

**LIQUIDATION WORLD INC.**

**LIQUIDATION  
WORLD®**  
LiquidationWorld.com

**ANNUAL REPORT  
2000**



**ENTREPRENEUR  
OF THE YEAR**

## COMPANY PROFILE

Liquidation World Inc. is a Calgary, Alberta based company specializing in marketing merchandise from distress situations, such as bankruptcies, receiverships, close-outs, inventory overruns and insurance claims. To date our 89 retail outlets are located in Alberta, B.C., Ontario, Saskatchewan, Manitoba, Washington State, Idaho and Alaska.

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

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

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

## MISSION STATEMENT

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

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

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

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

## SUMMARY OF SELECTED FINANCIAL DATA

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Sales (\$,000)	164,814	148,958	134,691	96,574	71,705	56,268	35,912	24,313	18,980	13,173	11,319	5,204	1,781	790
Cost of Sales (\$,000)	99,238	89,919	81,229	57,877	43,627	35,708	22,084	14,971	11,707	7,631	6,730	3,265	947	502
Gross Margin (\$,000)	65,576	59,039	53,462	38,697	28,078	20,560	13,828	9,342	7,273	5,542	4,589	1,939	834	288
Expenses (\$,000)	52,818	48,007	42,090	30,880	21,446	15,815	11,870	7,800	6,165	4,860	3,634	1,528	762	277
EBITDA (\$,000)	12,758	11,032	11,372	7,817	6,632	4,745	1,958	1,542	1,108	682	955	411	72	11
Depreciation & amortization (\$,000)	1,322	1,088	891	613	359	227	177	140	67	37	33	10	3	1
Interest (\$,000)	384	522	213	53	169	280	128	189	250	280	227	77	4	-
Income Taxes (\$,000)	4,754	4,362	4,474	3,067	2,584	1,867	755	511	369	171	305	132	37	2
Net Earnings (\$,000)	6,298	5,060	5,794	4,084	3,520	2,371	898	702	422	194	390	192	28	8
Earnings per Share (\$)														
Basic	0.76	0.62	0.73	0.53	0.51	0.39	0.15	0.16	0.12	0.06	0.12	0.06	0.01	0.01
Fully diluted	0.73	0.59	0.69	0.49	0.46	0.36	0.14	0.14	0.11	0.05	0.11	0.06	0.01	0.01
% Increase in Sales	11%	11%	39%	35%	27%	57%	48%	28%	44%	16%	118%	193%	126%	-
Number of Outlets at year end	87	74	67	58	39	29	22	14	10	7	5	4	2	1
Inventory at year end (\$,000)	49,858	44,090	41,031	27,734	18,427	15,527	11,027	6,425	5,435	3,745	3,357	2,430	673	286

### NOTE:

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

## PRESIDENT'S REPORT

The year 2000 began with a great deal of anticipation about the potential impact of Y2K which, as we all now know, proved to be a non-event. However, the year for Liquidation World has proven to be very eventful.

Financially, sales increased 11% on the year to \$165 million from \$149 million in fiscal 1999. Net earnings increased 24% to \$ 6.3 million during the year ended October 1, 2000 from \$5 million during the year ended October 3, 1999.

We have now completed 56 consecutive quarters of profitability. Since inception, Liquidation World has never experienced a losing quarter. That's something that we are extremely proud of and it is a claim that cannot be made by very many businesses.

One of the most significant initiatives undertaken in fiscal 2000 has been a total restructuring of the executive management group. We have established specific areas of responsibility and specific goals for the coming year in every key area of our Company. This reorganization of existing management allows Liquidation World to more effectively manage the Company by allowing our key individuals to focus exclusively on their individual areas of expertise. We wanted to eliminate any overlap of responsibilities that may have existed and create a management structure that will work more efficiently than ever as we take Liquidation World forward. We have already begun to see results and feel that we are very well positioned for the future.

Over the past year we saw tremendous new inventory opportunities in a variety of merchandise categories as a result of our ongoing efforts to expand our network of supply. January brought us a large bedding inventory to kick the new year off with strong sales across the Company and throughout the year our team of Deal Hunters saw amazing inventories come available.

We are very optimistic that fiscal 2001 will bring even more new opportunities. According to the credit rating agency Moody's Investors Service the number of U.S. and Canadian public companies that will go into default will more than triple over the next 12 months. Moody's cites three reasons for the increase: rising leverage resulting largely from debt-funded mergers and acquisitions; rising credit, energy and labour costs; and "event risk" resulting from litigation. Needless to say, Liquidation World will be on top of every opportunity that arises.

During fiscal 2000 Liquidation World entered into several strategic alliances which have significantly increased our exposure in the international B2B marketplace and given us the ability to leverage the global power of the internet. Those alliances have resulted in the acquisition of a number of exciting inventories.

Last year we reported on a major challenge involving an inventory contract with a large retailer that, unfortunately, did not work out as we had expected. In the spring of fiscal 2000 we cancelled that contract and the operations involved with administering it were closed down. This allowed us to dedicate our energy and resources to more profitable and more positive opportunities for the Company.

Fiscal 2000 saw Liquidation World continue to seek out new opportunities for growth. We opened 21 new outlets and closed 8. We have brought the Liquidation World concept to a number of new markets, particularly in Ontario and the U.S. Pacific Northwest, and also have increased our presence in some existing markets.

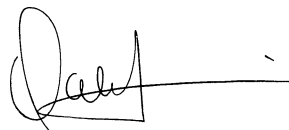
The current economic environment bodes well for Liquidation World as consumers find themselves with money to spend and, in general, a positive view of the future. Current setbacks for many dotcom businesses mean the prospects for our Company are better than ever.

One of the most valuable assets Liquidation World has is something that isn't reflected on a balance sheet. We have a great reputation in our industry for honesty and integrity. That reputation has delivered dividends. More and more companies realize that, when they deal with Liquidation World, they are dealing with a Company that approaches every situation with professionalism that sets the standard for the entire liquidation industry.

Liquidation World is committed to the task of continually streamlining and improving in every aspect of our business. We are proud of our Company's success and we look forward with great anticipation for what the future holds.

I would like to acknowledge the tremendous contribution and hard work of every member of Liquidation World's Board of Directors. In fiscal 2000 we were very pleased to welcome Mr. Gordon Marantz and Mr. Wynn Stevenson, who bring invaluable experience and make our Board the strongest its ever been. Also, I am extremely proud of the dedication of our family of over 1600 Associates. We have many loyal people who have been with Liquidation World for 5 years, 10 years and longer. On behalf of those Associates, the Management Team and our Board of Directors I thank you for your belief in our Company and for your support as a shareholder.

Sincerely,



Dale Gillespie,

President & C.E.O.

December 10, 2000

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

The Company's fiscal year ends are the first Sunday in October and ended October 1, 2000, October 3, 1999 and October 4, 1998. Each comprised 52 weeks of operations.

## Sales:

Sales of merchandise totalled \$164,814,000 for the year ended October 1, 2000, an increase of 10.6% from \$148,958,000 in fiscal 1999. The increase was the result of 13 new outlets opened (net of 8 being closed) during the year and a full year of operations from 12 stores opened in 1999. Sales increased 10.6% to \$148,958,000 in 1999 from \$134,691,000 in 1998 primarily on the strength of the new stores opened in 1999 and a full year's operations of 18 outlets opened in 1998.

Sales increases in 2001 as a result of outlets opened in 2000 operating for a full year are expected to approximate 2%. The Company expects to open 12 outlets in 2001, however, this will vary depending upon opportunities available in real estate.

## Gross Margin

Gross margin as a percentage of sales increased slightly in 2000 to 39.8% compared to 39.6% in 1999 and 39.7% in 1998. Small fluctuations in gross margin occur from year to year as a result of changes in the product mix throughout the stores. Liquidation World's pricing policy obliges the Company to use selling prices that are lower than any other in the market including discount stores, warehouse-type outlets and special promotions.

## Selling and Store Operations

Selling and store operations, which includes all costs of occupying and operating the outlets and opening new outlets, decreased as a percentage of sales in fiscal 2000 to 28.7% (\$47,328,000) from 29.2% (\$43,507,000) in fiscal 1999. Processing and handling costs decreased. However, costs associated with opening 21, closing 8 and moving 2 outlets prevented further decreases in selling and store operation costs.

Selling and store operations increased as a percentage of sales in fiscal 1999 to 29.2% (\$43,507,000) from 28.2% (\$37,990,000) in fiscal 1998. The increase is primarily the result of costs associated with the handling of inventory from a major transaction that proved to be unprofitable. Pre-opening costs are expensed as incurred.

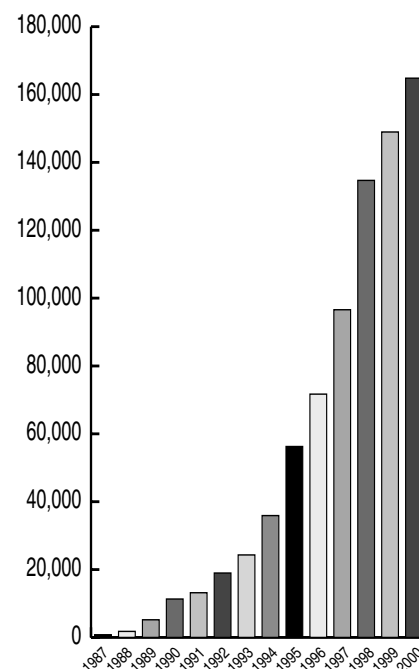
## General and Administrative Expenses

General and administrative expenses increased as a percentage of sales in fiscal 2000 to 3.3% (\$5,490,000) from 3.0% (\$4,500,000) in fiscal 1999 as a result of restructuring and infrastructure costs growing more rapidly than sales in anticipation of the next phase of growth the Company is expected to experience. General and administrative expenses remained constant as a percentage of sales in fiscal 1999 at 3.0% (\$4,500,000) compared to fiscal 1998 (\$4,100,000).

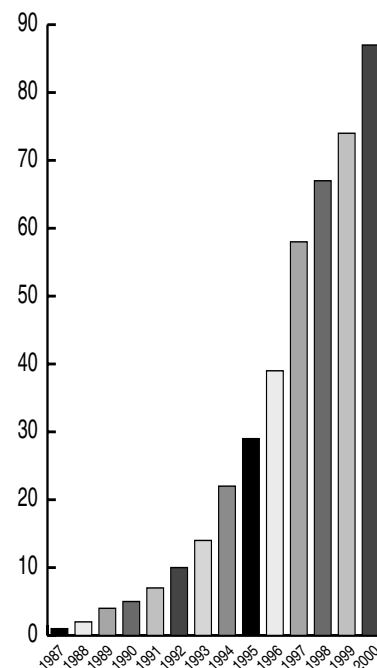
## Depreciation and Amortization

Depreciation and amortization increased 21.5% to \$1,322,000 compared to \$1,088,000 in 1999. The 1999 increase was 22.1% from \$891,000 in 1998. Both increases reflect the increases in the underlying capital assets of 15.5% and 26.5% in 1999 and 1998 respectively. The corollary increases are not perfect due to the timing within each year of store openings and asset acquisitions. The growth in expenditures on capital and other assets exceeded the growth in the number of outlets in 1999 because the Company acquired and installed a new information system.

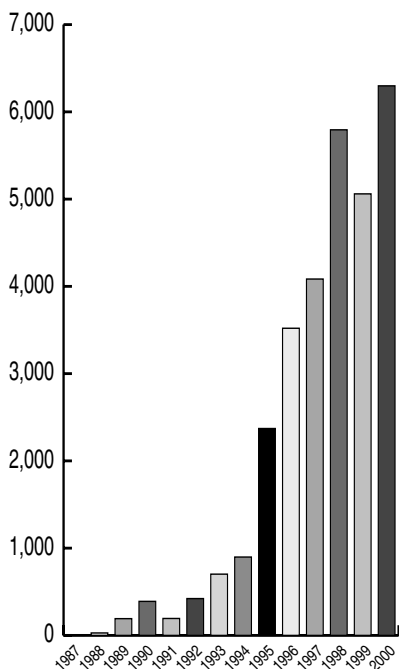
SALES (\$,000)



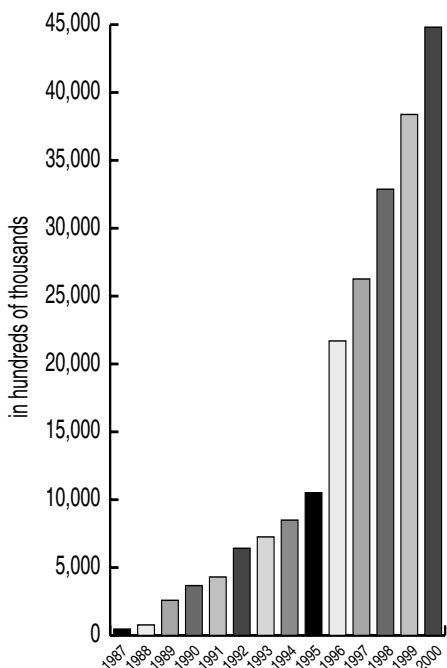
NUMBER OF OUTLETS



**NET EARNINGS (\$,000)**



**SHAREHOLDERS' EQUITY**



**Interest**

Interest decreased 26.4% in 2000 to \$384,000 from \$522,000 in 1999 as a result of lower average bank indebtedness in fiscal 2000. Interest increased 145.5% in 1999 from \$213,000 in 1998. New store expansion and significant inventory acquisitions were financed partially by increased bank indebtedness which resulted in increased interest costs.

**Income Taxes**

The effective income tax rates of 43.0% in 2000 and 43.6% in 1998 approximate statutory tax rates in effect during each year (44.6% each year) except for small timing differences, non-deductible expenditures and other items.

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

**Liquidity and Capital Resources**

Liquidation World is continuing to carry out its plan for growth through opening new outlets. Twenty-one outlets were opened in fiscal 2000 and eight were closed for a net increase of thirteen outlets. Twelve outlets were opened and five were closed in fiscal 1999. The Company incurred capital expenditures, net of disposals, of \$1,334,000 during fiscal 2000 (\$1,663,000 during fiscal 1999 and \$1,507,000 in fiscal 1998) to provide fixtures and equipment and make necessary leasehold improvements to new outlets and upgrade or provide equipment in existing locations. Additional working capital required to provide inventory for the locations ranged between \$250,000 and \$600,000 depending

on the size of the outlet. Cash flow from operations before working capital requirements totalled \$7,664,000 in fiscal 2000 (1999 - \$6,121,000; 1998 - \$6,659,000). Working capital requirements for expansion totalled \$6,185,000 in fiscal 2000 (1999 - \$3,503,000; 1998 - \$10,105,000). Accordingly, net cash flow provided from operations totalled \$1,479,000 and was sufficient to finance most expansion and equipment improvements and increased bank indebtedness \$203,000 to \$3,435,000. During fiscal 1999, net cash flow provided from operations totalled \$2,618,000 and was sufficient to finance expansion and equipment improvements and pay down bank indebtedness by \$1,544,000 to \$3,232,000 at year end. During fiscal 1998 net cash flow consumed in operations totalled \$3,446,000. This net cash shortfall along with expenditures for capital assets were financed from cash generated from operations and short term borrowings totalling \$4,776,000 at year end.

Working capital improved to \$40,023,000 at the end of fiscal 2000 (1999 - \$34,016,000; 1998 - \$28,964,000). The Company currently has short-term borrowing facilities established totalling \$25,000,000 which is sufficient for planned expansion in 2001 including a reserve for any potential inventory acquisitions.

# BUSINESS

LOCAL

Calgary Herald

Thursday 14 December 2000

## Restructuring, solid profits fuel Liquidation World

Geoffrey Scotton, Calgary Herald

A management refocusing and the elimination of some non-performing businesses -- along with a confident, spending public -- are boosting profits at Liquidation World Inc.

The Calgary firm, which is the biggest Canadian name in the liquidation business among the largest companies of its kind in North America, is riding a wave of consecutive quarters of profitability.

On Wednesday, the company reported stellar annual results, with 52 weeks ended Oct. 3 climbing 23 per cent to \$6.3 million or 76 cents per share from \$5.1 million or 62 cents per share recorded 12 months earlier.

The increased profitability was accompanied by improved revenue, with 52 weeks ended Oct. 3 rising 11 per cent to \$164.8 million from \$149 million during the prior fiscal year.

However, the company's shares continue to trade at near 52-week lows.

October 03, 2000 - Calgary, Alberta

### Liquidation World Announces Quarterly And Annual Results

Liquidation World Inc. (LQW - TSE; LIQWF - Nasdaq) announced its quarterly and annual results for the year ending October 1, 2000. Sales for fiscal year 2000 were \$148.9 million compared to sales of \$148.9 million in fiscal year 1999, representing 11% growth, year over year. For the fourth quarter, sales were \$41.7 million compared to \$36.0 million for the fourth quarter of 1999, representing a 16% growth rate.

For Immediate Release

December 13, 2000 - Calgary, Alberta

### Liquidation World Announces Record Annual Results

Liquidation World Inc. (LQW - TSE; LIQWF - Nasdaq) announced its record annual results for the 52 weeks ended October 1, 2000. Sales increased 11% to \$164,814,990 from \$148,900,000 in the corresponding period in 1999.

### News Release

For Immediate Release

August 10, 2000 - Calgary, Alberta

### Liquidation World Announces Rising Sales and Profits

Liquidation World Inc. (LQW - TSE; LIQWF - Nasdaq) announced its quarterly and annual results for the third quarter, the thirteen weeks ended July 4, 2000. Sales increased 10% to \$39,613,000 from \$36,153,000 in the corresponding period in 1999. Net earnings increased 47% to \$1,020,000 (\$0.12 per share) from \$690,000 (\$0.08 per share) in the corresponding period in 1999.

### News Release

For Immediate Release

May 10, 2000 - Calgary, Alberta

### Liquidation World Earnings Increase 47% in the Second Quarter

Liquidation World Inc. (LQW - TSE; LIQWF - Nasdaq) is pleased to announce the results of operations for the thirteen weeks ended April 29, 2000. Sales increased 11% to \$38,770,000 from \$34,826,000 during the corresponding period in 1999. Net earnings increased 47% to \$1,020,000 (\$0.13 per share) from \$690,000 (\$0.08 per share) in the corresponding period in 1999.



**Santa Doesn't Pay Retail. Why Should You?**

**CHRISTMAS COSTS LESS**



**MAJOR HOUSEWARES DISTRIBUTOR**



Red Deer 1999



Kootenay 1999



Kootenay 1998



Uxbridge 1998



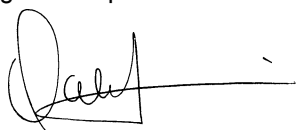
Calgary 1997

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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

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

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



Dale Gillespie  
President, C.E.O.



Andrew Searby, C.A.  
Chief Financial Officer

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Liquidation World Inc. as at October 1, 2000 and October 3, 1999 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the three year period ended October 1, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 1, 2000 and October 3, 1999 and the results of its operations and its cash flows for each of the years in the three year period ended October 1, 2000, in accordance with Canadian generally accepted accounting principles.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the three year period ended October 1, 2000 and shareholders' equity as at October 1, 2000 and October 3, 1999 to the extent summarized in note 10 to the consolidated financial statements.



Chartered Accountants  
Calgary, Canada  
November 24, 2000

**LIQUIDATION WORLD INC.**

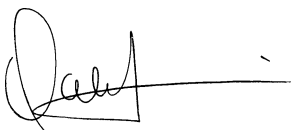
## Consolidated Balance Sheets

As at October 1, 2000 and October 3, 1999  
(In thousands of dollars)

	October 1, 2000	October 3, 1999
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 177	\$ 152
Accounts receivable	896	630
Inventory	49,858	44,090
Prepaid expenses	1,993	1,151
	<u>52,924</u>	<u>46,023</u>
Capital assets (note 3)	4,378	4,366
Investment in affiliate	411	—
	<u>\$ 57,713</u>	<u>\$ 50,389</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (note 4)	\$ 3,435	\$ 3,232
Accounts payable and accrued liabilities	8,630	8,353
Income taxes payable	836	422
	<u>12,901</u>	<u>12,007</u>
Shareholders' equity:		
Share capital (note 5)	14,903	14,771
Retained earnings	29,909	23,611
	<u>44,812</u>	<u>38,382</u>
Commitments (note 8)		
	<u>\$ 57,713</u>	<u>\$ 50,389</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Dale Gillespie

Director



Azriel Presma

Director

# LIQUIDATION WORLD INC.

## Consolidated Statement of Earnings and Retained Earnings

For the years ended October 1, 2000, October 3, 1999 and October 4, 1998

(In thousands of dollars, except per share amounts)

	Years ended		
	October 1, 2000	October 3, 1999	October 4, 1998
Sales	\$ 164,814	\$ 148,958	\$ 134,691
Cost of sales	99,238	89,919	81,229
	65,576	59,039	53,462
Expenses:			
Selling and store operations	47,328	43,507	37,990
General and administrative	5,490	4,500	4,100
Depreciation and amortization	1,322	1,088	891
Interest	384	522	213
	54,524	49,617	43,194
Earnings before income taxes	11,052	9,422	10,268
Income taxes, current (note 6)	4,754	4,362	4,474
Net earnings	6,298	5,060	5,794
Retained earnings, beginning of year	23,611	18,551	12,757
Retained earnings, end of year	\$ 29,909	\$ 23,611	\$ 18,551
Earnings per share:			
Basic	\$ 0.76	\$ 0.62	\$ 0.73
Fully diluted	\$ 0.73	\$ 0.59	\$ 0.69

See accompanying notes to consolidated financial statements.

# LIQUIDATION WORLD INC.

## Consolidated Statements of Cash Flows

For the years ended October 1, 2000, October 3, 1999 and October 4, 1998  
(In thousands of dollars)

	Years ended		
	October 1, 2000	October 3, 1999	October 4, 1998
Cash provided by (used in):			
Operations:			
Net earnings	\$ 6,298	\$ 5,060	\$ 5,794
Add (deduct) non-cash items:			
Depreciation and amortization	1,322	1,088	891
Equity in loss (income) of affiliate	44	(27)	(26)
	7,664	6,121	6,659
Changes in non-cash operating working capital:			
Accounts receivable	(266)	(322)	64
Inventory	(5,768)	(3,059)	(13,297)
Accounts payable and accrued liabilities	277	456	(363)
Prepaid expenses	(842)	(179)	2,985
Income taxes payable	414	(399)	506
	1,479	2,618	(3,446)
Investments:			
Purchase of capital assets	(1,334)	(1,663)	(1,507)
Investment in affiliate	(455)	—	—
Proceeds on disposal of affiliate	—	147	—
	(1,789)	(1,516)	(1,507)
Financing:			
Increase (decrease) in bank indebtedness	203	(1,544)	4,164
Proceeds on issuance of common shares	132	447	819
	335	(1,097)	4,983
Increase in cash	25	5	30
Cash and equivalents, beginning of period	152	147	117
Cash and equivalents, end of period	\$ 177	\$ 152	\$ 147
Supplemental disclosure of cash paid for:			
Income taxes	\$ 4,306	\$ 4,765	\$ 4,256
Interest	327	506	212
	\$ 4,633	\$ 5,271	\$ 4,468

# LIQUIDATION WORLD INC.

Notes to Consolidated Financial Statements

Years ended October 1, 2000, October 3, 1999 and October 4, 1998  
(amounts in thousands of dollars, except per share amounts)

## 1. Significant accounting policies:

### (a) Basis of presentation:

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Company, conform in all material respects with those in the United States, except as outlined in note 10.

These consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiary. The Company's 50% interest in an affiliate company is accounted for using the equity method.

### (b) Inventory:

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

### (c) Capital assets:

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

### (d) Pre-opening costs:

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

### (e) Foreign currency translation:

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

### (f) Earnings per share:

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

The imputed interest rate used for purposes of calculating fully diluted earnings per share in the current year is 4% (1999 – 3%, 1998 – 3%)

### (g) Fiscal year:

The Company's fiscal year ends on the first Sunday of October. Accordingly, the 2000 year end was on October 1, 2000, the 1999 year end was on October 3, 1999 and the 1998 year end was on October 4, 1998, each comprised 52 weeks of operations.

### (h) 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. In determining the cost amount of inventories, management uses the retail inventory method which is by its nature subjective and therefore actual results could differ from those estimates.

### (i) Cash and equivalents:

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

### (j) Stock-based compensation plans:

The Company has a stock-based compensation plan, which is described in Note 5 (c). No compensation expense is recognized for this plan when stock options are issued. Any consideration paid on exercise of stock options is credited to share capital.

### (k) Income taxes:

The Company follows the liability method of accounting for income taxes (Note 2). Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis.

## 2. Change in accounting policy:

Effective, October 4, 1999 the Company adopted the liability method relating to accounting for income taxes. Previously the Company followed the deferral method. The new policy has been applied retroactively and there has been no change in opening retained earnings. Comparative financial statements have not been restated.

## Notes to Consolidated Financial Statements (Continued)

Years ended October 1, 2000, October 3, 1999 and October 4, 1998  
(amounts in thousands of dollars, except per share amounts)

**3. Capital assets:**

October 1, 2000	Cost	Accumulated depreciation and amortization	Net book value
Furniture and equipment	\$ 6,848	\$ 3,390	\$ 3,458
Leasehold improvements	2,058	1,138	920
	<u>\$ 8,906</u>	<u>\$ 4,528</u>	<u>\$ 4,378</u>
<b>October 3, 1999</b>			
Furniture and equipment	\$ 6,016	\$ 2,512	\$ 3,504
Leasehold improvements	1,698	836	862
	<u>\$ 7,714</u>	<u>\$ 3,348</u>	<u>\$ 4,366</u>

**4. Bank indebtedness:**

The Company has an operating line of credit facility at a Canadian bank in the maximum amount of \$25,000 (reviewed annually), bearing interest at the bank's prime rate (7.5% at October 1, 2000). The facility is secured by an assignment of book debts, inventory, insurance, leases on retail premises and a general security agreement providing a charge over all assets.

**5. Share capital:**

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

	Number of Shares	Amount
Balance, October 5, 1997	7,771,340	\$ 13,505
Issued on exercise of share options	293,680	819
Balance, October 4, 1998	8,065,020	14,324
Issued on exercise of share options	179,140	447
Balance, October 3, 1999	8,244,160	14,771
Issued on exercise of share options	67,960	132
Balance, October 1, 2000	<u>8,312,120</u>	<u>\$ 14,903</u>

Notes to Consolidated Financial Statements (Continued)

Years ended October 1, 2000, October 3, 1999 and October 4, 1998  
(amounts in thousands of dollars, except per share amounts)

(c) Stock options

The Company has a stock option plan, whereby options to purchase common shares may be issued to directors, officers, employees, key consultants and agents of the Company subject to certain terms and conditions. Stock options granted vested over a period of five years and expire at various dates through June 2005. At October 1, 2000, the exercise price of outstanding stock options was \$3.12 to \$14.80 per common share.

Changes in the number of options, with their weighted average exercise prices are summarized below.

	October 1, 2000		October 3, 1999		October 4, 1998	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	793,520	\$ 9.82	756,560	\$ 6.85	848,640	\$ 3.61
Granted	133,850	6.23	230,600	14.03	215,800	13.90
Exercised	(67,960)	1.94	(179,140)	2.50	(293,680)	2.79
Cancelled / expired	(5,100)	13.22	(14,500)	12.12	(14,200)	9.67
	854,310	\$ 9.87	793,520	\$ 9.82	756,560	\$ 6.85

Range of exercise Price outstanding	Options outstanding			Options exercisable		
	Number outstanding at October 1, 2000	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at October 1, 2000	Weighted average exercise price	
3.00 - 7.99	302,550	23	\$ 4.51	120,500	\$ 3.15	
8.00 - 13.99	341,660	22	11.77	151,480	11.42	
14.00 - 14.99	210,100	38	14.49	44,020	\$ 14.48	
	854,310	26	\$ 9.87	316,000	\$ 8.69	

(d) Stock split:

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

## Notes to Consolidated Financial Statements (Continued)

Years ended October 1, 2000, October 3, 1999 and October 4, 1998

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

**6. Income taxes:**

The provision for income taxes differs from the amount obtained by applying the combined applicable income tax rate to earnings before income taxes. The difference relates to the following items:

	Years ended		
	October 1, 2000	October 3, 1999	October 4, 1998
Statutory income tax rate	43.6%	44.6%	44.6%
Calculated tax expense	\$ 4,819	\$ 4,202	\$ 4,580
Capital taxes	60	60	60
Variation in foreign tax rates	(37)	149	(125)
Other items	(88)	(49)	(41)
	\$ 4,754	\$ 4,362	\$ 4,474

**7. Related party transactions:**

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

During the year the Company acquired a 50% interest in an affiliated company. Purchases from that company were \$49 for the year ended October 1, 2000.

**8. Commitments:**

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

2000	\$ 5,917
2001	6,214
2002	5,634
2003	5,338
2004	4,478
Thereafter	3,755
	\$ 31,336

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

b) The Company sells merchandise on a consignment basis and may guarantee a return to a consignor. At October 1, 2000, the total of such guarantees in excess of remittances was \$nil (October 3, 1999 – \$175; October 4, 1998 – \$nil).

Notes to Consolidated Financial Statements (Continued)

Years ended October 1, 2000, October 3, 1999 and October 4, 1998  
(amounts in thousands of dollars, except per share amounts)

**9. Segmented information:**

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

<b>2000</b>	Canada	U.S.	Total
Sales	\$ 132,275	\$ 32,539	\$ 164,814
Capital assets	\$ 3661	\$ 717	\$ 4,378
<b>1999</b>			
Sales	\$ 115,161	\$ 33,797	\$ 148,958
Capital assets	\$ 3,635	\$ 731	\$ 4,366
<b>1998</b>			
Sales	\$ 105,138	\$ 29,553	\$ 134,691
Capital assets	\$ 3,073	\$ 718	\$ 3,791

**10. Reconciliation to United States accounting principles:**

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

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

# CORPORATE INFORMATION

## Board of Directors:

Dale Gillespie	President & C.E.O.
Hubert Marleau	President & Managing Director, Palos Capital Corporation
Azriel Presma	Retired Businessman
Robert Aaron Roberts	Liquidation World Inc.
R. Gordon Marantz Q.C.	Barrister & Solicitor, Osler Hoskin & Harcourt
Wynn Stevenson	Vice President, Taxes & Corporate Planning, Terra Industries Inc.

## Senior Management Team:

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

## OUTLET LOCATIONS

### CANADA

#### ALBERTA

3900 – 29 Street N.E.  
Calgary, Alberta, T1Y 6B6  
Phone: (403) 250-1588

6909 Macleod Trail South  
Calgary, Alberta, T2H 0L6  
Phone: (403) 253-1500

3939 – 17 Avenue S.W.  
Calgary, Alberta, T3E 0C3  
Phone: (403) 686-2100

303 – 3 Avenue South  
Lethbridge, Alberta, T1J 4J8  
Phone: (403) 328-2444

1097 Trans Canada Way S.E.  
Medicine Hat, Alberta, T1B 1H9  
Phone: (403) 528-4200

"C", 2410 – 50 Avenue  
Red Deer, Alberta, T4R 1M3  
Phone: (403) 346-4466

555 Highway 10 E.  
Greentree Mall  
Drumheller, Alberta, T0J 0Y0  
Phone: (403) 823-8858

4733 – 50 Avenue  
St. Paul, Alberta, T0A 3A0  
Phone: (780) 645-6006

15535 – 115A Avenue  
Edmonton, Alberta, T5M 3S7  
Phone: (780) 451-1400

8170 – 50th Street  
Edmonton, Alberta, T6B 2R2  
Phone: (780) 469-1400

7640 Yellowhead Trail N.W.  
Edmonton, Alberta, T5B 1G3  
Phone: (780) 471-1400

13530 Fort Road  
Edmonton, Alberta, T5A 1B4  
Phone: (780) 475-1116

10115 – 99th Avenue  
Grande Prairie, Alberta, T8V 0S1  
Phone: (780) 532-1900

10028 – 101st Street  
Peace River, Alberta, T8S 1S5  
Phone: (780) 624-8008

116 Market Street  
Hinton, Alberta, T7V 2A2  
Phone: (780) 865-6194

218 – 10th Street  
Wainwright, Alberta, T9W 1P5  
Phone: (780) 842-5200

38 Reidel Street  
Fort McMurray, Alberta, T9H 3E1  
Phone: (780) 790-6656

10404 – 100th Street  
Westlock, Alberta, T7P 2C7  
Phone: (780) 349-0006

5103 – 51st Avenue  
Cold Lake South, Alberta, T9M 1P2  
Phone: (780) 594-7575

5000 – 51st Avenue  
Camrose, Alberta, T4V 0V6  
Phone: (780) 672-1214

#### BRITISH COLUMBIA

14885 – 108 Avenue  
Surrey, B.C., V3R 1W2  
Phone: (604) 584-1234

20500 Logan Avenue  
Langley, B.C., V3A 1G3  
Phone: (604) 532-9288

22255 Dewdney Trunk Road  
Maple Ridge, B.C., V2X 3H8  
Phone: (604) 463-7788

9325 Main Street  
Chilliwack, B.C., V2P 4M3  
Phone: (604) 792-7111

1331 Clark Drive  
Vancouver, B.C., V5L 3L1  
Phone: (604) 254-0126

15076 North Bluff Road  
White Rock, B.C., V4B 5C1  
Phone: (604) 541-9006

710 West 14th Street  
North Vancouver, B.C., V7M 3E8  
Phone: (604) 924-9422

1100 Sunshine Coast HiWay  
Gibsons, B.C., V0N 1V2  
Phone: (604) 886-3258

2728 Pandosy Street  
Kelowna, B.C., V1Y 1V7  
Phone: (250) 860-7115

1303 – 3rd Avenue  
Prince George, B.C., V2L 3E8  
Phone: (250) 561-1302

131 – 7 Avenue South  
Cranbrook, B.C., V1C 2J3  
Phone: (250) 426-8933

960 Victoria Street  
Kamloops, B.C., V2C 2B9  
Phone: (250) 374-1837

250 Winnipeg Street  
Penticton, B.C., V2A 5M3  
Phone: (250) 770-8889

3598 Johnston Road  
Port Alberni, B.C., V9Y 1X1  
Phone: (250) 724-7112

2966 Kilpatrick Street  
Courtenay, B.C., V9N 8P1  
Phone: (250) 703-0424

107 Ingram Street  
Duncan, B.C., V9L 1N8  
Phone: (250) 701-0991

1704 Old Island Hwy.  
View Royal, B.C., V9B 1H8  
Phone: (250) 474-9933

#### ONTARIO

150 Holiday Inn Drive  
Cambridge, Ontario, N3C 1Z5  
Phone: (519) 658-8110

605 Rogers Road  
Toronto, Ontario, M6M 1B9  
Phone: (416) 658-1027

869 Barton Street  
Hamilton, Ontario, L8L 3B4  
Phone: (905) 547-8441

282 Monarch Avenue  
Ajax, Ontario, L1S 2G2  
Phone: (905) 427-7708

50 Thames Street S.  
Ingersoll, Ontario, N5C 2S9  
Phone: (519) 425-1677

Uxbridge Shopping Plaza  
Uxbridge, Ontario, L0C 1K0  
Phone: (905) 852-0677

Woodlawn Centre  
North Vancouver, B.C., V7M 3E8  
Guelph, Ontario, N1H 1G7  
Phone: (519) 823-1515

150 N. Christina Street  
Sarnia, Ontario, N7T 7W5  
Phone: (519) 344-9811

301 Queen Street South  
Bolton, Ontario, L7E 2B1  
Phone: (905) 857-4122

24018 Woodbine Avenue, Unit #1  
Keswick, Ontario, L4P 3E9  
Phone: (905) 476-2722

41 Mississauga Street West  
Orillia, Ontario, L3V 3A7  
Phone: (705) 326-5465

360 George Street North  
Peterborough, Ont., K9H 7E7  
Phone: (705) 741-0392

581 Lake Street  
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Phone: (905) 934-1164

183 Lakeshore Road West  
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Phone: (905) 815-8811

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Phone: (519) 649-1999

1408 Ottawa Street  
Windsor, Ontario, N8X 2G2  
Phone: (519) 254-7283

470 Dundas Street East  
Belleville, Ontario, K8N 1G1  
Phone: (613) 962-1632

54 Beckwith Street North  
Smiths Falls, Ontario, K7A 2B5  
Phone: (613) 283-5744

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200 John Street West  
Oshawa, Ontario, L1J 2B4  
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## Company Head Office:

3900 – 29 Street N.E.  
Calgary, Alberta, T1Y 6B6  
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Fax: (403) 291-1306  
web: www.LiquidationWorld.com

## Bank:

Canadian Imperial Bank of Commerce  
Bankers Hall East Tower  
855 – 2nd Street S.W.,  
Calgary, Alberta, T2P 2P2

## Auditors:

KPMG LLP  
Chartered Accountants  
1000, 205-5 Avenue S.W.  
Calgary, Alberta, T2P 4B9

## Lawyer:

Drummond Phillips & Sevalrud  
900, 521-3 Avenue S.W.  
Calgary, Alberta, T2P 3T3

## Transfer Agent:

Montreal Trust  
100 University Avenue, 8th Floor  
Toronto, Ontario, M5J 2Y1

## UNITED STATES

### WASHINGTON

E. 12606 Sprague  
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3204 East 17th Avenue  
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1418 Jadwin Avenue  
Richland, Washington, 99352  
Phone: (509) 946-3393

1185 Andover Park West  
Tukwila, Washington, 98188  
Phone: (206) 575-2216

1119 Central Avenue South  
Kent, Washington, 98032  
Phone: (253) 852-7978

2501 S.W. Trenton  
West Seattle  
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Everett, Washington, 98201  
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16 North 3rd Street  
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LiquidationWorld.com

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