



LEON'S FURNITURE LIMITED

Interim Condensed Consolidated Financial Statements

For the period ended June 30, 2020

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Interim Condensed Consolidated Statements of Financial Position (unaudited)

As at (C\$ in thousands)	Notes	June 30, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		193,394	89,032
Restricted marketable securities		2,495	5,777
Debt securities		74,244	65,859
Equity securities		44,714	42,286
Trade receivables		122,757	140,535
Income taxes receivable		3,392	3,578
Inventories	5	278,590	334,443
Deferred acquisition costs		6,859	6,931
Prepaid expenses and other assets		15,315	9,273
Other assets		356	625
Total current assets		742,116	698,339
Non-current assets			
Deferred acquisition costs		9,550	11,643
Loan receivable	11	12,984	13,053
Property, plant and equipment	6	708,276	720,794
Investment properties	7	16,415	16,633
Intangible	8	271,172	271,810
Goodwill		390,120	390,120
Deferred income tax assets		9,127	7,542
Total non-current assets		1,417,644	1,431,595
Total assets		2,159,760	2,129,934
Liabilities			
Current liabilities			
Trade and other payables		230,727	256,539
Provisions		15,597	13,984
Income taxes payable		11,376	6,505
Customers' deposits		202,415	151,817
Lease liability	9	72,389	70,601
Dividends payable		9,663	10,822
Deferred warranty plan revenue		35,630	35,700
Loans and borrowings	10	-	25,000
Total current liabilities		577,797	570,968
Non-current liabilities			
Loans and borrowings	10	90,000	70,000
Convertible debentures	10	1,276	48,788
Lease liability	9	321,805	342,093
Deferred warranty plan revenue		98,891	107,243
Redeemable share liability	11	13	13
Deferred income tax liabilities		73,490	75,065
Total non-current liabilities		585,475	643,202
Total liabilities		1,163,272	1,214,170
Equity			
Common shares	12	167,080	115,728
Equity component of convertible debentures	10	108	3,542
Retained earnings		826,644	793,116
Accumulated other comprehensive income		2,656	3,378
Total shareholders' equity		996,488	915,764
Total liabilities and shareholders' equity		2,159,760	2,129,934

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		Six months ended	
		June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(C\$ in thousands except share and share amounts)					
Revenue	13	416,674	560,872	914,285	1,060,613
Cost of sales	5	234,725	316,706	517,807	600,279
Gross profit		181,949	244,166	396,478	460,334
Operating expenses					
Selling, general and administrative expenses	18	116,869	203,596	309,601	400,818
Operating profit		65,080	40,570	86,877	59,516
Finance costs		(5,513)	(7,485)	(11,462)	(14,732)
Finance income		752	823	1,852	1,773
Change in fair value of derivative instruments		57	7	(269)	(103)
Net income before income tax		60,376	33,915	76,998	46,454
Income tax expense	14	13,166	8,873	16,094	12,078
Net income for the period		47,210	25,042	60,904	34,376
Weighted average number of common shares outstanding					
Basic		79,662,259	77,570,330	80,085,851	77,652,080
Diluted		81,717,325	83,758,639	82,747,266	83,891,054
Earnings per share					
Basic	15	\$0.59	\$0.32	\$0.76	\$0.44
Diluted		\$0.58	\$0.30	\$0.74	\$0.42
Dividends declared per share					
Common		\$0.12	\$0.14	\$0.28	\$0.28

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		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(C\$ in thousands)				
Net income for the period	47,210	25,042	60,904	34,376
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to profit or loss:				
Gain on debt instruments arising during the period	1,881	292	2,010	1,172
Reclassification adjustment for gains on disposal of debt instruments	4	-	4	-
Items that will not be reclassified to profit or loss:				
Gain (loss) on equity instruments arising during the period	3,926	305	(2,736)	2,453
Change in gain (loss) on debt and equity instruments arising during the period	5,811	597	(722)	3,625
Comprehensive income for the period	53,021	25,639	60,182	38,001

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 (loss)	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	-	-	-	60,904	60,904
Change in loss on debt and equity instruments	-	-	(722)	-	(722)
Total comprehensive income	-	-	(722)	60,904	60,182
Transactions with shareholders					
Dividends declared	-	-	-	(22,593)	(22,593)
Management share purchase plan [note 11]	-	939	-	-	939
Convertible debentures [note 10]	(3,434)	50,941	-	-	47,507
Share repurchase commitment [note 12]	-	443	-	4,557	5,000
Repurchase of common shares [note 12]	-	(971)	-	(9,340)	(10,311)
Total transactions with shareholders	(3,434)	51,352	-	(27,376)	20,542
As at June 30, 2020	108	167,080	2,656	826,644	996,488

(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	-	-	-	34,376	34,376
Change in gains on debt and equity instruments	-	-	3,625	-	3,625
Total comprehensive income	-	-	3,625	34,376	38,001
Transactions with shareholders					
Dividends declared	-	-	-	(21,742)	(21,742)
Management share purchase plan [note 11]	-	2,621	-	-	2,621
Convertible debentures [note 10]	(4)	100	-	-	96
Treasury Shares [note 12]	-	(4)	-	(33)	(37)
Repurchase of common shares [note 12]	-	(62)	-	(569)	(631)
Total transactions with shareholders	(4)	2,655	-	(22,344)	(19,693)
As at June 30, 2019	3,542	114,611	2,086	755,431	875,670

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	Six months ended		
(C\$ in thousands)	Notes	June 30, 2020	June 30, 2019
Operating Activities			
Profit before tax		76,998	46,454
Add (deduct) items not involving an outlay of cash:			
Depreciation of property, plant and equipment and investment properties		54,193	60,549
Amortization of intangible assets		1,204	1,968
Amortization of deferred warranty plan revenue		(34,451)	(35,414)
Net finance costs		9,610	12,752
Gain on sale of property, plant and equipment and investment properties		(828)	(60)
Fair value gain on loan receivable	11	(264)	(264)
Loss on sale of debt and equity instruments		40	5
		106,502	85,990
Change in operating working capital	17	96,921	(70,068)
Cash received on warranty plan sales		26,028	30,643
Income taxes paid		(14,277)	(17,924)
Cash provided by operating activities		215,174	28,641
Investing Activities			
Purchase of property, plant and equipment	6	(25,498)	(7,475)
Purchase of intangible assets	8	(571)	(486)
Proceeds on sale of property, plant and equipment		1,680	88
Proceeds on sale of intangible assets		5	-
Purchase of debt and equity instruments		(20,572)	(17,443)
Proceeds on sale of debt and equity instruments		11,823	8,943
Repayment of loan receivable	11	333	333
Interest received		1,852	1,509
Cash used in investing activities		(30,948)	(14,531)
Financing Activities			
Payment of lease liability		(35,250)	(34,449)
Dividends paid		(23,742)	(21,561)
Decrease of employee loans-redeemable shares	11	939	2,621
Repurchase of common shares	12	(5,311)	(668)
Repayment of term loan	10	(5,000)	(15,000)
Interest paid		(11,500)	(14,067)
Cash used in financing activities		(79,864)	(83,124)
Net increase (decrease) in cash and cash equivalents during the period		104,362	(69,014)
Cash and cash equivalents, beginning of period		89,032	90,267
Cash and cash equivalents, end of period		193,394	21,253

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 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. 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.

During the six months ended June 30, 2020, the COVID-19 pandemic was assessed to be an indicator of possible impairment as it 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. As a result, these changes in key estimates did not have an impact on the interim condensed consolidated financial statements.

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 August 12, 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.

Leon's Furniture Limited

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

Accordingly, there is no reportable segment information to provide in these interim condensed consolidated financial statements.

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 noncurrent 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 lease liabilities, convertible debentures, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at June 30, 2020, \$174,351 is available to draw on under our \$175,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$649 primarily with respect to buildings under construction or being completed (December 31, 2019- \$649). The Company exercised its \$125,000 credit accordion, during the quarter, 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 June 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 six months ended June 30, 2020 was \$225,657 (three months ended June 30, 2019 - \$303,525) and \$494,869 (six-month period ended June 30, 2019 - \$573,280), respectively, which is presented within cost of sales in the unaudited interim condensed consolidated statement of income.

During the three and six months ended June 30, 2020, there were \$203 and \$222, respectively, in inventory write-downs (three and six months ended June 30, 2019 - \$309 and \$799 inventory write-down reversals, respectively). As at June 30, 2020, the inventory markdown provision totaled \$5,535 (as at December 31, 2019 - \$5,313).

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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	-	15,986	1,695	3,669	4,148	16,811	-	42,309
Disposals	(344)	-	(400)	(1,164)	-	(567)	(109)	(2,584)
Balance as at June 30, 2020	104,124	277,407	173,213	58,798	243,251	520,188	1,854	1,378,835
Accumulated depreciation								
Balance as at January 1, 2020	-	153,932	129,953	31,711	197,238	104,866	616	618,316
Depreciation	-	3,701	3,547	2,769	4,174	39,531	253	53,975
Disposals	-	-	(374)	(1,164)	-	(85)	(109)	(1,732)
Balance as at June 30, 2020	-	157,633	133,126	33,316	201,412	144,312	760	670,559
Net book value as at June 30, 2020	104,124	119,774	40,087	25,482	41,839	375,876	1,094	708,276

(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 June 30, 2020, are assets not being amortized with a net book value of approximately \$21,035 (as at December 31, 2019 - \$3,760) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$280,396 (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.

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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	-	-	-	-
Disposals	-	-	-	-
Balance as at June 30, 2020	10,946	17,333	1,097	29,376
Accumulated depreciation				
Balance as at January 1, 2020	-	12,209	534	12,743
Depreciation	-	189	29	218
Disposals	-	-	-	-
Balance as at June 30, 2020	-	12,398	563	12,961
Net book value as at June 30, 2020	10,946	4,935	534	16,415

(C\$ in thousands)	Land	Buildings	Buildings improvements	Total
Cost				
Balance as at January 1, 2019	10,946	17,333	1,097	29,376
Additions	-	-	-	-
Disposals	-	-	-	-
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
Disposals	-	-	-	-
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 June 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.

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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	-	-	571	571
Disposals	-	-	(103)	(103)
Balance as at June 30, 2020	7,000	268,500	20,162	295,662
Accumulated amortization				
Balance as at January 1, 2020	6,218	2,500	14,666	23,384
Depreciation	313	-	891	1,204
Disposals	-	-	(98)	(98)
Balance as at June 30, 2020	6,531	2,500	15,459	24,490
Net book value as at June 30, 2020	469	266,000	4,703	271,172

(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)	June 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)	June 30, 2020	December 31, 2019
Brick division customer relationships	469	782
Computer software	4,703	5,028
Total	5,172	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	16,811
Disposals	(61)
Interest	10,275
Payments	(45,525)
Balance as at June 30, 2020	394,194
Reported as:	
Current	72,389
Non-current	321,805
Total	394,194

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 six-month period ended June 30, 2020, convertible debentures with a stated value of \$48,713 were converted to 3,854,511 common shares, at the holder's option (six-month period ended June 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 six months ended June 30, 2020	11
Conversion of convertible debentures for the six months ended June 30, 2020	(47,507)
Carrying value of convertible debentures as at June 30, 2020	1,276

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 31-day Bankers' Acceptance with a cost of borrowing of 1.52% that was renewed on June 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 June 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 June 30, 2020 the Company recognized compensation expense of \$50 (three-month period ended June 30, 2019 - \$58). Dividends paid to MSPP holders, for the three-month period ended June 30, 2020, of \$143 were credited against the loan receivable (three-month period ended June 30, 2019 - \$166). The loan receivable is recognized at fair value and during the three-month period ended June 30, 2020, finance income of \$113 was recognized by the Company (three-month period ended June 30, 2019 - \$131).

During the six months ended June 30, 2020 the Company recognized compensation expense of \$116 (six-month period ended June 30, 2019 - \$116). Dividends paid to MSPP holders, for the six-month period ended June 30, 2020, of \$333 were credited against the loan receivable (six-month period ended June 30, 2019 - \$333). The loan receivable is recognized at fair value and during the six-month period ended June 30, 2020, finance income of \$264 was recognized by the Company (six-month period ended June 30, 2019 - \$264).

Redeemable Share Liability

As at	June 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		
201,946 series 2009 shares (December 31, 2019 - 220,497)	1,787	1,951
110,422 series 2012 shares (December 31, 2019 - 113,534)	1,370	1,409
695,176 series 2013 shares (December 31, 2019 - 714,036)	7,918	8,133
424,322 series 2014 shares (December 31, 2019 - 432,359)	6,386	6,507
511,383 series 2015 shares (December 31, 2019 - 541,232)	6,883	7,285
Less employee share purchase loans	(24,331)	(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 six-month period ended June 30, 2020, 18,551 series 2009 shares, 3,112 series 2012 shares, 18,860 series 2013 shares, 8,037 series 2014 shares and 29,849 series 2015 shares (six-month period ended June 30, 2019 - 52,602 series 2009 shares, 9,823 series 2012 shares, 95,171 series 2013 shares, 8,749 series 2014 shares and 60,745 series 2015 shares) were converted into common shares with a stated value of approximately \$164, \$39, \$215, \$121 and \$402, respectively (six-month period ended June 30, 2019 - \$466, \$122, \$1,084, \$132 and \$818 respectively).

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During the six-month period ended June 30, 2020, the Company did not cancel any shares from any of the series of shares (six-month period ended June 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	June 30, 2020	December 31, 2019
(C\$ in thousands)		
Authorized - Unlimited common shares		
Issued		
80,525,821 common shares (2019 - 77,241,047)	167,080	115,728

During the six-month period ended June 30, 2020, 18,551 series 2009 shares, 3,112 series 2012 shares, 18,860 series 2013 shares, 8,037 series 2014 shares and 29,849 series 2015 shares (six-month period ended June 30, 2019 - 52,602 series 2009 shares, 9,823 series 2012 shares, 95,171 series 2013 shares, 8,749 series 2014 shares and 60,745 series 2015 shares) were converted into common shares with a stated value of approximately \$164, \$39, \$215, \$121 and \$402, respectively (six-month period ended June 30, 2019 - \$466, \$122, \$1,084, \$132 and \$818 respectively).

On September 10, 2018, the Company announced that it has received approval for a common share repurchase programme on The Toronto Stock Exchange ("TSX"). On September 9, 2019 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 3,878,064 common shares representing 4.99% of the total number of its 77,716,705 issued and outstanding common shares as at September 4, 2019. The average daily trading volume for the six months ended August 31, 2019 was 18,714. Therefore, other than block purchase exemptions, daily purchases will be limited to 4,678 common shares. The bid commenced on September 12, 2019 and will terminate on the earliest of the purchase of 3,878,064 common shares, the issuer providing a notice of termination, and September 11, 2020. 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 six-month period ended June 30, 2020, the Company repurchased 648,146 shares (six-month period ended June 30, 2019 - 45,115 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 \$10,311 (six-month period ended June 30, 2019 - \$668). The repurchase of common shares resulted in a reduction of share capital in the amount of \$971 (six-month period ended June 30, 2019 - \$66). The excess net cost over the average carrying value of the shares of \$9,340 (six-month period ended June 30, 2019 - \$602) has been recorded as a reduction in retained earnings. As at June 30, 2020, the Company has cancelled all of these repurchased shares. Included in the repurchases are shares repurchased under an Automatic Share Repurchase Plan ("ASPP"). The ASPP was entered into with the Company's broker for the purpose of permitting the Company to purchase its Common Shares under the NCIB during self-imposed blackout periods. The ASPP expired on February 26, 2020. As at June 30, 2020, the Company has no obligations for the repurchase of shares (as at December 31, 2019, an obligation was recognized of \$5,000 which is included in the net cost of \$10,311).

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

The dividends paid for the three months ended June 30, 2020 and June 30, 2019 were \$12,920 (\$0.16 per share) and \$10,871 (\$0.14 per share), respectively.

The dividends paid for the six-month period ended June 30, 2020 and June 30, 2019 were \$23,742 (\$0.29 per share) and \$21,561 (\$0.28 per share), respectively.

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13. Revenue

Disaggregation of Revenue

For the (C\$ in thousands)	Three months ended	
	June 30, 2020	June 30, 2019
Sales of goods by corporate stores	395,865	539,779
Income from franchise operations	6,018	6,877
Extended warranty revenue	11,425	9,990
Insurance sales revenue	3,008	3,849
Rental Income from investment property	358	377
Total	416,674	560,872

For the (C\$ in thousands)	Six months ended	
	June 30, 2020	June 30, 2019
Sales of goods by corporate stores	873,423	1,019,500
Income from franchise operations	12,123	13,029
Extended warranty revenue	21,713	19,969
Insurance sales revenue	6,275	7,377
Rental Income from investment property	751	738
Total	914,285	1,060,613

14. Income Tax Expense

For the (C\$ in thousands)	Three months ended	
	June 30, 2020	June 30, 2019
Current income tax expense	14,617	11,568
Deferred income tax recovery	(1,451)	(2,695)
Total	13,166	8,873

For the (C\$ in thousands)	Six months ended	
	June 30, 2020	June 30, 2019
Current income tax expense	19,334	16,859
Deferred income tax recovery	(3,240)	(4,781)
Total	16,094	12,078

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 six-month period ended June 30, 2020 and June 30, 2019 were 26.47% and 26 % 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)	June 30, 2020	June 30, 2019
Net Income for the period for basic earnings per share	47,210	25,042
Net income for the period for diluted earnings per share	47,237	25,400
Weighted average number of common shares outstanding	79,662,259	77,570,330
Dilutive effect	2,055,066	6,188,309
Dilutive weight average number of common shares outstanding	81,717,325	83,758,639
Basic earnings per share	\$0.59	\$0.32
Diluted earnings per share	\$0.58	\$0.30

For the	Six months ended	
(C\$ in thousands except share and share amounts)	June 30, 2020	June 30, 2019
Net Income for the period for basic earnings per share	60,904	34,376
Net income for the period for diluted earnings per share	61,024	35,088
Weighted average number of common shares outstanding	80,085,851	77,652,080
Dilutive effect	2,661,415	6,238,974
Dilutive weight average number of common shares outstanding	82,747,266	83,891,054
Basic earnings per share	\$0.76	\$0.44
Diluted earnings per share	\$0.74	\$0.42

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 June 30, 2020, unrestricted liquidity was \$486,703 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 quarter.
- On April 27, 2020 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 June 30, 2020, the Company's unrestricted liquidity is \$486,703, 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	June 30, 2020			
(C\$ in thousands)	Classification and Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial Assets				
Cash and cash equivalents	Amortized cost	193,394	193,394	Level 1
Trade receivable	Amortized cost	122,757	122,757	Level 2
Restricted marketable securities	FVOCI	2,495	2,495	Level 1
Equity instruments	FVOCI	41,404	41,404	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	74,144	74,144	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivables	FVTPL	12,984	12,984	Level 2
Other Assets	FVTPL	356	356	Level 2
Financial Liabilities				
Trade and other payables	Amortized cost	230,727	230,727	Level 2
Provisions	Amortized cost	15,597	15,597	Level 2
Loans and borrowings	Amortized cost	90,000	90,000	Level 2
Convertible debentures	Amortized cost	1,276	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 receivable	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 June 30, 2020 includes financial assets of \$311,437, \$136,197 and \$3,310 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$338,259 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 June 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 June 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 June 30, 2020, a \$356 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 consists of the following:

For the (C\$ in thousands)	Six months ended	
	June 30, 2020	June 30, 2019
Trade receivables	17,778	(4,954)
Inventories	55,853	1,710
Prepaid expenses and other assets	(6,042)	(9,835)
Trade and other payables	(25,313)	(34,986)
Customers' deposits	50,598	(25,786)
Other assets	269	102
Provisions	1,613	2,404
Deferred acquisition costs	2,165	844
Deferred rent liabilities and lease inducements	-	433
Total	96,921	(70,068)

b) Supplemental Cash Flow information:

For the (C\$ in thousands)	Six months ended	
	June 30, 2020	June 30, 2019
Income taxes paid	14,277	17,924

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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 June 30, 2020, the Company has received instalments of \$17,964 under this program, with a further \$11,821 booked as a receivable. The total amount claimed during the quarter of \$29,785 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 second quarter of 2020 interim condensed consolidated financial statements.