

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarters ended March 31, 2020 and 2019

The following Management's Discussion and Analysis ("MD&A") is prepared as at May 14, 2020 and is based on the unaudited interim condensed consolidated financial position and operating results of Leon's Furniture Limited/Meubles Leon Ltée (the "Company") as of March 31, 2020 and for the three months ended March 31, 2020 and 2019. It should be read in conjunction with the fiscal year 2019 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2019 quarterly financial statements and corresponding MD&As which are published separately and available at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

This MD&A is intended to provide readers with the information that management believes is required to gain an understanding of Leon's Furniture Limited's current results and to assess the Company's future prospects. This MD&A, and in particular the section under heading "Outlook", includes forward-looking statements, which are based on certain assumptions and reflect Leon's Furniture Limited's current plans and expectations. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results and future prospects to differ materially from current expectations. Some of the factors that can cause actual results to differ materially from current expectations are: a drop in consumer confidence; dependency on product from Third party suppliers, further changes to the Canadian bank lending rates; and further fluctuations of the Canadian dollar versus the US dollar. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Readers of this report are cautioned that actual events and results may vary.

Financial Statements Governance Practice

Leon's Furniture Limited's unaudited interim condensed consolidated financial statements have been prepared in accordance with the requirements of IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). The amounts expressed are in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding before and after considering the potential dilutive effects of the convertible debentures for the applicable period.

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the unaudited interim condensed consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the unaudited interim condensed consolidated financial statements and MD&A were approved on May 14, 2020.

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1. BUSINESS OVERVIEW

Leon's Furniture Limited is the largest network of home furniture, appliances, electronics, and mattress stores in Canada. Our retail banners include: Leon's; The Brick; Brick Outlet and The Brick Mattress Store. As well, The Brick's Midnorthern Appliance banner alongside with the Appliance Canada banner, makes the Company the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies. Finally, the Company operates three ecommerce sites: leons.ca, thebrick.com and furniture.ca.

The Company's repair service division, Trans Global Services ("TGS"), provides household furniture, electronics and appliance repair services to its customers. TGS has contracts to support several manufacturer's warranty service work in addition to servicing a number of individual programs offered by other dealers. This division also performs work for products sold with extended warranties and is an integral part of the retail offering. These extended warranties, underwritten by the Company's wholly-owned subsidiaries are offered on appliances, electronics and furniture to provide coverage that extends beyond the manufacturer's warranty period by up to five years. The warranty contracts provide both repair and replacement service depending upon the nature of the warranty claim.

The Company's wholly-owned subsidiaries Trans Global Insurance Company ("TGI") and its sister company, Trans Global Life Insurance Company ("TGLI") also offer credit insurance on the customer's outstanding financing balances and Third party customer balances. This credit insurance coverage includes life, dismemberment, disability, critical illness, and involuntary unemployment. These credit insurance policies are underwritten by TGI and TGLI as they are licensed as insurance companies in all Canadian provinces and territories.

The Company has foreign operations in Asia and the Caribbean, through its wholly owned subsidiaries First Oceans Trading Corporation and King & State Limited, respectively. These operations relate to the Company's import and quality control program for sourcing products from Asia for resale in Canada through its retail operations, and the retail banners that sell their extended warranties on appliances and electronics to their customers, respectively.

COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus, which has the potential to cause severe respiratory illness ("COVID-19"), 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 three-months ended March 31, 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.

Store Continuity

The Company has 304 retail stores from coast to coast in Canada at March 31, 2020. The following table illustrates the Company's store count continuity from December 31, 2019 to March 31, 2020 by retail banner.

Corporate Stores	At December 31, 2019	Opened	Closed	At March 30, 2020
Leon's	52	—	—	52
Appliance Canada	5	—	—	5
The Brick ⁽¹⁾	115	—	—	115
The Brick Mattress Store	24	—	—	24
Brick Outlet	9	—	—	9
Corporate Subtotal	205	—	—	205
Franchise Stores				
Leon's	34	—	—	34
The Brick	65	—	—	65
Franchise Subtotal	99	—	—	99
Total Corporate & Franchise Stores	304	—	—	304

⁽¹⁾Includes the Midnorthern Appliance banner

2. NON-IFRS FINANCIAL MEASURES

The Company uses financial measures that do not have standardized meaning under IFRS and may not be comparable to similar measures presented by other entities. The Company calculates the non-IFRS measures by adjusting certain IFRS measures for specific items the Company believes are significant, but not reflective of underlying operations in the period, as detailed below:

Non-IFRS Measure	IFRS Measure
Adjusted net income	Net income
Adjusted income before income taxes	Income before income taxes
Adjusted earnings per share – basic	Earnings per share – basic
Adjusted earnings per share – diluted	Earnings per share – diluted
Adjusted EBITDA	Net income

Adjusted Net Income

Leon's calculates comparable measures by excluding the effect of changes in fair value of derivative instruments, related to the net effect of USD-denominated forward contracts and an interest rate swap on the Company's term credit facility. The Company uses forward currency contracts to manage the risk associated with its USD-denominated purchases and an interest rate swap to manage interest rate risk on its term credit facility in accordance with the Company's corporate treasury policy. Management believes excluding from income the effect of these mark-to-market valuations and changes thereto, until settlement, better

aligns the intent and financial effect of these contracts with the underlying cash flows.

The following is a reconciliation of reported net income to adjusted net income, basic and diluted earnings per share to adjusted basic and diluted earnings per share:

(\$ in thousands except per share amounts)	For the three months ended March 31	
	2020	2019
Net Income	13,694	9,334
After-tax mark-to-market (gain)/loss on financial derivative instruments	239	80
Adjusted net income	13,933	9,414
Basic earnings per share	\$ 0.17	\$ 0.12
Diluted earnings per share	\$ 0.17	\$ 0.12
Adjusted basic earnings per share	\$ 0.17	\$ 0.12
Adjusted diluted earnings per share	\$ 0.16	\$ 0.12

Adjusted EBITDA

Adjusted earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustment due to the changes in the fair value of the Company's financial derivative instruments and any non-recurring charges to income ("Adjusted EBITDA") is a non-IFRS financial measure used by the Company. The Company considers adjusted EBITDA to be an effective measure of profitability on an operational basis and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Adjusted EBITDA is a non-IFRS financial measure used by the Company. The Company's Adjusted EBITDA may not be comparable to the Adjusted EBITDA measure of other companies, but in management's view appropriately reflects Leon's specific financial condition. This measure is not intended to replace net income, which, as determined in accordance with IFRS, is an indicator of operating performance.

The following is a reconciliation of reported net income to adjusted EBITDA:

(\$ in thousands)	For the three months ended March 31	
	2020	2019
Net Income	13,694	9,334
Income tax expense	2,928	3,204
Net finance costs	4,849	6,297
Depreciation and amortization	27,629	31,724
Mark-to-market (gain)/loss on financial derivative instruments	326	110
Adjusted EBITDA	49,426	50,669

Same Store Sales

Same store sales are defined as sales generated by stores, both in store and through online transactions, that have been open for more than 12 months on a fiscal basis. Same store sales is not an earnings measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Same store sales as discussed in this MD&A may not be comparable to similar measures presented by other

issuers, however this measure is commonly used in the retail industry. We believe that disclosing this measure is meaningful to investors because it enables them to better understand the level of growth of our business.

Total System Wide Sales

Total system wide sales refer to the aggregation of revenue recognized in the Company's consolidated financial statements plus the franchise sales occurring at franchise stores to their customers which are not included in the revenue figure presented in the Company's consolidated financial statements. Total system wide sales is not a measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Therefore, total system wide sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers. We believe that disclosing this measure is meaningful to investors because it serves as an indicator of the strength of the Company's overall store network, which ultimately impacts financial performance.

Franchise Sales

Franchise sales figures refer to sales occurring at franchise stores to their customers which are not included in the revenue figures presented in the Company's consolidated financial statements, or in the same store sales figures in this MD&A. Franchise sales is not a measure recognized by IFRS, and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Therefore, franchise sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers. Once again, we believe that disclosing this measure is meaningful to investors because it serves as an indicator of the strength of the Company's brands, which ultimately impacts financial performance.

3. RESULTS OF OPERATIONS

Summary financial highlights for the three months ended March 31, 2020 and March 31, 2019

(\$ in thousands except % and per share amounts)	For the three months ended March 31			
	2020	2019	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	598,103	597,158	945	0.2%
Franchise sales ⁽¹⁾	100,492	97,417	3,075	3.2%
Revenue	497,611	499,741	(2,130)	(0.4%)
Cost of sales	283,082	283,574	(492)	(0.2%)
Gross profit	214,529	216,167	(1,638)	(0.8%)
<i>Gross profit margin as a percentage of revenue</i>	43.11%	43.26%		
Selling, general and administrative expenses	192,732	197,222	(4,490)	(2.3%)
<i>SG&A as a percentage of revenue ⁽²⁾</i>	38.73%	39.46%		
Income before net finance costs and income tax expense	21,797	18,945	2,852	15.1%
Net finance costs	(4,849)	(6,297)	1,448	23.0%
Income before income taxes	16,948	12,648	4,300	34.0%
Income tax expense	3,015	3,234	(219)	(6.8%)
Adjusted net income ⁽¹⁾	13,933	9,414	4,519	48.0%
<i>Adjusted net income as a percentage of revenue ⁽¹⁾</i>	2.80%	1.88%		
After-tax mark-to-market (gain) loss on financial derivative instruments	239	80	(159)	(198.8%)
Net income	13,694	9,334	4,360	46.7%
Basic weighted average number of common shares	79,653,873	77,566,054		
Basic earnings per share	\$ 0.17	\$ 0.12	0.05	41.7%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.17	\$ 0.12	0.05	41.7%
Diluted weighted average number of common shares	82,921,636	83,856,254		
Diluted earnings per share	\$ 0.17	\$ 0.12	0.05	41.7%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.16	\$ 0.12	0.04	33.3%
Common share dividends declared	\$ 0.16	\$ 0.14	0.02	14.3%

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

(2) Selling, general and administrative expenses ("SG&A")

Same Store Sales ⁽¹⁾

(\$ in thousands except %)	For the three months ended March 31			
	2020	2019	\$ Decrease	% Decrease
Same store sales ⁽¹⁾	483,671	489,456	(5,785)	(1.18%)

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

First quarter overall performance

Revenue

For the three months ended March 31, 2020, revenue was \$497,611,000 compared to \$499,741,000 in the prior year's first quarter. Revenue decreased \$2,130,000 or 0.4% as compared to the prior quarter due to a decrease primarily in the sale of furniture and partially offset by the strength of appliance sales. This reversal in sales growth occurred in the final weeks of the quarter and was primarily attributable to the significant reduction in physical store traffic due to COVID-19 and offset by the demand for appliances in both the retail and commercial segments.

Same Store Sales⁽¹⁾

Same store corporate sales decreased 1.2% compared to the prior year's first quarter, excluding the impact of COVID-19, the Company's same store sales up to the end of February 2020 had increased 5.4%. This reversal in same store sales growth occurred in the final weeks of the quarter and was primarily attributable to the significant reduction in store traffic due to COVID-19, however this was partially offset by the meaningful increases to the annualized run rate in eCommerce initiated sales orders. In order to mitigate the effect on sales due to the drop in physical store traffic, the Company redeployed store headcount to the creation of live chat teams in order to service customers virtually while they navigate the Company's websites and also to increase online conversion rates in a meaningful way. The company's focus on ecommerce, including its live chat initiative, has generated a five-fold increase to the annualized run rate in eCommerce sales subsequent to the quarter end of March 31, 2020.

Gross Profit

The gross profit margin decreased slightly from the prior year's first quarter result of 43.26% to 43.11% in the current quarter, this reduction of 15 basis points was attributable to the current quarter's product mix.

Selling, general and administrative expenses ("SG&A")

SG&A as a percentage of revenue in the current quarter was down by 73 basis points due to effectively managing overall SG&A expenses throughout the quarter while at the same time optimizing advertising spend in the quarter to drive digital traffic to the Company's websites.

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

Adjusted net income in the current quarter totaled \$13,933,000 an increase of \$4,519,000 or 48% over the prior year's quarter. Adjusted diluted earnings per share for the Company increased by \$0.04 to \$0.16 per share, an increase of 33.3% over the prior year's quarter.

Net Income and Diluted Earnings Per Share

Including the mark-to-market impact of the Company's financial derivatives, net income for the first quarter of 2020 was \$13,694,000, \$0.17 per diluted earnings per share (net income \$9,334,000, \$0.12 per diluted earnings per share in 2019).

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

4. SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

The table below highlights the variability of quarterly results and the impact of seasonality on the Company's results. The Company's profitability is typically lower in the first half of the year, since retail sales have historically been higher in the third and fourth quarters.

(\$ in thousands except per share data)	Quarter ended March 31		Quarter ended December 31		Quarter ended September 30		Quarter ended June 30	
	2020	2019	2019 ⁽³⁾	2018	2019 ⁽³⁾	2018	2019 ⁽³⁾	2018
Total system wide sales ⁽¹⁾	598,103	597,158	751,267	726,547	712,522	707,058	667,637	650,012
Franchise sales ⁽¹⁾	100,492	97,417	129,826	124,887	111,165	114,729	106,765	103,283
Revenue	497,611	499,741	621,441	601,660	601,357	592,329	560,872	546,729
Net income	13,694	9,334	39,334	38,785	33,219	33,744	25,042	23,975
Adjusted net income ⁽¹⁾⁽²⁾	13,933	9,414	39,357	38,289	33,019	34,262	25,037	22,595
Basic earnings per share	\$ 0.17	\$ 0.12	\$ 0.51	\$ 0.51	\$ 0.43	\$ 0.44	\$ 0.32	\$ 0.31
Diluted earnings per share	\$ 0.17	\$ 0.12	\$ 0.48	\$ 0.48	\$ 0.40	\$ 0.41	\$ 0.30	\$ 0.29
Adjusted basic earnings per share ⁽¹⁾⁽²⁾	\$ 0.17	\$ 0.12	\$ 0.55	\$ 0.50	\$ 0.47	\$ 0.45	\$ 0.37	\$ 0.30
Adjusted diluted earnings per share ⁽¹⁾⁽²⁾	\$ 0.16	\$ 0.12	\$ 0.52	\$ 0.47	\$ 0.44	\$ 0.42	\$ 0.35	\$ 0.28

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

(2) Refer to section 2 - Adjusted net income.

(3) These numbers have been adjusted to exclude the impact due to the impact of IFRS 16 on a modified retrospective approach.

5. FINANCIAL POSITION

(\$ in thousands)	March 31, 2020	December 31, 2019	March 31, 2019
Total assets	2,005,857	2,129,934	2,042,833
Total non-current liabilities	594,360	643,202	583,852

Assets

Total assets at March 31, 2020 of \$2,005,857,000 were \$124,077,000 less than the \$2,129,934,000 reported at December 31, 2019. The majority of this change was driven by a decrease in cash and cash equivalents, trade receivables and property, plant and equipment.

Non-Current Liabilities

Non-current liabilities of \$594,360,000 were \$48,842,000 less than the \$643,202,000 reported at December 31, 2019. This is primarily as a result of the conversion of \$48,506,000 of the convertible debenture to 3,838,134 common shares at the holder's option.

Net Debt

The table below reflects the Company's net debt balances (excluding its lease liabilities) as at March 31, 2020 and December 31, 2019.

(\$ in thousands)	March 31, 2020	December 31, 2019	\$ Increase (Decrease)
Long-term debt	90,000	70,000	20,000
Convertible debentures	1,480	48,788	(47,308)
Current portion of long-term debt	-	25,000	(25,000)
Total long-term debt (excluding lease liabilities)	91,480	143,788	(52,308)
Less cash, cash equivalents, debt and equity instruments	(125,231)	(197,177)	71,946
Net debt (cash)	(33,751)	(53,389)	19,638

At March 31, 2020, the Company's net debt position continues to reflect a net positive cash position of \$33,751,000, which excludes the Company's restricted marketable securities of \$5,857,000. This positive result was achieved in the quarter mainly due to the conversion of the majority of the convertible debentures into common shares of the Company.

6. LIQUIDITY AND CAPITAL RESOURCES

Liquidity Risk Management

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 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 March 31, 2020, unrestricted liquidity was \$171,272,000 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 or has planned the following actions to support its current operating environment and its liquidity position:

- On March 25, 2020, the Company temporarily closed a significant number of store locations and temporarily laid off 3,900 valued associates, representing approximately 50% of its total workforce. Subsequent to these payroll cost reductions, the Company increased the number of temporary layoffs by an incremental 20% of its total workforce.
- In order to protect the health and safety of our customers and associates, the Company introduced several measures in the quarter to provide support to our associates and customers. These measures included: reduced store hours, contactless home delivery and customer pickup protocols, enhanced cleaning protocols and actions to support physical distancing including limiting the number of customers allowed in-store. The Company continued to operate its distribution centres and warehouse locations across the country with enhanced safety protocols.
- As a result of government restrictions, beginning April 5, 2020, all store showrooms in Ontario were closed to the public. However, the Company continues to operate showroom locations in certain provinces with a significantly reduced store headcount and continues to provide its customers with the ability to transact on its eCommerce websites across its various banners.
- The Company intends to apply for the Canada Emergency Wage Subsidy, which will materially contribute towards its cost savings initiatives and allow for more of its temporarily laid off associates to be returned to work in the second quarter of 2020.
- On April 27, 2020 the Company exercised its \$125,000,000 credit accordion available under its Senior Secured Credit Agreement, thereby increasing its total revolving credit facility to \$175,000,000. Any amounts borrowed under the revolving credit facility must be repaid in full by May 31, 2024. As of today, the Company's unrestricted liquidity has

increased from \$171,272,000 to \$296,272,000 excluding its unencumbered real estate portfolio comprising of land and buildings.

Consolidated Cash Flow Movements

The following table provides a summarized statement of cash flows for the three months ended March 31, 2020 and March 31, 2019:

Source (Use) of Cash (\$ in thousands)	For the three months ended March 31		
	2020	2019	\$ Increase (Decrease)
Cash provided by operating activities before changes in non-cash working capital items	41,439	42,082	(643)
Changes in non-cash working capital items	(56,364)	(82,943)	26,579
Cash used by operating activities	(14,925)	(40,861)	25,936
Cash used in investing activities	(8,749)	(6,481)	(2,268)
Cash used in financing activities	(43,838)	(37,758)	(6,080)
Decrease in cash and cash equivalents	(67,512)	(85,100)	17,588

Cash Provided By Operating Activities

Cash from operating activities consist primarily of net income adjusted for certain non-cash items, including depreciation and amortization and the effect of changes in non-cash working capital items, primarily receivables, inventories, deferred acquisition costs, accounts payable, income taxes payable, customers' deposits and deferred rent liabilities and lease inducements.

In the first quarter of 2020, cash provided by operating activities increased by \$25,936,000 compared to the prior year's quarter. This movement was driven by decreases in trade receivables and inventories of \$34,492,000 and \$9,231,000 respectively. This was partly offset by a decrease in customer deposits of \$20,015,000.

Cash Used In Investing Activities

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

In the first quarter of 2020, cash used in investing activities increased by \$2,268,000 compared to the prior year's quarter. This change is due to the net increase in property plant and equipment and financial assets of \$4,855,000 and \$1,873,000 respectively. These increases were partly offset by an increase in the proceeds from the sale of financial assets of \$3,771,000.

Cash Used in Financing Activities

Financing activities consist primarily of cash used to pay dividends, the loans and borrowings used to acquire The Brick and lease liabilities.

In the first quarter of 2020, cash used in financing activities increased by \$6,080,000 compared to the prior year's quarter. The movement is primarily driven by an increase in the repurchasing of common shares of \$4,830,000 as well the decrease in employee share loans of \$1,425,000.

Adequacy of Financial Resources

At March 31, 2020, the Company's current assets exceeded its current liabilities by \$136,930,000 and its cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$131,088,000 compared to \$202,954,000 at December 31, 2019. Under the Company's Senior Secured Credit Agreement, we had unused borrowing capacity of \$49,351,000 as at March 31, 2020 (\$49,351,000 as at December 31, 2019). The Company believes that its existing financing resources together with cash flow provided from its current operations and its expanded revolving credit facility that was amended after the quarter end of March 31, 2020, will provide a sound liquidity and working capital position throughout the next twelve months.

Contractual Commitments

(\$ in thousands)	Payments Due by Period				
	Total	Under 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Long term debt	95,818	1,396	94,422	-	-
Trade and other payables	229,734	229,734	-	-	-
Lease liability	452,424	64,927	151,702	130,060	105,735
Total Contractual Obligations	777,976	296,057	246,124	130,060	105,735

7. OUTLOOK

In the short-term, the duration and full financial effect of COVID-19 is unknown, as is the efficacy of government and central bank interventions to curb the spread of COVID-19 and stimulate the economy. Federal and provincial governments have instituted shelter-in-place guidelines, social distancing requirements, bans on non-essential travel and other measures that have directly led to reductions in store traffic and sales figures at the Company's bricks and mortar retail locations commencing in the early part of March 2020 and continuing today. The Company continues to actively monitor the situation and will continue to respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, our customer and employee reactions and any further government actions, none of which can be predicted with any degree of certainty.

Management anticipates that actions taken to date, including necessary layoffs and store closures, have positioned the Company strongly to weather the current crisis and to take advantage of any accretive opportunities that may arise. Several of the Company's existing attributes are expected to function as operating positions of strength which will act as offsets in the current environment:

- Essential nature of some of the Company's products and services. Household appliances that are necessary to cook and clean have been deemed essential by provincial governments. The Company also owns the largest third-party appliance service company in Canada, Transglobal Service, that has been operating across the country with enhanced health and safety protocols to protect both our customers and our technicians.
- Rapidly scaling our eCommerce business. The Company's eCommerce revenue has grown more than fivefold subsequent to the quarter end of March 31, 2020. In late 2018, we moved the Company's online stores to the Shopify Plus platform, which has enabled a richer and more interactive eCommerce offering, has resulted in improved scalability and enabled significant operating leverage.

- Unencumbered ownership of substantial real estate assets across the country. The Company owns 4.2 million square feet (office, retail, industrial) of approximately 13 million square feet in use today by the Company. This is a significant competitive advantage in the current environment, resulting in a far lower carrying cost for closed stores or other properties than similar leased properties. In addition, the value inherent in this portfolio would enable the Company to readily access additional liquidity to support existing operations and take advantage of accretive opportunities as they arise.
- Pristine balance sheet as evidenced by the Company's commitment to deleveraging over \$440,000,000 in various forms of debt since purchasing The Brick in 2013. Furthermore, the Company is currently in a net cash position. as at March 31, 2020 this amounted to a total of \$33,751,000. In addition, the Company has unrestricted liquidity of approximately \$300,000,000 currently with room to further expand if necessary.

On a longer-term basis, we still believe that the underlying Canadian economy remains relatively strong. Although it is difficult to gauge future consumer confidence and what impact it may have on retail, we remain confident that our sales and profitability will increase. Given the Company's strong and continuously improving financial position, our principal objective is to increase our market share and profitability. We remain focused on our commitment to effectively manage our costs but to also continuously invest in digital innovation that we believe will drive more customers to both our online eCommerce presence and our 304 physical locations across Canada.

8. OUTSTANDING COMMON SHARES

At March 31, 2020, there were 80,509,444 common shares issued and outstanding. During the quarter ended March 31, 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 were converted into common shares. For details on the Company's commitments related to its redeemable share liability please refer to Note 11.2 of the of the unaudited interim condensed consolidated financial statements.

9. RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2020, we had no transactions with related parties as defined in IAS 24, *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment.

10. CRITICAL ASSUMPTIONS

Use of Estimates and Judgments

Management has exercised judgment in the process of applying the Company's accounting policies. The preparation of interim condensed consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet dates and the reported amounts of revenue and expenses during the reporting period. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the interim condensed consolidated financial statements.

Extended warranty revenue recognition

The Company offers extended warranties on certain merchandise. Management has applied judgment in determining the basis upon and period over which to recognize deferred warranty revenue.

Inventories

The Company estimates the net realizable value as the amount at which inventories are expected to be sold by taking into account fluctuations of retail prices due to prevailing market conditions. If required, inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or declining sales prices.

Reserves for slow moving and damaged inventory are deducted in the Company's valuation of inventories. Management has estimated the amount of reserve for slow moving inventory based on the Company's historic retail experience.

Impairment of property, plant and equipment

The Company exercises judgment in the determination of cash-generating units ("CGUs") for purposes of assessing any impairment of property, plant and equipment, as well as in determining whether there are indicators of impairment present. Should indicators of impairment be present, management estimates the recoverable amount of the relevant CGU. This estimation requires assumptions about future cash flows, margins and discount rates.

Impairment of goodwill and intangible assets

The Company tests goodwill and indefinite life intangible assets at least annually and reviews other long-lived intangible assets for any indication that the asset might be impaired. Significant judgments are required in determining the CGUs or groups of CGUs for purposes of assessing impairment. Significant judgments are also required in determining whether to allocate goodwill to CGUs or groups of CGUs. When performing impairment tests, the Company estimates the recoverable amount of the CGUs or groups of CGUs to which goodwill and indefinite life intangible assets have been allocated using a discounted cash flow model that requires assumptions about future cash flows, margins and discount rates.

Provisions

The Company exercises judgment in the determination of recognizing a provision. The Company recognizes a provision when it has a present legal or constructive obligation as a result of a past event and a reliable estimate of the obligation can be made. Significant judgments are required to be made in determining what the probable outflow of resources will be required to settle the obligation.

Leases

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

Materiality

In preparing this MD&A and the information contained herein, management considers the likelihood that a reasonable investor would be influenced to buy or not buy, or to sell or hold securities of the Company if such information were omitted or misstated. This concept of materiality is consistent with the notion of materiality applied to financial statements and contained in IFRS.

Recent Accounting Pronouncements

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.

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 these standards will have on its financial statements.

11. RISKS AND UNCERTAINTIES

Careful consideration should be given to the following risk factors. These descriptions of risks are not the only ones facing the Company. Additional risks and uncertainties not presently known to Leon's, or that the Company deems immaterial, may also impair the operations of the Company. If any of such risks actually occur, the business, financial condition, liquidity, and results of operations of the Company could be materially adversely affected.

Readers of this MD&A are also encouraged to refer to Leon's Annual Information Form ("AIF") dated February 27, 2019, which provides information on the risk factors facing the Company. The February 27, 2019 AIF can be found online at www.sedar.com.

Sensitivity to General Economic Conditions

The household furniture, mattress, appliance and home electronics retailing industry in Canada has historically been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. The Company's sales are impacted by the health of the economy in Canada as a whole, and in the regional markets in which the Company operates.

The Company's sales and financial results are subject to numerous uncertainties. Weakness in sales or consumer confidence could result in an increasingly challenging operating environment.

Maintaining Profitability & Managing Growth

There can be no assurance that the Company's business and growth strategy will enable it to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including (i) the Company's ability to continue to successfully execute its strategic initiatives, (ii) the level of competition in the household furniture, mattress, appliance and home electronics retailing industry in the markets in which the Company operates, (iii) the Company's ability to remain a low-cost retailer, (iv) the Company's ability to realize increased sales and greater levels of profitability through its retail stores, (v) the effectiveness of the Company's marketing programs, (vi) the Company's ability to successfully identify and respond to changes in fashion trends and consumer tastes in the household furniture, mattress, appliance and home electronics retailing industry, (vii) the Company's ability to maintain cost effective delivery of its products, (viii) the Company's ability to hire, train, manage and retain qualified retail store management and sales professionals, (ix) the Company's ability to continuously improve its service to achieve new and enhanced customer benefits and better quality, and (x) general economic conditions and consumer confidence.

Financial Condition of Commercial Sales Customers & Franchisees

Through its commercial sales division, the Company sells products and extends credit to high-rise and condominium builders who purchase large quantities of products. The Company also sells products and extends credit to its franchisees. Negative changes in the financial condition of a significant commercial sales customer or a franchisee could impact on the Company's receivables and ultimately result in the Company having to take a bad-debt write-off in excess of allowance for bad debts. The occurrence of such an event could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

Competition

The household furniture, mattress, appliance and home electronics retailing industry is highly competitive and highly fragmented. The Company faces competition in all regions in which its operations are located by existing stores that sell similar products and also by stores that may be opened in the future by existing or new competitors in such markets. The Company competes directly with many different types of retail stores that sell many of the products sold by the Company. Such competitors include (i) department stores, (ii) specialty stores (such as specialty electronics, appliance, or mattress retailers), (iii) other national or regional chains offering household furniture, mattresses, appliances and home electronics, and (iv) other independent retailers, particularly those associated with larger buying groups. The highly competitive nature of the industry means the Company is constantly subject to the risk of losing market share to its competitors. As a result, the Company may not be able to maintain or to raise the prices of its products in response to competitive pressures. In addition, the entrance of additional competitors to the markets in which the Company operates, particularly large furniture, appliance or electronics retailers from the United States could increase the competitive pressure on the Company and have a material adverse effect on the Company's market share. The actions and strategies of the Company's current and potential competitors could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

12. CONTROLS AND PROCEDURES

Disclosure Controls & Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported on a timely basis to senior management, including the Chief Executive Officer and Chief Financial Officer so that appropriate decisions can be made by them regarding public disclosure. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as at March 31, 2020.

Internal Controls over Financial Reporting

Management is also responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A

control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met. During the three months ended March 31, 2020, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.