

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)		
(\$ in thousands)	As at September 30 2016	As at December 31 2015
ASSETS		
Current assets		
Cash and cash equivalents	20,943	7,859
Restricted marketable securities	18,845	18,691
Available-for-sale financial assets	32,908	22,960
Trade receivables	114,474	117,832
Income taxes receivable	2,042	24,920
Inventories <i>[note 5]</i>	315,640	303,961
Deferred acquisition costs	9,788	8,329
Deferred financing costs	170	473
Total current assets	514,810	505,025
Other assets	14,032	6,214
Deferred acquisition costs	10,618	13,093
Property, plant and equipment <i>[note 6]</i>	315,635	323,218
Investment properties <i>[note 7]</i>	18,113	18,496
Intangible assets <i>[note 8]</i>	312,744	318,214
Goodwill	390,120	390,120
Deferred income tax assets	8,344	9,083
Total assets	1,584,416	1,583,463
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	230,219	206,076
Provisions	5,018	5,343
Income taxes payable	6,253	7,266
Customers' deposits	96,985	112,446
Finance lease liability	2,011	1,954
Dividends payable	7,177	7,141
Deferred warranty plan revenue	54,478	49,380
Loans and borrowings <i>[note 10]</i>	253,651	50,000
Other liabilities	5,530	-
Total current liabilities	661,322	439,606
Loans and borrowings <i>[note 10]</i>	-	237,357
Convertible debentures <i>[note 10]</i>	93,295	92,628
Finance lease liability	10,382	11,895
Deferred warranty plan revenue	88,994	95,775
Redeemable share liability <i>[note 9]</i>	503	880
Deferred rent liabilities and lease inducements	11,044	8,858
Deferred income tax liabilities	89,549	96,062
Total liabilities	955,089	983,061
Shareholders' equity attributable to the shareholders of the Company		
Common shares <i>[note 11]</i>	38,565	34,389
Equity component of convertible debentures <i>[note 10]</i>	7,089	7,089
Retained earnings	583,376	558,526
Accumulated other comprehensive income	297	398
Total shareholders' equity	629,327	600,402
Total liabilities and shareholders' equity	1,584,416	1,583,463

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

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)				
(\$ in thousands)	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Revenue	575,724	548,861	1,555,355	1,471,489
Cost of sales <i>[note 5]</i>	330,788	309,515	898,623	831,451
Gross profit	244,936	239,346	656,732	640,038
Operating expenses				
Selling, general and administration expenses	195,027	197,527	582,422	562,695
Operating profit	49,909	41,819	74,310	77,343
Finance costs	(4,130)	(4,775)	(12,634)	(14,494)
Finance income	495	342	1,679	1,110
Net income before income taxes	46,274	37,386	63,355	63,959
Income tax expense <i>[note 12]</i>	12,163	10,046	16,997	17,517
Net income for the period	34,111	27,340	46,358	46,442
Weighted average number of common shares outstanding				
Basic	71,761,280	71,237,230	71,653,969	71,163,685
Diluted	82,989,619	82,316,642	83,112,811	82,322,677
Earnings per share <i>[note 13]</i>				
Basic	\$ 0.48	\$ 0.38	\$ 0.65	\$ 0.65
Diluted	\$ 0.42	\$ 0.34	\$ 0.58	\$ 0.59

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Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)			
(\$ in thousands)	Three months ended September 30		
	2016	Tax effect	Net of tax 2016
Net income for the period	34,111	-	34,111
Other comprehensive income, net of tax			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized gains on available-for-sale financial assets arising during the period	530	97	433
Reclassification adjustment for net losses included in profit for the period	(158)	(42)	(116)
Change in unrealized gains on available-for-sale financial assets arising during the period	372	55	317
Comprehensive income for the period	34,483	55	34,428
(\$ in thousands)	Three months ended September 30		
	2015	Tax effect	Net of tax 2015
Net income for the period	27,340	-	27,340
Other comprehensive income, net of tax			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized losses on available-for-sale financial assets arising during the period	(1,426)	(378)	(1,048)
Reclassification adjustment for net losses included in profit for the period	(17)	(5)	(12)
Change in unrealized losses on available-for-sale financial assets arising during the period	(1,443)	(383)	(1,060)
Comprehensive income for the period	25,897	(383)	26,280

(\$ in thousands)	Nine months ended September 30		
	2016	Tax effect	Net of tax 2016
Net income for the period	46,358	-	46,358
Other comprehensive income, net of tax			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized gains on available-for-sale financial assets arising during the period	537	39	498
Reclassification adjustment for net losses included in profit for the period	(816)	(217)	(599)
Change in unrealized losses on available-for-sale financial assets arising during the period	(279)	(178)	(101)
Comprehensive income for the period	46,079	(178)	46,257
(\$ in thousands)	Nine months ended September 30		
	2015	Tax effect	Net of tax 2015
Net income for the period	46,442	-	46,442
Other comprehensive income, net of tax			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized losses on available-for-sale financial assets arising during the period	(1,928)	(512)	(1,416)
Reclassification adjustment for net losses included in profit for the period	(8)	(2)	(6)
Change in unrealized losses on available-for-sale financial assets arising during the period	(1,936)	(514)	(1,422)
Comprehensive income for the period	44,506	(514)	45,020

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Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)					
(\$ in thousands)	Equity component of convertible debentures	Common shares	Accumulated other comprehensive income (loss)	Retained earnings	Total
As at December 31, 2014	7,089	31,169	449	510,398	549,105
Comprehensive income					
Net income for the period	-	-	-	46,442	46,442
Change in unrealized losses on available-for-sale financial assets arising during the period	-	-	(1,422)	-	(1,422)
Total comprehensive income	-	-	(1,422)	46,442	45,020
Transactions with shareholders					
Dividends declared	-	-	-	(21,360)	(21,360)
Management share purchase plan [note 9]	-	2,613	-	-	2,613
Total transactions with shareholders	-	2,613	-	(21,360)	(18,747)
As at September 30, 2015	7,089	33,782	(973)	535,480	575,378
As at December 31, 2015	7,089	34,389	398	558,526	600,402
Comprehensive income					
Net income for the period	-	-	-	46,358	46,358
Change in unrealized losses on available-for-sale financial assets arising during the period	-	-	(101)	-	(101)
Total comprehensive loss	-	-	(101)	46,358	46,257
Transactions with shareholders					
Dividends declared	-	-	-	(21,508)	(21,508)
Management share purchase plan [note 9]	-	4,176	-	-	4,176
Total transactions with shareholders	-	4,176	-	(21,508)	(17,332)
As at September 30, 2016	7,089	38,565	297	583,376	629,327

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

Interim Condensed Consolidated Financial Statements

Leon's Furniture Limited INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)		
(\$ in thousands)	Nine months ended September 30	
	2016	2015
OPERATING ACTIVITIES		
Net income for the period	46,358	46,442
Add (deduct) items not involving an outlay of cash		
Depreciation of property, plant and equipment and investment properties	24,972	24,714
Amortization of intangible assets	5,609	5,971
Amortization of deferred warranty plan revenue	(29,304)	(46,575)
Net finance costs	10,955	13,384
Deferred income taxes	(5,631)	(3,216)
Gain on sale of property, plant and equipment and investment properties	(25)	(996)
Gain on sale of available-for-sale financial assets	(792)	(10)
	52,142	39,714
Net change in non-cash working capital balances related to operations <i>[note 15]</i>	22,447	(53,826)
Cash received on warranty plan sales	27,621	45,920
Cash provided by operating activities	102,210	31,808
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and investment properties <i>[notes 6 & 8]</i>	(17,095)	(13,531)
Purchase of intangible assets <i>[note 8]</i>	(139)	(4,605)
Proceeds on sale of property, plant and equipment and investment properties	114	4,355
Purchase of available-for-sale financial assets	(22,051)	(6,866)
Proceeds on sale of available-for-sale financial assets	12,462	4,651
Interest received	1,284	995
Cash used in investing activities	(25,425)	(15,001)
FINANCING ACTIVITIES		
Repayment of finance leases	(1,403)	(1,463)
Dividends paid	(21,472)	(21,334)
Decrease of employee loans-redeemable shares <i>[note 9]</i>	3,799	3,093
Proceeds from revolving loan <i>[note 10]</i>	-	14,990
Repayment of term loan <i>[note 10]</i>	(35,000)	(20,000)
Interest paid	(9,625)	(10,809)
Cash used in financing activities	(63,701)	(35,523)
Net increase (decrease) in cash and cash equivalents during the period	13,084	(18,716)
Cash and cash equivalents, beginning of period	7,859	45,900
Cash and cash equivalents, end of period	20,943	27,184

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

Leon's Furniture Limited

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

For the three- and nine-month periods ended September 30, 2016 and 2015

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

The interim condensed consolidated financial statements of the Company are prepared in accordance with IAS 34, *Interim Financial Reporting*. Accordingly, certain information and note disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The consolidated financial statements of the Company include the financial results of Leon's Furniture Limited and its wholly owned subsidiaries.

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 10, 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the adoption of the new, revised or amended accounting standards noted below, these interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of Leon's for the year ended December 31, 2015. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, *Presentation of Financial Statements*. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015.

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, 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 interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Leon's Furniture Limited

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* ("IAS 17"); financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, *Consolidated Financial Statements* and IFRS 11, *Joint Arrangements* ("IFRS 11"). In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

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

Adoption of new, revised or amended accounting standards

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 combination 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. As at January 1, 2016, the Company adopted this pronouncement and there was no impact on the interim condensed 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. As at January 1, 2016, the Company adopted this pronouncement and there was no impact on the interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
Leon's Furniture Limited

4. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to:

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

The capital structure of the Company has not changed from the prior fiscal year. The capital structure currently includes finance lease liabilities, convertible debentures, term credit facility and borrowing capacity available under the revolving credit facilities (note 10). As at September 30, 2016, \$99,565 is available to draw on under our \$100,000 revolving credit facility, as the borrowing capacity is reduced by ordinary letters of credit of \$435 primarily with respect to buildings under construction or being completed (2015 — \$486).

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 covenants as at September 30, 2016.

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, as well as capital and operating budgets. Based on the Company's borrowing capacity 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. Refer to note 24 in the fiscal year 2015 consolidated financial statements.

5. INVENTORIES

The amount of inventories recognized as an expense for the nine-month period ended September 30, 2016 was \$867,080 (period ended September 30, 2015 — \$816,507), which is presented within cost of sales on the interim condensed consolidated statements of income.

During the three-month period ended September 30, 2016, there was \$396 in inventory write-downs (three-month period ended September 30, 2015 — \$216 inventory reversals). As at September 30, 2016, the inventory markdown provision totalled \$8,753 (as at December 31, 2015 — \$7,443).

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
Leon's Furniture Limited

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
As at September 30, 2016:								
Opening net book value	85,051	110,996	41,818	14,738	60,066	9,516	1,033	323,218
Additions	1,203	443	5,622	5,679	3,875	—	273	17,095
Disposals	—	—	(79)	(8)	(2)	—	—	(89)
Depreciation	—	(4,394)	(6,699)	(2,256)	(9,786)	(848)	(606)	(24,589)
Closing net book value	86,254	107,045	40,662	18,153	54,153	8,668	700	315,635
As at September 30, 2016:								
Cost	86,254	229,307	108,651	42,019	145,989	12,626	3,067	627,913
Accumulated depreciation	—	(122,262)	(67,989)	(23,866)	(91,836)	(3,958)	(2,367)	(312,278)
Net book value	86,254	107,045	40,662	18,153	54,153	8,668	700	315,635

	Land	Buildings	Equipment	Vehicles	Building Improvements	Leased Property	Leased Equipment	Total
As at December 31, 2015:								
Opening net book value	84,133	116,722	41,904	8,379	70,370	10,647	1,897	334,052
Additions	944	416	9,055	8,591	3,440	—	—	22,446
Disposals	(26)	(2)	(41)	(62)	—	—	—	(131)
Depreciation	—	(6,140)	(9,100)	(2,170)	(13,744)	(1,131)	(864)	(33,149)
Closing net book value	85,051	110,996	41,818	14,738	60,066	9,516	1,033	323,218
As at December 31, 2015:								
Cost	85,051	228,864	103,640	36,663	142,776	12,626	2,954	612,574
Accumulated depreciation	—	(117,868)	(61,822)	(21,925)	(82,710)	(3,110)	(1,921)	(289,356)
Net book value	85,051	110,996	41,818	14,738	60,066	9,516	1,033	323,218

Included in the above balances as at September 30, 2016 are assets not being amortized with a net book value of approximately \$3,552 (as at December 31, 2015 – \$1,464) being construction in progress. Also included are fully depreciated assets still in use with a cost of \$175,830 (as at December 31, 2015 – \$167,033).

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
Leon's Furniture Limited

7. INVESTMENT PROPERTIES

	Land	Buildings	Building Improvements	Total
As at September 30, 2016:				
Opening net book value	10,946	6,692	858	18,496
Additions	—	—	—	—
Disposals	—	—	—	—
Depreciation	—	(325)	(58)	(383)
Closing net book value	10,946	6,367	800	18,113
As at September 30, 2016:				
Cost	10,946	17,333	2,554	30,833
Accumulated depreciation	—	(10,966)	(1,754)	(12,720)
Net book value	10,946	6,367	800	18,113
As at December 31, 2015:				
Opening net book value	12,519	8,798	675	21,992
Additions	—	—	310	310
Disposal	(1,573)	(1,625)	(63)	(3,261)
Depreciation	—	(481)	(64)	(545)
Closing net book value	10,946	6,692	858	18,496
As at December 31, 2015:				
Cost	10,946	17,333	2,554	30,833
Accumulated depreciation	—	(10,641)	(1,696)	(12,337)
Net book value	10,946	6,692	858	18,496

The estimated fair value of the investment properties portfolio as at September 30, 2016 was approximately \$44,800 (as at December 31, 2015 — \$44,800). This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (Note 14 for definition of levels). The Company used an independent valuation specialist to determine the fair value of The Brick division's investment properties of \$11,200. The remaining disclosed fair value of \$33,600 was compiled internally by management based on available market evidence.

8. INTANGIBLE ASSETS

	Customer Relationships	Brand Name and Franchise Agreements	Non- competes Agreement	Computer Software	Favourable Lease Agreements	Total
As at September 30, 2016:						
Opening net book value	3,281	266,500	—	13,957	34,476	318,214
Additions	—	—	—	139	—	139
Amortization	(469)	(188)	—	(2,612)	(2,340)	(5,609)
Closing net book value	2,812	266,312	—	11,484	32,136	312,744
As at September 30, 2016:						
Cost	7,000	268,500	1,012	23,458	46,049	346,019
Accumulated amortization	(4,188)	(2,188)	(1,012)	(11,974)	(13,913)	(33,275)
Net book value	(2,812)	266,312	—	11,484	32,136	312,744
As at December 31, 2015:						
Opening net book value	4,156	266,750	125	11,946	38,325	321,302
Additions	—	—	—	4,956	—	4,956
Amortization	(875)	(250)	(125)	(2,945)	(3,849)	(8,044)
Closing net book value	3,281	266,500	—	13,957	34,476	318,214
As at December 31, 2015:						
Cost	7,000	268,500	1,012	23,319	46,049	345,880
Accumulated amortization	(3,719)	(2,000)	(1,012)	(9,362)	(11,573)	(27,666)
Net book value	3,281	266,500	—	13,957	34,476	318,214

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
Leon's Furniture Limited

Amortization of intangible assets is included within general and administrative expenses on the interim condensed consolidated statements of income. The following table presents the details of the Company's indefinite-life intangible assets:

	As at September 30, 2016	As at December 31, 2015
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 September 30, 2016	As at December 31, 2015
Leon's division brand name	312	500
Brick division customer relationships	2,812	3,281
Brick division favourable lease agreements	32,136	34,476
Computer software	11,484	13,957
	46,744	52,214

The Company has assessed that these finite-life intangible assets have limited life terms.

9. REDEEMABLE SHARE LIABILITY

	As at September 30, 2016	As at December 31, 2015
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		
483,423 series 2009 shares (December 31, 2015 – 619,016)	4,278	5,478
228,936 series 2012 shares (December 31, 2015 – 233,616)	2,841	2,899
1,145,523 series 2013 shares (December 31, 2015 – 1,406,772)	13,048	16,024
623,188 series 2014 shares (December 31, 2015 – 740,000)	9,379	11,137
795,000 series 2015 shares (December 31, 2015 – 880,000)	10,701	11,845
Less employee share purchase loans	(39,744)	(46,503)
	503	880

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

Leon's Furniture Limited

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, series 2012, series 2013, series 2014 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 series 2009 and series 2012 share may be converted into one common share at any time after the fifth anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. Each issued and fully paid for series 2013, series 2014 and series 2015 shares may be converted into one common share at any time after the third anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. The series 2009, series 2012, series 2013, series 2014 and series 2015 shares are redeemable at the option of the holder for a period of one business day following the date of issue of such shares. The Company has the option to redeem the series 2009 and series 2012 shares at any time after the fifth anniversary date of the issue of these shares and must redeem them prior to the tenth anniversary of such issue. The Company has the option to redeem the series 2013, series 2014 and series 2015 shares at any time after the third anniversary date of the issue of these shares and must redeem them prior to the tenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The purchase prices of the shares are \$8.85 per series 2009 share, \$12.41 per series 2012 share, \$11.39 per series 2013 share, \$15.05 per series 2014 share and \$13.46 per series 2015 share. Dividends paid to holders of series 2009, 2012, 2013, 2014 and 2015 shares of approximately \$598 (2015 – \$676) have been used to reduce the respective shareholder loans. The preferred dividends are paid once a year during the first quarter.

During the nine-month period ended September 30, 2016, 135,593 series 2009 shares and 261,249 series 2013 shares (nine-month period ended September 30, 2015 – 71,535 series 2009 shares and nil series 2013 shares) were converted into common shares with a stated value of approximately \$1,200 and \$2,976 respectively (nine-month period ended September 30, 2015 – \$633 and \$nil).

During the nine-month period ended September 30, 2016, the Company cancelled 4,680 series 2012 shares, 116,812 series 2014 shares, 85,000 series 2015 shares (nine-month period ended September 30, 2015 – 14,280 series 2012 shares, nil series 2014 shares, nil series 2015 shares), in the amount of \$58, \$1,758 and \$1,144 respectively (nine-month period ended September 30, 2015 – \$177, \$nil, and \$nil).

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.

10. LOANS AND BORROWINGS

Convertible debentures

On March 28, 2013 ("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 ("Maturity Date"). Interest is due semi-annually in arrears on September 30 and December 31 in each year. The convertible debentures are convertible, at the option of the holder, at any time during the period between the ninetieth day prior to the fourth anniversary of the Issuance Date and the third business day prior to the Maturity Date in whole or in multiples of one thousand dollars, into fully paid common shares of the Company at the conversion rate of 79.12707 common shares per one thousand dollars principal amount of debentures subject to certain adjustments. The Company has the right to settle the convertible debentures in cash or shares during any time subsequent to the fourth anniversary of the Issuance Date and on the Maturity Date. There are additional conversion options available to debenture holders in the event of an increase in the Company's dividend rate or in the event of a change in control of the Company. The convertible debentures are unsecured obligations of the Company and are subordinated in right of payment to all of the Company's senior indebtedness.

The Company will accrete the carrying value of the convertible debentures of \$93,295 to their contractual face value of \$100,000 through a charge to net income over their term. This charge will be included in finance costs.

Carrying value of convertible debentures as at December 31, 2015	92,628
Accretion expense for the nine-months ended September 30, 2016	667
Carrying value of convertible debentures as at September 30, 2016	93,295

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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 SSCA includes a credit facility, with a syndicate of banks, with a term credit facility limit of \$400,000 and revolving credit facility limit of \$100,000, which includes a swing-line of \$20,000. Under the terms of the SSCA amounts borrowed must be repaid in full by March 28, 2017, and accordingly has been classified as current in the interim condensed consolidated statement of financial position. Bank indebtedness bears interest based on Canadian prime, London Interbank Offered Rate and Bankers’ Acceptance (“BA”) rates plus an applicable standby fee on undrawn amounts. Transaction costs in the amount of \$5,193 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 30-day BA with a cost of borrowing of 2.92% that was renewed on September 30, 2016. The term credit facility is repayable in quarterly amounts ranging from \$10,000 to \$15,000. 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 September 30, 2016, the Company is in full compliance of these financial and non-financial covenants.

11. COMMON SHARES

	As at September 30, 2016	As at December 31, 2015
Authorized - Unlimited common shares		
Issued 71,800,791 common shares (2015 – 71,403,949)	38,565	34,389

During the nine-month period ended September 30, 2016, 135,593 series 2009 shares and 261,249 series 2013 shares (nine-month period ended September 30, 2015 – 71,535 series 2009 shares) were converted into common shares with a stated value of approximately \$1,200 and \$2,976 respectively (nine-month period ended September 30, 2015 – \$633).

The dividends paid for the three-month periods ended September 30, 2016 and September 30, 2015 were \$7,175 (\$0.10 per share) and \$7,117 (\$0.10 per share), respectively.

The dividends paid for the nine-month periods ended September 30, 2016 and September 30, 2015 were \$21,472 (\$0.30 per share) and \$21,334 (\$0.30 per share), respectively.

12. INCOME TAX EXPENSE

	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015
Current income tax expense	11,002	10,737
Deferred income tax expense (recovery)	1,161	(691)
	12,163	10,046

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Current income tax expense	22,628	20,733
Deferred income tax recovery	(5,631)	(3,216)
	16,997	17,517

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the three and nine-month periods ended September 30, 2016 and September 30, 2015 was 26.8% and 26.6%, respectively.

13. EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of shares outstanding. The following table reconciles the profit for the period and the number of shares for the basic and diluted earnings per share calculations:

	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015
Profit for the period for basic earnings per share	34,111	27,340
Profit for the period for diluted earnings per share	34,827	28,049
Weighted average common shares outstanding	71,761,280	71,237,230
Dilutive effect	11,228,339	11,079,412
Diluted weighted average common shares outstanding	82,989,619	82,316,642
Basic earnings per share	\$0.48	\$0.38
Diluted earnings per share	\$0.42	\$0.34

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Profit for the period for basic earnings per share	46,358	46,442
Profit for the period for diluted earnings per share	48,498	48,563
Weighted average common shares outstanding	71,653,969	71,163,685
Dilutive effect	11,458,842	11,158,992
Diluted weighted average common shares outstanding	83,112,811	82,322,677
Basic earnings per share	\$0.65	\$0.65
Diluted earnings per share	\$0.58	\$0.59

14. 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.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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September 30, 2016:

	Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Loans and receivables				
Cash and cash equivalents	Fair value	20,943	20,943	Level 1
Trade receivables	Amortized cost	114,474	114,474	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	18,845	18,845	Level 1
Available-for-sale financial assets	Fair value	32,908	32,908	Level 2
Other financial liabilities				
Trade and other payables	Amortized cost	230,219	230,219	Level 2
Provisions	Amortized cost	5,018	5,018	Level 2
Finance lease liabilities	Amortized cost	12,393	12,393	Level 2
Loans and borrowings	Amortized cost	253,651	253,651	Level 2
Convertible debentures	Amortized cost	93,295	123,000	Level 2
Redeemable share liability	Amortized cost	503	503	Level 2
Derivative instruments				
Other liabilities	Fair value	5,530	5,530	Level 2

December 31, 2015:

	Measurement	Total Carrying Amount	Fair Value	Fair Value Hierarchy
Loans and receivables				
Cash and cash equivalents	Fair value	7,859	7,859	Level 1
Trade receivables	Amortized cost	117,832	117,832	Level 2
Available-for-sale				
Restricted marketable securities	Fair value	18,691	18,691	Level 1
Available-for-sale financial assets	Fair value	22,960	22,960	Level 2
Derivative instruments				
Other assets	Fair value	539	539	Level 2
Other financial liabilities				
Trade and other payables	Amortized cost	206,076	206,076	Level 2
Provisions	Amortized cost	5,343	5,343	Level 2
Finance lease liabilities	Amortized cost	13,849	13,849	Level 2
Loans and borrowings	Amortized cost	287,357	287,357	Level 2
Convertible debentures	Amortized cost	92,628	125,000	Level 2
Redeemable share liability	Amortized cost	880	880	Level 2

The fair value hierarchy of financial instruments measured at fair value, as at September 30, 2016 includes financial assets of \$39,788, \$147,382 and \$nil for Levels 1, 2 and 3, respectively, and financial liabilities of \$nil, \$630,314 and \$nil for Levels 1, 2 and 3, respectively.

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

The carrying amounts of the Company's finance lease liabilities approximate their fair values because the interest rate applied to measure their carrying amount approximates current market interest rates.

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

The fair values of available-for-sale financial assets and restricted marketable securities that are traded in active markets are determined by reference to their quoted closing price or dealer price quotations at the reporting date. For financial instruments that are not traded in active markets, the Company determines fair values using a combination of discounted cash flow models and comparison to similar instruments for which market observable prices exist.

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As at September 30, 2016, the fair value of the convertible debentures was determined using their closing quoted market price (not in thousands of dollars) of \$123.00 per \$100.00 of face value (2015 – \$125.00 per \$100.00 of face value). For the convertible debentures at September 30, 2016, fair value is calculated based on the face value of the convertible debentures of \$100,000.

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 (2015 – \$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 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 first quarter of 2018. At September 30, 2016 a \$5,530 unrealized loss was recorded in other liabilities (2015 – \$4,676 unrealized gain).

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

Fair value hierarchy

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities, the levels of which are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

15. INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Trade receivables	3,358	11,019
Inventories	(11,679)	(17,722)
Other assets & liabilities	(2,288)	(8,486)
Trade and other payables	23,741	16,231
Income taxes payable	21,899	(52,659)
Customers' deposits	(15,461)	(378)
Provisions	(325)	(422)
Deferred acquisition costs	1,016	(2,749)
Deferred rent liabilities and lease inducements	2,186	1,340
	22,447	(53,826)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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(b) Supplemental cash flow information:

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Income taxes paid	8,133	73,382

16. COMPARATIVE FINANCIAL INFORMATION

The comparative interim condensed consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the third quarter 2016 interim condensed consolidated financial statements.