



LEON'S FURNITURE LIMITED

Interim Condensed Consolidated Financial Statements

For the period ended June 30, 2024

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Unaudited Interim Condensed Consolidated Financial Statements

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Interim Consolidated Statements of Financial Position (unaudited)

| As at (C\$ in thousands) | Notes | June 30, 2024 | December 31, 2023 | June 30, 2023 |
|---|-------|------------------|-------------------|------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 56,849 | 82,744 | 64,845 |
| Restricted marketable securities | | 423 | 414 | 460 |
| Debt securities | | 87,254 | 73,718 | 85,067 |
| Equity securities | | 32,578 | 30,685 | 33,234 |
| Trade receivables | | 172,629 | 197,759 | 156,763 |
| Income taxes recoverable | | 10,816 | 7,174 | 17,574 |
| Inventories | 5 | 395,837 | 416,596 | 414,169 |
| Deferred acquisition costs | | 13,646 | 13,353 | 12,883 |
| Prepaid expenses and other assets | | 23,534 | 12,612 | 22,765 |
| Derivative assets | 16 | 1,293 | - | 483 |
| Total current assets | | 794,859 | 835,055 | 808,243 |
| Non-current assets | | | | |
| Deferred acquisition costs | | 22,181 | 22,632 | 21,864 |
| Loan receivable | 11 | 16,042 | 19,669 | 19,819 |
| Property, plant and equipment and right-of-use assets | 6 | 649,839 | 651,764 | 608,333 |
| Investment properties | 7 | 13,898 | 14,090 | 14,280 |
| Intangible assets | 8 | 271,187 | 271,213 | 271,201 |
| Goodwill | | 390,120 | 390,120 | 390,120 |
| Deferred income tax assets | | 17,320 | 17,296 | 16,853 |
| Total non-current assets | | 1,380,587 | 1,386,784 | 1,342,470 |
| Total assets | | 2,175,446 | 2,221,839 | 2,150,713 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | | 250,377 | 282,937 | 225,180 |
| Current portion of provisions | | 10,313 | 9,736 | 11,534 |
| Income taxes payable | | 1,792 | 3,694 | 337 |
| Customers' deposits | | 131,693 | 160,346 | 157,354 |
| Current portion of lease liabilities | 9 | 76,847 | 75,127 | 73,098 |
| Dividends payable | | 12,268 | 12,246 | 10,871 |
| Current portion of deferred warranty plan and insurance revenue | | 69,953 | 68,229 | 65,493 |
| Current portion of long-term debt | 10 | 7,500 | 7,500 | 210,000 |
| Derivative liabilities | 16 | - | 2,265 | - |
| Total current liabilities | | 560,743 | 622,080 | 753,867 |
| Non-current liabilities | | | | |
| Long-term debt | 10 | 102,500 | 92,500 | - |
| Lease liabilities | 9 | 256,525 | 278,798 | 252,143 |
| Deferred warranty plan and insurance revenue | | 109,293 | 111,178 | 107,652 |
| Provisions | | 20,573 | 20,360 | 17,276 |
| Deferred income tax liabilities | | 67,199 | 68,399 | 68,675 |
| Total non-current liabilities | | 556,090 | 571,235 | 445,746 |
| Total liabilities | | 1,116,833 | 1,193,315 | 1,199,613 |
| Shareholders' equity | | | | |
| Common shares | 12 | 167,014 | 164,875 | 164,039 |
| Retained earnings | | 883,066 | 856,891 | 783,209 |
| Accumulated other comprehensive income | | 8,533 | 6,758 | 3,852 |
| Total shareholders' equity | | 1,058,613 | 1,028,524 | 951,100 |
| Total liabilities and shareholders' equity | | 2,175,446 | 2,221,839 | 2,150,713 |

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 | | Six months ended | |
|---|-----------|--------------------|---------------|-------------------|---------------|
| | | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 |
| (C\$ in thousands except share and per share amounts) | | | | | |
| Revenue | 13 | 617,663 | 593,843 | 1,179,917 | 1,106,856 |
| Cost of sales | 5 | 346,485 | 332,905 | 661,994 | 623,479 |
| Gross profit | | 271,178 | 260,938 | 517,923 | 483,377 |
| Selling, general and administrative expenses | | 228,045 | 219,462 | 449,161 | 420,397 |
| Other (income) / loss | | (331) | 746 | (3,558) | 784 |
| Net finance costs | | 3,123 | 5,226 | 7,700 | 10,371 |
| Net income before income tax | | 40,341 | 35,504 | 64,620 | 51,825 |
| Income tax expense | 14 | 10,171 | 8,082 | 15,631 | 11,485 |
| Net income for the period | | 30,170 | 27,422 | 48,989 | 40,340 |
| Weighted average number of common shares outstanding | 15 | | | | |
| Basic | | 68,144,456 | 67,908,619 | 68,088,003 | 67,893,842 |
| Diluted | | 68,646,870 | 68,646,167 | 68,636,623 | 68,649,390 |
| Earnings per share | 15 | | | | |
| Basic | | \$0.44 | \$0.40 | \$0.72 | \$0.59 |
| Diluted | | \$0.44 | \$0.40 | \$0.71 | \$0.59 |
| Dividends declared per share | | | | | |
| Common | | \$0.18 | \$0.16 | \$0.36 | \$0.32 |

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 | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 |
| (C\$ in thousands) | | | | |
| Net income for the period | 30,170 | 27,422 | 48,989 | 40,340 |
| Other comprehensive income (loss) | | | | |
| Item that may be reclassified subsequently to profit or loss: | | | | |
| Gain (loss) on debt instruments arising during the period | 348 | (1,138) | (87) | (80) |
| Reclassification adjustment for loss on disposal of debt instruments | 2 | - | 2 | - |
| Item that will not be reclassified to profit or loss: | | | | |
| Gain (loss) on equity instruments arising during the period | 387 | (196) | 1,925 | 595 |
| Income tax (expense) recovery on the above | 8 | 58 | (65) | (13) |
| Other comprehensive income / (loss) for the period | 745 | (1,276) | 1,775 | 502 |
| Comprehensive income for the period | 30,915 | 26,146 | 50,764 | 40,842 |

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, 2023 | 164,875 | 6,758 | 856,891 | 1,028,524 |
| Comprehensive income | | | | |
| Net income for the period | - | - | 48,989 | 48,989 |
| Other comprehensive income for the period | - | 1,775 | - | 1,775 |
| Total comprehensive income | - | 1,775 | 48,989 | 50,764 |
| Transactions with shareholders | | | | |
| Dividends declared | - | - | (24,519) | (24,519) |
| Management share purchase plan [note 11] | 1,844 | - | - | 1,844 |
| Share repurchase commitment [note 12] | 295 | - | 1,705 | 2,000 |
| Total transactions with shareholders | 2,139 | - | (22,814) | (20,675) |
| As at June 30, 2024 | 167,014 | 8,533 | 883,066 | 1,058,613 |

| (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 | - | - | 40,340 | 40,340 |
| Other comprehensive income for the period | - | 502 | - | 502 |
| Total comprehensive income | - | 502 | 40,340 | 40,842 |
| Transactions with shareholders | | | | |
| Dividends declared | - | - | (21,735) | (21,735) |
| Management share purchase plan [note 11] | 1,108 | - | - | 1,108 |
| Share repurchase commitment [note 12] | 295 | - | 1,705 | 2,000 |
| Total transactions with shareholders | 1,403 | - | (20,030) | (18,627) |
| As at June 30, 2023 | 164,039 | 3,852 | 783,209 | 951,100 |

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

Interim Consolidated Statements of Cash Flows (unaudited)

| For the | | Six months ended | |
|--|-------|------------------|-----------------|
| (C\$ in thousands) | Notes | June 30, 2024 | June 30, 2023 |
| Operating activities | | | |
| Net income before income tax | | 64,620 | 51,825 |
| Add (deduct) items not involving an outlay of cash: | | | |
| Depreciation of property, plant and equipment, right-of-use assets and investment properties | | 53,247 | 52,864 |
| Amortization of intangible assets | | 633 | 528 |
| Amortization of deferred warranty plan revenue | | (33,689) | (30,975) |
| Amortization of deferred insurance revenue | | (11,828) | (12,189) |
| Amortization of premium | | (64) | (72) |
| Net finance costs | | 7,700 | 10,371 |
| Gain on sale of property, plant and equipment and investment properties | | (99) | (15) |
| Gain on sale of marketable securities | | (2) | - |
| Fair value gain on loan receivable | | (1,358) | (683) |
| | | 79,160 | 71,654 |
| Change in operating working capital | 17 | (25,813) | (27,786) |
| Cash received on warranty plan sales | | 33,468 | 32,546 |
| Cash received on insurance sales | | 11,888 | 12,342 |
| Income taxes paid | | (22,465) | (25,094) |
| Cash provided by operating activities | | 76,238 | 63,662 |
| Investing activities | | | |
| Purchase of property, plant and equipment | 6 | (33,436) | (12,268) |
| Purchase of intangible assets | 8 | (607) | (1,988) |
| Proceeds on sale of property, plant and equipment and investment properties | | 189 | 35 |
| Purchase of debt and equity instruments | | (24,322) | (21,501) |
| Proceeds on sale of debt and equity instruments | | 10,792 | 14,570 |
| Repayment of loan receivable | | 4,779 | 1,212 |
| Interest received | | 3,146 | 3,596 |
| Cash used in investing activities | | (39,459) | (16,344) |
| Financing activities | | | |
| Payment of lease liabilities | 9 | (38,337) | (37,908) |
| Dividends paid | | (24,496) | (21,722) |
| Decrease of employee loans-redeemable shares | | 1,844 | 1,108 |
| Repayment of term loan | 10 | - | (24,375) |
| Issuance of term loan | 10 | 10,000 | - |
| Interest paid | | (11,685) | (14,703) |
| Cash used in financing activities | | (62,674) | (97,600) |
| Net decrease in cash and cash equivalents during the period | | (25,895) | (50,282) |
| Cash and cash equivalents, beginning of period | | 82,744 | 115,127 |
| Cash and cash equivalents, end of period | | 56,849 | 64,845 |

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 Thursday, August 8, 2024.

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, 2023. 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, 2023.

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

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 did not have a material impact on the financial statements.

Leon's Furniture Limited

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 21, *The Effects of Changes in Foreign Exchange Rates*

In August 2023, the IASB issued amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates in relation to Lack of Exchangeability. The amendments require entities to apply a consistent approach in assessing whether a currency can be exchanged into another currency, and in determining the exchange rate to use and the disclosures to provide when it cannot. These amendments are effective for annual reporting periods beginning on or after January 1, 2025, with early adoption permitted. The adoption of this standard will not have a material impact on the financial statements.

4. Capital Risk Management

The Company's objectives when managing capital are to:

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

The capital structure currently includes working capital, debt and equity securities, lease liabilities, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at June 30, 2024, \$169,307 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 \$6,943 (December 31, 2023 - \$6,943) and utilizing \$23,750 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 June 30, 2024.

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 25 in the fiscal year 2023 consolidated financial statements.

5. Inventories

The amount of inventory recognized as an expense for the three and six months ended June 30, 2024 was \$331,012 (three months ended June 30, 2023 - \$318,378) and \$630,425 (six months ended June 30, 2023 - \$594,974), which is presented within cost of sales in the unaudited interim condensed consolidated statements of income.

During the three and six months ended June 30, 2024, there were \$150 and \$25 in inventory write downs (three and six months ended June 30, 2023 - \$429 and \$842 inventory write down reversals).

As at June 30, 2024, the inventory markdown provision totaled \$6,853 (as at December 31, 2023 - \$6,829).

Leon's Furniture Limited

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

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

| (C\$ in thousands) | Land | Buildings | Equipment | Vehicles | Building improvements | Leased property | Leased equipment | Total |
|---|----------------|----------------|----------------|---------------|-----------------------|-----------------|------------------|------------------|
| Cost | | | | | | | | |
| Balance as at December 31, 2023 | 111,304 | 313,658 | 190,520 | 71,809 | 249,576 | 686,196 | 2,232 | 1,625,295 |
| Additions | - | 25,580 | 4,613 | 1,806 | 2,947 | 16,273 | - | 51,219 |
| Disposals | - | - | (92) | (224) | (1,719) | (108) | - | (2,143) |
| Balance as at June 30, 2024 | 111,304 | 339,238 | 195,041 | 73,391 | 250,804 | 702,361 | 2,232 | 1,674,371 |
| Accumulated depreciation | | | | | | | | |
| Balance as at December 31, 2023 | - | 182,831 | 146,326 | 50,269 | 218,537 | 374,103 | 1,465 | 973,531 |
| Depreciation | - | 4,508 | 3,982 | 2,403 | 3,778 | 38,222 | 162 | 53,055 |
| Disposals | - | - | (74) | (154) | (1,718) | (108) | - | (2,054) |
| Balance as at June 30, 2024 | - | 187,339 | 150,234 | 52,518 | 220,597 | 412,217 | 1,627 | 1,024,532 |
| Net book value as at June 30, 2024 | 111,304 | 151,899 | 44,807 | 20,873 | 30,207 | 290,144 | 605 | 649,839 |

| (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 | - | 21,293 | 9,260 | 6,735 | 6,138 | 106,265 | - | 149,691 |
| Disposals | - | - | (6,554) | (590) | (6,315) | (1,385) | (60) | (14,904) |
| Balance as at December 31, 2023 | 111,304 | 313,658 | 190,520 | 71,809 | 249,576 | 686,196 | 2,232 | 1,625,295 |
| Accumulated depreciation | | | | | | | | |
| Balance as at December 31, 2022 | - | 174,870 | 144,874 | 45,990 | 215,770 | 299,338 | 1,201 | 882,043 |
| Depreciation | - | 7,961 | 7,978 | 4,868 | 9,078 | 76,150 | 324 | 106,359 |
| Disposals | - | - | (6,526) | (589) | (6,311) | (1,385) | (60) | (14,871) |
| Balance as at December 31, 2023 | - | 182,831 | 146,326 | 50,269 | 218,537 | 374,103 | 1,465 | 973,531 |
| Net book value as at December 31, 2023 | 111,304 | 130,827 | 44,194 | 21,540 | 31,039 | 312,093 | 767 | 651,764 |

Included in the above balances as at June 30, 2024, are assets not being amortized with a net book value of approximately \$42,744 (as at December 31, 2023 - \$27,558), 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.

Leon's Furniture Limited

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

7. Investment Properties

| (C\$ in thousands) | Land | Buildings | Building improvements | Total |
|---|---------------|---------------|-----------------------|---------------|
| Cost | | | | |
| Balance as at December 31, 2023 | 10,646 | 15,396 | 953 | 26,995 |
| Balance as at June 30, 2024 | 10,646 | 15,396 | 953 | 26,995 |
| Accumulated depreciation | | | | |
| Balance as at December 31, 2023 | - | 12,254 | 651 | 12,905 |
| Depreciation | - | 172 | 20 | 192 |
| Balance as at June 30, 2024 | - | 12,426 | 671 | 13,097 |
| Net book value as at June 30, 2024 | 10,646 | 2,970 | 282 | 13,898 |

| (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 December 31, 2023 | 10,646 | 15,396 | 953 | 26,995 |
| Accumulated depreciation | | | | |
| Balance as at December 31, 2022 | - | 11,924 | 601 | 12,525 |
| Depreciation | - | 330 | 50 | 380 |
| Balance as at December 31, 2023 | - | 12,254 | 651 | 12,905 |
| Net book value as at December 31, 2023 | 10,646 | 3,142 | 302 | 14,090 |

The estimated fair value of the investment properties portfolio as at June 30, 2024, was approximately \$40,500 (as at December 31, 2023 - \$40,500). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy (note 16 for definition of levels). This was compiled internally by management based on available market evidence.

Leon's Furniture Limited

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

8. Intangible Assets

| (C\$ in thousands) | Customer relationships, brand name and franchise agreements | Computer software | Total |
|---|---|-------------------|----------------|
| Cost | | | |
| Balance as at December 31, 2023 | 275,500 | 20,872 | 296,372 |
| Additions | - | 607 | 607 |
| Disposals | - | (1,327) | (1,327) |
| Balance as at June 30, 2024 | 275,500 | 20,152 | 295,652 |
| Accumulated amortization | | | |
| Balance as at December 31, 2023 | 9,500 | 15,659 | 25,159 |
| Amortization | - | 633 | 633 |
| Disposals | - | (1,327) | (1,327) |
| Balance as at June 30, 2024 | 9,500 | 14,965 | 24,465 |
| Net book value as at June 30, 2024 | 266,000 | 5,187 | 271,187 |

| (C\$ in thousands) | Customer relationships, brand name and franchise agreements | Computer software | Total |
|---|---|-------------------|----------------|
| Cost | | | |
| Balance as at December 31, 2022 | 275,500 | 18,348 | 293,848 |
| Additions | - | 2,524 | 2,524 |
| Balance as at December 31, 2023 | 275,500 | 20,872 | 296,372 |
| Accumulated amortization | | | |
| Balance as at December 31, 2022 | 9,500 | 14,607 | 24,107 |
| Amortization | - | 1,052 | 1,052 |
| Balance as at December 31, 2023 | 9,500 | 15,659 | 25,159 |
| Net book value as at December 31, 2023 | 266,000 | 5,213 | 271,213 |

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) | June 30, 2024 | December 31, 2023 |
|--|----------------|-------------------|
| The Brick brand name (allocated to The Brick division) | 245,000 | 245,000 |
| The Brick franchise agreements (allocated to The Brick division) | 21,000 | 21,000 |
| Total | 266,000 | 266,000 |

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

Leon's Furniture Limited

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

9. Leases

Company as a lessee

Leasing arrangements

The Company leases various items of real estate property, vehicles and equipment used in its operations. The lease terms are generally between 5 and 15 years. There are some leases with renewal options, which are included when management is reasonably certain they will be exercised. Management uses significant 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) | June 30, 2024 | December 31, 2023 |
|-------------------------------------|----------------|-------------------|
| Balance, beginning of period | 353,925 | 322,855 |
| Additions | 17,784 | 107,588 |
| Interest | 8,670 | 16,669 |
| Payments | (47,007) | (93,187) |
| Balance, end of period | 333,372 | 353,925 |
| Reported as: | | |
| Current | 76,847 | 75,127 |
| Non-current | 256,525 | 278,798 |
| Total | 333,372 | 353,925 |

Leon's Furniture Limited

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

10. Long-term Debt

Bank indebtedness

On June 28, 2024, the Company completed an amending agreement number two to its existing Senior Secured Credit Agreement ("SSCA"). Under this amendment, the Company's total credit facility was adjusted to \$286,500. Out of the total amount, \$86,250 was related to its term loan and the remaining \$200,000 is attributable to the Company's revolving credit facility. The amount borrowed under this amendment must be repaid in full by May 31, 2026. The Company has drawn \$23,750 under the revolving credit facility and has \$86,250 outstanding for its term loan as at June 30, 2024. In addition, the Company adopted the Canadian Overnight Repo Rate Average ("CORRA") as the new base reference rate, given the discontinuation of the Canadian Dollar Offered Rate ("CDOR").

Bank indebtedness bears interest based on Canadian prime rate, Secured Overnight Financing Rate ("SOFR") 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 \$7,500 per annum, with the remainder due on maturity. Currently, the Company has entered into a 33-day Bankers' Acceptance with a cost of borrowing of 5.92% that was renewed on June 28, 2024.

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 June 30, 2024, 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 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) | June 30, 2024 | December 31, 2023 |
|-------------------------------------|---------------|-------------------|
| Balance, beginning of period | 19,669 | 20,348 |
| Fair value adjustment | 1,153 | 1,067 |
| Forfeiture | (997) | - |
| Dividends paid | (499) | (1,045) |
| Loan repayment | (3,284) | (701) |
| Balance, end of period | 16,042 | 19,669 |

Deferred compensation expense

| | June 30, 2024 | December 31, 2023 |
|-------------------------------------|---------------|-------------------|
| Balance, beginning of period | 2,435 | 2,811 |
| Compensation expense | (275) | (376) |
| Balance, end of period | 2,160 | 2,435 |

Redeemable share liability

As at

| (C\$ in thousands) | June 30, 2024 | December 31, 2023 |
|--|---------------|-------------------|
| 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 | | |
| 44,929 series 2012 shares (December 31, 2023 - 46,113) | 558 | 572 |
| 180,356 series 2013 shares (December 31, 2023 - 232,081) | 2,054 | 2,644 |
| 96,498 series 2014 shares (December 31, 2023 - 132,887) | 1,452 | 2,000 |
| 152,362 series 2015 shares (December 31, 2023 - 203,762) | 2,051 | 2,743 |
| Less employee share purchase loans | (6,108) | (7,952) |
| 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 \$197 (2023 - \$251) 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 six-month period ended June 30, 2024, 1,184 series 2012 shares, 51,725 series 2013 shares, 36,389 series 2014 shares and 51,400 series 2015 shares (six-month period ended June 30, 2023 - 9,704 series 2012 shares, 53,838 series 2013 shares, 3,722 series 2014 shares and 23,672 series 2015 shares) were converted into common shares with a stated value of approximately \$15, \$589, \$548 and \$692, respectively (six-month period ended June 30, 2023 - \$121, \$613, \$56 and \$318 respectively).

During the six-month period ended June 30, 2024, the Company did not cancel any shares from any of the series of shares (six-month period ended June 30, 2023 - 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. This balance is included under trade and other payables on the interim consolidated statements of financial position.

12. Common Shares

| As at | June 30, 2024 | December 31, 2023 |
|--|----------------|-------------------|
| (C\$ in thousands) | | |
| Authorized - Unlimited common shares | | |
| Issued | | |
| 68,172,726 common shares (2023 - 68,032,028) | 167,014 | 164,875 |

For MSPP shares converted into common shares during the year, please see Note 11.

Normal course issuer bid

On September 15, 2023, the Company received Toronto Stock Exchange (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 TSX. The bid commenced on September 15, 2023, and will 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 six-month period ended June 30, 2024 and June 30, 2023, the Company did not repurchase or cancel any common shares under the ASPP. As at June 30, 2024, there was no obligation recognized for the repurchase of common shares under the ASPP (as at June 30, 2023 - \$nil). As at December 31, 2023, 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 2024.

During the six-month period ended June 30, 2024 and June 30, 2023, no common shares were purchased or cancelled.

As at June 30, 2024 and 2023, dividends payable were \$12,268 (\$0.18 per share) and \$10,871 (\$0.16 per share), respectively.

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

13. Revenue

Disaggregation of revenue

| For the (C\$ in thousands) | Three months ended | |
|--|--------------------|----------------|
| | June 30, 2024 | June 30, 2023 |
| Sales of goods by corporate stores | 586,248 | 564,194 |
| Income from franchise operations | 7,958 | 7,747 |
| Extended warranty revenue | 17,134 | 15,496 |
| Insurance sales revenue | 5,892 | 5,948 |
| Rental income from investment property | 431 | 458 |
| Total | 617,663 | 593,843 |

| For the (C\$ in thousands) | Six months ended | |
|--|------------------|------------------|
| | June 30, 2024 | June 30, 2023 |
| Sales of goods by corporate stores | 1,118,455 | 1,048,541 |
| Income from franchise operations | 15,097 | 14,343 |
| Extended warranty revenue | 33,689 | 30,975 |
| Insurance sales revenue | 11,828 | 12,189 |
| Rental income from investment property | 848 | 808 |
| Total | 1,179,917 | 1,106,856 |

14. Income Tax Expense

| For the (C\$ in thousands) | Three months ended | |
|-------------------------------|--------------------|---------------|
| | June 30, 2024 | June 30, 2023 |
| Current income tax expense | 11,100 | 9,367 |
| Deferred income tax recovery | (929) | (1,285) |
| Total | 10,171 | 8,082 |

| For the (C\$ in thousands) | Six months ended | |
|-------------------------------|------------------|---------------|
| | June 30, 2024 | June 30, 2023 |
| Current income tax expense | 16,921 | 13,692 |
| Deferred income tax recovery | (1,290) | (2,207) |
| Total | 15,631 | 11,485 |

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 six-month period ended June 30, 2024 and June 30, 2023 were 24.2% 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) | June 30, 2024 | June 30, 2023 |
| Net income for the period for basic earnings per share | 30,170 | 27,422 |
| Net income for the period for diluted earnings per share | 30,170 | 27,422 |
| Weighted average number of common shares outstanding | 68,144,456 | 67,908,619 |
| Dilutive effect | 502,414 | 737,548 |
| Dilutive weighted average number of common shares outstanding | 68,646,870 | 68,646,167 |
| Basic earnings per share | \$0.44 | \$0.40 |
| Diluted earnings per share | \$0.44 | \$0.40 |

| For the | Six months ended | |
|---|-------------------------|----------------------|
| (C\$ in thousands except share and per share amounts) | June 30, 2024 | June 30, 2023 |
| Net income for the period for basic earnings per share | 48,989 | 40,340 |
| Net income for the period for diluted earnings per share | 48,989 | 40,340 |
| Weighted average number of common shares outstanding | 68,088,003 | 67,893,842 |
| Dilutive effect | 548,620 | 755,548 |
| Dilutive weighted average number of common shares outstanding | 68,636,623 | 68,649,390 |
| Basic earnings per share | \$0.72 | \$0.59 |
| Diluted earnings per share | \$0.71 | \$0.59 |

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 June 30, 2024, unrestricted liquidity was \$345,988 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 | June 30, 2024 | | | |
|----------------------------------|--------------------------------|-----------------------|------------|----------------------|
| (C\$ in thousands) | Classification and measurement | Total carrying amount | Fair value | Fair value hierarchy |
| Financial assets | | | | |
| Cash and cash equivalents | Amortized cost | 56,849 | 56,849 | Level 1 |
| Trade receivables | Amortized cost | 172,629 | 172,629 | Level 2 |
| Restricted marketable securities | FVOCI | 423 | 423 | Level 1 |
| Equity securities | FVOCI | 32,578 | 32,578 | Level 1 |
| Debt securities | FVOCI | 87,154 | 87,154 | Level 1 |
| Debt securities | FVTPL | 100 | 100 | Level 2 |
| Loan receivable | FVTPL | 16,042 | 16,042 | Level 2 |
| Derivative Assets | FVTPL | 1,293 | 1,293 | Level 2 |
| Financial liabilities | | | | |
| Trade and other payables | Amortized cost | 250,377 | 250,377 | Level 2 |
| Long-term debt | Amortized cost | 110,000 | 110,000 | Level 2 |

| As at | December 31, 2023 | | | |
|----------------------------------|--------------------------------|-----------------------|------------|----------------------|
| (C\$ in thousands) | Classification and measurement | Total carrying amount | Fair value | Fair value hierarchy |
| Financial assets | | | | |
| Cash and cash equivalents | Amortized cost | 82,744 | 82,744 | Level 1 |
| Trade receivables | Amortized cost | 197,759 | 197,759 | Level 2 |
| Restricted marketable securities | FVOCI | 414 | 414 | Level 1 |
| Equity securities | FVOCI | 30,685 | 30,685 | Level 1 |
| Debt securities | FVOCI | 73,618 | 73,618 | Level 1 |
| Debt securities | FVTPL | 100 | 100 | Level 2 |
| Loan receivable | FVTPL | 19,669 | 19,669 | Level 2 |
| Financial liabilities | | | | |
| Trade and other payables | Amortized cost | 282,937 | 282,937 | Level 2 |
| Long-term debt | Amortized cost | 100,000 | 100,000 | Level 2 |
| Derivative liabilities | FVTPL | 2,265 | 2,265 | Level 2 |

The fair value hierarchy of financial instruments measured at fair value as at June 30, 2024 includes financial assets of \$177,004, \$190,064 and \$nil for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$360,377 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 extend past December 2025. As at June 30, 2024, the fair value of derivative assets is \$1,293 (December 31, 2023 - \$2,265 derivative liabilities).

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 (C\$ in thousands) | Six months ended | |
|-----------------------------------|------------------|-----------------|
| | June 30, 2024 | June 30, 2023 |
| Trade receivables | 25,130 | 23,719 |
| Inventories | 20,759 | (3,557) |
| Prepaid expenses and other assets | (10,922) | (10,158) |
| Trade and other payables | (29,517) | (21,938) |
| Customers' deposits | (28,653) | (18,493) |
| Derivative assets and liabilities | (3,558) | 785 |
| Provisions | 790 | 2,316 |
| Deferred acquisition costs | 158 | (460) |
| Total | (25,813) | (27,786) |

18. Comparative Financial Information

The comparative interim condensed consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the second quarter of 2024 interim condensed consolidated financial statements.