BUILDING THE FOUNDATION FOR TOMORROW'S GROWTH

ANNUAL REPORT 2012

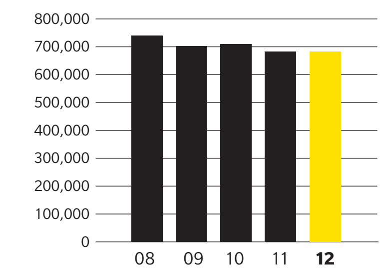
ABOUT US

Founded in 1909 by Ablan Leon, Leon's Furniture Limited has grown into one of Canada's largest home furnishing retailers, with a modern network of 76 stores selling a wide range of furniture, major appliances and home electronics. Today, with annual total system-wide sales of nearly $900 million and over 3,000 associates across the country, Leon's remains committed to the standards of service, integrity and trust established by its founder more than 100 years ago.

WE INTRODUCED THE WAREHOUSE SHOWROOM CONCEPT TO CANADIAN FURNITURE RETAILING IN 1973; TODAY IT'S THE FOUNDATION OF LEON'S 76-STORE NETWORK.

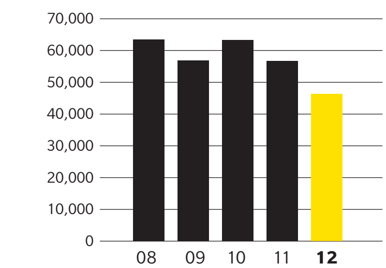
REVENUE

($ in thousands) **$682,163**



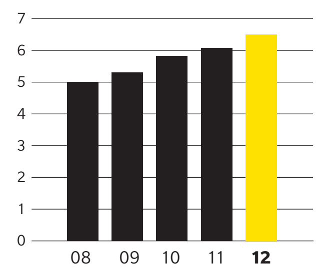
NET INCOME

($ in thousands) **$46,782**

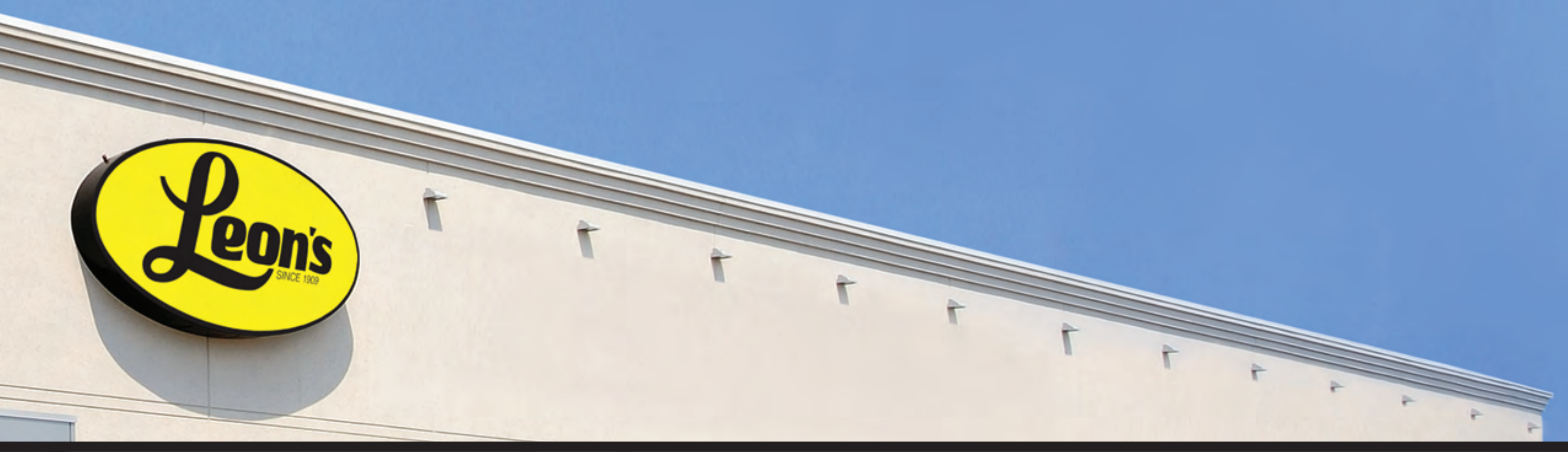


SHAREHOLDERS' EQUITY PER SHARE

$6.46



WHILE THE PERFORMANCE OF THE CANADIAN ECONOMY HAS VARIED OVER THE PAST 103 YEARS, LEON'S HAS GROWN INTO ONE OF THE COUNTRY'S LEADING HOME FURNISHING RETAILERS BY CONSISTENTLY BUILDING THE FOUNDATION FOR TOMORROW'S GROWTH.



FINANCIAL HIGHLIGHTS

($ in thousands, except per share amounts)		2012		2011	% Change
Income before income taxes					
Revenue	**$**	**682,163**	$	682,836	(0.1%)
Income before income taxes		**63,683**		78,848	(19.2%)
Net income		**46,782**		56,666	(17.4%)
Cash generated from operations		**47,904**		65,170	(26.5%)
Dividends paid		**38,449**		25,224	52.4%
Per common share					
Net income	**$**	**0.67**	$	0.81	(17.3%)
Cash flow generated from operations	**$**	**0.68**	$	0.93	(26.9%)
Dividends paid	**$**	**0.55**	$	0.36	52.8%
Shareholders' equity at year end	**$**	**6.46**	$	6.08	6.3%

BUILDING THE FOUNDATION FOR TOMORROW'S GROWTH

LEON'S RETAIL NETWORK, WHICH INCLUDES OUR URBAN CONCEPT STORE IN TORONTO, HAS EVOLVED TO MEET CHANGING CUSTOMER NEEDS.

The past year proved to be another challenging one for Leon's and most Canadian retailers. Economic growth fell slightly from an already slow pace in 2011 as consumers concentrated on minimizing debt and companies remained cautious with respect to hiring and capital investment. Consumer spending growth declined to 1.9 percent from 2.4 percent in 2011, reflecting weak discretionary spending in most categories, including the home furnishings, electronics and appliances sold in our stores. This was compounded by continuing price deflation in these categories, which, while beneficial for consumers, has required us to achieve higher volumes of unit sales over the past five years to maintain, and grow, our revenue.

Amid this environment, Leon's posted a respectable performance with system-wide sales of $880.2 million, a slight increase from $879.6 million in 2011. Included in this amount were franchise sales of $198.1 million, also up slightly from $196.7 million recorded in 2011. For the same period, net income was $46.8 million or $0.67 per common share, a decrease of 17.3 percent from $56.7 million or $0.81 per common share in 2011. Net earnings were affected by a $5.1 million or 6.5 percent increase in sales and marketing expenses aimed at maximizing sales volumes and market share in a difficult retailing environment and $1.5 million in after-tax expenses associated with our proposed acquisition of The Brick.

Originally established to meet the demands of the residential construction industry, Appliance Canada has become an increasingly popular destination for homeowners who want to see the industry's widest selection of major brands and premium appliances, all in a convenient location.

BUILDING THE FOUNDATION FOR TOMORROW'S GROWTH

Leon's has prospered over the past 103 years by recognizing opportunity in a constantly evolving Canadian marketplace. Innovation has been in our blood from the opening of Ablan Leon's first store in Welland, Ontario in 1909 to our introduction of "big-box" retailing to Canada in 1973 to the opening of our first urban concept store at Toronto's Roundhouse locomotive shop in 2009. Our belief in Canada's future has always encouraged us to take a long-term view of our business and our perspective in today's economic environment is no different. Recent conditions have made it more economical to acquire property in target locations and improve the quality of our existing assets. During 2012, we secured sites for four new corporate stores in: Orangeville and Brantford, Ontario; Sherbrooke, Quebec; and Rocky View County, Alberta, just north of Calgary. Our plan is to open the majority of these stores in 2013. We also celebrated the grand reopening of newly renovated stores in Saulte Ste. Marie and Sudbury, Ontario during the year, as well as the opening of our third Appliance Canada showroom in Toronto to meet growing demand for premium-brand appliances in the builder and consumer markets.

Of course, the year's biggest news was the announcement on November 11, 2012 of our proposed friendly acquisition of The Brick, which has since received the blessing of The Brick's shareholders and regulatory approval. The transaction is scheduled to close on March 28, 2013. Leon's and The Brick will continue to be managed under two legendary Canadian banners, with combined access to national buying opportunities in merchandising and marketing and a national distribution network that will enable greatly enhanced online shopping capabilities. We are very excited about these two companies coming together and look forward to our future with the many opportunities that lie ahead.

Our ability to invest in long-term growth amid today's challenging retail environment is testament to another of Leon's traditional strengths – conservative financial management. This can be seen in our ownership of more than 78 percent of the properties that comprise our corporate store network and a strong balance sheet that contained no debt and $222 million of cash and investments at the end of 2012.

APPLIANCE CANADA OPENED ANOTHER SHOWROOM LOCATION IN TORONTO IN 2012 TO KEEP PACE WITH GROWING DEMAND.

IN THE HEART OF OUR COMMUNITIES

Leon's has always believed in supporting the communities that have made our success possible. As a company, we focus most of our resources on two primary causes: the Boys & Girls Clubs of Canada and community healthcare. In 2012, our stores and associates gave generously of their time and financial resources in support of both organizations and we are proud of the difference they continue to make in their communities.

THE YEAR AHEAD

Canada's nascent economic recovery began to falter in 2012 with GDP growth declining to 0.6 percent in the fourth quarter of 2012. While the prospects for Canada's economy remain brighter than those of most developed countries, we may find ourselves in a relatively slow growth environment for some time, as Canadians remain cautious in their discretionary spending amid uncertainty in the labour markets and historically high amounts of consumer debt. In the meantime, we will continue to focus on the things that lie within our control, successfully executing our marketing campaigns, enhancing the shopping experience of our customers, improving the productivity of our associates through ongoing training and development, optimizing our increasingly automated distribution system and maintaining an unwavering commitment to cost control in all areas of the business. We will also continue our expansion into selective markets as opportunities present themselves. In closing, I would like to extend my sincere thanks to Leon's talented executives as well as our corporate and franchise store management teams and associates for their effort and dedication during the past year. I also wish to thank our shareholders and our customers for their ongoing support and look forward to reporting on our progress in 2013.

Sincerely,

(Signed)

TERRENCE T. LEON
President and Chief Executive Officer

WE CONTINUED TO MODERNIZE OUR RETAIL NETWORK WITH THE ONGOING RENOVATION, RELOCATION AND REOPENING OF OUR STORES.

103 years of innovation and success and still growing strong.

AN EXPANDING NATIONAL PRESENCE

1909

The A. Leon Company opens for business on King Street in Welland, Ontario.

1973

Leon's introduces "big-box" retailing to Canada with the opening of our first warehouse showroom in Weston, Ontario.

1974

The opening of our 10th store in Laval, Québec, marks Leon's expansion beyond Ontario.

1983

Leon's extends its presence to smaller centres with the introduction of the first franchise store in Kingston, Ontario.

76 STORES NATIONWIDE

Alberta
Calgary, Edmonton, Red Deer, South Edmonton, Lethbridge*, Medicine Hat*

Manitoba
Winnipeg, Brandon*

New Brunswick
Fredericton*, Moncton*, Saint John*, Bathurst*

Newfoundland & Labrador
Gander*, Labrador City*, St. John's*

Nova Scotia
Dartmouth, Coldbrook*, Truro*

Ontario
Barrie, Brampton, Burlington, Guelph, Hamilton, Kitchener, London (2), Mississauga (2), Newmarket, Niagara-on-the-Lake, Ottawa (2), Richmond Hill, Sarnia, Sault Ste. Marie, Sudbury, Thunder Bay, Toronto (Castlefield), Toronto (Danforth), Toronto (Roundhouse), Toronto (Scarborough), Toronto (Western), Welland, Whitby, Windsor, Vaughan (2), Bancroft*, Bracebridge*, Brockville*, Chatham*, Collingwood*, Cornwall*, Fort Frances*, Huntsville*, Kapuskasing*, Kingston*, North Bay*, Orillia*, Owen Sound*, Peterborough*, Simcoe*, Trenton*, Woodstock*

Prince Edward Island
Charlottetown*

Quebec
Anjou, Beauport, Dorval, Drummondville*, Laval, Longueuil, Rosemere, Quebec City

Saskatchewan
Saskatoon, Prince Albert*, Regina

**Franchise*

Since the A. Leon Company was founded in 1909, we have grown into one of Canada's largest home furnishing, appliance and electronics retailers, with a network of warehouse showrooms across the country. Along the way, our success has come from staying true to our founder's beliefs of fairness, integrity and trust while adapting to meet the constantly changing needs of our customers. This has included many industry innovations, from extending credit to hardworking immigrants in the early 1900s to the introduction of "big box" retailing to Canada with the opening our first warehouse showroom in 1973 to the unveiling of our first urban concept store at Toronto's historic Roundhouse steam locomotive shop in 2009. Today, we continue to take a long-term view toward our expansion despite the slow pace of growth in the current economy. In fact, the past year presented an attractive opportunity to modernize and expand our store network. We took advantage of it with the grand reopening of renovated or replacement stores in Sault Ste. Marie and Sudbury, Ontario, Coldbrook, Nova Scotia and Saint John, New Brunswick and by securing sites for the construction of four new corporate stores in 2013. We were also proud to open our third Appliance Canada store in 2012 to keep pace with strong builder and consumer demand for premium brand appliances.

1985

Leon's opens its first store in Atlantic Canada in Saint John, New Brunswick.

2009

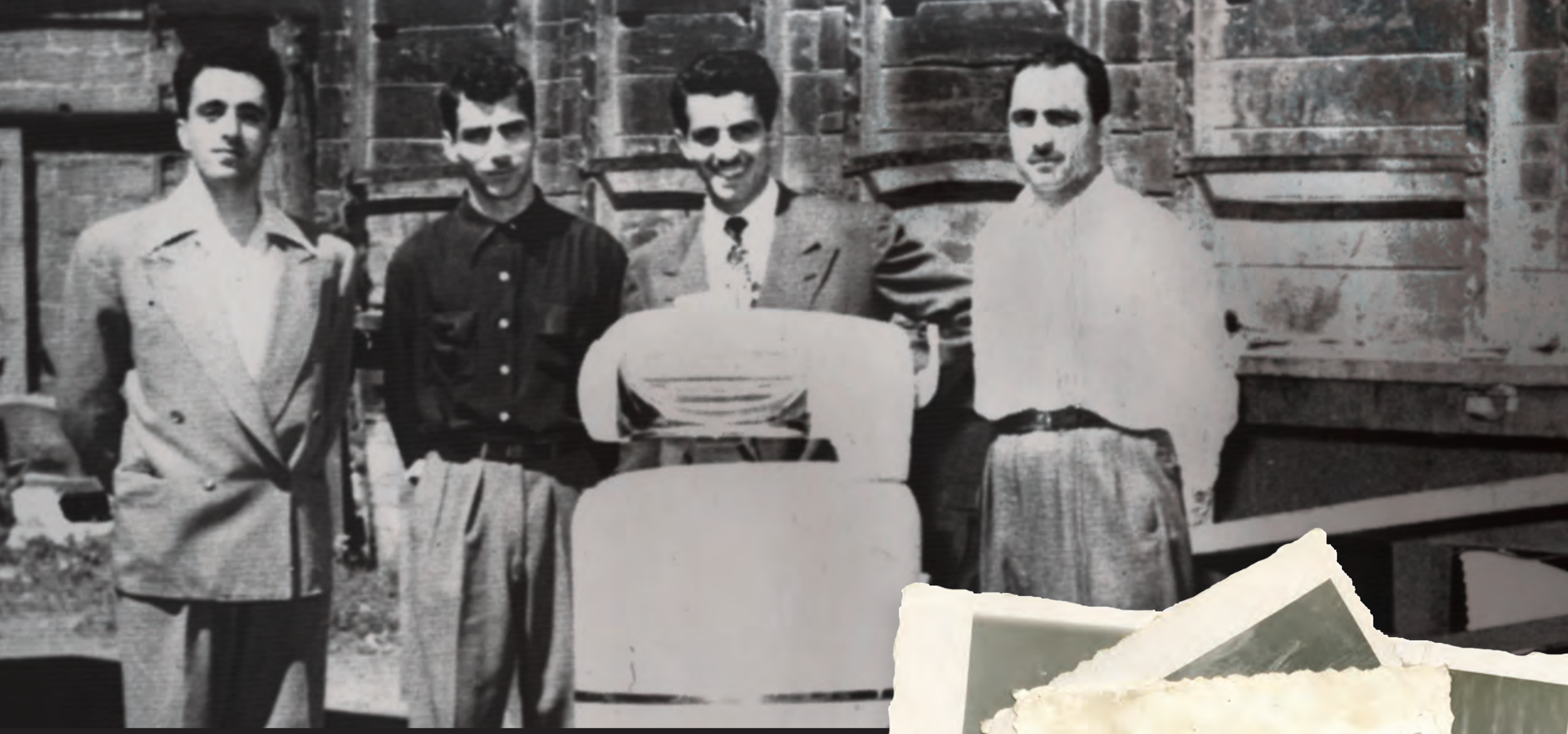
The first urban concept store is opened at the Roundhouse in downtown Toronto, Ontario, part of a multi-million dollar investment to restore this historic steam locomotive repair shop.

2011

Leon's opens four new corporate stores, and two new franchise locations, including our first franchise store in Québec.

2012

Leon's secures sites for four new corporate stores to be opened in 2013.



OUR LEGACY OF TRUST

An industrious Lebanese immigrant settled in Welland, Ontario early in the past century and began his career selling clothing door to door. By 1909 Ablan Leon had earned enough profit to buy a building on King St. for a small dry goods store and the A. Leon Company was born. As the business prospered, Ablan and his wife Lena went on to raise 11 children who all took part in running the store. In the decades that have passed since then, Leon's has become a true Canadian success story.

Following the death of Ablan in 1942, son Lewie began his tenure as President and CEO of the company. He was a natural leader whose vision and energy fuelled Leon's rapid expansion across Ontario and the rest of the country. Lewie was succeeded by another outstanding President and CEO – Ablan's son Tom Leon – who had the foresight to introduce "big-box" retailing to Canada in 1973 and create the Franchise division in the early 1980s to accelerate Leon's growth.

Today, the mantle of leadership has been taken up by a new generation of executives who are writing new chapters in Leon's history of continuous improvement and growth.

WE REMAIN TRUE TO ABLAN LEON'S BELIEF THAT BUSINESS IS WON THROUGH FAIRNESS, INTEGRITY AND TRUST.

For more than a century, Leon's has been committed to delivering the best combination of service, selection and value in the business.

Leon's remains a true Canadian success story in an increasingly international retail landscape.

OUR MANAGEMENT TEAM:

DOMINIC SCARANGELLA

Dominic obtained his CA designation in 1980 and first joined the company as Controller in 1988. He was appointed Treasurer in 1997 and became Leon's Vice President Finance and Chief Financial Officer in 2002.

EDWARD F. LEON

Edward is Vice President of Merchandising, a position he has held since 2002, and has been a Director of the company since 2001. Previously, he was the company's Director of Merchandising.

TERRENCE LEON

Appointed a Director in 2009, Terry has served as President and Chief Executive Officer of the company since 2005. He was President and Chief Operating Officer from 2002 to 2005 and Vice President and Chief Financial Officer from 1989 to May 2002.

ROBERT J. MACNELLY

Bob joined Leon's as National Marketing Manager in 1992 following years of executive leadership in consumer product marketing. He joined Leon's Executive Management Team as Vice President of Marketing in 2002.

MARK LEON

Mark is Chairman of the Corporation and has been a Director since 1994. He held the position of Chief Executive Officer from 1993 to 2005, served as Vice Chairman from 2002 to 2005 and prior to that was the President of Leon's.

CLOCKWISE FROM TOP LEFT:
Mark Leon, Chairman and Director;
Edward F. Leon, Vice President of Merchandising and Director;
Robert J. MacNelly, Vice President of Marketing;
Dominic Scarangella, Vice President Finance and Chief Financial Officer; and
Terrence Leon, President and Chief Executive Officer and Director.

FIVE-YEAR REVIEW

INCOME STATISTICS

($ in thousands, except earnings per share)	2012	2011	2010	2009[1]	2008[1]
Revenue	**$ 682,163**	$ 682,836	$ 710,435	$ 703,180	$ 740,376
Cost of sales	**398,704**	394,099	412,379	419,819	440,360
Gross profit	**283,459**	288,737	298,056	283,361	300,016
Operating expenses net of finance income and gain on sale of capital property	**219,776**	209,889	207,871	200,827	205,880
Income before income taxes	**63,683**	78,848	90,185	82,534	94,136
Provision for income taxes	**16,901**	22,182	26,901	25,670	30,746
Net income	**$ 46,782**	$ 56,666	$ 63,284	$ 56,864	$ 63,390
Common shares outstanding ('000)	**70,033**	69,969	70,372	70,714	70,729
Earnings per common share	**$ 0.67**	$ 0.81	$ 0.90	$ 0.80	$ 0.90
Percent annual change in sales	**(0.1%)**	(3.9%)	1.0%	(5.0%)	16.1%
Net income as a percentage of sales	**6.9%**	8.3%	8.9%	8.1%	8.6%
Dividend declared	**$ 28,047**	$ 36,371	$ 22,492	$ 33,951	$ 26,873

BALANCE SHEET STATISTICS

($ in thousands, except per share amounts)	2012	2011	2010	2009[1]	2008[1]
Shareholders' equity	**$ 452,187**	$ 425,461	$ 410,286	$ 375,138	$ 353,358
Total assets	**585,592**	584,411	566,674	529,156	513,408
Purchase of capital assets	**17,897**	24,999	13,567	10,545	22,587
Working capital	**227,221**	204,649	200,826	163,626	135,192
Current ratio	**2.96:1**	2.47:1	2.62:1	2.34:1	2.00:1
Shareholders' equity per common share	**6.46**	6.08	5.83	5.31	5.00
Common share price range on the Toronto Stock Exchange					
High	**$ 13.47**	$ 15.65	$ 15.10	$ 10.81	$ 13.14
Low	**$ 10.55**	$ 10.56	$ 10.35	$ 7.75	$ 7.80

(1) Results reported under Canadian GAAP

MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL REVIEW

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 21, 2013 and is based on the consolidated financial position and operating results of Leon's Furniture Limited/Meubles Leon Ltée (the "Company") as of December 31, 2012 and for the year ended December 31, 2012. It should be read in conjunction with the fiscal year 2012 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2012 quarterly financial statements and corresponding MD&As which are published separately and available at *www.sedar.com*.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

FINANCIAL STATEMENTS GOVERNANCE PRACTICE

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

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the consolidated financial statements, and recommended them to the Board of Directors for approval. Following review by the full Board, the Fiscal 2012 consolidated financial statements and MD&A were approved on February 21, 2013.

INTRODUCTION

Leon's Furniture Limited has been in the furniture retail business for over 100 years. As of February 21, 2013, the Company has 46 corporate and 32 franchise stores, which can be found in every province across Canada except British Columbia. Main product lines sold at retail include furniture, appliances and electronics.

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

REVENUES AND EXPENSES

For the year ended December 31, 2012, total Leon's system wide sales were $880,240,000 including $198,077,000 of franchise sales ($879,561,000 including $196,725,000 of franchise sales in 2011), a slight increase.

Overall, same store sales decreased by 2.9%. The decrease in same store sales for the year, compared to the prior year, reflected a continuation of weak consumer confidence and a decrease in housing starts. These were among the factors that also resulted in downward pressure on retail pricing. The increase in total Leon's system wide sales is the result of four new stores opening in 2011.

Leon's franchise sales for 2012 increased 0.7% compared to 2011. The sales difference in 2012 was the result of the successful opening of two new franchise stores in Bathurst, New Brunswick and Drummondville, Quebec. Overall, same store sales for franchises decreased by 2.3%.

Our gross margin for the year decreased from 42.3% to 41.6%, as compared to the prior year. The decease was mainly attributable to slightly lower margins in both the furniture and appliance category compared to the prior year.

For the year, net operating expenses of $223,126,000 were up $9,731,000 or 4.6% as compared to 2011. General and administrative expenses increased $3,308,000 from the prior year. The increase was mainly the result of two factors: professional fees of approximately $2,000,000 relating to the pending acquisition of The Brick Ltd. ("The Brick") and higher depreciation costs on buildings. Sales and marketing expenses increased by $5,092,000 compared to the prior year. Most of this increase relates to marketing dollars spent resulting from having four new stores in 2012. Additional marketing dollars were also spent in an attempt to generate higher consumer traffic into our stores. Occupancy expenses increased $1,558,000 from the prior year. The increase was the result of additional rental costs relating to the new stores that opened in the fourth quarter of 2011 and therefore did not have a full year of rent expense as compared to 2012.

As a result of the above, net income for the year was $46,782,000, $0.67 per common share ($56,666,000, $0.81 per common share in 2011), a decrease of 17.3% per common share.

For the three months ended December 31, 2012, total Leon's system wide sales were $248,187,000 including $59,725,000 of franchise sales ($254,989,000 including $61,166,000 of franchise sales in 2011), a decrease of 2.7%.

Leon's corporate sales of $188,462,000 in the fourth quarter of 2012, decreased by $5,361,000, or 2.8%, compared to the fourth quarter of 2011. Same store corporate sales decreased by 2.0% compared to the prior year's quarter.

Leon's franchise sales of $59,725,000 in the fourth quarter of 2012 decreased by $1,441,000 or 2.4% compared to 2011. The sales decrease is mainly attributable to the same factors in Leon's corporate sales.

Net income for the fourth quarter of 2012 was $16,121,000, $0.23 per common share ($19,872,000, $0.28 per common share in 2011), a decrease of 17.9% per common share. The fourth quarter 2012 includes a net after tax cost of $1,470,000 or $0.02 per common share for professional fees relating to the acquisition of The Brick, representing an adjusted $0.25 per common share as compared to the $0.28 per common share in the prior year.

ANNUAL FINANCIAL INFORMATION

($ in thousands, except earnings per share and dividends)		**2012**		2011		2010
Net corporate sales	**$**	**682,163**	$	682,836	$	710,435
Leon franchise sales		**198,077**		196,725		197,062
Total Leon's system wide sales	**$**	**880,240**	$	879,561	$	907,497
Net income		**46,782**		56,666		63,284
Earnings per share						
Basic	**$**	**0.67**	$	0.81	$	0.90
Diluted	**$**	**0.65**	$	0.78	$	0.87
Total assets	**$**	**585,592**	$	584,411	$	566,674
Common share dividends declared	**$**	**0.40**	$	0.37	$	0.32
Special common share dividends declared	**$**	**—**	$	0.15	$	—
Convertible, non-voting shares dividends declared	**$**	**0.20**	$	0.20	$	0.18

LIQUIDITY AND FINANCIAL RESOURCES

($ in thousands, except dividends per share)		**Dec. 31/12**		Dec. 31/11		Dec. 31/10
Cash, cash equivalents, available-for-sale financial assets	**$**	**221,684**	$	221,823	$	211,813
Trade and other accounts receivable		**30,245**		28,937		28,569
Inventory		**86,057**		87,830		85,423
Total assets		**585,592**		584,411		566,674
Working capital		**227,221**		204,649		200,826

For the 3 months ended	Current Quarter Dec. 31, 2012	Prior Quarter Sept. 30, 2012	Prior Quarter June 30, 2012
Cash flow provided by operations	**$ 22,926**	$ 31,519	$ 1,040
Purchase of property, plant and equipment	**3,678**	3,733	6,900
Repurchase of capital stock	**—**	—	54
Dividends paid	**7,001**	6,998	6,993
Dividends paid per share	**$ 0.10**	$ 0.10	$ 0.10

In the third quarter of 2012, the Company celebrated grand openings of newly renovated stores in Sault Ste. Marie and Sudbury, Ontario, as well as our third Appliance Canada showroom in Toronto, Ontario. In the fourth quarter of 2012, we celebrated the opening of a new franchise store that replaced an existing store in Saint John, New Brunswick.

We plan to celebrate grand openings of a new 42,000 sq. ft. store in Orangeville, Ontario and a 36,000 sq. ft. store in Brantford, Ontario in the first quarter of 2013. In the second quarter of 2013, we are planning the grand opening of a new 50,000 sq. ft. store in Sherbrooke, Quebec. In addition, we have secured land for a new store in Rocky View County, Alberta, which is just north of Calgary.

COMMON SHARES

At December 31, 2012, there were 70,564,905 common shares issued and outstanding. During 2012, 23,506 shares were repurchased at an average cost of $12.17 and then cancelled by the Company through its Normal Course Issuer Bid. In addition, during the year ended December 31, 2012, 667,748 convertible, non-voting series 2002 shares, 84,931 convertible, non-voting series 2005 shares and 20,000 convertible, non-voting series 2009 shares were converted into common shares. There were 49,888 convertible, non-voting series 2009 shares and 25,000 convertible, non-voting series 2012 shares cancelled. For details on the Company's commitments related to its redeemable shares please refer to Note 12 to the accompanying consolidated financial statements.

COMMITMENTS

($ in thousands)

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Operating Leases[1]	$ 59,152	$ 6,608	$ 12,111	$ 12,294	$ 28,139
Purchase Obligations		—	—	—	—
Total Contractual Obligations	$ 59,152	$ 6,608	$ 12,111	$ 12,294	$ 28,139

(1) The Company is obligated under operating leases to future minimum rental payments for various land and building sites across Canada.

RECENT ACCOUNTING PRONOUNCEMENTS

Please refer to Note 3 to the accompanying consolidated financial statements for the accounting standards and amendments issued but not yet adopted.

CRITICAL ACCOUNTING ESTIMATES

Please refer to Note 4 to the accompanying consolidated financial statements for the Company's critical accounting estimates and assumptions.

SIGNIFICANT ACCOUNTING POLICIES

Please refer to Note 3 to the accompanying consolidated financial statements for the Company's significant accounting policies.

RELATED PARTY TRANSACTIONS

At December 31, 2012, we had no transactions with related parties as defined in *IAS24 – Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment.

RISKS AND UNCERTAINTIES

For a complete discussion of the risks and uncertainties which apply to the Company's business and operating results please refer to the Company's Annual Information Form dated March 28, 2013 available on *www.sedar.com*.

SUBSEQUENT EVENTS

On November 11, 2012, the Company announced that it had entered into definitive agreements to acquire all the outstanding shares of The Brick, subject to approval by the Competition Bureau and other customary closing conditions. The total consideration for The Brick is approximately $700 million.

The cash consideration of the purchase price along with the transaction costs will be funded with cash on hand, convertible debentures and bank debt. This acquisition will be accounted for as a business combination with the Company as the acquirer of The Brick. The Company expects the transaction to close in the first quarter of 2013. The purchase method of accounting will be used and the earnings will be consolidated from the closing date.

Please refer to Note 21 to the accompanying consolidated financial statements for further details.

QUARTERLY RESULTS

QUARTERLY INCOME STATEMENT

($ in thousands – except per share data)	Quarter Ended December 31		Quarter Ended September 30		Quarter Ended June 30		Quarter Ended March 31	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Leon's corporate sales	**$ 188,462**	$ 193,823	**$ 174,175**	$ 174,373	**$ 162,095**	$ 163,857	**$ 157,431**	$ 150,783
Leon's franchise sales	**59,725**	61,166	**49,505**	49,273	**45,627**	45,477	**43,220**	40,809
Total Leon's system wide sales	**248,187**	254,989	**223,680**	223,646	**207,722**	209,334	**200,651**	191,592
Net income per share	**$ 0.23**	$ 0.28	**$ 0.19**	$ 0.22	**$ 0.13**	$ 0.16	**$ 0.12**	$ 0.15
Fully diluted per share	**$ 0.22**	$ 0.27	**$ 0.18**	$ 0.21	**$ 0.12**	$ 0.15	**$ 0.12**	$ 0.14

DISCLOSURE CONTROLS & PROCEDURES

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported on a timely basis to senior management, including the Chief Executive Officer and Chief Financial Officer so that appropriate decisions can be made by them regarding public disclosure. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as at December 31, 2012.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. The Company assessed the effectiveness of its internal control over financial reporting as of December 31, 2012, based on the framework established in the publications, Internal Control – Integrated Framework and specifically in Internal Control over Financial Reporting – Guidance for Smaller Public Companies published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the CEO and the CFO concluded that the Company maintained effective internal control over financial reporting as of December 31, 2012.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has also evaluated whether there were changes in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2012 and ended on December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company has determined that no material changes in internal controls have occurred during this period.

OUTLOOK

We have been experiencing poor economic growth which began in 2009 and we don't see any signs of any significant improvement moving into 2013. As such, we anticipate that consumer discretionary spending will remain soft in 2013. However, we believe the opening of three new stores during 2013 coupled with the purchase of The Brick will improve sales and profits in 2013.

NON-IFRS FINANCIAL MEASURES

In order to provide additional insight into the business, the Company has provided the measure of same store sales, in the revenue and expenses section above. This measure does not have a standardized meaning prescribed by IFRS but it is a key indicator used by the Company to measure performance against prior period results. Comparable store sales are defined as sales generated by stores that have been open or closed for more than 12 months on a yearly basis. The reconciliation between total corporate sales (an IFRS measure) and comparable store sales is provided below:

($ in thousands)	**2012**	2011
Net corporate sales	**$ 682,163**	$ 682,836
Adjustments for stores not in both fiscal periods	**(30,895)**	(12,345)
Comparable store sales	**$ 651,268**	$ 670,491

MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL REPORTING

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

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

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

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

The Audit Committee is appointed by the Board and reviews these consolidated financial statements; considers the report of the external auditors; assesses the adequacy of the internal controls of the Company; examines the fees and expenses for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The Committee reports its findings to the Board of Directors for consideration when approving these consolidated financial statements for issuance to the shareholders.

These consolidated financial statements have been audited by Ernst & Young, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.

(Signed)

Terrence T. Leon
President and CEO

(Signed)

Dominic Scarangella
Vice President and CFO

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Leon's Furniture Limited/Meubles Leon Ltée, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Leon's Furniture Limited/Meubles Leon Ltée as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed)

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
February 21, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in thousands)		As at December 31 2012		As at December 31 2011
ASSETS				
Current				
Cash and cash equivalents [notes 5 and 7]	**$**	**74,949**	$	72,505
Available-for-sale financial assets [notes 5 and 18[e]]		**146,735**		149,318
Trade receivables [note 5]		**30,245**		28,937
Income taxes recoverable		**3,644**		5,182
Inventories [note 4]		**86,057**		87,830
Deferred financing costs [note 21]		**1,317**		—
Total current assets	**$**	**342,947**	$	343,772
Other assets		**1,273**		1,431
Property, plant and equipment, net [note 8]		**218,146**		214,158
Investment properties [note 9]		**8,315**		8,366
Intangible assets, net [note 10]		**3,101**		3,958
Goodwill [note 10]		**11,282**		11,282
Deferred income tax assets [note 16]		**528**		1,444
	$	**585,592**	$	584,411
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Trade and other payables [notes 5 and 11]	**$**	**73,542**	$	86,357
Customers' deposits		**20,386**		19,157
Dividends payable [note 13]		**7,055**		17,457
Deferred warranty plan revenue		**14,743**		16,152
Total current liabilities	**$**	**115,726**	$	139,123
Deferred warranty plan revenue		**17,251**		19,445
Redeemable share liability [notes 5 and 12]		**428**		382
Total liabilities	**$**	**133,405**	$	158,950
Commitments and contingencies [note 18]				
Shareholders' equity				
Common shares [note 13]	**$**	**26,693**	$	20,918
Accumulated other comprehensive income (loss)		**2,395**		(104)
Retained earnings		**423,099**		404,647
Total shareholders' equity	**$**	**452,187**	$	425,461
	$	**585,592**	$	584,411

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

On behalf of the Board:

(Signed) (Signed)

Mark J. Leon
Director

Peter Eby
Director

CONSOLIDATED STATEMENTS OF INCOME

($ in thousands, except shares outstanding and per share amounts)	Years Ended December 31 2012	2011
Revenue [note 14]	**$ 682,163**	$ 682,836
Cost of sales	**398,704**	394,099
Gross profit	**$ 283,459**	$ 288,737
Operating expenses [note 15]		
General and administrative	**99,346**	96,038
Sales and marketing	**83,479**	78,387
Occupancy	**34,289**	32,731
Other	**6,012**	6,239
	$ 223,126	$ 213,395
Operating profit	**60,333**	75,342
Finance income	**3,350**	3,506
Profit before income taxes	**63,683**	78,848
Income tax expense [note 16]	**16,901**	22,182
Profit for the year attributable to the shareholders of the Company	**$ 46,782**	$ 56,666
Weighted average number of common shares outstanding		
Basic	**70,032,721**	69,969,417
Diluted	**72,317,598**	72,305,424
Earnings per share [note 17]		
Basic	**$ 0.67**	$ 0.81
Diluted	**$ 0.65**	$ 0.78
Dividends declared per share		
Common	**$ 0.40**	$ 0.52
Convertible, non-voting	**$ 0.20**	$ 0.20

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in thousands)		2012		2012 Tax Effect		2012
				Years Ended December 31		
Profit for the year	**$**	**46,782**	**$**	**—**	**$**	**46,782**
Other comprehensive income, net of tax						
Unrealized gains on available-for-sale financial assets arising during the year		**3,183**		**414**		**2,769**
Reclassification adjustment for net gains (losses) included in income for the year		**(311)**		**(41)**		**(270)**
Change in unrealized gains on available-for-sale financial assets arising during the year		**2,872**		**373**		**2,499**
Total comprehensive income for the year attributable to the shareholders of the Company	**$**	**49,654**	**$**	**373**	**$**	**49,281**

($ in thousands)		2011		2011 Tax Effect		2011
				Years Ended December 31		
Profit for the year	$	56,666	$	—	$	56,666
Other comprehensive income, net of tax						
Unrealized losses on available-for-sale financial assets arising during the year		(621)		(87)		(534)
Reclassification adjustment for net gains (losses) included in income for the year		(58)		(8)		(50)
Change in unrealized losses on available-for-sale financial assets arising during the year		(679)		(95)		(584)
Total comprehensive income for the year attributable to the shareholders of the Company	$	55,987	$	(95)	$	56,082

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ in thousands)	Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
At January 1, 2012	**$ 20,918**	**$ (104)**	**$ 404,647**	**$ 425,461**
Comprehensive income				
Profit for the year	**—**	**—**	**46,782**	**46,782**
Change in unrealized gains on available-for-sale financial assets arising during the year	**—**	**2,499**	**—**	**2,499**
Total comprehensive income	**—**	**2,499**	**46,782**	**49,281**
Transactions with shareholders				
Dividends declared	**—**	**—**	**(28,047)**	**(28,047)**
Management share purchase plan [note 12]	**5,778**	**—**	**—**	**5,778**
Repurchase of common shares [note 13]	**(3)**	**—**	**(283)**	**(286)**
Total transactions with shareholders	**5,775**	**—**	**(28,330)**	**(22,555)**
At December 31, 2012	**$ 26,693**	**$ 2,395**	**$ 423,099**	**$ 452,187**

($ in thousands)	Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
At January 1, 2011	$ 19,177	$ 480	$ 390,629	$ 410,286
Comprehensive income				
Profit for the year	—	—	56,666	56,666
Change in unrealized losses on available-for-sale financial assets arising during the year	—	(584)	—	(584)
Total comprehensive income	—	(584)	56,666	56,082
Transactions with shareholders				
Dividends declared	—	—	(36,371)	(36,371)
Management share purchase plan [note 12]	1,798	—	—	1,798
Repurchase of common shares [note 13]	(57)	—	(6,277)	(6,334)
Total transactions with shareholders	1,741	—	(42,648)	(40,907)
At December 31, 2011	$ 20,918	$ (104)	$ 404,647	$ 425,461

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)	Years Ended December 31 2012	2011
OPERATING ACTIVITIES		
Profit for the year	**$ 46,782**	$ 56,666
Add (deduct) non-cash items		
Depreciation of property, plant and equipment and investment properties	**14,020**	12,705
Amortization of intangible assets	**866**	880
Amortization of deferred warranty plan revenue	**(16,543)**	(17,271)
Gain on sale of property, plant and equipment	**(15)**	(21)
Deferred income taxes	**543**	2,008
Loss on sale of available-for-sale financial assets	**121**	35
Cash paid for deferred financing costs [note 21]	**(1,317)**	—
Cash received on warranty plan sales	**12,940**	14,594
	57,397	69,596
Net change in non-cash working capital balances related to operations [note 19[a]]	**(9,493)**	(4,426)
Cash provided by operating activities	**47,904**	65,170
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(17,897)**	(24,999)
Purchase of intangible assets	**(9)**	64
Proceeds on sale of property, plant and equipment	**23**	39
Purchase of available-for-sale financial assets	**(467,939)**	(569,050)
Proceeds on sale of available-for-sale financial assets	**473,273**	559,242
Issuance of series 2012 shares [note 12]	**3,804**	—
Decrease in employee share purchase loans [note 12]	**2,020**	2,008
Cash used in investing activities	**(6,725)**	(32,696)
FINANCING ACTIVITIES		
Dividends paid	**(38,449)**	(25,224)
Repurchase of common shares [note 13]	**(286)**	(6,334)
Cash used in financing activities	**(38,735)**	(31,558)
Net increase in cash and cash equivalents during the year	**2,444**	916
Cash and cash equivalents, beginning of year	**72,505**	71,589
Cash and cash equivalents, end of year	**$ 74,949**	$ 72,505
Supplemental cash flow information		
Income taxes paid	**14,826**	26,076
Interest paid	**12**	—

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011
(Tabular amounts in thousands of Canadian dollars, except shares outstanding and per share amounts)

1. GENERAL INFORMATION

Leon's Furniture Limited was incorporated by Articles of Incorporation under the Business Corporations Act on February 28, 1969. Leon's Furniture Limited and its subsidiaries ("Leon's" or the "Company") is a public company with its common shares listed on the Toronto Stock Exchange and is incorporated and domiciled in Canada. The address of the Company's head and registered office is 45 Gordon Mackay Road, Toronto, Ontario, M9N 3X3.

Leon's is a retailer of home furnishings, electronics and appliances across Canada from Alberta to Newfoundland and Labrador. The Company owns a chain of forty-two retail stores operating as Leon's Home Furnishings Super Stores, three retail stores operating under the brand of Appliance Canada and operates an ecommerce internet site (www.leons.ca). In addition, the Company has twenty-seven franchisees operating thirty-two Leon's Furniture franchise stores.

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

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies were consistently applied to all periods presented unless otherwise noted.

USE OF JUDGMENT AND ESTIMATES

Management has exercised judgment in the process of applying the Company's accounting policies. The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Refer to note 4 for details regarding key estimates and judgments.

These consolidated financial statements were approved by the Board of Directors for issuance on February 21, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets which are measured at fair value.

CONSOLIDATION

The financial statements consolidate the accounts of Leon's Furniture Limited and its wholly owned subsidiaries, Murlee Holdings Limited, Leon Holdings (1967) Limited and Ablan Insurance Corporation. Subsidiaries are all those entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and de-consolidated from the date that control ceases. Intercompany transactions, balances, income, expenses, profits and losses are eliminated.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and Chief Executive Officer. The Company operates in one geographical segment (Canada) and one industry (sale of home furnishings, appliances and electronics). Accordingly, no segment information has been provided in these consolidated financial statements.

FOREIGN CURRENCY TRANSLATION

Functional and Presentation Currency

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

Foreign Currency Transactions

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

Any foreign exchange gains and losses on monetary available-for-sale financial assets are recognized in the consolidated statements of income, and other changes in the carrying amounts are recognized in other comprehensive income. For available-for-sale assets that are not monetary items, the gain or loss that is recognized in other comprehensive income includes any related foreign exchange component.

FINANCIAL ASSETS AND LIABILITIES

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

After initial recognition, financial assets are measured at their fair values except for loans and receivables, which are measured at amortized cost using the effective interest method. After initial recognition, financial liabilities are measured at amortized cost except for financial liabilities at fair value through profit or loss that are measured at fair value.

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

Classifications that the Company has used for financial assets include:

a) **Available-for-sale** – financial assets that are non-derivatives that are either designated in this category or not classified in any other category and include cash and marketable securities, which consist primarily of quoted bonds, equities and debentures. These assets are measured at fair value with the changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and

b) **Loans and receivables** – are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include trade receivables and are recorded at amortized cost with gains and losses recognized in the consolidated statements of income in the period that the asset is no longer recognized or impaired.

Classification choice that the Company has used for financial liabilities includes:

a) **Other financial liabilities** – measured at amortized cost with gains and losses recognized in the consolidated statements of income in the period that the liability is no longer recognized.

Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated statements of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment is recognized in the consolidated statements of income.

CASH AND CASH EQUIVALENTS

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

TRADE RECEIVABLES

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

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

INVENTORIES

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

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

OTHER ASSETS

The Company pays commissions related to its extended warranty plan. These costs are amortized on a straight-line basis over the contract period.

PROPERTY, PLANT AND EQUIPMENT

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

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

Buildings	30 years straight-line
Equipment	20% to 30% declining balance
Vehicles	30% declining balance
Computer hardware	5 years straight-line
Building improvements	Over the estimated useful life to a maximum of 15 years

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

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

LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leased Assets – Leon's is the Lessee

Leases that are not finance leases are classified as operating leases and the assets are not recognized on the Company's consolidated statements of financial position. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the period of the lease.

Leased Assets – Leon's is the Lessor

Assets leased to third parties under operating leases are classified as investment property in the consolidated statements of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned investment property. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the period of the lease.

INVESTMENT PROPERTIES

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

Buildings	30 years straight-line
Building improvements	Over the estimated useful life to a maximum of 15 years

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

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

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

GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

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

Finite-Lived Intangible Assets

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives using the following annual rates:

Customer relationships	8 years
Brand name	10 years
Non-compete agreement	8 years
Computer software	7 years

The Company identifies and measures intangible assets acquired in business acquisitions and accounts for these assets separately from goodwill.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Property, plant and equipment and finite-lived intangible assets are reviewed quarterly for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognized. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (CGU). The Company has identified the CGU to be at the store level. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

INCOME TAXES

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

Current Income Tax

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

Deferred Income Tax

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

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

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

TRADE AND OTHER PAYABLES

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

PROVISIONS

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

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

SHARE CAPITAL

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

REVENUE RECOGNITION

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales tax and financing charges. The Company recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Company.

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

Sale of Goods

Revenue from the sale of goods is recognized either when the customer picks up the merchandise ordered or when merchandise is delivered to the customer's home. Any payments received in advance of delivery are deferred and recorded as customers' deposits.

Extended Warranty

The Company recognizes extended warranty plan revenue on a straight-line basis over the contract period. The service costs associated with the warranty obligations are expensed as incurred.

Franchise Fees

Leon's franchisees operate principally as independent owners. The Company charges each franchisee a royalty fee based on a percentage of the franchisee's gross revenue. This royalty income is recorded by the Company on an accrual basis and presented within revenue.

Rent on Investment Properties

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

Sale of Gift Cards

Revenue from the sale of gift cards is recognized when the gift cards are redeemed (the customer purchases merchandise) or when the gift cards are no longer expected to be redeemed, based on an analysis of historical redemption rates, if any. Revenue from unredeemed gift cards is deferred and included in trade and other payables.

STORE PRE-OPENING COSTS

Store pre-opening costs are expensed as incurred.

EARNINGS PER SHARE

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

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

i. IFRS 9, *Financial Instruments: Classification and Measurement,* as issued, reflects the first phase of the IASB's work on the replacement of IAS 39, *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures,* issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment.

ii. IFRS 10, *Consolidated Financial Statements,* requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements.*

iii. IFRS 11, *Joint Arrangements,* requires an entity to classify its interest in a joint arrangement as a joint operation or a joint venture. The standard eliminates the use of the proportionate consolidation method to account for joint ventures. Joint ventures will be accounted for using the equity method of accounting while for a joint operation the entity will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. IFRS 11 supersedes *SIC-13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and IAS 31*, Joint Ventures.*

iv. IFRS 12, *Disclosure of Interests in Other Entities,* establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

v. IFRS 13, *Fair Value Measurement,* is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

vi. IFRS 7, *Financial Instruments Disclosures*
In October 2010, the IASB issued amendments to IFRS 7, that increase the disclosure requirements for transactions involving transfers of financial assets. The Company does not expect implementation of these amendments to have a significant impact on its disclosures or presentation.

vii. IAS 32, *Offsetting Financial Assets and Financial Liabilities*
IAS 32, *Financial Instruments: Presentation* and IFRS 7*, Financial Instruments: Disclosures*
In December 2011, the IASB published IAS 32 and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is for annual periods beginning on or after January 1, 2014.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements:

REVENUE RECOGNITION

Revenue is recognized for accounting purposes upon the customer either picking up the merchandise or when merchandise is delivered to the customer's home. The Company offers the option to finance purchases through various third-party financing companies. In situations where a customer elects to take advantage of delayed payment terms, the costs of financing this revenue are deducted from revenue.

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

INVENTORIES

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

Reserves for slow moving and damaged inventory are deducted in the Company's valuation of inventories. Management has estimated the amount of reserve for slow moving inventory based on the Company's historic retail experience. The reserve is calculated by analyzing all inventory on hand older than one year. The amount of reserve for damaged inventory is determined by specific product categories.

The amount of inventory recognized as an expense for the year ended December 31, 2012 was $391,160,000 [year ended December 31, 2011 – $385,495,000], which is presented within cost of sales in the consolidated statements of income. There were $806,000 in inventory write-downs [2011 – $535,000] recognized as an expense during 2012. No inventory write-downs recognized in prior periods were reversed.

As at December 31, 2012, the inventory mark-down provision totalled $5,652,000 [as at December 31, 2011 – $4,846,000]. None of the Company's inventory has been pledged as security for any liabilities of the Company.

IMPAIRMENT OF MARKETABLE SECURITIES

The Company exercises judgment in the determination of whether there are objective indicators of impairment with respect to its marketable securities. This includes making judgments as to whether a potential impairment is either significant or prolonged with respect to equity securities held.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

IMPAIRMENT OF GOODWILL

The Company reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The Company has estimated the recoverable amount of Appliance Canada, a division of the Company, to which goodwill is allocated using a discounted cash flow model that required assumptions about future cash flows, margins and discount rates.

INCOME TAXES

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

5. FINANCIAL RISK MANAGEMENT

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 table below.

Financial Instrument	Designation	Measurement	**December 31 2012**	December 31 2011
Cash and cash equivalents	Available-for-sale	Fair value	**$ 74,949**	$ 72,505
Available-for-sale financial assets	Available-for-sale	Fair value	**$ 146,735**	$ 149,318
Trade receivables	Loans and receivables	Amortized cost	**$ 30,245**	$ 28,937
Trade and other payables	Other financial liabilities	Amortized cost	**$ 73,542**	$ 86,357
Redeemable share liability	Other financial liabilities	Amortized cost	**$ 428**	$ 382

FAIR VALUE HIERARCHY

The following table classifies financial assets and liabilities that are recognized on the consolidated statements of financial position at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial Instruments at Fair Value	Hierarchy Level	**December 31 2012**	December 31 2011
Cash and cash equivalents	1	**$ 74,949**	$ 72,505
Available-for-sale financial assets – Equities	1	**$ 16,590**	$ 15,923
Available-for-sale financial assets – Bonds and Mutual Funds	2	**$ 130,145**	$ 133,393

FINANCIAL RISK FACTORS

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

(a) Market Risk

(i) Foreign currency risk – The Company is exposed to foreign currency risk. Certain merchandise is paid for in U.S. dollars. This foreign exchange cost is included in the inventory cost. The Company does not believe it has significant foreign currency risk with respect to its trade payables in U.S. dollars.

The Company is also exposed to foreign currency risk on its foreign-currency-denominated portfolio of available-for-sale financial assets, primarily related to actively traded international equities. As at December 31, 2012, the Company's investment portfolio included 11% of foreign-currency-denominated assets [as at December 31, 2011 – 10%]. This risk is monitored by the Company's investment managers in an effort to reduce the Company's exposure to foreign currency exchange rate risk.

(ii) Interest rate risk – The Company is exposed to interest rate risk through its portfolio of available-for-sale financial assets by holding cash, cash equivalents and actively traded Canadian and international bonds. At December 31, 2012, 85% of the Company's investment portfolio was made up of cash, cash equivalents and Canadian and international bonds [as at December 31, 2011 – 86%]. This risk is monitored by the Company's investment managers in an effort to reduce the Company's exposure to interest rate risk. The exposure to this risk is minimal due to the short-term maturities of the bonds held. The Company is not subject to any other interest rate risk.

(iii) Price risk – The Company is exposed to fluctuations in the market prices of its portfolio of available-for-sale financial assets. Changes in the fair value of the available-for-sale financial assets are recorded, net of income taxes, in accumulated other comprehensive income as it relates to unrecognized gains and losses. The risk is managed by the Company and its investment managers by ensuring a conservative asset allocation of bonds and equities.

(b) Credit Risk
Credit risk arises from cash and cash equivalents, available-for-sale financial assets and trade receivables. The Company places its cash and cash equivalents and available-for-sale financial assets with institutions of high creditworthiness. Maximum credit risk exposure represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

The Company has some credit risk associated with its trade receivables as it relates to the Appliance Canada division that is partially mitigated by the Company's credit management practices.

The Company's trade receivables total $30,245,000 as at December 31, 2012 [as at December 31, 2011 – $28,937,000]. The amount of trade receivables that the Company has determined to be past due [which is defined as a balance that is more than 90 days past due] is $646,000 as at December 31, 2012 [as at December 31, 2011 – $191,000] that relates entirely to the Appliance Canada division. The Company's provision for impairment of trade receivables, established through on-going monitoring of individual customer accounts, was $500,000 as at December 31, 2012 [as at December 31, 2011 – $500,000].

The majority of the Company's sales are paid through cash, credit card or non-recourse third-party finance. The Company relies on one third-party credit supplier to supply financing to its customers.

(c) Liquidity Risk
The Company has no outstanding borrowings and does not rely upon available credit facilities to finance operations or to finance committed capital expenditures. The portfolio of available-for-sale financial assets consists primarily of actively traded Canadian and international bonds. As a result of the pending acquisition of The Brick Ltd. [note 21], the Company intends to sell its investment portfolio in order to have sufficient cash on hand to fund the acquisition.

The Company expects to settle its trade and other payables within 30 days of the period end date. The redeemable share liability does not have any fixed terms of repayment.

6. CAPITAL RISK MANAGEMENT

The Company defines capital as shareholders' equity. 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 Company is not subject to any externally imposed capital requirements.

7. CASH AND CASH EQUIVALENTS

	As at December 31 2012	As at December 31 2011
Cash at bank and on hand	**$ 7,994**	$ 2,181
Short-term investments	**66,955**	70,324
Totals	**$ 74,949**	$ 72,505

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Vehicles	Computer Hardware	Building Improvements	Total
As at December 31, 2012							
Opening net book value	**$ 55,431**	**$ 88,206**	**$ 13,435**	**$ 4,312**	**$ 743**	**$ 52,031**	**$ 214,158**
Additions	**(50)**	**64**	**4,993**	**1,080**	**83**	**11,795**	**17,965**
Disposals	**—**	**—**	**—**	**8**	**—**	**—**	**8**
Depreciation	**—**	**3,887**	**2,325**	**1,484**	**453**	**5,820**	**13,969**
Closing net book value	**55,381**	**84,383**	**16,103**	**3,900**	**373**	**58,006**	**218,146**
As at December 31, 2012							
Cost	**55,381**	**184,594**	**45,449**	**23,896**	**9,198**	**99,321**	**417,839**
Accumulated depreciation	**—**	**100,211**	**29,346**	**19,996**	**8,825**	**41,315**	**199,693**
Net book value	**$ 55,381**	**$ 84,383**	**$ 16,103**	**$ 3,900**	**$ 373**	**$ 58,006**	**$ 218,146**
As at December 31, 2011							
Opening net book value	$ 55,331	$ 82,604	$ 11,061	$ 3,348	$ 1,117	$ 48,031	$ 201,492
Additions	100	9,165	4,403	2,253	164	9,253	25,338
Disposals	—	—	—	18	—	—	18
Depreciation	—	3,563	2,029	1,271	538	5,253	12,654
Closing net book value	55,431	88,206	13,435	4,312	743	52,031	214,158
As at December 31, 2011							
Cost	55,431	184,530	40,456	23,051	9,115	87,526	400,109
Accumulated depreciation	—	96,324	27,021	18,739	8,372	35,495	185,951
Net book value	$ 55,431	$ 88,206	$ 13,435	$ 4,312	$ 743	$ 52,031	$ 214,158

Included in the above balances as at December 31, 2012 are assets not being amortized with a net book value of approximately $4,371,000 [as at December 31, 2011 – $2,638,000] being construction in progress.

The Company assessed for an indicator of impairment of each CGU by comparing the CV (carrying value)/EBITDA (earnings before interest, depreciation and amortization) multiple to that of comparable public companies. Where the impairment indicator existed, the carrying value of the assets within a CGU was compared with its estimated recoverable value, which was generally considered to be the CGU's value-in-use.

When determining the CGU's value-in-use, the Company estimated the future cash flows and discounted them at an appropriate pre-tax rate for the individual CGU. Where the carrying value of the CGU's assets exceeded the recoverable amounts, as represented by the CGU's value-in-use, the stores property and equipment assets were written down.

For the year ended December 31, 2012 and 2011, there has been no impairment loss recognized.

9. INVESTMENT PROPERTIES

		Land		Buildings		Building improvements		Total
As at December 31, 2012								
Opening net book value	**$**	**8,286**	**$**	**—**	**$**	**80**	**$**	**8,366**
Additions		**—**		**—**		**—**		**—**
Disposals		**—**		**—**		**—**		**—**
Depreciation		**—**		**—**		**51**		**51**
Closing net book value	**$**	**8,286**	**$**	**—**	**$**	**29**	**$**	**8,315**
As at December 31, 2012								
Cost		**8,286**		**8,039**		**1,457**		**17,782**
Accumulated depreciation		**—**		**8,039**		**1,428**		**9,467**
Net book value	**$**	**8,286**	**$**	**—**	**$**	**29**	**$**	**8,315**
As at December 31, 2011								
Opening net book value	$	8,286	$	—	$	131	$	8,417
Additions		—		—		—		—
Disposals		—		—		—		—
Depreciation		—		—		51		51
Closing net book value	$	8,286	$	—	$	80	$	8,366
As at December 31, 2011								
Cost		8,286		8,039		1,457		17,782
Accumulated depreciation		—		8,039		1,377		9,416
Net book value	$	8,286	$	—	$	80	$	8,366

The fair value of the investment property portfolio as at December 31, 2012 was approximately $33,540,000 [as at December 31, 2011 – $29,750,000]. The fair value was compiled internally by management based on available market evidence.

10. INTANGIBLE ASSETS AND GOODWILL

	Customer Relationships	Brand Name	Non-compete Agreement	Computer Software	Total
As at December 31, 2012					
Opening net book value	**$ 1,000**	**$ 1,500**	**$ 500**	**$ 958**	**$ 3,958**
Additions	**—**	**—**	**—**	**9**	**9**
Disposals	**—**	**—**	**—**	**—**	**—**
Amortization for the year	**250**	**250**	**125**	**241**	**866**
Closing net book value	**750**	**1,250**	**375**	**726**	**3,101**
As at December 31, 2012					
Cost	**2,000**	**2,500**	**1,000**	**4,211**	**9,711**
Accumulated amortization	**1,250**	**1,250**	**625**	**3,485**	**6,610**
Net book value	**$ 750**	**$ 1,250**	**$ 375**	**$ 726**	**$ 3,101**
As at December 31, 2011					
Opening net book value	$ 1,250	$ 1,750	$ 625	$ 1,277	$ 4,902
Additions	—	—	—	(64)	(64)
Disposals	—	—	—	—	—
Amortization for the year	250	250	125	255	880
Net book value	1,000	1,500	500	958	3,958
As at December 31, 2011					
Cost	2,000	2,500	1,000	4,202	9,702
Accumulated amortization	1,000	1,000	500	3,244	5,744
Net book value	$ 1,000	$ 1,500	$ 500	$ 958	$ 3,958

IMPAIRMENT TEST OF GOODWILL

The Company performed impairment tests of goodwill as at December 31, 2012 and December 31, 2011 in accordance with the accounting policy as described in note 3. The recoverable amount of the Appliance Canada CGU, where all goodwill is allocated, was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a one year period. Cash flows beyond the one year period are extrapolated using the estimated growth rates stated below. The key assumptions used for the value-in-use calculation as at December 31, 2012 and December 31, 2011 were as follows:

	Growth Rate %	Pre-tax Discount Rate %
2012	2.0	10.8
2011	3.0	13.4

The impairment tests performed resulted in no impairment of the goodwill as at December 31, 2012 and December 31, 2011.

11. TRADE AND OTHER PAYABLES

	As at December 31 2012	As at December 31 2011
Trade payables	**$ 52,681**	$ 62,485
Other payables	**20,861**	23,872
	$ 73,542	$ 86,357

12. REDEEMABLE SHARE LIABILITY

		As at December 31 2012		As at December 31 2011
Authorized				
2,284,000 convertible, non-voting, series 2002 shares				
806,000 convertible, non-voting, series 2005 shares				
1,224,000 convertible, non-voting, series 2009 shares				
306,500 convertible, non-voting, series 2012 shares				
Issued and fully paid				
Nil series 2002 shares [December 31, 2011 – 667,748]	**$**	**—**	$	4,799
456,317 series 2005 shares [December 31, 2011 – 541,248]		**4,309**		5,111
1,045,219 series 2009 shares [December 31, 2011 – 1,115,107]		**9,250**		9,869
281,500 series 2012 shares [December 31, 2011 – nil]		**3,493**		—
Less employee share purchase loans		**(16,624)**		(19,397)
	$	**428**	$	382

Under the terms of the Plan, the Company advanced non-interest bearing loans to certain of its employees in 2002, 2005, 2009 and 2012 to allow them to acquire convertible, non-voting, series 2002 shares, series 2005 shares, series 2009 shares and series 2012 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 2002, series 2005, 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 tenth anniversary of such issue. Series 2002 shares may also be redeemed at the option of the holder or by the Company at any time after the fifth anniversary date of the issue of these shares and must be redeemed prior to the tenth anniversary of such issue. The series 2005, series 2009 and series 2012 shares are redeemable at the option of the holder for a period of one business day following the date of issue of such shares. The Company has the option to redeem the series 2005, 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 tenth 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 $7.19 per series 2002 share, $9.44 per series 2005 share, $8.85 per series 2009 share and $12.41 per series 2012 share.

Dividends paid to holders of series 2002, series 2005, series 2009 and series 2012 shares totalling approximately $465,000 [2011 – $470,000] have been used to reduce the respective shareholder loans.

During the year ended December 31, 2012, 667,748 series 2002 shares [year ended December 31, 2011 – 145,583], 84,931 series 2005 shares [year ended December 31, 2011 – 79,545] and 20,000 series 2009 shares [year ended December 31, 2011 – nil] were converted into common shares with a stated value of approximately $4,799,000 [year ended December 31, 2011 – $1,047,000], $802,000 [year ended December 31, 2011 – $751,000] and $177,000 [year ended December 31, 2011 – nil], respectively.

During the year ended December 31, 2012, the Company cancelled 49,888 series 2009 shares [year ended December 31, 2011 – 53,017] and 25,000 series 2012 shares [year ended December 31, 2011 – nil] in the amount of $442,000 [year ended December 31, 2011 – $470,000] and $310,000 [year ended December 31, 2011 – nil], respectively.

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

During the year ended December 31, 2012, the Company issued 306,500 series 2012 shares for proceeds of $3,804,000. In addition, the Company advanced non-interest-bearing loans in the amount of $3,804,000 to certain of its employees to acquire these shares.

13. COMMON SHARES

	As at December 31 2012	As at December 31 2011
Authorized		
Unlimited common shares		
Issued		
70,564,905 common shares [December 31, 2011 – 69,815,734]	**$ 26,693**	$ 20,918

During the year ended December 31, 2012, 667,748 series 2002 shares [year ended December 31, 2011 – 145,583], 84,931 series 2005 shares [year ended December 31, 2011 – 79,545] and 20,000 series 2009 shares [year ended December 31, 2011 – nil] were converted into common shares with a stated value of approximately $4,799,000 [year ended December 31, 2011 – $1,047,000], $802,000 [year ended December 31, 2011 – $751,000] and $177,000 [year ended December 31, 2011 – nil], respectively.

During the year ended December 31, 2012, the Company repurchased 23,506 [year ended December 31, 2011 – 484,727] of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bid at a net cost of approximately $286,000 [year ended December 31, 2011 – $6,334,000]. All shares repurchased by the Company pursuant to its Normal Course Issuer Bid have been cancelled. The repurchase of common shares resulted in a reduction of share capital in the amount of approximately $3,000 [year ended December 31, 2011 – $57,000]. The excess net cost over the average carrying value of the shares of approximately $283,000 [year ended December 31, 2011 – $6,277,000] has been recorded as a reduction in retained earnings.

As at December 31, 2012, the dividends payable were $7,055,000 [$0.10 per share] and as at December 31, 2011 were $17,457,000 [$0.25 per share].

14. REVENUE

	Year Ended December 31 2012	Year Ended December 31 2011
Sale of goods by corporate stores	**$ 663,350**	$ 663,607
Income from franchise operations	**10,426**	10,434
Extended warranty revenue	**7,594**	8,055
Rental income from investment property	**793**	740
	$ 682,163	$ 682,836

15. EXPENSES BY NATURE

	Year Ended December 31 2012	Year Ended December 31 2011
Depreciation of property, plant and equipment and investment properties	**$ 14,020**	$ 12,705
Amortization of intangible assets	**$ 866**	$ 880
Operating lease payments	**$ 5,488**	$ 3,631
Gain on sale of property, plant and equipment	**$ 15**	$ 21

16. INCOME TAX EXPENSE

(A) THE MAJOR COMPONENTS OF INCOME TAX EXPENSES FOR THE YEAR ENDED ARE AS FOLLOWS:

Statements of Income	December 31 2012	December 31 2011
Current income tax expense		
Based on taxable income of the current year	**$ 16,358**	$ 20,636
Adjustments in respect of prior years	**—**	(462)
	16,358	20,174
Deferred income tax expense		
Origination and reversal of temporary differences	**504**	1,852
Impact of change in tax rates/new tax laws	**39**	156
	543	2,008
Income tax expense reported in the statements of income	**16,901**	22,182
Statements of Other Comprehensive Income		
Deferred income tax		
Unrealized gain/(loss) on available-for-sale financial assets	**373**	(95)
Total income tax expense	**$ 17,274**	$ 22,087

(B) RECONCILIATION OF THE EFFECTIVE TAX RATES ARE AS FOLLOWS:

	2012		2011	
Income before income taxes	**$ 63,683**		$ 78,848	
Income tax expense based on statutory rate	**16,882**	**26.51%**	22,219	28.18%
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes				
Non-deductible items	**88**	**0.14%**	86	0.11%
Rate differences related to origination and reversal of temporary differences	**39**	**0.06%**	156	0.20%
Remeasurement of deferred tax asset for rate changes	**—**	**—**	66	0.08%
Other	**(108)**	**(0.17%)**	(345)	(0.44%)
Income tax expense reported in the statements of income	**$ 16,901**	**26.54%**	$ 22,182	28.13%

(C) DEFERRED INCOME TAX BALANCES AND RECONCILIATION ARE AS FOLLOWS:

(i) Deferred income taxes relates to the following:	December 31 2012	December 31 2011
Deferred income tax assets		
Deferred warranty plan	**$ 3,114**	$ 3,628
Unrealized gains/(losses) on available-for-sale investments	**(316)**	(57)
Property, plant and equipment	**(2,270)**	(2,241)
Total deferred income tax assets	**$ 528**	$ 1,444

(ii) Deferred income tax movements are as follows:	2012	2011
Expense (benefit)		
Deferred warranty plan	**$ 513**	$ 1,111
Property, plant and equipment	**30**	897
Net deferred income tax expense – Statement of income	**543**	2,008
Unrealized gains/(losses) on available-for-sale investments	**373**	(95)
Net deferred income tax expense (benefit) – Other comprehensive income	**373**	(95)
Total deferred income tax expense	**$ 916**	$ 1,913

(iii) Reconciliation of net deferred tax asset is as follows:	2012	2011
Balance, beginning of year	**$ 1,444**	$ 3,357
Tax expense during the period recognized in profit or loss	**(543)**	(2,008)
Tax (expense) benefit during the period recognized in other comprehensive income	**(373)**	95
Balance, end of year	**$ 528**	$ 1,444

17. EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of shares outstanding. The weighted average number of common shares used in the basic earnings per share calculations amounted to 70,032,721 for the year ended December 31, 2012 [year ended December 31, 2011 – 69,969,417]. The following table reconciles the profit for the period and the number of shares for the basic and diluted earnings per share calculations:

	Year Ended December 31 2012	Year Ended December 31 2011
Profit for the year for basic earnings per share	**$ 46,782**	$ 56,666
Profit for the year for diluted earnings per share	**46,782**	56,666
Weighted average common shares outstanding	**70,032,721**	69,969,417
Dilutive effect [note 13]	**2,284,877**	2,336,007
Diluted weighted average common shares outstanding	**72,317,598**	72,305,424
Basic earnings per share	**0.67**	0.81
Diluted earnings per share	**0.65**	0.78

18. COMMITMENTS AND CONTINGENCIES

[a] There were no outstanding commitments to complete any construction projects as at December 31, 2012 [December 31, 2011 – to complete at two locations at an approximate cost of $4,407,000].

[b] The Company is obligated under operating leases for future minimum annual rental payments for certain land and buildings as follows:

No later than 1 year	$ 6,608
Later than 1 year and no later than 5 years	24,405
Later than 5 years	28,139
	$ 59,152

[c] The future minimum lease payments receivable under non-cancellable operating leases for certain land and buildings classified as investment property are as follows:

No later than 1 year	$ 754
Later than 1 year and no later than 5 years	2,312
Later than 5 years	1,185
	$ 4,251

[d] The Company has issued approximately $255,000 in letters of credit primarily with respect to buildings under construction or being completed [as at December 31, 2011 – $255,000].

[e] Pursuant to a reinsurance agreement relating to the extended warranty sales, the Company has pledged available-for-sale financial assets amounting to $20,980,000 [as at December 31, 2011 – $20,257,000] and provided a letter of credit of $1,500,000 [as at December 31, 2011 – $1,500,000] for the benefit of the insurance company.

[f] In the normal course of operations, the Company is party to a number of lawsuits, claims and contingencies. Accruals are made in instances where it is probable that liabilities have been incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company does not believe that the ultimate outcome of these matters will have a material impact on its consolidated financial position.

19. CONSOLIDATED STATEMENTS OF CASH FLOWS

[a] The net change in non-cash working capital balances related to operations consists of the following:

	Year Ended December 31 2012	Year Ended December 31 2011
Trade receivables	**$ (1,308)**	$ (368)
Inventories	**1,773**	(2,407)
Income taxes recoverable	**1,538**	(5,706)
Other assets	**158**	143
Trade and other payables	**(12,883)**	1,953
Customers' deposits	**1,229**	1,959
	$ (9,493)	$ (4,426)

[b] During the year, property, plant and equipment were acquired at an aggregate cost of $17,965,000 [2011 – $25,338,000], of which $942,000 [2011 – $874,000] is included in trade and other payables as at December 31, 2012.

20. RELATED PARTY TRANSACTIONS

Key Management Compensation

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

	Year Ended December 31 2012	Year Ended December 31 2011
Salaries and other short-term employee benefits	**$ 3,056**	$ 3,416

21. SUBSEQUENT EVENT

On November 11, 2012, the Company announced that it had entered into definitive agreements to acquire all the outstanding shares of The Brick Ltd. ("The Brick"), subject to approval by the Competition Bureau and other customary closing conditions. The total consideration for The Brick is approximately $700 million.

The cash consideration of the purchase price along with the transaction costs will be funded with cash on hand, convertible debentures and bank debt. This acquisition will be accounted for as a business combination. The Company expects the transaction to close in the first quarter of 2013. The purchase method of accounting will be used and the results of operations will be consolidated from the date of acquisition.

During the fourth quarter of 2012, the Company incurred total acquisition costs of $3,317,000, of which $1.3 million have been capitalized related to the pending issuance of debt. The remaining amount of $2.0 million has been expensed as incurred in accordance with *IFRS 3, Business Combinations*.

In connection with the acquisition, on January 31, 2013, the Company entered into a senior secured credit agreement that is effective upon The Brick acquisition being consummated. The available credit facilities include:

[a] a term credit facility of $400 million; and

[b] a revolving credit facility of up to $100 million

The facilities bear interest at floating rates based on Canadian prime, Bankers Acceptance and LIBOR rates plus an applicable standby fee on undrawn amounts. The issuances of any letters of credit constitute utilization of the revolving credit facility. The term credit facility is repayable in quarterly amounts ranging from $5,000,000 to $15,000,000 beginning September 30, 2013 and ending four years after the closing date of the acquisition. The revolving credit facility expires four years after the closing date of the acquisition. The Company can prepay without penalty amounts outstanding under the facilities at any time.

22. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to confirm to the presentation of the 2012 financial statements.

CORPORATE AND SHAREHOLDER INFORMATION

BOARD OF DIRECTORS
Joseph M. Leon
Doctor of Medicine, Welland

Mark J. Leon
Toronto

Terrence T. Leon
Toronto

Edward F. Leon
King City

Peter B. Eby
Private Investor, Toronto

Alan J. Lenczner
Barrister, Partner in
Lenczner Slaght Griffin, Toronto

Mary Ann Leon
Financial Executive, Toronto

Frank Gagliano
Vice Chairman,
St. Joseph Communications, Toronto

OFFICERS
Mark J. Leon
Chairman of the Board

Terrence T. Leon
President and CEO

Dominic Scarangella
Vice President and CFO

Edward F. Leon
Vice President, Merchandising

Robert J. MacNelly
Vice President, Marketing

John A. Cooney
Corporate Secretary

CORPORATE OFFICE
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AUDITORS
Ernst & Young LLP
Toronto

REGISTRAR AND TRANSFER AGENT
CIBC Mellon Trust Company
Toronto

Canadian Stock Transfer Company, Inc.
acts as the Administrative Agent for
CIBC Mellon Trust Company.

LISTING
Leon's shares are listed on the
Toronto Stock Exchange
Ticker Symbol is LNF

ANNUAL GENERAL MEETING
May 14, 2013 2:00 PM
Library Room, Fairmont Royal York
100 Front Street West,
Toronto, Ontario

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