

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)		
(\$ in thousands)	As at March 31 2017	As at December 31 2016
ASSETS		
Current assets		
Cash and cash equivalents	5,900	43,985
Restricted marketable securities	16,508	16,600
Available-for-sale financial assets	47,193	39,079
Trade receivables	92,571	128,142
Income taxes receivable	2,042	2,042
Inventories <i>[note 5]</i>	312,142	308,801
Deferred acquisition costs	8,630	7,643
Deferred financing costs	703	775
Total current assets	485,689	547,067
Other assets	13,751	8,225
Deferred acquisition costs	11,790	13,128
Property, plant and equipment <i>[note 6]</i>	336,191	315,500
Investment properties <i>[note 7]</i>	17,871	17,984
Intangible assets <i>[note 8]</i>	310,290	311,464
Goodwill	390,120	390,120
Deferred income tax assets	9,143	8,174
Total assets	1,574,845	1,611,662
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	195,290	214,838
Provisions	4,826	5,468
Income taxes payable	380	12,641
Customers' deposits	103,706	117,990
Finance lease liability	1,421	1,421
Dividends payable	8,653	7,183
Deferred warranty plan revenue	42,769	39,839
Loans and borrowings <i>[note 10]</i>	25,000	25,000
Other liabilities	2,026	2,124
Total current liabilities	384,071	426,504
Loans and borrowings <i>[note 10]</i>	221,511	214,436
Convertible debentures <i>[note 10]</i>	92,869	93,520
Finance lease liability	10,031	10,474
Deferred warranty plan revenue	101,024	105,289
Redeemable share liability <i>[note 9]</i>	814	503
Deferred rent liabilities and lease inducements	11,635	11,380
Deferred income tax liabilities	89,836	90,003
Total liabilities	911,791	952,109
Shareholders' equity attributable to the shareholders of the Company		
Common shares <i>[note 11]</i>	42,001	39,184
Equity component of convertible debentures <i>[note 10]</i>	7,020	7,089
Retained earnings	613,387	613,426
Accumulated other comprehensive income	646	(146)
Total shareholders' equity	663,054	659,553
Total liabilities and shareholders' equity	1,574,845	1,611,662

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

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)		
(\$ in thousands)	Three months ended March 31	
	2017	2016
Revenue	484,189	463,447
Cost of sales <i>[note 5]</i>	281,281	268,870
Gross profit	202,908	194,577
Operating expenses		
Selling, general and administration expenses	188,549	197,334
Operating profit (loss)	14,359	(2,757)
Finance costs	(3,126)	(4,531)
Finance income	439	766
Net income (loss) before income tax	11,672	(6,522)
Income tax expense (recovery) <i>[note 12]</i>	3,058	(1,810)
Net income (loss) for the period	8,614	(4,712)
Earnings (loss) per share <i>[note 13]</i>		
Basic	\$ 0.12	\$ (0.07)
Diluted	\$ 0.11	\$ (0.07)
Dividends declared per share		
Common	\$ 0.12	\$ 0.10
Convertible, non-voting	\$ -	\$ -

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Interim Condensed Consolidated Financial Statements

<p>Leon's Furniture Limited INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)</p>
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(\$ in thousands)	Three months ended March 31		
	2017	Tax effect	Net of tax 2017
Net income for the period	8,614	-	8,614
Other comprehensive income, net of tax			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:			
Unrealized gains on available-for-sale financial assets arising during the period	1,027	189	838
Reclassification adjustment for net losses included in profit for the period	(63)	(17)	(46)
Change in unrealized gains on available-for-sale financial assets arising during the period	964	172	792
Comprehensive income for the period	9,578	172	9,406
	2016	Tax effect	Net of tax 2016
Net loss for the period	(4,712)	-	(4,712)
Other comprehensive income, net of tax			
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	(352)	(96)	(256)
Reclassification adjustment for net losses included in profit for the period	(487)	(130)	(357)
Change in unrealized losses on available-for-sale financial assets arising during the period	(839)	(226)	(613)
Comprehensive loss for the period	(5,551)	(226)	(5,325)

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Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited					
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)					
(\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income (loss)	Retained earnings	Total
As at December 31, 2015	7,089	34,389	398	558,526	600,402
Comprehensive loss					
Net loss for the period	-	-	-	(4,712)	(4,712)
Change in unrealized losses on available-for-sale financial assets arising during the period	-	-	(613)	-	(613)
Total comprehensive loss	-	-	(613)	(4,712)	(5,325)
Transactions with shareholders					
Dividends declared	-	-	-	(7,157)	(7,157)
Management share purchase plan <i>[note 9]</i>	-	2,224	-	-	2,224
Total transactions with shareholders	-	2,224	-	(7,157)	(4,933)
As at March 31, 2016	7,089	36,613	(215)	546,657	590,144
As at December 31, 2016	7,089	39,184	(146)	613,426	659,553
Comprehensive income					
Net income for the period	-	-	-	8,614	8,614
Change in unrealized gains on available-for-sale financial assets arising during the period	-	-	792	-	792
Total comprehensive income	-	-	792	8,614	9,406
Transactions with shareholders					
Dividends declared	-	-	-	(8,653)	(8,653)
Management share purchase plan <i>[note 9]</i>	-	1,847	-	-	1,847
Convertible debentures <i>[note 10]</i>	(69)	970	-	-	901
Total transactions with shareholders	(69)	2,817	-	(8,653)	(5,905)
As at March 31, 2017	7,020	42,001	646	613,387	663,054

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Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)		
(\$ in thousands)	Three months ended March 31	
	2017	2016
OPERATING ACTIVITIES		
Net income (loss) for the period	8,614	(4,712)
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	8,160	8,209
Amortization of intangible assets	1,584	2,029
Amortization of deferred warranty plan revenue	(10,031)	(10,720)
Net finance costs	2,687	3,765
Deferred income taxes	(1,114)	(4,177)
Gain on sale of property, plant and equipment and investment properties	(556)	(60)
Gain on sale of available-for-sale financial assets	(62)	(487)
	9,282	(6,153)
Net change in non-cash working capital balances related to operations <i>[note 15]</i>	(20,410)	(19,882)
Cash received on warranty plan sales	8,696	9,357
Cash used in operating activities	(2,432)	(16,678)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and investment properties <i>[notes 6 & 7]</i>	(28,746)	(2,906)
Purchase of intangible assets <i>[note 8]</i>	(410)	(104)
Proceeds on sale of property, plant and equipment and investment properties	564	69
Purchase of available-for-sale financial assets	(8,708)	(2,617)
Proceeds on sale of available-for-sale financial assets	1,712	7,743
Interest received	434	508
Cash (used in) provided by investing activities	(35,154)	2,693
FINANCING ACTIVITIES		
Repayment of finance leases	(424)	(461)
Dividends paid	(7,183)	(7,140)
Decrease of employee loans-redeemable shares <i>[note 9]</i>	2,158	1,849
Proceeds from revolving loan <i>[note 10]</i>	7,000	10,000
Repayment of term loan <i>[note 10]</i>	-	(10,000)
Interest paid	(2,050)	(2,759)
Cash used in financing activities	(499)	(8,511)
Net decrease in cash and cash equivalents during the period	(38,085)	(22,496)
Cash and cash equivalents, beginning of period	43,985	7,859
Cash and cash equivalents (bank overdraft), end of period	5,900	(14,637)

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 month periods ended March 31, 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 May 11, 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*; 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 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 March 31, 2017, \$42,531 is available to draw on under our \$50,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$469 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 March 31, 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 three month period ended March 31, 2017 was \$269,470 (period ended March 31, 2016 - \$259,651), which is presented within cost of sales on the interim consolidated statements of income.

During the three month period ended March 31, 2017, there was \$22 in inventory write-downs (three month period ended March 31, 2016 - \$679 inventory write-downs). As at March 31, 2017, the inventory markdown provision totaled \$8,015 (as at December 31, 2016 - \$7,993).

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
As at March 31, 2017:								
Opening net book value	86,254	105,670	41,771	20,307	52,694	8,385	419	315,500
Additions	16,304	10,865	449	1,096	32	—	—	28,746
Disposals	—	—	(1)	(7)	—	—	—	(8)
Depreciation	—	(1,502)	(2,203)	(1,054)	(2,827)	(283)	(178)	(8,047)
Closing net book value	102,558	115,033	40,016	20,342	49,899	8,102	241	336,191
As at March 31, 2017:								
Cost	102,558	250,762	143,915	41,069	227,186	20,766	11,011	797,267
Accumulated depreciation	—	(135,729)	(103,899)	(20,727)	(177,287)	(12,664)	(10,770)	(461,076)
Net book value	102,558	115,033	40,016	20,342	49,899	8,102	241	336,191

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

Included in the above balances as at March 31, 2017 are assets not being amortized with a net book value of approximately \$12,285 [as at December 31, 2016 – \$437] being construction in progress. Also included are fully depreciated assets still in use with a cost of \$158,250 [as at December 31, 2016 – \$178,949].

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

7. INVESTMENT PROPERTIES

	Land	Buildings	Building Improvements	Total
As at March 31, 2017:				
Opening net book value	10,946	6,257	781	17,984
Additions	—	—	—	—
Disposals	—	—	—	—
Depreciation	—	(94)	(19)	(113)
Closing net book value	10,946	6,163	762	17,871
As at March 31, 2017:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(11,170)	(335)	(11,505)
Net book value	10,946	6,163	762	17,871
As at December 31, 2016:				
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
As at December 31, 2016:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(11,076)	(316)	(11,392)
Net book value	10,946	6,257	781	17,984

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

8. INTANGIBLE ASSETS

	Customer relationships	Brand name and franchise agreements	Computer software	Favourable lease agreements	Total
As at March 31, 2017:					
Opening net book value	2,656	266,250	11,120	31,438	311,464
Additions	—	—	410	—	410
Amortization	(156)	(62)	(698)	(668)	(1,584)
Closing net book value	2,500	266,188	10,832	30,770	310,290
As at March 31, 2017:					
Cost	7,000	268,500	24,412	46,049	345,961
Accumulated amortization	(4,500)	(2,312)	(13,580)	(15,279)	(35,671)
Net book value	2,500	266,188	10,832	30,770	310,290
As at December 31, 2016:					
Opening net book value	3,281	266,500	13,957	34,476	318,214
Additions	—	—	683	—	683
Amortization	(625)	(250)	(3,520)	(3,038)	(7,433)
Closing net book value	2,656	266,250	11,120	31,438	311,464
As at December 31, 2016:					
Cost	7,000	268,500	24,002	46,049	345,551
Accumulated amortization	(4,344)	(2,250)	(12,882)	(14,611)	(34,087)
Net book value	2,656	266,250	11,120	31,438	311,464

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 March 31, 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 March 31, 2017	As at December 31, 2016
Leon's division brand name	188	250
Brick division customer relationships	2,500	2,656
Brick division favourable lease agreements	30,770	31,438
Computer software	10,832	11,120
	44,290	45,464

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

9. REDEEMABLE SHARE LIABILITY

	As at March 31, 2017	As at December 31, 2016
Authorized		
1,224,000 convertible, non-voting, series 2009 shares		
306,500 convertible, non-voting, series 2012 shares		
1,485,000 convertible, non-voting, series 2013 shares		
740,000 convertible, non-voting, series 2014 shares		
880,000 convertible, non-voting, series 2015 shares		
Issued and fully paid		
409,486 series 2009 shares [December 31, 2016 – 480,088]	3,625	4,249
228,936 series 2012 shares [December 31, 2016 – 228,936]	2,841	2,841
1,000,594 series 2013 shares [December 31, 2016 – 1,093,783]	11,397	12,458
574,372 series 2014 shares [December 31, 2016 – 623,188]	8,644	9,379
755,222 series 2015 shares [December 31, 2016 – 795,000]	10,165	10,701
Less employee share purchase loans	(35,858)	(39,125)
	814	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 three month period ended March 31, 2017, 70,602 series 2009 shares, 93,189 series 2013 shares, 20,000 series 2014 shares and 25,000 series 2015 shares [three month period ended March 31, 2016 – 93,589 series 2009 shares, 122,578 series 2013 shares, nil series 2014 shares and nil series 2015 shares] were converted into common shares with a stated value of approximately \$624, \$1,061, \$301 and \$337 respectively [three month period ended March 31, 2016 - \$828, \$1,396, \$nil and \$nil respectively].

During the three month period ended March 31, 2017, the Company cancelled 28,816 series 2014 shares and 14,778 series 2015 shares in the amount of \$ 434 and \$199 respectively [three month period ended March 31, 2016 – nil for both series 2014 and series 2015, in the amount of \$nil].

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.

During the three month period ended March 31, 2017, a portion of the convertible debentures with a stated value of \$970 was converted to 76,751 common shares, at the holder’s option [three month period ended March 31, 2016 - \$nil converted to nil common shares].

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The Company will accrete the carrying value of the convertible debentures to their contractual face value of \$99,030 through a charge to net income over their term. This charge will be included in finance costs.

Carrying value of convertible debentures as at December 31, 2016	93,520
Accretion expense for the three months ended March 31, 2017	225
Conversion of convertible debentures for the three months ended March 31, 2017	(876)
Carrying value of convertible debentures as at March 31, 2017	92,869

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 28-day Bankers’ Acceptance with a cost of borrowing of 2.66% that was renewed on March 31, 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 March 31, 2017, the Company is in full compliance of these financial and non-financial covenants.

11. COMMON SHARES

	As at March 31, 2017	As at December 31, 2016
Authorized - Unlimited common shares		
Issued 72,107,849 common shares [2016 – 71,855,866]	42,001	39,184

During the three month period ended March 31, 2017, 70,602 series 2009 shares, 93,189 series 2013 shares, 4,369 series 2014 shares and 7,072 series 2015 shares [three month period ended March 31, 2016 – 93,589 series 2009 shares, 122,578 series 2013 shares, nil series 2014 shares and nil series 2015 shares] were converted into common shares with a stated value of approximately \$624, \$1,061, \$66 and \$95 respectively [three month period ended March 31, 2016 - \$828, \$1,396, \$nil and \$nil respectively].

During the three month period ended March 31, 2017, 76,751 convertible debentures were converted to common shares with a stated value of \$970 [three month period ended March 31, 2016 - nil at a stated value of \$nil].

The dividends paid for the three month periods ended March 31, 2017 and March 31, 2016 were \$7,183 [\$0.10 per share] and \$7,140 [\$0.10 per share], respectively.

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12. INCOME TAX EXPENSE

	Three month period ended March 31, 2017	Three month period ended March 31, 2016
Current income tax expense	4,740	2,367
Deferred income tax expense (recovery)	(1,682)	(4,177)
	3,058	(1,810)

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 March 31, 2017 and March 31, 2016 was 26.7% 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:

	Three month period ended March 31, 2017	Three month period ended March 31, 2016
Net income(loss) for the period for basic earnings per share	8,614	(4,712)
Net income(loss) for the period for diluted earnings per share	9,330	(4,712)
Weighted average common shares outstanding	72,013,552	71,523,160
Dilutive effect	10,942,734	-
Diluted weighted average common shares outstanding	82,956,286	71,523,160
Basic earnings(loss) per share	\$.12	\$(0.07)
Diluted earnings(loss) per share	\$.11	\$(0.07)

Given the loss recorded during the three month period ended March 31, 2016, no dilution due to the Company's convertible debentures and redeemable shares were included in the computation of diluted loss per share because of their antidilutive effect.

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.

March 31, 2017:

	Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Loans and receivables				
Cash and cash equivalents	Fair value	5,900	5,900	Level 1
Trade receivable	Amortized cost	92,571	92,571	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	16,508	16,508	Level 1
Available-for-sale financial assets	Fair value	47,193	47,193	Level 2
Investment properties	Amortized cost	17,871	44,800	Level 3
Other financial liabilities				
Trade and other payables	Amortized cost	195,290	195,290	Level 2
Provisions	Amortized cost	4,826	4,826	Level 2
Finance lease liabilities	Amortized cost	11,452	11,452	Level 2
Loans and borrowings	Amortized cost	246,511	246,511	Level 2
Convertible debentures	Amortized cost	92,869	138,642	Level 2
Redeemable share liability	Amortized cost	814	814	Level 2
Derivative instruments				
Other liabilities	Fair value	2,026	2,026	Level 2

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December 31, 2016:

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

The fair value hierarchy of financial instruments measured at fair value, as at March 31, 2017 includes financial assets of \$22,408, \$139,764 and \$44,800 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$599,561 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.

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 March 31, 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 – \$140.00 per \$100.00 of face value]. For the convertible debentures at March 31, 2017, fair value is calculated based on the face value of the convertible debentures of \$99,030.

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 1 month BA rate. The Company also maintains other financial derivatives which comprise of foreign exchange forwards, with maturities that do not exceed past the fourth quarter of 2018. At March 31, 2017, an \$2,026 unrealized loss was recorded in other liabilities [2016 – \$11,438 unrealized loss].

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

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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:

	Three month period ended March 31, 2017	Three month period ended March 31, 2016
Trade receivables	35,571	8,081
Inventories	(3,341)	9,714
Other assets	(5,526)	(2,443)
Trade and other payables	(20,266)	(22,925)
Income taxes payable	(12,430)	(5,809)
Customers' deposits	(14,284)	(17,647)
Other liabilities	(98)	11,438
Provisions	(642)	(147)
Deferred acquisition costs	351	(599)
Deferred rent liabilities and lease inducements	255	455
	(20,410)	(19,882)

[b] Supplemental cash flow information:

	Three month period ended March 31, 2017	Three month period ended March 31, 2016
Income taxes paid	16,598	8,172

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 first quarter 2017 interim condensed consolidated financial statements.