Bigger and Better

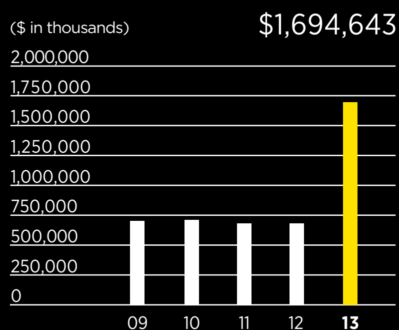
Annual Report 2013

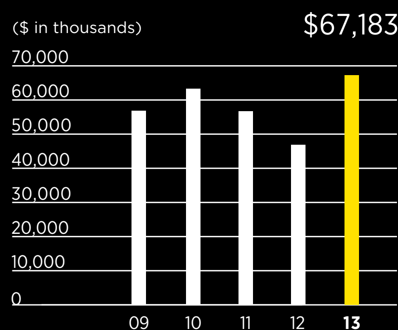
ABOUT US

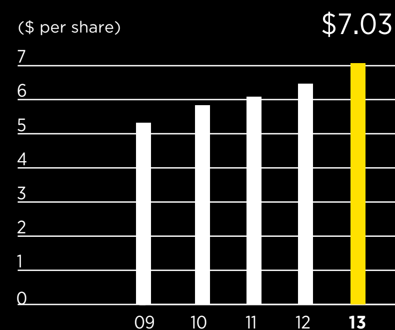
Founded in 1909 by Ablan Leon, Leon's Furniture Limited has grown into the largest home furnishing retailer in Canada, with a modern network of 312 stores selling a wide range of furniture, major appliances and home electronics. Today, with annual total system-wide sales of over $2 billion and over 8,600 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.

Financial Highlights

($ in thousands, except per share amounts)	2013	2012	% Change
Revenue	**$ 1,694,643**	$ 682,163	148.4%
Income before income taxes	**91,556**	63,683	43.8%
Net income	**67,183**	46,782	43.6%
Cash generated from operations	**83,120**	49,221	68.9%
Dividends paid	**28,239**	38,449	(26.6%)
Per common share			
Net income	**$ 0.95**	$ 0.67	41.8%
Cash flow generated from operations	**$ 1.18**	$ 0.70	68.6%
Dividends declared	**$ 0.40**	$ 0.40	–
Shareholders' equity at year end	**$ 7.03**	$ 6.46	8.8%







Note: Leon's 2013 results include operations of The Brick Ltd. from March 28, 2013.

Leon's March 28, 2013 acquisition of The Brick Ltd. **created the biggest retailer of home furnishings, appliances and electronics in Canada.** This landmark combination of industry leaders has also made us a better retailer, with significantly higher earnings per share in 2013 and abundant opportunity to keep improving the profitability of our business over the next several years.

A Remarkable Year

Of the many milestones Leon’s has achieved since 1909, none has been greater than last year’s acquisition of The Brick Ltd. Today, our two storied brands comprise the largest retail network for home furnishings, appliances and electronics in Canada, but our plans to realize the full potential of this historic combination have just begun.

TERRENCE T. LEON, President and Chief Executive Officer

THE IMPACT OF THE APPROXIMATELY $700 million purchase of The Brick was most clearly visible in Leon’s 2013 financial results. For the year, system-wide sales were $2,039 million including $344.8 million of franchise sales, compared to
$880.2 million in system-wide sales and $198.1 million in franchise sales in 2012.
Net income also increased significantly, rising in every successive quarter of 2013 and ending the year at $67.2 million or $0.95 per common share, an increase of 41.8 percent. This improvement reflects the earnings contribution from The Brick as of March 28, 2013 as well as other factors.

Beyond the immediately positive effect the acquisition of The Brick had on Leon’s financial results, its greatest value is yet to be realized as we integrate and optimize the core functions of our combined operations over the next few years. In doing so, however, we will be careful to preserve the hard-earned market positions of both banners by managing The Brick and Leon’s as separate operating divisions.

The Brick’s winning corporate culture helped make this an easy decision. Similar to Leon’s, it is a successful, family-founded business. The Brick’s greatest intangible asset is the enormous goodwill that has come from treating its customers, employees and communities with care and respect over the past 43 years. As a result, our two major banners serve surprisingly distinct customer groups within the competitive landscape. Both also command a position of relative strength in their original markets. The acquisition of The Brick has significantly strengthened Leon’s presence in Western Canada—the country’s fastest growing region—while enhancing the geographic diversification of our business.

Although Leon’s and The Brick will continue to operate under separate banners, integration teams drawn from both divisions have been working from day one to identify operating synergies and leverage the best practices throughout our core business processes. Our first order of business has been information systems, where we have already approved the development of a next-generation platform that will allow us to standardize processes across both divisions. It will also make it easier for customers to choose when and how they wish to shop with us by expanding our online retailing presence and adding the capacity to incorporate emerging mobile technologies.

The acquisition of The Brick has also given us the opportunity to improve the way we provide warranty service to our customers. While Leon’s warranty work was previously outsourced, we now own a separate service company that is generating profit by handling the service work of our combined operations as well as third-party clients.

Our combined team will have access to national buying opportunities in merchandising and marketing, and a national distribution network that will enable us to **greatly enhance our online shopping capabilities.**

We have **significantly increased earnings per share** with abundant opportunity for ongoing improvements as fundamental business processes are integrated and optimized.

While our greatest opportunities for income growth are within the walls of our existing operations, we will also continue to pursue the expansion of both divisions in selected markets. In 2013, we celebrated the grand openings of Leon's corporate stores in Orangeville and Brantford, Ontario, and Sherbrook, Quebec. We also celebrated the grand openings of a new Leon's franchise store in Saint-Georges, Quebec and two new Brick franchise stores in Collingwood, Ontario and Swan River, Manitoba. In addition, new Brick stores opened in Hamilton and Waterloo, Ontario. Also, three Brick stores were remodeled in Hamilton, Kitchener and Scarborough, Ontario. Finally, a brand new replacement store was opened in Brantford, Ontario

As you will see on pages 6 and 7 of this report, Leon's is a bigger company than ever before. Today, our retail network consists of 312 stores and six strong banners from coast to coast. It is complemented by the industry's most extensive distribution network as well as in-house service capabilities that back up every product we sell. These are the three pillars of success in our business and each of them has been significantly strengthened during the course of the past year.

After 105 years in this business, we have also learned that opportunities to acquire another industry leader don't come along every day. Our ability to take advantage of this opportunity was a function of Leon's traditionally conservative approach to financial management, including a balance sheet that was debt free at the end of 2012.

Our financial strength made it possible to seize this compelling opportunity amid the slow pace of growth in the Canadian retail sector. We took on a prudent amount of debt to do so, in a relatively low interest rate environment, and are confident in our ability to retire this amount from the cash flows of the business over the next few years. In the meantime, we have significantly increased earnings per share with abundant opportunity for ongoing improvement as fundamental business processes are integrated and optimized.

As for the year ahead, we expect that the Canadian economy will continue to grow at a modest pace, as consumers remain cautious about the prospects for a full economic recovery. Generating growth within this environment has been a challenge for Leon's and most other Canadian retailers. We have been in business long enough to know that pent-up demand will lead to stronger consumer spending in our industry but do not expect this to happen until the latter half of 2014 at the earliest.

In closing, I would like to extend my sincere appreciation to all of the talented executives, corporate and franchised store management teams and associates throughout our operating divisions. Together, they have gone about the business of serving our customers well, despite the distractions and demands of a truly remarkable year. With their continued support, I am confident that we will continue to improve Leon's performance and successfully advance our growth initiatives in the year ahead.

(signed)

TERRENCE T. LEON
President and Chief Executive Officer

The Brick's Midnorthern Appliance banner and Appliance Canada make Leon's the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies.

Coast to Coast

SINCE LEON'S WAS FOUNDED MORE than a century ago, our history has been one of continuous expansion and innovation. In 2013, we took the biggest step in our evolution to date with the acquisition of The Brick Ltd. This combination of industry leaders represents the largest network of home furnishing, appliance and electronics stores in Canada.

On March 28, 2013, Leon's completed the acquisition of The Brick Ltd. for approximately $700 million. This landmark transaction created the largest retailer of home furnishings, appliances and electronics in Canada, with a national network of more than 300 stores that stretches from coast to coast and strengthened our presence in the fastest growing regions of the country. The Brick's well-known retail banners include: The Brick, United Furniture Warehouse, The Brick Mattress Store, Brick Clearance Centres, and Midnorthern Appliance. The Midnorthern Appliance banner, in combination with Leon's Appliance Canada banner, has made us the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies.

Equally important, this transaction has brought together two storied Canadian companies with complementary geographic footprints that strengthen our position in the home furnishings marketplace. We are also a great cultural fit. Like Leon's, The Brick was a family-founded company that began with a single store. Over the past 43 years, The Brick experienced rapid growth in Western Canada and across the country, ultimately creating a national retail network of 231 stores.

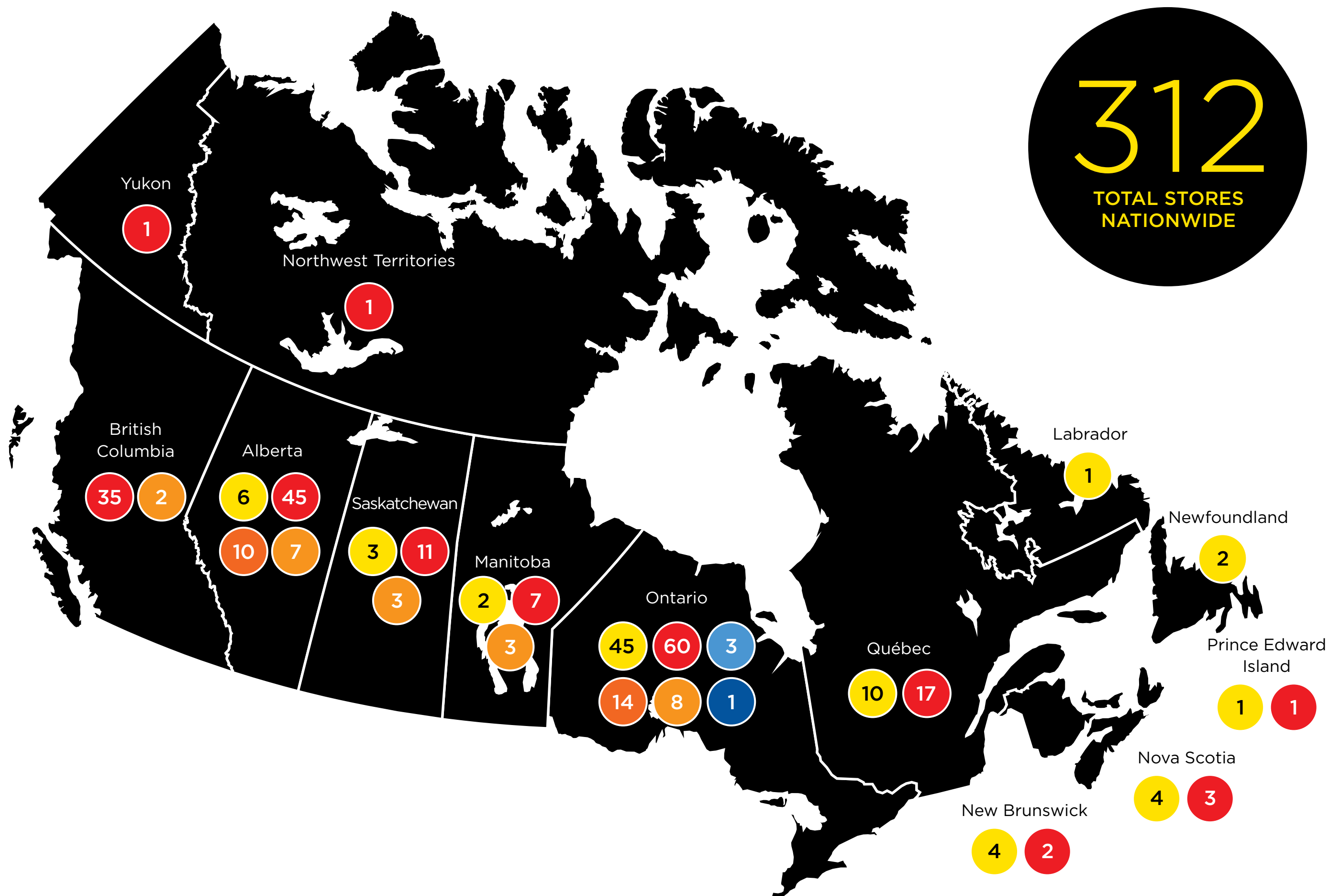
100+ Years of Leon's History

1909
The A. Leon Co. 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.



78 Leon's Furniture stores[1]

183 The Brick stores[2]

24 The Brick Mattress stores

23 United Furniture Warehouse stores

03 Appliance Canada stores

01 Midnorthern Appliance stores

1) Includes 34 Leon's franchise stores
2) Includes 69 The Brick franchise stores

Other corporate brands: First Oceans, Trans Global Service, Trans Global Insurance, Trans Global Warranty

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, three of which opened in 2013.

2013
Leon's acquires The Brick creating Canada's largest home furnishing, appliance and electronics retailer, with a network of 312 stores from coast to coast.

A Vital Part of Our Communities

Leon's has always been committed to giving something back to the Canadian communities that have welcomed our stores and made us a prosperous and growing company for the past 105 years. This proud tradition continued during the past year in the hundreds of communities served by the retail store networks of Leon's and The Brick.

LEON'S AND THE BRICK SHARE a long-standing tradition of supporting the communities in which we operate, both corporately, and through the time and resources our stores and associates contribute to important social causes each year. To achieve the greatest possible impact, our divisions share a similar focus on improving the health and well-being of our communities.

The largest recipient of Leon's support is The Boys & Girls Clubs of Canada, a leading charitable organization that provides programs to children and youth that support the healthy physical, educational and social development of 200,000 young people and their families each year. In 700 locations across the country, dedicated staff and volunteers offer access to affordable opportunities for physical recreation, tutoring, technology learning, life and leadership skills development, arts exploration and more. Many Clubs also provide nutritious snacks and meals, emergency shelter, family support programs and other support to children, youth and family at risk.

Each Club creates a safe, supportive environment where young people can experience new opportunities, develop healthy attitudes and behaviours, overcome personal challenges, build positive relationships and develop confidence and skills for life. Boys & Girls Clubs have been helping Canadians discover, develop and achieve their potential for more than 100 years.

Leon's has also traditionally supported the local hospitals in each of the communities served by our retail network across Canada. Our associates also continue to volunteer for 100 hours in each community across Canada in where we have stores.

The Brick's charitable initiatives also continue to be focused on the health and well-being of the communities that are home to our stores. Among these is Habitat for Humanity Canada, a non-profit organization working for a world where everyone has a safe and decent place to live. With the help of over 300,000 volunteers and 72 organizations from coast to coast, their mission is to break the cycle of poverty through affordable housing and the promotion of home ownership. We are proud to support Habitat for Humanity Canada in a Bronze level partnership that includes fundraising, volunteering and championing the cause of affordable housing in communities across the country.

The Brick is also a proud supporter of Breakfast for Learning—a community of Canadians who believe that children deserve the very best chance of success in life.

We continue to support our communities on both a **national and local level.**

This includes making sure they are well nourished and ready to learn throughout the school day. In more than 2,200 school and community sites every year, Breakfast for Learning brings concerned citizens together to engage local expertise and resources to meet the needs of their child nutrition programs and the students it serves. The Brick is proud to support Breakfast for Learning through direct financial and marketing support and through the volunteer efforts of associates across the country.

The Brick is also the founder and avid supporter of The Brick Super Novice Hockey Tournament, a renowned international tournament held each summer at West Edmonton Mall. The tournament gives nine- and 10-year old hockey players from Western Canada a chance to skate with some of the best teams from the rest of the country and the United States. Many charities are the beneficiaries from funds that have been generously donated as a result of this tournament.

The Brick is also proud to sponsor the Sunshine Gala at Alberta Children's Hospital, an annual event that helps the hospital provide the highest possible level of care to children in need throughout the province.

We also believe in helping out when the unexpected happens. This past summer, Leon's and The Brick teamed up to help victims of the extensive flooding in Calgary and other parts of southern Alberta. Under the Leon's/Brick Southern Alberta Flood Relief Initiative, we matched contributions from our associates and customers to raise funds for the Canadian Red Cross to aid flood relief work.

Founded in 1985, Habitat for Humanity Canada is a national, non-profit organization dedicated to breaking the cycle of poverty through affordable housing and the promotion of home ownership. The Brick is a proud supporter of this vital organization through a Bronze level partnership that includes fundraising, volunteering and championing the cause of affordable housing in communities across the country.

History in the Making

Leon's acquisition of The Brick in March 2013 marked the latest step in a journey that began 105 years ago. It was then that a poor but industrious Lebanese immigrant named Ablan Leon opened a small dry goods store on King Street in Welland, Ontario and founded the A. Leon Company.

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 capably writing new chapters in Leon's history of continuous improvement and growth. In 2013, they took the largest step in Leon's history with the acquisition of The Brick, a transformational event that has created the largest network of home furnishing, appliance and electronics stores in Canada.

Founded in 1971 as a single store in Edmonton, Alberta, in 1982, The Brick opened stores in Calgary and Fort McMurray and two years later began its expansion across Canada with two new stores in the Toronto market. By 1999, the first of The Brick's franchise stores opened in Hinton, Alberta. In the years that followed, The Brick would go on to purchase United Furniture Warehouse and Midnorthern Appliance, and ultimately create a retail store network with 231 locations across the country.

The combination of our two storied franchises represents a landmark event in the retailing industry and a made-in-Canada success story in a period of increasing globalization. Together, we possess the largest network of home furnishing stores in Canada and a shared commitment to create value for all the customers, associates, communities and investors who depend on our continued success.

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

We continue to honour Ablan Leon's belief that business is won through **fairness, integrity and trust.**

BOARD REPORTING GROUP

The senior executives who report to Leon's Board of Director's have been together for more than 20 years with the exception of Jim Caldwell, who was appointed President of The Brick in 2013. In conjunction with the rest of the senior management teams at Leon's and The Brick, these executives are responsible for planning and executing the Company's strategic planning, including the integration and optimization of our newly combined operations.

Mark J. 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.

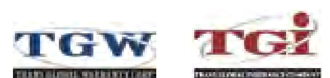
Terrence T. Leon: Appointed a Director in 2009, Terry has served as President and Chief Executive Officer of the company since 2005. He was President and Chief Operating Officer from 2002 to 2005 and Vice President and Chief Financial Officer from 1989 to May 2002.

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.

Jim Caldwell: Jim joined The Brick in 2010 as Senior Vice President of Operations. He was appointed President of The Brick Ltd. in September 2013.

Our family of furniture leaders:



5-Year Review

Leon's 2013 results include operations of The Brick Ltd. from March 28, 2013.

Income Statistics

($ in thousands, except earnings per share)	2013	2012	2011	2010	2009[1]
Revenue	$ 1,694,643	$ 682,163	$ 682,836	$ 710,435	$ 703,180
Cost of sales	959,307	398,704	394,099	412,379	419,819
Gross profit	735,336	283,459	288,737	298,056	283,361
Operating expenses net of finance income and gain on sale of capital property	643,780	219,776	209,889	207,871	200,827
Income before income taxes	91,556	63,683	78,848	90,185	82,534
Provision for income taxes	24,373	16,901	22,182	26,901	25,670
Net income	$ 67,183	$ 46,782	$ 56,666	$ 63,284	$ 56,864
Common shares outstanding ('000)	70,612	70,033	69,969	70,372	70,714
Earnings per common share	$ 0.95	$ 0.67	$ 0.81	$ 0.90	$ 0.80
Percent annual change in sales	148%	(0.1%)	(3.9%)	1.0%	(5.0%)
Net income as a percentage of sales	4.0%	6.9%	8.3%	8.9%	8.1%
Dividend declared	$ 28,247	$ 28,047	$ 36,371	$ 22,492	$ 33,951

Balance Sheet Statistics

($ in thousands, except per share amounts)	2013	2012	2011	2010	2009[1]
Shareholders' equity	$ 496,555	$ 452,187	$ 425,461	$ 410,286	$ 375,138
Total assets	1,682,174	588,178	584,411	566,674	529,156
Purchase of capital assets	18,984	17,897	24,999	13,567	10,545
Working capital	(16,262)	226,208	204,649	200,826	163,626
Shareholders' equity per common share	7.03	6.46	6.08	5.83	5.31
Common share price range on the Toronto Stock Exchange					
High	$ 14.75	$ 13.47	$ 15.65	$ 15.10	$ 10.81
Low	$ 11.62	$ 10.55	$ 10.56	$ 10.35	$ 7.75

[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 27, 2014 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, 2013 and for the year ended December 31, 2013. It should be read in conjunction with the fiscal year 2013 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2013 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; dependency on product from third party suppliers and changes to the Canadian bank lending rates. Given these economic risks and uncertainties and the integration risk associated with the acquisition of The Brick Ltd., 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 the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The amounts expressed are in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding, before and after considering the potential dilutive effects of the convertible debentures for the applicable period.

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the fiscal year 2013 consolidated financial statements and MD&A were approved on February 27, 2014.

Introduction

On November 11, 2012, Leon's Furniture Limited and The Brick Ltd. ("The Brick") announced that they had entered into a definitive agreement (the "Leon's Arrangement") that provided for Leon's to acquire 100% of The Brick's outstanding common shares for $5.40 per outstanding common share, and to acquire for cancellation 100% of the outstanding common share purchase warrants for $4.40 per common share purchase warrant.

Immediately upon completion of the Leon's Arrangement, which occurred on March 28, 2013, all outstanding common shares and common share purchase warrants were repurchased in accordance with the Leon's Arrangement and are no longer listed for trading on the Toronto Stock Exchange. The total consideration paid to shareholders and warrant holders of The Brick was approximately $700 million. As a result of this transaction, 100% of The Brick's common shares are owned by Leon's Furniture Limited.

With the acquisition of The Brick, Leon's Furniture Limited is the largest network of home furnishings, mattresses, appliances and electronics stores in Canada. The Brick's retail banners include: The Brick, Brick Clearance Centres, The Brick Mattress Store and United Furniture Warehouse. Finally, the addition of The Brick's Midnorthern Appliance banner alongside the Appliance Canada banner, makes the Company the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies.

As a result of this major acquisition, Leon's now has in excess of 300 retail stores from coast to coast in Canada under the various banners indicated below, which also includes over 100 franchise locations.

Banner	
Leon's banner corporate stores	44
Leon's banner franchise stores	34
Appliance Canada banner stores	3
The Brick banner corporate stores[1]	112
The Brick banner franchise stores	69
Brick Clearance Centres banner stores	3
The Brick Mattress Store	24
United Furniture Warehouse banner stores	23
Total number of stores	**312**

[1]*Includes the Midnorthern Appliance banner*

Revenues and Expenses

For the year ended December 31, 2013, total system wide sales were $2,039,428,000, which includes $1,694,643,000 of corporate sales and $344,785,000 of franchise sales ($880,240,000 including $198,077,000 of franchise sales in 2012).

Overall, same store corporate sales decreased by 1.6%. The decrease in same store sales for the year, compared to the prior year, reflected a continuation of weak consumer confidence, decrease in housing starts and increase in consumer debt. These were among the factors that also resulted in downward pressure on retail pricing.

Our gross margin for the year increased from 41.6% to 43.4%, as compared to the prior year. The increase was mainly attributable to the inclusion of The Brick's gross margins and higher vendor rebates achieved in the appliance category compared to the prior year.

For the year, net operating expenses of $623,850,000 were up $400,213,000 as compared to 2012. The increase compared to the comparative period was mainly due to expenses relating to the inclusion of The Brick's operations since its acquisition on March 28, 2013. Excluding this factor, operating expenses were in line with the prior comparative period.

As a result of the above, net income for the year was $67,183,000, $0.95 per common share ($46,782,000, $0.67 per common share in 2012), an increase of 41.8% per common share.

For the three months ended December 31, 2013, total system wide sales were $633,871,000, which includes $523,025,000 of corporate sales and $110,846,000 of franchise sales ($248,187,000 including $59,725,000 of franchise sales in 2012).

Similar to the yearly same store trend the same store corporate sales decreased by 2.1% for the fourth quarter. In addition to the economic factors noted above, severe weather conditions in Eastern Canada impacted the sales during the fourth quarter compared to the prior year's quarter.

As well franchise sales decreased in the fourth quarter of 2013. The sales decrease is mainly attributable to the same factors as noted for the corporate same store decrease.

Net income for the fourth quarter of 2013 was $26,034,000, $0.37 per common share ($16,121,000, $0.23 per common share in 2012), an increase of 60.9% per common share. These figures include The Brick Ltd. results since March 28, 2013.

Annual Financial Information

($ in thousands, except earnings per share and dividends)	2013	2012	2011
Corporate sales	**$ 1,694,643**	$ 682,163	$ 682,836
Franchise sales	**344,785**	198,077	196,725
Total system wide sales	**$ 2,039,428**	$ 880,240	$ 879,561
Net income	**$ 67,183**	$ 46,782	$ 56,666
Earnings per share			
Basic	**$ 0.95**	$ 0.67	$ 0.81
Diluted	**$ 0.87**	$ 0.65	$ 0.78
Total assets	**$ 1,682,174**	$ 588,178	$ 584,411
Common share dividends declared	**$ 0.40**	$ 0.40	$ 0.37
Special common share dividends declared	**$ –**	$ –	$ 0.15
Convertible, non-voting shares dividends declared	**$ 0.20**	$ 0.20	$ 0.20

Liquidity and Financial Resources

($ in thousands, except dividends per share)	December 31 2013	December 31 2012	December 31 2011
Cash, cash equivalents, available-for-sale financial assets	**$ 43,272**	$ 221,684	$ 221,823
Trade and other accounts receivable	**104,275**	27,961	28,937
Inventory	**277,656**	86,057	87,830
Total assets	**1,682,174**	588,178	584,411
Working capital	**(16,262)**	226,208	204,649

For the 3 months ended	Current Quarter December 31 2013	Prior Quarter September 30 2013	Prior Quarter June 30 2013
Cash flow (used in) provided by operations	**$ (10,973)**	$ 59,049	$ 40,280
Purchase of property, plant and equipment	**12,347**	4,577	822
Dividends paid	**7,062**	7,062	7,060
Dividends paid per share	**$ 0.10**	$ 0.10	$ 0.10

Common Shares

At December 31, 2013, there were 70,634,709 common shares issued and outstanding. During 2013, no shares were repurchased and cancelled by the Company through its Normal Course Issuer Bid which has now expired. In addition, during the year ended December 31, 2013, 69,804 convertible, non-voting series 2005 shares were converted into common shares. There were 36,754 convertible, non-voting series 2009 shares, 12,792 convertible, non-voting series 2012 shares and 35,000 convertible, non-voting series 2013 shares cancelled. For details on the Company's commitments related to its redeemable shares, please refer to Note 15 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
Long term debt	$ 568,611	$ 81,555	$ 126,364	$ 247,985	$ 112,707
Operating leases[1]	741,945	68,364	129,656	116,381	427,544
Trade and other payables	202,618	202,618	–	–	–
Finance lease liabilities	273,978	12,877	24,976	23,401	212,724
Total contractual obligations	**$ 1,787,152**	**$ 365,414**	**$ 280,996**	**$ 387,767**	**$ 752,975**

[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 2 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, 2013, we had no transactions with related parties as defined in *IAS 24 – Related Party Disclosures,* except those pertaining to transactions with key management personnel in the ordinary course of their employment.

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, 2014 available on *www.sedar.com.*

Quarterly Results

QUARTERLY INCOME STATEMENT

($ in thousands, except per share data)	Quarter Ended		Quarter Ended		Quarter Ended		Quarter Ended	
	Dec. 31 2013[1]	Dec. 31, 2012	**Sept. 30 2013[1]**	Sept. 30, 2012	**June 30 2013[1]**	June 30 2012	**March 31 2013[1]**	March 31 2012
Corporate sales	**$ 523,025**	$ 188,462	**$ 528,602**	$ 174,175	**$ 480,559**	$ 162,095	**$ 162,458**	$ 157,431
Franchise sales	**110,846**	59,725	**100,017**	49,505	**92,822**	45,627	**41,097**	43,220
Total system wide sales	**633,871**	248,187	**628,619**	223,680	**573,381**	207,722	**203,555**	200,651
Net income per share	**$ 0.37**	$ 0.23	**$ 0.30**	$ 0.19	**$ 0.20**	$ 0.13	**$ 0.08**	$ 0.12
Fully diluted per share	**$ 0.33**	$ 0.22	**$ 0.27**	$ 0.18	**$ 0.18**	$ 0.12	**$ 0.07**	$ 0.12

[1]The Company's quarterly results for the quarter ended December 31, September 30, June 30, and March 31, 2013, include the results of The Brick from the acquisition date of March 28, 2013.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported on a timely basis to senior management, including the Chief Executive Officer and Chief Financial Officer so that appropriate decisions can be made by them regarding public disclosure. Except for the limitation in scope and design of operating effectiveness of the Company's disclosure controls and procedures as noted below, 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, 2013.

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, 2013, 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. Except for the limitation in scope as noted below, based on this assessment, the CEO and the CFO concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013.

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, 2013 and ended on December 31, 2013 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.

Limitation on Scope

The Company acquired The Brick Ltd. effective March 28, 2013, management has not fully completed its review of internal controls over financial reporting for this newly acquired organization. Since this acquisition occurred within the 365 days of the reporting period, management has limited the scope of design and subsequent evaluation of disclosure controls and procedures and internal controls over financial reporting, as permitted under Section 3.3 of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings. For the period covered by this MD&A, management has undertaken additional procedures to satisfy itself with respect to the accuracy and completeness of the acquired operation's financial information.

Outlook

Overall we are pleased with the significant increase in sales and solid profit growth we experienced with the purchase of The Brick since the acquisition on March 28, 2013. Even though we anticipate continued poor economic growth going forward, we expect to see a continuation of improved sales and profit growth in 2014, as a result of the acquisition of The Brick.

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 (page 14). 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 revenue (an IFRS measure) and comparable store sales is provided below:

($ in thousands)	**2013**	2012
Revenue[1]	**$ 1,694,643**	$ 1,640,399
Adjustments for stores not in both fiscal periods[2]	**(80,172)**	–
Comparable store sales	**$ 1,614,471**	$ 1,640,399

[1]The corporate sales for the years ended December 31, 2013 and 2012 include The Brick results for comparative purposes.
[2]For the year ended December 31, 2013, there are sixteen locations excluded from the adjustments for stores not in both fiscal periods.

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, 2013 and 2012, 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 audit 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed)

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 27, 2014

Consolidated Statements of Financial Position

($ in thousands)	As at December 31 2013	2012
ASSETS		
Current assets		
Cash and cash equivalents [NOTES 5 AND 22]	**$ 5,832**	$ 74,949
Restricted marketable securities [NOTE 25]	**20,104**	20,980
Available-for-sale financial assets	**17,336**	125,755
Trade receivables [NOTE 22]	**104,275**	27,961
Income taxes receivable	**–**	3,644
Inventories [NOTE 6]	**277,656**	86,057
Deferred acquisition costs [NOTE 7]	**1,659**	1,271
Deferred financing costs	**903**	1,317
Total current assets	**$ 427,765**	$ 341,934
Other assets	**4,970**	761
Deferred acquisition costs [NOTE 7]	**7,250**	1,525
Property, plant and equipment [NOTE 8]	**433,586**	218,146
Investment properties [NOTE 9]	**22,304**	8,315
Intangible assets [NOTE 10]	**343,221**	3,101
Goodwill [NOTES 4 AND 10]	**435,634**	11,282
Deferred income tax assets [NOTE 20]	**7,444**	3,114
Total assets	**$ 1,682,174**	$ 588,178
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables [NOTE 11]	**$ 202,618**	$ 73,542
Provisions [NOTE 12]	**4,769**	–
Income taxes payable	**12,135**	–
Customers' deposits	**93,609**	20,386
Finance lease liabilities [NOTE 13]	**4,302**	–
Dividends payable [NOTE 16]	**7,063**	7,055
Deferred warranty plan revenue	**54,028**	14,743
Debentures [NOTE 14]	**15,503**	–
Loans and borrowings [NOTE 14]	**50,000**	–
Total current liabilities	**$ 444,027**	$ 115,726
Loans and borrowings [NOTE 14]	**325,255**	–
Convertible debentures [NOTE 14]	**90,952**	–
Finance lease liabilities [NOTE 13]	**137,887**	–
Deferred warranty plan revenue	**85,494**	17,251
Redeemable share liability [NOTE 15]	**859**	428
Deferred rent liabilities and lease inducements	**2,377**	–
Deferred income tax liabilities [NOTE 20]	**98,768**	2,586
Total liabilities	**$ 1,185,619**	$ 135,991
Shareholders' equity attributable to the shareholders of the Company		
Common shares [NOTE 16]	**$ 27,352**	$ 26,693
Equity component of convertible debentures [NOTE 14]	**7,089**	–
Retained earnings	**462,035**	423,099
Accumulated other comprehensive income	**79**	2,395
Total shareholders' equity	**$ 496,555**	$ 452,187
Total liabilities and shareholders' equity	**$ 1,682,174**	$ 588,178

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)	2013	2012
	Years Ended December 31	
Revenue [NOTE 17]	**$ 1,694,643**	$ 682,163
Cost of sales [NOTE 6]	**959,307**	398,704
Gross profit	**$ 735,336**	$ 283,459
Operating expenses [NOTE 18]		
General and administrative expenses	**267,741**	99,346
Sales and marketing expenses	**213,562**	83,479
Occupancy expenses	**127,985**	34,289
Other operating expenses	**14,562**	6,523
Total operating expenses	**$ 623,850**	$ 223,637
Operating profit	**111,486**	59,822
Finance costs [NOTE 19]	**(22,424)**	–
Finance income	**2,494**	3,861
Net income before income tax	**91,556**	63,683
Income tax expense [NOTE 20]	**24,373**	16,901
Net income	**$ 67,183**	$ 46,782
Weighted average number of common shares outstanding		
Basic	**70,612,407**	70,032,721
Diluted	**79,818,914**	72,317,598
Earnings per share [NOTE 21]		
Basic	**$ 0.95**	$ 0.67
Diluted	**$ 0.87**	$ 0.65
Dividends declared per share		
Common	**$ 0.40**	$ 0.40
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)	Year Ended December 31 2013	Tax effect	Net of tax 2013
Net income for the year	**$ 67,183**	**$ –**	**$ 67,183**
Other comprehensive income, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent years:			
Unrealized gains on available-for-sale financial assets arising during the year	**276**	**44**	**232**
Reclassification adjustment for net gains (losses) included in income for the year	**(2,998)**	**(450)**	**(2,548)**
Change in unrealized losses on available-for-sale financial assets arising during the year	**(2,722)**	**(406)**	**(2,316)**
Comprehensive income for the year	**$ 64,461**	**$ (406)**	**$ 64,867**

($ in thousands)	Year Ended December 31 2012	Tax Effect	Net of tax 2012
Net income for the year	$ 46,782	$ –	$ 46,782
Other comprehensive income, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent years:			
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
Comprehensive income for the year	$ 49,654	$ 373	$ 49,281

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

Consolidated Statements of Changes in Shareholders' Equity

($ in thousands)	Equity Component of Convertible Debentures	Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
As at December 31, 2012	**$ –**	**$ 26,693**	**$ 2,395**	**$ 423,099**	**$ 452,187**
Comprehensive income					
Net income for the year	**–**	**–**	**–**	**67,183**	**67,183**
Change in unrealized losses on available-for-sale financial assets arising during the year	**–**	**–**	**(2,316)**	**–**	**(2,316)**
Total comprehensive income	**–**	**–**	**(2,316)**	**67,183**	**64,867**
Transactions with shareholders					
Dividends declared	**–**	**–**	**–**	**(28,247)**	**(28,247)**
Issuance of equity component of convertible debt [NOTE 14]	**7,089**	**–**	**–**	**–**	**7,089**
Management share purchase plan [NOTE 15]	**–**	**659**	**–**	**–**	**659**
Repurchase of common shares [NOTE 16]	**–**	**–**	**–**	**–**	**–**
Total transactions with shareholders	**7,089**	**659**	**–**	**(28,247)**	**(20,499)**
As at December 31, 2013	**$ 7,089**	**$ 27,352**	**$ 79**	**$ 462,035**	**$ 496,555**

($ in thousands)	Equity Component of Convertible Debentures	Common Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
As at December 31, 2011	$ –	$ 20,918	$ (104)	$ 404,647	$ 425,461
Comprehensive income					
Net income for the year	–	–	–	46,782	46,782
Change in unrealized losses 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 15]	–	5,778	–	–	5,778
Repurchase of common shares [NOTE 16]	–	(3)	–	(283)	(286)
Total transactions with shareholders	–	5,775	–	(28,330)	(22,555)
As at December 31, 2012	$ –	$ 26,693	$ 2,395	$ 423,099	$ 452,187

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

Consolidated Statements of Cash Flows

($ in thousands)	Years Ended December 31 2013	2012
OPERATING ACTIVITIES		
Net income for the year	**$ 67,183**	$ 46,782
Adjustments for:		
Depreciation of property, plant and equipment and investment properties	**33,319**	14,020
Amortization of intangible assets	**5,630**	866
Amortization of deferred warranty plan revenue	**(60,664)**	(16,543)
Net finance costs	**19,930**	–
Deferred income taxes	**(1,273)**	543
Gain on sale of property, plant and equipment	**(32)**	(15)
(Gain) loss on sale of available-for-sale financial assets	**(5,462)**	121
	58,631	45,774
Net change in non-cash working capital balances related to operations [NOTE 26(A)]	**(39,363)**	(9,493)
Cash received on warranty plan sales	**63,852**	12,940
Cash provided by operating activities	**83,120**	49,221
INVESTING ACTIVITIES		
Purchase of property, plant and equipment [NOTE 8]	**(18,984)**	(17,897)
Purchase of intangible assets [NOTE 10]	**(6,669)**	(9)
Proceeds on sale of property, plant and equipment	**134**	23
Purchase of available-for-sale financial assets	**(109,674)**	(467,939)
Proceeds on sale of available-for-sale financial assets	**235,260**	473,273
Interest received	**2,494**	–
Purchase of The Brick, net of cash acquired of $31,069 [NOTE 4]	**(654,954)**	–
Cash used in investing activities	**(552,393)**	(12,549)
FINANCING ACTIVITIES		
Repayment of finance leases	**(2,613)**	–
Dividends paid	**(28,239)**	(38,449)
Repurchase of common shares [NOTE 16]	**–**	(286)
Repayment of employee loans-redeemable shares [NOTE 15]	**1,090**	5,824
Issuance of term loan [NOTE 14]	**400,000**	–
Issuance of convertible debentures [NOTE 14]	**100,000**	–
Finance costs paid	**(4,693)**	(1,317)
Repayment of debentures [NOTE 14]	**(19,616)**	–
Repayment of term loan [NOTE 14]	**(20,000)**	–
Interest paid	**(25,773)**	–
Cash provided by (used in) financing activities	**400,156**	(34,228)
Net (decrease) increase in cash and cash equivalents during the year	**(69,117)**	2,444
Cash and cash equivalents, beginning of year	**74,949**	72,505
Cash and cash equivalents, end of year	**$ 5,832**	$ 74,949

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

Notes to the Consolidated Financial Statements

[Amounts in thousands of Canadian dollars, except share amounts and earnings per share]
For the years ended December 31, 2013 and 2012

1. REPORTING ENTITY

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

On November 11, 2012, the Company announced that it had entered into a definitive agreement (the "Arrangement Agreement") that provided for the acquisition of 100% of the outstanding common shares and common share purchase warrants of The Brick Ltd. ("The Brick" or "Brick division") by the Company by way of a plan of arrangement for $5.40 per outstanding common share and $4.40 per outstanding common share purchase warrant. On March 28, 2013, the Company acquired 100% of the common shares and warrants of The Brick [note 4]. The operations of The Brick are included in the Company's results from operations and financial position commencing March 28, 2013.

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").

These consolidated financial statements were approved by the Board of Directors for issuance on February 27, 2014.

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 and the initial recognition of assets acquired and liabilities assumed in business combinations.

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.

USE OF ESTIMATES AND JUDGMENTS

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 dates and the reported amounts of revenue and expenses during the reporting period. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements.

REVENUE RECOGNITION

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

INVENTORIES

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

Reserves for slow moving and damaged inventory are deducted in the Company's valuation of inventories. Management has estimated the amount of reserve for slow moving inventory based on the Company's historic retail experience.

IMPAIRMENT OF 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 cash-generating units ("CGUs") for purposes of assessing any impairment of property, plant and equipment, as well as in determining whether there are indicators of impairment present. Should indicators of impairment be present, management estimates the recoverable amount of the relevant CGU. This estimation requires assumptions about future cash flows, margins and discount rates.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

The Company tests goodwill and indefinite life intangible assets at least annually and reviews other long-lived intangible assets for any indication that the asset might be impaired. Significant judgments are required in determining the CGUs or groups of CGUs for purposes of assessing impairment. Significant judgments are also required in determining whether to allocate goodwill to CGUs or groups of CGUs. When performing impairment tests, the Company estimates the recoverable amount of the CGUs or groups of CGUs to which goodwill and indefinite life intangible assets have been allocated using a discounted cash flow model that requires assumptions about future cash flows, margins and discount rates.

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, income would be affected in a subsequent period.

PROVISIONS

The Company exercises judgment in the determination of recognizing a provision. The Company recognizes a provision when it has a present legal or constructive obligation as a result of a past event and a reliable estimate of the obligation can be made. Significant judgments are required to be made in determining what the probable outflow of resources will be required to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF CONSOLIDATION

The financial statements consolidate the accounts of Leon's Furniture Limited and its wholly owned subsidiaries: Murlee Holdings Limited, Leon Holdings (1967) Limited, Ablan Insurance Corporation, The Brick Ltd., The Brick Warehouse LP, United Furniture Warehouse LP, First Oceans Trading Corporation, Trans Global Warranty Corp. and its subsidiaries: Trans Global Life Insurance Company and Trans Global Insurance Company. Subsidiaries are all those entities over which the Company has control. Control is achieved when the Company 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. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements 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. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. All inter-company transactions and balances have been appropriately eliminated.

BUSINESS COMBINATIONS

The Company applies the acquisition method in accounting for business combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value. Transaction costs that the Company incurs in connection with a business combination are expensed in the period in which they are incurred.

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, mattresses, appliances and electronics). Accordingly, no segment information has been provided in these consolidated financial statements.

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the respective functional currency of the Company's subsidiaries using the exchange rate at the dates of the 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.

FAIR VALUE MEASUREMENT

The Company measures certain financial instruments at fair value upon initial recognition, and at each balance sheet date. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability; or, in the absence of a principal market, in the most advantageous market for the asset or liability that is accessible. The fair value of an asset or liability is measured using the assumptions that market participants would use, assuming that market participants act in their economic best interest.

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.

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 year until realized through disposal or impairment; and

b) Loans and receivables – 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 asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all of the risks and rewards of ownership 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 have 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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are initially recorded at cost. Historical cost includes expenditures that are 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 an item 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:

Buildings	30 to 50 years
Equipment	3 to 30 years
Vehicles	5 to 20 years
Computer hardware	5 years
Building improvements	Over the remaining lease term

Leased assets are depreciated over the shorter of the Lease Term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the Lease Term.

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 disposal 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

Leases that transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are classified as operating leases. In determining whether a lease should be classified as an operating or finance lease, management must consider specific criteria. The inputs to these classification criteria require judgment in the following areas: assessing whether an option to purchase exists and if that option will be exercised, determining the economic life of the leased asset, and determining whether the present value of minimum lease payments amounts to at least substantially all of the fair value of the leased asset. This assessment is subject to a significant degree of measurement uncertainty.

The Company as lessee

Finance lease

Assets held under finance leases are initially recognized as assets of the Company at the commencement of the lease at the lower of their fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. A corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease liability.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding finance lease liability using the effective interest method. The finance cost, net of lease inducements, is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the finance lease liability. Contingent lease payments arising under finance leases are recognized as an expense in the period in which they are incurred.

Operating lease

For real estate operating leases where the Company expects to exercise lease renewal options, the additional periods covered by the lease renewals are included in the lease term ("Lease Term"), and any related rent escalations are factored into the determination of rent expense to be recognized over the term of the lease.

The total operating lease payments to be made over the Lease Term are recognized in income on a straight-line basis over the Lease Term. Lease incentives received are recognized as an integral part of the total lease expense over the Lease Term.

Contingent rental expenses arising under operating leases are recognized as an expense in the period in which they are incurred.

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:

Buildings	30 to 50 years
Building improvements	Over the remaining lease term

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 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 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.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives as follows:

Customer relationships	8 years
Brand name (Appliance Canada)	10 years
Non-compete agreement	8 years
Computer software	3 to 7 years
Favourable lease agreements	Over the lease term including renewal options

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company considers at each reporting date whether there ia an indication that an asset may be impaired. If impairment indicators are found to be present, or when annual impairment testing for an asset is required, the non-financial assets are assessed for impairment.

Impairment losses are recognized immediately in income to the extent an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Goodwill and indefinite life intangible assets are tested annually in the fourth quarter of the year, or when circumstances indicate that the carrying value may be impaired. The assessment of recoverable amount for goodwill and indefinite life intangible assets involves assumptions about future conditions for the economy, capital markets, and specifically, the retail sector. As such, the assessment is subject to a significant degree of measurement uncertainty.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the Company, store-related CGUs are defined as individual stores or regional groups of stores within a geographic market.

For the Company's corporate assets that do not generate separate cash inflows, the recoverable amount is determined for the CGU to which the corporate asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are allocated to an individual CGU; otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGUs on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the reversal is recognized in income. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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 year 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.

Unpaid insurance claims

The provision for unpaid claims includes adjustment expenses and an estimate of the future settlement of claims, both reported and unreported, that have occurred on or before the reporting date on the insurance contracts the Company has underwritten. The provision is actuarially determined on an annual basis using assumptions of loss emergence, payment rates, interest, and expected expenses associated with the adjustment and payment of such claims. The provision includes appropriate charges for risk and uncertainty and is measured on a discounted basis. As this provision is an estimate, the amount of actual claims may differ from the recorded amount. The provisions are derecognized when the obligation to pay a claim no longer exists.

Unpaid warranty claims

Warranty repairs related to warranty plans sold separately are recorded as claims expense at the time the customer reports a claim. For these warranties, a provision for unpaid warranty claims is established for unpaid reported claims. The provision for unpaid claims is based on estimates, and may differ from actual claims paid.

The Company also provides a standard warranty for certain products. For these warranties, a provision for warranty claims is recognized when the underlying products are sold. The amount of the provision is estimated using historical experience and may differ from actual claims paid.

Product returns

The Company has a return policy allowing customers to return merchandise if not satisfied within seven days. The provision for product returns is based on sales recognized prior to the year end. The amount of the provision is estimated using historical experience and actual experience subsequent to the year end and may differ from the actual returns made.

LOANS AND BORROWINGS

Long-term debt is classified as current when the Company expects to settle the debt in its normal operating cycle or the debt is due to be settled within 12 months after the date of the consolidated statement of financial position.

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 and related services

Revenue from the sale of goods and related services 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.

The Company records a provision for sales returns and price guarantees based on historical experience and actual experience subsequent to the year end.

Franchise operations

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. The Company supplies inventory for amounts representing landed cost plus a mark-up. The royalty income and sales to franchises, net of costs, is recorded by the Company on an accrual basis and presented within revenue.

Insurance contracts and revenue

The Company issues insurance contracts through its subsidiaries: Trans Global Insurance Company and Trans Global Life Insurance Company.

The Company provides credit insurance on balances that arise from customers' use of their private label financing card. The Company provides group coverage for losses as discussed in Note 23, thereby providing protection to many customers who do not carry other similar insurance policies.

Insurance contracts are contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Premiums on insurance contracts are recognized as revenue over the term of the policies in accordance with the pattern of insurance service provided under the contract.

Unearned insurance revenue

At each reporting period date, the insurance revenue received by the Company in regards to the unexpired portion of policies in force is deferred as unearned insurance revenue.

The Company performs an unearned insurance revenue adequacy test on an annual basis to determine whether the carrying amount of the unearned insurance revenue needs to be adjusted (or the carrying amount of deferred acquisition costs adjusted), based upon a review of the expected future cash flows. If these estimates show that the carrying amount of the unearned insurance revenue (less related deferred acquisition costs) is inadequate, the deficiency is recognized in net income by setting up a provision for insurance revenue deficiency.

Unearned insurance revenue is calculated based on assumptions of loss emergence, payment rates, interest, and expected expenses associated with the adjustment and payment of claims. Unearned insurance revenue is derecognized when the obligation to pay no longer exists.

Deferred warranty plan revenue

Warranties, underwritten by the Company's wholly-owned subsidiaries, Ablan Insurance Corporation and Trans Global Warranty Corp., are offered on all products sold by the Company and franchisees to provide coverage that extends beyond the manufacturer's warranty period by up to five years. Warranties are sold to customers when they make their original purchase and take effect immediately. The warranty contracts provide both repair and replacement services depending upon the nature of the warranty claim.

The Company's extended warranty plan revenues are deferred at the time of sale and are recognized as revenue over the term of the warranty plan in a pattern matching the estimated future claims expense.

Deferred acquisition costs

Acquisition costs are comprised of commissions, premium taxes and other expenses that relate directly to the writing or renewing of warranty and insurance contracts. These costs are deferred only to the extent that they are expected to be recovered from unearned premiums and are amortized over the period in which the revenue from the policies is earned. All other acquisition costs are recognized as an expense when incurred.

Costs incurred on warranty plan sales, including sales commissions and premium taxes, are recorded as deferred acquisition costs. These costs are amortized to income in the same pattern as revenue from warranty plan sales is recognized.

Changes in the expected pattern of consumption are accounted for by changing the amortization period and are treated as a change in an accounting estimate. Deferred acquisition costs are derecognized when the related contracts are either settled or disposed of.

Sale of gift cards

Revenue from the sale of gift cards is recognized when the gift cards are redeemed (the customer purchases merchandise). Revenue from unredeemed gift cards is deferred and included in trade and other payables.

Rental income 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.

STORE PRE-OPENING COSTS

Store pre-opening costs are expensed as incurred.

BORROWING COSTS

Borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

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

IFRS 9, *Financial Instruments,* 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 the classification and measurement of financial assets and financial liabilities. IFRS 9, as issued, eliminates the existing IAS 39 categories of held to maturity, available-for-sale, and loans and receivables. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost, or financial assets measured at fair value. Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss. The mandatory effective date of IFRS 9, as issued, is January 1, 2015. The Company has not yet assessed the impact of the standard or determined whether it will be adopted early.

IAS 36, *Impairment of Assets*, has been amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. In addition, the amendments require an entity to disclose the discount rate that was used in a present value technique in order to determine the recoverable amount of an impaired asset. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Company does not expect the implementation of the amendment to have an impact on its consolidated financial statements.

IAS 32, *Financial Instruments: Presentation*, has been amended to clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Company.

IFRIC Interpretation 21, *Levies* ("IFRIC 21"), clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company has not yet assessed the impact of this interpretation.

ADOPTION OF NEW, REVISED OR AMENDED ACCOUNTING STANDARDS

The following is a description of the adoption of new, revised or amended accounting standards that are relevant to the Company:

[i] Effective January 1, 2013, the Company adopted IFRS 10, *Consolidated Financial Statements,* which replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements.* IFRS 10 requires an entity to consolidate an investee when it 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. The adoption of IFRS 10 had no impact on the consolidated financial statements of the Company.

[ii] Effective January 1, 2013, the Company adopted IFRS 11, *Joint Arrangements,* which replaces SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and IAS 31, Joint Ventures. IFRS 11 requires an entity to classify its interest in a joint arrangement as a joint operation or joint venture. *Joint ventures* are accounted for using the equity method of accounting, while for joint operations, the entity recognizes its share of the assets, liabilities, revenues and expenses related to the joint operation. The adoption of IFRS 11 had no impact on the consolidated financial statements of the Company.

[iii] Effective January 1, 2013, the Company adopted IFRS 12, *Disclosure of Interests in Other Entities.* IFRS 12 establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosure requirements from other IFRSs and also introduces significant additional disclosure that addresses the nature of, and risks associated with, an entity's interests in other entities. The adoption of IFRS 12 did not result in any additional disclosures in the consolidated financial statements of the Company.

[iv] Effective January 1, 2013, the Company adopted IFRS 13, *Fair Value Measurement.* IFRS 13 defines fair value as 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. The adoption of IFRS 13 had no impact on the consolidated financial statements of the Company, with the exception of relevant disclosures.

[v] Effective January 1, 2013, the Company adopted IAS 1, *Presentation of Financial Statements.* The IASB amended IAS 1 by revising how certain items are presented in OCI. Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The consolidated financial statements reflect the impact of the adoption of this amendment.

[vi] Effective January 1, 2013, the Company adopted IFRS 7, *Financial Instruments: Disclosures.* IFRS 7 sets out the objective to enhance disclosures about offsetting of financial assets and financial liabilities. The adoption of this new standard had no impact on the consolidated financial statements.

4. BUSINESS COMBINATIONS

ACQUISITION OF THE BRICK

On March 28, 2013, the Company acquired control of The Brick by purchasing 100% of its issued and outstanding shares and warrants. The Brick is a retailer of home furnishings, mattresses, appliances and electronics that was founded in Edmonton, Alberta in 1971. The Brick operates stores across Canada under the following corporate and franchise banners: The Brick, Urban Brick, The Brick Mattress Stores, United Furniture Warehouse and Midnorthern Appliances, which is part of The Brick's Commercial Sales Division. This acquisition allows the Company to strengthen and enhance its existing retail operations, grow the Company's franchise network and further expand its Canadian geographical footprint to more than 300 combined retail locations from coast to coast.

For the year ended December 31, 2013, The Brick contributed revenue of $1,018,939 to the Company's results from the date of acquisition of March 28, 2013.

The acquisition date fair value of consideration transferred is as follows:

Cash	$	586,023
Convertible debenture		100,000
Total consideration transferred	**$**	**686,023**

The allocation of the purchase price at fair value to the identifiable assets acquired and liabilities assumed at the acquisition date is as follows:

Cash	$	31,069
Trade and other receivables[1]		55,986
Income taxes receivable		18
Inventories		162,138
Other assets		7,905
Available-for-sale financial assets		13,279
Property, plant and equipment		229,153
Investment properties		14,400
Intangible assets		339,081
Trade and other payables		(145,304)
Customers' deposits		(52,221)
Share-based compensation plans		(2,292)
Deferred warranty plan revenue and unearned insurance revenue		(104,342)
Provisions		(5,479)
Debentures		(36,156)
Finance lease liabilities		(143,693)
Income taxes payable		(10,994)
Deferred income tax liabilities		(90,877)
Total net identifiable assets	**$**	**261,671**

[1]Gross trade and other receivables acquired is $57,001, of which $1,015 was expected to be uncollectible as at the acquisition date.

Final valuations of certain items are not yet complete due to the inherent complexity associated with valuations. Therefore, the purchase price allocation is preliminary and subject to adjustment on completion of the valuation process and analysis of resulting tax effects. The Company determined the above fair values based on discounted cash flows, market information, independent valuations and management's estimates. During the measurement period, certain adjustments were made to the purchase price allocation reflecting updates to the estimated fair values of net assets acquired. The adjustments primarily impacted leased property and franchise agreement intangible assets with a corresponding reduction in deferred income tax liabilities. These adjustments resulted in a decrease to the total net identifiable assets of $73,234 and a corresponding increase to recognized goodwill.

Goodwill was recognized as a result of the acquisition as follows:

Total consideration transferred	$	686,023
Less: Total net identifiable assets		(261,671)
Goodwill	$	424,352

The goodwill recognized on acquisition of The Brick is attributable mainly to the expected future growth potential of expanding the customer base of The Brick banners and efficiencies within the operations of The Brick.

None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company has incurred acquisition related costs of $10,326 for the year ended December 31, 2013, relating to external legal fees, advisory fees and due diligence costs. These costs have been included in general and administrative expenses in the consolidated statements of income. Total acquisition costs incurred to date as at December 31, 2013 by the Company were $13,343.

5. CASH AND CASH EQUIVALENTS

	As at December 31			
		2013		2012
Cash at bank and on hand	**$**	**5,832**	$	7,994
Short-term investments		**–**		66,955
Total	**$**	**5,832**	$	74,949

6. INVENTORIES

The amount of inventory recognized as an expense for the year ended December 31, 2013 was $934,976 [2012 – $391,160], which is presented within cost of sales in the consolidated statements of income. There were $3,745 in inventory write-downs [2012 – $806] recognized as an expense during 2013. No inventory write-downs recognized in prior periods were reversed.

As at December 31, 2013, the inventory mark-down provision totalled $9,122 [2012 – $5,652].

7. DEFERRED ACQUISITION COSTS

Balance at December 31, 2011	$	3,122
Costs of new policies sold		1,106
Policy sales costs recognized		(1,432)
Balance at December 31, 2012	$	2,796
Cost of new policies sold		7,419
Policy sales costs recognized		(1,306)
Balance at December 31, 2013	**$**	**8,909**

Reported as:

Current	$	1,271
Non-current		1,525
Balance at December 31, 2012	$	2,796
Current	$	1,659
Non-current		7,250
Balance at December 31, 2013	**$**	**8,909**

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Building Vehicles	Leased Improvements	Leased Property	Equipment	Total
As at December 31, 2013:								
Opening net book value	**$ 55,381**	**$ 84,383**	**$ 16,476**	**$ 3,900**	**$ 58,006**	**$ –**	**$ –**	**$ 218,146**
Additions	**5,315**	**420**	**4,609**	**627**	**8,326**	**–**	**–**	**19,297**
Additions due to acquisition	**23,291**	**42,776**	**27,824**	**1,177**	**33,931**	**96,410**	**3,744**	**229,153**
Disposals	**–**	**–**	**(76)**	**(18)**	**–**	**–**	**(8)**	**(102)**
Depreciation	**–**	**(5,502)**	**(7,434)**	**(1,398)**	**(13,968)**	**(3,753)**	**(853)**	**(32,908)**
Closing net book value	**83,987**	**122,077**	**41,399**	**4,288**	**86,295**	**92,657**	**2,883**	**433,586**
As at December 31, 2013:								
Cost	**83,987**	**227,790**	**87,005**	**25,682**	**141,578**	**96,410**	**3,736**	**666,188**
Accumulated depreciation	**–**	**(105,713)**	**(45,606)**	**(21,394)**	**(55,283)**	**(3,753)**	**(853)**	**(232,602)**
Net book value	**$ 83,987**	**$ 122,077**	**$ 41,399**	**$ 4,288**	**$ 86,295**	**$ 92,657**	**$ 2,883**	**$ 433,586**

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
As at December 31, 2012:								
Opening net book value	$ 55,431	$ 88,206	$ 14,178	$ 4,312	$ 52,031	$ –	$ –	$ 214,158
Additions	(50)	64	5,076	1,080	11,795	–	–	17,965
Disposals	–	–	–	(8)	–	–	–	(8)
Depreciation	–	(3,887)	(2,778)	(1,484)	(5,820)	–	–	(13,969)
Closing net book value	55,381	84,383	16,476	3,900	58,006	–	–	218,146
As at December 31, 2012:								
Cost	55,381	184,594	54,647	23,896	99,321	–	–	417,839
Accumulated depreciation	–	(100,211)	(38,171)	(19,996)	(41,315)	–	–	(199,693)
Net book value	$ 55,381	$ 84,383	$ 16,476	$ 3,900	$ 58,006	$ –	$ –	$ 218,146

Included in the above balances as at December 31, 2013 are assets not being amortized with a net book value of approximately $459 [2012 – $4,371] being construction in progress.

The Company assessed for an indicator of impairment of each CGU by comparing the 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 store's property and equipment assets were written down.

For the years ended December 31, 2013 and 2012, there has been no impairment loss recognized.

9. INVESTMENT PROPERTIES

	Land	Buildings	Building Improvements	Total
As at December 31, 2013:				
Opening net book value	**$ 8,286**	**$ –**	**$ 29**	**$ 8,315**
Additions due to acquisition	**4,233**	**9,655**	**512**	**14,400**
Depreciation	**–**	**(382)**	**(29)**	**(411)**
Closing net book value	**12,519**	**9,273**	**512**	**22,304**
As at December 31, 2013:				
Cost	**12,519**	**17,694**	**1,969**	**32,182**
Accumulated depreciation	**–**	**(8,421)**	**(1,457)**	**(9,878)**
Net book value	**$ 12,519**	**$ 9,273**	**$ 512**	**$ 22,304**

	Land	Buildings	Building Improvements	Total
As at December 31, 2012:				
Opening net book value	$ 8,286	$ –	$ 80	$ 8,366
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

The estimated fair value of the investment properties portfolio as at December 31, 2013 was approximately $47,940 [2012 – $33,540]. This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (Note 22 for definition of levels). The Company used an independent valuation specialist to determine the fair value of The Brick division's investment properties of $14,400 that approximates its carrying value. The remaining disclosed fair value of $33,540 was compiled internally by management based on available market evidence.

10. INTANGIBLE ASSETS AND GOODWILL

	Customer Relationships	**Brand Name and Franchise Agreements**	**Non-Compete Agreement**	**Computer Software**	**Favourable Lease Agreements**	**Total**
As at December 31, 2013:						
Opening net book value	**$ 750**	**$ 1,250**	**$ 375**	**$ 726**	**$ –**	**$ 3,101**
Additions	**–**	**–**	**–**	**6,669**	**–**	**6,669**
Additions due to acquisition	**5,000**	**285,000**	**12**	**3,730**	**45,339**	**339,081**
Amortization for the year	**(719)**	**(250)**	**(136)**	**(1,129)**	**(3,396)**	**(5,630)**
Closing net book value	**5,031**	**286,000**	**251**	**9,996**	**41,943**	**343,221**
As at December 31, 2013:						
Cost	**7,000**	**287,500**	**1,012**	**14,610**	**45,339**	**355,461**
Accumulated amortization	**(1,969)**	**(1,500)**	**(761)**	**(4,614)**	**(3,396)**	**(12,240)**
Net book value	**$ 5,031**	**$ 286,000**	**$ 251**	**$ 9,996**	**$ 41,943**	**$ 343,221**

	Customer Relationships	Brand Name and Franchise Agreements	Non-compete Agreement	Computer Software	Favourable Lease Agreements	Total
As at December 31, 2012:						
Opening net book value	$ 1,000	$ 1,500	$ 500	$ 958	$ –	$ 3,958
Additions	–	–	–	9	–	9
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

Amortization of intangible assets is included within general and administrative expenses on the consolidated statements of income.

The following table presents the details of the Company's indefinite-life intangible assets:

	As at December 31	
	2013	2012
The Brick brand name (allocated to Brick division)	**$ 245,000**	$ –
The Brick franchise agreements (allocated to Brick division)	**40,000**	–
	$ 285,000	$ –

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

The following table presents the details of the Company's finite-life intangible assets:

	As at December 31	
	2013	2012
Leon's division customer relationships	**$ 500**	$ 750
Leon's division brand name	**1,000**	1,250
Leon's division non-compete agreement	**251**	375
Brick division customer relationships	**4,531**	–
Brick division favourable lease agreements	**41,943**	–
Computer software	**9,996**	726
	$ 58,221	$ 3,101

The Company has assessed that these finite-life intangible assets have limited life terms.

The following table presents the details of the Company's goodwill:

	As at December 31	
	2013	2012
Balance, beginning of year	**$ 11,282**	$ 11,282
Acquisition through business combination (NOTE 4)	**424,352**	–
Balance, end of year	**$ 435,634**	$ 11,282

For the purpose of the annual impairment testing, goodwill is allocated to the following CGU groups, which are the groups expected to benefit from the synergies of the business combinations and to which the goodwill is monitored by the Company:

	As at December 31	
	2013	2012
Appliance Canada (included within the Leon's division)	**$ 11,282**	$ 11,282
Brick division	**424,352**	–
Total goodwill	**$ 435,634**	$ 11,282

IMPAIRMENT TESTS

The Company performed impairment tests of goodwill as at December 31, 2013 and December 31, 2012 in accordance with the accounting policy as described in Note 3. The recoverable amount of the CGUs 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, 2013 and December 31, 2012 were as follows:

	2013	2012
Growth rate	**2.0%**	2.0%
Pre-tax discount rate	**8.3%**	10.8%

The impairment tests performed resulted in no impairment of the goodwill as at December 31, 2013 and December 31, 2012.

11. TRADE AND OTHER PAYABLES

	As at December 31			
		2013		2012
Trade payables	**$**	**179,255**	$	52,681
Other payables		**23,363**		20,861
	$	**202,618**	$	73,542

12. PROVISIONS

		Unpaid Insurance Claims		Unpaid Warranty Claims		Product Returns		Other		Total
Balance as at December 31, 2012	$	–	$	–	$	–	$	–	$	–
Provisions made due to acquisition		2,301		243		1,716		1,219		5,479
Provisions made during the year		865		47		478		91		1,481
Provisions used during the year		(996)		–		–		(272)		(1,268)
Provisions reversed during the year		–		–		–		(923)		(923)
Balance as at December 31, 2013	**$**	**2,170**	**$**	**290**	**$**	**2,194**	**$**	**115**	**$**	**4,769**

UNPAID INSURANCE CLAIMS

The provision for unpaid insurance claims represents the estimated amounts necessary to settle all outstanding claims, as well as claims that are incurred but not reported, as of the reporting date. Unpaid claims are determined using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The establishment of the provision for unpaid claims, measured on a discounted basis, relies on the judgment and estimates of the Company based on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps materially, from the best estimates made.

UNPAID WARRANTY CLAIMS

The provision for unpaid warranty claims represents the estimated amounts necessary to settle unpaid reported claims for warranty plans sold and all outstanding claims for certain products where the Company provides a standard warranty. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. The provisions are increased or decreased as additional information affecting the estimates becomes known during the course of claims settlement. All changes in estimates are recorded in cost of sales in the current year.

PRODUCT RETURNS

The provision for product returns represents the Company's estimate of amounts the Company expects to incur regarding its product return policies. The estimate is based on sales recognized prior to the end of the reporting period, historical information, management judgment and actual experience subsequent to the end of the reporting period.

13. FINANCE LEASE LIABILITIES

LEASING ARRANGEMENTS

The Company leases certain stores, distribution centres and vehicles under a number of finance lease agreements. The lease terms on the stores and distribution centres range from 6 to 40 years and include those extension options management considers likely to be exercised. For vehicles, the lease terms do not exceed 8 years. The Company's obligations under finance leases are secured by the leased assets.

FINANCE LEASE LIABILITIES

Finance lease liabilities are payable as follows:

	Future Minimum Lease Payments	**Interest**	**Present Value of Minimum Lease Payments**	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
			2013			2012
Less than one year	**$ 12,877**	**$ 8,575**	**$ 4,302**	$ –	$ –	$ –
Between one and five years	**48,377**	**31,326**	**17,051**	–	–	–
More than five years	**212,724**	**91,888**	**120,836**	–	–	–
	273,978	**131,789**	**142,189**	–	–	–
Reported as:						
Current			**4,302**			–
Non-current			**137,887**			–
			$ 142,189			$ –

The majority of the Company's real estate leases have renewal and escalation clauses as part of the general lease conditions. Those renewal periods and escalations reasonably expected to occur have been included in the determination of the finance lease liabilities and lease term of each lease.

14. LOANS AND BORROWINGS

CONVERTIBLE DEBENTURES

On March 28, 2013 ("Issuance Date"), the Company closed an offering in which the shareholders of The Brick purchased $100,000 principal amount of 3% convertible unsecured debentures due on March 28, 2023 ("Maturity Date"). Interest is due semi-annually in arrears on June 30 and December 31 in each year. The convertible debentures are convertible, at the option of the holder, at any time during the period between the ninetieth day prior to the fourth anniversary of the Issuance Date and the third business day prior to the Maturity Date in whole or in multiples of one thousand dollars, into fully paid common shares of the Company at the conversion rate of 79.12707 common shares per one thousand dollars principal amount of debentures subject to certain adjustments. The Company has the right to settle the convertible debentures in cash or shares during any time subsequent to the fourth anniversary of the Issuance Date and on the Maturity Date. There are additional conversion options available to debenture holders in the event of an increase in the Company's dividend rate or in the event of a change in control of the Company. The convertible debentures are unsecured obligations of the Company and are subordinated in right of payment to all of the Company's senior indebtedness.

The Company will accrete the carrying value of the convertible debentures of $90,952 to their contractual face value of $100,000 through a charge to net income over their term. This charge will be included in finance costs.

Principal amount of convertible debentures issued on March 28, 2013	$ 100,000
Less equity component of convertible debentures	(9,645)
Accretion expense	597
Carrying value of convertible debentures as at December 31, 2013	$ 90,952

The effective interest rate for the convertible debentures is 4.2% and includes accretion expense and semi-annual coupon payments.

BRICK DEBENTURES

On March 11, 2013, in accordance with the terms of the Arrangement Agreement to acquire all the common shares and warrants of The Brick, The Brick issued a tender offer to all debenture holders to redeem their Debentures for a price of one hundred and ten dollars per one hundred dollars of principal value plus accrued and unpaid interest. The Brick received valid tenders for $17,833 aggregate principal amount of Debentures pursuant to the March 11, 2013 offer, which expired on April 11, 2013. Payment for the Debentures tendered in the amount of $20,191 comprised of $19,616 in respect of principal and the 10% premium on principal, and $575 in respect of accrued interest. The remaining principal amount of Debentures outstanding subsequent to the April 11, 2013 repurchase is $15,000. The Debentures mature on May 30, 2014 and bear interest at a fixed rate of 12% per annum payable in cash semi-annually in arrears on June 30 and December 31.

BANK INDEBTEDNESS

On January 31, 2013, a Senior Secured Credit Agreement was obtained to fund the acquisition of The Brick. The Senior Secured Credit Agreement includes a credit facility, with a syndicate of banks, with a term credit facility limit of $400,000 and revolving credit facility limit of $100,000. Under the terms of the Senior Secured Credit Agreement amounts borrowed must be repaid in full by March 28, 2017. Bank indebtedness bears interest based on Canadian prime, Bankers' Acceptance and LIBOR ("London Interbank Offered Rate") rates plus an applicable standby fee on undrawn amounts. Transaction costs in the amount of $5,193 have been deferred and are being amortized. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. Currently, the Company has entered into a 31-day Bankers' Acceptance with a cost of borrowing of 3.47% that is due for renewal on January 30, 2014. The term credit facility is repayable in quarterly amounts ranging from $5,000 to $15,000. The Company has made the scheduled repayments of $10,000 and has made further optional prepayments of $10,000, thereby reducing the term credit facility limit to $380,000. As at December 31, 2013, the Company had not drawn on the revolving credit facility. The Company can prepay without penalty amounts outstanding under the facilities at any time. The agreement includes a general security agreement which constitutes a lien on all personal property of the Company. In addition to this, there are financial covenants related to the credit facility as follows:

(1) Maintain a ratio of Total Debt to Consolidated EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of not more than (i) 3.5:1 up to and including June 30, 2014; and (ii) 3.0:1 from and after July 1, 2014.

(2) Maintain a ratio of Total Adjusted Debt to Consolidated EBITDAR (Earnings Before Interest, Taxes, Depreciation, Amortization and Rent Expense) of not more than (i) 4.75:1 up to and including June 30, 2013; and (ii) 4.5:1 from and after July 1, 2014.

(3) Maintain a Fixed Charge Coverage Ratio of not less than 1.10:1.00.

As at December 31, 2013, the Company is in full compliance of these financial and non-financial covenants.

15. REDEEMABLE SHARE LIABILITY

As at December 31

	2013	2012
Authorized		
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		
1,485,000 convertible, non-voting, series 2013 shares		
Issued and fully paid		
386,513 series 2005 shares [2012 – 456,317]	**$ 3,650**	$ 4,309
1,008,465 series 2009 shares [2012 – 1,045,219]	**8,925**	9,250
268,708 series 2012 shares [2012 – 281,500]	**3,334**	3,493
1,450,000 series 2013 shares [2012 – nil]	**16,516**	–
Less employee share purchase loans	**(31,566)**	(16,624)
	$ 859	$ 428

Under the terms of the Plan, the Company advanced non-interest bearing loans to certain of its employees in 2005, 2009, 2012 and 2013 to allow them to acquire convertible, non-voting series 2005 shares, series 2009 shares, series 2012 shares and series 2013 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 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. Each issued and fully paid for series 2013 share may be converted into one common share at any time after the third anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. The series 2005, series 2009, series 2012 and series 2013 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 Company has the option to redeem the series 2013 shares at any time after the third 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 $9.44 per series 2005 share, $8.85 per series 2009 share, $12.41 per series 2012 share and $11.39 per series 2013 share. The convertible, non-voting shares of the Company are recorded as a financial liability as the Company is contractually obligated to, at or prior to the tenth anniversary of the issue of any convertible non-voting shares, redeem the convertible non-voting shares by delivering cash.

Dividends paid to holders of series 2005, 2009 and 2012 shares of approximately $360 [2012 – $465] have been used to reduce the respective shareholder loans. The preferred dividends are paid once a year during the first quarter.

During the year ended December 31, 2013, 69,804 series 2005 shares [2012 – 84,931] and Nil series 2009 shares [year ended December 31, 2012 – 20,000] were converted into common shares with a stated value of approximately $659 [2012 – $802] and nil [2012 – $177], respectively.

During the year ended December 31, 2013, the Company cancelled 36,754 series 2009 shares [2012 – 49,888], 12,792 series 2012 shares [2012 – 25,000] and 35,000 series 2013 shares [2012 – nil] in the amount of $325 [2012 – $442], $159 [2012 – $310] and $399 [2012 – nil], respectively.

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

During the year ended December 31, 2013, the Company issued 1,485,000 series 2013 shares for proceeds of $16,914. In addition, the Company advanced non-interest bearing loans in the amount of $16,914 to certain of its employees to acquire these shares.

16. COMMON SHARES

	As at December 31	
	2013	2012
Authorized		
Unlimited common shares		
Issued		
70,634,709 common shares [2012 – 70,564,905]	**27,352**	26,693

During the year ended December 31, 2013, 69,804 series 2005 shares [2012 – 84,931] and Nil series 2009 shares [2012 – 20,000] were converted into common shares with a stated value of approximately $659 [2012 – $802] and nil [2012 – $177], respectively.

During the year ended December 31, 2013, the Company repurchased no [2012 – 23,506] common shares on the open market pursuant to the terms and conditions of the Normal Course Issuer Bid at a net cost of approximately nil [2012 – $286]. All shares repurchased by the Company pursuant to the Normal Course Issuer Bid have been cancelled. The repurchase of common shares resulted in a reduction of share capital in the amount of approximately nil [2012 – $3]. The excess net cost over the average carrying value of the shares of approximately nil [2012 – $283] has been recorded as a reduction in retained earnings.

As at December 31, 2013, the dividends payable were $7,063 [$0.10 per share] and as at December 31, 2012 were $7,055 [$0.10 per share].

17. REVENUE

	Years Ended December 31	
	2013	2012
Sale of goods by corporate stores	**$ 1,624,618**	$ 663,350
Income from franchise operations	**16,391**	10,426
Extended warranty revenue	**37,241**	7,594
Insurance sales revenue	**15,015**	–
Rental income from investment property	**1,378**	793
Total	**$ 1,694,643**	$ 682,163

18. EXPENSES BY NATURE

	Years Ended December 31	
	2013	2012
Depreciation of property, plant and equipment and investment properties	**$ 33,319**	$ 14,020
Amortization of intangible assets	**$ 5,630**	$ 866
Operating lease payments	**$ 63,042**	$ 5,488
(Gain) on sale of property, plant and equipment	**$ (32)**	$ (15)

19. FINANCE COSTS

	Years Ended December 31	
	2013	2012
Premium paid and accelerated accretion on redemption of debentures	**$ 2,530**	$ –
Interest expense on finance lease obligations	**4,277**	–
Interest expense on term credit facilities and revolving credit facilities	**11,745**	–
Interest expense on convertible debentures	**3,872**	–
Total	**$ 22,424**	**$ –**

20. INCOME TAX EXPENSE

(A) THE MAJOR COMPONENTS OF INCOME TAX EXPENSE FOR THE YEARS ENDED ARE AS FOLLOWS:

Consolidated Statements of Income	December 31 2013	December 31 2012
Current income tax expense:		
Based on taxable income of the current year	**$ 25,616**	$ 16,358
Adjustments in respect of prior years	**30**	–
	25,646	16,358
Deferred income tax expense:		
Origination and reversal of temporary differences	**(1,273)**	504
Impact of change in tax rates/new tax laws	**–**	39
	(1,273)	543
Income tax expense reported in the consolidated statements of income	**24,373**	16,901
Consolidated Statements of Changes in Shareholders' Equity		
Deferred income tax:		
Movement in convertible debentures	(63)	–
Consolidated Statements of Other Comprehensive Income		
Deferred income tax:		
Unrealized gain (loss) on available-for-sale financial assets	**(308)**	373
Total deferred income tax expense	**(1,644)**	916
Total income tax expense	**$ 24,002**	$ 17,274

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

	2013		2012	
Income before income taxes	**$ 91,556**		$ 63,683	
Income tax expense based on statutory tax rate	**24,262**	**26.50%**	16,882	26.51%
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:				
Non-deductible items	**24**	**0.03%**	88	0.14%
Rate differences related to origination and reversal of temporary differences	**(195)**	**(0.21%)**	39	0.06%
Other	**282**	**0.30%**	(108)	(0.17%)
Income tax expense reported in the consolidated statements of income	**$ 24,373**	**26.62%**	$ 16,901	26.54%

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

(i) Deferred income tax relates to the following:

	December 31 2013	December 31 2012
Deferred income tax assets (liabilities)		
Deferred Tax Assets	**$ 7,444**	$ 3,114
Deferred Tax Liabilities	**(98,768)**	(2,586)
Total deferred income tax assets (liabilities)	**$ (91,324)**	$ 528

(ii) Deferred income tax movements are as follows:

	Balance, Beginning of Year	Due to Acquisition	Expense (Benefit)	Balance, End of Year
				2013
Deferred warranty plan	**$ 3,014**	**$ –**	**$ (46)**	**$ 2,968**
Deferred financing fees	**–**	**–**	**(93)**	**(93)**
Deferred acquisition costs	**–**	**8,376**	**(1,649)**	**6,727**
Property, plant and equipment	**(2,114)**	**(41,017)**	**2,656**	**(40,475)**
Intangible assets	**(57)**	**(76,531)**	**(3,233)**	**(79,821)**
Deferred rent liabilities	**–**	**(6,550)**	**1,164**	**(5,386)**
Finance lease liabilities	**–**	**37,966**	**(1,002)**	**36,964**
Transition for partnership deferral	**–**	**(10,859)**	**3,389**	**(7,470)**
Unused tax losses	**–**	**120**	**–**	**120**
Other	**(150)**	**(2,382)**	**87**	**(2,445)**
Net deferred income tax expense – Statements of income	**693**	**(90,877)**	**1,273**	**(88,911)**
Movement in convertible debenture	**–**	**(2,619)**	**63**	**(2,556)**
Net deferred income tax expense (benefit) – Equity	**–**	**(2,619)**	**63**	**(2,556)**
Unrealized gain (loss) on available-for-sale financial assets	**(165)**	**–**	**308**	**143**
Net deferred income tax expense (benefit) – Other comprehensive income	**(165)**	**–**	**308**	**143**
Total deferred income tax expense (benefit)	**$ 528**	**$ (93,496)**	**$ 1,644**	**$ (91,324)**

	Balance, Beginning of Year	Due to Acquisition	Expense (Benefit)	Balance, End of Year
				2012
Deferred warranty plan	$ 3,538	$ –	$ (524)	$ 3,014
Property, plant and equipment	(2,079)	–	(35)	(2,114)
Intangible assets	(57)	–	–	(57)
Other	(166)	–	16	(150)
Net deferred income tax expense – Statements of income	1,236	–	(543)	693
Unrealized gain (loss) on available-for-sale financial assets	208	–	(373)	(165)
Net deferred income tax expense (benefit) – Other comprehensive income	208	–	(373)	(165)
Total deferred income tax expense	$ 1,444	$ –	$ (916)	$ 528

21. EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of common shares outstanding. The weighted average number of common shares used in the basic earnings per share calculations amounted to 70,612,407 for the year ended December 31, 2013 [2012 – 70,032,721]. The following table reconciles the net income for the year and the number of shares for the basic and diluted earnings per share calculations:

	Years Ended December 31	
	2013	2012
Net income for the year for basic earnings per share	**$ 67,183**	$ 46,782
Net income for the year for diluted earnings per share	**69,556**	47,124
Weighted average number of common shares outstanding	**70,612,407**	70,032,721
Dilutive effect	**9,206,507**	2,284,877
Diluted weighted average number of common shares outstanding	**79,818,914**	72,317,598
Basic earnings per share	**0.95**	0.67
Diluted earnings per share	**0.87**	0.65

22. FINANCIAL INSTRUMENTS AND 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 tables below.

December 31, 2013:	**Measurement**	**Total Carrying Amount**	**Fair Value**	**Fair Value Hierarchy**
Loans and receivables				
Cash and cash equivalents	**Fair value**	**$ 5,832**	**$ 5,832**	**Level 1**
Trade receivables	**Amortized cost**	**104,275**	**104,275**	**Level 2**
Available-for-sale				
Restricted marketable securities	**Fair value**	**$ 20,104**	**$ 20,104**	**Level 1**
Available-for-sale financial assets	**Fair value**	**17,336**	**17,336**	**Level 1**
Investment properties	**Amortized cost**	**22,304**	**47,940**	**Level 3**
Other financial liabilities				
Trade and other payables	**Amortized cost**	**$ 202,618**	**$ 202,618**	**Level 2**
Provisions	**Amortized cost**	**4,769**	**4,769**	**Level 2**
Finance lease liabilities	**Amortized cost**	**142,189**	**142,189**	**Level 2**
Debentures	**Amortized cost**	**15,503**	**15,503**	**Level 2**
Loans and borrowings	**Amortized cost**	**375,255**	**375,255**	**Level 2**
Convertible debentures	**Amortized cost**	**90,952**	**112,970**	**Level 2**
Redeemable share liability	**Amortized cost**	**859**	**859**	**Level 2**

December 31, 2012:	Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Loans and receivables				
Cash and cash equivalents	Fair value	$ 74,949	$ 74,949	Level 1
Trade receivables	Amortized cost	27,961	27,961	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	$ 20,980	$ 20,980	Level 1
Available-for-sale financial assets	Fair value	125,755	125,755	Level 1
Investment properties	Amortized cost	8,315	33,540	Level 3
Other financial liabilities				
Trade and other payables	Amortized cost	$ 73,542	$ 73,542	Level 2
Provisions	Amortized cost	–	–	–
Finance lease liabilities	Amortized cost	–	–	–
Debentures	Amortized cost	–	–	–
Loans and borrowings	Amortized cost	–	–	–
Convertible debentures	Amortized cost	–	–	–
Redeemable share liability	Amortized cost	428	428	Level 2

The fair value hierarchy of financial instruments measured at fair value, as at December 31, 2013, includes financial assets of $43,272, $104,275 and $47,940 for Levels 1, 2 and 3, respectively, and financial liabilities of nil, $854,163 and nil for Levels 1, 2 and 3, respectively.

The carrying amounts of the Company's trade receivables, trade and other payables and debentures approximate their fair values due to their short-term nature.

The carrying amounts of the Company's finance lease liabilities approximate their fair values because the interest rate applied to measure their carrying amount approximates current market interest rates.

The carrying amounts of the Company's loans and borrowings approximate their fair values since they bear interest at rates comparable to market rates at the end of the reporting period.

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

As at December 31, 2013, the fair value of the convertible debentures was determined using their closing quoted market price (not in thousands of dollars) of $112.97 per $100.00 of face value. For the convertible debentures at December 31, 2013, fair value is calculated based on the face value of the convertible debentures of $100,000.

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

FAIR VALUE HIERARCHY

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities, the levels of which are as follows:

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

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

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

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, currency risk and other price 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.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset, net of any allowances for impairment.

	Carrying Amount	
	2013	2012
Cash and cash equivalents	**$ 5,832**	$ 74,949
Restricted marketable securities	**20,104**	20,980
Available-for-sale financial assets	**17,336**	125,755
Trade receivables	**104,275**	27,961
	$ 147,547	$ 249,645

Generally, the carrying amount on the consolidated statements of financial position of the Company's financial assets exposed to credit risk represents the Company's maximum exposure to credit risk. No additional credit risk disclosure is provided, unless the maximum potential loss exposure to credit risk for certain financial assets differs significantly from their carrying amount. The Company's main credit risk exposure is from its trade receivables. For the Company, trade receivables are comprised principally of amounts related to its commercial sales division, to its franchise operations, and to vendor rebate programs.

For commercial trade and other receivables, credit risk is mitigated through customer agreements specifying payment terms and credit limits. For franchise trade receivables, personal guarantees are obtained. As well, liens are placed against the goods and the Company may repossess goods for non-payment. Credit risk is also limited due to the large number of customers and their dispersion across geographic areas and market sectors (i.e. retail, commercial, and franchise). Accordingly, the Company believes it has no significant concentrations of credit risk related to trade receivables. In addition, trade receivables are managed and analyzed on an ongoing basis to control the Company's exposure to bad debts. The Company assesses the adequacy of the allowance for impairment quarterly, taking into account historical experience, current collection trends, the age of receivables, and when warranted and available, the financial condition of specific counterparties. The Company focuses on receivables outstanding for greater than 90 days in assessing the Company's credit risk and records a reserve, when required, to mitigate that risk. When collection efforts have been exhausted, specific balances are written off.

At December 31, 2013, there are no financial assets that the Company deems to be impaired or that are past due according to their terms and conditions, for which allowances have not been recorded. The Company's trade receivables totalled $104,275 as at December 31, 2013 [2012 – $27,961]. 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 $2,359 as at December 31, 2013 [2012 – $646]. The Company's provision for impairment of trade receivables, established through ongoing monitoring of individual customer accounts, was $1,658 as at December 31, 2013 [2012 – $500].

The majority of the Company's retail sales are funded through cash, traditional credit cards and private label credit cards carried on a non-recourse basis by third parties. Accordingly, fluctuations in the availability and cost of credit may have an impact on the Company's retail sales and profitability.

The Company manages credit risk for its cash and cash equivalents by maintaining bank accounts with major Canadian banks and investing only in highly rated Canadian and U.S. securities that are traded on active markets and are capable of prompt liquidation.

Liquidity risk

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

The following tables summarize the Company's contractual maturity for its financial liabilities, including both principal and interest payments:

					Remaining Term to Maturity	
	Carrying Amount	**Contractual Cash Flows**	**Under 1 Year**	**1–3 Years**	**3–5 Years**	**More than 5 Years**
December 31, 2013:						
Trade and other payables	**$ 202,618**	**$ 202,618**	**$ 202,618**	**$ –**	**$ –**	**$ –**
Finance lease liabilities	**142,189**	**273,978**	**12,877**	**24,976**	**23,401**	**212,724**
Debentures	**15,503**	**15,740**	**15,740**	**–**	**–**	**–**
Loans and borrowings	**375,255**	**425,164**	**62,815**	**120,364**	**241,985**	**–**
Convertible debentures	**90,952**	**127,707**	**3,000**	**6,000**	**6,000**	**112,707**
Redeemable share liability	**859**	**859**	**–**	**–**	**–**	**859**
	$ 827,376	**$ 1,046,066**	**$ 297,050**	**$ 151,340**	**$ 271,386**	**$ 326,290**

					Remaining Term to Maturity	
	Carrying Amount	Contractual Cash Flows	Under 1 Year	1–3 Years	3–5 Years	More than 5 Years
December 31, 2012:						
Trade and other payables	$ 73,542	$ 73,542	$ 73,542	$ –	$ –	$ –
Finance lease liabilities	–	–	–	–	–	–
Debentures	–	–	–	–	–	–
Loans and borrowings	–	–	–	–	–	–
Convertible debentures	–	–	–	–	–	–
Redeemable share liability	428	428	–	–	–	428
	$ 73,970	$ 73,970	$ 73,542	$ –	$ –	$ 428

The contractual cash flows have been included in the tables above based on the contractual arrangements that exist at the reporting date and do not factor in any assumptions for early repayment. The amount and timing of actual payments may be materially different. Contractual cash flows presented in the above maturity analysis table for finance lease liabilities, debentures, loans and borrowings and convertible debentures include principal repayments, interest payments, and other related cash payments. As the carrying amounts of these liabilities are measured at amortized cost, the future contractual cash flows do not agree to the carrying amounts.

The Company's debentures, credit facilities and convertible debentures are further discussed in Note 14.

The Company's future obligations under operating leases are discussed in Note 25.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risk: interest rate risk, currency risk, and other price risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to cash flow risk on the term credit facility and the revolving credit facility, and to fair value risk on the finance lease liabilities, debentures, and convertible debentures due to fluctuations in interest rates. Fair value risk related to the finance lease liabilities, debentures and convertible debentures impacts disclosure only as these items are carried at amortized cost on the consolidated statements of financial position.

As well, the Company's revenues depend, in part, on supplying financing alternatives to its customers through third party credit providers. The terms of these financing alternatives are affected by changes in interest rates. Therefore, interest rate fluctuations may impact the Company's financing costs for retail sales financed using these alternatives, and may also impact the Company's revenues where customers' buying decisions are impacted by their ability or desire to use these financing alternatives.

(i) Interest rate sensitivity analysis

The Company's net income is sensitive to the impact of a change in interest rates on the average indebtedness under the term credit facility and the revolving credit facility during the year. For the year ended December 31, 2013, the Company's average indebtedness under the term credit facility was $390,000 [2012 – nil] and under the revolving credit facility was nil [2012 – nil]. Accordingly, a change during the year ended December 31, 2013 of a one percentage point increase or decrease in the applicable interest rate would have impacted the Company's net income by approximately $2,867 [2012 – nil].

(b) Currency risk

The Company is exposed to foreign currency fluctuations since certain merchandise is paid for in U.S. dollars. This risk is offset to the extent that foreign currency costs are included in product costs when setting retail prices. Accordingly, the Company does not believe it has significant foreign currency risk with respect to its inventory purchases made in U.S. dollars.

(c) Other price risk

The Company is exposed to fluctuations in the market prices of its portfolio of restricted marketable securities that are classified as available-for-sale financial assets. Changes in the fair value of these 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.

23. INSURANCE CONTRACT RISK

Certain subsidiaries of the Company are responsible for the insurance business and monitoring and managing the financial risks related to the Company's insurance operations. This is done through internal risk assessment reporting and by compliance with regulatory requirements. Trans Global Life Insurance Company provides group insurance coverage for life, accident and sickness covering personal credit card debt; and group coverage for life, accident and sickness covering other personal short-term debt. Trans Global Insurance Company provides group coverage for loss of income and property covering personal credit card debt; group coverage for loss of income and property covering other personal short-term debt; and four- and five-year term commercial property coverage. The principal risks faced under insurance contracts are that (i) the actual claims and benefit payments or the timing thereof, differ from expectations. This risk is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of claims; (ii) the risk of loss arising from expense experience being different than expected; and (iii) the risk arising due to policyholder experiences (lapses) being different than expected. The Company's objective with respect to this risk is to ensure that sufficient reserves are available to cover these liabilities.

The overall risk of the insurance operations is managed by diversifying across a large portfolio of insurance contracts and limiting the benefits that the policyholder stands to receive. The Company, therefore, has a defined maximum exposure which enables it to effectively manage the overall risk. These maximum benefits are limited to $25,000 per occurrence.

24. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

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

The capital structure of the Company has changed from the prior fiscal year. The capital structure now includes debentures, finance lease liabilities, convertible debentures, term credit facility and borrowing capacity available under the revolving credit facilities (Note 14). The revolving credit facilities remain undrawn as at December 31, 2013.

	2013	2012
Current portion of finance lease liabilities	**$ 4,302**	$ –
Debentures	**15,503**	–
Current portion of loans and borrowings	**50,000**	–
Convertible debentures	**90,952**	–
Finance lease liabilities	**137,887**	–
Loans and borrowings	**325,255**	–
Total shareholders' equity	**496,555**	452,187
Total capital under management	**$ 1,120,454**	$ 452,187

Under the Senior Secured Credit Agreement, the financial and non-financial covenants are reviewed on an ongoing basis by management to monitor compliance with the agreement. The Company was in compliance with these key covenants as at December 31, 2013.

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

The Company is not subject to any externally imposed capital requirements, other than with respect to its insurance subsidiaries.

Restriction on the distribution of capital from Trans Global Insurance Company ("TGI") and Trans Global Life Insurance Company ("TGLI")

For purposes of regulatory requirements for TGI and TGLI, capital is considered to be equivalent to their respective statement of financial position equity. Regulatory requirements stipulate that TGI must maintain minimum capital of at least $3,000 and TGLI must maintain minimum capital of at least $5,000.

In addition, the Company is subject to the regulatory capital requirements defined by The Office of the Superintendent of Insurance of Alberta and the Insurance Act of Alberta (the "Act"). Notwithstanding that a company may meet the supervisory target standard, The Office of the Superintendent of Insurance of Alberta may direct a company to increase its capital under the Act. As at December 31, 2013, TGI's Minimum Capital Test ratio was 537% [2012 – nil], which is in compliance with the requirements of The Office of the Superintendent of Insurance of Alberta and the Act. As at December 31, 2013, TGLI's Minimum Continuing Capital and Surplus Requirements ratio was 396% [2012 – nil], which is in compliance with the requirements of The Office of the Superintendent of Insurance of Alberta and the Act.

25. COMMITMENTS AND CONTINGENCIES

(a) The Company leases a number of retail stores under operating leases. Generally, the leases have rent escalation terms and renewal options to extend. The Company is obligated under these operating leases for future minimum annual rental payments as follows:

No later than 1 year	$ 68,364
Later than 1 year and no later than 5 years	246,037
Later than 5 years	427,544
	$ 741,945

(b) 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	$ 2,583
Later than 1 year and no later than 5 years	6,766
Later than 5 years	922
	$ 10,271

(c) The Company has issued approximately $525 in letters of credit primarily with respect to buildings under construction or being completed [2012 – $255].

(d) Pursuant to a reinsurance agreement relating to the extended warranty sales, the Company has pledged available-for-sale financial assets amounting to $20,104 [2012 – $20,980] and provided a letter of credit of $1,500 [2012 – $1,500] for the benefit of the insurance company.

(e) 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 financial position.

26. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Years Ended December 31	
	2013	2012
Trade receivables	**$ (20,328)**	$ (1,308)
Income taxes receivable	**4,903**	1,538
Inventories	**(29,461)**	1,773
Deferred financing costs	**817**	–
Other assets	**3,696**	158
Trade and other payables	**(16,945)**	(12,883)
Customers' deposits	**21,002**	1,229
Provisions	**(710)**	–
Deferred acquisition costs	**(6,113)**	–
Deferred rent liabilities and lease inducements	**3,776**	–
	$ (39,363)	$ (9,493)

(b) During the year, property, plant and equipment were acquired at an aggregate cost of $19,297 [2012 – $17,965], of which $53 [2012 – $942] is included in trade and other payables as at December 31, 2013.

27. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation.

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:

	Years Ended December 31	
	2013	2012
Salaries and other short-term employee benefits	**$ 12,521**	$ 3,056

28. COMPARATIVE FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2013 consolidated financial statements.

Corporate and Shareholder Information

BOARD OF DIRECTORS

Mark J. Leon
Toronto

Terrence T. Leon
Toronto

Edward F. Leon
King City

Joseph M. Leon II
Mississauga

Peter B. Eby
Private Investor, Toronto

Alan J. Lenczner
Barrister, Partner in
Lenczner Slaght, 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

45 Gordon Mackay Road
Toronto, Ontario M9N 3X3
(416) 243-7880

AUDITORS

Ernst & Young LLP
Toronto

REGISTRAR AND TRANSFER AGENT

CST Trust Company

LISTING

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

ANNUAL GENERAL MEETING

May 13, 2014 2:00 PM
Terrritories Room, Fairmont Royal York
100 Front Street West,
Toronto, Ontario

DESIGN: CRAIB DESIGN & COMMUNICATIONS WWW.CRAIB.COM

Of the many milestones Leon's has achieved since 1909, none has been greater than last year's acquisition of The Brick Ltd. Today, our two storied brands comprise the **largest retail network for home furnishings, appliances and electronics in Canada,** but our plans to realize the full potential of this historic combination have just begun.

www.leons.ca | www.thebrick.com