



LEON'S FURNITURE LIMITED

Interim Condensed Consolidated Financial Statements

For the period ended March 31, 2023

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Interim Consolidated Statements of Financial Position (unaudited)

As at (C\$ in thousands)	Notes	March 31, 2023	December 31, 2022	March 31, 2022
Assets				
Current assets				
Cash and cash equivalents		71,460	115,127	139,965
Restricted marketable securities		466	413	447
Debt securities		83,027	79,025	66,490
Equity securities		33,589	31,804	40,399
Trade receivables		163,805	180,482	171,153
Income taxes recoverable		20,359	8,227	7,329
Inventories	5	429,815	410,612	507,733
Deferred acquisition costs		12,537	12,347	11,503
Prepaid expenses and other assets		20,760	12,607	19,461
Derivative assets		1,228	1,268	-
Total current assets		837,046	851,912	964,480
Non-current assets				
Deferred acquisition costs		21,822	21,940	20,001
Loan receivable	11	20,001	20,348	9,575
Property, plant and equipment and right-of-use assets	6	599,532	608,465	638,994
Investment properties	7	14,375	14,470	14,755
Intangible assets	8	269,751	269,741	269,736
Goodwill		390,120	390,120	390,120
Deferred income tax assets		16,721	16,647	15,832
Total non-current assets		1,332,322	1,341,731	1,359,013
Total assets		2,169,368	2,193,643	2,323,493
Liabilities				
Current liabilities				
Trade and other payables		241,467	249,846	331,755
Provisions		27,559	26,494	21,869
Income taxes payable		196	2,407	215
Customers' deposits		171,019	175,847	323,194
Lease liabilities	9	75,268	74,389	74,299
Dividends payable		10,861	10,858	10,763
Deferred warranty plan revenue		63,775	62,894	58,779
Current portion of long-term debt	10	7,500	7,500	7,361
Derivative liabilities		-	-	3,121
Total current liabilities		597,645	610,235	831,356
Non-current liabilities				
Long-term debt	10	216,875	226,875	232,639
Lease liabilities	9	242,202	248,466	279,368
Deferred warranty plan revenue		107,817	108,527	100,305
Redeemable share liability	11	7	7	13
Deferred income tax liabilities		69,852	70,648	71,108
Total non-current liabilities		636,753	654,523	683,433
Total liabilities		1,234,398	1,264,758	1,514,789
Shareholders' equity				
Common shares	12	163,182	162,636	150,545
Retained earnings		766,659	762,899	647,090
Accumulated other comprehensive income		5,129	3,350	11,069
Total shareholders' equity		934,970	928,885	808,704
Total liabilities and shareholders' equity		2,169,368	2,193,643	2,323,493

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

Interim Consolidated Statements of Income (unaudited)

For the		Three months ended	
(C\$ in thousands except share and per share amounts)	Notes	March 31, 2023	March 31, 2022
Revenue	13	513,013	547,220
Cost of sales	5	290,574	313,567
Gross profit		222,439	233,653
Operating expenses			
Selling, general and administrative expenses		200,935	195,959
Operating profit		21,504	37,694
Finance costs		(7,263)	(5,445)
Finance income		2,119	964
Change in fair value of derivative instruments		(39)	(1,379)
Net income before income tax		16,321	31,834
Income tax expense	14	3,404	7,076
Net income for the period		12,917	24,758
Weighted average number of common shares outstanding			
Basic		67,878,902	67,759,043
Diluted		68,663,089	68,576,755
Earnings per share	15		
Basic		\$0.19	\$0.37
Diluted		\$0.19	\$0.36
Dividends declared per share			
Common		\$0.16	\$0.16

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

Interim Consolidated Statements of Comprehensive Income (unaudited)

For the	Three months ended	
	March 31, 2023	March 31, 2022
(C\$ in thousands)		
Net income for the period	12,917	24,758
Other comprehensive income (loss)		
Item that may be reclassified subsequently to profit or loss:		
Gain (loss) on debt instruments arising during the period	1,059	(2,695)
Item that will not be reclassified to profit or loss:		
Gain (loss) on equity instruments arising during the period	791	(318)
Income tax (expense) recovery on the above	(71)	98
Other comprehensive income (loss) for the period	1,779	(2,915)
Comprehensive income for the period	14,696	21,843

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	-	-	12,917	12,917
Other comprehensive income for the period	-	1,779	-	1,779
Total comprehensive income	-	1,779	12,917	14,696
Transactions with shareholders				
Dividends declared	-	-	(10,862)	(10,862)
Management share purchase plan [note 11]	251	-	-	251
Share repurchase commitment [note 12]	295	-	1,705	2,000
Total transactions with shareholders	546	-	(9,157)	(8,611)
As at March 31, 2023	163,182	5,129	766,659	934,970

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

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

Interim Consolidated Statements of Cash Flows (unaudited)

For the		Three months ended	
(C\$ in thousands)	Notes	March 31, 2023	March 31, 2022
Operating activities			
Net income before income tax		16,321	31,834
Add (deduct) items not involving an outlay of cash:			
Depreciation of property, plant and equipment, right-of-use assets and investment properties		26,430	27,334
Amortization of intangible assets		263	444
Amortization of deferred warranty plan revenue		(21,553)	(17,273)
Amortization of premium		60	88
Net finance costs		5,144	4,481
Gain on sale of property, plant and equipment and investment properties		-	(19)
Fair value gain on loan receivable		(358)	(224)
		26,307	46,665
Change in operating working capital	17	(20,399)	(134,785)
Cash received on warranty plan sales		21,724	18,730
Income taxes paid		(18,688)	(45,149)
Cash provided by (used in) operating activities		8,944	(114,539)
Investing activities			
Purchase of property, plant and equipment	6	(3,748)	(2,142)
Purchase of intangible assets	8	(273)	(7)
Proceeds on sale of property, plant and equipment and investment properties		-	41
Purchase of debt and equity instruments		(9,138)	(4,324)
Proceeds on sale of debt and equity instruments		5,090	2,166
Repayment of loan receivable		704	688
Interest received		1,663	917
Cash used in investing activities		(5,702)	(2,661)
Financing activities			
Payment of lease liabilities	9	(19,039)	(18,891)
Dividends paid		(10,858)	(12,287)
Decrease of employee loans-redeemable shares		251	267
Repurchase of common shares	12	-	(238,836)
Repayment of term loan		(10,000)	-
Issuance of term loan	10	-	150,000
Interest paid		(7,263)	(5,226)
Cash used in financing activities		(46,909)	(124,973)
Net decrease in cash and cash equivalents during the period		(43,667)	(242,173)
Cash and cash equivalents, beginning of period		115,127	382,138
Cash and cash equivalents, end of period		71,460	139,965

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 May 11, 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 1, Presentation of Financial Statements

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current*, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The adoption of this amendment did not have a material impact on the interim condensed consolidated financial statements.

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

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

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

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.

4. Capital Risk Management

The Company's objectives when managing capital are to:

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

The capital structure currently includes working capital, debt and equity securities, lease liabilities, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at March 31, 2023, \$103,026 is available to draw on under the Company's \$200,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$6,974 (December 31, 2022 - \$6,974) and utilizing \$90,000 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 March 31, 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 months ended March 31, 2023 was \$276,596 (three-month period ended March 31, 2022 - \$305,823), which is presented within cost of sales in the unaudited interim condensed consolidated statements of income.

During the three months ended March 31, 2023, there were \$413, in inventory write-down reversals (three months ended December 31, 2022 - \$863 inventory write-downs). As at March 31, 2023, the inventory markdown provision totaled \$7,160 (as at December 31, 2022 - \$7,573).

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

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

(C\$ in thousands)	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
Cost								
Balance as at December 31, 2022	113,377	288,528	187,814	65,664	251,517	581,316	2,292	1,490,508
Additions	749	162	1,152	714	971	13,654	-	17,402
Disposals	-	-	(68)	(30)	(253)	(2,855)	-	(3,206)
Balance as at March 31, 2023	114,126	288,690	188,898	66,348	252,235	592,115	2,292	1,504,704
Accumulated depreciation								
Balance as at December 31, 2022	-	174,870	144,874	45,990	215,770	299,338	1,201	882,043
Depreciation	-	1,956	1,981	1,249	2,398	18,670	81	26,335
Disposals	-	-	(68)	(30)	(253)	(2,855)	-	(3,206)
Balance as at March 31, 2023	-	176,826	146,787	47,209	217,915	315,153	1,282	905,172
Net book value as at March 31, 2023	114,126	111,864	42,111	19,139	34,320	276,962	1,010	599,532

(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	9,265	973	8,069	4,399	5,894	30,516	154	59,270
Disposals	-	-	(4,386)	(581)	(3,816)	(23,269)	-	(32,052)
Balance as at December 31, 2022	113,377	288,528	187,814	65,664	251,517	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	113,377	113,658	42,940	19,674	35,747	281,978	1,091	608,465

Included in the above balances as at March 31, 2023, are assets not being amortized with a net book value of approximately \$2,120 (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 March 31, 2023	10,646	15,396	953	26,995
Accumulated depreciation				
Balance as at December 31, 2022	-	11,924	601	12,525
Depreciation	-	82	13	95
Balance as at March 31, 2023	-	12,006	614	12,620
Net book value as at March 31, 2023	10,646	3,390	339	14,375

(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 March 31, 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	-	-	273	273
Balance as at March 31, 2023	7,000	268,500	18,621	294,121
Accumulated amortization				
Balance as at December 31, 2022	7,000	2,500	14,607	24,107
Amortization	-	-	263	263
Balance as at March 31, 2023	7,000	2,500	14,870	24,370
Net book value as at March 31, 2023	-	266,000	3,751	269,751

(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)	March 31, 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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Amounts in thousands of Canadian dollars, except share amounts and earnings per share

9. Leases

Company as a lessee

Leasing arrangements

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

Lease liabilities

Carrying amounts of lease liabilities are as follows:

(C\$ in thousands)	March 31, 2023	December 31, 2022
Balance, beginning of period	322,855	366,254
Additions	13,654	32,472
Disposals	-	(210)
Interest	4,082	17,739
Payments	(23,121)	(93,400)
Balance, end of period	317,470	322,855
Reported as:		
Current	75,268	74,389
Non-current	242,202	248,466
Total	317,470	322,855

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10. Long-term Debt

Bank indebtedness

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

On February 17, 2022, the Company completed a third amendment to its SSCA. Under this amendment, the Company increased its term loan to \$150,000 and increased its total credit facilities from \$265,000 to \$350,000. The amounts borrowed under this amendment must be repaid in full by May 31, 2024. This third amendment increased the Company's revolving credit facility from \$175,000 to \$200,000. Under this amendment, the Company has drawn \$90,000 under the revolving credit facility.

Bank indebtedness bears interest based on Canadian prime, London Interbank Offered Rate ("LIBOR") and Bankers' Acceptance ("BA") rates plus an applicable standby fee on undrawn amounts. Transaction costs in the amount of \$120 were deferred and will be amortized over the life of the agreement in relation to the third amendment of the SSCA. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. The term loan is repayable in quarterly amounts of 1.25% commencing June 30, 2022, with the remainder due on maturity. Currently, the Company has entered into a 28-day Bankers' Acceptance with a cost of borrowing of 5.80% that was renewed on March 31, 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 March 31, 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)	March 31, 2023	December 31, 2022
Balance, beginning of period	20,348	10,039
Issuance of 2022 series	-	11,274
Fair value adjustment	359	639
Dividends paid	(258)	(742)
Share proceeds	(448)	(862)
Balance, end of period	20,001	20,348

Deferred compensation expense

	March 31, 2023	December 31, 2022
Balance, beginning of period	2,811	1,569
Recognition of 2022 series	-	1,517
Compensation expense	(94)	(275)
Balance, end of period	2,717	2,811

Redeemable share liability

As at

(C\$ in thousands)	March 31, 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		
54,532 series 2012 shares (December 31, 2022 - 55,972)	677	695
279,887 series 2013 shares (December 31, 2022 - 287,973)	3,188	3,280
171,464 series 2014 shares (December 31, 2022 - 175,186)	2,581	2,637
260,121 series 2015 shares (December 31, 2022 - 266,451)	3,501	3,586
Less employee share purchase loans	(9,940)	(10,191)
Total	7	6

Under the terms of the Plan, the Company advanced non-interest bearing loans to certain of its employees in 2009, 2012, 2013, 2014 and 2015 to allow them to acquire convertible, non-voting series 2009 shares, series 2012 shares, series 2013 shares, series 2014 shares and series 2015 shares, respectively, of the Company. These loans are repayable through the application against the loans of any dividends on the shares with any remaining balance repayable on the date the shares are converted to common shares. Each issued and fully paid for series 2009 and 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 2009, series 2012, series 2013, series 2014 and series 2015 are redeemable at the option of the holder for a period of one business day following the date of issue of such shares. The Company has the option to redeem the series 2009 and series 2012 shares at any time after the fifth anniversary date of the issue of these shares and must redeem them prior to the thirteenth anniversary of such issue. The Company has the option to redeem the series 2013, series 2014 and series 2015 shares at any time after the third anniversary date of the issue of these shares and must redeem them prior to the thirteenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The purchase prices of the shares are \$8.85 per series 2009 share, \$12.41 per series 2012 share, \$11.39 per series 2013 share, \$15.05 per series 2014 share and \$13.46 per series 2015 share. All 2009 series shares were converted during 2022. Dividends paid to holders of series 2009, 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 three-month period ended March 31, 2023, 1,440 series 2012 shares, 8,086 series 2013 shares, 3,722 series 2014 shares and 6,330 series 2015 shares (three-month period ended March 31, 2022 - 155 series 2009 shares, 1,813 series 2012 shares, 8,700 series 2013 shares, 3,804 series 2014 shares and 6,483 series 2015 shares) were converted into common shares with a stated value of approximately \$18, \$92, \$56 and \$85, respectively (three-month period ended March 31, 2022 - \$1, \$23, \$99, \$57 and \$87, respectively).

During the three-month period ended March 31, 2023, the Company did not cancel any shares from any of the series of shares (three-month period ended March 31, 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	March 31, 2023	December 31, 2022
(C\$ in thousands)		
Authorized - Unlimited common shares		
Issued		
67,880,867 common shares (2022 - 67,861,289)	163,182	162,636

During the three-month period ended March 31, 2023, 1,440 series 2012 shares, 8,086 series 2013 shares, 3,722 series 2014 shares and 6,330 series 2015 shares (three-month period ended March 31, 2022 - 155 series 2009 shares, 1,813 series 2012 shares, 8,700 series 2013 shares, 3,804 series 2014 shares and 6,483 series 2015 shares) were converted into common shares with a stated value of approximately \$18, \$92, \$56 and \$85, respectively (three-month period ended March 31, 2022 - \$1, \$23, \$99, \$57 and \$87, respectively).

Substantial issuer bid

On November 25, 2021, the Company commenced a substantial issuer bid ("SIB"), by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Company ("Offer"). The Offer expired on December 30, 2021. For the duration of the SIB, the Company suspended share repurchases under the current normal course issuer bid, but resumed after the expiration of the SIB. The Company purchased for cancellation 7,999,993 common shares at a purchase price of \$25 per common share, for aggregate consideration of \$200,000, being the maximum purchase price payable under the Offer. The common shares purchased under the Offer represented approximately 10.4% of the issued and outstanding common shares at the time the Offer was completed. These shares were cancelled in January 2022, which had a value of \$200,000, of which \$17,746 represents a reduction in the share capital and the remaining \$182,254 was charged to retained earnings.

Normal course issuer bid

On September 13, 2022, the Company received TSX approval of its notice of intention to renew its common share repurchase programme. The Company intends to repurchase for cancellation a maximum of 3,341,165 common shares representing 4.99% of the total number of its 66,957,222 issued and outstanding common shares as at September 2, 2022. The average daily trading volume for the six months ended August 31, 2022, was 31,219. Therefore, other than block purchase exemptions, daily purchases will be limited to 7,804 common shares. The bid commenced on September 15, 2022, and will terminate on the earliest of the purchase of 3,341,165 common shares, the issuer providing a notice of termination, and September 14, 2023. 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, 2022, the Company entered into an automatic share purchase plan ("ASPP") with the Company's broker in order to facilitate the repurchase of its common shares under the normal course issuer bid during self-imposed blackout periods. During the three-month period ended March 31, 2023, the Company did not repurchase or cancel any common shares under the ASPP. 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 quarter. During the three-month period ended March 31, 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 March 31, 2023, there was no obligation recognized for the repurchase of common shares under the ASPP (as at March 31, 2022 - nil).

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During the three-month period ended March 31, 2022, and excluding the common shares repurchased under the ASPP, the Company repurchased 9,000 shares of its common shares on the open market pursuant to the terms and conditions of normal course issuer bid at a net cost of \$219. The repurchase of common shares resulted in a reduction of share capital in the amount of \$20. The excess net cost over the average carrying value of the shares of \$199 has been recorded as a reduction in retained earnings. As at March 31, 2022, the Company had cancelled all of these repurchased shares. During the three-month period ended March 31, 2023, no common shares were purchased or cancelled.

The dividends paid in the three-month period ended March 31, 2023 and March 31, 2022, were \$10,858 (\$0.16 per share) and \$12,287 (\$0.16 per share), respectively.

13. Revenue

Disaggregation of revenue

For the (C\$ in thousands)	Three months ended	
	March 31, 2023	March 31, 2022
Sales of goods by corporate stores	484,509	522,442
Income from franchise operations	6,595	7,155
Extended warranty revenue	15,311	14,207
Insurance sales revenue	6,214	3,027
Rental income from investment property	384	389
Total	513,013	547,220

14. Income Tax Expense

For the (C\$ in thousands)	Three months ended	
	March 31, 2023	March 31, 2022
Current income tax expense	4,326	7,746
Deferred income tax recovery	(922)	(670)
Total	3,404	7,076

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the three-month period ended March 31, 2023 and March 31, 2022 were 20.9% and 22.2%, respectively.

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15. Earnings Per Share

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

For the	Three months ended	
(C\$ in thousands except share and per share amounts)	March 31, 2023	March 31, 2022
Net income for the period for basic earnings per share	12,917	24,758
Net income for the period for diluted earnings per share	12,917	24,758
Weighted average number of common shares outstanding	67,878,902	67,759,043
Dilutive effect	784,187	817,712
Dilutive weighted average number of common shares outstanding	68,663,089	68,576,755
Basic earnings per share	\$0.19	\$0.37
Diluted earnings per share	\$0.19	\$0.36

16. Financial Instruments

Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents and authorized credit facilities, to fulfill obligations associated with financial liabilities. To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. Management also monitors cash and working capital efficiency given current sales levels and seasonal variability. The Company measures and monitors liquidity risk by regularly evaluating its cash inflows and outflows under expected conditions through cash flow reporting such that it anticipates certain funding mismatches and ensures the cash management of the business is within certain tolerable levels. These cash flow forecasts are reviewed on a weekly basis by management. The Company mitigates liquidity risk through continuous monitoring of its credit facilities and the diversification of its funding sources, both in the short term as well as the long term. As at March 31, 2023, unrestricted liquidity was \$291,102 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	March 31, 2023			
(C\$ in thousands)	Classification and measurement	Total carrying amount	Fair value	Fair value hierarchy
Financial assets				
Cash and cash equivalents	Amortized cost	71,460	71,460	Level 1
Trade receivables	Amortized cost	163,805	163,805	Level 2
Restricted marketable securities	FVOCI	466	466	Level 1
Equity securities	FVOCI	33,589	33,589	Level 1
Debt securities	FVOCI	82,927	82,927	Level 1
Debt securities	FVTPL	100	100	Level 2
Loan receivable	FVTPL	20,001	20,001	Level 2
Derivative assets	FVTPL	1,228	1,228	Level 2
Financial liabilities				
Trade and other payables	Amortized cost	241,467	241,467	Level 2
Long-term debt	Amortized cost	224,375	224,375	Level 2
Redeemable share liability	Amortized cost	7	7	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	249,846	249,846	Level 2
Long-term debt	Amortized cost	234,375	234,375	Level 2
Redeemable share liability	Amortized cost	7	7	Level 2

The fair value hierarchy of financial instruments measured at fair value as at March 31, 2023 includes financial assets of \$188,442, \$185,134 and \$nil for Levels 1, 2 and 3, respectively, and financial liabilities of \$nil, \$465,849 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.

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

The Company maintains other financial derivatives, which comprises foreign exchange forwards, with maturities that do not exceed past November 2024. As at March 31, 2023, a \$1,228 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).

17. Interim Consolidated Statements of Cash Flows

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

For the	Three months ended	
	March 31, 2023	March 31, 2022
(C\$ in thousands)		
Trade receivables	16,677	(11,060)
Inventories	(19,203)	(112,087)
Prepaid expenses and other assets	(8,155)	(3,863)
Trade and other payables	(5,923)	32,845
Customers' deposits	(4,828)	(38,905)
Derivative assets	40	1,379
Provisions	1,065	(2,780)
Deferred acquisition costs	(72)	(314)
Total	(20,399)	(134,785)