WELL RESTED WELL INVESTED

WAKING UP TO A GREAT INVESTMENT

2017 Annual Report

SleepCountry

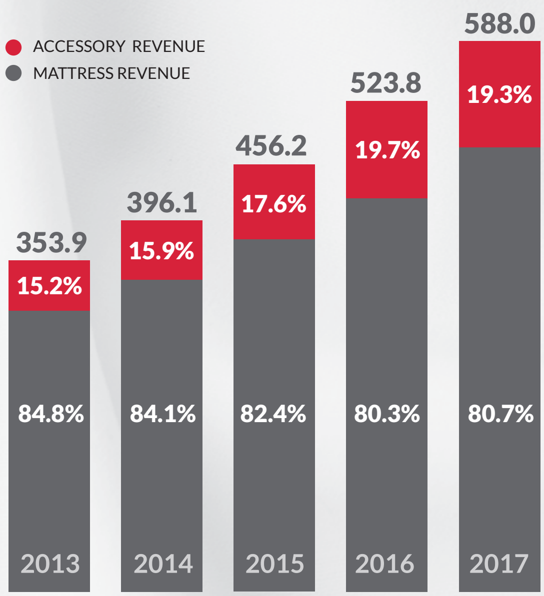
2017 WAS A YEAR MARKED BY STRONG EXECUTION OF OUR STRATEGIC OBJECTIVES AND IMPACTFUL INVESTMENT IN THE FUTURE OF OUR COMPANY.

We opened 12 new locations, completed 31 store renovations, relocated 4 distribution centres, introduced our Bloom™ mattress-in-a-box brand, launched our eCommerce platform, and continued to achieve overall excellence in all areas of our business. We feel accomplished with our results in 2017 and well-positioned for success in 2018.

2017 HIGHLIGHTS

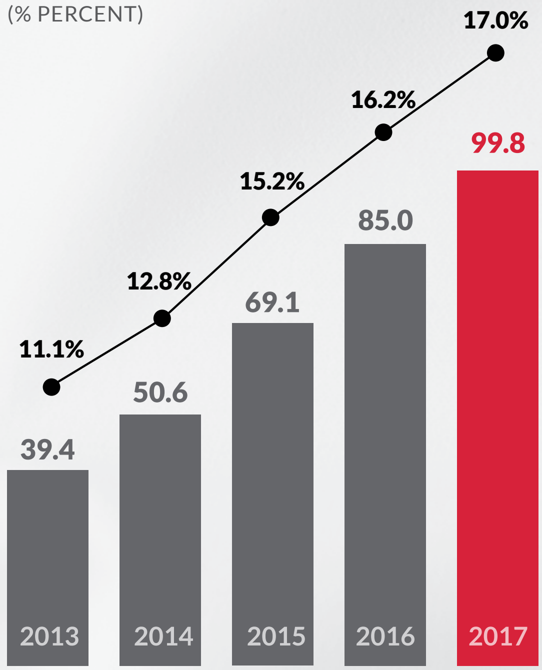
- Sales grew by 12.3% year over year
- Operating EBITDA up 17.4% compared with 2016
- A 15.6% year-over-year increase in gross profit
- 12 new stores opened
- 31 stores renovated to the new enhanced design
- 18 consecutive quarters of same stores sales growth

REVENUE
(C$ MILLIONS)



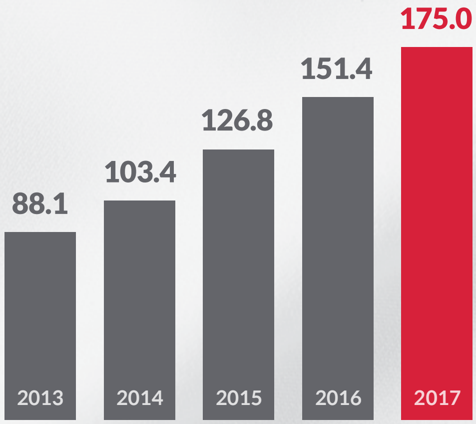
OPERATING EBITDA[1]
(C$ MILLIONS)

OPERATING EBITDA MARGIN[1]
(% PERCENT)

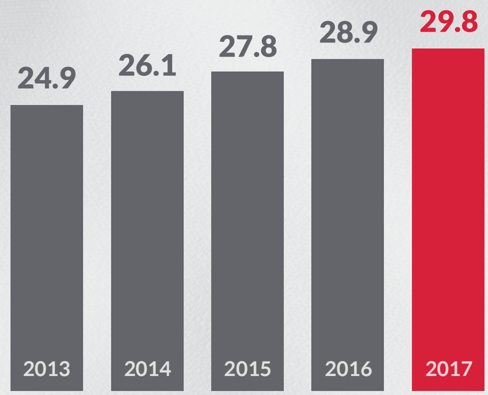


1 See the section in the Management Discussion and Analysis entitled "Non-IFRS Measures" for further details concerning how the company calculates Operating EBITDA, Operating EBITDA Margin and Same Store Sales.

GROSS PROFIT
(C$ MILLIONS)

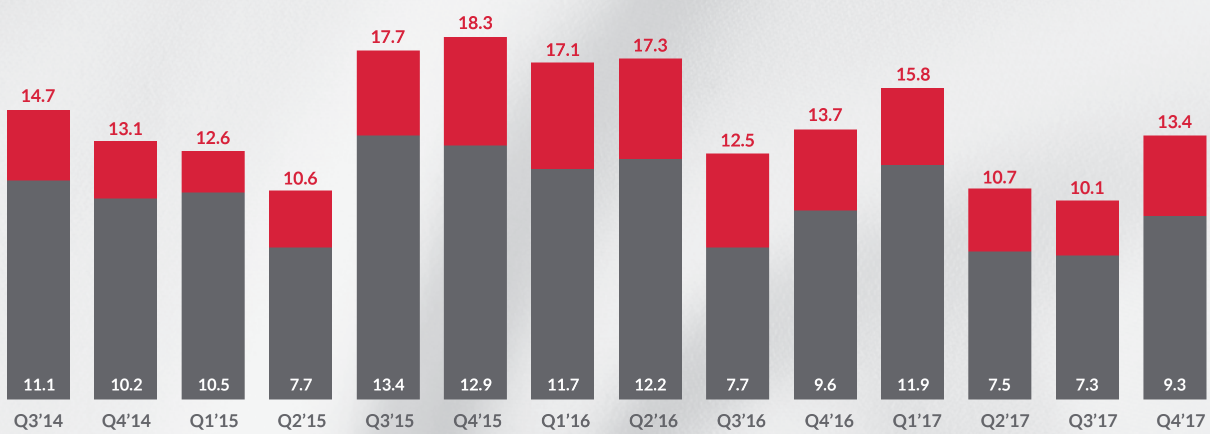


GROSS MARGIN
(% PERCENT)

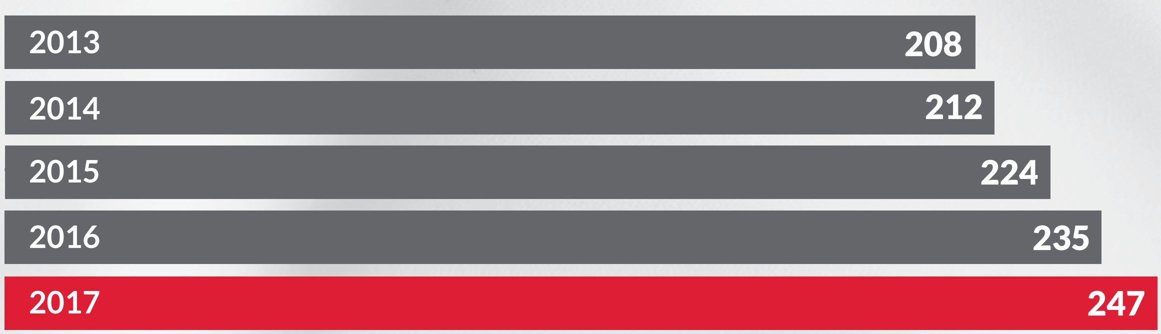


TOTAL SALES GROWTH & SAME STORE SALES[1] GROWTH
(% PERCENT)

TOTAL SALES GROWTH
SAME STORE SALES GROWTH[1]



STORE COUNT
(# STORES)



THE ONLY SPECIALTY MATTRESS RETAILER WITH A NATIONAL PRESENCE AND OMNICHANNEL APPROACH

#1
MATTRESS RETAILER

25%
OF NATIONAL MARKET SHARE

247
STORES[1]

16
DISTRIBUTION CENTRES

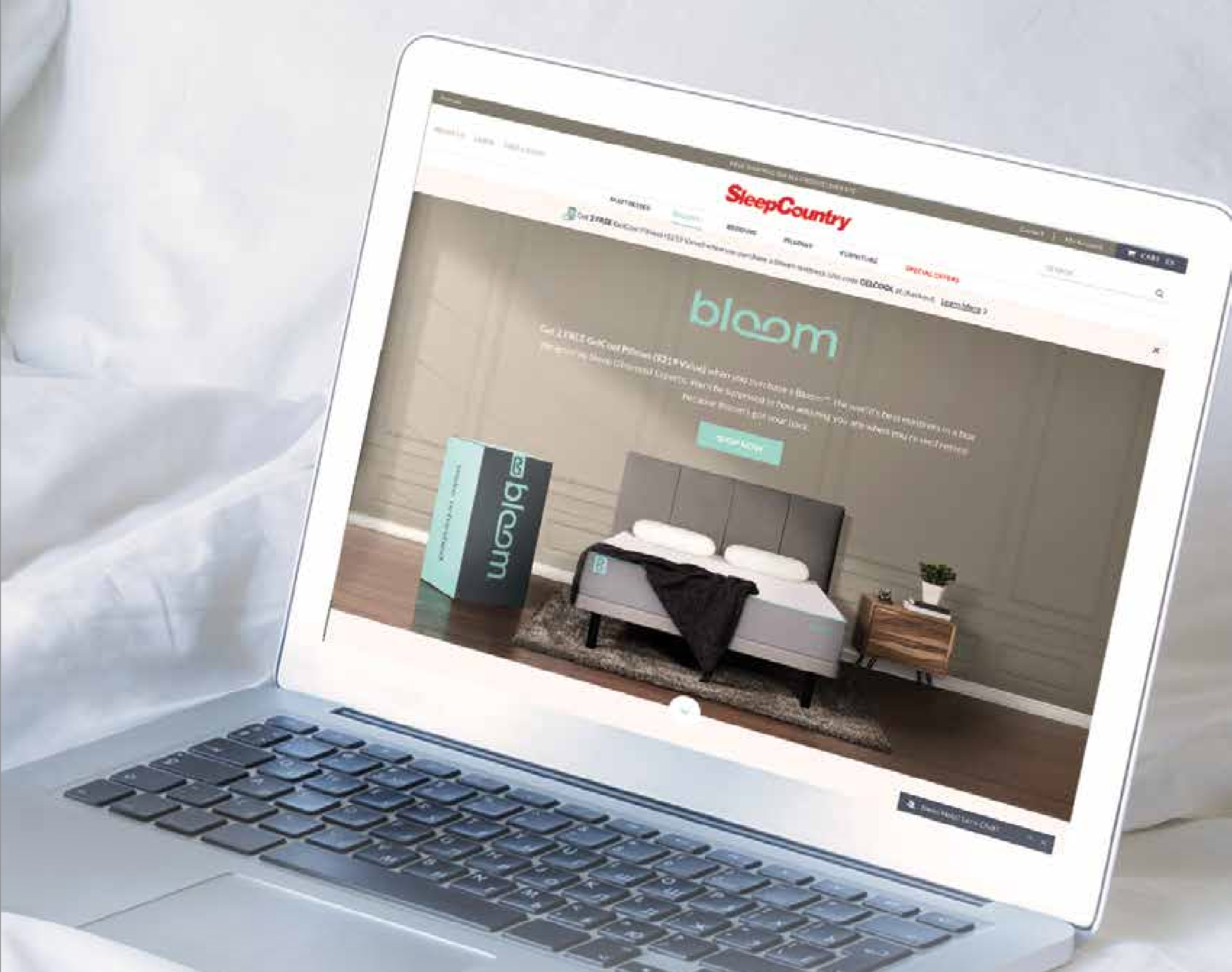
9
PROVINCES

eCommerce
PLATFORM LAUNCHED IN 2017

54
NEW STORES SINCE 2012

14.7%
CAGR IN ACCESSORIES REVENUE SINCE 2012

1 Store count as of December 31, 2017.



2018 OUTLOOK

- Open eight to 12 new stores per year
- Renovate 25 to 30 stores to feature the enhanced store design
- Continued investment in advertising and sales training to grow SSS (See "Non-IFRS Measures")
- Implement specific tactics aimed at capturing more market share
- Continue to invest in advertising with planned double digit growth in advertising spend in 2018
- Continue to ramp up eCommerce platform launched in the second quarter of 2017
- Further increase digital marketing spend to promote our Bloom™ mattress-in-a-box brand and the 3 additional Bloom mattresses to be introduced in 2018
- Continue to expand merchandising opportunities in accessories
- Purchase up to a further 959,000 common shares as part of the NCIB program announced on December 4, 2017
- Spend approximately $20 million to $25 million on capital expenditure driven mainly by new stores, store renovations, the relocation of one distribution centre and maintenance capital expenditure

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 March 1, 2018 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, 2017 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, 2017 and the audited consolidated financial statements of SCC and accompanying notes for the year ended December 31, 2016 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**") as issued by the International Accounting Standards Board ("**IASB**") 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 2017**" are to SCC's fiscal quarter ended December 31, 2017 and to "**Q4 2016**" are to SCC's fiscal quarter ended December 31, 2016. All references in this MD&A to "**2017**" are to SCC's fiscal year ended December 31, 2017 and to "**2016**" are to SCC's fiscal year ended December 31, 2016.

The audited annual consolidated financial statements of SCC and the accompanying notes for the year ended December 31, 2017 and this MD&A were reviewed by the Company's Audit Committee and were approved by its Board of Directors on March 1, 2018.

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 2017 annual information form (the "**AIF**") filed on March 1, 2018. 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, 2017, Sleep Country had 247 stores (2016 - 235 stores) and 16 distribution centres (2016 - 17 distribution centres) across Canada. Sleep Country's stores average approximately 5,000 square feet and offer a large selection of mattresses, box spring bases, metal frames, lifestyle bases and a wide assortment of complementary sleep related products ("**Accessories**"), which include pillows, mattress pads, sheets, duvets, headboards, footboards and platforms. 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. In Q2 2017, the Company also launched its new eCommerce platform and Bloom™ brand to meet the needs of the consumers looking for the convenience of online shopping.

Sleep Country Canada

Sleep Country launched its concept in the Vancouver market with four stores in 1994 and has since expanded across Canada with 194 corporately owned stores and 14 distribution centres in British Columbia, Alberta, Manitoba, Saskatchewan, Ontario, Nova Scotia, New Brunswick and Prince Edward Island as at December 31, 2017. SCC's regional footprint includes the following distribution centres: Victoria, BC; Richmond, BC; Kelowna, BC; Calgary, AB; Edmonton, AB; Winnipeg, MB; Regina, SK; Brampton, 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, 2017, the Dormez-vous? Banner has expanded to 53 stores with two distribution centres in Montréal and Québec City.

4 Dividends and Share purchases

Dividends:

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

Date of declaration	Record date	Payment date	Dividend declared (per share)
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
May 9, 2017	May 19, 2017	May 29, 2017	$ 0.165
August 2, 2017	August 18, 2017	August 28, 2017	$ 0.165
November 1, 2017	November 17, 2017	November 27, 2017	$ 0.165
January 26, 2018	February 16, 2018	February 26, 2018	$ 0.165

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

Share purchases:

In the fourth quarter of 2017, the Company received approval from the Toronto Stock Exchange (the "TSX") to commence a Normal Course Issuer Bid ("NCIB") and purchase on the TSX or through alternative trading systems up to 1,600,000 of the Company's common shares, representing approximately 4.5% of the public float. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 21,005 Shares (representing 25% of the average daily trading volume of the Shares on the TSX for the six months prior to commencement of the NCIB), except where such purchases are made in accordance with the "block purchase" exception under the applicable TSX rules and policies.

As of December 31, 2017, the Company had purchased 641,326 Common Shares, for cancellation, at an average price of $34.12 per share, for a total consideration of $21.9 million.

5 Factors Affecting Our Results of Operations

Revenues

Revenues are derived primarily from the retail sales of mattress sets, lifestyle bases and Accessories (including pillows, mattress pads, sheets, duvets, headboards, footboards and platforms). 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**" [1]), continuing to add stores in both new and existing markets, increasing its online revenue through its eCommerce website 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.

(1) See "Non-IFRS Measures".

Same Store Sales or SSS (See "Non-IFRS Measures")

SSS is primarily driven by:

- increases in customer traffic through marketing and advertising;
- increases in the conversion rate of converting 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, pursue expansion opportunities into new markets and launch new products and drive further sales through increasing the breadth of products offered on its eCommerce platform. 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 in which the Company did not previously operate, requiring incremental advertising and distribution logistics.

Sleep Country has successfully expanded every year since its founding in 1994. This capability to expand its store presence 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. Sleep Country successfully launched its new eCommerce platform in Q2 2017 to better meet consumer needs as more individuals look for the option of online shopping. This has also allowed the Company to reach more customers in existing markets, as well as introduce the Sleep Country brand to customers currently outside the markets it has a store presence in.

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 for each of the three-month and fiscal years ended December 31, 2017 and December 31, 2016.

	Q4		Annual	
	2017	2016	**2017**	2016
Number of stores, beginning of period	**244**	234	**235**	224
Stores newly opened	**3**	1	**12**	11
Number of stores, end of period	**247**	235	**247**	235
Number of stores in new store design, end of period			**106**	63
Stores relocated	**-**	-	**-**	1
Stores renovated	**10**	9	**31**	19

Of the three new stores opened in Q4 2017, two are in-fill stores and one is in a satellite market. Of the 12 new stores opened in 2017, 11 were in-fill stores and one was 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, 2017, there were 106 stores or 43% of the store network that featured the new store design, of which 37 were new stores, 64 were renovated stores and 5 were relocations of existing stores. Over time, SCC intends to select additional stores to renovate to this new design. The Company will continue to be feature the new design in all new stores it opens.

Competition

The retail mattress industry is highly competitive and includes national and regional full-line furniture retailers, departmental retailers, small regional specialty mattress retailers and online mattress-in-a-box retailers. Of the leading retailers in the mattress industry, Sleep Country is the only national 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 23 years and serves as a significant barrier to entry.

Sears Canada, one of the largest competitors of Sleep Country, closed all of their Canadian store locations between October 2017 and January 2018.

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. Rebates on products sold are recorded as a reduction to cost of sales, while rebates on products in inventory are recorded as a reduction to the carrying value of inventory.

6 Fourth Quarter and Full Year Operational Highlights

				Q4				Annual
(C$ thousands unless otherwise stated; other than store count)		**2017**		**2016**	**Change**		**2017**		**2016**	**Change**
Revenues	**$**	**153,559**	$	135,430	13.4%	**$**	**588,014**	$	523,787	12.3%
SSS [1]		**9.3%**		9.6%			**8.8%**		10.0%	
Stores opened		***3***		*1*			***12***		*11*	
Stores renovated/relocated		***10***		*9*			***31***		*20*	
Gross profit margin		**30.4%**		28.8%			**29.8%**		28.9%	
Operating EBITDA [1]		**25,681**		19,123	34.3%		**99,847**		85,045	17.4%
Operating EBITDA margin % [1]		**16.7%**		14.1%			**17.0%**		16.2%	
Net income		**14,780**		11,177	32.2%		**59,071**		49,574	19.2%
Earnings per share-Basic		**0.39**		0.30	30.0%		**1.57**		1.32	18.9%
Earnings per share-Diluted		**0.39**		0.29	34.5%		**1.56**		1.31	19.1%
Adjusted Net Income [1]		**15,831**		11,655	35.8%		**61,992**		51,103	21.3%
Adjusted earnings per share [1]	**$**	**0.42**	$	0.31	35.5%	**$**	**1.65**	$	1.36	21.3%

Note:

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

Change in revenue categories

In 2017, a decision was made to re-classify the revenue from the sale of metal frames from the Accessories category to the mattress category. The change is consistent with management's internal performance analysis and is driven by the rationale that purchase of metal frames by our customers has a significant correlation to their purchase of box spring base. Box spring bases have always been included in the mattress category, however metal frames had always previously been included in the Accessories revenue category. In addition, over the past 18 months, we have increasingly focused on the sale of lifestyle beds, which have grown significantly since we started promoting them in Q4 2016. The sale of box springs and metal frames have therefore declined due to our tremendous success with lifestyle bases. The table below summarizes the impact of the change:

	Q4 (Based on new categorization)				Q4 (Based on historical categorization)			
(C$ millions unless otherwise stated)	**2017**	**% of revenue**	**2016**	**Growth %**	2017	% of revenue	2016	Growth %
Mattresses	**$ 122.7**	**79.9%**	**$ 107.7**	**13.9%**	$ 120.8	78.6%	$ 105.3	14.7%
Accessories	**30.9**	**20.1%**	**27.8**	**11.2%**	32.8	21.4%	30.2	8.6%
Revenues	**$ 153.6**	**100%**	**$ 135.5**	**13.4%**	$ 153.6	100%	$ 135.5	13.4%

	Annual (Based on new categorization)				Annual (Based on historical categorization)			
(C$ millions unless otherwise stated)	**2017**	**% of revenue**	**2016**	**Growth %**	2017	% of revenue	2016	Growth %
Mattresses	**$ 474.6**	**80.7%**	**$ 420.4**	**12.9%**	$ 466	79.3%	$ 410.5	13.5%
Accessories	**113.4**	**19.3%**	**103.4**	**9.7%**	122	20.7%	113.3	7.7%
Revenues	**$ 588**	**100%**	**$ 523.8**	**12.3%**	$ 588	100%	$ 523.8	12.3%

After the change, the mattress revenue category includes mattresses, box spring bases, metal frames, lifestyle bases; and the Accessories revenue category includes a wide assortment of complementary sleep related products, which include pillows, mattress pads, sheets, duvets, headboards, footboards and platform furniture.

Highlights of Results in Q4 2017

Total revenues increased by 13.4% driven by strong SSS growth of 9.3% on top of 9.6% in Q4 2016. Sales growth was further aided by the addition of 12 new stores since December 31, 2016. Gross profit margins and Operating EBITDA margins improved in Q4 2017 compared to Q4 2016 that translated into higher Adjusted Net Income of $15.8 million (Q4 2016 – $11.7 million) and a 35.5% growth in Adjusted Earnings per Share from $0.31 in Q4 2016 to $0.42 in Q4 2017. See "Non-IFRS Measures". Net income in Q4 2017 was $14.8 million (Q4 2016 - $11.2 million) resulting in Basic Earnings per Share of $0.39 (Q4 2016 - $0.30).

Highlights of Results in 2017

Total revenues increased by 12.3% driven by strong SSS growth of 8.8% on top of 10.0% in 2016. Sales growth was further aided by the addition of 12 new stores since December 31, 2016.

On May 2, 2017, Sleep Country launched its new corporate website and eCommerce platform. The eCommerce platform features a new exclusive Bloom™ mattress in a box, Ploom™ pillows, a collapsible box spring and the full line up of Accessories and enable Sleep Country to better meet its customers' needs, as they seek the convenience of shopping online. This platform is designed to provide convenience to customers in existing markets and introduces the ability to shop Sleep Country's brand in markets where Sleep Country's stores are not conveniently located.

Management believes revenue also was positively impacted by the enhanced store design, which was first introduced in certain existing stores during the second half of 2014. To date, 64 of SCC's existing stores have been renovated to this enhanced design. As at December 31, 2017, there were 106 stores or 43% of the store network that featured the new store design, of which 37 were new stores, 64 were renovated stores and 5 were relocations of existing stores. In 2017 the new store concept stores achieved a growth rate 260 basis points higher than the legacy stores (10.4% vs old concept stores of 7.8%).

In 2017, Sleep Country centralized two of its distribution centres into one location in Richmond, BC and also relocated two distribution centres, one in Calgary and second in Toronto. With these relocations completed, the Company has successfully executed its plan of relocating four distribution centres in 2017. These relocations resulted in an additional capital expenditures of $8 million for the year and a one-time EBITDA drag of $1.1 million, but is expected to improve efficiency and grow distribution capacity for the long term.

Gross profit margins and Operating EBITDA margins improved in 2017 compared to 2016 that translated into a growth of 21.3% in Adjusted Net Income from $51.1 million in 2016 to $62 million in 2017. Adjusted Earnings per Share increased by 21.3% to $1.65 in 2017 from $1.36 in 2016. See "Non-IFRS Measures". Net income in 2017 was $59.1 million (2016 - $49.6 million) resulting in Basic Earnings per Share of $1.57 (2016 - $1.32).

Outlook

Management believes Sleep Country is well-positioned to continue to grow revenue and profitability and to generate excess cash flow. Key initiatives planned for 2018 include the following:

- opening eight to 12 stores per year;
- renovating 25 to 30 stores to feature the enhanced store design;
- growing SSS (See "Non-IFRS Measures") by continuing to invest in advertising and sales training;
- implement specific tactics, including targeted advertising, aimed at aggressively capturing more market share partially resulting from the recent closure of Sears Canada stores between October 2017 and January 2018;
- with the support of a new advertising agency, continue to invest in advertising, one of the most powerful growth drivers of our business, with a goal of refreshing our accessories marketing materials in addition to supporting the marketing needs of our core business. This involves a planned double digit growth in our advertising spend in 2018, with higher growth planned in the first half of 2018 and lower growth planned in the second half;
- continue to ramp up our eCommerce platform, that was launched in the second quarter of 2017;
- further increase digital marketing spend to promote our Bloom™ mattress-in-a-box brand that is offered to customers through our eCommerce website as well as our retail stores. We also plan to expand our Bloom™ mattress-in-a-box brand across more price points by adding 3 additional mattresses to our existing line up;
- continuing to expand merchandising opportunities in accessories;
- purchase up to a further 959,000 common shares as part of the NCIB program announced on December 4, 2017; and
- Spend approx. $20 million to $25 million on capital expenditure driven mainly by new stores, store renovations, the relocation of one distribution centre and maintenance capital expenditure which includes replacing the store point of sales equipment and implementing wifi in all stores.

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 of SCC for 2017 and 2016.

		Q4			Annual	
(C$ thousands unless otherwise stated)	**2017**	2016	Change	**2017**	2016	Change
Consolidated Income Statement						
Revenues	$ **153,559**	$ 135,430	13.4%	$ **588,014**	$ 523,787	12.3%
Cost of sales	**106,891**	96,425	10.9%	**413,057**	372,389	10.9%
Gross profit	**46,668**	39,005	19.6%	**174,957**	151,398	15.6%
General and administrative expenses	**22,038**	20,360	8.2%	**78,031**	67,882	15.0%
Depreciation and amortization	**3,306**	3,335	(0.9%)	**12,384**	11,869	4.3%
Income before finance related expenses, interest income and other expenses (income) and income taxes	**21,324**	15,310	39.3%	**84,542**	71,647	18.0%
Finance related expenses	**922**	834	10.6%	**3,687**	4,121	(10.5%)
Interest and other expenses (income) – net	**71**	75	(5.3%)	**(17)**	118	(114.4%)
Net Income before income taxes	**20,331**	14,401	41.2%	**80,872**	67,408	20.0%
Income taxes	**5,551**	3,224	72.2%	**21,801**	17,834	22.2%
Net income	$ **14,780**	$ 11,177	32.2%	$ **59,071**	$ 49,574	19.2%
EBITDA (1)	$ **24,630**	$ 18,645	32.1%	$ **96,926**	$ 83,516	16.1%
Operating EBITDA (1)	$ **25,681**	$ 19,123	34.3%	$ **99,847**	$ 85,045	17.4%
Operating EBITDA Margin (1)	**16.7%**	14.1%		**17.0%**	16.2%	
Adjusted Net Income (1)	$ **15,831**	$ 11,655	35.8%	$ **61,992**	$ 51,103	21.3%
Earnings per share – Basic	$ **0.39**	$ 0.30	30.0%	$ **1.57**	$ 1.32	18.9%
Earnings per share – Diluted	$ **0.39**	$ 0.29	34.5%	$ **1.56**	$ 1.31	19.1%
Adjusted earnings per share (1)	$ **0.42**	$ 0.31	35.5%	$ **1.65**	$ 1.36	21.3%
Dividends declared per share	$ **0.165**	$ 0.15	13.3%	$ **0.645**	$ 0.56	16.1%

	31-Dec-17	**31-Dec-16**
Total assets	$ **482,448**	$ **461,008**
Long-term debt	$ **107,147**	$ **118,751**

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.

7 Fourth Quarter 2017 versus Fourth Quarter 2016

Revenues

Revenues increased by 13.4%, from $135.4 million in Q4 2016 to $153.6 million in Q4 2017, primarily driven by a 9.3% increase in SSS. See "Non-IFRS Measures". Sales growth was further aided by the addition of 12 new stores since December 31, 2016.

The increase in total revenue was comprised of an increase in mattress sales and Accessories sales. Mattress revenue increased by 13.9%, from $107.7 million to $122.7 million. Accessories revenue increased by 11.2%, from $27.8 million to $30.9 million.

Gross profit

Gross profit was $46.7 million in Q4 2017 compared to $39 million in Q4 2016, representing an increase of $7.7 million. Gross profit margin increased by 1.6% to 30.4% for Q4 2017 from 28.8% in Q4 2016 primarily as a result of the following factors:

- sales and distribution expenses were 15.1% of revenue in Q4 2017 compared to 15.4% of revenue in Q4 2016 mainly due to improved leverage on sales and operations compensation expense and improved cost control;
- improved leverage on store occupancy costs, which decreased as a percentage of revenue from 8.8% to 8.2%; and
- inventory and other directly related expenses, net of volume rebates, decreased as a percentage of revenue from 46.3% to 45.6% mainly as a result of achieving higher raw product margins and lower inventory provisions and write offs.

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

Total G&A expenses increased by $1.6 million, or 8.2%, from $20.4 million in Q4 2016 to $22 million in Q4 2017; and, as a percentage of revenue, G&A decreased from 15.0% in Q4 2016 to 14.4% in Q4 2017.

								Q4
(C$ millions unless otherwise stated)		**2017**	***% of revenue***		2016	*% of revenue*		Change
Media and advertising expenses [1]	**$**	**8.3**	5.3%	$	7.7	5.7%	$	0.6
Salaries, wages and benefits [2]		**5.2**	3.4%		4.0	3.0%		1.2
Credit card and finance charges [3]		**3.4**	2.2%		3.1	2.2%		0.3
Rent and other occupancy charges		**1.8**	1.2%		1.9	1.4%		(0.1)
Professional fees [4]		**0.4**	0.3%		0.9	0.7%		(0.5)
Telecommunication and information technology		**0.9**	0.6%		1.0	0.7%		(0.1)
Other		**2.0**	1.3%		1.8	1.4%		0.2
Total G&A expenses	**$**	**22.0**	14.4%	$	20.4	15.0%	$	1.6

NOTES:

(1) Media and advertising expenses increased by $0.6 million mainly due to $0.3 million spent in additional digital advertising on eCommerce and $0.2 million spent in traditional media advertising to launch the new Bloom™ brand.

(2) Salaries, wages and benefits increased by $1.2 million as a result of a $0.6 million increase in stock compensation expense. The Company also incurred additional compensation expense 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 unchanged as a percentage of revenue.

(4) Professional fees decreased by $0.5 million mainly as a result of additional legal expenses incurred in Q4 2016 relating to the Company's trademark infringement litigation against Sears Canada Inc.

EBITDA

EBITDA was $24.6 million for Q4 2017 compared to $18.6 million for Q4 2016, representing an increase of $6 million (or 32.1%). See "Non-IFRS Measures". The increase was primarily due to strong revenue growth in Q4 2017 combined with improved gross profit margins, partially offset by an increase in G&A expenses.

Operating EBITDA

Operating EBITDA was $25.7 million for Q4 2017, or 16.7% of revenue, compared to $19.1 million for Q4 2016, or 14.1% of revenue, representing an increase of $6.6 million (or 34.3%). See "Non-IFRS Measures". The increase was primarily due to strong revenue growth in Q4 2017 combined with improved gross profit margins, partially offset by an increase in G&A expenses.

Depreciation and amortization expenses

Depreciation and amortization remained relatively unchanged at $3.3 million in Q4 2017 and Q4 2016.

Finance related expenses

Finance related expenses increased by $0.1 million from $0.8 million in Q4 2016 to $0.9 million in Q4 2017 as a result of a lower average balance outstanding on the senior secured credit facility offset by a higher effective interest rate of 3.35% in Q4 2017 compared to 2.73% in Q4 2016.

Income taxes

Q4 2017 had an income tax expense of $5.6 million versus $3.2 million for Q4 2016 representing an increase of $2.4 million or 72.2% mainly as a result of increased taxable income due to improved business results and operating margins and reversal of certain tax attributes of $0.9 million in Q4 2016 that related to the capital structure that existed prior to the Initial Public Offering of the Company in July 2015.

Net income

The net income for Q4 2017 was $14.8 million ($0.39 per share) compared to $11.2 million ($0.30 per share) in Q4 2016 representing an increase of $3.6 million (or 32.2%). The increase was mainly due to an increase in EBITDA, partially offset by an increase in income tax expense. See "Non-IFRS Measures".

Adjusted Net Income

Adjusted Net Income for Q4 2017 was $15.8 million ($0.42 per share) compared to $11.7 million ($0.31 per share) for Q4 2016, an increase of $4.2 million (or 35.8%). The increase was primarily due to higher Operating EBITDA, partially offset by an increase in finance related expense and income tax expense. See "Non-IFRS Measures".

8 Annual Financial Results 2017 versus 2016

Revenues

Revenues increased by 12.3%, from $523.8 million in 2016 to $588 million in 2017, primarily driven by an 8.8% increase in SSS. See "Non-IFRS Measures". Sales growth was further aided by the addition of 12 new stores since December 31, 2016.

The increase in total revenue was comprised of an increase in mattress sales and Accessories sales. Mattress revenue increased by 12.9%, from $420.4 million to $474.6 million. Accessories revenue increased by 9.7%, from $103.4 million to $113.4 million.

Gross profit

Gross profit was $175 million in 2017 compared to $151.4 million in 2016, representing an increase of $23.6 million. Gross profit margin increased by 0.9% to 29.8% for 2017 from 28.9% in 2016 primarily as a result of the following factors:

- sales and distribution expenses were 15.2% of revenue in 2017 compared to 15.8% of revenue in 2016 mainly as a result of improved leverage on sales and operations compensation expense and improved cost control;
- improved leverage on store occupancy costs, which decreased as a percentage of revenue from 9.0% to 8.5 %; and
- inventory and other directly related expenses, net of volume rebates, increased as a percentage of revenue from 45.6% to 45.9%. The increase was mainly as a result of favourable impact of a reversal of warranty reserves of $1.5 million in 2016 related to various mattress vendors.

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

Total G&A expenses increased by $10.1 million, or 15.0%, from $67.9 million in 2016 to $78 million in 2017; and, as a percentage of revenue, G&A increased from 13.0% in 2016 to 13.3% in 2017.

(C$ millions unless otherwise stated)		**2017**	***% of revenue***		2016	% of revenue		**Annual** Change
Media and advertising expenses [1]	**$**	**28.2**	4.8%	$	23.7	4.5%	$	4.5
Salaries, wages and benefits [2]		**18.2**	3.1%		15.6	3.0%		2.6
Credit card and finance charges [3]		**13.3**	2.3%		11.4	2.2%		1.9
Rent and other occupancy charges [4]		**8.4**	1.4%		7.3	1.4%		1.1
Professional fees [5]		**1.4**	0.2%		1.7	0.3%		(0.3)
Telecommunication and information technology		**3.6**	0.6%		3.5	0.7%		0.1
Other		**4.9**	0.8%		4.7	0.9%		0.2
Total G&A expenses	**$**	**78.0**	13.3%	$	67.9	13.0%	$	10.1

NOTES:

(1) Media and advertising expenses increased by $4.5 million mainly due to $1.4 million spent in additional digital advertising on eCommerce, $1.1 million spent in traditional media advertising to launch the new Bloom™ brand and the balance of $2 million to provide increased support to the overall business as well as new satellite markets.

(2) Salaries, wages and benefits increased by $2.6 million mainly as a result of a $1.4 million increase in stock compensation expense. The Company also incurred additional compensation expense 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 increased by $1.9 million to 2.3% of revenue in 2017 compared to 2.2% of revenue in 2016, mainly due to customers financing a higher percentage of orders compared to last year.

(4) Rent and other occupancy charges include rent for the distribution centres and office space, which, increased by $1.1 million, which was mainly due to the impact of the relocation of four distribution centres.

(5) Professional fees decreased by $0.3 million as result of additional legal expenses incurred in Q4 2016 relating to the Company's trademark infringement litigation against Sears Canada Inc. that did not repeat itself in 2017.

EBITDA

EBITDA was $96.9 million for 2017 compared to $83.5 million for 2016, representing an increase of $13.4 million (or 16.1%). See "Non-IFRS Measures". The increase was primarily due to strong revenue growth in 2017 combined with improved gross profit margins, partially offset by an increase in G&A expenses.

Operating EBITDA

Operating EBITDA was $99.8 million or 17.0% of revenue, for 2017 compared to $85 million, or 16.2% of revenue, for 2016, representing an increase of $14.8 million (or 17.4%). See "Non-IFRS Measures". The increase was primarily due to strong revenue growth in 2017 combined with improved gross profit margins, partially offset by an increase in G&A expenses.

Depreciation and amortization expenses

Depreciation and amortization increased by $0.5 million from $11.9 million in 2016 to $12.4 million in 2017 primarily due to new store openings, store renovations and relocation of its distribution centres.

Finance related expenses

Finance related expenses were $3.7 million in 2017 compared to $4.1 million in 2016, representing a decrease of $0.4 million mainly as a result of a lower average balance outstanding on the senior secured credit facility and a lower effective interest rate of 3.03% in 2017 compared to 3.07% in 2016.

Income taxes

2017 had an income tax expense of $21.8 million versus $17.8 million for 2016 representing an increase of $4 million (or 22.2%) mainly as a result of increased taxable income due to improved business results and operating margins.

On February 1, 2018, the Canada Revenue Agency (CRA) issued a notice of proposed adjustments for the 2014 taxation year, which also results in consequential income adjustments for 2015 and 2016 taxation years. The proposed adjustments relate to restructuring transactions in the Company's pre-IPO structure and certain related transactions. The total maximum exposure arising from the proposed adjustments, including tax, penalty and interest is approximately $9,300. The Company has provided additional information to support its tax position and as at the date of these consolidated financial statements, a formal Notice of Reassessment has not been issued by the CRA. In the event that a Notice of Reassessment is issued, the Company intends to contest this matter vigorously and file a Notice of Objection; accordingly, no reserve has been recorded in these consolidated financial statements. Pursuant to the terms and conditions of the pre-IPO share purchase agreement dated July 10, 2015, the Company expects to be indemnified for all or some of this liability from former investors.

Net income

The net income for 2017 was $59.1 million ($1.57 per share) compared to $49.6 million ($1.32 per share) in 2016 representing an increase of $9.5 million (or 19.2%). The increase was mainly due to an increase in EBITDA, lower finance related expenses, partially offset by a higher depreciation and amortization expense and an increase in income tax expense. See "Non-IFRS Measures".

Adjusted Net Income

Adjusted Net Income for 2017 was $62 million ($1.65 per share) compared to $51.1 million ($1.36 per share) for 2016, an increase of $10.9 million (or 21.3%). The increase was primarily due to higher Operating EBITDA and lower finance related expenses, partially offset by an increase in depreciation and amortization expense and income tax expense. See "Non-IFRS Measures".

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, except where indicated.

	2017					2016				
(C$ thousands unless otherwise stated)	Q4	Q3	Q2	Q1	**TOTAL**	Q4	Q3	Q2	Q1	TOTAL
Revenues	$ **153,559**	$ 177,123	$ 133,049	$ 124,283	**$ 588,014**	$ 135,430	$ 160,847	$ 120,212	$ 107,298	$ 523,787
SSS[(1)]	**9.3%**	7.3%	7.5%	11.9%	**8.8%**	9.6%	7.7%	12.2%	11.7%	10.0%
Gross profit	$ **46,668**	$ 58,368	$ 37,325	$ 32,596	**$ 174,957**	$ 39,005	$ 52,053	$ 33,693	$ 26,647	$ 151,398
Gross profit margin	**30.4%**	33.0%	28.1%	26.2%	**29.8%**	28.8%	32.4%	28.0%	24.8%	28.9%
EBITDA[(1)]	$ **24,630**	$ 35,076	$ 19,526	$ 17,694	**$ 96,926**	$ 18,645	$ 33,152	$ 17,522	$ 14,197	$ 83,516
Operating EBITDA[(1)]	$ **25,681**	$ 35,808	$ 20,192	$ 18,166	**$ 99,847**	$ 19,123	$ 33,624	$ 17,884	$ 14,414	$ 85,045
Operating EBITDA Margin[(1)]	**16.7%**	20.2%	15.2%	14.6%	**17.0%**	14.1%	20.9%	14.9%	13.4%	16.2%
Net income	$ **14,780**	$ 22,805	$ 11,228	$ 10,258	**$ 59,071**	$ 11,177	$ 21,402	$ 9,699	$ 7,296	$ 49,574
Adjusted Net Income[(1)]	$ **15,831**	$ 23,537	$ 11,894	$ 10,730	**$ 61,992**	$ 11,655	$ 21,874	$ 10,061	$ 7,513	$ 51,103
Earnings per share – Basic	$ **0.39**	$ 0.61	$ 0.30	$ 0.27	**$ 1.57**	$ 0.30	$ 0.57	$ 0.26	$ 0.19	$ 1.32
Earnings per share – Diluted	$ **0.39**	$ 0.60	$ 0.29	$ 0.27	**$ 1.56**	$ 0.29	$ 0.56	$ 0.26	$ 0.19	$ 1.31
Adjusted earnings per share[(1)]	$ **0.42**	$ 0.63	$ 0.32	$ 0.29	**$ 1.65**	$ 0.31	$ 0.58	$ 0.27	$ 0.20	$ 1.36

NOTES:

(1) See the section below entitled "Non-IFRS Measures" for further details concerning how the Company calculates SSS, 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.

10 Segment Performance

As at December 31, 2017, 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, dividends and share repurchases under its NCIB program. 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 2017 and 2016:

(C$ thousands unless otherwise stated)		**2017**		2016
Cash flows from operating activities	**$**	**92,603**	$	53,950
Cash flows used in investing activities		**(28,118)**		(17,112)
Cash flows used in financing activities		**(64,685)**		(29,657)
Net increase (decrease) in cash		**(200)**		7,181
Cash at beginning of the year		**23,820**		16,639
Cash at end of the year	**$**	**23,620**	$	23,820

Net cash flows from operating activities

Net cash flows generated by operating activities were $92.6 million in 2017 comprised of the positive impact of cash generated from operating activities of $82 million and $10.6 million cash generated as a result of a decrease in non-cash items relating to operating activities (working capital). The decrease in working capital was primarily driven by higher trade and other payables, higher customer deposits, lower trade and other receivables and lower prepaid expenses and deposits, partially offset by higher inventories. 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 $67.1 million offset by a $13.3 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.

Net cash flows used in investing activities

Net cash flows used in investing activities in 2017 consist mainly of investments in capital expenditure mainly due to new store openings, store renovations and the distribution centre relocations. 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 flows used in financing activities

Net cash flows used in financing activities were $64.7 million for 2017, consisting primarily of dividends on the common shares of $24.3 million, repurchase of its common shares $21.9 million, net repayment of the senior secured credit facility of $14 million, interest payments of $3.6 million on the senior secured credit facility and finance leases and $0.8 million in finance lease repayments. Net cash flows used in financing activities were $29.7 million for 2016, consisting primarily of a net decrease in the senior secured credit facility of $5 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.

Contractual obligations

The following table summarizes the Company's significant contractual obligations and commitments as at December 31, 2017 based on undiscounted cash flow including estimated interest payable as per the terms of the long-term debt:

(C$ thousands unless otherwise stated)	2018	2019	2020	2021	2022	Thereafter	**Total**
Commitments:							
Operating leases	$ 37,507	$ 35,583	$ 32,146	$ 26,658	$ 20,546	$ 52,612	**$ 205,052**
Financial obligation:							
Trade and other payable	52,406	-	-	-	-	-	**52,406**
Long-term debt:							
Existing credit facility:	4,263	4,263	4,263	4,263	107,102	-	**124,154**
Finance leases	916	835	804	758	598	345	**4,256**
Total contractual obligation	$ 95,092	$ 40,681	$ 37,213	$ 31,679	$ 128,246	$ 52,957	**$ 385,868**

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

The existing credit facility represents a senior secured credit facility with a balance outstanding as at December 31, 2017 of $105 million (December 31, 2016 - $119 million).

The finance leases are mainly comprised of leases on delivery trucks. As at December 31, 2017, the outstanding principal of the finance leases was $3.5 million (2016 - $0.9 million).

Executive employment agreements allow for total additional payments of approximately $8.9 million if a liquidity event occurs, $3.8 million if all are terminated without cause, $nil if all are terminated with cause and $10.1 million if all are terminated as a result of death.

All directors and/or officers of the Company, and each of its various subsidiary entities, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance with maximum coverage of $30 million to mitigate the cost of any potential future lawsuits or actions to the directors and officers. The term of the indemnification is not explicitly defined, but is limited to events for the period during which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment required to be made by the Company cannot be reasonably estimated but could have a material adverse effect on the Company.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product and service agreements. These indemnification arrangements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined. The Company, whenever possible, tries to limit this potential liability within the particular agreement or contract, but due to the unpredictability of future events the maximum amount of any potential reimbursement required to be made by the Company or its subsidiary entities cannot be reasonably estimated, but could have a material adverse effect on the Company.

Capital Resources

Senior secured credit facility

On January 1, 2016, SCCI had a senior secured credit facility of $175 million, which was scheduled to mature on July 16, 2020. This senior secured credit facility was guaranteed by SCC.

On June 29, 2016, the Company amended and restated the senior secured credit agreement and became the borrower under the senior secured credit facility. The credit limit under the senior secured credit facility was reduced to $150 million and the maturity date was extended to June 29, 2021. On August 30, 2017, the senior secured credit agreement was amended and the maturity date was extended to August 30, 2022. The senior secured credit facility is secured by all of the present and after-acquired personal property of SCC and SCCI. As at December 31, 2017, the balance outstanding on the senior secured credit facility was $105 million (December 31, 2016 - $119 million).

The senior secured credit facility allows for the debt to be held in Canadian or US dollars. During the fiscal year ended December 31, 2017, the Company held the debt in US dollars for 311 days. To mitigate the foreign exchange risk, the Company entered into forward foreign exchange contracts to sell US dollars in an amount equal to the debt with an overall impact of $nil recorded in general and administrative expenses in the consolidated statement of operations. As at December 31, 2017, the debt is held in Canadian dollars and no forward foreign exchange contracts were outstanding. Interest on the senior secured 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, 2017, the applicable margin for bankers’ acceptances was 175 basis points and the applicable margin for prime rate loans was 75 basis points.

Under the terms of the senior secured credit facility, certain financial and non-financial covenants must be complied with. As at December 31, 2017, SCC was in compliance with all covenants under the senior secured credit facility.

Off-balance sheet arrangements

SCC did not have any material off-balance sheet arrangements as at December 31, 2017 and December 31, 2016, nor did it have any subsequent to December 31, 2017.

Related party transactions

As at January 1, 2016, funds controlled by Birch Hill Equity Partners Management Inc. (“**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 maintained two nominee directors on the Company’s Board of Directors until May 12, 2017. As such, Birch Hill was 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-17**	**31-Dec-16**
Short-term advances to related parties	$ -	$ 2

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 executive team. SCC incurred the following compensation expenses in relation to key management personnel:

(C$ thousands unless otherwise stated)		**2017**		2016
Salaries and short-term employee benefits	**$**	**4,143**	$	3,913
Share-based compensation		**2,540**		1,373
Directors fees		**651**		615
	$	**7,334**	$	5,901

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.

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

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 senior secured 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 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 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, SCC may issue new shares or sell assets to reduce long-term debt.

14 Critical Accounting Estimates

A summary of significant accounting policies is included in Note 3 of SCC's 2017 audited annual consolidated financial statements. The Company's critical accounting estimates are included in Note 4 of SCC's 2017 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 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, 2017 and December 31, 2016, 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.

15 Financial Instruments

At December 31, 2017, 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 facilities approximate their fair values as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at December 31, 2017 and December 31, 2016. 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, 2017 and December 31, 2016. 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, 2017. Although the Company's disclosure controls and procedures were operating effectively as of December 31, 2017, 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 includes 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 cannot provide absolute assurance with respect to the prevention or detection of 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 IFRS, 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, 2017 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, 2017 and that no material weaknesses were identified through their evaluation.

18 Current and Future Accounting Standards

The IASB and the 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

IFRS 15, Revenue from Contracts with Customers (“**IFRS 15**”) 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. The Company is completing its analysis of the new standard and will update its accounting policies over gift card redemption recognition to recognize gift card breakage over time as compared to the current policy of recognizing breakage after balances age a certain amount of time, and will update accounting policies relating to certain other smaller ancillary revenue amounts. These changes are not expected to have a material impact to the Company’s statement of financial position and consolidated statement of operations. The Company anticipates using the full retrospective method on adoption on January 1, 2018.

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 (“**IAS 39**”). IFRS 9, Financial Instruments (“**IFRS 9**”) will be effective for years beginning on or after January 1, 2018. The Company has analyzed the new standard and determined that it has no material impact on the Company’s consolidated statements of financial position and consolidated statements of operations. The Company does not expect a significant impact from the adoption of the standard.

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). IFRS 16 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 consolidated statements of operation. 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.

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 operation. The company will not early adopt this standard.

19 Outstanding Share Data

As of the date hereof, 37,008,306 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 692,966 options to purchase an equivalent number of common shares, 149,977 performance share units and 12,506 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 revenue 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

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

EBITDA is defined as income (loss) 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:

- share-based compensation.

Adjusted Net Income

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

- share-based compensation.

Adjusted EPS

Adjusted EPS is defined as Adjusted Net Income attributable to the common shareholders of the Company divided by weighted average number of shares issued and outstanding during the period.

Calculation of Non-IFRS Measures

	Q4		Annual	
(C$ thousands unless otherwise stated, except earnings per share)	**2017**	2016	**2017**	2016
Reconciliation of net income to EBITDA and Operating EBITDA:				
Net income	**$ 14,780**	$ 11,177	**$ 59,071**	$ 49,574
Interest and other expenses (income) - net	**$ 71**	$ 75	**$ (17)**	$ 118
Finance related expenses	**$ 922**	$ 834	**$ 3,687**	$ 4,121
Income taxes	**$ 5,551**	$ 3,224	**$ 21,801**	$ 17,834
Depreciation and amortization	**$ 3,306**	$ 3,335	**$ 12,384**	$ 11,869
EBITDA	**$ 24,630**	$ 18,645	**$ 96,926**	$ 83,516
Adjustments to EBITDA:				
Share-based compensation[1]	**$ 1,051**	$ 478	**$ 2,921**	$ 1,529
Total adjustments	**$ 1,051**	$ 478	**$ 2,921**	$ 1,529
Operating EBITDA	**$ 25,681**	$ 19,123	**$ 99,847**	$ 85,045
Operating EBITDA margin	**16.7%**	14.1%	**17.0%**	16.2%
Reconciliation of net income to Adjusted Net Income:				
Net income	**$ 14,780**	$ 11,177	**$ 59,071**	$ 49,574
Adjustments:				
Share-based compensation[1]	**$ 1,051**	$ 478	**$ 2,921**	$ 1,529
Total adjustments	**$ 1,051**	$ 478	**$ 2,921**	$ 1,529
Adjusted Net Income	**$ 15,831**	$ 11,655	**$ 61,992**	$ 51,103
Weighted average number of shares	**$ 37,499**	$ 37,648	**$ 37,611**	$ 37,634
Earnings per share	**$ 0.39**	$ 0.30	**$ 1.57**	$ 1.32
Adjusted earnings per share	**$ 0.42**	$ 0.31	**$ 1.65**	$ 1.36

NOTE:

[1] Adjustment for share-based compensation, a non-cash item, and the related payroll tax expense, a cash 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.sleepcountryir.ca.

March 1, 2018

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, 2017 and December 31, 2016 and the consolidated statements of operations and comprehensive income, 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 as issued by the International Accounting Standards Board, 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.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sleep Country Canada Holdings Inc. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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SLEEP COUNTRY CANADA HOLDINGS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017 AND DECEMBER 31, 2016

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

	2017 $	2016 $
Assets		
Current assets		
Cash	23,620	23,820
Trade and other receivables (note 5)	14,002	14,937
Inventories (note 6)	38,275	34,538
Prepaid expenses and deposits	1,833	2,399
	77,730	75,694
Property and equipment (note 7)	52,773	33,927
Deferred tax assets (note 12)	4,166	4,743
Intangible assets (note 8)	105,633	104,498
Goodwill (note 8)	242,146	242,146
	482,448	461,008
Liabilities		
Current liabilities		
Trade and other payables (note 9)	52,406	40,522
Customer deposits	19,587	17,554
Long-term debt (note 11)	662	445
	72,655	58,521
Other liabilities (note 10)	11,638	8,478
Deferred tax liabilities (note 12)	24,200	23,958
Long-term debt (note 11)	107,147	118,751
	215,640	209,708
Shareholders' Equity		
Share capital and other (note 14)	349,957	353,389
Deficit	(83,149)	(102,089)
	266,808	251,300
	482,448	461,008

Contingent liabilities and unrecognized contractual commitments (note 16)

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 OPERATIONS AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016

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

	2017 $	2016 $
Revenues	588,014	523,787
Cost of sales (notes 6 and 13)	413,057	372,389
Gross profit	174,957	151,398
General and administrative expenses (note 13)	78,031	67,882
Depreciation and amortization (notes 7 and 8)	12,384	11,869
Income before finance related expenses, interest income and other expenses and income taxes	84,542	71,647
Finance related expenses (note 11)	3,687	4,121
Interest income and other expenses - net	(17)	118
	3,670	4,239
Income before provision for income taxes	80,872	67,408
Provision for income taxes (note 12)		
Current	20,982	17,497
Deferred	819	337
	21,801	17,834
Net income and comprehensive income for the year	59,071	49,574
Earnings per share attributed to common shareholders (note 15)		
Basic earnings per share (in dollars)	1.57	1.32
Diluted earnings per share (in dollars)	1.56	1.31

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, 2017 AND DECEMBER 31, 2016

(In thousands of Canadian dollars)

	Share capital and other $	Deficit $	Total equity $
Balance - January 1, 2016 (note 3)	350,655	(130,589)	220,066
Net income for the year	-	49,574	49,574
Dividend declared	-	(21,074)	(21,074)
Shares issued - Dividend Reinvestment Plan	1,205	-	1,205
Share-based compensation (note 18)	1,529	-	1,529
Balance - December 31, 2016	353,389	(102,089)	251,300
Balance - January 1, 2017	353,389	(102,089)	251,300
Net income for the year	-	59,071	59,071
Dividend declared	-	(24,284)	(24,284)
Shares issued	19	-	19
Share-based compensation (note 18)	2,591	-	2,591
Share repurchase (note 14)	(21,889)	-	(21,889)
Excess of purchase price over average cost	15,847	(15,847)	-
Balance - December 31, 2017	349,957	(83,149)	266,808

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, 2017 AND DECEMBER 31, 2016

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

Cash provided by (used in)		
Operating activities		
Net income for the year	59,071	49,574
Items not affecting cash		
Depreciation of property and equipment (note 7)	10,907	10,744
Amortization of intangible assets (note 8)	1,477	1,125
Share-based compensation (note 18)	2,591	1,529
Finance related expenses (note 11)	3,687	4,121
(Gain) loss on disposal of property and equipment	(81)	86
Deferred lease inducements and escalated rent	3,434	1,003
Decommissioning liabilities	105	107
Warranty liability	-	(1,529)
Deferred income taxes (note 12)	819	337
	82,010	67,097
Changes in non-cash items relating to operating activities		
Trade and other receivables	935	(6,531)
Inventories	(3,737)	(2,468)
Prepaid expenses and deposits	566	(312)
Trade and other payables	10,796	(5,792)
Customer deposits	2,033	1,956
	10,593	(13,147)
	92,603	53,950
Investing activities		
Purchase of property and equipment	(25,487)	(15,565)
Purchase of intangible assets	(2,631)	(1,547)
	(28,118)	(17,112)
Financing activities		
Shares issued	19	-
Shares repurchased (note 14)	(21,889)	-
Additional revolving loan taken on senior secured credit facility (note 11)	5,000	20,000
Repayment of senior secured credit facility (note 11)	(19,000)	(25,000)
Financing costs on senior secured credit facility	(212)	(234)
Dividends paid on Class A common shares	(24,284)	(19,869)
Interest paid	(3,562)	(3,680)
Repayment of finance lease obligation	(757)	(874)
	(64,685)	(29,657)
Increase (decrease) in cash during the year	(200)	7,181
Cash - Beginning of year	23,820	16,639
Cash - End of year	23,620	23,820
Supplementary information		
Additions to property and equipment included in trade and other payables	669	182
Acquisition of property and equipment under finance lease	3,387	325
Additions to property and equipment included in decommissioning liabilities	110	-

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 and Class A 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 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) not already owned by the Company pursuant to the terms and conditions of a share purchase agreement dated July 10, 2015. As at January 1, 2016, Birch Hill Equity Partners Management Inc. (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 themselves 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 subsidiary operate in the retail market place, offering mattresses and bedding related products. As at December 31, 2017, the sole subsidiary of the Company is SCCI.

The address of its registered office is 7920 Airport Road, Brampton.

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.

The consolidated financial statements of the Company include the financial results of Sleep Country Canada Holdings Inc. and its sole wholly owned 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 March 1, 2018.

3 Significant accounting policies

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

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 using the effective interest rate method.

Fees paid on the establishment of senior credit facilities are capitalized 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.

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 subsidiary is Canadian dollars. The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

- 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 and comprehensive income.

Segment information

As at December 31, 2017, 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	Lesser of the lease term or 120 months
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 of disposal 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 of disposal 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 statements of operations and comprehensive income. 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 and comprehensive income.

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 leased premises 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 and key management 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 a compensation expense with a corresponding increase in equity reserves over the related service period provided to the Company. The 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 the compensation expense.

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 and comprehensive income, 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 subsidiary 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.

Change in accounting policy

In accordance with the International Financial Reporting Interpretations Committee (IFRIC) agenda decision addressing the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax in accordance with International Accounting Standard (IAS) 12, "Income Taxes", the IFRIC noted that an intangible asset with an indefinite useful life does not mean infinite life, nor does it mean the expected manner of recovery of the carrying amount would result solely through sale. Therefore, in applying IAS 12, an entity must determine its expected manner of recovery of the carrying value of the intangible asset with an indefinite life and should reflect the tax consequences that follow from that expected manner of recovery.

Previously, the Company measured deferred taxes on temporary differences arising from indefinite life intangible assets using capital gains rates on the basis that the assets will be recovered through its disposition. As a result of the IFRIC agenda decision, the Company has changed its accounting policy to measure deferred taxes at the income tax rate applicable to ordinary taxable income expected to apply in the years in which the temporary differences are expected to be recovered or settled. The Company adopted this change on a retrospective basis as an accounting policy change in accordance with IAS 8 "Accounting Policies, Changes to Accounting Estimates and Errors" and the impact on the consolidated financial statements was an increase to deferred tax liabilities of $13,525 as of January 1, 2016, with a corresponding adjustment to retained earnings.

Accounting standards and amendments issued but not yet adopted

The IASB and 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. The Company is completing its analysis of the new standard and will update its accounting policies over gift card redemption recognition to recognize gift card breakage over time as compared to the current policy of recognizing breakage after balances age a certain amount of time, and will update accounting policies relating to certain other smaller ancillary revenue amounts. These changes are not expected to have a material impact to the Company's statements of financial position and consolidated statements of operations and comprehensive income. The Company anticipates using the full retrospective method on adoption on January 1, 2018.

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. The Company has analyzed the new standard and determined that it has no material impact on the Company's consolidated statements of financial position and consolidated statements of operations and comprehensive income.

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.

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 and comprehensive income. The company will not early adopt this standard.

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 expenses 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 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, 2017 and December 31, 2016, 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).

5 Trade and other receivables

	2017 $	2016 $
Trade and other receivables	14,002	9,082
Income taxes recoverable	-	5,855
	14,002	14,937

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

	2017 $	2016 $
Merchandise	41,198	36,802
Provision for obsolescence	(2,923)	(2,264)
	38,275	34,538
Included in cost of sales		
Writedowns of inventory due to net realizable value lower than cost	658	1,008
Writeoffs due to damage or shrinkage	1,825	1,191

There were no reversals of previously taken writedowns in 2017 or 2016. All inventory is recorded in cost of sales once sold.

(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, 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
Year ended December 31, 2017					
At January 1, 2016	1,020	3,268	28,784	855	33,927
Additions	1,362	4,328	20,769	3,387	29,846
Depreciation	(799)	(1,651)	(7,700)	(757)	(10,907)
Disposal	(23)	(48)	(22)	-	(93)
At December 31, 2017	1,560	5,897	41,831	3,485	52,773
At December 31, 2017					
Cost	4,139	10,166	74,045	5,396	93,746
Accumulated depreciation	(2,579)	(4,269)	(32,214)	(1,911)	(40,973)
Net book value	1,560	5,897	41,831	3,485	52,773

The Company disposed of assets with an original cost value of $11,554 (December 31, 2016 - $6,346) and accumulated depreciation of $11,461 (December 31, 2016 - $6,114)

8 Intangible assets

	Brands $	Non-compete contracts $	Computer software $	Total $
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
Year ended December 31, 2017				
At January 1, 2016	101,540	603	2,355	104,498
Additions	-	-	2,631	2,631
Amortization for the year	-	(168)	(1,309)	(1,477)
Disposal	-	-	(19)	(19)
At December 31, 2017	101,540	435	3,658	105,633
At December 31, 2017				
Cost	101,540	2,804	7,448	111,792
Accumulated amortization and impairments	-	(2,369)	(3,790)	(6,159)
Net book value	101,540	435	3,658	105,633

The Company disposed of assets with an original cost value of $2,134 (December 31, 2016 - $3,787) and accumulated depreciation of $2,115 (December 31, 2016 - $3,787).

Goodwill of $242,146 (2016 - $242,146) and the Sleep Country and Dormez-vous? corporate brands of $101,540 (2016 - $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, 2017 or December 31, 2016. In assessing goodwill and brands for impairment as at December 31, 2017, 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 value in use (discounted cash flows) of the CGUs using the 2018 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 5.2% - 6.5% (2016 - 5.8% - 7.2%) and a terminal growth rate of 2.5% (2016 - 2.5%) that do not exceed the long-term average for the mattress retailer segment. A discount rate of 8.2% (2016 - 8.1%) was used in the model. As at December 31, 2017 and December 31, 2016, 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

	2017 $	2016 $
Trade payables	23,391	21,621
Income taxes payable	3,041	-
Accrued expenses	25,974	18,901
	52,406	40,522

10 Other liabilities

	2017 $	2016 $
Deferred lease inducements and rent escalation	10,957	7,524
Decommissioning provisions	681	954
	11,638	8,478

11 Long-term debt

	2017 $	2016 $
Senior secured credit facility (i)	104,323	118,341
Finance lease obligation	3,486	855
	107,809	119,196
Less: Current portion of long-term debt	662	445
	107,147	118,751

(i) Represented net of transaction costs of $677 as at December 31, 2017 (2016 - $659).

Senior secured credit facility

On January 1, 2016, SCCI had a senior secured credit facility of $175,000, which was scheduled to mature on July 16, 2020. This senior secured 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 senior secured credit facility. The credit limit under the senior secured credit facility was reduced to $150,000 and the maturity date was extended to June 29, 2021. On August 30, 2017, the senior secured credit agreement was amended and the maturity date was extended to August 30, 2022. The senior secured credit facility is secured by all of the present and after-acquired personal property of SCC and SCCI. As at December 31, 2017 and December 31, 2016, the balance outstanding on the senior secured credit facility was $105,000 (December 31, 2016 - $119,000).

The senior secured 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 311 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 and comprehensive income. As at December 31, 2017, the debt is held in Canadian dollars and no forward foreign exchange contracts were outstanding. Interest on the senior secured 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, 2017, the applicable margin for bankers' acceptances was 175 basis points and the applicable margin for prime rate loans was 75 basis points. The weighted average interest rate, including transaction costs and revolver commitment fees, on the facility was 3.03% (2016 - 3.07%).

Under the terms of the senior credit facility, certain financial and non-financial covenants must be complied with. As at December 31, 2017 and 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 and comprehensive income include the following:

	2017 $	2016 $
Interest on finance lease obligations	220	123
Revolver commitment fees	143	149
Interest expense on senior credit facility	3,324	3,849
	3,687	4,121

12 Income tax

Components of income tax provision

Significant components of the income tax provision are as follows:

	2017 $	2016 $
Current income tax expense	20,982	17,497
Deferred income tax expense relating to		
Temporary differences	689	269
Deferred income tax rate changes	130	68
	819	337
Provision for income taxes	21,801	17,834

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

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 due to the following:

	2017 $	2016 $
Income before provision for income taxes	80,872	67,408
Weighted average Canadian income tax rate	26.50%	26.50%
Income tax expense based on statutory income tax rate	21,431	17,863
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	240	(97)
Deferred tax rate changes	130	68
	21,801	17,834
Effective income tax rate	26.96%	26.46%

In 2016, 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:

	2017 $	2016 $
Excess of carrying value of intangible assets over tax values	(27,314)	(27,213)
Benefit of share issuance costs and financing fees deductible in future years	2,465	3,516
Loss carry-forwards - net of unrecognized deferred tax assets	1,903	1,528
Other temporary differences	2,912	2,948
	(20,034)	(19,221)

SCC has recognized a deferred tax asset of $4,166 (2016 - $4,743), which is dependent on future taxable income. The Company expects that it will be able to utilize the deferred tax asset in the future.

Reconciliation of deferred income tax movement:

	2017 $	2016 $
Deferred tax expense in the consolidated statements of operations and comprehensive income	819	337

As at December 31, 2017, the Company has unused capital losses of $19,702 (2016 - $19,702) 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.

On February 1, 2018, the Canada Revenue Agency (CRA) issued a notice of proposed adjustments for the 2014 taxation year, which also results in consequential income adjustments for 2015 and 2016 taxation years. The proposed adjustments relate to restructuring transactions in the Company's pre-IPO structure and certain related transactions. The total maximum exposure arising from the proposed adjustments, including tax, penalty and interest is approximately $9,300. The Company has provided additional information to support its tax position and as at the date of these consolidated financial statements, a formal Notice of Reassessment has not been issued by the CRA. In the event that a Notice of Reassessment is issued, the Company intends to contest this matter vigorously and file a Notice of Objection; accordingly, no reserve has been recorded in these consolidated financial statements. Pursuant to the terms and conditions of the pre-IPO share purchase agreement dated July 10, 2015, the Company expects to be indemnified for all or some of this liability from former investors.

13 Expenses by nature

	Cost of sales	
	2017 $	2016 $
Inventory and directly related costs recognized as an expense, including writedowns and writeoffs	270,180	238,918
Salaries, wages and benefits	89,349	82,505
Rent and other occupancy charges - stores	49,978	47,253
Other	3,550	3,713
	413,057	372,389

	General and administrative	
	2017 $	2016 $
Media and advertising expenses	28,163	23,706
Salaries, wages and benefits	18,233	15,638
Credit card and finance charges	13,255	11,367
Rent and other occupancy charges - warehouses and other	8,445	7,259
Professional fees	1,419	1,726
Telecommunication and information technology	3,640	3,468
Other	4,876	4,718
	78,031	67,882

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

14 Share capital and other

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

Issued and outstanding, no par value

	2017 $	2016 $
37,008,306 common shares (2016 - 37,648,349)	621,829	627,852
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	4,287	1,696
	349,957	353,389

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. As at December 31, 2017, there were no outstanding Class A common shares (2016 - nil).

In the fourth quarter of 2017, the Company received approval from the Toronto Stock Exchange (the TSX) to commence a Normal Course Issuer Bid (NCIB) and purchase on the TSX or through alternative trading systems up to 1,600,000 of the Company's common shares, representing approximately 4.5% of the public float of the Company's common shares issued and outstanding as of November 30. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 21,005 shares (representing 25% of the average daily trading volume of the shares on the TSX for the six months prior to commencement of the NCIB), except where such purchases are made in accordance with the 'block purchase' exception under the applicable TSX rules and policies.

As of December 31, 2017, the Company had purchased 641,326 common shares, for cancellation, at an average price of $34.12 per share, for a total consideration of $21,889 (2016 - $nil).

15 Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the period.

Diluted earnings per share amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the period, adjusted for the effects of potentially dilutive stock options. The effects of stock options are dilutive for the years ended December 31, 2017 and December 31, 2016. PSUs and DSUs are dilutive in nature.

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

	Attributable to common shareholders		
			2017
	Net earnings $	Weighted average number of shares (in thousands of shares)	EPS $
Basic	59,071	37,611	1.57
Diluted	59,071	37,953	1.56

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

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

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 up to 15 years. For the year ended December 31, 2017, the total amount paid under these operating leases was $36,089 (2016 - $35,277).

Non-cancellable operating lease rentals are payable as follows:

	2017 $	2016 $
Less than 1 year	37,507	35,866
Between 1 and 5 years	114,933	116,998
More than 5 years	52,612	61,833
	205,052	214,697

Executive employment agreements allow for total additional payments of approximately $8,853 if a liquidity event occurs, $3,814 if all are terminated without cause, $nil if all are terminated with cause and $10,111 if all are terminated as a result of death.

All directors and/or officers of the Company, and each of its various subsidiary entities, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance with maximum coverage of $30,000 to mitigate the cost of any potential future lawsuits or actions to the directors and officers. The term of the indemnification is not explicitly defined, but is limited to events for the period during which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment required to be made by the Company cannot be reasonably estimated but could have a material adverse effect on the Company.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product and service agreements. These indemnification arrangements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined. The Company, whenever possible, tries to limit this potential liability within the particular agreement or contract; however, but due to the unpredictability of future events, the maximum amount of any potential reimbursement required to be made by the Company or its subsidiary entities cannot be reasonably estimated, but could have a material adverse effect on the Company.

17 Related party transactions and balances

As at January 1, 2016, 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 maintained two nominee directors on the Company's Board of Directors until May 12, 2017. As such, Birch Hill was deemed to be a related party of the Company as at December 31, 2017 and December 31, 2016.

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

	2017 $	2016 $
Short-term advances to related parties	-	2

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.

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 executive team.

SCC incurred the following compensation expenses in relation to key management personnel:

	2017 $	2016 $
Salaries and short-term employee benefits	4,143	3,913
Share-based compensation	2,540	1,373
Directors fees	651	615
	7,334	5,901

18 Share-based compensation

On July 16, 2015, the Company established a share-based compensation plan composed of stock options and PSU's. On January 22, 2016, the Company established a share-based compensation plan for its Directors composed of DSU's. The impact of the share-based compensation expense is summarized as follows:

	2017 $	2016 $
692,966 Stock options (2016 - 473,613) (a)	1,000	544
149,977 Performance share unit plan (2016 - 90,603) (b)	1,385	778
12,506 Deferred share unit plan (2016 - 8,920) (c)	206	207
	2,591	1,529

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

The stock options, PSUs and DSUs, are equity settled and as such, the expense associated with these instruments is recorded as a share-based compensation expense through the consolidated statements of operations and comprehensive income with a corresponding entry made to contributed surplus on the consolidated statements of financial position. During the year, the Company recorded $329 (2016 - $nil) in payroll taxes related to share-based compensation.

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 a stock option plan under which options to purchase common shares may be granted to 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 shares where they are listed for the five trading days prior to the date of the grant. 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 - January 1, 2016	139,334	17.00
Granted on March 7, 2016	334,279	19.31
Balance - December 31, 2016	473,613	18.63
Granted on March 10, 2017	229,472	32.39
Options exercised on April 10, 2017	(1,013)	19.31
Options forfeited on May 12, 2017	(9,106)	17.00
Balance - December 31, 2017	692,966	23.21

The vested number of options outstanding as at December 31, 2017 is 3,324 (December 31, 2016 - 1,013).

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 10, 2017. Key assumptions include:

- a risk-free interest rate of 1.50%, which is based on a Government of Canada five to ten-year benchmark bond yield at the date of grant;

- expected volatility of 31.9%, which is based on the trading history of the Company;
- an estimated dividend yield of 1.9%;
- a seven-year expected life of the options; and
- a forfeiture rate of 1%.

b) PSU plan

The Company has established a PSU plan for employees and officers of the Company. A PSU represents the right to receive a common share settled by the issuance of treasury shares or purchased on the open market. Performance PSU's vest 100% at the end of the third year after the grant date. The number of units that 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.

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

	Number of units (vested and unvested)	Grant date fair value per unit $
Balance - January 1, 2016	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 - March 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
Issued as dividend equivalents - February 27, 2017	156	29.80
Granted - March 10, 2017	58,952	32.39
Issued - April 10, 2017	90	19.31
Exercised - April 10, 2017	(270)	19.31
Issued as dividend equivalents - May 29, 2017	160	39.33
Issued as dividend equivalents - August 28, 2017	124	33.91
Granted - November 27, 2017	162	32.61
Balance - December 31, 2017	149,977	24.06

The vested number of units outstanding as at December 31, 2017 is 693 (December 31, 2016 - 180).

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

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 of units (vested and unvested)	Grant date fair value per unit $
Granted - August 10, 2016	8,920	31.77
Balance - December 31, 2016	8,920	31.77
Forfeited - May 12, 2017	(1,574)	31.77
Granted - May 18, 2017	5,160	38.76
Balance - December 31, 2017	12,506	34.65

The vested number of units outstanding as at December 31, 2017 is 10,356 (December 31, 2016 - 3,717).

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 $1,050 (2016 - $1,190) 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.

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 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, 2017			
Trade and other payables	52,406	-	-
Long-term debt	5,179	122,886	345
	57,585	122,886	345
At December 31, 2016			
Trade and other payables	40,522	-	-
Long-term debt	4,016	131,750	15
	44,538	131,750	15

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 value of the senior secured credit facility approximates its fair value as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at December 31, 2017 and December 31, 2016. 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, 2017 and December 31, 2016.

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 Subsequent events

The Company's dividend policy is at the discretion of the Board of Directors. On January 26, 2018, the Company declared a dividend of $0.165 per common share that will be payable on February 26, 2018 to holders of the common shares of record at the close of business on February 16, 2018.

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

robert.masson@sleepcountry.ca

ANNUAL MEETING OF SHAREHOLDERS

Date: Friday, May 11, 2018
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

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, 2017, there were 37,008,306 common shares outstanding.

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