

Interim Condensed Consolidated Financial Statements

<b>Leon's Furniture Limited</b>		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)		
(\$ in thousands)	As at March 31 <b>2020</b>	As at December 31 <b>2019</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	21,520	89,032
Restricted marketable securities	5,857	5,777
Debt securities	65,343	65,859
Equity securities	38,368	42,286
Trade receivables	96,088	140,535
Income taxes receivable	9,337	3,578
Inventories <i>[note 5]</i>	337,686	334,443
Deferred acquisition costs	6,842	6,931
Prepaid expenses and other assets	14,154	9,273
Other assets	299	625
<b>Total current assets</b>	<b>595,494</b>	<b>698,339</b>
Deferred acquisition costs	10,245	11,643
Loan receivable	13,014	13,053
Property, plant and equipment <i>[note 6]</i>	700,996	720,794
Investment properties <i>[note 7]</i>	16,524	16,633
Intangibles <i>[note 8]</i>	271,223	271,810
Goodwill	390,120	390,120
Deferred income tax assets	8,241	7,542
<b>Total assets</b>	<b>2,005,857</b>	<b>2,129,934</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Trade and other payables	229,734	256,539
Provisions	14,787	13,984
Income taxes payable	1,882	6,505
Customers' deposits	92,884	151,817
Lease liability <i>[note 9]</i>	70,624	70,601
Dividends payable	12,920	10,822
Deferred warranty plan revenue	35,733	35,700
Loans and borrowings <i>[note 10]</i>	-	25,000
<b>Total current liabilities</b>	<b>458,564</b>	<b>570,968</b>
Loans and borrowings <i>[note 10]</i>	90,000	70,000
Convertible debentures <i>[note 10]</i>	1,480	48,788
Lease liability <i>[note 9]</i>	324,573	342,093
Deferred warranty plan revenue	104,391	107,243
Redeemable share liability <i>[note 11.2]</i>	13	13
Deferred income tax liabilities	73,903	75,065
<b>Total liabilities</b>	<b>1,052,924</b>	<b>1,214,170</b>
<b>Shareholders' equity attributable to the shareholders of the Company</b>		
Common shares <i>[note 12]</i>	166,873	115,728
Equity component of convertible debentures <i>[note 10]</i>	108	3,542
Retained earnings	789,107	793,116
Accumulated other comprehensive income	(3,155)	3,378
<b>Total shareholders' equity</b>	<b>952,933</b>	<b>915,764</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,005,857</b>	<b>2,129,934</b>

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

Interim Condensed Consolidated Financial Statements

<b>Leon's Furniture Limited</b>		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME		
(UNAUDITED)		
(\$ in thousands, except shares outstanding and earnings per share)	Three months ended March 31st	
	2020	2019
<b>Revenue</b> <i>[note 13]</i>	497,611	499,741
Cost of sales <i>[note 5]</i>	283,082	283,574
<b>Gross profit</b>	214,529	216,167
<b>Operating expenses</b>		
Selling, general and administrative expenses	192,732	197,222
<b>Operating profit</b>	21,797	18,945
Finance costs	(5,949)	(7,247)
Finance income	1,100	950
Change in fair value of derivative instruments	(326)	(110)
<b>Net income before income tax</b>	16,622	12,538
Income tax expense <i>[note 14]</i>	2,928	3,204
<b>Net income for the period</b>	13,694	9,334
<b>Weighted average number of common shares outstanding</b>		
Basic	79,653,873	77,566,054
Diluted	82,921,636	83,856,254
<b>Earnings per share</b> <i>[note 15]</i>		
Basic	\$ 0.17	\$ 0.12
Diluted	\$ 0.17	\$ 0.12
<b>Dividends declared per share</b>		
Common	\$ 0.16	\$ 0.14

<b>Leon's Furniture Limited</b>		
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME		
(UNAUDITED)		
(\$ in thousands)	Three months ended March 31st	
	2020	2019
<b>Net income for the period</b>	13,694	9,334
<b>Other comprehensive income, net of tax</b>		
Items that may be reclassified subsequently to profit or loss:		
Gain on debt instruments arising during the period	129	880
Items that will not be reclassified to profit or loss:		
Gain (loss) on equity instruments arising during the period	(6,662)	2,149
Change in gain (loss) on debt and equity instruments arising during the period	(6,533)	3,029
<b>Comprehensive income for the period</b>	7,161	12,363

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## Interim Condensed Consolidated Financial Statements

<b>Leon's Furniture Limited</b>					
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)					
(\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income	Retained earnings	Total
<b>As at December 31, 2019</b>	3,542	115,728	3,378	793,116	915,764
<b>Comprehensive income</b>					
Net income for the period	-	-	-	13,694	13,694
Change in losses on debt and equity instruments	-	-	(6,533)	-	(6,533)
<b>Total comprehensive income</b>	-	-	(6,533)	13,694	7,161
<b>Transactions with shareholders</b>					
Dividends declared	-	-	-	(12,920)	(12,920)
Management share purchase plan <i>[note 11]</i>	-	939	-	-	939
Convertible debentures <i>[note 10]</i>	(3,434)	50,734	-	-	47,300
Share repurchase commitment <i>[note 12]</i>	-	443	-	4,557	5,000
Repurchase of common shares <i>[note 12]</i>	-	(971)	-	(9,340)	(10,311)
<b>Total transactions with shareholders</b>	(3,434)	51,145	-	(17,703)	30,008
<b>As at March 31, 2020</b>	108	166,873	(3,155)	789,107	952,933

  

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

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

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

(\$ in thousands)	Three months ended March 31	
	2020	2019
<b>OPERATING ACTIVITIES</b>		
Net income for the period	13,694	9,334
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	27,026	30,717
Amortization of intangible assets	602	1,007
Amortization of deferred warranty plan revenue	(17,555)	(17,333)
Net finance costs	4,849	6,088
Deferred income taxes	(1,789)	(2,087)
Gain on sale of property, plant and equipment and investment properties	(21)	(37)
Fair value gain on loan receivable <i>[note 11.1]</i>	(151)	-
Loss on sale of debt and equity instruments	48	7
	26,703	27,696
Net change in non-cash working capital balances related to operations <i>[note 17]</i>	(56,364)	(82,943)
Cash received on warranty plan sales	14,736	14,386
<b>Cash used in operating activities</b>	<b>(14,925)</b>	<b>(40,861)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and investment properties <i>[notes 6 &amp; 7]</i>	(7,428)	(2,573)
Purchase of intangible assets <i>[note 8]</i>	(15)	(17)
Proceeds on sale of property, plant and equipment and investment properties	444	62
Purchase of debt and equity instruments	(10,794)	(8,921)
Proceeds on sale of debt and equity instruments	7,754	3,983
Loan receivable <i>[note 11.1]</i>	190	35
Interest received	1,100	950
<b>Cash used in investing activities</b>	<b>(8,749)</b>	<b>(6,481)</b>
<b>FINANCING ACTIVITIES</b>		
Payment of lease liabilities	(17,614)	(17,356)
Dividends paid	(10,822)	(10,690)
Decrease of employee loans-redeemable shares <i>[note 11.2]</i>	939	2,364
Repurchase of common shares <i>[note 12]</i>	(5,311)	(481)
Repayment of term loan <i>[note 10]</i>	(5,000)	(5,000)
Interest paid	(6,030)	(6,595)
<b>Cash used in financing activities</b>	<b>(43,838)</b>	<b>(37,758)</b>
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(67,512)</b>	<b>(85,100)</b>
Cash and cash equivalents, beginning of period	89,032	90,267
<b>Cash and cash equivalents, end of period</b>	<b>21,520</b>	<b>5,167</b>

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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)  
For the three months ended March 31, 2020 and 2019

**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, and 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. 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.

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 14, 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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)  
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Chief Executive Officer, monitors the results of operating segments for the purpose of allocating resources and assessing performance.

Leon's and The Brick operating segments are aggregated into a single reportable segment because they show a similar long-term economic performance (gross margin), have comparable products, customers and distribution channels, operate in the same regulatory environment, and are steered and monitored together.

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

**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 this standard will have on its financial statements.

**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

## Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2020 and 2019

### Leon's Furniture Limited

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beginning on or after January 1, 2022 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

#### 4. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

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

The capital structure of the Company has not changed from the prior fiscal year. The capital structure currently includes lease liabilities, convertible debentures, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at March 31, 2020, \$49,351 is available to draw on under our \$50,000 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). Subsequent to the quarter end of March 31, 2020, the Company exercised its \$125,000 credit accordion as a precaution due to the COVID-19 pandemic. Therefore, effective April 27, 2020, the Company's total revolving credit facility is \$175,000.

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 March 31, 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 month period ended March 31, 2020 was \$269,945 (three month period ended March 31, 2019 - \$269,755), which is presented within cost of sales in the unaudited interim condensed consolidated statements of income.

During the three month period ended March 31, 2020 there was \$19 in inventory write-down (three month period ended March 31, 2019 - \$490 inventory write-downs reversals). As at March 31, 2020, the inventory markdown provision totalled \$5,332 (as at December 31, 2019 - \$5,313).

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For the three months ended March 31, 2020 and 2019

**Leon's Furniture Limited**

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**6. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
<b>As at March 31, 2020:</b>								
Opening net book value	104,468	107,489	41,965	24,582	41,865	399,078	1,347	720,794
Additions	—	3,153	404	2,407	1,464	114	—	7,542
Disposals	—	—	—	—	—	(423)	—	(423)
Depreciation	—	(1,583)	(1,797)	(1,365)	(2,108)	(19,934)	(130)	(26,917)
<b>Closing net book value</b>	<b>104,468</b>	<b>109,059</b>	<b>40,572</b>	<b>25,624</b>	<b>41,221</b>	<b>378,835</b>	<b>1,217</b>	<b>700,996</b>
<b>As at March 31, 2020:</b>								
Cost	104,468	264,574	171,964	58,507	240,567	503,635	1,878	1,345,593
Accumulated depreciation	—	(155,515)	(131,392)	(32,883)	(199,346)	(124,800)	(661)	(644,597)
<b>Net book value</b>	<b>104,468</b>	<b>109,059</b>	<b>40,572</b>	<b>25,624</b>	<b>41,221</b>	<b>378,835</b>	<b>1,217</b>	<b>700,996</b>

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
<b>As at December 31, 2019:</b>								
Opening net book value	101,091	106,712	41,768	23,218	42,685	435,654	949	752,077
Additions	3,770	7,060	7,529	6,387	8,185	53,688	1,014	87,633
Disposals	(393)	—	(51)	(69)	(27)	(40)	—	(580)
Depreciation	—	(6,283)	(7,281)	(4,954)	(8,978)	(90,224)	(616)	(118,336)
<b>Closing net book value</b>	<b>104,468</b>	<b>107,489</b>	<b>41,965</b>	<b>24,582</b>	<b>41,865</b>	<b>399,078</b>	<b>1,347</b>	<b>720,794</b>
<b>As at December 31, 2019:</b>								
Cost	104,468	261,421	171,918	56,293	239,103	503,944	1,963	1,339,110
Accumulated depreciation	—	(153,932)	(129,953)	(31,711)	(197,238)	(104,866)	(616)	(618,316)
<b>Net book value</b>	<b>104,468</b>	<b>107,489</b>	<b>41,965</b>	<b>24,582</b>	<b>41,865</b>	<b>399,078</b>	<b>1,347</b>	<b>720,794</b>

Included in the above balances as at March 31, 2020, are assets not being amortized with a net book value of approximately \$8,147 (as at December 31, 2019 - \$3,760) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$281,078 (as at December 31, 2019 - \$276,392). Depreciation of property, plant and equipment is included within selling, general and administration expenses on the unaudited interim condensed consolidated statements of income.

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**Leon's Furniture Limited**

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

**7. INVESTMENT PROPERTIES**

	<b>Land</b>	<b>Buildings</b>	<b>Building Improvements</b>	<b>Total</b>
<b>As at March 31, 2020</b>				
Opening net book value	10,946	5,124	563	16,633
Depreciation	—	(94)	(15)	(109)
<b>Closing net book value</b>	10,946	5,030	548	16,524
<b>As at March 31 2020</b>				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(12,303)	(549)	(12,852)
<b>Net book value</b>	10,946	5,030	548	16,524
<b>As at December 31, 2019:</b>				
Opening net book value	10,946	5,502	624	17,072
Depreciation	—	(378)	(61)	(439)
<b>Closing net book value</b>	10,946	5,124	563	16,633
<b>As at December 31, 2019:</b>				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	—	(12,209)	(534)	(12,743)
<b>Net book value</b>	10,946	5,124	563	16,633

The estimated fair value of the investment properties portfolio as at March 31, 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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**Leon's Furniture Limited**

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**8. INTANGIBLE ASSETS**

	<b>Customer relationships</b>	<b>Brand name and franchise agreements</b>	<b>Computer software</b>	<b>Total</b>
<b>As at March 31, 2020</b>				
Opening net book value	782	266,000	5,028	271,810
Additions	—	—	15	15
Amortization	(156)	—	(446)	(602)
<b>Closing net book value</b>	<b>626</b>	<b>266,000</b>	<b>4,597</b>	<b>271,223</b>
<b>As at March 31, 2020</b>				
Cost	7,000	268,500	18,901	294,401
Accumulated amortization	(6,374)	(2,500)	(14,304)	(23,178)
<b>Net book value</b>	<b>626</b>	<b>266,000</b>	<b>4,597</b>	<b>271,223</b>
<b>As at December 31, 2019:</b>				
Opening net book value	1,406	266,000	7,088	274,494
Additions	—	—	1,236	1,236
Amortization	(624)	—	(3,296)	(3,920)
<b>Closing net book value</b>	<b>782</b>	<b>266,000</b>	<b>5,028</b>	<b>271,810</b>
<b>As at December 31, 2019:</b>				
Cost	7,000	268,500	19,694	295,194
Accumulated amortization	(6,218)	(2,500)	(14,666)	(23,384)
<b>Net book value</b>	<b>782</b>	<b>266,000</b>	<b>5,028</b>	<b>271,810</b>

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

	<b>As at March 31, 2020</b>	<b>As at December 31, 2019</b>
The Brick brand name (allocated to Brick division)	245,000	245,000
The Brick franchise agreements (allocated to Brick division)	21,000	21,000
	<b>266,000</b>	<b>266,000</b>

The Company currently has no plans to change The Brick store banners and expects these assets to generate cash flows over an indefinite future period. Therefore, these intangible assets are considered to have indefinite useful lives for accounting purposes. The Brick franchise agreements have expiry dates with options to renew. The Company's intention is to renew these agreements at each renewal date indefinitely. The Company expects the franchise agreements and franchise locations will generate cash flows over an indefinite future period. Therefore, these assets are also considered to have indefinite useful lives.

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

	<b>As at March 31, 2020</b>	<b>As at December 31, 2019</b>
Brick division customer relationships	626	782
Computer software	4,597	5,028
	<b>5,223</b>	<b>5,810</b>

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**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:

<b>Opening Balance as at January 1, 2020</b>	412,694
Additions	117
Interest	5,169
Payments	(22,783)
<b>Closing Balance as at March 31, 2020</b>	395,197
Reported as:	
Current	70,624
Non-current	324,573
	395,197
<b>Opening Balance as at January 1, 2019</b>	424,139
Additions	57,814
Interest	21,711
Payments	(90,970)
<b>Closing Balance as at December 31, 2019</b>	412,694
Reported as:	
Current	70,601
Non-current	342,093
	412,694

**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.

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The Company will accrete the carrying value of the convertible debentures to their contractual face value of \$1,519 through a charge to net income over their term. This charge will be included in finance costs.

During the three month period ended March 31, 2020, convertible debentures with a stated value of \$48,506 were converted to 3,838,134 common shares, at the holder's option (the three month period ended March 31, 2019 - no convertible debentures were converted to common shares).

<b>Carrying value of convertible debentures as at December 31, 2019</b>	48,772
Accretion expense for the months ended March 31, 2020	8
Conversion of convertible debentures for the three months ended March 31, 2020	(47,300)
<b>Carrying value of convertible debentures as at March 31, 2020</b>	1,480

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.

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

Bank indebtedness bears interest based on Canadian prime, London Interbank Offered Rate ("LIBOR") and Bankers' Acceptance ("BA") rates plus an applicable standby fee on undrawn amounts. Transaction costs in the amount of \$775 were previously deferred and amortized over the life of the agreement in relation to the first amendment of the SSCA. The remaining balance, as at May 31, 2019, of \$148 was written off. No additional transaction costs were incurred for the second and third amendments. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. The term credit facility is repayable in yearly amounts of \$25,000 and this amount for 2020 has been paid in advance. Currently, the Company has entered into a 30-day Bankers' Acceptance with a cost of borrowing of 2.23% that was renewed on March 31, 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 March 31, 2020, the Company is in full compliance of these financial and non-financial covenants.

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**11. MANAGEMENT SHARE PURCHASE PLAN**

**11.1 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.

During the first quarter of 2020, the Company recognized compensation expense of \$66 (three month period ended March 31, 2019 - \$58). Dividends paid to MSPP holders, for the three month period ended March 31, 2020, of \$190 were credited against the loan receivable (three month period ended March 31, 2019 - \$166). The loan receivable is recognized at fair value and during the three month period ended March 31, 2020 finance income of \$151 was recognized by the Company (three month period ended March 31, 2019 - \$131).

**11.2 Redeemable share liability**

	As at March 31, 2020	As at December 31, 2019
<b>Authorized</b>		
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		
<b>Issued and fully paid</b>		
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)
	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

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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 three month period 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 (three month period ended March 31, 2019 - 44,475 series 2009 shares, 3,709 series 2012 shares, 85,605 series 2013 shares, 8,749 series 2014 shares and 60,745 series 2015 shares) were converted into common shares with a stated value of approximately \$164, \$39, \$215, \$121 and \$402, respectively (the three month period ended March 31, 2019 - \$394, \$46, \$971, \$132 and \$818, respectively).

During the three month period ended March 31, 2020, the Company did not cancel any shares from any of the series of shares (three month period ended March 31, 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 March 31, 2020	As at December 31, 2019
<b>Authorized</b> - Unlimited common shares		
<b>Issued</b> 80,509,444 common shares (2019 - 77,241,047)	166,873	115,728

During the three month period 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 (three month period ended March 31, 2019 - 44,475 series 2009 shares, 3,709 series 2012 shares, 85,605 series 2013 shares, 8,749 series 2014 shares and 60,745 series 2015 shares) were converted into common shares with a stated value of approximately \$164, \$39, \$215, \$121 and \$402, respectively (the three month period ended March 31, 2019 - \$394, \$46, \$971, \$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 three month period ended March 31, 2020, the Company repurchased 648,146 shares (three month period ended March 31, 2019 - 32,975 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 (three month period ended March 31, 2019 - \$481). The repurchase of common shares resulted in a reduction of share capital in the amount of \$971 (three month period ended March 31, 2019 - \$49). The excess net cost over the average carrying value of the shares of \$9,340 (three month period ended March 31, 2019 - \$432) has been recorded as a reduction in retained earnings. As at March 31, 2020, the Company has cancelled all of these repurchased shares. Included in the repurchases are shares repurchased under an

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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 March 31, 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 three month period ended March 31, 2020, convertible debentures with a par value of \$48,506 were converted to 3,838,134 common shares (the three month period ended March 31, 2019 - no convertible debentures were converted to common shares).

The dividends paid for the three-month periods ended March 31, 2020 and March 31, 2019 were \$12,920 (\$0.16 per share) and \$10,690 (\$0.14 per share), respectively.

**13. REVENUE**

Disaggregation of Revenue

	<b>Three-month period ended March 31, 2020</b>	<b>Three-month period ended March 31, 2019</b>
Sale of goods by corporate stores	477,558	479,721
Income from franchise operations	6,105	6,152
Extended warranty revenue	10,288	9,979
Insurance sales revenue	3,267	3,527
Rental income from investment property	393	362
<b>Total</b>	<b>497,611</b>	<b>499,741</b>

**14. INCOME TAX EXPENSE**

	<b>Three-month period ended March 31, 2020</b>	<b>Three-month period ended March 31, 2019</b>
Current income tax expense	4,717	5,291
Deferred income recovery expense	(1,789)	(2,087)
	<b>2,928</b>	<b>3,204</b>

Income tax expense is recognized based on management’s best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the three month period ended March 31, 2020 and March 31, 2019 were 26.6% and 25.6% respectively.

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#### 15. EARNINGS PER SHARE

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

	Three-month period ended March 31, 2020	Three-month period ended March 31, 2019
Net income for the period for basic earnings per share	13,694	9,334
Net income for the period for diluted earnings per share	13,787	9,690
Weighted average number of common shares outstanding	79,653,873	77,566,054
Dilutive effect	3,267,763	6,290,200
Diluted weighted average common shares outstanding	82,921,636	83,856,254
Basic earnings per share	\$0.17	\$0.12
Diluted earnings per share	\$0.17	\$0.12

#### 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 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 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:

- On March 25, 2020 the Company temporarily closed a significant number of store locations and immediately laid off 3,900 valued employees on a temporary basis, representing approximately 50% of its total workforce. Subsequent to these cost reductions the Company increased these temporary layoffs by an incremental 20% of its total workforce.
- The Company intends to apply for the Canada Emergency Wage Subsidy, which will materially contribute towards the Company's cost savings initiatives and allow for more of its employees to be returned to work in the second 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 of today, the Company's unrestricted liquidity has increased from \$171,272 to \$296,272, 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.

**March 31, 2020:**

	<b>Classification &amp; Measurement</b>	<b>Total Carrying Amount</b>	<b>Fair Value</b>	<b>Fair Value Hierarchy</b>
<b>Financial Assets</b>				
Cash and cash equivalents	Amortized Cost	21,520	21,520	Level 1
Trade receivables	Amortized Cost	96,088	96,088	Level 2
Restricted marketable securities	FVOCI	5,857	5,857	Level 1
Equity instruments	FVOCI	35,058	35,058	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	65,243	65,243	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivable	FVTPL	13,014	13,014	Level 2
Other assets	FVTPL	299	299	Level 2
<b>Financial Liabilities</b>				
Trade and other payables	Amortized Cost	229,734	229,734	Level 2
Provisions	Amortized Cost	14,787	14,787	Level 2
Loans and borrowings	Amortized Cost	90,000	90,000	Level 2
Convertible debentures	Amortized Cost	1,480	2,225	Level 2
Redeemable share liability	Amortized Cost	13	13	Level 2

**December 31, 2019:**

	<b>Classification &amp; Measurement</b>	<b>Total Carrying Amount</b>	<b>Fair Value</b>	<b>Fair Value Hierarchy</b>
<b>Financial Assets</b>				
Cash and cash equivalents	Amortized cost	89,302	89,302	Level 1
Trade receivables	Amortized cost	140,535	140,535	Level 2
Restricted marketable securities	FVOCI	5,777	5,777	Level 1
Equity instruments	FVOCI	38,976	38,976	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	65,759	65,759	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivable	FVTPL	13,053	13,053	Level 2
Other assets	FVTPL	625	625	Level 2
<b>Financial Liabilities</b>				
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 March 31, 2020 includes financial assets of \$127,678, \$109,501 and \$3,310 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$336,759 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.

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The carrying amounts of the Company's loans and borrowings approximate their fair values since they bear interest at rates comparable to market rates at the end of the reporting period.

The fair values of debt and equity instruments that are traded in active markets are determined by reference to their quoted closing price or dealer price quotations at the reporting date. For financial instruments that are not traded in active markets, the Company determines fair values using a combination of discounted cash flow models and comparison to similar instruments for which market observable prices exist.

As at March 31, 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 March 31, 2020, fair value is calculated based on the face value of the convertible debentures of \$1,519.

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 March 31, 2020, a \$299 unrealized gain was recorded in other assets (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).

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**17. INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(a) The net change in non-cash working capital balances related to operations consists of the following:

	<b>Three month period ended March 31, 2020</b>	<b>Three month period ended March 31, 2019</b>
Trade receivables	44,447	9,955
Inventories	(3,243)	(12,474)
Prepaid expenses and other assets	(4,881)	(6,816)
Trade and other payables	(25,988)	(34,468)
Income taxes payable	(10,382)	(2,572)
Customers' deposits	(58,933)	(38,918)
Other assets	326	110
Provisions	803	1,292
Deferred acquisition costs	1,487	515
Deferred rent liabilities and lease inducements	-	433
	(56,364)	(82,943)

(b) Supplemental cash flow information:

	<b>Three month period ended March 31, 2020</b>	<b>Three month period ended March 31, 2019</b>
Income taxes paid	14,350	7,833

**18. COMPARATIVE FINANCIAL INFORMATION**

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