	(1,783)	(482)
Financing activities				
Increase (decrease) in bank indebtedness	1,754	(4,206)	6,755	(8,275)
Repayment of capital leases	(227)	(288)	(518)	(612)
Proceeds from subordinated notes (note 7)	2,000	—	2,000	—
Deposits	(13)	—	98	—
Lease inducement	760	—	979	—
Fees for issue of common shares	—	(788)	—	(788)
Fees for issue of subordinated notes and warrants (note 7)	(47)	—	(47)	—
Proceeds on issuance of common shares for cash	—	4,750	—	4,750
	4,227	(532)	9,267	(4,925)
Increase (decrease) in cash	—	—	—	—
Cash, beginning of period	—	—	—	—
Cash, end of period	\$ —	\$ —	\$ —	\$ —
Supplemental disclosure of cash paid (received) for:				
Income taxes - net	\$ —	\$ (2)	\$ —	\$ 5
Interest paid	427	159	611	372
	\$ 427	\$ 157	\$ 611	\$ 377

See accompanying notes.

Unaudited

April 4 2010

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

1. Basis of Presentation and Going Concern

The accompanying unaudited interim consolidated financial statements for Liquidation World Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements dated October 4, 2009. These interim consolidated financial statements should be read in conjunction with the annual statements.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which assumes that the future operations will allow for the realization of assets and discharge of liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due.

In fiscal 2009, the Company experienced declining revenues and incurred a loss from continuing operations before income taxes of \$17,581. The losses were primarily funded through changes in working capital amounts (principally inventory) and use of available lending facilities. For the six month period ended April 4, 2010, the Company incurred a loss of \$2,199 and cash used in operations was \$7,484.

On March 31, 2010 the Company's senior lender delivered a notification of breach of the loan agreement dated October 17, 2008 as a result of the private placement financing which closed on March 19, 2010 (see Notes 6 and 7). As a result of that breach, the Company delayed the interest payment due on March 31, 2010 to the subordinated notes holders which resulted in a breach of the subordinated notes. On April 9, 2010 the Company, its senior lender and subordinated notes holders signed a priorities agreement which resolved the breaches.

The Company's ability to continue as a going concern is uncertain and is dependent on its ability to achieve profitable operations or obtain alternative financing. The outcome of these matters cannot be predicted at this time. These interim consolidated financial statements do not include any adjustments to the carrying value and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and any such adjustments could be material.

2. Significant Accounting Policies

(a) Basis of presentation:

These unaudited 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) 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. Significant areas requiring the use of estimates relate to the determination of future tax assets and liabilities, provisions relating to returns, inventory shrink and valuation, the remaining useful life of property and equipment and future cash flows used to assess impairment of long-lived assets. Actual results could differ from those estimates.

(c) New Accounting Pronouncements

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS

comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for its first quarter of 2012, for which the current and comparative information will be prepared under IFRS. The Company expects that the transition to IFRS will impact accounting, financial reporting, internal control over financial reporting, income taxes, IT systems and processes as well as certain contractual arrangements. The Company is currently assessing the impact of the transition to IFRS in the above areas to ensure that adequate trained resources and formal project management practices and governance are in place to facilitate the timely conversion to IFRS.

In January 2009, the CICA issued CICA Handbook 1582, "Business Combinations", which replaces CICA Handbook Section 1581, "Business Combinations". The CICA also issued CICA Handbook Section 1601, "Consolidated Financial Statements" and CICA Handbook Section 1602, "Non-Controlling Interests", which replaces CICA Handbook Section 1600, "Consolidated Financial Statements". These new sections are based on the International Accounting Standards Board's ("IASB") International Financial Reporting Standard 3, "Business Combinations". The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and US accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items.

3. Inventories

The amount of inventories charged as expense during the second quarter of 2010 was \$23,721 (\$50,573 year to date) compared to \$29,891 in the corresponding quarter of 2009 (\$61,125 – year to date). The Company recorded a valuation reserve against inventory of \$322 in the second quarter of 2010, which represents a decrease over the prior quarter reserve of \$125. Approximately \$40,088 of inventory was pledged as collateral under the bank's credit facility at April 4, 2010.

4. Property and Equipment

Amortization of equipment held under capital leases was \$132 in the second quarter of 2010 (\$274 year to date) compared to \$174 in the corresponding quarter of 2009 (\$360 year to date).

In the second quarter and on a year to date basis there was no impairment charge in 2010 or 2009 related to long-lived assets classified as property and equipment.

5. Intangibles

The amortization related to the intangible assets was \$18 in the second quarter of 2010 (\$35 year to date) compared to \$nil in the corresponding quarter of 2009 (\$nil year to date) and is included in depreciation and amortization expense. The continuity of the intangible assets is as follows:

	April 4 2010	October 4 2009
Balance - beginning of period	\$653	\$ –
Additions	–	700
Less amortization	35	47
Less: impairment	618	–
Balance - end of period	\$ –	\$653

Following the guidance under CICA Handbook Section 1581 – "Business Combinations" in the allocation of the \$2,850 purchase price in connection with the acquisition of the Talon Wholesale Business on February 4, 2009, it was determined in the fourth quarter of 2009 that \$700 was related to intangible assets. Accordingly, amortization commenced in the fourth quarter of 2009, reflecting a year to date adjustment.

During the first half of fiscal 2010, continuing negative operating results in the wholesale business combined with uncertainty regarding future forecasts significantly reduced the valuation of the Company's Talon subsidiary. As a result, at the end of the second quarter of 2010 the Company recorded an impairment charge in the wholesale business of \$618 related to the long lived assets classified as intangibles (nil – 2009). After this impairment charge, there remained no net intangibles on the Company's consolidated balance sheet.

The intangible impairment charge is non-cash in nature and did not affect the Company's liquidity, cash flows from operations, or debt covenants and will not have an impact on future operations. This impairment charge is not currently deductible for tax purposes; therefore, there was no corresponding tax benefit in 2010.

6. Bank Indebtedness

At April 4, 2010, the Company has an operating line of credit facility at a Canadian chartered bank in the maximum amount of \$20,000 (reviewed annually and subject to a maximum determined by inventory levels and certain reserves). In the second quarter of 2010, interest on this facility was charged at the bank's prime rate plus 500 basis points. In the second quarter of 2009, interest on this facility was prime plus 90 basis points until January 22 when the interest rate was increased to prime plus 200 basis points. The prime rate of this chartered bank was 2.25% at April 4, 2010 (2.5% at April 5, 2009). At the end of Q2 2010, \$18,535 had been drawn on this facility with a corresponding borrowing base of \$18,705. The Company had net cash on hand of \$3,022 resulting in net bank indebtedness of \$15,513 compared to a draw down of \$8,762 at the end of Q2 2009 and net cash on hand of \$5,611 resulting in net bank indebtedness of \$3,151. The Company had one outstanding letter of credit issued from the above line of credit at the end of Q2 2010 (\$89) as collateral to a third party relative to certain obligations of the Company. There were no outstanding letters of credit in Q2 2009. The Company also has a \$5,000 capital lease provision under this facility. This agreement expires on October 17, 2011 if not renewed, is collateralized with the assets of the Company and contains certain financial covenants. 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. This debt is repayable on demand as the bank, at its discretion, may effectively decrease the borrowing base and thereby funding availability.

On March 31, 2010 the Company's senior lender delivered a notification of breach of the loan agreement dated October 17, 2008 as a result of the private placement financing which closed on March 19, 2010 (see note 7). As a result of that breach, the Company delayed the interest payment due on March 31, 2010 to the subordinated notes holders which resulted in a breach of the subordinated notes. On April 9, 2010 the Company, its senior lender and subordinated notes holders signed a priorities agreement which resolved the breaches.

The Company was in compliance with its financial debt covenants through the second quarter of 2010.

7. Subordinated Notes

On March 19, 2010, the Company completed a private placement financing (the "Financing") with Talon Mezzanine Partners LLC and Oakwest Corporation Limited (together, the "Subscribers" – see Note 13). The \$2,000 aggregate Financing involved the purchase by each of the Subscribers of one unit (each a "Unit") issued by the Company, with each Unit consisting of (i) \$1,000 principal amount of newly issued secured non-convertible subordinated notes (the "Notes") of the Company with a three year term due on March 19, 2013; and (ii) common share purchase warrants (the "Warrants") exercisable into 791,614 common shares of the Company, with a five year term and an exercise price of \$0.66 per share (see Note 10(c)).

The Notes are not negotiable instruments, ranking equally and ratably with each other and are subordinated to all of the Company's obligations from time to time to its operating lender or lenders (See Note 6).

The Notes bear interest at a rate of 12% per annum, calculated and payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year; and in the event of default at a rate of 18% per annum.

The Company has the right on any interest payment date to prepay any portion of the principal balance, without any bonus or penalty payment, on 30 days written notice being given to the holder of the note provided that all amounts of interest which are due and payable under the note have been paid. At any time and from time to time the holder of the note may use the principal balance and any interest thereon as the subscription price for the purchase of any warrants pursuant to the warrant certificate.

The Company has granted a general and continuing security interest in all of its property, assets and undertaking, including without limitation, all property, equipment, goods, chattel and inventory of any kind of the Company whether now owned or hereafter acquired. In addition, a wholly owned subsidiary of the Company has also provided a joint and several guarantee of the Company's obligations under the Notes.

The Company has allocated \$1,506 of the face value of the Notes to the liability component and \$494 to the equity component. The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the \$2,000 face value using the estimated effective interest rate of 20.8%. The residual carrying value of \$479, net of issue costs and attributed to the equity component of the Notes, was classified as the equity component of the Notes. The total issue cost of \$47 has been prorated against the liability and equity components. Total interest expense related to the Notes for the second quarter is \$12.

On March 31, 2010 the Company's senior lender delivered a notification of breach of the loan agreement dated October 17, 2008 as a result of the private placement financing which closed on March 19, 2010 (see Note 6). As a result of that breach, the Company delayed the interest payment due on March 31, 2010 to the subordinated notes holders which resulted in a breach of the subordinated notes. On April 9, 2010 the Company, its senior lender and subordinated notes holders signed a priorities agreement which resolved the breaches.

8. Deferred Lease Inducements

The Company has entered into certain store leases, which involved the receipt of inducements, including cash payments and/or rent-free periods. These inducements are recognized as a reduction of lease expense on a straight-line basis over the term of the related leases, which presently range from 1 to 10 years. The current portion of these inducements is included in accounts payable and accrued liabilities:

	April 4 2010	October 4 2009
Deferred lease inducements	\$2,669	\$2,578
Less: current portion	263	257
Long term	\$2,406	\$2,321

9. Cash Flows – Changes in Non-Cash Working Capital

The following table details the components of non-cash working capital for operating activities:

	13 weeks ended April 4, 2010	13 weeks ended April 5, 2009
Accounts receivable	\$ (329)	\$ (538)
Inventory	(8,077)	12,485
Prepaid expenses	17	185
Accounts payable and accrued liabilities	6,328	(4,176)
Operating non-cash working capital items	\$ (2,061)	\$ 7,956

	26 weeks ended April 4, 2010	26 weeks ended April 5, 2009
Accounts receivable	\$ (287)	\$ (523)
Inventory	(11,541)	13,173
Prepaid expenses	(3)	88
Accounts payable and accrued liabilities	4,215	(391)
Operating non-cash working capital items	\$ (7,616)	\$ 12,347

10. Share Capital

(a) Stock Options

The number of stock options reserved is 1,584,812 (2009 – 1,584,812). The plan, under which options will be granted to directors, officers, employees, key consultants and agents of the Company, is subject to certain terms and conditions, and includes the options referred to below.

There were no options granted or forfeited during the second quarter of 2010. During the first quarter of 2010, 122,500 stock options were granted at an exercise price of \$.72 per option. This included 100,000 options granted to a senior executive, vesting over the next four fiscal years. The fair value of the options granted during the first quarter was \$.4541 per option.

The 2010 year to date compensation cost related to stock option awards granted in the first quarter of 2010 under the fair value based approach was calculated using the following weighted average assumptions:

Expected option life	5 years
Weighted average risk-free interest rate	2%
Expected stock price volatility	76%
Average dividend yield	Nil

A summary of the status of the Company's stock option plan as of April 4, 2010 and the year to date changes are presented below:

	Number of options	Weighted average exercise price
Balance outstanding October 4, 2009	1,218,200	\$1.07
Granted	122,500	.72
Forfeited	(275,300)	1.03
Balance outstanding April 4, 2010	1,065,400	\$1.04

(b) Contributed Surplus

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

	13 weeks ended April 4, 2010	26 weeks ended April 4, 2010
Balance, beginning of year	\$1,590	\$1,554
Stock based compensation expense	32	68
Balance, end of period	\$1,622	\$1,622

(c) Common Share Purchase Warrants

In connection with the private placement financing which closed on March 19, 2010 (See Note 7), the Company has created a warrant series (2010-I) to purchase common shares of the Company. There are presently two certificates issued under this series each comprising of 791,614 warrants, issued to the holders of the notes on March 19, 2010. The warrants are non-transferable. Each warrant entitles the holder to acquire a common share of the Company at any time after July 19, 2010 and before the close of business on March 19, 2015 for an exercise price of \$.66 per share.

The exercise price of the warrants is subject to adjustment in the event of a capital reorganization (including a common share reorganization, rights offering, special distribution, reclassification or re-designation of the shares or a consolidation, amalgamation, or merger involving the Company). Any adjustment is intended to place the holder in the same position as if the holder had been a registered holder of common shares on the effective date of the event. In addition, in the event of a change of control transaction, the holder has the option to elect to receive common shares determined under a specified formula.

The Company will not enter into any transaction whereby all or substantially all of the property and assets would become the property of a successor corporation, unless the warrants remain a valid and binding obligation of the successor.

(d) Per Share Amounts

Per share amounts have been calculated on the weighted average number of shares outstanding throughout the periods. There were 15,848,122 shares outstanding in the second quarter of 2010 and for the six month period ended April 4, 2010. The weighted average shares outstanding for the quarter ended April 5, 2009 was 13,259,031 and for the six month period ended April 5, 2009 was 10,753,537, taking into account the share issuance in connections with the acquisition of the Talon Wholesale Business on February 4, 2009. Common shares outstanding on a diluted basis are equal to basic common shares outstanding as stock options and warrants outstanding are currently anti-dilutive.

11. Segmented Information

For the 13 weeks ended April 4, 2010 and the 13 weeks ended April 5, 2009	Canada	US	Total
Revenue - 2010	\$ 37,028	\$ 857	\$ 37,885
Revenue - 2009	\$ 36,116	\$ 2,026	\$ 38,142

For the 26 weeks ended April 4, 2010 and the 26 weeks ended April 5, 2009	Canada	US	Total
Revenue - 2010	\$ 80,615	\$ 1,400	\$ 82,015
Revenue - 2009	\$ 82,384	\$ 2,817	\$ 85,201

As at April 4, 2010 and the year ended October 4, 2009			
Capital assets - 2010	\$ 8,235	\$ 646	\$ 8,881
Capital assets - 2009	\$ 8,537	\$ 76	\$ 8,613

12. Financial Instruments

The Company has designated bank indebtedness as held for trading as the fair value can be reliably measured. Accounts receivable are designated as receivables and initially measured at fair value. Accounts payable and accrued liabilities and subordinated notes are designated as other financial liabilities. These financial instruments are initially measured at fair value, net of transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity. Assets and liabilities held for trading are revalued on the reporting date based on relevant market information and information about the financial instrument.

(a) Credit risk:

The Company does not grant credit in the normal course of its retail operations. The maximum exposure to credit risk at April 4, 2010 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 as at April 4, 2010 (see Note 6). 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 second quarter 2010 bank borrowings, fluctuations of +/- 1% in the average prime rate would have an effect on the loss from continuing operations before income taxes in the quarter of approximately \$163.

(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 changes in the exchange rate between the U.S. dollar and the Canadian dollar. Based on the Company's anticipated U.S. dollar denominated purchases from operations in fiscal 2010, fluctuations of +/- 5% in the U.S. dollar against the Canadian dollar would have an effect on the quarterly loss from operations before income taxes of approximately \$356. The Company does not use derivatives to manage its foreign currency risk.

(d) Financing risk:

Under the asset based lending facility (see Note 6), 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. The Company manages its financing risk by having ongoing contact with its lenders and closely monitoring compliance with its lending covenants.

(e) 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 April 4, 2010 are as follows:

Fiscal	2010	2011	2012	2013
Bank indebtedness-net of cash	\$ 15,513	\$ -	\$ -	\$ -
Capital lease obligations	\$ 192	\$ 146	\$ -	\$ -
Subordinated notes	\$ -	\$ -	\$ -	\$ 2,000

13. Related Party Transactions

During fiscal 2009 the Company entered into certain agreements with members of the Board of Directors and executive management, or parties related thereto, for the provision of goods and services in connections with the normal course of operations. The Board of Directors was aware of these arrangements and satisfied that the value, terms and conditions were comparable to similar third party agreements. The value of these goods and services expensed during the second quarter of 2010 was \$32, measured at the exchange amount and has been reflected in selling, general and administrative expenses, of which \$22 represents a reduction in prepaid expenses, with the balance

of \$10 included in accounts payable and accrued liabilities as at April 4, 2010. The outstanding related party contractual commitment as at April 4, 2010 was approximately \$401 related to the balance of services to be provided over the next five years.

There was one related party transaction entered into during the second quarter of 2010 for \$2 related to store upgrades (none in the first quarter of 2010). In addition, on March 19, 2010 the Company completed a private placement financing with Talon Mezzanine Partners LLC, and Oakwest Corporation Limited. Principals of these entities are members of the Board of Directors of the Company. The \$2,000 aggregate Financing involved the purchase by each of the Subscribers of one unit (each a "Unit") issued by the Company, with each Unit consisting of (i) \$1,000 principal amount of newly issued secured non-convertible subordinated notes of the Company with a three year term; and (ii) common share purchase warrants exercisable into 791,614 common shares of the Company, with a five year term and an exercise price of \$0.66 per share. This transaction will not materially affect the control of the Company. These securities have been recognized at their relative fair value net of transaction costs, as described in Note 7 and Note 10(c).

There were no related party transactions in the first or second quarters of 2009.

14. Income Taxes

The statutory income tax rate in effect in Q2 2010 was 30.21% (Q2 2009 – 31.5%). The Company recorded no income tax provision in Q2 2010 or Q2 2009. The Company also recorded no income tax provision in the six month periods ended April 4, 2010 and April 5, 2009. As a result of income tax losses in the current and prior periods, the Company has accumulated income tax loss carry-forwards of approximately \$26,770 in Canada and \$9,112 in the US, at the end of Q2 2010.

15. Seasonality

As a retailer, the Company experiences stronger sales in its first quarter (particularly in December) and lower sales in its second and third quarters due in part to consumer buying patterns over the holiday season. Additionally, large inventory deals may skew the results in any given quarter. Therefore, the performance of this thirteen week period is not necessarily indicative of the performance for the balance of the fiscal year.

16. Comparative Information

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

DIRECTORS

William E. Wolf, Chairman

Bill is the Chief Operating officer of Talon Asset Management, LLC and serves as a portfolio manager for Talon's TalCap public equity product and oversees Talon's private equity investments. Bill began his career as an investment banker at Salomon Brothers Inc., before moving to William Blair & Company. Later, he became the founder and CEO of Crown Golf Properties, L.P. Bill currently serves on the Board of Directors of Answers Media LLC, Compliance 11, Inc., Lava Lite, LLC, Mindcrest, Inc., PlayNetwork, Inc., and the National Strategy Forum.

David Becker

Mr. Becker is Executive Vice President and Chief Financial Officer of Middlebrook Pharmaceuticals Inc., a NASDAQ listed company located in the United States. Prior to joining Middlebrook in September 2008, Mr. Becker served as an independent consultant and sat on the board of directors at various healthcare companies. Mr. Becker earned a bachelor's degree in accounting in 1990 from the University of Southern Mississippi.

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.

Craig Graham

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. Mr. Graham is also a trustee of Specialty Food Income Fund.

Jeffrey Mandel

Jeffrey is the President of AMR Securities Services Inc. and Vice President, Israel Opportunity Inc. He also is Executive Chairman of Mitec Telecom (TSX), Goldbard Capital (TSXV) and a director of The Futura Loyalty Group Inc.

Seth Marks, President and CEO

Seth joined Liquidation World in February 2009 as President, CEO, and member of the board. Seth is a consumer products veteran and has a long successful track record in retail and wholesale liquidation environments. Prior to joining Liquidation World, Seth founded Talon Merchant Capital, which was subsequently acquired by Liquidation World and co-founded Big Lots Capital (the Liquidation arm of Big Lots Stores), and Hilco Wholesale Trading.

MANAGEMENT

Seth Marks, President and CEO

Chris Rath, CFO

Lynda Murray, SVP Marketing

SOLICITORS

Aird & Berlis LLP

181 Bay St., Suite 1800

Toronto, ON M5J 2T9

AUDITORS

Ernst & Young LLP, Chartered Accountants

1 London Place, Suite 1800

255 Queens Ave., London, ON N6A 5S7

BANK

Royal Bank of Canada

P.O. Box 50, 200 Bay St.

Toronto, ON M5J 2W7

HEAD OFFICE

225 Henry Street, Building #1, Brantford, ON N3S 7R4

Phone: 519-758-8878

Fax: 866-237-3778

TRANSFER AGENT

Computershare Investor Services

100 University Ave. 8th Floor;

Toronto ON M5J 2Y1

BRITISH COLUMBIA

Abbotsford
 Campbell River
 Chilliwack
 Coquitlam
 Courtenay
 Cranbrook
 Duncan
 Gibsons
 Kamloops
 Langley
 Maple Ridge
 Mission
 Nanaimo
 Penticton
 Powell River
 Prince George
 Richmond
 Surrey
 Terrace
 Vernon

ALBERTA

Calgary (2)
 Camrose
 Edmonton
 Fort Saskatchewan
 Hinton
 Lethbridge
 Medicine Hat
 Peace River
 Ponoka
 St. Paul
 Westlock
 Wetaskiwin

ONTARIO

Ajax
 Arthur
 Aurora
 Barrie
 Belleville
 Bolton
 Brampton
 Brantford
 Cambridge
 Campbellford
 Cobourg
 Hamilton (2)
 Ingersoll
 Keswick
 Kingston
 Leamington
 London
 Mississauga
 Niagara Falls
 Oakville
 Orillia
 Paris
 Petawawa
 Port Colborne
 Prescott
 Sarnia
 Sault Ste. Marie
 Smiths Falls
 St. Catharines (2)
 Sudbury
 Thunder Bay
 Trenton
 Wallaceburg
 Welland
 Windsor (2)

SASKATCHEWAN

Moose Jaw
 Prince Albert
 Regina
 Saskatoon
 Swift Current
 Yorkton

MANITOBA

Steinbach
 Swan River
 Winnipeg (2)

ATLANTIC

Amherst, NS
 Dartmouth, NS
 Fredericton, NB
 Halifax, NS
 Saint John, NB
 St. Stephen, NB
 Truro, NS

YUKON

Whitehorse

US

Chicago, IL

**LIQUIDATION
WORLD®**

