



LEON'S FURNITURE LIMITED



Committed to Excellence

Annual Report 2021

Committed to Shareholder Returns

LFL Group has generated significant free cash flow through our successful retail business. Our policy is to manage our capital to take advantage of potential opportunities and return surplus cash to shareholders.

Since the start of 2021, we have returned \$435 million to our shareholders in the form of dividends and share repurchases.

Capital Returned to Shareholders

(millions)

Quarterly Dividends	\$	50
Special Dividends	\$	120
Repurchase of Shares: Normal Course Issuer Bid	\$	65
Repurchase of Shares: Substantial Issuer Bid ¹	\$	200
Total Capital Returned to Shareholders	\$	435

1. The substantial issuer bid expired on December 30, 2021. The Company paid for shares tendered to the bid on January 4, 2022.

Revenue



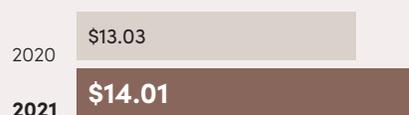
+13%

Net Income



+27%

Shareholders' Equity Per Share²



+8%

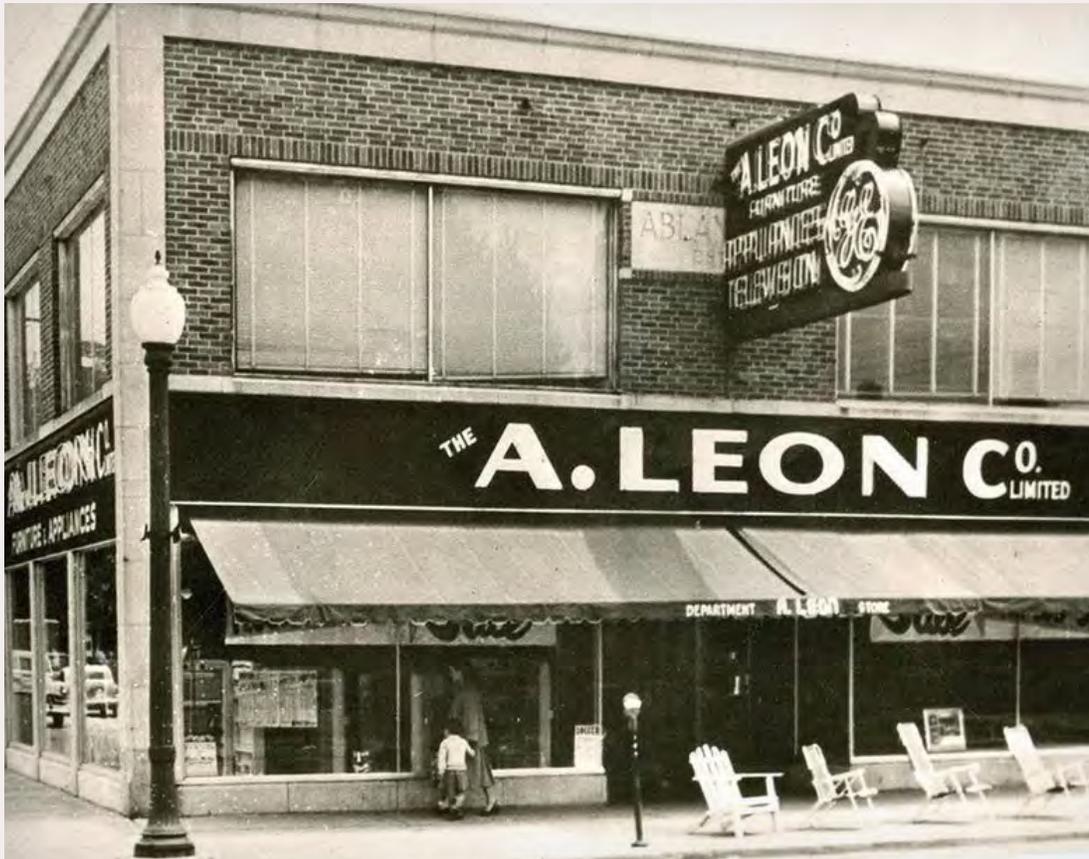
2. Normalized to exclude the substantial issuer bid in 2021 and special dividends in both years.

Table of Contents

Chair's Letter	2	Committed to Canadians Nationwide	14
CEO's Message	4	Our ESG Commitment	16
Innovation in Action	8	Five-Year Review	18
Executive Leadership Team	12	Management's Discussion and Analysis	19
A Diversified Portfolio of Businesses	13	Consolidated Financial Statements	35



Our associates have demonstrated their unwavering commitment to keeping our customers safe and providing excellent service under challenging circumstances.



The first Leon's store was opened in Welland, Ontario and served as the springboard for one of Canada's most successful retail businesses.

Back in 1909, our founder Ablan Leon established a company that he envisioned had a foundation built on integrity, compassion, fairness and respect for all.

Much has happened over the course of the last 112 years. Triumphs, tragedies and innovations have all come to pass during those times. Back in 1909, our founder Ablan Leon, established a company that he envisioned had a foundation built of integrity, compassion, fairness and respect for all.

Over the last two years this country and the world was thrown into a cauldron of anxiety, apprehension, dread and in many cases, the tragic loss of loved ones. On the economic front, businesses large and small were confronted with debilitating decisions affecting millions of lives.

Leon's Furniture Limited was not immune to the same potential hardships others had to face. Yet, through God's good graces, the exceptional leadership of our management team, and the incredible efforts of over 10,000 associates from coast to coast, we met the challenge in a manner that instills us all with great satisfaction and gratitude. We are extremely proud to say that 2021 was our most successful year ever. However, we cannot rest on our laurels. Be assured there will be many challenges to come and how they are met will be the measure of our efforts.

The heroic deeds of our front line health care workers and first responders should never be forgotten or taken for granted. Although we pray this deadly pandemic is slowly fading into our rear view mirrors, our vigilance should not waiver.

In 2021, Edward Leon informed us of his plans to retire. For many years Edward's leadership has been exemplary, not the least of which, was successfully overcoming the hardships of the pandemic. His efforts are greatly appreciated by our associates and our shareholders.

As the President and COO during these difficult periods, Michael Walsh has played a leading role in the transformation of LFL into an omnichannel business. Our Board has expressed the highest level of confidence in Michael by appointing him as the new Chief Executive Officer of Leon's Furniture Limited. Michael has been with our Company for six years after serving as VP of Operations at Canadian Tire. We have great faith that Michael will continue to inspire our associates and to build on our distinguished legacy. We all wish Michael great success.

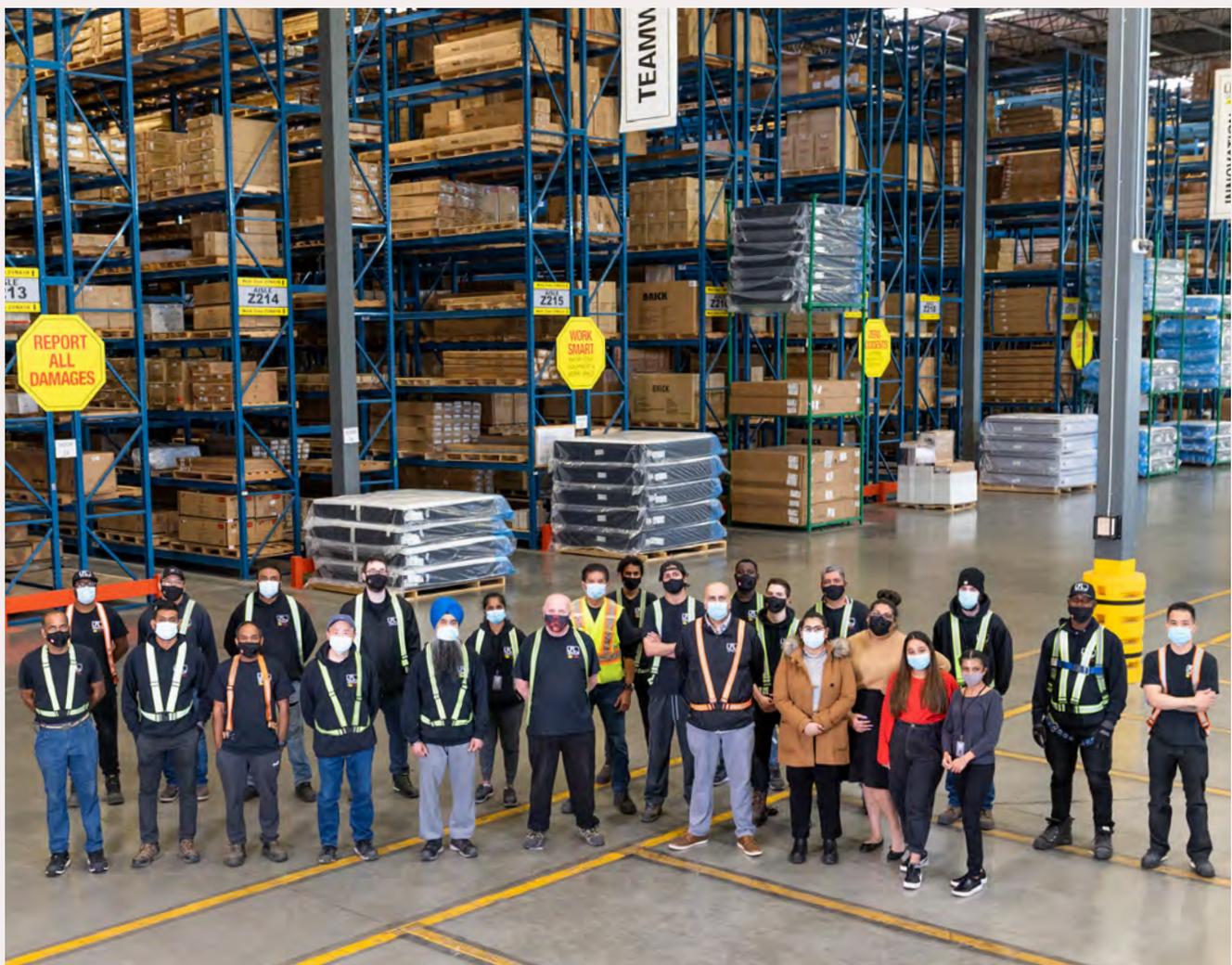
We believe the spirit of our founders continue to envelop all who work here with the strength, courage and determination to ensure our continued success is infused with the qualities of that foundation laid in 1909. On behalf of our Board and our shareholders, we thank all members of our exceptional Company for their noteworthy accomplishments. We wish you all good health and continued success.

"Mark J. Leon"

Mark J. Leon
Chairman of the Board

Our team overcame significant challenges in 2021 to deliver one of the most successful years in LFL Group's history.

Faced with ongoing headwinds related to the COVID-19 pandemic, we not only held our ground but significantly advanced our strategic position while delivering record financial and operating results.





Michael J. Walsh

President & CEO
of LFL Group

Record Results

Systemwide sales increased 13.2% to reach \$3.1 billion in 2021, a remarkable milestone for LFL Group. Same-store sales growth was 13.6%, the highest increase in the modern history of the Company. That top-line performance led to adjusted EBITDA growth of 16.5% and a 23.3% increase in adjusted net income.

These were more than just strong increases in comparison to a shutdown-affected year in 2020. Starting with 2019 as a base, our average annualized growth rate over the past two years has been 4.5% on same-store sales and 38.7% on adjusted net income. These trends demonstrate solid fundamental growth in our business.

A Team Effort

Credit for these accomplishments is shared among the entire LFL team. Our associates across the country showed dedication and commitment to ensuring everyone's safety and maintaining operations even during periods of temporary store closures and layoffs. They handled triple-digit increases in eCommerce volumes and found product to satisfy customer demand in the face of unprecedented global supply chain constraints.

To add to the immensity of the achievement, our team delivered these results as they implemented a continued transformation of LFL into an omnichannel business. They stepped up when we most needed them to, and it is because of their efforts that we have continued to thrive.

Strategic Advances

Our resilience and growth are the direct result of a carefully crafted strategy that has been years in the making, and an unrelenting commitment to retail excellence. As always, we have made customer service a core focus. We continued to expand and renew our bricks-and-mortar assets while retailers were closing locations. We have established a portfolio of industry-leading service businesses and a national distribution infrastructure.

Perhaps most importantly, we invested in a digital capability that has enabled our customers to shop where, when and how they want. We transitioned to the highly scalable Shopify Plus eCommerce platform in 2018. That decision enabled us to pivot quickly to a fully online model when in-person shopping was restricted for months at a time.

We believe an effective omnichannel strategy is essential in today's retail environment. At least three-quarters of consumers begin shopping for furniture online, but most people still visit a store to try the product for themselves before making a final decision. Their experience must be consistent throughout the process. Our websites display our full product catalogue and offer tools to help shoppers visualize the products in their homes, as well as a live chat feature staffed with knowledgeable sales associates.

Systemwide
sales exceeded

\$3B

Same-store
sales growth
was

13.6%



Tying everything together is the strength of our brands, primarily The Brick and Leon's. People want to buy from a brand they can trust. Our customers are confident we will get products to them safely and provide the after-sales support we've promised. In an environment of supply chain restrictions, customers have appreciated our transparency about potential delays in their orders.

It is the combination of all of these factors – a committed team, sound strategy and trusted brands – that has enabled us to report another successful year.

Return of Capital

The free cash flow generated by our business has left us in a very strong financial position. We ended the year with over \$613 million of liquidity, including \$490 million of cash and investments. These resources offer the flexibility to pursue strategic opportunities, or alternatively, reward our shareholders with a meaningful return of capital.

During 2021 we paid two special dividends of \$0.30 and \$1.25 per share in addition to our quarterly dividend of \$0.16 per share. We also repurchased \$65 million of common shares through our normal course issuer bid and a further \$200 million through a substantial issuer bid launched in the fourth quarter and paid in early January, 2022. Together, these initiatives represent more than \$435 million of capital returned to shareholders over a 12-month period.

While we may not be in a position to distribute this amount every year, we are committed to rewarding our shareholders through consistent performance and disciplined allocation of capital.

Outlook

We are feeling positive about maintaining our momentum and are cautiously optimistic about the Canadian economy and consumer confidence remaining relatively strong. Inflation and interest rates are potential causes for concern which we are monitoring closely. We have seen that the course of the COVID-19 pandemic can be unpredictable, and we expect supply chain issues to persist in 2022. Recent experience has shown that there are few challenges the talented group of people inside this organization cannot solve.

Adjusted net
income increased

23.3%

Capital returned
to shareholders:

\$435M

As we return to a more normal environment, we will take a close look at our strategy and chart a path forward. With a solid balance sheet, trusted brands, a thriving omnichannel business, and assets spanning wholesale, distribution and service, we have a tremendous opportunity to build upon all we have accomplished.

I am very excited about the future of LFL, and I believe this sentiment is shared across our organization. I feel humbled to be part of such a great group of people.

I would like to thank my predecessor, Edward Leon, for his mentorship and his skilled leadership throughout the pandemic. The Leon family has entrusted me as the first “non-Leon” CEO, and I hope to repay that great honour by building upon the legacy of those who have come before me.

“Michael J. Walsh”

Michael J. Walsh
President & Chief Executive Officer
LFL Group



Innovation in Action

Delivering on Omnichannel

LFL Group has completed the transformation to a true omnichannel retailer. Our customers can choose when, where and how they shop, and enjoy a truly seamless experience.

We have four online stores - thebrick.com, leons.ca, furniture.ca and appliancecanada.com – and more than 300 traditional stores across Canada. Customers visiting any venue have access to the full product assortment for each brand, and knowledgeable sales associates are always on hand to help.

Our eCommerce stores are fully integrated with LFL's nationwide fulfillment and distribution platform. Financing, insurance, warranty and after-sales services are available to all shoppers. We have invested in the IT infrastructure required to manage significantly higher volumes.

More often than ever before, our customers chose to complete their purchases online in 2021.

Creating a singular, cohesive shopping experience across all our platforms has been central to our strategy for several years. We are committed to ongoing innovation to build on our position of leadership.



In-Store Innovation

We continue to introduce new technologies and conveniences in our stores to enhance the shopping experience.



Tablets

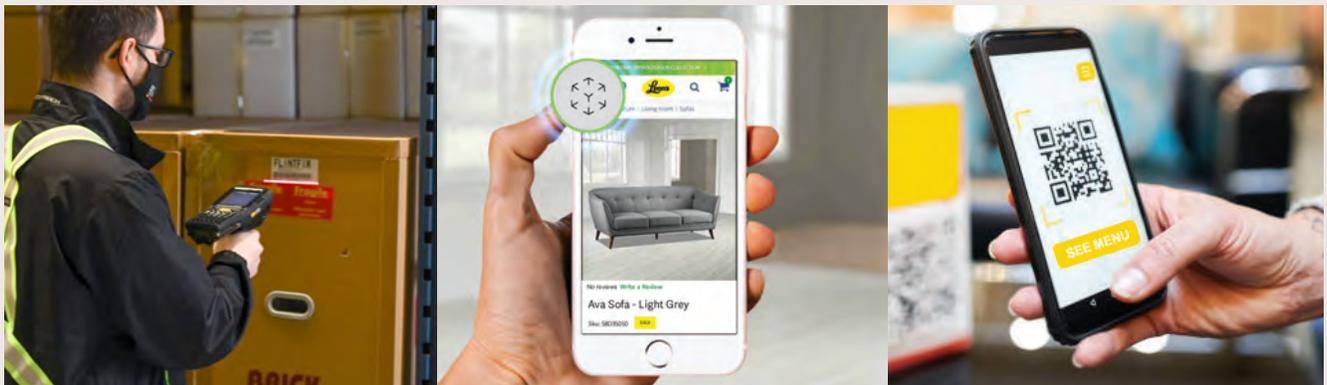
We have deployed more than 3,000 point-of-sale tablets in our stores to enable our sales associates to serve customers more efficiently.

Instant Financing

Technology provided by our new partner Flexiti replaces the old paper forms and provides customers with real-time decisions on product financing both in-store and online.

e-tags

Electronic tags displaying prices and other product details were recently extended into our appliance and electronics departments.



Scandit

The data capture tool for in-store fulfillment and product tracking is installed directly on smart phones and replaces older RF technology.

Augmented Reality (AR)

Sales associates can visually insert new items into an existing display using AR so that customers can see how they would look in combination.

QR Codes

Customers can view additional details about items in our showroom by accessing the QR code with their smart phones.

Innovation in action

Retail Concept Renewal

We continually update our retail locations with fresh concepts and ideas. Customers appreciate new shopping experiences when they visit.

Our retail network now includes a number of smaller-scale stores. For example, a store may occupy 15,000 square feet rather than our more traditional 35,000-to-50,000 square foot locations. The reduced footprint makes it economically viable for us to expand into mid-sized markets.

These “smart stores” display curated collections of furniture and appliances while using interactive technology to provide access to our full product assortment. Video walls can display products in their actual size. Touchscreen kiosks allow customers to browse the full catalogue and view custom colour and fabric options.



We continued to provide the products and services people need during a period when people were spending more time than ever in their homes.





Delta, BC



Dartmouth, NS

Excellence in Distribution

LFL has been strengthening our distribution network by building facilities and implementing new technologies.

At the start of 2021, we opened a new distribution centre in Dartmouth, Nova Scotia. The state-of-the-art, 165,815 square foot facility will support our expected growth in Atlantic Canada. Like the DC we opened several years ago in Delta, British Columbia, it will serve both the Leon's and Brick brands, as well as our eCommerce operations.

In 2021, we stocked more than 394,000 unique SKUs and made nearly 1.5 million deliveries to our customers. Efficient fulfilment and distribution capabilities are essential to a business of this scale.

Our IT supply chain platform helps us optimize every stage of the value chain. Ongoing improvements to our distribution capabilities are reducing both our costs and our environmental impact. We are also providing better service to our customers, such as offering them real-time visibility into delivery times.

Executive Leadership Team

Our management team has unparalleled retail experience and a commitment to delivering value to all our stakeholders.



Graeme Leon

Divisional President
of Leon's

Graeme was promoted to President of Leon's Furniture Division in 2020. His 40 years of service with the Company have included roles as Vice President of Merchandising and National Store Operations Manager, both for the Leon's Furniture Division.

Constantine Pefanis

CFO of LFL Group

Costa has held various management positions within Leon's Furniture Limited since joining the Company as Corporate Finance Manager in May 2005. In 2016 he was appointed as the Director of Finance, Audit & IT, a position he held until his appointment in 2018 to the position of Chief Financial Officer of the LFL Group.

Michael J. Walsh

President & CEO
of LFL Group

Mike was promoted to the Chief Executive Officer effective July 1, 2021. He became President & COO in 2020 after serving for five years as President of Leon's Furniture Division. Mike is a seasoned executive with over 30 years of retail experience. Prior to joining the Company, he served as Vice President of Operations at Canadian Tire Corporation.

David B. Freeman

Divisional President
of The Brick

Dave is a long-serving Brick associate with more than 40 years of retail experience. Prior to his appointment as President of The Brick in 2016, Dave served in a variety of roles including Senior Vice President of Operations and Vice President of Sales.

A Diversified Portfolio of Businesses

Our industry-leading capabilities throughout the value chain have enabled us to maintain service to our customers during recent challenges such as interruptions in the supply chain. We take full advantage of our portfolio of businesses to provide a true omnichannel offering.



Real Estate

Our stores and warehouses sit on a vast portfolio of real estate which is reported at historical cost and represents significant opportunity to unlock value through sale or development.



Insurance

We offer credit insurance on our customers' outstanding balances to protect against unforeseen events or loss.



Wholesale

We deal directly with many manufacturers to capitalize on market trends, improve quality control, simplify our supply chain and capture incremental margin.



After-Sales Service

As Canada's largest supplier of after-sales service, we fulfil the installation, repair and service requirements for our customers, as well as a growing number of third parties.



Distribution

State-of-the-art distribution centres opened in B.C. and Nova Scotia have enabled us to improve efficiency and fulfil orders from multiple banners, online sales, and third-party vendors.



Warranty

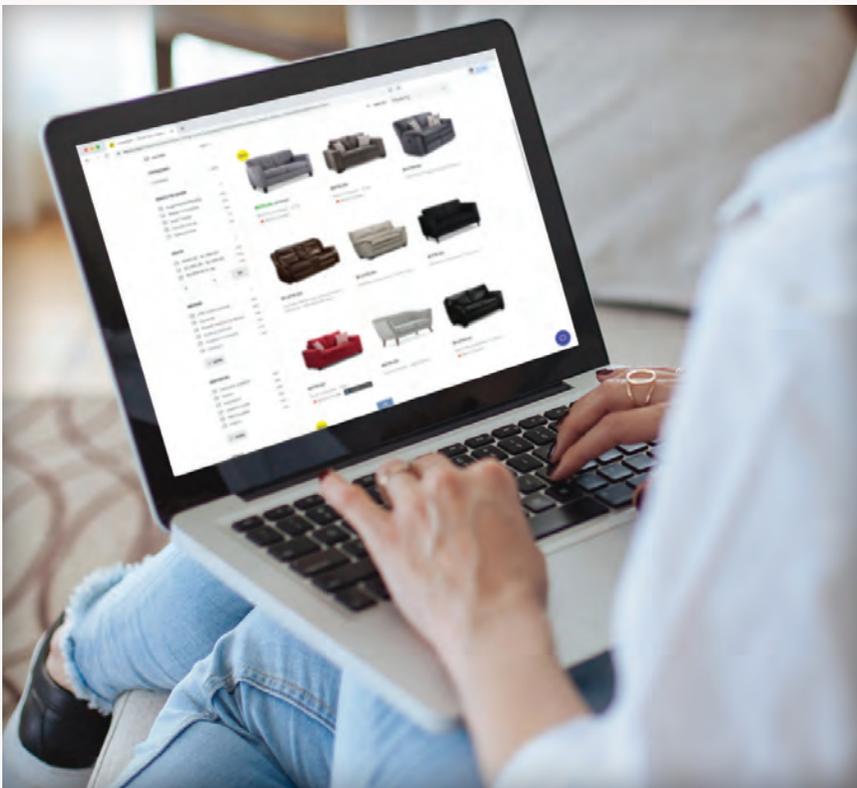
We offer extended warranties to customers who value extra protection and cost certainty, and we service those warranties as required.



Committed to Canadians Nationwide

We have expanded our retail footprint into every province, providing unbeatable service, selection and value through our flagship Leon's and The Brick brands. Our eCommerce sites offer everyone the opportunity to shop with us from their own homes at a time of their choosing.

We are proud to be listed among Canada's most trusted retail brands. The entire LFL team is committed to continuing to earn the loyalty of consumers across the country.



A Leader in eCommerce

[Leons.ca](https://leons.ca)

[TheBrick.com](https://thebrick.com)

[Furniture.ca](https://furniture.ca)

[ApplianceCanada.com](https://appliancecanada.com)

[Transglobalservice.com](https://transglobalservice.com)

5 eCommerce sites



185

The Brick

89

Leon's

21

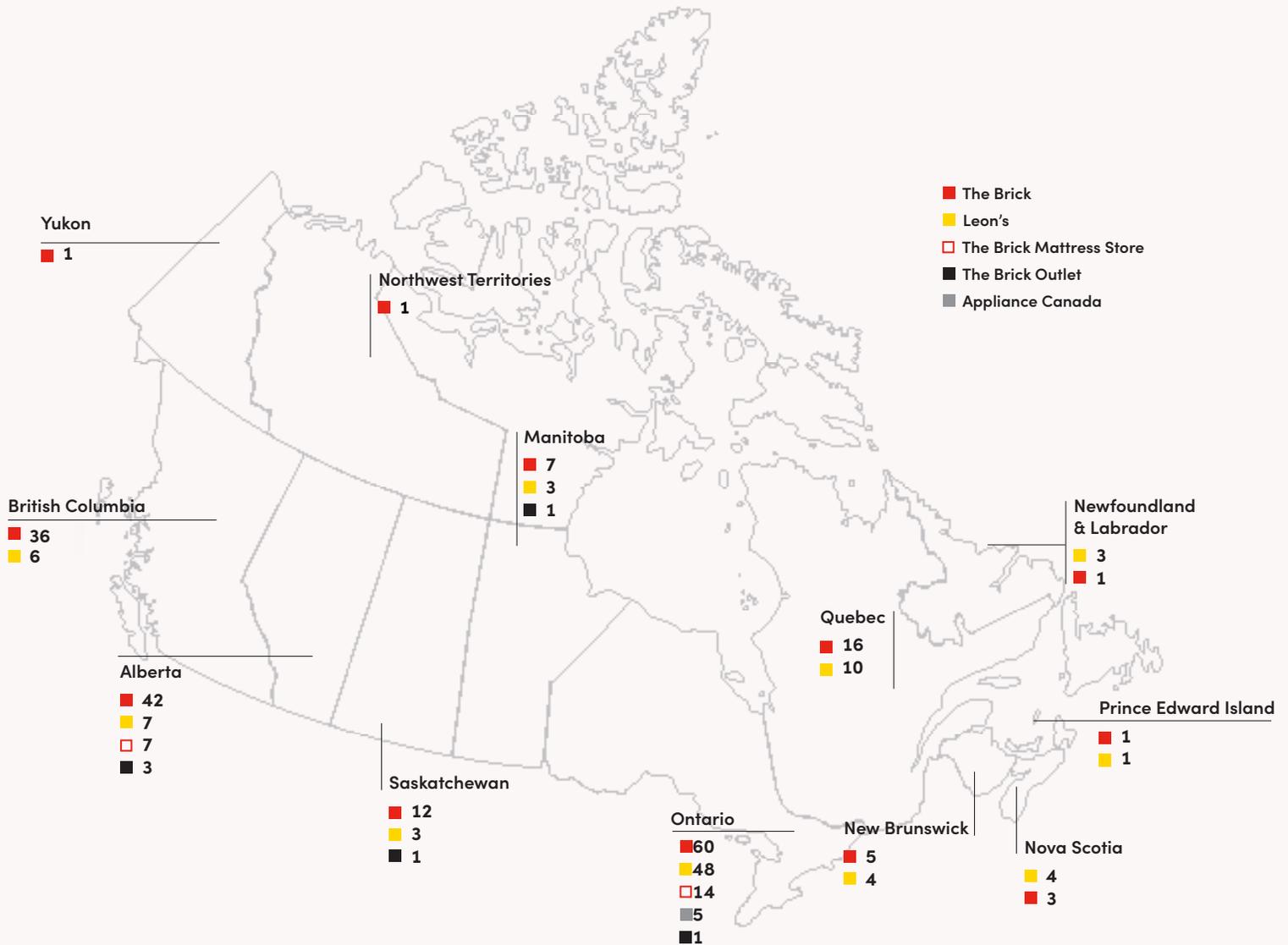
The Brick
Mattress Store

6

The Brick Outlet

5

Appliance Canada



306 Total Stores Nationwide

Our ESG Commitment

LFL Group strives to be an integral part of communities across Canada. We care about the people who work for us, the customers who shop in our stores, the places where all of us live, and the planet our children will inherit.



Minimizing Our Impact

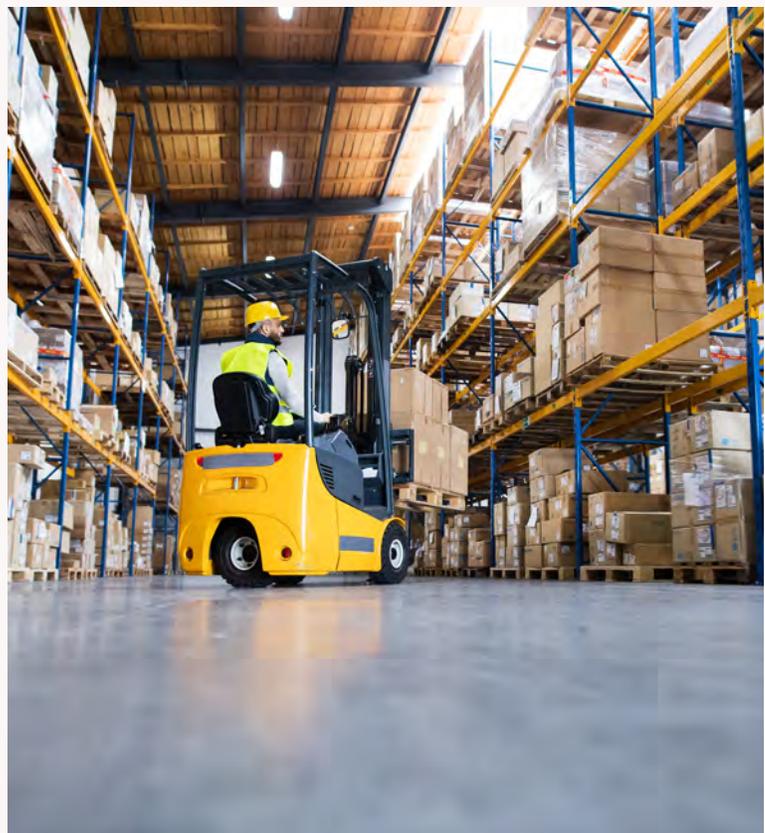
We ship products from around the world to homes across Canada. We make every effort to ensure that the manufacturing, transportation and storage activities are carried out in a sustainable and energy-efficient manner.

Recycling

Our facilities are equipped with recycling equipment to ensure we divert waste and conserve other resources. For example, the Brick division's recycling efforts conserved the equivalent of 29,019 cubic yards of landfill airspace, 39,419 mature trees, 12.2 million kw-hours of electricity and 22.1 million gallons of water.

Supplier Audits

We conducted in-depth audits of our international supply chain to test for compliance with our contractual standards for labour and environmental practices. We are pleased to report that no suppliers stood in contravention of our agreements.



A Safe and Healthy Workplace

We follow all safety protocols and best practices to help keep our associates healthy. Through our human resources policies, we strive to ensure that equal opportunities exist for all our associates and that our benefits and remuneration packages are designed to properly motivate our workforce.



Giving Back to Our Communities

We are proud to support health and wellness initiatives across the country, and this past year has reminded us how much we all depend on those essential services.

Protecting the Interests of All Stakeholders

We have implemented governance policies to help ensure that we consider the needs of multiple stakeholder groups. The Board of Directors is comprised of a majority of independent directors, who periodically meet without management and non-independent members present. The Board has adopted a written Code of Conduct to guide the activities of all directors, officers and employees, and closely monitors compliance. In 2021, the Board completed a CEO succession process, appointing Michael J. Walsh as CEO following the retirement of Edward F. Leon.

Five-Year Review

Income Statistics

(\$ in thousands, except amounts per share)	2021	2020	2019	2018	2017
Revenue	\$ 2,512,670	\$ 2,220,180	\$ 2,283,411	\$ 2,241,437	\$ 2,215,379
Cost of Sales	1,404,446	1,236,258	1,284,826	1,264,561	1,261,112
Gross Profit	\$ 1,108,224	\$ 983,922	\$ 998,585	\$ 976,876	\$ 954,267
Operating Expenses	831,845	773,437	855,539	826,286	822,838
Income before income taxes	276,379	210,485	143,046	150,590	131,429
Provision for income taxes	69,221	47,235	36,117	39,560	34,836
Net Income	\$207,158	\$ 163,250	\$ 106,929	\$ 111,030	\$ 96,593
Common shares outstanding (weighted average '000s)	77,623	79,799	77,595	76,368	72,904
Earnings per common share	\$ 2.67	\$ 2.05	\$ 1.38	\$ 1.45	\$ 1.32
Percent annual change in sales	13.2%	(2.8%)	3.3%	1.2%	3.3%
Net income as a percentage of sales	8.2%	7.4%	4.7%	5.0%	4.4%
Dividend declared	\$ 146,092	\$ 69,977	\$ 43,445	\$ 39,716	\$ 35,136

Balance Sheet Statistics

(\$ in thousands, except amounts per share)	2021	2020	2019	2018	2017
Shareholders' equity	791,193	\$ 1,016,003	\$ 915,764	\$ 857,362	\$ 773,048
Total assets	2,453,133	2,418,589	2,146,461	1,723,572	1,661,455
Purchase of capital assets	14,896	43,493	32,931	19,650	55,041
Working capital ¹	(34,455)	161,286	100,206	198,445	162,328
Shareholders' equity per common share ²	14.01	13.03	11.80	11.23	10.60
Common share price range on the Toronto Stock Exchange					
High	\$ 26.30	\$ 21.68	\$ 17.29	\$ 19.50	\$ 19.57
Low	\$ 20.09	\$ 10.25	\$ 14.01	\$ 14.70	\$ 16.19

1. 2021 and 2018 exclude the amounts of \$90,000 and \$144,712, respectively, comprised of loans and borrowings due to the classification from non-current liabilities to current liabilities as at December 31.

2. For year-on-year comparability, 2021 excludes the substantial issuer bid and special dividends. 2020 excludes special dividends.

Revenue

(\$ in thousands)

17	\$2,215,379
18	\$2,241,437
19	\$2,283,411
20	\$2,220,180
21	\$2,512,670

Net Income

(\$ in thousands)

17	\$96,593
18	\$111,030
19	\$106,929
20	\$163,250
21	\$207,158

Shareholders' Equity³

(\$ per share)

17	\$10.60
18	\$11.23
19	\$11.80
20	\$13.03
21	\$14.01

3. For year-on-year comparability, 2021 excludes the substantial issuer bid and special dividends. 2020 excludes special dividends.

Management's Discussion and Analysis

For the year ended December 31, 2021

1. Preface	20
2. Business Overview	20
3. Results of Operations	21
4. Store Network.....	25
5. Summary of Consolidated Quarterly Results	25
6. Financial Position.....	26
7. Liquidity and Capital Resources	27
8. Outlook	28
9. Outstanding Common Shares.....	29
10. Related Party Transactions.....	29
11. Critical Assumptions.....	29
12. Risks and Uncertainties.....	32
13. Controls and Procedures	33
14. Non-IFRS and Supplementary Financial Measures.....	33

1. Preface

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 23, 2022 and is based on the consolidated financial position and operating results of Leon's Furniture Limited/Meubles Leon Ltée (the "Company") as of December 31, 2021 and for the years ended December 31, 2021 and 2020. It should be read in conjunction with the fiscal year 2021 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2021 quarterly financial statements and corresponding MD&As which are published separately and available at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

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

Financial Statements Governance Practice

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The amounts expressed are in Canadian dollars ("C\$"). Per share amounts are calculated using the weighted average number of shares outstanding before and after considering the potential dilutive effects of the convertible debentures and the relevant management share purchase plans for the applicable period.

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the fiscal year 2021 consolidated financial statements and MD&A were approved on February 23, 2022.

2. Business Overview

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

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

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

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

COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus, which has the potential to cause severe respiratory illness ("COVID-19"), a global pandemic. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty. 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.

3. Results of Operations

Summary financial highlights for the three months ended December 31, 2021 and December 31, 2020

For the	Three months ended			
	December 31, 2021	December 31, 2020	\$ Increase (Decrease)	% Increase (Decrease)
(C\$ in millions except %, share and per share amounts)				
Total system-wide sales ⁽¹⁾	820.5	830.9	(10.4)	(1.3%)
Franchise sales ⁽¹⁾	150.7	155.8	(5.1)	(3.3%)
Revenue	669.8	675.1	(5.3)	(0.8%)
Cost of sales	373.2	366.5	6.7	1.8%
Gross profit	296.7	308.7	(12.0)	(3.9%)
Gross profit margin as a percentage of revenue	44.30%	45.73%		
Selling, general and administrative expenses ⁽²⁾	218.6	230.8	(12.2)	(5.3%)
SG&A as a percentage of revenue	32.64%	34.19%		
Income before net finance costs and income tax expense	78.0	77.9	0.1	0.1%
Net finance costs	(2.9)	(3.9)	(1.0)	(25.6%)
Income before income taxes	75.1	74.0	1.1	1.5%
Income tax expense	18.1	17.7	0.4	2.3%
Adjusted net income ⁽¹⁾	57.0	56.3	0.7	1.2%
Adjusted net income as a percentage of revenue ⁽¹⁾	8.51%	8.34%		
After-tax mark-to-market loss on financial derivative instruments ⁽¹⁾	0.5	3.0	(2.5)	(83.3%)
Net income	56.5	53.3	3.2	6.0%
Basic weighted average number of common shares	76,818,991	78,356,607		
Basic earnings per share	\$0.74	\$0.68	\$0.06	8.8%
Adjusted basic earnings per share ⁽¹⁾	\$0.74	\$0.72	\$0.02	2.8%
Diluted weighted average number of common shares	77,662,535	80,285,965		
Diluted earnings per share	\$0.73	\$0.67	\$0.06	9.0%
Adjusted diluted earnings per share ⁽¹⁾	\$0.74	\$0.71	\$0.03	4.2%
Common share dividends declared	\$0.16	\$0.46	\$(0.30)	(65.2%)
Convertible, non-voting shares dividends declared	\$0.32	\$0.29	\$0.03	10.3%

1. Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

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

Same Store Sales ⁽¹⁾

For the (C\$ in millions, except %)	Three months ended			
	December 31, 2021	December 31, 2020	\$ Decrease	% Decrease
Same store sales ⁽¹⁾	652.4	653.1	(0.7)	(0.1%)

1. Supplementary financial measure. Refer to section 14 in this MD&A for additional information.

Revenue

For the three months ended December 31, 2021, revenue was \$669.8 million compared to \$675.1 million in the fourth quarter 2020. The decrease in revenue of \$5.3 million or 0.8% as compared to the prior year quarter was driven by a decrease in the sale of furniture in the quarter, primarily due to disruptions occurring from global supply chain delays. Despite these inventory supply delays that significantly affected imported furniture from Asia, consumer demand for all product categories remained strong in the quarter, as evidenced by the Company's robust open order book of customer deposits which at the end of the fourth quarter remained at historical highs. In addition, the decrease in furniture sales in the quarter was offset by an increase in sales of all other product categories.

Furthermore, the Company's continued focus on eCommerce, including its live chat initiatives, generated a quarter over quarter 37% increase in eCommerce driven sales during the quarter, which is on top of the growth in eCommerce sales of 227% in the fourth quarter of 2020 as compared to the fourth quarter of 2019. The digital platform is a key component to allowing the Company to attract new customers as they begin their shopping experience online and then continue in store to be assisted by our knowledgeable sales associates. The increase in eCommerce-initiated sales during the quarter was also achieved despite all the Company's retail stores being open, as compared to the prior year quarter's provincially mandated retail showroom closures that began on November 12, 2020, in Manitoba. This then continued to impact the municipalities of Toronto and Peel in the province of Ontario which began on November 23, 2020, ultimately leading to all retail showrooms being closed in Ontario and Quebec on December 26, 2020, and remaining so for the balance of the prior year's quarter and into the first quarter of fiscal year 2021.

Same Store Sales ⁽¹⁾

Same store sales in the quarter remained flat compared to the fourth quarter 2020.

Gross Profit

The gross profit margin of 44.30% in the quarter decreased by 143 basis points from the fourth quarter 2020. This was due to higher cost of sales which can be attributed to increased freight costs due to the ongoing disruptions of the global supply chain and increased product costs that are directly the result of increased tariffs implemented by the Canada Border Services Agency ("CBSA") in relation to upholstered product being sourced from China and Vietnam. In order to retain the Company's gross margin in the fourth quarter, it was necessary to determine the trade-off between having product available for sale in Canada for the Company's customers and determining the Company's tolerance to pay significantly higher freight costs.

Selling, General and Administrative Expenses ("SG&A")

The Company's SG&A as a percentage of revenue for the fourth quarter 2020 was 34.19% compared to 32.64% for the fourth quarter of 2021, an improvement of 155 basis points over the fourth quarter 2020. This improvement in operating costs leverage and continued cost reduction initiatives in the quarter are due to effectively managing the Company's payroll expenses and eCommerce spend while continuing to drive traffic to both the Company's retail stores and websites.

Adjusted Net Income ⁽²⁾ and Adjusted Diluted Earnings Per Share ⁽²⁾

As a result of the above and a continued reduction in net finance costs, adjusted net income in the current quarter totaled \$57.0 million, an increase of \$0.7 million over the prior year's quarter. This resulted in adjusted diluted earnings per share to increase to \$0.74 per share in the current quarter, an increase of 4.2% over the prior year's quarter.

Net Income and Diluted Earnings Per Share

Net income for the fourth quarter of 2021 was \$56.5 million, or \$0.73 per diluted earnings per share as compared to the net income of \$53.3 million in the prior year's quarter, or \$0.67 per diluted earnings per share.

1. Supplementary financial measure. Refer to section 14 in this MD&A for additional information.
2. Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

Summary financial highlights for the year ended December 31, 2021, 2020 and 2019

For the (C\$ in millions except %, share and per share amounts)	Year ended December 31							
	2021	2020	\$ Increase (Decrease)	% Increase (Decrease)	2020	2019	\$ Increase (Decrease)	% Increase (Decrease)
Total system-wide sales ⁽¹⁾	3,057.6	2,701.6	356.0	13.2%	2,701.6	2,728.6	(27.0)	(1.0%)
Franchise sales ⁽¹⁾	544.9	481.4	63.5	13.2%	481.4	445.2	36.2	8.1%
Revenue	2,512.7	2,220.2	292.5	13.2%	2,220.2	2,283.4	(63.2)	(2.8%)
Cost of sales	1,404.4	1,236.3	168.1	13.6%	1,236.3	1,284.8	(48.5)	(3.8%)
Gross profit	1,108.2	983.9	124.3	12.6%	983.9	998.6	(14.7)	(1.5%)
Gross profit margin as a percentage of revenue	44.10%	44.32%			44.32%	43.73%		
Selling, general and administrative expenses ^{(2) (3)}	819.1	751.0	68.1	9.1%	751.0	830.5	(79.5)	(9.6%)
SG&A as a percentage of revenue ⁽³⁾	32.60%	33.83%			33.83%	36.37%		
Income before net finance costs and income tax expense	289.1	233.0	56.1	24.1%	233.0	168.1	64.9	38.6%
Net finance costs	(15.0)	(17.9)	(2.9)	(16.2%)	(17.9)	(25.2)	(7.3)	(29.0%)
Income before income taxes	274.1	215.1	59.0	27.4%	215.1	142.9	72.2	50.5%
Income tax expense	68.7	48.4	20.3	41.9%	48.4	36.1	12.3	34.1%
Adjusted net income ⁽¹⁾	205.5	166.7	38.8	23.3%	166.7	106.8	59.9	56.1%
Adjusted net income as a percentage of revenue ⁽¹⁾	8.18%	7.51%			7.51%	4.68%		
After-tax mark-to-market (gain)/ loss on financial derivative instruments ⁽¹⁾	(1.7)	3.4	(5.1)	(150.0%)	3.4	(0.1)	3.5	
Net income	207.2	163.3	43.9	26.9%	163.3	106.9	56.4	52.8%
Basic weighted average number of common shares	77,623,382	79,798,908			79,798,908	77,594,496		
Basic earnings per share	\$2.67	\$2.05	\$0.62	30.2%	\$2.05	\$1.38	\$0.67	48.6%
Adjusted basic earnings per share ⁽¹⁾	\$2.65	\$2.09	\$0.56	26.8%	\$2.09	\$1.38	\$0.71	51.5%
Diluted weighted average number of common shares	79,062,376	82,113,879			82,113,879	83,746,040		
Diluted earnings per share	\$2.62	\$1.99	\$0.63	31.7%	\$1.99	\$1.30	\$0.69	53.1%
Adjusted diluted earnings per share ⁽¹⁾	\$2.60	\$2.04	\$0.56	27.5%	\$2.04	\$1.30	\$0.74	56.9%
Common share dividends declared	\$1.89	\$0.88	\$1.01	114.8%	\$0.88	\$0.56	\$0.32	57.1%
Convertible, non-voting shares dividends declared	\$0.32	\$0.29	\$0.03	10.3%	\$0.29	\$0.28	\$0.01	3.6%

1. Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.
2. Selling, general and administrative expenses ("SG&A").
3. SG&A as a percentage of revenue for the year ended December 31, 2020, includes the impact of the CEWS of \$31.6 million or 1.4% as a percentage of revenue in the year. Therefore, excluding the impact of the CEWS, the total SG&A as a percentage of revenue in the year amounted to 35.25%.

Same Store Sales ⁽¹⁾

For the	Year ended				
	(C\$ in millions, except %)	December 31, 2021	December 31, 2020	\$ Increase	% Increase
Same store sales ⁽¹⁾		2,446.9	2,153.1	293.8	13.6%

1. Supplementary financial measure. Refer to section 14 in this MD&A for additional information.

Revenue

For the year ended December 31, 2021, revenue was \$2,512.7 million compared to \$2,220.2 million in the prior year, an increase of \$292.5 million or 13.2% as compared to the prior year due to increases in all product categories driven by continuing customer demand. This increase was achieved despite being impacted by COVID related factors in the first half of the year related primarily to provincially mandated retail store closures, ongoing global supply chain issues in relation to importing product to Canada and significant product cost increases primarily due to CBSA tariffs on certain upholstered seating products that are imported by the Company from Asia.

Same Store Sales ⁽¹⁾

Same store corporate sales increased 13.6% compared to the year ended December 31, 2020. The Company achieved this increase in same store sales despite store closures in the first half of the year due to COVID-19 restrictions imposed by the provincial governments of Ontario and Quebec.

Gross Profit

The gross profit margin remained relatively flat from 44.32% for the year ended December 31, 2020 to 44.10% in the year ended December 31, 2021. This slight decrease was due to higher cost of sales with the ongoing supply chain issues and increased freight costs.

Selling, General and Administrative Expenses

The Company's SG&A as a percentage of revenue for the year ended December 31, 2021 improved to 32.60%, a decrease of 123 basis points over the prior year of 33.83%. This reduction in SG&A percentage was due to effectively managing payroll and advertising spend.

In addition, in the second quarter 2020, the Government of Canada announced the Canada Emergency Wage Subsidy (CEWS) in order to help employers return and keep their employees on their payrolls. Excluding the CEWS, the Company's SG&A as a percentage of revenue for the year ended December 31, 2020 was 35.25%. This results in a decrease of SG&A costs of 265 basis points for the year ended December 31, 2021.

Adjusted Net Income ⁽²⁾ and Adjusted Diluted Earnings Per Share ⁽²⁾

Adjusted net income for the year ended December 31, 2021 totaled \$205.5 million, an increase of \$38.8 million or 23.3% over the prior year. Adjusted diluted earnings per share for the Company increased by \$0.56 to \$2.60 per share, an increase of 27.5% over the prior year.

Excluding the impact of the CEWS, adjusted net income for the year ended December 31, 2020 totaled \$143.4 million compared to adjusted net income for the current year of \$205.5 million, an increase of \$62.1 million or 43.3% over the prior year. Adjusted diluted earnings per share for the Company increased by \$0.85 to \$2.60 per share, an increase of 48.6% over the prior year.

Net Income and Diluted Earnings Per Share

Including the mark-to-market impact of the Company's financial derivatives, net income for the year ended December 31, 2021 was \$207.2 million, or \$2.62 per diluted earnings per share (net income \$163.3 million, \$1.99 per diluted earnings per share in 2020).

1. Supplementary financial measure. Refer to section 14 in this MD&A for additional information.

2. Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

4. Store Network

The Company has 306 retail stores in Canada at December 31, 2021. The following table illustrates the Company's store count continuity from December 31, 2020 to December 31, 2021 by retail banner:

Banner	Number of stores as at December 31, 2020	Opened	Closed	Number of stores as at December 31, 2021
Corporate Stores				
Leon's	54	1	(1)	54
Appliance Canada	5	–	–	5
The Brick ⁽¹⁾	117	1	–	118
The Brick Mattress Store	21	–	–	21
Brick Outlet	7	–	(1)	6
Corporate Subtotal	204	2	(2)	204
Franchise Stores				
Leon's	35	–	–	35
The Brick	65	2	–	67
Franchise Subtotal	100	2	–	102
Total Corporate & Franchise Stores	304	4	(2)	306

1. Includes the Midnorthern Appliance banner.

The Company continues to reposition store locations in markets that allow its divisions to expand their market share and support existing locations.

5. Summary of Consolidated Quarterly Results

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

For the quarter ended	December 31		September 30		June 30		March 31	
(C\$ in millions except per share amounts)	2021	2020	2021	2020	2021	2020	2021	2020
Total system-wide sales ⁽¹⁾	820.5	830.9	825.5	762.8	714.4	509.9	697.1	598.1
Franchise sales ⁽¹⁾	150.7	155.8	142.3	132.0	125.9	93.2	126.0	100.5
Revenue	669.8	675.1	683.2	630.8	588.5	416.7	571.1	497.6
Net income	56.5	53.3	63.8	49.1	46.0	47.2	40.9	13.7
Adjusted net income ⁽¹⁾	57.0	56.3	60.6	49.3	46.6	47.2	41.2	13.9
Basic earnings per share	\$0.74	\$0.68	\$0.83	\$0.62	\$0.59	\$0.59	\$0.52	\$0.17
Diluted earnings per share	\$0.73	\$0.67	\$0.81	\$0.60	\$0.58	\$0.58	\$0.51	\$0.17
Adjusted basic earnings per share ⁽¹⁾	\$0.74	\$0.72	\$0.79	\$0.62	\$0.60	\$0.59	\$0.52	\$0.17
Adjusted diluted earnings per share ⁽¹⁾	\$0.74	\$0.71	\$0.77	\$0.61	\$0.58	\$0.58	\$0.51	\$0.16

1. Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

6. Financial Position

As at

(C\$ in millions)	December 31, 2021	December 31, 2020
Total assets	2,453.1	2,418.6
Total non-current liabilities	462.2	581.8

Assets

Total assets at December 31, 2021 of \$2,453.1 million were \$34.5 million higher than the \$2,418.6 million reported at December 31, 2020. This change was driven by an increase in cash and cash equivalents, inventory, and trade receivables.

Non-Current Liabilities

Non-current liabilities of \$462.2 million were \$119.6 million lower than the \$581.8 million reported at December 31, 2020. This was due to the movement of loans and borrowings from non-current liabilities to current liabilities. This change was also driven by a decrease in non-current lease liabilities which was offset by an increase in deferred warranty plan revenue.

Net Debt

The table below reflects the Company's net debt balances, excluding its lease liabilities and restricted marketable securities as at December 31, 2021.

As at

(C\$ in millions)	December 31, 2021	December 31, 2020	\$ Change
Term debt	90.0	90.0	–
Convertible debenture	–	0.4	(0.4)
Total long-term debt (excluding lease liabilities)	90.0	90.4	(0.4)
Less: cash, cash equivalents, debt and equity instruments	490.0	490.8	(0.8)
Net cash balance ⁽¹⁾	400.0	400.4	(0.4)

1. Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

At December 31, 2021, the Company's total net debt balance, excluding its lease liabilities, continues to reflect a net positive cash position of \$400.0 million. This positive result was achieved mainly due to generating approximately \$300 million in free cash flow in the year ended December 31, 2021.

7. Liquidity and Capital Resources

Liquidity Risk Management

The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents, and authorized credit facilities, to fulfill obligations associated with financial liabilities. To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. Management also monitors cash and working capital efficiency given current sales levels and seasonal variability. The Company measures and monitors liquidity risk by regularly evaluating its cash inflows and outflows under expected conditions through cash flow reporting such that it anticipates certain funding mismatches and ensures the cash management of the business within certain tolerable levels. These cash flow forecasts are reviewed on a weekly basis by management. The Company mitigates liquidity risk through continuous monitoring of its credit facilities and the diversification of its funding sources, both in the short term as well as the long term. As at December 31, 2021, unrestricted liquidity was \$613.6 million comprised of cash and cash equivalents, debt and equity instruments and its undrawn revolving credit facility.

Consolidated Cash Flow Movements

The following table provides a summarized statement of cash flows for the three months and year ended December 31, 2021 and December 31, 2020:

For the	Three months ended			Year ended		
	December 31, 2021	December 31, 2020	\$ Increase (Decrease)	December 31, 2021	December 31, 2020	\$ Increase (Decrease)
(C\$ in millions)						
Cash provided by operating activities before changes in operating working capital items	93.6	97.1	(3.5)	360.6	293.8	66.8
Changes in operating working capital items	(0.7)	(25.1)	24.4	(46.9)	217.7	(264.6)
Cash provided by operating activities	92.9	72.1	20.8	313.8	511.4	(197.6)
Cash provided by/(used in) investing activities	39.7	(10.0)	49.7	16.2	(43.1)	59.3
Cash used in financing activities	(137.4)	(43.1)	(94.3)	(316.5)	(188.8)	(127.7)
Increase/(decrease) in cash and cash equivalents	(4.8)	19.0	(23.8)	13.5	279.6	(266.1)

Cash Provided By Operating Activities

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

For the three months ended December 31, 2021, cash provided by operating activities increased by \$20.8 million compared to the prior year's quarter. This movement is primarily driven by an increase in customers' deposits of \$73.8 million with an offset due to an increase in trade receivables of \$18.7 million and a decrease in trade payables of \$38.3 million.

For the year ended December 31, 2021, cash provided by operating activities decreased by \$197.6 million compared to the prior year. This movement is primarily driven by decreases in the movement of customers' deposits, trade and other payables and inventories of \$97.0 million, \$46.9 million and \$65.9 million, respectively. This was partially offset by an increase in cash received on warranty sales of \$14.7 million.

Cash Used In Investing Activities

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

For the three months ended December 31, 2021, cash used in investing activities decreased by \$49.7 million compared to the prior year's quarter. This change is driven by an increase in the proceeds on the sale of debt and equity instruments of \$39.6 million as well as a decrease in the purchase of property, plant and equipment of \$5.0 million.

For the year ended December 31, 2021, cash used in investing activities decreased by \$59.3 million compared to the prior year. This decrease is a result of a decrease in the purchase of property plant and equipment of \$28.6 million as well as an increase in the proceeds on the sale of debt and equity instruments of \$33.1 million.

Cash Used in Financing Activities

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

For the three months ended December 31, 2021, cash used in financing activities increased by \$94.3 million compared to the prior year's quarter. The movement is primarily driven by an increase in dividends paid of \$97.5 million offset by a reduction in the repurchase of common shares of \$3.5 million.

For the year ended December 31, 2021, cash used in financing activities increased by \$127.7 million compared to the prior year. The movement is driven by an increase in the dividends paid of \$125.3 million.

Adequacy of Financial Resources

At December 31, 2021, the Company's current liabilities exceeded its current assets by \$124.5 million. Included in current liabilities is an amount payable of \$200 million to purchase, for cancellation, the common shares of the Company under a Substantial Issuer Bid ("SIB"). The SIB is further discussed in Note 16 of the consolidated financial statements. Cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$490.4 million compared to \$493.3 million at December 31, 2020. Under the Company's Senior Secured Credit Agreement, the Company had unused borrowing capacity of \$127 million as at December 31, 2021 (\$174 million as at December 31, 2020). Subsequent to year end the Company completed an amendment that increased the amount of borrowings under the Company's credit facilities from \$265 million to \$350 million. This amendment is discussed further in Note 29 of the consolidated financial statements. The Company believes that its existing financing resources together with cash flow provided from its current operations and its expanded revolving credit facility will provide a sound liquidity and working capital position throughout the next twelve months.

Contractual Obligations

As at December 31, 2021

(C\$ in millions)

Contractual obligations	Total	Payments Due by Period					
		2022	2023	2024	2025	2026	2027 & Beyond
Loans and borrowings	90.9	90.9	–	–	–	–	–
Lease liability	427.6	91.7	64.1	62.3	61.7	60.2	87.6
Total contractual obligations	518.5	182.6	64.1	62.3	61.7	60.2	87.6

8. Outlook

In the short term, the duration and full financial effect of COVID-19 is unknown, as is the efficacy of government and central bank interventions to curb the spread of COVID-19 and stimulate the economy. Federal and provincial governments have instituted social distancing requirements, temporary store closures, bans on non-essential travel and other measures that have directly led to uncertainty regarding customer demand. The Company continues to actively monitor the situation and will continue to respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, our customer and employee reactions and any further government actions, none of which can be predicted with any degree of certainty.

On a longer-term basis, we still believe that the underlying Canadian economy remains relatively strong. Although it is difficult to gauge future consumer confidence and what impact it may have on retail, we remain cautiously optimistic that our sales and profitability will increase. This cautious optimism is predicated on taking a measured approach as it relates to striking the correct balance of driving revenue growth and finding incremental efficiencies. Given the Company's strong and continuously improving financial position, our principal objective is to increase our market share and profitability. We remain focused on our commitment to effectively manage our costs but to also continuously invest in digital innovation that we believe will drive more customers to both our online eCommerce sites and our 306 store locations across Canada.

9. Outstanding Common Shares

At December 31, 2021, there were 76,800,313 common shares issued and outstanding. During the year ended December 31, 2021, 189,792 series 2009 shares, 36,443 series 2012 shares, 356,649 series 2013 shares, 199,704 series 2014 shares and 205,905 series 2015 shares were converted into common shares. For details on the Company's commitments related to its redeemable share liability please refer to Note 15 of the consolidated financial statements.

During the year ended December 31, 2021, and including the common shares repurchased under the automatic share purchase plan ("ASPP"), the Company repurchased 2,864,840 shares of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids and ASPP at a net cost of \$64.5 million.

As at December 31, 2021, the Company has cancelled all of these repurchased shares. During the year ended December 31, 2021, the Company commenced a SIB, by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Company. The Company purchased for cancellation 7,999,993 common shares. As at December 31, 2021, the Company had not cancelled these shares and they were held as treasury shares, which had a value of \$200 million and were subsequently cancelled in January 2022.

During the year ended December 31, 2021, convertible debentures with a stated value of \$365 were converted to 29,342 common shares, at the holder's option.

10. Related Party Transactions

For the year ended December 31, 2021, we had no transactions with related parties as defined in IAS 24, *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment.

11. Critical Assumptions

Use of Estimates and Judgments

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

Consolidation and classification of joint arrangements

Assessing the Company's ability to control or influence the relevant financial and operating policies of another entity may, depending on the facts and circumstances, require the exercise of significant judgment to determine whether the Company controls, jointly controls, or exercises significant influence over the entity performing the work. This assessment of control impacts how the operations of these entities are reported in the Company's consolidated financial statements (i.e. consolidation, equity investment or proportional share).

The classification of these entities as a subsidiary, joint operation, joint venture, associate or financial instrument requires judgment by management to analyze the various indicators that determine whether control exists. In particular, when assessing whether a joint arrangement should be classified as either a joint operation or a joint venture, management considers the contractual rights and obligations, voting shares, share of board members and the legal structure of the joint arrangement. Subject to reviewing and assessing all the facts and circumstances of each joint arrangement, joint arrangements contracted through agreements and general partnerships would generally be classified as joint operations whereas joint arrangements contracted through corporations would be classified as joint ventures. The application of different judgments when assessing control or the classification of joint arrangements could result in materially different presentations in the consolidated financial statements.

Extended warranty revenue recognition

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

Inventories

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

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

Impairment of debt instruments

The Company exercises judgment in the determination of whether there are objective indicators of impairment with respect to its debt instruments. The Company's review is based on an expected credit loss ("ECL") approach that employs an analysis of historical data, economic indicators and any past or future events that may influence the recoverability of the debt instruments held.

Impairment of property, plant and equipment and right-of-use assets

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

Impairment of goodwill and intangible assets

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

Provisions

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

Leases

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

Materiality

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

Recent Accounting Pronouncements

Adoption of new accounting standards

Costs necessary to sell inventories IAS 2, *Inventories* agenda decision

At its June 2021 meeting, the IFRS Interpretations Committee finalized an agenda decision about the costs an entity includes as the "estimated costs to make the sale" when determining the net realizable value of inventories. The IFRS Interpretations Committee concluded that when determining the net realizable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business, which requires the exercise of judgment. The Company assessed the impact of costs included in the "estimated costs necessary to make the sale" as comprehensive of all related costs. The adoption of the agenda decision did not have a material impact on the consolidated financial statements.

Accounting standards and amendments issued but not yet adopted

IFRS 17, *Insurance Contracts* ("IFRS 17")

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4, *Insurance Contracts*. IFRS 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, *Presentation of Financial Statements* ("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 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 will not have a material impact on the 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.

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.

12. Risks and Uncertainties

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

Readers of this MD&A are also encouraged to refer to Leon's Annual Information Form ("AIF") dated February 23, 2022, which provides information on the risk factors facing the Company. The February 23, 2022 AIF can be found online at www.sedar.com.

For additional potential risks associated with COVID-19 refer to section 2 in this MD&A.

Sensitivity to General Economic Conditions

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

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

Maintaining Profitability & Managing Growth

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

Financial Condition of Commercial Sales Customers & Franchisees

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

Competition

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

13. Controls and Procedures

Disclosure Controls & Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported on a timely basis to senior management, including the Chief Executive Officer and Chief Financial Officer so that appropriate decisions can be made by them regarding public disclosure. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as at December 31, 2021.

Internal Controls over Financial Reporting

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

Management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met. During the year ended December 31, 2021, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

14. Non-IFRS and Supplementary Financial Measures

Non-IFRS Financial Measures

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

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

Adjusted Net Income

Leon's calculates comparable measures by excluding the effect of changes in fair value of derivative instruments, related to the net effect of USD-denominated forward contracts. The Company uses derivative instruments to manage its financial risk in accordance with the Company's corporate treasury policy. Management believes excluding from income the effect of these mark-to-market valuations and changes thereto, until settlement, better aligns the intent and financial effect of these contracts with the underlying cash flows.

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

For the	Three months ended		Year ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
(C\$ in millions except per share amounts)				
Net income	56.5	53.3	207.2	163.3
After-tax mark-to-market (gain)/loss on financial derivative instruments	0.5	3.0	(1.7)	3.4
Adjusted net income	57.0	56.3	205.5	166.7
Basic earnings per share	\$0.74	\$0.68	\$2.67	\$2.05
Diluted earnings per share	\$0.73	\$0.67	\$2.62	\$1.99
Adjusted basic earnings per share	\$0.74	\$0.72	\$2.65	\$2.09
Adjusted diluted earnings per share	\$0.74	\$0.71	\$2.60	\$2.04

Adjusted EBITDA

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

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

For the	Three months ended		Year ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
(C\$ in millions)				
Net income	56.5	53.3	207.2	163.3
Income tax expense	17.9	16.6	69.2	47.2
Net finance costs	2.9	3.9	15.0	17.9
Depreciation and amortization	27.7	28.1	112.0	111.3
Mark-to-market (gain)/loss on financial derivative instruments	0.7	4.1	(2.2)	4.6
Adjusted EBITDA	105.7	106.0	401.2	344.3

Total System Wide Sales

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

Franchise Sales

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

Net Debt

Net debt is calculated as the principal amount of the term loan, convertible debentures less cash, cash equivalents and debt and equity instruments. Net debt is a non-IFRS financial measure used by the Company. The Company considers net debt to be an effective measure of the overall debt position and borrowing capacity available to the Company.

Free Cash Flow

Free cash flow is calculated as net cash flows from operating activities less additions to property, plant and equipment. The Company uses free cash flow as an indicator of the financial strength and performance of its business, indicating the amount of cash the Company can generate from operations and after capital expenditures. Free cash flow is a non-IFRS financial measure used by the Company. The Company believes free cash flow is useful in assessing the Company's cash available for additional financing and investing activities.

Supplementary Financial Measures

The Company uses supplementary financial measures to disclose financial measures that are (a) not presented in the financial statements and (b) are, or are intended to be, disclosed periodically to depict the historical or expected future financial performance, financial position or cash flow, that is not a non-IFRS financial measure as detailed above.

Same Store Sales

Same store sales are defined as sales generated by stores, both in store and through online transactions, that have been open for more than 12 months on a fiscal basis. Same store sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers, however this measure is commonly used in the retail industry. We believe that disclosing this measure is meaningful to investors because it enables them to better understand the level of growth of our business.

Consolidated Financial Statements

For the year ended December 31, 2021

Management's Responsibility for Financial Reporting	36
Independent Auditor's Report	37

Consolidated Financial Statements

Consolidated Statements of Financial Position	40
Consolidated Statements of Income	41
Consolidated Statements of Comprehensive Income.....	41
Consolidated Statements of Changes in Shareholders' Equity.....	42
Consolidated Statements of Cash Flows	43

Notes to the Consolidated Financial Statements

Note 1	Reporting Entity	44	Note 15	Management Share Purchase Plan	64
Note 2	Basis of Presentation	44	Note 16	Common Shares	65
Note 3	Summary of Significant Accounting Policies ..	46	Note 17	Revenue	66
Note 4	Adoption of Accounting Standards and Amendments	55	Note 18	Expenses by Nature	67
Note 5	Cash and Cash Equivalents.....	56	Note 19	Net Finance Costs	67
Note 6	Inventories.....	56	Note 20	Income Tax Expense	67
Note 7	Deferred Acquisition Costs.....	56	Note 21	Earnings Per Share	69
Note 8	Property, Plant and Equipment and Right-Of-Use Assets.....	57	Note 22	Financial Instruments	69
Note 9	Investment Properties	58	Note 23	Insurance Contract Risk	73
Note 10	Intangible Assets and Goodwill	59	Note 24	Capital Management.....	74
Note 11	Trade and Other Payables	60	Note 25	Commitments and Contingencies.....	74
Note 12	Provisions	61	Note 26	Consolidated Statements of Cash Flows.....	75
Note 13	Leases	62	Note 27	Related Party Transactions	76
Note 14	Loans and Borrowings	63	Note 28	Comparative Financial Information.....	76
			Note 29	Subsequent Events	76

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors.

The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Financial statements are not precise since they include certain amounts based upon estimates and judgments. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances.

Leon's Furniture Limited/Meubles Leon Ltée ("Leon's" or the "Company") maintains systems of internal accounting and administrative controls, consistent with reasonable costs. Such systems are designed to provide reasonable assurance that the financial information is relevant and reliable and that Leon's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board and reviews these consolidated financial statements; considers the report of the external auditors; assesses the adequacy of the internal controls of the Company; examines the fees and expenses for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The Committee reports its findings to the Board of Directors for consideration when approving these consolidated financial statements for issuance to the shareholders. These consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.

"Michael J. Walsh"

Mike Walsh President and CEO

"Constantine Pefanis"

Constantine Pefanis CFO

Independent Auditor's Report

To the Shareholders of Leon's Furniture Limited/Meubles Leon Ltée

Opinion

We have audited the consolidated financial statements of Leon's Furniture Limited/Meubles Leon Ltée and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of Goodwill and Indefinite Life intangibles related to The Brick acquisition	
<p>Goodwill and indefinite-life intangible assets arising from the 2013 acquisition of the Brick represent \$379 million and \$266 million, respectively as of December 31, 2021. The indefinite-life intangible assets are comprised of brand name and franchise agreements. As disclosed in Note 10 of the consolidated financial statements, the Group allocated these assets to the Brick division (a group of cash generating units ("CGUs")) and assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of these assets. When performing impairment tests, the Group estimates the recoverable amount of the group of CGUs to which goodwill and indefinite-life intangible assets have been allocated using a discounted cash flow model.</p> <p>Auditing management's annual goodwill and indefinite-life intangibles impairment tests was complex, as considerable management judgement was required due to the significant measurement uncertainty related to determining the recoverable amount of the Brick division. Significant assumptions included revenue growth rate, earnings margins and pre-tax discount rate, which are affected by expectations about future market and economic conditions.</p>	<p>To test the estimated recoverable amount of the Brick division, our audit procedures included, among others, assessing valuation methodology and evaluating significant assumptions and the accuracy of underlying data used by management in its analysis. With the assistance of our valuation specialists, we evaluated the Group's model, valuation methodology, and certain significant assumptions, including the pre-tax discount rate. We assessed the selection and application of the pre-tax discount rate by evaluating the inputs and mathematical accuracy of the calculation.</p> <p>We assessed the historical accuracy of management's estimates on cash flow projections, revenue growth rate and earnings margins by comparing management's past projections to actual and historical performance. We also compared the revenue growth rate to current industry trends to assess the reasonableness of the revenue growth rate used by the management in its analysis. We performed sensitivity analysis on significant assumptions, including the pre-tax discount rate, to evaluate changes in the recoverable amount of the Brick division that would result from changes in the assumptions.</p>

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Laura Sluce.

The logo for Ernst & Young LLP is written in a black, cursive, handwritten-style font.

Toronto, Canada
February 23, 2022

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statements of Financial Position

As at (C\$ in thousands)	Notes	December 31, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents	5	382,138	368,635
Restricted marketable securities		466	2,451
Debt securities		66,561	73,565
Equity securities		41,251	48,634
Trade receivables		160,093	130,582
Income taxes recoverable	20	2,242	4,266
Inventories	6	395,646	332,072
Deferred acquisition costs	7	11,294	10,725
Prepaid expenses and other assets		15,598	11,095
Total current assets		1,075,289	982,025
Non-current assets			
Deferred acquisition costs	7	19,896	17,614
Loan receivable	15.1	10,039	12,721
Property, plant and equipment and right-of-use assets	8	657,809	714,423
Investment properties	9	14,850	16,212
Intangible assets	10	270,173	270,481
Goodwill	10	390,120	390,120
Deferred income tax assets	20	14,957	14,993
Total non-current assets		1,377,844	1,436,564
Total assets		2,453,133	2,418,589
Liabilities			
Current liabilities			
Trade and other payables	11	543,737	304,844
Provisions	12	24,649	25,608
Income taxes payable	20	32,523	15,479
Customers' deposits	17	362,099	305,460
Lease liabilities	13	74,920	73,476
Dividends payable	16	12,287	36,163
Deferred warranty plan revenue	17	57,787	55,733
Loans and borrowings	14	90,000	–
Derivative liabilities	22	1,742	3,976
Total current liabilities		1,199,744	820,739
Non-current liabilities			
Loans and borrowings	14	–	90,000
Convertible debentures	14	–	441
Lease liabilities	13	291,334	327,227
Deferred warranty plan revenue	17	99,840	88,604
Redeemable share liability	15.2	13	13
Deferred income tax liabilities	20	71,009	75,562
Total non-current liabilities		462,196	581,847
Total liabilities		1,661,940	1,402,586
Shareholders' equity			
Common shares	16	149,966	164,669
Equity component of convertible debentures	14	–	31
Retained earnings		627,243	842,604
Accumulated other comprehensive income		13,984	8,699
Total shareholders' equity		791,193	1,016,003
Total liabilities and shareholders' equity		2,453,133	2,418,589

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

On behalf of the Board:

“Mark J. Leon”

“Mary Ann Leon”

Mark J. Leon
Director

Mary Ann Leon
Director

Consolidated Statements of Income

For the		Year ended	
(C\$ in thousands except share and per share amounts)	Notes	December 31, 2021	December 31, 2020
Revenue	17	2,512,670	2,220,180
Cost of sales	6	1,404,446	1,236,258
Gross profit		1,108,224	983,922
Operating expenses			
Selling, general and administrative expenses		819,091	750,951
Operating profit		289,133	232,971
Finance costs	19	(20,752)	(22,413)
Finance income	19	5,767	4,526
Change in fair value of derivative instruments		2,231	(4,599)
Net income before income tax		276,379	210,485
Income tax expense	20	69,221	47,235
Net income for the year		207,158	163,250
Weighted average number of common shares outstanding			
Basic		77,623,382	79,798,908
Diluted		79,062,376	82,113,879
Earnings per share	21		
Basic		\$2.67	\$2.05
Diluted		\$2.62	\$1.99
Dividends declared per share			
Common		\$1.89	\$0.88
Convertible, non-voting		\$0.32	\$0.29

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

Consolidated Statements of Comprehensive Income

For the		Year ended	
(C\$ in thousands)		December 31, 2021	December 31, 2020
Net income for the year		207,158	163,250
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Gain (loss) on debt instruments arising during the year		(2,371)	2,053
Reclassification adjustment for gains on disposal of debt instruments		30	135
Items that will not be reclassified to profit or loss:			
Gain on equity instruments arising during the year		8,288	3,129
Income tax expense (recovery) on the above		(662)	4
Other comprehensive income for the year		5,285	5,321
Comprehensive income for the year		212,443	168,571

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

Consolidated Statements of Changes in Shareholders' Equity

(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 year	-	-	-	207,158	207,158
Other comprehensive income for the year	-	-	5,285	-	5,285
Total comprehensive income	-	-	5,285	207,158	212,443
Transactions with shareholders					
Dividends declared	-	-	-	(146,092)	(146,092)
Management share purchase plan [note 15.2]	-	11,971	-	-	11,971
Convertible debentures [note 14]	(31)	408	-	-	377
Treasury shares and share repurchase commitment [note 16]	-	(21,064)	-	(217,936)	(239,000)
Repurchase of common shares [note 16]	-	(6,018)	-	(58,491)	(64,509)
Total transactions with shareholders	(31)	(14,703)	-	(422,519)	(437,253)
As at December 31, 2021	-	149,966	13,984	627,243	791,193

(C\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income	Retained earnings	Total
As at December 31, 2019	3,542	115,728	3,378	793,116	915,764
Comprehensive income					
Net income for the year	-	-	-	163,250	163,250
Other comprehensive income for the year	-	-	5,321	-	5,321
Total comprehensive income	-	-	5,321	163,250	168,571
Transactions with shareholders					
Dividends declared	-	-	-	(69,977)	(69,977)
Management share purchase plan [note 15.2]	-	2,499	-	-	2,499
Convertible debentures [note 14]	(3,511)	51,859	-	-	48,348
Treasury shares [note 16]	-	(6)	-	(59)	(65)
Share repurchase commitment [note 16]	-	(159)	-	(841)	(1,000)
Repurchase of common shares [note 16]	-	(5,252)	-	(42,885)	(48,137)
Total transactions with shareholders	(3,511)	48,941	-	(113,762)	(68,332)
As at December 31, 2020	31	164,669	8,699	842,604	1,016,003

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

Consolidated Statements of Cash Flows

For the	Year ended		
(C\$ in thousands)	Notes	December 31, 2021	December 31, 2020
Operating activities			
Net income before income tax		276,379	210,485
Add (deduct) items not involving an outlay of cash:			
Depreciation of property, plant and equipment, right-of-use assets and investment properties		110,202	108,970
Amortization of intangible assets		1,810	2,319
Amortization of deferred warranty plan revenue		(67,613)	(64,736)
Amortization of premium		317	222
Net finance costs		14,985	18,050
Loss (gain) on sale of property, plant and equipment and investment properties		200	(831)
Fair value gain on loan receivable	15.1	(1,212)	(714)
Gain on sale of debt and equity instruments		(30)	(139)
		335,038	273,626
Change in operating working capital	26	(46,856)	217,674
Cash received on warranty plan sales		80,903	66,130
Income taxes paid		(55,332)	(46,006)
Cash provided by operating activities		313,753	511,424
Investing activities			
Purchase of property, plant and equipment	8	(14,896)	(43,493)
Purchase of intangible assets	10	(1,502)	(995)
Proceeds on sale of property, plant and equipment and investment properties		1,138	1,298
Purchase of debt and equity instruments		(41,631)	(36,038)
Proceeds on sale of debt and equity instruments		63,662	30,586
Repayment of loan receivable	15.1	3,894	1,046
Interest received		5,547	4,526
Cash provided by (used in) investing activities		16,212	(43,070)
Financing activities			
Payment of lease liabilities	13	(73,117)	(71,076)
Dividends paid		(169,968)	(44,636)
Decrease of employee loans-redeemable shares	15.2	11,971	2,499
Repurchase of common shares	16	(64,574)	(48,202)
Early redemption payment on outstanding debentures	14	(77)	-
Repayment of term loan	14	-	(5,000)
Interest paid		(20,697)	(22,336)
Cash used in financing activities		(316,462)	(188,751)
Net increase in cash and cash equivalents during the year		13,503	279,603
Cash and cash equivalents, beginning of year		368,635	89,032
Cash and cash equivalents, end of year		382,138	368,635

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

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

Statement of compliance

These consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors for issuance on February 23, 2022.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investments, debt and equity instruments, derivative instruments, the initial recognition of assets acquired and liabilities assumed in business combinations, which are measured at fair value.

Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency and is also the functional currency of each of the Company's subsidiaries.

Use of estimates and judgments

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 and right-of-use

assets, 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 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.

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

Consolidation and classification of joint arrangements

Assessing the Company's ability to control or influence the relevant financial and operating policies of another entity may, depending on the facts and circumstances, require the exercise of significant judgment to determine whether the Company controls, jointly controls, or exercises significant influence over the entity performing the work. This assessment of control impacts how the operations of these entities are reported in the Company's consolidated financial statements (i.e. consolidation, equity investment or proportional share).

The classification of these entities as a subsidiary, joint operation, joint venture, associate or financial instrument requires judgment by management to analyze the various indicators that determine whether control exists. In particular, when assessing whether a joint arrangement should be classified as either a joint operation or a joint venture, management considers the contractual rights and obligations, voting shares, share of board members and the legal structure of the joint arrangement. Subject to reviewing and assessing all the facts and circumstances of each joint arrangement, joint arrangements contracted through agreements and general partnerships would generally be classified as joint operations whereas joint arrangements contracted through corporations would be classified as joint ventures. The application of different judgments when assessing control or the classification of joint arrangements could result in materially different presentations in the consolidated financial statements.

Extended warranty revenue recognition

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

Inventories

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

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

Impairment of debt instruments

The Company exercises judgment in the determination of whether there are objective indicators of impairment with respect to its debt instruments. The Company's review is based on an expected credit loss ("ECL") approach that employs an analysis of historical data, economic indicators and any past or future events that may influence the recoverability of the debt instruments held.

Impairment of property, plant and equipment and right-of-use assets

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

Impairment of goodwill and intangible assets

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

Provisions

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

Leases

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

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below. These accounting policies conform, in all material aspects, to IFRS.

Basis of consolidation

The financial statements consolidate the accounts of Leon's Furniture Limited and its wholly owned subsidiaries: Murlee Holdings Limited, Leon Holdings (1967) Limited, King and State Limited, Ablan Insurance Corporation, The Brick Ltd., The Brick Warehouse LP, The Brick GP Ltd., United Furniture Warehouse LP, United Furniture GP Ltd., First Oceans Trading Corporation, First Oceans Hong Kong Limited, First Oceans Shanghai Limited, Trans Global Warranty Corporation, Trans Global Life Insurance Company and Trans Global Insurance Company. Subsidiaries are all those entities over which the Company has control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and de-consolidated from the date that control ceases. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. All inter-company transactions and balances have been appropriately eliminated.

Business combinations

The Company applies the acquisition method in accounting for business combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value. Transaction costs that the Company incurs in connection with a business combination are expensed in the period in which they are incurred.

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 consolidated financial statements.

Foreign currency translation

Foreign currency transactions are translated into the respective functional currency of the Company's subsidiaries using the exchange rate at the dates of the transactions. Merchandise imported from the United States and Southeast Asia, paid for in U.S. dollars, is recorded at its equivalent Canadian dollar value upon receipt when control passes. U.S. dollar trade payables are translated at the year-end exchange rate. The Company is subject to gains and losses due to fluctuations in the U.S. dollar. Foreign exchange gains and losses resulting from translation of U.S. dollar accounts payable are included in the consolidated statements of income within cost of sales.

Any foreign exchange gains and losses on monetary debt and equity instruments are recognized in the consolidated statements of income, and other changes in the carrying amounts are recognized in other comprehensive income. For debt and equity instruments that are not monetary items, the gain or loss that is recognized in other comprehensive income includes any related foreign exchange component.

Financial instruments

Fair value measurement

The Company measures certain financial instruments at fair value upon initial recognition, and at each consolidated statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability; or, in the absence of a principal market, in the most advantageous market for the asset or liability that is accessible. The fair value of an asset or liability is measured using the assumptions that market participants would use, assuming that market participants act in their economic best interest.

Financial assets and liabilities

A financial asset or liability is recognized if the Company becomes a party to the contractual provisions of the asset or liability. A financial asset or liability is recognized initially (at settlement date) at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statements of income.

After initial recognition, financial assets are measured at amortized cost or fair value. Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss ("FVTPL") or recognized in other comprehensive income ("FVOCI").

The Company classifies its financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement. Classifications that the Company has used for financial assets include:

- a) FVOCI – non-derivative financial assets that are either designated in this category or not classified in any other category and include marketable securities, which consist primarily of quoted bonds, equities and debentures. These assets are measured at fair value with the changes in FVOCI, and specifically for equity instruments, with no reclassification of gains or losses to profit and loss on derecognition;
- b) Amortized cost – non-derivative financial assets with fixed or determinable payments. This includes trade receivables, and these are recorded at amortized cost with gains and losses recognized in profit or loss in the period that the asset is no longer recognized or becomes impaired; and
- c) FVTPL – financial assets which are classified as FVTPL.

Classifications that the Company has used for financial liabilities include:

- a) Amortized cost – non-derivative financial liabilities, including loans and borrowings, measured at amortized cost with gains and losses recognized in profit or loss in the period that the liability is no longer recognized; and
- b) FVTPL – financial liabilities which are classified as FVTPL.

Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all of the risks and rewards of ownership of the asset. Financial liabilities are derecognized once it is extinguished (i.e., when the obligation in the contract is either discharged or cancelled or expires).

Impairment of financial assets

In accordance with IFRS 9, *Financial Instruments* ("IFRS 9"), the Company applies the "expected credit loss" model. The impairment model applies to debt instruments measured at amortized cost or at FVOCI, as well as trade receivables, lease receivables, contracts assets (as defined in IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")), and loan commitments and financial guarantee contracts that are not at FVTPL. It requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. The Company applies the simplified approach for trade receivables and calculates expected credit losses based on lifetime expected credit losses.

Derivative instruments

Financial derivative instruments in the form of interest rate swaps and foreign exchange forwards are recorded at fair value on the consolidated statements of financial position. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs. Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair value of the derivative instruments are recorded in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term market investments with a remaining term to maturity of less than 90 days from the date of purchase.

Trade receivables

Trade receivables are amounts due for goods sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment.

Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. The Company receives vendor rebates on certain products based on the volume of purchases made during specified periods. The rebates are deducted from the inventory value of goods received and are recognized as a reduction of cost of sales upon sale of the goods. Incentives received for a direct reimbursement of costs incurred to sell the vendor's products, such as marketing and advertising funds, are recorded as a reduction of those related costs in the consolidated statements of income, provided certain conditions are met.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Historical cost includes expenditures that are directly attributable to the acquisition of items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost can be measured reliably. When significant parts of an item of property, plant and equipment are required to be replaced at intervals, the Company derecognizes the replaced part and recognizes the new part with its own associated useful life and depreciation. Normal repair and maintenance expenditures are expensed as incurred.

Land and construction in progress are not depreciated. Depreciation on other assets is provided over the estimated useful lives of the assets using the following annual rates:

Buildings	30 to 50 years
Equipment	3 to 30 years
Vehicles	5 to 20 years
Building improvements	Over the remaining lease term

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of items of property, plant and equipment are reviewed annually by the Company and adjusted, if appropriate.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of selling, general and administration expenses in the consolidated statements of income.

Leases

The Company as lessee

The Company determines whether a contract is or contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) Right-of-use assets

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the lessor makes the leased asset available for use by the Company. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Right-of-use assets are subject to impairment.

(ii) Lease liabilities

The Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease. The lease payments include fixed payments (including in-substance fixed payments), variable payments that depend on an index or a rate, renewal options that are reasonably certain to be exercised less any lease incentives receivable. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event that triggers the payment occurs. In addition, the carrying amount of lease payments is remeasured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments. The Company has elected to apply the practical expedient to not separate the lease component and its associated non-lease component.

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

As most of the Company's operating lease contracts do not provide the implicit interest rate, nor can the implicit interest rate be readily determined, the Company uses its incremental borrowing rate as the discount rate for determining the present value of lease payments. The Company's incremental borrowing rate for a lease is the rate that the Company would pay to borrow an amount necessary to obtain an asset of a similar value to the right-of-use asset on a collateralized basis over a similar term.

(iii) Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets (e.g. laptop computers). The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company as a lessor

At the inception of the lease, the Company classifies each lease as either an operating lease or a finance lease. A lease is a finance lease if it transfers substantially all the risks and rewards of the underlying asset to the lessee; otherwise, the lease is an operating lease. Rental income from operating leases is recognized on a straight-line basis over the lease term.

Investment properties

Assets that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by either the Company or any of its subsidiaries, are classified as investment properties. Investment properties are measured initially at cost, including related transaction costs. Subsequent to initial recognition, investment properties are carried at cost and depreciated over the estimated useful lives of the properties:

Buildings	30 to 50 years
Building improvements	Over the remaining lease term

Land held by the Company and classified as investment property is not depreciated.

Subsequent expenditures on investment properties are capitalized to the properties' carrying amount only when it is probable that future economic benefits associated with the expenditures will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment.

Goodwill and intangible assets

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair value. Goodwill is assigned at the date of the business acquisition. The Company assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of goodwill and it is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the business combination for the purpose of impairment testing. A group of CGUs represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives as follows:

Customer relationships	8 years
Non-compete agreement	8 years
Computer software	3 to 7 years

Impairment of non-financial assets

The Company considers at each reporting date whether there is an indication that an asset may be impaired. If impairment indicators are found to be present, or when annual impairment testing for an asset is required, the non-financial assets are assessed for impairment.

Impairment losses are recognized immediately in income to the extent an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Goodwill and indefinite-life intangible assets are tested annually in the fourth quarter of the year, or when circumstances indicate that the carrying value may be impaired. The assessment of recoverable amount for goodwill and indefinite-life intangible assets involves assumptions about future conditions for the economy, capital markets, and specifically, the retail sector. As such, the assessment is subject to a significant degree of measurement uncertainty.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the Company, store-related CGUs are defined as individual stores or regional groups of stores within a geographic market.

For the Company's corporate assets that do not generate separate cash inflows, the recoverable amount is determined for the CGU to which the corporate asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are allocated to an individual CGU; otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGUs on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the reversal is recognized in income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Income taxes

The Company computes an income tax expense. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant taxation authorities, which occur subsequent to the issuance of the annual consolidated financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred income tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based on existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, income would be affected in a subsequent period.

Income tax expense for the period comprises current and deferred income tax. Income tax is recognized in the consolidated statements of income, except to the extent it relates to items recognized in other comprehensive income or directly in equity, in which case the related tax is recognized in equity. Levies other than income taxes, such as taxes on real estate, are included in occupancy expenses.

Current income tax

Current income tax expense is based on the results of the year as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statements of financial position. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the consolidated statement of financial position dates and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less.

Provisions

Provisions are recognized only in those circumstances where the Company has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Unpaid insurance claims

The provision for unpaid claims includes adjustment expenses and an estimate of the future settlement of claims, both reported and unreported, that have occurred on or before the reporting date on the insurance contracts the Company has underwritten. The provision is actuarially determined on an annual basis using assumptions of loss emergence, payment rates, interest, and expected expenses associated with the adjustment and payment of such claims. The provision includes appropriate charges for risk and uncertainty and is measured on a discounted basis. As this provision is an estimate, the amount of actual claims may differ from the recorded amount. The provisions are derecognized when the obligation to pay a claim no longer exists.

Unpaid warranty claims

Warranty repairs related to warranty plans sold separately are recorded as claims expense at the time the customer reports a claim. For these warranties, a provision for unpaid warranty claims is established for unpaid reported claims.

The Company also provides a standard warranty for certain products. For these warranties, a provision for warranty claims is recognized when the underlying products are sold. The amount of the provision is estimated using historical experience and may differ from actual claims paid.

Product returns

The Company has a return policy allowing customers to return merchandise if not satisfied within certain timeframes. The provision for product returns is based on sales recognized prior to the year-end. The amount of the provision is estimated using historical experience and actual experience subsequent to the year-end and may differ from the actual returns made.

Loans and borrowings

Long-term debt is classified as current when the Company expects to settle the debt in its normal operating cycle or the debt is due to be settled within 12 months after the date of the consolidated statement of financial position.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of income tax, from the proceeds.

Revenue

Revenue recognition

IFRS 15 provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

In addition to the above general principles, the Company applies the following specific revenue recognition policies:

Sale of goods and related services

Revenue from the sale of goods and related services is recognized either when the customer picks up the merchandise ordered or when merchandise is delivered to the customer's home and the performance obligation has been satisfied. Any payments received in advance of delivery are deferred and recorded as customers' deposits. Revenue is shown net of sales tax.

The Company records a provision for sales returns and price guarantees based on historical experience and actual experience each quarter.

Franchise operations

Leon's franchisees operate principally as independent owners. The Company charges each franchisee a royalty fee based on a percentage of the franchisee's gross revenue. The Company supplies inventory for amounts representing landed cost plus a mark-up. The royalty income and sales to franchises is recorded by the Company on a monthly basis once the sale occurs and the performance obligations have been satisfied.

Insurance contracts and revenue

The Company issues insurance contracts through its subsidiaries: Trans Global Insurance Company ("TGI") and Trans Global Life Insurance Company ("TGLI").

The Company provides credit insurance on balances that arise from customers' use of their private label financing card. The Company provides group coverage for losses as discussed in Note 23, thereby providing protection to many customers who do not carry other similar insurance policies.

Insurance contracts are accounted for under IFRS 4 *Insurance Contracts*. Insurance contracts are contracts under where the Company has accepted significant risk, other than financial risk, from another party (the "policyholders") by agreeing to compensate the policyholders on the occurrence of a specified uncertain future event (the "insured event") adversely affects the policyholders.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Premiums on insurance contracts are recognized as revenue over the term of the policies in accordance with the pattern of insurance service provided under the contract.

Deferred insurance revenue

At each reporting period date, the insurance revenue received by the Company in regard to the unexpired portion of policies in force is deferred as unearned insurance revenue. Any amount of unearned insurance revenue is included in the consolidated statements of financial position within deferred warranty plan revenue.

The Company performs a deferred insurance revenue adequacy test on an annual basis to determine whether the carrying amount of the deferred insurance revenue needs to be adjusted (or the carrying amount of deferred acquisition costs adjusted), based upon a review of the expected future cash flows. If these estimates show that the carrying amount of the deferred insurance revenue (less related deferred acquisition costs) is inadequate, the deficiency is recognized in net income by setting up a provision for insurance revenue deficiency.

Deferred insurance revenue is calculated based on assumptions of loss emergence, payment rates, interest, and expected expenses associated with the adjustment and payment of claims. Deferred insurance revenue is derecognized when the obligation to pay a claim expires, is discharged or is cancelled in accordance with the pattern of insurance service provided under the contract.

Deferred warranty plan revenue

Warranties, underwritten by the Company's wholly owned subsidiaries, are offered on furniture, appliance and electronic products sold by the Company and franchisees to provide coverage that extends beyond the manufacturer's warranty period by up to five years. Warranties are sold to customers when they make their original purchase and take effect immediately. The warranty contracts provide both repair and replacement services depending upon the nature of the warranty claim.

The Company's extended warranty plan revenues are deferred at the time of sale and are recognized as revenue over the weighted average term of the warranty plan on a straight-line basis.

Deferred acquisition costs

Acquisition costs comprises commissions, premium taxes and other expenses that relate directly to the writing or renewing of warranty and insurance contracts, and are considered costs to obtain the contract. These costs are deferred only to the extent that they are expected to be recovered from unearned premiums and are amortized over the period in which the revenue from the policies is earned. All other acquisition costs are recognized as an expense when incurred.

Costs incurred on warranty plan sales, including sales commissions and premium taxes, are recorded as deferred acquisition costs. These costs are amortized to income in the same pattern as revenue from warranty plan sales is recognized.

Changes in the expected pattern of consumption are accounted for by changing the amortization period and are treated as a change in an accounting estimate. Deferred acquisition costs are derecognized when the related contracts are either settled or disposed of.

Sale of gift cards

Revenue from the sale of gift cards is recognized when the gift cards are redeemed (the customer purchases merchandise). Revenue from unredeemed gift cards is deferred and included in trade and other payables.

Rental income on investment properties

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term and is presented within revenue.

Store pre-opening costs

Store pre-opening costs are expensed as incurred.

Borrowing costs

Borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

Earnings per share

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the "if converted" method. The dividends declared on the redeemable share liability under the Company's Management Share Purchase Plan (the "Plan") are included in net income for the year. The redeemable shares convertible under the Plan are included in the calculation of diluted number of common shares to the extent the redemption price was less than the average annual market price of the Company's common shares.

Joint arrangements

Under IFRS 11, *Joint Arrangements* ("IFRS 11"), a joint arrangement is a contractual arrangement wherein two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement when the strategic, financial and operating decisions relating to the arrangement require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each party. Refer to Note 2 for significant judgments affecting the classification of joint arrangements as either joint operations or joint ventures. The parties to a joint operation have rights to the assets, and obligations for the liabilities, relating to the arrangement whereas joint ventures have rights to the net assets of the arrangement. In accordance with IFRS 11, the Company accounts for joint operations by recognizing its share of any assets held jointly and any liabilities incurred jointly, along with its share of the revenue from the sale of the output by the joint operation, and its expenses, including its share of any expenses incurred jointly. Joint ventures are accounted for using the equity method of accounting in accordance with IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). Under the equity method of accounting, the Company's investments in joint ventures and associates are carried at cost and adjusted for post-acquisition changes in the net assets of the investment. Profit or loss reflects the Company's share of the results of these investments. Distributions received from an investee reduce the carrying amount of the investment. The consolidated statements of comprehensive income also include the Company's share of any amounts recognized by joint ventures and associates in OCI. Where there has been a change recognized directly in the equity of the joint venture or associate, the Company recognizes its share of that change in equity. The financial statements of the joint ventures and associates are generally prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist in the underlying records of the joint venture and/or associate. Adjustments are made in the consolidated financial statements to eliminate the Company's share of unrealized gains and losses on transactions between the Company and its joint ventures and associates. Transactions with joint operations where the Company contributes or sells assets to a joint operation, the Company recognizes only that portion of the gain or loss that is attributable to the interests of the other parties. Where the Company purchases assets from a joint operation, the Company does not recognize its share of the profit or loss of the joint operation from the transaction until it resells the assets to an independent party. The Company adjusts joint operation financial statement amounts, if required, to reflect consistent accounting policies.

Associates

Entities in which the Company has significant influence and which are neither subsidiaries, nor joint arrangements, are accounted for using the equity method of accounting in accordance with IAS 28. This method of accounting is described in the previous section Joint Arrangements. The Company discontinues the use of the equity method from the date on which it ceases to have significant influence, and from that date accounts for the investment in accordance with IFRS 9, (its initial costs are the carrying amount of the associate on that date), provided the investment does not then qualify as a subsidiary or a joint arrangement.

Government grants

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the conditions of the grant and the grant will be received. Government grants receivable are recorded in prepaid and other assets on the consolidated statement of financial position. The Company recognizes government grants in the consolidated statement of income in the same period as the expenses for which the grant is intended to compensate. In cases where a government grant becomes receivable as compensation for expenses already incurred in prior periods, the grant is recognized in profit or loss in the period in which it becomes receivable.

4. Adoption of Accounting Standards and Amendments

Adoption of new accounting standards

Costs necessary to sell inventories IAS 2, *Inventories* (“IAS 2”) agenda decision

At its June 2021 meeting, the IFRS Interpretations Committee finalized an agenda decision about the costs an entity includes as the “estimated costs to make the sale” when determining the net realizable value of inventories. The IFRS Interpretations Committee concluded that when determining the net realizable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business, which requires the exercise of judgment. The Company assessed the impact of costs included in the “estimated costs necessary to make the sale” as comprehensive of all related costs. The adoption of the agenda decision did not have a material impact on the consolidated financial statements.

Accounting standards and amendments issued but not yet adopted

IFRS 17, *Insurance Contracts* (“IFRS 17”)

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4, *Insurance Contracts*. IFRS 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, *Presentation of Financial Statements* (“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 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 will not have a material impact on the 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.

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.

5. Cash and Cash Equivalents**As at**

(C\$ in thousands)	December 31, 2021	December 31, 2020
Cash and cash equivalents	382,138	368,635

6. Inventories

The amount of inventory recognized as an expense for the year ended December 31, 2021 was \$1,350,292 (2020 – \$1,184,162), which is presented within cost of sales in the consolidated statement of income.

There were \$473 in inventory write-downs recognized during 2021 (as at December 31, 2020 – \$41 inventory write-downs). As at December 31, 2021, the inventory markdown provision totaled \$5,827 (as at December 31, 2020 – \$5,354).

7. Deferred Acquisition Costs

(C\$ in thousands)	Total
Balance as at December 31, 2019	27,864
Costs of new policies sold	11,761
Policy sales costs recognized	(11,286)
Balance as at January 1, 2020	28,339
Cost of new policies sold	13,816
Policy sales costs recognized	(10,965)
Balance as at December 31, 2021	31,190
Reported as:	
Current	10,725
Non-current	17,614
Balance as at December 31, 2020	28,339
Current	11,294
Non-current	19,896
Balance as at December 31, 2021	31,190

8. 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, 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

(C\$ in thousands)	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
Cost								
Balance as at December 31, 2019	104,468	261,421	171,918	56,293	239,103	502,886	1,963	1,338,052
Additions	–	25,110	9,041	5,840	7,189	56,055	–	103,235
Disposals	(344)	–	(919)	(1,374)	(1,200)	(2,998)	(469)	(7,304)
Balance as at December 31, 2020	104,124	286,531	180,040	60,759	245,092	555,943	1,494	1,433,983
Accumulated depreciation								
Balance as at December 31, 2019	–	153,932	129,953	31,711	197,238	103,808	616	617,258
Depreciation	–	6,417	7,087	5,643	8,471	80,451	466	108,535
Disposals	–	–	(877)	(1,357)	(1,200)	(2,330)	(469)	(6,233)
Balance as at December 31, 2020	–	160,349	136,163	35,997	204,509	181,929	613	719,560
Net book value as at December 31, 2020	104,124	126,182	43,877	24,762	40,583	374,014	881	714,423

Included in the above balances as at December 31, 2021, are assets not being amortized with a net book value of approximately \$493 (as at December 31, 2020 – \$21,046) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$304,310 (as at December 31, 2020 – \$284,166). Depreciation of property, plant and equipment is included within selling, general and administration expenses on the consolidated statements of income.

9. Investment Properties

(C\$ in thousands)	Land	Buildings	Buildings 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

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

The estimated fair value of the investment properties portfolio as at December 31, 2021, was approximately \$42,000 (as at December 31, 2020 – \$44,000). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy (Note 22 for definition of levels). This was compiled internally by management based on available market evidence.

10. Intangible Assets and Goodwill

(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

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

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

As at (C\$ in thousands)	December 31, 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
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.

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

As at		December 31, 2021	December 31, 2020
(C\$ in thousands)			
Brick division customer relationships		–	157
Computer software		4,173	4,324
Total		4,173	4,481

For the purpose of the annual impairment testing, goodwill is allocated to the following CGU groups, which are the groups expected to benefit from the synergies of the business combinations and to which the goodwill is monitored by the Company:

As at		December 31, 2021	December 31, 2020
(C\$ in thousands)			
Appliance Canada (included within Leon's division)		11,282	11,282
Brick division		378,838	378,838
Total		390,120	390,120

Impairment tests

The Company performed impairment tests of goodwill, brand and franchise agreements intangible as at December 31, 2021 and 2020 in accordance with the accounting policy as described in Note 3. The recoverable amount of the CGUs was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using the estimated growth rates stated below. The key assumptions used for the value-in-use calculation as at December 31, 2021 and 2020 were as follows:

As at		December 31, 2021	December 31, 2020
Growth rate		2.0%	2.0%
Pre-tax discount rate		10.5%	8.4%

The impairment tests performed resulted in no impairment of the goodwill and indefinite life intangibles as at December 31, 2021 and December 31, 2020.

11. Trade and Other Payables

As at		December 31, 2021	December 31, 2020
(C\$ in thousands)			
Trade payables		145,300	171,616
Other payables		398,437	133,228
Total		543,737	304,844

Included in the other payables balance above as at December 31, 2021, is an amount payable of \$200,000 to purchase, for cancellation, the common shares of the Company under a substantial issuer bid ("SIB") as well as an obligation to repurchase shares of \$45,000 under an automatic share purchase plan ("ASPP"). The SIB and ASPP are further discussed in Note 16.

12. Provisions

(C\$ in thousands)	Unpaid insurance claims	Unpaid warranty claims	Product returns	Full circle	Other	Total
Balance as at December 31, 2020	638	5,180	1,946	14,912	2,932	25,608
Provisions made during the year	330	–	256	6,110	14	6,710
Provisions used during the year	(362)	(3,180)	–	(2,860)	–	(6,402)
Unused provisions reversed	–	–	(267)	–	(1,000)	(1,267)
Balance as at December 31, 2021	606	2,000	1,935	18,162	1,946	24,649

Unpaid insurance claims

The provision for unpaid insurance claims represents the estimated amounts necessary to settle all outstanding claims, as well as claims that are incurred but not reported, as of the reporting date. Unpaid claims are determined using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The establishment of the provision for unpaid claims, measured on a discounted basis, relies on the judgment and estimates of the Company based on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps materially, from the best estimates made.

Unpaid warranty claims

The provision for unpaid warranty claims represents the estimated amounts necessary to settle unpaid reported claims for warranty plans sold and all outstanding claims for certain products where the Company provides a standard warranty. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. The provisions are increased or decreased as additional information affecting the estimates becomes known during the course of claims settlement. All changes in estimates are recorded in cost of sales in the current year.

Product returns

The provision for product returns represents the Company's estimate of amounts the Company expects to incur regarding its product return policies. The estimate is based on sales recognized prior to the end of the reporting period, historical information, management judgment and actual experience subsequent to the end of the reporting period.

Full circle

The provision for full circle represents the Company's estimate of amounts the Company expects to incur regarding its full circle protection plan. The Company's full circle protection plan allows customers that did not make a claim during the term of their warranty the opportunity to obtain merchandise credit in an amount equal to the price paid for the plan. The provision recognized represents the estimated amounts necessary to settle future full circle redemption amounts subject to the terms of the plan, historical information and management judgment.

13. 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 that 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, 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

(C\$ in thousands)	Total
Balance as at December 31, 2019	412,694
Additions	59,756
Disposals	(671)
Interest	20,472
Payments	(91,548)
Balance as at December 31, 2020	400,703
Reported as:	
Current	73,476
Non-current	327,227
Total	400,703

For the year ended December 31, 2021, the Company recognized rent expense from short-term leases of \$1,469, leases of low-value assets of \$2,120 and variable lease payments of \$36,227. For the year ended December 31, 2020, the Company recognized rent expense from short-term leases of \$1,475, leases of low-value assets of \$1,667 and variable lease payments of \$36,116.

Company as a lessor

Lease revenue receivable

The Company has entered into operating leases on its investment property portfolio consisting of certain land and building properties. These leases generally have terms between 5 and 15 years.

Future minimum rentals receivable under non-cancellable operating are as follows:

(C\$ in thousands)	Total
No later than 1 year	1,528
Later than 1 year and no later than 5 years	4,749
Later than 5 years	3,635
Total	9,912

14. Loans and Borrowings

Convertible debentures

On March 28, 2013 (the "Issuance Date"), the Company closed an offering in which the shareholders of The Brick purchased \$100,000 principal amount of 3% convertible unsecured debentures due on March 28, 2023 (the "Maturity Date"). Interest is due semi-annually in arrears on March 31 and December 31 in each year. The convertible debentures are convertible, at the option of the holder, at any time during the period between the ninetieth day prior to the fourth anniversary of the Issuance Date and the third business day prior to the Maturity Date in whole or in multiples of one thousand dollars, into fully paid common shares of the Company at the conversion rate of 80.39310 common shares per one thousand dollars principal amount of debentures, subject to certain adjustments. The Company has the right to settle the convertible debentures in cash or shares during any time subsequent to the fourth anniversary of the Issuance Date and on the Maturity Date. There are additional conversion options available to debenture holders in the event of a change in control of the Company. The convertible debentures are unsecured obligations of the Company and are subordinated in right of payment to all of the Company's senior indebtedness.

During the year ended December 31, 2021, convertible debentures with a stated value of \$365 were converted to 29,342 common shares, at the holder's option (year ended December 31, 2020 – \$49,583 were converted to 3,924,426 common shares).

(C\$ in thousands)	Total
Carrying value of convertible debentures as at December 31, 2020	441
Conversion of convertible debentures for the year ended December 31, 2021	(364)
Early redemption payment on outstanding debentures	(77)
Carrying value of convertible debentures as at December 31, 2021	-

Bank indebtedness

On January 31, 2013, a Senior Secured Credit Agreement ("SSCA") was obtained to fund the acquisition of The Brick. The Company completed an amendment to the original SSCA on November 25, 2016. After giving effect to the amendment, the total credit facility was reduced from \$500,000 to \$300,000 with the term credit facility being reduced from \$400,000 to \$250,000 and the revolving credit facility being reduced from \$100,000 to \$50,000. The revolving credit facility continues to include a swing-line of \$20,000. The Company completed a second amendment on May 31, 2019. The amounts borrowed under the term credit facility must be repaid in full by May 31, 2022. Subsequent to year end, the Company completed an amendment that adjusted the amount of borrowings and repayment terms of the term credit facility. The amendment is discussed further in Note 29.

The Company completed a revolving credit commitment increase agreement 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. As at December 31, 2021, there are no amounts outstanding against the revolving credit facility, except for the letters of credit. Subsequent to year end, as the Company completed an amendment this increased the total revolving credit facility to \$200,000. The amendment is discussed further in Note 29.

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 amendment. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. The term credit facility is repayable in yearly amounts of \$25,000 and this amount for both 2020 and up to maturity have been paid in advance. Currently, the Company has entered into a 31-day Bankers' Acceptance with a cost of borrowing of 1.15% that was renewed on December 31, 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 December 31, 2021, the Company was not in compliance of its fixed charge coverage ratio due to the payment of a special dividend of \$96,417 in the fourth quarter of the current year. Subsequent to year end, the Company amended its credit agreement to exclude this amount from its fixed charge ratio covenant. As the Company is now in compliance, it did not trigger an event of default.

15. Management Share Purchase Plan

15.1 Employee benefit plan

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

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

During the year ended December 31, 2021, the Company recognized compensation expense of \$231 (year ended December 31, 2020 – \$231). Dividends paid to MSPP holders, for the year ended December 31, 2021, of \$2,171 were credited against the loan receivable (year ended December 31, 2020 – \$1,046). The loan receivable is recognized at fair value and during the year ended December 31, 2021, finance income of \$1,702 was recognized by the Company (year ended December 31, 2020 – \$714).

During the year ended December 31, 2021, 33,333 of the 2018 series of shares were forfeited and 79,296 of shares, also under this plan, were sold. The total share proceeds of \$1,723 were credited against the loan receivable. The Company recognized a net finance expense of \$490 and a compensation expense of \$52 (year ended December 31, 2020 – nil).

As at December 31, 2021, 839,998 of the 2018 series of common shares were outstanding under the 2018 MSPP (December 31, 2020 – 1,188,873).

15.2 Redeemable share liability

As at

(C\$ in thousands)

	December 31, 2021	December 31, 2020
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		
4,295 series 2009 shares (December 31, 2020 – 194,087)	38	1,718
70,728 series 2012 shares (December 31, 2020 – 107,171)	878	1,330
310,091 series 2013 shares (December 31, 2020 – 666,740)	3,532	7,594
178,990 series 2014 shares (December 31, 2020 – 378,694)	2,693	5,699
272,934 series 2015 shares (December 31, 2020 – 478,839)	3,674	6,445
Less employee share purchase loans	(10,802)	(22,773)
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 shares 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 shares 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 year ended December 31, 2021, 189,792 series 2009 shares, 36,443 series 2012 shares, 356,649 series 2013 shares, 199,704 series 2014 shares and 205,905 series 2015 shares (year ended December 31, 2020 – 26,410 series 2009 shares, 6,363 series 2012 shares, 47,296 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 \$1,680, \$452, \$4,062, \$3,006 and \$2,771, respectively (year ended December 31, 2020 – \$234, \$79, \$539, \$807 and \$840 respectively).

During the year ended December 31, 2021, the Company did not cancel any shares from any of the series of shares (year ended December 31, 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.

16. Common Shares

As at

(C\$ in thousands)

	December 31, 2021	December 31, 2020
Authorized – Unlimited common shares		
Issued		
76,800,313 common shares (2020 – 78,650,418)	149,966	164,669

During the year ended December 31, 2021, 189,792 series 2009 shares, 36,443 series 2012 shares, 356,649 series 2013 shares, 199,704 series 2014 shares and 205,905 series 2015 shares (year ended December 31, 2020 – 26,410 series 2009 shares, 6,363 series 2012 shares, 47,296 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 \$1,680, \$452, \$4,062, \$3,006 and \$2,771, respectively (year ended December 31, 2020 – \$234, \$79, \$539, \$807 and \$840, respectively).

Substantial issuer bid

On November 25, 2021, the Company commenced a 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 December 31, 2021, the Company has not cancelled these shares and they were held as Treasury shares, which have a value of \$200,000, of which \$17,746 represents a reduction in share capital and the remaining \$182,254 was charged to retained earnings. These shares were cancelled in January 2022.

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 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 year ended December 31, 2021, the Company repurchased and cancelled 617,430 common shares under the ASPP for a total cost of \$13,687, of which \$1,310 represents a reduction in share capital and the remaining \$12,377 was charged to retained earnings. As at December 31, 2021, an obligation for the repurchase of shares of \$45,000 (as at December 31, 2020 – \$6,000) was recognized under the ASPP, of which \$3,920 (2020 – \$602) represents a reduction in share capital and the remaining \$41,080 (2020 – \$5,398) was charged to retained earnings.

During the year ended December 31, 2021, and excluding the common shares repurchased under the ASPP, the Company repurchased 2,247,410 shares (year ended December 31, 2020 – 2,008,726 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 (year ended December 31, 2020 – \$35,638). The repurchase of common

shares resulted in a reduction of share capital in the amount of \$4,708 (year ended December 31, 2020 – \$3,966). The excess net cost over the average carrying value of the shares of \$46,114 (year ended December 31, 2020 – \$31,672) has been recorded as a reduction in retained earnings. As at December 31, 2021, the Company has cancelled all of these repurchased shares (year ended December 31, 2020 – 2,005,626 of the repurchased shares were cancelled).

During year ended December 31, 2021, convertible debentures with a stated value of \$365 were converted to 29,342 common shares, at the holder's option (year ended December 31, 2020 – \$49,583 were converted to 3,924,426 common shares).

As at December 31, 2021 and 2020, dividends payable were \$12,287 (\$0.16 per share) and \$36,163 (\$0.46 per share), respectively.

17. Revenue

a) Disaggregation of revenue

For the	Year ended	
	December 31, 2021	December 31, 2020
(C\$ in thousands)		
Sales of goods by corporate stores	2,408,443	2,117,024
Income from franchise operations	35,306	30,521
Extended warranty revenue	56,141	58,422
Insurance sales revenue	11,197	12,738
Rental income from investment property	1,583	1,475
Total	2,512,670	2,220,180

b) Customers' deposits

For the	Year ended	
	December 31, 2021	December 31, 2020
(C\$ in thousands)		
Opening balance as at January 1	305,460	151,817
Revenue recognized that was included in the customers' deposit balance at the beginning of the year	(269,439)	(145,954)

c) Deferred warranty plan revenue

For the	Year ended	
	December 31, 2021	December 31, 2020
(C\$ in thousands)		
Opening balance as at January 1	144,337	142,943
Revenue recognized that was included in the deferred warranty balance at the beginning of the year	(67,613)	(64,736)
Recognition of deferred warranty during the year	80,903	66,130
Total	157,627	144,337
Reported as:		
Current	57,787	55,733
Non-current	99,840	88,604
Total	157,627	144,337

18. Expenses by Nature

For the (C\$ in thousands)	Year ended	
	December 31, 2021	December 31, 2020
Salaries and benefits ⁽¹⁾	420,068	391,178
Depreciation of property, plant and equipment, right-of-use assets and investment properties	110,202	108,970
Amortization of intangible assets	1,810	2,319
Occupancy expenses	93,734	87,470

1. Salaries and benefits for the year ended December 31, 2020, include Canada Emergency Wage Subsidy instalments of \$31,559.

19. Net Finance Costs

For the (C\$ in thousands)	Year ended	
	December 31, 2021	December 31, 2020
Interest expense on lease obligations	19,693	20,472
Interest expense on term credit facilities and revolving credit facilities	1,045	1,787
Interest expense on convertible debentures	14	154
Finance income	(5,767)	(4,526)
Total	14,985	17,887

20. Income Tax Expense

(a) The major components of income tax expense for the years ended December 31 are as follows:

For the (C\$ in thousands)	Year ended	
	December 31, 2021	December 31, 2020
Consolidated statements of income		
Current income tax expense:		
Based on taxable income of the current year	73,787	54,378
Deferred income tax expense:		
Origination and reversal of temporary differences	(4,566)	(7,143)
Income tax expense reported in the consolidated statements of income	69,221	47,235

(b) Reconciliation of the effective tax rates are as follows:

For the (C\$ in thousands, except %)	Year ended			
	December 31, 2021		December 31, 2020	
Income before income taxes	276,379		210,485	
Income tax expense based on statutory tax rate	71,388	25.83%	55,568	26.40%
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:				
Non-deductible items	534	0.19%	410	0.19%
Remeasurement of deferred income tax asset for rate changes	(196)	(0.07%)	(461)	(0.22%)
Income exempt from tax	(159)	(0.06%)	(138)	(0.07%)
Prior year adjustments	1,169	0.42%	(2,307)	(1.10%)
Other	(3,515)	(1.27%)	(5,837)	(2.77%)
Income tax expense reported in the consolidated statements of income	69,221	25.05%	47,235	22.44%

(c) Deferred income tax balances and reconciliation are as follows:

(i) *Deferred income tax relates to the following:*

As at (C\$ in thousands)	December 31, 2021	December 31, 2020
Deferred income tax assets (liabilities)		
Deferred tax income assets	14,957	14,993
Deferred tax income liabilities	(71,009)	(75,562)
Total deferred income tax assets (liabilities)	(56,052)	(60,569)

(ii) *Deferred income tax movements are as follows:*

As at (C\$ in thousands)	December 31, 2021			
	Balance, beginning of year	Other	Expense (benefit)	Consolidated Balance, end of year
Deferred warranty plan	(98)	-	-	(98)
Deferred financing fees	11	-	(44)	(33)
Deferred acquisition costs	(319)	-	(4)	(323)
Property, plant and equipment	(91,101)	-	11,192	(79,909)
Intangible assets	(76,572)	-	98	(76,474)
Lease liabilities	85,177	-	(10,047)	75,130
Other	21,215	(49)	3,969	25,135
Mark to market	1,119	-	(599)	520
Net deferred income tax expense – statements of income	(60,568)	(49)	4,565	(56,052)
Movement in convertible debenture	(1)	-	1	-
Net deferred income tax expense (benefit) – equity	(1)	-	1	-
Total deferred income tax expense (benefit)	(60,569)	(49)	4,566	(56,052)

As at (C\$ in thousands)	December 31, 2020			
	Balance, beginning of year	Other	Expense (benefit)	Consolidated Balance, end of year
Deferred warranty plan	(98)	-	-	(98)
Deferred financing fees	56	-	(45)	11
Deferred acquisition costs	(359)	-	40	(319)
Property, plant and equipment	(98,914)	-	7,813	(91,101)
Intangible assets	(76,793)	-	221	(76,572)
Lease liabilities	91,804	-	(6,627)	85,177
Other	18,158	(189)	3,246	21,215
Mark to market	(95)	-	1,214	1,119
Net deferred income tax expense – statements of income	(66,241)	(189)	5,862	(60,568)
Movement in convertible debenture	(1,282)	-	1,281	(1)
Net deferred income tax expense (benefit) – equity	(1,282)	-	1,281	(1)
Total deferred income tax expense (benefit)	(67,523)	(189)	7,143	(60,569)

21. Earnings Per Share

Earnings per share are calculated using the weighted average number of common shares outstanding. The weighted average number of common shares used in the basic earnings per share calculations amounted to 77,623,382 for the year ended December 31, 2021 (2020 – 79,798,908). 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	Year ended	
	December 31, 2021	December 31, 2020
(C\$ in thousands except share and per share amounts)		
Net income for the period for basic earnings per share	207,158	163,250
Net income for the period for diluted earnings per share	207,367	163,751
Weighted average number of common shares outstanding	77,623,382	79,798,908
Dilutive effect	1,438,994	2,314,971
Dilutive weighted average number of common shares outstanding	79,062,376	82,113,879
Basic earnings per share	\$2.67	\$2.05
Diluted earnings per share	\$2.62	\$1.99

22. Financial Instruments

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	December 31, 2021			
	Classification and measurement	Total carrying amount	Fair value	Fair value hierarchy
(C\$ in thousands)				
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
Loans and borrowings	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

As at	December 31, 2020			
(C\$ in thousands)	Classification and measurement	Total carrying amount	Fair value	Fair value hierarchy
Financial assets				
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
Financial liabilities				
Trade and other payables	Amortized cost	304,844	304,844	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 December 31, 2021 includes financial assets of \$487,006, \$170,232 and \$3,310 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$635,492 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 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 December 31, 2021, convertible debentures have been fully settled. For the convertible debentures as at 2020, the fair value is calculated based on the face value of the convertible debentures of \$442. As at 2020, the convertible debentures were determined using their quoted market price (not in thousands of dollars) of \$146.49 per \$100 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 financial derivatives which comprise of foreign exchange forwards, with maturities that do not exceed past December 2023. As at December 31, 2021, the fair value of derivatives liabilities is \$1,742 (as at December 31, 2020 – \$3,976).

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).

Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, currency risk and other price risk). Risk management is carried out by the Company by identifying and evaluating the financial risks inherent within its operations. The Company's overall risk management activities seek to minimize potential adverse effects on the Company's financial performance.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company limits its exposure to counterparty credit risk by transacting only with highly rated financial institutions and other counterparties and by managing within specific limits for credit exposure and term to maturity. The Company's financial instrument portfolio is spread across financial institutions, provincial and federal governments and, to a lesser extent, corporate issuers that are dual rated and have a credit rating in the "A" category or better.

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset, net of any allowances for impairment.

As at	Carrying amount	
	December 31, 2021	December 31, 2020
(C\$ in thousands)		
Cash and cash equivalents	382,138	368,635
Restricted marketable securities	466	2,451
Debt instruments	66,561	73,565
Trade receivables	160,093	130,582
Total	609,258	575,233

Generally, the carrying amount on the consolidated statements of financial position of the Company's financial assets exposed to credit risk represents the Company's maximum exposure to credit risk. No additional credit risk disclosure is provided, unless the maximum potential loss exposure to credit risk for certain financial assets differs significantly from their carrying amount. The Company's main credit risk exposure is from its trade receivables. For the Company, trade receivables are comprised principally of amounts related to its commercial sales, to its franchise operations, and to vendor rebate programs.

For commercial trade and other receivables, credit risk is mitigated through customer agreements specifying payment terms and credit limits. For franchise trade receivables, personal guarantees are obtained. As well, liens are placed against the goods and the Company may repossess goods for non-payment. Credit risk is also limited due to the large number of customers and their dispersion across geographic areas and market sectors (i.e., retail, commercial and franchise). Accordingly, the Company believes it has no significant concentrations of credit risk related to trade receivables. The Company's trade receivables totaled \$160,093 as at December 31, 2021, (2020 – \$130,582). The amount of trade receivables that the Company has determined to be past due (which is defined as a balance that is more than 90 days past due) is \$8,285 as at December 31, 2021 (2020 – \$7,095). IFRS 9 requires that a forward-looking ECL model is followed. The guidance allows for a simplified approach for assets, including trade receivables, that do not contain a significant financing component. This does not require the tracking of changes in credit risk, but requires recognition of lifetime ECLs at all times. The Company's ECL based on the total receivables, past due invoices, historical data and future analysis was \$1,118 as at December 31, 2021 (2020 – \$1,355).

IFRS 9 provides a low credit risk simplified approach for certain financial instruments if they are deemed to be a low credit risk. Based on the Company's portfolio, historical trends and future looking analyst predictions, it was concluded that the low credit risk simplification could be used as debt investments have a low risk of default and the Company has a strong capacity to meet its contractual cash flow obligations in the near future.

The majority of the Company's retail sales are funded through cash, traditional credit cards and private label credit cards carried on a non-recourse basis by third parties. Accordingly, fluctuations in the availability and cost of credit may have an impact on the Company's retail sales and profitability.

The Company manages credit risk for its cash and cash equivalents by maintaining bank accounts with major Canadian banks and investing only in highly rated Canadian and U.S. securities that are traded on active markets and are capable of prompt liquidation.

Liquidity risk

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 December 31, 2021, unrestricted liquidity was \$613,648, comprising cash and cash equivalents, debt and equity instruments and its undrawn revolving credit facility.

The following tables summarize the Company's contractual maturity for its financial liabilities, including both principal and interest payments:

(C\$ in thousands)	Carrying amount	Contractual cash flows	Payments due by period					
			2022	2023	2024	2025	2026	2027 & Beyond
As at December 31, 2021								
Trade and other payables	543,737	543,737	543,737	-	-	-	-	-
Lease liabilities	366,254	427,561	91,715	64,095	62,259	61,745	60,146	87,601
Loans and borrowings	90,000	90,883	90,883	-	-	-	-	-
Redeemable share liability	13	13	-	-	-	-	-	13
Total	1,000,004	1,062,194	726,335	64,095	62,259	61,745	60,146	87,614

(C\$ in thousands)	Carrying amount	Contractual cash flows	Payments due by period					
			2021	2022	2023	2024	2025	2026 & Beyond
As at December 31, 2020								
Trade and other payables	304,844	304,844	304,844	-	-	-	-	-
Lease liabilities	400,703	473,208	92,019	70,597	68,209	66,353	65,820	110,210
Loans and borrowings	90,000	92,053	1,170	90,883	-	-	-	-
Convertible debentures	441	471	13	13	445	-	-	-
Redeemable share liability	13	13	-	-	-	-	-	13
Total	796,001	870,589	398,046	161,493	68,654	66,353	65,820	110,223

The contractual cash flows have been included in the tables above based on the contractual arrangements that exist at the reporting date and do not factor in any assumptions for early repayment. The amount and timing of actual payments may be materially different. Contractual cash flows presented in the above maturity analysis table for lease liabilities, loans and borrowings and convertible debentures include principal repayments, interest payments, and other related cash payments. As the carrying amounts of these liabilities are measured at amortized cost, the future contractual cash flows do not agree to the carrying amounts.

The Company's credit facilities and convertible debentures are further discussed in Note 14.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk, and other price risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to cash flow risk on the term credit facility and the revolving credit facility, and to fair value risk on the lease liabilities and convertible debentures due to fluctuations in interest rates. Fair value risk related to the lease liabilities and convertible debentures impacts disclosure only as these items are carried at amortized cost on the consolidated statements of financial position.

As well, the Company's revenues depend, in part, on supplying financing alternatives to its customers through third-party credit providers. The terms of these financing alternatives are affected by changes in interest rates. Therefore, interest rate fluctuations may impact the Company's financing costs for retail sales financed using these alternatives, and may also impact the Company's revenues where customers' buying decisions are impacted by their ability or desire to use these financing alternatives.

(i) Interest rate sensitivity analysis

The Company's net income is sensitive to the impact of a change in interest rates on the average indebtedness under the term credit facility and the revolving credit facility during the year. For the year ended December 31, 2021, the Company's average indebtedness under the term credit facility was \$90,000 (2020 – \$90,000) and under the revolving credit facility was \$nil (2020 – \$nil). Accordingly, a change during the year ended December 31, 2021 of a one percentage point increase or decrease in the applicable interest rate would have impacted the Company's net income by approximately \$666 (2020 – \$666).

(b) Currency risk

The Company is exposed to foreign currency fluctuations since certain merchandise is paid for in U.S. dollars. This risk is offset to the extent that foreign currency costs are included in product costs when setting retail prices. Accordingly, the Company does not believe it has significant foreign currency risk with respect to its inventory purchases made in U.S. dollars.

(c) Other price risk

The Company is exposed to fluctuations in the market prices of its portfolio of debt securities. Changes in the fair value of these financial assets are recorded, net of income taxes, in accumulated other comprehensive income as it relates to unrecognized gains and losses. The risk is managed by the Company and its investment managers by ensuring a conservative asset allocation.

23. Insurance Contract Risk

Certain subsidiaries of the Company are responsible for the insurance business and monitoring and managing the financial risks related to the Company's insurance operations. This is done through internal risk assessment reporting and by compliance with regulatory requirements. TGLI provides group insurance coverage for life, accident and sickness covering personal credit card debt; and group coverage for life, accident and sickness covering other personal short-term debt. TGI provides group coverage for loss of income and property covering personal credit card debt; group coverage for loss of income and property covering other personal short-term debt; and four- and five-year term commercial property coverage. The principal risks faced under insurance contracts are that (i) the actual claims and benefit payments or the timing thereof, differ from expectations. This risk is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of claims; (ii) the risk of loss arising from expense experience being different than expected; and (iii) the risk arising due to policyholder experiences (lapses) being different than expected. The Company's objective with respect to this risk is to ensure that sufficient reserves are available to cover these liabilities.

The overall risk of the insurance operations is managed by diversifying across a large portfolio of insurance contracts and establishing maximum benefit limits per claim types that the policy holder is entitled to. The Company, therefore, has a defined maximum exposure which enables it to effectively manage the overall risk.

24. Capital Management

The Company's objectives when managing capital are to:

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

The capital structure currently includes debt and equity securities, lease liabilities, convertible debentures, term credit facility and borrowing capacity available under the revolving credit facilities (note 14). As at December 31, 2021, \$127,008 is available to draw on under our \$175,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$47,992 (December 31, 2020 – \$993). The Company exercised its \$125,000 credit accordion, during the prior fiscal year, as a precaution due to the COVID-19 pandemic. 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.

As at

(C\$ in thousands)	December 31, 2021	December 31, 2020
Current portion of lease liabilities	74,920	73,476
Current portion of loans and borrowings	90,000	–
Convertible debentures	–	441
Lease liabilities	291,334	327,227
Loans and borrowings	–	90,000
Total shareholders' equity	791,193	1,016,003
Total capital under management	1,247,447	1,507,147

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.

Restriction on the distribution of capital from Trans Global Insurance Company and Trans Global Life Insurance Company

For purposes of regulatory requirements for TGI and TGLI, capital is considered to be equivalent to their respective statement of financial position equity. Regulatory requirements stipulate that TGI must maintain minimum capital of at least \$3,000 and TGLI must maintain minimum capital of at least \$5,000.

In addition, the Company is subject to the regulatory capital requirements defined by The Office of the Superintendent of Insurance of Alberta and the Insurance Act of Alberta (the "Insurance Act"). Notwithstanding that a company may meet the supervisory target standard, The Office of the Superintendent of Insurance of Alberta may direct a company to increase its capital under the Insurance Act. As at December 31, 2021, TGI's Minimum Capital Test ratio was 646% (December 31, 2020 – 513%), which is in compliance with the requirements of The Office of the Superintendent of Insurance of Alberta and the Insurance Act.

For TGLI, the Life Insurance Capital Adequacy Test ("LICAT") replaced the Minimum Continuing Capital and Surplus Requirements ("MCCSR") effective January 1, 2018. As at December 31, 2021, TGLI's LICAT ratio was 491% (December 31, 2020 – MCCSR 534%), which is in compliance with the requirements of The Office of the Superintendent of Insurance of Alberta and the Insurance Act.

25. Commitments and Contingencies

- (a) Pursuant to a reinsurance agreement relating to the extended warranty sales, the Company has pledged debt instruments amounting to \$466 (2020 – \$2,451).
- (b) In the normal course of operations, the Company is party to a number of lawsuits, claims and contingencies. Accruals are made in instances where it is probable that liabilities have been incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company does not believe that the ultimate outcome of these matters will have a material impact on its financial position.

26. Consolidated Statements of Cash Flows

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

For the	Year ended	
	December 31, 2021	December 31, 2020
(C\$ in thousands)		
Trade receivables	(29,511)	9,953
Inventories	(63,574)	2,371
Prepaid expenses and other assets	(4,503)	(1,822)
Trade and other payables	137	47,069
Customers' deposits	56,639	153,643
Derivative assets	-	625
Derivative liabilities	(2,234)	3,976
Provisions	(959)	2,334
Deferred acquisition costs	(2,851)	(475)
Total	(46,856)	217,674

(b) Changes in liabilities arising from financing activities comprise the following:

(C\$ in thousands)	Convertible Debentures (including equity component)	Leases	Loans and borrowings
Balance as at December 31, 2020	472	400,703	90,000
Cash changes:			
Lease obligation repayment	-	(92,810)	-
Early redemption payment on outstanding debentures	(77)	-	-
Non-cash changes:			
Additions	-	38,744	-
Disposals	-	(76)	-
Conversions of debenture	(395)	-	-
Interest	-	19,693	-
Balance as at December 31, 2021	-	366,254	90,000

(C\$ in thousands)	Convertible Debentures (including equity component)	Leases	Loans and borrowings
Balance as at December 31, 2019	52,330	412,694	95,000
Cash changes:			
Long-term debt repayment	-	-	(5,000)
Lease obligation repayment	-	(91,548)	-
Non-cash changes:			
Additions	-	59,756	-
Disposals	-	(671)	-
Conversions of debenture	(51,877)	-	-
Interest	-	20,472	-
Accretion	19	-	-
Balance as at December 31, 2020	472	400,703	90,000

27. Related Party Transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

The Company has a 50% ownership interest in a joint operation "Beedie/Leon's Delta-Link Joint Venture." This joint operation developed land into a 432,000 square foot distribution centre which the Company occupies in Delta, British Columbia.

Key management compensation

Key management includes the five senior executives of the Company. The compensation expense paid to key management for employee services during each year is shown below:

For the	Year ended	
	December 31, 2021	December 31, 2020
(C\$ in thousands)		
Salaries and other employee benefits	8,225	7,462

28. Comparative Financial Information

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2021 consolidated financial statements.

29. Subsequent Events

On February 17, 2022 the Company completed a third amendment to its SSCA. Under this amendment the Company 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.

Corporate & Shareholder Information

BOARD OF DIRECTORS

Mark J. Leon
Toronto, ON

Terrence T. Leon
Toronto, ON

Edward F. Leon
King City, ON

Joseph M. Leon II
Ridgeway, ON

Alan J. Lenczner
Founding Partner in
Lenczner Slaght
Toronto, ON

Mary Ann Leon
Financial Executive
Toronto, ON

Frank Gagliano
Vice Chairman,
St. Joseph Communications,
Toronto, ON

Hon. Lisa Raitt
Vice Chair, CIBC Global
Investment Banking
Milton, ON

OFFICERS

Mark J. Leon
Chairman of the Board

Terrence T. Leon
Vice Chairman

Michael J. Walsh
President and CEO

Constantine Pefanis
CFO

John A. Cooney
Vice President, Legal and
Corporate Secretary

CORPORATE OFFICE

45 Gordon Mackay Road
Toronto, Ontario M9N 3X3
(416) 243-7880

AUDITORS

Ernst & Young LLP Toronto

REGISTRAR AND TRANSFER AGENT

TSX Trust Company (Canada)

LISTING

Leon's Furniture Limited
common shares are listed
on the Toronto Stock Exchange
Ticker Symbol is LNF

ANNUAL AND SPECIAL MEETING

Thursday, May 12, 2022, 2:00pm
Fairmont Royal York
100 Front Street West
Toronto, Ontario
M5J 1E3

Whether they choose to shop in-store or online, Canadians know and trust our brands for their furniture, appliances, electronics, and mattresses.



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🐦 leonsfurniture

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