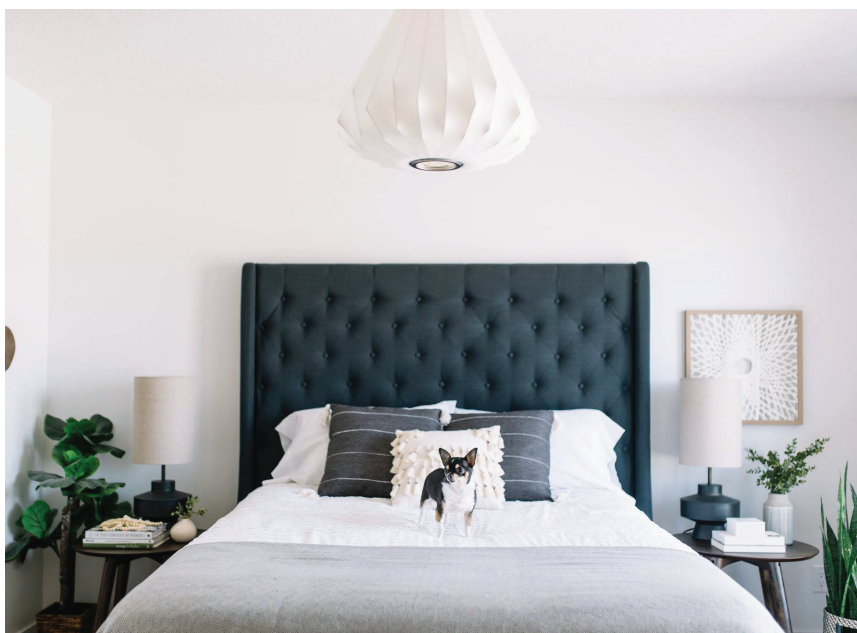


Young at Heart





After 109 years in business, Canada's largest retailer of furniture, mattresses, appliances and home electronics is still very much young at heart. This year's report describes some of the innovative initiatives underway to stay close to our customers and create more value in the years ahead.

FINANCIAL HIGHLIGHTS

Revenue

1.2% ↑

Net Income

14.9% ↑

Shareholder's Equity

10.9% ↑

	2018	2017	% Change
Revenue	\$ 2,241,437,000	\$ 2,215,379,000	1.2%
Income before income taxes	150,590,000	131,429,000	14.6%
Net income	111,030,000	96,593,000	14.9%
Cash generated from operations	182,074,000	156,603,000	16.3%
Dividends paid	38,166,000	33,179,000	15.0%
Per common share			
Net income	\$ 1.45	\$ 1.32	9.8%
Cash flow generated from operations	2.38	2.15	10.7%
Dividends declared	0.52	0.48	8.3%
Shareholders' equity at year end	11.23	10.60	5.9%



LFL Group's unrivalled store and distribution networks provide a strong foundation for five strategic growth opportunities that will augment revenue and earnings growth.



EDWARD F. LEON

2018 was another year of progress for LFL Group. We posted record financial results in a challenging economic environment and continued to advance our growth strategies in five promising areas that are complementary to our core business.



Chief Executive Officer's Message

RECORD FINANCIAL RESULTS

System-wide sales reached \$2.68 billion including \$443 million of franchise sales, compared to \$2.64 billion including \$426 million of franchised sales in 2017. These results reflect a solid operating performance at Leon's and The Brick despite subdued consumer spending throughout the year, as well as growing contributions from our online retail channels and other complementary businesses. Within this environment, we also continued to grow adjusted net income — which increased 8% to a record \$107 million or \$1.31 adjusted diluted earnings per share — at a faster pace. This performance was the result of a traditional focus on expense control, continued synergies from the optimization of our store and distribution networks, an increasing contribution from our fast-growing eCommerce business and lower financing costs as a result of debt reduction.

As the political and economic volatility of the past year reminds us, the performance of our business depends on many external factors, including the pace of economic and population growth, and the degree of consumer confidence, in the country. Over the past 109 years, the environmental conditions in which we operate have always been changing, yet we have consistently managed to outperform our industry peers. We have done so by giving our customers the best combination of selection, service and value in the marketplace, and by constantly embracing change and innovation. As we look ahead, this formula for success will continue to guide our efforts as we leverage our retailing and distribution networks to create more value for everyone touched by our business.

DIGITAL COMMERCE

Over the past year, we continued to advance a multichannel marketing strategy aimed at optimizing the combined potential of our traditional store network and our fast-growing furniture.ca, leons.ca and thebrick.com eCommerce sites. In October, we completed the seamless transfer of our underlying eCommerce platform to a new third-party specialist (Shopify Plus), a move that has and will continue to deliver better performance at significantly lower cost. Equally important, this change has allowed us to focus our time and money on the development of a talented team of in-house eCommerce experts. They are focused on creating new applications to elevate the online customer experience and better align our in-store and online sales and marketing efforts. We can expect to see many new innovations in the months and years ahead, such as virtual reality tools that allow customers to see exactly how our products will look in their homes, prior to purchase.



These initiatives rest on a solid foundation. Over the past 10 years, we have increased our eCommerce revenue at a compound annual growth rate of more than 45 percent. What's more, it is profitable in the present; EBITDA margins in our eCommerce business were more than double those achieved in our conventional retail network in 2018. An important source of revenue growth in its own right, our eCommerce businesses also continue to drive traffic into our stores. In conjunction with our distribution and service networks, they give LFL Group an unmatched ability to display, sell, distribute and service a rapidly expanding product line of furniture, home furnishings, mattresses, appliances and home electronics almost anywhere in Canada.

EXPANSION AND ACQUISITION

With 303 stores from coast to coast, we have an unequalled geographic presence in Canada. Yet we still see opportunity to grow our retail network through both expansion and acquisition. One of the attractions of combining Leon's and The Brick was the complementary footprint of their respective operations. While debt reduction has taken priority during the past years, we have and will continue to build out the Leon's network, especially in British Columbia where the banner is under-represented, and by the same token, we have and will continue to expand our network of Brick stores in eastern Canada.

We will also continue to assess other expansion and acquisition opportunities as our industry — which is still highly fragmented — continues to consolidate. This process of consolidation will continue to be driven by the impact of eCommerce and the growing strength of full-service, multichannel competitors such as LFL Group.

THIRD PARTY DISTRIBUTION

Just over a year ago, we opened an advanced distribution centre in Delta, British Columbia to serve the combined needs of our Brick and Leon's divisions. In addition, this facility has been designed to provide cost-effective fulfillment to unrelated online retailers without their own distribution capabilities.



While the operating efficiency of the Delta distribution centre has validated our expectations, it has also been designed to support the build out of a new generation of stores that reflect our emerging multichannel strategy. In the years ahead, we see smaller scale showrooms that rely on new technologies to dramatically expand customer choice and provide a more fluid experience between our in-store and online sales channels. We also envision a more efficient and capable distribution network with growing capacity to track and manage ship-to-home distribution from our suppliers.

Our experience in the Delta facility has given us confidence to extend this distribution model to eastern Canada where a new facility in Halifax is expected to meet the needs of established Leon's stores, as well as the build out of The Brick banner, starting in 2021.

AFTER-SALES SERVICE

Through TransGlobal Service (TGS), LFL Group is the largest provider of after-sales service for major appliances in Canada. TGS fulfils the installation, repair and service requirements for Leon's and The Brick, as well as a growing number of independent retail and wholesale businesses. The growth of this business continues to be fuelled by a growing trend for manufacturers and retailers to outsource warranty work as well as the rapid growth of direct-to-customer sales through eCommerce.

With its unmatched scale, geographic presence and industry-leading technology, TGS is positioned for strong growth in its existing business, yet we see enormous potential to expand its breadth of capabilities. One of the effects of the rapid growth of eCommerce has been a corresponding decline in the availability of after-sales service through traditional retailers. At the same time, time-pressed consumers are unsure of their options when something goes wrong with the growing range of large ticket items purchased online. We believe that the TGS model is well suited to provide installation and repair services for a wide range of additional home products and systems and continue to assess attractive growth opportunities in this area.



SENIOR MANAGEMENT TEAM

We continued to build upon an experienced and energetic senior management team during the past year to help strengthen the industry leading position of our retail banners and advance key growth initiatives. Recent additions have significantly enhanced the LFL Group's expertise in multichannel marketing, digital application development and analytics.

Pictured: David B. Freeman, Divisional President of The Brick; Constantine Pefanis, CFO of LFL Group; Edward F. Leon, President and CEO of LFL Group; Michael J. Walsh, Divisional President of Leon's

REAL ESTATE

At the end of 2018, LFL Group owned a commercial real estate portfolio of 4.2 million square feet, most of it located in the heart of Canada's largest and fastest growing communities. While this portfolio is carried on Leon's balance sheet at historical cost, we are fully aware that it represents billions of dollars in potential residential and mixed-use development. Over the past year, we have continued to assess properties for their potential and explore opportunities with prospective development and investment partners to monetize the value of our real estate portfolio. One such property, the 40-acre site that is home to our head office and showroom in west Toronto, has been an obvious focal point in our considerations. This is a deliberate process with many facets, including necessary approvals, but we look forward to sharing any news on this front when the time is appropriate.

THE YEAR AHEAD

The difficult market conditions encountered in 2018 may well continue into the year ahead. System-wide revenue growth is expected to be modest given the recent slowdown in Canada's economy, high levels of household debt and growing consumer uncertainty. Amid this environment, we will continue to focus on efficiently executing our marketing and merchandising programs to maximize market share, generating cost efficiency in our operations and reducing debt. As we have throughout our history, we will also continue to invest in and advance the strategic initiatives that will ensure sustainable growth in the years ahead. LFL Group has built an enviable position in the Canadian retailing landscape, with unmatched retail and distribution networks and abundant opportunity for growth in five key areas complementary to our business. After more than a century in business, we have successfully grown and adapted through many economic environments. I am confident this process will continue and that the best days of this storied organization are yet to come.

In closing, I wish to extend my appreciation to the executive leadership of Leon's and The Brick, their talented corporate and franchised management teams, and the valued associates at all of our businesses for helping to make 2018 another record year for the company. On behalf of the entire executive leadership team, I would also like to thank Terry Leon, who retired in October as CEO after 16 years at the helm, a period of unprecedented growth. Terry has been instrumental in ensuring a smooth transition in leadership over the past year and continues to serve as Vice Chairman of the Board of Directors.

With your continued support, I look forward to reporting on our progress in the year ahead.

Sincerely,

"Edward F. Leon"

Edward F. Leon
President and Chief Executive Officer
LFL Group

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

Across the Country

With 303 stores nationwide, three leading eCommerce properties, unmatched distribution facilities and a growing range of after-sales services, LFL Group offers everything our customers need, whenever and however they wish to shop with us.



- 202 The Brick
- 86 Leon's
- 10 The Brick Outlet
- 5 Appliance Canada

303 STORES NATIONWIDE



3 ECOMMERCE PROPERTIES



Strong Communities



Strong, thriving communities start from the ground up. LFL Group, which includes our Leon's and Brick divisions, has a long history of giving back to the communities in which we work and live.

Through the years, LFL Group has proudly supported 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. As a responsible corporate citizen, it gives us immense pleasure to be able to give back with financial contributions and resources because the wellbeing of our customers, friends and families helps every community, town, village and city to thrive and flourish.

One of the children's charities that is supported by our Brick division is the Children's Miracle Network®, which raises funds and awareness for 170 member hospitals, 12 of which are in Canada and include BC Children's Hospital and SickKids® in Toronto. Their mission is to save and improve the lives of as many children as possible. It's a mission we truly believe in.

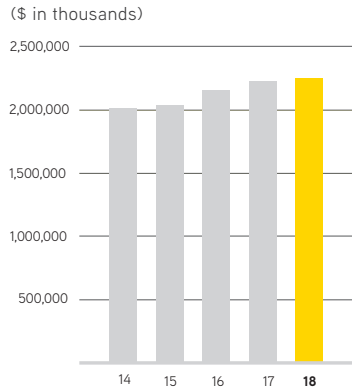
LFL Group also takes great pride in the efforts of our employees and associates who volunteer their personal time to support worthwhile causes in their communities across the country each year. We encourage our associates to participate in their communities as individuals and with their families. Community involvement assists in building character and is an excellent way to make positive connections that can last a lifetime.

You can learn more about our support for these and other important causes at leons.ca and thebrick.com.

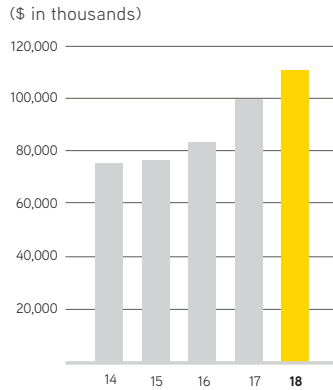


5-Year Review

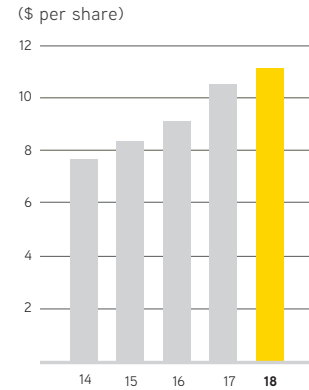
REVENUE
\$2,241,437



NET INCOME
\$111,030



SHAREHOLDER'S EQUITY
\$11.23
(PER SHARE)



INCOME STATISTICS

(\$ in thousands, except amounts per share)	2018	2017	2016	2015	2014
Revenue	\$ 2,241,437	\$ 2,215,379	\$ 2,143,736	\$ 2,031,718	\$ 2,008,480
Cost of sales	1,264,561	1,261,112	1,228,499	1,145,593	1,131,651
Gross profit	976,876	954,267	915,237	886,125	876,829
Operating expenses	826,286	822,838	801,049	784,706	773,695
Income before income taxes	150,590	131,429	114,188	101,419	103,134
Provision for income taxes	39,560	34,836	30,597	24,790	27,610
Net income	\$ 111,030	\$ 96,593	\$ 83,591	\$ 76,629	\$ 75,524
Common shares outstanding ('000s)	76,368	72,904	71,696	71,218	70,899
Earnings per common share	1.45	1.32	1.17	1.08	1.07
Percent annual change in sales	1.2%	3.3%	5.5%	1.2%	16.6%
Net income as percentage of sales	5.0%	4.5%	3.9%	3.8%	3.8%
Dividend declared	\$ 39,716	\$ 35,136	\$ 28,691	\$ 28,501	\$ 28,370

BALANCE SHEET STATISTICS

(\$ in thousands, except amounts per share)	2018	2017	2016	2015	2014
Shareholders' equity	\$ 857,362	\$ 773,048	\$ 659,553	\$ 600,402	\$ 549,105
Total assets	1,723,572	1,661,455	1,611,662	1,583,463	1,563,476
Purchase of capital assets	19,650	55,041	25,689	22,756	16,562
Working capital ⁽¹⁾	198,445	168,710	128,788	65,419	46,931
Shareholders' equity per common share	11.23	10.60	9.20	8.43	7.74
Common share price range on the Toronto Stock Exchange					
High	\$ 19.50	\$ 19.57	\$ 18.75	\$ 19.38	\$ 17.90
Low	\$ 14.70	\$ 16.19	\$ 13.08	\$ 12.61	\$ 13.41

(1) 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 & Analysis



For the quarters and years ended December 31, 2018 and 2017.

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 27, 2019 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, 2018 and for the years ended December 31, 2018, and 2017. It should be read in conjunction with the fiscal year 2018 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2018 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 management share purchase plan for the applicable period.

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the fiscal year 2018 consolidated financial statements and MD&A were approved on February 27, 2019.

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

The Company has 303 retail stores from coast to coast in Canada under the various banners indicated below:

Banner	Number of Stores as at December 31,			Number of Stores as at December 31,
	2017	Opened	Closed	2018
Leon's banner corporate stores	50	-	-	50
Leon's banner franchise stores	36	-	-	36
Appliance Canada banner stores	4	1	-	5
The Brick banner corporate stores ⁽¹⁾	114	-	(1)	113
The Brick banner franchise stores	65	-	(1)	64
The Brick Mattress Store banner locations	23	3	(1)	25
Brick Outlet	12	-	(2)	10
Total number of stores	304	4	(5)	303

(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 the mark-to-market adjustments, 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 is a reconciliation of reported net income to adjusted net income, basic and diluted earnings per share to adjusted basic and diluted earnings per share:

	For the three months ended December 31		For the year ended December 31	
(\$ in thousands, except per share amounts)	2018	2017	2018	2017
Net Income	38,785	34,778	111,030	96,593
After-tax mark-to-market (gain)/loss on financial derivative instruments	(496)	1,341	(4,339)	2,429
Adjusted net income	38,289	36,119	106,691	99,022
Basic earnings per share	\$ 0.51	\$ 0.46	\$ 1.45	\$ 1.32
Diluted earnings per share	\$ 0.48	\$ 0.43	\$ 1.36	\$ 1.20
Adjusted basic earnings per share	\$ 0.50	\$ 0.48	\$ 1.40	\$ 1.36
Adjusted diluted earnings per share	\$ 0.47	\$ 0.45	\$ 1.31	\$ 1.23

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)	2018	2017	2018	2017
Net Income	38,785	34,778	111,030	96,593
Income tax expense	13,995	12,083	39,560	34,836
Net finance costs	1,545	2,316	6,928	10,502
Depreciation and amortization	8,719	10,603	37,156	39,556
Mark-to-market (gain)/loss on financial derivative instruments	(682)	1,820	(5,918)	3,311
Adjusted EBITDA	62,362	61,600	188,756	184,798

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 is not a measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS, but it is a key indicator used by the Company to measure performance against prior period results. Therefore, total system-wide sales as discussed in this MD&A may not be comparable to similar measures presented by other issuers.

We believe that disclosing this measure is meaningful to investors because it serves as an indicator of the strength of the Company's overall store network, which ultimately impacts financial performance.

FRANCHISE SALES

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

3. Results of Operations

SUMMARY FINANCIAL HIGHLIGHTS FOR THE QUARTERS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017

(\$ in thousands except % and per share amounts)	For the three months ended December 31			
	2018	2017	\$ Increase (Decrease)	% Increase (Decrease)
Total system-wide sales ⁽¹⁾	726,547	723,255	3,292	0.5%
Franchise sales ⁽¹⁾	124,887	126,404	(1,517)	(1.2%)
Revenue ⁽²⁾	601,660	596,851	4,809	0.8%
Cost of sales	333,282	332,807	475	0.1%
Gross profit	268,378	264,044	4,334	1.6%
<i>Gross profit margin as a percentage of revenue</i>	44.61%	44.24%		
Selling, general and administrative expenses ⁽²⁾	214,734	213,047	1,687	0.8%
<i>SG&A as a percentage of revenue</i>	35.69%	35.70%		
Income before net finance costs and income tax expense	53,644	50,997	2,647	5.2%
Net finance costs	(1,545)	(2,316)	(771)	(33.3%)
Income before income taxes	52,099	48,681	3,418	7.0%
Income tax expense	13,810	12,562	1,248	9.9%
Adjusted net income ⁽¹⁾	38,289	36,119	2,170	6.0%
<i>Adjusted net income as a percentage of revenue ⁽¹⁾</i>	6.36%	6.06%		
After-tax mark-to-market (gain)/loss on financial derivative instruments ⁽¹⁾	(496)	1,341	(1,837)	(137.0%)
Net income	38,785	34,778	4,007	11.5%
Basic weighted average number of common shares	76,303,135	75,079,103		
Basic earnings per share	\$ 0.51	\$ 0.46	\$ 0.05	10.9%
Adjusted basic earnings per share ⁽¹⁾	\$ 0.50	\$ 0.48	\$ 0.02	4.2%
Diluted weighted average number of common shares	82,327,481	82,894,024		
Diluted earnings per share	\$ 0.48	\$ 0.43	\$ 0.05	11.6%
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.47	\$ 0.45	\$ 0.02	4.4%
Common share dividends declared	\$ 0.14	\$ 0.12	\$ 0.02	16.7%
Convertible, non-voting shares dividends declared	\$ 0.25	\$ 0.23	\$ 0.02	8.7%

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

(2) Reclassified comparative results to conform to the presentation of the three months ended December 31, 2018

SAME STORE SALES ⁽¹⁾

(\$ in thousands except %)	For the three months ended December 31			
	2018	2017	\$ Decrease	% Decrease
Same store sales ⁽¹⁾	587,800	588,398	(598)	(0.10%)

(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, 2018, revenue was \$601,660,000 compared to \$596,851,000 in the prior year's fourth quarter. Revenue increased by 0.8% as compared to the prior quarter mainly due to increases in mattress sales and commercial sales.

Same Store Sales ⁽¹⁾

Overall, same store corporate sales decreased 0.1%.

Gross Profit

The gross profit margin for the fourth quarter 2018 increased from 44.24% to 44.61% compared to the prior year's fourth quarter as a result of a favourable product mix of both mattress and furniture sales.

Selling, general and administrative expenses

SG&A as a percentage of revenue in the current quarter was down marginally as compared to the prior year's fourth quarter. This was due to effectively managing overall SG&A expenses throughout the quarter while at the same time increasing advertising spend in the current quarter to drive traffic to both the retail stores and to the Company's websites.

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

As we continue to pay down debt, we have reduced our net debt finance charges by \$771,000 between the comparative quarters. As a result of the factors above, adjusted net income for the fourth quarter of 2018 was \$38,289,000. This resulted in an adjusted diluted earnings per share of \$0.47 in the quarter (adjusted net income \$36,119,000 and \$0.45 adjusted diluted earnings per share in 2017), an increase of 4.4% as compared to the prior year's fourth quarter.

Net Income and Diluted Earnings Per Share

Including the mark-to-market impact of the Company's financial derivatives, net income for the fourth quarter of 2018 was \$38,785,000, \$0.48 per diluted earnings per share (net income \$34,778,000 and \$0.43 per diluted earnings per share in 2017).

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

Consolidated operating results for the year ended December 31, 2018, 2017 and 2016

(\$ in thousands except % and per share amounts)							For the year ended December 31	
	2018	2017	\$ Increase (Decrease)	% Increase (Decrease)	2017	2016	\$ Increase (Decrease)	% Increase (Decrease)
Total system-wide sales ⁽¹⁾	2,684,759	2,641,254	43,505	1.6%	2,641,254	2,531,573	109,681	4.3%
Franchise sales ⁽¹⁾	443,322	425,875	17,447	4.1%	425,875	387,837	38,038	9.8%
Revenue ⁽²⁾	2,241,437	2,215,379	26,058	1.2%	2,215,379	2,143,736	71,643	3.3%
Cost of sales	1,264,561	1,261,112	3,449	0.3%	1,261,112	1,228,499	32,613	2.7%
Gross profit	976,876	954,267	22,609	2.4%	954,267	915,237	39,030	4.3%
<i>Gross profit margin as a percentage of revenue</i>	43.58%	43.07%			43.07%	42.69%		
Selling, general and administrative expenses ⁽²⁾	825,276	809,025	16,251	2.0%	809,025	782,206	26,819	3.4%
<i>SG&A as a percentage of revenue</i>	36.82%	36.52%			36.52%	36.49%		
Income before net finance costs and income tax expense	151,600	145,242	6,358	4.4%	145,242	133,031	12,211	9.2%
Net finance costs	(6,928)	(10,502)	(3,574)	(34.0%)	(10,502)	(14,481)	(3,979)	(27.5%)
Income before income taxes	144,672	134,740	9,932	7.4%	134,740	118,550	16,190	13.7%
Income tax expense	37,981	35,718	2,263	6.3%	35,718	31,788	3,930	12.4%
Adjusted net income ⁽¹⁾	106,691	99,022	7,669	7.7%	99,022	86,762	12,260	14.1%
<i>Adjusted net income as a percentage of revenue⁽¹⁾</i>	4.76%	4.48%			4.48%	4.05%		
After-tax mark-to-market (gain)/loss on financial derivative instruments ⁽¹⁾	(4,339)	2,429	(6,768)	(278.6%)	2,429	1,943	486	25.0%
After-tax severance charge ⁽¹⁾	-	-	-	-	-	1,228	(1,228)	-
Net income	111,030	96,593	14,437	14.9%	96,593	83,591	13,002	15.6%
Basic weighted average number of common shares	76,368,088	72,904,130			72,904,130	71,695,955		
Basic earnings per share	\$ 1.45	\$ 1.32	\$ 0.13	9.8%	\$ 1.32	\$ 1.17	\$ 0.15	12.8%
Adjusted basic earnings per share ⁽¹⁾	\$ 1.40	\$ 1.36	\$ 0.04	2.9%	\$ 1.36	\$ 1.21	\$ 0.15	12.4%
Diluted weighted average number of common shares	82,891,640	82,912,983			82,912,983	83,081,832		
Diluted earnings per share	\$ 1.36	\$ 1.20	\$ 0.16	13.3%	\$ 1.20	\$ 1.05	\$ 0.15	14.3%
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.31	\$ 1.23	\$ 0.08	6.5%	\$ 1.23	\$ 1.08	\$ 0.15	13.9%
Common share dividends declared	\$ 0.52	\$ 0.48	\$ 0.04	8.3%	\$ 0.48	\$ 0.40	\$ 0.08	20.0%
Convertible, non-voting shares dividends declared	\$ 0.25	\$ 0.23	\$ 0.02	8.7%	\$ 0.23	\$ 0.20	\$ 0.03	15.0%

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

(2) Reclassified comparative results to conform to the presentation of the year ended December 31, 2018.

Same Store Sales⁽¹⁾

(\$ in thousands except %)			For the year ended December 31	
	2018	2017	\$ Increase	% Increase
Same store sales ⁽¹⁾	2,196,767	2,190,664	6,103	0.28%

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

REVENUE

For the year ended December 31, 2018, revenue was \$2,241,437,000 compared to \$2,215,379,000 for the prior year. Revenue increased \$26,058,000 or 1.2% for the comparative period mainly due to increases in overall mattress sales.

SAME STORE SALES⁽¹⁾

Overall, same store corporate sales increased \$6,103,000 or 0.28%.

GROSS PROFIT

The gross profit margin for the year ended December 31, 2018 increased from 43.07% to 43.58% compared to the prior year. The gross margin increased as a result of targeted promotions that were designed to alter the sales mix to enhance profitability in our product categories.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A as a percentage of revenue was higher at 36.82%, an increase of 30 basis points over the prior year, due to increases in minimum hourly wages, advertising expenditures and increases to finance charges related to financed sales.

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

As we continue to reduce our debt this has enabled us to reduce our net debt finance charges by \$3,574,000 between comparative periods. As a result of the factors above, adjusted net income for the year ended December 31, 2018 was \$106,691,000. This resulted in an adjusted diluted earnings per share of \$1.31 (adjusted net income \$99,022,000 and \$1.23 adjusted diluted earnings per share in 2017), an increase of 6.5%.

NET INCOME AND DILUTED EARNINGS PER SHARE

Including the mark-to-market impact of the Company's financial derivatives, net income for the year ended December 31, 2018 was \$111,030,000, \$1.36 diluted earnings per share (net income of \$96,593,000 and \$1.20 diluted earnings per share for the year ended December 31, 2017).

(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.

(\$ in thousands, except per share data)	Quarter ended December 31		Quarter ended September 30		Quarter ended June 30		Quarter ended March 31	
	2018	2017	2018	2017	2018	2017	2018	2017
Total system wide sales ⁽¹⁾	726,547	723,255	707,058	706,534	650,012	637,475	601,142	573,988
Franchise sales ⁽¹⁾	124,887	126,404	114,729	111,094	103,283	98,576	100,423	89,799
Revenue ⁽²⁾	601,660	596,851	592,329	595,440	546,729	538,899	500,719	484,189
Net income	38,785	34,778	33,744	34,338	23,975	18,863	14,526	8,614
Adjusted net income ⁽¹⁾	38,289	36,119	34,262	34,392	22,595	19,968	11,545	8,543
Basic earnings per share	\$ 0.51	\$ 0.46	\$ 0.44	\$ 0.48	\$ 0.31	\$ 0.26	\$ 0.19	\$ 0.12
Diluted earnings per share	\$ 0.48	\$ 0.43	\$ 0.41	\$ 0.42	\$ 0.29	\$ 0.24	\$ 0.18	\$ 0.11
Adjusted basic earnings per share ⁽¹⁾	\$ 0.50	\$ 0.48	\$ 0.45	\$ 0.48	\$ 0.30	\$ 0.28	\$ 0.15	\$ 0.12
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.47	\$ 0.45	\$ 0.42	\$ 0.42	\$ 0.28	\$ 0.25	\$ 0.14	\$ 0.11

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

(2) Reclassified comparative results to conform to the presentation for the period December 31, 2018.

5. Financial Position

(\$ in thousands)	December 31, 2018	December 31, 2017	December 31, 2016
Total assets	1,723,572	1,661,455	1,611,662
Total non-current liabilities	258,690	468,569	525,605

ASSETS

Total assets at December 31, 2018 of \$1,723,572,000 were \$62,117,000 higher than the \$1,661,455,000 reported at December 31, 2017. The majority of change was driven by an increase to cash, debt instruments and equity instruments of approximately \$68,000,000 which was offset by a decrease in intangibles.

NON-CURRENT LIABILITIES

Non-current liabilities of \$258,690,000 were \$209,879,000 lower than the \$468,569,000 reported at December 31, 2017. This decrease is a result of the term loan being reclassified as a current liability for the year end December 31, 2018.

6. Liquidity and Capital Resources

The following table provides a summarized statement of cash flows for the three months and year ended December 31, 2018 and December 31, 2017:

Source (Use) of Cash (\$ in thousands)	For the three months ended December 31			For the year ended December 31		
	2018	2017	\$ Increase (Decrease)	2018	2017	\$ Increase (Decrease)
Cash provided by operating activities before changes in non-cash working capital items	49,640	47,519	2,121	153,936	143,641	10,295
Changes in non-cash working capital items	45,594	11,099	34,495	28,138	12,962	15,176
Cash provided by operating activities	95,234	58,618	36,616	182,074	156,603	25,471
Cash used in investing activities	(10,189)	(12,366)	2,177	(30,141)	(78,023)	47,882
Cash used in financing activities	(36,170)	(26,717)	(9,453)	(97,873)	(86,358)	(11,515)
Increase/(decrease) in cash and cash equivalents	48,875	19,535	29,340	54,060	(7,778)	61,838

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, customer deposits and deferred rent liabilities and lease inducements.

In the fourth quarter of 2018, cash provided by operating activities changed by \$36,616,000 compared to the prior year's quarter. The majority of the net increase is due to the change in trade and other payables of \$36,864,000.

For the year ended December 31, 2018, cash provided by operating activities changed by \$25,471,000 compared to the comparative period. The net increase is the result of the change primarily in trade receivables.

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 2018, cash used in investing activities increased by \$2,177,000 compared to the prior year's quarter. This change is the increase in purchases of property, plant and equipment, of \$2,226,000, which is offset by the decrease in debt and equity instruments of \$3,766,000 and interest received of \$485,000.

For the year ended December 31, 2018, cash used in investing activities changed by \$47,882,000 compared to the comparative period. The net increase was the result of a reduction in the purchase of both property, plant and equipment and debt and equity instruments of approximately \$46,300,000.

Cash Used in Financing Activities

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

In the fourth quarter of 2018, cash used in financing activities changed by \$9,453,000 compared to the prior year's quarter. The change relates to the increased repayment of the term loan in the current quarter of \$5,000,000, the addition of the share repurchase plan in 2018 of \$2,991,000 and also an increase in the dividends paid of \$2,023,000 which was offset by a reduction of interest paid of \$699,000.

For the year ended December 31, 2017, cash used in financing activities changed by \$11,515,000, compared to the comparative period. The change relates to the increased repayment of the term loan in the current year of \$5,000,000, the addition of the share repurchase plan in 2018 of \$3,058,000 and also an increase in the dividends paid of \$4,987,000, (\$0.52 per share versus \$0.48 in the prior year), which was offset by a reduction of interest paid of \$2,174,000 due to the reduction of convertible debenture interest.

Adequacy of Financial Resources

At December 31, 2018, the Company's current assets exceeded its current liabilities by \$53,733,000 and its cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$184,882,000 compared to \$117,312,000 at December 31, 2017. Under the Company's Senior Secured Credit Agreement, we had unused borrowing capacity of \$49,351,000 as at December 31, 2018 (\$49,351,000 as at December 31, 2017). 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)	Payments Due by Period				
	Total	Under 1 year	1–3 years	3–5 years	More than 5 years
Contractual Obligations					
Long-term debt	206,875	151,855	3,012	52,008	–
Operating leases ⁽¹⁾	462,581	85,381	136,969	128,459	111,772
Trade and other payables	247,136	247,136	–	–	–
Finance lease liabilities	10,399	1,892	3,852	3,852	803
Total Contractual Obligations	926,991	486,264	143,833	184,319	112,575

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

7. Outlook

Despite the uncertainty over certain key economic indicators, we believe that the overall economy remains relatively strong, as we were still able to increase sales and profitability in 2018. Although it is difficult to gauge future consumer confidence and what impact it may have on retail, we remain confident our sales and profitability will increase. Given the Company's strong financial position, our principal objective is to increase market share and profitability. We remain focused on our commitment to continuously invest in digital innovation that will drive more customers to both our online eCommerce presence and our 303 physical locations across Canada.

8. Outstanding Common Shares

At December 31, 2018, there were 77,490,893 common shares issued and outstanding. During the year ended December 31, 2018, 71,363 series 2009 shares, 14,463 series 2012 shares, 124,361 series 2013 shares, 49,480 series 2014 and 23,975 series 2015 shares were converted into common shares. For details on the Company's commitments related to its redeemable shares please refer to note 15.2 of the 2018 consolidated financial statements.

9. Related Party Transactions

As at December 31, 2018, 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.

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 PROPERTY, PLANT AND EQUIPMENT

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

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

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

PROVISIONS

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

MATERIALITY

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

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting standards and amendments issued but not yet adopted

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which will replace IAS 17, Leases ("IAS 17"). 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. The new standard will be effective for fiscal years beginning on or after January 1, 2019.

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 will apply these exemptions where applicable.

Under IFRS 16, the lessor's accounting for operating and finance leases will remain substantially unchanged.

The Company expects the following changes:

- The amount of total assets and total liabilities will increase due to the recognition of right-of-use assets and financial liabilities for future payment obligations from leases previously classified as operating leases;
- Operating lease payments which are currently included in selling, general and administrative expenses on the Consolidated Statement of Income will be replaced with depreciation, (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.

As the Company has significant contractual obligations in the form of real estate operating leases, Management have decided to apply this standard using the Modified Retrospective Approach. Under this approach the Company will not be restating comparative information and has elected to use the following practical expedients on adoption of the standard on January 1, 2019:

- 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 used hindsight in determining the lease term where the lease contracts contains options to extend or terminate the lease.

IFRS 16 is expected to have a material impact on the Company's consolidated statements of financial position. The Company expects to recognize right-of-use assets in the range of \$405 million to \$425 million and related lease liabilities in the range of \$392 million to \$412 million. The difference between these amounts reflects the derecognition of certain intangible assets relating to favourable lease agreements, and adjustments relating to deferred rent liabilities and lease inducements.

IFRS 17, Insurance Contracts ("IFRS 17")

In May 2017, the IASB issued IFRS 17 – Insurance Contracts ("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 IASB has tentatively decided to defer the effective date of IFRS 17 to annual periods beginning on or after January 1, 2022. The Company is currently analyzing the impact these standards will have on its financial statements.

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 Company does not expect any material impact on the consolidated financial statements.

ADOPTION OF NEW OR REVISED AMENDED ACCOUNTING STANDARDS

The Company has adopted the IFRS pronouncements listed below as at January 1, 2018, in accordance with the transitional provisions outlined in the respective standard.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15, Revenue from Contracts with Customers, was issued in May 2014, which replaces IAS 11, Construction Contracts, IAS 18, Revenue Recognition, and related Interpretations. IFRS 15 provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, Consolidated Financial Statements and IFRS 11, Joint Arrangements. 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.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company has performed a detailed impact assessment, identifying all current sources of revenue and analyzing the accounting requirements for each under IFRS 15. The Company adopted IFRS 15 using the full retrospective method and has concluded that there is no impact in relation to IFRS 15 because the Company's analysis of contracts relating to sale of goods by corporate stores and income from franchise operations under the new revenue recognition standard supports the current process of recognition at a point in time when control is transferred to the customer. Extended warranty revenue will be deferred and subsequently recognized over time which is consistent with the current revenue model. The impact to consolidated financial statements is limited to additional disclosure on the disaggregation of the Company's revenue streams and contract liabilities, as included in note 17 of the consolidated financial statements.

IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 was issued on July 24, 2014 and the new standard must be applied retrospectively with some exemptions. The core areas addressed within IFRS 9 are classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. Consistent with the transitional provisions in IFRS 9 paragraph 7.2.15, comparative information has not been restated.

Classification and measurement

Under IFRS 9, existing IAS 39 classification and measurement categories for financial assets are being replaced with fair value through profit and loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) and amortized cost.

The details of changes are disclosed below:

- The Company reclassified financial assets from loans and receivables to amortized cost.
- Equity instruments at FVOCI – represent securities that the Company intends to hold for the long-term for strategic purposes. As permitted by IFRS 9, these investments have been designated at the date of initial application as measured at FVOCI. Unlike IAS 39, there will be no reclassification to profit or loss on derecognition and these securities are not subject to an impairment assessment. Interest income and dividend income will continue to be recognized in net income. Under IAS 39, the Company's equity instruments were classified as available-for-sale.

- Debt instruments at FVOCI – represent securities the Company holds to collect contractual cash flows and to sell. Upon derecognition, gains and losses will be reclassified to the profit or loss. Under IAS 39, the Company's debt instruments at FVOCI were classified under restricted marketable securities and available-for-sale financial assets.
- Debt instruments at FVTPL – represent securities the Company has concluded that are neither held to collect contractual cash flows, nor managed under an objective that results in both collecting the contractual cash flows and selling the investment. Under IAS 39, the Company's debt instruments at FVTPL were classified under restricted marketable securities.

Impairment of financial assets

IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new 'expected credit loss' model ("ECL") for calculating impairment of financial assets. IFRS 9 specifies different approaches for measuring and recognizing expected credit losses, by considering only defaults in the next 12 months and/or the full remaining life of the financial asset. The expected credit loss model requires a credit loss to be reflected in profit and loss immediately after an asset is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. Due to the terms offered to customers and the Company's policy on providing for expected credit losses, the Company concludes that there is no impact on its allowance for doubtful accounts.

IFRS 9 provides a low credit risk simplified approach for certain trade receivables and IFRS 15 contract assets. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECL at all times. 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 the trade receivables and 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.

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 28, 2019, which provides information on the risk factors facing the Company. The February 28, 2019 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, 2018.

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, 2018, 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 (the Group) which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

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 & 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 IFRSs, 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 27, 2019

Consolidated Statements of Financial Position

	As at December 31	As at December 31
(\$ in thousands)	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents [note 5]	\$ 90,267	\$ 36,207
Restricted marketable securities	5,994	13,778
Debt securities	54,759	41,128
Equity securities	33,862	26,199
Trade receivables	122,131	138,516
Income taxes receivable	8,413	2,042
Inventories [note 6]	329,317	317,914
Deferred acquisition costs [note 7]	7,899	5,841
Deferred financing costs	276	541
Prepaid expenses and other assets	8,335	6,382
Total current assets	\$ 661,253	\$ 588,548
Other assets	484	–
Deferred acquisition costs [note 7]	11,751	14,632
Loan receivable [note 15.1]	13,191	–
Property, plant and equipment [note 8]	321,597	336,748
Investment properties [note 9]	17,072	17,529
Intangibles [note 10]	300,896	306,286
Goodwill [note 10]	390,120	390,120
Deferred income tax assets [note 20]	7,208	7,592
Total assets	\$ 1,723,572	\$ 1,661,455
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables [note 11]	\$ 247,136	\$ 234,478
Provisions [note 12]	11,687	8,791
Income taxes payable	7,338	7,517
Customers' deposits [note 17]	146,362	128,078
Finance lease liability [note 13]	1,415	1,421
Dividends payable [note 16]	10,690	9,140
Deferred warranty plan revenue	38,180	24,979
Loans and borrowings [note 14]	144,712	–
Other liabilities	–	5,434
Total current liabilities	\$ 607,520	\$ 419,838
Loans and borrowings [note 14]	–	194,439
Convertible debentures [note 14]	48,435	48,004
Finance lease liability [note 13]	7,784	9,053
Deferred warranty plan revenue	110,126	122,773
Redeemable share liability [note 15.2]	13	157
Deferred rent liabilities and lease inducements	11,021	10,791
Deferred income tax liabilities [note 20]	81,311	83,352
Total liabilities	\$ 866,210	\$ 888,407
Shareholders' equity attributable to the shareholders of the Company		
Common shares [note 16]	\$ 111,956	\$ 93,392
Equity component of convertible debentures [note 14]	3,546	3,555
Retained earnings	743,399	674,883
Accumulated other comprehensive income	(1,539)	1,218
Total shareholders' equity	\$ 857,362	\$ 773,048
Total liabilities and shareholders' equity	\$ 1,723,572	\$ 1,661,455

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 Statements of Income

	Year ended December 31	Year ended December 31
(\$ in thousands except shares outstanding and earnings per share)	2018	2017
Revenue [note 17]	\$ 2,241,437	\$ 2,215,379
Cost of sales [note 6]	1,264,561	1,261,112
Gross profit	\$ 976,876	\$ 954,267
Operating expenses		
Selling, general and administrative expenses [note 18]	825,276	809,025
Operating profit	151,600	145,242
Finance costs [note 19]	(9,396)	(11,952)
Finance income [note 19]	2,468	1,450
Change in fair value of derivative instruments	5,918	(3,311)
Net income before income tax	150,590	131,429
Income tax expense [note 20]	39,560	34,836
Net income for the year	\$ 111,030	\$ 96,593
Weighted average number of common shares outstanding		
Basic	76,368,088	72,904,130
Diluted	82,891,640	82,912,983
Earnings per share [note 21]		
Basic	\$ 1.45	\$ 1.32
Diluted	\$ 1.36	\$ 1.20
Dividends declared per share		
Common	\$ 0.52	\$ 0.48
Convertible, non-voting	\$ 0.25	\$ 0.23

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

Consolidated Statements of Comprehensive Income

	Year ended December 31		
(\$ in thousands)	2018	Tax effect	Net of tax 2018
Net income for the year	\$ 111,030	\$ -	\$ 111,030
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Losses on debt instruments	(306)	(27)	(279)
Items that will not be reclassified to profit or loss:			
Losses on equity instruments	(2,951)	(473)	(2,478)
Change in losses on debt and equity instruments arising during the year	(3,257)	(500)	(2,757)
Comprehensive income for the year	\$ 107,773	\$ (500)	\$ 108,273

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

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

Consolidated Statements of Changes in Shareholders' Equity

(\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income (loss)	Retained earnings	Total
As at December 31, 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	-	-	(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

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

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

Consolidated Statements of Cash Flows

	Year ended December 31	Year ended December 31
(\$ in thousands)	2018	2017
OPERATING ACTIVITIES		
Net income for the year	\$ 111,030	\$ 96,593
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	30,628	33,231
Amortization of intangible assets	6,528	6,325
Amortization of deferred warranty plan revenue	(64,376)	(58,771)
Net finance costs	7,122	10,502
Deferred income taxes	(1,611)	(6,043)
(Gain) loss on sale of property, plant and equipment and investment properties	(315)	286
Gain on sale of debt and equity instruments	–	123
	\$ 89,006	\$ 82,246
Net change in non-cash working capital balances related to operations [note 26]	28,138	12,962
Cash received on warranty plan sales	64,930	61,395
Cash provided by operating activities	\$ 182,074	\$ 156,603
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and investment properties [notes 8 & 9]	(19,650)	(55,041)
Purchase of intangible assets [note 10]	(1,138)	(1,164)
Proceeds on sale of property, plant and equipment and investment properties	4,950	748
Purchase of debt and equity instruments	(42,614)	(53,530)
Proceeds on sale of debt and equity instruments	25,843	29,639
Interest received	2,468	1,325
Cash used in investing activities	\$ (30,141)	\$ (78,023)
FINANCING ACTIVITIES		
Repayment of finance leases	(1,193)	(1,346)
Dividends paid	(38,166)	(33,179)
Decrease of employee loans-redeemable shares [note 15.2]	3,151	4,004
Repurchase of common shares [note 16]	(3,058)	–
Repayment of term loan [note 14]	(50,000)	(45,000)
Finance costs paid	–	(56)
Interest paid	(8,607)	(10,781)
Cash used in financing activities	\$ (97,873)	\$ (86,358)
Net increase (decrease) in cash and cash equivalents during the year	54,060	(7,778)
Cash and cash equivalents, beginning of year	36,207	43,985
Cash and cash equivalents, end of year	\$ 90,267	\$ 36,207

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)

1. Reporting Entity

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

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

2. Basis of Presentation

STATEMENT OF COMPLIANCE

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

These consolidated financial statements were approved by the Board of Directors for issuance on February 27, 2019.

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for debt and equity instruments [available-for-sale financial assets under IAS 39] and derivative instruments and the initial recognition of assets acquired, and liabilities assumed in business combinations, which are measured at fair value.

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF ESTIMATES AND JUDGMENTS

Management has exercised judgment in the process of applying the Company's accounting policies. The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated statement of financial position dates and the reported amounts of revenue and expenses during the reporting period. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements.

CONSOLIDATION AND CLASSIFICATION OF JOINT ARRANGEMENTS

Assessing the Company's ability to control or influence the relevant financial and operating policies of another entity may, depending on the facts and circumstances, require the exercise of significant judgment to determine whether the Company controls, jointly controls, or exercises significant influence over the entity performing the work. This assessment of control impacts how the operations of these entities are reported in the Company's consolidated financial statements (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 which 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.

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.

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 three elements of control. All inter-company transactions and balances have been appropriately eliminated.

BUSINESS COMBINATIONS

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

SEGMENT REPORTING

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

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

Accordingly, there is no reportable segment information to provide in these consolidated financial statements.

FOREIGN CURRENCY TRANSLATION

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

Any foreign exchange gains and losses on monetary 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.

FINANCIAL INSTRUMENTS

The Company applied IFRS 9, *Financial Instruments* ("IFRS 9"), retrospectively, with an initial application date of January 1, 2018. Consistent with the transitional provisions in IFRS 9 the Company has not restated the comparative information, which continues to be reported under IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 replaces IAS 39. The core areas addressed within IFRS 9 are classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting [see note 4 & 22].

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 – policy applicable from January 1, 2018

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 that are not quoted in an active market. This includes trade receivables, and these are recorded at amortized cost with gains and losses recognized in net income 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 measured at amortized cost with gains and losses recognized in net income 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 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.

Financial assets and liabilities – policy applicable prior to January 1, 2018

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

After initial recognition, financial assets are measured at their fair values except for loans and receivables, which are measured at amortized cost using the effective interest rate method. After initial recognition, financial liabilities are measured at amortized cost.

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

Classifications that the Company has used for financial assets include:

- (a) Available-for-sale – financial assets that are non-derivatives that are either designated in this category or not classified in any other category and include marketable securities, which consist primarily of quoted bonds, equities and debentures. These assets are measured at fair value with the changes in fair value recognized in other comprehensive income for the current year until realized through disposal or impairment;
- (b) Loans and receivables – non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include trade receivables and are recorded at amortized cost with gains and losses recognized in the consolidated statements of income in the period that the asset is no longer recognized or impaired; and
- (c) Derivative instruments – financial assets that are classified as fair value through profit or loss.

Classifications that the Company has used for financial liabilities include:

- (a) Other financial liabilities - measured at amortized cost with gains and losses recognized in the consolidated statements of income in the period that the liability is no longer recognized; and
- (b) Derivative instruments – financial liabilities that are classified as fair value through profit or loss.

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

Impairment of financial assets

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

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

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

DERIVATIVE INSTRUMENTS

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

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

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

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

LEASES

Leases that transfer substantially all of the risks and rewards of ownership to the lessee are classified as finance leases. All other leases, 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.

INVESTMENT PROPERTIES

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

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

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

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

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

GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

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

Intangible assets

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

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

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

INCOME TAXES

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

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

Current income tax

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

Deferred income tax

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

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

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

TRADE AND OTHER PAYABLES

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

PROVISIONS

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

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

Unpaid insurance claims

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

Unpaid warranty claims

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

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

Product returns

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

LOANS AND BORROWINGS

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

SHARE CAPITAL

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

REVENUE

The Company applied IFRS 15 using the full retrospective method and concluded no significant differences between the point of transfer of risk and rewards under IAS 18, Revenue Recognition ("IAS 18"), and the point of transfer of control under IFRS 15 and no restatements are required.

Revenue recognition

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 [See note 4].

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

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

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

Unearned insurance revenue

At each reporting period date, the insurance revenue received by the Company in regard to the unexpired portion of policies in force is deferred as unearned insurance revenue. Any amount of unearned insurance revenue is included in the consolidated statements of financial position within deferred warranty plan revenue.

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

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

Deferred warranty plan revenue

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

The Company's extended warranty plan revenues are deferred at the time of sale and are recognized as revenue over the 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, a joint arrangement is a contractual arrangement wherein two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement when the strategic, financial and operating decisions relating to the arrangement require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each party. Refer to note 2, Basis of Presentation, for significant judgments affecting the classification of joint arrangements as either joint operations or joint ventures. The parties to a joint operation have rights to the assets, and obligations for the liabilities, relating to the arrangement whereas joint ventures have rights to the net assets of the arrangement. In accordance with IFRS 11, the Company accounts for joint operations by recognizing its share of any assets held jointly and any liabilities incurred jointly, along with its share of the revenue from the sale of the output by the joint operation, and its expenses, including its share of any expenses incurred jointly. 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, "Investments in Associates and Joint Ventures." 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 IAS 39, (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.

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, 2018, in accordance with the transitional provisions outlined in the respective standard.

IFRS 9, FINANCIAL INSTRUMENTS ("IFRS 9")

IFRS 9 was issued on July 24, 2014 and the new standard must be applied retrospectively with some exemptions. The core areas addressed within IFRS 9 are classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. Consistent with the transitional provisions in IFRS 9 paragraph 7.2.15, comparative information has not been restated.

Classification and measurement

Under IFRS 9, existing IAS 39 classification and measurement categories for financial assets are being replaced with fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") and amortized cost.

The details of changes are disclosed below:

- The Company reclassified financial assets from loans and receivables to amortized cost.
- Equity instruments at FVOCI – represent securities that the Company intends to hold for the long-term for strategic purposes. As permitted by IFRS 9, these investments have been designated at the date of initial application as measured at FVOCI. Unlike IAS 39, there will be no reclassification to profit or loss on derecognition and these securities are not subject to an impairment assessment. Interest income and dividend income will continue to be recognised in net income. Under IAS 39, the Company's equity instruments were classified as available-for-sale.
- Debt instruments at FVOCI – represent securities the Company holds to collect contractual cash flows and to sell. Upon derecognition, gains and losses will be reclassified to profit or loss. Under IAS 39, the Company's debt instruments at FVOCI were classified under restricted marketable securities and available-for-sale financial assets.
- Debt instruments at FVTPL – represent securities the Company has concluded that are neither held to collect contractual cash flows, nor managed under an objective that results in both collecting the contractual cash flows and selling the investment. Under IAS 39, the Company's debt instruments at FVTPL were classified under restricted marketable securities.

Impairment of financial assets

IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new 'expected credit loss' model ("ECL") for calculating impairment of financial assets. IFRS 9 specifies different approaches for measuring and recognizing expected credit losses, by considering only defaults in the next 12 months and/or the full remaining life of the financial asset. The expected credit loss model requires a credit loss to be reflected in profit and loss immediately after an asset is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. Due to the terms offered to customers and the Company's policy on providing for expected credit losses, the Company concludes that there is no impact on its allowance for doubtful accounts.

IFRS 9 provides a low credit risk simplified approach for certain trade receivables and IFRS 15 contract assets. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECL at all times. 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 the trade receivables and 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.

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

IFRS 15 was issued in May 2014, which replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue Recognition*, and related Interpretations. IFRS 15 provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17, *Leases* ("IAS 17"); financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, *Consolidated Financial Statements* and IFRS 11.

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.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company has performed a detailed impact assessment, identifying all current sources of revenue and analyzing the accounting requirements for each under IFRS 15. The Company adopted IFRS 15 using the full retrospective method and has concluded that there is no impact in relation to IFRS 15 because the Company's analysis of contracts relating to sale of goods by corporate stores and income from franchise operations under the new revenue recognition standard supports the current process of recognition at a point in time when control is transferred to the customer. Extended warranty revenue will be deferred and subsequently recognised over time which is consistent with the current revenue model. The impact to consolidated financial statements is limited to additional disclosure on the disaggregation of the Company's revenue streams and contract liabilities, as included in note 17.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

IFRS 16, *Leases* ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which will replace IAS 17. 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. The new standard will be effective for fiscal years beginning on or after January 1, 2019.

At the commencement date of a lease, a lessee will recognise 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 recognise 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 will apply these exemptions where applicable.

Under IFRS 16, the lessor's accounting for operating and finance leases will remain substantially unchanged.

The Company expects the following changes:

- The amount of total assets and total liabilities will increase due to the recognition of right-of-use assets and financial liabilities for future payment obligations from leases previously classified as operating leases;
- Operating lease payments which are currently included in selling, general and administrative expenses on the Consolidated Statement of Income will be replaced with depreciation, (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.

As the Company has significant contractual obligations in the form of real estate operating leases, Management have decided to apply this standard using the Modified Retrospective Approach. Under this approach the Company will not be restating comparative information and has elected to use the following practical expedients on adoption of the standard on January 1, 2019:

- 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 used hindsight in determining the lease term where the lease contracts contains options to extend or terminate the lease.

IFRS 16 is expected to have a material impact on the Company's consolidated statements of financial position. The Company expects to recognize right-of-use assets in the range of \$405 million to \$425 million and related lease liabilities in the range of \$392 million to \$412 million. The difference between these amounts will reflect derecognition of certain intangible assets relating to favourable lease agreements, and adjustments relating to deferred rent liabilities and lease inducements.

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 IASB has tentatively decided to defer the effective date of IFRS 17 to annual periods beginning on or after January 1, 2022. The Company is currently analyzing the impact these standards will have on its financial statements.

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 Company does not expect any material impact on the consolidated financial statements.

5. Cash and Cash Equivalents

	As at December 31	As at December 31
	2018	2017
Cash and cash equivalents	\$ 90,267	\$ 36,207

6. Inventories

The amount of inventory recognized as an expense for the year ended December 31, 2018 was \$1,214,147 (2017 — \$1,212,951), which is presented within cost of sales in the consolidated statements of income.

There was \$2,170 in inventory write-down reversals (2017 — \$1,171 inventory write downs) recognized as an expense during 2018. As at December 31, 2018, the inventory markdown provision totalled \$6,995 (2017 — \$9,165).

7. Deferred Acquisition Costs

Balance as at December 31, 2016	\$ 20,771
Costs of new policies sold	6,885
Policy sales costs recognized	(7,183)
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
Reported as:	
Current	5,841
Non-current	14,632
Balance as at December 31, 2017	20,473
Current	7,899
Non-current	11,751
Balance as at December 31, 2018	\$ 19,650

8. Property, Plant and Equipment

	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
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	158,675	50,876	235,765	20,766	9,765	831,299
Accumulated depreciation	-	(147,649)	(116,907)	(27,658)	(193,080)	(14,643)	(9,765)	(509,702)
Net book value	\$ 101,091	\$ 106,712	\$ 41,768	\$ 23,218	\$ 42,685	\$ 6,123	\$ -	\$ 321,597
	Land	Buildings	Equipment	Vehicles	Building improvements	Leased property	Leased equipment	Total
As at December 31, 2017:								
Opening net book value	\$ 86,254	\$ 105,670	\$ 41,771	\$ 20,307	\$ 52,694	\$ 8,385	\$ 419	\$ 315,500
Additions	16,737	15,634	11,343	6,567	4,760	-	-	55,041
Disposals	-	-	(1,005)	(12)	-	-	-	(1,017)
Depreciation	-	(6,140)	(9,314)	(4,531)	(11,299)	(1,131)	(361)	(32,776)
Closing net book value	102,991	115,164	42,795	22,331	46,155	7,254	58	336,748
As at December 31, 2017:								
Cost	102,991	255,531	152,093	46,217	230,490	20,766	10,464	818,552
Accumulated depreciation	-	(140,367)	(109,298)	(23,886)	(184,335)	(13,512)	(10,406)	(481,804)
Net book value	\$ 102,991	\$ 115,164	\$ 42,795	\$ 22,331	\$ 46,155	\$ 7,254	\$ 58	\$ 336,748

Included in the above balances as at December 31, 2018 are assets not being amortized with a net book value of approximately \$2,516 (2017 – \$257) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$247,243 (2017 – \$204,951).

9. Investment Properties

	Land	Buildings	Building improvements	Total
As at December 31, 2018:				
Opening net book value	\$ 10,946	\$ 5,879	\$ 704	\$ 17,529
Additions	-	-	-	-
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
As at December 31, 2017:				
Opening net book value	\$ 10,946	\$ 6,257	\$ 781	\$ 17,984
Additions	-	-	-	-
Depreciation	-	(378)	(77)	(455)
Closing net book value	10,946	5,879	704	17,529
As at December 31, 2017:				
Cost	10,946	17,333	1,097	29,376
Accumulated depreciation	-	(11,454)	(393)	(11,847)
Net book value	\$ 10,946	\$ 5,879	\$ 704	\$ 17,529

The estimated fair value of the investment properties portfolio as at December 31, 2018 was approximately \$44,000 (2017 – \$44,800). This recurring fair value disclosure is categorized within Level 3 of the fair value hierarchy (Note 22 for definition of levels). This was compiled internally by management based on available market evidence.

10. Intangible Assets

	Customer relationships	Brand name and franchise agreements	Computer software	Favourable lease agreements	Total
As at December 31, 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
As at December 31, 2017:					
Opening net book value	\$ 2,656	\$ 266,250	\$ 11,120	\$ 31,438	\$ 311,464
Additions	–	–	1,164	–	1,164
Disposals	–	–	(17)	–	(17)
Amortization	(625)	(250)	(2,780)	(2,670)	(6,325)
Closing net book value	2,031	266,000	9,487	28,768	306,286
As at December 31, 2017:					
Cost	7,000	268,500	17,320	46,049	338,869
Accumulated amortization	(4,969)	(2,500)	(7,833)	(17,281)	(32,583)
Net book value	\$ 2,031	\$ 266,000	\$ 9,487	\$ 28,768	\$ 306,286

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,	
	2018	2017
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,	
	2018	2017
Brick division customer relationships	\$ 1,406	\$ 2,031
Brick division favourable lease agreements	26,402	28,767
Computer software	7,088	9,488
	\$ 34,896	\$ 40,286

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,	
	2018	2017
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, 2018 and December 31, 2017 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, 2018 and December 31, 2017 were as follows:

	2018	2017
Growth rate	2.0%	2.0%
Pre-tax discount rate	9.2%	9.4%

The impairment tests performed resulted in no impairment of the goodwill and indefinite life intangibles as at December 31, 2018 and December 31, 2017.

11. Trade and Other Payables

	As at December 31,	
	2018	2017
Trade payables	\$ 203,602	\$ 200,568
Other payables	43,534	33,910
	\$ 247,136	\$ 234,478

12. Provisions

	Unpaid insurance claims	Unpaid warranty claims	Product returns	Other	Total
Balance as at December 31, 2017	\$ 1,695	\$ 2,296	\$ 2,081	\$ 2,719	\$ 8,791
Provisions made during the year	865	3,786	226	239	5,116
Provisions used during the year	(1,145)	(33)	–	(521)	(1,699)
Unused provisions reversed	(323)	–	(198)	–	(521)
Balance as at December 31, 2018	\$ 1,092	\$ 6,049	\$ 2,109	\$ 2,437	\$ 11,687

UNPAID INSURANCE CLAIMS

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

UNPAID WARRANTY CLAIMS

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

PRODUCT RETURNS

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

13. Finance Lease Liabilities

LEASING ARRANGEMENTS

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

FINANCE LEASE LIABILITIES

Finance lease liabilities are payable as follows:

	2018			2017		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 1,892	\$ 477	\$ 1,415	\$ 1,848	\$ 574	\$ 1,274
Between one and five years	7,704	709	6,995	7,670	1,153	6,517
More than five years	803	14	789	2,729	46	2,683
	10,399	1,200	9,199	12,247	1,773	10,474
Reported as:						
Current			1,415			1,421
Non-current			7,784			9,053
			\$ 9,199			\$ 10,474

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 an increase in the Company's dividend rate or in the event of a change in control of the Company. The convertible debentures are unsecured obligations of the Company and are subordinated in right of payment to all of the Company's senior indebtedness.

The Company will accrete the carrying value of the convertible debentures to their contractual face value of \$50,125 through a charge to net income over their term. This charge will be included in finance costs.

During the year ended December 31, 2018, a portion of the convertible debentures with a stated value of \$17 was converted to 1,344 common shares, at the holder's option (year ended December 31, 2017 – \$49,858 converted to 3,945,113 common shares).

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

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

BANK INDEBTEDNESS

On January 31, 2013, a Senior Secured Credit Agreement ("SSCA") was obtained to fund the acquisition of The Brick. The Company completed an amendment to the existing SSCA on November 25, 2016. After giving effect to the amendment, the total credit facility was reduced from \$500,000 to \$300,000 with the term credit facility being reduced from \$400,000 to \$250,000 and the revolving credit facility being reduced from \$100,000 to \$50,000. The revolving credit facility continues to include a swing-line of \$20,000. Under the terms of the SSCA amounts borrowed must be repaid in full by November 25, 2019. Bank indebtedness bears interest based on Canadian prime, London Interbank Offered Rate ("LIBOR") and Bankers' Acceptance ("BA") rates plus an applicable standby fee on undrawn amounts. Transaction costs in the amount of \$775 have been deferred and are being amortized. The Company has the ability to choose the type of advance required. Interest is based on the market rate plus an applicable margin. Currently, the Company has entered into a 31-day Bankers' Acceptance with a cost of borrowing of 4.0% that was renewed on December 31, 2018. The term credit facility is repayable in yearly amounts of \$25,000 commencing on December 31, 2017. The Company can prepay without penalty amounts outstanding under the facilities at any time. The agreement includes a general security agreement which constitutes a lien on all personal property of the Company. In addition to this, there are financial covenants related to the credit facility.

As at December 31, 2018, the Company is in full compliance of these financial and non-financial covenants.

15. Management Share Purchase Plan

15.1 EMPLOYEE BENEFIT PLAN

Members of senior management participate in the Company's Management Share Purchase Plan ("MSPP"). Under the terms of the Plan, 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 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. 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.

15.2 REDEEMABLE SHARE LIABILITY

	As at December 31	
	2018	2017
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		
296,202 series 2009 shares (December 31, 2017 – 367,565)	\$ 2,622	\$ 3,254
125,357 series 2012 shares (December 31, 2017 – 139,820)	1,556	1,735
823,845 series 2013 shares (December 31, 2017 – 948,206)	9,383	10,800
496,385 series 2014 shares (December 31, 2017 – 545,865)	7,470	8,215
692,182 series 2015 shares (December 31, 2017 – 735,519)	9,317	9,900
Less employee share purchase loans	(30,335)	(33,747)
	\$ 13	\$ 157

Under the terms of the Plan, the Company advanced non-interest bearing loans to certain of its employees in 2009, 2012, 2013, 2014 and 2015 to allow them to acquire convertible, non-voting series 2009 shares, series 2012 shares, series 2013 shares, series 2014 shares and series 2015 shares, respectively, of the Company. These loans are repayable through the application against the loans of any dividends on the shares with any remaining balance repayable on the date the shares are converted to common shares. Each issued and fully paid for shares series 2009 and series 2012 may be converted into one common share at any time after the fifth anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. Each issued and fully paid for series 2013, series 2014 and series 2015 may be converted into one common share at any time after the third anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. The series 2009, series 2012, series 2013, series 2014 and series 2015 are redeemable at the option of the holder for a period of one business day following the date of issue of such shares. The Company has the option to redeem the series 2009 and series 2012 shares at any time after the fifth anniversary date of the issue of these shares and must redeem them prior to the tenth anniversary of such issue. The Company has the option to redeem the series 2013, series 2014 and series 2015 shares at any time after the third anniversary date of the issue of these shares and must redeem them prior to the tenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The purchase prices of the shares are \$8.85 per series 2009 share, \$12.41 per series 2012 share, \$11.39 per series 2013 share, \$15.05 per series 2014 share and \$13.46 per series 2015 share. Dividends paid to holders of series 2009, 2012, 2013, 2014 and 2015 shares of approximately \$615 (2017 – \$643) 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, 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 (year ended December 31, 2017 – 112,523 series 2009 shares, 89,116 series 2012 shares, 145,577 series 2013 shares, 48,507 series 2014 shares and 25,000 series 2015 shares) were converted into common shares with a stated value of approximately \$632, \$179, \$1,417, \$745 and \$323, respectively (year ended December 31, 2017 – \$995, \$1,106, \$1,658, \$730 and \$337).

During the year ended December 31, 2018, the Company cancelled 19,362 series 2015 shares (year ended December 31, 2017 – 28,816 series 2014 shares and 34,481 series 2015 shares), in the amount of \$261 (year ended December 31, 2017 – \$434 and \$464, respectively).

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

16. Common Shares

	As at December 31	
	2018	2017
Authorized - Unlimited common shares		
Issued - 77,490,893 common shares (2017 - 76,188,143)	\$ 111,956	\$ 93,392

During the 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 (year ended December 31, 2017 - 112,523 series 2009 shares, 89,116 series 2012 shares, 145,577 series 2013 shares, 32,876 series 2014 shares and 7,072 series 2015 shares) were converted into common shares with a stated value of approximately \$632, \$179, \$1,417, \$745 and \$323, respectively (year ended December 31, 2017 - \$995, \$1,106, \$1,658, \$495 and \$95).

On September 10, 2018, the Company announced that it has received approval for a common share repurchase programme on The Toronto Stock Exchange. The Company intends to repurchase for cancellation a maximum of 3,813,398 common shares representing 4.99% of the total number of its 76,420,803 issued and outstanding common shares as at August 31, 2018. The average daily trading volume for the six months ending August 31, 2018 was 8,019. Therefore, other than block purchase exemptions, daily purchases will be limited to 2,005 common shares. The bid will commence on September 12, 2018 and terminate on the earliest of the purchase of 3,813,398 common shares, the issuer providing a notice of termination, and September 11, 2019. 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, 2018, the Company repurchased 201,775 shares (year ended December 31, 2017 - nil) of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids at a net cost of \$3,058 (year ended December 31, 2017 - \$nil). The repurchase of common shares resulted in a reduction of share capital in the amount of \$254 (year ended December 31, 2017 - \$nil). The excess net cost over the average carrying value of the shares of \$2,804 (year ended December 31, 2017 - \$nil) has been recorded as a reduction in retained earnings. As at December 31, 2018 the Company has cancelled 171,105 of these repurchased shares and the remaining amount of 30,670 shares were held as Treasury Shares, which have a value of \$39.

During the year ended December 31, 2018, the Company implemented a management share purchase plan. This resulted in an addition of 1,188,873 common shares at an amount of \$15,506 (year ended December 31, 2017 - \$nil).

During the year ended December 31, 2018, a portion of the convertible debentures with a stated value of \$17 were converted to 1,344 common shares (year ended December 31, 2017 - \$49,858,000 converted to 3,945,113 common shares).

As at December 31, 2018, the dividends payable were \$10,690 [\$0.14 per share] and as at December 31, 2017 were \$9,140 [\$0.12 per share].

17. Revenue

(a) Disaggregation of Revenue

	Year ended December 31	
	2018	2017
Sale of goods by corporate stores	\$ 2,161,320	\$ 2,135,316
Income from franchise operations	27,779	25,548
Extended warranty revenue	39,361	42,785
Insurance sales revenue	11,837	10,393
Rental income from investment property	1,140	1,337
Total	\$ 2,241,437	\$ 2,215,379

(b) Customers' Deposits

	Year ended December 31	
	2018	2017
Opening balance as at January 1	\$ 128,078	\$ 117,990
Revenue recognized that was included in the customer deposit balance at the beginning of the year	\$ (126,053)	\$ (116,037)

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

(c) Deferred Warranty

	Year ended December 31	
	2018	2017
Opening balance as at January 1	\$ 147,752	\$ 145,128
Revenue recognized that was included in the Deferred Warranty at the beginning of the year	\$ (64,376)	\$ (60,064)
Recognition of Deferred Warranty during the year	\$ 64,930	\$ 62,688

18. Expenses By Nature

	Year ended December 31	
	2018	2017
Salaries and benefits	\$ 383,550	\$ 373,536
Depreciation of property, plant and equipment and investment properties	\$ 30,628	\$ 33,231
Amortization of intangible assets	\$ 6,528	\$ 6,325
Occupancy expenses	\$ 182,406	\$ 182,716

19. Net Finance Costs

	Year ended December 31	
	2018	2017
Interest expense on finance lease obligations	\$ 573	\$ 667
Interest expense on term credit facilities and revolving credit facilities	6,879	7,770
Interest expense on convertible debentures	1,944	3,515
Finance income	(2,468)	(1,450)
Total	\$ 6,928	\$ 10,502

20. Income Tax Expense

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

	2018	2017
Consolidated statements of income		
Current income tax expense:		
Based on taxable income of the current year	\$ 41,170	\$ 40,879
	41,170	40,879
Deferred income tax expense:		
Origination and reversal of temporary differences	(1,610)	(6,043)
Impact of change in tax rates/new tax laws	-	-
	(1,610)	(6,043)
Income tax expense reported in the consolidated statements of income	\$ 39,560	\$ 34,836

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

	2018		2017	
Income before income taxes	\$ 150,590		\$ 131,429	
Income tax expense based on statutory tax rate	40,177	26.68%	35,105	26.71%
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:				
Non-deductible items	969	0.64%	843	0.64%
Non-taxable portion of capital gain	-	0.00%	(8)	(0.01%)
Tax expense relating to deferred rate reductions	-	0.00%	79	0.06%
File/provided differences	-	0.00%	66	0.05%
Remeasurement of deferred income tax asset for rate changes	311	0.21%	49	0.04%
Income exempt from tax	(705)	(0.47%)	(187)	(0.14%)
Other	(1,192)	(0.79%)	(1,111)	(0.84%)
Income tax expense reported in the consolidated statements of income	\$ 39,560	26.27%	\$ 34,836	26.51%

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

(i) Deferred income tax relates to the following:

	December 31, 2018	December 31, 2017
Deferred income tax assets (liabilities)		
Deferred tax income assets	\$ 7,208	\$ 7,592
Deferred tax income liabilities	(81,311)	(83,352)
Total deferred income tax assets (liabilities)	\$ (74,103)	\$ (75,760)

(ii) Deferred income tax movements are as follows:

	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
Finance 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 – statements of income	(74,478)	47	1,610	(72,821)
Movement in convertible debenture	(1,282)	–	–	(1,282)
Net deferred income tax expense (benefit) – equity	(1,282)	–	–	(1,282)
Total deferred income tax expense (benefit)	\$ (75,760)	\$ 47	\$ 1,610	\$ (74,103)
				2017
	Balance, beginning of year	Other	Expense (benefit)	Consolidated Balance, end of year
Deferred warranty plan	\$ 1,781	\$ –	\$ (932)	\$ 849
Deferred financing fees	354	–	(244)	110
Deferred acquisition costs	962	–	(905)	57
Property, plant and equipment	(17,395)	–	2,143	(15,252)
Intangible assets	(77,178)	–	400	(76,778)
Deferred rent liabilities	2,125	–	(75)	2,050
Finance lease liabilities	3,170	–	(364)	2,806
Unused tax losses	58	–	(17)	41
Other	6,274	26	3,882	10,182
Mark to market	576	–	881	1,457
Net deferred income tax expense – statements of income	(79,273)	26	4,769	(74,478)
Movement in convertible debenture	(2,556)	–	1,274	(1,282)
Net deferred income tax expense (benefit) – equity	(2,556)	–	1,274	(1,282)
Total deferred income tax expense (benefit)	\$ (81,829)	\$ 26	\$ 6,043	\$ (75,760)

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 76,368,088 for the year ended December 31, 2018 [2017 – 72,904,130]. 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	
	2018	2017
Net income for the year for basic earnings per share	\$ 111,030	\$ 96,593
Net income for the year for diluted earnings per share	\$ 112,906	\$ 99,638
Weighted average number of common shares outstanding	76,368,088	72,904,130
Dilutive effect	6,523,552	10,008,853
Diluted weighted average number of common shares outstanding	82,891,640	82,912,983
Basic earnings per share	\$ 1.45	\$ 1.32
Diluted earnings per share	\$ 1.36	\$ 1.20

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, 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

December 31, 2017:

	Classification & Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Loans and receivables				
Cash and cash equivalents	Fair value	\$ 36,207	\$ 36,207	Level 1
Trade receivables	Amortized cost	138,516	138,516	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	\$ 13,778	\$ 13,778	Level 1
Available-for-sale financial assets	Fair value	67,327	67,327	Level 2
Other financial liabilities				
Trade and other payables	Amortized cost	\$ 234,478	\$ 234,478	Level 2
Provisions	Amortized cost	8,791	8,791	Level 2
Finance lease liabilities	Amortized cost	10,474	10,474	Level 2
Loans and borrowings	Amortized cost	194,439	194,439	Level 2
Convertible debentures	Amortized cost	48,004	73,453	Level 2
Redeemable share liability	Amortized cost	157	157	Level 2
Derivative instruments				
Other liabilities	Fair value	\$ 5,434	\$ 5,434	Level 2

The fair value hierarchy of financial instruments measured at fair value, as at December 31, 2018 includes financial assets of \$181,472, \$135,906 and \$3,310 for Levels 1, 2 and 3 respectively, and financial liabilities of \$nil, \$486,647 and \$nil for Levels 1, 2 and 3, respectively.

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

The carrying amounts of the Company's finance lease liabilities are based on interest rates at lease inception. The fair value of these is determined based on approximate current market interest rates.

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

The fair values of 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, 2018, 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 (2017 – \$146.49 per \$100.00 of face value). For the convertible debentures as at December 31, 2018, fair value is calculated based on the face value of the convertible debentures of \$50,125.

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

The Company maintains a notional \$100,000 (2017 – \$100,000) in interest rate swaps that mature by the fourth quarter of 2019 on which it pays a fixed rate of 1.895% and currently receives a one-month BA rate. The Company also maintains other financial derivatives which comprise of foreign exchange forwards, with maturities that do not exceed past the second quarter of 2019. As at December 31, 2018, a \$484 unrealized gain was recorded in other assets. (2017 – \$5,434 unrealized loss).

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.

	Carrying amount	
	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 90,267	\$ 36,207
Restricted marketable securities	5,994	13,778
Debt instruments	54,759	41,128
Trade receivables	122,131	138,516
	\$ 273,151	\$ 229,629

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. IFRS 9 provides a low credit risk simplified approach for certain trade receivables and IFRS 15 contract assets. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECL at all times. 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 the trade receivables and 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.

As at December 31, 2018, there are no financial assets that the Company deems to be impaired or that are past due according to their terms and conditions, for which allowances have not been recorded. The Company's trade receivables totaled \$122,131 as at December 31, 2018 [2017 – \$138,516]. The amount of trade receivables that the Company has determined to be past due [which is defined as a balance that is more than 90 days past due] is \$3,543 as at December 31, 2018 [2017 – \$3,965]. The Company's lifetime expected credit loss based on the total receivables, past due invoices, historical data and future analysis was \$1,606 as at December 31, 2018 [2017 – \$2,281].

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

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

LIQUIDITY RISK

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

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

	Carrying amount	Contractual cash flows	Remaining term to maturity			
			Under 1 year	1-3 years	3-5 years	More than 5 years
As at December 31, 2018:						
Trade and other payables	\$ 247,136	\$ 247,136	\$ 247,136	\$ -	\$ -	\$ -
Finance lease liabilities	9,199	10,399	1,892	3,852	3,852	803
Loans and borrowings	144,712	150,349	150,349	-	-	-
Convertible debentures	48,435	56,526	1,506	3,012	52,008	-
Redeemable share liability	13	13	-	-	-	13
	\$ 449,495	\$ 464,423	\$ 400,883	\$ 6,864	\$ 55,860	\$ 816

	Carrying amount	Contractual cash flows	Remaining term to maturity			
			Under 1 year	1-3 years	3-5 years	More than 5 years
As at December 31, 2017:						
Trade and other payables	\$ 234,478	\$ 234,478	\$ 234,478	\$ -	\$ -	\$ -
Finance lease liabilities	10,474	12,247	1,848	3,817	3,853	2,729
Loans and borrowings	194,439	201,488	6,125	195,363	-	-
Convertible debentures	48,004	58,015	1,504	3,008	3,008	50,495
Redeemable share liability	157	157	-	-	-	157
	\$ 487,552	\$ 506,385	\$ 243,955	\$ 202,188	\$ 6,861	\$ 53,381

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

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

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

MARKET RISK

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

(A) INTEREST RATE RISK

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

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

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

(i) Interest rate sensitivity analysis

The Company's net income is sensitive to the impact of a change in interest rates on the average indebtedness under the term credit facility and the revolving credit facility during the year. For the year ended December 31, 2017, the Company's average indebtedness under the term credit facility was \$170,000 [2017 - \$217,500] and under the revolving credit facility was \$nil [2017 - \$3,143].

Accordingly, a change during the year ended December 31, 2018 of a one percentage point increase or decrease in the applicable interest rate would have impacted the Company's net income by approximately \$1,247 [2017 - \$1,609].

(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.

23. Insurance Contract Risk

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

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

24. Capital Management

The Company's objectives when managing capital are to:

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

The capital structure of the Company has not changed from the prior fiscal year. The capital structure currently includes finance lease liabilities, convertible debentures, term credit facilities and borrowing capacity available under the revolving credit facilities (note 14). As at December 31, 2018, \$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 (2017 – \$649).

	As at December 31,	
	2018	2017
Current portion of finance lease liabilities	\$ 1,415	\$ 1,421
Current portion of loans and borrowings	144,712	–
Convertible debentures	48,435	48,004
Finance lease liabilities	7,784	9,053
Loans and borrowings	–	194,439
Total shareholders' equity	857,362	773,048
Total capital under management	\$ 1,059,708	\$ 1,025,965

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, 2018.

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, 2018, TGI's Minimum Capital Test ratio was 458% [2017 – 541%], 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, 2018, TGLI's LICAT ratio was 432% [2017 – MCCSR 656%], which is in compliance with the requirements of The Office of the Superintendent of Insurance of Alberta and the Act.

25. Commitments and Contingencies

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

No later than 1 year	\$	85,381
Later than 1 year and no later than 5 years		265,428
Later than 5 years		111,772
	\$	462,581

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

No later than 1 year	\$	1,632
Later than 1 year and no later than 5 years		5,178
Later than 5 years		2,889
	\$	9,699

(c) Pursuant to a reinsurance agreement relating to the extended warranty sales, the Company has pledged debt instruments amounting to \$5,994 [2017 – \$13,778].

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

26. Consolidated Statements of Cash Flows

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

	Year ended December 31,	
	2018	2017
Trade receivables	\$ 16,388	\$ (10,374)
Inventories	(11,403)	(9,113)
Prepaid expenses and other assets	362	1,843
Trade and other payables	13,026	19,597
Income taxes recoverable (payable)	(6,550)	(5,421)
Customers' deposits	18,284	10,088
Provisions	2,896	3,323
Deferred acquisition costs	823	298
Other liabilities	(5,918)	3,310
Deferred rent liabilities and lease inducements	230	(589)
	\$ 28,138	\$ 12,962

(b) Supplemental cash flow information:

	Year ended December 31,	
	2018	2017
Income taxes paid	\$ 46,680	\$ 48,631

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

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

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,	
	2018	2017
Salaries and other employee benefits	\$ 6,726	\$ 6,953

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, 2018 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

Wednesday, April 17, 2019, 2:00PM
Fairmont Royal York
100 Front Street West
Toronto, Ontario
M5J 1E3



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