



LEON'S FURNITURE LIMITED

Interim Condensed Consolidated Financial Statements

For the period ended March 31, 2022

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Interim Consolidated Statements of Financial Position (unaudited)

As at (C\$ in thousands)	Notes	March 31, 2022	December 31, 2021	March 31, 2021
Assets				
Current assets				
Cash and cash equivalents		139,965	382,138	255,950
Restricted marketable securities		447	466	2,400
Debt securities		66,490	66,561	81,335
Equity securities		40,399	41,251	51,595
Trade receivables		171,153	160,093	105,389
Income taxes recoverable		7,329	2,242	4,075
Inventories	5	507,733	395,646	377,044
Deferred acquisition costs		11,503	11,294	10,742
Deferred financing costs		120	-	-
Prepaid expenses and other assets		19,341	15,598	16,308
Total current assets		964,480	1,075,289	904,838
Non-current assets				
Deferred acquisition costs		20,001	19,896	17,896
Loan receivable	11	9,575	10,039	12,267
Property, plant and equipment and right-of-use assets	6	638,994	657,809	702,615
Investment properties	7	14,755	14,850	16,103
Intangible assets	8	269,736	270,173	270,097
Goodwill		390,120	390,120	390,120
Deferred income tax assets		15,832	14,957	14,944
Total non-current assets		1,359,013	1,377,844	1,424,042
Total assets		2,323,493	2,453,133	2,328,880
Liabilities				
Current liabilities				
Trade and other payables		331,755	543,737	276,591
Provisions		21,869	24,649	26,040
Income taxes payable		215	32,523	14,580
Customers' deposits		323,194	362,099	248,873
Lease liabilities	9	74,299	74,920	73,897
Dividends payable		10,763	12,287	12,560
Deferred warranty plan revenue		58,779	57,787	55,551
Current portion of long-term debt	10	7,361	90,000	-
Derivative liabilities		3,121	1,742	4,449
Total current liabilities		831,356	1,199,744	712,541
Non-current liabilities				
Long-term debt	10	232,639	-	90,000
Lease liabilities	9	279,368	291,334	323,647
Deferred warranty plan revenue		100,305	99,840	89,524
Redeemable share liability	11	13	13	13
Deferred income tax liabilities		71,108	71,009	74,328
Total non-current liabilities		683,433	462,196	577,512
Total liabilities		1,514,789	1,661,940	1,290,053
Shareholders' equity				
Common shares	12	150,545	149,966	164,891
Retained earnings		647,090	627,243	863,536
Accumulated other comprehensive income		11,069	13,984	10,400
Total shareholders' equity		808,704	791,193	1,038,827
Total liabilities and shareholders' equity		2,323,493	2,453,133	2,328,880

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

Leon's Furniture Limited

Interim Consolidated Statements of Income (unaudited)

For the		Three months ended	
(C\$ in thousands except share and per share amounts)	Notes	March 31, 2022	March 31, 2021
Revenue	13	547,220	571,127
Cost of sales	5	313,567	321,039
Gross profit		233,653	250,088
Operating expenses			
Selling, general and administrative expenses		195,959	191,212
Operating profit		37,694	58,876
Finance costs		(5,445)	(5,428)
Finance income		964	1,500
Change in fair value of derivative instruments		(1,379)	(476)
Net income before income tax		31,834	54,472
Income tax expense	14	7,076	13,601
Net income for the period		24,758	40,871
Weighted average number of common shares outstanding			
Basic		67,759,043	78,537,931
Diluted		68,576,755	80,343,168
Earnings per share	15		
Basic		\$0.37	\$0.52
Diluted		\$0.36	\$0.51
Dividends declared per share			
Common		\$0.16	\$0.16

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

Interim Consolidated Statements of Comprehensive Income (unaudited)

For the (C\$ in thousands)	Three months ended	
	March 31, 2022	March 31, 2021
Net income for the period	24,758	40,871
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Loss on debt instruments arising during the period	(2,695)	(1,096)
Items that will not be reclassified to profit or loss:		
Gain (loss) on equity instruments arising during the period	(318)	3,102
Income tax expense (recovery) on the above	98	(305)
Other comprehensive income (loss) for the period	(2,915)	1,701
Comprehensive income for the period	21,843	42,572

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)	Common shares	Accumulated other comprehensive income	Retained earnings	Total
As at December 31, 2021	149,966	13,984	627,243	791,193
Comprehensive income				
Net income for the period	-	-	24,758	24,758
Other comprehensive loss for the period	-	(2,915)	-	(2,915)
Total comprehensive income (loss)	-	(2,915)	24,758	21,843
Transactions with shareholders				
Dividends declared	-	-	(10,763)	(10,763)
Management share purchase plan [note 11]	267	-	-	267
Share repurchase commitment [note 12]	3,920	-	41,080	45,000
Repurchase of common shares [note 12]	(3,608)	-	(35,228)	(38,836)
Total transactions with shareholders	579	-	(4,911)	(4,332)
As at March 31, 2022	150,545	11,069	647,090	808,704

(C\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income	Retained earnings	Total
As at December 31, 2020	31	164,669	8,699	842,604	1,016,003
Comprehensive income					
Net income for the period	-	-	-	40,871	40,871
Other comprehensive income for the period	-	-	1,701	-	1,701
Total comprehensive income	-	-	1,701	40,871	42,572
Transactions with shareholders					
Dividends declared	-	-	-	(12,560)	(12,560)
Management share purchase plan [note 11]	-	574	-	-	574
Convertible debentures	(31)	408	-	-	377
Treasury shares [note 12]	-	(21)	-	(212)	(233)
Share repurchase commitment [note 12]	-	57	-	(57)	-
Repurchase of common shares [note 12]	-	(796)	-	(7,110)	(7,906)
Total transactions with shareholders	(31)	222	-	(19,939)	(19,748)
As at March 31, 2021	-	164,891	10,400	863,536	1,038,827

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

Interim Consolidated Statements of Cash Flows (unaudited)

For the		Three months ended	
(C\$ in thousands)	Notes	March 31, 2022	March 31, 2021
Operating activities			
Net income before income tax		31,834	54,472
Add (deduct) items not involving an outlay of cash:			
Depreciation of property, plant and equipment, right-of-use assets and investment properties		27,334	27,805
Amortization of intangible assets		444	558
Amortization of deferred warranty plan revenue		(17,273)	(17,296)
Amortization of premium		88	107
Net finance costs		4,481	3,801
Gain on sale of property, plant and equipment and investment properties		(19)	(42)
Fair value gain on loan receivable	11	(224)	(242)
Loss on sale of debt and equity instruments		-	36
		46,665	69,199
Change in operating working capital	17	(134,785)	(109,132)
Cash received on warranty plan sales		18,730	18,034
Income taxes paid		(45,149)	(15,799)
Cash used in operating activities		(114,539)	(37,698)
Investing activities			
Purchase of property, plant and equipment	6	(2,142)	(1,006)
Purchase of intangible assets	8	(7)	(174)
Proceeds on sale of property, plant and equipment and investment properties		41	58
Purchase of debt and equity instruments		(4,324)	(11,659)
Proceeds on sale of debt and equity instruments		2,166	2,841
Repayment of loan receivable	11	688	696
Interest received		917	1,500
Cash used in investing activities		(2,661)	(7,744)
Financing activities			
Payment of lease liabilities	9	(18,891)	(18,057)
Dividends paid		(12,287)	(36,163)
Decrease of employee loans-redeemable shares	11	267	574
Repurchase of common shares	12	(238,836)	(8,139)
Early redemption payment on outstanding debentures		-	(77)
Issuance of term loan	10	150,000	-
Interest paid		(5,226)	(5,381)
Cash used in financing activities		(124,973)	(67,243)
Net decrease in cash and cash equivalents during the period		(242,173)	(112,685)
Cash and cash equivalents, beginning of period		382,138	368,635
Cash and cash equivalents, end of period		139,965	255,950

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

Leon's Furniture Limited

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

1. Reporting Entity

Leon's Furniture Limited ("Leon's" or the "Company") was incorporated by the Articles of Incorporation under the Business Corporations Act on February 28, 1969. Leon's is a retailer of home furnishings, mattresses, appliances and electronics across Canada. Leon's is a public company listed on the Toronto Stock Exchange (TSX - LNF) and is incorporated and domiciled in Canada. The address of the Company's head office and registered office is 45 Gordon Mackay Road, Toronto, Ontario, M9N 3X3.

The Company's business is seasonal in nature. Retail sales are traditionally higher in the third and fourth quarters.

2. Basis of Presentation

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

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19"), which has the potential to cause severe respiratory illness, a global pandemic. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty. The COVID-19 pandemic has increased the uncertainties around key assumptions used by the Company in estimating the recoverable amount for the purpose of testing for impairment of property, plant and equipment, goodwill and intangible assets. These key estimates include future cash flows, margins and discount rates. Accordingly, estimates of the extent to which the COVID-19 pandemic could materially and adversely affect the Company's operations, financial results and condition in future periods, including the use of estimates and judgements described in Note 2 in the fiscal year 2021 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 May 12, 2022.

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, 2021. 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, 2021.

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

Adoption of new accounting standards

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 adoption of this amendment did not have a material impact on the 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 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

In June 2020, the IASB issued amendments to IFRS 17 partly aimed at helping companies implement the standard. IFRS 17, incorporating the amendments, is effective for annual reporting 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 currently analyzing the impact this amendment will have 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 currently analyzing the impact this amendment will have on its financial statements.

Leon's Furniture Limited

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

Amendments to IAS 1 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 currently analyzing the impact these amendments will have on its financial statements.

4. Capital Risk Management

The Company's objectives when managing capital are to:

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

The capital structure currently includes working capital, debt and equity securities, lease liabilities, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at March 31, 2022, \$66,708 is available to draw on under the Company's \$200,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$43,292 (December 31, 2021 - \$47,992) and utilizing \$90,000 of the revolving credit facility. Most of the letters of credit are needed to post collateral. Due to the significant reduction in the 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 Canada Border Services Agency.

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, 2022.

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 2021 consolidated financial statements.

5. Inventories

The amount of inventory recognized as an expense for the three months ended March 31, 2022 was \$305,823 (three months ended March 31, 2021 - \$308,402), which is presented within cost of sales in the unaudited interim condensed consolidated statements of income.

During the three months ended March 31, 2022, there were \$59 in inventory write-downs (three months ended December 31, 2021 - \$897 inventory write-down reversals). As at March 31, 2022, the inventory markdown provision totaled \$5,886 (as at December 31, 2021 - \$5,827).

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
Cost								
Balance as at December 31, 2021	104,112	287,555	184,131	61,846	249,439	588,476	2,138	1,477,697
Additions	-	-	1,607	1,590	579	4,670	-	8,446
Disposals	-	-	(339)	(119)	(465)	-	(27)	(950)
Balance as at March 31, 2022	104,112	287,555	185,399	63,317	249,553	593,146	2,111	1,485,193
Accumulated depreciation								
Balance as at December 31, 2021	-	167,599	141,121	41,082	210,034	259,169	883	819,888
Depreciation	-	1,822	1,909	1,435	2,278	19,720	75	27,239
Disposals	-	-	(317)	(119)	(465)	-	(27)	(928)
Balance as at March 31, 2022	-	169,421	142,713	42,398	211,847	278,889	931	846,199
Net book value as at March 31, 2022	104,112	118,134	42,686	20,919	37,706	314,257	1,180	638,994

(C\$ in thousands)	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
Cost								
Balance as at December 31, 2020	104,124	286,531	180,040	60,759	245,092	555,943	1,494	1,433,983
Additions	-	1,024	6,855	2,091	7,365	35,585	644	53,564
Disposals	(12)	-	(2,764)	(1,004)	(3,018)	(3,052)	-	(9,850)
Balance as at December 31, 2021	104,112	287,555	184,131	61,846	249,439	588,476	2,138	1,477,697
Accumulated depreciation								
Balance as at December 31, 2020	-	160,349	136,163	35,997	204,509	181,929	613	719,560
Depreciation	-	7,250	7,530	6,003	8,524	80,216	270	109,793
Disposals	-	-	(2,572)	(918)	(2,999)	(2,976)	-	(9,465)
Balance as at December 31, 2021	-	167,599	141,121	41,082	210,034	259,169	883	819,888
Net book value as at December 31, 2021	104,112	119,956	43,010	20,764	39,405	329,307	1,255	657,809

Included in the above balances as at March 31, 2022, are assets not being amortized with a net book value of approximately \$50 (as at December 31, 2021 - \$493), 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.

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

7. Investment Properties

(C\$ in thousands)	Land	Buildings	Building improvements	Total
Cost				
Balance as at December 31, 2021	10,646	15,396	953	26,995
Balance as at March 31, 2022	10,646	15,396	953	26,995
Accumulated depreciation				
Balance as at December 31, 2021	-	11,594	551	12,145
Depreciation	-	82	13	95
Balance as at March 31, 2022	-	11,676	564	12,240
Net book value as at March 31, 2022	10,646	3,720	389	14,755

(C\$ in thousands)	Land	Buildings	Building improvements	Total
Cost				
Balance as at December 31, 2020	10,946	17,333	1,111	29,390
Disposals	(300)	(1,937)	(158)	(2,395)
Balance as at December 31, 2021	10,646	15,396	953	26,995
Accumulated depreciation				
Balance as at December 31, 2020	-	12,586	592	13,178
Depreciation	-	353	56	409
Disposals	-	(1,345)	(97)	(1,442)
Balance as at December 31, 2021	-	11,594	551	12,145
Net book value as at December 31, 2021	10,646	3,802	402	14,850

The estimated fair value of the investment properties portfolio as at March 31, 2022, was approximately \$42,000 (as at December 31, 2021 - \$42,000). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy (note 16 for definition of levels). This was compiled internally by management based on available market evidence.

Leon's Furniture Limited

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

8. Intangible Assets

(C\$ in thousands)	Customer relationships	Brand name and franchise agreements	Computer software	Total
Cost				
Balance as at December 31, 2021	7,000	268,500	22,088	297,588
Additions	-	-	7	7
Balance as at March 31, 2022	7,000	268,500	22,095	297,595
Accumulated amortization				
Balance as at December 31, 2021	7,000	2,500	17,915	27,415
Amortization	-	-	444	444
Balance as at March 31, 2022	7,000	2,500	18,359	27,859
Net book value as at March 31, 2022	-	266,000	3,736	269,736

(C\$ in thousands)	Customer relationships	Brand name and franchise agreements	Computer software	Total
Cost				
Balance as at December 31, 2020	7,000	268,500	20,586	296,086
Additions	-	-	1,502	1,502
Balance as at December 31, 2021	7,000	268,500	22,088	297,588
Accumulated amortization				
Balance as at December 31, 2020	6,843	2,500	16,262	25,605
Amortization	157	-	1,653	1,810
Balance as at December 31, 2021	7,000	2,500	17,915	27,415
Net book value as at December 31, 2021	-	266,000	4,173	270,173

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)	March 31, 2022	December 31, 2021
The Brick brand name (allocated to Brick division)	245,000	245,000
The Brick franchise agreements (allocated to Brick division)	21,000	21,000
Total	266,000	266,000

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

Leon's Furniture Limited

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

9. Leases

Company as a lessee

Leasing arrangements

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

Lease liabilities

Carrying amounts of lease liabilities are as follows:

(C\$ in thousands)	Total
Balance as at December 31, 2021	366,254
Additions	6,304
Interest	4,612
Payments	(23,503)
Balance as at March 31, 2022	353,667
Reported as:	
Current	74,299
Non-current	279,368
Total	353,667

(C\$ in thousands)	Total
Balance as at December 31, 2020	400,703
Additions	38,744
Disposals	(76)
Interest	19,693
Payments	(92,810)
Balance as at December 31, 2021	366,254
Reported as:	
Current	74,920
Non-current	291,334
Total	366,254

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

10. Long-term Debt

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.

On February 17, 2022, the Company completed a third amendment to its SSCA. Under this amendment, the Company increased its term loan to \$150,000 and increased its total credit facilities from \$265,000 to \$350,000. The amounts borrowed under this amendment must be repaid in full by May 31, 2024. This third amendment increased the Company's revolving credit facility from \$175,000 to \$200,000. Under this amendment, the Company has drawn \$90,000 under 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. Transactions costs in the amount of \$120 were deferred and will be amortized over the life of the agreement in relation to the third amendment of the SSCA. 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 loan is repayable in quarterly amounts of 1.25% commencing June 30, 2022, with the remainder due on maturity. Currently, the Company has entered into a 29-day Bankers' Acceptance with a cost of borrowing of 1.81% that was renewed on March 31, 2022.

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, 2022, the Company was in full compliance of these financial and non-financial covenants.

11. Management Share Purchase Plan

Employee benefit plan

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

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

During the three-month period ended March 31, 2022 the Company recognized compensation expense of \$56 (three-month period ended March 31, 2021 - \$56). Dividends paid to MSPP holders, for the three-month period ended March 31, 2022, of \$88 were credited against the loan receivable (three-month period ended March 31, 2021 - \$186). The loan receivable is recognized at fair value and during the three-month period ended March 31, 2022, finance income of \$96 was recognized by the Company (three-month period ended March 31, 2021 - \$128).

During the three-month period ended March 31, 2022, share sale proceeds of \$600 were credited against the loan receivable. Finance income of \$128 was recognized by the Company as the loan receivable is recognized at fair value. During the three-month period ended March 31, 2022, there were no forfeitures of the 2018 series of common shares under the 2018 MSPP. During the three-month period ended March 31, 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.

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Redeemable share liability

As at	March 31, 2022	December 31, 2021
(C\$ in thousands)		
Authorized		
1,224,000 convertible, non-voting, series 2009 shares		
306,500 convertible, non-voting, series 2012 shares		
1,485,000 convertible, non-voting, series 2013 shares		
740,000 convertible, non-voting, series 2014 shares		
880,000 convertible, non-voting, series 2015 shares		
Issued and fully paid		
4,140 series 2009 shares (December 31, 2021 - 4,295)	37	38
68,915 series 2012 shares (December 31, 2021 - 70,728)	855	878
301,391 series 2013 shares (December 31, 2021 - 310,091)	3,433	3,532
175,186 series 2014 shares (December 31, 2021 - 178,990)	2,636	2,693
266,451 series 2015 shares (December 31, 2021 - 272,934)	3,586	3,674
Less employee share purchase loans	(10,534)	(10,802)
Total	13	13

Under the terms of the Plan, the Company advanced non-interest bearing loans to certain of its employees in 2009, 2012, 2013, 2014 and 2015 to allow them to acquire convertible, non-voting series 2009 shares, series 2012 shares, series 2013 shares, series 2014 shares and series 2015 shares, respectively, of the Company. These loans are repayable through the application against the loans of any dividends on the shares with any remaining balance repayable on the date the shares are converted to common shares. Each issued and fully paid for shares series 2009 and series 2012 may be converted into one common share at any time after the fifth anniversary date of the issue of these shares and prior to the thirteenth anniversary of such issue. Each issued and fully paid for series 2013, series 2014 and series 2015 may be converted into one common share at any time after the third anniversary date of the issue of these shares and prior to the thirteenth anniversary of such issue. The series 2009, series 2012, series 2013, series 2014 and series 2015 are redeemable at the option of the holder for a period of one business day following the date of issue of such shares. The Company has the option to redeem the series 2009 and series 2012 shares at any time after the fifth anniversary date of the issue of these shares and must redeem them prior to the thirteenth anniversary of such issue. The Company has the option to redeem the series 2013, series 2014 and series 2015 shares at any time after the third anniversary date of the issue of these shares and must redeem them prior to the thirteenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The purchase prices of the shares are \$8.85 per series 2009 share, \$12.41 per series 2012 share, \$11.39 per series 2013 share, \$15.05 per series 2014 share and \$13.46 per series 2015 share. Dividends paid to holders of series 2009, 2012, 2013, 2014 and 2015 shares of approximately \$270 (2021 - \$529) 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, 2022, 155 series 2009 shares, 1,813 series 2012 shares, 8,700 series 2013 shares, 3,804 series 2014 shares and 6,483 series 2015 shares (three-month period ended March 31, 2021 - 10,761 series 2009 shares, 3,020 series 2012 shares, 16,958 series 2013 shares, 7,292 series 2014 shares and 10,306 series 2015 shares) were converted into common shares with a stated value of approximately \$1, \$23, \$99, \$57 and \$87, respectively (three-month period ended March 31, 2021 - \$95, \$37, \$193, \$110 and \$139, respectively).

During the three-month period ended March 31, 2022, the Company did not cancel any shares from any of the series of shares (three-month period ended March 31, 2021 - 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.

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12. Common Shares

As at	March 31, 2022	December 31, 2021
(C\$ in thousands)		
Authorized - Unlimited common shares		
Issued		
67,265,975 common shares (2021 - 76,800,313)	150,545	149,966

During the three-month period ended March 31, 2022, 155 series 2009 shares, 1,813 series 2012 shares, 8,700 series 2013 shares, 3,804 series 2014 shares and 6,483 series 2015 shares (three-month period ended March 31, 2021 - 10,761 series 2009 shares, 3,020 series 2012 shares, 16,958 series 2013 shares, 7,292 series 2014 shares and 10,306 series 2015 shares) were converted into common shares with a stated value of approximately \$1, \$23, \$99, \$57 and \$87, respectively (three-month period ended March 31, 2021 - \$95, \$37, \$193, \$110 and \$139, respectively).

Substantial issuer bid

On November 25, 2021, the Company commenced a substantial issuer bid ("SIB"), by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Company ("Offer"). The Offer expired on December 30, 2021. For the duration of the SIB, the Company suspended share repurchases under the current normal course issuer bid, but resumed after the expiration of the SIB. The Company purchased for cancellation 7,999,993 common shares at a purchase price of \$25 per common share, for aggregate consideration of \$200,000, being the maximum purchase price payable under the Offer. The common shares purchased under the Offer represented approximately 10.4% of the issued and outstanding common shares at the time the Offer was completed. As at March 31, 2022, the Company has cancelled all of these shares.

Normal course issuer bid

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 TSX at market price under the normal course issuer bid rules of the TSX.

On September 27, 2021, the Company entered into an automatic share purchase plan ("ASPP") with the Company's broker in order to facilitate the repurchase of its common shares under the normal course issuer bid during self-imposed blackout periods. During the three-month period ended March 31, 2022, the Company repurchased and cancelled 1,546,300 common shares (three-month period ended March 31, 2021 - 145,400 common shares) under the ASPP for a total cost of \$38,617 (three-month period ended March 31, 2021 - \$3,028), of which \$3,456 (three-month period ended March 31, 2021 - \$304) represents a reduction in share capital and the remaining \$35,161 (three-month period ended March 31, 2021 - \$2,724) was charged to retained earnings. As at March 31, 2022, there was no obligation recognized for the repurchase of common shares under the ASPP (as at March 31, 2021 - \$6,000).

During the three-month period ended March 31, 2022, and excluding the common shares repurchased under the ASPP, the Company repurchased 9,000 shares (three-month period ended March 31, 2021 - 244,896 common 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 \$219 (three-month period ended March 31, 2021 - \$5,111). The repurchase of common shares resulted in a reduction of share capital in the amount of \$20 (three-month period ended March 31, 2021 - \$513). The excess net cost over the average carrying value of the shares of \$199 (three-month period ended March 31, 2021 - \$4,598) has been recorded as a reduction in retained earnings. As at March 31, 2022, the Company has cancelled all of these repurchased shares (three-month period ended March 31, 2021 - 234,696 of the repurchased shares were cancelled).

The dividends paid in the three-month period ended March 31, 2022 and March 31, 2021, were \$12,287 (\$0.16 per share) and \$36,163 (\$0.16 per share), respectively.

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13. Revenue

Disaggregation of Revenue

For the (C\$ in thousands)	Three months ended	
	March 31, 2022	March 31, 2021
Sales of goods by corporate stores	522,442	545,571
Income from franchise operations	7,155	7,917
Extended warranty revenue	14,207	14,300
Insurance sales revenue	3,027	2,950
Rental income from investment property	389	389
Total	547,220	571,127

14. Income Tax Expense

For the (C\$ in thousands)	Three months ended	
	March 31, 2022	March 31, 2021
Current income tax expense	7,746	14,776
Deferred income tax recovery	(670)	(1,175)
Total	7,076	13,601

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, 2022 and March 31, 2021 were 22.2% and 26.5%, 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 per share amounts)	Three months ended	
	March 31, 2022	March 31, 2021
Net income for the period for basic earnings per share	24,758	40,871
Net income for the period for diluted earnings per share	24,758	40,881
Weighted average number of common shares outstanding	67,759,043	78,537,931
Dilutive effect	817,712	1,805,237
Dilutive weighted average number of common shares outstanding	68,576,755	80,343,168
Basic earnings per share	\$0.37	\$0.52
Diluted earnings per share	\$0.36	\$0.51

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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 March 31, 2022, unrestricted liquidity was \$310,252 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	March 31, 2022			
(C\$ in thousands)	Classification and measurement	Total carrying amount	Fair value	Fair value hierarchy
Financial assets				
Cash and cash equivalents	Amortized cost	139,965	139,965	Level 1
Trade receivables	Amortized cost	171,153	171,153	Level 2
Restricted marketable securities	FVOCI	447	447	Level 1
Equity instruments	FVOCI	37,089	37,089	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	66,390	66,390	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivables	FVTPL	9,575	9,575	Level 2
Financial liabilities				
Trade and other payables	Amortized cost	331,755	331,755	Level 2
Long-term debt	Amortized cost	240,000	240,000	Level 2
Redeemable share liability	Amortized cost	13	13	Level 2
Derivative liabilities	FVTPL	3,121	3,121	Level 2

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As at	December 31, 2021			
(C\$ in thousands)	Classification and measurement	Total carrying amount	Fair value	Fair value hierarchy
Financial assets				
Cash and cash equivalents	Amortized cost	382,138	382,138	Level 1
Trade receivables	Amortized cost	160,093	160,093	Level 2
Restricted marketable securities	FVOCI	466	466	Level 1
Equity instruments	FVOCI	37,941	37,941	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	66,461	66,461	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivables	FVTPL	10,039	10,039	Level 2
Financial liabilities				
Trade and other payables	Amortized cost	543,737	543,737	Level 2
Long-term debt	Amortized cost	90,000	90,000	Level 2
Redeemable share liability	Amortized cost	13	13	Level 2
Derivative liabilities	FVTPL	1,742	1,742	Level 2

The fair value hierarchy of financial instruments measured at fair value as at March 31, 2022 includes financial assets of \$243,891, \$180,828 and \$3,310 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$574,889 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.

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 comprises foreign exchange forwards, with maturities that do not exceed past December 2023. As at March 31, 2022, a \$3,121 unrealized loss was recorded in derivative liabilities (December 31, 2021 - \$1,742 unrealized loss).

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

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

For the (C\$ in thousands)	Three months ended	
	March 31, 2022	March 31, 2021
Trade receivables	(11,060)	25,193
Inventories	(112,087)	(44,972)
Prepaid expenses and other assets	(3,743)	(5,213)
Trade and other payables	32,845	(28,159)
Customers' deposits	(38,905)	(56,587)
Derivative liabilities	1,379	473
Provisions	(2,780)	432
Deferred acquisition costs	(314)	(299)
Deferred financing costs	(120)	-
Total	(134,785)	(109,132)

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 2022 interim condensed consolidated financial statements.