



LEON'S FURNITURE LIMITED

Management's Discussion and Analysis

For the period ended September 30, 2023

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1. Preface

The following Management's Discussion and Analysis ("MD&A") is prepared as at November 8, 2023 and is based on the unaudited interim condensed consolidated financial position and operating results of Leon's Furniture Limited/Meubles Leon Ltée (the "Company") as of September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022. It should be read in conjunction with the fiscal year 2022 consolidated financial statements and the notes thereto. These are available along with additional company information and corresponding MD&A's at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

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

Financial Statements Governance Practice

Leon's Furniture Limited's unaudited interim condensed consolidated financial statements have been prepared in accordance with the requirements of IAS 34, Interim Financial Reporting, which is within the framework of 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 for the applicable period.

The Audit Committee of the Board of Directors of Leon's Furniture Limited ("The Board") reviewed the MD&A and the unaudited interim condensed consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the unaudited interim condensed consolidated financial statements and MD&A were approved on November 8, 2023.

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 six ecommerce sites: leons.ca, thebrick.com, furniture.ca, midnorthern.com, transglobalservices.com and applicancecanada.com.

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

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

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

3. Results of Operations

Summary financial highlights for the three months ended September 30, 2023 and September 30, 2022

| For the | Three months ended | | \$ Increase (Decrease) | % Increase (Decrease) |
|---|--------------------|--------------------|---------------------------|--------------------------|
| | September 30, 2023 | September 30, 2022 | | |
| (C\$ in millions except %, share and per share amounts) | | | | |
| Total system-wide sales ⁽¹⁾ | 791.7 | 801.0 | (9.3) | (1.2%) |
| Franchise sales ⁽¹⁾ | 130.7 | 138.8 | (8.1) | (5.7%) |
| Revenue | 661.0 | 662.2 | (1.2) | (0.2%) |
| Cost of sales | 369.9 | 358.1 | 11.8 | 3.3% |
| Gross profit | 291.1 | 304.1 | (13.0) | (4.3%) |
| Gross profit margin as a percentage of revenue | 44.04% | 45.92% | | |
| Selling, general and administrative expenses ⁽²⁾ | 237.7 | 220.4 | 17.3 | 7.8% |
| SG&A as a percentage of revenue | 35.96% | 33.28% | | |
| Other income ⁽³⁾ | (20.0) | - | (20.0) | 100.0% |
| Income before net finance costs and income tax expense | 73.4 | 83.7 | (10.3) | (12.3%) |
| Net finance costs | (4.9) | (5.9) | (1.0) | (17.0%) |
| Income before income taxes | 68.5 | 77.8 | (9.3) | (12.0%) |
| Income tax expense | 16.8 | 18.6 | (1.8) | (9.7%) |
| Adjusted net income ⁽¹⁾ | 51.7 | 59.2 | (7.5) | (12.7%) |
| Adjusted net income as a percentage of revenue ⁽¹⁾ | 7.82% | 8.94% | | |
| After-tax mark-to-market gain on financial derivative instruments | (0.6) | (2.1) | (1.5) | (71.4%) |
| Net income | 52.3 | 61.3 | (9.0) | (14.7%) |
| Basic weighted average number of common shares | 68,000,714 | 67,207,530 | | |
| Basic earnings per share | \$0.77 | \$0.91 | \$(0.14) | (15.4%) |
| Adjusted basic earnings per share ⁽¹⁾ | \$0.76 | \$0.88 | \$(0.12) | (13.6%) |
| Diluted weighted average number of common shares | 68,642,290 | 68,001,476 | | |
| Diluted earnings per share | \$0.76 | \$0.90 | \$(0.14) | (15.6%) |
| Adjusted diluted earnings per share ⁽¹⁾ | \$0.75 | \$0.87 | \$(0.12) | (13.8%) |
| Common share dividends declared | \$0.16 | \$0.16 | \$0.00 | 0.0% |

(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) The Company received a \$20 million one-time payment to settle the value of warrant rights negotiated as part of the original agreement with CURO. Please refer to Note 14 of the of the unaudited interim condensed consolidated financial statements.

Same Store Sales ⁽¹⁾

| For the | Three months ended | | \$ Decrease | % Decrease |
|---------------------------------|--------------------|--------------------|-------------|------------|
| | September 30, 2023 | September 30, 2022 | | |
| (C\$ in millions, except %) | | | | |
| Same store sales ⁽¹⁾ | 645.5 | 649.4 | (3.9) | (0.6%) |

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

Revenue

For the three months ended September 30, 2023, revenue was \$661.0 million compared to \$662.2 million in the third quarter 2022. Revenue decreased \$1.2 million or 0.2% as compared to the prior year quarter.

While the macro-economic environment continues to be challenging, the company saw improved consumer demand in the third quarter relative to the first half of the year that is expected to continue into the fourth quarter.

Same Store Sales ⁽¹⁾

Same store sales in the quarter decreased by 0.6% compared to the prior year's third quarter driven by factors discussed in the revenue section.

Gross Profit

The gross profit margin for the third quarter 2023 was 44.04% compared to 45.92% for the third quarter 2022, a decrease of 188 basis points. The decline in the gross profit margin is driven by sales mix due to strong growth in the commercial business, higher promotional activity, along with comparing to an exceptionally strong performance in the third quarter of the prior year.

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

The Company's SG&A as a percentage of revenue for the third quarter of 2023 was 35.96%, an increase of 268 basis points over the third quarter 2022. The Company's SG&A as a percentage of revenue for the current quarter increased primarily because of an increase in point-of-sale retail financing fees due to the continuing Bank of Canada interest rate increases and marketing spend to drive balance of year revenue.

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

Adjusted net income for the quarter totaled \$51.7 million, a decrease of \$7.5 million over the prior year's quarter.

The adjusted diluted earnings per share in the third quarter 2022 was \$0.87 per share, compared to \$0.75 per share in the current quarter, a decrease of \$0.12 per share or 13.8%.

Net Income and Diluted Earnings Per Share

Net income for the third quarter 2023 was \$52.3 million, or \$0.76 per diluted earnings per share as compared to \$0.90 per diluted earnings per share recorded in the prior year's quarter, a decrease of \$0.14 per share or 15.6% (net income of \$61.3 million in the third quarter of 2022).

(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 nine months ended September 30, 2023 and September 30, 2022

| For the | Nine months ended | | | |
|--|--------------------------|-------------|-----------------------------------|----------------------------------|
| (C\$ in millions except %, share and per share amounts) | 2023 | 2022 | \$ Increase (Decrease) | % Increase (Decrease) |
| Total system-wide sales ⁽¹⁾ | 2,134.9 | 2,248.6 | (113.7) | (5.1%) |
| Franchise sales ⁽¹⁾ | 367.1 | 392.1 | (25.0) | (6.4%) |
| Revenue | 1,767.8 | 1,856.5 | (88.7) | (4.8%) |
| Cost of sales | 993.4 | 1,035.2 | (41.8) | (4.0%) |
| Gross profit | 774.5 | 821.3 | (46.8) | (5.7%) |
| Gross profit margin as a percentage of revenue | 43.81% | 44.24% | | |
| Selling, general and administrative expenses ⁽²⁾ | 658.1 | 631.6 | 26.5 | 4.2% |
| SG&A as a percentage of revenue | 37.23% | 34.02% | | |
| Other income ⁽³⁾ | (20.0) | - | (20.0) | 100% |
| Income before net finance costs and income tax expense | 136.4 | 189.7 | (53.3) | (28.1%) |
| Net finance costs | (15.3) | (15.5) | (0.2) | (1.3%) |
| Income before income taxes | 121.1 | 174.2 | (53.1) | (30.5%) |
| Income tax expense | 28.5 | 41.6 | (13.1) | (31.5%) |
| Adjusted net income ⁽¹⁾ | 92.6 | 132.6 | (40.0) | (30.2%) |
| Adjusted net income as a percentage of revenue ⁽¹⁾ | 5.24% | 7.14% | | |
| After-tax mark-to-market gain on financial derivative instruments ⁽¹⁾ | (0.1) | (3.6) | 3.6 | (95.9%) |
| Net income | 92.6 | 136.2 | (43.6) | (32.0%) |
| Basic weighted average number of common shares | 67,915,967 | 67,393,971 | | |
| Basic earnings per share | \$1.36 | \$2.02 | \$(0.66) | (32.7%) |
| Adjusted basic earnings per share ⁽¹⁾ | \$1.36 | \$1.97 | \$(0.61) | (31.0%) |
| Diluted weighted average number of common shares | 68,633,107 | 68,202,221 | | |
| Diluted earnings per share | \$1.35 | \$2.00 | \$(0.65) | (32.5%) |
| Adjusted diluted earnings per share ⁽¹⁾ | \$1.35 | \$1.94 | \$(0.59) | (30.4%) |
| Common share dividends declared | \$0.48 | \$0.48 | \$- | 0.0% |

(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) The Company received a \$20 million one-time payment to settle the value of warrant rights negotiated as part of the original agreement with CURO. Please refer to Note 14 of the of the unaudited interim condensed consolidated financial statements.

Same Store Sales ⁽¹⁾

| For the | Nine months ended | | | |
|---------------------------------|---------------------------|---------------------------|--------------------|-------------------|
| (C\$ in millions, except %) | September 30, 2023 | September 30, 2022 | \$ Decrease | % Decrease |
| Same store sales ⁽¹⁾ | 1,727.0 | 1,814.5 | (87.5) | (4.8%) |

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

Revenue

For the nine months ended September 30, 2023, revenue was \$1,767.8 million compared to \$1,856.5 million in the prior year 2022. Revenue decreased by \$88.7 million or 4.8% as compared to the prior year nine months ended, driven by macro-economic factors that led to a decrease in consumer demand. Despite the overall reduction in revenue, the mattress product category has shown encouraging results for the first nine months of 2023, which can in part be attributed to our partnership with Resident, the largest direct-to-consumer mattress company in North America.

Same Store Sales ⁽¹⁾

Same store sales in the nine months ended September 30, 2023 decreased by 4.8% compared to the nine months ended September 30, 2022 driven by factors discussed in the revenue section.

Gross Profit

The gross profit margin decreased by 43 basis points to 43.81% compared to the nine months ended September 30, 2022. The decline in the gross profit margin is driven by sales mix due to strong growth in the commercial business, higher promotional activity, along with comparing to an exceptionally strong performance in the prior year.

Selling, General and Administrative Expenses

The Company's SG&A as a percentage of revenue for the nine months ended September 30, 2022 was 34.02% compared to 37.23% for the nine months ended September 30, 2023, an increase of 321 basis points over the prior year. The Company's SG&A as a percentage of revenue for the nine months increased due to a decline in sales, increase in point-of-sale retail financing fees due to the continuing Bank of Canada interest rate increases and marketing spend to drive balance of year revenue.

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

Adjusted net income in the nine months ended September 30, 2022 totaled \$132.6 million compared to adjusted net income for the current year of \$92.6 million, a decrease of \$40.0 million.

Adjusted diluted earnings per share in the prior year was \$1.94 per share compared to \$1.35 per share in the current year, a decrease of \$0.59 per share.

Net Income and Diluted Earnings Per Share

Net income for the nine months ended September 30, 2023 was \$92.6 million, \$1.35 per diluted earnings per share compared to net income of \$136.2 million and \$2.00 per diluted earnings per share in 2022.

(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 303 retail stores in Canada at September 30, 2023. The following table illustrates the Company's store count continuity from December 31, 2022 to September 30, 2023 by retail banner:

| Banner | Number of stores as at December 31, 2022 | Opened | Closed | Number of stores as at September 30, 2023 |
|---|---|----------|------------|--|
| Corporate Stores | | | | |
| Leon's | 53 | - | (1) | 52 |
| Appliance Canada | 5 | - | - | 5 |
| The Brick ⁽¹⁾ | 117 | 1 | - | 118 |
| The Brick Mattress Store | 21 | - | - | 21 |
| Brick Outlet | 6 | - | - | 6 |
| Corporate Subtotal | 202 | 1 | (1) | 202 |
| Franchise Stores | | | | |
| Leon's | 35 | - | - | 35 |
| The Brick | 67 | - | (1) | 66 |
| Franchise Subtotal | 102 | - | (1) | 101 |
| Total Corporate & Franchise Stores | 304 | 1 | (2) | 303 |

(1) Includes the Midnorthern Appliance banner.

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 | September 30 | | June 30 | | March 31 | | December 31 | |
|--|--------------|--------|---------|--------|----------|--------|-------------|--------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2022 | 2021 |
| (C\$ in millions except per share amounts) | | | | | | | | |
| Total system-wide sales ⁽¹⁾ | 791.7 | 801.0 | 717.6 | 784.6 | 625.6 | 662.9 | 804.4 | 820.5 |
| Franchise sales ⁽¹⁾ | 130.7 | 138.8 | 123.8 | 137.6 | 112.6 | 115.7 | 143.2 | 150.7 |
| Revenue | 661.0 | 662.2 | 593.8 | 647.0 | 513.0 | 547.2 | 661.2 | 669.8 |
| Net income | 52.3 | 61.3 | 27.4 | 50.1 | 12.9 | 24.8 | 43.2 | 56.5 |
| Adjusted net income ⁽¹⁾ | 51.7 | 59.2 | 28.0 | 47.5 | 12.9 | 25.8 | 44.6 | 57.0 |
| Basic earnings per share | \$0.77 | \$0.91 | \$0.40 | \$0.75 | \$0.19 | \$0.37 | \$0.65 | \$0.74 |
| Diluted earnings per share | \$0.76 | \$0.90 | \$0.40 | \$0.74 | \$0.19 | \$0.36 | \$0.65 | \$0.73 |
| Adjusted basic earnings per share ⁽¹⁾ | \$0.76 | \$0.88 | \$0.41 | \$0.71 | \$0.19 | \$0.38 | \$0.67 | \$0.74 |
| Adjusted diluted earnings per share ⁽¹⁾ | \$0.75 | \$0.87 | \$0.41 | \$0.70 | \$0.19 | \$0.38 | \$0.67 | \$0.74 |

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

6. Financial Position

| As at | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|-------------------------------|--------------------|-------------------|--------------------|
| (C\$ in millions) | | | |
| Total assets | 2,231.1 | 2,193.6 | 2,243.0 |
| Total non-current liabilities | 620.0 | 671.6 | 684.8 |

Assets

Total assets at September 30, 2023 of \$2,231.1 million were \$37.5 million higher than the \$2,193.6 million reported at December 31, 2022. The movement was primarily driven by an increase in inventories, and Property, plant and equipment, partially offset by a decrease in cash and cash equivalents.

Non-Current Liabilities

Non-current liabilities of \$620.0 million were \$51.6 million lower than the \$671.6 million reported at December 31, 2022. This is primarily due to the reduction of long-term debt, partially offset by the increase in lease liabilities.

Net Debt ⁽¹⁾

The table below reflects the Company's net debt balances, excluding its lease liabilities and restricted marketable securities as at September 30, 2023 and December 31, 2022.

| As at | September 30, 2023 | December 31, 2022 | \$ Change |
|---|--------------------|-------------------|-------------|
| (C\$ in millions) | | | |
| Term debt | 160.0 | 234.4 | (74.4) |
| Less: cash, cash equivalents, debt and equity instruments | 212.1 | 226.0 | (13.9) |
| Net cash/(debt) balance ⁽¹⁾ | 52.1 | (8.4) | 60.5 |

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

As at September 30, 2023, the Company's total net cash/(debt) balance, excluding its lease liabilities, reflects a net cash position of \$52.1 million.

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 September 30, 2023, unrestricted liquidity is \$385.1 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 and nine months ended September 30, 2023 and September 30, 2022:

| For the (C\$ in millions) | Three months ended | | |
|---|--------------------|--------------------|------------------------|
| | September 30, 2023 | September 30, 2022 | \$ Increase (Decrease) |
| Cash provided by operating activities | 107.6 | 49.3 | 58.3 |
| Cash provided by / (used in) investing activities | 0.7 | (9.4) | 10.1 |
| Cash used in financing activities | (84.7) | (39.3) | (45.4) |
| Increase (decrease) in cash and cash equivalents | 23.5 | 0.6 | 22.9 |

| For the (C\$ in millions) | Nine months ended | | |
|---|--------------------|--------------------|------------------------|
| | September 30, 2023 | September 30, 2022 | \$ Increase (Decrease) |
| Cash provided by / (used in) operating activities | 171.2 | (78.5) | 249.7 |
| Cash used in investing activities | (15.6) | (16.3) | 0.7 |
| Cash used in financing activities | (182.3) | (205.4) | 23.1 |
| Increase (decrease) in cash and cash equivalents | (26.7) | (300.2) | 273.5 |

| | Q3 2023 | Year-to-Date |
|-----------------------------|---|--|
| Operating Activities | ↑ \$58.3 million change The increase is primarily driven by changes in working capital related to trade and other payables and customer deposits. This is offset by a decrease in profit before tax and changes in trade receivables. | ↑ \$249.7 million change The increase is primarily driven by changes in inventories, customer deposits, and trade and other payables. |
| Investing Activities | ↑ \$10.1 million change The increase is primarily driven by proceeds on settlement of warrant and the purchase of property, plant and equipment. | ↑ \$0.7 million change The increase is primarily driven by proceeds on settlement of warrant and interest received. This is offset by changes in the net movement of debt and equity instruments and by the purchase of property, plant and equipment. |
| Financing Activities | ↓ \$45.4 million change The decrease is primarily driven by a decrease in long-term debt. | ↑ \$23.1 million change The increase is primarily driven by a decrease in the repurchase of common shares which is offset by the movement in long-term debt. |

Adequacy of Financial Resources

At September 30, 2023, the Company's current assets exceeded its current liabilities by \$243.8 million and its cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$212.5 million compared to \$226.4 million at December 31, 2022. At September 30, 2023, \$173 million is available to draw on under the Company's \$250 million revolving credit facility as the borrowing capacity has been reduced by ordinary letters of credit of \$7 million and utilizing \$70 million of the revolving credit facility. The majority of the letters of credit issued are to post collateral in relation to CBSA tariffs. 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 September 30, 2023

(C\$ in millions)

| Contractual obligations | Total | 2023 | 2024 | 2025 | 2026 | Payments Due by Period | |
|--------------------------------------|--------------|-------------|-------------|--------------|-------------|------------------------|---------------|
| | | | | | | 2027 | 2028 & Beyond |
| Long-term debt | 168.2 | 3.8 | 7.5 | 156.9 | - | - | - |
| Lease liability | 332.3 | 22.9 | 60.0 | 59.6 | 58.2 | 56.9 | 74.7 |
| Total contractual obligations | 500.6 | 26.7 | 67.5 | 216.5 | 58.2 | 56.9 | 74.7 |

8. Outlook

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 the business to drive growth initiatives that will drive more customers to both our online eCommerce sites and our 303 store locations across Canada.

9. Outstanding Common Shares

At September 30, 2023, there were 68,029,894 common shares issued and outstanding. During the nine-month period ended September 30, 2023, 9,779 series 2012 shares, 53,838 series 2013 shares, 42,299 series 2014 shares and 62,689 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 12 of the of the unaudited interim condensed consolidated financial statements.

10. Related Party Transactions

For the nine months ended September 30, 2023, there were 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 interim condensed consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet dates and the reported amounts of revenue and expenses during the reporting period. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the interim condensed consolidated financial statements.

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 unaudited interim condensed 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 what the probable outflow of resources will be required to settle the obligation.

Leases

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

Materiality

In preparing this MD&A and the information contained herein, management considers the likelihood that a reasonable investor'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

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. Under IFRS 17, the Company's insurance contracts are all eligible to be measured by applying the Premium Allocation Approach. This approach simplifies the measurement of insurance contracts in comparison with the general model.

On transition date, the Company:

- Has identified, recognized and measured each group of insurance contracts as if IFRS 17 had always applied
- Has identified, recognized and measured assets for insurance acquisition cash flows as if IFRS 17 has always applied

The Company has not restated comparative information as the impacts of IFRS 17 are not material.

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

Amendments to IAS 12, *Income Taxes* ("IAS 12")

The amendments to IAS 12 provide clarifications in accounting for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments clarify that the initial recognition exemption does not apply to transactions such as leases and decommissioning obligations. As a result, entities may need to recognize both a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied to transactions that occur on or after the beginning of the earliest comparative period presented. The adoption of this standard did not have a material impact on the financial statements.

Accounting standards and amendments issued but not yet adopted**Amendments to IAS 1, *Presentation of Financial Statements***

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively. The adoption of this standard will not have a material impact on the 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 22, 2023, which provides information on the risk factors facing the Company. The February 22, 2023 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 and Managing Growth

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

Financial Condition of Commercial Sales Customers and 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 and 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 September 30, 2023.

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 nine months ended September 30, 2023, 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

The Company 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, basic and diluted earnings per share to adjusted basic and diluted earnings per share:

| For the | Three months ended | | Nine months ended | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| (C\$ in millions except per share amounts) | | | | |
| Net income | 52.3 | 61.3 | 92.6 | 136.2 |
| After-tax mark-to-market gain on financial derivative | (0.6) | (2.1) | (0.1) | (3.6) |
| Adjusted net income | 51.7 | 59.2 | 92.6 | 132.6 |
| Basic earnings per share | \$0.77 | \$0.91 | \$1.36 | \$2.02 |
| Diluted earnings per share | \$0.76 | \$0.90 | \$1.35 | \$2.00 |
| Adjusted basic earnings per share | \$0.76 | \$0.88 | \$1.36 | \$1.97 |
| Adjusted diluted earnings per share | \$0.75 | \$0.87 | \$1.35 | \$1.94 |

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 the Company'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 | | Nine months ended | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| (C\$ in millions) | | | | |
| Net income | 52.3 | 61.3 | 92.6 | 136.2 |
| Income tax expense | 17.0 | 19.3 | 28.5 | 42.9 |
| Net finance costs | 4.9 | 5.9 | 15.3 | 15.5 |
| Depreciation and amortization | 27.4 | 27.5 | 80.8 | 82.9 |
| Gain on settlement of warrant | (20.0) | - | (20.0) | - |
| Mark-to-market gain on financial derivative instruments | (0.9) | (2.8) | (0.1) | (4.9) |
| Adjusted EBITDA | 80.7 | 111.2 | 197.1 | 272.6 |

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 Cash/(Debt)

Net cash/(debt) is calculated as the principal amount of the term loan less cash, cash equivalents and debt and equity instruments. Net cash/(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.

Supplementary Financial Measures

The Company uses supplementary financial measures to disclose financial measures that are not (a) presented in the financial statements and (b) is, or is 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.