

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVISED

For the quarter and year ended December 31, 2014 and 2013.

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 26, 2015 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, 2014 and for the year ended December 31, 2014. It should be read in conjunction with the fiscal year 2014 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2014 quarterly financial statements and corresponding MD&As which are published separately and available at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

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

Financial Statements Governance Practice

The consolidated financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") The amounts expressed are in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding before and after considering the potential dilutive effects of the convertible debentures for the applicable period.

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the fiscal year 2014 consolidated financial statements and MD&A were approved on February 26, 2015 and revised on July 2, 2015.

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1. BUSINESS OVERVIEW

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

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

With the acquisition of The Brick, Leon's Furniture Limited is now the largest network of home furniture, appliances and electronics, and mattress stores in Canada. Our retail banners include: Leon's; The Brick; The Brick Mattress Store; The Brick Clearance Centre; and United Furniture Warehouse ("UFW"). Finally, the addition of 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.

The Company's repair service division, Trans Global Services, provides household furniture, electronics and appliance repair services to its customers. The repair services division primarily 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 four 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. This credit insurance coverage includes life, dismemberment, disability, critical illness, involuntary unemployment, property, and family leave of absence. 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.

As a result of Leon's major acquisition of The Brick, the Company 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 banner corporate stores	44
Leon's banner franchise stores	36
Appliance Canada banner stores	3
The Brick banner corporate stores ¹	112
The Brick banner franchise stores ²	67
The Brick Mattress Store banner locations	24
UFW banner stores	6
UFW and The Brick Clearance Centre banner stores	10
Total number of stores	302

¹Includes the Midnorthern Appliance banner

²Includes one UFW Franchise

2. NON-IFRS FINANCIAL MEASURES

Same Store Sales

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

Total System Wide Sales

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

Franchise Sales

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

3. RESULTS OF OPERATION

Consolidated operating results for the quarters ended December 31, 2014 and December 31, 2013

(000's of \$ except % and per share amounts)	For the three months ended December 31			
	2014	(Restated) 2013	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	649,386	633,870	15,516	2.4%
Franchise sales ⁽¹⁾	107,180	110,846	(3,666)	(3.3%)
Revenue	542,206	523,024	19,182	3.7%
Cost of sales	304,529	289,244	15,285	5.3%
Gross profit	237,677	233,780	3,897	1.7%
<i>Gross profit margin as a percentage of revenue</i>	43.84%	44.70%		
Operating expenses	191,616	192,566	(950)	(0.5%)
<i>Operating expenses as a percentage of revenue</i>	35.34%	36.82%		
Net finance costs	4,351	4,728	(377)	(8.0%)
Income before income taxes	41,710	36,486	5,224	14.3%
Income tax expense	11,796	10,152	1,644	16.2%
Net income	29,914	26,334	3,580	13.6%
<i>Net income as a percentage of revenue</i>	5.52%	5.03%		
Basic weighted average number of common shares	71,040,021	70,626,561		
Basic earnings per share	\$ 0.42	\$ 0.37	0.05	13.5%
Diluted weighted average number of common shares	82,332,550	81,664,033		
Diluted earnings per share	\$ 0.38	\$ 0.34	0.04	11.8%
Common share dividends declared	\$ 0.10	\$ 0.10	-	
Convertible, non-voting shares dividends declared	\$ -	\$ -	-	

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

Same Store Sales ⁽¹⁾

(000's of \$ except %)	For the three months ended December 31			
	2014	2013	\$ Increase (Decrease)	% Increase (Decrease)
Revenue	542,206	523,024	19,182	3.7%
Adjustments for stores not in both fiscal periods	-	(3,172)	3,172	
Same store sales ⁽¹⁾	542,206	519,852	22,354	4.3%

(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, 2014, revenue was \$542,206,000 compared to \$523,024,000 in the prior year's fourth quarter, an increase of 3.7%.

Same Store Sales

Same store sales increased by 4.3% for the fourth quarter compared to the prior year's fourth quarter. We had strong sales growth in both commercial and retail sales in the quarter. We did see a slight improvement in sales aided by a stronger marketing campaign in the later part of 2014 and by severe weather conditions in Eastern Canada which impacted the sales during the fourth quarter of the prior year's quarter.

Gross Profit

In the fourth quarter of 2014 the gross profit as a percentage of revenue decreased 0.86% compared to the prior year's quarter. The decrease occurred as a result of the change of sales mix between commercial and retail sales. Commercial sales were greater in the fourth quarter 2014 versus the prior year's quarter. Given that appliance sales have a lower gross profit margin compared to furniture sales the overall gross profit margin decreased.

Operating Expenses

In the fourth quarter of 2014 operating expenses decreased \$950,000 compared to the prior year's quarter. The decrease relates primarily to one time legal costs relating to the acquisition of The Brick. As well, there was a reduction in delivery charges as a result of the lower price of fuel and less reliance on third party cartage companies offset by an increase in advertising expenditures to promote sales during the holiday season.

Net Income and Earnings per Share

As a result of the above, net income for the fourth quarter of 2014 was \$29,914,000, \$0.42 per common share (\$26,334,000, \$0.37 per common share in 2013). Net income per fully diluted common share for 2014 was \$0.38 (\$0.34 per fully diluted common share in 2013), an increase of 11.8% per share.

Consolidated operating results for fiscal years 2014, 2013 and 2012

(000's of \$ except % and per share amounts)	For the year ended December 31							
	2014	(Restated) 2013	\$ Increase (Decrease)	% Increase (Decrease)	(Restated) 2013	2012	\$ Increase (Decrease)	% Increase (Decrease)
Total system wide sales ⁽¹⁾	2,348,376	2,039,428	308,948	15.1%	2,039,428	880,240	1,159,188	131.7%
Franchise sales ⁽¹⁾	373,959	344,785	29,174	8.5%	344,785	198,077	146,708	74.1%
Revenue ⁽²⁾	1,974,417	1,694,643	279,774	16.5%	1,694,643	682,163	1,012,480	148.4%
Cost of sales ⁽²⁾	1,117,460	959,307	158,153	16.5%	959,307	398,704	560,603	140.6%
Gross profit ⁽²⁾	856,957	735,336	121,621	16.5%	735,336	283,459	451,877	159.4%
<i>Gross profit margin as a percentage of revenue</i>	43.40%	43.39%			43.39%	41.55%		
Operating expenses ⁽²⁾	737,064	627,762	109,302	17.4%	627,762	223,637	404,125	180.7%
<i>Operating expenses as a percentage of revenue</i>	37.33%	37.04%			37.04%	32.78%		
Net finance costs ⁽²⁾⁽³⁾	16,759	14,304	2,455	17.2%	14,304	(3,861)	18,165	
Income before income taxes ⁽²⁾	103,134	93,270	9,864	10.6%	93,270	63,683	29,587	46.5%
Income tax expense ⁽²⁾	27,610	24,878	2,732	11.0%	24,878	16,901	7,977	47.2%
Net income ⁽²⁾	75,524	68,392	7,132	10.4%	68,392	46,782	21,610	46.2%
<i>Net income as a percentage of revenue</i>	3.83%	4.04%			4.04%	6.86%		
Basic weighted average number of common shares	70,898,590	70,612,407			70,612,407	70,032,721		
Basic earnings per share ⁽²⁾	\$ 1.07	\$ 0.97	0.10	10.3%	\$ 0.97	\$ 0.67	0.30	44.8%
Diluted weighted average number of common shares	82,177,519	79,818,914			79,818,914	72,317,598		
Diluted earnings per share ⁽²⁾	\$ 0.96	\$ 0.89	0.07	7.9%	\$ 0.89	\$ 0.65	0.24	36.9%
Common share dividends declared	\$ 0.40	\$ 0.40	-		\$ 0.40	\$ 0.40	-	
Convertible, non-voting shares dividends declared	\$ 0.20	\$ 0.20	-		\$ 0.20	\$ 0.20	-	

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

(2) The Company's results for the year ended December 31, 2013 include the results of The Brick as of the date of acquisition on March 28, 2013.

(3) Net finance costs for the year ended December 31, 2012 included \$3,861 of finance income.

Same Store Sales ⁽¹⁾

(000's of \$ except %)	For the year ended December 31			
	2014	2013	\$ Increase (Decrease)	% Increase (Decrease)
Revenue ⁽²⁾	1,974,417	1,866,977	107,440	5.8%
Adjustments for stores not in both fiscal periods ⁽³⁾	(99,208)	-	(99,208)	
Same store sales ⁽¹⁾	1,875,209	1,866,977	8,232	0.4%

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

(2) The revenue for the year ended December 31, 2013 includes the full fiscal year of The Brick Ltd. as required for comparative purposes.

(3) For the year ended December 31, 2014, there are ten locations excluded for the adjustments for stores not in both fiscal periods.

Year to Date Overall Performance

Revenue

For the year ended December 31, 2014, revenue was \$1,974,417,000 compared to \$1,694,643,000 from fiscal 2013, an increase of 16.5%. For fiscal 2013 the revenue included the results of The Brick as of the date of acquisition on March 28, 2013.

Same Store Sales

Overall, same store sales for the year 2014 increased by 0.4% compared to the prior year.

Gross Profit

Our gross profit margin for 2014 was basically flat when compared to the prior at 43.40% versus 43.39%.

Operating Expenses

In fiscal 2014, net operating expenses of \$737,064,000 increased \$109,302,000 from fiscal 2013. The main reason for this increase is the result of including operating expenses of The Brick Limited for the entire year 2014 compared to March 28, 2103 (date of acquiring The Brick Limited) until December 31, 2013. Excluding this factor, operating expenses relatively speaking were down approximately 1% as a percentage of revenue compared to the prior fiscal year. The decrease was mainly the result of lower salary costs. The reduced salary costs came about as a result of our synergy plan.

Net Income and Earnings per Share

As a result of the above, net income for the year was \$75,524,000, \$1.07 per common share (\$68,392,000, \$0.97 per common share in 2013). Net income per fully diluted common share for 2014 was \$0.96 (\$0.89 per fully diluted common share in 2013), an increase of 7.9% per share. These figures include The Brick Limited results since March 28, 2013.

Change between fiscal year 2013 compared to fiscal year 2012

The Company would like to highlight that the changes noted in the table on page 7 between fiscal year 2013 compared to fiscal year 2012 is due mainly to the acquisition of The Brick that occurred on March 28, 2013.

4. SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

(000's of \$) - except per share data	Quarter Ended December 31		Quarter Ended September 30		Quarter Ended June 30		Quarter Ended March 31	
	2014	2013 ⁽¹⁾⁽²⁾	2014	2013 ⁽¹⁾⁽²⁾	2014 ⁽²⁾	2013 ⁽¹⁾⁽²⁾	2014 ⁽²⁾	2013
Total system wide sales ⁽³⁾	649,386	633,871	629,152	628,619	561,438	573,384	508,400	203,554
Franchise sales ⁽³⁾	107,180	110,846	97,467	100,017	86,921	92,825	82,391	41,097
Revenue	542,206	523,025	531,685	528,602	474,517	480,559	426,009	162,457
Net income	29,914	26,334	27,287	21,760	16,987	12,983	1,336	7,315
Net income per share	\$ 0.42	\$ 0.37	\$ 0.38	\$ 0.31	\$ 0.24	\$ 0.21	\$ 0.02	\$ 0.08
Fully diluted per share	\$ 0.38	\$ 0.34	\$ 0.34	\$ 0.28	\$ 0.21	\$ 0.18	\$ 0.02	\$ 0.07

(1) The Company's quarterly results include the results of The Brick as of the date of acquisition on March 28, 2013.

(2) Restated net income and earnings per share

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

The table above 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.

5. FINANCIAL POSITION

(000's of \$)	December 31, 2014	December 31, 2013 ⁽¹⁾	December 31, 2012
Total assets	1,563,476	1,565,356	588,178
Total non-current liabilities	590,055	628,114	20,265

(1) Restated

Assets

Total assets at December 31, 2014 of \$1,563,476,000 were \$1,880,000 lower than the \$1,565,356,000 reported at December 31, 2013. The principal components of this net change are the following:

- \$12,109,000 increase in cash and cash equivalents
- \$7,896,000 increase in trade receivables
- \$18,655,000 decrease in property, plant & equipment ("PP&E")

The increase in cash is due primarily to improved income before income taxes year over year. The increase in trade receivables is due to improved sales in the fourth quarter of 2014 compared to the prior period. The decrease in PP&E is due to normal depreciation charges being greater than additions.

Non-Current Liabilities

Non-current liabilities of \$590,055,000 were \$38,059,000 lower than the \$628,114,000 reported at December 31, 2013. The reduction is primarily tied to the Company further reducing its loans and borrowings by an equivalent amount.

6. LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summarized statement of cash flows for the quarters and years ended December 31, 2014 and December 31, 2013.

Source (Use) of Cash (000's of \$)	For the three months ended December 31			For the year ended December 31		
	2014	2013	\$ Increase (Decrease)	2014	2013	\$ Increase (Decrease)
Cash provided by operating activities before changes in non-cash working capital items	46,030	43,714	2,316	132,808	115,807	17,001
Changes in non-cash working capital items	4,588	(59,151)	63,739	19,180	(39,414)	58,594
Cash provided by operating activities	50,618	(15,437)	66,055	151,988	76,393	75,595
Investing activities	(10,313)	(13,669)	3,356	(19,963)	(552,393)	532,430
Financing activities	(32,090)	(23,018)	(9,072)	(119,916)	406,883	(526,799)
Increase (decrease) in cash and cash equivalents	8,215	(52,124)	60,339	12,109	(69,117)	81,226

Cash Flow from 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 2014 operating activities increased \$66,055,000 compared to the prior year's quarter. The increase is the result of the change in non-cash working capital, primarily as a result of the change in income taxes payable.

In fiscal 2014 cash provided by operations increased \$75,595,000 from fiscal 2013. The increase is the result of higher earnings and the change in non-cash working capital, primarily as a result of the acquisition of The Brick. With the

acquisition of The Brick every non-cash working capital item increased significantly.

Cash Used in Investing Activities

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

In the fourth quarter of 2014 investing activities decreased \$3,356,000 compared to the prior year's quarter. The decrease is the result of lower capital expenditures.

Cash used in investing activities changed by \$532,430,000 from fiscal 2013. The change is the result of net proceeds of \$654,954,000 used in the acquisition of The Brick. The purchase of The Brick was offset by the net proceeds from the sale of available-for-sale investments of \$127,958,000.

Cash Flow from (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 2014 financing activities changed by \$9,072,000 compared to the prior year's quarter due from the reduction of the term loan.

In fiscal 2014, cash used in financing activities of \$119,916,000 primarily consists of the term loan repayment and dividends payment. In contrast, in fiscal 2013, the financing activities provided net cash inflows of \$406,883,000 due to the financing received related to the acquisition of The Brick: the issuance of \$400,000,000 term loan and the issuance of \$100,000,000 convertible debentures.

Adequacy of Financial Resources

At December 31, 2014, the Company's current assets exceeded its current liabilities by \$18,972,000 and its cash and cash equivalents on hand and available-for-sale financial assets were \$40,299,000 compared to \$23,168,000 at December 31, 2013. Under the Company's Senior Secured Credit Agreement we had unused borrowing capacity of \$100.0 million as at the end of both reporting periods of December 31, 2014 and 2013. The Company believes that its 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

(000's in \$)	Payments Due by Period				
	Total	Under 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Long term debt	465,954	63,591	286,656	6,000	109,707
Operating leases ⁽¹⁾	519,046	83,038	149,366	112,005	174,637
Trade and other payables	197,044	197,044	-	-	-
Finance lease liabilities	19,953	2,893	4,814	3,738	8,508
Total Contractual Obligations	1,201,997	346,566	440,836	121,743	292,852

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

7. OUTLOOK

Overall we are pleased with the significant increase in sales and solid profit growth we experienced with the purchase of The Brick since the acquisition in 2013. Even though we anticipate soft economic growth going forward, we expect to see a continuation of improved profit growth in 2015 by improving same store sales, enhancing e-commerce sales, maintaining gross margins and continuing to drive efficiencies that will result from the continued integration of The Brick.

8. OUTSTANDING COMMON SHARES

At December 31, 2014, there were 71,056,885 common shares issued and outstanding. During the year ended December 31, 2014, 135,433 convertible, non-voting series 2005 shares and 286,743 convertible non-voting series 2009 shares were converted into common shares. There were 6,722 convertible, non-voting series 2009 shares; 20,812 convertible, non-voting series 2012 shares; and 43,228 convertible, non-voting series 2013 shares cancelled. For details on the Company's commitments related to its redeemable shares please refer to Note 15 of the 2014 consolidated financial statements.

9. RELATED PARTY TRANSACTIONS

At December 31, 2014, 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.

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.

Revenue recognition

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

Inventories

The Company estimates the net realizable value as the amount at which inventories are expected to be sold by taking into account fluctuations of retail prices due to prevailing market conditions. If required, inventories are written down to net

realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or declining sales prices.

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

Impairment of available-for-sale financial assets and marketable securities

The Company exercises judgment in the determination of whether there are objective indicators of impairment with respect to its available-for-sale financial assets and marketable securities. This includes making judgments as to whether a potential impairment is either significant or prolonged with respect to equity securities held.

Impairment of property, plant and equipment

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

Impairment of goodwill and intangible assets

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

Provisions

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

Materiality

In preparing this MD&A and the information contained herein, management considers the likelihood that a reasonable investor would be influenced to buy or not buy, or to sell or hold securities of the Company if such information were omitted

or misstated. This concept of materiality is consistent with the notion of materiality applied to financial statements and contained in IFRS.

Recent Accounting Pronouncements

Accounting standards and amendments issued but not yet adopted

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

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), was issued in May 2014, which will replace IAS 11, Construction Contracts, IAS 18, Revenue Recognition, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17, Leases; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, Consolidated Financial Statements and IFRS 11, Joint Arrangements (“IFRS 11”). In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity’s ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

In May 2014, the IASB issued amendments to IFRS 11 to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, Business Combinations. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company is in the process of evaluating the impact of adopting this amendment may have on the Company’s consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16, Property, Plant and Equipment (“IAS 16”) and IAS 38, Intangible Assets (“IAS 38”) to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company is in the process of evaluating the impact of adopting these amendments on the Company’s consolidated financial statements.

Adoption of new, revised or amended accounting standards

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

[i] Effective January 1, 2014, the Company adopted amendments to IAS 32, Financial Instruments: Presentation (“IAS 32”). IAS 32 clarifies the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The adoption of this new standard had no impact on the consolidated financial statements.

[ii] Effective January 1, 2014, the Company adopted IFRIC Interpretation 21, Levies (“IFRIC 21”). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The adoption of this new standard had no impact on the consolidated financial statements.

[iii] IAS 36, Impairment of Assets (“IAS 36”) – On May 29, 2013, IASB published amendments to IAS 36, which reduce the circumstances in which the recoverable amount of cash-generating units is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. This amendment is effective for annual periods beginning on or after January 1, 2014. The Company adopted the IAS 36 amendments in its consolidated financial statements for the annual period beginning on January 1, 2014. The adoption did not have a material impact on the consolidated financial statements.

11. RISKS AND UNCERTAINTIES

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

Readers of this MD&A are also encouraged to refer to Leon's Annual Information Form ("AIF") dated March 27, 2015 which provides information on the risk factors facing the Company. The March 27, 2015 AIF can be found on line 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, due to the last global economic crisis in 2008. Although the economy responded positively with a modest recovery in 2010 through to 2014, at present, the outlook for the retailing industry continues to remain uncertain, and weakness in sales or consumer confidence could continue resulting 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 highrise 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 occurrences of such events 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, 2014.

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. As required by National Instrument 52-109 ("NI 52-109"), management, including the CEO and CFO, evaluated the design and operation of the Company's internal control over financial reporting as defined in NI 52-109 as at December 31, 2014. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Based on this assessment, the CEO and the CFO concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014.

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, 2014 and ended on December 31, 2014 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.