

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter ended March 31, 2018 and 2017

The following Management's Discussion and Analysis ("MD&A") is prepared as at May 10, 2018 and is based on the consolidated financial position and operating results of Leon's Furniture Limited/Meubles Leon Ltée (the "Company") as of March 31, 2018 and for the three months ended March 31, 2018. It should be read in conjunction with the fiscal year 2017 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2017 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 drop in consumer confidence; dependency on product from third party suppliers, further changes to the Canadian bank lending rates; and further fluctuations of the Canadian dollar versus the US dollar. Given these risks and uncertainties, 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 May 10, 2018.

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1. BUSINESS OVERVIEW

Leon's Furniture Limited is the largest network of home furniture, appliances and electronics, and mattress stores in Canada. Our retail banners include: Leon's; The Brick; Brick Outlet and The Brick Mattress Store. 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 ecommerce sites: leons.ca, thebrick.com and furniture.ca.

The Company's repair service division, Trans Global Services ("TGS"), provides household furniture, electronics and appliance repair services to its customers. TGS 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 March 31,
	2017	Opened	Closed	2018
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	65	—	(1)	64
The Brick Mattress Store banner locations	23	—	—	23
Brick Outlet	12	—	—	12
Total number of stores	304	—	(1)	303

¹Includes the Midnorthern Appliance banner

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 which began in 2014 in accordance with the Company’s corporate treasury policy.

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 March 31	
	2018	2017
(\$ in thousands except per share amounts)		
Net income	14,526	8,614
After-tax mark-to-market gain on financial derivative instruments	(2,981)	(71)
Adjusted net income	11,545	8,543
Basic earnings per share	\$ 0.19	\$ 0.12
Diluted earnings per share	\$ 0.18	\$ 0.11
Adjusted basic earnings per share	\$ 0.15	\$ 0.12
Adjusted diluted earnings per share	\$ 0.14	\$ 0.11

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:

(\$ in thousands)	For the three months ended March 31	
	2018	2017
Net income	14,526	8,614
Income tax expense	5,104	3,058
Net finance costs	1,848	2,687
Depreciation and amortization	9,160	9,744
Mark-to-market gain on financial derivative instruments	(4,062)	(97)
Adjusted EBITDA	26,576	24,006

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 March 31, 2018 and March 31, 2017

(\$ in thousands except % and per share amounts)	For the three months ended March 31st			
	2018	2017	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	601,142	573,988	27,154	4.7%
Franchise sales ⁽¹⁾	100,423	89,799	10,624	11.8%
Revenue	500,719	484,189	16,530	3.4%
Cost of sales	286,401	281,281	5,120	1.8%
Gross profit	214,318	202,908	11,410	5.6%
<i>Gross profit margin as a percentage of revenue</i>	42.80%	41.91%		
Selling, general and administrative expenses (excluding mark-to-market impact) ⁽¹⁾	196,902	188,646	8,256	4.4%
<i>SG&A as a percentage of revenue</i>	39.32%	38.96%		
Income before net finance costs and income tax expense (excluding mark-to-market impact) ⁽¹⁾	17,416	14,262	3,154	22.1%
Net finance costs	(1,848)	(2,687)	(839)	(31.2%)
Income before income taxes (excluding mark-to-market impact) ⁽¹⁾	15,568	11,575	3,993	34.5%
Income tax expense	4,023	3,032	991	32.7%
Adjusted net income ⁽¹⁾	11,545	8,543	3,002	35.1%
<i>Adjusted net income ⁽¹⁾ as a percentage of revenue</i>	2.31%	1.76%		
After-tax mark-to-market gain on financial derivative instruments ⁽¹⁾	(2,981)	(71)	(2,910)	
Net income	14,526	8,614	5,912	68.6%
Basic weighted average number of common shares	76,304,308	72,013,552		
Basic earnings per share	\$ 0.19	\$ 0.12	\$ 0.07	58.3%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.15	\$ 0.12	\$ 0.03	25.0%
Diluted weighted average number of common shares	82,892,712	82,956,286		
Diluted earnings per share	\$ 0.18	\$ 0.11	\$ 0.07	63.6%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.14	\$ 0.11	\$ 0.03	27.3%
Common share dividends declared	\$ 0.12	\$ 0.12	-	

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

Same Store Sales ⁽¹⁾

(\$ in thousands except %)	For the three months ended March 31			
	2018	2017	\$ Increase	% Increase
Same store sales ⁽¹⁾	491,966	479,357	12,609	2.6%

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

First Quarter Overall Performance

Revenue

For the three months ended March 31, 2018, revenue was \$500,719,000 compared to \$484,189,000 in the prior year's first quarter. Revenue increased \$16,530,000 or 3.4% between the comparative quarters as we continued to see growth in most product categories.

Same Store Sales⁽¹⁾

Overall, same store corporate sales increased 2.6%.

Gross Profit

The gross profit margin for the first quarter 2018 increased from 41.91% to 42.8% compared to the prior year's first quarter. The gross margin increased as a result of targeted promotions that were designed to alter the sales mix to enhance profitability in our product categories.

Selling, general and administration expenses (excluding mark-to-market)⁽¹⁾

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 38.96% to 39.32% compared to the prior year's quarter. This change was due primarily to the increase in payroll costs which include the minimum wage increase in Ontario and to the increased cost from offering longer term customer finance plans, which generated overall sales and profitability increases.

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

As a result of the above, adjusted net income for the first quarter of 2018 was \$11,545,000, \$0.14 per adjusted diluted earnings per share (\$8,543,000, \$0.11 per adjusted diluted earnings per share in 2017).

Net Income and Diluted Earnings Per Share

Including the mark-to-market impact of the Company's financial derivatives, net income for the first quarter of 2018 was \$14,526,000, \$0.18 per diluted earnings per share (\$8,614,000, \$0.11 per diluted earnings per share in 2017).

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

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.

(\$ in thousands) - except per share data	Quarter Ended March 31		Quarter Ended December 31		Quarter Ended September 30		Quarter Ended June 30	
	2018	2017	2017	2016	2017	2016	2017	2016
Total system wide sales ⁽¹⁾	601,142	573,988	722,259	704,742	705,683	673,897	636,159	606,453
Franchise sales ⁽¹⁾	100,423	89,799	126,404	116,361	111,094	98,173	98,576	90,269
Revenue	500,719	484,189	595,855	588,381	594,589	575,724	537,583	516,184
Net income	14,526	8,614	34,778	37,233	34,338	34,111	18,863	16,959
Adjusted net income ⁽¹⁾	11,545	8,543	36,119	34,745	34,392	31,300	19,968	15,547
Basic earnings per share	\$ 0.19	\$ 0.12	\$ 0.46	\$ 0.52	\$ 0.48	\$ 0.48	\$ 0.26	\$ 0.24
Diluted earnings per share	\$ 0.18	\$ 0.11	\$ 0.43	\$ 0.46	\$ 0.42	\$ 0.42	\$ 0.24	\$ 0.21
Adjusted basic earnings per share ⁽¹⁾	\$ 0.15	\$ 0.12	\$ 0.48	\$ 0.48	\$ 0.48	\$ 0.44	\$ 0.28	\$ 0.22
Adjusted diluted per share ⁽¹⁾	\$ 0.14	\$ 0.11	\$ 0.45	\$ 0.43	\$ 0.42	\$ 0.39	\$ 0.25	\$ 0.20

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

5. FINANCIAL POSITION

(\$ in thousands)	March 31, 2018	December 31, 2017	March 31, 2017
Total assets	1,610,074	1,661,455	1,574,845
Total non-current liabilities	461,474	468,569	527,720

Assets

Total assets at March 31, 2018 of \$1,610,074,000 were \$51,381,000 lower than the \$1,661,455,000 reported at December 31, 2017. The principal components of this net change are the following:

- \$10,325,000 decrease in cash and cash equivalents
- \$36,221,000 decrease in trade receivables

Cash and cash equivalents decreased due to the Company's investing activities primarily the result of the net of the purchase and sale of debt and equity instruments and the \$5,000,000 repayment of the term loan. Trade receivables decreased due to the settlement of finance sales from the year-end Boxing week sales.

Non-Current Liabilities

Non-current liabilities of \$461,474,000 were \$7,095,000 lower than the \$468,569,000 reported at December 31, 2017. The decrease is primarily the result of the repayment of the term loan of \$5,000,000.

6. LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summarized statement of cash flows for the quarters ended March 31, 2018 and March 31, 2017:

Source (Use) of Cash (\$ in thousands)	For the three months ended March 31		
	2018	2017	\$ Increase (Decrease)
Cash provided by operating activities before changes in non-cash working capital items	24,479	17,978	6,501
Changes in non-cash working capital items	(12,388)	(20,410)	8,022
Cash provided (used in) operating activities	12,091	(2,432)	14,523
Investing activities	(8,074)	(35,154)	27,080
Financing activities	(14,342)	(499)	(13,843)
Decrease in cash and cash equivalents	(10,325)	(38,085)	27,760

Cash Provided By 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 first quarter of 2018, cash provided by operating activities changed by \$14,523,000 compared to the prior year's quarter. The net increase is primarily the result of the decrease in accounts receivable of \$36,221,000

Cash Used In Investing Activities

Investing activities relate primarily to capital expenditures and the purchase and sale of debt and equity instruments.

In the first quarter of 2018, cash used in investing activities decreased by \$27,080,000 compared to the prior year's quarter. This change is the result of decreased purchases of property, plant and equipment of \$25,997,000.

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 first quarter of 2018, cash used in financing activities increased by \$13,843,000 compared to the prior year's quarter. The change relates to the issuance of the revolving credit of \$7,000,000 in the prior year's quarter and the repayment of the term loan of \$5,000,000 in the current quarter.

Adequacy of Financial Resources

At March 31, 2018, the Company's current assets exceeded its current liabilities by \$175,566,000 and its cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$112,243,000 compared to \$117,312,000 at December 31, 2017. Under the Company's Senior Secured Credit Agreement, we had unused borrowing capacity of \$49,351,000 as at March 31, 2018 (\$49,351,000 as at December 31, 2017). The Company believes that its existing financing resources together with its continuing profitable results from operations will provide a sound liquidity and working capital position throughout the next twelve months.

Contractual Commitments

(\$ in thousands)	Payments Due by Period				
	Total	Under 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Long term debt	257,478	5,604	198,371	3,008	50,495
Operating leases ⁽¹⁾	452,429	87,322	143,552	102,400	119,155
Trade and other payables	217,028	217,028	-	-	-
Finance lease liabilities	11,785	1,386	3,817	3,853	2,729
Total Contractual Obligations	938,720	311,340	345,740	109,261	172,379

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

7. OUTLOOK

Overall, we are pleased that we were able to improve our financial results in the first quarter of 2018. Our strong financial position will allow us to focus on increasing market share in existing and new markets going forward. Along with our continuing strong growth in online sales, we expect to see continued revenue growth this year, to maintain gross margins and continue to drive efficiencies.

8. OUTSTANDING COMMON SHARES

At March 31, 2018, there were 76,341,341 common shares issued and outstanding. During the quarter ended March 31, 2018, 32,509 series 2009 shares, 5,283 series 2012 shares, 94,292 series 2013 shares and, 21,114 series 2014 shares were converted into common shares. For details on the Company's commitments related to its redeemable shares please refer to Note 9 of the unaudited interim consolidated financial statements.

9. RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2018, we had no transactions with related parties as defined in IAS 24, *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 condensed consolidated interim 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 condensed interim 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 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

IFRS 16, Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which will replace IAS 17. The new standard will be effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted, 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 or 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 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 to the condensed consolidated interim financial statements.

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 recycling 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 recycled 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 its expected credit losses.

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, 2018 which provides information on the risk factors facing the Company. The March 28, 2018 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, and (iv) 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 March 31, 2018.

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 March 31, 2018, 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.