

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)		
(\$ in thousands)	As at March 31 2019	As at December 31 2018
ASSETS		
Current assets		
Cash and cash equivalents	5,167	90,267
Restricted marketable securities	6,547	5,994
Debt securities	57,100	54,759
Equity securities	39,058	33,862
Trade receivables	112,167	122,131
Income taxes receivable	8,389	8,413
Inventories <i>[note 5]</i>	341,791	329,317
Deferred acquisition costs	8,138	7,899
Deferred financing costs	203	276
Prepaid expenses and other assets	15,148	8,335
Total current assets	593,708	661,253
Other assets		
Basic	374	484
Diluted	10,997	11,751
Property, plant and equipment <i>[note 6]</i>	13,156	13,191
Investment properties <i>[note 7]</i>	736,862	321,597
Intangibles <i>[note 8]</i>	16,955	17,072
Goodwill	273,504	300,896
Deferred income tax assets	390,120	390,120
	7,157	7,208
Total assets	2,042,833	1,723,572
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	213,106	247,136
Provisions	12,979	11,687
Income taxes payable	4,744	7,338
Customers' deposits	107,444	146,362
Lease liability <i>[note 3]</i>	70,264	1,415
Dividends payable	10,871	10,690
Deferred warranty plan revenue	39,084	38,180
Loans and borrowings <i>[note 9]</i>	139,752	144,712
Total current liabilities	598,244	607,520
Convertible debentures <i>[note 9]</i>	48,544	48,435
Lease liability <i>[note 3]</i>	349,767	7,784
Deferred warranty plan revenue	106,275	110,126
Redeemable share liability <i>[note 10.2]</i>	13	13
Deferred rent liabilities and lease inducements	-	11,021
Deferred income tax liabilities	79,253	81,311
Total liabilities	1,182,096	866,210
Shareholders' equity attributable to the shareholders of the Company		
Common shares <i>[note 11]</i>	114,272	111,956
Equity component of convertible debentures <i>[note 9]</i>	3,546	3,546
Retained earnings	741,429	743,399
Accumulated other comprehensive income	1,490	(1,539)
Total shareholders' equity	860,737	857,362
Total liabilities and shareholders' equity	2,042,832	1,723,572

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 except shares outstanding and earnings per share)	Three months ended March 31st	
	2019	2018
Revenue <i>[note 12]</i>	499,741	500,719
Cost of sales <i>[note 5]</i>	283,574	286,401
Gross profit	216,167	214,318
Operating expenses		
Selling, general and administrative expenses	197,222	196,902
Operating profit	18,945	17,416
Finance costs	(7,247)	(2,417)
Finance income	950	569
Change in fair value of derivative instruments	(110)	4,062
Net income before income tax	12,538	19,630
Income tax expense <i>[note 13]</i>	3,204	5,104
Net income for the period	9,334	14,526
Weighted average number of common shares outstanding		
Basic	77,566,054	76,304,308
Diluted	85,045,127	82,892,712
Earnings per share <i>[note 14]</i>		
Basic	\$ 0.12	\$ 0.19
Diluted	\$ 0.11	\$ 0.18
Dividends declared per share		
Common	\$ 0.14	\$ 0.12

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 COMPREHENSIVE INCOME (UNAUDITED)			
(\$ in thousands)	Three months ended March 31		
	2019	Tax effect	Net of tax 2019
Net income for the period	9,334	-	9,334
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Gains on debt instruments	912	32	880
Items that will not be reclassified to profit or loss:			
Gains on equity instruments	2,243	94	2,149
Change in gains on debt and equity instruments arising during the period	3,155	126	3,029
Comprehensive income for the period	12,489	126	12,363
(\$ in thousands)	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

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 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, 2018	3,546	111,956	(1,539)	743,399	857,362
Comprehensive income					
Net income for the period	-	-	-	9,334	9,334
Change in gains on debt and equity instruments	-	-	3,029	-	3,029
Total comprehensive income	-	-	3,029	9,334	12,363
Transactions with shareholders					
Dividends declared	-	-	-	(10,871)	(10,871)
Management share purchase plan <i>[note 10.2]</i>	-	2,364	-	-	2,364
Convertible debentures <i>[note 9]</i>	-	-	-	-	-
Treasury Shares <i>[note 11]</i>	-	(5)	-	(44)	(49)
Repurchase of common shares <i>[note 11]</i>	-	(43)	-	(389)	(432)
Total transactions with shareholders	-	2,316	-	(11,304)	(8,988)
As at March 31, 2019	3,546	114,272	1,490	741,429	860,737
Basic					
Diluted					
(\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income (loss)	Retained earnings	Total
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 losses on debt and equity instruments	-	-	(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 10.2]</i>	-	1,745	-	-	1,745
Convertible debentures <i>[note 9]</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.

Leon's Furniture Limited
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(\$ in thousands)	Three months ended March 31	
	2019	2018
OPERATING ACTIVITIES		
Net income for the period	9,334	14,526
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	30,717	7,522
Amortization of intangible assets	1,007	1,638
Amortization of deferred warranty plan revenue	(17,333)	(15,225)
Net finance costs	6,088	1,848
Deferred income taxes	(2,087)	(6)
(Gain)/loss on sale of property, plant and equipment and investment properties	(37)	3
Gain on sale of debt and equity instruments	7	-
	27,696	10,306
Net change in non-cash working capital balances related to operations <i>[note 16]</i>	(82,943)	(12,388)
Cash received on warranty plan sales	14,386	14,173
Basic	(40,861)	12,091
Diluted		
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and investment properties <i>[notes 6 & 7]</i>	(2,573)	(2,749)
Purchase of intangible assets <i>[note 8]</i>	(17)	(12)
Proceeds on sale of property, plant and equipment and investment properties	62	7
Purchase of debt and equity instruments	(8,921)	(11,846)
Proceeds on sale of debt and equity instruments	3,983	5,966
Loan receivable <i>[note 10.1]</i>	35	-
Interest received	950	560
Cash used in provided by investing activities	(6,481)	(8,074)
FINANCING ACTIVITIES		
Repayment of leases	(17,356)	(291)
Dividends paid	(10,690)	(9,140)
Decrease of employee loans-redeemable shares <i>[note 10.2]</i>	2,364	1,923
Repurchase of common shares <i>[note 11]</i>	(481)	-
Repayment of term loan <i>[note 9]</i>	(5,000)	(5,000)
Interest paid	(6,595)	(1,834)
Cash used in financing activities	(37,758)	(14,342)
Net decrease in cash and cash equivalents during the period	(85,100)	(10,325)
Cash and cash equivalents, beginning of period	90,267	36,207
Cash and cash equivalents, end of period	5,167	25,882

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

Notes to the Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

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 14, 2019.

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, 2018. 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, 2018.

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.

Leases – policy applicable from January 1, 2019

The Company as lessee

The Company determines whether a contract is or contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

(i) Right-of-use assets

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the lessor makes the leased asset available for use by the Company. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Right-of-use assets are subject to impairment.

(ii) Lease liabilities

The Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease. The lease payments include fixed payments (including in-substance fixed payments), variable payments that depend on an index or a rate, renewal options that are reasonably certain to be exercised less any lease incentives receivable. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event that triggers the payment occurs. In addition, the carrying amount of lease payments is remeasured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments. The Company has elected to apply the practical expedient to not separate the lease component and its associated non-lease component.

Management exercises judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease by lease basis. Management considers many factors including any events that create an economic incentive to exercise a renewal option including store performance, expected future performance and past business practice. Renewal options are only included if Management are reasonably certain that the option will be renewed. Management considers reasonably certain to be a very high threshold.

As most of the Company's operating lease contracts do not provide the implicit interest rate, nor can the implicit interest rate be readily determined, the Company uses its incremental borrowing rate as the discount rate for determining the present value of lease payments. The Company's incremental borrowing rate for a lease is the rate that the Company would pay to borrow an amount necessary to obtain an asset of a similar value to the right-of-use asset on a collateralized basis over a similar term.

(iii) Short term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets, e.g. laptop computers. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company as a lessor

At the inception of the lease, the Company classifies each lease as either an operating lease or a finance lease. A lease is a finance lease if it transfers substantially all the risks and rewards of the underlying asset to the lessee; otherwise, the lease is an operating lease. Rental income from operating leases is recognized on a straight-line basis over the lease term.

Adoption of new accounting standards

The Company has adopted the new IFRS accounting standards listed below as at January 1, 2019, in accordance with the transitional provisions outlined in the respective standard.

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

IFRS 16, *Leases* (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which replaces IAS 17, *Leases* (“IAS 17”), IFRIC 4, *Determines whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

As the Company has significant contractual obligations in the form of real estate operating leases, the Company applied IFRS 16 using the modified retrospective approach. The comparatives for the 2018 financial reporting period are not restated as permitted under the transition provisions in the standard.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., laptop computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Company has applied these exemptions where applicable.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The main changes to lease accounting as a result of IFRS 16 including the following:

- The amount of total assets and total liabilities increased due to the recognition of right-of-use assets and financial liabilities for future payment obligations from leases previously classified as operating leases;
- Operating lease payments which were previously included in selling, general and administrative expenses on the consolidated statements of income are replaced with depreciation expense (included in selling, general and administrative expenses) from the right-of-use asset and interest expense (included under net finance costs) from the lease liability.

The Company did not restate comparative information and has elected to use the following practical expedients:

- the Company has not reassessed, under IFRS 16, contracts that were identified as leases under the previous standard (IAS 17);
- the Company will use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- the Company has excluded initial direct costs from measurement of the right-of-use asset at the date of initial application;
- the Company has relied on its assessment of whether leases are onerous immediately before the date of initial application;

On transition to IFRS 16, the Company also elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

For leases previously classified as operating leases, the Company recorded the right-of-use assets based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Due to this the company derecognized an amount of \$11,021 that was previously included under deferred rent and leasehold inducements with a corresponding adjustment to the right-of-use asset.

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 was applied to these leases from January 1, 2019.

Upon transition, the Company has derecognized the asset related to favourable or unfavourable terms of an operating lease acquired as part of a business combination with a corresponding adjustment to the right-of-use asset.

Opening reconciliation of lease liability

A reconciliation of the lease liability as at December 31, 2018 compared to January 1, 2019 is as follows:

(\$ in thousands)	As at January 1, 2019
Operating lease commitments as at December 31, 2018	462,581
Weighted average incremental borrowing rate as at January 1, 2019	5%
Discounted operating lease commitments as at January 1, 2019	414,940
Add: Commitments relating to leases previously classified as finance leases	9,199
Lease liabilities as at January 1, 2019	424,139

Impact to opening statements of financial position

The following table summarizes the impact of adopting IFRS 16, on January 1, 2019:

(\$ in thousands)	As previously reported	Adjustments	As restated
ASSETS			
Property, plant and equipment <i>[note 6]</i>	321,597	430,480	752,077
Intangibles	300,896	(26,402)	274,494
Total Assets	622,493	404,078	1,026,571
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	(247,136)	(159)	(247,295)
Lease liability	(1,415)	(37,526)	(38,941)
Total Current Liabilities	(248,551)	(37,685)	(286,236)
Lease liability	(7,784)	(377,414)	(385,198)
Deferred rent & leasehold inducements	(11,021)	11,021	—
Total Liabilities	(267,356)	(404,078)	(671,434)
Retained Earnings	743,399	—	743,399

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

The effect of adoption of IFRS 16 is as follows:

Impact on the interim condensed consolidated statements of income:

(\$ in thousands)	Three months ended March 31, 2019
Rent expense	(21,760)
Vehicle expense	(169)
Depreciation & amortization	22,451
Total operating expenses	522
Finance costs	5,269
Net income before income tax	5,791
Income tax expense	(1,280)
Net income for the period	4,511

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 adoption of this interpretation did not have a material impact on the interim condensed consolidated financial statements.

Accounting standards and amendments issued but not yet adopted

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

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4, *Insurance Contracts* (“IFRS 4”). IFRS 17 establishes new principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 applies to all types of insurance contracts regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for annual periods beginning on or after January 1, 2021. Retrospective application is required. The Company plans to adopt the new standard on the effective date. The IASB has tentatively decided to defer the effective date of IFRS 17 to annual periods beginning on or after January 1, 2022. The Company is currently analyzing the impact these standards will have on its financial statements.

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

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 9). As at March 31, 2019, \$49,336 is available to draw on under our \$50,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$664 primarily with respect to buildings under construction or being completed (2018 - \$649).

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, 2019.

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 2018 consolidated financial statements.

5. INVENTORIES

The amount of inventory recognized as an expense for the three month period ended March 31, 2019 was \$269,755 (2018 — \$274,159), which is presented within cost of sales in the interim condensed consolidated statements of income.

During the three month period ended March 31, 2019, there was \$490 in inventory write-down reversals (three month period ended March 31, 2018 — \$194 inventory write-down reversals). As at March 31, 2019, the inventory markdown provision totalled \$6,504 (as at December 31, 2018 — \$6,995).

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Vehicles	Building improvements	Leased Property ⁽¹⁾	Leased equipment ⁽¹⁾	Total
As at March 31, 2019:								
Opening net book value	101,091	106,712	41,768	23,218	42,685	435,654	949	752,077
Additions	—	29	483	709	1,352	12,837	—	15,410
Disposals	—	—	(18)	(4)	(3)	—	—	(25)
Depreciation	—	(1,722)	(1,874)	(1,184)	(2,516)	(23,127)	(177)	(30,600)
Closing net book value	101,091	105,019	40,359	22,739	41,518	425,364	772	736,862
As at March 31, 2019:								
Cost	101,091	254,391	157,028	51,084	234,246	463,134	10,573	1,271,547
Accumulated depreciation	—	(149,372)	(116,669)	(28,345)	(192,728)	(37,770)	(9,801)	(534,685)
Net book value	101,091	105,019	40,359	22,739	41,518	425,364	772	736,862

	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
As at December 31, 2018:								
Opening net book value	102,991	115,164	42,795	22,331	46,155	7,254	58	336,748
Reclass	—	(239)	297	—	—	—	(58)	—
Additions	—	751	6,786	5,589	6,524	—	—	19,650
Disposals	(1,900)	(2,487)	(118)	(125)	—	—	—	(4,630)
Depreciation	—	(6,477)	(7,992)	(4,577)	(9,994)	(1,131)	—	(30,171)
Closing net book value	101,091	106,712	41,768	23,218	42,685	6,123	—	321,597
As at December 31, 2018:								
Cost	101,091	254,361	158,675	50,876	235,765	20,766	9,765	831,299
Accumulated depreciation	—	(147,649)	(116,907)	(27,658)	(193,080)	(14,643)	(9,765)	(509,702)
Net book value	101,091	106,712	41,768	23,218	42,685	6,123	—	321,597

Included in the above balances as at March 31, 2019, are assets not being amortized with a net book value of approximately \$353 (as at December 31, 2018 – \$2,516) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$254,651 (as at December 31, 2018 – \$247,243).

(1) Refer to note 3 for additional information on IFRS 16 implementation

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

7. INVESTMENT PROPERTIES

	Land	Buildings	Building improvements	Total
As at March 31, 2019:				
Opening net book value	10,946	5,502	624	17,072
Additions	—	—	—	—
Depreciation	—	(100)	(17)	(117)
Closing net book value	10,946	5,402	607	16,955
As at March 31, 2019:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(11,831)	(490)	(12,421)
Net book value	10,946	5,402	607	16,955
As at December 31, 2018:				
Opening net book value	10,946	5,879	704	17,529
Additions	—	—	—	—
Depreciation	—	(377)	(80)	(457)
Closing net book value	10,946	5,502	624	17,072
As at December 31, 2018:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(11,831)	(473)	(12,304)
Net book value	10,946	5,502	624	17,072

The estimated fair value of the investment properties portfolio as at March 31, 2019, was approximately \$44,000 (as at December 31, 2018 — \$44,000). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy, (Note 15 for definition of levels). This was compiled internally by management based on available market evidence.

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

8. INTANGIBLE ASSETS

	Customer relationships	Brand name and franchise agreements	Computer software	Favourable lease agreements ⁽¹⁾	Total
As at March 31, 2019:					
Opening net book value	1,406	266,000	7,088	—	274,494
Additions	—	—	17	—	17
Amortization	(156)	—	(851)	—	(1,007)
Closing net book value	1,250	266,000	6,254	—	273,504
As at March 31, 2019:					
Cost	7,000	268,500	18,475	—	293,975
Accumulated amortization	(5,750)	(2,500)	(12,221)	—	(20,471)
Net book value	1,250	266,000	6,254	—	273,504
As at December 31, 2018:					
Opening net book value	2,031	266,000	9,487	28,768	306,286
Additions	—	—	1,138	—	1,138
Amortization	(625)	—	(3,537)	(2,366)	(6,528)
Closing net book value	1,406	266,000	7,088	26,402	300,896
As at December 31, 2018:					
Cost	7,000	268,500	18,458	46,049	340,007
Accumulated amortization	(5,594)	(2,500)	(11,370)	(19,647)	(39,111)
Net book value	1,406	266,000	7,088	26,402	300,896

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, 2019	As at December 31, 2018
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, 2019	As at December 31, 2018
Brick division customer relationships	1,250	1,406
Brick division favourable lease agreements ⁽¹⁾	—	26,402
Computer software	6,254	7,088
	7,504	34,896

(1) Refer to note 3 for additional information on IFRS 16 implementation

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

9. LOANS AND BORROWINGS

Convertible debentures

On March 28, 2013 (the "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 (the "Maturity Date"). Interest is due semi-annually in arrears on March 31 and December 31 in each year. The convertible debentures are convertible, at the option of the holder, at any time during the period between the ninetieth day prior to the fourth anniversary of the Issuance Date and the third business day prior to the Maturity Date in whole or in multiples of one thousand dollars, into fully paid common shares of the Company at the conversion rate of 79.12707 common shares per one thousand dollars principal amount of debentures subject to certain adjustments. The Company has the right to settle the convertible debentures in cash or shares during any time subsequent to the fourth anniversary of the Issuance Date and on the Maturity Date. There are additional conversion options available to debenture holders in the event of an increase in the Company's dividend rate or in the event of a change in control of the Company. The convertible debentures are unsecured obligations of the Company and are subordinated in right of payment to all of the Company's senior indebtedness.

The Company will accrete the carrying value of the convertible debentures to their contractual face value of \$50,125 through a charge to net income over their term. This charge will be included in finance costs.

During the three month period ended March 31, 2019, no convertible debentures were converted to common shares (three month period ended March 31, 2018 – no convertible debentures were converted to common shares).

Carrying value of convertible debentures as at December 31, 2018	48,435
Accretion expense for the three months ended March 31, 2019	109
Conversion of convertible debentures for the three months ended March 31, 2019	—
Carrying value of convertible debentures as at March 31, 2019	48,544

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

Bank indebtedness

On January 31, 2013, a Senior Secured Credit Agreement ("SSCA") was obtained to fund the acquisition of The Brick. The Company completed an amendment to the existing SSCA on November 25, 2016. After giving effect to the amendment, the total credit facility was reduced from \$500,000 to \$300,000 with the term credit facility being reduced from \$400,000 to \$250,000 and the revolving credit facility being reduced from \$100,000 to \$50,000. The revolving credit facility continues to include a swing-line of \$20,000. Under the terms of the SSCA amounts borrowed must be repaid in full by November 25, 2019. Bank indebtedness bears interest based on Canadian prime, London Interbank Offered Rate ("LIBOR") and Bankers' Acceptance ("BA") rates plus an applicable standby fee on undrawn amounts. Transaction costs in the amount of \$775 have been deferred and are being amortized. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. Currently, the Company has entered into a 31-day Bankers' Acceptance with a cost of borrowing of 3.68% that was renewed on March 29, 2019. 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, 2019, the Company is in full compliance of these financial and non-financial covenants.

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

10. MANAGEMENT SHARE PURCHASE PLAN

10.1 Employee benefit plan

Members of senior management participate in the Company's Management Share Purchase Plan ("MSPP"). Under the terms of the Plan, the Company advanced non-interest-bearing loans to certain of its employees in 2018 to allow them to acquire common shares of the Company. Participation in the MSPP is voluntary. The common shares purchased under the MSPP are held in trust by a trustee for the benefit of the employee until the later of three years from the date of issue and the date the related loan to acquire the shares is repaid in full. While such shares are held in trust, any dividends paid on these common shares are credited against the related loan.

During 2018, a total of 1,188,873 common shares were issued under the 2018 MSPP to senior management employees at \$15.30 per share. The Company recognized a loan receivable in the amount of \$13,191 (recognized at fair value) and a deferred compensation expense receivable of \$2,315. The common shares issued of \$15,506 are shown within common shares on the consolidated statements of financial position.

During the first quarter of 2019 the Company recognized compensation expense of \$58 (the months ended March 31, 2018 - \$nil). Dividends paid to Plan holders, for the three months ended March 31, 2019, of \$166 were credited against the loan receivable (three months ended March 31, 2018 - \$nil). The loan receivable is recognized at fair value and during the three months ended March 31, 2019 finance income of \$131 was recognized by the Company (three months ended March 31, 2018 - \$nil).

10.2 Redeemable share liability

	As at March 31, 2019	As at December 31, 2018
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		
251,727 series 2009 shares (December 31, 2018 – 296,202)	2,228	2,622
121,648 series 2012 shares (December 31, 2018 – 125,357)	1,510	1,556
738,240 series 2013 shares (December 31, 2018 – 823,845)	8,408	9,383
487,636 series 2014 shares (December 31, 2018 – 496,385)	7,339	7,470
631,437 series 2015 shares (December 31, 2018 – 692,182)	8,499	9,317
Less employee share purchase loans	(27,971)	(30,335)
	13	13

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 shares, series 2014 shares 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 shares series 2009 and series 2012 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 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 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

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

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 \$614 (2018 – \$624) have been used to reduce the respective shareholder loans. The preferred dividends are paid once a year during the first quarter.

During the quarter ended March 31, 2019, 44,475 series 2009 shares, 3,709 series 2012 shares, 85,605 series 2013 shares, 8,749 series 2014 shares and 60,745 series 2015 shares (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) were converted into common shares with a stated value of approximately \$394, \$46, \$971, \$132 and \$818, respectively (the month period ended March 31, 2018 – \$288, \$65, \$1,080, \$317 and \$nil respectively).

During the three month period ended March 31, 2019, the Company did not cancel any shares from any of the series of shares (three month period ended March 31, 2018 – no shares were cancelled in any of the series of shares).

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.

11. COMMON SHARES

	As at March 31, 2019	As at December 31, 2018
Authorized - Unlimited common shares		
Issued		
77,633,941 common shares (2018 – 77,490,893)	114,272	111,956

During the quarter ended March 31, 2019, 44,475 series 2009 shares, 3,709 series 2012 shares, 85,605 series 2013 shares, 8,749 series 2014 shares and 60,745 series 2015 shares (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) were converted into common shares with a stated value of approximately \$394, \$46, \$971, \$132 and \$818, respectively (the month period ended March 31, 2018 – \$288, \$65, \$1,080, \$317 and \$nil respectively).

On September 10, 2018, the Company announced that it has received approval for a common share repurchase programme on The Toronto Stock Exchange. The Company intends to repurchase for cancellation a maximum of 3,813,398 common shares representing 4.99% of the total number of its 76,420,803 issued and outstanding common shares as at August 31, 2018. The average daily trading volume for the six months ending August 31, 2018 was 8,019. Therefore, other than block purchase exemptions, daily purchases will be limited to 2,005 common shares. The bid will commence on September 12, 2018 and terminate on the earliest of the purchase of 3,813,398 common shares, the issuer providing a notice of termination, and September 11, 2019. Purchases will be executed through the facilities of the Toronto Stock Exchange at market price under the normal course issuer bid rules of the Toronto Stock Exchange.

During the three month period ended March 31, 2019, the Company repurchased 32,975 shares (three month period ended March 31, 2018 – nil) of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids at a net cost of \$481 (three month period ended March 31, 2018 – \$nil). The repurchase of common shares resulted in a reduction of share capital in the amount of \$49 (three month period ended March 31, 2018 – \$nil). The excess net cost over the average carrying value of the shares of \$432 (three month period ended March 31, 2018 – \$nil) has been recorded as a reduction in retained earnings. As at March 31, 2019, the Company has cancelled 29,565 of these repurchased shares and the remaining amount of 3,410 shares were held as Treasury Shares, which have a value of \$5.

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

During the three month period ended March 31, 2019, no convertible debentures were converted to common shares (the three month period ended March 31, 2018 – no convertible debentures were converted to common shares).

The dividends paid for the three month periods ended March 31, 2019 and March 31, 2018 were \$10,690 (\$0.14 per share) and \$9,140 (\$0.12 per share), respectively.

12. REVENUE

Disaggregation of Revenue

	Three month period ended March 31, 2019	Three month period ended March 31, 2018
Sale of goods by corporate stores	479,721	484,245
Income from franchise operations	6,152	5,995
Extended warranty revenue	9,979	7,637
Insurance sales revenue	3,527	2,609
Rental income from investment property	362	233
Total	499,741	500,719

13. INCOME TAX EXPENSE

	Three month period ended March 31, 2019	Three month period ended March 31, 2018
Current income tax expense	5,290	6,101
Deferred income tax recovery	(2,086)	(997)
	3,204	5,104

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, 2019 and March 31, 2018 were 25.6% and 26.0% respectively.

14. EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of common shares outstanding. The following table reconciles the net income for the period and the number of shares for the basic and diluted earnings per share calculations:

	Three month period ended March 31, 2019	Three month period ended March 31, 2018
Net income for the period for basic earnings per share	9,334	14,526
Net income for the period for diluted earnings per share	9,690	14,885
Weighted average number of common shares outstanding	77,566,054	76,304,308
Dilutive effect	7,479,073	6,588,404
Diluted weighted average number of common shares outstanding	85,045,127	82,892,712
Basic earnings per share	\$0.12	\$0.19
Diluted earnings per share	\$0.11	\$0.18

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

15. 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, 2019:

	Classification & Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial Assets				
Cash and cash equivalents	Amortized cost	5,167	5,167	Level 1
Trade receivables	Amortized cost	112,167	112,167	Level 2
Restricted marketable securities	FVOCI	6,547	6,547	Level 1
Equity instruments	FVOCI	35,748	35,748	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	57,000	57,000	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivable	FVTPL	13,156	13,156	Level 2
Other assets	FVTPL	374	374	Level 2
Financial Liabilities				
Trade and other payables	Amortized cost	213,106	213,106	Level 2
Provisions	Amortized cost	12,979	12,979	Level 2
Loans and borrowings	Amortized cost	139,752	139,752	Level 2
Convertible debentures	Amortized cost	48,544	73,428	Level 2
Redeemable share liability	Amortized cost	13	13	Level 2

December 31, 2018:

	Classification & Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial Assets				
Cash and cash equivalents	Amortized cost	90,267	90,267	Level 1
Trade receivables	Amortized cost	122,131	122,131	Level 2
Restricted marketable securities	FVOCI	5,994	5,994	Level 1
Equity instruments	FVOCI	30,552	30,552	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	54,659	54,659	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivable	FVTPL	13,191	13,191	Level 2
Other assets	FVTPL	484	484	Level 2
Financial Liabilities				
Trade and other payables	Amortized cost	247,136	247,136	Level 2
Provisions	Amortized cost	11,687	11,687	Level 2
Lease liabilities	Amortized cost	9,199	9,671	Level 2
Loans and borrowings	Amortized cost	144,712	144,712	Level 2
Convertible debentures	Amortized cost	48,435	73,428	Level 2
Redeemable share liability	Amortized cost	13	13	Level 2

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

The fair value hierarchy of financial instruments measured at fair value, as at March 31, 2019 includes financial assets of \$104,462, \$112,167 and \$3,310 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$439,278 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 lease liabilities are based on interest rates at lease inception. The fair value of these is determined based on 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 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, 2019, 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 (2018 – \$146.49 per \$100.00 of face value). For the convertible debentures as at March 31, 2019, fair value is calculated based on the face value of the convertible debentures of \$50,125.

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 (2018 – \$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 a one-month BA rate. The Company also maintains other financial derivatives which comprise of foreign exchange forwards, with maturities that do not exceed past the second quarter of 2019. As at March 31, 2019, a \$374 unrealized gain was recorded in other assets (2018 – \$1,372 unrealized loss).

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).

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

Amounts in thousands of Canadian dollars, except share amounts and earnings per share

16. 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, 2019	Three month period ended March 31, 2018
Trade receivables	9,955	36,221
Inventories	(12,474)	6,441
Prepaid expenses and other assets	(6,816)	(3,116)
Trade and other payables	(34,468)	(17,823)
Income taxes payable	(2,572)	(7,802)
Customers' deposits	(38,918)	(24,568)
Other assets	110	(4,062)
Provisions	1,292	1,491
Deferred acquisition costs	515	435
Deferred rent liabilities and lease inducements	433	395
	(82,943)	(12,388)

(b) Supplemental cash flow information:

	Three month period ended March 31, 2019	Three month period ended March 31, 2018
Income taxes paid	7,833	12,863

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 2019 interim condensed consolidated financial statements.