



LEON'S FURNITURE LIMITED

Interim Condensed Consolidated Financial Statements

For the period ended September 30, 2023

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Interim Consolidated Statements of Financial Position (unaudited)

As at (C\$ in thousands)	Notes	September 30, 2023	December 31, 2022	September 30, 2022
Assets				
Current assets				
Cash and cash equivalents		88,389	115,127	81,963
Restricted marketable securities		404	413	463
Debt securities		92,091	79,025	74,690
Equity securities		31,609	31,804	32,651
Trade receivables		180,673	180,482	162,992
Income taxes recoverable		7,946	8,227	4,300
Inventories	5	430,090	410,612	501,657
Deferred acquisition costs		13,137	12,347	12,010
Prepaid expenses and other assets		19,552	12,607	20,811
Derivative assets		1,337	1,268	3,126
Total current assets		865,228	851,912	894,663
Non-current assets				
Deferred acquisition costs		22,161	21,940	21,320
Loan receivable	11	19,822	20,348	20,352
Property, plant and equipment and right-of-use assets	6	631,943	608,465	616,079
Investment properties	7	14,185	14,470	14,560
Intangible assets	8	270,629	269,741	269,513
Goodwill		390,120	390,120	390,120
Deferred income tax assets		17,059	16,647	16,387
Total non-current assets		1,365,919	1,341,731	1,348,331
Total assets		2,231,147	2,193,643	2,242,994
Liabilities				
Current liabilities				
Trade and other payables		296,648	249,853	295,420
Provisions		12,484	9,450	11,714
Income taxes payable		2,347	2,407	3,061
Customers' deposits		154,052	175,847	195,078
Lease liabilities	9	74,479	74,389	74,202
Dividends payable		10,885	10,858	10,858
Deferred warranty plan revenue		66,814	62,894	61,238
Current portion of long-term debt	10	3,750	7,500	7,500
Total current liabilities		621,459	593,198	659,071
Non-current liabilities				
Long-term debt	10	156,250	226,875	228,750
Lease liabilities	9	269,042	248,466	264,514
Deferred warranty plan revenue		109,213	108,527	106,071
Provisions		17,406	17,044	14,293
Deferred income tax liabilities		68,075	70,648	71,205
Total non-current liabilities		619,986	671,560	684,833
Total liabilities		1,241,445	1,264,758	1,343,904
Shareholders' equity				
Common shares	12	164,864	162,636	162,697
Retained earnings		822,878	762,899	730,954
Accumulated other comprehensive income		1,960	3,350	5,439
Total shareholders' equity		989,702	928,885	899,090
Total liabilities and shareholders' equity		2,231,147	2,193,643	2,242,994

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

Interim Consolidated Statements of Income (unaudited)

For the	Notes	Three months ended		Nine months ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
(C\$ in thousands except share and per share amounts)					
Revenue	13	660,991	662,199	1,767,847	1,856,458
Cost of sales	5	369,908	358,101	993,387	1,035,170
Gross profit		291,083	304,098	774,460	821,288
Selling, general and administrative expenses		237,704	220,438	658,101	631,565
Other Income	14	(20,854)	(2,774)	(20,071)	(4,869)
Net Finance Costs	15	4,919	5,852	15,291	15,542
Net income before income tax		69,314	80,582	121,139	179,050
Income tax expense	16	17,044	19,259	28,529	42,850
Net income for the period		52,270	61,323	92,610	136,200
Weighted average number of common shares outstanding					
Basic		68,000,714	67,207,530	67,915,967	67,393,971
Diluted		68,642,290	68,001,476	68,633,107	68,202,221
Earnings per share	17				
Basic		\$0.77	\$0.91	\$1.36	\$2.02
Diluted		\$0.76	\$0.90	\$1.35	\$2.00
Dividends declared per share					
Common		\$0.16	\$0.16	\$0.48	\$0.48

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

Interim Consolidated Statements of Comprehensive Income (unaudited)

For the	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
(C\$ in thousands)				
Net income for the period	52,270	61,323	92,610	136,200
Other comprehensive income (loss)				
Item that may be reclassified subsequently to profit or loss:				
Loss on debt instruments arising during the period	(939)	(323)	(1,019)	(4,538)
Item that will not be reclassified to profit or loss:				
Loss on equity instruments arising during the period	(1,076)	(873)	(481)	(4,686)
Income tax expense on the above	123	172	110	679
Other comprehensive loss for the period	(1,892)	(1,024)	(1,390)	(8,545)
Comprehensive income for the period	50,378	60,299	91,220	127,655

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

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

(C\$ in thousands)	Common shares	Accumulated other comprehensive income	Retained earnings	Total
As at December 31, 2022	162,636	3,350	762,899	928,885
Comprehensive income				
Net income for the period	-	-	92,610	92,610
Other comprehensive loss for the period	-	(1,390)	-	(1,390)
Total comprehensive loss	-	(1,390)	92,610	91,220
Transactions with shareholders				
Dividends declared	-	-	(32,618)	(32,618)
Management share purchase plan [note 11]	2,215	-	-	2,215
Share repurchase commitment [note 12]	13	-	(13)	-
Total transactions with shareholders	2,228	-	(32,631)	(30,403)
As at September 30, 2023	164,864	1,960	822,878	989,702

(C\$ in thousands)	Common shares	Accumulated other comprehensive income	Retained earnings	Total
As at December 31, 2021	149,966	13,984	627,243	791,193
Comprehensive income				
Net income for the period	-	-	136,200	136,200
Other comprehensive loss for the period	-	(8,545)	-	(8,545)
Total comprehensive income (loss)	-	(8,545)	136,200	127,655
Transactions with shareholders				
Dividends declared	-	-	(32,381)	(32,381)
Management share purchase plan [note 11]	13,397	-	-	13,397
Share repurchase commitment [note 12]	3,698	-	39,802	43,500
Repurchase of common shares [note 12]	(4,364)	-	(39,910)	(44,274)
Total transactions with shareholders	12,731	-	(32,489)	(19,758)
As at September 30, 2022	162,697	5,439	730,954	899,090

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

Interim Consolidated Statements of Cash Flows (unaudited)

For the	Nine months ended		
(C\$ in thousands)	Notes	September 30, 2023	September 30, 2022
Operating activities			
Net income before income tax		121,139	179,050
Add (deduct) items not involving an outlay of cash:			
Depreciation of property, plant and equipment, right-of-use assets and investment properties		79,997	81,619
Amortization of intangible assets		797	1,236
Amortization of deferred warranty plan revenue		(65,208)	(54,556)
Amortization of premium		(124)	250
Net finance costs		15,291	15,542
Gain on sale of property, plant and equipment and investment properties		(49)	(98)
Gain on settlement of warrant	14	(20,000)	-
Fair value gain on loan receivable		(938)	(378)
		130,905	222,665
Change in operating working capital	19	1,697	(290,454)
Cash received on warranty plan sales		69,814	64,238
Income taxes paid		(31,183)	(74,924)
Cash provided by (used in) operating activities		171,233	(78,475)
Investing activities			
Purchase of property, plant and equipment	6	(26,674)	(10,790)
Purchase of intangible assets	8	(1,685)	(576)
Proceeds on sale of property, plant and equipment and investment properties		74	169
Purchase of debt and equity instruments		(35,720)	(25,901)
Proceeds on sale of debt and equity instruments		21,482	16,902
Repayment of loan receivable		1,464	1,340
Proceeds on settlement of warrant	14	20,000	-
Interest received		5,429	2,530
Cash used in investing activities		(15,630)	(16,326)
Financing activities			
Payment of lease liabilities	9	(55,875)	(56,418)
Dividends paid		(32,591)	(33,810)
Decrease of employee loans-redeemable shares		2,215	606
Repurchase of common shares	12	-	(244,274)
Repayment of term loan		(74,375)	(3,750)
Issuance of term loan	10	-	150,000
Interest paid		(21,715)	(17,728)
Cash used in financing activities		(182,341)	(205,374)
Net decrease in cash and cash equivalents during the period		(26,738)	(300,175)
Cash and cash equivalents, beginning of period		115,127	382,138
Cash and cash equivalents, end of period		88,389	81,963

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

Leon's Furniture Limited

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

1. Reporting Entity

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

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

2. Basis of Presentation

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

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 8, 2023.

3. Summary of Significant Accounting Policies

Except for the adoption of the new, revised or amended accounting standards noted below, these interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of Leon's for the year ended December 31, 2022. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, *Presentation of Financial Statements* ("IAS 1"). Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2022.

Segment reporting

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

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

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

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

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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 interim condensed consolidated 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 interim condensed consolidated 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 amendment did not have a material impact on the interim condensed consolidated 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 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 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.

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

4. Capital Risk Management

The Company's objectives when managing capital are to:

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

The capital structure currently includes working capital, debt and equity securities, lease liabilities, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at September 30, 2023, \$173,026 is available to draw on under the Company's \$250,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$6,974 (December 31, 2022 - \$6,974) and utilizing \$70,000 of the revolving credit facility.

Under the Senior Secured Credit Agreement ("SSCA"), the financial and non-financial covenants are reviewed on an ongoing basis by management to monitor compliance with the agreement. The Company was in compliance with these covenants as at September 30, 2023.

The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. Based on the Company's borrowing capacity available and expected cash flow from operating activities, management believes that the Company has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital costs for projects exceed current estimates, or if the Company incurs major unanticipated expenses, it may be required to seek additional capital.

The Company is not subject to any externally imposed capital requirements, other than with respect to its insurance subsidiaries. Refer to note 24 in the fiscal year 2022 consolidated financial statements.

5. Inventories

The amount of inventory recognized as an expense for the three and nine months ended September 30, 2023 was \$355,588 (three months ended September 30, 2022 - \$346,842) and \$950,562 (nine-month period ended September 30, 2022 - \$1,003,537), which is presented within cost of sales in the unaudited interim condensed consolidated statements of income.

During the three and nine months ended September 30, 2023, there were \$358 and \$1,200, in inventory write-down reversals (three and nine months ended September 30, 2022 - \$730 and \$883 inventory write-downs). As at September 30, 2023, the inventory markdown provision totaled \$6,373 (as at December 31, 2022 - \$7,573).

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

(C\$ in thousands)	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
Cost								
Balance as at December 31, 2022	111,304	292,365	187,814	65,664	249,753	581,316	2,292	1,490,508
Additions	-	13,481	4,910	3,412	4,871	76,541	-	103,215
Disposals	-	-	(659)	(240)	(2,668)	(283)	(60)	(3,910)
Balance as at September 30, 2023	111,304	305,846	192,065	68,836	251,956	657,574	2,232	1,589,813
Accumulated depreciation								
Balance as at December 31, 2022	-	174,870	144,874	45,990	215,770	299,338	1,201	882,043
Depreciation	-	5,968	6,021	3,742	7,068	56,670	243	79,712
Disposals	-	-	(640)	(238)	(2,664)	(283)	(60)	(3,885)
Balance as at September 30, 2023	-	180,838	150,255	49,494	220,174	355,725	1,384	957,870
Net book value as at September 30, 2023	111,304	125,008	41,810	19,342	31,782	301,849	848	631,943

(C\$ in thousands)	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
Cost								
Balance as at December 31, 2021	104,112	287,555	184,131	61,846	249,439	574,069	2,138	1,463,290
Additions	7,192	4,810	8,069	4,399	4,130	30,516	154	59,270
Disposals	-	-	(4,386)	(581)	(3,816)	(23,269)	-	(32,052)
Balance as at December 31, 2022	111,304	292,365	187,814	65,664	249,753	581,316	2,292	1,490,508
Accumulated depreciation								
Balance as at December 31, 2021	-	167,599	141,121	41,082	210,034	244,762	883	805,481
Depreciation	-	7,271	7,947	5,468	9,478	77,635	318	108,117
Disposals	-	-	(4,194)	(560)	(3,742)	(23,059)	-	(31,555)
Balance as at December 31, 2022	-	174,870	144,874	45,990	215,770	299,338	1,201	882,043
Net book value as at December 31, 2022	111,304	117,495	42,940	19,674	33,983	281,978	1,091	608,465

Included in the above balances as at September 30, 2023, are assets not being amortized with a net book value of approximately \$20,071 (as at December 31, 2022 - \$3,119), being construction in progress. Depreciation of property, plant and equipment is included within selling, general and administrative expenses on the unaudited interim consolidated statements of income.

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7. Investment Properties

(C\$ in thousands)	Land	Buildings	Building improvements	Total
Cost				
Balance as at December 31, 2022	10,646	15,396	953	26,995
Balance as at September 30, 2023	10,646	15,396	953	26,995
Accumulated depreciation				
Balance as at December 31, 2022	-	11,924	601	12,525
Depreciation	-	247	38	285
Balance as at September 30, 2023	-	12,171	639	12,810
Net book value as at September 30, 2023	10,646	3,225	314	14,185

(C\$ in thousands)	Land	Buildings	Building improvements	Total
Cost				
Balance as at December 31, 2021	10,646	15,396	953	26,995
Balance as at December 31, 2022	10,646	15,396	953	26,995
Accumulated depreciation				
Balance as at December 31, 2021	-	11,594	551	12,145
Depreciation	-	330	50	380
Balance as at December 31, 2022	-	11,924	601	12,525
Net book value as at December 31, 2022	10,646	3,472	352	14,470

The estimated fair value of the investment properties portfolio as at September 30, 2023, was approximately \$42,000 (as at December 31, 2022 - \$42,000). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy (note 16 for definition of levels). This was compiled internally by management based on available market evidence.

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8. Intangible Assets

(C\$ in thousands)	Customer relationships	Brand name and franchise agreements	Computer software	Total
Cost				
Balance as at December 31, 2022	7,000	268,500	18,348	293,848
Additions	-	-	1,685	1,685
Balance as at September 30, 2023	7,000	268,500	20,033	295,533
Accumulated amortization				
Balance as at December 31, 2022	7,000	2,500	14,607	24,107
Amortization	-	-	797	797
Balance as at September 30, 2023	7,000	2,500	15,404	24,904
Net book value as at September 30, 2023	-	266,000	4,629	270,629

(C\$ in thousands)	Customer relationships	Brand name and franchise agreements	Computer software	Total
Cost				
Balance as at December 31, 2021	7,000	268,500	22,088	297,588
Additions	-	-	1,038	1,038
Disposals	-	-	(4,778)	(4,778)
Balance as at December 31, 2022	7,000	268,500	18,348	293,848
Accumulated amortization				
Balance as at December 31, 2021	7,000	2,500	17,915	27,415
Amortization	-	-	1,470	1,470
Disposals	-	-	(4,778)	(4,778)
Balance as at December 31, 2022	7,000	2,500	14,607	24,107
Net book value as at December 31, 2022	-	266,000	3,741	269,741

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

As at (C\$ in thousands)	September 30, 2023	December 31, 2022
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.

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9. Leases

Company as a lessee

Leasing arrangements

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

Lease liabilities

Carrying amounts of lease liabilities are as follows:

(C\$ in thousands)	September 30, 2023	December 31, 2022
Balance, beginning of period	322,855	366,254
Additions	77,865	32,472
Disposals	-	(210)
Interest	12,325	17,739
Payments	(69,524)	(93,400)
Balance, end of period	343,521	322,855
Reported as:		
Current	74,479	74,389
Non-current	269,042	248,466
Total	343,521	322,855

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10. Long-term Debt

Bank indebtedness

On August 8, 2023, the Company completed an amendment to its existing SSCA. Under this amendment, the Company decreased its term loan from \$150,000 to \$90,000 and increased the Company's revolving credit facility from \$200,000 to \$250,000. Total credit facilities decreased from \$350,000 to \$340,000. The amount borrowed under this amendment must be repaid in full by May 31, 2025. The Company has drawn \$70,000 under the revolving credit facility and has \$90,000 outstanding for its term loan.

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. 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 the amount of \$3,750 commencing December 31, 2023, followed by annual amounts of \$7,500 thereafter, with the remainder due on maturity. Currently, the Company has entered into a 31-day Bankers' Acceptance with a cost of borrowing of 6.24% that was renewed on September 29, 2023.

The Company can prepay without penalty amounts outstanding under the facilities at any time. The agreement includes a general security agreement, which constitutes a lien on all property of the Company. In addition to this, there are financial covenants related to the credit facility. As at September 30, 2023, the Company was in full compliance of these financial and non-financial covenants.

11. Management Share Purchase Plan

Employee benefit plan

Members of senior management participate in the Company's Management Share Purchase Plan ("MSPP"). Under the terms of the MSPP, the Company advanced non-interest bearing loans to certain of its employees in 2018 and 2022 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 of \$2,315. The common shares issued of \$15,506 are shown within common shares on the interim consolidated statements of financial position.

During the third quarter of 2022, a total of 903,013 of the 2022 series of common shares were issued under the 2022 MSPP to senior management employees at \$17.29 per share. The Company recognized a loan receivable in the amount of \$11,274 (recognized at fair value) and a deferred compensation expense of \$1,517. The common shares issued of \$12,791 are shown within common shares on the interim consolidated statements of financial position.

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Loan receivable

As at

(C\$ in thousands)	September 30, 2023	December 31, 2022
Balance, beginning of period	20,348	10,039
Issuance of 2022 series	-	11,274
Fair value adjustment	938	639
Dividends paid	(763)	(742)
Loan repayment	(701)	(862)
Balance, end of period	19,822	20,348

Deferred compensation expense

	September 30, 2023	December 31, 2022
Balance, beginning of period	2,811	1,569
Recognition of 2022 series	-	1,517
Compensation expense	(282)	(275)
Balance, end of period	2,529	2,811

Redeemable share liability

As at

(C\$ in thousands)	September 30, 2023	December 31, 2022
Authorized		
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		
46,193 series 2012 shares (December 31, 2022 - 55,972)	573	695
234,135 series 2013 shares (December 31, 2022 - 287,973)	2,667	3,280
132,887 series 2014 shares (December 31, 2022 - 175,186)	2,000	2,637
203,762 series 2015 shares (December 31, 2022 - 266,451)	2,743	3,586
Less employee share purchase loans	(7,976)	(10,191)
Total	7	7

Under the terms of the Plan, the Company advanced non-interest bearing loans to certain of its employees in 2012, 2013, 2014 and 2015 to allow them to acquire convertible, 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 series 2012 share 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 share 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 2012, series 2013, series 2014 and series 2015 are redeemable at the option of the holder for a period of one business day following the date of issue of such shares. The Company has the option to redeem the series 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 \$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 2012, 2013, 2014 and 2015 shares of approximately \$251 (2022 - \$270) have been used to reduce the respective shareholder loans. The preferred dividends are paid once a year during the first quarter.

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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 (nine-month period ended September 30, 2022 - 4,295 series 2009 shares, 14,756 series 2012 shares, 21,064 series 2013 shares, 3,804 series 2014 shares and 6,483 series 2015 shares) were converted into common shares with a stated value of approximately \$121, \$613, \$637 and \$844, respectively (nine-month period ended September 30, 2022 - \$38, \$184, \$240, \$57 and \$87 respectively).

During the nine-month period ended September 30, 2023, the Company did not cancel any shares from any of the series of shares (nine-month period ended September 30, 2022 - no shares were cancelled in any of the series of shares).

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

12. Common Shares

As at	September 30, 2023	December 31, 2022
(C\$ in thousands)		
Authorized - Unlimited common shares		
Issued		
68,029,894 common shares (2022 - 67,861,289)	164,864	162,636

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 (nine-month period ended September 30, 2022 - 4,295 series 2009 shares, 14,756 series 2012 shares, 21,064 series 2013 shares, 3,804 series 2014 shares and 6,483 series 2015 shares) were converted into common shares with a stated value of approximately \$121, \$613, \$637 and \$844, respectively (nine-month period ended September 30, 2022 - \$38, \$184, \$240, \$57, and \$87 respectively).

Normal course issuer bid

On September 15, 2023, the Company received TSX approval of its notice of intention to renew its common share repurchase program. The Company intends to repurchase for cancellation a maximum of 3,394,691 Common Shares representing 4.99% of the total number of its 68,029,894 issued and outstanding Common Shares as at September 1, 2023. The average daily trading volume for the six months ending August 31, 2023, was 16,383 Common Shares. Therefore, other than block purchase exemptions, daily purchases will be limited to 4,095 common shares on the Toronto Stock Exchange. The bid will commence on September 15, 2023, and terminate on the earliest of the purchase of 3,394,691 Common Shares, the issuer providing a notice of termination, and September 14, 2024. 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 30, 2023, the Company entered into an automatic share purchase plan ("ASPP") with the Company's broker in order to facilitate the repurchase of its common shares under the normal course issuer bid during self-imposed blackout periods. During the nine-month period ended September 30, 2023, the Company did not repurchase or cancel any common shares under the ASPP. During the nine-month period ended September 30, 2022 the Company repurchased and cancelled 1,546,300 common shares under the ASPP for a total cost of \$38,617, of which \$3,456 represents a reduction in share capital and the remaining \$35,161 was charged to retained earnings. As at September 30, 2023, an obligation of \$2,000 was recognized for the repurchase of common shares under the ASPP (as at September 30, 2022 - \$1,500). As at December 31, 2022, an obligation for the repurchase of shares of \$2,000 was recognized under the ASPP, as this was not utilized this amount was reversed during the first quarter of 2023.

During the nine-month period ended September 30, 2023, and excluding the common shares repurchased under the ASPP, no common shares were purchased or cancelled. During the nine-month period ended September 30, 2022, the Company repurchased 299,200 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 \$4,890. The repurchase of common shares resulted in a reduction of share capital in the amount of \$669. The excess net cost over the average carrying value of the shares of \$4,221 has been recorded as a reduction in retained earnings. As at September 30, 2022, the Company had cancelled all of these repurchased shares.

The dividends paid in the three-month period ended September 30, 2023, and September 30, 2022, were \$10,885 (\$0.16 per share) and \$10,760 (\$0.16 per share), respectively.

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The dividends paid in the nine-month period ended September 30, 2023 and September 30, 2022, were \$32,618 (\$0.48 per share) and \$33,810 (\$0.48 per share), respectively.

13. Revenue

Disaggregation of revenue

For the (C\$ in thousands)	Three months ended	
	September 30, 2023	September 30, 2022
Sales of goods by corporate stores	631,245	633,986
Income from franchise operations	8,021	8,383
Extended warranty revenue	15,259	14,739
Insurance sales revenue	6,024	4,717
Rental income from investment property	442	374
Total	660,991	662,199

For the (C\$ in thousands)	Nine months ended	
	September 30, 2023	September 30, 2022
Sales of goods by corporate stores	1,681,527	1,776,505
Income from franchise operations	22,363	24,222
Extended warranty revenue	44,531	43,407
Insurance sales revenue	18,174	11,161
Rental income from investment property	1,252	1,163
Total	1,767,847	1,856,458

14. Other Income

For the (C\$ in thousands)	Three months ended	
	September 30, 2023	September 30, 2022
Gain on settlement of warrant ⁽¹⁾	(20,000)	-
Change in fair value of derivative instruments	(854)	(2,774)
Total	(20,854)	(2,774)

For the (C\$ in thousands)	Nine months ended	
	September 30, 2023	September 30, 2022
Gain on settlement of warrant ⁽¹⁾	(20,000)	-
Change in fair value of derivative instruments	(71)	(4,869)
Total	(20,071)	(4,869)

(1) During the quarter, point of sale financing partner FLX Holding Corp (Flexiti) was acquired by Questrade Financial Group Inc. from CURO Intermediate Holdings ("CURO"). Leon's Furniture Limited entered into an amended agreement with Flexiti, and 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.

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15. Net Finance Costs

For the (C\$ in thousands)	Three months ended	
	September 30, 2023	September 30, 2022
Finance Costs	7,011	7,046
Finance Income	(2,092)	(1,194)
Total	4,919	5,852

For the (C\$ in thousands)	Nine months ended	
	September 30, 2023	September 30, 2022
Finance Costs	21,762	18,547
Finance Income	(6,471)	(3,005)
Total	15,291	15,542

16. Income Tax Expense

For the (C\$ in thousands)	Three months ended	
	September 30, 2023	September 30, 2022
Current income tax expense	17,800	19,487
Deferred income tax recovery	(756)	(228)
Total	17,044	19,259

For the (C\$ in thousands)	Nine months ended	
	September 30, 2023	September 30, 2022
Current income tax expense	31,492	43,827
Deferred income tax recovery	(2,963)	(977)
Total	28,529	42,850

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the nine-month period ended September 30, 2023 and September 30, 2022 were 23.6% and 23.9%, respectively.

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17. Earnings Per Share

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

For the	Three months ended	
(C\$ in thousands except share and per share amounts)	September 30, 2023	September 30, 2022
Net income for the period for basic earnings per share	52,270	61,323
Net income for the period for diluted earnings per share	52,270	61,323
Weighted average number of common shares outstanding	68,000,714	67,207,530
Dilutive effect	641,576	793,946
Dilutive weighted average number of common shares outstanding	68,642,290	68,001,476
Basic earnings per share	\$0.77	\$0.91
Diluted earnings per share	\$0.76	\$0.90

For the	Nine months ended	
(C\$ in thousands except share and per share amounts)	September 30, 2023	September 30, 2022
Net income for the period for basic earnings per share	92,610	136,200
Net income for the period for diluted earnings per share	92,610	136,200
Weighted average number of common shares outstanding	67,915,967	67,393,971
Dilutive effect	717,140	808,250
Dilutive weighted average number of common shares outstanding	68,633,107	68,202,221
Basic earnings per share	\$1.36	\$2.02
Diluted earnings per share	\$1.35	\$2.00

18. Financial Instruments

Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents and authorized credit facilities, to fulfill obligations associated with financial liabilities. To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. Management also monitors cash and working capital efficiency given current sales levels and seasonal variability. The Company measures and monitors liquidity risk by regularly evaluating its cash inflows and outflows under expected conditions through cash flow reporting such that it anticipates certain funding mismatches and ensures the cash management of the business is within certain tolerable levels. These cash flow forecasts are reviewed on a weekly basis by management. The Company mitigates liquidity risk through continuous monitoring of its credit facilities and the diversification of its funding sources, both in the short term as well as the long term. As at September 30, 2023, unrestricted liquidity was \$385,115 comprised of cash and cash equivalents, debt and equity instruments and its undrawn revolving credit facility.

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Classification of financial instruments and fair value

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

As at	September 30, 2023			
(C\$ in thousands)	Classification and measurement	Total carrying amount	Fair value	Fair value hierarchy
Financial assets				
Cash and cash equivalents	Amortized cost	88,389	88,389	Level 1
Trade receivables	Amortized cost	180,673	180,673	Level 2
Restricted marketable securities	FVOCI	404	404	Level 1
Equity securities	FVOCI	31,609	31,609	Level 1
Debt securities	FVOCI	91,991	91,991	Level 1
Debt securities	FVTPL	100	100	Level 2
Loan receivable	FVTPL	19,822	19,822	Level 2
Derivative assets	FVTPL	1,337	1,337	Level 2
Financial liabilities				
Trade and other payables	Amortized cost	296,648	296,648	Level 2
Long-term debt	Amortized cost	160,000	160,000	Level 2

As at	December 31, 2022			
(C\$ in thousands)	Classification and measurement	Total carrying amount	Fair value	Fair value hierarchy
Financial assets				
Cash and cash equivalents	Amortized cost	115,127	115,127	Level 1
Trade receivables	Amortized cost	180,482	180,482	Level 2
Restricted marketable securities	FVOCI	413	413	Level 1
Equity securities	FVOCI	31,804	31,804	Level 1
Debt securities	FVOCI	78,925	78,925	Level 1
Debt securities	FVTPL	100	100	Level 2
Loan receivable	FVTPL	20,348	20,348	Level 2
Derivative assets	FVTPL	1,268	1,268	Level 2
Financial liabilities				
Trade and other payables	Amortized cost	249,853	249,853	Level 2
Long-term debt	Amortized cost	234,375	234,375	Level 2

The fair value hierarchy of financial instruments measured at fair value as at September 30, 2023 includes financial assets of \$212,393, \$201,932 and \$nil for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$456,648 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 long-term debt approximate their fair values since they bear interest at rates comparable to market rates at the end of the reporting period.

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

The fair values of derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market based observable inputs including interest rate curves, foreign exchange rates and forward and spot prices for currencies.

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The Company maintains other financial derivatives, which comprises foreign exchange forwards, with maturities that do not exceed past November 2024. As at September 30, 2023, a \$1,337 unrealized gain was recorded in derivative assets (December 31, 2022 - \$1,268).

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).

19. Interim Consolidated Statements of Cash Flows

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

For the (C\$ in thousands)	Nine months ended	
	September 30, 2023	September 30, 2022
Trade receivables	(191)	(2,899)
Inventories	(19,478)	(106,011)
Prepaid expenses and other assets	(6,945)	(3,696)
Trade and other payables	47,790	(5,177)
Customers' deposits	(21,795)	(167,021)
Derivative assets	(69)	(4,868)
Provisions	3,396	1,358
Deferred acquisition costs	(1,011)	(2,140)
Total	1,697	(290,454)

20. Comparative Financial Information

The comparative interim condensed consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the third quarter of 2023 interim condensed consolidated financial statements.