2004 FIRST QUARTER REPORT

It's like walking into a new store every day You never know what you'll find **I am always surprised to find something in store I'd never find anywhere else** Always shop here first - you'll find lots of what your family needs and save money as well **It's a shopping experience like no other** It's a treasure hunt **Furniture, food, paint, housewares, hardware, clothing, sporting goods, toys, health and beauty … Liquidation World sells it all** 1000's of everyday items **Brand new, brand names** The fun is contagious & the savings are too!

LIQUIDATION WORLD®

LiquidationWorld.com

CORPORATE PROFILE

BRAND NEW, BRAND NAME MERCHANDISE. MUCH OF WHAT YOU NEED FOR DAILY LIVING – FOOD, FURNITURE, CLOTHING, HOUSEWARES, HARDWARE, PAINT, AND MORE – LIQUIDATION WORLD SELLS IT ALL AT PRICES THAT ARE OFTEN 50 PERCENT OR LESS OF WHAT YOU WILL FIND AT TRADITIONAL RETAIL STORES.

How do we do it? And how have we done it for 17 profitable years running?

Liquidation World works closely with manufacturers, retailers, banks and insurance companies to help them deal with distressed merchandise of almost every description. Distressed doesn't mean damaged or used. It's just industry jargon for goods 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 goods from bankruptcies, receiverships and insurance claims. But most of our goods are sourced from healthy, ongoing businesses – manufacturers who view Liquidation World as an indispensable part of their sales channel, and retailers who occasionally need help clearing excess stock.

We buy these goods with cash and at deep discounts, and pass the savings on to our retail customers through 98 Liquidation World Outlets in Canada and the U.S., through our in-house auction, on-site store closures, and "Going Out of Business" sales. And that's where we have the most fun – sharing our deals with value and quality conscious consumers.

We'll go half way around the world to buy a multi-million dollar deal. And, we'll go around the block to buy from a local business in need.

WE NEVER STOP LOOKING FOR A GREAT BUY AND NEITHER SHOULD YOU.

SHOP LIQUIDATION WORLD.

SHOP IT FIRST.

SHOP IT WEEKLY.

FROM THE OFFICE OF THE CEO

Having recently announced first quarter sales of $51.3 million, the Office of the CEO was quoted as saying, “We’ve booked our best quarter of sales ever – not by a long shot, but certainly a step in the right direction.”

While we are happy to set records of this sort, the fundamental truth to take from these numbers is simply the personal conviction the three of us share in the core value that is inherent in our business.

Since October, the entire organization has focused on revenue growth and operational excellence. In essence, it is a “Brilliance in the Basics” approach. When everyone pays attention to the fundamentals of buying and selling, you set yourself up for success.

With first quarter profits in excess of $1.88 million, an accounts payable balance that is at a five-year low, and the timely arrival of some strong inventory ready for second quarter sales (including professional-grade European cookware resulting from a hurricane that swept through Houston), we can see the impact “Brilliance in the Basics” makes possible.

Focused on the core values that have long been at the heart of our business, we are now poised for the future by introducing new initiatives that will dovetail with those crucial to our current success.

Such initiatives include the implementation of key performance indicators throughout every department – yardsticks by which we can measure the increasing intricacies of a company of our size, and our expectations of it.

During the quarter, the Company closed two Outlets not likely to meet those expectations. A third location has closed since the quarter ended. However, five Outlets have been, or are slated to open in the coming months, with new locations in Fort Saskatchewan, Taber, and Leduc, Alberta, as well as in Trenton and Hawkesbury, Ontario.

We continue to believe that liquidators occupy a niche that separates them from traditional retailers, discounters, warehouse and wholesale clubs. Moreover, liquidators play a fundamental role in addressing the ever-present imperfections in the manufacturer-retail relationship. Not losing sight of our purpose will help us solidify our position in this truly distinctive niche.

Thank you for your interest in, and support of Liquidation World. On behalf of the Office of the CEO, the Management and Executive teams, our Board of Directors, and our 1700 associates, we are thrilled to work on your behalf.

WAYNE MANTIKA
President
and Co-CEO

DARREN GILLESPIE
Senior Executive VP
and Co-CEO

JONATHAN HILL
Senior Executive VP
and Co-CEO

M D & A

The first quarter of fiscal 2004 ("Q1 2004") ended January 4, 2004 and the first quarter of 2003 ("Q1 2003") ended January 5, 2003. Each comprised 13 weeks of operations.

OVERVIEW

Liquidation World Inc. is the largest liquidator of distressed inventory in Canada with additional liquidation outlets in the U.S. and supporting ancillary services in Canada and the U.S. Distressed inventory results from a myriad of situations including insolvencies, insurance claims, overruns, cancelled orders and close outs. Liquidation World distributes such acquired inventory to extreme value oriented consumers through its 98 corporately operated outlets (85 in Canada and 13 in the U.S.).

Liquidation World is pursuing a strategy to increase profitability by increasing sales in existing outlets and in the longer term by expanding the number of outlets. In order to increase the sales in outlets the Company is increasing its buyer network and seeking new sources of desirable inventory. Management believes that sales can be increased with modest increases in costs resulting in improved overall performance.

RESULTS OF OPERATIONS

Revenue

Revenue, which includes sales of merchandise and fee revenue, totaled $51,313,000 for the 13 weeks ended January 4, 2004, a 4.5% increase from $49,102,000 in the corresponding period in fiscal 2003. The Company operated, on average, the same number of outlets as in Q1 of fiscal 2003 and therefore experienced increases in average sales per outlet. Revenues in Canada increased 10.0% to $43,705,000 in Q1 2004 compared to $39,743,000 in Q1 2003 through, on average, 84 outlets (2003 Q1 – 81 outlets). Revenues in the United States decreased 18.7% to $7,608,000 (USD $5,784,000) in Q1 2004, from $9,359,000 (USD $5,963,000) in Q1 2003 through, on average, 14 outlets (2003 Q1 – 17 outlets). The decline in U.S. revenue is primarily a result of conversion to Canadian dollars, which has strengthened 16.2% year over year. Overall increases in sales in outlets is the result of an improved selection of inventory. The Company is focussing on acquiring inventory in categories it has not previously carried and anticipates increased revenues from existing outlets. The company expects to open outlets that will more or less offset outlets closed in 2004, however, this will vary depending upon opportunities available in real estate.

Gross Margin

Gross margin as a percentage of sales increased in Q1 2004 (40.4%) compared to Q1 2003 (39.6%). The increase resulted from the relief of competitive pricing pressures from other retailers that occurred during 2003 and improved inventory purchasing partially as a result of the weakening U.S. dollar (a significant portion of the Company's inventory purchased is denominated in U.S. dollars). 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. Small fluctuations in gross margin occur from year to year as a result of changes in the product mix throughout the stores.

Selling and Store Operations

Selling and store operations, which include all costs of occupying and operating the outlets and opening new outlets, decreased as a percentage of sales in the first Quarter of 2004 to 28.6% ($14,673,000) from 30.3% ($14,858,000) in Q1 2003. The Company operated on average 98 outlets in each quarter, and, with continued focus on cost control, decreased expenses slightly despite increased activity and sales.

General and Administrative Expenses

General and administrative expenses decreased as a percentage of sales in Q1 2004 to 5.1% ($2,632,000) compared to 5.5% in Q1 2003 ($2,681,000). This modest decrease was primarily due to a continued focus on cost control.

Depreciation and Amortization

Depreciation and amortization decreased 8.9% to $308,000 in Q1 2004 compared to $338,000 in 2003. The changes reflect the balances of the underlying net capital assets, which decreased 14.4% year over year. The corollary decrease is not perfect due to the timing within each quarter of store openings and asset acquisitions.

Interest

The Company incurred no interest costs as a result of maintaining cash surpluses during both quarters.

Income Taxes

The effective tax rate of 39.7% in Q1 2004, and 43.7% in Q1 2003, approximate the statutory tax rates in effect during the periods (2004 – 38.5%; 2003 – 40.5%), except for small timing differences, non-deductible expenditures and other items.

Net Earnings

Net earnings increased 113.2% in Q1 2004 to $1,887,000 ($0.22 per share) compared to $885,000 ($0.10 per share) in Q1 2003 primarily as a result of increased revenue and gross margin while modestly reducing selling and store operations and general and administrative expenses, as discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Liquidation World is continuing to carry out its plan for growth through opening new outlets when opportunities for economical leases become available. Two outlets were closed towards the end of the first quarter of 2004 and one outlet closed early in Q2 2004. Five outlets were opened in Q1 2004 or will be opened in Q2 2004. The Company incurred capital expenditures net of disposals of $140,000 during Q1 2004 ($468,000 during Q1 2003) 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 ranges between $250,000 and $600,000 depending on the size of the outlet. The Company increased average inventory levels in its outlets from the lower levels that existed at the close of Q1 2003 that had been intentionally reduced in anticipation of opportunities available to acquire inventory as the economy weakened. Cash flow from operations before working capital requirements totaled $2,159,000 in Q1 2004 (Q1 2003 – $1,208,000). Working capital requirements totaled $172,000 in Q1 2004. Working capital reductions totaled $5,869,000 in Q1 2003. During Q1 2004, net cash flow provided from operations totaled $2,331,000 (Q1 2003 – $7,077,000) and was sufficient to finance expansion and equipment improvements and increase cash balances by $2,188,000 (Q1 2003 – $6,618,000) to $7,500,000 (Q1 2003 – $12,065,000).

Working capital improved to $51,534,000 at the end of Q1 2004 (2003 – $49,518,000). The Company currently has short-term borrowing facilities established totaling $15,000,000 which is sufficient for planned expansion in 2004 including a reserve for any potential inventory acquisitions.

RISKS AND UNCERTAINTIES

Source of Supply of Inventory

All inventory is acquired from distress situations so distress conditions must exist to provide an opportunity to acquire inventory. While surpluses of inventory exists constantly, the Company's success is predicated on identifying the opportunities and successfully negotiating a price for inventory that may ultimately be sold for a profit. Certain categories and sources of inventory are more desirable and create more excitement in the outlets.

Competition

As a retailer, Liquidation World competes with other retailers in offering the best value for products that it has on hand. Accordingly, when retailers offer significant savings through price reductions, the Company's competitive advantage is diminished and may need to be addressed by reducing prices, which reduces margins. However, Liquidation World acquires its products for less than other retailers as all inventory is acquired from distress situations at distress prices allowing the Company to further discount its prices and remain profitable.

Leases

The Company is opportunistic as it leases outlets and pays less than market rates in most cases. If the Company is unable to extend or replace existing leases, it may face increasing costs or a reduction in its number of outlets. In order to mitigate the risks of reducing its outlet count, the Company is constantly looking for new real estate opportunities to maximize its access to potential outlet locations.

Seasonality

As a retailer, the Company experiences stronger sales in its first quarter (particularly in December) and lower sales in its second quarter (particularly January). Historically, sales have averaged 27%, 24%, 24% and 25% of total annual sales for each quarter respectively. Large inventory deals may skew the results in any given quarter.

Foreign Currency Risk

The Company acquires more inventory denominated in U.S. dollars than it sells in U.S. dollars so is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. Since inventory is acquired and sold in a relatively short period of time, such fluctuations have limited impact. The Company has assets in its U.S. subsidiaries that, when converted to Canadian dollars on consolidation, are impacted by changes in the exchange rate creating gains or losses. The Company has determined that such fluctuations are not material to its overall operations and, accordingly, has not adopted a hedging strategy to mitigate those risks.

OUTLOOK

The Company intends to build on its dominance as Canada's largest liquidator. The focus for the current year is to increase sales in existing outlets, ensure minimum standards are met at outlets and to ensure infrastructure will accommodate future growth. To that end, the Company initiated its "Brilliance in the Basics" campaign whereby standards for outlet presentation are set but much of the operations of the outlets are left up to the entrepreneurial outlet manager who will focus on increasing sales while keeping costs under control. The Company is also assessing its current processes and information systems to optimize the efficiency in handling and managing inventory from the sourcing through to the sale and emulating those processes in the information system.

With confidence in its infrastructure, the Company will aggressively seek opportunities for growth through opening new outlets and broadening its reach to acquire the greatest possible value for product proposition available to consumers in all the markets the Company services.

FORWARD-LOOKING STATEMENTS

The foregoing includes forward-looking statements and potential future circumstances and developments. Forward-looking statements regarding future performance are subject to risks and uncertainties and actual results may differ materially.

CONSOLIDATED BALANCE SHEETS

As at January 4, 2004 and October 5, 2003
(in thousands of Canadian dollars)

	04 (unaudited)	03
CURRENT ASSETS		
Cash and equivalents	**$ 7,500**	$ 5,312
Accounts receivable	**683**	579
Income taxes receivable	**458**	1,571
Inventory	**49,784**	48,831
Prepaid expenses	**1,546**	2,610
	59,971	58,903
Capital assets	**5,034**	5,202
Investment in affiliate	**728**	692
Goodwill	**278**	278
	$ 66,011	$ 65,075
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 8,437**	$ 9,385
Shareholders' equity		
Share capital	**15,989**	15,990
Retained earnings	**41,585**	39,700
	57,574	55,690
	$ 66,011	$ 65,075

See accompanying notes to consolidated financial statements.

On behalf of the Board:

DALE GILLESPIE
Director

HERB LUKOFSKY
Director

CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

For the 13 weeks ended January 4, 2004 and January 5, 2003 (in thousands of Canadian dollars, except per share amounts)	04 (unaudited)	03 (unaudited)
Revenue	**$ 51,313**	$ 49,102
Cost of sales	**30,573**	29,654
	20,740	19,448
Expenses		
Selling and store operations	**14,673**	14,858
General and administrative	**2,632**	2,681
Depreciation and amortization	**308**	338
	17,613	17,877
Earnings (loss) before income taxes	**3,127**	1,571
Income taxes	**1,240**	686
Net earnings (loss)	**1,887**	885
Retained earnings, beginning of period	**39,700**	38,931
Excess of repurchase amount over stated capital of repurchased shares	**(2)**	–
Retained earnings, end of period	**$ 41,585**	$ 39,816
Earnings (loss) per share		
Basic	**$ 0.22**	$ 0.10
Diluted	**$ 0.22**	$ 0.10
Shares outstanding at period end	**8,542,256**	8,540,756
Options outstanding at period end	**488,150**	499,780

SEGMENTED INFORMATION

For the 13 weeks ended January 4, 2004 and January 5, 2003 (in thousands of Canadian dollars, except per share amounts)	04 (unaudited)	03 (unaudited)
REVENUE		
Canada	**$ 43,705**	$ 39,743
United States	**7,608**	9,359
Total	**$ 51,313**	$ 49,102
CAPITAL ASSETS		
Canada	**$ 4,519**	$ 5,321
United States	**515**	558
Total	**$ 5,034**	$ 5,879

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 13 weeks ended January 4, 2004 and January 5, 2003 (in thousands of Canadian dollars)	04 (unaudited)	03 (unaudited)
Cash provided by (used in):		
Operations		
Net earnings (loss)	**$ 1,887**	$ 885
Add (deduct) non-cash items:		
Depreciation and amortization	**308**	338
Equity in income of affiliate	**(36)**	(15)
	2,159	1,208
Changes in non-cash operating working capital		
Accounts receivable	**(104)**	(1,082)
Inventory	**(953)**	4,744
Prepaid expenses	**1,064**	503
Accounts payable and accrued liabilities	**(948)**	2,187
Income taxes	**1,113**	(483)
	2,331	7,077
Investments		
Purchase of capital assets	**(140)**	(468)
Financing		
Proceeds on issuance of common shares	**–**	9
Repurchase of common shares	**(3)**	–
	(3)	9
Increase (decrease) in cash	**2,188**	6,618
Cash and equivalents, beginning of period	**5,312**	5,447
Cash and equivalents, end of period	**$ 7,500**	$ 12,065
Supplemental disclosure of cash paid for:		
Income taxes	**$ 280**	$ 1,161
Interest	**–**	–
	$ 280	$ 1,161

See accompanying notes to consolidated financial statements.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 13 WEEKS ENDED JANUARY 4, 2004

1. BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements for Liquidation World Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The financial information included herein is unaudited. These interim financial statements follow the same accounting policies and methods of application as the most recent annual audited financial statements dated October 5, 2003. The disclosures herein are incremental to those included within the annual financial statements. These interim financial statements should be read in conjunction with the annual statements.

2. SHARE CAPITAL:

(a) Issued:

	Number of Shares		Amount
Balance, October 5, 2003	8,542,756	$	15,990
Shares repurchased	500		1
	8,542,256	$	15,989

(a) Stock Options:

	Number of Options		Amount
Stock options outstanding, October 5, 2003	558,725	$	5.82
Cancelled/expired	70,575		7.15
	488,150	$	5.63

3. RELATED PARTY TRANSACTIONS:

The Company leases three buildings for three of its retail locations from a company owned by a director of the Company and a partnership of which the same company is a partner. Base rents approximate $61 per year to 2005, $111 per year to 2008 and $73 per year to 2013. Purchases from an affiliated company were $307 during the quarter ended January 4, 2004.

CORPORATE INFORMATION

DIRECTORS	DALE GILLESPIE, Founder and Chairman of the Board HERB LUKOFSKY C.A., Corporate Director, Business Consultant HUBERT MARLEAU, President & Managing Director, Palos Capital Corp. R. GORDON MARANTZ, Q.C., Barrister & Solicitor, Member Osler ADR Centre CHARLES M. (CHAD) MURRAY, President, Chad Murray Sales & Marketing Inc.
MANAGEMENT	WAYNE MANTIKA, President & Co-CEO DARREN GILLESPIE, Senior Executive VP & Co-CEO JONATHAN HILL, Senior Executive VP & Co-CEO ANDREW SEARBY, C.A., Executive VP & CFO DERRICK GILLESPIE, VP Corporate Purchasing DARRELL FLADAGER, VP U.S.A. Operations LARRY SCHEFFEE, VP Liquidation World Enterprises ZORA ROBERTS, Controller DAVID MOULTON, Director of Marketing TERRY OFFORD, Director of Loss Prevention/Internal Audit ROY ROGERS, Director of Distribution and Logistics CHAD RICHARDSON, Director of Information Systems
SOLICITORS	Drummond Phillips and Sevalrud 900, 521 - 3rd Avenue SW Calgary, Alberta T2P 3T3
AUDITORS	KPMG LLP Chartered Accountants 1200, 205 - 5th Avenue SW Calgary, Alberta T2P 4B9
BANK	Royal Bank of Canada 335 - 8th Avenue SW Calgary, Alberta T2P 1C9
TRANSFER AGENT	Computershare Investor Services 100 University Avenue, 8th Floor Toronto, Ontario M5J 2Y1
CORPORATE OFFICE	3900 - 29th Street NE Calgary, Alberta T1Y 6B6 Phone 403.250.1222 Fax 403.291.1306 Web www.liquidationworld.com

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

DESIGNED BY DNA DESIGN GROUP

www.liquidationworld.com

RETAILERS > Convert inventory into cash. On-site store closures. Complete inventory lifts. Mitigate lease and staff expenses. MANUFACTURERS > Cancelled orders, packaging changes, inventory overruns, discontinued products. Complete brand protection through managed distribution. Tightly controlled advertising in accordance with your instructions. INSURANCE COMPANIES > Maximize recovery. Settle quickly. We have the financial and logistical ability to make it happen. BANKS > Minimize exposure. Act fast. Maximize recovery. Quick and accurate reads on portfolio value.

PRINTED IN CANADA