



LEON'S FURNITURE LIMITED

**Interim Condensed Consolidated Financial Statements**

For the period ended September 30, 2021

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Interim Consolidated Statements of Financial Position (unaudited)

As at (C\$ in thousands)	Notes	September 30, 2021	December 31, 2020	September 30, 2020
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		386,954	368,635	349,661
Restricted marketable securities		522	2,451	2,309
Debt securities		94,301	73,565	72,409
Equity securities		52,621	48,634	45,011
Trade receivables		149,093	130,582	138,238
Income taxes receivable		2,034	4,266	5,020
Inventories	5	368,151	332,072	288,577
Deferred acquisition costs		10,967	10,725	10,966
Prepaid expenses and other assets		16,183	11,095	14,203
Derivative assets		-	-	79
<b>Total current assets</b>		<b>1,080,826</b>	<b>982,025</b>	<b>926,473</b>
<b>Non-current assets</b>				
Deferred acquisition costs		19,179	17,614	16,498
Loan receivable	11	12,154	12,721	12,950
Property, plant and equipment and right-of-use assets	6	676,143	714,423	709,311
Investment properties	7	14,948	16,212	16,319
Intangible assets	8	270,274	270,481	270,811
Goodwill		390,120	390,120	390,120
Deferred income tax assets		14,946	14,993	7,535
<b>Total non-current assets</b>		<b>1,397,764</b>	<b>1,436,564</b>	<b>1,423,544</b>
<b>Total assets</b>		<b>2,478,590</b>	<b>2,418,589</b>	<b>2,350,017</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		350,041	304,844	306,958
Provisions		27,522	25,608	26,097
Income taxes payable		28,039	15,479	4,805
Customers' deposits		285,035	305,460	302,170
Lease liabilities	9	75,094	73,476	73,628
Dividends payable		108,758	36,163	11,228
Deferred warranty plan revenue		56,344	55,733	56,735
Loans and borrowings	10	90,000	-	-
Derivative liabilities		1,065	3,976	-
<b>Total current liabilities</b>		<b>1,021,898</b>	<b>820,739</b>	<b>781,621</b>
<b>Non-current liabilities</b>				
Loans and borrowings	10	-	90,000	90,000
Convertible debentures	10	-	441	1,280
Lease liabilities	9	306,119	327,227	323,121
Deferred warranty plan revenue		96,331	88,604	84,192
Redeemable share liability	11	13	13	13
Deferred income tax liabilities		72,992	75,562	70,635
<b>Total non-current liabilities</b>		<b>475,455</b>	<b>581,847</b>	<b>569,241</b>
<b>Total liabilities</b>		<b>1,497,353</b>	<b>1,402,586</b>	<b>1,350,862</b>
<b>Shareholders' equity</b>				
Common shares	12	170,863	164,669	163,995
Equity component of convertible debentures	10	-	31	108
Retained earnings		797,866	842,604	829,914
Accumulated other comprehensive income		12,508	8,699	5,138
<b>Total shareholders' equity</b>		<b>981,237</b>	<b>1,016,003</b>	<b>999,155</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,478,590</b>	<b>2,418,589</b>	<b>2,350,017</b>

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

Interim Consolidated Statements of Income (unaudited)

For the	Notes	Three months ended		Nine months ended	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(C\$ in thousands except share and share amounts)					
<b>Revenue</b>	<b>13</b>	<b>683,195</b>	630,764	<b>1,842,865</b>	1,545,049
Cost of sales	5	<b>381,307</b>	351,977	<b>1,031,292</b>	869,784
<b>Gross profit</b>		<b>301,888</b>	278,787	<b>811,573</b>	675,265
<b>Operating expenses</b>					
Selling, general and administrative expenses		<b>216,293</b>	210,586	<b>600,445</b>	520,187
<b>Operating profit</b>		<b>85,595</b>	68,201	<b>211,128</b>	155,078
Finance costs		<b>(5,158)</b>	(5,561)	<b>(15,898)</b>	(17,023)
Finance income		<b>1,097</b>	1,231	<b>3,859</b>	3,083
Change in fair value of derivative instruments		<b>4,253</b>	(278)	<b>2,909</b>	(547)
<b>Net income before income tax</b>		<b>85,787</b>	63,593	<b>201,998</b>	140,591
Income tax expense	14	<b>21,965</b>	14,515	<b>51,305</b>	30,609
<b>Net income for the period</b>		<b>63,822</b>	49,078	<b>150,693</b>	109,982
<b>Weighted average number of common shares outstanding</b>					
Basic		<b>77,026,816</b>	79,412,546	<b>77,894,459</b>	80,149,763
Diluted		<b>78,386,090</b>	81,427,770	<b>79,534,118</b>	82,594,209
<b>Earnings per share</b>					
Basic	15	<b>\$0.83</b>	\$0.62	<b>\$1.93</b>	\$1.37
Diluted		<b>\$0.81</b>	\$0.60	<b>\$1.89</b>	\$1.33
<b>Dividends declared per share</b>					
Common		<b>\$1.41</b>	\$0.14	<b>\$1.73</b>	\$0.42

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

Interim Consolidated Statements of Comprehensive Income (unaudited)

For the	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(C\$ in thousands)				
<b>Net income for the period</b>	<b>63,822</b>	49,078	<b>150,693</b>	109,982
<b>Other comprehensive income (loss)</b>				
Items that may be reclassified subsequently to profit or loss:				
Gain (loss) on debt instruments arising during the period	<b>(318)</b>	64	<b>(1,584)</b>	2,173
Reclassification adjustment for gains on disposal of debt instruments	-	87	-	92
Items that will not be reclassified to profit or loss:				
Gain (loss) on equity instruments arising during the period	<b>225</b>	2,592	<b>5,941</b>	(698)
Income tax expense (recovery) on the above	<b>(34)</b>	(261)	<b>(548)</b>	193
Other comprehensive income (loss) for the period	<b>(127)</b>	2,482	<b>3,809</b>	1,760
<b>Comprehensive income for the period</b>	<b>63,695</b>	51,560	<b>154,502</b>	111,742

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

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

(C\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income	Retained earnings	Total
<b>As at December 31, 2020</b>	31	164,669	8,699	842,604	1,016,003
<b>Comprehensive income</b>					
Net income for the period	-	-	-	150,693	150,693
Other comprehensive income for the period	-	-	3,809	-	3,809
<b>Total comprehensive income</b>	-	-	3,809	150,693	154,502
<b>Transactions with shareholders</b>					
Dividends declared	-	-	-	(133,806)	(133,806)
Management share purchase plan [note 11]	-	11,888	-	-	11,888
Convertible debentures [note 10]	(31)	408	-	-	377
Treasury shares [note 12]	-	(204)	-	(2,082)	(2,286)
Share repurchase commitment [note 12]	-	(387)	-	(6,113)	(6,500)
Repurchase of common shares [note 12]	-	(5,511)	-	(53,430)	(58,941)
<b>Total transactions with shareholders</b>	(31)	6,194	-	(195,431)	(189,268)
<b>As at September 30, 2021</b>	-	170,863	12,508	797,866	981,237

(C\$ 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	-	-	-	109,982	109,982
Other comprehensive income for the period	-	-	1,760	-	1,760
<b>Total comprehensive income</b>	-	-	1,760	109,982	111,742
<b>Transactions with shareholders</b>					
Dividends declared	-	-	-	(33,811)	(33,811)
Management share purchase plan [note 11]	-	2,221	-	-	2,221
Convertible debentures [note 10]	(3,434)	50,941	-	-	47,507
Treasury shares [note 12]	-	(44)	-	(345)	(389)
Share repurchase commitment [note 12]	-	(621)	-	(4,379)	(5,000)
Repurchase of common shares [note 12]	-	(4,230)	-	(34,649)	(38,879)
<b>Total transactions with shareholders</b>	(3,434)	48,267	-	(73,184)	(28,351)
<b>As at September 30, 2020</b>	108	163,995	5,138	829,914	999,155

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

Interim Consolidated Statements of Cash Flows (unaudited)

For the	Nine months ended		
(C\$ in thousands)	Notes	September 30, 2021	September 30, 2020
<b>Operating activities</b>			
Net income before income tax		201,998	140,591
Add (deduct) items not involving an outlay of cash:			
Depreciation of property, plant and equipment and investment properties		82,879	81,462
Amortization of intangible assets		1,388	1,763
Amortization of deferred warranty plan revenue		(50,584)	(47,471)
Amortization of premium		212	124
Net finance costs		12,039	13,943
Loss (gain) on sale of property, plant and equipment and investment properties		254	(844)
Fair value gain on loan receivable	11	(499)	(396)
Loss on sale of debt and equity instruments		-	92
		<b>247,687</b>	<b>189,264</b>
Change in operating working capital	17	(46,160)	242,728
Cash received on warranty plan sales		58,922	45,455
Income taxes paid		(39,584)	(37,981)
Cash provided by operating activities		<b>220,865</b>	<b>439,466</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	6	(9,292)	(32,856)
Purchase of intangible assets	8	(1,181)	(769)
Proceeds on sale of property, plant and equipment and investment properties		875	1,282
Proceeds on sale of intangible assets		-	5
Purchase of debt and equity instruments		(39,953)	(32,116)
Proceeds on sale of debt and equity instruments		21,301	27,652
Repayment of loan receivable	11	1,069	499
Interest received		3,733	3,083
Cash used in investing activities		<b>(23,448)</b>	<b>(33,220)</b>
<b>Financing activities</b>			
Payment of lease liability	9	(54,662)	(53,130)
Dividends paid		(61,209)	(33,406)
Decrease of employee loans-redeemable shares	11	11,888	2,221
Repurchase of common shares	12	(59,156)	(39,268)
Early redemption payment on outstanding debentures		(77)	-
Repayment of term loan	10	-	(5,000)
Interest paid		(15,882)	(17,034)
Cash used in financing activities		<b>(179,098)</b>	<b>(145,617)</b>
<b>Net increase in cash and cash equivalents during the period</b>		<b>18,319</b>	<b>260,629</b>
Cash and cash equivalents, beginning of period		<b>368,635</b>	<b>89,032</b>
<b>Cash and cash equivalents, end of period</b>		<b>386,954</b>	<b>349,661</b>

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

## Leon's Furniture Limited

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

### 1. Reporting Entity

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Leon's Furniture Limited ("Leon's" or the "Company") was incorporated by the Articles of Incorporation under the Business Corporations Act on February 28, 1969. Leon's is a retailer of home furnishings, mattresses, appliances and electronics across Canada. Leon's is a public company listed on the Toronto Stock Exchange (TSX - LNF) 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

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The interim condensed consolidated financial statements of the Company are prepared in accordance with IAS 34, *Interim Financial Reporting*. Accordingly, certain information and note disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The consolidated financial statements of the Company include the financial results of Leon's Furniture Limited and its wholly owned subsidiaries.

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

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

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 10, 2021.

### 3. Summary of Significant Accounting Policies

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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, 2020. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, *Presentation of Financial Statements* ("IAS 1"). Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020.

#### Segment reporting

The Company has two operating segments, Leon's and The Brick, both in the business of the sale of home furnishings, mattresses, appliances and electronics in Canada. The Company's chief operating decision-maker, identified as the Chief Executive Officer, monitors the results of operating segments for the purpose of allocating resources and assessing performance.

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

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

## **Leon's Furniture Limited**

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

### **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**

In January 2020, the 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 their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

#### **Amendments to IFRS 9, Financial Instruments ("IFRS 9")**

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is still assessing the impact of adopting these amendments on its financial statements.

#### **Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")**

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

#### **Amendments to IAS 1 and IFRS Practice Statement 2**

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendment to IAS 1 requires companies to disclose their material accounting policy information rather than its significant accounting policies. The amendment also clarifies that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

## Leon's Furniture Limited

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

### 4. Capital Risk Management

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The Company's objectives when managing capital are to:

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

The capital structure currently includes working capital, debt and equity securities, lease liabilities, convertible debentures, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at September 30, 2021, \$126,718 is available to draw on under the Company's \$175,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$48,282 (December 31, 2020 - \$993). Most of this reduction in borrowing capacity is due to the Company needing to post collateral to backstop the provisional tariffs that were payable to the Canada Border Services Agency ("CBSA") as of May 5, 2021. Due to the significant reduction in these provisional tariffs that were announced by The Canadian International Trade Tribunal on September 2, 2021, the Company anticipates the majority of this collateral will no longer be required, and the unused borrowing capacity will be restored pending final confirmation from the CBSA.

Under the Senior Secured Credit Agreement ("SSCA"), the financial and non-financial covenants are reviewed on an ongoing basis by management to monitor compliance with the agreement. The Company was in compliance with these covenants as at September 30, 2021.

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 2020 consolidated financial statements.

### 5. Inventories

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The amount of inventory recognized as an expense for the three and nine months ended September 30, 2021 was \$369,481 (three months ended September 30, 2020 - \$337,781) and \$990,112 (nine-month period ended September 30, 2020 - \$829,617), respectively, which is presented within cost of sales in the unaudited interim condensed consolidated statements of income.

During the three and nine months ended September 30, 2021, there were \$1,182 and \$1,370, respectively, in inventory write-downs (three and nine months ended September 30, 2020 - \$106 and \$116 inventory write-downs, respectively). As at September 30, 2021, the inventory markdown provision totaled \$6,724 (as at December 31, 2020 - \$5,354).

## Leon's Furniture Limited

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

### 6. Property, Plant and Equipment and Right-Of-Use Assets

(C\$ in thousands)	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
<b>Cost</b>								
Balance as at December 31, 2020	104,124	286,531	180,040	60,759	245,092	559,247	1,494	1,437,287
Additions	-	740	4,157	1,523	4,450	33,438	156	44,464
Disposals	(12)	-	(2,531)	(773)	(1,866)	-	-	(5,182)
<b>Balance as at September 30, 2021</b>	<b>104,112</b>	<b>287,271</b>	<b>181,666</b>	<b>61,509</b>	<b>247,676</b>	<b>592,685</b>	<b>1,650</b>	<b>1,476,569</b>
<b>Accumulated depreciation</b>								
Balance as at December 31, 2020	-	160,349	136,163	35,997	204,509	185,233	613	722,864
Depreciation	-	5,415	5,605	4,493	6,403	60,447	205	82,568
Disposals	-	-	(2,402)	(757)	(1,847)	-	-	(5,006)
<b>Balance as at September 30, 2021</b>	<b>-</b>	<b>165,764</b>	<b>139,366</b>	<b>39,733</b>	<b>209,065</b>	<b>245,680</b>	<b>818</b>	<b>800,426</b>
<b>Net book value as at September 30, 2021</b>	<b>104,112</b>	<b>121,507</b>	<b>42,300</b>	<b>21,776</b>	<b>38,611</b>	<b>347,005</b>	<b>832</b>	<b>676,143</b>

(C\$ in thousands)	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
<b>Cost</b>								
Balance as at December 31, 2019	104,468	261,421	171,918	56,293	239,103	503,944	1,963	1,339,110
Additions	-	25,110	9,041	5,840	7,189	55,446	-	102,626
Disposals	(344)	-	(919)	(1,374)	(1,200)	(143)	(469)	(4,449)
<b>Balance as at December 31, 2020</b>	<b>104,124</b>	<b>286,531</b>	<b>180,040</b>	<b>60,759</b>	<b>245,092</b>	<b>559,247</b>	<b>1,494</b>	<b>1,437,287</b>
<b>Accumulated depreciation</b>								
Balance as at December 31, 2019	-	153,932	129,953	31,711	197,238	104,866	616	618,316
Depreciation	-	6,417	7,087	5,643	8,471	80,451	466	108,535
Disposals	-	-	(877)	(1,357)	(1,200)	(84)	(469)	(3,987)
<b>Balance as at December 31, 2020</b>	<b>-</b>	<b>160,349</b>	<b>136,163</b>	<b>35,997</b>	<b>204,509</b>	<b>185,233</b>	<b>613</b>	<b>722,864</b>
<b>Net book value as at December 31, 2020</b>	<b>104,124</b>	<b>126,182</b>	<b>43,877</b>	<b>24,762</b>	<b>40,583</b>	<b>374,014</b>	<b>881</b>	<b>714,423</b>

Included in the above balances as at September 30, 2021, are assets not being amortized with a net book value of approximately \$2,463 (as at December 31, 2020 - \$21,046), being construction in progress. Depreciation of property, plant and equipment is included within selling, general and administrative expenses on the unaudited interim consolidated statements of income.

## Leon's Furniture Limited

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

### 7. Investment Properties

(C\$ in thousands)	Land	Buildings	Buildings improvements	Total
<b>Cost</b>				
Balance as at December 31, 2020	10,946	17,333	1,111	29,390
Disposals	(300)	(1,937)	(158)	(2,395)
<b>Balance as at September 30, 2021</b>	<b>10,646</b>	<b>15,396</b>	<b>953</b>	<b>26,995</b>
<b>Accumulated depreciation</b>				
Balance as at December 31, 2020	-	12,586	592	13,178
Depreciation	-	268	43	311
Disposals	-	(1,345)	(97)	(1,442)
<b>Balance as at September 30, 2021</b>	<b>-</b>	<b>11,509</b>	<b>538</b>	<b>12,047</b>
<b>Net book value as at September 30, 2021</b>	<b>10,646</b>	<b>3,887</b>	<b>415</b>	<b>14,948</b>

(C\$ in thousands)	Land	Buildings	Buildings improvements	Total
<b>Cost</b>				
Balance as at December 31, 2019	10,946	17,333	1,097	29,376
Additions	-	-	14	14
<b>Balance as at December 31, 2020</b>	<b>10,946</b>	<b>17,333</b>	<b>1,111</b>	<b>29,390</b>
<b>Accumulated depreciation</b>				
Balance as at December 31, 2019	-	12,209	534	12,743
Depreciation	-	377	58	435
<b>Balance as at December 31, 2020</b>	<b>-</b>	<b>12,586</b>	<b>592</b>	<b>13,178</b>
<b>Net book value as at December 31, 2020</b>	<b>10,946</b>	<b>4,747</b>	<b>519</b>	<b>16,212</b>

The estimated fair value of the investment properties portfolio as at September 30, 2021, was approximately \$43,500 (as at December 31, 2020 - \$44,000). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy (Note 16 for definition of levels). This was compiled internally by management based on available market evidence.

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### 8. Intangible Assets and Goodwill

(C\$ in thousands)	Customer relationships	Brand name and franchise agreements	Computer software	Total
<b>Cost</b>				
Balance as at December 31, 2020	7,000	268,500	20,586	296,086
Additions	-	-	1,181	1,181
<b>Balance as at September 30, 2021</b>	<b>7,000</b>	<b>268,500</b>	<b>21,767</b>	<b>297,267</b>
<b>Accumulated amortization</b>				
Balance as at December 31, 2020	6,843	2,500	16,262	25,605
Amortization	157	-	1,231	1,388
<b>Balance as at September 30, 2021</b>	<b>7,000</b>	<b>2,500</b>	<b>17,493</b>	<b>26,993</b>
<b>Net book value as at September 30, 2021</b>	<b>-</b>	<b>266,000</b>	<b>4,274</b>	<b>270,274</b>

(C\$ in thousands)	Customer relationships	Brand name and franchise agreements	Computer software	Total
<b>Cost</b>				
Balance as at December 31, 2019	7,000	268,500	19,694	295,194
Additions	-	-	995	995
Disposals	-	-	(103)	(103)
<b>Balance as at December 31, 2020</b>	<b>7,000</b>	<b>268,500</b>	<b>20,586</b>	<b>296,086</b>
<b>Accumulated amortization</b>				
Balance as at December 31, 2019	6,218	2,500	14,666	23,384
Amortization	625	-	1,694	2,319
Disposals	-	-	(98)	(98)
<b>Balance as at December 31, 2020</b>	<b>6,843</b>	<b>2,500</b>	<b>16,262</b>	<b>25,605</b>
<b>Net book value as at December 31, 2020</b>	<b>157</b>	<b>266,000</b>	<b>4,324</b>	<b>270,481</b>

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

As at (C\$ in thousands)	September 30, 2021	December 31, 2020
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>Total</b>	<b>266,000</b>	266,000

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

## Leon's Furniture Limited

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

As at (C\$ in thousands)	September 30, 2021	December 31, 2020
Brick division customer relationships	-	157
Computer software	4,274	4,324
<b>Total</b>	<b>4,274</b>	<b>4,481</b>

## 9. Leases

### Company as a lessee

#### Leasing arrangements

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

#### Lease liabilities

Carrying amounts of lease liabilities are as follows:

(C\$ in thousands)	Total
<b>Balance as at December 31, 2020</b>	<b>400,703</b>
Additions	35,172
Interest	14,930
Payments	(69,592)
<b>Balance as at September 30, 2021</b>	<b>381,213</b>
<b>Reported as:</b>	
Current	75,094
Non-current	306,119
<b>Total</b>	<b>381,213</b>

(C\$ in thousands)	Total
<b>Balance as at December 31, 2019</b>	<b>412,694</b>
Additions	59,147
Disposals	(62)
Interest	20,472
Payments	(91,548)
<b>Balance as at December 31, 2020</b>	<b>400,703</b>
<b>Reported as:</b>	
Current	73,476
Non-current	327,227
<b>Total</b>	<b>400,703</b>

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# 10. Loans and Borrowings

### Bank indebtedness

On January 31, 2013, a SSCA was obtained to fund the acquisition of The Brick. The Company completed an amendment to the original SSCA on November 25, 2016. After giving effect to the amendment, the total credit facility was reduced from \$500,000 to \$300,000 with the term credit facility being reduced from \$400,000 to \$250,000 and the revolving credit facility being reduced from \$100,000 to \$50,000. The revolving credit facility continues to include a swing-line of \$20,000. The Company completed a second amendment on May 31, 2019. The amounts borrowed under the term credit facility must be repaid in full by May 31, 2022.

The Company completed a third amendment on April 27, 2020, whereby it exercised its \$125,000 credit accordion primarily as a precaution due to the COVID-19 pandemic. Therefore, the Company's total revolving credit facility is \$175,000. The amounts borrowed under the revolving credit facility must be repaid in full by May 31, 2024. As at September 30, 2021, there are no amounts outstanding against the revolving credit facility.

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 in 2019 and 2020 with the remainder due on maturity. The payments for 2019 and 2020 have been fully paid in advance. Currently, the Company has entered into a 30-day Bankers' Acceptance with a cost of borrowing of 1.13% that was renewed on September 29, 2021.

The Company can prepay without penalty amounts outstanding under the facilities at any time. The agreement includes a general security agreement which constitutes a lien on all property of the Company. In addition to this, there are financial covenants related to the credit facility. As at September 30, 2021, the Company is in full compliance of these financial and non-financial covenants.

### Convertible debentures

On February 4, 2021, the Company announced that pursuant to a Redemption Notice sent to holders in January 2021, as of February 26, 2021, it will be redeeming its 3% Convertible Unsecured Debentures due March 28, 2023, and will pay such debenture holders \$1,000 for each \$1,000 principal amount of the debentures plus all accrued and unpaid interest thereon to, but excluding, February 26, 2021. In conjunction with the redemption of these debentures, the Company requested that the debentures be delisted from the Toronto Stock Exchange following February 26, 2021.

During the nine-month period ended September 30, 2021, convertible debentures with a stated value of \$365 were converted to 29,342 common shares, at the holder's option (nine-month period ended September 30, 2020 - \$48,713 were converted to 3,854,511 common shares). Additionally, an early redemption payment of \$77 was made on the outstanding debentures.

(C\$ in thousands)	Total
<b>Carrying value of convertible debentures as at December 31, 2020</b>	<b>441</b>
Accretion expense for the nine months ended September 30, 2021	1
Conversion of convertible debentures for the nine months ended September 30, 2021	(365)
Early redemption payment on outstanding debentures	(77)
<b>Carrying value of convertible debentures as at September 30, 2021</b>	<b>-</b>

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# 11. Management Share Purchase Plan

## Employee benefit plan

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

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

During the three-month period ended September 30, 2021 the Company recognized compensation expense of \$57 (three-month period ended September 30, 2020 - \$58). Dividends paid to MSPP holders, for the three-month period ended September 30, 2021, of \$187 were credited against the loan receivable (three-month period ended September 30, 2020 - \$166). The loan receivable is recognized at fair value and during the three-month period ended September 30, 2021, finance income of \$128 was recognized by the Company (three-month period ended September 30, 2020 - \$132).

During the nine-month period ended September 30, 2021 the Company recognized compensation expense of \$169 (nine-month period ended September 30, 2020 - \$174). Dividends paid to MSPP holders, for the nine-month period ended September 30, 2021, of \$559 were credited against the loan receivable (nine-month period ended September 30, 2020 - \$499). The loan receivable is recognized at fair value and during the nine-month period ended September 30, 2021, finance income of \$385 was recognized by the Company (nine-month period ended September 30, 2020 - \$396).

During the first quarter of 2021, 33,333 of the 2018 series of common shares were forfeited under the 2018 MSPP. The Company recognized compensation expense of \$52 in relation to this forfeiture. The share sale proceeds of \$510 were credited against the loan receivable. Finance income of \$114 was recognized by the Company as the loan receivable is recognized at fair value. During the nine-month period ended September 30, 2020, there were no forfeitures of the 2018 series of common shares under the 2018 MSPP.

## Redeemable share liability

As at	September 30, 2021	December 31, 2020
(C\$ in thousands)		
<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>		
9,862 series 2009 shares (December 31, 2020 - 194,087)	87	1,718
71,578 series 2012 shares (December 31, 2020 - 107,171)	888	1,330
312,145 series 2013 shares (December 31, 2020 - 666,740)	3,555	7,594
178,990 series 2014 shares (December 31, 2020 - 378,694)	2,694	5,699
272,934 series 2015 shares (December 31, 2020 - 478,839)	3,674	6,445
Less employee share purchase loans	<b>(10,885)</b>	<b>(22,773)</b>
<b>Total</b>	<b>13</b>	<b>13</b>

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Under the terms of the Plan, the Company advanced non-interest bearing loans to certain of its employees in 2009, 2012, 2013, 2014 and 2015 to allow them to acquire convertible, non-voting series 2009 shares, series 2012 shares, series 2013 shares, series 2014 shares and series 2015 shares, respectively, of the Company. These loans are repayable through the application against the loans of any dividends on the shares with any remaining balance repayable on the date the shares are converted to common shares. Each issued and fully paid for shares series 2009 and series 2012 may be converted into one common share at any time after the fifth anniversary date of the issue of these shares and prior to the thirteenth anniversary of such issue. Each issued and fully paid for series 2013, series 2014 and series 2015 may be converted into one common share at any time after the third anniversary date of the issue of these shares and prior to the thirteenth anniversary of such issue. The series 2009, series 2012, series 2013, series 2014 and series 2015 are redeemable at the option of the holder for a period of one business day following the date of issue of such shares. The Company has the option to redeem the series 2009 and series 2012 shares at any time after the fifth anniversary date of the issue of these shares and must redeem them prior to the thirteenth anniversary of such issue. The Company has the option to redeem the series 2013, series 2014 and series 2015 shares at any time after the third anniversary date of the issue of these shares and must redeem them prior to the thirteenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The purchase prices of the shares are \$8.85 per series 2009 share, \$12.41 per series 2012 share, \$11.39 per series 2013 share, \$15.05 per series 2014 share and \$13.46 per series 2015 share. Dividends paid to holders of series 2009, 2012, 2013, 2014 and 2015 shares of approximately \$529 (2020 - \$566) have been used to reduce the respective shareholder loans. The preferred dividends are paid once a year during the first quarter.

During the nine-month period ended September 30, 2021, 184,225 series 2009 shares, 35,593 series 2012 shares, 354,595 series 2013 shares, 199,704 series 2014 shares and 205,905 series 2015 shares (nine-month period ended September 30, 2020 - 19,751 series 2009 shares, 3,112 series 2012 shares, 31,616 series 2013 shares, 53,665 series 2014 shares and 62,393 series 2015 shares) were converted into common shares with a stated value of approximately \$1,631, \$442, \$4,039, \$3,005 and \$2,771, respectively (nine-month period ended September 30, 2020 - \$175, \$39, \$360, \$807 and \$840, respectively).

During the nine-month period ended September 30, 2021, the Company did not cancel any shares from any of the series of shares (nine-month period ended September 30, 2020 - no shares were cancelled in any of the series of shares).

Employee share purchase loans have been netted against the redeemable share liability, as the Company has the legally enforceable right of set-off and the positive intent to settle on a net basis.

## 12. Common Shares

As at	September 30, 2021	December 31, 2020
(C\$ in thousands)		
<b>Authorized</b> - Unlimited common shares		
<b>Issued</b>		
77,026,642 common shares (2020 - 78,650,418)	<b>170,863</b>	164,669

During the nine-month period ended September 30, 2021, 184,225 series 2009 shares, 35,593 series 2012 shares, 354,595 series 2013 shares, 199,704 series 2014 shares and 205,905 series 2015 shares (nine-month period ended September 30, 2020 - 19,751 series 2009 shares, 3,112 series 2012 shares, 31,616 series 2013 shares, 53,665 series 2014 shares and 62,393 series 2015 shares) were converted into common shares with a stated value of approximately \$1,631, \$442, \$4,039, \$3,005 and \$2,771, respectively (nine-month period ended September 30, 2020 - \$175, \$39, \$360, \$807 and \$840, respectively).

On September 13, 2021, 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 3,869,268 common shares representing 4.99% of the total number of its 77,540,442 issued and outstanding common shares as at September 6, 2021. The average daily trading volume for the six months ended August 31, 2021 was 13,357. Therefore, other than block purchase exemptions, daily purchases will be limited to 3,339 common shares. The bid commenced on September 15, 2021 and will terminate on the earliest of the purchase of 3,869,268 common shares, the issuer providing a notice of termination, and September 14, 2022. 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.

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During the nine-month period ended September 30, 2021, and excluding the common shares repurchased under the automatic share purchase plan ("ASPP"), the Company repurchased 2,247,410 shares (nine-month period ended September 30, 2020 - 2,239,322 shares) of its common shares on the open market pursuant to the terms and conditions of normal course issuer bid at a net cost of \$50,822 (nine-month period ended September 30, 2020 - \$39,268). The repurchase of common shares resulted in a reduction of share capital in the amount of \$4,708 (nine-month period ended September 30, 2020 - \$4,274). The excess net cost over the average carrying value of the shares of \$46,114 (nine-month period ended September 30, 2020 - \$34,994) has been recorded as a reduction in retained earnings. As at September 30, 2021, the Company has cancelled 2,146,210 of these repurchased shares and the remaining amount of 98,100 shares were held as Treasury shares, which have a value of \$2,286 and were subsequently cancelled in October 2021 (nine-month period ended September 30, 2020 - 2,218,222 of the repurchased shares were cancelled).

On September 30, 2021, the Company announced that it had entered into an ASPP with the Company's broker in order to facilitate the repurchase of its common shares under the normal course issuer bid during self-imposed blackout periods. During the nine-month period ended September 30, 2021, the Company repurchased and cancelled 480,730 common shares under the ASPP for a total cost of \$10,405, of which \$1,007 represents a reduction in share capital and the remaining \$9,398 was charged to retained earnings. As at September 30, 2021, an obligation for the repurchase of shares of \$12,500 was recognized under the ASPP (as at September 30, 2020 - \$10,000).

During nine-month period ended September 30, 2021, convertible debentures with a stated value of \$365 were converted to 29,342 common shares, at the holder's option (nine-month period ended September 30, 2020 - \$48,713 were converted to 3,854,511 common shares).

The dividends paid in the three-month period ended September 30, 2021 and September 30, 2020 were \$12,486 (\$0.16 per share) and \$9,663 (\$0.12 per share), respectively.

The dividends paid in the nine-month period ended September 30, 2021 and September 30, 2020 were \$61,209 (\$0.78 per share) and \$33,406 (\$0.42 per share), respectively.

## 13. Revenue

### Disaggregation of Revenue

For the	Three months ended	
	September 30, 2021	September 30, 2020
(C\$ in thousands)		
Sales of goods by corporate stores	662,986	610,984
Income from franchise operations	9,681	8,403
Extended warranty revenue	7,399	7,788
Insurance sales revenue	2,689	3,250
Rental income from investment property	440	339
<b>Total</b>	<b>683,195</b>	<b>630,764</b>

For the	Nine months ended	
	September 30, 2021	September 30, 2020
(C\$ in thousands)		
Sales of goods by corporate stores	1,781,488	1,484,407
Income from franchise operations	25,903	20,526
Extended warranty revenue	26,030	29,501
Insurance sales revenue	8,273	9,525
Rental income from investment property	1,171	1,090
<b>Total</b>	<b>1,842,865</b>	<b>1,545,049</b>

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### 14. Income Tax Expense

For the (C\$ in thousands)	Three months ended	
	September 30, 2021	September 30, 2020
Current income tax expense	21,938	15,815
Deferred income tax expense (recovery)	27	(1,300)
<b>Total</b>	<b>21,965</b>	<b>14,515</b>

  

For the (C\$ in thousands)	Nine months ended	
	September 30, 2021	September 30, 2020
Current income tax expense	53,846	35,149
Deferred income tax recovery	(2,541)	(4,540)
<b>Total</b>	<b>51,305</b>	<b>30,609</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 nine-month period ended September 30, 2021 and September 30, 2020 were 25.4% and 22%, respectively.

### 15. Earnings Per Share

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

For the (C\$ in thousands except share and share amounts)	Three months ended	
	September 30, 2021	September 30, 2020
Net income for the period for basic earnings per share	63,822	49,078
Net income for the period for diluted earnings per share	63,822	49,089
Weighted average number of common shares outstanding	77,026,816	79,412,546
Dilutive effect	1,359,274	2,015,224
Dilutive weighted average number of common shares outstanding	78,386,090	81,427,770
Basic earnings per share	\$0.83	\$0.62
Diluted earnings per share	\$0.81	\$0.60

  

For the (C\$ in thousands except share and share amounts)	Nine months ended	
	September 30, 2021	September 30, 2020
Net income for the period for basic earnings per share	150,693	109,982
Net income for the period for diluted earnings per share	150,703	110,112
Weighted average number of common shares outstanding	77,894,459	80,149,763
Dilutive effect	1,639,659	2,444,446
Dilutive weighted average number of common shares outstanding	79,534,118	82,594,209
Basic earnings per share	\$1.93	\$1.37
Diluted earnings per share	\$1.89	\$1.33

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# 16. Financial Instruments

### Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents and authorized credit facilities, to fulfill obligations associated with financial liabilities. To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. Management also monitors cash and working capital efficiency given current sales levels and seasonal variability. The Company measures and monitors liquidity risk by regularly evaluating its cash inflows and outflows under expected conditions through cash flow reporting such that it anticipates certain funding mismatches and ensures the cash management of the business is within certain tolerable levels. These cash flow forecasts are reviewed on a weekly basis by management. The Company mitigates liquidity risk through continuous monitoring of its credit facilities and the diversification of its funding sources, both in the short term as well as the long term. As at September 30, 2021, unrestricted liquidity was \$657,284 comprised of cash and cash equivalents, debt and equity instruments and its undrawn revolving credit facility.

### Classification of financial instruments and fair value

The classification of the Company's financial instruments, as well as their carrying amounts and fair values, are disclosed in the tables below.

As at	September 30, 2021			
(C\$ in thousands)	Classification and measurement	Total carrying amount	Fair value	Fair value hierarchy
<b>Financial assets</b>				
Cash and cash equivalents	Amortized cost	386,954	386,954	Level 1
Trade receivables	Amortized cost	149,093	149,093	Level 2
Restricted marketable securities	FVOCI	522	522	Level 1
Equity instruments	FVOCI	49,311	49,311	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	94,201	94,201	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivables	FVTPL	12,154	12,154	Level 2
<b>Financial liabilities</b>				
Trade and other payables	Amortized cost	350,041	350,041	Level 2
Provisions	Amortized cost	27,522	27,522	Level 2
Loans and borrowings	Amortized cost	90,000	90,000	Level 2
Redeemable share liability	Amortized cost	13	13	Level 2
Derivative liabilities	FVTPL	1,065	1,065	Level 2

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As at	December 31, 2020			
(C\$ in thousands)	Classification and measurement	Total carrying amount	Fair value	Fair value hierarchy
<b>Financial assets</b>				
Cash and cash equivalents	Amortized cost	368,635	368,635	Level 1
Trade receivables	Amortized cost	130,582	130,582	Level 2
Restricted marketable securities	FVOCI	2,451	2,451	Level 1
Equity instruments	FVOCI	45,324	45,324	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	73,465	73,465	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivables	FVTPL	12,721	12,721	Level 2
<b>Financial liabilities</b>				
Trade and other payables	Amortized cost	304,844	304,844	Level 2
Provisions	Amortized cost	25,608	25,608	Level 2
Loans and borrowings	Amortized cost	90,000	90,000	Level 2
Convertible debentures	Amortized cost	441	647	Level 2
Redeemable share liability	Amortized cost	13	13	Level 2
Derivative liabilities	FVTPL	3,976	3,976	Level 2

The fair value hierarchy of financial instruments measured at fair value as at September 30, 2021 includes financial assets of \$530,988, \$161,347 and \$3,310 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$468,641 and \$nil for Levels 1, 2 and 3, respectively.

The carrying amounts of the Company's trade receivables and trade and other payables approximate their fair values due to their short-term nature.

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

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

As at September 30, 2021, convertible debentures have been fully settled. For the convertible debentures as at December 31, 2020, the fair value is calculated based on the face value of the convertible debentures of \$442. As at December 31, 2020, the convertible debentures were determined using their closing quoted market price (not in thousands of dollars) of \$146.49 per \$100.00 of face value.

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 2022. As at September 30, 2021, a \$1,065 unrealized loss was recorded in derivative liabilities (December 31, 2020 - \$3,976 unrealized loss).

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

## Leon's Furniture Limited

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

### Fair value hierarchy

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities, the levels of which are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

## 17. Interim Consolidated Statements of Cash Flows

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

For the (C\$ in thousands)	Nine months ended	
	September 30, 2021	September 30, 2020
Trade receivables	(18,511)	2,297
Inventories	(36,079)	45,866
Prepaid expenses and other assets	(5,088)	(4,930)
Trade and other payables	36,747	45,373
Customers' deposits	(20,425)	150,353
Derivative assets	-	546
Derivative liabilities	(2,911)	-
Provisions	1,914	12,113
Deferred acquisition costs	(1,807)	(8,890)
<b>Total</b>	<b>(46,160)</b>	<b>242,728</b>

## 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 third quarter of 2021 interim condensed consolidated financial statements.