



LEON'S FURNITURE LIMITED

Management's Discussion and Analysis
For the year ended December 31, 2022

Table of Contents

1. Preface	1
2. Business Overview	2
3. Results of Operations	3
4. Store Network	7
5. Summary of Consolidated Quarterly Results	7
6. Financial Position	7
7. Liquidity and Capital Resources	8
8. Outlook	10
9. Outstanding Common Shares	10
10. Related Party Transactions	10
11. Critical Assumptions	11
12. Risks and Uncertainties	14
13. Controls and Procedures	15
14. Non-IFRS and Supplementary Financial Measures	15

1. Preface

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 22, 2023 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, 2022 and for the years ended December 31, 2022 and 2021. It should be read in conjunction with the fiscal year 2022 consolidated financial statements and the notes thereto. For additional detail and information relating to the Company, readers are referred to the fiscal 2022 quarterly financial statements and corresponding MD&As which are published separately and available at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Statements

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

Financial Statements Governance Practice

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

The Audit Committee of the Board of Directors of Leon's Furniture Limited reviewed the MD&A and the consolidated financial statements, and recommended that the Board of Directors approve them. Following review by the full Board, the fiscal year 2022 consolidated financial statements and MD&A were approved on February 22, 2023.

2. Business Overview

Leon's Furniture Limited is the largest network of home furniture, appliances, electronics, and mattress stores in Canada. Our retail banners include: Leon's; The Brick; Brick Outlet and The Brick Mattress Store. As well, The Brick's Midnorthern Appliance banner alongside with the Appliance Canada banner, makes the Company the country's largest commercial retailer of appliances to builders, developers, hotels and property management companies. Finally, the Company operates six ecommerce sites: leons.ca, thebrick.com, furniture.ca, midnorthern.com, transglobalservices.com and applicancecanada.com.

The Company's repair service division, Trans Global Services ("TGS"), provides household furniture, electronics and appliance repair services to its customers. TGS has contracts to support several manufacturer's warranty service work in addition to servicing a number of individual programs offered by other dealers. This division also performs work for products sold with extended warranties and is an integral part of the retail offering. These extended warranties, underwritten by the Company's wholly-owned subsidiaries are offered on appliances, electronics and furniture to provide coverage that extends beyond the manufacturer's warranty period by up to five years. The warranty contracts provide both repair and replacement service depending upon the nature of the warranty claim.

The Company's wholly-owned subsidiaries Trans Global Insurance Company ("TGI") and its sister company, Trans Global Life Insurance Company ("TGLI") also offer credit insurance on the customer's outstanding financing balances and third party customer balances. This credit insurance coverage includes life, dismemberment, disability, critical illness, and involuntary unemployment. These credit insurance policies are underwritten by TGI and TGLI as they are licensed as insurance companies in all Canadian provinces and territories.

The Company has foreign operations in Asia and the Caribbean, through its wholly-owned subsidiaries First Oceans Trading Corporation and King & State Limited, respectively. These operations relate to the Company's import and quality control program for sourcing products from Asia for resale in Canada through its retail operations, and the retail banners that sell their extended warranties on appliances and electronics to their customers, respectively.

3. Results of Operations

Summary financial highlights for the three months ended December 31, 2022 and December 31, 2021

For the	Three months ended		\$ Increase (Decrease)	% Increase (Decrease)
	December 31, 2022	December 31, 2021		
(C\$ in millions except %, share and per share amounts)				
Total system-wide sales ⁽¹⁾	804.4	820.5	(16.1)	(2.0%)
Franchise sales ⁽¹⁾	143.2	150.7	(7.5)	(5.0%)
Revenue	661.2	669.8	(8.6)	(1.3%)
Cost of sales	373.1	373.2	(0.1)	(0.0%)
Gross profit	288.1	296.7	(8.6)	(2.9%)
Gross profit margin as a percentage of revenue	43.57%	44.30%		
Selling, general and administrative expenses ⁽²⁾	223.1	218.6	4.5	2.1%
SG&A as a percentage of revenue	33.74%	32.64%		
Income before net finance costs and income tax expense	65.0	78.0	(13.0)	(16.7%)
Net finance costs	(6.0)	(2.9)	3.1	106.9%
Income before income taxes	59.0	75.1	(16.1)	(21.4%)
Income tax expense	14.4	18.1	(3.7)	(20.4%)
Adjusted net income ⁽¹⁾	44.6	57.0	(12.4)	(21.8%)
Adjusted net income as a percentage of revenue ⁽¹⁾	6.75%	8.51%		
After-tax mark-to-market gain on financial derivative	1.4	0.5	0.9	180.0%
Net income	43.2	56.5	(13.3)	(23.5%)
Basic weighted average number of common shares	66,957,921	76,818,991		
Basic earnings per share	\$0.65	\$0.74	\$(0.09)	(12.2%)
Adjusted basic earnings per share ⁽¹⁾	\$0.67	\$0.74	\$(0.07)	(9.5%)
Diluted weighted average number of common shares	67,148,859	77,662,535		
Diluted earnings per share	\$0.65	\$0.73	\$(0.08)	(11.0%)
Adjusted diluted earnings per share ⁽¹⁾	\$0.67	\$0.74	\$(0.07)	(9.5%)
Common share dividends declared	\$0.16	\$0.16	\$0.00	0.0%
Convertible, non-voting shares dividends declared	\$0.32	\$0.32	\$0.00	0.0%

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

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

Same Store Sales ⁽¹⁾

For the	Three months ended		\$ Decrease	% Decrease
	December 31, 2022	December 31, 2021		
(C\$ in millions, except %)				
Same store sales ⁽¹⁾	646.0	652.4	(6.4)	(1.0%)

(1) Supplementary financial measure. Refer to section 14 in this MD&A for additional information.

Revenue

For the three months ended December 31, 2022, revenue was \$661.2 million compared to \$669.8 million in the fourth quarter 2021. Revenue decreased \$8.6 million or 1.3% as compared to the prior year quarter. The current quarter compares favorably to the Company's historical results before the COVID pandemic began in the early part of the 2020 fiscal year. The Company is continuing to show increases across all product categories for the three months ended December 31, 2022, when compared to pre-pandemic results. Comparing to pre-pandemic quarter ended December 31, 2019, revenue has increased by \$39.8 million or 6.4%.

Same Store Sales ⁽¹⁾

Same store sales in the quarter decreased by 1.0% compared to the fourth quarter 2021.

Gross Profit

The gross profit margin of 43.57% in the quarter decreased by 73 basis points from the fourth quarter 2021. This decrease in gross margin percentage during the quarter was due to a concerted effort to significantly lower on-hand inventory levels. The change in inventory levels from the start of the fourth quarter to the end of the fourth quarter, saw the Company's on-hand inventory balance decrease by over \$91 million or a reduction of 18.1%. This reduction in the Company's inventory balances was important given that ocean freight costs were stabilizing and are beginning to return to pre-pandemic pricing levels.

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

The Company's SG&A as a percentage of revenue for the fourth quarter 2021 was 32.64% compared to 33.74% for the fourth quarter of 2022, an increase of 110 basis points over the fourth quarter 2021. The Company's SG&A as a percentage of revenue for the current quarter increased due to continued broad based inflation, the increased cost of retail financing due to the Bank of Canada interest rate increases and the increased costs of marketing in the quarter.

Adjusted Net Income ⁽²⁾ and Adjusted Diluted Earnings Per Share ⁽²⁾

Given the combined impact in the fourth quarter of a reduced gross margin percentage and slightly higher SG&A expenses, the adjusted net income in the current quarter totaled \$44.6 million, which represents a decrease of \$12.4 million over the prior year's quarter.

The adjusted diluted earnings per share in the fourth quarter was \$0.67 per share, a decrease of 9.5% over the prior year's quarter.

Net Income and Diluted Earnings Per Share

Net income for the fourth quarter of 2022 was \$43.2 million, or \$0.65 per diluted earnings per share as compared to the net income of \$56.5 million in the prior year's quarter, or \$0.73 per diluted earnings per share.

(1) Supplementary financial measure. Refer to section 14 in this MD&A for additional information.

(2) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

Summary financial highlights for the year ended December 31, 2022, 2021 and 2020

For the (C\$ in millions except %, share and per share amounts)	Year ended							
	2022	2021	\$ Increase (Decrease)	% Increase (Decrease)	2021	2020	\$ Increase (Decrease)	% Increase (Decrease)
Total system-wide sales ⁽¹⁾	3,053.0	3,057.6	(4.6)	(0.2%)	3,057.6	2,701.6	356.0	13.2%
Franchise sales ⁽¹⁾	535.3	544.9	(9.6)	(1.8%)	544.9	481.4	63.5	13.2%
Revenue	2,517.7	2,512.7	5.0	0.2%	2,512.7	2,220.2	292.5	13.2%
Cost of sales	1,408.2	1,404.4	3.8	0.3%	1,404.4	1,236.3	168.1	13.6%
Gross profit	1,109.4	1,108.2	1.2	0.1%	1,108.2	983.9	124.3	12.6%
Gross profit margin as a percentage of revenue	44.06%	44.10%			44.10%	44.32%		
Selling, general and administrative expenses ^{(2) (3)}	854.7	819.1	35.6	4.3%	819.1	751.0	68.1	9.1%
SG&A as a percentage of revenue	33.95%	32.60%			32.60%	33.83%		
Income before net finance costs and income tax expense	254.7	289.1	(34.4)	(11.9%)	289.1	233.0	56.1	24.1%
Net finance costs	(21.5)	(15.0)	6.5	43.3%	(15.0)	(17.9)	(2.9)	(16.2%)
Income before income taxes	233.2	274.1	(40.9)	(14.9%)	274.1	215.1	59.0	27.4%
Income tax expense	56.0	68.7	(12.7)	(18.5%)	68.7	48.4	20.3	41.9%
Adjusted net income ⁽¹⁾	177.2	205.5	(28.3)	(13.8%)	205.5	166.7	38.8	23.3%
Adjusted net income as a percentage of revenue ⁽¹⁾	7.04%	8.18%			8.18%	7.51%		
After-tax mark-to-market gain on financial derivative instruments ⁽¹⁾	(2.2)	(1.7)	(0.5)	29.4%	(1.7)	3.4	(5.1)	(150.0%)
Net income	179.4	207.2	(27.8)	(13.4%)	207.2	163.3	43.9	26.9%
Basic weighted average number of common share	67,512,284	77,623,382			77,623,382	79,798,908		
Basic earnings per share	\$2.66	\$2.67	\$(0.01)	(0.4%)	\$2.67	\$2.05	\$0.62	30.2%
Adjusted basic earnings per share ⁽¹⁾	\$2.62	\$2.65	\$(0.03)	(1.1%)	\$2.65	\$2.09	\$0.56	26.8%
Diluted weighted average number of common shares	68,164,937	79,062,376			79,062,376	82,113,879		
Diluted earnings per share	\$2.64	\$2.62	\$0.02	0.8%	\$2.62	\$1.99	\$0.63	31.7%
Adjusted diluted earnings per share ⁽¹⁾	\$2.60	\$2.60	\$0.00	0.0%	\$2.60	\$2.04	\$0.56	27.5%
Common share dividends declared	\$0.64	\$1.89	\$(1.25)	(66.1%)	\$1.89	\$0.88	\$1.01	114.8%
Convertible, non-voting shares dividends declared	\$0.32	\$0.32	\$0.00	0.0%	\$0.32	\$0.29	\$0.03	10.3%

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

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

(3) SG&A as a percentage of revenue for the year ended December 31, 2020, includes the impact of the CEWS of \$31.6 million or 1.4% as a percentage of revenue in the year. Therefore, excluding the impact of the CEWS, the total SG&A as a percentage of revenue in the year amounted to 35.25%.

Same Store Sales ⁽¹⁾

For the (C\$ in millions, except %)	Year ended			
	December 31, 2022	December 31, 2021	\$ Decrease	% Decrease
Same store sales ⁽¹⁾	2,453.1	2,454.1	(1.0)	(0.0%)

(1) Supplementary financial measure. Refer to section 14 in this MD&A for additional information.

Revenue

For the year ended December 31, 2022, revenue was \$2,517.7 million compared to \$2,512.7 million in the prior year, an increase of \$5.0 million or 0.2% as compared to the prior year. This increase was primarily due to strong performance in the mattress category. This year the Company has continued to produce record top-line results when comparing to pre-pandemic top-line results. Revenue has increased approximately \$234 million or 10.3% compared to the year ended December 31, 2019, which was due to sales growth across all product categories.

Same Store Sales ⁽¹⁾

Same store corporate sales remained comparable to the year ended December 31, 2021.

Gross Profit

The gross profit margin remained relatively comparable from 44.10% for the year ended December 31, 2021, to 44.06% in the year ended December 31, 2022. This decrease in gross margin percentage during the year was due to a concerted effort to significantly lower on-hand inventory levels, especially during the fourth quarter of the 2022 fiscal year. Additionally, this marginal decrease in gross profit percentage was also due to increases in cost of sales in the furniture product category due to the increased ocean freight and overland transportation costs of landing product in the earlier part of the 2022 fiscal year. When comparing the Company's pre-pandemic gross profit margin, it increased 33 basis points as compared to the same period in 2019. This resulted from the Company monitoring product costing to control the release and flow of offshore containers due to the abovementioned increased freight costs in the latter half of 2021 and the first half of 2022.

Selling, General and Administrative Expenses

The Company's SG&A as a percentage of revenue for the year ended December 31, 2022, increased to 33.95%, an increase of 134 basis points over the prior year of 32.60%. This increase can be primarily attributed to provincially mandated wage increases, the increased costs of providing customers with retail financing options at the point of sale both in-store and online, increases in sales commissions and marketing costs and rising occupancy expenses due to increases of natural gas prices net of any previously provided COVID mandated property tax and utility rebates.

Adjusted Net Income ⁽²⁾ and Adjusted Diluted Earnings Per Share ⁽²⁾

Adjusted net income for the year ended December 31, 2022 totaled \$177.2 million, a decrease of \$28.3 million or 13.8% over the prior year. In comparison to the year ended December 31, 2019, which the Company has denoted as its pre-pandemic baseline year, the Company's adjusted net income significantly increased by 65.9%, or \$70.4 million.

Adjusted diluted earnings per share for the Company remained the same at \$2.60 per share compared to the year ended December 31, 2021.

However, when looking at the historical performance of the Company on a pre-pandemic basis, the adjusted diluted earnings per share increased from \$1.30 for the year ended December 31, 2019, to \$2.60 in the current year, representing an increase of 100%.

Net Income and Diluted Earnings Per Share

Including the mark-to-market impact of the Company's financial derivatives, net income for the year ended December 31, 2022, was \$179.4 million, or \$2.64 per diluted earnings per share (net income of \$207.2 million, \$2.62 per diluted earnings per share in 2021).

(1) Supplementary financial measure. Refer to section 14 in this MD&A for additional information.

(2) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

4. Store Network

The Company has 304 retail stores in Canada at December 31, 2022. The following table illustrates the Company's store count continuity from December 31, 2021 to December 31, 2022 by retail banner:

Banner	Number of stores as at December 31, 2021	Opened	Closed	Number of stores as at December 31, 2022
Corporate Stores				
Leon's	54	-	(1)	53
Appliance Canada	5	-	-	5
The Brick ⁽¹⁾	118	-	(1)	117
The Brick Mattress Store	21	-	-	21
Brick Outlet	6	-	-	6
Corporate Subtotal	204	-	(2)	202
Franchise Stores				
Leon's	35	-	-	35
The Brick	67	1	(1)	67
Franchise Subtotal	102	1	(1)	102
Total Corporate & Franchise Stores	306	1	(3)	304

(1) Includes the Midnorthern Appliance banner.

The Company continues to reposition store locations in markets that allow its divisions to expand their market share and support existing locations.

5. Summary of Consolidated Quarterly Results

The table below highlights the variability of quarterly results and the impact of seasonality on the Company's results. The Company's profitability is typically lower in the first half of the year, since retail sales are traditionally higher in the third and fourth quarters.

For the quarter ended	December 31		September 30		June 30		March 31	
(C\$ in millions except per share amounts)	2022	2021	2022	2021	2022	2021	2022	2021
Total system-wide sales ⁽¹⁾	804.4	820.5	801.0	825.5	784.6	714.4	662.9	697.1
Franchise sales ⁽¹⁾	143.2	150.7	138.8	142.3	137.6	125.9	115.7	126.0
Revenue	661.2	669.8	662.2	683.2	647.0	588.5	547.2	571.1
Net income	43.2	56.5	61.3	63.8	50.1	46.0	24.8	40.9
Adjusted net income ⁽¹⁾	44.6	57.0	59.2	60.6	47.5	46.6	25.8	41.2
Basic earnings per share	\$0.65	\$0.74	\$0.91	\$0.83	\$0.75	\$0.59	\$0.37	\$0.52
Diluted earnings per share	\$0.65	\$0.73	\$0.90	\$0.81	\$0.74	\$0.58	\$0.36	\$0.51
Adjusted basic earnings per share ⁽¹⁾	\$0.67	\$0.74	\$0.88	\$0.79	\$0.71	\$0.60	\$0.38	\$0.52
Adjusted diluted earnings per share ⁽¹⁾	\$0.67	\$0.74	\$0.87	\$0.77	\$0.70	\$0.58	\$0.38	\$0.51

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

6. Financial Position

As at	December 31, 2022	December 31, 2021
(C\$ in millions)		
Total assets	2,193.6	2,453.1
Total non-current liabilities	654.5	462.2

Assets

Total assets at December 31, 2022 of \$2,193.6 million were \$259.5 million lower than the \$2,453.1 million reported at December 31, 2021. The movement was primarily driven by a decrease in cash and cash equivalents.

Non-Current Liabilities

Non-current liabilities of \$654.5 million were \$192.3 million higher than the \$462.2 million reported at December 31, 2021. This is primarily a result of the movement of long-term debt from current liabilities as well as an increase in the term loan of \$136.9 million. This increase in the Company's credit facility was due to the payment for repurchased shares from the Substantial Issuer Bid ("SIB"). Long-term debt and the SIB are discussed further in note 14 and note 16, respectively, of the consolidated financial statements.

Net Debt

The table below reflects the Company's net debt balances, excluding its lease liabilities and restricted marketable securities as at December 31, 2022.

As at	December 31, 2022	December 31, 2021	\$ Change
(C\$ in millions)			
Term debt	234.4	90.0	144.4
Less: cash, cash equivalents, debt and equity instruments	226.0	490.0	(264.0)
Net debt balance ⁽¹⁾	(8.4)	400.0	(408.4)

(1) Non-IFRS financial measure. Refer to section 14 in this MD&A for additional information.

At December 31, 2022, the Company's total net debt balance, excluding its lease liabilities, is \$8.4 million. The change in the net debt position is driven by the increase in the term loan of \$144.4 million as well as a reduction in cash due to the repurchase of common shares for a cost of \$200.0 million under a SIB that the Company completed at the beginning of the first quarter of 2022.

7. Liquidity and Capital Resources

Liquidity Risk Management

The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents, and authorized credit facilities, to fulfill obligations associated with financial liabilities. To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. Management also monitors cash and working capital efficiency given current sales levels and seasonal variability. The Company measures and monitors liquidity risk by regularly evaluating its cash inflows and outflows under expected conditions through cash flow reporting such that it anticipates certain funding mismatches and ensures the cash management of the business within certain tolerable levels. These cash flow forecasts are reviewed on a weekly basis by management. The Company mitigates liquidity risk through continuous monitoring of its credit facilities and the diversification of its funding sources, both in the short term as well as the long term. As at December 31, 2022, unrestricted liquidity was \$329.0 million comprised of cash and cash equivalents, debt and equity instruments and its undrawn revolving credit facility.

Consolidated Cash Flow Movements

The following table provides a summarized statement of cash flows for the three months and year ended December 31, 2022 and December 31, 2021:

For the	Three months ended			Year ended		
	December 31, 2022	December 31, 2021	\$ Increase (Decrease)	December 31, 2022	December 31, 2021	\$ Increase (Decrease)
(C\$ in millions)						
Cash provided by operating activities before changes in operating working capital items	74.9	93.6	(18.7)	286.9	360.6	(73.7)
Changes in operating working capital items	17.9	(0.7)	18.6	(272.6)	(46.9)	(225.7)
Cash provided by operating activities	92.8	92.9	(0.1)	14.3	313.8	(299.5)
Cash used in (provided by) investing activities	(20.4)	39.7	(60.1)	(36.7)	16.2	(52.9)
Cash used in financing activities	(39.2)	(137.4)	98.2	(244.6)	(316.5)	71.9
Increase (decrease) in cash and cash equivalents	33.2	(4.8)	38.0	(267.0)	13.5	(280.5)

Cash Provided By Operating Activities

Cash from operating activities consist primarily of net income adjusted for certain non-cash items, including depreciation and amortization and the effect of changes in non-cash working capital items, primarily receivables, inventories, deferred acquisition costs, accounts payable and customers' deposits.

For the three months ended December 31, 2022, cash provided by operating activities decreased by \$0.1 million compared to the prior year's quarter. This movement is primarily driven by a decrease in inventories of \$118.5 million with an offset due to decreases in customers' deposits and trade payables of \$96.3 million and \$9.4 million, respectively.

For the year ended December 31, 2022, cash provided by operating activities decreased by \$299.5 million compared to the prior year. This movement is primarily driven by decreases in the movement of customers' deposits and trade and other payables of \$242.9 million and \$51.3, respectively. Additionally, there was an increase in income taxes paid of \$38.9 million. This was partially offset by decreases in inventories of \$48.6 million.

Cash Used In Investing Activities

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

For the three months ended December 31, 2022, cash provided by investing activities decreased by \$60.1 million compared to the prior year's quarter. This change is driven by decrease in the proceeds on the sale of debt and equity instruments of \$37.0 million as well as increases in the purchase of property, plant and equipment and debt and equity instruments of \$10.4 million and \$9.2 million, respectively.

For the year ended December 31, 2022, cash provided by investing activities decreased by \$52.9 million compared to the prior year. This change is driven by decrease in the proceeds on the sale of debt and equity instruments of \$41.4 million as well as increases in the purchase of property, plant and equipment of \$11.9 million.

Cash Used in Financing Activities

Financing activities consist primarily of cash used to pay dividends, long-term debt and lease liabilities.

For the three months ended December 31, 2022, cash used in financing activities decrease by \$98.2 million compared to the prior year's quarter. The movement is primarily driven by decrease in dividends paid of \$97.9, as the prior year included special dividend payments.

For the year ended December 31, 2022, cash used in financing activities decrease by \$71.9 million compared to the prior year. The movement is driven by an increase to the term loan of \$150.0 million as well as a decrease in dividends paid of \$125.3 million with which is offset by an increase in the repurchase of common shares of \$179.7 million.

Adequacy of Financial Resources

At December 31, 2022, the Company's current assets exceeded its current liabilities by \$241.7 million and its cash and cash equivalents, restricted marketable securities, and debt and equity instruments were \$226.4 million compared to \$490.4 million at December 31, 2021. At December 31, 2022, \$103 million is available to draw on under the Company's \$200 million revolving credit facility as the borrowing capacity has been reduced by ordinary letters of credit of \$7 million and utilizing \$90 million of the revolving credit facility. The Company believes that its existing financing resources together with cash flow provided from its current operations and its expanded revolving credit facility will provide a sound liquidity and working capital position throughout the next twelve months.

Contractual Obligations

As at December 31, 2022

(C\$ in millions)

Contractual obligations	Total	2023	2024	2025	2026	Payments Due by Period	
						2027	2028 & Beyond
Long-term debt	252.5	20.4	232.1	-	-	-	-
Lease liability	373.4	89.2	55.7	55.2	53.8	52.3	67.2
Total contractual obligations	625.9	109.6	287.8	55.2	53.8	52.3	67.2

8. Outlook

Given the Company's strong and continuously improving financial position, our principal objective is to increase our market share and profitability. We remain focused on our commitment to effectively manage our costs but to also continuously invest in digital innovation that we believe will drive more customers to both our online eCommerce sites and our 304 store locations across Canada.

9. Outstanding Common Shares

At December 31, 2022, there were 67,861,289 common shares issued and outstanding. During the year ended December 31, 2022, 4,295 series 2009 shares, 14,756 series 2012 shares, 22,118 series 2013 shares, 3,804 series 2014 shares and 6,483 series 2015 shares were converted into common shares. For details on the Company's commitments related to its redeemable share liability please refer to Note 15 of the consolidated financial statements.

During the year ended December 31, 2022, and including the common shares repurchased under the automatic share purchase plan ("ASPP"), the Company repurchased 1,893,500 shares of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids and ASPP at a net cost of \$44.3 million. At December 31, 2022, the Company has cancelled all of these repurchased shares. At December 31, 2022, an obligation of \$2 million was recognized for the repurchase of common shares under the ASPP (at December 31, 2021 - \$45 million).

On November 25, 2021, the Company commenced a SIB, by way of a modified Dutch auction, to purchase, for cancellation, the common shares of the Company. During the year ended December 31, 2022, the Company purchased, for cancellation, 7,999,993 common shares at a net cost \$200.0 million. These shares were cancelled in January 2022.

10. Related Party Transactions

For the year ended December 31, 2022, we had no transactions with related parties as defined in IAS 24, *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment.

11. Critical Assumptions

Use of Estimates and Judgments

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

Consolidation and classification of joint arrangements

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

The classification of these entities as a subsidiary, joint operation, joint venture, associate or financial instrument requires judgment by management to analyze the various indicators that determine whether control exists. In particular, when assessing whether a joint arrangement should be classified as either a joint operation or a joint venture, management considers the contractual rights and obligations, voting shares, share of board members and the legal structure of the joint arrangement. Subject to reviewing and assessing all the facts and circumstances of each joint arrangement, joint arrangements contracted through agreements and general partnerships would generally be classified as joint operations whereas joint arrangements contracted through corporations would be classified as joint ventures. The application of different judgments when assessing control or the classification of joint arrangements could result in materially different presentations in the consolidated financial statements.

Extended warranty revenue recognition

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

Inventories

The Company estimates the net realizable value as the amount at which inventories are expected to be sold by taking into account fluctuations of retail prices due to prevailing market conditions. If required, inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or declining sales prices.

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

Impairment of debt instruments

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

Impairment of property, plant and equipment and right-of-use assets

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

Impairment of goodwill and intangible assets

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

Provisions

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

Leases

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

Materiality

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

Recent Accounting Pronouncements

Adoption of new accounting standards

Amendments to IFRS 9

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment was effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The adoption of this amendment did not have a material impact on the financial statements.

Accounting standards and amendments issued but not yet adopted**IFRS 17, Insurance Contracts ("IFRS 17")**

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

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

In June 2020, the IASB issued amendments to IFRS 17 partly aimed at helping companies implement the standard. IFRS 17, incorporating the amendments, is effective for annual reporting periods beginning on or after January 1, 2023. Retrospective application is required. The Company plans to adopt the new standard on the effective date. The adoption of this standard will not have a material impact on the financial statements.

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively. The Company is currently analyzing the impact this amendment will have on its consolidated financial statements.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. The adoption of this standard will not have a material impact on the financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendment to IAS 1 requires companies to disclose their material accounting policy information rather than its significant accounting policies. The amendment also clarifies that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. The adoption of this standard will not have a material impact on the financial statements.

Amendments to IAS 12, Income Taxes ("IAS 12")

The amendments to IAS 12 provide clarifications in accounting for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments clarify that the initial recognition exemption does not apply to transactions such as leases and decommissioning obligations. As a result, entities may need to recognize both a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied to transactions that occur on or after the beginning of the earliest comparative period presented. The adoption of this standard will not have a material impact on the financial statements.

12. Risks and Uncertainties

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

Readers of this MD&A are also encouraged to refer to Leon's Annual Information Form ("AIF") dated February 22, 2023, which provides information on the risk factors facing the Company. The February 22, 2023 AIF can be found online at www.sedar.com.

Sensitivity to General Economic Conditions

The household furniture, mattress, appliance and home electronics retailing industry in Canada has historically been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. The Company's sales are impacted by the health of the economy in Canada as a whole, and in the regional markets in which the Company operates.

The Company's sales and financial results are subject to numerous uncertainties. Weakness in sales or consumer confidence could result in an increasingly challenging operating environment.

Maintaining Profitability & Managing Growth

There can be no assurance that the Company's business and growth strategy will enable it to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including (i) the Company's ability to continue to successfully execute its strategic initiatives, (ii) the level of competition in the household furniture, mattress, appliance and home electronics retailing industry in the markets in which the Company operates, (iii) the Company's ability to remain a low-cost retailer, including the effective management of its supply chain, (iv) the Company's ability to realize increased sales and greater levels of profitability through its retail stores, (v) the effectiveness of the Company's marketing programs, (vi) the Company's ability to successfully identify and respond to changes in fashion trends and consumer tastes in the household furniture, mattress, appliance and home electronics retailing industry, (vii) the Company's ability to maintain cost effective delivery of its products, (viii) the Company's ability to hire, train, manage and retain qualified retail store management and sales professionals, (ix) the Company's ability to continuously improve its service to achieve new and enhanced customer benefits and better quality, and (x) general economic conditions and consumer confidence.

Financial Condition of Commercial Sales Customers & Franchisees

Through its commercial sales division, the Company sells products and extends credit to high-rise and condominium builders who purchase large quantities of products. The Company also sells products and extends credit to its franchisees. Negative changes in the financial condition of a significant commercial sales customer or a franchisee could impact on the Company's receivables and ultimately result in the Company having to take a bad-debt write-off in excess of allowance for bad debts. The occurrence of such an event could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

Competition

The household furniture, mattress, appliance and home electronics retailing industry is highly competitive and highly fragmented. The Company faces competition in all regions in which its operations are located by existing stores that sell similar products and also by stores that may be opened in the future by existing or new competitors in such markets. The Company competes directly with many different types of retail stores that sell many of the products sold by the Company. Such competitors include (i) department stores, (ii) specialty stores (such as specialty electronics, appliance, or mattress retailers), (iii) other national or regional chains offering household furniture, mattresses, appliances and home electronics, and (iv) other independent retailers, particularly those associated with larger buying groups. The highly competitive nature of the industry means the Company is constantly subject to the risk of losing market share to its competitors. As a result, the Company may not be able to maintain or to raise the prices of its products in response to competitive pressures. In addition, the entrance of additional competitors to the markets in which the Company operates, particularly large furniture, appliance or electronics retailers from the United States could increase the competitive pressure on the Company and have a material adverse effect on the Company's market share. The actions and strategies of the Company's current and potential competitors could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations.

13. 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, 2022.

Internal Controls over Financial Reporting

Management is also responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met. The CEO and the CFO have concluded that the design and operation of the internal control over financial reporting were effective as at December 31, 2022 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

14. Non-IFRS and Supplementary Financial Measures

Non-IFRS Financial Measures

The Company uses financial measures that do not have standardized meaning under IFRS and may not be comparable to similar measures presented by other entities. The Company calculates the non-IFRS financial measures by adjusting certain IFRS measures for specific items the Company believes are significant, but not reflective of underlying operations in the period, as detailed below:

Non-IFRS Measure	IFRS Measure
Adjusted net income	Net income
Adjusted income before income taxes	Income before income taxes
Adjusted earnings per share - basic	Earnings per share - basic
Adjusted earnings per share - diluted	Earnings per share - diluted
Adjusted EBITDA	Net income

Adjusted Net Income

Leon's calculates comparable measures by excluding the effect of changes in fair value of derivative instruments, related to the net effect of USD-denominated forward contracts. The Company uses derivative instruments to manage its financial risk in accordance with the Company's corporate treasury policy. Management believes excluding from income the effect of these mark-to-market valuations and changes thereto, until settlement, better aligns the intent and financial effect of these contracts with the underlying cash flows.

The following is a reconciliation of reported net income to adjusted net income, basic and diluted earnings per share to adjusted basic and diluted earnings per share:

For the	Three months ended		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
(C\$ in millions except per share amounts)				
Net income	43.2	56.5	179.4	207.2
After-tax mark-to-market (gain)/loss on financial derivative	1.4	0.5	(2.2)	(1.7)
Adjusted net income	44.6	57.0	177.2	205.5
Basic earnings per share	\$0.65	\$0.74	\$2.66	\$2.67
Diluted earnings per share	\$0.65	\$0.73	\$2.64	\$2.62
Adjusted basic earnings per share	\$0.67	\$0.74	\$2.62	\$2.65
Adjusted diluted earnings per share	\$0.67	\$0.74	\$2.60	\$2.60

Adjusted EBITDA

Adjusted earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustment due to the changes in the fair value of the Company's financial derivative instruments and any non-recurring charges to income ("Adjusted EBITDA") is a non-IFRS financial measure used by the Company. The Company considers adjusted EBITDA to be an effective measure of profitability on an operational basis and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Adjusted EBITDA is a non-IFRS financial measure used by the Company. The Company's Adjusted EBITDA may not be comparable to the Adjusted EBITDA measure of other companies, but in management's view appropriately reflects Leon's specific financial condition. This measure is not intended to replace net income, which, as determined in accordance with IFRS, is an indicator of operating performance.

The following is a reconciliation of reported net income to adjusted EBITDA:

For the	Three months ended		Year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
(C\$ in millions)				
Net income	43.2	56.5	179.4	207.2
Income tax expense	13.9	17.9	56.8	69.2
Net finance costs	6.0	2.9	21.5	15.0
Depreciation and amortization	27.1	27.7	110.0	112.0
Mark-to-market (gain)/loss on financial derivative instruments	1.9	0.7	(3.0)	(2.2)
Adjusted EBITDA	92.1	105.7	364.7	401.2

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.

Net Debt

Net debt is calculated as the principal amount of the term loan less cash, cash equivalents and debt and equity instruments. Net debt is a non-IFRS financial measure used by the Company. The Company considers net debt to be an effective measure of the overall debt position and borrowing capacity available to the Company.

Supplementary Financial Measures

The Company uses supplementary financial measures to disclose financial measures that are not (a) presented in the financial statements and (b) is, or is intended to be, disclosed periodically to depict the historical or expected future financial performance, financial position or cash flow, that is not a non-IFRS financial measure as detailed above.

Same Store Sales

Same store sales are defined as sales generated by stores, both in store and through online transactions, that have been open for more than 12 months on a fiscal basis. 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.