

## Interim Condensed Consolidated Financial Statements

<b>Leon's Furniture Limited</b>		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)		
(\$ in thousands)	As at June 30 <b>2017</b>	As at December 31 <b>2016</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	-	43,985
Restricted marketable securities	15,485	16,600
Available-for-sale financial assets	53,874	39,079
Trade receivables	94,795	128,142
Income taxes receivable	4,942	2,042
Inventories <i>[note 5]</i>	318,830	308,801
Deferred acquisition costs	9,506	7,643
Deferred financing costs	687	775
Prepays and other assets	16,020	8,225
<b>Total current assets</b>	<b>514,139</b>	<b>555,292</b>
Deferred acquisition costs	10,737	13,128
Property, plant and equipment <i>[note 6]</i>	337,395	315,500
Investment properties <i>[note 7]</i>	17,754	17,984
Intangible assets <i>[note 8]</i>	308,868	311,464
Goodwill	390,120	390,120
Deferred income tax assets	7,850	8,174
<b>Total assets</b>	<b>1,586,863</b>	<b>1,611,662</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank overdraft	12,620	-
Trade and other payables	190,447	214,838
Provisions	6,671	5,468
Income taxes payable	-	12,641
Customers' deposits	104,216	117,990
Finance lease liability	1,421	1,421
Dividends payable	8,666	7,183
Deferred warranty plan revenue	36,693	39,839
Loans and borrowings <i>[note 10]</i>	25,000	25,000
Other liabilities	3,540	2,124
<b>Total current liabilities</b>	<b>389,274</b>	<b>426,504</b>
Loans and borrowings <i>[note 10]</i>	214,445	214,436
Convertible debentures <i>[note 10]</i>	92,672	93,520
Finance lease liability	9,707	10,474
Deferred warranty plan revenue	107,165	105,289
Redeemable share liability <i>[note 9]</i>	157	503
Deferred rent liabilities and lease inducements	11,371	11,380
Deferred income tax liabilities	87,198	90,003
<b>Total liabilities</b>	<b>911,989</b>	<b>952,109</b>
<b>Shareholders' equity attributable to the shareholders of the Company</b>		
Common shares <i>[note 11]</i>	44,019	39,184
Equity component of convertible debentures <i>[note 10]</i>	6,986	7,089
Retained earnings	623,584	613,426
Accumulated other comprehensive income	285	(146)
<b>Total shareholders' equity</b>	<b>674,874</b>	<b>659,553</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,586,863</b>	<b>1,611,662</b>

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

Interim Condensed Consolidated Financial Statements

<b>Leon's Furniture Limited</b>				
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME				
(UNAUDITED)				
(\$ in thousands)	Three months ended June 30		Six months ended June 30	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>	537,583	516,184	1,021,772	979,631
Cost of sales <i>[note 5]</i>	305,691	298,965	586,972	567,835
<b>Gross profit</b>	231,892	217,219	434,800	411,796
<b>Operating expenses</b>				
Selling, general and administration expenses	202,723	190,061	391,272	387,395
<b>Operating profit</b>	29,169	27,158	43,528	24,401
Finance costs	(3,127)	(3,973)	(6,253)	(8,504)
Finance income	428	418	867	1,184
<b>Net income before income tax</b>	26,470	23,603	38,142	17,081
Income tax expense <i>[note 12]</i>	7,607	6,644	10,665	4,834
<b>Net income for the period</b>	18,863	16,959	27,477	12,247
<b>Earnings per share <i>[note 13]</i></b>				
Basic	\$ 0.26	\$ 0.24	\$ 0.38	\$ 0.17
Diluted	\$ 0.24	\$ 0.21	\$ 0.35	\$ 0.16
<b>Dividends declared per share</b>				
Common	\$ 0.12	\$ 0.10	\$ 0.24	\$ 0.20
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 June 30		
	2017	Tax effect	Net of tax 2017
<b>Net income for the period</b>	18,863	-	18,863
<b>Other comprehensive income, net of tax</b>			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:			
Unrealized losses on available-for-sale financial assets arising during the period	(342)	(3)	(339)
Reclassification adjustment for net losses included in profit for the period	(32)	(10)	(22)
Change in unrealized losses on available-for-sale financial assets arising during the period	(374)	(13)	(361)
<b>Comprehensive income for the period</b>	<b>18,489</b>	<b>(13)</b>	<b>18,502</b>
	<b>2016</b>	<b>Tax effect</b>	<b>Net of tax 2016</b>
<b>Net income for the period</b>	16,959	-	16,959
<b>Other comprehensive income, net of tax</b>			
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	139	38	101
Reclassification adjustment for net losses included in profit for the period	(171)	(45)	(126)
Change in unrealized losses on available-for-sale financial assets arising during the period	(32)	(7)	(25)
<b>Comprehensive income for the period</b>	<b>16,927</b>	<b>(7)</b>	<b>16,934</b>

(\$ in thousands)	Six months ended June 30		
	2017	Tax effect	Net of tax 2017
<b>Net income for the period</b>	27,477	-	27,477
<b>Other comprehensive income, net of tax</b>			
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	684	185	499
Reclassification adjustment for net losses included in profit for the period	(95)	(27)	(68)
Change in unrealized gains on available-for-sale financial assets arising during the period	589	158	431
<b>Comprehensive income for the period</b>	<b>28,066</b>	<b>158</b>	<b>27,908</b>
	<b>2016</b>	<b>Tax effect</b>	<b>Net of tax 2016</b>
<b>Net income for the period</b>	12,247	-	12,247
<b>Other comprehensive income, net of tax</b>			
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	7	(58)	65
Reclassification adjustment for net losses included in profit for the period	(658)	(175)	(483)
Change in unrealized losses on available-for-sale financial assets arising during the period	(651)	(233)	(418)
<b>Comprehensive income for the period</b>	<b>11,596</b>	<b>(233)</b>	<b>11,829</b>

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

Interim Condensed Consolidated Financial Statements

<b>Leon's Furniture Limited</b>					
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
<b>As at December 31, 2015</b>	7,089	34,389	398	558,526	600,402
<b>Comprehensive income</b>					
Net income for the period	-	-	-	12,247	12,247
Change in unrealized losses on available-for-sale financial assets arising during the period	-	-	(418)	-	(418)
<b>Total comprehensive income</b>	-	-	(418)	12,247	11,829
<b>Transactions with shareholders</b>					
Dividends declared	-	-	-	(14,331)	(14,331)
Management share purchase plan <i>[note 9]</i>	-	3,627	-	-	3,627
<b>Total transactions with shareholders</b>	-	3,627	-	(14,331)	(10,704)
<b>As at June 30, 2016</b>	7,089	38,016	(20)	556,442	601,527
<b>As at December 31, 2016</b>	7,089	39,184	(146)	613,426	659,553
<b>Comprehensive income</b>					
Net income for the period	-	-	-	27,477	27,477
Change in unrealized gains on available-for-sale financial assets arising during the period	-	-	431	-	431
<b>Total comprehensive loss</b>	-	-	431	27,477	27,908
<b>Transactions with shareholders</b>					
Dividends declared	-	-	-	(17,319)	(17,319)
Management share purchase plan <i>[note 9]</i>	-	3,388	-	-	3,388
Convertible debentures <i>[note 10]</i>	(103)	1,447	-	-	1,344
<b>Total transactions with shareholders</b>	(103)	4,835	-	(17,319)	(12,587)
<b>As at June 30, 2017</b>	6,986	44,019	285	623,584	674,874

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

## Interim Condensed Consolidated Financial Statements

<b>Leon's Furniture Limited</b>		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)		
(\$ in thousands)	Six months ended June 30	
	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net income for the period	27,477	12,247
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	16,058	16,554
Amortization of intangible assets	3,166	3,814
Amortization of deferred warranty plan revenue	(19,684)	(20,380)
Net finance costs	5,304	7,320
Deferred income taxes	(2,436)	(5,043)
Gain on sale of property, plant and equipment and investment properties	(580)	(30)
Gain on sale of available-for-sale financial assets	(109)	(631)
	29,196	13,851
Net change in non-cash working capital balances related to operations <i>[note 15]</i>	(35,098)	(18,370)
Cash received on warranty plan sales	18,414	17,178
<b>Cash provided by operating activities</b>	<b>12,512</b>	<b>12,659</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and investment properties <i>[notes 6 &amp; 7]</i>	(37,738)	(7,744)
Purchase of intangible assets <i>[note 8]</i>	(570)	(128)
Proceeds on sale of property, plant and equipment and investment properties	595	70
Purchase of available-for-sale financial assets	(18,099)	(15,141)
Proceeds on sale of available-for-sale financial assets	5,125	9,982
Interest received	806	853
<b>Cash used in investing activities</b>	<b>(49,881)</b>	<b>(12,108)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of finance leases	(730)	(929)
Dividends paid	(15,836)	(14,297)
Decrease of employee loans-redeemable shares <i>[note 9]</i>	3,042	3,250
Proceeds from revolving loan <i>[note 10]</i>	-	20,000
Repayment of term loan <i>[note 10]</i>	-	(20,000)
Finance costs paid	(56)	-
Interest paid	(5,656)	(7,016)
<b>Cash used in financing activities</b>	<b>(19,236)</b>	<b>(18,992)</b>
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(56,605)</b>	<b>(18,441)</b>
Cash and cash equivalents, beginning of period	43,985	7,859
<b>Bank overdraft, end of period</b>	<b>(12,620)</b>	<b>(10,582)</b>

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 six-month periods ended June 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 August 10, 2017.

## 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.

### 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.

### **Accounting standards and amendments issued but not yet adopted**

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. 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 is in the process of evaluating the impact of adopting these amendments on the Company’s consolidated financial statements.

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”). 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 started the process of reviewing contracts with customers and other areas of the standard primarily the sale of non-financial assets such as property, plant and equipment.

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.

## **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 June 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 — \$486).

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 June 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.

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

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.

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 six-month period ended June 30, 2017 was \$563,551 (period ended June 30, 2016 — \$548,774), which is presented within cost of sales on the interim consolidated statements of income.

During the six-month period ended June 30, 2017, there was \$335 in inventory write-downs (six-month period ended June 30, 2016 — \$913 inventory write-downs). As at June 30, 2017, the inventory markdown provision totalled \$8,329 (as at December 31, 2016 — \$7,993).

## 6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
<b>As at June 30, 2017:</b>								
Opening net book value	86,254	105,670	41,771	20,307	52,694	8,385	419	315,500
Additions	16,304	14,544	4,890	1,799	201	—	—	37,738
Disposals	—	—	(4)	(11)	—	—	—	(15)
Depreciation	—	(3,003)	(4,373)	(2,125)	(5,520)	(565)	(242)	(15,828)
<b>Closing net book value</b>	<b>102,558</b>	<b>117,211</b>	<b>42,284</b>	<b>19,970</b>	<b>47,375</b>	<b>7,820</b>	<b>177</b>	<b>337,395</b>
<b>As at June 30, 2017:</b>								
Cost	102,558	254,441	148,280	41,572	227,050	20,766	11,011	805,678
Accumulated depreciation	—	(137,230)	(105,996)	(21,602)	(179,675)	(12,946)	(10,834)	(468,283)
<b>Net book value</b>	<b>102,558</b>	<b>117,211</b>	<b>42,284</b>	<b>19,970</b>	<b>47,375</b>	<b>7,820</b>	<b>177</b>	<b>337,395</b>

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
<b>As at December 31, 2016:</b>								
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)
<b>Closing net book value</b>	<b>86,254</b>	<b>105,670</b>	<b>41,771</b>	<b>20,307</b>	<b>52,694</b>	<b>8,385</b>	<b>419</b>	<b>315,500</b>
<b>As at December 31, 2016:</b>								
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)
<b>Net book value</b>	<b>86,254</b>	<b>105,670</b>	<b>41,771</b>	<b>20,307</b>	<b>52,694</b>	<b>8,385</b>	<b>419</b>	<b>315,500</b>

Included in the above balances as at June 30, 2017 are assets not being amortized with a net book value of approximately \$19,253 (as at December 31, 2016 – \$437) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$175,025 (as at December 31, 2016 – \$178,949).

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

**7. INVESTMENT PROPERTIES**

	<b>Land</b>	<b>Buildings</b>	<b>Building Improvements</b>	<b>Total</b>
<b>As at June 30, 2017:</b>				
Opening net book value	10,946	6,257	781	17,984
Additions	—	—	—	—
Disposals	—	—	—	—
Depreciation	—	(192)	(38)	(230)
Closing net book value	10,946	6,065	743	17,754
<b>As at June 30, 2017:</b>				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(11,268)	(354)	(11,622)
Net book value	10,946	6,065	743	17,754
<b>As at December 31, 2016:</b>				
Opening net book value	10,946	6,692	858	18,496
Additions	—	—	—	—
Disposal	—	—	—	—
Depreciation	—	(435)	(77)	(512)
Closing net book value	10,946	6,257	781	17,984
<b>As at December 31, 2016:</b>				
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 June 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**

	<b>Customer relationships</b>	<b>Brand name and franchise agreements</b>	<b>Computer software</b>	<b>Favourable lease agreements</b>	<b>Total</b>
<b>As at June 30, 2017:</b>					
Opening net book value	2,656	266,250	11,120	31,438	311,464
Additions	—	—	570	—	570
Amortization	(312)	(125)	(1,394)	(1,335)	(3,166)
Closing net book value	2,344	266,125	10,296	30,103	308,868
<b>As at June 30, 2017:</b>					
Cost	7,000	268,500	24,572	46,049	346,121
Accumulated amortization	(4,656)	(2,375)	(14,276)	(15,946)	(37,253)
Net book value	2,344	266,125	10,296	30,103	308,868
<b>As at December 31, 2016:</b>					
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
<b>As at December 31, 2016:</b>					
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

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

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:

	As at June 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 June 30, 2017	As at December 31, 2016
Leon's division brand name	125	250
Brick division customer relationships	2,344	2,656
Brick division favourable lease agreements	30,102	31,438
Computer software	10,297	11,120
	42,868	45,464

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

## 9. REDEEMABLE SHARE LIABILITY

	As at June 30, 2017	As at December 31, 2016
<b>Authorized</b>		
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		
<b>Issued and fully paid</b>		
384,423 series 2009 shares (December 31, 2016 – 480,088)	3,403	4,249
160,520 series 2012 shares (December 31, 2016 – 228,936)	1,992	2,841
995,094 series 2013 shares (December 31, 2016 – 1,093,783)	11,334	12,458
547,290 series 2014 shares (December 31, 2016 – 623,188)	8,237	9,379
755,222 series 2015 shares (December 31, 2016 – 795,000)	10,165	10,701
Less employee share purchase loans	(34,974)	(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 six-month period ended June 30, 2017, 95,665 series 2009 shares and 68,416 series 2012 shares, 98,689 series 2013 shares, 47,082 series 2014 shares and 25,000 series 2015 shares (six-month period ended June 30, 2016 – 112,705 series 2009 shares, nil series 2012 shares, 230,855 series 2013 shares, nil series 2014 shares and nil series 2015 shares) were converted into common shares with a stated value of approximately \$846, \$849, \$1,124, \$709 and \$337 respectively (six-month period ended June 30, 2016 – \$997, \$nil, \$2,630, \$nil and \$nil).

During the six-month period ended June 30, 2017, the Company cancelled nil series 2012 shares, 28,816 series 2014 shares, 14,778 series 2015 shares (six-month period ended June 30, 2016 – 4,680 series 2012 shares, 116,812 series 2014 shares, 85,000 series 2015 shares), in the amount of \$nil, \$433 and \$199 respectively (six-month period ended June 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 June 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 \$98,553 through a charge to net income over their term. This charge will be included in finance costs.

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

During the six-month period ended June 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 (six-month period ended June 30, 2016 - \$nil converted to nil common shares).

Carrying value of convertible debentures as at December 31, 2016	93,520
Accretion expense for the six-months ended June 30, 2017	460
Conversion of convertible debentures for the three months ended June 30, 2017	(1,308)
Carrying value of convertible debentures as at June 30, 2017	92,672

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 31-day Bankers' Acceptance with a cost of borrowing of 2.72% that was renewed on June 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 June 30, 2017, the Company is in full compliance of these financial and non-financial covenants.

**11. COMMON SHARES**

	As at June 30, 2017	As at December 31, 2016
<b>Authorized</b> - Unlimited common shares		
<b>Issued</b> 72,271,653 common shares (2016 – 71,855,866)	44,019	39,184

During the six-month period ended June 30, 2017, 95,665 series 2009 shares and 68,416 series 2012 shares, 98,689 series 2013 shares, 47,082 series 2014 shares and 25,000 series 2015 shares (six-month period ended June 30, 2016 – 112,705 series 2009 shares, nil series 2012 shares, 230,855 series 2013 shares, nil series 2014 shares and nil series 2015 shares) were converted into common shares with a stated value of approximately \$846, \$849, \$1,124, \$709 and \$337 respectively (six-month period ended June 30, 2016 – \$997, \$nil, \$2,630, \$nil and \$nil).

During the six-month period ended June 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 (six-month period ended June 30, 2016 - \$nil converted to nil common shares).

The dividends paid for the three-month periods ended June 30, 2017 and June 30, 2016 were \$8,653 (\$0.12 per share) and \$7,157 (\$0.10 per share), respectively.

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The dividends paid for the six-month periods ended June 30, 2017 and June 30, 2016 were \$15,836 (\$0.22 per share) and \$14,297 (\$0.20 per share) respectively.

**12. INCOME TAX EXPENSE**

	<b>Three-month period ended June 30, 2017</b>	<b>Three-month period ended June 30, 2016</b>
Current income tax expense	8,361	7,510
Deferred income tax recovery	(754)	(866)
	7,607	6,644
	<b>Six-month period ended June 30, 2017</b>	<b>Six-month period ended June 30, 2016</b>
Current income tax expense	13,101	9,877
Deferred income tax recovery	(2,436)	(5,043)
	10,665	4,834

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 June 30, 2017 and June 30, 2016 was 26.71% and 26.7% 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:

	<b>Three-month period ended June 30, 2017</b>	<b>Three-month period ended June 30, 2016</b>
Net income for the period for basic earnings per share	18,863	16,959
Net income for the period for diluted earnings per share	19,573	17,675
Weighted average common shares outstanding	72,204,839	71,676,339
Dilutive effect	10,707,306	11,477,820
Diluted weighted average common shares outstanding	82,912,145	83,154,159
Basic earnings per share	\$0.26	\$0.24
Diluted earnings per share	\$0.24	\$0.21

	<b>Six-month period ended June 30, 2017</b>	<b>Six-month period ended June 30, 2016</b>
Net income for the period for basic earnings per share	27,477	12,247
Net income for the period for diluted earnings per share	28,905	13,672
Weighted average common shares outstanding	72,109,675	71,599,750
Dilutive effect	10,818,992	11,575,360
Diluted weighted average common shares outstanding	82,928,667	83,175,110
Basic earnings per share	\$0.38	\$0.17
Diluted earnings per share	\$0.35	\$0.16

## 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.

#### June 30, 2017:

	Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
<b>Loans and receivables</b>				
Trade receivable	Amortized cost	94,795	94,795	Level 2
<b>Available-for-sale</b>				
Restricted marketable securities	Fair value	15,485	15,485	Level 1
Available-for-sale financial assets	Fair value	53,874	53,874	Level 2
Investment properties	Amortized cost	17,754	44,800	Level 3
<b>Other financial liabilities</b>				
Bank overdraft	Fair value	12,620	12,620	Level 1
Trade and other payables	Amortized cost	190,447	190,447	Level 2
Provisions	Amortized cost	6,671	6,671	Level 2
Finance lease liabilities	Amortized cost	11,128	11,128	Level 2
Loans and borrowings	Amortized cost	239,445	239,445	Level 2
Convertible debentures	Amortized cost	92,672	137,974	Level 2
Redeemable share liability	Amortized cost	157	157	Level 2
<b>Derivative instruments</b>				
Other liabilities	Fair value	3,540	3,540	Level 2

#### December 31, 2016:

	Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
<b>Loans and receivables</b>				
Cash and cash equivalents	Fair value	43,985	43,985	Level 1
Trade receivables	Amortized cost	128,142	128,142	Level 2
<b>Available-for-sale</b>				
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
<b>Other financial liabilities</b>				
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
<b>Derivative instruments</b>				
Other liabilities	Fair value	2,124	2,124	Level 2

The fair value hierarchy of financial instruments measured at fair value, as at June 30, 2017 includes financial assets of \$15,485, \$148,669 and \$44,800 for Levels 1, 2 and 3 respectively, and financial liabilities of \$12,620, \$589,362 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.

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.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)  
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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 June 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 – \$110.00 per \$100.00 of face value). For the convertible debentures at June 30, 2017, fair value is calculated based on the face value of the convertible debentures of \$98,553.

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 June 30, 2017 a \$3,540 unrealized loss was recorded in other liabilities (2016 – \$9,450).

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:

	Six-month period ended June 30, 2017	Six-month period ended June 30, 2016
Trade receivables	33,347	11,057
Inventories	(10,029)	14,345
Prepaid and other assets	(7,795)	(8,041)
Trade and other payables	(24,280)	(32,023)
Income taxes receivable (payable)	(15,706)	(6,459)
Customers' deposits	(13,774)	(10,123)
Provisions	1,203	326
Deferred acquisition costs	528	1,310
Other liabilities	1,417	9,450
Deferred rent liabilities and lease inducements	(9)	1,788
	(35,098)	(18,370)

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

	<b>Six-month period ended June 30, 2017</b>	<b>Six-month period ended June 30, 2016</b>
Income taxes paid	29,198	16,317

**16. COMPARATIVE FINANCIAL INFORMATION**

The comparative interim condensed consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the second quarter 2017 interim condensed consolidated financial statements.