

A NEW APPROACH TO RETAIL





What does it take to succeed in retail?

It requires a whole new approach. In today's environment, that means providing innovative options for people to shop at the time and place of their choosing. We are working hard to elevate the customer experience.

REVENUE

1.9% ↑

\$2,241,437,000

\$ 2,283,411,000

ADJUSTED NET INCOME⁽¹⁾

14.1% ↑

\$106,691,000

\$ 121,783,000

SHAREHOLDERS' EQUITY PER SHARE

5.1% ↑

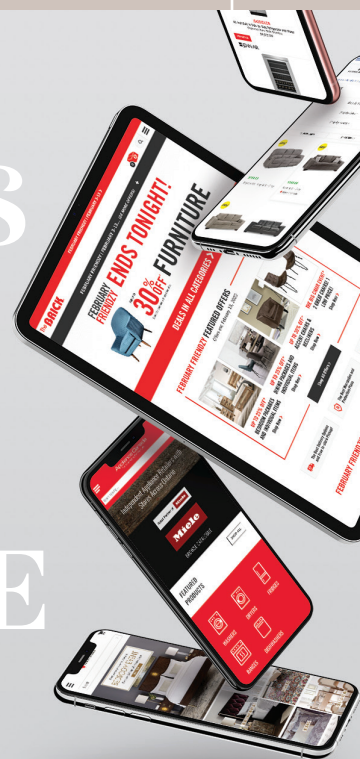
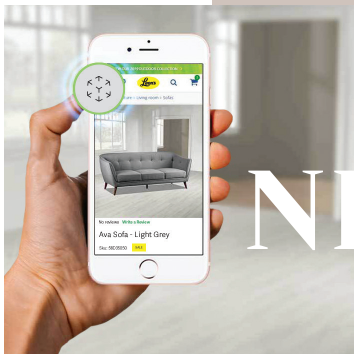
\$11.23

\$11.80

■ 2019 ■ 2018

(1) Adjusted net income excludes the impact of IFRS 16, for more detailed financial information see page 16.

LFL GROUP IS TAKING A NEW APPROACH TO RETAIL BY INVESTING IN INNOVATIONS THAT KEEP US RELEVANT AND ACCESSIBLE TO TODAY'S CONSUMERS





“LFL GROUP
HAD
ANOTHER
SUCCESSFUL
YEAR
IN 2019”



EDWARD F. LEON

President & Chief Executive Officer
LFL Group



Edward F. Leon
President and Chief Executive Officer,
LFL Group

We stood out in a challenging retail environment by reporting gains across all our key metrics. Just as importantly, we made tremendous progress on innovative new ways to connect with our customers, both in-store and online.

System-wide sales grew to \$2.73 billion, including \$445 million of franchise sales, up from \$2.68 billion including \$443 million of franchise sales in 2018. The increase was driven by corporate same-store sales growth of 1.1%, and we also opened four new corporate stores during the year. Sales growth was accompanied by our traditional focus on expense control, productivity improvements, synergies from the optimization of our store and distribution networks, and reduced financing costs. Excluding the impact of IFRS 16⁽¹⁾, the bottom line result was a 14.1% increase in adjusted net income to \$121.8 million, or \$1.48 adjusted diluted earnings per share.

In one sense, we are succeeding by doing what we have always done. We provide our customers with quality products while offering excellent overall value and service. At the same time, we have been evolving into a different kind of company than many people may realize.

A Decade of Transformation

As we enter the next decade, I am struck by how different our company looks from a decade ago. We celebrated our 100-year anniversary in 2009. Over the span of a century we had built a thriving business of 65 stores – mostly in Ontario – generating

system-wide sales of approximately \$900 million. Just ten years later, we have more than 300 multi-bannered stores spanning every region of Canada, and triple the system-wide sales. We operate six retail banners as well as three eCommerce sites that have enabled us to remain competitive with new players in our industry. It was arguably the most explosive decade in our storied history.

The major catalyst for this growth was the transformational acquisition of The Brick in 2013. That acquisition was a success by every measure. We more than tripled our retail footprint, delivered on the expected synergies, generated increased cash flows which in turn enabled us to raise our dividend, and we have paid down the majority of the debt that funded the purchase.

The retailing environment also changed dramatically in the past decade. A sizeable volume of purchases has migrated to online channels and many traditional retailers have suffered. And yet, some things do not change. I believe the “secret” to successful retailing remains the same: you simply have to be good at everything. From purchasing, to warehousing, merchandising, marketing, in-store sales, distribution, and after-sales servicing – getting every detail

(1) Please refer to the Company's MD&A ("Management Discussion & Analysis") for details regarding the implementation of IFRS 16 on January 1, 2019.



“I AM PROUD OF THE RESULTS WE HAVE ACHIEVED IN A HARD-FOUGHT COMPETITIVE ENVIRONMENT”



Smart Store Coquitlam, BC
Our new concept combines the best of personalized and innovative technology.

right is essential for a positive customer experience. Our observation, however, is that very few retailers can do all of these things well. LFL Group has always prided itself in achieving operational excellence across the whole business, and this has been one reason for our resilience in times of change. Another reason has been our ability to innovate.

Investing in Innovation

Casual observers of LFL Group are often surprised to learn about the innovations we have introduced. We may be a 110-year old company, but we fully embrace new technology when it helps us elevate the customer experience or improve our efficiency. Two of the customer-facing initiatives stood out in 2019.

First, we debuted a new “smart store” concept that changes the way shoppers interact with our products. Built on a smaller scale than our traditional big box stores, these locations display a curated collection of furniture and appliances as well as technological features that provide access to our full catalogue. Large video walls, tablets and augmented reality tools are all available to supplement the helpful advice of our sales associates, offering customers the best of both worlds.

In 2019, we opened our first two Leon's smart stores in Coquitlam, British Columbia and Coldbrook, Nova Scotia, plus a relocated Brick store in West Edmonton Mall that

CEO's Message

embraces the same concepts in a full-sized location. Early sales results are promising; we anticipate rolling out more smart stores in a multi-year program. Interestingly, the smaller format opens up opportunities for us to enter communities where the economics may not have supported a traditional big-box store. In other words, smart stores can help us expand our addressable market and grow our share.

A second key innovation has been the ongoing development of our eCommerce capability. We transitioned to the Shopify Plus platform in late 2018 and continue to add features. Our digital and retail channels are fully integrated, meaning consumers see the identical selection at our three eCommerce sites – thebrick.com, leons.ca and furniture.ca – as they will find in our stores. A common catalogue, within each banner, is more efficient for us to manage and allows customers to shop the way they want. Some people are comfortable completing an entire purchase online, while others like to get their initial ideas online and follow up with in-store visits to try out the merchandise. We reached a run rate of \$100 million of annual online sales in the second half of 2019, after a decade of impressive growth, and we expect our double-digit growth rates for online sales to continue.

Creating Tools to Evolve Customers Needs

The Brick's Designed2B app allows customers to custom design their sofa, loveseat or sectional, all from the comfort of their home.



Each of these initiatives represents an essential part of our multichannel marketing strategy. We have a team of employees generating digital content and creating tools to continue to meet evolving customer needs. This kind of investment in innovation is imperative in today's retail environment.

Financial Strength

Our financial discipline and reliable cash flow have put us in an enviable position. We have paid down nearly \$400 million of the debt we took on to purchase The Brick in 2013, ending 2019 in a net positive cash position. We have returned capital to shareholders through steady and rising dividend payments that reached a record \$43 million in 2019, while also maintaining an active share repurchase program. Simultaneously, we are supporting future cash flow through continued investments in growth, innovation and operational efficiencies. The result for LFL Group is the financial capacity to weather the occasional storm and to invest in new opportunities that may arise.

We like to remind investors that there are several important sources of value in addition to the obvious retail locations and digital commerce business. For example, our portfolio of 4.2 million square feet of



Campaign Collaborations

Tiffany Pratt and the Pantone Color of the Year, Living Coral.



LFL Group rings the opening bell at the Toronto Stock Exchange on November 15, 2019 to celebrate 50 years on the TSX.

commercial real estate offers significant potential development opportunities which are not reflected on our balance sheet. We own the largest after-sales service company in Canada and drive additional returns by providing outsourced services to several manufacturers. There is similar potential to service third parties through our coast-to-coast distribution facilities thanks to our investments in upgrading that network. Each of these activities, as well as others such as our wholesale, insurance and warranty businesses, helps to diversify the company, improve our natural resilience throughout the business cycle and make effective use of our scale to strengthen our competitive advantage.

In 2019, we commemorated our 50th year as a TSX-listed company. That longevity puts us in a very select group with just a few other publicly-traded retailers, all household names in Canada. More importantly, our shareholders' equity has grown by an average of 12% per year over that half-century. I believe we have found an ideal balance: maintaining the long-term orientation, deep expertise and continuity of a family-run business, while meeting the fiduciary responsibilities that have enabled investors to share in the Company's success.

Outlook for 2020

We see more opportunity than ever to continue to grow and drive shareholder value. LFL Group is the largest furniture, mattress, appliance and electronics retailer in Canada, and yet we still claim less than a 20% share of the overall market. Our

50 YEARS

as a publicly traded company on the Toronto Stock Exchange.

plans for this year include opening another six stores, with the smaller smart store concept expanding our range of viable markets. We will also maintain our focus on reducing costs through efficiencies and new technologies. Through such initiatives, we believe we can grow our market share as well as our profitability.

When reflecting back on the past decade, it is worth noting that we have been in the same economic expansion cycle that entire time, and that is lengthy by historical standards. There are potential concerns around consumer confidence and high levels of household debt. Our prudent operating approach enables us to adapt quickly to any changes.

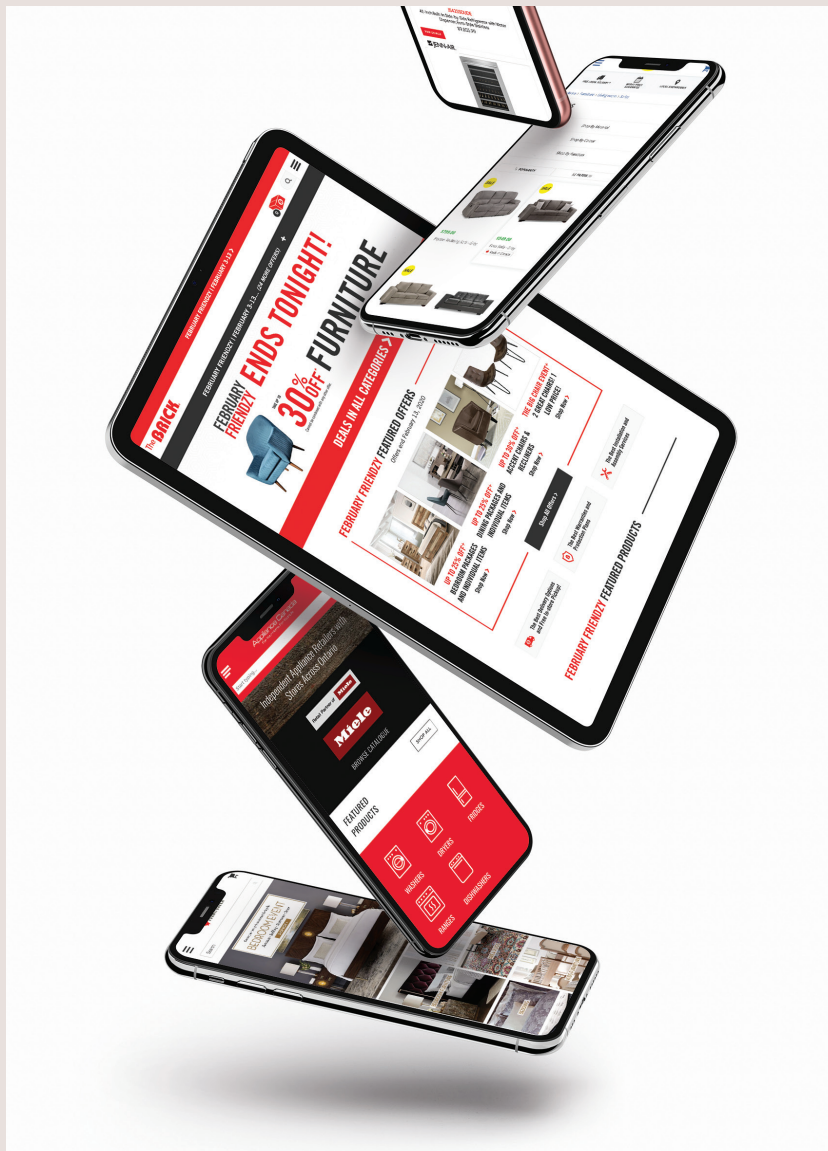
In closing, I am proud of the results we have achieved in a hard-fought competitive environment, and especially grateful to our employees, associates, franchisees and suppliers who made it happen. I am thankful to our executive team and Board of Directors for their strong leadership, and to our shareholders for your continued support. I look to more mutual success in the years to come.

"Edward F. Leon"

Edward F. Leon

President and Chief Executive Officer
LFL Group

A NEW APPROACH TO RETAIL



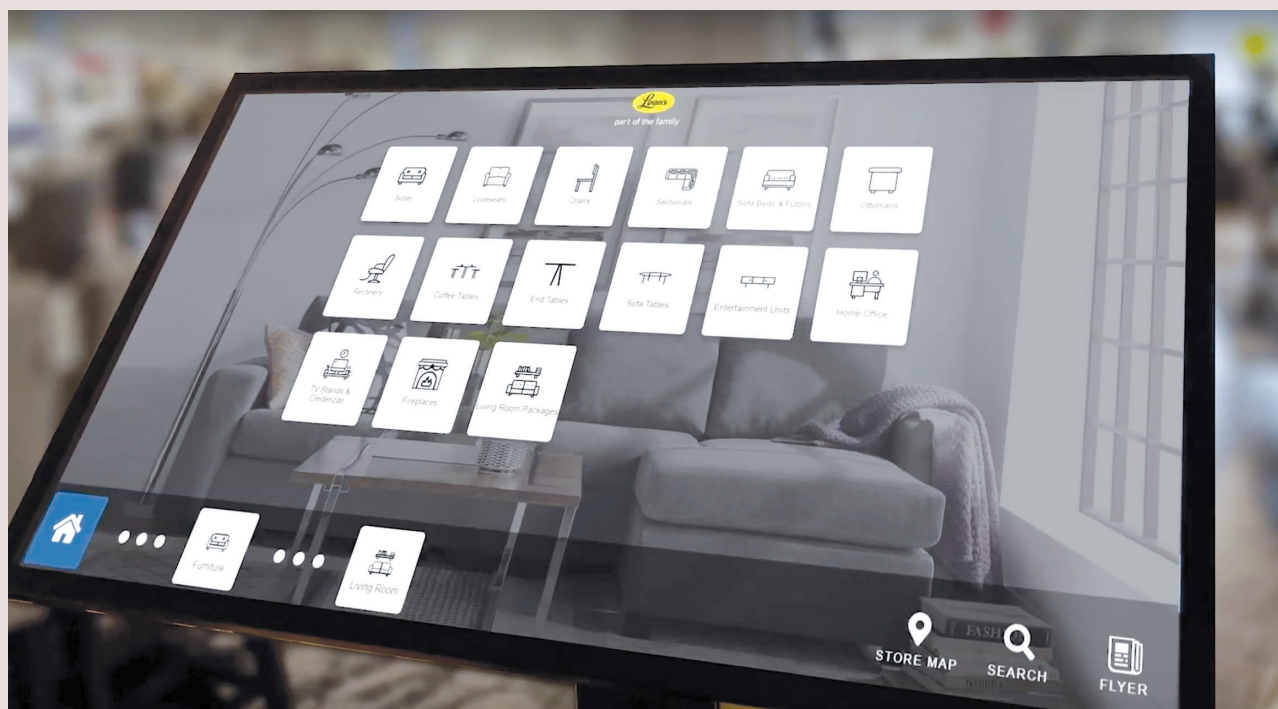
eCommerce

Today's consumer expects a truly seamless experience whether shopping online or in traditional stores. Successful retailers must excel at both.

LFL Group's multichannel marketing strategy ensures customers can access our full product catalogue through our virtual showroom. We have a portfolio of three online stores: thebrick.com, leons.ca and furniture.ca. All three are now powered by the Shopify Plus platform, and we are taking advantage of its capabilities to improve conversion rates and ease of use. We have also realized significant savings by directly integrating digital commerce with our fulfillment and distribution operations.

Our customers can continue to browse, research and purchase than many products without ever setting foot in a store. We even simplify the process through enhanced delivery features and our industry's first online, interest-free, instant credit approval option.

Look for us to continue to invest in eCommerce innovation.



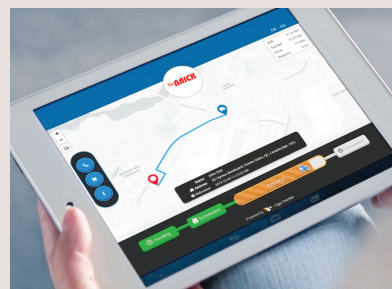
Smart Stores

In 2019, we opened our first “smart store” locations, which combine the convenience of online shopping with the trusted assistance and personal service our customers expect. Built on a smaller scale than our traditional locations, smart stores display curated collections of furniture and appliances while using interactive technology to provide access to our full product catalogue.

- **Video walls** display products in their actual size
- **Touchscreen kiosks** allow customers to browse the full catalogue and view custom colour and fabric options
- Sales Associates can show customers a product in **augmented reality (AR)** alongside other pieces in the showroom, to help with room planning

- **QR codes** provide access to additional product details
- Prices are listed on **e-tags** that reassure customers they are getting the best price
- **Voice-activated point-of-sale tablets** allow for a more efficient check-out process
- Post-purchase, customers can access a **delivery management tool** to obtain a more accurate delivery window.

Customer response to our new vision of retail shopping has been very encouraging. We will build more new smart stores and start to roll out these innovative features at existing locations.



Clockwise from top
Touchscreen kiosks; e-tag
with product details and
current price; tablet-based
delivery management tool.

INNOVATIVE NEW TOOLS ENHANCE THE SHOPPING EXPERIENCE

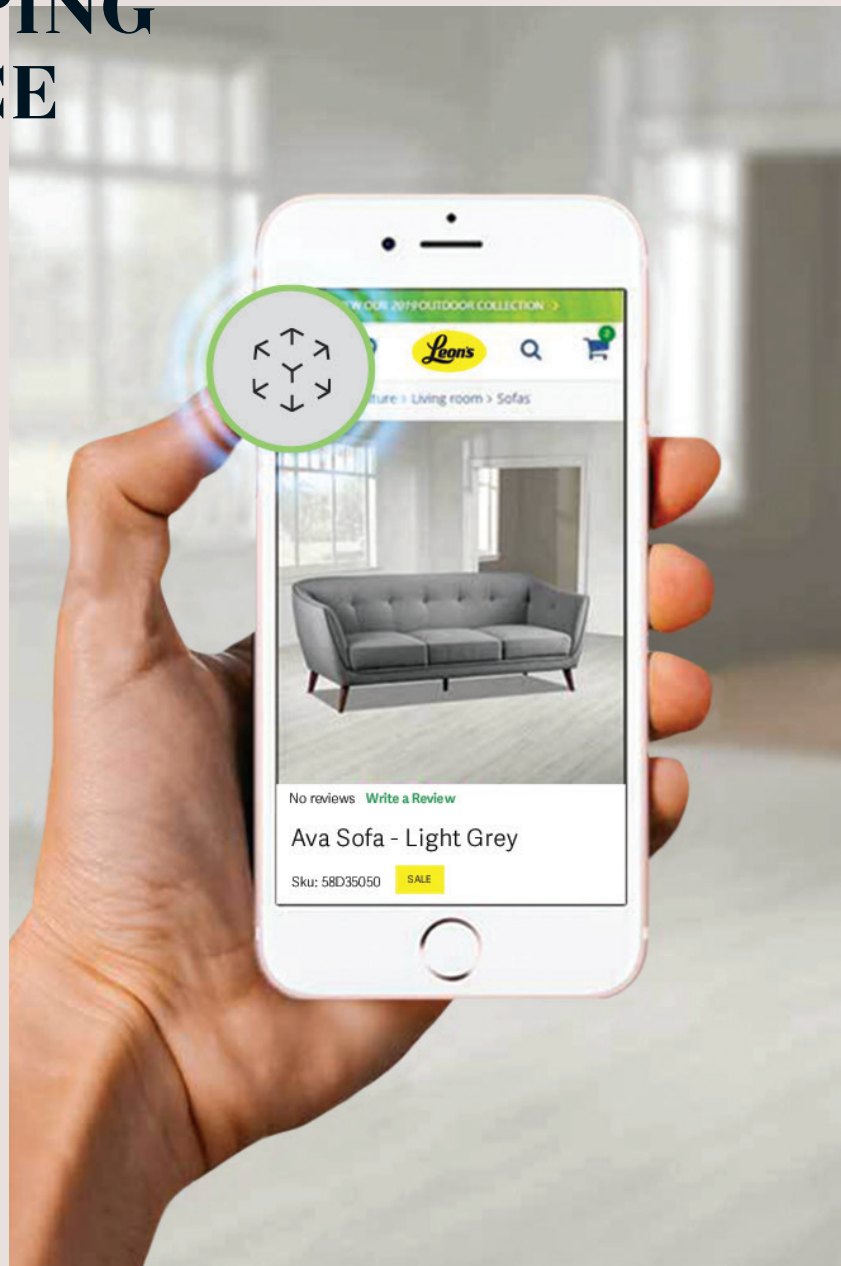
Augmented Reality

Have you ever gone furniture shopping and wondered how that great sofa would look in your own living room? Or returned from a shopping trip with the same question?

A great tool for bridging the gap between digital and bricks & mortar is Augmented Reality (AR). AR lets people see how a specific piece from our catalogue will look in their own home by inserting it into an actual image. In our stores, a Sales Associate can visually insert a new item into an existing display.

No more need to leave everything to the imagination!

This is just one of the dedicated apps launched by our team of in-house developers to elevate the customer experience. We are deepening our ties to customers by becoming essential part of their home decorating decisions.



EXECUTIVE LEADERSHIP TEAM

Our management team has unparalleled retail experience and a commitment to delivering value to all our stakeholders.



From left to right:
Constantine Pefanis,
David B. Freeman,
Michael J. Walsh and
Edward F. Leon



Edward F. Leon
President & CEO of LFL Group

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. He assumed the position of President and Chief Operating Officer of Leon's Furniture Limited in June 2015, until his appointment on October 1, 2018, to Chief Executive Officer of the LFL Group.



Constantine Pefanis
CFO of LFL Group

Costa has held various management positions within Leon's Furniture Limited during the last 15 years. He began his career at the Company as Corporate Finance Manager in May 2005. In June 2016 he was appointed as the Director of Finance, Audit & IT, a position he held until his appointment on January 1, 2018, to the position of Chief Financial Officer of the LFL Group.



Michael J. Walsh
Divisional President of Leon's

Mike is a seasoned executive with over 30 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
Divisional President of The Brick

Dave is a long serving Brick associate with 40 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.

MORE THAN A BIG BOX

Our scale has enabled us to develop industry-leading capabilities throughout the value chain. Benefits include full control of the customer experience, incremental revenue on each sale, stronger diversification and opportunities to sell services to third parties.



Real Estate

Our stores and warehouses sit on a vast portfolio of real estate which is reported at historical cost and represents significant opportunity to unlock value through sale or development.



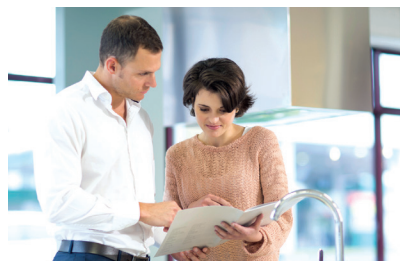
Wholesale

We deal directly with many manufacturers to capitalize on market trends, improve quality control, simplify our supply chain and capture incremental margin.



Distribution

We have been investing in our distribution network to improve efficiency and enable us to fulfil orders from multiple banners, online sales, and third party vendors.



Insurance

We offer credit insurance on our customers' outstanding balances to protect against unforeseen events or loss.



After-Sales Service

As Canada's largest supplier of after-sales service, we fulfil the installation, repair and service requirements for our customers as well as, a growing number of third parties.



Warranty

We offer extended warranties to customers who value extra protection and cost certainty, and we service those warranties as required.

LFL GROUP CREATES VALUE NATIONWIDE

E-Commerce
Properties

4

THEBRICK.COM
LEONS.CA
FURNITURE.CA
TRANSGLOBSERVICE.COM

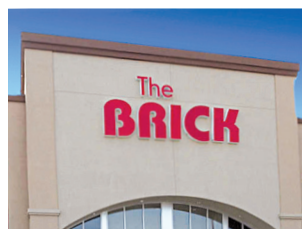
Total Stores
Nationwide

304



THE BRICK

204



LEON'S

86



THE BRICK OUTLET

9

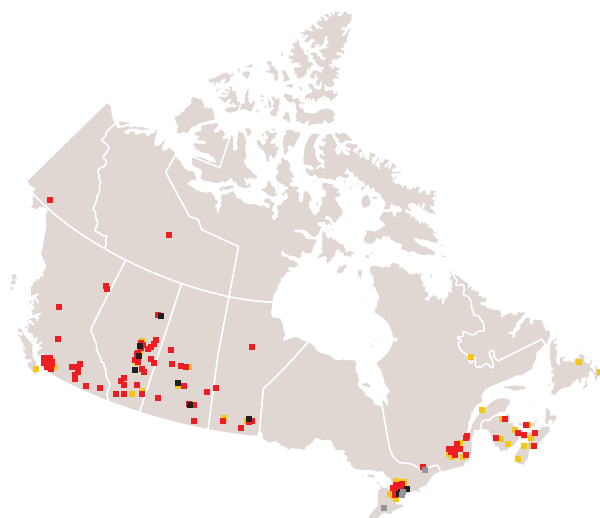


APPLIANCE CANADA

5



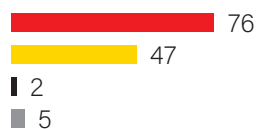
Our coast-to-coast retail footprint includes stores in all the largest population centres in Canada.



Total Locations by Province

■ The Brick ■ Leon's ■ The Brick Outlet ■ Appliance Canada

ONTARIO



ALBERTA



BRITISH COLUMBIA



SASKATCHEWAN



QUEBEC



MANITOBA



NOVA SCOTIA



NEW BRUNSWICK



NEWFOUNDLAND & LABRADOR



PRINCE EDWARD ISLAND



YUKON



NORTHWEST TERRITORIES



Wholly-Owned Subsidiaries and Divisions of LFL Group

First Oceans Trading Corporation
King and State Limited
Leon's Division
Leon Holdings (1967) Limited
Murlee Holdings Limited

The Brick Ltd.
Trans Global Insurance Company
Trans Global Life Insurance Company
Trans Global Service



ESG OVERVIEW

LFL Group strives to be an integral part of communities across Canada. We care about the people who work for us, the customers who shop in our stores, the places where all of us live, and the planet our children will inherit.



Minimizing Our Impact

We ship products from around the world to homes across Canada. We make every effort to ensure that the manufacturing, transportation and storage activities are carried out in a sustainable and energy-efficient manner.

Recycling

Our facilities are equipped with recycling equipment to ensure we divert waste and conserve other resources. In our Brick division alone, we achieved an overall diversion rate of 76% in 2019, including 87% in our distribution centres. The Brick's recycling efforts conserved the equivalent of 29,400 cubic yards of landfill airspace, 47,800 mature trees, 15.9 million kw-hours of electricity and 25.7 million gallons of water.

Vendor Performance Reviews

Our suppliers around the world report to us on their environmental impact, waste disposal and labour practices in accordance with our published code of vendor conduct.



A Workplace for Everyone

We want the best people to work with us. Our human resources policies strive to ensure that equal opportunities exist for all our associates and that our benefits and remuneration packages are designed to properly motivate our workforce.

Giving Back to Our Communities

We are proud to support a variety of local and national health associations, children's charities, societies and foundations to continue to do the good work that they do for all of us across the country.

In 2019, we raised nearly \$2.5 million for the **Children's Miracle Network** for the benefit of children's hospitals, medical research and community awareness. This donation exceeded our goal thanks to new fundraising events like our Charity Golf Tournament and Silent Auction, and our inaugural Charity Day which saw 2.5% of The Brick's total sales on July 6, 2019 donated to the cause.

We also supported **Wounded Warriors**, a national mental health service provider focused on Canada's veterans, first responders and their families.

Protecting the Interests of All Stakeholders

We have implemented governance policies to help ensure that we consider the needs of multiple stakeholder groups. The Board of Directors is comprised of a majority of independent directors, who periodically meet without management and non-independent members present. The Board has adopted a written Code of Conduct to guide the activities of all directors, officers and employees, and closely monitors compliance.

Five-Year Review

Revenue

(\$ in thousands)

\$2,283,411

15	\$2,031,718
16	\$2,143,736
17	\$2,215,379
18	\$2,241,437
19	\$2,283,411

Net Income

(\$ in thousands)⁽¹⁾

\$121,885

15	\$76,629
16	\$83,591
17	\$96,593
18	\$111,030
19	\$121,885

Shareholders' Equity

(\$ per share)

\$11.80

15	\$8.43
16	\$9.20
17	\$10.60
18	\$11.23
19	\$11.80

Income Statistics

(\$ in thousands, except amounts per share)	2019 ⁽¹⁾	2018	2017	2016	2015
Revenue	\$ 2,283,411	\$ 2,241,437	\$ 2,215,379	\$ 2,143,736	\$ 2,031,718
Cost of sales	1,284,826	1,264,561	1,261,112	1,228,499	1,145,593
Gross Profit	998,585	976,876	954,267	915,237	886,125
Operating expenses	835,392	826,286	822,838	801,049	784,706
Income before income taxes	163,193	150,590	131,429	114,188	101,419
Provision for income taxes	41,308	39,560	34,836	30,597	24,790
Net income	\$ 121,885	\$ 111,030	\$ 96,593	\$ 83,591	\$ 76,629
Common shares outstanding ('000s)	77,595	76,368	72,904	71,696	71,218
Earnings per common share	\$ 1.57	\$ 1.45	\$ 1.32	\$ 1.17	\$ 1.08
Percent annual change in sales	1.9%	1.2%	3.3%	5.5%	1.2%
Net income as percentage of sales	5.3%	5.0%	4.5%	3.9%	3.8%
Dividend declared	\$ 43,445	\$ 39,716	\$ 35,136	\$ 28,691	\$ 28,501

(1) Net income excludes the impact of IFRS 16 in the 2019 fiscal year, refer to the Company's MD&A for details regarding the implementation of IFRS 16 on January 1, 2019. The comparative periods have not been restated.

Balance Sheet Statistics

(\$ in thousands, except amounts per share)	2019	2018	2017	2016	2015
Shareholders' equity	\$ 915,764	\$ 857,362	\$ 773,048	\$ 659,553	\$ 600,402
Total assets	2,129,934	1,723,572	1,661,455	1,611,662	1,583,463
Purchase of capital assets	32,931	19,650	55,041	25,689	22,756
Working capital ⁽²⁾	127,371	198,445	162,328	128,788	65,419
Shareholders' equity per common share	11.80	11.23	10.60	9.20	8.43
Common share price range on the Toronto Stock Exchange					
High	\$ 17.29	\$ 19.50	\$ 19.57	\$ 18.75	\$ 19.38
Low	\$ 14.01	\$ 14.70	\$ 16.19	\$ 13.08	\$ 12.61

(2) 2018 excludes the amount of \$144,712 comprised of loans and borrowings due to the classification from non-current liabilities to current liabilities as at December 31, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarters and years ended
December 31, 2019 and 2018.

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 26, 2020 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, 2019 and for the years ended December 31, 2019, and 2018. It should be read in conjunction with the fiscal year 2019 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2019 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 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 relevant management share purchase plans 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 2019 consolidated financial statements and MD&A were approved on February 26, 2020.

1. Business Overview

Leon's Furniture Limited is the largest network of home furniture, appliances, electronics, and mattress stores in Canada. Our retail banners include: Leon's; The Brick; Brick Outlet and The Brick Mattress Store. As well, The Brick's Midnorthern Appliance banner alongside with the Appliance Canada banner, makes the Company the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies. Finally, 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. TGS has contracts to support several manufacturer's 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 customer's outstanding financing balances and third party customer 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 and the Caribbean, through its wholly owned subsidiaries First Oceans Trading Corporation and King & State Limited, respectively. 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, and the retail banners that sell their extended warranties on appliances and electronics to their customers, respectively.

STORE CONTINUITY

The Company had 304 retail stores from coast to coast in Canada at December 31, 2019. The following table illustrates the Company's store count continuity from December 31, 2018 to December 31, 2019 by retail banner.

	At December 31, 2018	Opened	Closed	At December 31, 2019
Corporate Stores				
Leon's	50	2	-	52
Appliance Canada	5	-	-	5
The Brick ⁽¹⁾	113	2	-	115
The Brick Mattress Store	25	-	(1)	24
Brick Outlet	10	-	(1)	9
Corporate Subtotal	203	4	(2)	205
Franchise Stores				
Leon's	36	-	(2)	34
The Brick	64	2	(1)	65
Franchise Subtotal	100	2	(3)	99
Total Corporate & Franchise Stores	303	6	(5)	304

(1) Includes the Midnorthern Appliance banner.

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 changes in fair value of derivative instruments, 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. 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.

The following two tables reconcile reported net income and earnings per share as stated in the Company's Consolidated Statements of Income to adjusted net income and earnings per share excluding the impact of IFRS 16, *Leases* ("IFRS 16"). As the Company implemented IFRS 16 on January 1, 2019 using the modified retrospective approach, the amounts listed in the table below related to the three months and year ended December 31, 2019 reflect lease accounting under IFRS 16 for net income, adjusted net income, basic and diluted earnings per share, and adjusted basic and adjusted diluted earnings per share. The comparative periods of 2018 have not been restated. See Section 10, "Recent Accounting Pronouncements," of this MD&A for additional information on the implementation of IFRS 16.

(\$ in thousands except per share amounts)	For the three months ended December 31		For the year ended December 31	
	2019	2018	2019	2018
Net Income ⁽¹⁾	39,334	38,785	106,929	111,030
After-tax mark-to-market (gain)/loss on financial derivative instruments	23	(496)	(102)	(4,339)
Adjusted net income ⁽¹⁾	39,357	38,289	106,827	106,691
Impact of IFRS 16 on an after-tax basis	3,148	–	14,956	–
Adjusted Net Income excluding impact of IFRS 16	42,505	38,289	121,783	106,691

(1) The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's three months and year ended December 31, 2019 reflects lease accounting under IFRS 16, the comparative periods have not been restated.

	For the three months ended December 31				For the year ended December 31			
	IFRS 16		2019 ⁽²⁾	2018 ⁽¹⁾	IFRS 16		2019 ⁽²⁾	2018
	2019 ⁽¹⁾	Adjustments			2019 ⁽¹⁾	Adjustments		
Basic earnings per share	\$ 0.51	\$ 0.04	\$ 0.55	\$ 0.51	\$ 1.38	\$ 0.19	\$ 1.57	\$ 1.45
Diluted earnings per share	\$ 0.48	\$ 0.04	\$ 0.52	\$ 0.48	\$ 1.30	\$ 0.18	\$ 1.48	\$ 1.36
Adjusted basic earnings per share	\$ 0.51	\$ 0.04	\$ 0.55	\$ 0.50	\$ 1.38	\$ 0.19	\$ 1.57	\$ 1.40
Adjusted diluted earnings per share	\$ 0.48	\$ 0.04	\$ 0.52	\$ 0.47	\$ 1.30	\$ 0.18	\$ 1.48	\$ 1.31

(1) As reported in the Company's 2019 Consolidated Statements of Income for basic and diluted earnings per share amounts.

(2) These amounts exclude the impact of IFRS 16 adjustments.

In 2016, the IASB issued IFRS 16, "Leases", replacing IAS 17, "Leases", and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The Company implemented the standard on January 1, 2019 using the modified retrospective approach, therefore the Company's 2019 financial results reflect lease accounting under IFRS 16. Prior year results have not been restated. See Section 10, "Recent Accounting Pronouncements," of this MD&A for more information on the implementation of IFRS 16.

The implementation of IFRS 16 significantly increased the assets and liabilities of the Company's balance sheet and changed the timing and presentation of lease-related expenses in the Company's financial results. As at January 1, 2019, the Company recorded a right-of-use asset of \$430,480,000 and a lease liability of \$414,940,000 under this new standard. Under IFRS 16, the depreciation expense on leased assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of a lease.

Therefore, normalized for this period-over-period impact of increased depreciation and lease interest expenses related to IFRS 16 implementation in the current quarter, adjusted net income increased \$4,216,000, an increase of 11% over the prior year's quarter. Additionally, excluding the impact of IFRS 16, adjusted diluted earnings per share for the Company increased by \$0.05 to \$0.52 per share, an increase of 10.6% over the prior year's quarter.

Accordingly, normalized for the year-over-year impact of increased depreciation and lease interest expenses related to IFRS 16 implementation in the current fiscal year, adjusted net income increased \$15,092,000, an increase of 14.1% over the same period last year. Additionally, excluding the impact of IFRS 16, adjusted diluted earnings per share for the Company increased by \$0.17 to \$1.48 per share, an increase of 13% over the prior year period.

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 year ended December 31	
(\$ in thousands)	2019 ⁽¹⁾	2018	2019 ⁽¹⁾	2018
Net Income	39,334	38,785	106,929	111,030
Income tax expense	12,987	13,995	36,117	39,560
Net finance costs	6,113	1,545	25,184	6,928
Depreciation and amortization	29,745	8,719	122,695	37,156
Mark-to-market (gain)/loss on financial derivative instruments	30	(682)	(140)	(5,918)
Adjusted EBITDA	88,209	62,362	290,785	188,756

(1) The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's 2019 three months and year ended December 31, 2019 reflect lease accounting under IFRS 16, while the comparative periods have not been restated.

ADJUSTED EBITDA EXCLUDING THE IMPACT OF IFRS 16

	For the three months ended December 31		For the year ended December 31	
(\$ in thousands)	2019	2018	2019	2018
Adjusted EBITDA⁽¹⁾	88,209	62,362	290,785	188,756
Impact of IFRS 16 (net)	(22,086)	-	(88,350)	-
Adjusted EBITDA excluding the impact of IFRS 16	66,123	62,362	202,435	188,756

(1) The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's 2019 three months and year ended December 31, 2019 reflect lease accounting under IFRS 16, while the comparative quarter and year to date results have not been restated. See Section 10, "Recent Accounting Pronouncements", of this MD&A for additional information on the impact of IFRS 16.

Under IFRS 16, the depreciation expense on leased assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of the lease. Normalized for the impact of increased depreciation and lease interest expenses due to the implementation of IFRS 16 on January 1, 2019, adjusted EBITDA increased \$3,761,000 in the quarter, an increase of 6% over the three months ended December 31, 2018 and increased \$13,679,000 in the year, an increase of 7.3% over the year ended December 31, 2018.

SAME STORE SALES

Same store sales are defined as sales generated by stores that have been open 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 are 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 Operations

SUMMARY FINANCIAL HIGHLIGHTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

Unless otherwise indicated, all financial information includes the implementation of IFRS 16, "Leases".

(\$ in thousands except % and per share amounts)	2019 ⁽²⁾	2018 ⁽²⁾	\$ Increase (Decrease)	\$ Increase (Decrease)
Total system-wide sales ⁽¹⁾	751,267	726,547	24,720	3.4%
Franchise sales ⁽¹⁾	129,826	124,887	4,939	4.0%
Revenue	621,441	601,660	19,781	3.3%
Cost of sales	342,585	333,282	9,303	2.8%
Gross profit	278,856	268,378	10,478	3.9%
<i>Gross profit margin as a percentage of revenue</i>	<i>44.87%</i>	<i>44.61%</i>		
Selling, general and administrative expenses ⁽²⁾	220,392	214,734	5,658	2.6%
<i>SG&A as a percentage of revenue⁽²⁾⁽³⁾</i>	<i>35.46%</i>	<i>35.69%</i>		
Income before net finance costs and income tax expense ⁽²⁾	58,464	53,644	4,820	9.0%
Net finance costs ⁽²⁾	(6,113)	(1,545)	4,568	295.7%
Income before income taxes ⁽²⁾	52,351	52,099	252	0.5%
Income tax expense ⁽²⁾	12,994	13,810	(816)	(5.9%)
Adjusted net income ⁽¹⁾⁽²⁾	39,357	38,289	1,068	2.8%
<i>Adjusted net income as a percentage of revenue⁽¹⁾⁽²⁾</i>	<i>6.33%</i>	<i>6.36%</i>		
After-tax mark-to-market (gain) loss on financial derivative instruments	23	(496)	(519)	(104.6%)
Net income ⁽²⁾	39,334	38,785	549	1.4%
Basic weighted average number of common shares	77,475,740	76,303,135		
Basic earnings per share ⁽²⁾	\$ 0.51	\$ 0.51	–	–
Adjusted basic earnings per share ⁽¹⁾⁽²⁾	\$ 0.51	\$ 0.50	0.01	2.0%
Diluted weighted average number of common shares	83,529,721	82,327,481		
Diluted earnings per share ⁽²⁾	\$ 0.48	\$ 0.48	–	–
Adjusted diluted earnings per share ⁽¹⁾⁽²⁾	\$ 0.48	\$ 0.47	0.01	2.1%
Common share dividends declared	\$ 0.14	\$ 0.14	–	–
Convertible, non-voting shares dividends declared	\$ 0.28	\$ 0.25	\$ 0.03	12.0%

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

(2) The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's fourth quarter of 2019 reflects lease accounting under IFRS 16, while the comparative quarter has not been restated. Refer to section 2 in this MD&A for additional information.

(3) Selling, general and administrative expenses ("SG&A").

SAME STORE SALES⁽¹⁾

	For the three months ended December 31			
(\$ in thousands except %)	2019	2018	\$ Increase	% Increase
Same store sales ⁽¹⁾	600,226	586,049	14,177	2.42%

(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, 2019, revenue was \$621,441,000 compared to \$601,660,000 in the prior year's fourth quarter. Revenue increased \$19,781,000 in the quarter or 3.3% as compared to the prior year's fourth quarter. This was driven by increased sales across all product categories, both in-store and online.

Same Store Sales⁽¹⁾

Overall, same store corporate sales increased 2.42% compared to the prior year's fourth quarter.

Gross Profit

The gross profit margin for the fourth quarter 2019 increased from 44.61% to 44.87% compared to the prior year's fourth quarter.

Selling, General and Administrative Expenses ("SG&A")

Normalized for the impacts of IFRS 16 in the current quarter, SG&A as a percentage of revenue in the current quarter was reduced to 35.62% from 35.69% in the prior year's fourth quarter. This reduction was due to effectively managing overall SG&A expenses throughout the quarter while at the same time increasing advertising spend to drive customer traffic to both the retail stores and to the Company's websites.

Adjusted EBITDA⁽¹⁾

Adjusted EBITDA increased \$25,847,000 in the quarter, an increase of 41.4% as compared to the prior year's fourth quarter. This increase was driven primarily by the implementation of IFRS 16 by the Company commencing on January 1, 2019 on a modified retrospective approach, which results in the prior year's quarter to not be restated. Under the new lease standard, the depreciation expense on leased assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of the lease. Therefore excluding the impact of implementing the new lease standard, adjusted EBITDA increased \$3,761,000 in the quarter, an increase of 6 % over the prior year's quarter, with the remainder of the overall increase of \$22,086,000 driven solely by the change in the lease standard implemented by the Company on January 1, 2019.

Adjusted Net Income⁽¹⁾ and Adjusted Diluted Earnings Per Share⁽¹⁾

Adjusted net income increased \$1,068,000 in the quarter compared to the prior year's fourth quarter. As the Company implemented IFRS 16 on January 1, 2019 using the modified retrospective approach, the Company's fourth quarter of 2019 reflects lease accounting under IFRS 16, while the comparative quarter has not been restated. Normalized for the quarter-over-quarter after tax impact of \$3,148,000 due to a net increase in depreciation expense and lease interest expense offset by a reduction in rent expense related to the IFRS 16 implementation in the current quarter, adjusted net income in the current quarter totaled \$42,505,000. This represents an increase of \$4,216,000 or 11% over the prior year's quarter. As a result of these adjustments, adjusted diluted earnings per share for the Company increased by \$0.05 to \$0.52 per share, an increase of 10.6% over the prior year's quarter.

Net Income and Diluted Earnings Per Share

Including the impact of the implementation of IFRS 16 in the current quarter and the mark-to-market impact of the Company's financial derivatives, net income for the fourth quarter of 2019 was \$39,334,000, \$0.48 per diluted earnings per share (net income \$38,785,000, \$0.48 per diluted earnings per share in 2018).

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

Management's Discussion and Analysis

Consolidated Operating Results for the Year Ended December 31, 2019, 2018 and 2017

(\$ in thousands except % and per share amounts)	2019 ⁽²⁾	2018 ⁽²⁾	\$ Increase (Decrease)	% Increase (Decrease)	2018 ⁽²⁾	2017	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	2,728,584	2,684,759	43,825	1.6%	2,684,759	2,641,254	43,505	1.6%
Franchise sales ⁽¹⁾	445,173	443,322	1,851	0.4%	443,322	425,875	17,447	4.1%
Revenue	2,283,411	2,241,437	41,974	1.9%	2,241,437	2,215,379	26,058	1.2%
Cost of sales	1,284,826	1,264,561	20,265	1.6%	1,264,561	1,261,112	3,449	0.3%
Gross profit	998,585	976,876	21,709	2.2%	976,876	954,267	22,609	2.4%
<i>Gross profit margin as a percentage of revenue</i>	43.73%	43.58%			43.58%	43.07%		
Selling, general and administrative expenses ⁽²⁾	830,495	825,276	5,219	0.6%	825,276	809,025	16,251	2.0%
<i>SG&A as a percentage of revenue ⁽²⁾⁽³⁾</i>	36.37%	36.82%			36.82%	36.52%		
Income before net finance costs and income tax expense ⁽²⁾	168,090	151,600	16,490	10.9%	151,600	145,242	6,358	4.4%
Net finance costs ⁽²⁾	(25,184)	(6,928)	18,256	263.5%	(6,928)	(10,502)	(3,574)	(34.0%)
Income before income taxes ⁽²⁾	142,906	144,672	(1,766)	(1.2%)	144,672	134,740	9,932	7.4%
Income tax expense ⁽²⁾	36,079	37,981	(1,902)	(5.0%)	37,981	35,718	2,263	6.3%
Adjusted net income ⁽¹⁾⁽²⁾	106,827	106,691	136	0.1%	106,691	99,022	7,669	7.7%
<i>Adjusted net income as a percentage of revenue ⁽¹⁾⁽²⁾</i>	4.68%	4.76%			4.76%	4.48%		
After-tax mark-to-market (gain)/loss on financial derivative instruments	(102)	(4,339)	(4,237)	(97.6%)	(4,339)	2,429	6,768	278.6%
Net income ⁽²⁾	106,929	111,030	(4,101)	(3.7%)	111,030	96,593	14,437	14.9%
Basic weighted average number of common shares	77,594,496	76,368,088			76,368,088	72,904,130		
Basic earnings per share ⁽²⁾	\$ 1.38	\$ 1.45	(0.07)	(4.8%)	\$ 1.45	\$ 1.32	\$ 0.13	9.8%
Adjusted basic earnings per share ⁽¹⁾⁽²⁾	\$ 1.38	\$ 1.40	(0.02)	(1.4%)	\$ 1.40	\$ 1.36	\$ 0.04	2.9%
Diluted weighted average number of common shares	83,746,040	82,891,640			82,891,640	82,912,983		
Diluted earnings per share ⁽²⁾	\$ 1.30	\$ 1.36	(0.06)	(4.4%)	\$ 1.36	\$ 1.20	\$ 0.16	13.3%
Adjusted diluted earnings per share ⁽¹⁾⁽²⁾	\$ 1.30	\$ 1.31	(0.01)	(0.8%)	\$ 1.31	\$ 1.23	\$ 0.08	6.5%
Common share dividends declared	\$ 0.56	\$ 0.52	0.04	7.7%	\$ 0.52	\$ 0.48	\$ 0.04	8.3%
Convertible, non-voting shares dividends declared	\$ 0.28	\$ 0.25	\$ 0.03	12.0%	\$ 0.25	\$ 0.23	\$ 0.02	8.7%

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

(2) The Company implemented IFRS 16, "Leases", on January 1, 2019 using the modified retrospective approach. As a result, the Company's 2019 year to date results reflect lease accounting under IFRS 16, while the comparative year to date results have not been restated. Refer to section 2 in this MD&A for additional information.

(3) Selling, general and administrative expenses ("SG&A").

Same Store Sales ⁽¹⁾

(\$ in thousands except %)	For the year ended December 31			
	2019	2018	\$ Increase	% Increase
Same store sales ⁽¹⁾	2,213,078	2,189,131	23,947	1.09%

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

REVENUE

For the year ended December 31, 2019, revenue was \$2,283,411,000 compared to \$2,241,437,000 for the prior year. Revenue increased \$41,974,000, an increase of 1.87%, as we continue to see growth in most product categories.

SAME STORE SALES ⁽¹⁾

Overall, same store corporate sales increased 1.09% compared to the prior year ended December 31, 2018.

GROSS PROFIT

The gross profit margin for the year ended December 31, 2019 was 43.73% as compared to 43.58% in the prior year, an increase of 15 basis points.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Excluding the impact of IFRS 16, the Company's SG&A as a percentage of revenue for the year ended was 36.41% as compared to 36.82% in the prior year, a reduction of 41 basis points. This was primarily due to effectively managing the Company's payroll costs, digital commerce expenses and due to the continued effectiveness of maintaining robust operating leverage.

ADJUSTED EBITDA ⁽¹⁾

Adjusted EBITDA increased \$102,029,000 during the year ended December 31, 2019, an increase of 54.05% as compared to the prior year. This increase has been driven primarily by two factors, the first is the implementation of IFRS 16 by the Company commencing on January 1, 2019 on a modified retrospective approach, which results in the prior year to not be restated, and the second was due to improvement in gross margin percentage in the current year aided by a higher degree of operating leverage and a reduction in net finance costs that exclude the impact of IFRS 16. Under the new lease standard, the depreciation expense on leased assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of the lease. Excluding the impact of implementing the new lease standard, adjusted EBITDA increased \$13,679,000 in the year, an increase of 7.25% from the prior year, with the remainder of the overall increase of \$88,350,000 driven solely by the change in the lease standard implemented by the Company on January 1, 2019.

ADJUSTED NET INCOME ⁽¹⁾ AND ADJUSTED DILUTED EARNINGS PER SHARE ⁽¹⁾

The Company's year ended December 31, 2019, reflects lease accounting under IFRS 16, while the prior year ended has not been restated as permitted using the modified retrospective approach. Therefore, excluding the after tax impact of \$14,956,000 due to a net increase in depreciation expense and lease interest expense offset by a reduction in rent expense related to the IFRS 16 implementation in the current year, adjusted net income in the year ended December 31, 2019 totaled \$121,783,000 an increase of \$15,092,000 or 14.15% over the year ended December 31, 2018. As a result of these adjustments, adjusted diluted earnings per share for the Company increased \$0.17 to \$1.48 per share, an increase of 13% over prior year-to-date adjusted diluted earnings per share.

NET INCOME AND DILUTED EARNINGS PER SHARE

Including the impact of the implementation of IFRS 16 in the current year and the mark-to-market impact of the Company's financial derivatives, net income for the year of 2019 was \$106,929,000, \$1.30 per diluted earnings per share (net income \$111,030,000, \$1.36 per diluted earnings per share in 2018).

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

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.

	Quarter ended December 31		Quarter ended September 30		Quarter ended June 30		Quarter ended March 31	
(\$ in thousands except per share data)	2019	2018	2019	2018	2019	2018	2019	2018
Total system wide sales ⁽¹⁾	751,267	726,547	712,522	707,058	667,637	650,012	597,158	601,142
Franchise sales ⁽¹⁾	129,826	124,887	111,165	114,729	106,765	103,283	97,417	100,423
Revenue	621,441	601,660	601,357	592,329	560,872	546,729	499,741	500,719
Net income ⁽³⁾	39,334	38,785	33,219	33,744	25,042	23,975	9,334	14,526
Adjusted net income ⁽¹⁾⁽²⁾⁽³⁾	39,357	38,289	33,019	34,262	25,037	22,595	9,414	11,545
Basic earnings per share ⁽³⁾	\$ 0.51	\$ 0.51	\$ 0.43	\$ 0.44	\$ 0.32	\$ 0.31	\$ 0.12	\$ 0.19
Diluted earnings per share ⁽³⁾	\$ 0.48	\$ 0.48	\$ 0.40	\$ 0.41	\$ 0.30	\$ 0.29	\$ 0.12	\$ 0.18
Adjusted basic earnings per share ⁽¹⁾⁽²⁾⁽⁴⁾	\$ 0.55	\$ 0.50	\$ 0.47	\$ 0.45	\$ 0.37	\$ 0.30	\$ 0.18	\$ 0.15
Adjusted diluted per share ⁽¹⁾⁽²⁾⁽⁴⁾	\$ 0.52	\$ 0.47	\$ 0.44	\$ 0.42	\$ 0.35	\$ 0.28	\$ 0.17	\$ 0.14

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

(2) Refer to section 2 – Adjusted net income.

(3) These numbers have not been restated for the implementation of IFRS 16.

(4) These 2019 numbers have been adjusted to exclude the impact due to the implementation of IFRS 16 on a modified retrospective approach.

5. Financial Position

(\$ in thousands)	December 31, 2019	December 31, 2018	December 31, 2017
Total assets	2,129,934	1,723,572	1,661,455
Total non-current liabilities	643,202	258,690	468,569

ASSETS

Total assets at December 31, 2019 of \$2,129,934,000 were \$406,362,000 higher than the \$1,723,572,000 reported at December 31, 2018. The majority of this change was driven by an increase to property, plant and equipment of approximately \$399,197,000. The increase to property, plant and equipment was due to the implementation of IFRS 16 effective January 1, 2019.

NON-CURRENT LIABILITIES

Non-current liabilities of \$643,202,000 were \$384,512,000 higher than the \$258,690,000 reported at December 31, 2018. This is a result of the increase in lease liability due to the implementation of IFRS 16 for the year ended December 31, 2019 and the reclassification of loans and borrowings to non-current liabilities as an amendment was completed during the second quarter of 2019 to the Company's Senior Secured Credit Agreement which is due to be paid in full on May 31, 2022.

6. Liquidity and Capital Resources

The following table provides a summarized statement of cash flows for the three months and year ended December 31, 2019 and December 31, 2018:

Source (Use) of Cash (\$ in thousands)	For the three months ended December 31			For the year ended December 31		
	2019	2018	\$ Increase (Decrease)	2019	2018	\$ Increase (Decrease)
Cash provided by operating activities before changes in non-cash working capital items	73,550	49,640	23,910	242,095	153,936	88,159
Changes in non-cash working capital items	54,448	45,594	8,854	(7,625)	28,138	(35,763)
Cash provided by operating activities	127,998	95,234	32,764	234,470	182,074	52,396
Cash used in investing activities	(11,153)	(10,189)	(964)	(43,248)	(30,141)	(13,107)
Cash used in financing activities	(60,282)	(36,170)	(22,112)	(192,457)	(97,873)	(94,584)
Increase (decrease) in cash and cash equivalents	56,563	48,875	7,688	(1,235)	54,060	(55,295)

Cash Provided By 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, customers' deposits and deferred rent liabilities and lease inducements.

In the fourth quarter of 2019, cash provided by operating activities increased by \$32,764,000 compared to the prior year's quarter. This increase is a result of increases in depreciation and net finance costs of \$25,974,000, which is due to the impact of IFRS 16. There is also a change in prepaids and other assets and inventories of \$17,514,000. This is partly offset by movements in customer deposits and trade receivables of \$8,382,000 and \$3,701,000 respectively

For the year ended December 31, 2019, cash provided by operating activities changed by \$52,396,000 compared to the comparative period. The net increase is primarily a result of an increase in depreciation of \$88,147,000. This is offset by movement in trade receivables of \$34,790,000.

Cash Used In Investing Activities

Investing activities relate primarily to capital expenditures and the purchase and sale of debt and equity instruments.

In the fourth quarter of 2019, cash used in investing activities increased by \$964,000 compared to the prior year's quarter. This increase is primarily driven by an increase in proceeds on the sale of property, plant and equipment of \$719,000, an increase in interest received of \$525,000 and an increase in proceeds on the sale of financial assets of \$470,000 and a decrease in the purchase of capital assets of \$2,845,000.

For the year ended December 31, 2019, cash used in investing activities changed by \$13,107,000 compared to the comparative period. The net decrease to cash was mainly due to the purchase of property, plant and equipment of \$13,281,000.

Cash Used in Financing Activities

Financing activities consist primarily of cash used to pay dividends, the loans and borrowings used to acquire The Brick and lease liabilities.

In the fourth quarter of 2019, cash used in financing activities changed by \$24,112,000 compared to the prior year's quarter. The change relates to the net increase in lease payments due to the implementation of IFRS 16 of \$15,348,000. There was also an increase in the repurchase of common shares of \$4,713,000 and interest paid of \$5,000,000.

For the year ended December 31, 2019, cash used in financing activities changed by \$94,584,000 compared to the comparative period. The change relates to the net increase in lease payments and net financing costs due to the implementation of IFRS 16 of \$64,956,000 and \$19,293,000 respectively. There was also an increase in the repurchase of common shares and in dividends paid of \$7,100,000 and \$5,147,000, respectively.

Adequacy of Financial Resources

At December 31, 2019, the Company's current assets exceeded its current liabilities by \$127,371,000 and its cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$202,954,000 compared to \$184,882,000 at December 31, 2018. Under the Company's Senior Secured Credit Agreement, the Company unused borrowing capacity of \$49,351,000 as at December 31, 2019 (\$49,351,000 as at December 31, 2018). The Company believes that its existing financing resources together with its continuing profitable results 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	155,545	29,131	126,414	–	–
Trade and other payables	256,539	256,539	–	–	–
Lease liability	453,986	85,470	261,299	106,025	1,192
Redeemable share liability	13	–	–	–	13
Total Contractual Obligations	866,083	371,140	387,713	106,025	1,205

7. Outlook

Despite the continued uncertainty over certain key economic indicators, we believe that the overall economy remains relatively strong. Although it is difficult to gauge future consumer confidence and what impact it may have on retail, we remain confident that our sales and profitability will increase. Given the Company's strong and continuously improving financial position, our principal objective is to increase our market share and profitability. We remain focused on our commitment to effectively manage our costs but to also continuously invest in digital innovation that we believe will drive more customers to both our online eCommerce presence and our 304 physical locations across Canada.

8. Outstanding Common Shares

At December 31, 2019, there were 77,241,047 common shares issued and outstanding. During the year ended December 31, 2019, 75,705 series 2009 shares, 11,823 series 2012 shares, 109,809 series 2013 shares, 64,026 series 2014 and 150,950 series 2015 shares were converted into common shares. For details on the Company's commitments related to its redeemable share liability please refer to Note 15.2 of the consolidated financial statements.

During the year ended December 31, 2019 the Company repurchased 639,401 of its common shares on the open market pursuant to the terms and conditions of its Normal Course Issuer Bids at a net cost of \$10,158,000. As at December 31, 2019 the Company has cancelled all of these repurchased shares.

9. Related Party Transactions

For the year ended December 31, 2019, 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.

10. 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 (i.e., full consolidation, equity investment or proportional share). The classification of these entities as a subsidiary, joint operation, joint venture, associate or financial instrument 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 DEBT INSTRUMENTS

The Company exercises judgment in the determination of whether there are objective indicators of impairment with respect to its debt instruments. The Company's review is based on an expected credit loss ("ECL") approach that employs an analysis of historical data, economic indicators and any past or future events that may influence the recoverability of the debt instruments 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.

LEASES

Management exercises judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease-by-lease basis. Management considers many factors including any events that create an economic incentive to exercise a renewal option including store performance, expected future performance and past business practice. Renewal options are only included if management are reasonably certain that the option will be renewed.

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 Implemented in 2019

The Company has adopted the new IFRS accounting standards listed below as at January 1, 2019, in accordance with the transitional provisions outlined in the respective standard.

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaces IAS 17, IFRIC 4, *Determines whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

As the Company has significant contractual obligations in the form of real estate operating leases, the Company applied IFRS 16 using the modified retrospective approach. The comparatives for the 2018 financial reporting period are not restated as permitted under the transition provisions in the standard.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., laptop computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Company has applied these exemptions where applicable.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The main changes to lease accounting as a result of IFRS 16 include the following:

- The amount of total assets and total liabilities increased due to the recognition of right-of-use assets and financial liabilities for future payment obligations from leases previously classified as operating leases; and
- Operating lease payments which were previously included in selling, general and administrative expenses on the consolidated statements of income are replaced with depreciation expense (included in selling, general and administrative expenses) from the right-of-use asset and interest expense (included under net finance costs) from the lease liability.

The Company did not restate comparative information and has elected to use the following practical expedients:

- the Company has not reassessed, under IFRS 16, contracts that were identified as leases under the previous standard (IAS 17);
- the Company will use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- the Company has excluded initial direct costs from measurement of the right-of-use asset at the date of initial application; and
- the Company has relied on its assessment of whether leases are onerous immediately before the date of initial application.

On transition to IFRS 16, the Company also elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, revisions to the definition of a lease resulting from IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

For leases previously classified as operating leases, the Company recorded the right-of-use assets based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Due to this the Company derecognized an amount of \$11,021 that was previously included under deferred rent and leasehold inducements with a corresponding adjustment to the right-of-use asset.

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from January 1, 2019.

Upon transition, the Company has derecognized the asset related to favourable or unfavourable terms of an operating lease acquired as part of a business combination with a corresponding adjustment to the right-of-use asset.

Opening Reconciliation of Lease Liability

A reconciliation of the lease liability as at December 31, 2018 compared to January 1, 2019 is as follows:

(\$ in thousands)	As at January 1, 2019
Operating lease commitments as at December 31, 2018	462,581
Weighted average incremental borrowing rate as at January 1, 2019	5%
Discounted operating lease commitments as at January 1, 2019	414,940
Add:	
Commitments relating to leases previously classified as finance leases	9,199
Lease liabilities as at January 1, 2019	424,139

Impact to Opening Statements of Financial Position

The following table summarizes the impact of adopting IFRS 16, on January 1, 2019:

(\$ in thousands)	As previously reported	Adjustments	As restated
ASSETS			
Property, plant and equipment	321,597	430,480	752,077
Intangibles	300,896	(26,402)	274,494
Total Assets	622,493	404,078	1,026,571
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	(247,136)	(159)	(247,295)
Lease liability	(1,415)	(37,526)	(38,941)
Total Current Liabilities	(248,551)	(37,685)	(286,236)
Lease liability	(7,784)	(377,414)	(385,198)
Deferred rent & leasehold inducements	(11,021)	11,021	-
Total Liabilities	(267,356)	(404,078)	(671,434)
Retained Earnings	743,399	-	743,399

IFRS Interpretation Committee Interpretation 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 adoption of this interpretation did not have a material impact on the consolidated financial statements.

Accounting Standards and Amendments Issued But Not Yet Adopted

IFRS 17, *Insurance Contracts* ("IFRS 17")

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4, *Insurance Contracts* ("IFRS 4"). IFRS 17 establishes new principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 applies to all types of insurance contracts regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for annual periods beginning on or after January 1, 2021. Retrospective application is required. The Company plans to adopt the new standard on the effective date. The Company is currently analyzing the impact these standards will have on its financial statements.

Amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1") and IAS 8, *Changes in Accounting Estimates and Errors* ("IAS 8") – Definition of Material

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to make it easier to understand. The definition of material in IAS 8 has been replaced by a definition of material in IAS 1. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' This change is effective from January 1, 2020. The Company does not expect any material impact on the consolidated financial statements.

11. 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 February 26, 2020, which provides information on the risk factors facing the Company. The February 26, 2020 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, and (iv) 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.

12. 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, 2019.

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, 2019, 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.

"Edward F. Leon"

"Constantine Pefanis"

Edward F. Leon
President and CEO

Constantine Pefanis
CFO

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Leon's Furniture Limited/Meubles Leon Ltée and its subsidiaries (the Group) which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Massimo Marinelli.

"Ernst & Young LLP"

**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
February 26, 2020

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in thousands)	As at December 31 2019	As at December 31 2018
ASSETS		
Current assets		
Cash and cash equivalents [note 5]	\$ 89,032	\$ 90,267
Restricted marketable securities	5,777	5,994
Debt securities	65,859	54,759
Equity securities	42,286	33,862
Trade receivables	140,535	122,131
Income taxes receivable	3,578	8,413
Inventories [note 6]	334,443	329,317
Deferred acquisition costs [note 7]	6,931	7,899
Deferred financing costs	-	276
Prepaid expenses and other assets	9,273	8,335
Other assets	625	484
Total current assets	\$ 698,339	\$ 661,737
Deferred acquisition costs [note 7]	11,643	11,751
Loan receivable [note 15.1]	13,053	13,191
Property, plant and equipment [note 8]	720,794	321,597
Investment properties [note 9]	16,633	17,072
Intangible assets [note 10]	271,810	300,896
Goodwill [note 10]	390,120	390,120
Deferred income tax assets [note 20]	7,542	7,208
Total assets	\$ 2,129,934	\$ 1,723,572
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables [note 11]	\$ 256,539	\$ 247,136
Provisions [note 12]	13,984	11,687
Income taxes payable	6,505	7,338
Customers' deposits [note 17]	151,817	146,362
Lease liabilities [note 13]	70,601	1,415
Dividends payable	10,822	10,690
Deferred warranty plan revenue	35,700	38,180
Loans and borrowings [note 14]	25,000	144,712
Total current liabilities	\$ 570,968	\$ 607,520
Loans and borrowings [note 14]	70,000	-
Convertible debentures [note 14]	48,788	48,435
Lease liability [note 13]	342,093	7,784
Deferred warranty plan revenue	107,243	110,126
Redeemable share liability [note 15]	13	13
Deferred rent liabilities and lease inducements	-	11,021
Deferred income tax liabilities [note 20]	75,065	81,311
Total liabilities	\$ 1,214,170	\$ 866,210
Shareholders' equity attributable to the shareholders of the Company		
Common shares [note 16]	\$ 115,728	\$ 111,956
Equity component of convertible debentures [note 14]	3,542	3,546
Retained earnings	793,116	743,399
Accumulated other comprehensive income (loss)	3,378	(1,539)
Total shareholders' equity	\$ 915,764	\$ 857,362
Total liabilities and shareholders' equity	\$ 2,129,934	\$ 1,723,572

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

On behalf of the Board:

"Mark J. Leon"

"Peter Eby"

Mark J. Leon
Director

Peter Eby
Director

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31	
(\$ in thousands except shares outstanding and earnings per share)	2019	2018
Revenue [note 17]	\$ 2,283,411	\$ 2,241,437
Cost of sales [note 6]	1,284,826	1,264,561
Gross profit	\$ 998,585	\$ 976,876
Operating expenses		
Selling, general and administrative expenses [note 18]	830,495	825,276
Operating profit	168,090	151,600
Finance costs [note 19]	(28,689)	(9,396)
Finance income [note 19]	3,505	2,468
Change in fair value of derivative instruments	140	5,918
Net income before income tax	143,046	150,590
Income tax expense [note 20]	36,117	39,560
Net income for the year	\$ 106,929	\$ 111,030
Weighted average number of common shares outstanding		
Basic	77,594,496	76,368,088
Diluted	83,746,040	82,891,640
Earnings per share [note 21]		
Basic	\$ 1.38	\$ 1.45
Diluted	\$ 1.30	\$ 1.36
Dividends declared per share		
Common	\$ 0.56	\$ 0.52
Convertible, non-voting	\$ 0.28	\$ 0.25

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31	
(\$ in thousands)	2019	2018
Net income for the year	\$ 106,929	\$ 111,030
Other comprehensive income, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Gain (loss) on debt instruments arising during the year	805	(279)
Reclassification adjustment for gains on disposal of debt instruments	13	-
Items that will not be reclassified to profit or loss:		
Gain (loss) on equity instruments arising during the year	4,099	(2,478)
Change in gain (loss) on debt and equity instruments arising during the year	4,917	(2,757)
Comprehensive income for the year	\$ 111,846	\$ 108,273

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

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income	Retained earnings	Total
As at December 31, 2018	\$ 3,546	\$ 111,956	\$ (1,539)	\$ 743,399	\$ 857,362
Comprehensive income					
Net income for the year	-	-	-	106,929	106,929
Change in gains on debt and equity instruments	-	-	4,917	-	4,917
Total comprehensive income	-	-	4,917	106,929	111,846
Transactions with shareholders					
Dividends declared	-	-	-	(43,445)	(43,445)
Management share purchase plan [note 15]	-	5,063	-	-	5,063
Convertible debentures [note 14]	(4)	100	-	-	96
Share repurchase commitment [note 16]	-	(443)	-	(4,557)	(5,000)
Repurchase of common shares [note 16]	-	(948)	-	(9,210)	(10,158)
Total transactions with shareholders	(4)	3,772	-	(57,212)	(53,444)
As at December 31, 2019	\$ 3,542	\$ 115,728	\$ 3,378	\$ 793,116	\$ 915,764

(\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive loss	Retained earnings	Total
As at December 31, 2017	\$ 3,555	\$ 93,392	\$ 1,218	\$ 674,883	\$ 773,048
Comprehensive income					
Net income for the year	-	-	-	111,030	111,030
Change in losses on debt and equity instruments	-	-	(2,757)	-	(2,757)
Total comprehensive income (loss)	-	-	(2,757)	111,030	108,273
Transactions with shareholders					
Dividends declared	-	-	-	(39,710)	(39,710)
Management share purchase plan [note 15]	-	18,801	-	-	18,801
Convertible debentures [note 14]	(9)	17	-	-	8
Treasury shares [note 16]	-	(39)	-	(423)	(462)
Repurchase of common shares [note 16]	-	(215)	-	(2,381)	(2,596)
Total transactions with shareholders	(9)	18,564	-	(42,514)	(23,959)
As at December 31, 2018	\$ 3,546	\$ 111,956	\$ (1,539)	\$ 743,399	\$ 857,362

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

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
(\$ in thousands)	2019	2018
OPERATING ACTIVITIES		
Net income for the year	\$ 106,929	\$ 111,030
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	118,775	30,628
Amortization of intangible assets	3,920	6,528
Amortization of deferred warranty plan revenue	(71,449)	(64,376)
Net finance costs	25,472	7,122
Deferred income taxes	(6,691)	(1,611)
Gain on sale of property, plant and equipment and investment properties	(424)	(315)
Fair value gain on loan receivable [note 15.1]	(528)	-
Loss on sale of debt and equity instruments	5	-
	\$ 176,009	\$ 89,006
Net change in non-cash working capital balances related to operations [note 26]	(7,625)	28,138
Cash received on warranty plan sales	66,086	64,930
Cash provided by operating activities	\$ 234,470	\$ 182,074
INVESTING ACTIVITIES		
Purchase of property, plant and equipment [note 8]	(32,931)	(19,650)
Purchase of intangible assets [note 10]	(1,236)	(1,138)
Proceeds on sale of property, plant and equipment	1,004	4,950
Purchase of debt and equity instruments	(36,353)	(42,614)
Proceeds on sale of debt and equity instruments	22,097	25,843
Loan receivable [note 15.1]	666	-
Interest received	3,505	2,468
Cash used in investing activities	\$ (43,248)	\$ (30,141)
FINANCING ACTIVITIES		
Payment of lease liabilities	(66,149)	(1,193)
Dividends paid	(43,313)	(38,166)
Decrease of employee share purchase loans [note 15.2]	5,063	3,151
Repurchase of common shares [note 16]	(10,158)	(3,058)
Repayment of term loan [note 14]	(50,000)	(50,000)
Interest paid	(27,900)	(8,607)
Cash used in financing activities	\$ (192,457)	\$ (97,873)
Net increase (decrease) in cash and cash equivalents during the year	(1,235)	54,060
Cash and cash equivalents, beginning of year	90,267	36,207
Cash and cash equivalents, end of year	\$ 89,032	\$ 90,267

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note 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.

Note 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 26, 2020.

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for investments debt and equity instruments, derivative instruments, 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 (i.e., full consolidation, equity investment or proportional share). The classification of these entities as a subsidiary, joint operation, joint venture, associate or financial instrument 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 DEBT INSTRUMENTS

The Company exercises judgment in the determination of whether there are objective indicators of impairment with respect to its debt instruments. The Company's review is based on an expected credit loss ("ECL") approach that employs an analysis of historical data, economic indicators and any past or future events that may influence the recoverability of the debt instruments 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.

LEASES

Management exercises judgment in the process of applying IFRS 16, *Leases* ("IFRS 16") and determining the appropriate lease term on a lease by lease basis. Management considers many factors including any events that create an economic incentive to exercise a renewal option including store performance, expected future performance and past business practice. Renewal options are only included if Management are reasonably certain that the option will be renewed.

Note 3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below. These accounting policies conform, in all material aspects, to IFRS.

The accounting policies set out below have been applied consistently in all material aspects, except with relation to the adoption of IFRS 16.

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, The Brick GP Ltd., United Furniture Warehouse LP, United Furniture GP Ltd., First Oceans Trading Corporation, First Oceans Hong Kong Limited, First Oceans Shanghai Limited, Trans Global Warranty Corporation, Trans Global Life Insurance Company and Trans Global Insurance Company. Subsidiaries are all those entities over which the Company has control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and de-consolidated from the date that control ceases. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the 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 debt and equity instruments are recognized in the consolidated statements of income, and other changes in the carrying amounts are recognized in other comprehensive income. For debt and equity instruments that are not monetary items, the gain or loss that is recognized in other comprehensive income includes any related foreign exchange component.

LEASES - POLICY APPLICABLE FROM JANUARY 1, 2019

The Company as Lessee

The Company determines whether a contract is or contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) Right-of-Use Assets

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the lessor makes the leased asset available for use by the Company. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Right-of-use assets are subject to impairment.

(ii) Lease Liabilities

The Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease. The lease payments include fixed payments (including in-substance fixed payments), variable payments that depend on an index or a rate, renewal options that are reasonably certain to be exercised less any lease incentives receivable. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event that triggers the payment occurs. In addition, the carrying amount of lease payments is remeasured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments. The Company has elected to apply the practical expedient to not separate the lease component and its associated non-lease component.

Management exercises judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease by lease basis. Management considers many factors including any events that create an economic incentive to exercise a renewal option including store performance, expected future performance and past business practice. Renewal options are only included if Management are reasonably certain that the option will be renewed.

As most of the Company's operating lease contracts do not provide the implicit interest rate, nor can the implicit interest rate be readily determined, the Company uses its incremental borrowing rate as the discount rate for determining the present value of lease payments. The Company's incremental borrowing rate for a lease is the rate that the Company would pay to borrow an amount necessary to obtain an asset of a similar value to the right-of-use asset on a collateralized basis over a similar term.

(iii) Short-Term Leases and Leases of Low-Value Assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets (e.g. laptop computers). The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company as a Lessor

At the inception of the lease, the Company classifies each lease as either an operating lease or a finance lease. A lease is a finance lease if it transfers substantially all the risks and rewards of the underlying asset to the lessee; otherwise, the lease is an operating lease. Rental income from operating leases is recognized on a straight-line basis over the lease term.

LEASES - POLICY APPLICABLE PRIOR TO JANUARY 1, 2019

Leases that transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor, 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 a review 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.

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.

FINANCIAL INSTRUMENTS

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 settlement 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 amortized cost or fair value. Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss ("FVTPL") or recognized in other comprehensive income ("FVOCI").

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) FVOCI – non-derivative financial assets 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, and specifically for equity instruments, with no reclassification of gains or losses to profit and loss on derecognition;
- (b) Amortized Cost – non-derivative financial assets with fixed or determinable payments. This includes trade receivables, and these are recorded at amortized cost with gains and losses recognized in profit or loss in the period that the asset is no longer recognized or becomes impaired; and
- (c) FVTPL – financial assets which are classified as fair value through profit and loss.

Classifications that the Company has used for financial liabilities include:

- (a) Amortized cost – non-derivative financial liabilities, including loans and borrowings, measured at amortized cost with gains and losses recognized in profit or loss in the period that the liability is no longer recognized; and
- (b) FVTPL – financial liabilities which are classified as fair value through profit and 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 once it is extinguished (i.e., when the obligation in the contract is either discharged or cancelled or expires).

Impairment of Financial Assets

In accordance with IFRS 9, *Financial Instruments* ("IFRS 9"), the Company applies the "expected credit loss" model. The impairment model applies to debt instruments measured at amortized cost or at FVOCI, as well as trade receivables, lease receivables, contracts assets (as defined in IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")), and loan commitments and financial guarantee contracts that are not at FVTPL. It requires a credit loss to be reflected in profit and loss immediately after an asset or receivable is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. The Company applies the simplified approach for trade receivables and calculates expected credit losses based on lifetime expected credit losses.

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 profit or loss.

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

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.

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
Non-compete agreement	8 years
Computer software	3 to 7 years

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

Revenue Recognition

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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 and the performance obligation has been satisfied. Any payments received in advance of delivery are deferred and recorded as customers' deposits. Revenue is shown net of sales tax and financing charges.

The Company records a provision for sales returns and price guarantees based on historical experience and actual experience each quarter.

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, is recorded by the Company on a monthly basis once the sale occurs and the performance obligations have been satisfied.

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 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.

Deferred 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.

Deferred insurance revenue is calculated based on assumptions of loss emergence, payment rates, interest, and expected expenses associated with the adjustment and payment of claims. Deferred insurance revenue is derecognized when the obligation to pay a claim expires, is discharged or is cancelled in accordance with the pattern of insurance service provided under the contract.

Deferred Warranty Plan Revenue

Warranties, underwritten by the Company's wholly-owned subsidiaries, are offered on furniture, appliance and electronic 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 weighted average term of the warranty plan on a straight-line basis.

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 and are considered costs to obtain the contract. 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* ("IFRS 11"), 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, 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. Joint ventures are accounted for using the equity method of accounting in accordance with IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). Under the equity method of accounting, the Company's investments in joint ventures and associates are carried at cost and adjusted for post-acquisition changes in the net assets of the investment. Profit or loss reflects the Company's share of the results of these investments. Distributions received from an investee reduce the carrying amount of the investment. The consolidated statements of comprehensive income (loss) also include the Company's share of any amounts recognized by joint ventures and associates in OCI. Where there has been a change recognized directly in the equity of the joint venture or associate, the Company recognizes its share of that change in equity. The financial statements of the joint ventures and associates are generally prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist in the underlying records of the joint venture and/or associate. Adjustments are made in the consolidated financial statements to eliminate the Company's share of unrealized gains and losses on transactions between the Company and its joint ventures and associates. 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.

Associates

Entities in which the Company has significant influence and which are neither subsidiaries, nor joint arrangements, are accounted for using the equity method of accounting in accordance with IAS 28. This method of accounting is described in the previous section Joint Arrangements. The Company discontinues the use of the equity method from the date on which it ceases to have significant influence, and from that date accounts for the investment in accordance with IFRS 9, (its initial costs are the carrying amount of the associate on that date), provided the investment does not then qualify as a subsidiary or a joint arrangement.

Note 4. Adoption of Accounting Standards and Amendments

ADOPTION OF NEW ACCOUNTING STANDARDS

The Company has adopted the new IFRS accounting standards listed below as at January 1, 2019, in accordance with the transitional provisions outlined in the respective standard.

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaces IAS 17, *Leases* ("IAS 17"), IFRIC 4, *Determines whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

As the Company has significant contractual obligations in the form of real estate operating leases, the Company applied IFRS 16 using the modified retrospective approach. The comparatives for the 2018 financial reporting period are not restated as permitted under the transition provisions in the standard.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., laptop computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Company has applied these exemptions where applicable.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The main changes to lease accounting as a result of IFRS 16 include the following:

- The amount of total assets and total liabilities increased due to the recognition of right-of-use assets and financial liabilities for future payment obligations from leases previously classified as operating leases; and
- Operating lease payments which were previously included in selling, general and administrative expenses on the consolidated statements of income are replaced with depreciation expense (included in selling, general and administrative expenses) from the right-of-use asset and interest expense (included under net finance costs) from the lease liability.

The Company did not restate comparative information and has elected to use the following practical expedients:

- the Company has not reassessed, under IFRS 16, contracts that were identified as leases under the previous standard (IAS 17);
- the Company will use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- the Company has excluded initial direct costs from measurement of the right-of-use asset at the date of initial application; and
- the Company has relied on its assessment of whether leases are onerous immediately before the date of initial application.

On transition to IFRS 16, the Company also elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, revisions to the definition of a lease resulting from IFRS 16 were applied only to contracts entered into or changed on or after January 1, 2019.

For leases previously classified as operating leases, the Company recorded the right-of-use assets based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Due to this the Company derecognized an amount of \$11,021 that was previously included under deferred rent and leasehold inducements with a corresponding adjustment to the right-of-use asset.

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from January 1, 2019.

Upon transition, the Company has derecognized the asset related to favourable or unfavourable terms of an operating lease acquired as part of a business combination with a corresponding adjustment to the right-of-use asset.

OPENING RECONCILIATION OF LEASE LIABILITY

A reconciliation of the lease liability as at December 31, 2018 compared to January 1, 2019 is as follows:

(\$ in thousands)	As at January 1, 2019	
Operating lease commitments as at December 31, 2018	\$	462,581
Weighted average incremental borrowing rate as at January 1, 2019		5%
Discounted operating lease commitments as at January 1, 2019		414,940
Add:		
Commitments relating to leases previously classified as finance leases		9,199
Lease liabilities as at January 1, 2019	\$	424,139

IMPACT TO OPENING STATEMENTS OF FINANCIAL POSITION

The following table summarizes the impact of adopting IFRS 16, on January 1, 2019:

(\$ in thousands)	As previously reported	Adjustments	As restated
ASSETS			
Property, plant and equipment [note 8]	\$ 321,597	\$ 430,480	\$ 752,077
Intangibles	300,896	(26,402)	274,494
Total Assets	\$ 622,493	\$ 404,078	\$ 1,026,571
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	(247,136)	(159)	(247,295)
Trade and other payables	(1,415)	(37,526)	(38,941)
Lease liability			
Total Current Liabilities	\$ (248,551)	\$ (37,685)	\$ (286,236)
Lease liability	(7,784)	(377,414)	(385,198)
Deferred rent and leasehold inducements	(11,021)	11,021	-
Total Liabilities	\$ (267,356)	\$ (404,078)	\$ (671,434)
Retained Earnings	\$ 743,399	\$ -	\$ 743,399

IFRS Interpretation Committee Interpretation 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 adoption of this interpretation did not have a material impact on the consolidated financial statements.

Accounting Standards and Amendments Issued But Not Yet Adopted

IFRS 17, *Insurance Contracts* ("IFRS 17")

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4, *Insurance Contracts* ("IFRS 4"). IFRS 17 establishes new principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 applies to all types of insurance contracts regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for annual periods beginning on or after January 1, 2021. Retrospective application is required. The Company plans to adopt the new standard on the effective date. The Company is currently analyzing the impact this standards will have on its financial statements.

Amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1") and IAS 8, *Changes in Accounting Estimates and Errors* ("IAS 8") – Definition of Material

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to make it easier to understand. The definition of material in IAS 8 has been replaced by a definition of material in IAS 1. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The Company does not expect any material impact on the consolidated financial statements.

Note 5. Cash and Cash Equivalents

	As at December 31, 2019	As at December 31, 2018
Cash and cash equivalents	\$ 89,032	\$ 90,267

Note 6. Inventories

The amount of inventory recognized as an expense for the year ended December 31, 2019 was \$1,232,486 (2018 – \$1,214,147), which is presented within cost of sales in the consolidated statements of income.

There was \$1,682 in inventory write-down reversals (2018 – \$2,170) recognized during 2019. As at December 31, 2019, the inventory markdown provision totalled \$5,313 (2018 – \$6,995).

Note 7. Deferred Acquisition Costs

Balance as at December 31, 2017	\$ 20,473
Cost of new policies sold	7,061
Policy sales costs recognized	(7,884)
Balance as at December 31, 2018	19,650
Cost of new policies sold	7,177
Policy sales costs recognized	(8,253)
Balance as at December 31, 2019	\$ 18,574
Reported as:	
Current	7,899
Non-current	11,751
Balance as at December 31, 2018	19,650
Current	6,931
Non-current	11,643
Balance as at December 31, 2019	\$ 18,574

Note 8. Property, Plant and Equipment

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property ⁽¹⁾	Leased Equipment ⁽¹⁾	Total
As at December 31, 2019:								
Opening net book value	\$ 101,091	\$ 106,712	\$ 41,768	\$ 23,218	\$ 42,685	\$ 435,654	\$ 949	\$ 752,077
Additions	3,770	7,060	7,529	6,387	8,185	53,688	1,014	87,633
Disposals	(393)	-	(51)	(69)	(27)	(40)	-	(580)
Depreciation	-	(6,283)	(7,281)	(4,954)	(8,978)	(90,224)	(616)	(118,336)
Closing net book value	104,468	107,489	41,965	24,582	41,865	399,078	1,347	720,794
As at December 31, 2019:								
Cost	104,468	261,421	171,918	56,293	239,103	503,944	1,963	1,339,110
Accumulated depreciation	-	(153,932)	(129,953)	(31,711)	(197,238)	(104,866)	(616)	(618,316)
Net book value	\$ 104,468	\$ 107,489	\$ 41,965	\$ 24,582	\$ 41,865	\$ 399,078	\$ 1,347	\$ 720,794
As at December 31, 2018:								
Opening net book value	\$ 102,991	\$ 115,164	\$ 42,795	\$ 22,331	\$ 46,155	\$ 7,254	\$ 58	\$ 336,748
Reclass	-	(239)	297	-	-	-	(58)	-
Additions	-	751	6,786	5,589	6,524	-	-	19,650
Disposals	(1,900)	(2,487)	(118)	(125)	-	-	-	(4,630)
Depreciation	-	(6,477)	(7,992)	(4,577)	(9,994)	(1,131)	-	(30,171)
Closing net book value	101,091	106,712	41,768	23,218	42,685	6,123	-	321,597
As at December 31, 2018:								
Cost	101,091	254,361	168,440	50,876	235,765	20,766	-	831,299
Accumulated depreciation	-	(147,649)	(126,672)	(27,658)	(193,080)	(14,643)	-	(509,702)
Net book value	\$ 101,091	\$ 106,712	\$ 41,768	\$ 23,218	\$ 42,685	\$ 6,123	\$ -	\$ 321,597

Included in the above balances as at December 31, 2019 are assets not being amortized with a net book value of approximately \$3,760 (2018 – \$2,516) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$276,392 (2018 – \$247,243). Amortization of intangible assets is included within selling, general and administration expenses on the consolidated statements of income.

(1) Refer to Note 4 for additional information on IFRS 16 implementation.

Note 9. Investment Properties

	Land	Buildings	Building improvements	Total
As at December 31, 2019:				
Opening net book value	\$ 10,946	\$ 5,502	\$ 624	\$ 17,072
Depreciation	-	(378)	(61)	(439)
Closing net book value	10,946	5,124	563	16,633
As at December 31, 2019:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	-	(12,209)	(534)	(12,743)
Net book value	\$ 10,946	\$ 5,124	\$ 563	\$ 16,633
As at December 31, 2018:				
Opening net book value	\$ 10,946	\$ 5,879	\$ 704	\$ 17,529
Depreciation	-	(377)	(80)	(457)
Closing net book value	10,946	5,502	624	17,072
As at December 31, 2018:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	-	(11,831)	(473)	(12,304)
Net book value	\$ 10,946	\$ 5,502	\$ 624	\$ 17,072

Notes to the Consolidated Financial Statements

The estimated fair value of the investment properties portfolio as at December 31, 2019 was approximately \$44,000 (2018 – \$44,000). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy. See Note 22 for definition of levels. This was compiled internally by management based on available market evidence.

Note 10. Intangible Assets and Goodwill

	Customer relationships	Brand name and franchise agreements	Computer software	Favourable lease agreements ⁽¹⁾	Total
As at December 31, 2019:					
Opening net book value	\$ 1,406	\$ 266,000	\$ 7,088	\$ -	\$ 274,494
Additions	-	-	1,236	-	1,236
Amortization	(624)	-	(3,296)	-	(3,920)
Closing net book value	782	266,000	5,028	-	271,810
As at December 31, 2019:					
Cost	7,000	268,500	19,694	-	295,194
Accumulated amortization	(6,218)	(2,500)	(14,666)	-	(23,384)
Net book value	\$ 782	\$ 266,000	\$ 5,028	\$ -	\$ 271,810
As at December 31, 2018:					
Opening net book value	\$ 2,031	\$ 266,000	\$ 9,487	\$ 28,768	\$ 306,286
Additions	-	-	1,138	-	1,138
Amortization	(625)	-	(3,537)	(2,366)	(6,528)
Closing net book value	1,406	266,000	7,088	26,402	300,896
As at December 31, 2018:					
Cost	7,000	268,500	18,458	46,049	340,007
Accumulated amortization	(5,594)	(2,500)	(11,370)	(19,647)	(39,111)
Net book value	\$ 1,406	\$ 266,000	\$ 7,088	\$ 26,402	\$ 300,896

(1) Refer to Note 4 for additional information on IFRS 16 implementation.

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, 2019	As at December 31, 2018
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. 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, 2019	As at December 31, 2018
Brick division customer relationships	\$ 782	\$ 1,406
Brick division favourable lease agreements	-	26,402
Computer software	5,028	7,088
	\$ 5,810	\$ 34,896

Notes to the Consolidated Financial Statements

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, 2019	As at December 31, 2018
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, 2019 and 2018 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, 2019 and 2018 were as follows:

	2019	2018
Growth rate	2.0%	2.0%
Pre-tax discount rate	9.0%	9.2%

The impairment tests performed resulted in no impairment of the goodwill and indefinite life intangibles as at December 31, 2019 and December 31, 2018.

Note 11. Trade and Other Payables

	As at December 31, 2019	As at December 31, 2018
Trade payables	\$ 134,013	\$ 135,862
Other payables	122,526	111,274
Total	\$ 256,539	\$ 247,136

Note 12. Provisions

	Unpaid insurance claims	Unpaid warranty claims	Product returns	Other	Total
Balance as at December 31, 2018	\$ 1,092	\$ 6,049	\$ 2,109	\$ 2,437	\$ 11,687
Provisions made during the year	1,013	2,028	184	806	4,031
Provisions used during the year	(998)	-	-	-	(998)
Unused provisions reversed	(533)	-	(203)	-	(736)
Balance as at December 31, 2019	\$ 574	\$ 8,077	\$ 2,090	\$ 3,243	\$ 13,984

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.

Note 13. Leases

COMPANY AS A LESSEE

Leasing Arrangements

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

Lease Liabilities

Carrying amounts of lease liabilities are as follows:

	2019 ⁽¹⁾	2018
Opening Balance as at January 1	\$ 424,139	\$ 10,474
Additions	57,814	–
Interest	21,711	573
Payments	(90,970)	(1,848)
Closing Balance as at December 31	\$ 412,694	\$ 9,199
Reported as:		
Current	70,601	1,415
Non-current	342,093	7,784
	\$ 412,694	\$ 9,199

(1) Refer to Note 4 for additional information on IFRS 16 implementation.

For the year ended December 31, 2019 the Company recognized rent expense from short-term leases of \$603, leases of low-value assets of \$388 and variable lease payments of \$39,222.

COMPANY AS A LESSOR

Lease Revenue Receivable

The Company has entered into operating leases on its investment property portfolio consisting of certain land and building properties. These leases generally have terms between 5 and 15 years.

Future minimum rentals receivable under non-cancellable operating are as follows:

	2019
No later than 1 year	\$ 1,672
Later than 1 year and no later than 5 years	4,827
Later than 5 years	5,025
Total	\$ 11,524

Note 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 March 31 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 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 \$50,025 through a charge to net income over their term. This charge will be included in finance costs.

During the year ended December 31, 2019, a portion of the convertible debentures with a stated value of \$100 was converted to 7,912 common shares, at the holder's option (year ended December 31, 2018 – \$17 was converted to 1,344 common shares).

Carrying value of convertible debentures as at December 31, 2017	\$ 48,004
Accretion expense for the year ended December 31, 2018	439
Conversion of convertible debentures for the year ended December 31, 2018	(8)
Carrying value of convertible debentures as at December 31, 2018	48,435
Accretion expense for the year ended December 31, 2019	449
Conversion of convertible debentures for the year ended December 31, 2019	(96)
Carrying value of convertible debentures as at December 31, 2019	\$ 48,788

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

In January 2020, a portion of the convertible debenture with a stated value of \$48,506, was converted to 3,838,134 common shares at the holder's option.

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 original SSCA on November 25, 2016. After giving effect to the amendment, the total credit facility was reduced from \$500,000 to \$300,000 with the term credit facility being reduced from \$400,000 to \$250,000 and the revolving credit facility being reduced from \$100,000 to \$50,000. The revolving credit facility continues to include a swing-line of \$20,000. The Company completed a second amendment on May 31, 2019. Under the terms of the SSCA, amounts borrowed must be repaid in full by December 31, 2022. 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 were previously deferred and amortized over the life of the agreement, in relation to the first amendment of the SSCA. The remaining balance, as at May 31, 2019, of \$148 was written off. No additional transaction costs were incurred for the second amendment. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. The term credit facility is repayable in yearly amounts of \$25,000. Currently, the Company has entered into a 31-day Bankers' Acceptance with a cost of borrowing of 3.08% that was renewed on December 31, 2019.

The Company can prepay without penalty amounts outstanding under the facilities at any time. The agreement includes a general security agreement which constitutes a lien on all property of the Company. In addition to this, there are financial covenants related to the credit facility. As at December 31, 2019, the Company is in full compliance of these financial and non-financial covenants.

Note 15. Management Share Purchase Plan

NOTE 15.1 EMPLOYEE BENEFIT PLAN

Members of senior management participate in the Company's Management Share Purchase Plan ("MSPP"). Under the terms of the MSPP, the Company advanced non-interest bearing loans to certain of its employees in 2018 to allow them to acquire common shares of the Company. Participation in the MSPP is voluntary. The common shares purchased under the MSPP are held in trust by a trustee for the benefit of the

Notes to the Consolidated Financial Statements

employee until the later of three years from the date of issue and the date the related loan to acquire the shares is repaid in full. While such shares are held in trust, any dividends paid on these common shares are credited against the related loan.

During the fourth quarter of 2018, a total of 1,188,873 of the 2018 series of common shares were issued under the 2018 MSPP to senior management employees at \$15.30 per share. As at December 31, 2018, the Company recognized a loan receivable in the amount of \$13,191 (recognized at fair value) and a deferred compensation expense receivable of \$2,315. The common shares issued of \$15,506 are shown within common shares on the consolidated statements of financial position.

During the year ended December 31, 2019, the Company recognized compensation expense of \$231 (year ended December 31, 2018 – \$nil). Dividends paid to MSPP holders, for the year ended December 31, 2019, of \$666 were credited against the loan receivable (year ended December 31, 2018 – \$nil). The loan receivable is recognized at fair value and during the year ended December 31, 2019, a fair value gain of \$528 was recognized by the Company (year ended December 31, 2018 – \$nil).

NOTE 15.2 REDEEMABLE SHARE LIABILITY

	As at December 31, 2019	As at December 31, 2018
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		
220,497 series 2009 shares (December 31, 2018 – 296,202)	\$ 1,951	\$ 2,622
113,534 series 2012 shares (December 31, 2018 – 125,357)	1,409	1,556
714,036 series 2013 shares (December 31, 2018 – 823,845)	8,133	9,383
432,359 series 2014 shares (December 31, 2018 – 496,385)	6,507	7,470
541,232 series 2015 shares (December 31, 2018 – 692,182)	7,285	9,317
Less employee share purchase loans	(25,272)	(30,335)
	\$ 13	\$ 13

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 thirteenth anniversary of such issue. Each issued and fully paid for series 2013, series 2014 and series 2015 may be converted into one common share at any time after the third anniversary date of the issue of these shares and prior to the thirteenth anniversary of such issue. The series 2009, series 2012, series 2013, series 2014 and series 2015 are redeemable at the option of the holder for a period of one business day following the date of issue of such shares. The Company has the option to redeem the series 2009 and series 2012 shares at any time after the fifth anniversary date of the issue of these shares and must redeem them prior to the thirteenth anniversary of such issue. The Company has the option to redeem the series 2013, series 2014 and series 2015 shares at any time after the third anniversary date of the issue of these shares and must redeem them prior to the thirteenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The purchase prices of the shares are \$8.85 per series 2009 share, \$12.41 per series 2012 share, \$11.39 per series 2013 share, \$15.05 per series 2014 share and \$13.46 per series 2015 share. Dividends paid to holders of series 2009, 2012, 2013, 2014 and 2015 shares of approximately \$614 (2018 – \$615) 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, 2019, 75,705 series 2009 shares, 11,823 series 2012 shares, 109,809 series 2013 shares, 64,026 series 2014 shares and 150,950 series 2015 shares (year ended December 31, 2018 – 71,363 series 2009 shares, 14,463 series 2012 shares, 124,361 series 2013 shares, 49,480 series 2014 shares and 23,975 series 2015 shares) were converted into common shares with a stated value of approximately \$670, \$147, \$1,251, \$964 and \$2,032, respectively (year ended December 31, 2018 – \$632, \$179, \$1,417, \$745 and \$323, respectively).

During the year ended December 31, 2019, the Company did not cancel any shares from any of the series of shares (year ended December 31, 2018 – 19,362 series 2015 shares in the amount of \$261).

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.

Note 16. Common Shares

	As at December 31, 2019	As at December 31, 2018
Authorized – Unlimited common shares		
Issued – 77,241,047 common shares (2018 – 77,490,893)	\$ 115,728	\$ 111,956

During the year ended December 31, 2019, 75,705 series 2009 shares, 11,823 series 2012 shares, 109,809 series 2013 shares, 64,026 series 2014 shares and 150,950 series 2015 shares (year ended December 31, 2018 – 71,363 series 2009 shares, 14,463 series 2012 shares, 124,361 series 2013 shares, 49,480 series 2014 shares and 23,975 series 2015 shares) were converted into common shares with a stated value of approximately \$670, \$147, \$1,251, \$964 and \$2,032, respectively (year ended December 31, 2018 – \$632, \$179, \$1,417, \$745 and \$323, respectively).

On September 10, 2018, the Company announced that it has received approval for a common share repurchase programme on The Toronto Stock Exchange ("TSX"). On September 9, 2019 the Company received TSX approval of its notice of intention to renew its common share repurchase programme. The Company intends to repurchase for cancellation a maximum of 3,878,064 common shares representing 4.99% of the total number of its 77,716,705 issued and outstanding common shares as at September 4, 2019. The average daily trading volume for the six months ended August 31, 2019 was 18,714. Therefore, other than block purchase exemptions, daily purchases will be limited to 4,678 common shares. The bid commenced on September 12, 2019 and will terminate on the earliest of the purchase of 3,878,064 common shares, the issuer providing a notice of termination, and September 11, 2020. Purchases will be executed through the facilities of the Toronto Stock Exchange at market price under the normal course issuer bid rules of the Toronto Stock Exchange.

During the year ended December 31, 2019, the Company repurchased 639,401 shares (year ended December 31, 2018 – 201,775) of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids at a net cost of \$10,158 (year ended December 31, 2018 – \$3,058). The repurchase of common shares resulted in a reduction of share capital in the amount of \$948 (year ended December 31, 2018 – \$254). The excess net cost over the average carrying value of the shares of \$9,210 (year ended December 31, 2018 – \$2,804) has been recorded as a reduction in retained earnings. As at December 31, 2019, the Company has cancelled all of these repurchased shares. As at December 31, 2018 the Company had cancelled 171,105 of the repurchased shares and the remaining amount of 30,670 were held as Treasury Shares.

On December 30, 2019, the Company announced that it had entered into an automatic share purchase plan ("ASPP") with the Company's broker for the purpose of permitting the Company to purchase its Common Shares under the NCIB during self-imposed blackout periods. Under the ASPP, the broker shall purchase on behalf of the Company during the period commencing on January 2, 2020 and ending on the earlier of (a) the date on which shares with an aggregate purchase price of \$5,000 have been purchased, (b) February 26, 2020, (c) the public announcement of a tender or exchange offer for the shares or of a merger, acquisition, recapitalisation or other similar business combination or transaction as a result of which the shares would be exchanged for or converted into cash, securities or other property, or (d) the public announcement of a public offering of shares by the Company up to 4,678 shares on each trading day. The broker may exceed the daily maximum of 4,678 shares subject to compliance with provisions of the block purchase exemption of the TSX. The purchase price paid by the broker for the shares will be the market price of the shares on the TSX at the time of the purchase. The maximum price that the broker is authorised to pay for shares is \$17 per share.

As of December 31, 2019, an obligation for the repurchase of shares of \$5,000 (December 31, 2018 – \$nil) was recognised under the ASPP.

During the year ended December 31, 2019, a portion of convertible debentures with a value of \$100 were converted to 7,912 common shares (the year ended December 31, 2018 – 1,344 at a stated value of \$17).

As at December 31, 2019, the dividends payable were \$10,822 (\$0.14 per share) and as at December 31, 2018 were \$10,690 (\$0.14 per share).

Note 17. Revenue

(a) Disaggregation of Revenue

	Year ended December 31, 2019	Year ended December 31, 2018
Sale of goods by corporate stores	\$ 2,199,650	\$ 2,161,320
Income from franchise operations	28,885	27,779
Extended warranty revenue	39,171	39,361
Insurance sales revenue	14,195	11,837
Rental income from investment property	1,510	1,140
Total	\$ 2,283,411	\$ 2,241,437

(b) Customers' Deposits

	Year ended December 31, 2019	Year ended December 31, 2018
Opening balance as at January 1	\$ 146,362	\$ 128,078
Revenue recognized that was included in the customers' deposits balance at the beginning of the year	\$ (139,474)	\$ (126,053)

Any payments received in advance of delivery are deferred and recorded as customers' deposits.

(c) Deferred Warranty Plan Revenue

	Year ended December 31, 2019	Year ended December 31, 2018
Opening balance as at January 1	\$ 148,306	\$ 147,752
Revenue recognized that was included in the Deferred Warranty Plan Revenue at the beginning of the year	\$ (71,449)	\$ (64,376)
Recognition of Deferred Warranty Plan Revenue during the year	\$ 66,086	\$ 64,930

Note 18. Expenses by Nature

	Year ended December 31, 2019	Year ended December 31, 2018
Salaries and benefits	\$ 388,279	\$ 383,550
Depreciation of property, plant and equipment and investment properties	\$ 118,775	\$ 30,628
Amortization of intangible assets	\$ 3,920	\$ 6,528
Occupancy expenses	\$ 92,745	\$ 182,406

Note 19. Net Finance Costs

	Year ended December 31, 2019	Year ended December 31, 2018
Interest expense on lease obligations	\$ 21,706	\$ 573
Interest expense on term credit facilities and revolving credit facilities	5,032	6,879
Interest expense on convertible debentures	1,951	1,944
Finance income	(3,505)	(2,468)
Total	\$ 25,184	\$ 6,928

Note 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	2019	2018
Current income tax expense:		
Based on taxable income of the current year	\$ 42,808	\$ 41,170
Deferred income tax expense:		
Origination and reversal of temporary differences	(6,691)	(1,610)
Income tax expense reported in the consolidated statements of income	\$ 36,117	\$ 39,560

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

	2019		2018	
Income before income taxes	\$ 143,046		\$ 150,590	
Income tax expense based on statutory tax rate	38,165	26.68%	40,177	26.68%
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:				
Non-deductible items	609	0.43%	969	0.64%
Remeasurement of deferred income tax asset for rate changes	(421)	(0.29%)	311	0.21%
Income exempt from tax	(204)	(0.14%)	(705)	(0.47%)
Other	(2,032)	(0.14%)	(1,192)	(0.79%)
Income tax expense reported in the consolidated statements of income	\$ 36,117	25.25%	\$ 39,560	26.27%

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

(i) Deferred income tax relates to the following:

	December 31, 2019	December 31, 2018
Deferred income tax assets (liabilities)		
Deferred tax income assets	\$ 7,542	\$ 7,208
Deferred tax income liabilities	(75,065)	(81,311)
Total deferred income tax liabilities	\$ (67,523)	\$ (74,103)

(ii) Deferred income tax movements are as follows:

	2019			
	Balance, beginning of year	Other	Expense (benefit)	Consolidated Balance, end of year
Deferred warranty plan	\$ (5)	\$ —	\$ (93)	\$ (98)
Deferred financing fees	27	—	29	56
Deferred acquisition costs	(121)	—	(238)	(359)
Property, plant and equipment	(13,954)	—	(84,960)	(98,914)
Intangible assets	(77,104)	—	311	(76,793)
Deferred rent liabilities	1,841	—	(1,841)	—
Lease liabilities	2,485	—	89,319	91,804
Unused tax losses	21	—	(21)	—
Other	14,046	(111)	4,223	18,158
Mark to market	(57)	—	(38)	(95)
Net deferred income tax expense (benefit) – statements of income	(72,821)	(111)	6,691	(66,241)
Movement in convertible debenture	(1,282)	—	—	(1,282)
Net deferred income tax benefit – equity	(1,282)	—	—	(1,282)
Total deferred income tax expense (benefit)	\$ (74,103)	\$ (111)	\$ 6,691	\$ (67,523)

	2018			
	Balance, beginning of year	Other	Expense (benefit)	Consolidated Balance, end of year
Deferred warranty plan	\$ 849	\$ —	\$ (854)	\$ (5)
Deferred financing fees	110	—	(83)	27
Deferred acquisition costs	57	—	(178)	(121)
Property, plant and equipment	(15,252)	—	1,298	(13,954)
Intangible assets	(76,778)	—	(326)	(77,104)
Deferred rent liabilities	2,050	—	(209)	1,841
Lease liabilities	2,806	—	(321)	2,485
Unused tax losses	41	—	(20)	21
Other	10,182	47	3,817	14,046
Mark to market	1,457	—	(1,514)	(57)
Net deferred income tax expense (benefit) – statements of income	(74,478)	47	1,610	(72,821)
Movement in convertible debenture	(1,282)	—	—	(1,282)
Net deferred income tax benefit – equity	(1,282)	—	—	(1,282)
Total deferred income tax expense (benefit)	\$ (75,760)	\$ 47	\$ 1,610	\$ (74,103)

Note 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 77,594,496 for the year ended December 31, 2019 (2018 – 76,368,088). 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, 2019	Year ended December 31, 2018
Net income for the year for basic earnings per share	\$ 106,929	\$ 111,030
Net income for the year for diluted earnings per share	\$ 108,789	\$ 112,906
Weighted average number of common shares outstanding	77,594,496	76,368,088
Dilutive effect	6,151,544	6,523,552
Diluted weighted average number of common shares outstanding	83,746,040	82,891,640
Basic earnings per share	\$ 1.38	\$ 1.45
Diluted earnings per share	\$ 1.30	\$ 1.36

Note 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, 2019:

	Classification & Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial Assets				
Cash and cash equivalents	Amortized cost	\$ 89,302	\$ 89,302	Level 1
Trade receivables	Amortized cost	140,535	140,535	Level 2
Restricted marketable securities	FVOCI	5,777	5,777	Level 1
Equity instruments	FVOCI	38,976	38,976	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	65,759	65,759	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivable	FVTPL	13,053	13,053	Level 2
Other assets	FVTPL	625	625	Level 2
Financial Liabilities				
Trade and other payables	Amortized cost	\$ 256,539	\$ 256,539	Level 2
Provisions	Amortized cost	13,984	13,984	Level 2
Loans and borrowings	Amortized cost	95,000	95,000	Level 2
Convertible debentures	Amortized cost	48,788	73,282	Level 2
Redeemable share liability	Amortized cost	13	13	Level 2

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December 31, 2018:

	Classification & Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Financial Assets				
Cash and cash equivalents	Amortized cost	\$ 90,267	\$ 90,267	Level 1
Trade receivables	Amortized cost	122,131	122,131	Level 2
Restricted marketable securities	FVOCI	5,994	5,994	Level 1
Equity instruments	FVOCI	30,552	30,552	Level 1
Equity instruments	FVOCI	3,310	3,310	Level 3
Debt instruments	FVOCI	54,659	54,659	Level 1
Debt instruments	FVTPL	100	100	Level 2
Loan receivable	FVTPL	13,191	13,191	Level 2
Other assets	FVTPL	484	484	Level 2
Financial Liabilities				
Trade and other payables	Amortized cost	\$ 247,136	\$ 247,136	Level 2
Provisions	Amortized cost	11,687	11,687	Level 2
Finance lease liabilities	Amortized cost	9,199	9,671	Level 2
Loans and borrowings	Amortized cost	144,712	144,712	Level 2
Convertible debentures	Amortized cost	48,435	73,428	Level 2
Redeemable share liability	Amortized cost	13	13	Level 2

The fair value hierarchy of financial instruments measured at fair value, as at December 31, 2019 includes financial assets of \$199,814, \$154,313 and \$3,310 for Levels 1, 2 and 3, respectively, and financial liabilities of \$nil, \$414,324 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 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 debt and equity instruments 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, 2019, 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 (2018 – \$146.49 per \$100.00 of face value). For the convertible debentures as at December 31, 2019, fair value is calculated based on the face value of the convertible debentures of \$50,025.

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

The Company maintains other financial derivatives which comprise of foreign exchange forwards, with maturities that do not exceed past December 2020. As at December 31, 2019, a \$625 unrealized gain was recorded in other assets. (2018 – \$484 unrealized gain).

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 Company limits its exposure to counterparty credit risk by transacting only with highly rated financial institutions and other counterparties and by managing within specific limits for credit exposure and term to maturity. The Company's financial instrument portfolio is spread across financial institutions, provincial and federal governments and, to a lesser extent, corporate issuers that are dual rated and have a credit rating in the "A" category or better.

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.

	December 31, 2019	Carrying amount December 31, 2018
Cash and cash equivalents	\$ 89,032	\$ 90,267
Restricted marketable securities	5,777	5,994
Debt instruments	65,859	54,759
Trade receivables	140,535	122,131
	\$ 301,203	\$ 273,151

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. The Company's trade receivables totaled \$140,535 as at December 31, 2019 (2018 – \$122,131). 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 \$5,523 as at December 31, 2019 (2018 – \$3,543). IFRS 9 requires that a forward looking expected credit loss (ECL) model is followed. The guidance allows for a simplified approach for assets, including trade receivables, that do not contain a significant financing component. This does not require the tracking of changes in credit risk, but requires recognition of lifetime ECL's at all times. The Company's ECL based on the total receivables, past due invoices, historical data and future analysis was \$1,350 as at December 31, 2019 (2018 – \$1,606).

IFRS 9 provides a low credit risk simplified approach for certain financial instruments if they are deemed to be a low credit risk. Based on the Company's portfolio, historical trends and future looking analyst predictions, it was concluded that the low credit risk simplification could be used as debt investments have a low risk of default and the Company has a strong capacity to meet its contractual cash flow obligations in the near future.

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

Notes to the Consolidated Financial Statements

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:

As at December 31, 2019:	Carrying amount	Contractual cash flows	Remaining term to maturity		
			Under 1 year	2-5 years	More than 5 years
Trade and other payables	\$ 256,539	\$ 256,539	\$ 256,539	\$ -	\$ -
Lease liabilities	412,694	453,986	86,662	261,299	106,025
Loans and borrowings	95,000	100,625	27,625	73,000	-
Convertible debentures	48,788	54,920	1,506	53,414	-
Redeemable share liability	13	13	-	-	13
	\$ 813,034	\$ 866,083	\$ 372,332	\$ 387,713	\$ 106,038

As at December 31, 2018:	Carrying amount	Contractual cash flows	Remaining term to maturity		
			Under 1 year	2-5 years	More than 5 years
Trade and other payables	\$ 247,136	\$ 247,136	\$ 247,136	\$ -	\$ -
Lease liabilities	9,199	10,399	1,892	7,704	803
Loans and borrowings	144,712	150,349	150,349	-	-
Convertible debentures	48,435	56,526	1,506	55,020	-
Redeemable share liability	13	13	-	-	13
	\$ 449,495	\$ 464,423	\$ 400,883	\$ 62,724	\$ 816

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 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.

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 lease liabilities and convertible debentures due to fluctuations in interest rates. Fair value risk related to the 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, 2019, the Company's average indebtedness under the term credit facility was \$120,000 (2018 - \$170,000) and under the revolving credit facility was \$nil (2018 - \$nil). Accordingly, a change during the year ended December 31, 2019 of a one percentage point increase or decrease in the applicable interest rate would have impacted the Company's net income by approximately \$888 (2018 - \$1,247).

(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 debt securities. 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.

Note 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. 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. 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.

Note 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.

As per Note 14 the Company refinanced the term credit facility during the year. In addition to this the adoption of IFRS has materially increased the lease liabilities significantly. The capital structure currently includes lease liabilities, convertible debentures, term credit facilities and borrowing capacity available under the revolving credit facilities (Note 14). As at December 31, 2019, \$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 (2018 – \$649).

	December 31, 2019	December 31, 2018
Current portion of lease liabilities	\$ 70,601	\$ 1,415
Current portion of loans and borrowings	25,000	144,712
Convertible debentures	48,788	48,435
Lease liabilities	342,093	7,784
Loans and borrowings	70,000	-
Total shareholders' equity	915,764	857,362
Total capital under management	\$ 1,472,246	\$ 1,059,708

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, 2019.

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, 2019, TGI's Minimum Capital Test ratio was 443% (2018 – 458%), which is in compliance with the requirements of The Office of the Superintendent of Insurance of Alberta and the Act.

For TGLI, the Life Insurance Capital Adequacy Test ("LICAT") replaced the Minimum Continuing Capital and Surplus Requirements ("MCCSR") effective January 1, 2018. As at December 31, 2019, TGLI's LICAT ratio was 416% (2018 – MCCRS 432%), which is in compliance with the requirements of The Office of the Superintendent of Insurance of Alberta and the Act.

Note 25. Commitments and Contingencies

- (a) Pursuant to a reinsurance agreement relating to the extended warranty sales, the Company has pledged debt instruments amounting to \$5,777 (2018 – \$5,994).
- (b) 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.

Note 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, 2019	Year ended December 31, 2018
Trade receivables	\$ (18,403)	\$ 16,388
Inventories	(5,126)	(11,403)
Prepaid expenses and other assets	(938)	362
Trade and other payables	4,312	213,026
Income taxes receivable	4,002	(6,550)
Customers' deposits	5,455	18,284
Provisions	2,297	2,896
Deferred acquisition costs	1,076	823
Other liabilities	(141)	(5,918)
Deferred rent liabilities and lease inducements	(159)	230
	\$ (7,625)	\$ 28,138

- (b) Supplemental cash flow information:

	Year ended December 31, 2019	Year ended December 31, 2018
Income taxes paid	\$ 39,454	\$ 46,680

Notes to the Consolidated Financial Statements

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

	Convertible Debentures (including equity component)		Leases ⁽¹⁾		Loans and borrowings
Opening balance as at January 1, 2019	\$ 51,981	\$	424,139	\$	144,712
Cash changes:					
Long-term debt repayment	-		-		(50,000)
Lease obligation repayment	-		(90,970)		-
Finance costs	-		-		288
Non-cash changes					
Additions	-		57,814		-
Conversion of debenture	(100)		-		-
Amortization	449		-		-
Accretion	-		21,711		-
Closing balance as at December 31, 2019	\$ 52,330	\$	412,694	\$	95,000

	Convertible Debentures (including equity component)		Leases		Loans and borrowings
Opening balance as at January 1, 2018	\$ 51,559	\$	10,474	\$	194,439
Cash changes:					
Long-term debt repayment	-		-		(50,000)
Lease obligation repayment	-		(1,195)		-
Finance costs	-		-		273
Non-cash changes					
Conversion of debenture	(17)		-		-
Amortization	439		-		-
Accretion	-		(80)		-
Closing balance as at December 31, 2018	\$ 51,981	\$	9,199	\$	144,712

(1) Refer to Note 4 for additional information on IFRS 16 implementation.

Note 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.

The Company has a 50% ownership interest in a joint operation "Beedie/Leon's Delta-Link Joint Venture." This joint operation developed land into a 432,000 square foot distribution centre which the Company occupies in Delta, British Columbia.

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, 2019		Year ended December 31, 2018
Salaries and other employee benefits	\$ 5,904	\$	6,726

Note 28. Comparative Financial Information

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the year ended December 31, 2019 consolidated financial statements.

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
Vice Chairman

Edward F. Leon
President and CEO

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 common shares are listed
on the Toronto Stock Exchange
Ticker Symbol is LNF

ANNUAL GENERAL MEETING

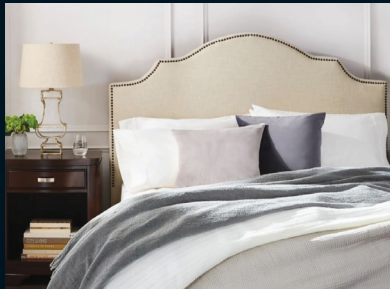
Thursday, May 14, 2020, 2:00PM
Fairmont Royal York
100 Front Street West
Toronto, Ontario M5J 1E3

**WITH MORE
THAN 300 RETAIL
LOCATIONS AND
THREE ONLINE STORES,
LFL GROUP OFFERS
CANADIANS UNBEATABLE
SERVICE, SELECTION AND
VALUE – WHICHEVER WAY
THEY PREFER TO SHOP**



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