

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter ended June 30, 2017 and 2016

The following Management's Discussion and Analysis ("MD&A") is prepared as at August 10, 2017 and is based on the consolidated financial position and operating results of Leon's Furniture Limited/Meubles Leon Ltée (the "Company") as of June 30, 2017 and for the three and six months ended June 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 August 10, 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 United Furniture Warehouse ("UFW"). 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. TGS division has contracts to support several manufacturer's 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 customer's 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 303 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 June 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 ²	64	—	(1)	63
The Brick Mattress Store banner locations	24	—	(1)	23
UFW banner stores	2	—	—	2
UFW and The Brick Clearance Centre banner stores	11	—	—	11
Total number of stores	305	0	(2)	303

¹Includes the Midnorthern Appliance banner

²Includes one UFW Franchise

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 June 30		For the six months ended June 30	
	2017	2016	2017	2016
(000's of \$ except per share amounts)				
Net income	18,863	16,959	27,477	12,247
After-tax mark-to-market loss (gain) on financial derivative instruments	1,105	(1,412)	1,034	7,242
After-tax severance charge	-	-	-	1,228
Adjusted net income	19,968	15,547	28,511	20,717
Basic earnings per share	\$ 0.26	\$ 0.24	\$ 0.38	\$ 0.17
Diluted earnings per share	\$ 0.24	\$ 0.21	\$ 0.35	\$ 0.16
Adjusted basic earnings per share	\$ 0.28	\$ 0.22	\$ 0.40	\$ 0.29
Adjusted diluted earnings per share	\$ 0.25	\$ 0.20	\$ 0.36	\$ 0.27

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 June 30		For the six months ended June 30	
	2017	2016	2017	2016
Net income	18,863	16,959	27,477	12,247
Income tax expense	7,607	6,644	10,665	4,834
Net finance costs	2,699	3,555	5,386	7,320
Depreciation and amortization	9,480	10,130	19,224	20,368
Severance charge	-	-	-	1,700
Mark-to-market loss (gain) on financial derivative instruments	1,514	(1,988)	1,417	9,989
Adjusted EBITDA	40,163	35,300	64,169	56,458

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 June 30, 2017 and June 30, 2016

(000's of \$ except % and per share amounts)	For the three months ended June 30			
	2017	2016	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	636,159	606,453	29,706	4.9%
Franchise sales ⁽¹⁾	98,576	90,269	8,307	9.2%
Revenue	537,583	516,184	21,399	4.1%
Cost of sales	305,691	298,965	6,726	2.2%
Gross profit	231,892	217,219	14,673	6.8%
<i>Gross profit margin as a percentage of revenue</i>	43.14%	42.08%		
Selling, general and administrative expenses (excluding mark-to-market impact and severance charge) ⁽¹⁾	201,209	192,049	9,160	4.8%
<i>SG&A as a percentage of revenue⁽¹⁾</i>	37.43%	37.21%		
Income before net finance costs and income tax expense ⁽¹⁾	30,683	25,170	5,513	21.9%
Net finance costs	(2,699)	(3,555)	(856)	(24.1%)
Income before income taxes (excluding mark-to-market impact and severance charge) ⁽¹⁾	27,984	21,615	6,369	29.5%
Income tax expense	8,016	6,068	1,948	32.1%
Adjusted net income ⁽¹⁾	19,968	15,547	4,421	28.4%
After-tax mark-to-market loss (gain) on financial derivative instruments ⁽¹⁾	1,105	(1,412)	2,517	(178.3%)
Net income	18,863	16,959	1,904	11.2%
Basic weighted average number of common shares	72,204,839	71,676,339		
Basic earnings per share	\$ 0.26	\$ 0.24	\$ 0.02	8.3%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.28	\$ 0.22	\$ 0.06	27.3%
Diluted weighted average number of common shares	82,912,145	83,154,159		
Diluted earnings per share	\$ 0.24	\$ 0.21	\$ 0.03	14.3%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.25	\$ 0.20	\$ 0.05	25.0%
Common share dividends declared	\$ 0.12	\$ 0.10	0.02	20.0%

(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 June 30			
	2017	2016	\$ Increase	% Increase
Same store sales ⁽¹⁾	519,131	514,082	5,049	1.0%

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

Second Quarter Overall Performance

Revenue

For the three months ended June 30, 2017, revenue was \$537,583,000 compared to \$516,184,000 in the prior year's second quarter. Revenue increased \$21,399,000 or 4.1% between the comparative quarters.

Same Store Sales⁽¹⁾

Overall, same store corporate sales increased 1.0%.

Gross Profit

The gross profit for the second quarter 2017 increased from 42.08% to 43.14% compared to the prior year's second quarter. This was mainly the result of improved gross margins in our furniture category.

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 increased from 37.21% to 37.43% compared to the prior year's quarter. This slight increase was due primarily from the operating costs of nine new stores and related increase in advertising 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 June 30, 2017 was \$19,968,000, \$0.25 adjusted diluted earnings per share (\$15,547,000, \$0.20 adjusted diluted earnings per share in 2016), an increase of 25% 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 second quarter of 2017 was \$18,863,000, \$0.24 diluted earnings per share (net income of \$16,959,000, \$0.21 diluted earnings per share in 2016).

Consolidated operating results for the six months ended June 30, 2017 and June 30, 2016

(000's of \$ except % and per share amounts)	For the six months ended June 30			
	2017	2016	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	1,210,148	1,152,936	57,212	5.0%
Franchise sales ⁽¹⁾	188,376	173,305	15,071	8.7%
Revenue	1,021,772	979,631	42,141	4.3%
Cost of sales	586,972	567,835	19,137	3.4%
Gross profit	434,800	411,796	23,004	5.6%
<i>Gross profit margin as a percentage of revenue</i>	42.55%	42.04%		
Selling, general and administrative expenses (excluding mark-to-market impact and severance charge) ⁽¹⁾	389,855	375,706	14,149	3.8%
<i>SG&A as a percentage of revenue ⁽¹⁾</i>	38.15%	38.35%		
Income before net finance costs and income tax expense ⁽¹⁾	44,945	36,090	8,855	24.5%
Net finance costs	(5,386)	(7,320)	(1,934)	(26.4%)
Income before income taxes (excluding mark-to-market impact and severance charge) ⁽¹⁾	39,559	28,770	10,789	37.5%
Income tax expense	11,048	8,053	2,995	37.2%
Adjusted net income ⁽¹⁾	28,511	20,717	7,794	37.6%
After-tax mark-to-market loss (gain) on financial derivative instruments ⁽¹⁾	1,034	7,242	(6,208)	(85.7%)
After-tax severance charge ⁽¹⁾	-	1,228	(1,228)	
Net income	27,477	12,247	15,230	124.4%
Basic weighted average number of common shares	72,109,675	71,599,750		
Basic earnings per share	\$ 0.38	\$ 0.17	\$ 0.21	123.5%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.40	\$ 0.29	\$ 0.11	37.9%
Diluted weighted average number of common shares	82,928,667	83,175,110		
Diluted earnings per share	\$ 0.35	\$ 0.16	\$ 0.19	118.8%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.36	\$ 0.27	\$ 0.09	33.3%
Common share dividends declared	\$ 0.24	\$ 0.20	0.04	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 six months ended June 30			
	2017	2016	\$ Increase	% Increase
Same store sales ⁽¹⁾	983,406	972,896	10,510	1.1%

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

Revenue

For the six months ended June 30, 2017, revenue was \$1,021,772,000 compared to \$979,631,000 for the prior year's six month period. Revenue increased \$42,141,000 or 4.3% for the comparative periods.

Same Store Sales⁽¹⁾

Overall, same store corporate sales increased 1.1%.

Gross Profit

The gross profit for the six months ended June 30, 2017 increased from 42.04% to 42.55% compared to the prior year's six 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 38.35% to 38.15%. The reduction is due primarily from generating a higher degree of operating leverage as revenues increased 4.3% for the six 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 six month period ending June 30, 2017 was \$28,511,000, \$0.36 adjusted diluted earnings per share (\$20,717,000, \$0.27 adjusted diluted earnings per share in 2016), an increase of 33.3%.

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 six month period ending June 30, 2017 was \$27,477,000, \$0.35 diluted earnings per share (net income of \$12,247,000, \$0.16 diluted earnings per share for the six month period ended June 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 June 30		Quarter Ended March 31		Quarter Ended December 31		Quarter Ended September 30	
	2017	2016	2017	2016	2016	2015	2016	2015
Total system wide sales ⁽¹⁾	636,159	606,453	573,988	546,483	704,742	670,357	673,897	646,078
Franchise sales ⁽¹⁾	98,576	90,269	89,799	83,036	116,361	110,128	98,173	97,217
Revenue	537,583	516,184	484,189	463,447	588,381	560,229	575,724	548,861
Net income	18,863	16,959	8,614	(4,712)	37,233	30,187	34,111	27,340
Adjusted net income ⁽¹⁾	19,968	15,547	8,543	5,170	34,745	30,589	31,300	24,739
Basic earnings(loss) per share	\$ 0.26	\$ 0.24	\$ 0.12	\$ (0.07)	\$ 0.52	\$ 0.42	\$ 0.48	\$ 0.38
Fully diluted earnings(loss) per share	\$ 0.24	\$ 0.21	\$ 0.11	\$ (0.07)	\$ 0.46	\$ 0.38	\$ 0.42	\$ 0.34
Adjusted basic earnings per share ⁽¹⁾	\$ 0.28	\$ 0.22	\$ 0.12	\$ 0.07	\$ 0.48	\$ 0.43	\$ 0.44	\$ 0.35
Adjusted fully diluted per share ⁽¹⁾	\$ 0.25	\$ 0.20	\$ 0.11	\$ 0.07	\$ 0.43	\$ 0.39	\$ 0.39	\$ 0.31

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

5. FINANCIAL POSITION

(000's of \$)	June 30, 2017	December 31, 2016	June 30, 2016
Total assets	1,586,863	1,611,662	1,548,837
Total non-current liabilities	522,715	525,605	296,350

Assets

Total assets at June 30, 2017 of \$1,586,863,000 were \$24,799,000 lower than the \$1,611,662,000 reported at December 31, 2016. The principal components of this net change are the following:

- \$42,925,000 decrease in cash and cash equivalents, restricted marketable securities and available-for-sale financial assets
- \$33,347,000 decrease in trade receivables
- \$15,706,000 increase in income tax receivable (payable)
- \$10,029,000 increase in inventory
- \$24,280,000 decrease in trade and other payables

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 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 \$522,715,000 were \$2,890,000 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 June 30, 2017 and June 30 2016:

Source (Use) of Cash (000's of \$)	For the three months ended June 30			For the six months ended June 30		
	2017	2016	\$ Increase (Decrease)	2017	2016	\$ Increase (Decrease)
Cash provided by operating activities before changes in non-cash working capital items	29,632	27,825	1,807	47,610	31,029	16,581
Changes in non-cash working capital items	(14,688)	1,512	(16,200)	(35,098)	(18,370)	(16,728)
Cash provided by (used in) operating activities	14,944	29,337	(14,393)	12,512	12,659	(147)
Investing activities	(14,727)	(14,801)	74	(49,881)	(12,108)	(37,773)
Financing activities	(18,737)	(10,481)	(8,256)	(19,236)	(18,992)	(244)
Increase (decrease) in cash and cash equivalents	(18,520)	4,055	(22,575)	(56,605)	(18,441)	(38,164)

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 second quarter of 2017 cash provided by operating activities changed by \$14,393,000 compared to the prior year's quarter. The net decrease is primarily the result of the change in non-cash working capital, trade receivables, 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 second quarter of 2017 cash used in investing activities decreased by \$74,000 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 second quarter of 2017 cash used in financing activities changed by \$8,256,000 compared to the prior year's quarter. The change relates to the repayment of the Company's revolving loan in the amount of \$7,000,000.

Adequacy of Financial Resources

At June 30, 2017, the Company's current assets exceeded its current liabilities by \$124,865,000 and its cash and cash equivalents, available-for-sale financial assets and bank overdraft were \$56,739,000 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 June 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	371,121	31,188	231,286	5,940	102,707
Operating leases ⁽¹⁾	420,975	44,725	147,268	104,296	124,686
Trade and other payables	190,447	190,447	-	-	-
Finance lease liabilities	13,290	1,043	3,739	3,853	4,655
Total Contractual Obligations	995,833	267,403	382,293	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. Along with the growth in sales, we intend to maintain gross margins and continue to drive efficiencies.

8. OUTSTANDING COMMON SHARES

At June 30, 2017, there were 72,271,653 common shares issued and outstanding. During the quarter ended June 30, 2017, 25,063 series 2009 shares, 68,416 series 2012 shares, 5,500 series 2013, 27,082 series 2014 shares and \$477,000 convertible debentures were converted into 37,743 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 June 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

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*; 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, *Leases*. 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 (note 25) 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.

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 June 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 June 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.