

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)		
(\$ in thousands)	As at September 30 2017	As at December 31 2016
ASSETS		
Current assets		
Cash and cash equivalents	16,672	43,985
Restricted marketable securities	14,256	16,600
Available-for-sale financial assets	59,904	39,079
Trade receivables	115,773	128,142
Income taxes receivable	2,042	2,042
Inventories <i>[note 5]</i>	316,538	308,801
Deferred acquisition costs	9,865	7,643
Deferred financing costs	614	775
Prepays and other assets	11,912	8,225
Total current assets	547,576	555,292
Deferred acquisition costs	10,490	13,128
Property, plant and equipment <i>[note 6]</i>	340,124	315,500
Investment properties <i>[note 7]</i>	17,635	17,984
Intangible assets <i>[note 8]</i>	307,492	311,464
Goodwill	390,120	390,120
Deferred income tax assets	7,673	8,174
Total assets	1,621,110	1,611,662
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	245,063	214,838
Provisions	8,284	5,468
Income taxes payable	2,453	12,641
Customers' deposits	95,302	117,990
Finance lease liability	1,421	1,421
Dividends payable	8,676	7,183
Deferred warranty plan revenue	44,598	39,839
Loans and borrowings <i>[note 10]</i>	-	25,000
Other liabilities	3,614	2,124
Total current liabilities	409,411	426,504
Loans and borrowings <i>[note 10]</i>	209,440	214,436
Convertible debentures <i>[note 10]</i>	92,906	93,520
Finance lease liability	9,379	10,474
Deferred warranty plan revenue	101,404	105,289
Redeemable share liability <i>[note 9]</i>	157	503
Deferred rent liabilities and lease inducements	11,233	11,380
Deferred income tax liabilities	86,071	90,003
Total liabilities	920,001	952,109
Shareholders' equity attributable to the shareholders of the Company		
Common shares <i>[note 11]</i>	44,592	39,184
Equity component of convertible debentures <i>[note 10]</i>	6,986	7,089
Retained earnings	649,244	613,426
Accumulated other comprehensive income (loss)	287	(146)
Total shareholders' equity	701,109	659,553
Total liabilities and shareholders' equity	1,621,110	1,611,662

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited				
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME				
(UNAUDITED)				
(\$ in thousands)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenue	594,589	575,724	1,616,361	1,555,355
Cost of sales <i>[note 5]</i>	341,333	330,788	928,305	898,623
Gross profit	253,256	244,936	688,056	656,732
Operating expenses				
Selling, general and administration expenses	204,030	195,027	595,302	582,422
Operating profit	49,226	49,909	92,754	74,310
Finance costs	(3,123)	(4,130)	(9,376)	(12,634)
Finance income	323	495	1,190	1,679
Net income before income tax	46,426	46,274	84,568	63,355
Income tax expense <i>[note 12]</i>	12,088	12,163	22,754	16,997
Net income for the period	34,338	34,111	61,814	46,358
Earnings per share <i>[note 13]</i>				
Basic	\$ 0.48	\$ 0.48	\$ 0.86	\$ 0.65
Diluted	\$ 0.42	\$ 0.42	\$ 0.77	\$ 0.58
Dividends declared per share				
Common	\$ 0.12	\$ 0.10	\$ 0.36	\$ 0.30
Convertible, non-voting	\$ -	\$ -	\$ -	\$ -

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Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(\$ in thousands)	Three months ended September 30		
	2017	Tax effect	Net of tax 2017
Net income for the period	34,338	-	34,338
Other comprehensive income, net of tax			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:			
Unrealized gains on available-for-sale financial assets arising during the period	71	45	26
Reclassification adjustment for net losses included in profit for the period	(32)	(8)	(24)
Change in unrealized gains on available-for-sale financial assets arising during the period	39	37	2
Comprehensive income for the period	34,377	37	34,340
	2016	Tax effect	Net of tax 2016
Net income for the period	34,111	-	34,111
Other comprehensive income, net of tax			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:			
Unrealized gains on available-for-sale financial assets arising during the period	530	97	433
Reclassification adjustment for net losses included in profit for the period	(158)	(42)	(116)
Change in unrealized gains on available-for-sale financial assets arising during the period	372	55	317
Comprehensive income for the period	34,483	55	34,428

(\$ in thousands)	Nine months ended September 30		
	2017	Tax effect	Net of tax 2017
Net income for the period	61,814	-	61,814
Other comprehensive income, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealized gains on available-for-sale financial assets arising during the period	755	231	524
Reclassification adjustment for net losses included in profit for the period	(127)	(36)	(91)
Change in unrealized gains on available-for-sale financial assets arising during the period	628	195	433
Comprehensive income for the period	62,442	195	62,247
	2016	Tax effect	Net of tax 2016
Net income for the period	46,358	-	46,358
Other comprehensive income, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealized gains on available-for-sale financial assets arising during the period	537	39	498
Reclassification adjustment for net losses included in profit for the period	(816)	(217)	(599)
Change in unrealized losses on available-for-sale financial assets arising during the period	(279)	(178)	(101)
Comprehensive income for the period	46,079	(178)	46,257

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Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited					
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)					
(\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income (loss)	Retained earnings	Total
As at December 31, 2015	7,089	34,389	398	558,526	600,402
Comprehensive income					
Net income for the period	-	-	-	46,358	46,358
Change in unrealized losses on available-for-sale financial assets arising during the period	-	-	(101)	-	(101)
Total comprehensive income	-	-	(101)	46,358	46,257
Transactions with shareholders					
Dividends declared	-	-	-	(21,508)	(21,508)
Management share purchase plan <i>[note 9]</i>	-	4,176	-	-	4,176
Total transactions with shareholders	-	4,176	-	(21,508)	(17,332)
As at September 30, 2016	7,089	38,565	297	583,376	629,327
As at December 31, 2016	7,089	39,184	(146)	613,426	659,553
Comprehensive income					
Net income for the period	-	-	-	61,814	61,814
Change in unrealized gains on available-for-sale financial assets arising during the period	-	-	433	-	433
Total comprehensive income	-	-	433	61,814	62,247
Transactions with shareholders					
Dividends declared	-	-	-	(25,996)	(25,996)
Management share purchase plan <i>[note 9]</i>	-	3,961	-	-	3,961
Convertible debentures <i>[note 10]</i>	(103)	1,447	-	-	1,344
Total transactions with shareholders	(103)	5,408	-	(25,996)	(20,691)
As at September 30, 2017	6,986	44,592	287	649,244	701,109

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)		
(\$ in thousands)	Nine months ended September 30	
	2017	2016
OPERATING ACTIVITIES		
Net income for the period	61,814	46,358
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	24,207	24,972
Amortization of intangible assets	4,746	5,609
Amortization of deferred warranty plan revenue	(28,703)	(29,304)
Net finance costs	8,186	10,955
Deferred income taxes	(3,365)	(5,631)
Gain on sale of property, plant and equipment and intangible assets	(433)	(25)
Loss (gain) on sale of available-for-sale financial assets	92	(792)
Net change in non-cash working capital balances related to operations <i>[note 15]</i>	66,544	52,142
Cash received on warranty plan sales	1,864	22,447
Cash received on warranty plan sales	29,577	27,621
Cash provided by operating activities	97,985	102,210
INVESTING ACTIVITIES		
Purchase of property, plant and equipment <i>[note 6]</i>	(48,714)	(17,095)
Purchase of intangible assets <i>[note 8]</i>	(788)	(139)
Proceeds on sale of property, plant and equipment and intangible assets	679	114
Purchase of available-for-sale financial assets	(35,134)	(22,051)
Proceeds on sale of available-for-sale financial assets	17,205	12,462
Interest received	1,095	1,284
Cash used in investing activities	(65,657)	(25,425)
FINANCING ACTIVITIES		
Repayment of finance leases	(1,039)	(1,403)
Dividends paid	(24,503)	(21,472)
Decrease of employee loans-redeemable shares <i>[note 9]</i>	3,614	3,799
Repayment of term loan <i>[note 10]</i>	(30,000)	(35,000)
Finance costs paid	(55)	-
Interest paid	(7,658)	(9,625)
Cash used in financing activities	(59,641)	(63,701)
Net (decrease) increase in cash and cash equivalents during the period	(27,313)	13,084
Cash and cash equivalents, beginning of period	43,985	7,859
Cash and cash equivalents, end of period	16,672	20,943

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Leon's Furniture Limited

Amounts in thousands of Canadian dollars except shares outstanding and earnings per share

For the three-and nine-month periods ended September 30, 2017 and 2016.

1. REPORTING ENTITY

Leon's Furniture Limited ("Leon's" or the "Company") was incorporated by Articles of Incorporation under the Business Corporations Act on February 28, 1969. Leon's is a retailer of home furnishings, mattresses, appliances and electronics across Canada. Leon's is a public company listed on the Toronto Stock Exchange (TSX – LNF, LNF.DB) and is incorporated and domiciled in Canada. The address of the Company's head office and registered office is 45 Gordon Mackay Road, Toronto, Ontario, M9N 3X3.

The Company's business is seasonal in nature. Retail sales are traditionally higher in the third and fourth quarters.

2. BASIS OF PRESENTATION

The interim condensed consolidated financial statements of the Company are prepared in accordance with IAS 34, *Interim Financial Reporting*. Accordingly, certain information and note disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The consolidated financial statements of the Company include the financial results of Leon's Furniture Limited and its wholly owned subsidiaries.

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 14, 2017.

Use of estimates and judgments

The following disclosure should be read in conjunction with the annual consolidated financial statements of Leon's for the year ended December 31, 2016.

Basis for consolidation and classification of joint arrangements

Assessing the Company's ability to control or influence the relevant financial and operating policies of another entity may, depending on the facts and circumstances, require the exercise of significant judgment to determine whether the Company controls, jointly controls, or exercises significant influence over the entity performing the work. This assessment of control impacts how the operations of these entities are reported in the Company's consolidated financial statements (i.e., full consolidation, equity investment or proportional share). The classification of these entities as a subsidiary, joint operation, joint venture, associate or financial instrument requires judgment by management to analyze the various indicators that determine whether control exists. In particular, when assessing whether a joint arrangement should be classified as either a joint operation or a joint venture, management considers the contractual rights and obligations, voting shares, share of board members and the legal structure of the joint arrangement. Subject to reviewing and assessing all the facts and circumstances of each joint arrangement, joint arrangements contracted through agreements and general partnerships would generally be classified as joint operations whereas joint arrangements contracted through corporations would be classified as joint ventures. The application of different judgments when assessing control or the classification of joint arrangements could result in materially different presentations in the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the adoption of the new, revised or amended accounting standards noted below, these interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of Leon's for the year ended December 31, 2016. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, *Presentation of Financial Statements*. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) **Leon's Furniture Limited**

Segment reporting

The Company has two operating segments, Leon's and The Brick, both in the business of the sale of home furnishings, mattresses, appliances and electronics in Canada. The Company's chief operating decision-maker, identified as the Chief Executive Officer, monitors the results of operating segments for the purpose of allocating resources and assessing performance.

Leon's and The Brick operating segments are aggregated into a single reportable segment because they show a similar long-term economic performance (gross margin), have comparable products, customers and distribution channels, operate in the same regulatory environment, and are steered and monitored together.

Accordingly, there is no reportable segment information to provide in these interim condensed consolidated financial statements.

Joint arrangements

The Company has joint arrangements. For the nine-month period ending September 30, 2017, the Company has accounted for all transactions by recognizing its share of the land and building held jointly.

Accounting standards and amendments issued but not yet adopted

IFRS 9, Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final amendments to IFRS 9, which provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The amended IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, the amended IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

The Company continues to progress on its assessment of the impact of IFRS 9 on the Company's consolidated financial statements. The Company continues to focus on the following key areas within the scope of IFRS 9 which includes, but is not limited to, trade receivables and available-for-sale financial assets. The Company intends to adopt the new standard on the required effective date.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued in May 2014, which will replace IAS 11, Construction Contracts, IAS 18, Revenue Recognition, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17, Leases ("IAS 17"); financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, Consolidated Financial Statements and IFRS 11, Joint Arrangements ("IFRS 11"). In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

The Company has continued the process of reviewing contracts with customers and currently does not expect material changes to the revenue recognition pattern for retail sales. The Company is currently in the process of concluding on the impact of the remaining streams of revenue and expanded note disclosures.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
Leon's Furniture Limited

IFRS 16, Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which will replace IAS 17. The new standard will be effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted, provided the Company also applies IFRS 15 on or before the date it first applies IFRS 16. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As the Company has significant contractual obligations in the form of operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard. The Company is currently analyzing the new standard to determine its impact on the Company's consolidated financial statements.

IFRS 17, Insurance Contracts (“IFRS 17”)

IFRS 17 was issued in May 2017, which will replace IFRS 4, Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contract liabilities. The new standard is effective for annual periods beginning on or after January 1, 2021, to be applied retrospectively. If full retrospective application to a group of contracts is impractical, the modified retrospective or fair value methods may be used. Earlier adoption is permitted, provided the Company also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Company is currently analyzing the new standard to determine its impact on the Company's consolidated financial statements, particularly the insurance sales revenue stream.

IFRS Interpretation Committee Interpretation 23, Uncertainty over Income Tax Treatments (“IFRIC 23”)

IFRIC 23 was issued in June 2017 and is effective for years beginning on or after January 1, 2019, to be applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. The Company is currently analyzing the impact of IFRIC 23 on the Company's consolidated financial statements.

4. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to:

- ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; and
- utilize working capital to negotiate favourable supplier agreements both in respect of early payment discounts and overall payment terms.

The capital structure of the Company has not changed from the prior fiscal year. The capital structure currently includes finance lease liabilities, convertible debentures, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at September 30, 2017, \$49,595 is available to draw on under our \$50,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$405 primarily with respect to buildings under construction or being completed (2016 — \$435).

Under the Senior Secured Credit Agreement, the financial and non-financial covenants are reviewed on an ongoing basis by management to monitor compliance with the agreement. The Company was in compliance with these covenants as at September 30, 2017.

The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. Based on the Company's borrowing capacity available and expected cash flow from operating activities, management believes that the Company has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital costs for projects exceed current estimates, or if the Company incurs major unanticipated expenses, it may be required to seek additional capital.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
Leon's Furniture Limited

The Company is not subject to any externally imposed capital requirements, other than with respect to its insurance subsidiaries. Refer to note 24 in the fiscal year 2016 consolidated financial statements.

5. INVENTORIES

The amount of inventory recognized as an expense for the nine-month period ended September 30, 2017 was \$892,367 (period ended September 30, 2016 — \$868,080), which is presented within cost of sales on the interim consolidated statements of income.

During the nine-month period ended September 30, 2017, there was \$652 in inventory write-downs (nine-month period ended September 30, 2016 — \$396 inventory write-downs). As at September 30, 2017, the inventory markdown provision totalled \$8,645 (as at December 31, 2016 — \$7,993).

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
As at September 30, 2017:								
Opening net book value	86,254	105,670	41,771	20,307	52,694	8,385	419	315,500
Additions	16,736	15,542	9,469	5,308	1,659	—	—	48,714
Disposals	—	—	(222)	(10)	—	—	—	(232)
Depreciation	—	(4,504)	(6,752)	(3,268)	(8,181)	(848)	(305)	(23,858)
Closing net book value	102,990	116,708	44,266	22,337	46,172	7,537	114	340,124
As at September 30, 2017:								
Cost	102,990	255,439	152,061	45,080	228,500	20,766	10,465	815,301
Accumulated depreciation	—	(138,731)	(107,795)	(22,743)	(182,328)	(13,229)	(10,351)	(475,177)
Net book value	102,990	116,708	44,266	22,337	46,172	7,537	114	340,124

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
As at December 31, 2016:								
Opening net book value	85,051	110,996	41,818	14,738	60,066	9,516	1,033	323,218
Additions	1,203	523	9,279	8,816	5,595	—	273	25,689
Disposals	—	—	(101)	(14)	(2)	—	—	(117)
Depreciation	—	(5,849)	(9,225)	(3,233)	(12,965)	(1,131)	(887)	(33,290)
Closing net book value	86,254	105,670	41,771	20,307	52,694	8,385	419	315,500
As at December 31, 2016:								
Cost	86,254	239,897	144,208	40,432	227,154	20,766	11,611	770,322
Accumulated depreciation	—	(134,227)	(102,437)	(20,125)	(174,460)	(12,381)	(11,192)	(454,822)
Net book value	86,254	105,670	41,771	20,307	52,694	8,385	419	315,500

Included in the above balances as at September 30, 2017 are assets not being amortized with a net book value of approximately \$20,313 (as at December 31, 2016 – \$437) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$208,843 (as at December 31, 2016 – \$178,949).

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
Leon's Furniture Limited

7. INVESTMENT PROPERTIES

	Land	Buildings	Building Improvements	Total
As at September 30, 2017:				
Opening net book value	10,946	6,257	781	17,984
Additions	—	—	—	—
Depreciation	—	(292)	(57)	(349)
Closing net book value	10,946	5,965	724	17,635
As at September 30, 2017:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(11,368)	(373)	(11,741)
Net book value	10,946	5,965	724	17,635
As at December 31, 2016:				
Opening net book value	10,946	6,692	858	18,496
Additions	—	—	—	—
Depreciation	—	(435)	(77)	(512)
Closing net book value	10,946	6,257	781	17,984
As at December 31, 2016:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(11,076)	(316)	(11,392)
Net book value	10,946	6,257	781	17,984

The estimated fair value of the investment properties portfolio as at September 30, 2017 was approximately \$44,800 (as at December 31, 2016 — \$44,800). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy (Note 14 for definition of levels). The Company used an independent valuation specialist to determine the fair value of The Brick division's investment properties of \$11,200. The remaining disclosed fair value of \$33,600 was compiled internally by management based on available market evidence.

8. INTANGIBLE ASSETS

	Customer relationships	Brand name and franchise agreements	Computer software	Favourable lease agreements	Total
As at September 30, 2017:					
Opening net book value	2,656	266,250	11,120	31,438	311,464
Additions	—	—	788	—	788
Disposals	—	—	(14)	—	(14)
Amortization	(469)	(187)	(2,087)	(2,003)	(4,746)
Closing net book value	2,187	266,063	9,807	29,435	307,492
As at September 30, 2017:					
Cost	7,000	268,500	18,537	46,049	340,086
Accumulated amortization	(4,813)	(2,437)	(8,730)	(16,614)	(32,594)
Net book value	2,187	266,063	9,807	29,435	307,492
As at December 31, 2016:					
Opening net book value	3,281	266,500	13,957	34,476	318,214
Additions	—	—	683	—	683
Amortization	(625)	(250)	(3,520)	(3,038)	(7,433)
Closing net book value	2,656	266,250	11,120	31,438	311,464
As at December 31, 2016:					
Cost	7,000	268,500	24,002	46,049	345,551
Accumulated amortization	(4,344)	(2,250)	(12,882)	(14,611)	(34,087)
Net book value	2,656	266,250	11,120	31,438	311,464

Amortization of intangible assets is included within selling, general and administration expenses on the consolidated statements of income. The following table presents the details of the Company's indefinite-life intangible assets:

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
Leon's Furniture Limited

	As at September 30, 2017	As at December 31, 2016
The Brick brand name (allocated to Brick division)	245,000	245,000
The Brick franchise agreements (allocated to Brick division)	21,000	21,000
	266,000	266,000

The Company currently has no plans to change The Brick store banners and expects these assets to generate cash flows over an indefinite future period. Therefore, these intangible assets are considered to have indefinite useful lives for accounting purposes. The Brick franchise agreements have expiry dates with options to renew. The Company's intention is to renew these agreements at each renewal date indefinitely. The Company expects the franchise agreements and franchise locations will generate cash flows over an indefinite future period. Therefore, these assets are also considered to have indefinite useful lives.

The following table presents the details of the Company's finite-life intangible assets:

	As at September 30, 2017	As at December 31, 2016
Leon's division brand name	62	250
Brick division customer relationships	2,187	2,656
Brick division favourable lease agreements	29,435	31,438
Computer software	9,808	11,120
	41,492	45,464

The Company has assessed that these finite - life intangible assets have limited life terms.

9. REDEEMABLE SHARE LIABILITY

	As at September 30, 2017	As at December 31, 2016
Authorized		
1,224,000 convertible, non-voting, series 2009 shares		
306,500 convertible, non-voting, series 2012 shares		
1,485,000 convertible, non-voting, series 2013 shares		
740,000 convertible, non-voting, series 2014 shares		
880,000 convertible, non-voting, series 2015 shares		
Issued and fully paid		
376,331 series 2009 shares (December 31, 2016 – 480,088)	3,331	4,249
149,020 series 2012 shares (December 31, 2016 – 228,936)	1,849	2,841
965,544 series 2013 shares (December 31, 2016 – 1,093,783)	10,998	12,458
545,865 series 2014 shares (December 31, 2016 – 623,188)	8,215	9,379
735,519 series 2015 shares (December 31, 2016 – 795,000)	9,900	10,701
Less employee share purchase loans	(34,136)	(39,125)
	157	503

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Leon's Furniture Limited

Under the terms of the Plan, the Company advanced non-interest bearing loans to certain of its employees in 2009, 2012, 2013, 2014 and 2015 to allow them to acquire convertible, non-voting series 2009 shares, series 2012 shares, series 2013, series 2014 and series 2015 shares, respectively, of the Company. These loans are repayable through the application against the loans of any dividends on the shares with any remaining balance repayable on the date the shares are converted to common shares. Each issued and fully paid for series 2009 and series 2012 share may be converted into one common share at any time after the fifth anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. Each issued and fully paid for series 2013, series 2014 and 2015 series share may be converted into one common share at any time after the third anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. The series 2009, series 2012, series 2013, series 2014 and 2015 series shares are redeemable at the option of the holder for a period of one business day following the date of issue of such shares. The Company has the option to redeem the series 2009 and series 2012 shares at any time after the fifth anniversary date of the issue of these shares and must redeem them prior to the tenth anniversary of such issue. The Company has the option to redeem the series 2013, series 2014 and 2015 series shares at any time after the third anniversary date of the issue of these shares and must redeem them prior to the tenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The purchase prices of the shares are \$8.85 per series 2009 share, \$12.41 per series 2012 share, \$11.39 per series 2013 share, \$15.05 per series 2014 share and \$13.46 per series 2015 share. Dividends paid to holders of series 2009, 2012, 2013, 2014 and 2015 shares of approximately \$643 (2016 – \$598) have been used to reduce the respective shareholder loans. The preferred dividends are paid once a year during the first quarter.

During the nine-month period ended September 30, 2017, 103,757 series 2009 shares, 79,916 series 2012 shares, 128,239 series 2013 shares, 48,507 series 2014 shares and 25,000 series 2015 shares (nine-month period ended September 30, 2016 – 135,593 series 2009 shares, nil series 2012 shares, 261,249 series 2013 shares, nil series 2014 shares and nil series 2015 shares) were converted and/or surrendered into common shares with a stated value of approximately \$918, \$992, \$1,460, \$730 and \$337 respectively (nine-month period ended September 30, 2016 – \$1,200, \$nil, \$2,976, \$nil and \$nil).

During the nine-month period ended September 30, 2017, the Company cancelled nil series 2012 shares, 28,816 series 2014 shares, 34,481 series 2015 shares (nine-month period ended September 30, 2016 – 4,680 series 2012 shares, 116,812 series 2014 shares, 85,000 series 2015 shares), in the amount of \$nil, \$434, and \$464 respectively (nine-month period ended September 30, 2016 – \$58, \$1,758 and \$1,144).

Employee share purchase loans have been netted against the redeemable share liability, as the Company has the legally enforceable right of set-off and the positive intent to settle on a net basis.

10. LOANS AND BORROWINGS

Convertible debentures

On March 28, 2013 (“Issuance Date”), the Company closed an offering in which the shareholders of The Brick purchased \$100,000 principal amount of 3% convertible unsecured debentures due on March 28, 2023 (“Maturity Date”). Interest is due semi-annually in arrears on September 30 and December 31 in each year. The convertible debentures are convertible, at the option of the holder, at any time during the period between the ninetieth day prior to the fourth anniversary of the Issuance Date and the third business day prior to the Maturity Date in whole or in multiples of one thousand dollars, into fully paid common shares of the Company at the conversion rate of 79.12707 common shares per one thousand dollars principal amount of debentures subject to certain adjustments. The Company has the right to settle the convertible debentures in cash or shares during any time subsequent to the fourth anniversary of the Issuance Date and on the Maturity Date. There are additional conversion options available to debenture holders in the event of an increase in the Company’s dividend rate or in the event of a change in control of the Company. The convertible debentures are unsecured obligations of the Company and are subordinated in right of payment to all of the Company’s senior indebtedness.

The Company will accrete the carrying value of the convertible debentures to their contractual face value of \$92,906 through a charge to net income over their term. This charge will be included in finance costs.

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During the nine-month period ended September 30, 2017, a portion of the convertible debentures with a stated value of \$1,447 was converted to 114,494 common shares, at the holder's option (nine-month period ended September 30, 2016 - \$nil converted to nil common shares).

Carrying value of convertible debentures as at December 31, 2016	93,520
Accretion expense for the nine-months ended September 30, 2017	694
Conversion of convertible debentures for the nine months ended September 30, 2017	(1,308)
Carrying value of convertible debentures as at September 30, 2017	92,906

The effective interest rate for the convertible debentures is 4.2% and includes accretion expense and semi-annual coupon payments.

Bank indebtedness

On January 31, 2013, a Senior Secured Credit Agreement ("SSCA") was obtained to fund the acquisition of The Brick. The Company completed an amendment to the existing SSCA on November 25, 2016. After giving effect to the amendment, the total credit facility was reduced from \$500,000 to \$300,000 with the term credit facility being reduced from \$400,000 to \$250,000 and the revolving credit facility being reduced from \$100,000 to \$50,000. The revolving credit facility continues to include a swing-line of \$20,000. Under the terms of the SSCA amounts borrowed must be repaid in full by November 25, 2019. Bank indebtedness bears interest based on Canadian prime, London Interbank Offered Rate ("LIBOR") and Bankers' Acceptance ("BA") rates plus an applicable standby fee on undrawn amounts. Transaction costs in the amount of \$775 have been deferred and are being amortized. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. Currently, the Company has entered into a 32-day Bankers' Acceptance with a cost of borrowing of 3.04% that was renewed on September 30, 2017. The term credit facility is repayable in yearly amounts of \$25,000 commencing on December 31, 2017. The Company can prepay without penalty amounts outstanding under the facilities at any time. The agreement includes a general security agreement which constitutes a lien on all personal property of the Company. In addition to this, there are financial covenants related to the credit facility.

As at September 30, 2017, the Company is in full compliance of these financial and non-financial covenants.

11. COMMON SHARES

	As at September 30, 2017	As at December 31, 2016
Authorized - Unlimited common shares		
Issued 72,322,220 common shares (2016 – 71,855,866)	44,592	39,184

During the nine-month period ended September 30, 2017, 103,757 series 2009 shares, 79,916 series 2012 shares, 128,239 series 2013 shares, 48,507 series 2014 shares and 25,000 series 2015 shares (nine-month period ended September 30, 2016 – 135,593 series 2009 shares, nil series 2012 shares, 261,249 series 2013 shares, nil series 2014 shares and nil series 2015 shares) were converted and/or surrendered into common shares with a stated value of approximately \$918, \$992, \$1,460, \$730 and \$337 respectively (nine-month period ended September 30, 2016 – \$1,200, \$nil, \$2,976, \$nil and \$nil).

During the nine-month period ended September 30, 2017, a portion of the convertible debentures with a stated value of \$1,447 was converted to 114,494 common shares, at the holder's option (nine-month period ended September 30, 2016 - \$nil converted to nil common shares).

The dividends paid for the three-month periods ended September 30, 2017 and September 30, 2016 were \$8,666 (\$0.12 per share) and \$7,175 (\$0.10 per share), respectively.

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The dividends paid for the nine-month periods ended September 30, 2017 and September 30, 2016 were \$24,503 (\$0.34 per share) and \$21,472 (\$0.30 per share) respectively.

12. INCOME TAX EXPENSE

	Three-month period ended September 30, 2017	Three-month period ended September 30, 2016
Current income tax expense	12,997	11,002
Deferred income tax recovery	(909)	1,161
	12,088	12,163
	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
Current income tax expense	26,119	22,628
Deferred income tax recovery	(3,365)	(5,631)
	22,754	16,997

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the three-month periods ended September 30, 2017 and September 30, 2016 was 26.9% and 26.8% respectively.

13. EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of shares outstanding. The following table reconciles the profit for the period and the number of shares for the basic and diluted earnings per share calculations:

	Three-month period ended September 30, 2017	Three-month period ended September 30, 2016
Net income for the period for basic earnings per share	34,338	34,111
Net income for the period for diluted earnings per share	35,052	34,827
Weighted average common shares outstanding	72,291,447	71,761,280
Dilutive effect	10,608,925	11,228,339
Diluted weighted average common shares outstanding	82,900,372	82,989,619
Basic earnings per share	\$0.48	\$0.48
Diluted earnings per share	\$0.42	\$0.42

	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
Net income for the period for basic earnings per share	61,814	46,358
Net income for the period for diluted earnings per share	63,957	48,498
Weighted average common shares outstanding	72,170,931	71,653,969
Dilutive effect	10,748,201	11,458,842
Diluted weighted average common shares outstanding	82,919,132	83,112,811
Basic earnings per share	\$0.86	\$0.65
Diluted earnings per share	\$0.77	\$0.58

14. FINANCIAL INSTRUMENTS

Classification of financial instruments and fair value

The classification of the Company's financial instruments, as well as their carrying amounts and fair values, are disclosed in the tables below.

September 30, 2017:

	Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Loans and receivables				
Cash and cash equivalents		16,672	16,672	Level 1
Trade receivable	Amortized cost	115,773	115,773	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	14,256	14,256	Level 1
Available-for-sale financial assets	Fair value	59,904	59,904	Level 2
Investment properties	Amortized cost	17,635	44,800	Level 3
Other financial liabilities				
Trade and other payables	Amortized cost	245,063	245,063	Level 2
Provisions	Amortized cost	8,284	8,284	Level 2
Finance lease liabilities	Amortized cost	10,800	10,800	Level 2
Loans and borrowings	Amortized cost	209,440	209,440	Level 2
Convertible debentures	Amortized cost	92,906	137,974	Level 2
Redeemable share liability	Amortized cost	157	157	Level 2
Derivative instruments				
Other liabilities	Fair value	3,614	3,614	Level 2

December 31, 2016:

	Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Loans and receivables				
Cash and cash equivalents	Fair value	43,985	43,985	Level 1
Trade receivables	Amortized cost	128,142	128,142	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	16,600	16,600	Level 1
Available-for-sale financial assets	Fair value	39,079	39,079	Level 2
Investment properties	Amortized cost	17,984	44,800	Level 3
Other financial liabilities				
Trade and other payables	Amortized cost	214,838	214,838	Level 2
Provisions	Amortized cost	5,468	5,468	Level 2
Finance lease liabilities	Amortized cost	11,895	11,895	Level 2
Loans and borrowings	Amortized cost	239,436	239,436	Level 2
Convertible debentures	Amortized cost	93,520	140,000	Level 2
Redeemable share liability	Amortized cost	503	503	Level 2
Derivative instruments				
Other liabilities	Fair value	2,124	2,124	Level 2

The fair value hierarchy of financial instruments measured at fair value, as at September 30, 2017 includes financial assets of \$30,928, \$175,677 and \$44,800 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$615,332 and \$nil for Levels 1, 2 and 3, respectively.

The carrying amounts of the Company's trade receivables, and trade and other payables approximate their fair values due to their short-term nature.

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The carrying amounts of the Company's finance lease liabilities approximate their fair values because the interest rate applied to measure their carrying amount approximates current market interest rates.

The carrying amounts of the Company's loans and borrowings approximate their fair values since they bear interest at rates comparable to market rates at the end of the reporting period.

The fair values of available-for-sale financial assets and restricted marketable securities that are traded in active markets are determined by reference to their quoted closing price or dealer price quotations at the reporting date. For financial instruments that are not traded in active markets, the Company determines fair values using a combination of discounted cash flow models and comparison to similar instruments for which market observable prices exist.

As at September 30, 2017, the fair value of the convertible debentures was determined using their closing quoted market price (not in thousands of dollars) of \$140.00 per \$100.00 of face value (2016 – \$123.00 per \$100.00 of face value). For the convertible debentures at September 30, 2017, fair value is calculated based on the face value of the convertible debentures of \$137,974.

The fair values of derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market based observable inputs including interest rate curves, foreign exchange rates and forward and spot prices for currencies.

The Company maintains a notional \$100,000 (2016 – \$100,000) in interest rate swaps that mature by the fourth quarter of 2019 on which it pays a fixed rate of 1.895% and currently receives one-month BA rate. The Company also maintains other financial derivatives which comprise of foreign exchange forwards, with maturities that do not exceed past the second quarter of 2019. At September 30, 2017 a \$3,614 unrealized loss was recorded in other liabilities (2016 – \$5,530).

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

Fair value hierarchy

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities, the levels of which are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

15. INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) The net change in non-cash working capital balances related to operations consists of the following:

	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
Trade receivables	12,369	3,358
Inventories	(7,737)	(11,679)
Prepaid and other assets	(3,687)	(2,288)
Trade and other payables	29,445	23,741
Income taxes receivable (payable)	(10,413)	21,899
Customers' deposits	(22,688)	(15,461)
Provisions	2,816	(325)
Deferred acquisition costs	416	1,016
Other liabilities	1,490	—
Deferred rent liabilities and lease inducements	(147)	2,186
	1,864	22,447

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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(b) Supplemental cash flow information:

	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
Income taxes paid	36,875	24,450

16. SUBSEQUENT EVENT

On October 27, 2017, a significant portion of the convertible debenture with a stated value of \$48,350 was converted to 3,825,793 common shares, at the holder's option.