SOUND SLEEP.

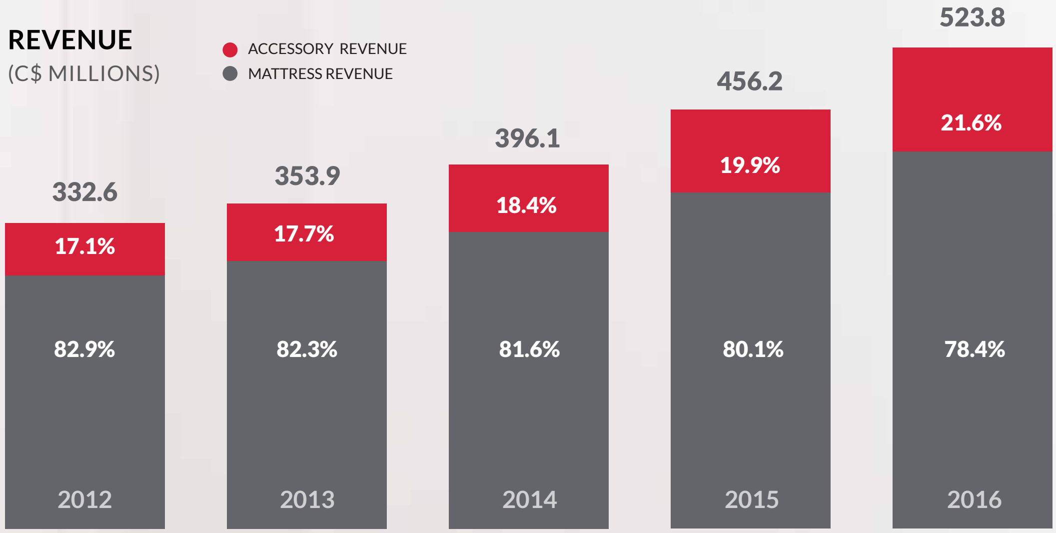
SOUND INVESTMENT.

Sleep Country

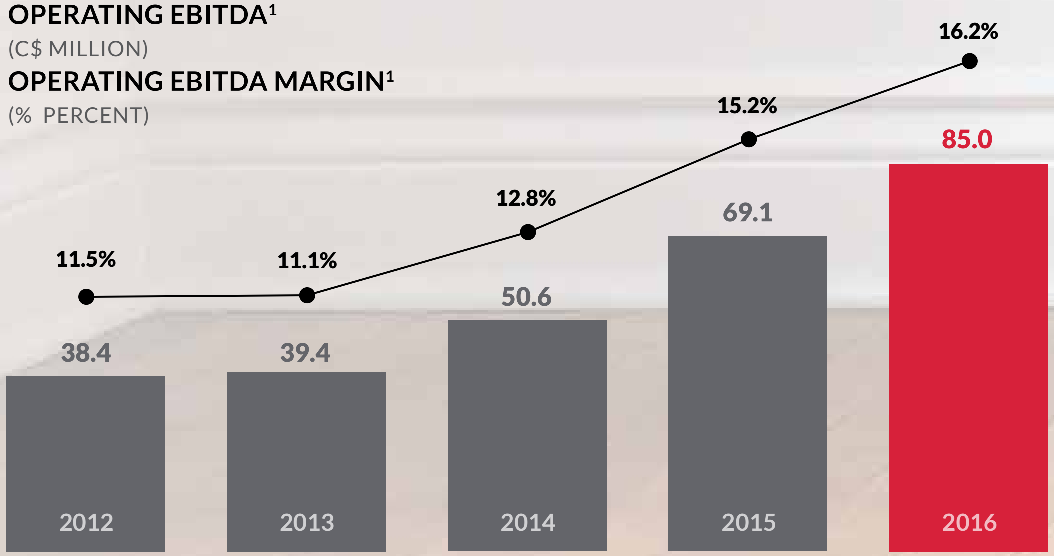
2016 WAS ANOTHER YEAR OF ROBUST GROWTH DUE TO THE CONTINUED EXECUTION OF OUR PROVEN STRATEGY.

By combining new store openings, the renovation of stores to our enhanced design and continued investments to drive higher customer traffic, shopper-to-buyer conversion rates and higher transaction size, our strategy delivers a sound sleep for our customers and a sound investment for our shareholders.

REVENUE
(C$ MILLIONS)



OPERATING EBITDA[1]
(C$ MILLION)
OPERATING EBITDA MARGIN[1]
(% PERCENT)

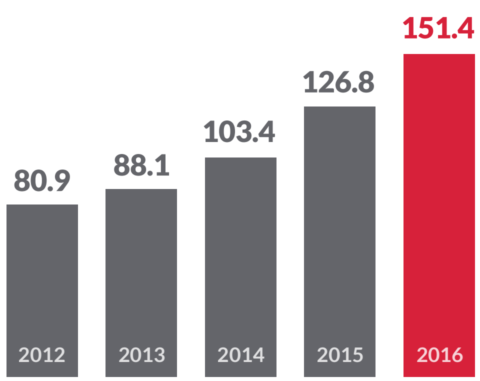


1. See the section in the Management Discussion and Analysis entitled "Non-IFRS Measures" for further details concerning how the company calculates Operating EBITDA, Operating EBITDA Margin and Same Store Sales.

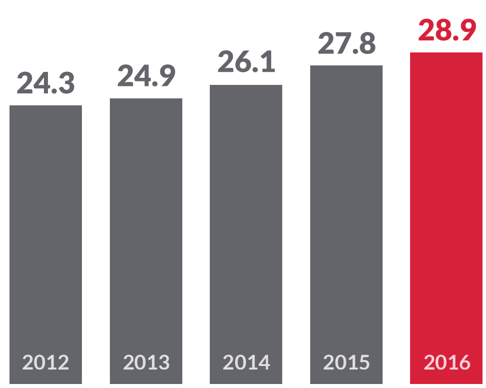
2016 HIGHLIGHTS

- Sales grew by 14.8% year over year
- Operating EBITDA up 23% compared with 2015
- 19.4% year over year increase in gross profit
- 11 new stores opened
- 175 new employees
- 20 stores renovated to the new enhanced design
- 14th consecutive quarter of same stores sales growth

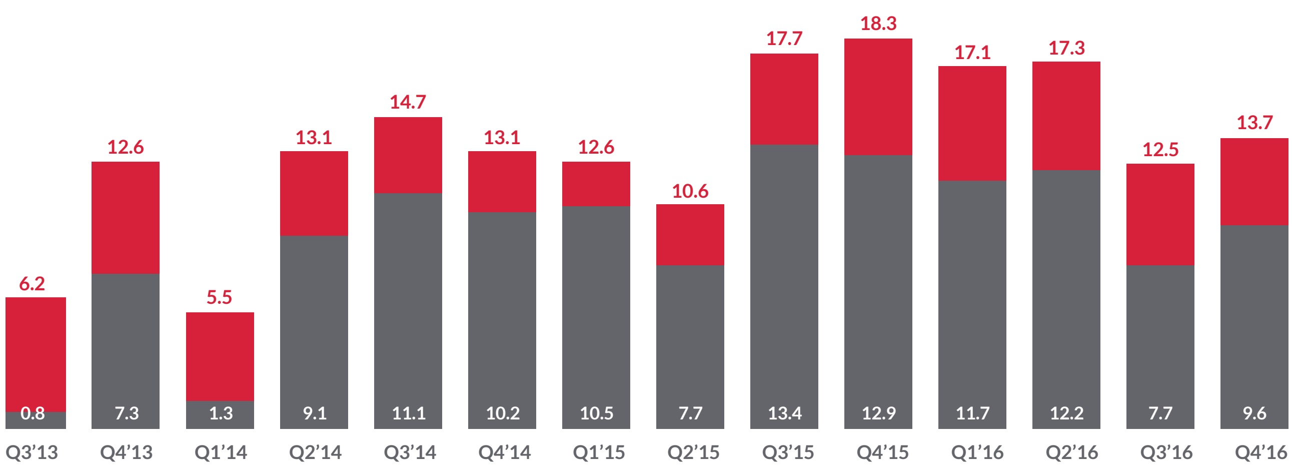
GROSS PROFIT
(C$ MILLIONS)



GROSS MARGIN
(% PERCENT)



SAME STORE SALES GROWTH & TOTAL SALES GROWTH
(% PERCENT)



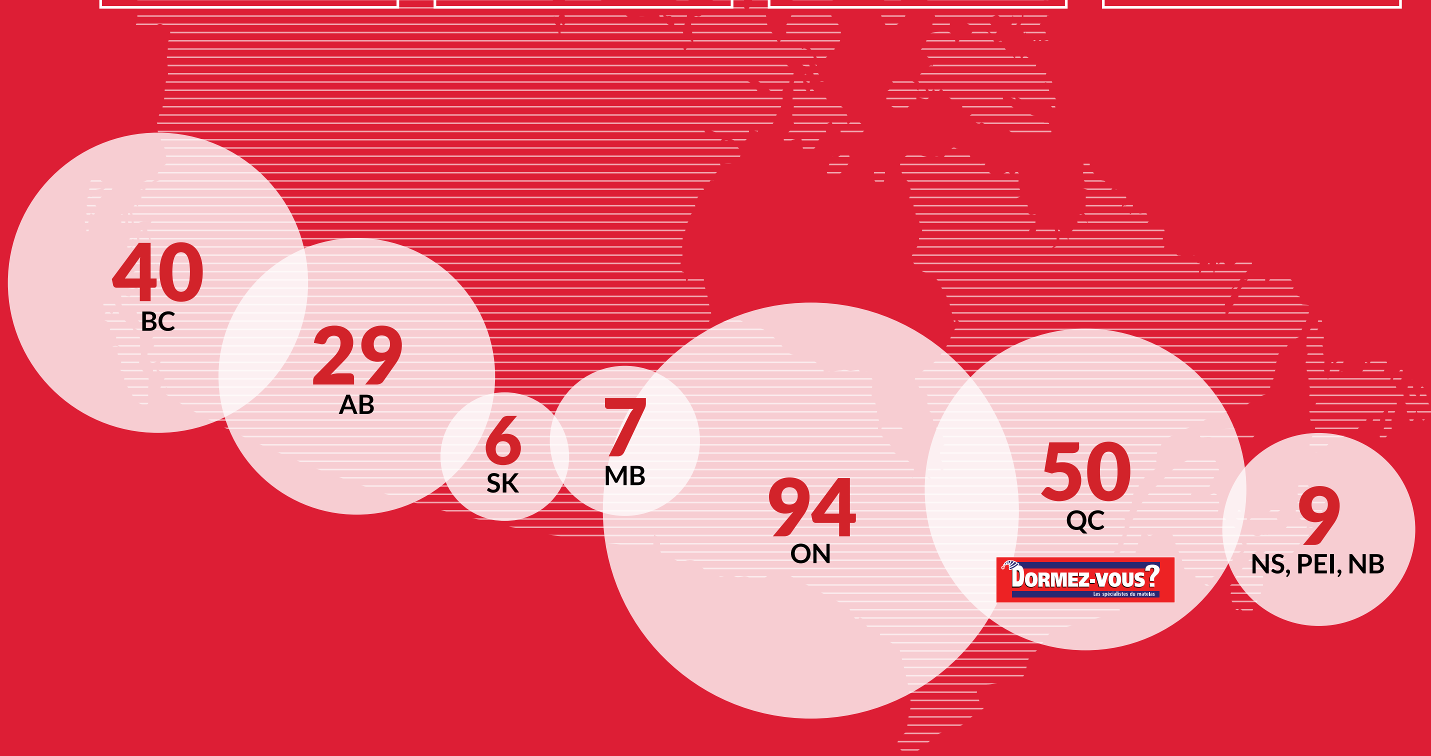
THE ONLY SPECIALTY MATTRESS RETAILER WITH A NATIONAL AND REGIONALLY DIVERSE FOOTPRINT

#1 MATTRESS RETAILER

235 STORES

17 DISTRIBUTION CENTRES

9 PROVINCES



STORE COUNT
(# STORES)

2012	195
2013	208
2014	212
2015	224
2016	235

In 2016, Sleep Country continued to execute on its strategy of growing same store sales through an enhanced store design, a focus on accessory sales, investments in sales training, and increased advertising.

2017 OUTLOOK

- Launch of e-Commerce shopping platform featuring exclusive bed in a box mattress
- Renovate between 20 to 30 stores in the new enhanced store design
- Open between 8 and 12 new stores in new, existing or satellite markets
- Create new efficiencies and further expand capacity by relocating four distribution centres

SleepCountry

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF SLEEP COUNTRY CANADA HOLDINGS INC.

*The following Management's Discussion and Analysis ("**MD&A**") is prepared as of February 28, 2017 and is intended to assist readers in understanding the financial performance and financial condition of Sleep Country Canada Holdings Inc. ("**SCC**" or "**Sleep Country**" or the "**Company**") for the year ended December 31, 2016 and should be read in conjunction with the audited annual consolidated financial statements of SCC and the accompanying notes for the year ended December 31, 2016 and the audited consolidated financial statements of SCC and accompanying notes for the year ended December 31, 2015 and the related MD&A*

1 Basis of Presentation

The Company's audited annual consolidated financial statements and accompanying notes have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board using the accounting policies described therein. All amounts are presented in thousands of Canadian dollars, except number of stores, per share amounts or unless otherwise indicated.

All references in this MD&A to "**Q4 2016**" are to SCC's fiscal quarter ended December 31, 2016 and to "**Q4 2015**" are to SCC's fiscal quarter ended December 31, 2015. All references in this MD&A to "**2016**" are to SCC's year ended December 31, 2016 and to "**2015**" are to SCC's year ended December 31, 2015. This MD&A includes financial information for Sleep Country Canada Inc. ("**SCCI**") for periods prior to its acquisition by SCC on July 16, 2015. This information is based on the historical financial information as previously reported by SCCI. SCCI is currently a wholly-owned subsidiary of SCC.

The audited annual consolidated financial statements of SCC and the accompanying notes for the year ended December 31, 2016 and this MD&A were reviewed by the Company's Audit Committee and were approved by its Board of Directors on February 28, 2017.

2 Forward-looking Information

This MD&A, including, in particular, the sections below entitled "Factors Affecting Our Results of Operations", "Liquidity and Capital Resources", "Outlook" and "Risk Factors", contains forward-looking information and forward-looking statements which reflect the current view of management with respect to the Company's objectives, plans, goals, strategies, outlook, results of operations, financial and operating performance, prospects and opportunities. Wherever used, the words "may", "will", "anticipate", "intend", "estimate", "expect", "plan", "believe" and similar expressions identify forward-looking information and forward-looking statements. Forward-looking information and forward-looking statements should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indications of whether, or the times at which, such events, performance or results will be achieved. All of the information in this MD&A containing forward-looking information or forward-looking statements is qualified by these cautionary statements.

Forward-looking information and forward-looking statements are based on information available to management at the time they are made, underlying estimates, opinions and assumptions made by management and management's current good faith belief with respect to future strategies, prospects, events, performance and results, and are subject to inherent risks and uncertainties surrounding future expectations generally. Such risks and uncertainties include, but are not limited to, those described below under the heading "Risk Factors" and in the Company's 2016 annual information form (the "**AIF**") filed on February 28, 2017. A copy of the AIF can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be less significant may also adversely affect the Company.

SCC cautions that the list of risk factors and uncertainties described in this MD&A and the AIF is not exhaustive and that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual strategies, prospects, events, performance and results may vary significantly from those expected. There can be no assurance that the actual strategies, prospects, results, performance, events or activities anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and forward-looking statements and are cautioned not to place undue reliance on such information and statements. SCC does not undertake to update any such forward-looking information or forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws.

3 Overview

Sleep Country is Canada's leading mattress retailer and the only specialty mattress retailer with a national footprint. Sleep Country operates under two mattress retail banners (the "**Banners**"): "Sleep Country Canada", the largest mattress retailer in Canada excluding Québec, and "Dormez-vous?", the largest retailer of mattresses in Québec. Sleep Country continues to expand its presence coast to coast. As at December 31, 2016, Sleep Country had 235 stores (2015-224) and 17 distribution centres (2015-17) across Canada. Sleep Country's stores average approximately 5,000 square feet and offer a large selection of mattresses and a wide assortment of complementary sleep related products ("**Accessories**"), which include bed frames, pillows, mattress pads, sheets, duvets, headboards and footboards. Sleep Country's stores are all corporate-owned, enabling it to develop and maintain a strong culture of customer service, resulting in a consistent and superior in-store and home delivery customer experience. Between March 2006 and December 2014, Sleep Country operated in Arizona, U.S.A. under the "Sleep America" Banner. The Sleep America business was sold on January 6, 2015 and is presented as "Discontinued Operations" in the financial statements.

Sleep Country Canada

Sleep Country launched its concept in the Vancouver market with four stores in 1994 and has since expanded across Canada with 185 corporately owned stores and 15 distribution centres in British Columbia, Alberta, Manitoba, Saskatchewan, Ontario, Nova Scotia, New Brunswick and Prince Edward Island as at December 31, 2016. SCC's regional footprint includes the following distribution centres: Victoria, BC; Richmond, BC; Langley, BC; Kelowna, BC; Calgary, AB; Edmonton, AB; Winnipeg, MB; Regina, SK; Toronto, ON; London, ON; Ancaster, ON; Cobourg, ON; Ottawa, ON; Moncton, NB and Halifax, NS.

Dormez-vous?

In January 2006, Sleep Country acquired Dormez-vous?, a Québec based mattress retailer with five stores and one distribution centre in the Montréal area. As of December 31, 2016, the Dormez-vous? Banner has expanded to 50 stores with two distribution centres in Montréal and Québec City.

4 Corporate Highlights for Fiscal 2016

Senior Secured Credit Facility

On July 16, 2015, in connection with SCC's initial public offering (the "**IPO**"), SCCI had entered into a new revolving credit facility with a limit of $175 million, which was scheduled to mature on July 16, 2020. This revolving credit facility was guaranteed by SCC. On June 29, 2016, the senior secured credit agreement was amended and restated and SCC became the borrower under the revolving credit facility and SCCI, a wholly-owned subsidiary of SCC, became the sole guarantor. In addition, the credit limit under the revolving credit facility was reduced to $150 million and the maturity date was extended to June 29, 2021. The revolving credit facility is secured by all of the present and after-acquired personal property of SCC and SCCI. As at December 31, 2016, the balance outstanding on the revolving credit facility was $119.0 million (2015-$ 124.0 million).

Dividends

The Board of Directors of the Company have periodically declared dividends on the Company's common shares as follows:

Date of declaration	Record date	Payment date	Dividend declared (per share)
November 3, 2015	November 15, 2016	November 26, 2015	$ 0.13
January 29, 2016	February 16, 2016	February 26, 2016	$ 0.13
May 10, 2016	May 20, 2016	May 30, 2016	$ 0.13
July 28, 2016	August 16, 2016	August 26, 2016	$ 0.15
November 1, 2016	November 18, 2016	November 28, 2016	$ 0.15
January 26, 2017	February 17, 2017	February 27, 2017	$ 0.15

All dividends are designated as an "eligible dividends" for Canadian tax purposes.

5 Factors Affecting Our Results of Operations

Revenues

Revenues are derived primarily from the retail sales of mattress sets and Accessories (including bed frames, pillows, mattress pads, sheets, duvets, headboards and footboards). Revenue is recognized on either delivery or customer pick up.

SCC's goal is to build on the market position of its Banners and to grow its revenue by growing Same Store Sales (or "**SSS**"), continuing to add stores in both new and existing markets and expanding its merchandising opportunities in Accessories. SCC's revenue is impacted by competition from other retailers that sell similar products and by seasonal patterns.

Same Store Sales

SSS is a non-IFRS measure used in the retail industry to compare sales derived from established stores over a certain period compared to the same period in the prior year. SSS helps to explain what portion of sales growth can be attributed to growth in established stores and what portion can be attributed to the opening of the stores. SCC calculates SSS as the percentage increase or decrease in sales of stores opened for at least 12 complete months relative to the same period in the prior year.

SSS is primarily driven by:

- increases in customer traffic through marketing and advertising;
- increases in the conversion rate of turning shoppers into buyers; and
- increases in the average transaction size.

Expansion Opportunities

SCC has the ability to add new stores in existing markets (in-fill stores), add new stores in satellite markets and pursue expansion opportunities into new markets. An existing market or in-fill opportunity is a pre-existing built out region in which SCC already has an established store presence serviced by one or more existing distribution centres. A satellite market is a new region which is adjacent or close to a pre-existing built-out region, which benefits from advertising spill and is serviced logistically from the nearby distribution centre. A new market is a brand new territory, such as the Company's recent entry into New Brunswick and Prince Edward Island, requiring incremental advertising and distribution logistics.

Sleep Country has successfully expanded every year since its founding in 1994. This capability to expand depends on SCC's ability to choose new locations and new markets, to hire and train new employees for its stores and distribution centres and, in the case of expansion into new markets, create top-of-mind brand awareness of its Banners.

SCC's site selection strategy is focused on maximizing sales per store and per region throughout its store network. Prior to identifying and ultimately selecting locations for new stores, management conducts extensive analysis utilizing the following factors: (i) demographics such as population density, household income and population growth rates; (ii) store visibility and accessibility; (iii) lease and advertising economics; (iv) competitive dynamics; (v) overlap with existing stores and distribution footprint; and (vi) potential cannibalization of existing stores. In terms of regional expansion, once a target area has been determined, management focuses on ensuring SCC can successfully incorporate its culture (vision and mission) into the new region. To help accomplish this, SCC has traditionally started by ensuring the core of its new regional team is comprised of existing employees in leadership roles who are willing to relocate. The team is then supplemented with local hires, who have received three to four weeks of training and have to spend a few weeks in existing stores and distribution centres learning SCC's service model and learning the culture.

The following table summarizes SCC's store count from continuing operations for each of the three-month periods and fiscal years ended December 31, 2016 and December 31, 2015:

	Q4		Annual	
	2016	2015	**2016**	2015
Number of stores, beginning of period	**234**	224	**224**	212
Stores newly opened	**1**	1	**11**	13
Stores closed	**-**	1	**-**	1
Number of stores, end of period	**235**	224	**235**	224
Number of stores in new store design, end of period			**63**	32
Stores relocated	**-**	1	**1**	3
Stores renovated	**9**	5	**19**	10

The one new store opened in Q4 2016 was located in a satellite market.

Enhanced Store Design

An enhanced store design was first introduced in certain existing stores during the second half of 2014. As at December 31, 2016, there were 63 stores that featured the new store design, of which 25 were new stores and 38 were renovations or relocations of existing stores. Over time, SCC intends to select additional stores to renovate to this new design, which will continue to be featured by all new stores it opens.

Competition

The retail mattress industry is highly competitive. The seven leading retailers in the industry include Sleep Country/Dormez-vous?, Sears Canada Inc., Leon's Furniture Limited/The Brick Ltd., Hudson's Bay Company, BMTC Group Inc., IKEA and Costco Wholesale Canada Inc. Of these leading seven retailers, Sleep Country is the only specialty mattress retailer. Management believes it can maintain a leading position through its highly differentiated service model that has been unrivalled in execution over the last 22 years and serves as a significant barrier to entry.

Seasonality

The mattress retail industry is affected by seasonal conditions. SCC typically experiences higher sales and a greater proportion of income during the third and fourth quarters due to a concentration of summer season holidays in the third quarter and other seasonal factors. Sales have historically trended lower in the first quarter as consumers tighten their budgets after the holiday season. The cold winter weather in many parts of the country during the first quarter also tends to lower customers' desire to shop. SCC expects these trends to continue for the foreseeable future. The average quarterly share of annual sales over the last three fiscal years is as follows:

First quarter	20%
Second quarter	23%
Third quarter	31%
Fourth quarter	26%
Yearly total	100%

Cost of Sales and Gross Profit

Cost of sales includes product related costs and the costs of SCC's sales and distribution operations net of volume rebates received from suppliers. Cost of sales is impacted by the number of stores, fluctuations in the volume of inventories sold, average unit selling prices and SCC's ability to manage store level occupancy costs.

Product gross margin is affected by changes in sales product mix, suppliers' term discount, freight and inventory management.

The largest component of SCC's sales operational costs are the sales associates' compensation and store occupancy costs. The largest component of SCC's distribution operations are labour costs and delivery expenses.

Volume rebates are driven by the purchase volume of inventory from suppliers. Some suppliers also offer step-ups on higher volume achieved as additional incentives. The rebates are pro-rated between products sold and those still in inventory. Only rebates on products sold are recorded as a reduction to cost of sales.

6 Fourth Quarter and Full Year Operational Highlights

	Q4			Annual		
(C$ thousands unless otherwise stated; other than store count)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	**$ 135,430**	$ 119,106	13.7%	**$ 523,787**	$ 456,185	14.8%
SSS	**9.6%**	12.9%		**10.0%**	11.3%	
Stores opened	***1***	*1*		***11***	*13*	
Stores closed	***-***	*1*		***-***	*1*	
Stores renovated/relocated	***9***	*6*		***20***	*13*	
Gross profit margin	**28.8%**	27.3%		**28.9%**	27.8%	
Operating EBITDA (1)	**19,123**	16,291	17.4%	**85,045**	69,125	23.0%
Operating EBITDA margin % (1)	**14.1%**	13.7%		**16.2%**	15.2%	
Net income (loss) from continuing operations	**11,177**	8,618	29.7%	**49,574**	(51,692)	N/M(2)
Earnings (loss) per share from continuing operations-Basic	**0.30**	0.16	85.6%	**1.32**	(1.90)	N/M(2)
Earnings (loss) per share from continuing operations-Diluted	**0.29**	0.16	83.9%	**1.31**	(1.90)	N/M(2)
Adjusted net income from continuing operations (1)	**11,655**	8,542	36.4%	**51,103**	39,314	30.0%
Adjusted earnings per share from continuing operations (1)	**$ 0.31**	$ 0.23	36.1%	**$ 1.36**	$ 1.05	29.7%

Note:

(1) See the section below entitled "Non-IFRS Measures" for further details concerning how the Company calculates Operating EBITDA, Operating EBITDA Margin, Adjusted Net Income and Adjusted Earnings per Share (EPS) and for a reconciliation to the most comparable IFRS measure.

(2) Not meaningful.

Highlights of Results from Continuing Operations in Q4 2016

Total revenues increased by 13.7% driven by strong SSS growth of 9.6% on top of 12.9% in Q4 2015. Sales growth was further aided by the addition of 11 new stores since December 31, 2015. Gross profit margins and Operating EBITDA margins improved in Q4 2016 compared to Q4 2015, which translated into higher Adjusted Net Income of $11.7 million (Q4 2015 – $8.5 million) and a growth of 36.1% in Adjusted Earnings per Share from $0.23 in Q4 2015 to $0.31 in Q4 2016. See “Non-IFRS Measures”. The Net income from continuing operations in Q4 2016 was $11.7 million (Q4 2015 - $8.6 million) resulting in Basic Earnings per Share of $0.30 (Q4 2015 - $0.16).

Highlights of Results from Continuing Operations in 2016

Total revenues increased by 14.8% driven by strong SSS growth of 10.0% on top of 11.3% in 2015. Sales growth was further aided by the addition of 11 new stores since December 31, 2015.

Management believes revenue was also positively impacted by the enhanced store design, which was first introduced in certain existing stores during the second half of 2014. To date, 33 of SCC’s existing stores have been renovated to this enhanced design. As at December 31, 2016, the renovated stores have on average, achieved higher SSS than other stores in their regions since their respective reopening dates.

Gross profit margins and Operating EBITDA margins improved in 2016 compared to 2015, which translated into a growth in Adjusted Net Income of 30.0% from $39.3 million in 2015 to $51.1 million in 2016. Adjusted Earnings per Share increased by 29.7% to $1.36 in 2016 from $1.05 in 2015. See “Non-IFRS Measures”.

During 2015, the Company incurred a number of one-time, non-cash transactions related to the capital structure that existed prior to the IPO as well as other non-recurring items at the time of the IPO. Including these items, which are not indicative of strong core business performance achieved in the period, net loss for 2015 was $51.7 million (loss of $1.90 per share) compared to an income of $49.6 million ($1.32 per Share) for 2016.

In January 2015, the Company also completed the sale of the Sleep America business for US$12.4 million (net of a working capital adjustment of US$0.1 million). The operations of Sleep America have been presented as “Discontinued Operations” in 2015.

Outlook

Management believes Sleep Country is well-positioned to continue to grow revenue, profitability and cash flows. Key initiatives planned for 2017 include the following:

- launching a new corporate website which will contain full eCommerce capabilities;
- opening 8 to 12 new stores;
- growing SSS by continuing to invest in advertising and sales training;
- renovating 20 to 30 stores to feature the enhanced store design;
- relocating 4 distribution centres; and
- continuing to expand merchandising opportunities in Accessories.

The distribution centre relocations will result in additional capital expenditure of approximately $6 to $8 million. These relocations will result in a one-time EBITDA drag of approximately $1 million, but will improve efficiency and grow distribution capacity for the long term.

The eCommerce platform will feature our new exclusive Bed in a Box mattress and our full line up of Accessories and enables Sleep Country to better meet its customers’ needs, as they seek the convenience of shopping online. 2017 will be a year of ramp up for the eCommerce platform and may be a near-term drag on EBITDA of approx. $1 to $1.5 million.

Selected Financial Information

The following table sets out selected IFRS and certain non-IFRS financial measures of SCC and should be read in conjunction with the audited annual consolidated financial statements for 2016 and 2015.

	Q4			Annual		
(C$ thousands unless otherwise stated)	**2016**	2015	Change	**2016**	2015	Change
Consolidated Income Statement						
Revenues	$ **135,430**	$ 119,106	13.7%	$ **523,787**	$ 456,185	14.8%
Cost of sales	**96,425**	86,548	11.4%	**372,389**	329,370	13.1%
Gross profit	**39,005**	32,558	19.8%	**151,398**	126,815	19.4%
General and administrative expenses	**20,360**	16,487	23.5%	**67,882**	67,805	0.1%
Depreciation and amortization	**3,335**	2,774	20.2%	**11,869**	10,346	14.7%
Income before finance related expenses, interest income and other expenses and income taxes	**15,310**	13,297	15.1%	**71,647**	48,664	47.2%
Finance related expenses	**834**	1,226	(32.0)%	**4,121**	112,316	(96.3)%
Interest and other expenses (income) – net	**75**	(12)	N/M(2)	**118**	15	686.7%
Net Income (loss) before income taxes	**14,401**	12,083	19.2%	**67,408**	(63,667)	N/M(2)
Income taxes	**3,224**	3,465	(7.0)%	**17,834**	(11,975)	N/M(2)
Net income (loss) from continuing operations	**11,177**	8,618	29.7%	**49,574**	(51,692)	N/M(2)
Net income (loss) from discontinued operations	**-**	(23)	N/M(2)	**-**	5,992	N/M(2)
Net income (loss)	$ **11,177**	$ 8,595	30.0%	$ **49,574**	$ (45,700)	N/M(2)
EBITDA (1)	$ **18,645**	$ 16,071	16.0%	$ **83,516**	$ 59,010	41.5%
Operating EBITDA (1)	$ **19,123**	$ 16,291	17.4%	$ **85,045**	$ 69,125	23.0%
Operating EBITDA Margin (1)	**14.1%**	13.7%		**16.2%**	15.2%	
Adjusted net income from continuing operations (1)	$ **11,655**	$ 8,542	36.4%	$ **51,103**	$ 39,314	30.0%
Earnings (loss) per share from continuing operations – Basic	$ **0.30**	$ 0.16	85.6%	$ **1.32**	$ (1.90)	N/M(2)
Earnings (loss) per share from continuing operations – Diluted	$ **0.29**	$ 0.16	83.9%	$ **1.31**	$ (1.90)	N/M(2)
Earnings per share from discontinued operations – Basic	$ **-**	$ -	N/M(2)	$ **-**	$ 0.20	N/M(2)
Earnings per share from discontinued operations - Diluted	$ **-**	$ -	N/M(2)	$ **-**	$ 0.20	N/M(2)
Adjusted earnings per share from continuing operations (1)	$ **0.31**	$ 0.23	36.1%	$ **1.36**	$ 1.05	29.7%
Dividends declared per share	$ **0.15**	$ 0.13	15.4%	$ **0.56**	$ 0.13	346.2%

		31-Dec-16		31-Dec-15
Total assets	$	**461,008**	$	**439,367**
Long-term debt	$	**118,751**	$	**124,223**

Note:

(1) See the section below entitled "Non-IFRS Measures" for further details concerning how the Company calculates EBITDA, Operating EBITDA, Operating EBITDA Margin, Adjusted Net Income and Adjusted Earnings per Share (EPS) and for a reconciliation to the most comparable IFRS measure.

(2) Not meaningful.

7 Fourth Quarter 2016 versus Fourth Quarter 2015

Continuing Operations

Revenues

Revenues increased by 13.7%, from $119.1 million in Q4 2015 to $135.4 million in Q4 2016, primarily driven by a 9.6% increase in SSS. See "Non-IFRS Measures". Sales growth was further aided by the addition of 11 new stores since December 31, 2015.

The increase in total revenue was comprised of an increase in mattress sales and accessory sales. Mattress revenue increased by 12.4%, from $93.7 million to $105.3 million. Accessory revenue increased by 18.7%, from $25.4 million to $30.2 million.

Gross profit

Gross profit was $39.0 million in Q4 2016 compared to $32.6 million in Q4 2015, representing an increase of $6.4 million. Gross profit margin increased by 1.5% to 28.8% for Q4 2016 from 27.3% in Q4 2015 primarily as a result of the following factors:

- sales and distribution compensation was 15.4% of revenue in Q4 2016 compared to 16.2% of revenue in Q4 2015 mainly as a result of improved leverage;
- improved leverage on store occupancy costs, which decreased as a percentage of revenue from 9.7% to 8.8%; and
- inventory and other directly related expenses net of volume rebates increased as a percentage of revenue from 46.1% to 46.3%.

General and administrative ("**G&A**") expenses

Total G&A expenses increased by $3.9 million, or 23.5%, from $16.5 million in Q4 2015 to $20.4 million in Q4 2016; and, as a percentage of revenue, G&A increased from 13.8% in Q4 2015 to 15.0% in Q4 2016.

							Q4
(C$ millions unless otherwise stated)		**2016**	*% of revenue*		2015	*% of revenue*	Change
Media and advertising expenses [1]	**$**	**7.7**	**5.7%**	$	5.8	4.9%	$ 1.9
Salaries, wages and benefits [2]		**4.0**	**3.0%**		2.9	2.5%	1.1
Credit card and finance charges [3]		**2.9**	**2.2%**		2.7	2.2%	0.3
Rent and other occupancy charges [4]		**1.9**	**1.4%**		1.7	1.5%	0.2
Professional fees [5]		**0.9**	**0.7%**		0.7	0.6%	0.1
Telecommunication and information technology		**1.0**	**0.7%**		0.9	0.8%	0.1
Other		**1.9**	**1.4%**		1.7	1.4%	0.2
Total G&A expenses	**$**	**20.4**	**15.0%**	$	16.5	13.8%	$ 3.9

(1) Media and advertising expenses increased by $1.9 million mainly as a result of additional spend in TV, radio and print to provide additional support to the Accessories category, continued support of the mattress category as well as the promotion of new satellite markets.

(2) Salaries, wages and benefits increased by $1.1 million mainly as a result of a $0.4 million increase in stock compensation expense, a non-recurring credit received in Q4 2015 from the government on labour-related matters and additional compensation expense incurred in the regular course of business as a result of merit increases and additional hires to support growth of the business.

(3) Credit card and finance charges are variable costs and remained stable as a percentage of revenue.

(4) Rent and other occupancy charges include rent for the distribution centres and office space.

(5) Professional fees increased mainly as a result of additional legal expenses relating to the Company's trademark infringement litigation against Sears Canada Inc.

EBITDA

EBITDA was $18.6 million for Q4 2016 compared to $16.1 million for Q4 2015, representing an increase of $2.6 million (or 16.0%). See “Non-IFRS Measures”. The increase was primarily due to strong revenue growth in Q4 2016 combined with improved gross profit margins partially offset by an increase in the G&A expenses

Operating EBITDA

Operating EBITDA was $19.1 million for Q4 2016 compared to $16.3 million for Q4 2015, representing an increase of $2.8 million (or 17.4%). See “Non-IFRS Measures”. The increase was primarily due to strong revenue growth in Q4 2016 combined with improved gross profit margins partially offset by an increase in G&A expenses.

Depreciation and amortization expenses

Depreciation and amortization increased by $0.6 million from $2.8 million in Q4 2015 to $3.3 million in Q4 2016. The increase was mainly a result of the higher net book value of property and equipment which was driven by increased capital expenditures on new stores and store renovations.

Finance related expenses

Finance related expenses were $0.8 million in Q4 2016 compared to $1.2 million in Q4 2015, representing a decrease of $0.4 million mainly as a result of a lower average balance outstanding on the senior credit facility and a lower effective interest rate of 2.73% in Q4 2016 compared to 3.48% in Q4 2015. The nature of the Company’s finance related expenses are described in this MD&A below under the heading “Annual Financial Results 2016 versus 2015 – Finance related expenses”.

Income taxes (recovery)

Q4 2016 had an income tax expense of $3.2 million versus $3.5 million for Q4 2015. During Q4 2016, there was a reversal of certain tax attributes of $0.9 million that related to the capital structure that existed prior to the IPO. The tax expense in Q4 2015 included the tax effect of certain transactions relating to the IPO.

Net income

The net income for Q4 2016 was $11.2 million ($0.30 per share) compared to $8.6 million ($0.16 per share) in Q4 2015 representing an increase of $2.6 million (or 29.7%). The increase was mainly due to an increase in EBITDA, lower finance related expenses and a lower income tax expense. See “Non-IFRS Measures”.

Adjusted net income

Adjusted Net Income for Q4 2016 was $11.7 million ($0.31 per share) compared to $8.5 million ($0.23 per share) for Q4 2015, an increase of $3.1 million (or 36.4%). The increase was primarily due to higher Operating EBITDA together with a decrease in finance related expenses and a decrease in income tax expense, partially offset by an increase in depreciation and amortization expenses. See “Non-IFRS Measures”.

Discontinued Operations

Net income (loss)

The sale of the Sleep America business for US$12.4 million (net of working capital adjustment of US$0.1 million) closed on January 6, 2015. As a result, SCC realized a net gain of $6.0 million in 2015, most of which recognized prior to Q4 2015. The performance of the Sleep America business was presented in “Discontinued Operations” following the approval of the sale on November 5, 2014.

8 Annual Financial Results 2016 versus 2015

Continuing Operations

Revenues

Revenues increased by 14.8%, from $456.2 million in 2015 to $523.8 million in 2016, primarily driven by a 10.0% increase in SSS. See "Non-IFRS Measures". Sales growth was further aided by the addition of 11 new stores since December 31, 2015.

The increase in total revenue was comprised of an increase in mattress sales and Accessory sales. Mattress revenue increased by 12.3%, from $365.6 million to $410.5 million. Accessory revenue increased by 25.0%, from $90.6 million to $113.3 million.

Gross profit

Gross profit was $151.4 million in 2016 compared to $126.8 million in 2015, representing an increase of $24.6 million. Gross profit margin increased by 1.1% to 28.9% for 2016 from 27.8% in 2015 as a result of the following factors:

- sales and distribution compensation was 15.8% of revenue in 2016 compared to 16.3% of revenue in 2015 mainly as a result of improved leverage;
- improved leverage on store occupancy costs, which decreased as a percentage of revenue from 9.7% to 9.0%; and
- inventory and other directly related expenses net of volume rebates increased marginally as a percentage of revenue from 45.5% in 2015 to 45.6% in 2016.

G&A expenses

Total G&A expenses increased marginally by $0.1 million, or 0.1%, from $67.8 million in 2015 to $67.9 million in 2016. Expenses in 2015 included certain non-recurring expenses, excluding these non-recurring expenses, G&A expenses increased to 13.0% of revenue in 2016 from 12.7% of revenue in 2015.

							Annual
(C$ millions unless otherwise stated)		**2016**	*% of revenue*		2015	*% of revenue*	Change
Media and advertising expenses [(1)]	**$**	**23.7**	**4.5%**	$	20.5	4.5%	$ 3.2
Salaries, wages and benefits [(2)]		**15.6**	**3.0%**		20.2	4.4%	(4.6)
Credit card and finance charges [(3)]		**11.4**	**2.2%**		9.8	2.1%	1.6
Rent and other occupancy charges		**7.3**	**1.4%**		6.6	1.5%	0.6
Professional fees[(4)]		**1.7**	**0.3%**		3.4	0.8%	(1.7)
Telecommunication and information technology		**3.5**	**0.7%**		3.1	0.7%	0.4
Other		**4.7**	**0.9%**		4.1	0.9%	0.6
Total G&A expenses	**$**	**67.9**	**13.0%**	$	67.8	14.9%	$ 0.1

(1) Media and advertising expenses increased by $3.2 million mainly as a result of additional spend in TV, radio and print to provide additional support to the Accessories category, the continued support of the mattress category as well as the promotion of new and satellite markets.

(2) Salaries, wages and benefits expenses for 2015 include $6.9 million in non-recurring management bonus relating to the close-out of the management option plan that existed prior to the IPO and a $0.7 million reduction in management compensation upon internal restructuring following the IPO. Excluding these items, salaries, wages and benefits increased by $3.0 million (or 23.5%) mainly as a result of an increase in stock compensation expense, a non-recurring credit received in Q4 2015 from the government on labour-related matters and additional compensation expense incurred in the regular course of business as a result of merit increases and additional hires to support growth of the business.

(3) Credit card and finance charges are variable costs and remained relatively stable as a percentage of revenue.

(4) Professional fees for 2015 include $2.4 million in non-recurring professional fees related to the IPO. Excluding this, professional fees increased from $1.1 million in 2015 to $1.7 million in 2016 mainly as a result of additional legal expenses relating to the Company's trademark infringement litigation against Sears Canada Inc.

EBITDA

EBITDA was $83.5 million for 2016 compared to $59.0 million for 2015, representing an increase of $24.5 million (or 41.5%). See "Non-IFRS Measures". The increase was primarily due to strong revenue growth in 2016 combined with improved gross profit margins.

Operating EBITDA

Operating EBITDA was $85.0 million for 2016 compared to $69.1 million for 2015, representing an increase of $15.9 million (or 23.0%). See "Non-IFRS Measures". The increase was primarily due to strong revenue growth in 2016 combined with improved gross profit margins partially offset by an increase in G&A expenses.

Depreciation and amortization expenses

Depreciation and amortization increased from $10.3 million in 2015 to $11.9 million in 2016 mainly due to higher a net book value of property and equipment which was driven by increased capital expenditures on new stores and store renovations.

Finance related expenses

Prior to the IPO, finance related expenses consisted of interest on the senior credit facility, finance leases, Series A and B promissory notes and Class A convertible shares and fair value adjustment expenses on Class B common shares. Class B common shares were accounted for as liabilities. Subsequent to the completion of the IPO on July 16, 2015, finance related expenses consist of interest on senior credit facilities and finance leases.

Finance related expenses were $4.1 million in 2016 compared to $112.3 million in 2015, representing a decrease of $108.2 million. $105.3 million of the finance related expense in 2015 related to finance costs of Series A and B promissory notes, Class A convertible shares and Class B common shares. The promissory notes and Class A convertible shares were early settled in connection with the closing of the IPO, $1.2 million of finance related expenses in 2015 related to accelerated amortization of debt issuance costs as a result of renegotiation of the senior credit facility in connection with the IPO. After the IPO, these finance related expenses were no longer incurred.

Excluding finance expenses that related to the capital structure that existed prior to the IPO, finance related expenses decreased from $5.8 million in 2015 to $4.1 million in 2016 mainly as a result of a lower average balance outstanding on the senior credit facility and a lower annual effective rate of 3.07% in 2016 compared to 4.70% in 2015.

Income taxes (recovery)

2016 had an income tax expense of $17.8 million versus a recovery of $12.0 million for 2015.

The current income tax expense in 2015 was $10.1 million compared to a current income tax expense of $17.5 million in 2016, an increase of $7.4 million. The increase was mainly a result of higher taxable income due to improved business results and operating margins, a 100% allocation of the taxable income generated from the operating business in 2016 compared to a partial allocation in 2015, the tax effect of certain transactions in connection with the IPO-related restructuring and a tax credit that offset some tax payable in 2015.

The increase in current income tax expense was offset by a decrease in deferred income tax recoveries. The deferred tax recovery was $22.1 million in 2015 compared to a deferred tax expense of $0.3 million in 2016. The deferred tax recovery in 2015 was mainly due to the favourable deferred tax impact of IPO-related costs and additional finance costs associated with the early repayment of the subordinated debt in 2015.

Net income (loss)

The net income for 2016 was $49.6 million ($1.32 per share) compared to a loss of $51.7 million (loss of $1.90 per share) in 2015 representing an increase of $101.3 million. The increase was mainly due to an increase in EBITDA and lower finance related expenses, partially offset by an increase in depreciation and income tax expense. See "Non-IFRS Measures".

Adjusted net income

Adjusted Net Income for 2016 was $51.1 million ($1.36 per share) compared to $39.3 million ($1.05 per share) for 2015, which is an increase of $11.8 million (or 30.0%). The increase was primarily due to higher Operating EBITDA and lower finance related expenses, partially offset by an increase in depreciation and income tax expense. See "Non-IFRS Measures".

Discontinued Operations

Net income (loss)

The sale of the Sleep America business for US$12.4 million (net of working capital adjustment of US$0.1 million) closed on January 6, 2015. As a result, SCC realized a net gain of $6.0 million in 2015. The performance of the Sleep America business was presented in "Discontinued Operations" following the approval of the sale on November 5, 2014.

9 Summary of Quarterly Results

Over the past two years, the Company's quarterly revenue and earnings have steadily increased with the third quarter typically generating the greatest contribution to revenues and earnings, and the first quarter the least. This is largely due to the seasonal nature of revenue and the timing of marketing programs. Accordingly, results of operations for any interim period are not necessarily indicative of the results of operations for the full fiscal year. The following table shows the financial performance of the Company for the last eight quarters and has been prepared in accordance with IFRS.

					2016					2015
(C$ thousands unless otherwise stated)	**Q4**	Q3	Q2	Q1	**TOTAL**	Q4	Q3	Q2	Q1	TOTAL
Revenues	**$ 135,430**	$ 160,847	$ 120,212	$ 107,298	**$ 523,787**	$ 119,106	$ 142,946	$ 102,520	$ 91,613	$ 456,185
SSS[1]	**9.6%**	7.7%	12.2%	11.7%	**10.0%**	12.9%	13.4%	7.7%	10.5%	11.3%
Gross profit	**$ 39,005**	$ 52,053	$ 33,693	$ 26,647	**$ 151,398**	$ 32,558	$ 45,020	$ 27,004	$ 22,233	$ 126,815
EBITDA[1]	**$ 18,645**	$ 33,152	$ 17,522	$ 14,197	**$ 83,516**	$ 16,071	$ 19,700	$ 12,935	$ 10,304	$ 59,010
Operating EBITDA[1]	**$ 19,123**	$ 33,624	$ 17,884	$ 14,414	**$ 85,045**	$ 16,291	$ 28,742	$ 13,370	$ 10,722	$ 69,125
Operating EBITDA Margin[1]	**14.1%**	20.9%	14.9%	13.4%	**16.2%**	13.7%	20.1%	13.0%	11.7%	15.2%
Net income (loss) from continuing operations	**$ 11,177**	$ 21,402	$ 9,699	$ 7,296	**$ 49,574**	$ 8,618	$ 8,047	$ (50,666)	$ (17,691)	$ (51,692)
Net income (loss) from discontinued operations	**$ -**	$ -	$ -	$ -	**$ -**	$ (23)	$ (176)	$ (586)	$ 6,777	$ 5,992
Net income (loss)	**$ 11,177**	$ 21,402	$ 9,699	$ 7,296	**$ 49,574**	$ 8,595	$ 7,871	$ (51,252)	$ (10,914)	$ (45,700)
Adjusted net income from continuing operations[1]	**$ 11,655**	$ 21,874	$ 10,061	$ 7,513	**$ 51,103**	$ 8,542	$ 17,811	$ 7,085[2]	$ 5,876[2]	$ 39,314
Earnings (loss) per share from continuing operations - Basic	**$ 0.30**	$ 0.57	$ 0.26	$ 0.19	**$ 1.32**	$ 0.16	$ 0.39	$ (2.70)	$ (1.09)	$ (1.90)
Earnings (loss) per share from discontinued operations - Basic	**$ -**	$ -	$ -	$ -	**$ -**	$ -	$ (0.01)	$ (0.02)	$ 0.20	$ 0.20
Earnings (loss) per share from continuing operations - Diluted	**$ 0.29**	$ 0.56	$ 0.26	$ 0.19	**$ 1.31**	$ 0.16	$ 0.39	$ (2.70)	$ (1.09)	$ (1.90)
Earnings (loss) per share from discontinued operations – Diluted	**$ -**	$ -	$ -	$ -	**$ -**	$ -	$ (0.01)	$ (0.02)	$ 0.20	$ 0.20
Adjusted earnings per share from continuing operations[1]	**$ 0.31**	$ 0.58	$ 0.27	$ 0.20	**$ 1.36**	$ 0.23	$ 0.47	$ 0.19	$ 0.16	$ 1.05

NOTE:

(1) See the section below entitled "Non-IFRS Measures" for further details concerning how the Company calculates EBITDA, Operating EBITDA, Operating EBITDA Margin, Adjusted Net Income and Adjusted Earnings per Share (EPS) and for a reconciliation to the most comparable IFRS measure.

(2) Prior to the IPO, a certain percentage of taxable income of Sleep Country Canada LP ("**SCCLP**") was allocated to the minority shareholders. As a result of certain pre-closing transactions carried out prior to the IPO, 100% of the taxable income of SCCLP is allocated to SCCI. Adjustments have been made to reflect the change in taxation expense.

10 Segment Performance

As at December 31, 2016, SCC manages its business on the basis of one operating segment (Canada) which is also SCC's only reportable segment consistent with the internal reporting provided to management.

11 Liquidity and Capital Resources

Liquidity

SCC's primary sources of cash consist of existing cash balances, operating activities, and available credit facilities. SCC's primary uses of cash are to fund operating expenses, capital expenditures, finance costs, taxation expense, debt principal payments and dividends. Historically, SCC has experienced lower sales and EBITDA in the first half of the year. Management believes cash generated from operations, together with cash on hand and amounts available under SCC's credit facilities will be sufficient to meet its future cash requirements. However, SCC's ability to fund future cash requirements will depend on its future operating performance, which could be affected by general economic, financial and other factors including factors beyond its control despite the risk management strategies that management puts in place. See the section entitled "Risk Factors" in the AIF for a discussion of the various risks and uncertainties that may affect the Company's ability to fund its future cash requirements.

Management reviews new store opening, acquisition and investment opportunities in the normal course of its business and may, if suitable opportunities arise, realize these opportunities to meet SCC's business strategy. Historically, the funding for any such acquisitions or investments has come from cash flow generated from operating activities and/or additional debt.

A summary of net cash flows by activities is presented below for 2016 and 2015:

(C$ thousands unless otherwise stated)	**2016**	2015
Cash flows from operating activities	**$ 53,948**	$ 58,992
Cash flows from (used in) investing activities	**(17,111)**	409
Cash flows from used in financing activities	**(29,656)**	(84,100)
Net increase (decrease) in cash	**7,181**	(24,699)
Cash at beginning of period	**16,639**	41,338
Cash at end of period	**$ 23,820**	$ 16,639

Net cash flows from operating activities

Net cash flows generated by operating activities were $53.9 million in 2016 comprised of the positive impact of cash generated from operating activities of $65.8 million offset by a $11.9 million use of cash as a result of an increase in non-cash items relating to operating activities (working capital). The increase in working capital was primarily driven by higher trade and other receivables, higher inventories, lower trade and other payables partially offset by lower customer deposits. During 2015, cash generated from operating activities before changes in working capital was $50.0 million and was positively impacted by cash generated of $9.0 million from a decrease in working capital. The decrease in working capital for 2015 was primarily driven by higher trade and other payables, higher customer deposits, lower prepaid expenses and deposits and was offset by higher inventories and higher trade and other receivables. See "Non-IFRS Measures".

Net cash flows from (used in) investing activities

Net cash flows used in investing activities in 2016 consist of investments in capital expenditures mainly due to new store openings and store renovations. Net cash flow generated from investing activities in 2015 includes $15.0 million proceeds from the sale of Sleep America offset by $14.6 million in capital expenditures mainly spent on store openings and store renovations.

Net cash flows used in financing activities

Net cash flows used in financing activities were $29.7 million for 2016, consisting primarily of a net decrease in the revolving credit facility of $5.0 million, dividends on the common shares of $19.9 million and interest payments of $3.7 million on the senior credit facility and finance leases. Net cash flows used in 2015 were $84.1 million consisting primarily of net cash outflow of $69.1 million relating to the pre-IPO reorganization, interest payments of $6.6 million on the senior credit facility, and finance leases, dividends paid of $4.2 million, repayment of the senior credit facility of $2.8 million and financing costs paid related to the senior credit facility $0.7 million.

Contractual obligations

The following table summarizes the Company's significant contractual obligation and commitments as at December 31, 2016 based on undiscounted cash flow including estimated interest payable as per the terms of the long-term debt:

(C$ thousands unless otherwise stated)	2017	2018	2019	2020	2021	Thereafter	**Total**
Commitments:							
Operating leases	$ 35,292	$ 30,308	$ 26,232	$ 23,173	$ 17,030	$ 38,517	**$ 170,552**
Financial obligation:							
Trade and other payable	40,522	-	-	-	-	-	**40,522**
Long-term debt:							
Existing credit facility:	3,522	3,522	3,522	3,522	120,737	-	**134,825**
Finance leases	494	197	120	88	42	15	**956**
Total contractual obligation	$ 79,830	$ 34,027	$ 29,874	$ 26,783	$ 137,809	$ 38,532	**$ 346,855**

The Company enters into operating leases for stores and distribution centres, passenger vehicles and office equipment with terms varying from three to 15 years.

The existing credit facility represents a revolving credit facility with a balance outstanding as at December 31, 2016 of $119.0 million (December 31, 2015 - $124.0 million).

The finance leases are mainly comprised of leases on delivery trucks. As at December 31, 2016, the outstanding principal of the finance leases was $0.9 million (2015 - $1.5 million).

Capital Resources

Senior secured credit facility

On July 16, 2015, concurrently with the closing of the IPO, SCCI replaced its $30 million revolving and $130 million term credit facilities with a $175 million revolving credit facility, which was scheduled to mature on July 16, 2020. This revolving credit facility was guaranteed by SCC.

On June 29, 2016, the senior secured credit agreement was amended and restated and SCC became the borrower under the revolving credit facility and SCCI, the wholly - owned operating subsidiary of SCC, became the sole guarantor. In addition, the credit limit under the revolving credit facility was reduced to $150.0 million and the maturity date was extended to June 29, 2021. The revolving credit facility is secured by all of the present and after - acquired personal property of SCC and SCCI. As at December 31, 2016, the balance outstanding on the revolving credit facility was $119.0 million (December 31, 2015 - $124.0 million).

The revolving credit facility allows for the debt to be held in Canadian or US dollars. During the year, the Company held the debt in US dollars for 162 days. To mitigate the foreign exchange risk, the Company entered into forward foreign exchange contracts to sell US dollars in the equal amount of the debt with an overall impact of $nil recorded in general and administrative expenses in the consolidated statements of operations. As at December 31, 2016, the debt is held in Canadian dollars and no forward foreign exchange contracts were outstanding. Interest on the revolving credit facility is based on the prime or bankers' acceptance rates plus applicable margins based on the achievement of certain targets, as defined by the amended and restated senior secured credit agreement. As at December 31, 2016, the applicable margin for bankers' acceptances was 187.5 basis points and the applicable margin for prime rate loans was 87.5 basis points. Interest on the revolving facilities is payable monthly in advance at the bankers' acceptance rate or in arrears at the prime rate plus the applicable margin based on the achievement of certain targets, as defined by the senior secured credit agreement. The weighted average interest rate on the facility was 2.84% (2015 - 4.6%).

Under the terms of the revolving credit facility, certain financial and non-financial covenants must be complied with. As at December 31, 2016, and during fiscal 2016, SCC was in compliance with all covenants under the senior secured credit facility.

Series A and Series B promissory notes

In 2015, $61.9 million of Series A and Series B notes were repaid. Also, promissory notes held by related parties were early settled as part of the IPO in July 2015. As a result of these transactions, the cash flow assumptions related to the Series A and B promissory notes were revised and resulted in non-cash accelerated interest expense being recognized. For 2015, SCCI incurred non-cash accelerated interest expense as noted, including accretion, of $84.7 million on the Series A and B notes, of which $nil million was incurred in Q4 2015.
In connection with the closing of the IPO, the Series A and B notes were settled for Class A common shares of SCCI based on their face value of $140.1 million.

Class A convertible shares and Class B common shares

On February 25, 2015, there was a repayment of $4.0 million on the Class A convertible shares. Also, convertible shares held by related parties were early settled as part of the IPO in July 2015. This resulted in non-cash accelerated interest accretion expense being recognized on the Class A convertible shares. The non-cash interest accretion on the Class A convertible shares, along with interest expense on the Class B common shares was partially offset by a non-cash fair value adjustment, for a cumulative expense of $20.6 million recorded for 2015, of which $nil million was recorded in Q4 2015.

In connection with the closing of the IPO, the Class A convertible shares were converted into Class A common shares of SCCI based on their face value of $33.4 million.

Off-balance sheet arrangements

SCC did not have any material off-balance sheet arrangements as at December 31, 2016 and December 31, 2015, nor does it have any subsequent to December 31, 2016.

Related party transactions

As at December 31, 2015, Birch Hill Equity Partners Management Inc. ("**Birch Hill**") beneficially owned, controlled or directed the voting of, directly or indirectly, approximately 14.5% of the Company's issued and outstanding common shares. Birch Hill also had dispositive powers, but not voting direction or control, with respect to approximately 4.4% of the common shares beneficially owned by certain co-investors. In May 2016, Birch Hill and its co-investors divested themselves of their remaining shareholdings in the Company. Birch Hill continues to maintain two nominee directors on the Company's Board of Directors. As such, Birch Hill is deemed to be a related party of the Company as at December 31, 2016.

The following balances are due from related parties:

(C$ thousands unless otherwise stated)	31-Dec-16	31-Dec-15
Short-term advances to related parties	**$ 2**	$ 4

Short-term advances due from related parties were a result of tax liability, professional fee and other expenses paid by the Company on behalf of the related parties.

12 Transactions with Key Management Personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the Board of Directors and its six most highly compensated executive officers. SCC incurred the following compensation expenses in relation to key management personnel:

(C$ thousands unless otherwise stated)	2016	2015
Salaries and short-term employee benefits	**$ 3,913**	$ 4,821
Share-based compensation	**1,373**	171
Non-recurring bonus relating to the legacy option plan	**-**	5,096
Directors fees	**615**	335
	$ 5,901	$ 10,423

13 Risk Factors

SCC's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest risks), credit risk, liquidity risk and capital risk. SCC's overall risk management program and business practices seek to minimize any potential adverse effects on SCC's financial performance.

Risk management is carried out by the senior management team and is reviewed by SCC's Board of Directors.

Market Risk

Market risk is the loss that may arise from changes in factors such as interest rates, foreign exchange rates and the impact these factors may have on other counterparties.

Foreign Exchange Risk

SCC's operating results are reported in Canadian dollars. A portion of the Company's merchandise purchases are denominated in US dollars which results in foreign currency exposure related to fluctuations between the Canadian and US dollars. The Company does not currently use foreign exchange options or forward contracts to hedge its foreign currency risk relating to merchandise purchases. A sudden increase in the US dollar relative to the Canadian dollar could result in higher costs to the Company, which could in turn result in increased prices and reduced sales, decreased profit margins and could negatively impact the Company's business and financial results.

The Company's revolving credit facility allows the Company to borrow in Canadian and US dollars. To mitigate any foreign exchange risk related to its US dollar denominated debt, the Company enters into forward foreign exchange contracts to sell US dollars in an amount equal to the principal amount of its US dollar denominated borrowings.

Cash Flow and Fair Value Interest Risk

SCC has no significant interest - bearing assets. SCC's income and operating cash flows are substantially independent of changes in market interest rates.

SCC's primary interest rate risk arises from long-term debt. SCC manages its exposure to changes in interest rates by using a combination of fixed and variable rate debt and varying lengths of terms to achieve the desired proportion of variable and fixed rate debt. An increase (or decrease) in interest rates by 1% would result in a $1.2 million increase (or decrease) on annual interest expense on the credit facility. SCC also has a small number of finance leases that carry interest at variable rates.

Credit Risk

Credit risk refers to the risk of losses due to failure of the Company's customers or other counterparties to meet their payment obligations. Credit risk arises from deposits with banks, as well as credit exposures from mattress vendors for the payment of volume and co-operative advertising rebate amounts and balances owed from third party financing companies under the various financing plans the Company offers its customers. In accordance with SCC's investment practice, all deposits are held at banks possessing a credit rating of AA- or better. Sales to retail customers are settled in cash, financed by third party financing companies or by using major credit cards. The Company transfers the credit risk for financing plans to third party financing companies. The third party financing companies that SCC deals with carry a minimum rating of BBB or better.

There are no significant impaired receivables that have not been provided for in the allowance. There are no amounts considered past due or impaired.

Liquidity Risk

Liquidity risk is the risk SCC will not be able to meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Prudent liquidity management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Capital Risk

SCC's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for its shareholders in the form of cash dividends, benefits to other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

For an understanding of other potential risks, including non-financial risks, see the section entitled "Risk Factors" in the AIF.

14 Critical Accounting Estimates

A summary of significant accounting policies is included in Note 3 of SCC's 2016 audited annual consolidated financial statements. The Company's critical accounting estimates are included in Note 4 of SCC's 2016 audited annual consolidated financial statements and are described below. Critical accounting estimates require management to make certain judgments and estimates, which may differ from actual results. Accounting estimates are based on historical experience and other factors that management believes to be reasonable under the time frame and circumstances. Changes in management's accounting estimates can have a material impact on the financial results of the Company.

Impairment of Goodwill and Brands

Management is required to use judgment in determining the grouping of assets to identify the Company's cash generating units ("**CGUs**") for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and intangible assets are tested for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

In determining the recoverable amount of a CGU, various estimates are employed. The Company determines fair value less costs of disposal using estimates such as projected future sales, earnings, capital investments and discount rates. Projected future sales and earnings are consistent with strategic plans provided to the Company's Board of Directors. Discount rates are based on an estimate of the Company's weighted average cost of capital taking into account external industry information reflecting the risk associated with the specific cash flows. As at December 31, 2016 and December 31, 2015, impairment reviews were performed by comparing the carrying value of goodwill and brands with the recoverable amount of the CGU to which goodwill and brands have been allocated. Management determined that there had been no impairment as at both of those dates.

Long-term Debt – Promissory Notes A and B, Class B Common Shares and Class A Convertible Shares

The calculation of amortized cost associated with the Series A and B promissory notes, Class B common shares and the Class A convertible shares, in each case of SCCI, required management to utilize the effective interest rate approach and make certain judgments regarding the expected cash outflows associated with the respective financial liability. Changes in the expected timing and amounts of cash outflows due to early repayments or changes in the redemption values impacted amounts recognized as interest expense. For example, if the promissory notes were repaid prior to the contractual maturity date, non-cash interest accretion would be accelerated resulting in additional charges in the consolidated statement of operations, which would be material.

15 Financial Instruments

At December 31, 2016, the financial instruments consisted of cash, trade and other receivables, trade and other payables, customer deposits, senior secured credit facilities and finance leases.

The carrying values of cash, trade and other receivables, trade and other payables and customer deposits approximate their fair values due to the relatively short periods to maturity of these financial instruments. The carrying values of the revolving and term credit facilities approximate their fair value as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at December 31, 2016 and December 31, 2015. The finance leases approximate their fair values as the implicit interest rates used in determining their fair value approximate interest rates as at December 31, 2016 and December 31, 2015. The Company's financial instruments are exposed to certain financial risks, including currency risk, interest rate risk, credit risk and liquidity risk, which are discussed above under the heading "Risk Factors".

16 Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers") by others on a timely basis so that appropriate decisions can be made regarding public disclosure within the time periods required by applicable securities laws. The Certifying Officers are responsible for establishing and maintaining the Company's disclosure controls and procedures.

Our system of disclosure controls and procedures includes, but is not limited to, our Disclosure Policy, our Code of Business Conduct, the effective functioning of our Disclosure Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Disclosure Committee, verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the consolidated financial statements, MD&As, AIF, Management Information Circular and other documents and external communications.

Based on an evaluation of the Company's disclosure control and procedures, the Certifying Officers have concluded that these controls are appropriately designed and were operating effectively as of December 31, 2016. Although the

Company's disclosure controls and procedures were operating effectively as of December 31, 2016, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's regulatory filings.

17 Internal Control Over Financial Reporting

Management is also responsible for establishing and maintaining appropriate internal controls over financial reporting ("**ICFR**"). Our ICFR include, but are not limited to, Entity Level Controls, Information Technology General Controls, Information Technology Application and Development Controls, detailed policies and procedures related to financial accounting and reporting and controls over systems that process and summarize transactions. Our procedures for financial reporting also include the active involvement of qualified financial professionals, senior management, executive management and our Audit Committee.

ICFR is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS. The Certifying Officers are responsible for establishing and maintaining adequate ICFR for the Company. In designing ICFR, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating ICFR.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

A "material weakness" in internal control over financial reporting is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected in a timely basis by the company's internal controls.

The Certifying Officers have evaluated the effectiveness of the Company's ICFR as at December 31, 2016 using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, the Certifying Officers concluded that the ICFR, as defined by National Instrument 52-109 – *Certification of Disclosure on Issuers' Annual and Interim Filings*, are appropriately designed and were operating effectively as at December 31, 2016 and that no material weaknesses were identified through their evaluation.

18 Future Accounting Standards

The IASB and International Financial Reporting Interpretation Committee ("**IFRIC**") have issued the following standards that have not been applied in preparing these condensed interim consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period. The Company is evaluating the impact of these standards and whether to early adopt these standards.

IFRS 15, Revenue from Contracts with Customers

This standard replaces all previous revenue recognition standards, including IAS 18, Revenue. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is analyzing the new standard to determine its impact on the Company's consolidated statements of financial position and consolidated statement of operations.

IFRS 9, Financial Instruments

This standard was issued concerning classification and measurement, impairment and hedge accounting, to supersede IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 will be effective for years beginning on or after January 1, 2018, with early adoption permitted. The Company is analyzing the new standard to determine its impact on the Company's consolidated statements of financial position and consolidated statement of operations.

Amendment to IFRS 7, Financial Instruments- Disclosures

This standard was amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9.

IFRS 16, Leases

IFRS 16, Leases ("**IFRS 16**") sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). This will replace IAS 17, Leases ("**IAS 17**") and related interpretations. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value, and depreciation of the lease assets is shown separately from interest on lease liabilities in the income statement. Under IFRS 16, lessor's accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, Revenue from Contracts with Customers.

As the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine its impact on the Company's consolidated statements of financial position and consolidated statement of operations.

19 Outstanding Share Data

As of the date hereof, 37,648,349 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 473,613 options to purchase an equivalent number of common shares, 90,603 performance share units and 8,920 deferred share units are issued and outstanding. For further details concerning the rights, privileges and restrictions attached to the common shares and the Class A common shares, please refer to the section entitled "Description of Share Capital" in the AIF.

20 Non-IFRS Measures

The Company prepares its financial statements in accordance with IFRS. In order to provide additional insight into the business, to provide investors with supplemental measures of its operating performance and to highlight trends in its business that may not otherwise be apparent when relying solely on IFRS financial measures, the Company has also provided in this MD&A certain non-IFRS measures, including "Same Store Sales" or "SSS", "EBITDA", "Operating EBITDA", "Operating EBITDA Margin", "Adjusted Net Income" and "Adjusted EPS" each as defined below. These measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers.

Readers are cautioned that these non-IFRS measures are not recognized under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similarly titled measures presented by other publicly traded companies. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. See below for further details concerning how the Company calculates these non-IFRS measures and for reconciliations to the most comparable IFRS measures.

Same Store Sales (SSS)

SSS is a non-IFRS measure used in the retail industry to compare sales derived from established stores over a certain period compared to the same period in the prior year. SSS helps to explain what portion of sales growth can be attributed to growth in established stores and what portion can be attributed to the opening of the stores. SCC calculates SSS as the percentage increase or decrease in sales of stores opened for at least 12 complete months relative to the same period in the prior year.

EBITDA and Operating EBITDA from Continuing Operations

EBITDA and Operating EBITDA from continuing operations are used by SCC to assess its operating performance.

EBITDA is defined as income (loss) from continuing operations adjusted for:

- finance related expenses;
- income taxes;
- depreciation and amortization; and
- interest and other expenses (income) – net.

Operating EBITDA is defined as EBITDA adjusted for:

- normalization of management bonuses;
- non-recurring management bonuses;
- certain non-recurring professional fees related to IPO and certain shareholder matters;
- reduction in management compensation due to a change in the senior leadership team; and
- share-based compensation.

Net Income and Adjusted Net Income from Continuing Operations

Adjusted net income from continuing operations is used by SCC to assess its operating performance. Adjusted net income from continuing operations is defined as net income (loss) from continuing operations adjusted for:

- interest expense on Series A and B notes;
- interest expense and non-cash fair value adjustment on Class A convertible shares and Class B common shares;
- acceleration on amortization of debt issuance costs;
- normalization of management bonuses;
- certain non-recurring professional fees related to the IPO and certain shareholder matters;
- reduction in management compensation due to a change in the senior leadership team;
- share-based compensation; and
- tax impact of the change in corporate structure.

Adjusted EPS

Adjusted EPS is defined as Adjusted net income from continuing operations attributable to the common shareholders of the Company divided by weighted average number of shares issued and outstanding during the year.

Calculation of Non-IFRS Measures

(C$ thousands unless otherwise stated, except earnings per share)	Q4 2016	Q4 2015	Annual 2016	Annual 2015
Reconciliation of net income (loss) from continuing operations to EBITDA and Operating EBITDA:				
Net income (loss) from continuing operations	**$ 11,177**	$ 8,618	**$ 49,574**	$ (51,692)
Interest and other expenses (income) - net	**$ 75**	$ (12)	**$ 118**	$ 15
Finance related expenses	**$ 834**	$ 1,226	**$ 4,121**	$ 112,316
Income taxes	**$ 3,224**	$ 3,465	**$ 17,834**	$ (11,975)
Depreciation and amortization	**$ 3,335**	$ 2,774	**$ 11,869**	$ 10,346
EBITDA	**$ 18,645**	$ 16,071	**$ 83,516**	$ 59,010
Adjustments to EBITDA:				
Reduction in management bonuses[1]	**$ -**	$ -	**$ -**	$ 3
Non-recurring management bonuses[2]	**$ -**	$ -	**$ -**	$ 6,898
Non-recurring items[3]	**$ -**	$ 121	**$ -**	$ 2,358
Reduction in management compensation[4]	**$ -**	$ -	**$ -**	$ 685
Share-based compensation[5]	**$ 478**	$ 99	**$ 1,529**	$ 171
Total adjustments	**$ 478**	$ 220	**$ 1,529**	$ 10,115
Operating EBITDA	**$ 19,123**	$ 16,291	**$ 85,045**	$ 69,125
Operating EBITDA margin	**14.1%**	13.7%	**16.2%**	15.2%
Reconciliation of net income (loss) from continuing operations to Adjusted Net Income:				
Net income (loss)	**$ 11,177**	$ 8,618	**$ 49,574**	$ (51,692)
Adjustments:				
Interest expense on Series A and B notes[6]	**$ -**	$ -	**$ -**	$ 84,726
Interest expense and fair value adjustment on Class A convertible shares and Class B common shares[7]	**$ -**	$ -	**$ -**	$ 20,602
Acceleration on amortization of debt issuance cost[8]	**$ -**	$ -	**$ -**	$ 1,205
Total interest adjustment	**$ -**	$ -	**$ -**	$ 106,533
Reduction in management bonuses[1]	**$ -**	$ -	**$ -**	$ 3
Non-recurring management bonuses[2]	**$ -**	$ -	**$ -**	$ 6,898
Non-recurring items[3]	**$ -**	$ 121	**$ -**	$ 2,358
Reduction in management compensation[4]	**$ -**	$ -	**$ -**	$ 685
Share-based compensation[5]	**$ 478**	$ 99	**$ 1,529**	$ 171
Total adjustments	**$ 478**	$ 220	**$ 1,529**	$ 116,648
Tax impact of all adjustments	**$ -**	$ (58)	**$ -**	$ (25,404)
Tax impact of change in corporate structure[9]	**$ -**	$ (238)	**$ -**	$ (238)
Adjusted net income from continuing operations	**$ 11,655**	$ 8,542	**$ 51,103**	$ 39,314
Weighted average number of shares	**$ 37,648**	$ 37,554	**$ 37,638**	$ 37,543
Earnings (loss) per share from continuing operations	**$ 0.30**	$ 0.16	**$ 1.32**	$ (1.90)
Adjusted earnings per share from continuing operations	**$ 0.31**	$ 0.23	**$ 1.36**	$ 1.05

[1] Due to the fluctuation of financial performance prior to the IPO, the management bonus payout in certain years hit stretch targets with a higher than what would be considered to be a "normal" run-rate. Adjustments are made to bring the management bonus payout to the average percentage payout of the past six years over the base bonus level (or 126% over base).
[2] Adjustment for non-recurring management bonus relating to the close out of the legacy option plan that existed prior to the IPO
[3] Non-recurring items include professional fees and internal costs relating to SCC's capital reorganization and IPO.
[4] Reduction in management compensation on internal restructuring following the IPO.
[5] Adjustment for share-based compensation, a non-cash item.
[6] Adjustment for interest expense on promissory notes that were restructured as part of certain pre-closing transactions carried out prior to the IPO.
[7] Adjustment for non-cash fair value adjustment and interest expense on convertible shares and Class B common shares that are to be restructured in connection with the closing of the IPO.
[8] Adjustment for acceleration of amortization of debt issuance cost relating to the senior credit facility that was in place prior to the IPO.
[9] Prior to the IPO, a certain percentage of taxable income of SCCLP was allocated to minority shareholders. As a result of certain pre-closing transactions carried out prior to the IPO, 100% of taxable income of SCCLP is allocated to SCCI and therefore this adjustment reflects the change in taxation expense.

21 Additional Information

Additional information relating to the Company, including the Company's annual information form, quarterly and annual reports and supplementary information is available on SEDAR at www.sedar.com. Press releases and other information are also available in the Investor Relations section of the Company's website at www.sleepcountry.ca.

February 28, 2017

Independent Auditor's Report

To the Shareholders of
Sleep Country Canada Holdings Inc.

We have audited the accompanying consolidated financial statements of Sleep Country Canada Holdings Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE SHAREHOLDERS OF SLEEP COUNTRY CANADA HOLDINGS INC.

pwc

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sleep Country Canada Holdings Inc. at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

SLEEP COUNTRY CANADA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016 AND DECEMBER 31, 2015

(In thousands of Canadian dollars, except per share amounts)

	2016 $	2015 $
Assets		
Current assets		
Cash	23,820	16,639
Trade and other receivables (note 5)	14,937	8,406
Inventories (note 6)	34,538	32,070
Prepaid expenses and deposits	2,399	2,087
	75,694	59,202
Property and equipment (note 7)	33,927	28,987
Deferred tax assets (note 12)	4,743	4,956
Intangible assets other than goodwill (note 8)	104,498	104,076
Goodwill (note 8)	242,146	242,146
	461,008	439,367

Approved by the Board of Directors

(Signed) Andrew Moor Director   (Signed) David Shaw Director

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

SLEEP COUNTRY CANADA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

AS AT DECEMBER 31, 2016 AND DECEMBER 31, 2015

(In thousands of Canadian dollars, except per share amounts)

	2016 $	2015 $
Liabilities		
Current liabilities		
Trade and other payables (note 9)	40,522	46,024
Customer deposits	17,554	15,598
Long-term debt (note 11)	445	725
	58,521	62,347
Other liabilities (note 10)	8,478	8,897
Deferred tax liabilities (note 12)	10,433	10,309
Long-term debt (note 11)	118,751	124,223
	196,183	205,776
Shareholders' Equity		
Share capital and other (note 14)	353,389	350,655
Deficit	(88,564)	(117,064)
	264,825	233,591
	461,008	439,367

Contingent liabilities and unrecognized contractual commitments (note 16)

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

SLEEP COUNTRY CANADA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND DECEMBER 31, 2015

(In thousands of Canadian dollars, except per share amounts)

	2016 $	2015 $
Revenues	523,787	456,185
Cost of sales (notes 6 and 13)	372,389	329,370
Gross profit	151,398	126,815
General and administrative expenses (note 13)	67,882	67,805
Depreciation and amortization	11,869	10,346
Income before finance related expenses, interest income and other expenses and income taxes	71,647	48,664
Finance related expenses (note 11)	4,121	112,316
Interest income and other expenses - net	118	15
	4,239	112,331
Income (loss) before provision for (recovery of) income taxes	67,408	(63,667)
Provision for (recovery of) income taxes (note 12)		
Current	17,497	10,112
Deferred	337	(22,087)
	17,834	(11,975)
Net income (loss) from continuing operations	49,574	(51,692)
Net income from discontinued operations (note 20)	-	5,992
Net income (loss) for the year	49,574	(45,700)
Total net income (loss) attributable to		
Owners of the parent	49,574	(46,879)
Non-controlling interest	-	1,179
	49,574	(45,700)
Earnings (loss) per share attributed to the common shareholders of the Company (note 15)		
Basic earnings (loss) per share (in dollars)		
Continuing operations	1.32	(1.90)
Discontinued operations	-	0.20
Earnings (loss) per share	1.32	(1.70)
Diluted earnings (loss) per share (in dollars)		
Continuing operations	1.31	(1.90)
Discontinued operations	-	0.20
Earnings (loss) per share	1.31	(1.70)

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

SLEEP COUNTRY CANADA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Loss)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND DECEMBER 31, 2015

(In thousands of Canadian dollars, except per share amounts)

	2016 $	2015 $
Net income (loss) for the year	49,574	(45,700)
Other comprehensive loss to be reclassified to consolidated statement of operations		
Cumulative translation differences related to discontinued operations	-	(428)
Total comprehensive income (loss) for the year	49,574	(46,128)
Total comprehensive income (loss) attributable to		
Owners of the parent	49,574	(47,307)
Non-controlling interest	-	1,179
	49,574	(46,128)

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

SLEEP COUNTRY CANADA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND DECEMBER 31, 2015

(In thousands of Canadian dollars, except per share amounts)

	Share capital and other						Total
	Sleep Country Canada Holdings $	Sleep Country Canada Inc. $	Currency translation reserve $	Deficit $	Controlling interest $	Non-controlling interest $	Equity $
Balance - January 1, 2015	-	123,603	428	(63,693)	60,338	46,987	107,325
Net income (loss) for the year	-	-	-	(46,879)	(46,879)	1,179	(45,700)
Other comprehensive loss	-	-	(428)	-	(428)	-	(428)
Comprehensive income (loss) for the year	-	-	(428)	(46,879)	(47,307)	1,179	(46,128)
Pre-Offering dividend declared	-	-	-	(1,612)	(1,612)	-	(1,612)
Post-Offering dividend declared	-	-	-	(4,880)	(4,880)	-	(4,880)
Issuance of common shares (note 21)	625,923	-	-	-	625,923	-	625,923
Reorganization (notes 14 and 21)	(276,159)	(123,603)	-	-	(399,762)	(48,166)	(447,928)
Shares issued - Dividend Reinvestment Plan	724	-	-	-	724	-	724
Share-based compensation (note 18)	167	-	-	-	167	-	167
Balance - December 31, 2015	350,655	-	-	(117,064)	233,591	-	233,591
Balance - January 1, 2016	350,655	-	-	(117,064)	233,591	-	233,591
Net income for the year	-	-	-	49,574	49,574	-	49,574
Comprehensive income for the year	-	-	-	49,574	49,574	-	49,574
Dividend declared	-	-	-	(21,074)	(21,074)	-	(21,074)
Shares issued - Dividend Reinvestment Plan	1,205	-	-	-	1,205	-	1,205
Share-based compensation (note 18)	1,529	-	-	-	1,529	-	1,529
Balance - December 31, 2016	353,389	-	-	(88,564)	264,825	-	264,825

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

SLEEP COUNTRY CANADA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND DECEMBER 31, 2015

(In thousands of Canadian dollars, except per share amounts)

	2016 $	2015 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	49,574	(45,700)
Items not affecting cash		
Depreciation of property and equipment (note 7)	10,744	9,004
Amortization of intangible assets (note 8)	1,125	1,341
Share-based compensation	1,529	171
Gain on sale of Sleep America (note 20)	-	(6,016)
Finance related expenses	4,121	112,316
Loss on disposal of property and equipment	86	157
Deferred lease inducements and escalated rent	1,003	902
Decommissioning liabilities	107	25
Warranty liability	(1,529)	1,005
Other non-cash changes	-	(1,158)
Deferred income taxes	337	(22,087)
	67,097	49,960
Changes in non-cash items relating to operating activities		
Trade and other receivables	(6,531)	(1,913)
Inventories	(2,468)	(5,701)
Prepaid expenses and deposits	(312)	869
Trade and other payables	(5,792)	12,295
Customer deposits	1,956	3,482
	(13,147)	9,032
	53,950	58,992
Investing activities		
Purchase of property and equipment (net of proceeds of $26, 2015 - nil)	(15,565)	(13,200)
Purchase of intangible assets	(1,547)	(1,375)
Proceeds on sale of Sleep America (note 20)	-	14,984
	(17,112)	409
Financing activities		
Additional revolving loan taken on senior secured credit facility (note 11)	20,000	-
Repayment of senior secured credit facility	(25,000)	(2,750)
Financing costs on senior secured credit facility	(234)	(721)
Financing activities related to the reorganization (note 21)	-	(69,098)
Dividends paid on Class A common shares	(19,869)	(4,157)
Interest paid	(3,680)	(6,636)
Repayment of finance lease obligation	(874)	(738)
	(29,657)	(84,100)
Increase (decrease) in cash during the year	7,181	(24,699)
Cash - Beginning of year	16,639	41,338
Cash - End of year	23,820	16,639
Supplementary information		
Series B promissory notes issued - interest in kind (note 11)	-	17,684
Acquisition of property and equipment under finance lease	325	1
Disposal of property and equipment under finance lease	120	-

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

1 Organization

Sleep Country Canada Holdings Inc. (the Company or SCC) was incorporated by articles of incorporation under the Canada Business Corporations Act on May 27, 2015. The Company is authorized to issue an unlimited number of common shares without par value. The common shares are voting and entitled to dividends if, as and when declared by the Board of Directors.

On July 16, 2015, in connection with the closing of its initial public offering of common shares (the Offering or the IPO), the Company completed the acquisition (the Acquisition) of all of the issued and outstanding shares of Sleep Country Canada Inc. (SCCI), Sleep Country US Holdco Canada Inc. (SC US Holdco) and SC Management Holding Inc. (SC Management, and together with SCCI and SC US Holdco, the Acquired Entities) not already owned by the Company pursuant to the terms and conditions of a share purchase agreement dated July 10, 2015 (the Purchase Agreement) entered into between the Company, the Acquired Entities and the former shareholders of the Acquired Entities. The Company and the Acquired Entities were controlled by funds managed by Birch Hill Equity Partners Management Inc. (Birch Hill). Prior to the Offering, Birch Hill held 84.6% of Class A common shares, 81.62% of Series A and B promissory notes and 71.18% of Class A convertible shares of SCCI. On completion of the Offering and the Acquisition, Birch Hill, and certain co-investors had voting direction and control over approximately 45.6% of the Company's common shares. On December 11, 2015, Birch Hill and its co-investors completed a secondary offering of 10,000,000 common shares of the Company (the Secondary Offering), following which Birch Hill and its co-investors had voting direction and control over approximately 18.9% of the Company's common shares. In May 2016, Birch Hill and its co-investors divested of their remaining holdings in the Company.

Following completion of the Acquisition, on July 16, 2015, SC US Holdco and SC Management were dissolved into SCCI, leaving SCCI as the sole limited partner of Sleep Country Canada LP (SCCLP). On completion of the Acquisition, the general partner of SCCLP was Sleep Country Canada GP ULC, a newly formed Alberta unlimited liability Company (SCCGP). On January 1, 2016, SCCGP and SCCLP were dissolved and all the assets of SCCLP were transferred to SCCI.

The Company and its subsidiaries operate in the retail market place, offering mattresses and bedding related products. As at December 31, 2016, the sole subsidiary of the Company is SCCI.

The address of its registered office is 140 - Unit 1, Wendell Avenue, Toronto, Ontario.

2 Basis of presentation

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and using the accounting policies described herein.

As the Company was a newly formed entity incorporated in 2015 and Birch Hill retained control over the Company and SCCI prior to the Offering and the Acquisition, the Acquisition is accounted for as a reorganization and recapitalization using the continuity of interests method. Financial information for the pre-Acquisition period, including the comparative period, is presented based on the historical financial information of SCCI.

The consolidated financial statements of the Company include the financial results of Sleep Country Canada Holdings Inc. and its sole subsidiary, SCCI.

The Company's operations can be affected by seasonal fluctuations due to changes in customer buying habits throughout the year.

The consolidated financial statements were reviewed by the Company's Audit Committee and approved and authorized for issuance by the Board of Directors on February 28, 2017.

3 Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and other entities that the Company controls. Control exists when the Company is exposed to or has rights to variable returns from its involvement in the entity and has the ability to direct the activities that significantly affect the entities' returns through its power over the entity. All intercompany transactions and balances are eliminated on consolidation.

Non-controlling interests

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net earnings is recognized directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as transactions within equity. When the Company ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in the carrying amount recognized in net income (loss). The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

As at December 31, 2015, the Company held through its subsidiaries the general partner unit and all of the preferred and common units of SCCLP. As at December 31, 2015, all commercial operations of the Company were undertaken by SCCLP and its registered address is 140 - Unit 1, Wendell Avenue, Toronto, Ontario.

The allocation of the profit or loss of SCCLP is specified in the limited partnership agreement whereby on an annual basis specific allocations are made to the general partner and the remaining profit or loss is allocated to the third party investors on a pro rata basis based on the percentage of common units held. On July 16, 2015, subsequent to the Acquisition, the Company effectively controlled the general partner unit, preferred units and 100% of the common units of SCCLP. For the year ended December 31, 2015, the allocation of profit or loss to the Company was 94.6% until July 16, 2015 and 100% thereafter.

Financial assets and liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provision of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows from the financial asset expire and financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. Financial instruments upon initial recognition are measured at fair value and classified as financial assets or liabilities at fair value through the consolidated statements of operations, loans and receivables or other financial liabilities. Loans and receivables and other financial liabilities are measured at amortized cost. The following classifications have been applied:

- cash and trade and other receivables are classified as loans and receivables; and
- trade and other payables, customer deposits and long-term debt have been classified as other financial liabilities.

Long-term debt is recognized initially at fair value, net of recognized transaction costs, and is subsequently measured at amortized cost, being the carrying value. Any difference between the carrying value and the redemption value is recognized in the consolidated statements of operations and comprehensive income (loss) using the effective interest rate method.

Fees paid on the establishment of senior credit facilities are capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Derivative financial instruments

Forward foreign exchange contracts are periodically used to limit foreign currency risks relating to the Company's senior secured credit facility (note 11) when denominated in US dollars. These contracts are treated as derivative instruments, are not designated as hedges for accounting purposes and are marked-to-market in the period, with changes in fair value recorded in the consolidated statements of operations and comprehensive income (loss).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Foreign currency translation

- Functional and presentation currency

  Items included in the consolidated financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currencies of the subsidiaries are Canadian dollars and, prior to January 6, 2015, United States dollars. The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company translates its foreign operations, whereby assets and liabilities are translated at the exchange rate in effect at the consolidated statements of financial position dates, while revenues and expenses are translated at an appropriate weighted average rate. Any resulting translation gains or losses are included in other comprehensive income (loss) and the currency translation reserve.

- Transactions and balances

  Transactions denominated in a foreign currency are translated into the functional currencies at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currencies at the exchange rates in effect at the year-end date and revenues and expenses are translated at the average rate during the year. Foreign exchange gains and losses are included in the consolidated statements of operations.

Segment information

As at December 31, 2016, the Company manages its business on the basis of one operating segment, which is also the Company's only reportable segment, which is consistent with the internal reporting provided to the chief operating decision-maker, the Chief Executive Officer. The Company operates in Canada, which is its country of domicile.

Inventories

Inventories are stated at the lower of their carrying value determined on a specific item basis and estimated net realizable value. Net realizable value is the estimated selling price less applicable selling expenses. Trade discounts and volume rebates earned are deducted in determining the carrying value of inventory purchases.

Trade and other receivables

Receivable balances are recognized initially at fair value and a provision for impairment is established when there is evidence that the Company will not be able to collect all the amounts due according to the original terms of the receivable balance.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation, net of any impairment loss. Depreciation is computed on a straight-line basis at annual rates based on the estimated useful lives of the related assets as follows:

Computer hardware	36 months
Furniture, fixtures and other	48 to 60 months
Leasehold improvements	over the term of the lease
Assets under finance lease	over the term of the lease

Included in furniture, fixtures and other are office equipment depreciated over 60 months and certain vehicles depreciated over 48 months. Assets under finance lease primarily represent the delivery truck fleet.

The Company recognizes in the carrying amount of property and equipment the full purchase price of assets acquired/constructed as well as the costs incurred that are directly incremental as a result of the construction of a specific asset, when they relate to bringing the asset into working condition.

Estimates of useful lives, residual values and methods of depreciation are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate.

Goodwill and intangible assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for separate recognition from goodwill.

- Computer software

  Computer software is recorded at cost less accumulated amortization, net of any impairment loss. Amortization is computed on a straight-line basis at annual rates based on the estimated useful life of 36 months.

- Non-compete contracts

  Non-compete contracts are amortized over an estimated life of ten years.

- Brands

  Brands are recorded at cost and are not subject to amortization, having an indefinite life. They are tested for impairment annually, as of the consolidated statements of financial position dates, or more frequently if events or circumstances indicate that they may be impaired.

- Goodwill

  Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed. Goodwill is not amortized and management tests goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Impairment of non-financial assets

Impairment of goodwill and indefinite life intangibles

Management tests goodwill and brands for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The asset will be written down if the carrying amount of the asset exceeds the higher of its fair value less costs to sell and its value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Goodwill is allocated to cash generating units (CGUs) or groups of CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination from which the goodwill arose. The impairment tests are performed by comparing the carrying value of the assets (or asset groups) of these CGUs with their recoverable amount, which is the higher of their fair value less costs to sell and their value in use (which is the present value of the expected future cash flows of the relevant asset or CGU), as determined by management.

Impairment of definite life intangibles and property and equipment

Assets that are subject to amortization are periodically reviewed for indicators of impairment. Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, the asset or CGU is tested for impairment. To the extent that the asset or CGU's carrying amount exceeds its recoverable amount, an impairment loss is recognized in the consolidated statement of operations. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU. The fair value is the price that could be received for an asset or CGU in an orderly transaction between market participants at the measurement date, less costs of disposal. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment reversals

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

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired or rendered in the ordinary course of business from suppliers and employees. Trade and other payables are classified as current liabilities if payment is due or expected within one year or less. Otherwise, they are presented as non-current liabilities. Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost.

Customer deposits

Customer deposits represent amounts paid by customers in advance of delivery of product (i.e. mattresses). These deposits can be for all or a portion of the total purchase price of the product. The amounts received representing the customer deposit are unencumbered and can be used for general operating purposes. Once the product is delivered to the customer the liability is relieved and is recorded in sales. Over time, some portion of the customer deposits is not redeemed (breakage). Breakage income on customer deposits is determined based on historical patterns when it can be determined that the likelihood of usage is remote.

Decommissioning provisions

These provisions represent the cost of the Company's obligation to rehabilitate its stores and is estimated based on the present value of expected future rehabilitation costs and is recognized in the period in which the obligation is incurred. The present value of these costs is added to the cost of the associated asset and amortized over its useful life, while the corresponding liability will accrete to its future value over the same period.

Share-based compensation

The Company has a share-based compensation plan (the stock option plan), a performance share unit plan (PSU plan) and a deferred share unit plan (DSU plan), all of which are equity-settled share-based arrangements.

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument granted. An option valuation model (Black-Scholes) is used to fair value stock options issued to employees on the date of grant. The market value of the Company's common shares on the date of the grant is used to determine the fair value of the equity-based share units issued to participants.

The Company grants stock options and PSUs to certain employees, key management and the directors of the Company, while DSUs are granted only to directors. In general, stock options cliff vest after four years, PSUs cliff vest after three years and DSUs vest in equal instalments on the last day of each month of the fiscal year immediately following the grant date. The initial fair value of equity-settled share-based arrangements is recognized as compensation expense with a corresponding increase in equity reserves over the related service period provided to the Company. Compensation expense is recognized over the applicable vesting period by increasing contributed surplus based on the number of awards expected to vest. This number is reviewed at least annually, with any change in estimate recognized immediately in compensation expense with a corresponding adjustment to contributed surplus.

Revenue recognition

Revenue is recognized either on the customer picking up the product or on delivery of the product to the customer's home. Provisions for returns relating to the Company's various customer satisfaction programs are accrued based on historical experience.

Leases

Assets, primarily delivery trucks, held under leases that result in the Company receiving substantially all the risks and rewards of ownership of the asset (finance leases) are capitalized at the lower of the fair value of the property and equipment or the estimated present value of the minimum lease payments. The corresponding finance lease obligation is included within long-term debt. The interest element is amortized using the effective interest rate method.

The Company leases stores and distribution centres. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The Company recognizes rental expense incurred and inducements received from landlords on a straight-line basis over the term of the lease. Any difference between the calculated expense and the amounts actually paid is reflected as deferred lease inducements in other liabilities in the Company's consolidated statements of financial position.

Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations, except to the extent that they relate to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is recognized directly in other comprehensive income (loss) or equity, respectively.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Income taxes provided for by the Company and its corporate subsidiaries are accounted for using the liability method. Deferred income taxes arise due to the temporary differences in the financial reporting and tax bases of assets and liabilities. Changes in these temporary differences are reflected in the provision for deferred income taxes using substantively enacted income tax rates and regulations. Deferred taxes are recognized for all temporary differences except where they arise on goodwill that is not tax deductible, on the initial recognition of an asset or liability that is not a business combination and at the time of the transaction affects neither accounting nor taxable income, and in respect of differences associated with investments in subsidiaries where the group is able to control the timing of their reversal and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized to the extent that the recoverability of deferred income tax assets is considered more likely than not.

Assets held for sale and discontinued operations

Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of the carrying amount and fair value less costs to sell. There were no impairment losses recognized on the initial classification of these assets. Reversals of impairments are not recognized in excess of any cumulative impairment loss.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation including related impairment charges occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of operations is presented as if the operation had been discontinued from the start of the comparative period.

Adoption of accounting standards and amendments

Amendment to IAS 1, Presentation of financial statements

This standard was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The adoption of this amendment did not have a material impact on the consolidated financial statements.

Accounting standards and amendments issued but not yet adopted

The IASB and International Financial Reporting Interpretation Committee (IFRIC) have issued the following standards that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period. The Company is evaluating the impact of these standards and whether to early adopt these standards.

IFRS 15, Revenue from contracts with customers

This standard replaces all previous revenue recognition standards, including IAS 18 - Revenue. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is analyzing the new standard to determine its impact on the Company's consolidated statements of financial position and consolidated statements of operations.

IFRS 9, Financial instruments

This standard was issued concerning classification and measurement, impairment and hedge accounting, to supersede IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 will be effective for years beginning on or after January 1, 2018 with early adoption permitted. The Company is analyzing the new standard to determine its impact on the Company's consolidated statements of financial position and consolidated statements of operations.

Amendment to IFRS 7, Financial instruments: Disclosures

This standard was amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9.

IFRS 16, Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). This will replace IAS 17, Leases, and related interpretations. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value, and depreciation of the lease assets is shown separately from interest on lease liabilities in the income statement. Under IFRS 16, the lessor's accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, Revenue from contracts with customers.

As the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine its impact on the Company's consolidated statements of financial position and consolidated statements of operations.

4 Critical accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions using judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense during the reporting period. Estimates and other judgments are continually 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 may 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.

Impairment of goodwill and brands

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs in order to determine the level at which goodwill and intangible assets are tested for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

In determining the recoverable amount of a CGU, various estimates are employed. The Company determines fair value less costs of disposal using estimates such as projected future sales, earnings, capital investments and discount rates. Projected future sales and earnings are consistent with strategic plans provided to the Company's Board of Directors. Discount rates are based on an estimate of the Company's weighted average cost of capital taking into account external industry information reflecting the risk associated with the specific cash flows. As at December 31, 2016 and December 31, 2015, impairment reviews were performed by comparing the carrying value of goodwill and brands with the recoverable amount of the CGU to which goodwill and brands have been allocated. Management determined that there had been no impairment as at both of those dates (note 8).

Long-term debt - Series A and B promissory notes, Class B common shares and Class A convertible shares

The calculation of amortized cost associated with the Series A and B promissory notes, Class B common shares and the Class A convertible shares, in each case of SCCI, required management to utilize the effective interest rate approach and make certain judgments regarding the expected cash outflows associated with the respective financial liability. Changes in the expected timing and amounts of cash outflows due to early repayments or changes in the redemption values impacted amounts recognized as interest expense. For example, if the promissory notes were repaid prior to the contractual maturity date, non-cash interest accretion would be resulting in additional charges in the consolidated statements of operations, which would be material.

5 Trade and other receivables

	2016 $	2015 $
Trade and other receivables	9,082	8,406
Income taxes recoverable	5,855	-
	14,937	8,406

The Company's trade and other receivables consist of balances due from vendors related to volume and co-operative advertising rebates and balances due from the third party financing companies. The carrying amounts of the Company's trade and other receivables, which approximate their fair values, are denominated in Canadian dollars.

The maximum exposure to credit risk at the reporting date is the carrying value of the trade and other receivables.

6 Inventories

	2016 $	2015 $
Merchandise	36,802	33,476
Provision for obsolescence	(2,264)	(1,406)
	34,538	32,070
Writedowns of inventory due to net realizable value lower than cost	1,008	155
Writeoffs due to damage or shrinkage	1,191	874

There were no reversals of previously taken writedowns in 2016 or 2015.

(In thousands of Canadian dollars, except per share amounts)

7 Property and equipment

	Computer hardware $	Furniture, fixtures and other $	Leasehold improvements $	Assets under finance lease $	Total $
Year ended December 31, 2015					
At January 1, 2015	883	2,324	19,479	2,262	24,948
Additions	713	1,673	10,813	1	13,200
Depreciation	(677)	(987)	(6,601)	(739)	(9,004)
Disposal	-	(12)	(145)	-	(157)
At December 31, 2015	919	2,998	23,546	1,524	28,987
At December 31, 2015					
Cost	2,305	6,075	53,064	4,440	65,884
Accumulated depreciation	(1,386)	(3,077)	(29,518)	(2,916)	(36,897)
Net book value	919	2,998	23,546	1,524	28,987
Year ended December 31, 2016					
At January 1, 2016	919	2,998	23,546	1,524	28,987
Additions	816	1,559	13,215	326	15,916
Depreciation	(715)	(1,264)	(7,891)	(874)	(10,744)
Disposal	-	(25)	(86)	(121)	(232)
At December 31, 2016	1,020	3,268	28,784	855	33,927
At December 31, 2016					
Cost	3,086	7,349	60,979	4,040	75,454
Accumulated depreciation	(2,066)	(4,081)	(32,195)	(3,185)	(41,527)
Net book value	1,020	3,268	28,784	855	33,927

8 Intangible assets

	Brands $	Non-compete contracts $	Computer software $	Total $
Year ended December 31, 2015				
At January 1, 2015	101,540	1,053	1,449	104,042
Additions	-	-	1,375	1,375
Amortization for the year	-	(282)	(1,059)	(1,341)
At December 31, 2015	101,540	771	1,765	104,076
At December 31, 2015				
Cost	101,540	2,804	9,191	113,535
Accumulated amortization and impairments	-	(2,033)	(7,426)	(9,459)
Net book value	101,540	771	1,765	104,076
Year ended December 31, 2016				
At January 1, 2016	101,540	771	1,765	104,076
Additions	-	-	1,547	1,547
Amortization for the year	-	(168)	(957)	(1,125)
At December 31, 2016	101,540	603	2,355	104,498
At December 31, 2016				
Cost	101,540	2,804	6,951	111,295
Accumulated amortization and impairments	-	(2,201)	(4,596)	(6,797)
Net book value	101,540	603	2,355	104,498

Goodwill of $242,146 (2015 - $242,146) and the Sleep Country and Dormez-vous? corporate brands of $101,540 (2015 - $101,540) have been allocated to the overall Canadian operating segment: mattress retailer (Canadian Goodwill CGU). Management has determined, using appropriate valuation methodologies, that there was no impairment of its goodwill or brands as at December 31, 2016 or December 31, 2015. In assessing goodwill and brands for impairment as at December 31, 2016, the Company compared the aggregate recoverable amount of the assets included in the CGUs to their respective carrying amounts. The recoverable amount has been determined based on the fair value less cost of disposal (discounted cash flows) of the CGUs using the 2017 budgets approved by management that made maximum use of observable markets for inputs and outputs. The fair value less cost of disposal is categorized as Level 3 in the fair value hierarchy. For periods beyond the budget period, cash flows were extrapolated using revenue growth rates of 5.8% - 7.2% (2015 - 6.2% - 6.5%) and a terminal growth rate of 2.5% (2015 - 2.5%) that do not exceed the long-term average for the mattress retailer segment. A discount rate of 10.3% (2015 - 10.3%) was used in the model. As at December 31, 2016 and December 31, 2015, any reasonable changes to the model assumptions would not result in an impairment.

(In thousands of Canadian dollars, except per share amounts)

9 Trade and other payables

	2016 $	2015 $
Trade payables	21,621	19,291
Income taxes payable	-	3,234
Accrued expenses	18,901	23,499
	40,522	46,024

10 Other liabilities

	2016 $	2015 $
Deferred lease inducements and rent escalation	7,524	6,521
Decommissioning provisions	954	847
Warranty liability	-	1,529
	8,478	8,897

11 Long-term debt

	2016 $	2015 $
Senior secured credit facility (i)	118,341	123,424
Finance lease obligation	855	1,524
	119,196	124,948
Less: Current portion of long-term debt	445	725
	118,751	124,223

(i) Represented net of transaction costs of $659 as at December 31, 2016 (2015 - $576).

Senior secured credit facility

On January 1, 2015, SCCI held a revolving credit facility of $15,000 and a term credit facility of $130,000. On February 25, 2015, SCCI increased its revolving credit facility by $15,000 to $30,000. On July 16, 2015, concurrently with the closing of the IPO, SCCI replaced its $30,000 revolving and $130,000 term credit facilities with a $175,000 revolving credit facility which was scheduled to mature on July 16, 2020. This revolving credit facility was guaranteed by SCC. Net transaction costs associated with the replaced revolving and term facilities of $1,205 were expensed.

On June 29, 2016, the senior secured credit agreement was amended and restated and SCC became the borrower under the revolving credit facility. The credit limit under the revolving credit facility was reduced to $150,000 and the maturity date was extended to June 29, 2021. The revolving credit facility is secured by all of the present and after-acquired personal property of SCC and SCCI. As at December 31, 2016, the balance outstanding on the revolving credit facility was $119,000 (December 31, 2015 - $124,000).

The revolving credit facility allows for the debt to be held in Canadian or US dollars. During the year, the Company held the debt in US dollars for 162 days. To mitigate the foreign exchange risk, the Company entered into forward foreign exchange contracts to sell US dollars in the equal amount of the debt with an overall impact of $nil recorded in general and administrative expenses in the consolidated statements of operations. As at December 31, 2016, the debt is held in Canadian dollars and no forward foreign exchange contracts were outstanding. Interest on the revolving credit facility is based on the prime or bankers' acceptance rates plus applicable margins based on the achievement of certain targets, as defined by the amended and restated senior secured credit agreement. As at December 31, 2016, the applicable margin for bankers' acceptances was 187.5 basis points and the applicable margin for prime rate loans was 87.5 basis points. Interest on the revolving facilities is payable monthly in advance at the bankers' acceptance rate or in arrears at the prime rate plus the applicable margin based on the achievement of certain targets, as defined by the senior secured credit agreement. The weighted average interest rate, including transaction costs and revolver commitment fees, on the facility was 3.07% (2015 - 4.7%).

Under the terms of the revolving credit facility, certain financial and non-financial covenants must be complied with. As at December 31, 2016, SCC was in compliance with all covenants under the senior secured credit facility.

Finance related expenses included in the consolidated statements of operations include the following:

	2016 $	2015 $
Interest on finance lease obligations	123	154
Revolver commitment fees	149	93
Interest expense on senior credit facility	3,849	6,741
Interest expense on Series A and Series B notes	-	84,726
Interest expense and fair value adjustment on Class A convertible and Class B common shares	-	20,602
	4,121	112,316

Series A and Series B promissory notes

In 2015, $61,855 of Series A and Series B notes were repaid. In July 2015, SCCI was acquired by the Company, subsequent to which the Series A and B promissory notes were settled in shares of SCCI at their face value of $140,092. As a result of these transactions, the cash flow assumptions related to the Series A and Series B promissory notes were revised and resulted in accelerated interest expense being recognized. For the year ended December 31, 2015, SCCI incurred accelerated interest expense including accretion of $84,726 on the Series A and B notes.

An amount of $17,684 in non-interest bearing Series B notes in lieu of the cash interest payment due on December 31, 2014 was issued in January 2015.

(In thousands of Canadian dollars, except per share amounts)

Class A convertible shares

On February 25, 2015, there was a repayment of $3,987 on the Class A convertible shares. In July 2015, SCCI was acquired by the Company. As part of the acquisition, the convertible shares were settled or converted into Class A common shares of SCCI based on their face value of $33,444.

As a result of these transactions, the cash flow assumptions on the convertible shares have been revised and resulted in accelerated interest accretion. Due to the interest accretion, an expense of $19,901 was recorded for the year ended December 31, 2015.

12 Income tax

Components of income tax provision (recovery)

Significant components of the income tax provision (recovery) are as follows:

	2016 $	2015 $
Current income tax expense	17,497	10,112
Deferred income tax expense (recovery) relating to		
Temporary differences	269	(22,300)
Deferred income tax rate changes	68	213
	337	(22,087)
Provision for (recovery of) income taxes	17,834	(11,975)

Reconciliation to effective tax rate

The overall income tax provision differs from the amount that would be obtained by applying the combined statutory income tax rate to income (loss) due to the following:

	2016 $	2015 $
Income (loss) of continuing operations before income taxes (recovery)	67,408	(63,667)
Weighted average Canadian income tax rate	26.50%	26.50%
Income tax expense (recovery) based on statutory income tax rate	17,863	(16,872)
Effect of income tax allocated to non-controlling interest	-	(238)
Unused capital loss not recognized in prior years	(896)	-
Capital gain on partners interest on dissolution of partnership	896	-
Effect of non-deductible expenses and other items	(97)	4,922
Deferred tax rate changes	68	213
	17,834	(11,975)
Effective income tax rate	26.46%	18.80%

During the year, the Company recognized the benefit of previously unrecognized capital losses to the extent of $6,720 to offset against capital gains realized on the dissolution of SCCLP on January 1, 2016.

Deferred income tax liability

Significant components of the net deferred income tax liability are as follows:

	2016 $	2015 $
Excess of carrying value of intangible assets over tax values	(13,684)	(13,636)
Benefit of share issuance costs and financing fees deductible in future years	3,516	4,581
Loss carry-forwards - net of unrecognized deferred tax assets	1,528	789
Other temporary differences	2,948	2,913
	(5,692)	(5,353)

SCC has recognized a deferred tax asset of $4,743, which is dependent on future taxable income. The Company has options available to ensure the realization of the deferred tax asset in the future.

Reconciliation of deferred income tax movement:

	2016 $	2015 $
Deferred tax expense (recovery) in the consolidated statement of operations	337	(22,088)
Deferred tax expense (recovery) recorded in equity relating to share issuance costs	-	(4,378)
	337	(26,466)

As at December 31, 2016, the Company has unused capital losses of $19,702 (2015 - $20,644) with no expiry date.

Capital losses may only be used to offset capital gains. No deferred tax benefit has been set up for these losses as the Company does not expect to realize capital gains in the foreseeable future.

(In thousands of Canadian dollars, except per share amounts)

13 Expenses by nature

	Cost of sales	
	2016 $	2015 $
Inventory and directly related costs recognized as an expense, including writedowns and writeoffs	238,918	207,701
Salaries, wages and benefits	82,505	74,349
Rent and other occupancy charges	47,253	44,317
Other	3,713	3,003
	372,389	329,370

	General and administrative	
	2016 $	2015 $
Media and advertising expenses	23,706	20,499
Salaries, wages and benefits	15,638	20,247
Credit card and finance charges	11,367	9,800
Rent and other occupancy charges	7,259	6,640
Professional fees	1,726	3,443
Telecommunication and information technology	3,468	3,093
Other	4,718	4,083
	67,882	67,805

14 Share capital and other

Authorized share capital - SCC
Unlimited common shares
Unlimited Class A common shares

Issued and outstanding, no par value

	2016 $	2015 $
37,648,349 common shares (2015 - 37,578,176)	627,852	626,647
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	1,696	167
	353,389	350,655

Common shares and Class A common shares

The holders of common shares are entitled to receive notice of any meetings of shareholders, to attend and to cast one vote per common share at all such meetings. Holders of common shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the common shares entitled to vote in any election of directors may elect all directors standing for election. Holders of common shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Board of Directors at its discretion from funds legally available therefor and upon liquidation, dissolution or winding-up of the Company are entitled to receive on a pro rata basis the net assets of the Company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the common shares with respect to dividends or liquidation. The common shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

Holders of Class A common shares will be entitled to the same rights and privileges as holders of common shares described above and will rank equally with the holders of common shares upon liquidation, dissolution or winding-up of the Company. The Class A common shares will not carry any pre-emptive or subscription rights, nor will they contain any sinking or purchase fund provisions. Class A common shares are redeemable at the option of the Company upon written notice to the holders of the Class A common shares, with the redemption price being equal to the price per common share in the initial public offering. In the event that the Company did not redeem Class A common shares within 45 days of initial public offering of the common shares, the Class A common shares were to automatically convert, on a one-for-one basis, into common shares. 4,565,962 Class A common shares were issued on July 16, 2015, all of which were redeemed on the same date with the net proceeds of $77,621 from the initial public offering. As at December 31, 2016, there were no outstanding Class A common shares (2015 - nil).

15 Earnings (loss) per share (EPS)

Basic EPS amounts are calculated by dividing the net earnings (loss) attributable to common shareholders of the Company by the weighted average number of shares issued and outstanding during the year.

Diluted EPS amounts are calculated by dividing the net earnings (loss) attributable to common shareholders of the Company by the weighted average number of shares issued and outstanding during the year, adjusted for the effects of potentially dilutive stock options and convertible shares.

The following table sets forth the calculation of basic and diluted EPS:

	Attributable to common shareholders		
			2016
	Net earnings $	Weighted average number of shares (in thousands of shares)	EPS $
Basic			
Continuing operations	49,574	37,638	1.32
Diluted			
Continuing operations	49,574	37,772	1.31

	Attributable to common shareholders		
			2015
	Net earnings (loss) $	Weighted average number of shares (in thousands of shares)	EPS $
Basic and diluted			
Continuing operations	(52,508)	27,582	(1.90)
Discontinued operations	5,629	27,582	0.20
	(46,879)	27,582	(1.70)

The effects of stock options are dilutive for the year ended December 31, 2016 and were anti-dilutive for the year ended December 31, 2015. The effects of PSUs were dilutive for the year ended December 31, 2016 and December 31, 2015. The effects of DSUs are dilutive for the years ended December 31, 2016. There were no DSUs outstanding during 2015.

16 Contingent liabilities and unrecognized contractual commitments

Operating leases

The Company and its subsidiaries conduct all of their operations from leased stores and distribution centres. The Company has entered into operating lease arrangements for leased premises, passenger vehicles and office equipment with terms varying from three to 15 years. For the year ended December 31, 2016, the total amount paid under these operating leases was $35,277 (2015 - $33,057).

Non-cancellable operating lease rentals are payable as follows:

	2016 $	2015 $
Less than 1 year	35,292	33,636
Between 1 and 5 years	96,743	89,058
More than 5 years	38,517	34,301
	170,552	156,995

17 Related party transactions and balances

Following completion of the Offering and the Secondary Offering, as at December 31, 2015, funds controlled by Birch Hill beneficially owned, controlled or directed, directly or indirectly, approximately 14.5% of the votes attached to the Company's issued and outstanding common shares. Birch Hill also had dispositive powers, but not voting direction or control, with respect to approximately 4.4% of the common shares beneficially owned by certain co-investors. In May 2016, Birch Hill and its co-investors divested of their remaining holdings in the Company. Birch Hill continues to maintain two nominee directors on the Company's Board of Directors. As such, Birch Hill is deemed to be a related party of the Company as at December 31, 2016 and December 31, 2015.

The following balances due from related parties are included in trade and other receivables:

	2016 $	2015 $
Short-term advances to related parties	2	4

Short-term advances due from related parties were a result of tax liability, professional fees and other expenses paid by the Company on behalf of the related parties.

(In thousands of Canadian dollars, except per share amounts)

Compensation awarded to key management included:

	2016 $	2015 $
Salaries and short-term employee benefits	3,913	4,821
Share-based compensation	1,373	171
Bonus related to Pre-IPO stock option plan	-	5,096
Directors fees	615	335
	5,901	10,423

The Company considers key management to be the Board of Directors and its executive team.

18 Share-based compensation

On July 16, 2015, the Company established new share-based compensation plans composed of stock options and PSUs. On January 22, 2016, the Company established a share-based compensation plan for its Directors composed of DSUs. The impact of share-based compensation is summarized as follows:

	2016 $	2015 $
473,613 Stock options (2015 - 139,334) (a)	544	88
90,603 Performance share unit plan (2015 - 30,495) (b)	778	79
8,920 Deferred share unit plan (2015 - nil) (c)	207	-
	1,529	167

The stock options, performance share units and deferred share units are equity-settled and as such, the expense associated with these instruments is recorded as share-based compensation expense through the consolidated statements of operations with a corresponding entry made to contributed surplus on the consolidated statements of financial position.

The maximum number of common shares that may be issued under all security-based compensation arrangements implemented by the Company, including the stock option plan, the PSU plan and the DSU plan, may not exceed 10% of the total number of common shares issued and outstanding from time to time. The maximum number of common shares that may be issued under the PSU plan is 4% and under the DSU plan is 1% of the total number of common shares issued and outstanding from time to time.

a) Stock options

The Company has established a stock option plan under which options to purchase common shares may be granted to directors, officers and employees of the Company. Options granted under the plan have an exercise price of not less than the weighted average trading price of the common where they are listed for the five trading days prior to the date of the grant. In general, options granted vest on the fourth anniversary of the grant date. All issued options expire after ten years from the date granted.

The Company's stock options transactions during the year were as follows:

	Number of options	Weighted average exercise price per share $
Balance - December 31, 2015	139,334	17.00
Granted on March 7, 2016	334,279	19.31
Balance - December 31, 2016	473,613	18.63

The Black-Scholes model was used to estimate the fair value of stock options. In determining the fair value of these employee stock options, the following assumptions were used for the series issued on March 7, 2016. Key assumptions include:

- a risk-free interest rate of 1.05%, which is based on a Government of Canada five to ten-year benchmark bond yield at the date of grant;
- expected volatility of 35%, which is based on the trading history of the Company;
- an estimated dividend yield of 2.7%; and
- a seven-year expected life of the options.

b) PSU plan

The Company has established a PSU plan for employees and officers of the Company. A performance share unit represents the right to receive a common share settled by the issuance of treasury shares or purchased on the open market. Performance share units vest 100% at the end of the third year after the grant date. The number of units which will vest is determined based on the achievement of certain EBITDA targets established by the Board of Directors. The number of units that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which ranges from 0.5 to 1.5, depending on the achievement of such targets. Therefore, the number of units that will vest and are paid out may be higher or lower than the number of units originally granted to a participant.

(In thousands of Canadian dollars, except per share amounts)

The Company's PSU plan transactions during the year were as follows:

	Number of options	Weighted average exercise price per share $
Balance - December 31, 2015	30,495	17.00
Issued as dividend equivalents - February 26, 2016	223	17.71
Granted - March 7, 2016	59,398	19.31
Issued as dividend equivalents - May 30, 2016	172	23.09
Issued as dividend equivalents - August 26, 2016	153	30.76
Issued as dividend equivalents - November 28, 2016	162	28.90
Balance - December 31, 2016	90,603	18.57

The vested number of units outstanding as at December 31, 2016 is 180 (December 31, 2015 - nil).

At December 31, 2016, the total number of units outstanding (vested and unvested) was 90,603 (December 31, 2015 - 30,495).

c) DSU plan

The Company has established a DSU plan for Directors of the Company. A DSU represents the right to receive a common share settled by the issuance of treasury shares or purchased on the open market. DSUs granted vest in equal instalments on the last day of each month of the fiscal year immediately following the grant date, and relate to the applicable portion of the Directors' annual retainer.

	Number	Grant date fair value per unit $
Granted - August 10, 2016	8,920	31.77
Balance - December 31, 2016	8,920	31.77

The vested number of units outstanding as at December 31, 2016 is 3,717 (December 31, 2015 - nil).

As at December 31, 2016, the total number of units outstanding (vested and unvested) was 8,920 (December 31, 2015 - nil).

19 Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest risks), credit risk and liquidity risk. The Company's overall risk management program and business practices seek to minimize any potential adverse effects on the Company's consolidated financial performance.

Risk management is carried out by the senior management team and overseen by the Board of Directors.

Market risk

Market risk is the loss that may arise from changes in factors such as interest rate, foreign exchange and the impact these factors may have on other counterparties.

- Foreign exchange risk

  The Company operates in Canada. The exposure related to foreign exchange is limited to United States dollar payments to suppliers, which is not significant.

- Cash flow and fair value interest risk

  The Company has no significant interest-bearing assets. The Company's income and operating cash flows are substantially independent of changes in market interest rates.

  The Company's primary interest rate risk arises from long-term debt. The Company manages its exposure to changes in interest rates by using a combination of fixed and variable rate debt and utilizing interest rate swaps as necessary to achieve the desired proportion of variable and fixed rate debt. An increase or decrease in interest rates by 1% would result in an increase or a decrease of $1,190 (2015 - $1,268) on interest expense on the credit facilities. There are also a small number of finance leases at variable interest rates.

Credit risk

Credit risk refers to the risk of losses due to failure of the Company's customers or other counterparties to meet their payment obligations. Credit risk arises from deposits with banks, as well as credit exposures from mattress vendors for the payment of volume and co-operative advertising rebate amounts and balances owed from third party financing companies under the various financing plans the Company offers its customers. In accordance with SCC's investment practice, all deposits are held at banks possessing a credit rating of AA- or better. Sales to retail customers are settled in cash, financed by third party financing companies or by using major credit cards. The Company transfers the credit risk for financing plans to third party financing companies. The third party financing companies that SCC deals with carry a minimum rating of BBB or better.

There are no significant impaired receivables that have not been provided for in the allowance. There are no amounts considered past due or impaired.

(In thousands of Canadian dollars, except per share amounts)

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Prudent liquidity management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The table below analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period from the consolidated statements of financial position dates to the contractual maturity date. The amounts discussed in the table are contractual undiscounted cash flows.

	Within 1 year $	Between 1 and 5 years $	Over 5 years $
At December 31, 2016			
Trade and other payables	40,522	-	-
Long-term debt	4,016	131,750	15
	44,538	131,750	15
At December 31, 2015			
Trade and other payables	46,024	-	-
Long-term debt	4,701	141,139	17
	50,725	141,139	17

Fair value of financial instruments

The different levels used to determine fair values have been defined as follows:

- Level 1 - inputs use quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the Company has the ability to access.

- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 inputs include quoted prices for similar financial assets and financial liabilities in active markets, and inputs other than quoted prices that are observable for the financial liabilities.

- Level 3 - inputs are unobservable inputs for the financial asset or financial liability and include situations where there is little, if any, market activity for the financial asset or financial liabilities.

The following describes the fair value determinations of financial instruments:

The carrying values of cash, trade and other receivables, trade and other payables and customer deposits approximate their fair values due to the relatively short periods to maturity of these financial instruments. The carrying values of the revolving and term credit facilities approximate their fair value as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at December 31, 2016 and December 31, 2015. The finance leases approximate their fair values as the implicit interest rates used in determining their fair value approximate interest rates as at December 31, 2016 and December 31, 2015.

Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for its common shareholders in the form of cash dividends, benefits to other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce long-term debt.

20 Assets held for sale and discontinued operations

The Sleep America business was approved for sale on November 5, 2014 for US$12,500 and the transaction closed on January 6, 2015. As part of this agreement, US$1,250 was held in escrow with 50% released on January 6, 2016 and the remainder during the year. For the year ended December 31, 2015, a $5,992 gain was recorded.

21 Issuance of shares and reorganization

Pursuant to a final prospectus filed on July 10, 2015 with various Canadian provincial securities commissions, the Company made an initial public offering and listed its common shares on the Toronto Stock Exchange. The Company issued 17,650,000 common shares at $17 per common share raised gross proceeds of $300,050. The net proceeds from the transaction after deducting transaction and underwriter expenses was $283,428 (recorded in shareholders' equity net of deferred tax of $4,380 at $287,808). The Company also issued $338,115 of common shares in exchange for shares of SCCI, SC US Holdco and SC Management (see below). The total net issuance of 37,539,135 common shares is recorded in equity at $625,923.

In connection with the Offering, the Series A and B promissory notes of SCCI were converted into Class A common shares of SCCI and the Class A convertible shares of SCCI were converted into Class D common shares of SCCI based on the relative fair values at the conversion date. Subsequent to the conversion of the above instruments, SCCI declared and paid a capital dividend in the aggregate amount of $12,903 on its Class A common shares, Class B common shares and Class D common shares. On closing of the Offering, the unvested options under SCCI's pre-IPO stock option plan vested and the options were settled for a combination of cash and Class E special shares of SCCI. SCCI's shares and special shares were then sold to the Company for a combination of cash, common shares of the Company and acquisition notes based on the economic value of the Company's shares as determined on July 10, 2015. The difference of $276,159 reflecting the cash provided and the fair value of the Company's shares and the book value of the shares received in exchange is recorded as a reserve, which is presented as a contra-share capital amount.

Subsequent to the Offering, the Company owned 100% of the shares of SCCI and 100% interest in SCCLP. All earnings of SCCLP subsequent to the Offering are allocated to the Company and there is no longer a non-controlling interest.

(In thousands of Canadian dollars, except per share amounts)

Financing cash flows related to the reorganization

	2016 $	2015 $
Repayment of Series A and B promissory notes (note 4)	-	(61,855)
Repayment of Class A convertible shares, Class B common shares and Class D shares (note 4)	-	(16,987)
Issuance of common shares	-	283,428
Purchase of SCCI's shares	-	(196,788)
Purchase of Class A common shares for cancellation (note 14)	-	(77,621)
Issuance of Class E shares of SCCI	-	2,337
Pre-Offering dividend on common shares	-	(1,612)
	-	(69,098)

22 Subsequent events

On January 26, 2017, the Board of Directors of the Company declared a dividend on the Company's common shares in the amount of $0.15 per share, payable on February 27, 2017, to shareholders of record at the close of business on February 17, 2017.

SHAREHOLDER INFORMATION

EXCHANGE LISTING

The Toronto Stock Exchange
Common Shares
Ticker Symbol: ZZZ

AUDITOR

PricewaterhouseCoopers LLP
PWC Tower
18 York Street, Suite 2600
Toronto, ON M5J 0B2

BANKER

TD Securities
TD West Tower, 30th Floor
100 Wellington Street West
Toronto, ON M5K 1A2

REGISTRAR AND TRANSFER AGENT

Computershare
100 University Avenue, 8th Floor
Toronto, ON M5J 2Y1

computershare.com

SHAREHOLDER CONTACT

Robert Masson
Chief Financial Officer
Sleep Country Canada

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ANNUAL MEETING OF SHAREHOLDERS

Date: Friday, May 12, 2017
Time: 10:00am (EST)
Davies Ward Phillips & Vineberg
155 Wellington Street West
Toronto, ON M5V 3J7
Reception on 40th Floor

BOARD OF DIRECTORS

Stephen Gunn
Co-Chair

Christine Magee
Co-Chair

David Friesema

Stephen Dent

Thecla Sweeney

Andrew Moor

David Shaw

John Cassaday

Douglas Bradley

OFFICERS

David Friesema
Chief Executive Officer

Robert Masson
Chief Financial Officer

Stewart Schaefer
Chief Business Development
Officer & President, Dormez-vous?

CAPITAL STOCK

As at December 31, 2016,
there were 37,648,349 common
shares outstanding.

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