Investing in growth

Leon's Furniture Limited
2017 Annual Report

A strong foundation for growth

After 108 years in business and still growing strong, Leon's is the largest retailer of furniture, mattresses, appliances and home electronics in Canada, with $2.64 billion in annual system-wide sales, five powerful banners and a network of 304 stores from coast to coast.

The opening of our new 432,000 square foot facility in Delta, B.C., represents an important milestone in the optimization of our national distribution network.

Leon's unrivalled store and distribution networks constitute a strong foundation for the continued success of our core retailing business as well as the five strategic initiatives we're advancing to augment revenue and earnings growth in the years ahead.

Financial Highlights

($ in thousands, except per share amounts)	**2017**	2016	% Change
Revenue	**$ 2,212,216**	$ 2,143,736	3.2%
Income before income taxes	**131,429**	114,188	15.1%
Net income	**96,593**	83,591	15.6%
Cash generated from operations	**156,603**	164,648	(4.9%)
Dividends paid	**33,179**	28,649	15.8%
Per common share			
Net income	**$ 1.32**	$ 1.17	12.8%
Cash flow generated from operations	**$ 2.15**	$ 2.30	(6.5%)
Dividends declared	**$ 0.48**	$ 0.40	20.0%
Shareholders' equity at year end	**$ 10.60**	$ 9.20	15.2%

REVENUE

3.2%

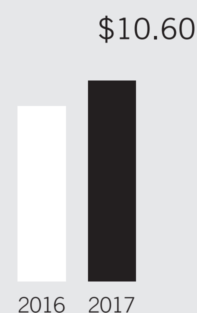
GROWTH

NET INCOME

15.6%

GROWTH

SHAREHOLDER'S EQUITY



15.2%

GROWTH
(PER SHARE)

Today
is
Special

Hello
TODAY

Chief Executive Officer's Message

2017 was an outstanding year for Leon's Furniture Limited. We posted record financial results, achieved strong operating performance in the Leon's and The Brick divisions, and advanced our growth strategies in five promising areas that are complementary to our core businesses.

RECORD FINANCIAL RESULTS

System-wide sales reached $2.64 billion including $426 million of franchise sales, compared to $2.53 billion including $388 of franchise sales in 2016. These results reflect a full year of sales from ten new stores opened in 2016, the effectiveness of our marketing and merchandising campaigns at Leon's and The Brick, and growing contributions from our online retail channels and other businesses. Same-store sales for the year increased 1.2 percent, as we continued to grow market share in a relatively slow-growing economy. At the same time, we continued to increase adjusted net income – which rose 14.1 percent to $99 million or $1.23 per diluted share – at a faster pace. This reflected an unwavering focus on cost control, the continuing internalization of distribution costs at The Brick, and lower financing costs as a result of continued debt reduction.

It has been just over five years since we completed the acquisition of The Brick, a company nearly twice the size of Leon's at the time of the transaction. We were well aware that integration risk posed the greatest threat to any successful union, but we had done our homework and knew that our business opportunities were too attractive to ignore. We also took our time with the integration, drawing upon expertise and best practices from both organizations. Major work started with the careful development and implementation of a system-wide information platform, the subsequent integration of our business support functions to gain efficiencies and lower costs, and most recently, the optimization of our national distribution network.

Over the same time period, we were able to increase net earnings at a compound annual growth rate of nine percent, while reducing the $400 million of medium-term bank debt and $100 million in convertible debentures issued to fund the acquisition of The Brick to $195 million and $48 million, respectively, by the end of last year.

While we have been careful to preserve the independence of the marketing and merchandising teams at Leon's and The Brick, we are also benefitting from a shared approach to the way we conduct business that permeates both divisions and we will continue to find new ways to leverage our combined business. Today, these two industry-leading brands make Leon's Furniture Limited the largest retailer of furniture, mattresses, appliances and consumer electronics in Canada.

A STRONG FOUNDATION FOR GROWTH

Leon's is well positioned to sustain increased profitability in our core retailing business amid the current industry environment. At the same time, we are advancing five complementary initiatives that will augment revenue and earnings growth as we move ahead:

1. ACQUISITIONS. As Leon's continues to generate cash flows exceeding our operating and capital investment requirements, we will be open to selective acquisition opportunities. Our investment criteria include businesses with well-established brands and leading market positions that can leverage our existing capabilities and infrastructure. While we occupy a leading position in our market, Leon's and The Brick together represent less than a 20 percent share of total sales. The market remains highly fragmented in both Canada and the United States and will thus continue to present acquisition opportunities as it consolidates.

2. DIGITAL COMMERCE. Over the past year, we have continued to refine an omni-channel marketing strategy that combines the strengths of our Canada-wide retail, distribution and service networks with the endless selection of our leons.ca, thebrick.com and furniture.ca websites. We want to make it easier and more rewarding for customers to do business with us – no matter how, when or where they choose – whether they are comparing our products online or visiting our stores for specialized sales information or value-added warranty and service advice.

As part of this process, we are planning to take a larger role in the operation of leons.ca, thebrick.com and furniture.ca to better drive innovation and more effectively advance our efforts to create a seamless customer experience across all retail channels.

Our omni-channel marketing initiatives are built on a strong foundation. As the world's largest online retailers are beginning to recognize the advantages of brick and mortar stores and dedicated distribution facilities, we already possess the valuable infrastructure required to display, sell, distribute and service a rapidly expanding product offering almost anywhere in Canada.

3. THIRD PARTY DISTRIBUTION. The recent opening of our state-of-the-art distribution centre in Delta, BC represents an important step in the modernization of our national distribution network to more efficiently meet the combined needs of our Leon's and The Brick store networks. Yet it also represents the beginning of a larger business opportunity. The so-called "last mile" in product fulfillment is an expensive and sometimes cost-prohibitive one for many traditional and online retailers. That's why Leon's is planning to increase capacity, not only in its Delta distribution facility, but also at many of its other existing warehouses by digitally integrating them to create greater efficiencies and allow for third party distribution. We are planning to develop this business as a separate profit centre as the optimization of our national distribution network continues.

LOVE WHERE YOU LIVE
Save up to 30%
SHOP FURNITURE

TWO is for TWINS

4. MAJOR APPLIANCE WARRANTY AND THIRD PARTY SERVICE. TransGlobal Service (TGS) was created in 1980 to provide after-sales service for appliances sold by The Brick and today fulfills installation, repair and service requirements for multiple retailers and wholesalers of all brands of major appliances as well as electronics, installations and home mechanical systems. Already the largest operation of its kind in Canada, this business is benefitting from the increasing tendency of manufacturers and retailers to outsource service and warranty work, as well as a rapidly growing direct-to-consumer business. We expect these trends to continue and are positioning TGS, with its unequalled scale and geographic footprint, to become an increasingly important contributor to Leon's revenue and earnings growth.

5. REAL ESTATE. Many of our stores in our retail network occupy company-owned commercial real estate that are situated in the heart of Canada's largest and fastest growing metropolitan areas. This 4.2 million square foot real estate portfolio is carried on Leon's balance sheet at historical cost. Over the past year, we have been working with industry consultants to more accurately determine the market value of our real estate, identify the most promising development opportunities and evaluate different scenarios for value creation.

108 YEARS YOUNG

After more than 108 years in business, Leon's has prospered and grown through many economic cycles. We've also witnessed, and sometimes initiated, continuing change in the Canadian retailing landscape. Today, we are proud of how far we've come, yet in many ways we are just getting started. We are better positioned than ever in the Canadian marketplace with two storied and market-leading retail banners and an unrivalled store and distribution network. This is a strong foundation for the continued growth of our core retailing business as well as the complementary growth initiatives that will play an increasing role in our success.

In closing, I would like to extend our appreciation to the executive leadership of Leon's and The Brick, their talented corporate and franchise store management teams, and the valued associates at all of our businesses, for helping to make 2017 our best year yet. With your continued support, we look forward to reporting on Leon's progress in the years ahead.

Sincerely,

"Terrence T. Leon"

Terrence T. Leon
Chief Executive Officer

"Today, we are proud of how far we've come, yet in many ways we are just getting started."

Across the country

NATIONWIDE

304

STORES

- **202** The Brick
- **86** Leon's Furniture
- **12** The Brick Outlet
- **4** Appliance Canada

A STRONG FOUNDATION FOR GROWTH

Leon's Furniture Limited is Canada's largest retailer of furniture, mattresses, appliances and home electronics through five leading retail and commercial banners. They are supported by growing, complementary businesses that provide our divisions and third party customers with high-quality product sourcing services, after-sales repair and service, warranty protection and insurance.

Our Executive Leadership team

Edward F. Leon, President & COO
Leon's Furniture Limited

Eddy is a third generation Leon who began working in the family business as a young man. Since 1976, he has held a number of management positions in store operations, human resources, and buying. In February 2001, Eddy was appointed a Director of the Company and in May 2002, became Vice President of Merchandising, a position he held until he assumed the position of President and Chief Operating Officer of Leon's Furniture Limited in June 2015.

Michael J. Walsh, President
Leon's Division

Mike is a seasoned executive with over 25 years of retail experience. He has been a catalyst for positive change since his arrival at Leon's in June 2015. Prior to joining the Company, Mike served as Vice President of Operations at Canadian Tire Corporation.

David B. Freeman, President
The Brick Division

Dave is a long serving Brick associate with 38 years of retail experience. Prior to his appointment as President of The Brick in 2016, Dave served in a variety of roles including Senior Vice President of Operations and Vice President of Sales.

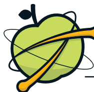
Strong communities

Our Leon's and Brick divisions share a long-standing tradition of supporting the communities that are home to our operations, both corporately, and through the volunteer efforts, resources and financial contributions of our stores and associates across the country.

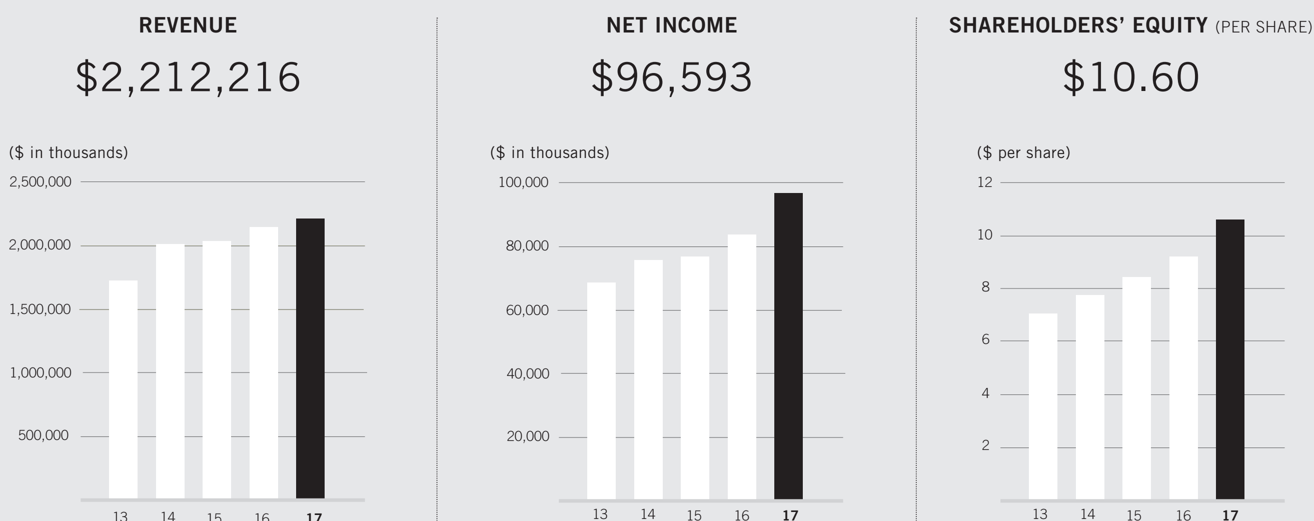
The largest recipients of Leon's support are healthcare facilities. Leon's believes there are no better causes than the physical and mental welfare of our customers, friends, and families. In this regard, several of the country's outstanding hospitals receive significant contributions annually. Along with the hospitals, there are a number of health associations, children's charities, societies and foundations that are supported. Leon's also assists the local communities served by its store network with financial contributions, as well as the volunteer efforts of our associates who contribute hundreds of hours of service across this country each year.

The Brick division shares a similar focus on improving the health and well-being of the communities that are home to its store network. In 2017, this could be seen in the support of the Children's Miracle Network®, which raises funds and awareness for 170 member hospitals, 12 of which are in Canada. Donations stay local to fund critical treatments and healthcare services, paediatric medical equipment and research. We are also proud to sponsor Breakfast for Learning, which works with schools across Canada to help them start and operate programs that have provided more than 638 million meals to more than three million Canadian children since the program started in 1992. You can learn more about our support for these and other important causes at leons.ca and thebrick.com.

Children's Miracle Network Hospitals


BREAKFAST FOR LEARNING™
Feeding hungry minds throughout the day™

5-year review



Income Statistics

($ in thousands, except amounts per share)	2017	2016	2015	2014	2013
Revenue	$ **2,212,216**	$ 2,143,736	$ 2,031,718	$ 2,008,480	$ 1,721,874
Cost of sales	**1,261,112**	1,228,499	1,145,593	1,131,651	959,307
Gross profit	**951,104**	915,237	886,125	876,829	762,567
Operating expenses	**819,675**	801,049	784,706	773,695	669,297
Income before income taxes	**131,429**	114,188	101,419	103,134	93,270
Provision for income taxes	**34,836**	30,597	24,790	27,610	24,878
Net income	$ **96,593**	$ 83,591	$ 76,629	$ 75,524	$ 68,392
Common shares outstanding ('000s)	**72,904**	71,696	71,218	70,899	70,612
Earnings per common share	$ **1.32**	$ 1.17	$ 1.08	$ 1.07	$ 0.97
Percent annual change in sales	**3.2%**	5.5%	1.2%	16.6%	152.4%
Net income as a percentage of sales	**4.4%**	3.9%	3.8%	3.8%	4.0%
Dividend declared	$ **35,136**	$ 28,691	$ 28,501	$ 28,370	$ 28,247

Balance Sheet Statistics

($ in thousands, except amounts per share)	2017	2016	2015	2014	2013
Shareholders' equity	$ **773,048**	$ 659,553	$ 600,402	$ 549,105	$ 497,764
Total assets	**1,661,455**	1,611,662	1,583,463	1,563,476	1,565,356
Purchase of capital assets	**55,041**	25,689	22,756	16,562	18,984
Working capital	**168,710**	128,788	65,419	46,931	16,246
Shareholders' equity per common share	**10.60**	9.20	8.43	7.74	7.05
Common share price range on the Toronto Stock Exchange					
High	$ **19.57**	$ 18.75	$ 19.38	$ 17.90	$ 14.75
Low	$ **16.19**	$ 13.08	$ 12.61	$ 13.41	$ 11.62

Management's Discussion & Analysis

For the quarters and years ended December 31, 2017 and 2016.

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 22, 2018 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, 2017 and for the year ended December 31, 2017, and 2016. It should be read in conjunction with the fiscal year 2017 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2017 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 further drop in consumer confidence; dependency on product from third party suppliers, further changes to the Canadian bank lending rates; and further fluctuations of the Canadian dollar versus the US dollar. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Readers of this report are cautioned that actual events and results may vary.

Financial Statements Governance Practice

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The 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 and the management share purchase plan 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 2017 consolidated financial statements and MD&A were approved on February 22, 2018.

1. Business overview

Leon's Furniture Limited is the largest retailer of furniture, mattresses, appliances and electronics in Canada. Our retail banners include: Leon's; The Brick; The Brick Mattress Store; and The Brick Outlet. Finally, with the Midnorthern Appliance banner alongside the Appliance Canada banner, we are also the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies. The Company has 304 retail stores from coast to coast in Canada under various banners. As well, the Company operates three ecommerce sites: leons.ca, thebrick.com and furniture.ca.

The Company's repair service division, Trans Global Services ("TGS"), provides household furniture, electronics and appliance repair services to its customers. The TGS division has contracts to support several manufacturers' warranty service work in addition to servicing a number of individual programs offered by other dealers. This division also performs work for products sold with extended warranties and is an integral part of the retail offering. These extended warranties, underwritten by the Company's wholly-owned subsidiaries are offered on appliances, electronics and furniture to provide coverage that extends beyond the manufacturer's warranty period by up to five years. The warranty contracts provide both repair and replacement service depending upon the nature of the warranty claim.

The Company's wholly-owned subsidiaries Trans Global Insurance Company ("TGI") and its sister company, Trans Global Life Insurance Company ("TGLI") also offer credit insurance on the customers' outstanding financing balances. This credit insurance coverage includes life, dismemberment, disability, critical illness and involuntary unemployment. These credit insurance policies are underwritten by TGI and TGLI as they are licensed as insurance companies in all Canadian provinces and territories.

The Company has foreign operations in Asia, through its wholly-owned subsidiary First Oceans Trading Corporation. These operations relate to the Company's import and quality control program for sourcing products from Asia for resale in Canada through its retail operations.

The Company has 304 retail stores from coast to coast in Canada under the various banners indicated below:

Banner	Number of Stores as at December 31, 2016	Opened	Closed	**Number of Stores as at December 31, 2017**
Leon's banner corporate stores	50	–	–	**50**
Leon's banner franchise stores	36	–	–	**36**
Appliance Canada banner stores	4	–	–	**4**
The Brick banner corporate stores[1]	114	–	–	**114**
The Brick banner franchise stores[2]	64	2	(1)	**65**
The Brick Mattress Store banner locations	24	1	(2)	**23**
Brick Outlet[2]	13	–	(1)	**12**
Total number of stores	305	3	(4)	**304**

1. Includes the Midnorthern Appliance banner
2. United Furniture Warehouse "UFW" banner stores were converted to Brick Outlets in August 2017

2. Non-IFRS financial measures

The Company uses financial measures that do not have standardized meaning under IFRS and may not be comparable to similar measures presented by other entities. The Company calculates the non-IFRS measures by adjusting certain IFRS measures for specific items the Company believes are significant, but not reflective of underlying operations in the period, as detailed below:

Non-IFRS Measure	IFRS Measure
Adjusted net income	Net income
Adjusted income before income taxes	Income before income taxes
Adjusted earnings per share – basic	Earnings per share – basic
Adjusted earnings per share – diluted	Earnings per share – diluted
Adjusted EBITDA	Net income

Adjusted Net Income

Leon's calculates comparable measures by excluding the effect of:

- the mark-to-market adjustments included in the Company's selling, general and administration ("SG&A") income statement line item, related to the net effect of USD-denominated forward contracts and an interest rate swap on the Company's term credit facility. The Company uses forward currency contracts to manage the risk associated with its USD-denominated purchases and an interest rate swap to manage interest rate risk on its term credit facility in accordance with the Company's corporate treasury policy;
- severance charges in the period, a non-recurring expense included in the Company's SG&A.

Management believes excluding from income the effect of these mark-to-market valuations and changes thereto, until settlement, better aligns the intent and financial effect of these contracts with the underlying cash flows. Similarly, excluding from income the effect of non-recurring expenses better reflects Leon's SG&A as a percentage of revenue in the period.

The following is a reconciliation of reported net income to adjusted net income, basic and diluted earnings per share to adjusted basic and diluted earnings per share:

	For the three months ended December 31		For the years ended December 31	
($ in thousands, except per share amounts)	**2017**	2016	**2017**	2016
Net income	**34,778**	37,233	**96,593**	83,591
After-tax mark-to-market loss (gain) on financial derivative instruments	**1,341**	(2,488)	**2,429**	1,943
After-tax severance charge	**–**	–	**–**	1,228
Adjusted net income	**36,119**	34,745	**99,022**	86,762
Basic earnings per share	**$ 0.46**	$ 0.52	**$ 1.32**	$ 1.17
Diluted earnings per share	**$ 0.43**	$ 0.46	**$ 1.20**	$ 1.05
Adjusted basic earnings per share	**$ 0.48**	$ 0.48	**$ 1.36**	$ 1.21
Adjusted diluted earnings per share	**$ 0.45**	$ 0.43	**$ 1.23**	$ 1.08

Adjusted EBITDA

Adjusted earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustment due to the changes in the fair value of the Company's financial derivative instruments and any non-recurring charges to income ("Adjusted EBITDA") is a non-IFRS financial measure used by the Company. The Company considers Adjusted EBITDA to be an effective measure of profitability on an operational basis and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Adjusted EBITDA is a non-IFRS financial measure used by the Company. The Company's Adjusted EBITDA may not be comparable to the Adjusted EBITDA measure of other companies, but in management's view appropriately reflects Leon's specific financial condition. This measure is not intended to replace net income, which, as determined in accordance with IFRS, is an indicator of operating performance.

The following is a reconciliation of reported net income to adjusted EBITDA:

	For the three months ended December 31		For the years ended December 31	
($ in thousands)	**2017**	2016	**2017**	2016
Net income	**34,778**	37,233	**96,593**	83,591
Income tax expense	**12,083**	13,600	**34,836**	30,597
Net finance costs	**2,316**	3,526	**10,502**	14,481
Depreciation and amortization	**10,603**	10,654	**39,556**	41,235
Severance charge	**–**	–	**–**	1,700
Mark-to-market loss (gain) on financial derivative instruments	**1,820**	(3,407)	**3,311**	2,662
Adjusted EBITDA	**61,600**	61,606	**184,798**	174,266

Same Store Sales

Same store sales are defined as sales generated by stores that have been open or closed for more than 12 months on a fiscal basis. Same store sales is not an earnings measure recognized by IFRS, and 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. Same store sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers, however, this measure is commonly used in the retail industry. We believe that disclosing this measure is meaningful to investors because it enables them to better understand the level of growth of our business.

Total System-wide Sales

Total system-wide sales refer to the aggregation of revenue recognized in the Company's consolidated financial statements plus the franchise sales occurring at franchise stores to their customers which are not included in the revenue figure presented in the Company's consolidated financial statements. Total system-wide sales is not a measure recognized by IFRS, and 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. Therefore, total system-wide sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers. We believe that disclosing this measure is meaningful to investors because it serves as an indicator of the strength of the Company's overall store network, which ultimately impacts financial performance.

Franchise Sales

Franchise sales figures refer to sales occurring at franchise stores to their customers which are not included in the revenue figures presented in the Company's consolidated financial statements, or in the same store sales figures in this MD&A. Franchise sales is not a measure recognized by IFRS, and 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. Therefore, franchise sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers. Once again we believe that disclosing this measure is meaningful to investors because it serves as an indicator of the strength of the Company's brands, which ultimately impacts financial performance.

3. Results of operation

Summary financial highlights for the quarters ended December 31, 2017 and December 31, 2016

			For the three months ended December 31	
($ in thousands, except % and per share amounts)	**2017**	2016	$ Increase (Decrease)	% Increase (Decrease)
Total system-wide sales[1]	**722,259**	704,742	17,517	2.5%
Franchise sales[1]	**126,404**	116,361	10,043	8.6%
Revenue	**595,855**	588,381	7,474	1.3%
Cost of sales	**332,807**	329,876	2,931	0.9%
Gross profit	**263,048**	258,505	4,543	1.8%
Gross profit margin as a percentage of revenue	**44.15%**	43.93%		
Selling, general and administration expenses (excluding mark-to-market impact and severance charge)[1]	**212,051**	207,554	4,497	2.2%
SG&A as a percentage of revenue	**35.59%**	35.28%		
Income before net finance costs and income tax expense	**50,997**	50,951	46	0.1%
Net finance costs	**(2,316)**	(3,526)	(1,210)	(34.3%)
Income before income taxes (excluding mark-to-market impact and severance charge)[1]	**48,681**	47,425	1,256	2.6%
Income tax expense	**12,562**	12,680	(118)	(0.9%)
Adjusted net income[1]	**36,119**	34,745	1,374	4.0%
Adjusted net income[1] as a percentage of revenue	**6.06%**	5.91%		
After-tax mark-to-market loss (gain) on financial derivative instruments[1]	**1,341**	(2,488)	3,829	153.9%
Net income	**34,778**	37,233	(2,455)	(6.6%)
Basic weighted average number of common shares	**75,079,103**	71,820,999		
Basic earnings per share	**$ 0.46**	$ 0.52	$ (0.06)	(11.5%)
Adjusted basic earnings per share[1]	**$ 0.48**	$ 0.48	$ –	0.0%
Diluted weighted average number of common shares	**82,894,024**	82,989,568		
Diluted earnings per share	**$ 0.43**	$ 0.46	$ (0.03)	(6.5%)
Adjusted diluted earnings per share[1]	**$ 0.45**	$ 0.43	$ 0.02	4.7%
Common share dividends declared	**$ 0.12**	$ 0.10	$ 0.02	20.0%
Convertible, non-voting shares dividends declared	**$ 0.23**	$ 0.20	$ 0.03	15.0%

1. Non-IFRS financial measures. Refer to section 2 in this MD&A for additional information.

Same Store Sales[1]

			For the three months ended December 31	
($ in thousands except %)	**2017**	2016	$ Increase	% Increase
Same store sales[1]	**$ 582,662**	$ 578,074	$ 4,588	0.8%

1. Non-IFRS financial measure. Refer to section 2 in this MD&A for additional information.

Fourth Quarter Overall Performance

REVENUE

For the three months ended December 31, 2017, revenue was $595,855,000 compared to $588,381,000 in the prior year's fourth quarter. Revenue increased $7,474,000 or 1.3% between the comparative quarters.

SAME STORE SALES[1]

Overall, same store corporate sales increased 0.8%.

GROSS PROFIT

The gross profit for the fourth quarter 2017 continued to be strong as it increased from 43.93% to 44.15% compared to the prior year's fourth quarter.

SELLING, GENERAL AND ADMINISTRATION EXPENSES ("SG&A")

Excluding the mark-to-market impact of the Company's financial derivatives, comprised of foreign exchange forwards and a fixed interest rate swap, SG&A as a percentage of revenue increased from 35.28% to 35.59% compared to the prior year's quarter. The marginal increase was due to slightly higher occupancy costs in the quarter.

ADJUSTED NET INCOME[1] AND ADJUSTED DILUTED EARNINGS PER SHARE[1]

As a result of the above and due to the Company's continued reduction of its term credit facility, adjusted net income for the three month period ended December 31, 2017 was $36,119,000, $0.45 adjusted diluted earnings per share ($34,745,000, $0.43 adjusted diluted earnings per share in 2016), an increase of 4.7% per share.

NET INCOME AND DILUTED EARNINGS PER SHARE

Including the mark-to-market impact of the Company's financial derivatives, net income for the fourth quarter of 2017 was $34,778,000, $0.43 diluted earnings per share (net income of $37,233,000, $0.46 diluted earnings per share in 2016).

Consolidated operating results for the twelve months ended December 31, 2017, 2016 and 2015

For the years ended December 31

($ in thousands, except % and per share amounts)	**2017**	2016	$ Increase (Decrease)	% Increase (Decrease)	2016	2015	$ Increase (Decrease)	% Increase (Decrease)
Total system-wide sales[1]	**$ 2,638,091**	2,531,573	106,518	4.2%	2,531,573	2,407,512	124,061	5.2%
Franchise sales[1]	**425,875**	387,837	38,038	9.8%	387,837	375,794	12,043	3.2%
Revenue	**2,212,216**	2,143,736	68,480	3.2%	2,143,736	2,031,718	112,018	5.5%
Cost of sales	**1,261,112**	1,228,499	32,613	2.7%	1,228,499	1,141,706	86,793	7.6%
Gross profit	**951,104**	915,237	35,867	3.9%	915,237	890,012	25,225	2.8%
Gross profit margin as a percentage of revenue	**42.99%**	42.69%			42.69%	43.81%		
Selling, general and administration expenses (excluding mark-to-market impact and severance charge)[1]	**805,862**	782,206	23,656	3.0%	782,206	771,334	10,872	1.4%
SG&A as a percentage of revenue	**36.43%**	36.49%			36.49%	37.96%		
Income before net finance costs and income tax expense[1]	**145,242**	133,031	12,211	9.2%	133,031	118,678	14,353	12.1%
Net finance costs	**(10,502)**	(14,481)	(3,979)	(27.5%)	(14,481)	(17,627)	(3,146)	(17.8%)
Income before income taxes (excluding mark-to-market impact and severance charge)[1]	**134,740**	118,550	16,190	13.7%	118,550	101,051	17,499	17.3%
Income tax expense	**35,718**	31,788	3,930	12.4%	31,788	27,313	4,475	16.4%
Adjusted net income[1]	**99,022**	86,762	12,260	14.1%	86,762	73,738	13,024	17.7%
Adjusted net income[1] as a percentage of revenue	**4.48%**	4.05%			4.05%	3.63%		
After-tax mark-to-market loss (gain) on financial derivative instruments[1]	**2,429**	1,943	486	25.0%	1,943	(268)	2,211	N.M.
After-tax severance charge[1]	**–**	1,228	(1,228)	N.M.	1,228	–	1,228	
Prior period tax adjustment[1]	**–**	–	–	–	–	(2,623)	2,623	N.M.
Net income	**96,593**	83,591	13,002	15.6%	83,591	76,629	6,962	9.1%
Basic weighted average number of common shares	**72,904,130**	71,695,955			71,695,955	71,217,958		
Basic earnings per share	**$ 1.32**	$ 1.17	$ 0.15	12.8%	$ 1.17	$ 1.08	$ 0.09	8.3%
Adjusted basic earnings per share[1]	**$ 1.36**	$ 1.21	$ 0.15	12.4%	$ 1.21	$ 1.04	$ 0.17	16.3%
Diluted weighted average number of common shares	**82,912,983**	83,081,832			83,081,832	82,364,539		
Diluted earnings per share	**$ 1.20**	$ 1.05	$ 0.15	14.3%	$ 1.05	$ 0.97	$ 0.08	8.2%
Adjusted diluted earnings per share[1]	**$ 1.23**	1.08	$ 0.15	13.9%	$ 1.08	$ 0.93	$ 0.15	16.1%
Common share dividends declared	**$ 0.48**	$ 0.40	$ 0.08	20.0%	$ 0.40	$ 0.40	–	–
Convertible, non-voting shares dividends declared	**$ 0.23**	$ 0.20	$ 0.03	15.0%	$ 0.20	$ 0.20	–	–

1. Non-IFRS financial measures. Refer to section 2 in this MD&A for additional information.
2. Not Meaningful – "N.M."

Same Store Sales[1]

For the years ended December 31

($ in thousands except %)	**2017**	2016	$ Increase	% Increase
Same store sales[1]	**2,109,881**	2,084,123	25,758	1.2%

1. Non-IFRS financial measure. Refer to section 2 in this MD&A for additional information.

REVENUE

For the year ended December 31, 2017, revenue was $2,212,216,000 compared to $2,143,736,000 for the prior year. Revenue increased $68,480,000 or 3.2% for the comparative period.

SAME STORE SALES[1]

Overall, same store corporate sales increased 1.2%.

GROSS PROFIT

The gross profit for the year ended December 31, 2017 continued to be strong as it increased from 42.69% to 42.99% compared to the prior year.

SELLING, GENERAL AND ADMINISTRATION EXPENSES ("SG&A")

Excluding severance payments and the mark-to-market impact of the Company's financial derivatives, comprised of foreign exchange forwards and a fixed interest rate swap, SG&A as a percentage of revenue decreased from 36.49% to 36.43%. The reduction is due primarily from generating a higher degree of operating leverage as revenues increased 3.2% for the year and by gaining additional operating efficiencies especially relating to delivery expenses and a reduction in retail financing charges.

ADJUSTED NET INCOME[1] AND ADJUSTED DILUTED EARNINGS PER SHARE[1]

As a result of the above, adjusted net income for the year ended December 31, 2017 was $99,022,000, $1.23 adjusted diluted earnings per share ($86,762,000, $1.08 adjusted diluted earnings per share in 2016), an increase of 13.9%.

NET INCOME AND DILUTED EARNINGS PER SHARE

Net income for the year ended December 31, 2017 was $96,593,000, $1.20 diluted earnings per share (net income of $83,591,000, $1.05 diluted earnings per share for the year ended December 31, 2016).

4. Summary of consolidated quarterly results

The table below highlights the variability of quarterly results and the impact of seasonality on the Company's results. The Company's profitability is typically lower in the first half of the year, since retail sales are traditionally higher in the third and fourth quarters.

($ in thousands, except per share data)	Quarter Ended December 31		Quarter Ended September 30		Quarter Ended June 30		Quarter Ended March 31	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Total system-wide sales[1]	**722,259**	704,742	**705,683**	673,897	**636,159**	606,453	**573,988**	546,483
Franchise sales[1]	**126,404**	116,361	**111,094**	98,173	**98,576**	90,269	**89,799**	83,036
Revenue	**595,855**	588,381	**594,589**	575,724	**537,583**	516,184	**484,189**	463,447
Net income	**34,778**	37,233	**34,338**	34,111	**18,863**	16,959	**8,614**	(4,712)
Adjusted net income[1]	**36,119**	34,745	**34,392**	31,300	**19,968**	15,547	**8,543**	5,170
Basic earnings(loss) per share	**$ 0.46**	$ 0.52	**$ 0.48**	$ 0.48	**$ 0.26**	$ 0.24	**$ 0.12**	$ (0.07)
Fully diluted earnings(loss) per share	**$ 0.43**	$ 0.46	**$ 0.42**	$ 0.42	**$ 0.24**	$ 0.21	**$ 0.11**	$ (0.07)
Adjusted basic earnings per share[1]	**$ 0.48**	$ 0.48	**$ 0.48**	$ 0.44	**$ 0.28**	$ 0.22	**$ 0.12**	$ 0.07
Adjusted fully diluted per share[1]	**$ 0.45**	$ 0.43	**$ 0.42**	$ 0.39	**$ 0.25**	$ 0.20	**$ 0.11**	$ 0.07

1. Non-IFRS financial measure. Refer to section 2 in this MD&A for additional information.

5. Financial position

($ in thousands)	**December 31, 2017**	December 31, 2016	December 31, 2015
Total assets	**1,661,455**	1,611,662	1,583,463
Total non-current liabilities	**468,569**	525,605	543,455

ASSETS

Total assets at December 31, 2017 of $1,661,455,000 were $49,793,000 higher than the $1,611,662,000 reported at December 31, 2016. The principal components of this net change are the following:

- $17,648,000 increase in cash and cash equivalents, restricted marketable securities and available-for-sale financial assets
- $10,374,000 increase in trade receivables
- $9,113,000 increase in inventory
- $21,248,000 increase in property, plant and equipment
- $5,178,000 decrease in intangible assets

Cash and cash equivalents, restricted marketable securities and available-for-sale financial assets increased due to earnings from operations. The property, plant and equipment increased due to the purchase of land and subsequent construction of the new 432,000 square foot distribution centre in Delta, British Columbia.

NON-CURRENT LIABILITIES

Non-current liabilities of $468,569,000 were $57,036,000 lower than the $525,605,000 reported at December 31, 2016. The reduction is primarily the result of the repayment of the term loan, conversion of the convertible debentures and the change in deferred income tax liabilities.

6. Liquidity and capital resources

The following table provides a summarized statement of cash flows for the quarters and years ended December 31, 2017 and December 31 2016:

	For the three months ended December 31			For the years ended December 31		
Source (Use) of Cash ($ in thousands)	**2017**	2016	$ Increase (Decrease)	**2017**	2016	$ Increase (Decrease)
Cash provided by operating activities before changes in non-cash working capital items	**47,519**	53,646	(6,127)	**143,641**	133,410	10,231
Changes in non-cash working capital items	**11,099**	8,792	2,307	**12,962**	31,238	(18,276)
Cash provided by operating activities	**58,618**	62,438	(3,820)	**156,603**	164,648	(8,045)
Investing activities	**(12,366)**	(12,882)	(516)	**(78,023)**	(38,307)	(39,716)
Financing activities	**(26,717)**	(26,514)	203	**(86,358)**	(90,215)	3,857
Increase (decrease) in cash and cash equivalents	**19,535**	23,042	(3,507)	**(7,778)**	36,126	(43,904)

Cash Used in Operating Activities

Cash from operating activities consist primarily of net income adjusted for certain non-cash items, including depreciation and amortization and the effect of changes in non-cash working capital items, primarily receivables, inventories, deferred acquisition costs, accounts payable, income taxes payable, customer deposits and deferred rent liabilities and lease inducements.

In the fourth quarter of 2017 cash provided by operating activities changed by $3,820,000 compared to the prior year's quarter. The net decrease is primarily the result of the change in deferred income taxes.

For the year ended December 31, 2017, cash provided by operating activities changed by $8,045,000 compared to the comparative period. The net decrease is the result of the net change in non-cash working capital items, primarily trade receivables, inventories, trade and other payables, and customer deposits offset by earnings from operations.

Cash Used In Investing Activities

Investing Activities relate primarily to capital expenditures and the purchase and sale of available-for-sale financial assets.

In the fourth quarter of 2017 cash used in investing activities decreased by $516,000 compared to the prior year's quarter. This change is the net result of decreased purchases of property, plant and equipment offset by the change in the purchase and sale of available-for-sale financial assets.

For the year ended December 31, 2017, cash used in investing activities changed by $39,716,000 compared to the comparative period. The net increase is primarily the result of the purchase of property, plant and equipment and the purchase of available-for-sale financial assets.

Cash Used in Financing Activities

Financing Activities consist primarily of cash used to pay dividends and the loans and borrowings used to acquire The Brick.

In the fourth quarter of 2017 cash used in financing activities increased by $203,000 compared to the prior year's quarter. The change relates to payment of dividends. The dividend increased from $0.10 to $0.12 from the previous comparative quarter.

For the year ended December 31, 2017, cash used in financing activities changed by $3,857,000 compared to the comparative period. The decrease is primarily the result of lower interest paid and $5,000,000 reduction in the repayment of term loan offset by the increase in dividends paid, $0.46 per share compared to $0.40 per share for the prior year.

Adequacy of Financial Resources

At December 31, 2017, the Company's current assets exceeded its current liabilities by $168,710,000 and its cash and cash equivalents, available-for-sale financial assets and restricted marketable securities were $117,312,000 compared to $99,664,000 at December 31, 2016. Under the Company's Senior Secured Credit Agreement we had unused borrowing capacity of $49,351,000 as at December 31, 2017 ($49,500,000 as at December 31, 2016). The Company believes that its existing financing resources together with its continuing cash flow from operations will provide a sound liquidity and working capital position throughout the next twelve months.

Contractual Commitments

($ in thousands)

Contractual Obligations	Total	Payments Due by Period Under 1 year	1–3 years	3–5 years	More than 5 years
Long term debt	259,503	7,629	198,371	3,008	50,495
Operating leases[1]	453,906	87,120	141,161	103,929	121,696
Trade and other payables	234,478	234,478	–	–	–
Finance lease liabilities	12,247	1,848	3,817	3,853	2,729
Total Contractual Obligations	**960,134**	**331,075**	**343,349**	**110,790**	**174,920**

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

OUTLOOK

With the expansion of new retail locations, the completion of the new shared distribution centre in Delta, British Columbia and our continuing strong growth in online sales, we expect to see continued growth in sales for 2018, to maintain gross margins and continue to drive efficiencies.

7. Outstanding common shares

At December 31, 2017, there were 76,188,143 common shares issued and outstanding. During the quarter ended December 31, 2017, 112,523 series 2009 shares, 89,116 series 2012 shares, 145,577 series 2013 shares, 32,876 series 2014 shares, 7,072 series 2015 shares and a portion of the convertible debentures with a stated value of $49,858,000 was converted to 3,945,113 common shares, at the holder's option. For details on the Company's commitments related to its redeemable shares please refer to Note 15 of the 2017 consolidated financial statements.

8. Related party transactions

At December 31, 2017, 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.

9. Critical assumptions

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.

CONSOLIDATION AND CLASSIFICATION OF JOINT ARRANGEMENTS

Assessing the Company's ability to control or influence the relevant financial and operating policies of another entity may, depending on the facts and circumstances, require the exercise of significant judgment to determine whether the Company controls, jointly controls, or exercises significant influence over the entity performing the work. This assessment of control impacts how the operations of these entities are reported in the Company's consolidated financial statements. The classification of these entities requires judgment by management to analyze the various indicators that determine whether control exists. In particular, when assessing whether a joint arrangement should be classified as either a joint operation or a joint venture, management considers the contractual rights and obligations, voting shares, share of board members and the legal structure of the joint arrangement. Subject to reviewing and assessing all the facts and circumstances of each joint arrangement, joint arrangements contracted through agreements and general partnerships would generally be classified as joint operations whereas joint arrangements contracted through corporations would be classified as joint ventures. The application of different judgments when assessing control or the classification of joint arrangements could result in materially different presentations in the consolidated financial statements.

EXTENDED WARRANTY 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 AVAILABLE-FOR-SALE FINANCIAL ASSETS AND MARKETABLE SECURITIES

The Company exercises judgment in the determination of whether there are objective indicators of impairment with respect to its available-for-sale financial assets and 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.

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.

Materiality

In preparing this MD&A and the information contained herein, management considers the likelihood that a reasonable investor would be influenced to buy or not buy, or to sell or hold securities of the Company if such information were omitted or misstated. This concept of materiality is consistent with the notion of materiality applied to financial statements and contained in IFRS.

Recent Accounting Pronouncements

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

IFRS 9, FINANCIAL INSTRUMENTS ("IFRS 9")

In July 2014, the IASB issued the final amendments to IFRS 9, which provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The amended IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, the amended IFRS 9 includes a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

The Company intends to adopt the new standard on the required effective date.

IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS ("IFRS 15")

IFRS 15 was issued in May 2014, which will replace IAS 11, Construction Contracts, IAS 18, Revenue Recognition, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17, Leases ("IAS 17"); financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, Consolidated Financial Statements and IFRS 11, Joint Arrangements ("IFRS 11"). In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2018.

The Company has continued the process of reviewing contracts with customers and currently does not expect material changes to the revenue recognition pattern for retail sales. The Company is currently in the process of concluding on the impact of the remaining streams of revenue and expanded note disclosures.

IFRS 16, LEASES ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which will replace IAS 17. The new standard will be effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted, provided the Company also applies IFRS 15 on or before the date it first applies IFRS 16. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As the Company has significant contractual obligations in the form of operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard. The Company is currently analyzing the new standard to determine its impact on the Company's consolidated financial statements.

IFRS 17, INSURANCE CONTRACTS ("IFRS 17")

IFRS 17 was issued in May 2017, which will replace IFRS 4, Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contract liabilities. The new standard is effective for annual periods beginning on or after January 1, 2021, to be applied retrospectively. If full retrospective application to a group of contracts is impractical, the modified retrospective or fair value methods may be used. Earlier adoption is permitted, provided the Company also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Company is currently analyzing the new standard to determine its impact on the Company's consolidated financial statements, particularly the insurance sales revenue stream.

IFRS INTERPRETATION COMMITTEE 23, UNCERTAINTY OVER INCOME TAX TREATMENTS ("IFRIC 23")

IFRIC 23 was issued in June 2017 and is effective for years beginning on or after January 1, 2019, to be applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. The Company is currently analyzing the impact of IFRIC 23 on the Company's consolidated financial statements.

ADOPTION OF NEW, REVISED AMENDED ACCOUNTING STANDARDS

The Company has adopted the amended IFRS pronouncements listed below as at January 1, 2017, in accordance with the transitional provisions outlined in the respective standard.

In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows. The amendments require an entity to provide disclosures that enable the users of the financial statements to evaluate changes in liabilities arising from financing activities, including both cash arising from cash flows and non-cash changes. As at January 1, 2017, the Company adopted the amendments.

10. Risks and uncertainties

Careful consideration should be given to the following risk factors. These descriptions of risks are not the only ones facing the Company. Additional risks and uncertainties not presently known to Leon's, or that the Company deems immaterial, may also impair the operations of the Company. If any of such risks actually occur, the business, financial condition, liquidity, and results of operations of the Company could be materially adversely affected.

Readers of this MD&A are also encouraged to refer to Leon's Annual Information Form ("AIF") dated March 28, 2018 which provides information on the risk factors facing the Company. The March 28, 2018 AIF can be found online at *www.sedar.com*.

SENSITIVITY TO GENERAL ECONOMIC CONDITIONS

The household furniture, mattress, appliance and home electronics retailing industry in Canada has historically been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. The Company's sales are impacted by the health of the economy in Canada as a whole, and in the regional markets in which the Company operates.

The Company's sales and financial results are subject to numerous uncertainties. Weakness in sales or consumer confidence could result in an increasingly challenging operating environment.

MAINTAINING PROFITABILITY & MANAGING GROWTH

There can be no assurance that the Company's business and growth strategy will enable it to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including (i) the Company's ability to continue to successfully execute its strategic initiatives, (ii) the level of competition in the household furniture, mattress, appliance and home electronics retailing industry in the markets in which the Company operates, (iii) the Company's ability to remain a low-cost retailer, (iv) the Company's ability to realize increased sales and greater levels of profitability through its retail stores, (v) the effectiveness of the Company's marketing programs, (vi) the Company's ability to successfully identify and respond to changes in fashion trends and consumer tastes in the household furniture, mattress, appliance and home electronics retailing industry, (vii) the Company's ability to maintain cost-effective delivery of its products, (viii) the Company's ability to hire, train, manage and retain qualified retail store management and sales professionals, (ix) the Company's ability to continuously improve its service to achieve new and enhanced customer benefits and better quality, and (x) general economic conditions and consumer confidence.

FINANCIAL CONDITION OF COMMERCIAL SALES CUSTOMERS & FRANCHISEES

Through its commercial sales division, the Company sells products and extends credit to high-rise and condominium builders who purchase large quantities of products. The Company also sells products and extends credit to its franchisees. Negative changes in the financial condition of a significant commercial sales customer or a franchisee could impact on the Company's receivables and ultimately result in the Company having to take a bad-debt write-off in excess of allowance for bad debts. The occurrence of such an event could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

COMPETITION

The household furniture, mattress, appliance and home electronics retailing industry is highly competitive and highly fragmented. The Company faces competition in all regions in which its operations are located by existing stores that sell similar products and also by stores that may be opened in the future by existing or new competitors in such markets. The Company competes directly with many different types of retail stores that sell many of the products sold by the Company. Such competitors include (i) department stores, (ii) specialty stores (such as specialty electronics, appliance, or mattress retailers), (iii) other national or regional chains offering household furniture, mattresses, appliances and home electronics, (iv) ecommerce entities, and (v) other independent retailers, particularly those associated with larger buying groups. The highly competitive nature of the industry means the Company is constantly subject to the risk of losing market share to its competitors. As a result, the Company may not be able to maintain or to raise the prices of its products in response to competitive pressures. In addition, the entrance of additional competitors to the markets in which the Company operates, particularly large furniture, appliance or electronics retailers from the United States could increase the competitive pressure on the Company and have a material adverse effect on the Company's market share. The actions and strategies of the Company's current and potential competitors could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

11. Controls and procedures

Disclosure Controls & Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported on a timely basis to senior management, including the Chief Executive Officer and Chief Financial Officer so that appropriate decisions can be made by them regarding public disclosure. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as at December 31, 2017.

Internal Controls over Financial Reporting

Management is also responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met.

During the year ended December 31, 2017, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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. 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.

"Terrence T. Leon"

Terrence T. Leon

CEO

"Constantine Pefanis"

Constantine Pefanis

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, 2017 and 2016, 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"Ernst & Young LLP"

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 22, 2018

Consolidated statements of financial position

($ in thousands)	As at December 31 2017	As at December 31 2016
ASSETS		
Current assets		
Cash and cash equivalents (notes 5 and 22)	**$ 36,207**	$ 43,985
Restricted marketable securities (note 22)	**13,778**	16,600
Available-for-sale financial assets (note 22)	**67,327**	39,079
Trade receivables (note 22)	**138,516**	128,142
Income taxes recoverable	**2,042**	2,042
Inventories (note 6)	**317,914**	308,801
Deferred acquisition costs (note 7)	**5,841**	7,643
Deferred financing costs	**541**	775
Prepaid expenses and other assets	**6,382**	8,225
Total current assets	**$ 588,548**	$ 555,292
Deferred acquisition costs (note 7)	**14,632**	13,128
Property, plant and equipment (note 8)	**336,748**	315,500
Investment properties (note 9)	**17,529**	17,984
Intangible assets (note 10)	**306,286**	311,464
Goodwill (note 10)	**390,120**	390,120
Deferred income tax assets (note 20)	**7,592**	8,174
Total assets	**$ 1,661,455**	$ 1,611,662
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables (note 11)	**234,478**	214,838
Provisions (note 12)	**8,791**	5,468
Income taxes payable	**7,517**	12,641
Customers' deposits	**$ 128,078**	$ 117,990
Finance lease liabilities (note 13)	**1,421**	1,421
Dividends payable (note 16)	**9,140**	7,183
Deferred warranty plan revenue	**24,979**	39,839
Loans and borrowings (note 14)	**–**	25,000
Other liabilities	**5,434**	2,124
Total current liabilities	**$ 419,838**	$ 426,504
Loans and borrowings (note 14)	**194,439**	214,436
Convertible debentures (note 14)	**48,004**	93,520
Finance lease liabilities (note 13)	**9,053**	10,474
Deferred warranty plan revenue	**122,773**	105,289
Redeemable share liability (note 15)	**157**	503
Deferred rent liabilities and lease inducements	**10,791**	11,380
Deferred income tax liabilities (note 20)	**83,352**	90,003
Total liabilities	**$ 888,407**	$ 952,109
Shareholders' equity attributable to the shareholders of the Company		
Common shares (note 16)	**$ 93,392**	$ 39,184
Equity component of convertible debentures (note 14)	**3,555**	7,089
Retained earnings	**674,883**	613,426
Accumulated other comprehensive income (loss)	**1,218**	(146)
Total shareholders' equity	**$ 773,048**	$ 659,553
Total liabilities and shareholders' equity	**$ 1,661,455**	$ 1,611,662

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

On behalf of the Board:

"Mark J. Leon"

Mark J. Leon
Director

"Peter Eby"

Peter Eby
Director

Consolidated statements of income

($ in thousands, except share amounts and earnings per share)	**Year ended December 31 2017**	Year ended December 31 2016
Revenue (note 17)	**$ 2,212,216**	$ 2,143,736
Cost of sales (note 6)	**1,261,112**	1,228,499
Gross profit	**$ 951,104**	$ 915,237
Operating expenses		
Selling, general and administration expenses (note 18)	**809,173**	786,568
Operating profit	**141,931**	128,669
Net finance costs (note 19)	**(10,502)**	(14,481)
Net income before income tax	**131,429**	114,188
Income tax expense (note 20)	**34,836**	30,597
Net income	**$ 96,593**	$ 83,591
Weighted average number of common shares outstanding		
Basic	**72,904,130**	71,695,955
Diluted	**82,912,983**	83,081,832
Earnings per share (note 21)		
Basic	**$ 1.32**	$ 1.17
Diluted	**$ 1.20**	$ 1.05
Dividends declared per share		
Common	**$ 0.48**	$ 0.40
Convertible, non-voting	**$ 0.23**	$ 0.20

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

Consolidated statements of comprehensive income

($ in thousands)	2017	Tax effect	Net of tax 2017
			Year ended December 31
Net income for the year	**$ 96,593**	**$ –**	**$ 96,593**
Other comprehensive income, net of tax			
Other comprehensive income (loss) to be reclassified to profit and loss in subsequent years:			
Unrealized gains on available-for-sale financial assets arising during the year	**1,776**	**310**	**1,466**
Reclassification adjustment for net losses included in profit for the year	**(141)**	**(39)**	**(102)**
Change in unrealized gains on available-for-sale financial assets arising during the year	**1,635**	**271**	**1,364**
Comprehensive income for the year	**$ 98,228**	**$ 271**	**$ 97,957**

($ in thousands)	2016	Tax effect	Net of tax 2016
			Year ended December 31
Net income for the year	$ 83,591	$ –	$ 83,591
Other comprehensive loss, net of tax			
Other comprehensive income (loss) to be reclassified to profit and loss in subsequent years:			
Unrealized gains on available-for-sale financial assets arising during the year	280	113	167
Reclassification adjustment for net losses included in profit for the year	(946)	(235)	(711)
Change in unrealized losses on available-for-sale financial assets arising during the year	(666)	(122)	(544)
Comprehensive income for the year	$ 82,925	$ (122)	$ 83,047

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, 2016	**$ 7,089**	**$ 39,184**	**$ (146)**	**$ 613,426**	**$ 659,553**
Comprehensive income					
Net income for the year	**–**	**–**	**–**	**96,593**	**96,593**
Change in unrealized gains on available-for-sale financial assets arising during the year	**–**	**–**	**1,364**	**–**	**1,364**
Total comprehensive income	**–**	**–**	**1,364**	**96,593**	**97,957**
Transactions with shareholders					
Dividends declared	**–**	**–**	**–**	**(35,136)**	**(35,136)**
Management share purchase plan (note 15)	**–**	**4,350**	**–**	**–**	**4,350**
Convertible debentures (note 14)	**(3,534)**	**49,858**	**–**	**–**	**46,324**
Total transactions with shareholders	**(3,534)**	**54,208**	**–**	**(35,136)**	**15,538**
As at December 31, 2017	**$ 3,555**	**$ 93,392**	**$ 1,218**	**$ 674,883**	**$ 773,048**

($ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income (loss)	Retained earnings	Total
As at December 31, 2015	$ 7,089	$ 34,389	$ 398	$ 558,526	$ 600,402
Comprehensive income					
Net income for the year	–	–	–	83,591	83,591
Change in unrealized losses on available-for-sale financial assets arising during the year	–	–	(544)	–	(544)
Total comprehensive income	–	–	(544)	83,591	83,047
Transactions with shareholders					
Dividends declared	–	–	–	(28,691)	(28,691)
Management share purchase plan (note 15)	–	4,795	–	–	4,795
Total transactions with shareholders	–	4,795	–	(28,691)	(23,896)
As at December 31, 2016	$ 7,089	$ 39,184	$ (146)	$ 613,426	$ 659,553

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

Consolidated statements of cash flows

($ in thousands)	Year ended December 31 2017	Year ended December 31 2016
OPERATING ACTIVITIES		
Net income for the year	**$ 96,593**	$ 83,591
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	**33,231**	33,802
Amortization of intangible assets	**6,325**	7,433
Amortization of deferred warranty plan revenue	**(58,771)**	(59,118)
Net finance costs	**10,502**	14,481
Deferred income taxes	**(6,043)**	(4,945)
Loss (gain) on sale of property, plant and equipment and intangible assets	**286**	(28)
Loss (gain) on sale of available-for-sale financial assets	**123**	(897)
	$ 82,246	$ 74,319
Net change in non-cash working capital balances related to operations (note 26)	**12,962**	31,238
Cash received on warranty plan sales	**61,395**	59,091
Cash provided by operating activities	**$ 156,603**	$ 164,648
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (notes 8 and 9)	**(55,041)**	(25,689)
Purchase of intangible assets (note 10)	**(1,164)**	(683)
Proceeds on sale of property, plant and equipment and intangible assets	**748**	145
Purchase of available-for-sale financial assets	**(53,530)**	(29,981)
Proceeds on sale of available-for-sale financial assets	**29,639**	16,184
Interest received	**1,325**	1,717
Cash used in investing activities	**$ (78,023)**	$ (38,307)
FINANCING ACTIVITIES		
Repayment of finance leases	**(1,346)**	(1,884)
Dividends paid	**(33,179)**	(28,649)
Decrease of employee loans-redeemable shares (note 15)	**4,004**	4,418
Repayment of term loan (note 14)	**(45,000)**	(50,000)
Finance costs paid	**(56)**	(775)
Interest paid	**(10,781)**	(13,325)
Cash used in financing activities	**$ (86,358)**	$ (90,215)
Net (decrease) increase in cash and cash equivalents during the year	**(7,778)**	36,126
Cash and cash equivalents, beginning of year	**43,985**	7,859
Cash and cash equivalents, end of year	**$ 36,207**	$ 43,985

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 earning per share)

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.

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 of the Company are 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 22, 2018.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and derivative instruments and the initial recognition of assets acquired and liabilities assumed in business combinations, which are measured at fair value.

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 statement of financial position 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.

Consolidation and classification of joint arrangements

Assessing the Company's ability to control or influence the relevant financial and operating policies of another entity may, depending on the facts and circumstances, require the exercise of significant judgment to determine whether the Company controls, jointly controls, or exercises significant influence over the entity performing the work. This assessment of control impacts how the operations of these entities are reported in the Company's consolidated financial statements. The classification of these entities requires judgment by management to analyze the various indicators that determine whether control exists. In particular, when

assessing whether a joint arrangement should be classified as either a joint operation or a joint venture, management considers the contractual rights and obligations, voting shares, share of board members and the legal structure of the joint arrangement. Subject to reviewing and assessing all the facts and circumstances of each joint arrangement, joint arrangements contracted through agreements and general partnerships would generally be classified as joint operations whereas joint arrangements contracted through corporations would be classified as joint ventures. The application of different judgments when assessing control or the classification of joint arrangements could result in materially different presentations in the consolidated financial statements.

Extended warranty 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 historical 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 and fixed income 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.

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, King and State Limited, Ablan Insurance Corporation, The Brick Ltd., The Brick Warehouse LP, First Oceans Trading Corporation, and Trans Global Warranty Corporation. 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

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

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

Accordingly, there is no reportable segment information to provide in these 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 consolidated statement of financial position 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 rate 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 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;

(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; and

(c) Derivative instruments – financial assets that are classified as fair value through profit or loss.

Classifications that the Company has used for financial liabilities include:

(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; and

(b) Derivative instruments – financial liabilities that are classified as fair value through profit or loss.

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.

Derivative instruments

Financial derivative instruments in the form of interest rate swaps and foreign exchange forwards are recorded at fair value on the consolidated statements of financial position. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs. Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair value of the derivative instruments are recorded in net 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 rate 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
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 selling, general and administration 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 judgment.

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 rate 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, any related rent escalations are factored into the determination of rent expense to be recognized over the lease term.

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 is 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

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.

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 ("TGI") and Trans Global Life Insurance Company ("TGLI").

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 regard to the unexpired portion of policies in force is deferred as unearned insurance revenue. Any amount of unearned insurance revenue is included in the consolidated statements of financial position within deferred warranty plan 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, 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.

Joint Arrangements

Under IFRS 11, Joint Arrangements, a joint arrangement is a contractual arrangement wherein two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement when the strategic, financial and operating decisions relating to the arrangement require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each party. Refer to note 2, Basis of presentation, for significant judgments affecting the classification of joint arrangements as either joint operations or joint ventures. The parties to a joint operation have rights to the assets, and obligations for the liabilities, relating to the arrangement whereas joint ventures have rights to the net assets of the arrangement. In accordance with IFRS 11, the Company accounts for joint operations by recognizing its share of any assets held jointly and any liabilities incurred jointly, along with its share of the revenue from the sale of the output by the joint operation, and its expenses, including its share of any expenses incurred jointly. Transactions with joint operations where the Company contributes or sells assets to a joint operation, the Company recognizes only that portion of the gain or loss that is attributable to the interests of the other parties. Where the Company purchases assets from a joint operation, the Company does not recognize its share of the profit or loss of the joint operation from the transaction until it resells the assets to an independent party. The Company adjusts joint operation financial statement amounts, if required, to reflect consistent accounting policies.

4. Adoption of accounting standards and amendments

Accounting standards and amendments issued but not yet adopted

IFRS 9, *FINANCIAL INSTRUMENTS* ("IFRS 9")

In July 2014, the IASB issued the final amendments to IFRS 9, which provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The amended IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, the amended IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

The Company intends to adopt the new standard on the required effective date.

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS* ("IFRS 15")

IFRS 15 was issued in May 2014, which will replace IAS 11, *Construction Contracts*, IAS 18, *Revenue Recognition*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31*, Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 provides a single, principles-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17, *Leases* ("IAS 17"); financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, *Consolidated Financial Statements* and IFRS 11, *Joint Arrangements*. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2018.

The Company has continued the process of reviewing contracts with customers and currently does not expect material changes to the revenue recognition pattern for retail sales. The Company is currently in the process of concluding on the impact of the remaining streams of revenue and expanded note disclosures.

IFRS 16, *LEASES* ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which will replace IAS 17. The new standard will be effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted, provided the Company also applies IFRS 15 on or before the date it first applies IFRS 16. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. As the Company has significant contractual obligations in the form

of operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard. The Company is currently analyzing the new standard to determine its impact on the Company's consolidated financial statements.

IFRS 17, *INSURANCE CONTRACTS* ("IFRS 17")

IFRS 17 was issued in May 2017, which will replace IFRS 4, *Insurance Contracts*. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contract liabilities. The new standard is effective for annual periods beginning on or after January 1, 2021, to be applied retrospectively. If full retrospective application to a group of contracts is impractical, the modified retrospective or fair value methods may be used. Earlier adoption is permitted, provided the Company also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Company is currently analyzing the new standard to determine its impact on the Company's consolidated financial statements, particularly the insurance sales revenue stream.

IFRS INTERPRETATION COMMITTEE 23, *UNCERTAINTY OVER INCOME TAX TREATMENTS* ("IFRIC 23")

IFRIC 23 was issued in June 2017 and is effective for years beginning on or after January 1, 2019, to be applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. The Company is currently analyzing the impact of IFRIC 23 on the Company's consolidated financial statements.

Adoption of new, revised amended accounting standards

The Company has adopted the amended IFRS pronouncements listed below as at January 1, 2017, in accordance with the transitional provisions outlined in the respective standard.

In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows. The amendments require an entity to provide disclosures that enable the users of the financial statements to evaluate changes in liabilities arising from financing activities, including both cash arising from cash flows and non-cash changes. As at January 1, 2017, the Company adopted the amendments. Refer to note 26 for the additional disclosures.

5. Cash and cash equivalents

	As at December 31	
	2017	2016
Cash at bank and on hand	**$ 36,207**	$ 43,985

6. Inventories

The amount of inventory recognized as an expense for the year ended December 31, 2017 was $1,212,951 (2016 – $1,186,850), which is presented within cost of sales in the consolidated statements of income.

There was $1,171 in inventory write-downs (2016 – $550) recognized as an expense during 2017. As at December 31, 2017, the inventory markdown provision totalled $9,165 (2016 – $7,993).

7. Deferred acquisition costs

Balance as at December 31, 2015	$ 21,422
Costs of new policies sold	5,360
Policy sales costs recognized	(6,011)
Balance as at December 31, 2016	**20,771**
Cost of new policies sold	6,885
Policy sales costs recognized	(7,183)
Balance as at December 31, 2017	**$ 20,473**
Reported as:	
Current	7,643
Non-current	13,128
Balance as at December 31, 2016	20,771
Current	5,841
Non-current	14,632
Balance as at December 31, 2017	**$ 20,473**

8. Property, plant and equipment

	Land	**Buildings**	**Equipment**	**Vehicles**	**Building improvements**	**Leased property**	**Leased equipment**	**Total**
As at December 31, 2017:								
Opening net book value	**86,254**	**105,670**	**41,771**	**20,307**	**52,694**	**8,385**	**419**	**315,500**
Additions	**16,737**	**15,634**	**11,343**	**6,567**	**4,760**	**–**	**–**	**55,041**
Disposals	**–**	**–**	**(1,005)**	**(12)**	**–**	**–**	**–**	**(1,017)**
Depreciation	**–**	**(6,140)**	**(9,314)**	**(4,531)**	**(11,299)**	**(1,131)**	**(361)**	**(32,776)**
Closing net book value	**102,991**	**115,164**	**42,795**	**22,331**	**46,155**	**7,254**	**58**	**336,748**
As at December 31, 2017:								
Cost	**102,991**	**255,531**	**152,093**	**46,217**	**230,490**	**20,766**	**10,464**	**818,552**
Accumulated depreciation	**–**	**(140,367)**	**(109,298)**	**(23,886)**	**(184,335)**	**(13,512)**	**(10,406)**	**(481,804)**
Net book value	**102,991**	**115,164**	**42,795**	**22,331**	**46,155**	**7,254**	**58**	**336,748**

	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
As at December 31, 2016:								
Opening net book value	85,051	110,996	41,818	14,738	60,066	9,516	1,033	323,218
Additions	1,203	523	9,279	8,816	5,595	–	273	25,689
Disposals	–	–	(101)	(14)	(2)	–	–	(117)
Depreciation	–	(5,849)	(9,225)	(3,233)	(12,965)	(1,131)	(887)	(33,290)
Closing net book value	86,254	105,670	41,771	20,307	52,694	8,385	419	315,500
As at December 31, 2016								
Cost	86,254	239,897	144,208	40,432	227,154	20,766	11,611	770,322
Accumulated depreciation	–	(134,227)	(102,437)	(20,125)	(174,460)	(12,381)	(11,192)	(454,822)
Net book value	86,254	105,670	41,771	20,307	52,694	8,385	419	315,500

Included in the above balances as at December 31, 2017 are assets not being amortized with a net book value of approximately $257 (2016 – $437) being construction in progress. Also included are fully depreciated assets still in use with a cost of $204,951 (2016 – $178,949).

9. Investment properties

	Land	**Buildings**	**Building improvements**	**Total**
As at December 31, 2017:				
Opening net book value	**$ 10,946**	**$ 6,257**	**$ 781**	**$ 17,984**
Additions	**–**	**–**	**–**	**–**
Depreciation	**–**	**(378)**	**(77)**	**(455)**
Closing net book value	**10,946**	**5,879**	**704**	**17,529**
As at December 31, 2017:				
Cost	**10,946**	**17,333**	**1,097**	**29,376**
Accumulated depreciation	**–**	**(11,454)**	**(393)**	**(11,847)**
Net book value	**$ 10,946**	**$ 5,879**	**$ 704**	**$ 17,529**
As at December 31, 2016:				
Opening net book value	$ 10,946	$ 6,692	$ 858	$ 18,496
Additions	–	–	–	–
Depreciation	–	(435)	(77)	(512)
Closing net book value	10,946	6,257	781	17,984
As at December 31, 2016:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	–	(11,076)	(316)	(11,392)
Net book value	$ 10,946	$ 6,257	$ 781	$ 17,984

The estimated fair value of the investment properties portfolio as at December 31, 2017 was approximately $44,800 (2016 – $44,800). This recurring fair value disclosure 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 $11,200. The remaining disclosed fair value of $33,600 was compiled internally by management based on available market evidence.

10. Intangible assets

		Customer relationships		Brand name and franchise agreements		Computer software		Favourable lease agreements		Total
As at December 31, 2017:										
Opening net book value	**$**	**2,656**	**$**	**266,250**	**$**	**11,120**	**$**	**31,438**	**$**	**311,464**
Additions		**–**		**–**		**1,164**		**–**		**1,164**
Disposals		**–**		**–**		**(17)**		**–**		**(17)**
Amortization		**(625)**		**(250)**		**(2,780)**		**(2,670)**		**(6,325)**
Closing net book value		**2,031**		**266,000**		**9,487**		**28,768**		**306,286**
As at December 31, 2017:										
Cost		**7,000**		**268,500**		**17,320**		**46,049**		**338,869**
Accumulated amortization		**(4,969)**		**(2,500)**		**(7,833)**		**(17,281)**		**(32,583)**
Net book value	**$**	**2,031**	**$**	**266,000**	**$**	**9,487**	**$**	**28,768**	**$**	**306,286**
As at December 31, 2016:										
Opening net book value	$	3,281	$	266,500	$	13,957	$	34,476	$	318,214
Additions		–		–		683		–		683
Amortization		(625)		(250)		(3,520)		(3,038)		(7,433)
Closing net book value		2,656		266,250		11,120		31,438		311,464
As at December 31, 2016:										
Cost		7,000		268,500		24,002		46,049		345,551
Accumulated amortization		(4,344)		(2,250)		(12,882)		(14,611)		(34,087)
Net book value	$	2,656	$	266,250	$	11,120	$	31,438	$	311,464

Amortization of intangible assets is included within selling, general and administration 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,			
		2017		2016
The Brick brand name (allocated to Brick division)	**$**	**245,000**	$	245,000
The Brick franchise agreements (allocated to Brick division)		**21,000**		21,000
	$	**266,000**	$	266,000

The Company currently has no plans to change The Brick store banners and expects these assets to generate cash flows over an indefinite future period. Therefore, these intangible assets are considered to have indefinite useful lives for accounting purposes. The Brick franchise agreements have expiry dates with options to renew. The Company's intention is to renew these agreements at each renewal date indefinitely and without significant cost. The Company expects the franchise agreements and franchise locations will generate cash flows over an indefinite future period. Therefore, these assets are also considered to have indefinite useful lives.

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

	As at December 31,			
		2017		2016
Leon's division brand name	**$**	**–**	$	250
Brick division customer relationships		**2,031**		2,656
Brick division favourable lease agreements		**28,767**		31,438
Computer software		**9,488**		11,120
	$	**40,286**	$	45,464

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,			
		2017		2016
Appliance Canada (included within the Leon's division)	**$**	**11,282**	$	11,282
Brick division		**378,838**		378,838
Total goodwill	**$**	**390,120**	$	390,120

Impairment tests

The Company performed impairment tests of goodwill, brand and franchise agreements intangible as at December 31, 2017 and December 31, 2016 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, 2017 and December 31, 2016 were as follows:

	2017	2016
Growth rate	**2.0%**	2.0%
Pre-tax discount rate	**9.4%**	8.9%

The impairment tests performed resulted in no impairment of the goodwill as at December 31, 2017 and December 31, 2016.

11. Trade and other payables

	As at December 31, 2017	2016
Trade payables	**$ 200,568**	$ 185,927
Other payables	**33,910**	28,911
	$ 234,478	$ 214,838

12. Provisions

	Unpaid insurance claims	Unpaid warranty claims	Product returns	Other	Total
Balance as at December 31, 2016	$ 1,525	$ 279	$ 2,025	$ 1,639	$ 5,468
Provisions made during the year	1,181	2,017	268	1,080	4,546
Provisions used during the year	(1,011)	–	(212)	–	(1,223)
Balance as at December 31, 2017	**$ 1,695**	**$ 2,296**	**$ 2,081**	**$ 2,719**	**$ 8,791**

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 a distribution centre and vehicles under a number of finance lease agreements. The lease term on the distribution centre and vehicles do not exceed 20 years and 8 years, respectively. The Company's obligations under finance leases are secured by the leased assets. The Company's distribution centre lease has renewal and escalation clauses as part of the general lease conditions. The escalation clauses expected to occur have been included in the determination of this finance lease liability.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2017			2016		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 1,848**	**$ 574**	**$ 1,274**	$ 2,086	$ 665	$ 1,421
Between one and five years	**7,670**	**1,153**	**6,517**	7,592	1,675	5,917
More than five years	**2,729**	**46**	**2,683**	4,655	98	4,557
	12,247	**1,773**	**10,474**	14,333	2,438	11,895
Reported as:						
Current			**1,421**			1,421
Non-current			**9,053**			10,474
			$ 10,474			$ 11,895

14. Loans and borrowings

Convertible debentures

On March 28, 2013 (the "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 (the "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 to their contractual face value of $50,142 through a charge to net income over their term. This charge will be included in finance costs.

During the year ended December 31, 2017, a portion of the convertible debentures with a stated value of $49,858,000 was converted to 3,945,113 common shares, at the holder's option (year ended December 31, 2016 – $nil converted to nil common shares).

Carrying value of convertible debentures as at December 31, 2015	$ 92,628
Accretion expense for the year ended December 31, 2016	892
Carrying value of convertible debentures as at December 31, 2016	93,520
Accretion expense for the year ended December 31, 2017	808
Conversion of convertible debentures for the year ended December 31, 2017	(46,324)
Carrying value of convertible debentures as at December 31, 2017	$ 48,004

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

Bank indebtedness

On January 31, 2013, a Senior Secured Credit Agreement ("SSCA") was obtained to fund the acquisition of The Brick. The Company completed an amendment to the existing SSCA on November 25, 2016. After giving effect to the amendment, the total credit facility was reduced from $500,000 to $300,000 with the term credit facility being reduced from $400,000 to $250,000 and the revolving credit facility being reduced from $100,000 to $50,000. The revolving credit facility continues to include a swing-line of $20,000. Under the terms of the SSCA amounts borrowed must be repaid in full by November 25, 2019. Bank indebtedness bears interest based on Canadian prime, London Interbank Offered Rate ("LIBOR") and Bankers' Acceptance ("BA") rates plus an applicable standby fee on undrawn amounts. Transaction costs in the amount of $775 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 33-day BA with a cost of borrowing of 3.14% that was renewed on December 29, 2017. The term credit facility is repayable in yearly amounts of $25,000 commencing on December 31, 2017. 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 and non-financial covenants related to the credit facility.

As at December 31, 2017, the Company is in full compliance of these financial and non-financial covenants.

15. Redeemable share liability

	As at December 31, 2017	2016
Authorized		
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		
740,000 convertible, non-voting, series 2014 shares		
880,000 convertible, non-voting, series 2015 shares		
Issued and fully paid		
367,565 series 2009 shares (December 31, 2016 – 480,088)	**$ 3,254**	$ 4,249
139,820 series 2012 shares (December 31, 2016 – 228,936)	**1,735**	2,841
948,206 series 2013 shares (December 31, 2016 – 1,093,783)	**10,800**	12,458
545,865 series 2014 shares (December 31, 2016 – 623,188)	**8,215**	9,379
735,519 series 2015 shares (December 31, 2016 – 795,000)	**9,900**	10,701
Less employee share purchase loans	**(33,747)**	(39,125)
	$ 157	$ 503

Under the terms of the Plan, the Company advanced non-interest bearing loans to certain of its employees in 2009, 2012, 2013, 2014 and 2015 to allow them to acquire convertible, non-voting series 2009 shares, series 2012 shares, series 2013 shares, series 2014 shares and series 2015 shares, respectively, of the Company. These loans are repayable through the application against the loans of any dividends on the shares with any remaining balance repayable on the date the shares are converted to common shares. Each issued and fully paid for shares series 2009 and series 2012 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, series 2014 and series 2015 shares 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 2009, series 2012, series 2013, series 2014 and series 2015 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 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, series 2014 and series 2015 shares at any time after the third anniversary date of the issue of these shares and must redeem them prior to the 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 $8.85 per series 2009 share, $12.41 per series 2012 share, $11.39 per series 2013 share, $15.05 per series 2014 share and $13.46 per series 2015 share. Dividends paid to holders of series 2009, 2012, 2013, 2014 and 2015 shares of approximately $643 (2016 – $598) 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, 2017, 112,523 series 2009 shares, 89,116 series 2012 shares, 145,577 series 2013 shares, 48,507 series 2014 shares and 25,000 series 2015 shares (year ended December 31, 2016 – 138,928 series 2009 shares, nil series 2012 shares, 312,989 series 2013 shares, nil series 2014 shares and nil series 2015 shares) were converted and/or surrendered into common shares with a stated value of approximately $995, $1,106, $1,658, $730 and $337, respectively (year ended December 31, 2016 – $1,229, $nil, $3,566, $nil and $nil).

During the year ended December 31, 2017, the Company cancelled nil series 2012 shares, 28,816 series 2014 shares and 34,481 series 2015 shares (year ended December 31, 2016 – 4,680 series 2012 shares, 116,812 series 2014 shares and 85,000 series 2015 shares), in the amount of $nil, $434 and $464, respectively (year ended December 31, 2016 – $58, $1,758 and $1,144).

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.

16. Common shares

	As at December 31, 2017	2016
Authorized – Unlimited common shares		
Issued – 76,188,143 common shares (2016 – 71,855,866)	**$ 93,392**	$ 39,184

During the year ended December 31, 2017, 112,523 series 2009 shares, 89,116 series 2012 shares, 145,577 series 2013 shares, 32,876 series 2014 shares and 7,072 series 2015 shares (year ended December 31, 2016 – 138,928 series 2009 shares, nil series 2012 shares, 312,989 series 2013 shares, nil series 2014 shares and nil series 2015 shares) were converted into common shares with a stated value of approximately $995, $1,106, $1,658, $495 and $95, respectively (year ended December 31, 2016 – $1,229, $nil, $3,566, $nil and $nil).

During the year ended December 31, 2017, a portion of the convertible debentures with a stated value of $49,858,000 was converted to 3,945,113 common shares, at the holder's option (year ended December 31, 2016 – $nil converted to nil common shares).

As at December 31, 2017, the dividends payable were $9,140 [$0.12 per share] and as at December 31, 2016 were $7,183 [$0.10 per share].

17. Revenue

Year ended December 31	2017	2016
Sale of goods by corporate stores	**$ 2,132,153**	$ 2,060,563
Income from franchise operations	**25,548**	23,748
Extended warranty revenue	**42,785**	47,771
Insurance sales revenue	**10,393**	10,193
Rental income from investment property	**1,337**	1,461
Total	**$ 2,212,216**	$ 2,143,736

18. Expenses by nature

Year ended December 31	2017	2016
Salaries and benefits	**$ 373,536**	$ 358,505
Depreciation of property, plant and equipment and investment properties	**$ 33,231**	$ 33,802
Amortization of intangible assets	**$ 6,325**	$ 7,433
Operating lease payments	**$ 99,944**	$ 94,044

19. Net finance costs

Year ended December 31	2017	2016
Interest expense on finance lease obligations	**$ 667**	$ 786
Interest expense on term credit facility and revolving credit facility	**7,770**	12,349
Interest expense on convertible debentures	**3,515**	3,891
Finance income	**(1,450)**	(2,545)
Total	**$ 10,502**	$ 14,481

20. Income tax expense

(a) The major components of income tax expense for the years ended December 31 are as follows:

Consolidated statements of income	2017	2016
Current income tax expense:		
Based on taxable income of the current year	**$ 40,879**	$ 35,542
	40,879	35,542
Deferred income tax expense:		
Origination and reversal of temporary differences	**(6,043)**	(4,945)
Impact of change in tax rates/new tax laws	**–**	–
	(6,043)	(4,945)
Income tax expense reported in the consolidated statements of income	**$ 34,836**	$ 30,597

(b) Reconciliation of the effective tax rates are as follows:

	2017		2016	
Income before income taxes	**$ 131,429**		$ 114,189	
Income tax expense based on statutory tax rate	**35,105**	26.71%	30,510	26.72%
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:				
Non-deductible items	**843**	0.64%	725	0.63%
Non-taxable portion of capital gain	**(8)**	(0.01%)	(7)	(0.00%)
Tax expense relating to deferred rate reductions	**79**	0.06%	66	0.06%
File/provided differences	**66**	0.05%	(485)	(0.42%)
Remeasurement of deferred income tax asset for rate changes	**49**	0.04%	(18)	(0.02%)
Income exempt from tax	**(187)**	(0.14%)	(137)	(0.12%)
Other	**(1,111)**	(0.84%)	(57)	(0.05%)
Income tax expense reported in the consolidated statements of income	**$ 34,836**	26.51%	$ 30,597	26.80%

(c) Deferred income tax balances and reconciliation are as follows:

(i) Deferred income tax relates to the following:

	December 31, 2017	December 31, 2016
Deferred income tax assets (liabilities)		
Deferred tax income assets	**$ 7,592**	$ 8,174
Deferred tax income liabilities	**(83,352)**	(90,003)
Total deferred income tax assets (liabilities)	**$ (75,760)**	$ (81,829)

(ii) Deferred income tax movements are as follows:

2017				
	Balance, beginning of year	**Other**	**Expense (benefit)**	**Consolidated Balance, end of year**
Deferred warranty plan	**$ 1,781**	**$ –**	**$ (932)**	**$ 849**
Deferred financing fees	**354**	**–**	**(244)**	**110**
Deferred acquisition costs	**962**	**–**	**(905)**	**57**
Property, plant and equipment	**(17,395)**	**–**	**2,143**	**(15,252)**
Intangible assets	**(77,178)**	**–**	**400**	**(76,778)**
Deferred rent liabilities	**2,125**	**–**	**(75)**	**2,050**
Finance lease liabilities	**3,170**	**–**	**(364)**	**2,806**
Unused tax losses	**58**	**–**	**(17)**	**41**
Other	**6,274**	**26**	**3,882**	**10,182**
Mark to market	**576**	**–**	**881**	**1,457**
Net deferred income tax expense – statements of income	**(79,273)**	**26**	**4,769**	**(74,478)**
Movement in convertible debenture	**(2,556)**	**–**	**1,274**	**(1,282)**
Net deferred income tax expense (benefit) – equity	**(2,556)**	**–**	**1,274**	**(1,282)**
Total deferred income tax expense (benefit)	**$ (81,829)**	**$ 26**	**$ 6,043**	**$ (75,760)**

2016				
	Balance, beginning of year	Other	Expense (benefit)	Consolidated Balance, end of year
Deferred warranty plan	$ 1,524	$ –	$ 257	$ 1,781
Deferred financing fees	(80)	–	434	354
Deferred acquisition costs	2,668	–	(1,706)	962
Property, plant and equipment	(18,519)	–	1,124	(17,395)
Intangible assets	(77,584)	–	406	(77,178)
Deferred rent liabilities	1,632	–	493	2,125
Finance lease liabilities	3,692	–	(522)	3,170
Unused tax losses	79	–	(21)	58
Other	2,308	205	3,761	6,274
Mark to market	(143)	–	719	576
Net deferred income tax expense – statements of income	(84,423)	205	4,945	(79,273)
Movement in convertible debenture	(2,556)	–	–	(2,556)
Net deferred income tax expense (benefit) – equity	(2,556)	–	–	(2,556)
Total deferred income tax expense (benefit)	$ (86,979)	$ 205	$ 4,945	$ (81,829)

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 72,904,130 for the year ended December 31, 2017 [2016 – 71,695,955]. The following table reconciles the net income for the year and the number of shares for the basic and diluted earnings per share calculations:

	Year ended December 31	
	2017	2016
Net income for the year for basic earnings per share	**$ 96,593**	$ 83,591
Net income for the year for diluted earnings per share	**99,638**	86,924
Weighted average number of common shares outstanding	**72,904,130**	71,695,955
Dilutive effect	**10,008,853**	11,385,877
Diluted weighted average number of common shares outstanding	**82,912,983**	83,081,832
Basic earnings per share	**$ 1.32**	$ 1.17
Diluted earnings per share	**$ 1.20**	$ 1.05

22. Financial instruments

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, 2017:

	Measurement	Total carrying amount	Fair value	Fair value hierarchy
Loans and receivables				
Cash and cash equivalents	Fair value	$ 36,207	$ 36,207	Level 1
Trade receivables	Amortized cost	138,516	138,516	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	$ 13,778	$ 13,778	Level 1
Available-for-sale financial assets	Fair value	67,327	67,327	Level 2
Investment properties	Amortized cost	17,529	44,800	Level 3
Other financial liabilities				
Trade and other payables	Amortized cost	$ 234,478	$ 234,478	Level 2
Provisions	Amortized cost	8,791	8,791	Level 2
Customers' deposits	Amortized cost	128,078	128,078	Level 2
Finance lease liabilities	Amortized cost	10,474	10,474	Level 2
Loans and borrowings	Amortized cost	194,439	194,439	Level 2
Convertible debentures	Amortized cost	48,004	73,453	Level 2
Redeemable share liability	Amortized cost	157	157	Level 2
Derivative instruments				
Other liabilities	Fair value	$ 5,434	$ 5,434	Level 2

December 31, 2016:

	Measurement	Total carrying amount	Fair value	Fair value hierarchy
Loans and receivables				
Cash and cash equivalents	Fair value	$ 43,985	$ 43,985	Level 1
Trade receivables	Amortized cost	128,142	128,142	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	$ 16,600	$ 16,600	Level 1
Available-for-sale financial assets	Fair value	39,079	39,079	Level 2
Investment properties	Amortized cost	17,984	44,800	Level 3
Other financial liabilities				
Trade and other payables	Amortized cost	$ 214,838	$ 214,838	Level 2
Provisions	Amortized cost	5,468	5,468	Level 2
Customers' deposits	Amortized cost	117,990	117,990	Level 2
Finance lease liabilities	Amortized cost	11,895	11,895	Level 2
Loans and borrowings	Amortized cost	239,436	239,436	Level 2
Convertible debentures	Amortized cost	93,520	140,000	Level 2
Redeemable share liability	Amortized cost	503	503	Level 2
Derivative instruments				
Other liabilities	Fair value	$ 2,124	$ 2,124	Level 2

The fair value hierarchy of financial instruments measured at fair value, as at December 31, 2017 includes financial assets of $49,985, $205,843 and $44,800 for Levels 1, 2 and 3 respectively, and financial liabilities of $nil, $655,304 and $nil for Levels 1, 2 and 3, respectively.

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

The carrying amounts of the Company's 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, 2017, the fair value of the convertible debentures was determined using their closing quoted market price (not in thousands of dollars) of $146.49 per $100.00 of face value (2016 – $140.00 per $100.00 of face value). For the convertible debentures as at December 31, 2017, fair value is calculated based on the face value of the convertible debentures of $50,142.

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

The Company maintains a notional $100,000 (2016 – $100,000) in interest rate swaps that mature by the fourth quarter of 2019 on which it pays a fixed rate of 1.895% and currently receives a one-month BA rate. The Company also maintains other financial derivatives which comprise of foreign exchange forwards, with maturities that do not exceed past the second quarter of 2019. As at December 31, 2017, a $5,434 unrealized loss was recorded in other liabilities (2016 – $2,124).

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	
	December 31, 2017	December 31, 2016
Cash and cash equivalents	**$ 36,207**	$ 43,985
Restricted marketable securities	**13,778**	16,600
Available-for-sale financial assets	**67,327**	39,079
Trade receivables	**138,516**	128,142
	$ 255,828	$ 227,806

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, 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.

As at December 31, 2017, 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 $138,516 as at December 31, 2017 [2016 – $128,142]. 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 $3,965 as at December 31, 2017 [2016 – $6,412]. The Company's provision for impairment of trade receivables, established through ongoing monitoring of individual customer accounts, was $2,281 as at December 31, 2017 [2016 – $2,539]. 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**
As at December 31, 2017:						
Trade and other payables	**$ 234,478**	**$ 234,478**	**$ 234,478**	**$ –**	**$ –**	**$ –**
Finance lease liabilities	**10,474**	**12,247**	**1,848**	**3,817**	**3,853**	**2,729**
Loans and borrowings	**194,439**	**201,488**	**6,125**	**195,363**	**–**	**–**
Convertible debentures	**48,004**	**58,015**	**1,504**	**3,008**	**3,008**	**50,495**
Redeemable share liability	**157**	**157**	**–**	**–**	**–**	**157**
	$ 487,552	**$ 506,385**	**$ 243,955**	**$ 202,188**	**$ 6,861**	**$ 53,381**

			Remaining term to maturity			
	Carrying amount	Contractual cash flows	Under 1 year	1–3 years	3–5 years	More than 5 years
As at December 31, 2016:						
Trade and other payables	$ 214,838	$ 214,838	$ 214,838	$ –	$ –	$ –
Finance lease liabilities	11,895	14,333	2,086	3,739	3,853	4,655
Loans and borrowings	239,436	256,782	31,437	225,345	–	–
Convertible debentures	93,520	118,707	3,000	6,000	6,000	103,707
Redeemable share liability	503	503	–	–	–	503
	$ 560,192	$ 605,163	$ 251,361	$ 235,084	$ 9,853	$ 108,865

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, 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 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 and convertible debentures due to fluctuations in interest rates. Fair value risk related to the finance lease liabilities 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, 2017, the Company's average indebtedness under the term credit facility was $217,500 [2016 – $265,000] and under the revolving credit facility was $3,143 [2016 – $7,500]. Accordingly, a change during the year ended December 31, 2017 of a one percentage point increase or decrease in the applicable interest rate would have impacted the Company's net income by approximately $1,609 [2016 – $2,000].

(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 (loss) 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 ("TGLI") 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 ("TGI") 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 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 not changed from the prior fiscal year. The capital structure currently includes finance lease liabilities, convertible debentures, term credit facility and borrowing capacity available under the revolving credit facility (note 14). As at December 31, 2017, $49,351 is available to draw on under our $50,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of $649 primarily with respect to buildings under construction or being completed (2016 – $469).

	As at December 31,	
	2017	2016
Current portion of finance lease liabilities	**$ 1,421**	$ 1,421
Current portion of loans and borrowings	**–**	25,000
Convertible debentures	**48,004**	93,520
Finance lease liabilities	**9,053**	10,474
Loans and borrowings	**194,439**	214,436
Total shareholders' equity	**773,048**	659,553
Total capital under management	**$ 1,025,965**	$ 1,004,404

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, 2017.

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. 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 and Trans Global Life Insurance Company

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, 2017, TGI's Minimum Capital Test ratio was 541% [2016 – 494%], which is in compliance with the requirements of The Office of the Superintendent of Insurance of Alberta and the Act. As at December 31, 2017, TGLI's Minimum Continuing Capital and Surplus Requirements ratio was 656% [2016 – 655%], 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 and trucks under operating leases. Generally, the retail store 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	$ 87,120
Later than 1 year and no later than 5 years	245,091
Later than 5 years	121,696
	$ 453,907

(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	$ 1,371
Later than 1 year and no later than 5 years	3,500
Later than 5 years	3,211
	$ 8,082

(c) Pursuant to a reinsurance agreement relating to the extended warranty sales, the Company has pledged available-for-sale financial assets amounting to $13,778 [2016 – $16,600].

(d) 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:

	Year ended December 31	
	2017	2016
Trade receivables	**$ (10,374)**	$ (10,310)
Inventories	**(9,113)**	(4,840)
Prepaid expenses and other assets	**1,843**	(2,011)
Trade and other payables	**19,597**	651
Income taxes recoverable (payable)	**(5,421)**	9,264
Customers' deposits	**10,088**	125
Provisions	**3,323**	28,169
Deferred acquisition costs	**298**	5,544
Other liabilities	**3,310**	2,124
Deferred rent liabilities and lease inducements	**(589)**	2,522
	$ 12,962	$ 31,238

(b) Supplemental cash flow information:

	Year ended December 31	
	2017	2016
Income taxes paid	**$ 48,631**	$ 31,100

(c) Changes in liabilities arising from financing activities comprise the following:

	Convertible Debentures (including equity component)	Finance Lease	Loans and borrowings
Opening balance	$ 100,609	$ 11,895	$ 239,436
Cash changes:			
Long-term debt repayment	–	–	(45,000)
Finance lease obligation repayment	–	(1,346)	–
Finance costs	–	–	3
Non-cash changes			
Conversion of debenture	(49,858)	–	–
Amortization	808	–	–
Accretion	–	(75)	–
Closing balance	$ 51,559	$ 10,474	$ 194,439

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.

On January 31, 2017, the Company completed a transaction with The Beedie Development Group ("Beedie") to purchase an undivided 50% ownership interest in 23.49 acres of land in Delta, British Columbia that was developed by the Company and Beedie, during 2017, into an approximately 432,000 square foot distribution centre that is now occupied by the Company. The Company has accounted for this transaction as a joint operation, "Beedie/Leon's Delta-Link Joint Venture."

Key management compensation

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

	Year ended December 31	
	2017	2016
Salaries and other employee benefits	**$ 6,953**	$ 6,215

Corporate & 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
CEO

Edward F. Leon
President and COO

Constantine Pefanis
CFO

John A. Cooney
Vice President, Legal and Corporate Secretary

Corporate Office

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

Auditors

Ernst & Young LLP
Toronto

Registrar and Transfer Agent

AST Trust Company (Canada)

Listing

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

Annual General Meeting

Thursday, May 10, 2018, 2:00PM
Fairmont Royal York
100 Front Street West
Toronto, Ontario
M5J 1E3

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Our customers can find everything we offer at our stores and more, including the same high standards for delivery, service and guaranteed pricing, through our growing online stores.