



LEON'S FURNITURE LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2013 and 2012

Dated: May 14, 2013

The Management's Discussion and Analysis ("MD&A") for Leon's Furniture Limited/Meubles Leon Ltée ("Leon's" or the "Company") should be read in conjunction with i) the Company's 2012 audited consolidated financial statements and the related notes and MD&A and ii) the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2013, and 2012, and the related notes.

Cautionary Statement Regarding Forward-Looking Statements

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

Financial Statements Governance Practice

Leon's Furniture Limited's unaudited interim condensed consolidated financial statements have been prepared in accordance with the requirements of IAS 34, *Interim Financial Reporting* 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 for the applicable period.

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the unaudited interim condensed consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the unaudited interim condensed consolidated financial statements and MD&A were approved on May 14, 2013.

Introduction

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

Immediately upon completion of the Leon's Arrangement, which occurred on March 28, 2013, all outstanding common shares and common share purchase warrants were repurchased in accordance with the Leon's Arrangement and are no longer listed for trading on the Toronto Stock Exchange ("TSX"). The total consideration paid to shareholders and warrant holders of The Brick was approximately \$700 million. As a result of this transaction, 100% of The Brick's common shares are owned by Leon's Furniture Limited. Any Brick Debentures which remain outstanding will continue to be listed for trading on the TSX until their maturity on May 30, 2014.

With the Brick acquisition, Leon's Furniture Limited is now the largest retailer of furniture, appliances and electronics in Canada. The Brick's retail banners include The Brick; United Furniture Warehouse; The Brick Mattress Store; Brick Clearance Centres; and Urban Brick. The Urban Brick banner was launched in 2008 to provide condo and apartment dwellers and other metro market consumers with unique, stylish, high quality home furnishings at competitive prices. This concept is very similar to the Leon's Roundhouse which opened in downtown Toronto in 2009. Finally, the addition of the Brick's Midnorthern Appliance banner along side with Leon's Appliance Canada banner, makes the Company the country's largest commercial retailer of appliances to builders, developers, hotels and, property management companies, etc.

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

BANNER	NUMBER OF STORES
Leon's Corporate	43
Leons' Franchise	32
Appliance Canada	3
The Brick	106
Urban Brick	2
Brick Clearance Centres	6
The Brick Mattress Store	24
United Furniture Warehouse	24
Brick Franchise	69
Total number of stores	<u>309</u>

Revenues and Expenses

For the three months ended March 31, 2013, total Leon's sales were \$203,555,000 including \$41,097,000 of franchise sales and \$11,783,000 of The Brick sales from the March 28, 2013 date of acquisition until March 31, 2013, (\$200,651,000 including \$43,220,000 of franchise sales in 2012), an increase of 1.45%.

Leon's corporate sales, excluding The Brick, of \$150,675,000 in the first quarter of 2013, decreased by \$6,756,000, or 4.3%, compared to the first quarter of 2012. Same store sales decreased by 5.8% compared to the prior year.

Leon's banner franchise sales of \$41,097,000 in the first quarter of 2013, decreased by \$2,123,000 or 4.9%, compared to the first quarter of 2012. The decrease in sales in the first quarter compared to the same period in the prior year was very comparable to what we experienced with corporate stores in the first quarter.

Our gross margin for the first quarter 2013 of 40.73% was in line with the first quarter of 2012. We saw a slight increase in furniture margins offset by a slight decrease in our appliance and electronics margins when compared to the prior year first quarter.

Net operating expenses of \$59,269,000 were up \$5,963,000 or 11.2% for the first quarter 2013 compared to the first quarter of 2012. The increase in operating expenses compared to the prior year was mainly due to professional fees of approximately \$5,942,000 relating to the acquisition of The Brick. Excluding this factor, operating expenses were in line with the prior year.

As a result of the above, net income for the first quarter of 2013 was \$5,424,000, \$0.08 per common share (\$8,599,000, \$0.12 per common share in 2012), a decrease of \$0.04 per common share.

Annual Financial Information

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

Liquidity and Financial Resources

(\$ in thousands, except dividends per share)	Mar 31/13	Dec. 31/12	Mar 31/12
Cash, cash equivalents, available-for-sale financial assets	68,158	221,684	195,931
Trade and other accounts receivable	83,800	30,245	17,315
Inventory	240,083	86,057	91,694
Total assets	1,672,874	585,592	563,793
Working capital	35,242	227,221	208,154
	Current Quarter Mar 31, 2013	Current Quarter Dec. 31, 2012	Current Quarter Mar 31, 2012
For the 3 months ended			
Cash flow provided by (used in) operations	(3,736)	22,926	(7,581)
Purchase of property, plant and equipment	1,565	3,678	3,586
Repurchase of capital stock	-	-	232
Dividends paid	7,055	7,001	17,457
Dividends paid per share	\$0.10	\$0.10	\$0.25

Cash and cash equivalents, and available-for-sale financial assets decreased by \$153,526,000 in the quarter as a result of the purchase of The Brick.

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

Common Shares

At March 31, 2013, there were 70,606,486 common shares issued and outstanding. During the first quarter 2013, no shares were repurchased and cancelled by the Company through its Normal Course Issuer Bid. In addition, during the quarter ended March 31, 2013, 41,581 convertible, non-voting series 2005 shares were converted into common shares. For details on the Company's commitments related to its redeemable shares, please refer to note 10 of the unaudited interim condensed consolidated financial statements.

Commitments

(\$ in thousands)	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long term debt	538,219	3,940	34,279	400,000	100,000
Operating Leases ¹	737,528	68,002	116,715	116,898	435,913
Outstanding purchase orders	89,781	89,781	-	-	-
Finance Leases	282,311	11,941	23,826	23,075	223,469
Total Contractual Obligations	1,647,839	173,664	174,820	539,973	759,382

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

Critical Accounting Estimates and Assumptions

Please refer to Note 4 of the 2012 annual consolidated financial statements for the Company's critical accounting estimates and assumptions.

Recent Accounting Pronouncements

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

Related Party Transactions

At March 31, 2013, we had no transactions with related parties as defined in *IAS24 – Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment.

Risks and Uncertainties

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

Quarterly Results (2013, 2012, 2011)

Quarterly Income Statement (\$000) – except per share data

	Quarter Ended March 31		Quarter Ended December 31		Quarter Ended September 30		Quarter Ended June 30	
	2013	2012	2012	2011	2012	2011	2012	2011
Leon's corporate sales	162,458	157,431	188,462	193,823	174,175	174,373	162,095	163,857
Leon's franchise sales	41,097	43,220	59,725	61,166	49,505	49,273	45,627	45,477
Total Leon's system-wide sales	203,555	200,651	248,187	254,989	223,680	223,646	207,722	209,334
Net income per share	\$0.08	\$0.12	\$0.23	\$0.28	\$0.19	\$0.22	\$0.13	\$0.16
Fully diluted per share	\$0.07	\$0.12	\$0.22	\$0.27	\$0.18	\$0.21	\$0.12	\$0.15

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 March 31, 2013.

Internal Controls over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. The Company assessed the effectiveness of its internal control over financial reporting as of March 31, 2013, based on the framework established in the publications, Internal Control – Integrated Framework and specifically in Internal Control over Financial Reporting - Guidance for Smaller Public Companies published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the CEO and the CFO concluded that the Company maintained effective internal control over financial reporting as of March 31, 2013.

Changes in Internal Control over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2013 and ended on March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company has determined that no material changes in internal controls have occurred during this period.

Outlook

We have been experiencing poor economic growth which began in 2009 and we don't see any signs of any significant improvement so far in 2013. As such, we anticipate that consumer discretionary spending will remain soft for the balance of 2013. However, having opened three new stores in 2013, coupled with the completion of The Brick purchase at the end of March 2013, we should see improved sales and profitability for the balance of the year.

Non-IFRS Financial Measures

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

(\$ in thousands)	Mar 31, 2013	Mar 31, 2012
Net corporate sales	162,458	157,431
Adjustments for stores not in both fiscal periods	14,182	-
Comparable store sales	148,276	157,431