

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®**
BRAND NEW • BRAND NAMES

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 30 – 70 percent or less of what you will find at traditional retail stores.

How do we do it?

Liquidation World works closely with manufacturers, retailers, 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 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 105 fun, friendly and no frill Liquidation World stores in Canada and the US. And that's where we have the most fun. Sharing our great bargains 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 deal and neither should you.

Shop Liquidation World.

Brand new.

Brand names.

President's Message

The first quarter of the fiscal year is always an important one. With the major challenges of our previous year behind us, this first quarter was important in measuring our progress in the implementation of our plans. Our results were encouraging and seem to indicate that, above all, our customers like what they see, so far. This follows improved performance in fourth quarter of 2005.

Last year we identified a number of weaknesses and opportunities within our business and set about to address them. Fundamentally, our business required more structure, accountability, processes and information to support and enhance our strong entrepreneurial culture. This need was most evident in how we source and manage inventory as well as our execution at store level. During the quarter, we continued the reorganization of our buying group to include two distinct areas of focus and expertise. One group is responsible for the more predictable supply of surplus merchandise that comes to us as a result of over-runs, cancelled orders, and packaging changes from manufacturers and others. The other, our business development group, is focused on sourcing and acquiring more opportunistically from insurance claims, bankruptcies and the like. During the quarter, we added a new executive position responsible for the implementation of this part of our strategy and the effective coordination of these activities with other parts of our business.

In our stores, we have made a number of changes to our management structure, and closed certain under-performing stores. We continue to improve the shopping experience for our customers with ongoing renovations to some existing stores while opening new stores in a freshened and more consistent format. In addition, we implemented our employee Win-Win program whereby every associate who is part of the team next Christmas, will share in a percentage of all the savings we achieve in 2006. We believe these efforts are beginning to be reflected in our results.

Highlights of our financial results for the quarter were as follows:

Sales increased 9.9% on a same store basis, marking the highest quarterly sales in the Company's history. Both increased average transaction size and, to a lesser extent, greater customer count contributed to increased same store sales.

President's Message *(cont'd)*

We continue to apply a more disciplined approach to dealing with aged and other non-performing inventory in line with policies introduced in 2005 and, in that context, we are encouraged that gross margins of 38.3% are near the historical range of 38.6% to 40.8%.

Strong cost management led to a decrease in total expenses as a percentage of sales to 33.1%, 280 basis points lower than 35.9% during Q1 2005, and the lowest expense ratio in four years.

As we turn our attention to the longer term, we are excited about the prospects for our business. Increasingly, manufacturers are burdened with retailers' decisions to discontinue merchandise, cancel partial orders or change merchandising strategies. Our existing supplier relationships remain strong and our unique, professional solution to these situations suggests a significant opportunity for growth. Our emphasis on planning and analytics will reduce our reliance on the less predictable sources of supply. While at the same time, our expertise in procuring more opportunistic sources of supply is being enhanced with our new business development group.

We are especially encouraged by the enthusiasm with which our associates have embraced the positive changes we are making to our business. Our results reflect their efforts and we thank them.

As a shareholder, your support of our business is appreciated. We take the trust you place in us seriously. We are confident that our plans support our customers' expectations, employees' ambitions and our commitment to increasing value to our shareholders. We look forward to reporting on our results in the future.

A handwritten signature in black ink, appearing to read 'Jonathan Hill', written in a cursive style.

**JONATHAN HILL
PRESIDENT & CEO**

M D & A

The following discussion and analysis is effective as of January 31, 2006 and should be read together with the unaudited consolidated financial statement and the accompanying notes.

OVERVIEW

Liquidation World Inc. (“Liquidation World” or the “Company”) is the largest liquidator of opportunity inventory in Canada, with additional liquidation stores and ancillary services in the US. Opportunity inventory results from a variety of situations including insolvencies, insurance claims, overruns, canceled orders, and close-outs. Liquidation World distributes such acquired inventory to value-oriented customers through its network of 105 corporately-owned stores (89 in Canada and 16 in the US). Liquidation World continues to pursue a strategy to increase profitability by increasing sales and gross margin return on investment (calculated as gross margin percent multiplied by inventory turnover) in existing stores, closing non-performing stores, and in the longer term, by expanding the store network in select urban and rural communities. In order to increase sales in stores, the Company is increasing its buyer network, seeking new sources of desirable inventory, and implementing a new Merchandise Management System (“MMS”) to provide greater insight into inventory and overall performance.

Management believes that improved efficiencies can be achieved through the information provided by the new MMS resulting in superior overall performance. To increase profitability, the Company is also improving the shopping experience through investments in infrastructure, including distribution and technology systems.

OPERATING STRATEGY

Liquidation World’s strategy will continue to focus on the following:

1. *Restructure Buying Group*

Liquidation World customers expect new deals every shopping trip as well as a constantly changing assortment of merchandise. Changes have been made to further align the buyers with customers by making buyers more responsible for inventory management. To that extent, the Company has reorganized its buyers in such a way as to take advantage of their different strengths and skills and the two major types of buys it transacts. On the one hand, a team of buyers will focus on traditional sources of supply—namely, inventory closeouts. Buyers will be responsible for specific product categories and will play a more integrated role in inventory management, planning, analysis, marketing, merchandising, competitive analysis, global sourcing and purchasing. At the same time, a dedicated business development team has been created, whose members have expertise in finding and handling the “event deals,” such as bankruptcies and insurance claims, that differentiate our business. They will focus on finding these deals to ensure stores have a steady stream of events for their customers.

2. *Complete the Implementation of the New Merchandise Management System and Leverage its Benefits*

In fiscal 2006, Liquidation World continues to invest in its Merchandise Management System (“MMS”) to support its purchasing, marketing and merchandising teams. The system enables the organization to improve tracking of inventory from sourcing, to distributing, to selling. Liquidation World will leverage the MMS to provide its customers with a greater variety of inventory and offer a better value proposition through improved inventory management. Part of the MMS is a scan based inventory system which will reduce costs in stores by eliminating ticketing inventory and enabling faster checkouts. The system also provides the ability to manage markdowns in a more targeted and timely way. The Canadian distribution centres are currently utilizing new equipment and software to enhance productivity and inventory tracking. The US distribution facility will implement these improvements by mid-2006.

M D & A (cont'd)

3. *Improve the Shopping Experience*

Liquidation World is adopting an updated look and feel to all new stores in response to positive feedback from limited test trials at certain existing locations. The new stores consist of an inviting exterior, a freshened and well-lit interior, as well as greater interior signage to further convey our brand message. The Company believes that these changes will result in an improved shopping experience and increased sales.

The Company will continue to evaluate results from the renovated stores to guide further renovations and openings in existing and additional markets in 2006.

To further enhance the shopping experience, the Company has adopted a more disciplined policy with respect to aged and non-performing inventory that will ensure a fresh, new selection that is constantly changing.

4. *Geographic Growth*

Liquidation World's strategy is to acquire leases in geographic locations suitable to the business model in both Canada and the United States. The Company intends to continue to expand on a measured basis as opportunities arise.

5. *Strengthen the Liquidation World Brand*

Liquidation World enjoys a unique retail heritage. The Company will strive to update and reinforce its points of differentiation in a competitive environment where discount retailing has become mainstream. Through newspapers, flyers, radio and other media, the Company will continue to promote its distinctive brand by emphasizing the unique source of its merchandise, as well as its quality, variety, and extreme value. The Company will also work to enhance brand recognition and affinity through improved in-store signage and marketing collateral. Strengthening the brand will result in heightened consumer awareness, enhanced perception, increased store traffic and increased sales.

Results of Operations

Revenue

Revenue, which includes sales of merchandise and fee revenue, totaled \$57,146,000 for the quarter ended January 2, 2006, a 10.6% increase over Q1 2005 revenues of \$51,685,000.

Revenue in Canada for Q1 2006 increased 9.8% to \$48,661,000 from \$44,298,000 in Q1 2005. During the quarter, the Company operated, on average, 90 stores in Canada versus 91 in Q1 2005, and accordingly, same store sales year over year increased by 11.3%. In the United States, Q1 2006 revenue increased 14.9% to \$8,485,000 (\$7,199,000 USD) from \$7,387,000 (\$6,065,000 USD) in Q1 2005. There was an increase of 2 stores in the United States, to 16 in Q1 2006 from 14 in Q1 2005, and accordingly, same store sales year over year increased by 0.9%.

The Company expects to continue to expand its footprint and will open additional stores on a measured basis in 2006; however, this will depend upon its ability to secure suitable real estate with economic lease rates. The Company has implemented several initiatives, described elsewhere herein, that are designed to increase revenues in existing stores.

Gross Margin

Gross margin as a percentage of sales decreased slightly in Q1 2006 to 38.3% (or \$21,876,000), compared to a Q1 2005 margin of 39.0% (or \$20,165,000). Liquidation World's pricing policies and

strategy are to ensure its prices for comparable products are lower than any other in the market, including discount stores, warehouse-type stores and special promotions. As a result, gross margins will fluctuate as a result of product mix sold.

The Company expects its gross margin in 2006 will become more consistent as a result of better inventory performance and tracking provided by the successful implementation of the new MMS. Management remains committed to maintaining margins through better planning, ongoing monitoring and increased accountability.

Selling and Store Operations

Selling and store operations costs, which includes all costs of occupying and operating stores and opening new stores, decreased as a percentage of sales in Q1 2006 to 28.2% (\$16,140,000) from 31.3% (\$16,174,000) in Q1 2005. During the quarter, the Company opened four stores, and closed three stores. It also operated two temporary distribution facilities in the US to accommodate certain large inventory purchases at and subsequent to fiscal 2005 year end. A continued focus on cost control at all levels has prevented increases in expenses as revenues increased.

General and Administrative

General and administrative expenses decreased slightly as a percentage of sales in Q1 2006 to 3.5% (\$1,971,000) compared to 3.7% (\$1,898,000) in Q1 2005. In fiscal 2006, the Company expects the amount of general and administrative expenses to remain relatively consistent as costs associated with strengthening infrastructure and the merchandising group, in particular, are offset by the costs associated with the implementation of the MMS winding down.

Depreciation and Amortization

Depreciation and amortization increased to \$746,000 in Q1 2006 compared to \$387,000 in Q1 2005 reflecting increased investment in capital assets, particularly relating to the MMS and store improvements. In fiscal 2006, the Company expects depreciation and amortization to increase as additional capital expenditures associated with the MMS implementation are amortized.

Income Taxes

The effective tax rate of 33.7% in Q1 2006 is lower than the statutory tax rate in effect during the period of 35.4% due primarily to earnings in subsidiaries that are not taxable because of previous losses offsetting taxable income. In Q1 2005, the effective tax rate was 42.5%. The Company provided for current income taxes in Q1 2006 of \$923,000 against Canadian income as compared to a provision of \$695,000 in Q1 2005.

In Q1 2006, the Company recorded a future tax liability of \$67,000 arising from the difference between the book value of its capital assets and the tax value of its assets, which is primarily due to additional capital expenditures associated with the MMS implementation. In Q1 2005, the Company recorded a future tax recovery of \$2,000.

Net Earnings

Net earnings in Q1 2006 increased to \$1,946,000 (\$0.23 per share) from \$939,000 (\$0.11 per share) in Q1 2005. The increase is the result of revenue growth against a backdrop of stable selling and store operation expenses for the period.

M D & A (cont'd)

Liquidity and Capital Resources

Liquidation World is continuing to carry out its plan for growth through the opening of new stores and expanding distribution networks as economically viable opportunities are available. Four stores were opened in Q1 2006, and three stores were closed. In 2006, the Company expects to open 12 stores, and to close 6 underperforming or non-renewable stores depending upon its ability to secure new leases and renew existing leases at economic terms.

Cash flow from operations has been the primary funding source for working capital requirements and capital expenditures over the past several years. Operations before working capital requirements provided cash of \$2,812,000 in Q1 2006 compared with cash provided of \$1,393,000 in Q1 2005. Cash flow from sources of working capital provided \$2,147,000 in Q1 2006 compared to \$5,509,000 in Q1 2005. As a result, cash provided by operating activities totaled \$4,959,000 in Q1 2006 compared to total cash provided by operations of \$6,902,000 in Q1 2005. Working capital increased to \$45,012,000 at the end of Q1 2006 compared to \$43,141,000 at the end of Q1 2005. The Company currently has short-term banking and operating facilities of \$15,000,000 upon which nothing was drawn as at the end Q1 2006. The available credit facilities are expected to be sufficient to fund the planned expansions in 2006 including a reserve to fund potential inventory acquisitions.

The Company incurred capital expenditures net of disposals of \$645,000 during Q1 2006 (Q1 2005 - \$1,182,000) to provide furniture, fixtures and equipment and make necessary leasehold improvements to new facilities, upgrade or provide new equipment to existing locations and acquire software and hardware related to the MMS implementation. The Company entered into leasing arrangements with a lender to fund the capital portion of its MMS project that carry terms between two and three years. These leases provided \$868,000 in additional funding to the Company during Q1 2006.

During fiscal 2006, the Company expects to invest approximately \$2,000,000 in the MMS and \$3,000,000 in infrastructure upgrades including equipping new stores. The Company expects to finance a significant portion of the MMS expenditure through leasing arrangements and the balance through cash flow and short-term borrowings.

Contractual Obligations

Payments due (\$000's) as at Q1 2006	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Financial Commitments					
Long-term debt	Nil	Nil	Nil	Nil	Nil
Capital leases	673	2,907	Nil	Nil	3,580
Contractual Obligations					
Store leases	9,711	15,626	8,782	9,202	43,321
Vehicle and equipment leases	30	12	4	Nil	46
Other long-term obligations	Nil	Nil	Nil	Nil	Nil
Total	10,414	18,545	8,786	9,202	46,947

Risks and Uncertainties

The Company is principally engaged in the sale of goods through 105 leased retail stores located across Canada and the northwestern United States. The Company's business is subject to a number of factors, which directly impact retail sales over which it has no control, namely the fluctuations

in weather patterns that drive opportunistic supply, swings in consumer confidence and buying habits and the changes in goods available for purchase.

Geographically, the Company's stores are located in larger population centres and many smaller centres. 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. While the Company experienced flat sales and lower operating margins in fiscal 2005, it expects to return to historical annual gross margin percentages and realize cost savings and other benefits from the new MMS.

Source of Supply of Inventory

All 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'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 customer traffic in the stores.

Competition

As a retailer, Liquidation World competes with other retailers in offering the best value for products it has on hand. There is no effective barrier to prevent entry into the retailing marketplace or the liquidation retailing marketplace by any potential competitor, foreign or domestic. Accordingly, when retailers offer significant savings through price reductions, the Company's competitive advantage is diminished and may need to be addressed by reducing prices, which reduces margins and profitability. This risk is mitigated due to the unique manner in which Liquidation World acquires its products. The Company is able to purchase inventory at lower cost than other retailers, as most of its inventory is acquired from opportunistic situations at opportunistic prices, generally providing a lower cost base and therefore allowing the Company to further discount its prices and remain profitable.

Real Estate Leases

The Company is opportunistic as it leases stores and pays less than market rates in most cases. If the Company is unable to extend or replace existing leases, it may face increasing costs or a reduction in its number of stores.

Foreign Currency Risk

The Company acquires more inventory denominated in US dollars than it sells in US dollars, so it is exposed to fluctuations in the value of the US dollar relative to the Canadian dollar. Since inventory is acquired and sold in a relatively short period of time, such fluctuations have limited impact. 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 determined that such fluctuations are not material to its overall profitability and, accordingly, has not adopted a hedging strategy to mitigate those risks.

M D & A (cont'd)

QUARTERLY INFORMATION

The following selected financial information is derived from the consolidated financial statements of the Company and should be read in conjunction with such financial statements and related notes.

(Amounts in 000's except per share amounts)

Quarter ended	January 2 2006	October 2 2005	July 3 2005	April 3 2005
Total revenue	\$ 57,146	\$ 46,813	\$ 46,286	\$ 39,367
Net earnings (loss)	1,946	418	(1,300)	(6,511)
Net earnings (loss) per common share				
Basic	0.23	0.05	(0.16)	(0.77)
Diluted	0.23	0.05	(0.16)	(0.77)

Quarter ended	January 2 2005	October 3 2004	July 4 2004	April 4 2004
Total revenue	\$ 51,685	\$ 45,199	\$ 44,989	\$ 43,668
Net earnings (loss) from continuing operations	939	(533)	822	615
Net earnings (loss) per common share before discontinued operations				
Basic	0.11	(0.05)	0.10	0.07
Diluted	0.11	(0.05)	0.10	0.07
Net earnings (loss)	939	(476)	221	660
Net earnings (loss) per common share				
Basic	0.11	(0.05)	0.03	0.08
Diluted	0.11	(0.05)	0.03	0.07

Critical Accounting Estimates

The Company uses the retail method to estimate the value of its inventory. Under the retail method, inventory on hand is counted and totaled at its retail value net of adjustments for markdowns and obsolescence. The ratio of inventory on hand at its retail value to total inventory available for sale at retail is used to determine the portion of inventory remaining at cost as a portion of total inventory available for sale at cost. Accordingly, the costs attributed to inventory are apportioned between inventory remaining and cost of sales.

Changes in Accounting Policy

At the beginning of fiscal 2005, the Company retroactively adopted the new Canadian accounting standards that apply the fair value method to total stock-based compensation. Under the fair value method, the Company calculates the fair value of stock option grants and records that fair value as compensation expense over the vesting period of those grants.

Other Items

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

Outstanding Share Data

As of January 2, 2006, the Company has authorized for issuance unlimited common shares of which 8,382,942 are issued and outstanding. At the quarter ended Q1 2005 the Company had 8,370,342 shares outstanding. Further, the Company has reserved 753,484 options to acquire common shares of which 461,450 are outstanding. At the quarter ended Q1 2005 the Company had 483,000 options outstanding.

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 stores, leverage the new MMS to gain productivity while lowering risk, ensure established standards are met at stores and ensure infrastructure will accommodate future growth. To that end, the Company has set standards for store presentation but much of the operations of the stores are left up to the entrepreneurial store manager who will focus on increasing sales while keeping costs under control. The Company continues to assess its current processes and information systems to optimize efficiency in handling and managing inventory from sourcing through to sale, and to emulate those processes in the information system. With confidence in its infrastructure, the Company will aggressively seek opportunities for growth through opening new stores and broadening its reach to acquire the greatest possible value 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.

See accompanying notes to consolidated financial statements.

Financial Statements

CONSOLIDATED BALANCE SHEETS

(unaudited)(In thousands of Canadian dollars)	January 1 2006	October 2 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,956	\$ 177
Accounts receivable	275	621
Inventory	46,968	46,552
Prepaid expenses	1,814	2,242
Income tax recoverable	2,001	2,916
	<u>54,014</u>	<u>52,508</u>
Property and equipment	10,663	9,895
	<u>\$ 64,677</u>	<u>\$ 62,403</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	\$ -	\$ 2,265
Accounts payable and accrued liabilities	7,991	6,387
Current portion of capital lease	1,011	715
	<u>9,002</u>	<u>9,367</u>
Capital lease	2,570	1,997
Future income taxes	512	445
Shareholders' equity		
Share capital (note 3)	15,764	15,764
Contributed surplus	490	437
Retained earnings	36,339	34,393
	<u>52,593</u>	<u>50,594</u>
	<u>\$ 64,677</u>	<u>\$ 62,403</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



JONATHAN HILL
Director



BOB WIENS
Director

CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

For the periods ended January 1, 2006 and January 2, 2005
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

	13 weeks ended January 1, 2006	13 weeks ended January 2, 2005
Revenue	\$ 57,146	\$ 51,685
Cost of sales	35,270	31,520
	21,876	20,165
Expenses		
Selling and store operations	16,140	16,174
General and administrative	1,971	1,898
Depreciation and amortization	746	387
Stock based compensation	53	69
Interest	50	-
Foreign exchange	(20)	5
	18,940	18,533
Earnings from continuing operations before income taxes	2,936	1,632
Income taxes		
Current	923	695
Future (recovery)	67	(2)
	990	693
Net earnings	1,946	939
Retained earnings, beginning of period	34,393	41,220
Excess of repurchase amount over stated capital of repurchased shares	-	(102)
Adjustment to reflect change in accounting policy (note 2)	-	(272)
Retained earnings, end of period	\$ 36,339	\$ 41,785
Earnings per share		
Basic	\$ 0.23	\$ 0.11
Diluted	\$ 0.23	\$ 0.11
Shares outstanding at period end	8,382,942	8,370,342
Weighted average shares outstanding	8,382,942	8,394,421
Diluted shares outstanding	8,382,942	8,462,597
Options outstanding at period end	461,450	483,000

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended January 1, 2006 and January 2, 2005
(unaudited)
(In thousands of Canadian dollars)

	13 weeks ended January 1, 2006	13 weeks ended January 2, 2005
Cash provided by (used in):		
Continuing operations		
Earnings from continuing operations	\$ 1,946	\$ 939
Add (deduct) non-cash items:		
Depreciation and amortization	746	387
Stock based compensation	53	69
Future income taxes (recovery)	67	(2)
	2,812	1,393
Changes in non-cash operating working capital		
Accounts receivable	346	884
Inventory	(416)	5,767
Prepaid expenses	428	380
Accounts payable and accrued liabilities	1,604	(921)
Income taxes	915	(601)
	5,689	6,902
Discontinued operations		
Change in liabilities of discontinued operations	-	(45)
	-	(45)
Investments		
Purchase of capital assets	(645)	(1,182)
Financing		
Decrease in bank indebtedness	(2,265)	-
Proceeds on issuance of common shares	-	4
Repurchase of common shares	-	(156)
	(2,265)	(152)
Increase in cash	2,779	5,523
Cash and cash equivalents, beginning of period	177	876
Cash and cash equivalents, end of period	\$ 2,956	\$ 6,399
Supplemental disclosure of cash paid for:		
Income taxes	\$ 7	\$ 1,296
Interest	50	-
	\$ 57	\$ 1,296

See accompanying notes.

Notes to Consolidated Financial Statements

FOR THE 13 WEEKS ENDED JANUARY 1, 2006 AND JANUARY 2, 2005
(AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

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 consolidated financial statements dated October 2, 2005. 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. CHANGE IN ACCOUNTING POLICY:

Prior to October 4, 2004, the Company applied the fair value based method of accounting only to stock options granted to non-employees, and applied the intrinsic value method of accounting to employee stock options. Under the intrinsic value method, any consideration paid by employees on the exercise of stock options or purchase of stock was credited to share capital and no compensation expense was recognized.

Effective October 4, 2004, the Company adopted the fair value based method for all stock based compensation. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. In accordance with one of the transitional provisions permitted, the Company has retroactively applied the fair value based method to all employee stock options granted on or after October 7, 2002 and prior to October 4, 2004. The Company has not restated prior years' reported amounts, and accordingly, adjusted the 2004 opening retained earnings at October 4, 2004 by \$272 and contributed surplus by the same amount.

3. SHARE CAPITAL:

(a) Issued and Outstanding:

	Number of Shares	Amount
Balance, October 3, 2004	8,382,942	\$ 15,764
Issued on exercise of share options	0	0
Shares repurchased	0	0
Balance, January 1, 2006	8,382,942	\$ 15,764

(b) Stock Options:

	Number of Options	Weighted Average Exercise Price
Stock options outstanding, October 2, 2005	541,450	\$ 5.36
Cancelled/expired	(80,000)	4.93
Balance, January 2, 2006	461,450	\$ 5.44

5. SEGMENTED INFORMATION:

	13 weeks ended January 1, 2006	13 weeks ended January 2, 2005
Revenue		
Canada	\$ 48,661	\$ 44,298
United States	8,485	7,387
Total	\$ 57,146	\$ 51,685
Property and equipment		
Canada	\$ 10,126	\$ 6,046
United States	537	515
Total	\$ 10,663	\$ 6,561

Corporate Information

Directors

LESLIE LANDES, Chairman
Les is also a Director and Chairman of Stockgroup Information Systems Inc. and a Director of TIR Systems Ltd., both publicly listed companies. He was formerly President and Chief Operating Officer of Stockgroup Information Systems, a company providing financial news and data to media and financial service companies, and of Jim Pattison Industries, one of Canada's largest private companies. He is also President of Landes Enterprises, a company that has provided interim and turnaround management services in a number of industries.

JONATHAN HILL, President & CEO

Jonathan joined Liquidation World in 1991 and has been responsible for building the eastern operations. In February of 2005, he was appointed President and sole CEO.

DARREN GILLESPIE, Senior Executive VP & President, Liquidation World U.S.A. Inc.

Darren joined Liquidation World in 1993 after 10 years with a national consumer electronics chain where he played an instrumental role in growing the business across Canada. He has been responsible for much of the growth in BC and the US, and is now focusing on the US market.

HERB LUKOFSKY CA, Corporate Director, Business Consultant

Herb was a partner with Arthur Andersen where he was in charge of the firm's tax practice. In 1984 he established Lukofsky, Lajoie and Associates, a business consulting firm specializing in mergers and acquisitions. Herb joined the Board of Directors for Liquidation World in January 2001.

CHARLES M. (CHAD) MURRAY, President, Chad Murray Sales and Marketing, Inc.

Chad is a long-time shareholder in Liquidation World, and has a solid understanding of retailing in Canada. He served in numerous capacities with Erie Industries Inc., eventually becoming President, CEO, and a member of the Board before founding his own company.

ROBERT THOMSON, QC, President of Rovalex Investments, Inc.

Robert, now President of Rovalex Investments Inc., practiced corporate law with the firm of Fraser Milner in mergers and acquisitions until his retirement in 1999.

BOB WIENS, CA, Business Consultant

Bob was CFO of D-Wave Systems Inc. until March, 2005. Previously Bob was President and CEO of FACS Records Centre Inc., and Managing Partner with Arthur Andersen in Ottawa and Vancouver. Currently, Bob is involved with a number of charitable organizations.

Management

JONATHAN HILL, President & CEO

DARREN GILLESPIE, Senior Executive VP & President, Liquidation World U.S.A. Inc.

ANDREW SEARBY, CA, Executive VP & CFO

MAURICE CHELLI, SVP Merchandising

BRIAN CALLAGHAN, CMA, VP Finance & Controller

DERRICK GILLESPIE, VP Global Sourcing

DARRELL FLADAGER, VP Business Development

GARTH SANDERCOCK, VP Corporate Development

LARRY SCHEFFEE, VP US Logistics

TROY HEATH, Regional Director

DANNY RODGERS, Regional Director

MARK VELLA, Regional Director

MIKE HENAHAN, Director of Business Information and Analysis

TERRY OFFORD, Director of Loss Prevention/Internal Audit

CHAD RICHARDSON, Director of Information Systems

TED SMITH, Director of Distribution and Logistics

Solicitors

Miller Thomson LLP

#3000, 700 - 9th Avenue SW, Calgary, Alberta T2P 3T3

Auditors

Ernst & Young LLP

Chartered Accountants

#1000, 440 - 2nd Avenue SW, Calgary, Alberta T2P 5E9

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

Store locations

CANADA

ALBERTA

Calgary (3)
Camrose
Cold Lake
Drumheller
Edmonton (2)
Fort Saskatchewan
Grande Prairie
High River
Hinton
Leduc
Lethbridge
Medicine Hat
Peace River
Ponoka
St. Paul
Taber
Westlock

BRITISH COLUMBIA

Aldergrove
Chilliwack
Coquitlam
Courtenay
Cranbrook
Duncan
Gibsons
Kamloops
Kelowna
Langley
Maple Ridge
Mission
Nanaimo
North Vancouver
Penticton
Port Alberni
Prince George
Quesnel
Richmond
Surrey
Trail
Victoria

MANITOBA

Steinbach
Swan River
Winnipeg (2)

ONTARIO

Ajax
Arthur
Belleville
Blenheim
Bolton
Brantford
Burlington
Cambridge
Campbellford
Cobourg
Hamilton (2)
Hawkesbury
Ingersoll
Keswick
London (2)
Oakville
Orillia
Oshawa
Paris
Petawawa
Prescott
Renfrew
Sarnia
Smiths Falls
St. Catherines (2)
Sudbury
Trenton
Uxbridge
Wallaceburg
Welland
Windsor (2)
Woodstock

SASKATCHEWAN

Estevan
Lloydminster
Moose Jaw
Prince Albert
Regina
Saskatoon
Yorkton

USA

ALASKA

Anchorage
Soldotna

IDAHO

Boise
Coeur d'Alene
Lewiston
Ponderay

MONTANA

Great Falls

WASHINGTON

Everett
Kent
Lacey
Renton
Richland
Spokane (2)
Tukwilla
Yakima

**LIQUIDATION
WORLD®**
BRAND NEW • BRAND NAMES

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



3900 - 29th Street NE, Calgary, Alberta T1Y 6B6

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.**

www.liquidationworld.com



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