



LEON'S FURNITURE LIMITED

Interim Condensed Consolidated Financial Statements

For the period ended September 30, 2020

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Interim Condensed Consolidated Financial Statements

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Interim Condensed Consolidated Statements of Financial Position (unaudited)

| As at (C\$ in thousands) | Notes | September 30, 2020 | December 31, 2019 | September 30, 2019 |
|---|-------|--------------------|-------------------|--------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 349,661 | 89,032 | 32,469 |
| Restricted marketable securities | | 2,309 | 5,777 | 5,834 |
| Debt securities | | 72,409 | 65,859 | 64,165 |
| Equity securities | | 45,011 | 42,286 | 40,940 |
| Trade receivables | | 138,238 | 140,535 | 128,087 |
| Income taxes receivable | | 5,020 | 3,578 | 4,006 |
| Inventories | 5 | 288,577 | 334,443 | 333,298 |
| Deferred acquisition costs | | 10,966 | 6,931 | 8,254 |
| Prepaid expenses and other assets | | 14,203 | 9,273 | 14,585 |
| Other assets | | 79 | 625 | 655 |
| Total current assets | | 926,473 | 698,339 | 632,293 |
| Non-current assets | | | | |
| Deferred acquisition costs | | 16,498 | 11,643 | 10,329 |
| Loan receivable | 11 | 12,950 | 13,053 | 13,088 |
| Property, plant and equipment | 6 | 709,311 | 720,794 | 736,154 |
| Investment properties | 7 | 16,319 | 16,633 | 16,737 |
| Intangible assets | 8 | 270,811 | 271,810 | 272,718 |
| Goodwill | | 390,120 | 390,120 | 390,120 |
| Deferred income tax assets | | 7,535 | 7,542 | 7,256 |
| Total non-current assets | | 1,423,544 | 1,431,595 | 1,446,402 |
| Total assets | | 2,350,017 | 2,129,934 | 2,078,695 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | | 306,958 | 256,539 | 224,038 |
| Provisions | | 26,097 | 13,984 | 15,059 |
| Income taxes payable | | 4,805 | 6,505 | 2,013 |
| Customers' deposits | | 302,170 | 151,817 | 120,587 |
| Lease liability | 9 | 73,628 | 70,601 | 72,093 |
| Dividends payable | | 11,228 | 10,822 | 10,880 |
| Deferred warranty plan revenue | | 56,735 | 35,700 | 39,722 |
| Loans and borrowings | 10 | - | 25,000 | 25,000 |
| Total current liabilities | | 781,621 | 570,968 | 509,392 |
| Non-current liabilities | | | | |
| Loans and borrowings | 10 | 90,000 | 70,000 | 90,000 |
| Convertible debentures | 10 | 1,280 | 48,788 | 48,675 |
| Lease liability | 9 | 323,121 | 342,093 | 354,033 |
| Deferred warranty plan revenue | | 84,192 | 107,243 | 102,967 |
| Redeemable share liability | 11 | 13 | 13 | 13 |
| Deferred income tax liabilities | | 70,635 | 75,065 | 76,202 |
| Total non-current liabilities | | 569,241 | 643,202 | 671,890 |
| Total liabilities | | 1,350,862 | 1,214,170 | 1,181,282 |
| Equity | | | | |
| Common shares | 12 | 163,995 | 115,728 | 115,507 |
| Equity component of convertible debentures | 10 | 108 | 3,542 | 3,542 |
| Retained earnings | | 829,914 | 793,116 | 776,149 |
| Accumulated other comprehensive income | | 5,138 | 3,378 | 2,215 |
| Total shareholders' equity | | 999,155 | 915,764 | 897,413 |
| Total liabilities and shareholders' equity | | 2,350,017 | 2,129,934 | 2,078,695 |

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

Interim Condensed Consolidated Statements of Income (unaudited)

| For the | Notes | Three months ended | | Nine months ended | |
|---|-----------|--------------------|--------------------|--------------------|--------------------|
| | | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| (C\$ in thousands except share and share amounts) | | | | | |
| Revenue | 13 | 630,764 | 601,357 | 1,545,049 | 1,661,970 |
| Cost of sales | 5 | 351,977 | 341,962 | 869,784 | 942,241 |
| Gross profit | | 278,787 | 259,395 | 675,265 | 719,729 |
| Operating expenses | | | | | |
| Selling, general and administrative expenses | 18 | 210,586 | 209,285 | 520,187 | 610,103 |
| Operating profit | | 68,201 | 50,110 | 155,078 | 109,626 |
| Finance costs | | (5,561) | (6,998) | (17,023) | (21,730) |
| Finance income | | 1,231 | 886 | 3,083 | 2,659 |
| Change in fair value of derivative instruments | | (278) | 273 | (547) | 170 |
| Net income before income tax | | 63,593 | 44,271 | 140,591 | 90,725 |
| Income tax expense | 14 | 14,515 | 11,052 | 30,609 | 23,130 |
| Net income for the period | | 49,078 | 33,219 | 109,982 | 67,595 |
| Weighted average number of common shares outstanding | | | | | |
| Basic | | 79,412,546 | 77,593,034 | 80,149,763 | 77,624,221 |
| Diluted | | 81,427,770 | 83,722,798 | 82,594,209 | 83,826,391 |
| Earnings per share | | | | | |
| Basic | 15 | \$0.62 | \$0.43 | \$1.37 | \$0.87 |
| Diluted | | \$0.60 | \$0.40 | \$1.33 | \$0.82 |
| Dividends declared per share | | | | | |
| Common | | \$0.14 | \$0.14 | \$0.42 | \$0.42 |

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

Interim Condensed Consolidated Statements of Comprehensive Income (unaudited)

| For the | Three months ended | | Nine months ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| (C\$ in thousands) | | | | |
| Net income for the period | 49,078 | 33,219 | 109,982 | 67,595 |
| Other comprehensive income, net of tax | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Gain (loss) on debt instruments arising during the period | 62 | (70) | 2,072 | 1,102 |
| Reclassification adjustment for gains on disposal of debt instruments | 84 | 13 | 88 | 13 |
| Items that will not be reclassified to profit or loss: | | | | |
| Gain (loss) on equity instruments arising during the period | 2,336 | 186 | (400) | 2,639 |
| Change in gain on debt and equity instruments arising during the period | 2,482 | 129 | 1,760 | 3,754 |
| Comprehensive income for the period | 51,560 | 33,348 | 111,742 | 71,349 |

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

Leon's Furniture Limited

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)

| (C\$ in thousands) | Equity component of convertible debentures | Common shares | Accumulated other comprehensive income | Retained earnings | Total |
|--|--|------------------|--|----------------------|----------------|
| As at December 31, 2019 | 3,542 | 115,728 | 3,378 | 793,116 | 915,764 |
| Comprehensive income | | | | | |
| Net income for the period | - | - | - | 109,982 | 109,982 |
| Change in gains on debt and equity instruments | - | - | 1,760 | - | 1,760 |
| Total comprehensive income | - | - | 1,760 | 109,982 | 111,742 |
| Transactions with shareholders | | | | | |
| Dividends declared | - | - | - | (33,811) | (33,811) |
| Management share purchase plan [note 11] | - | 2,221 | - | - | 2,221 |
| Convertible debentures [note 10] | (3,434) | 50,941 | - | - | 47,507 |
| Treasury Shares [note 12] | - | (44) | - | (345) | (389) |
| Share repurchase commitment [note 12] | - | (621) | - | (4,379) | (5,000) |
| Repurchase of common shares [note 12] | - | (4,230) | - | (34,649) | (38,879) |
| Total transactions with shareholders | (3,434) | 48,267 | - | (73,184) | (28,351) |
| As at September 30, 2020 | 108 | 163,995 | 5,138 | 829,914 | 999,155 |

| (C\$ 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 | - | - | - | 67,595 | 67,595 |
| Change in gains on debt and equity instruments | - | - | 3,754 | - | 3,754 |
| Total comprehensive income | - | - | 3,754 | 67,595 | 71,349 |
| Transactions with shareholders | | | | | |
| Dividends declared | - | - | - | (32,622) | (32,622) |
| Management share purchase plan [note 11] | - | 3,682 | - | - | 3,682 |
| Convertible debentures [note 10] | (4) | 100 | - | - | 96 |
| Treasury Shares [note 12] | - | (11) | - | (110) | (121) |
| Repurchase of common shares [note 12] | - | (220) | - | (2,113) | (2,333) |
| Total transactions with shareholders | (4) | 3,551 | - | (34,845) | (31,298) |
| As at September 30, 2019 | 3,542 | 115,507 | 2,215 | 776,149 | 897,413 |

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

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

| For the | Nine months ended | | |
|---|-------------------|--------------------|--------------------|
| (C\$ in thousands) | Notes | September 30, 2020 | September 30, 2019 |
| Operating Activities | | | |
| Net income before income tax | | 140,591 | 90,725 |
| Add (deduct) items not involving an outlay of cash: | | | |
| Depreciation of property, plant and equipment and investment properties | | 81,462 | 90,016 |
| Amortization of intangible assets | | 1,763 | 2,934 |
| Amortization of deferred warranty plan revenue | | (47,471) | (53,553) |
| Net finance costs | | 13,943 | 19,359 |
| Gain on sale of property, plant and equipment and investment properties | | (844) | (104) |
| Fair value gain on loan receivable | 11 | (396) | (396) |
| Loss on sale of debt and equity instruments | | 92 | 5 |
| | | 189,140 | 148,986 |
| Change in operating working capital | 17 | 242,728 | (61,154) |
| Cash received on warranty plan sales | | 45,455 | 47,935 |
| Income taxes paid | | (37,981) | (29,295) |
| Cash provided by operating activities | | 439,342 | 106,472 |
| Investing Activities | | | |
| Purchase of property, plant and equipment | 6 | (32,856) | (21,415) |
| Purchase of intangible assets | 8 | (769) | (1,158) |
| Proceeds on sale of property, plant and equipment | | 1,282 | 244 |
| Proceeds on sale of intangible assets | | 5 | - |
| Purchase of debt and equity instruments | | (32,116) | (25,884) |
| Proceeds on sale of debt and equity instruments | | 27,776 | 13,354 |
| Repayment of loan receivable | 11 | 499 | 499 |
| Interest received | | 3,083 | 2,265 |
| Cash used in investing activities | | (33,096) | (32,095) |
| Financing Activities | | | |
| Payment of lease liability | 9 | (53,130) | (50,495) |
| Dividends paid | | (33,406) | (32,432) |
| Decrease of employee loans-redeemable shares | 11 | 2,221 | 3,682 |
| Repurchase of common shares | 12 | (39,268) | (2,454) |
| Repayment of term loan | 10 | (5,000) | (30,000) |
| Interest paid | | (17,034) | (20,476) |
| Cash used in financing activities | | (145,617) | (132,175) |
| Net increase (decrease) in cash and cash equivalents during the period | | 260,629 | (57,798) |
| Cash and cash equivalents, beginning of period | | 89,032 | 90,267 |
| Cash and cash equivalents, end of period | | 349,661 | 32,469 |

The accompanying notes are an integral part of these unaudited 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 the 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.

On March 11, 2020, the World Health Organization declared the novel coronavirus, ("COVID-19"), which has the potential to cause severe respiratory illness, a global pandemic. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty. The COVID-19 pandemic has increased the uncertainties around key assumptions used by the Company in estimating the recoverable amount for the purpose of testing for impairment of property, plant and equipment, goodwill and intangible assets. These key estimates include future cash flows, margins and discount rates. Accordingly, estimates of the extent to which the COVID-19 pandemic could materially and adversely affect the Company's operations, financial results and condition in future periods, including the use of estimates and judgements described in Note 2 in the fiscal year 2019 consolidated financial statements, are also subject to significant uncertainty.

The Company continues to actively monitor the situation and will continue to respond as the impact of the COVID-19 pandemic evolves.

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 10, 2020.

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, 2019. 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, 2019.

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.

Leon's Furniture Limited

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

Government grants

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the conditions of the grant and the grant will be received. Government grants receivable are recorded in prepaid and other assets on the interim condensed consolidated statement of financial position. The Company recognizes government grants in the interim condensed consolidated statement of income in the same period as the expenses for which the grant is intended to compensate. In cases where a government grant becomes receivable as compensation for expenses already incurred in prior periods, the grant is recognized in profit or loss in the period in which it becomes receivable.

Adoption of new accounting standards and amendments

The Company has adopted the new IFRS accounting standards listed below as at January 1, 2020, in accordance with the transitional provisions outlined in the respective standard.

Amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1") and IAS 8, *Changes in Accounting Estimates and Errors* ("IAS 8") – Definition of Material

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to make it easier to understand. The definition of material in IAS 8 has been replaced by a definition of material in IAS 1. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The adoption of this amendment did not have a material impact on the interim condensed consolidated financial statements.

Amendments to IFRS 16, *Leases* ("IFRS 16") – COVID-19 Related Rent Concessions

The amendments to IFRS 16 provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification, and instead require lessees that apply the exemption to account for COVID-19 related rent concessions as if they were not lease modifications. The amendment is effective for annual reporting periods beginning on or after June 1, 2020 and is to be applied retrospectively.

The Company has adopted the amendment effective June 1, 2020 and elected to apply the practical expedient to all rent concessions that have met the criteria under the amendment.

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, 2023. Retrospective application is required. The Company plans to adopt the new standard on the effective date. The Company is currently analyzing the impact this standard will have on its financial statements.

Leon's Furniture Limited

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

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

In January 2020, IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

4. Capital Risk Management

The Company's objectives when managing capital are to:

- ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; and
- utilize working capital to negotiate favourable supplier agreements both in respect of early payment discounts and overall payment terms.

The capital structure currently includes working capital, debt and equity securities, lease liabilities, convertible debentures, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at September 30, 2020, \$174,007 is available to draw on under our \$175,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$993 primarily with respect to buildings under construction or being completed (December 31, 2019- \$649). The Company exercised its \$125,000 credit accordion, during the current fiscal year, as a precaution due to the COVID-19 pandemic.

Under the Senior Secured Credit Agreement ("SSCA"), 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 September 30, 2020.

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 2019 consolidated financial statements.

5. Inventories

The amount of inventory recognized as an expense for the three and nine months ended September 30, 2020 was \$337,781 (three months ended September 30, 2019 - \$329,593) and \$829,617 (nine-month period ended September 30, 2019 - \$902,872), respectively, which is presented within cost of sales in the unaudited interim condensed consolidated statement of income.

During the three and nine months ended September 30, 2020, there were \$106 and \$116, respectively, in inventory write-downs (three and nine months ended September 30, 2019 - \$391 and \$1,190 inventory write-down reversals, respectively). As at September 30, 2020, the inventory markdown provision totaled \$5,429 (as at December 31, 2019 - \$5,313).

Leon's Furniture Limited

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

6. Property, Plant and Equipment

| (C\$ in thousands) | Land | Buildings | Equipment | Vehicles | Building improvements | Leased property | Leased equipment | Total |
|--|----------------|----------------|----------------|---------------|-----------------------|-----------------|------------------|------------------|
| Cost | | | | | | | | |
| Balance as at January 1, 2020 | 104,468 | 261,421 | 171,918 | 56,293 | 239,103 | 503,944 | 1,963 | 1,339,110 |
| Additions | - | 22,812 | 3,372 | 4,790 | 5,360 | 33,755 | - | 70,089 |
| Disposals | (344) | - | (448) | (1,116) | (448) | (144) | (178) | (2,678) |
| Balance as at September 30, 2020 | 104,124 | 284,233 | 174,842 | 59,967 | 244,015 | 537,555 | 1,785 | 1,406,521 |
| Accumulated depreciation | | | | | | | | |
| Balance as at January 1, 2020 | - | 153,932 | 129,953 | 31,711 | 197,238 | 104,866 | 616 | 618,316 |
| Depreciation | - | 4,783 | 5,321 | 4,170 | 6,275 | 60,212 | 373 | 81,134 |
| Disposals | - | - | (413) | (1,116) | (448) | (85) | (178) | (2,240) |
| Balance as at September 30, 2020 | - | 158,715 | 134,861 | 34,765 | 203,065 | 164,993 | 811 | 697,210 |
| Net book value as at September 30, 2020 | 104,124 | 125,518 | 39,981 | 25,202 | 40,950 | 372,562 | 974 | 709,311 |

| (C\$ in thousands) | Land | Buildings | Equipment | Vehicles | Building improvements | Leased property | Leased equipment | Total |
|---|----------------|----------------|----------------|---------------|-----------------------|-----------------|------------------|------------------|
| Cost | | | | | | | | |
| Balance as at January 1, 2019 | 101,091 | 254,361 | 168,440 | 50,876 | 235,765 | 450,296 | 949 | 1,261,778 |
| Additions | 3,770 | 7,060 | 7,529 | 6,387 | 8,185 | 53,688 | 1,014 | 87,633 |
| Disposals | (393) | - | (4,051) | (970) | (4,847) | (40) | - | (10,301) |
| Balance as at December 31, 2019 | 104,468 | 261,421 | 171,918 | 56,293 | 239,103 | 503,944 | 1,963 | 1,339,110 |
| Accumulated depreciation | | | | | | | | |
| Balance as at January 1, 2019 | - | 147,649 | 126,672 | 27,658 | 193,080 | 14,643 | - | 509,702 |
| Depreciation | - | 6,283 | 7,281 | 4,954 | 8,978 | 90,224 | 616 | 118,336 |
| Disposals | - | - | (4,000) | (901) | (4,820) | (1) | - | (9,722) |
| Balance as at December 31, 2019 | - | 153,932 | 129,953 | 31,711 | 197,238 | 104,866 | 616 | 618,316 |
| Net book value as at December 31, 2019 | 104,468 | 107,489 | 41,965 | 24,582 | 41,865 | 399,078 | 1,347 | 720,794 |

Included in the above balances as at September 30, 2020, are assets not being amortized with a net book value of approximately \$27,636 (as at December 31, 2019 - \$3,760) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$282,904 (as at December 31, 2019 - \$276,392). Depreciation of property, plant and equipment is included within selling, general and administrative expenses on the unaudited interim condensed consolidated statements of income.

Leon's Furniture Limited

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

7. Investment Properties

| (C\$ in thousands) | Land | Buildings | Buildings improvements | Total |
|--|---------------|---------------|---------------------------|---------------|
| Cost | | | | |
| Balance as at January 1, 2020 | 10,946 | 17,333 | 1,097 | 29,376 |
| Additions | - | - | 14 | 14 |
| Balance as at September 30, 2020 | 10,946 | 17,333 | 1,111 | 29,390 |
| Accumulated depreciation | | | | |
| Balance as at January 1, 2020 | - | 12,209 | 534 | 12,743 |
| Depreciation | - | 285 | 43 | 328 |
| Balance as at September 30, 2020 | - | 12,494 | 577 | 13,071 |
| Net book value as at September 30, 2020 | 10,946 | 4,839 | 534 | 16,319 |

| (C\$ in thousands) | Land | Buildings | Buildings improvements | Total |
|---|---------------|---------------|---------------------------|---------------|
| Cost | | | | |
| Balance as at January 1, 2019 | 10,946 | 17,333 | 1,097 | 29,376 |
| Additions | - | - | - | - |
| Balance as at December 31, 2019 | 10,946 | 17,333 | 1,097 | 29,376 |
| Accumulated depreciation | | | | |
| Balance as at January 1, 2019 | - | 11,831 | 473 | 12,304 |
| Depreciation | - | 378 | 61 | 439 |
| Balance as at December 31, 2019 | - | 12,209 | 534 | 12,743 |
| Net book value as at December 31, 2019 | 10,946 | 5,124 | 563 | 16,633 |

The estimated fair value of the investment properties portfolio as at September 30, 2020, was approximately \$44,000 (as at December 31, 2019 - \$44,000). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy (Note 16 for definition of levels). This was compiled internally by management based on available market evidence.

Leon's Furniture Limited

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

8. Intangible Assets

| (C\$ in thousands) | Customer relationships | Brand name and franchise agreements | Computer software | Total |
|--|------------------------|-------------------------------------|-------------------|----------------|
| Cost | | | | |
| Balance as at January 1, 2020 | 7,000 | 268,500 | 19,694 | 295,194 |
| Additions | - | - | 769 | 769 |
| Disposals | - | - | (103) | (103) |
| Balance as at September 30, 2020 | 7,000 | 268,500 | 20,360 | 295,860 |
| Accumulated amortization | | | | |
| Balance as at January 1, 2020 | 6,218 | 2,500 | 14,666 | 23,384 |
| Depreciation | 469 | - | 1,294 | 1,763 |
| Disposals | - | - | (98) | (98) |
| Balance as at September 30, 2020 | 6,687 | 2,500 | 15,862 | 25,049 |
| Net book value as at September 30, 2020 | 313 | 266,000 | 4,498 | 270,811 |

| (C\$ in thousands) | Customer relationships | Brand name and franchise agreements | Computer software | Total |
|---|------------------------|-------------------------------------|-------------------|----------------|
| Cost | | | | |
| Balance as at January 1, 2019 | 7,000 | 268,500 | 18,458 | 293,958 |
| Additions | - | - | 1,236 | 1,236 |
| Disposals | - | - | - | - |
| Balance as at December 31, 2019 | 7,000 | 268,500 | 19,694 | 295,194 |
| Accumulated amortization | | | | |
| Balance as at January 1, 2019 | 5,594 | 2,500 | 11,370 | 19,464 |
| Depreciation | 624 | - | 3,296 | 3,920 |
| Disposals | - | - | - | - |
| Balance as at December 31, 2019 | 6,218 | 2,500 | 14,666 | 23,384 |
| Net book value as at December 31, 2019 | 782 | 266,000 | 5,028 | 271,810 |

Amortization of intangible assets is included within selling, general and administrative expenses on the unaudited interim condensed consolidated statements of income. The following table presents the details of the Company's indefinite-life intangible assets:

| As at (C\$ in thousands) | September 30, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| The Brick brand name (allocated to Brick division) | 245,000 | 245,000 |
| The Brick franchise agreements (allocated to Brick division) | 21,000 | 21,000 |
| Total | 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.

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

The following table presents the details of the Company's finite-life intangible assets:

| As at (C\$ in thousands) | September 30, 2020 | December 31, 2019 |
|---------------------------------------|--------------------|-------------------|
| Brick division customer relationships | 313 | 782 |
| Computer software | 4,498 | 5,028 |
| Total | 4,811 | 5,810 |

9. Leases

Company as a lessee

Leasing arrangements

The Company leases various items of real estate property, vehicles and equipment used in its operations. The lease terms are generally between 5 and 15 years. There are some leases with renewal options which are included when management is reasonably certain they will be exercised. Management uses significant judgement in determining whether these extensions are reasonably certain to be exercised.

Lease liabilities

Carrying amounts of lease liabilities are as follows:

| (C\$ in thousands) | Total |
|---|----------------|
| Balance as at December 31, 2019 | 412,694 |
| Additions | 37,247 |
| Disposals | (62) |
| Interest | 15,394 |
| Payments | (68,524) |
| Balance as at September 30, 2020 | 396,749 |
| Reported as: | |
| Current | 73,628 |
| Non-current | 323,121 |
| Total | 396,749 |

10. 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 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 \$1,312 through a charge to net income over their term. This charge will be included in finance costs.

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During the nine-month period ended September 30, 2020, convertible debentures with a stated value of \$48,713 were converted to 3,854,511 common shares, at the holder's option (nine-month period ended September 30, 2019 - \$100 were converted to 7,912 common shares).

| (C\$ in thousands) | Total |
|---|----------|
| Carrying value of convertible debentures as at December 31, 2019 | 48,772 |
| Accretion expense for the nine months ended September 30, 2020 | 15 |
| Conversion of convertible debentures for the nine months ended September 30, 2020 | (47,507) |
| Carrying value of convertible debentures as at September 30, 2020 | 1,280 |

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 original 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. The Company completed a second amendment on May 31, 2019. The amounts borrowed under the term credit facility must be repaid in full by May 31, 2022.

The Company completed a third amendment on April 27, 2020, whereby it exercised its \$125,000 credit accordion primarily as a precaution due to the COVID-19 pandemic. Therefore, the Company's total revolving credit facility is \$175,000. The amounts borrowed under the revolving credit facility must be repaid in full by May 31, 2024.

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 were previously deferred and amortized over the life of the agreement in relation to the first amendment of the SSCA. The remaining balance, as at May 31, 2019, of \$148 was written off. No additional transaction costs were incurred for the second and third amendments. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. The term credit facility is repayable in yearly amounts of \$25,000 and this amount for 2020 has been paid in advance. Currently, the Company has entered into a 30-day Bankers' Acceptance with a cost of borrowing of 1.18% that was renewed on September 30, 2020.

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 property of the Company. In addition to this, there are financial covenants related to the credit facility. As at September 30, 2020, the Company is in full compliance of these financial and non-financial covenants.

11. Management Share Purchase Plan

Employee benefit plan

Members of senior management participate in the Company's Management Share Purchase Plan ("MSPP"). Under the terms of the MSPP, 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 of the 2018 series of 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.

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During the three months ended September 30, 2020 the Company recognized compensation expense of \$58 (three-month period ended September 30, 2019 - \$58). Dividends paid to MSPP holders, for the three-month period ended September 30, 2020, of \$166 were credited against the loan receivable (three-month period ended September 30, 2019 - \$166). The loan receivable is recognized at fair value and during the three-month period ended September 30, 2020, finance income of \$132 was recognized by the Company (three-month period ended September 30, 2019 - \$132).

During the nine months ended September 30, 2020 the Company recognized compensation expense of \$174 (nine-month period ended September 30, 2019 - \$174). Dividends paid to MSPP holders, for the nine-month period ended September 30, 2020, of \$499 were credited against the loan receivable (nine-month period ended September 30, 2019 - \$499). The loan receivable is recognized at fair value and during the nine-month period ended September 30, 2020, finance income of \$396 was recognized by the Company (nine-month period ended September 30, 2019 - \$396).

Redeemable share liability

| As at | September 30, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| (C\$ in thousands) | | |
| 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 | | |
| 200,746 series 2009 shares (December 31, 2019 - 220,497) | 1,777 | 1,951 |
| 110,422 series 2012 shares (December 31, 2019 - 113,534) | 1,370 | 1,409 |
| 682,420 series 2013 shares (December 31, 2019 - 714,036) | 7,773 | 8,133 |
| 378,694 series 2014 shares (December 31, 2019 - 432,359) | 5,699 | 6,507 |
| 478,839 series 2015 shares (December 31, 2019 - 541,232) | 6,445 | 7,285 |
| Less employee share purchase loans | (23,051) | (25,272) |
| Total | 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 thirteenth 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 thirteenth 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 thirteenth anniversary of such issue. The Company has the option to redeem the series 2013, series 2014 and series 2015 shares at any time after the third anniversary date of the issue of these shares and must redeem them prior to the thirteenth 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 \$566 (2019 - \$614) have been used to reduce the respective shareholder loans. The preferred dividends are paid once a year during the first quarter.

During the nine-month period ended September 30, 2020, 19,751 series 2009 shares, 3,112 series 2012 shares, 31,616 series 2013 shares, 53,665 series 2014 shares and 62,393 series 2015 shares (nine-month period ended September 30, 2019 - 63,732 series 2009 shares, 11,823 series 2012 shares, 104,485 series 2013 shares, 64,026 series 2014 shares and 60,745 series 2015 shares) were converted into common shares with a stated value of approximately \$175, \$39, \$360, \$807 and \$840, respectively (nine-month period ended September 30, 2019 - \$564, \$147, \$1,190, \$963 and \$818 respectively).

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During the nine-month period ended September 30, 2020, the Company did not cancel any shares from any of the series of shares (nine-month period ended September 30, 2019 - 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.

12. Common Shares

| As at | September 30, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| (C\$ in thousands) | | |
| Authorized - Unlimited common shares | | |
| Issued | | |
| 79,047,873 common shares (2019 - 77,241,047) | 163,995 | 115,728 |

During the nine-month period ended September 30, 2020, 19,751 series 2009 shares, 3,112 series 2012 shares, 31,616 series 2013 shares, 53,665 series 2014 shares and 62,393 series 2015 shares (nine-month period ended September 30, 2019 - 63,732 series 2009 shares, 11,823 series 2012 shares, 104,485 series 2013 shares, 64,026 series 2014 shares and 60,745 series 2015 shares) were converted into common shares with a stated value of approximately \$175, \$39, \$360, \$807 and \$840, respectively (nine-month period ended September 30, 2019 - \$564, \$147, \$1,190, \$963 and \$818 respectively).

On September 11, 2020 the Company received TSX approval of its notice of intention to renew its common share repurchase programme. The Company intends to repurchase for cancellation a maximum of 4,010,999 common shares representing 4.99% of the total number of its 80,380,746 issued and outstanding common shares as at September 4, 2020. The average daily trading volume for the six months ended August 31, 2020 was 12,497. Therefore, other than block purchase exemptions, daily purchases will be limited to 3,124 common shares. The bid commenced on September 15, 2020 and will terminate on the earliest of the purchase of 4,010,999 common shares, the issuer providing a notice of termination, and September 14, 2021. 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.

On December 30, 2019, the Company entered into an automatic share purchase plan ("ASPP") with the Company's broker in order to facilitate the repurchase of its Common Shares under the NCIB during self-imposed blackout periods. During the first quarter of 2020, the Company repurchased and cancelled 298,546 common shares under the ASPP for a total cost of \$5,000, of which \$447 represents a reduction in share capital and the remaining \$4,553 was charged to retained earnings.

During the nine-month period ended September 30, 2020, and excluding the common shares repurchased under the ASPP, the Company repurchased 1,940,776 shares (nine-month period ended September 30, 2019 - 156,815 shares) of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids at a net cost of \$34,268 (nine-month period ended September 30, 2019 - \$2,454). The repurchase of common shares resulted in a reduction of share capital in the amount of \$3,827 (nine-month period ended September 30, 2019 - \$231). The excess net cost over the average carrying value of the shares of \$30,441 (nine-month period ended September 30, 2019 - \$2,223) has been recorded as a reduction in retained earnings. As at September 30, 2020, the Company has cancelled 1,919,676 of these repurchased shares and the remaining amount of 21,100 shares were held as Treasury shares, which have a value of \$389 and were subsequently cancelled in October 2020.

On September 30, 2020, the Company announced that it had entered into an ASPP with the Company's broker in order to facilitate the repurchase of its Common Shares under the NCIB during self-imposed blackout periods. As at September 30, 2020, an obligation for the repurchase of shares of \$10,000 was recognized under the ASPP (as at December 31, 2019 - \$5,000).

During the nine-month period ended September 30, 2020, convertible debentures with a stated value of \$48,713 were converted to 3,854,511 common shares, at the holder's option (nine-month period ended September 30, 2019 - \$100 were converted to 7,912 common shares).

The dividends paid for the three months ended September 30, 2020 and September 30, 2019 were \$9,663 (\$0.12 per share) and \$10,871 (\$0.14 per share), respectively.

The dividends paid for the nine-month period ended September 30, 2020 and September 30, 2019 were \$33,406 (\$0.42 per share) and \$32,432 (\$0.42 per share), respectively.

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

13. Revenue

Disaggregation of Revenue

| For the (C\$ in thousands) | Three months ended | |
|--|--------------------|--------------------|
| | September 30, 2020 | September 30, 2019 |
| Sales of goods by corporate stores | 610,984 | 580,529 |
| Income from franchise operations | 8,403 | 7,081 |
| Extended warranty revenue | 7,788 | 9,813 |
| Insurance sales revenue | 3,250 | 3,545 |
| Rental Income from investment property | 339 | 389 |
| Total | 630,764 | 601,357 |

| For the (C\$ in thousands) | Nine months ended | |
|--|--------------------|--------------------|
| | September 30, 2020 | September 30, 2019 |
| Sales of goods by corporate stores | 1,484,407 | 1,600,028 |
| Income from franchise operations | 20,526 | 20,110 |
| Extended warranty revenue | 29,501 | 29,783 |
| Insurance sales revenue | 9,525 | 10,921 |
| Rental Income from investment property | 1,090 | 1,128 |
| Total | 1,545,049 | 1,661,970 |

14. Income Tax Expense

| For the (C\$ in thousands) | Three months ended | |
|-------------------------------|--------------------|--------------------|
| | September 30, 2020 | September 30, 2019 |
| Current income tax expense | 15,815 | 12,217 |
| Deferred income tax recovery | (1,300) | (1,165) |
| Total | 14,515 | 11,052 |

| For the (C\$ in thousands) | Nine months ended | |
|-------------------------------|--------------------|--------------------|
| | September 30, 2020 | September 30, 2019 |
| Current income tax expense | 35,149 | 29,076 |
| Deferred income tax recovery | (4,540) | (5,946) |
| Total | 30,609 | 23,130 |

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 nine-month period ended September 30, 2020 and September 30, 2019 were 22% and 25% respectively.

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15. 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:

| For the | Three months ended | |
|---|--------------------|--------------------|
| (C\$ in thousands except share and share amounts) | September 30, 2020 | September 30, 2019 |
| Net Income for the period for basic earnings per share | 49,078 | 33,219 |
| Net income for the period for diluted earnings per share | 49,089 | 33,577 |
| Weighted average number of common shares outstanding | 79,412,546 | 77,593,034 |
| Dilutive effect | 2,015,224 | 6,129,764 |
| Dilutive weight average number of common shares outstanding | 81,427,770 | 83,722,798 |
| Basic earnings per share | \$0.62 | \$0.43 |
| Diluted earnings per share | \$0.60 | \$0.40 |

| For the | Nine months ended | |
|---|--------------------|--------------------|
| (C\$ in thousands except share and share amounts) | September 30, 2020 | September 30, 2019 |
| Net Income for the period for basic earnings per share | 109,982 | 67,595 |
| Net income for the period for diluted earnings per share | 110,112 | 68,667 |
| Weighted average number of common shares outstanding | 80,149,763 | 77,624,221 |
| Dilutive effect | 2,444,446 | 6,202,170 |
| Dilutive weight average number of common shares outstanding | 82,594,209 | 83,826,391 |
| Basic earnings per share | \$1.37 | \$0.87 |
| Diluted earnings per share | \$1.33 | \$0.82 |

16. Financial Instruments

Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents and authorized credit facilities, to fulfill obligations associated with financial liabilities. To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. Management also monitors cash and working capital efficiency given current sales levels and seasonal variability. The Company measures and monitors liquidity risk by regularly evaluating its cash inflows and outflows under expected conditions through cash flow reporting such that it anticipates certain funding mismatches and ensures the cash management of the business is within certain tolerable levels. These cash flow forecasts are reviewed on a weekly basis by management. The Company mitigates liquidity risk through continuous monitoring of its credit facilities and the diversification of its funding sources, both in the short term as well as the long term. As at September 30, 2020, unrestricted liquidity was \$637,778 comprised of cash and cash equivalents, debt and equity instruments and its undrawn revolving credit facility.

In response to the COVID-19 pandemic, the Company has taken the following actions to support its liquidity position:

- The Company applied for the Canada Emergency Wage Subsidy, which has materially contributed towards the Company's cost savings initiatives and allowed for more of its employees to be returned to work during the year.
- During the year the Company exercised its \$125,000 credit accordion available under its Senior Secured Credit Agreement, thereby increasing its total revolving credit facility to \$175,000, with a standby fee of 20 basis points. Any amounts borrowed under the revolving credit facility must be repaid in full by May 31, 2024. As at September 30, 2020, the Company's unrestricted liquidity is \$637,778, excluding its unencumbered real estate portfolio comprising of land and buildings.

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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.

| As at | September 30, 2020 | | | |
|----------------------------------|--------------------------------|-----------------------|------------|----------------------|
| (C\$ in thousands) | Classification and Measurement | Total Carrying Amount | Fair Value | Fair Value Hierarchy |
| Financial Assets | | | | |
| Cash and cash equivalents | Amortized cost | 349,661 | 349,661 | Level 1 |
| Trade receivables | Amortized cost | 138,238 | 138,238 | Level 2 |
| Restricted marketable securities | FVOCI | 2,309 | 2,309 | Level 1 |
| Equity instruments | FVOCI | 41,701 | 41,701 | Level 1 |
| Equity instruments | FVOCI | 3,310 | 3,310 | Level 3 |
| Debt instruments | FVOCI | 72,309 | 72,309 | Level 1 |
| Debt instruments | FVTPL | 100 | 100 | Level 2 |
| Loan receivables | FVTPL | 12,950 | 12,950 | Level 2 |
| Other assets | FVTPL | 79 | 79 | Level 2 |
| Financial Liabilities | | | | |
| Trade and other payables | Amortized cost | 306,958 | 306,958 | Level 2 |
| Provisions | Amortized cost | 26,097 | 26,097 | Level 2 |
| Loans and borrowings | Amortized cost | 90,000 | 90,000 | Level 2 |
| Convertible debentures | Amortized cost | 1,280 | 1,922 | Level 2 |
| Redeemable share liability | Amortized cost | 13 | 13 | Level 2 |

| As at | December 31, 2019 | | | |
|----------------------------------|--------------------------------|-----------------------|------------|----------------------|
| (C\$ in thousands) | Classification and Measurement | Total Carrying Amount | Fair Value | Fair Value Hierarchy |
| Financial Assets | | | | |
| Cash and cash equivalents | Amortized cost | 89,032 | 89,032 | Level 1 |
| Trade receivables | Amortized cost | 140,535 | 140,535 | Level 2 |
| Restricted marketable securities | FVOCI | 5,777 | 5,777 | Level 1 |
| Equity instruments | FVOCI | 38,976 | 38,976 | Level 1 |
| Equity instruments | FVOCI | 3,310 | 3,310 | Level 3 |
| Debt instruments | FVOCI | 65,759 | 65,759 | Level 1 |
| Debt instruments | FVTPL | 100 | 100 | Level 2 |
| Loan receivables | FVTPL | 13,053 | 13,053 | Level 2 |
| Other assets | FVTPL | 625 | 625 | Level 2 |
| Financial Liabilities | | | | |
| Trade and other payables | Amortized cost | 256,539 | 256,539 | Level 2 |
| Provisions | Amortized cost | 13,984 | 13,984 | Level 2 |
| Loans and borrowings | Amortized cost | 95,000 | 95,000 | Level 2 |
| Convertible debentures | Amortized cost | 48,788 | 73,282 | Level 2 |
| Redeemable share liability | Amortized cost | 13 | 13 | Level 2 |

The fair value hierarchy of financial instruments measured at fair value, as at September 30, 2020 includes financial assets of \$465,980, \$151,367 and \$3,310 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$424,990 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 loans and borrowings approximate their fair values since they bear interest at rates comparable to market rates at the end of the reporting period.

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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 September 30, 2020, 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 (2019 - \$146.49 per \$100.00 of face value). For the convertible debentures as at September 30, 2020, fair value is calculated based on the face value of the convertible debentures of \$1,312.

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 other financial derivatives which comprise of foreign exchange forwards, with maturities that do not exceed past December 2020. As at September 30, 2020, a \$79 unrealized gain was recorded in other assets (December 31, 2019 - \$625 unrealized gain).

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).

17. Interim Consolidated Statement of Cash Flows

a) The net change in operating working capital balances consist of the following:

| For the (C\$ in thousands) | Nine months ended | |
|---|--------------------|--------------------|
| | September 30, 2020 | September 30, 2019 |
| Trade receivables | 2,297 | (5,955) |
| Inventories | 45,866 | (3,980) |
| Prepaid expenses and other assets | (4,930) | (6,250) |
| Trade and other payables | 45,373 | (23,303) |
| Customers' deposits | 150,353 | (25,776) |
| Other assets | 546 | (170) |
| Provisions | 12,113 | 3,372 |
| Deferred acquisition costs | (8,890) | 1,066 |
| Deferred rent liabilities and lease inducements | - | (158) |
| Total | 242,728 | (61,154) |

b) Supplemental Cash Flow information:

| For the (C\$ in thousands) | Nine months ended | |
|-------------------------------|--------------------|--------------------|
| | September 30, 2020 | September 30, 2019 |
| Income taxes paid | 37,981 | 29,295 |

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18. Government Grants

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") in order to help employers keep and/or return employees to work in response to challenges posed by the COVID-19 pandemic. In the second quarter of 2020, the Company determined that it met the employer eligibility criteria and applied for the CEWS in order to be better positioned to return many of its valued associates back to work as soon as possible. As at September 30, 2020, the Company has received instalments of \$31,755. The total amount claimed for the nine-month period ended September 30, 2020 was reflected as a reduction to selling general and administrative expenses. There are no unfulfilled conditions or other contingencies attaching to the current CEWS.

19. Comparative Financial Information

The comparative interim condensed consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the third quarter of 2020 interim condensed consolidated financial statements.