

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)		
(\$ in thousands)	As at March 31 2018	As at December 31 2017
ASSETS		
Current assets		
Cash and cash equivalents	25,882	36,207
Restricted marketable securities	10,225	13,778
Debt and equity instruments	76,136	67,327
Trade receivables	102,295	138,516
Income taxes receivable	2,327	2,042
Inventories <i>[note 5]</i>	311,473	317,914
Deferred acquisition costs	6,262	5,841
Deferred financing costs	476	541
Prepaid expenses and other assets	9,498	6,382
Total current assets	544,574	588,548
Deferred acquisition costs	13,776	14,632
Property, plant and equipment <i>[note 6]</i>	332,078	336,748
Investment properties <i>[note 7]</i>	17,416	17,529
Intangible assets <i>[note 8]</i>	304,660	306,286
Goodwill	390,120	390,120
Deferred income tax assets	7,450	7,592
Total assets	1,610,074	1,661,455
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	217,028	234,478
Provisions	10,282	8,791
Income taxes payable	-	7,517
Customers' deposits	103,510	128,078
Finance lease liability	1,275	1,421
Dividends payable	9,161	9,140
Deferred warranty plan revenue	26,380	24,979
Other liabilities	1,372	5,434
Total current liabilities	369,008	419,838
Loans and borrowings <i>[note 10]</i>	189,438	194,439
Convertible debentures <i>[note 10]</i>	48,116	48,004
Finance lease liability	8,887	9,053
Deferred warranty plan revenue	120,320	122,773
Redeemable share liability <i>[note 9]</i>	336	157
Deferred rent liabilities and lease inducements	11,186	10,791
Deferred income tax liabilities	83,191	83,352
Total liabilities	830,482	888,407
Shareholders' equity attributable to the shareholders of the Company		
Common shares <i>[note 11]</i>	95,137	93,392
Equity component of convertible debentures <i>[note 10]</i>	3,555	3,555
Retained earnings	680,248	674,883
Accumulated other comprehensive income	652	1,218
Total shareholders' equity	779,592	773,048
Total liabilities and shareholders' equity	1,610,074	1,661,455

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	
	2018	2017
Revenue [note 16]	500,719	484,189
Cost of sales [note 5]	286,401	281,281
Gross profit	214,318	202,908
Operating expenses		
Selling, general and administration expenses	192,840	188,549
Operating profit	21,478	14,359
Finance costs	(2,417)	(3,126)
Finance income	569	439
Net income before income tax	19,630	11,672
Income tax expense [note 12]	5,104	3,058
Net income for the period	14,526	8,614
Weighted average number of common shares outstanding		
Basic	76,304,308	72,013,552
Diluted	82,892,712	82,956,286
Earnings per share [note 13]		
Basic	\$ 0.19	\$ 0.12
Diluted	\$ 0.18	\$ 0.11
Dividends declared per share		
Common	\$ 0.12	\$ 0.12
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 March 31		
	2018	Tax effect	Net of tax 2018
Net income for the period	14,526	-	14,526
Other comprehensive income, net of tax			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:			
Unrealized losses on debt and equity instruments arising during the period	(860)	(77)	(783)
Reclassification adjustment for net gains included in profit for the period	236	19	217
Change in unrealized losses on debt and equity instruments arising during the period	(624)	(58)	(566)
Comprehensive income for the period	13,902	(58)	13,960
	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 debt and equity instruments 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 debt and equity instruments arising during the period	964	172	792
Comprehensive income for the period	9,578	172	9,406

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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, 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 debt and equity instruments 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
As at December 31, 2017	3,555	93,392	1,218	674,883	773,048
Comprehensive income					
Net income for the period	-	-	-	14,526	14,526
Change in unrealized losses on debt and equity instruments arising during the period	-	-	(566)	-	(566)
Total comprehensive loss	-	-	(566)	14,526	13,960
Transactions with shareholders					
Dividends declared	-	-	-	(9,161)	(9,161)
Management share purchase plan <i>[note 9]</i>	-	1,745	-	-	1,745
Convertible debentures <i>[note 10]</i>	-	-	-	-	-
Total transactions with shareholders	-	1,745	-	(9,161)	(7,416)
As at March 31, 2018	3,555	95,137	652	680,248	779,592

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

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)		
(\$ in thousands)	Three months ended March 31	
	2018	2017
OPERATING ACTIVITIES		
Net income for the period	14,526	8,614
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	7,522	8,160
Amortization of intangible assets	1,638	1,584
Amortization of deferred warranty plan revenue	(10,399)	(10,031)
Net finance costs	1,848	2,687
Deferred income taxes	(6)	(1,114)
Gain on sale of property, plant and equipment and investment properties	3	(556)
Gain on sale of available-for-sale financial assets	-	(62)
	15,132	9,282
Net change in non-cash working capital balances related to operations <i>[note 15]</i>	(12,388)	(20,410)
Cash received on warranty plan sales	9,347	8,696
Cash provided by (used in) operating activities	12,091	(2,432)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and investment properties <i>[notes 6 & 7]</i>	(2,749)	(28,746)
Purchase of intangible assets <i>[note 8]</i>	(12)	(410)
Proceeds on sale of property, plant and equipment and investment properties	7	564
Purchase of debt and equity instruments	(11,846)	(8,708)
Proceeds on debt and equity instruments	5,966	1,712
Interest received	560	434
Cash used in investing activities	(8,074)	(35,154)
FINANCING ACTIVITIES		
Repayment of finance leases	(291)	(424)
Dividends paid	(9,140)	(7,183)
Decrease of employee loans-redeemable shares <i>[note 9]</i>	1,923	2,158
Proceeds from revolving loan <i>[note 10]</i>	-	7,000
Repayment of term loan <i>[note 10]</i>	(5,000)	-
Interest paid	(1,834)	(2,050)
Cash used in financing activities	(14,342)	(499)
Net decrease in cash and cash equivalents during the period	(10,325)	(38,085)
Cash and cash equivalents, beginning of period	36,207	43,985
Cash and cash equivalents, end of period	25,882	5,900

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, 2018 and 2017.

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 10, 2018.

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, 2017. 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, 2017.

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.

Financial assets and liabilities

A financial asset or liability is recognized if the Company becomes a party to the contractual provisions of the asset or liability. A financial asset or liability is recognized initially (at trade date) at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statements of income.

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

After initial recognition, financial assets are measured at amortized cost or fair value. Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (“FVPL”) or recognized in other comprehensive income (“FVOCI”).

The Company classifies its financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement.

Classifications that the Company has used for financial assets include:

- a) FVOCI – financial assets that are non-derivatives that are either designated in this category or not classified in any other category and include marketable securities, which consist primarily of quoted bonds, equities and debentures. These assets are measured at fair value with the changes in fair value recognized in other comprehensive income, and specifically for equity instruments, with no reclassification of gains or losses to profit and loss on derecognition;
- b) Amortized Cost – non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This includes trade receivables, and these are recorded at amortized cost with gains and losses recognized in the consolidated statements of income in the period that the asset is no longer recognized or impaired; and
- c) FVPL – financial assets which are classified as fair value through profit and loss.

Classifications that the Company has used for financial liabilities include:

- a) Amortized cost – non-derivative financial liabilities measured at amortized cost with gains and losses recognized in the consolidated statements of income in the period that the liability is no longer recognized; and
- b) FVPL – financial liabilities which are classified as fair value through profit and loss.

Financial assets are derecognized if the Company’s contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all of the risks and rewards of ownership of the asset. Financial liabilities are derecognized once it is extinguished i.e. when the obligation in the contract is either discharged or cancelled or expires.

Impairment of financial assets

In accordance with IFRS 9, *Financial Instruments* (“IFRS 9”), the Company applies the “expected credit loss” model. The impairment model applies to financial assets measured at amortized cost and requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. The Company applies the simplified approach for trade receivables and calculates expected credit losses based on lifetime expected credit losses.

Derivative instruments

Financial derivative instruments in the form of interest rate swaps and foreign exchange forwards are recorded at fair value on the consolidated balance sheets. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs. Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair value of the derivative instruments are recorded in net income.

Accounting standards and amendments issued but not yet adopted

IFRS 16, *Leases* (“IFRS 16”)

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

IFRS 17, *Insurance Contracts* (“IFRS 17”)

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

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

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

Adoption of new, revised amended accounting standards

The Company has adopted the IFRS pronouncements listed below as at January 1, 2018, in accordance with the transitional provisions outlined in the respective standard.

IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”)

IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014, which replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue Recognition*, and related Interpretations. 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; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, *Consolidated Financial Statements* and IFRS 11, *Joint Arrangements*. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company has performed a detailed impact assessment, identifying all current sources of revenue and analysing the accounting requirements for each under IFRS 15. The Company adopted IFRS 15 using the full retrospective method and has concluded that there is no impact in relation to IFRS 15 because the Company’s analysis of contracts relating to sale of goods by corporate stores and income from franchise operations under the new revenue recognition

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standard supports the current process of recognition at a point in time when control is transferred to the customer. Extended warranty revenue will be deferred and subsequently recognised over time which is consistent with the current revenue model. The impact to the interim condensed consolidated financial statements is limited to additional disclosure on the disaggregation of the Company's revenue streams, as included in Note 16.

IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 was issued on July 24, 2014 and the new standard must be applied retrospectively with some exemptions. The core areas addressed within IFRS 9 are classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. Consistent with the transitional provisions in IFRS 9 paragraph 7.2.15, comparative information has not been restated.

Classification and measurement

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

The details of changes are disclosed below:

- The Company reclassified financial assets from loans and receivables to amortized cost.
- Equity instruments at FVOCI – represent securities that the Company intends to hold for the long-term for strategic purposes. As permitted by IFRS 9, these investments have been designated at the date of initial application as measured at FVOCI. Unlike IAS 39, there will be no reclassification to profit or loss on derecognition and these securities are not subject to an impairment assessment. Interest income and dividend income will continue to be recognised in net income. Under IAS 39, the Company's equity instruments were classified as available-for-sale.
- Debt instruments at FVOCI – represent securities the Company holds to collect contractual cash flows and to sell. Upon derecognition, gains and losses will be reclassified to the profit or loss. Under IAS 39, the Company's debt instruments at FVOCI were classified under restricted marketable securities and available-for-sale financial assets.
- Debt instruments at FVPL – represent securities the Company has concluded that are neither held to collect contractual cash flows, nor managed under an objective that results in both collecting the contractual cash flows and selling the investment. Under IAS 39, the Company's debt instruments at FVPL were classified under available-for-sale financial assets.

Impairment of financial assets

IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new 'expected credit loss' model for calculating impairment of financial assets. IFRS 9 specifies different approaches for measuring and recognizing expected credit losses, by considering only defaults in the next 12 months and/or the full remaining life of the financial asset. The expected credit loss model requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. IFRS 9 provides a simplified approach for certain trade receivables and IFRS 15 contract assets. Due to the terms offered to customers and the Company's policy on providing for expected credit losses, the Company concludes that there is no impact on its allowance for doubtful accounts.

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.

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

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, 2018, \$49,351 is available to draw on under our \$50,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$649 primarily with respect to buildings under construction or being completed (2017 - \$469).

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, 2018.

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

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 2017 consolidated financial statements.

5. INVENTORIES

The amount of inventory recognized as an expense for the three month period ended March 31, 2018 was \$274,159 (period ended March 31, 2017 - \$269,470), which is presented within cost of sales on the interim consolidated statements of income.

During the three-month period ended March 31, 2018, there was \$194 in inventory reversals (three month period ended March 31, 2017 - \$22 inventory write-downs). As at March 31, 2018, the inventory markdown provision totaled \$8,970 (as at December 31, 2017 - \$9,165).

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
As at March 31, 2018:								
Opening net book value	102,991	115,164	42,795	22,331	46,155	7,254	58	336,748
Reclass	—	(239)	237	—	60	—	(58)	—
Additions	—	25	556	1,618	550	—	—	2,749
Disposals	—	—	(10)	—	—	—	—	(10)
Depreciation	—	(1,626)	(1,754)	(1,217)	(2,529)	(283)	—	(7,409)
Closing net book value	102,991	113,324	41,824	22,732	44,236	6,971	—	332,078
As at March 31, 2018:								
Cost	102,991	255,015	153,350	47,835	231,100	20,766	10,169	821,226
Accumulated depreciation	—	(141,691)	(111,526)	(25,103)	(186,864)	(13,795)	(10,169)	(489,148)
Net book value	102,991	113,324	41,824	22,732	44,236	6,971	—	332,078

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	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
As at December 31, 2017:								
Opening net book value	86,254	105,670	41,771	20,307	52,694	8,385	419	315,500
Additions	16,737	15,634	11,343	6,567	4,760	—	—	55,041
Disposals	—	—	(1,005)	(12)	—	—	—	(1,017)
Depreciation	—	(6,140)	(9,314)	(4,531)	(11,299)	(1,131)	(361)	(32,776)
Closing net book value	102,991	115,164	42,795	22,331	46,155	7,254	58	336,748
As at December 31, 2017:								
Cost	102,991	255,531	152,093	46,217	230,490	20,766	10,464	818,552
Accumulated depreciation	—	(140,367)	(109,298)	(23,886)	(184,335)	(13,512)	(10,406)	(481,804)
Net book value	102,991	115,164	42,795	22,331	46,155	7,254	58	336,748

Included in the above balances as at March 31, 2018 are assets not being amortized with a net book value of approximately \$nil (as at December 31, 2017 – \$257) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$207,637 (as at December 31, 2017 – \$204,951).

7. INVESTMENT PROPERTIES

	Land	Buildings	Building Improvements	Total
As at March 31, 2018:				
Opening net book value	10,946	5,879	704	17,529
Depreciation	—	(94)	(19)	(113)
Closing net book value	10,946	5,785	685	17,416
As at March 31, 2018:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(11,548)	(412)	(11,960)
Net book value	10,946	5,785	685	17,416
As at December 31, 2017:				
Opening net book value	10,946	6,257	781	17,984
Depreciation	—	(378)	(77)	(455)
Closing net book value	10,946	5,879	704	17,529
As at December 31, 2017:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(11,454)	(393)	(11,847)
Net book value	10,946	5,879	704	17,529

The estimated fair value of the investment properties portfolio as at March 31, 2018 was approximately \$44,800 (as at December 31, 2017 — \$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, 2018:					
Opening net book value	2,031	266,000	9,487	28,768	306,286
Additions	—	—	12	—	12
Amortization	(156)	—	(891)	(591)	(1,638)
Closing net book value	1,875	266,000	8,608	28,177	304,660
As at March 31, 2018:					
Cost	7,000	268,500	17,332	46,049	338,881
Accumulated amortization	(5,125)	(2,500)	(8,724)	(17,872)	(34,221)
Net book value	1,875	266,000	8,608	28,177	304,660
As at December 31, 2017:					
Opening net book value	2,656	266,250	11,120	31,438	311,464
Additions	—	—	1,164	—	1,164
Disposals	—	—	(17)	—	(17)
Amortization	(625)	(250)	(2,780)	(2,670)	(6,325)
Closing net book value	2,031	266,000	9,487	28,768	306,286
As at December 31, 2017:					
Cost	7,000	268,500	17,320	46,049	338,869
Accumulated amortization	(4,969)	(2,500)	(7,833)	(17,281)	(32,583)
Net book value	2,031	266,000	9,487	28,768	306,286

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, 2018	As at December 31, 2017
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, 2018	As at December 31, 2017
Brick division customer relationships	1,875	2,031
Brick division favourable lease agreements	28,177	28,767
Computer software	8,608	9,488
	38,660	40,286

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

9. REDEEMABLE SHARE LIABILITY

	As at March 31, 2018	As at December 31, 2017
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		
335,056 series 2009 shares (December 31, 2017 – 367,565)	2,966	3,254
134,537 series 2012 shares (December 31, 2017 – 139,820)	1,670	1,735
853,914 series 2013 shares (December 31, 2017 – 948,206)	9,726	10,800
524,751 series 2014 shares (December 31, 2017 – 545,865)	7,898	8,215
735,519 series 2015 shares (December 31, 2017 – 735,519)	9,900	9,900
Less employee share purchase loans	(31,824)	(33,747)
	336	157

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, series 2012, 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 series 2015 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 series 2015 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 series 2015 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 \$624 (2017 - \$643) 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, 2018, 32,509 series 2009 shares, 5,283 series 2012 shares, 94,292 series 2013 shares, 21,114 series 2014 shares and nil series 2015 shares (three month period ended March 31, 2017 – 70,602 series 2009 shares, nil series 2012, 93,189 series 2013 shares, 20,000 series 2014 shares and 25,000 series 2015 shares) were converted into common shares with a stated value of approximately \$288, \$65, \$1,074, \$317 and \$nil respectively (three month period ended March 31, 2017 - \$624, \$nil, \$1,061, \$301 and \$337 respectively).

During the three-month period ended March 31, 2018, the Company cancelled nil series 2014 shares and nil series 2015 shares in the amount of \$nil and \$nil respectively (three-month period ended March 31, 2017 – 28,816 series 2014 and 14,778 series 2015, in the amount of \$434 and \$199 respectively).

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.

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

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, 2018, no convertible debentures were converted to common shares (three month period ended March 31, 2017 - \$970 converted to 76,751 common shares).

The Company will accrete the carrying value of the convertible debentures to their contractual face value of \$50,142 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, 2017	48,004
Accretion expense for the three months ended March 31, 2018	112
Conversion of convertible debentures for the three months ended March 31, 2018	—
Carrying value of convertible debentures as at March 31, 2018	48,116

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

Bank indebtedness

On January 31, 2013, a Senior Secured Credit Agreement (“SSCA”) was obtained to fund the acquisition of The Brick. The Company completed an amendment to the existing SSCA on November 25, 2016. After giving effect to the amendment, the total credit facility was reduced from \$500,000 to \$300,000 with the term credit facility being reduced from \$400,000 to \$250,000 and the revolving credit facility being reduced from \$100,000 to \$50,000. The revolving credit facility continues to include a swing-line of \$20,000. Under the terms of the SSCA amounts borrowed must be repaid in full by November 25, 2019. Bank indebtedness bears interest based on Canadian prime, London Interbank Offered Rate (“LIBOR”) and Bankers’ Acceptance (“BA”) rates plus an applicable standby fee on undrawn amounts. Transaction costs in the amount of \$775 have been deferred and are being amortized. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. Currently, the Company has entered into a 32-day Bankers’ Acceptance with a cost of borrowing of 3.37% that was renewed on March 29, 2018. 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, 2018, the Company is in full compliance of these financial and non-financial covenants.

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11. COMMON SHARES

	As at March 31, 2018	As at December 31, 2017
Authorized - Unlimited common shares		
Issued 76,341,341 common shares (2017 – 76,188,143)	95,137	93,392

During the three month period ended March 31, 2018, 32,509 series 2009 shares, 5,283 series 2012 shares, 94,292 series 2013 shares, 21,114 series 2014 shares and nil series 2015 shares (three month period ended March 31, 2017 – 70,602 series 2009 shares, nil series 2012, 93,189 series 2013 shares, 4,369 series 2014 shares and 7,072 series 2015 shares) were converted into common shares with a stated value of approximately \$288, \$65, \$1,080, \$317 and \$nil respectively (three month period ended March 31, 2017 - \$624, \$nil, \$1,061, \$66 and \$95 respectively).

During the three month period ended March 31, 2018, no convertible debentures were converted to common shares (three month period ended March 31, 2017 – 76,751 at a stated value of \$970).

The dividends paid for the three month periods ended March 31, 2018 and March 31, 2017 were \$9,140 (\$0.12 per share) and \$7,183 (\$0.10 per share), respectively.

12. INCOME TAX EXPENSE

	Three month period ended March 31, 2018	Three month period ended March 31, 2017
Current income tax expense	6,101	4,740
Deferred income tax recovery	(997)	(1,682)
	5,104	3,058

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, 2018 and March 31, 2017 was 26.1% 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, 2018	Three month period ended March 31, 2017
Net income for the period for basic earnings per share	14,526	8,614
Net income for the period for diluted earnings per share	14,885	9,330
Weighted average common shares outstanding	76,304,308	72,013,552
Dilutive effect	6,588,404	10,942,734
Diluted weighted average common shares outstanding	82,892,712	82,956,286
Basic earnings per share	\$0.19	\$0.12
Diluted earnings per share	\$0.18	\$0.11

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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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, 2018:

	Classification & Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial Assets				
Cash and cash equivalents	Amortized cost	25,882	25,882	Level 1
Trade receivables	Amortized cost	102,295	102,295	Level 2
Restricted marketable securities	FVOCI	10,225	10,225	Level 2
Debt and equity instruments	FVOCI	76,136	76,136	Level 2
Financial Liabilities				
Trade and other payables	Amortized cost	217,028	217,028	Level 2
Provisions	Amortized cost	10,282	10,282	Level 2
Finance lease liabilities	Amortized cost	10,162	10,162	Level 2
Loans and borrowings	Amortized cost	189,438	189,438	Level 2
Convertible debentures	Amortized cost	48,116	73,453	Level 2
Redeemable share liability	Amortized cost	336	336	Level 2
Other liabilities	FVPL	1,372	1,372	Level 2

December 31, 2017:

	Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Loans and receivables				
Cash and cash equivalents	Fair value	36,207	36,207	Level 1
Trade receivables	Amortized cost	138,516	138,516	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	13,778	13,778	Level 2
Available-for-sale financial assets	Fair value	67,327	67,327	Level 2
Other financial liabilities				
Trade and other payables	Amortized cost	234,478	234,478	Level 2
Provisions	Amortized cost	8,791	8,791	Level 2
Finance lease liabilities	Amortized cost	10,474	10,474	Level 2
Loans and borrowings	Amortized cost	194,439	194,439	Level 2
Convertible debentures	Amortized cost	48,004	73,453	Level 2
Redeemable share liability	Amortized cost	157	157	Level 2
Derivative instruments				
Other liabilities	Fair value	5,434	5,434	Level 2

The fair value hierarchy of financial instruments measured at fair value, as at March 31, 2018 includes financial assets of \$25,882, \$188,656 and \$nil for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$502,071 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 debt and equity instruments 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.

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As at March 31, 2018, the fair value of the convertible debentures was determined using their closing quoted market price (not in thousands of dollars) of \$146.49 per \$100.00 of face value (2017 – \$140.00 per \$100.00 of face value). For the convertible debentures at March 31, 2018, fair value is calculated based on the face value of the convertible debentures of \$50,142.

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 (2017 – \$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 extend past the first quarter of 2020. At March 31, 2018, a \$1,372 unrealized loss was recorded in other liabilities (2017 – \$2,026).

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:

	Three month period ended March 31, 2018	Three month period ended March 31, 2017
Trade receivables	36,221	35,571
Inventories	6,441	(3,341)
Other assets	(3,116)	(5,526)
Trade and other payables	(17,823)	(20,266)
Income taxes payable	(7,802)	(12,430)
Customers' deposits	(24,568)	(14,284)
Other liabilities	(4,062)	(98)
Provisions	1,491	(642)
Deferred acquisition costs	435	351
Deferred rent liabilities and lease inducements	395	255
	(12,388)	(20,410)

[b] Supplemental cash flow information:

	Three month period ended March 31, 2018	Three month period ended March 31, 2017
Income taxes paid	12,863	16,598

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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16. REVENUE

	Three month period ended March 31, 2018	Three month period ended March 31, 2017
Sale of goods by corporate stores	484,245	467,030
Income from franchise operations	5,995	5,575
Extended warranty revenue	7,637	8,633
Insurance sales revenue	2,609	2,563
Rental income from investment property	233	388
Total	500,719	484,189

17. 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 2018 interim condensed consolidated financial statements.