

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter ended September 30, 2017 and 2016

The following Management's Discussion and Analysis ("MD&A") is prepared as at November 14, 2017 and is based on the consolidated financial position and operating results of Leon's Furniture Limited/Meubles Leon Ltée (the "Company") as of September 30, 2017 and for the three and nine months ended September 30, 2017, and 2016. It should be read in conjunction with the fiscal year 2016 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2016 quarterly financial statements and corresponding MD&As which are published separately and available at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

This MD&A is intended to provide readers with the information that management believes is required to gain an understanding of Leon's Furniture Limited's current results and to assess the Company's future prospects. This MD&A, and in particular the section under heading "Outlook", includes forward-looking statements, which are based on certain assumptions and reflect Leon's Furniture Limited's current plans and expectations. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results and future prospects to differ materially from current expectations. Some of the factors that can cause actual results to differ materially from current expectations are: a further drop in consumer confidence; dependency on product from third party suppliers, further changes to the Canadian bank lending rates; and a further fluctuations of the Canadian dollar vs. the US dollar. (Given these risks, uncertainties and the integration risk associated with the acquisition of The Brick Ltd. ("The Brick"), investors should not place undue reliance on forward-looking statements as a prediction of actual results.) Readers of this report are cautioned that actual events and results may vary.

Financial Statements Governance Practice

Leon's Furniture Limited's unaudited interim condensed consolidated financial statements have been prepared in accordance with the requirements of IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). The amounts expressed are in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding before and after considering the potential dilutive effects of the convertible debentures for the applicable period.

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the unaudited interim condensed consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the unaudited interim condensed consolidated financial statements and MD&A were approved on November 14, 2017.

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1. BUSINESS OVERVIEW

Leon's Furniture Limited is the largest network of home furnishings, mattresses, appliances and electronics stores in Canada. Our retail banners include: Leon's; The Brick; The Brick Mattress Store; The Brick Clearance Centre; and The Brick Outlet. As well, The Brick's Midnorthern Appliance banner alongside with the Appliance Canada banner, makes the Company the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies. Finally, the Company operates three websites: leons.ca, thebrick.com and our newest website furniture.ca.

The Company's repair service division, Trans Global Services ("TGS"), provides household furniture, electronics and appliance repair services to its customers. The TGS division has contracts to support several manufacturers' warranty service work in addition to servicing a number of individual programs offered by other dealers. This division also performs work for products sold with extended warranties and is an integral part of the retail offering. These extended warranties, underwritten by the Company's wholly-owned subsidiaries are offered on appliances, electronics and furniture to provide coverage that extends beyond the manufacturer's warranty period by up to five years. The warranty contracts provide both repair and replacement service depending upon the nature of the warranty claim.

The Company's wholly-owned subsidiaries Trans Global Insurance Company ("TGI") and its sister company, Trans Global Life Insurance Company ("TGLI") also offer credit insurance on the customers' outstanding financing balances. This credit insurance coverage includes life, dismemberment, disability, critical illness and involuntary unemployment. These credit insurance policies are underwritten by TGI and TGLI as they are licensed as insurance companies in all Canadian provinces and territories.

The Company has foreign operations in Asia, through its wholly owned subsidiary First Oceans Trading Corporation. These operations relate to the Company's import and quality control program for sourcing products from Asia for resale in Canada through its retail operations.

The Company has 304 retail stores from coast to coast in Canada under the various banners indicated below:

Banner	Number of Stores as at December 31,			Number of Stores as at September 30,
	2016	Opened	Closed	2017
Leon's banner corporate stores	50	—	—	50
Leon's banner franchise stores	36	—	—	36
Appliance Canada banner stores	4	—	—	4
The Brick banner corporate stores ¹	114	—	—	114
The Brick banner franchise stores	64	1	(1)	64
The Brick Mattress Store banner locations	24	1	(1)	24
Brick Outlet ²	13	—	(1)	12
Total number of stores	305	2	(3)	304

¹Includes the Midnorthern Appliance banner

²UFW banner stores were converted to Brick Outlets in August 2017

2. NON-IFRS FINANCIAL MEASURES

The Company uses financial measures that do not have standardized meaning under IFRS and may not be comparable to similar measures presented by other entities. The Company calculates the non-IFRS measures by adjusting certain IFRS measures for specific items the Company believes are significant, but not reflective of underlying operations in the period, as detailed below:

Non-IFRS Measure	IFRS Measure
Adjusted net income	Net income
Adjusted income before income taxes	Income before income taxes
Adjusted earnings per share – basic	Earnings per share – basic
Adjusted earnings per share – diluted	Earnings per share – diluted
Adjusted EBITDA	Net income

Adjusted Net Income

Leon's calculates comparable measures by excluding the effect of:

- the mark-to-market adjustments included in the Company's selling, general and administration ("SG&A") income statement line item, related to the net effect of USD-denominated forward contracts and an interest rate swap on the Company's term credit facility. The Company uses forward currency contracts to manage the risk associated with its USD-denominated purchases and an interest rate swap to manage interest rate risk on its term credit facility in accordance with the Company's corporate treasury policy;
- severance charges in the period, a non-recurring expense included in the Company's SG&A.

Management believes excluding from income the effect of these mark-to-market valuations and changes thereto, until settlement, better aligns the intent and financial effect of these contracts with the underlying cash flows. Similarly, excluding from income the effect of non-recurring expenses better reflects Leon's normalized SG&A as a percentage of revenue in the period.

The following is a reconciliation of reported net income to adjusted net income, basic and diluted earnings per share to adjusted basic and diluted earnings per share:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
(000's of \$ except per share amounts)				
Net income	34,338	34,111	61,814	46,358
After-tax mark-to-market loss (gain) on financial derivative instruments	54	(2,811)	1,088	4,431
After-tax severance charge	-	-	-	1,228
Adjusted net income	34,392	31,300	62,902	52,017
Basic earnings per share	\$ 0.48	\$ 0.48	\$ 0.86	\$ 0.65
Diluted earnings per share	\$ 0.42	\$ 0.42	\$ 0.77	\$ 0.58
Adjusted basic earnings per share	\$ 0.48	\$ 0.44	\$ 0.87	\$ 0.73
Adjusted diluted earnings per share	\$ 0.42	\$ 0.39	\$ 0.78	\$ 0.65

Adjusted EBITDA

Adjusted earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustment due to the changes in the fair value of the Company's financial derivative instruments and any non-recurring charges to income ("Adjusted EBITDA") is a non-IFRS financial measure used by the Company. The Company considers Adjusted EBITDA to be an effective measure of profitability on an operational basis and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Adjusted EBITDA is a non-IFRS financial measure used by the Company. The Company's Adjusted EBITDA may not be comparable to the Adjusted EBITDA measure of other companies, but in management's view appropriately reflects Leon's specific financial condition. This measure is not intended to replace net income, which, as determined in accordance with IFRS, is an indicator of operating performance.

The following is a reconciliation of reported net income to adjusted EBITDA:

(000's of \$)	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Net income	34,338	34,111	61,814	46,358
Income tax expense	12,088	12,163	22,754	16,997
Net finance costs	2,800	3,635	8,186	10,955
Depreciation and amortization	9,729	10,212	28,953	30,581
Severance charge	-	-	-	1,700
Mark-to-market loss (gain) on financial derivative instruments	74	(3,919)	1,491	6,070
Adjusted EBITDA	59,029	56,202	123,198	112,661

Same Store Sales

Same store sales are defined as sales generated by stores that have been open or closed for more than 12 months on a fiscal basis. Same store sales is not an earnings measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Same store sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers, however this measure is commonly used in the retail industry. We believe that disclosing this measure is meaningful to investors because it enables them to better understand the level of growth of our business.

Total System Wide Sales

Total system wide sales refer to the aggregation of revenue recognized in the Company's consolidated financial statements plus the franchise sales occurring at franchise stores to their customers which are not included in the revenue figure presented in the Company's consolidated financial statements. Total system wide sales is not a measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Therefore, total system wide sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers. We believe that disclosing this measure is meaningful to investors because it serves as an indicator of the strength of the Company's overall store network, which ultimately impacts financial performance.

Franchise Sales

Franchise sales figures refer to sales occurring at franchise stores to their customers which are not included in the revenue figures presented in the Company's consolidated financial statements, or in the same store sales figures in this MD&A. Franchise sales is not a measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Therefore, franchise sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers. Once again we believe that disclosing this measure is meaningful to investors because it serves as an indicator of the strength of the Company's brands, which ultimately impacts financial performance.

3. RESULTS OF OPERATION

Summary financial highlights for the quarters ended September 30, 2017 and September 30, 2016

(000's of \$ except % and per share amounts)	For the three months ended September 30			
	2017	2016	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	705,683	673,897	31,786	4.7%
Franchise sales ⁽¹⁾	111,094	98,173	12,921	13.2%
Revenue	594,589	575,724	18,865	3.3%
Cost of sales	341,333	330,788	10,545	3.2%
Gross profit	253,256	244,936	8,320	3.4%
<i>Gross profit margin as a percentage of revenue</i>	42.59%	42.54%		
Selling, general and administrative expenses (excluding mark-to-market impact and severance charge) ⁽¹⁾	203,956	198,946	5,010	2.5%
<i>SG&A as a percentage of revenue</i>	34.30%	34.56%		
Income before net finance costs and income tax expense ⁽¹⁾	49,300	45,990	3,310	7.2%
Net finance costs	(2,800)	(3,635)	(835)	(23.0%)
Income before income taxes (excluding mark-to-market impact and severance charge) ⁽¹⁾	46,500	42,355	4,145	9.8%
Income tax expense	12,108	11,055	1,053	9.5%
Adjusted net income ⁽¹⁾	34,392	31,300	3,092	9.9%
<i>Adjusted net income ⁽¹⁾ as a percentage of revenue</i>	5.78%	5.44%		
After-tax mark-to-market loss (gain) on financial derivative instruments ⁽¹⁾	54	(2,811)	(2,865)	(101.9%)
Net income	34,338	34,111	227	0.7%
Basic weighted average number of common shares	72,291,447	71,761,280		
Basic earnings per share	\$ 0.48	\$ 0.48	\$ -	0.0%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.48	\$ 0.44	\$ 0.04	9.1%
Diluted weighted average number of common shares	82,900,372	82,989,619		
Diluted earnings per share	\$ 0.42	\$ 0.42	\$ -	0.0%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.42	\$ 0.39	\$ 0.03	7.7%
Common share dividends declared	\$ 0.12	\$ 0.10	0.02	20.0%
Convertible, non-voting shares dividends declared	\$ -	\$ -	-	

(1) Non-IFRS financial measures. Refer to section 2 in this MD&A for additional information.

Same Store Sales ⁽¹⁾

(000's of \$ except %)	For the three months ended September 30			
	2017	2016	\$ Increase	% Increase
Same store sales ⁽¹⁾	574,022	570,920	3,102	0.5%

(1) Non-IFRS financial measure. Refer to section 2 in this MD&A for additional information.

Third Quarter Overall Performance

Revenue

For the three months ended September 30, 2017, revenue was \$594,589,000 compared to \$575,724,000 in the prior year's third quarter. Revenue increased \$18,865,000 or 3.3% between the comparative quarters as we continued to see growth in most product categories.

Same Store Sales⁽¹⁾

Overall, same store corporate sales increased 0.5%.

Gross Profit

The gross profit for the third quarter 2017 continued to be strong as it increased from 42.54% to 42.59% compared to the prior year's third quarter.

Selling, general and administration expenses ("SG&A")

Excluding the mark-to-market impact of the Company's financial derivatives, comprised of foreign exchange forwards and a fixed interest rate swap, SG&A as a percentage of revenue decreased from 34.56% to 34.30% compared to the prior year's quarter. The reduction is due primarily from generating a higher degree of operating leverage as revenues increased 3.3% and by controlling fixed costs.

Adjusted Net Income⁽¹⁾ and Adjusted Diluted Earnings Per Share⁽¹⁾

As a result of the above, adjusted net income for the three month period ending September 30, 2017 was \$34,392,000, \$0.42 adjusted diluted earnings per share (\$31,300,000, \$0.39 adjusted diluted earnings per share in 2016), an increase of 7.7% per share.

Net Income and Diluted Earnings Per Share

Including the mark-to-market impact of the Company's financial derivatives, net income for the third quarter of 2017 was \$34,338,000, \$0.42 diluted earnings per share (net income of \$34,111,000, \$0.42 diluted earnings per share in 2016).

Consolidated operating results for the nine months ended September 30, 2017 and September 30, 2016

(000's of \$ except % and per share amounts)	For the nine months ended September 30			
	2017	2016	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	1,915,831	1,826,832	88,999	4.9%
Franchise sales ⁽¹⁾	299,470	271,477	27,993	10.3%
Revenue	1,616,361	1,555,355	61,006	3.9%
Cost of sales	928,305	898,623	29,682	3.3%
Gross profit	688,056	656,732	31,324	4.8%
<i>Gross profit margin as a percentage of revenue</i>	42.57%	42.22%		
Selling, general and administrative expenses (excluding mark-to-market impact and severance charge) ⁽¹⁾	593,812	574,652	19,160	3.3%
<i>SG&A as a percentage of revenue</i>	36.74%	36.95%		
Income before net finance costs and income tax expense ⁽¹⁾	94,244	82,080	12,164	14.8%
Net finance costs	(8,186)	(10,955)	(2,769)	(25.3%)
Income before income taxes (excluding mark-to-market impact and severance charge) ⁽¹⁾	86,058	71,125	14,933	21.0%
Income tax expense	23,156	19,108	4,048	21.2%
Adjusted net income ⁽¹⁾	62,902	52,017	10,885	20.9%
<i>Adjusted net income ⁽¹⁾ as a percentage of revenue</i>	3.89%	3.34%		
After-tax mark-to-market loss (gain) on financial derivative instruments ⁽¹⁾	1,088	4,431	(3,343)	(75.4%)
After-tax severance charge ⁽¹⁾	-	1,228	(1,228)	(100.0%)
Net income	61,814	46,358	15,456	33.3%
Basic weighted average number of common shares	72,170,931	71,653,969		
Basic earnings per share	\$ 0.86	\$ 0.65	\$ 0.21	32.3%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.87	\$ 0.73	\$ 0.14	19.2%
Diluted weighted average number of common shares	82,919,132	83,112,811		
Diluted earnings per share	\$ 0.77	\$ 0.58	\$ 0.19	32.8%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.78	\$ 0.65	\$ 0.13	20.0%
Common share dividends declared	\$ 0.36	\$ 0.30	0.06	20.0%
Convertible, non-voting shares dividends declared	\$ -	\$ -	-	

(1) Non-IFRS financial measures. Refer to section 2 in this MD&A for additional information.

Same Store Sales ⁽¹⁾

(000's of \$ except %)	For the nine months ended September 30			
	2017	2016	\$ Increase	% Increase
Same store sales ⁽¹⁾	1,556,786	1,543,828	12,958	0.8%

(1) Non-IFRS financial measure. Refer to section 2 in this MD&A for additional information.

Revenue

For the nine months ended September 30, 2017, revenue was \$1,616,361,000 compared to \$1,555,355,000 for the prior year's nine month period. Revenue increased \$61,006,000 or 3.9% for the comparative periods.

Same Store Sales⁽¹⁾

Overall, same store corporate sales increased 0.8%.

Gross Profit

The gross profit for the nine months ended September 30, 2017 continued to be strong as it increased from 42.22% to 42.57% compared to the prior year's nine month period.

Selling, general and administration expenses ("SG&A")

Excluding severance payments and the mark-to-market impact of the Company's financial derivatives, comprised of foreign exchange forwards and a fixed interest rate swap, SG&A as a percentage of revenue decreased from 36.95% to 36.74%. Like the third quarter results, the reduction is due primarily from generating a higher degree of operating leverage as revenues increased 3.9% for the nine month period and by controlling fixed costs.

Adjusted Net Income⁽¹⁾ and Adjusted Diluted Earnings Per Share⁽¹⁾

As a result of the above, adjusted net income for the nine month period ending September 30, 2017 was \$62,902,000, \$0.78 adjusted diluted earnings per share (\$52,017,000, \$0.65 adjusted diluted earnings per share in 2016), an increase of 20.0%.

Net Income and Diluted Earnings Per Share

Including the severance payments and the mark-to-market impact of the Company's financial derivatives, net income for the nine month period ending September 30, 2017 was \$61,814,000, \$0.77 diluted earnings per share (net income of \$46,358,000, \$0.58 diluted earnings per share for the nine month period ended September 30, 2016).

4. SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

The table below highlights the variability of quarterly results and the impact of seasonality on the Company's results. The Company's profitability is typically lower in the first half of the year, since retail sales are traditionally higher in the third and fourth quarters.

(000's of \$) - except per share data	Quarter Ended September 30		Quarter Ended June 30		Quarter Ended March 31		Quarter Ended December 31	
	2017	2016	2017	2016	2017	2016	2016	2015
Total system wide sales ⁽¹⁾	705,683	673,897	636,159	606,453	573,988	546,483	704,742	670,357
Franchise sales ⁽¹⁾	111,094	98,173	98,576	90,269	89,799	83,036	116,361	110,128
Revenue	594,589	575,724	537,583	516,184	484,189	463,447	588,381	560,229
Net income	34,338	34,111	18,863	16,959	8,614	(4,712)	37,233	30,187
Adjusted net income ⁽¹⁾	34,392	31,300	19,968	15,547	8,543	5,170	34,745	30,589
Basic earnings(loss) per share	\$ 0.48	\$ 0.48	\$ 0.26	\$ 0.24	\$ 0.12	\$ (0.07)	\$ 0.52	\$ 0.42
Fully diluted earnings(loss) per share	\$ 0.42	\$ 0.42	\$ 0.24	\$ 0.21	\$ 0.11	\$ (0.07)	\$ 0.46	\$ 0.38
Adjusted basic earnings per share ⁽¹⁾	\$ 0.48	\$ 0.44	\$ 0.27	\$ 0.22	\$ 0.12	\$ 0.07	\$ 0.48	\$ 0.43
Adjusted fully diluted per share ⁽¹⁾	\$ 0.42	\$ 0.39	\$ 0.25	\$ 0.20	\$ 0.11	\$ 0.07	\$ 0.43	\$ 0.39

(1) Non-IFRS financial measure. Refer to section 2 in this MD&A for additional information.

5. FINANCIAL POSITION

(000's of \$)	September 30, 2017	December 31, 2016	September 30, 2016
Total assets	1,621,110	1,611,662	1,584,416
Total non-current liabilities	510,590	525,605	293,767

Assets

Total assets at September 30, 2017 of \$1,621,110,000 were \$9,448,000 higher than the \$1,611,662,000 reported at December 31, 2016. The principal components of this net change are the following:

- \$8,832,000 decrease in cash and cash equivalents, restricted marketable securities and available-for-sale financial assets
- \$12,369,000 decrease in trade receivables
- \$7,737,000 increase in inventory
- \$24,624,000 increase in property, plant and equipment

Cash and cash equivalents decreased due to the purchase of the property, plant and equipment primarily relating to the purchase and construction of the new 432,000 square foot distribution centre in Delta, British Columbia, the planned increase in inventory, the Company's dividend payments, and the payment of corporate income tax instalments offset by earning from operations.

Non-Current Liabilities

Non-current liabilities of \$510,590,000 were \$15,015,000 lower than the \$525,605,000 reported at December 31, 2016. The reduction is primarily the result of the change in deferred income tax liabilities.

6. LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summarized statement of cash flows for the quarters ended September 30, 2017 and September 30 2016:

Source (Use) of Cash (000's of \$)	For the three months ended September 30			For the nine months ended September 30		
	2017	2016	\$ Increase (Decrease)	2017	2016	\$ Increase (Decrease)
Cash provided by operating activities before changes in non-cash working capital items	48,511	48,735	(224)	96,121	79,764	16,357
Changes in non-cash working capital items	36,962	40,816	(3,854)	1,864	22,446	(20,582)
Cash provided by operating activities	85,473	89,551	(4,078)	97,985	102,210	(4,225)
Investing activities	(15,776)	(13,317)	2,459	(65,657)	(25,425)	40,232
Financing activities	(40,405)	(44,709)	(4,304)	(59,641)	(63,701)	(4,060)
Increase (decrease) in cash and cash equivalents	29,292	31,525	(2,233)	(27,313)	13,084	(40,397)

Cash Used in Operating Activities

Cash from operating activities consist primarily of net income adjusted for certain non-cash items, including depreciation and amortization and the effect of changes in non-cash working capital items, primarily receivables, inventories, deferred acquisition costs, accounts payable, income taxes payable, customer deposits and deferred rent liabilities and lease inducements.

In the third quarter of 2017 cash provided by operating activities changed by \$4,078,000 compared to the prior year's quarter. The net decrease is primarily the result of the change in non-cash working capital, trade receivables, income taxes payable and inventories.

Cash Used In Investing Activities

Investing Activities relate primarily to capital expenditures and the purchase and sale of available-for-sale financial assets.

In the third quarter of 2017 cash used in investing activities increased by \$2,459,000 compared to the prior year's quarter. This change is the net result of increased purchases of property, plant and equipment offset by the change in the purchase and sale of available-for-sale financial assets.

Cash Used in Financing Activities

Financing Activities consist primarily of cash used to pay dividends and the loans and borrowings used to acquire The Brick.

In the third quarter of 2017 cash used in financing activities decreased by \$4,304,000 compared to the prior year's quarter. The change relates to the repayment of the Company's revolving loan and the term loan. In the third quarter of 2017, there was a \$30,000,000 repayment compared to a \$35,000,000 repayment in the comparative period.

Adequacy of Financial Resources

At September 30, 2017, the Company's current assets exceeded its current liabilities by \$138,165,000 and its cash and cash equivalents, available-for-sale financial assets and restricted marketable securities were \$90,832,000 compared to \$99,664,000 at December 31, 2016. Under the Company's Senior Secured Credit Agreement we had unused borrowing capacity of \$49,595,000 as at September 30, 2017 (\$49,500,000 as at December 31, 2016). The Company believes that its existing financing resources together with its continuing cash flow from operations will provide a sound liquidity and working capital position throughout the next twelve months.

Contractual Commitments

(000's in \$)	Payments Due by Period				
	Total	Under 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Long term debt	336,165	2,158	225,360	5,940	102,707
Operating leases ⁽¹⁾	398,612	22,362	147,268	104,296	124,686
Trade and other payables	245,063	245,063	-	-	-
Finance lease liabilities	12,769	522	3,739	3,853	4,655
Total Contractual Obligations	992,609	270,105	376,367	114,089	232,048

(1) The Company is obligated under operating leases to future minimum rental payments for various land and building sites across Canada

7. OUTLOOK

With the expansion of nine new retail locations and our continuing strong growth in ecommerce, we expect to see continued growth in sales for 2017, maintain gross margins and continue to drive efficiencies.

8. OUTSTANDING COMMON SHARES

At September 30, 2017, there were 72,322,220 common shares issued and outstanding. During the quarter ended September 30, 2017, 8,092 series 2009 shares, 11,500 series 2012 shares, 29,550 series 2013, 1,425 series 2014 shares and \$nil convertible debentures were converted into common shares. For details on the Company's commitments related to its redeemable shares please refer to Note 11 of the unaudited interim consolidated financial statements.

9. RELATED PARTY TRANSACTIONS

At September 30, 2017, we had no transactions with related parties as defined in IAS24 – *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment.

10. CRITICAL ASSUMPTIONS

Use of Estimates and Judgments

Management has exercised judgment in the process of applying the Company's accounting policies. The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet dates and the reported amounts of revenue and expenses during the reporting period. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements.

Extended Warranty Revenue Recognition

The Company offers extended warranties on certain merchandise. Management has applied judgment in determining the basis upon and period over which to recognize deferred warranty revenue.

Inventories

The Company estimates the net realizable value as the amount at which inventories are expected to be sold by taking into account fluctuations of retail prices due to prevailing market conditions. If required, inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or declining sales prices.

Reserves for slow moving and damaged inventory are deducted in the Company's valuation of inventories. Management has estimated the amount of reserve for slow moving inventory based on the Company's historic retail experience.

Impairment of available-for-sale financial assets and marketable securities

The Company exercises judgment in the determination of whether there are objective indicators of impairment with respect to its available-for-sale financial assets and marketable securities. This includes making judgments as to whether a potential impairment is either significant or prolonged with respect to equity securities held.

Impairment of property, plant and equipment

The Company exercises judgment in the determination of cash-generating units ("CGUs") for purposes of assessing any impairment of property, plant and equipment, as well as in determining whether there are indicators of impairment present. Should indicators of impairment be present, management estimates the recoverable amount of the relevant CGU. This estimation requires assumptions about future cash flows, margins and discount rates.

Impairment of goodwill and intangible assets

The Company tests goodwill and indefinite life intangible assets at least annually and reviews other long-lived intangible assets for any indication that the asset might be impaired. Significant judgments are required in determining the CGUs or groups of CGUs for purposes of assessing impairment. Significant judgments are also required in determining whether to allocate goodwill to CGUs or groups of CGUs. When performing impairment tests, the Company estimates the recoverable amount of the CGUs or groups of CGUs to which goodwill and indefinite life intangible assets have been allocated using a discounted cash flow model that requires assumptions about future cash flows, margins and discount rates.

Provisions

The Company exercises judgment in the determination of recognizing a provision. The Company recognizes a provision when it has a present legal or constructive obligation as a result of a past event and a reliable estimate of the obligation can be made. Significant judgments are required to be made in determining what the probable outflow of resources will be required to settle the obligation.

Materiality

In preparing this MD&A and the information contained herein, management considers the likelihood that a reasonable investor would be influenced to buy or not buy, or to sell or hold securities of the Company if such information were omitted or misstated. This concept of materiality is consistent with the notion of materiality applied to financial statements and contained in IFRS.

Recent Accounting Pronouncements

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final amendments to IFRS 9, Financial Instruments (“IFRS 9”), which provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. IFRS 9 will replace IAS 39 ‘Financial Instruments: Recognition and Measurement’ for accounting periods commencing on or after 1 January 2018. Any changes to recognition and measurement will be applied retrospectively by adjusting the opening balance sheet at that time. There is no requirement to restate comparative amounts.

The core areas addressed within IFRS 9 are Classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting

The most significant impact on the Company is likely to be in relation to impairment of financial assets as outlined in the relevant section below.

Classification and measurement

Under IFRS 9, existing IAS 39 classification and measurement categories are being replaced with fair value through the income statement (FVTPL), fair value through other comprehensive income (FVOCI) and amortized cost.

The classification of financial assets and liabilities is expected to remain consistent under IFRS 9 with the possible exception of equity securities. Under IFRS 9, the Company will have the option to designate equity securities as financial assets at fair value through other comprehensive income, where they will be recorded initially at fair value with changes in fair value recognized in other comprehensive income which will not be subsequently transferred into earnings (loss). If the Company does not make this election, changes in fair value of the equity securities will be recognized in earnings (loss).

Under IFRS 9, the financial liabilities categories going forward are FVTPL and amortized cost. These are consistent with the categories under IAS 39 and it is expected there will be no impact on transition to and reporting under IFRS 9.

Impairment of financial assets

The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk. This change is not expected to be material.

Hedge accounting

The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The new model will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will require certain additional disclosures, however, overall the changes are not expected to have any major impact on the Group's current accounting treatment.

IFRS 15, Revenue from Contracts with Customers

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

To apply this principle, entities must follow the five-step model below:

1. Identify the contract(s) with a customer – written, oral or implied by an entity's customary business practices.
2. Identify the performance obligations in the contract(s) – evaluate the terms in the contract to identify all the promised goods or services and then determine which of these will be treated as separate performance obligations. They are separate if the customer can benefit from the good or service on its own (i.e. it is distinct).
3. Determine the transaction price – the amount that an entity expects to be entitled to in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations – generally in proportion to their stand-alone selling prices.
5. Recognize revenue when (or as) the entity satisfies each performance – when control of a promised good or service transfers to the customer.

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. The Company will have to apply the requirements for constraining estimates of variable consideration to any gain or loss that will be recognized. The standard requires a risk-and-rewards test to identify the date of disposal which may lead to a change in the date of disposal, if the risks and rewards transfer at a different date from control which may happen if the consideration includes a deferred or variable payment and the Company retains risks and rewards through that variability.

The Company has performed a detailed impact assessment during the year, identifying all current sources of revenue and analyzing the accounting requirements for each under IFRS 15. Currently the Group does not expect any material changes to either revenue or profit as a result of adopting IFRS 15.

In January 2016, the IASB issued IFRS 16, Leases, 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. 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 analyzing the new standard to determine its impact on the Company's consolidated financial statements.

IFRS 17 Insurance Contracts

IFRS 17, Insurance Contracts, was issued in May 2017 to replace IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents the contracts. The standard requires the Company to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. The new standard is effective for annual periods beginning on or after January 1, 2021. Earlier adoption is permitted. The Company has not yet assessed the impact of this standard on the Company's consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23, Uncertainty over Income Tax Treatments, was issued in June 2017. IFRIC 23 clarifies how the recognition and measurement requirements of IAS are applied where there is uncertainty over income tax treatments. If an entity concludes that it is probable the tax authority will accept an uncertain tax treatment on a tax return it should determine its accounting for income taxes consistently with the tax treatment. If an entity concludes that it is not probable it should reflect the effect of the uncertainty in its tax accounting in the period in which that determination is made. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted. The Company has not yet assessed the impact of this interpretation on the Company's consolidated financial statements.

11. RISKS AND UNCERTAINTIES

Careful consideration should be given to the following risk factors. These descriptions of risks are not the only ones facing the Company. Additional risks and uncertainties not presently known to Leon's, or that the Company deems immaterial, may also impair the operations of the Company. If any of such risks actually occur, the business, financial condition, liquidity, and results of operations of the Company could be materially adversely affected.

Readers of this MD&A are also encouraged to refer to Leon's Annual Information Form ("AIF") dated March 28, 2017 which provides information on the risk factors facing the Company. The March 28, 2017 AIF can be found on line at www.sedar.com.

Sensitivity to General Economic Conditions

The household furniture, mattress, appliance and home electronics retailing industry in Canada has historically been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. The Company's sales are impacted by the health of the economy in Canada as a whole, and in the regional markets in which the Company operates.

The Company's sales and financial results are subject to numerous uncertainties. Weakness in sales or consumer confidence could result in an increasingly challenging operating environment.

Maintaining Profitability & Managing Growth

There can be no assurance that the Company's business and growth strategy will enable it to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including (i) the Company's ability to continue to successfully execute its strategic initiatives, (ii) the level of competition in the household furniture, mattress, appliance and home electronics retailing industry in the markets in which the Company operates, (iii) the Company's ability to remain a low-cost retailer, (iv) the Company's ability to realize increased sales and greater levels of profitability through its retail stores, (v) the effectiveness of the Company's marketing programs, (vi) the Company's ability to successfully identify and respond to changes in fashion trends and consumer tastes in the household furniture, mattress, appliance and home electronics retailing industry, (vii) the Company's ability to maintain cost effective delivery of its products, (viii) the Company's ability to hire, train, manage and retain qualified retail store management and sales professionals, (ix) the Company's ability to continuously improve its service to achieve new and enhanced customer benefits and better quality, and (x) general economic conditions and consumer confidence.

Financial Condition of Commercial Sales Customers & Franchisees

Through its commercial sales division, the Company sells products and extends credit to high-rise and condominium builders who purchase large quantities of products. The Company also sells products and extends credit to its franchisees. Negative changes in the financial condition of a significant commercial sales customer or a franchisee could impact on the Company's receivables and ultimately result in the Company having to take a bad-debt write-off in excess of allowance for bad debts. The occurrence of such an event could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

Competition

The household furniture, mattress, appliance and home electronics retailing industry is highly competitive and highly fragmented. The Company faces competition in all regions in which its operations are located by existing stores that sell similar products and also by stores that may be opened in the future by existing or new competitors in such markets. The Company competes directly with many different types of retail stores that sell many of the products sold by the Company. Such competitors include (i) department stores, (ii) specialty stores (such as specialty electronics, appliance, or mattress retailers), (iii) other national or regional chains offering household furniture, mattresses, appliances and home electronics, (iv) ecommerce entities, and (v) other independent retailers, particularly those associated with larger buying groups. The highly competitive

nature of the industry means the Company is constantly subject to the risk of losing market share to its competitors. As a result, the Company may not be able to maintain or to raise the prices of its products in response to competitive pressures. In addition, the entrance of additional competitors to the markets in which the Company operates, particularly large furniture, appliance or electronics retailers from the United States could increase the competitive pressure on the Company and have a material adverse effect on the Company's market share. The actions and strategies of the Company's current and potential competitors could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

12. CONTROLS AND PROCEDURES

Disclosure Controls & Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported on a timely basis to senior management, including the Chief Executive Officer and Chief Financial Officer so that appropriate decisions can be made by them regarding public disclosure. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as at September 30, 2017.

Internal Controls over Financial Reporting

Management is also responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met.

During the three months ended September 30, 2017, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.