Well Rested Well Invested

2019 Annual Report

Sleep Country

All for Sleep™

Message from the Chair

Dear Fellow Shareholders,

I am proud to say that Sleep Country Canada had another successful year in 2019, reporting strong financial results and achieving new heights of customer experience and service. We continued to grow our national footprint of stores and expanded our omnichannel platform across each of our three banners – Sleep Country, Dormez-vous? and Endy. These results reflect the efforts of our outstanding Associates and Leadership Team.

Given the ongoing and uncertain impact of the global COVID-19 pandemic at the time of issuing this Annual Report, we would like to recognize the devastating human toll that the virus has taken. Our thoughts are with the individuals, families and frontline workers who confront the realities of this crisis each day. We would also like to acknowledge the pandemic's serious economic consequences. Canadian retailers, like other industries and sectors across the country, are facing unprecedented economic challenges.

At Sleep Country Canada, we are focused on facing these challenges head-on. We are prioritizing the health and safety of our Associates and our customers, while continuing to plan for the future of our business. Over the past 25 years as Canada's leading specialty sleep retailer, we have successfully navigated the challenges and opportunities that economic downturns and transformations have brought to our industry, and each time we have emerged stronger than before.

Our company is built on a solid foundation and executes against a strategic plan that serves our customers, Shareholders and Associates alike. Under the leadership of our capable, strong and dedicated Management Team, we achieved strong operating results over the past year. Although, disappointingly, these results have not been reflected in our share price and total shareholder return over the last year, we are confident that our strategic plan, decisions and actions are on the right trajectory. Our proven business model consistently produces market-leading growth, profits and dividend growth, and our strong free cash flow enables us to manage through times of market volatility and stability. This model, combined with our organic and acquisition-driven growth strategy, will continue to differentiate us from competitors and yield attractive returns in the future.

Looking ahead to the coming year, we are well-positioned to serve customers online by leveraging our omnichannel foundation, combined with the strategic initiatives and investments executed in 2019. Our customers' digital touchpoints include the enriched Sleep Country and Dormez-vous? platforms, Endy – our market-leading online mattress-in-a-box retailer – and the Walmart online marketplace. We know that the pandemic has resulted in many Canadians adding to or making changes to their sleep arrangements, and we remain committed to assisting with these sleep needs in every way we can.

I would personally like to thank my fellow Board members for their commitment, contribution and constructive challenging. The Board supports Management's current efforts, both in response to the COVID-19 crisis and in the strategic vision set in place prior to the onset of this pandemic. We continue to oversee and support Management in their implementation of the business plans and initiatives that serve our customers, support our Associates and ensure long-term value to our Shareholders.

Thank you to our Shareholders for your continued support. We recognize and appreciate the trust you have placed in us.

Sincerely,

Christine Magee

Message from the CEO

To the Sleep Country Canada community,

Across the globe, we are facing an unprecedented healthcare emergency as the COVID-19 virus continues its spread. We at Sleep Country Canada offer our sincere gratitude to frontline workers helping to control COVID-19's proliferation, and our thoughts are with all those who have been impacted.

With the current reality's new economic challenges, Canadian retailers are adapting to doing business in a COVID-19 landscape. Sleep Country Canada remains committed to providing a safe and healthy environment for our Associates and customers. Through this uncertain time, we continue to work diligently to serve the sleep needs of Canadians and have recently temporarily shifted all of our business online. No matter the channel, our goal remains to provide the excellent customer experience for which we have been known from coast-to-coast for a quarter century.

This past year was particularly strong for Sleep Country Canada and, while our initial capital investment outlook for this year has changed due to the COVID-19 crisis, we are well-positioned to weather the uncertainty of 2020 financially, strategically and operationally. Our revised outlook can be found on SEDAR.

In 2019, the company recognized the highest revenue in our history, increasing by 14.3 percent (to $712.4M), in addition to a 7.5 percent increase in operating EBITDA (to $155.9M, when compared to pro-forma 2018). Both our core foundation of mattresses and innovative accessories assortments continued to build on previous successful years, growing by 13.7 percent (to $564.7M) and 16.9 percent (to $147.7M), respectively. These results demonstrate our ability to serve the dynamic sleep needs of Canadians.

Additional highlights of the year included:

- Expanding our mattress and adjustable base market share to an estimated 33 percent, from an estimated 28 percent in 2018;
- Increasing our customer community through our omnichannel network by growing from 264 to 276 stores, while also enhancing and optimizing our best-in-class digital sites;
- Completing our first full year of operation with Endy in our family of brands, which contributed to our goals of diversifying our customer reach, expanding our product offering and accelerating our online growth;
- Announcing strategic partnerships with Walmart's online marketplace and Urban Barn to diversify revenue channels and reach new customer segments; and
- Launching our new Oracle cloud-based eCommerce platform and executing Release 1 of our new ERP system.

These notable achievements, among others, moved us forward in achieving our goal to consistently deliver a best-in-class omnichannel retail experience for our customers, while also allowing us the flexibility to offer a range of purchase channels. This strategy has proved prudent in today's unforeseen circumstances.

Finally, I would like to recognize and celebrate our Associates for their dedication. Across the country, our Associates have rallied together to support the communities in which we operate and assist our customers in this challenging time. From making new sleeping arrangements in their homes to house elderly relatives, to creating self-isolation areas for family members and friends, to supplying essential Canadian organizations with beds and bedding for team members who can't go home, our Associates have gone above and beyond to help create safe, comfortable sleeping environments for all. We could not continue to serve our customers with the high level of service that they have come to expect without our capable and devoted team. And for this, we sincerely thank them.

Stay well and sleep well,

Dave Friesema

Quality ZZZ for 25 Years

2019 marked our 25th year in business, and we've never been more pleased with our position as Canada's premier sleep retailer. Our strong performance this year across our family of three brands, Sleep Country, Dormez-vous? and Endy, resulted in 14.3% total revenue growth and market share expansion, demonstrating that our strategy and evolving business model continue to best serve the sleep needs of Canadians.

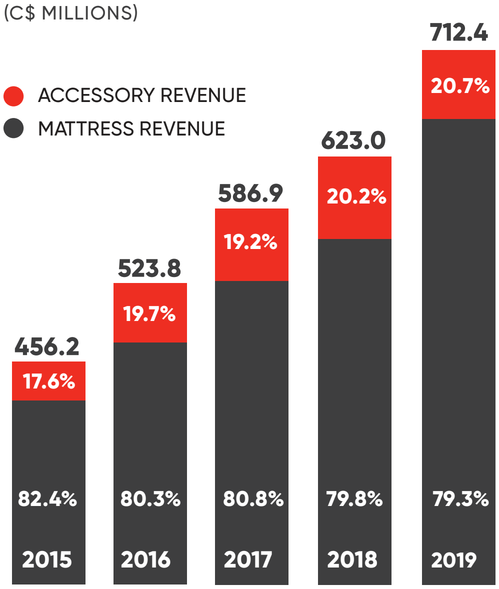
Looking ahead, we're excited to build upon our track record of profitable growth. We have a clear strategic agenda for the future including the continued progress of our leading digital and physical footprints, advancing our retail partnerships, offering Canadians the most innovative sleep products from around the world and expanding our reach through targeted and compelling marketing. Here at Sleep Country, we've been dedicated to enhancing the Canadian sleep experience through our unrivaled service and leading assortment for 25 years. We look forward to continuing to fulfill our promise, while also investing in future growth for many years to come.

2019 Highlights

- Achieved highest revenue in the history of the company, increasing by 14.3% to $712.4M
- Expanded market share to an estimated 33% (mattress and adjustables)
- Strengthened our core – mattress revenue increased by 13.7% to $564.7M
- Accelerated sleep accessories – revenue increased by 16.9% to $147.7M
- Celebrated our first full year with Endy in our family of brands
- Delivered tremendous eCommerce growth across each of our Endy, Sleep Country and Dormez-vous? brands
- Launched Oracle cloud-based eCommerce platform and executed Release 1 of our new ERP platform
- Opened 12 new stores (four in malls) and completed 26 renovations
- Launched Bloom lineup on the Walmart.ca marketplace
- Launched exclusive Canadian distribution deals with Simba and Blanquil

Revenue

(C$ MILLIONS)

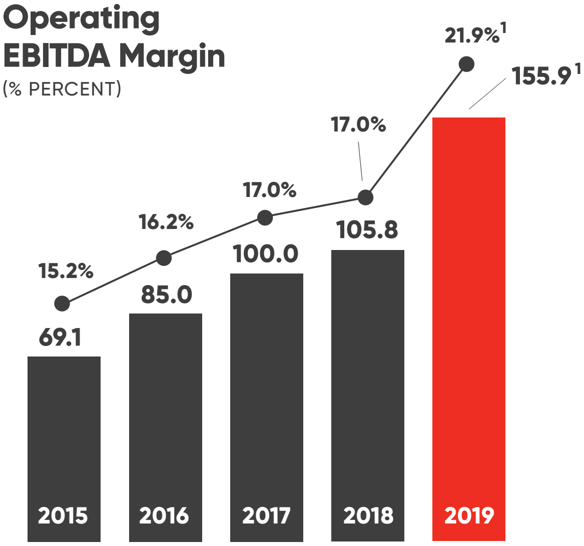


Operating EBITDA

(C$ MILLIONS)

Operating EBITDA Margin

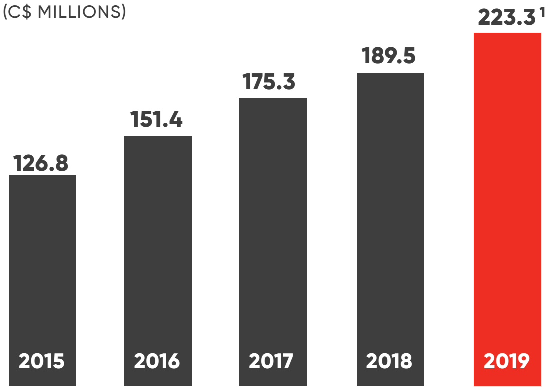
(% PERCENT)



1 On January 1, 2019, the Company adopted the new accounting standard IFRS 16 - Leases and comparative figures have not been restated. The impact of the adoption of this standard is discussed in Note 3 in the Summary of Significant Accounting Policies section in the 2019 Annual Consolidated Financial Statements.

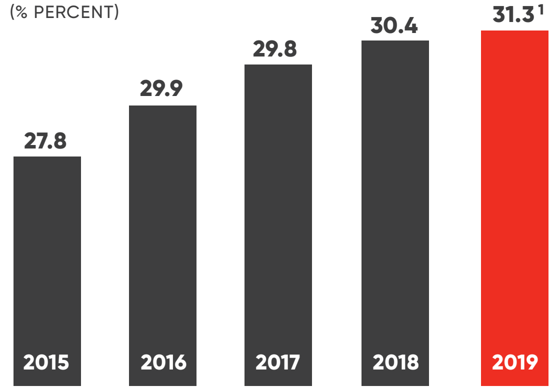
Gross Profit

(C$ MILLIONS)



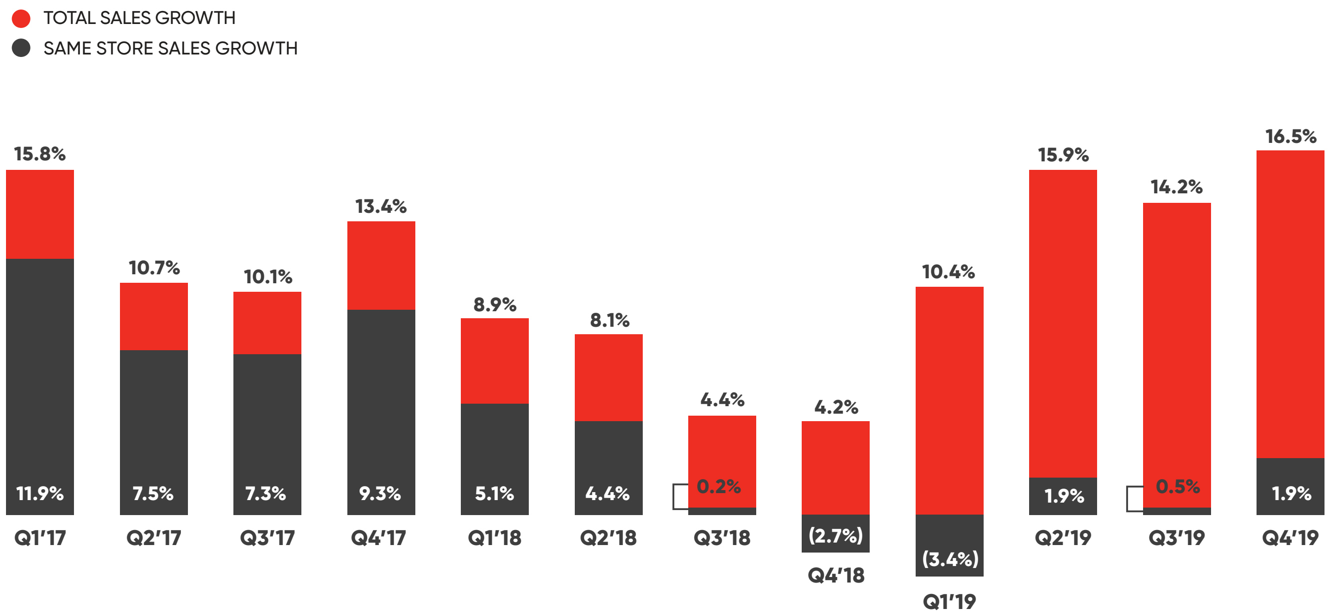
Gross Margin

(% PERCENT)



Total Sales Growth & Same Store Sales Growth

(% PERCENT)



Uniquely Positioned to Win

Sleep Country's distinctive combination of store footprint and growth, dynamic digital platform including Endy, and powerful logistics and delivery infrastructure differentiates us from our competitors, uniquely positioning us to win. Our expansive omnichannel network, combined with our proven business model, strong gross margin expansion and innovative mattress and accessories collections, enable us to successfully and profitably evolve with our customers and yield attractive returns for our shareholders.

Offering Canadians eCommerce coast-to-coast

SleepCountry | Dormez-vous? | ENDY

276 stores

Ability to offer white glove delivery service from coast-to-coast

2 strategic partnerships with Walmart and Urban Barn

Walmart Canada

URBAN BARN

17 distribution centres

3 Leading digital platforms including Endy, Canada's leading online mattress in a box retailer, and enriched Sleep Country and Dormez-vous? websites

sleepcountry.ca | dormezvous.com | endy.com

Canada's #1 specialty mattress and bedding retailer

Accessories revenue increased by 16.9%

Mattress revenue increased by 13.7%

Gross profit margins improved by 1.4%[2]

33% market share (mattress and adjustables)

Recognized as one of Canada's Best Workplaces for Mental Wellness, for Giving Back and in Retail and Hospitality

Diverted 138,000+ mattresses from local landfills through donation or recycling

2 On January 1, 2019, the Company adopted the new accounting standard, IFRS 16. The impact of the adoption of this standard is discussed in Note 3 in the Summary of Significant Accounting Policies section in the 2019 Annual Consolidated Financial Statements. For comparison purposes for this measure, the Company recalculated 2018 figures to include the IFRS 16 impact assuming the standard had been adopted on January 1, 2018. This estimated impact on 2018 has been calculated based on the lease information available as of January 1, 2019, and using similar accounting policies and assumptions as in place upon adoption of the standard on January 1, 2019. Additionally, in Fiscal 2019, depreciation and amortization expense related to stores and delivery property and equipment assets is classified in cost of sales and the depreciation and amortization expense related to distribution centres, offices, intangibles and other is classified in general and administrative expense. The results for 2018 have been revised to conform to this presentation.

Management's Discussion and Analysis

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 4, 2020 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, 2019 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, 2019 and the audited annual consolidated financial statements of SCC and accompanying notes for the year ended December 31, 2018 and the related MD&A.*

1. Basis of Presentation

All references in this MD&A to "**Q4 2019**" are to SCC's fiscal quarter ended December 31, 2019, "**Q4 2018**" are to SCC's fiscal quarter ended December 31, 2018 and "**Q4 2017**" are to SCC's fiscal quarter ended December 31, 2017. All references in this MD&A to "2019" are to SCC's fiscal year ended December 31, 2019, to "**2018**" are to SCC's fiscal year ended December 31, 2018 and to "**2017**" are to SCC's fiscal year ended December 31, 2017.

The Company's audited annual consolidated financial statements and accompanying notes have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") 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.

The audited annual consolidated financial statements of SCC and the accompanying notes for the year ended December 31, 2019 and this MD&A were reviewed by the Company's Audit Committee and were approved by its Board of Directors on March 3, 2020.

2. Forward-looking Information

This MD&A, including, in particular, the sections below entitled "Factors Affecting The Results of Operations", "Outlook", "Liquidity and Capital Resources" 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 2019 annual information form (the "**AIF**") filed on March 4, 2020. 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 omnichannel specialty sleep retailer with a national-brick-and-mortar footprint and online presence. Sleep Country operates under three retail banners (the "Banners"):

- "Sleep Country Canada™", with omnichannel operations in Canada excluding Québec;
- "Dormez-vous?™", with omnichannel operations in Québec;
- "Endy™", Canada's leading online mattress-in-a-box retailer.

Sleep Country's new, existing and renovated stores along with its expanding online presence continue to grow its customer base and market share across Canada. On December 31, 2019, Sleep Country had 276 stores (2018 - 264 stores) and 17 distribution centres (2018 - 16 distribution centres) across Canada. Sleep Country's stores are on average approximately 5,000 square feet and offer customers Canada's largest selection of mattresses, both made in Canada and imported from countries around the world, along with bases, metal frames and lifestyle bases. Sleep Country also sells a wide assortment of complementary sleep related products ("Accessories") which include pillows, pillowcases, sheets, blankets, throws, duvets, duvet covers, mattress toppers, mattress protectors, pet beds, sleep essentials, weighted blankets, headboards, footboards and platforms. Each store is staffed by the Company's Sleep Experts who are dedicated to matching customers to their best night's sleep. All Sleep Country's stores are corporate-owned thereby enabling the Company to develop and maintain a strong culture resulting in a consistent and superior in-store and home delivery customer experience.

On December 6, 2018, Sleep Country acquired Endy, further strengthening the Company's omnichannel positioning and expanding the Company's brand portfolio to meet the needs of different customer segments.

Sleep Country Canada

Sleep Country Canada launched its concept in the Vancouver market with four stores in 1994 and has since expanded across Canada with 215 corporately owned stores and 14 distribution centres as at December 31, 2019 in British Columbia, Alberta, Manitoba, Saskatchewan, Ontario, Nova Scotia, New Brunswick and Prince Edward Island. 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 Quebec, Sleep Country operates under the "Dormez-vous?" banner. "Dormez-vous?" launched its first store in April 1994 and has continued to expand over the last 25 years. As of December 31, 2019, the Dormez-vous? Banner has 61 stores with three distribution centres in Montréal and Québec City.

Endy

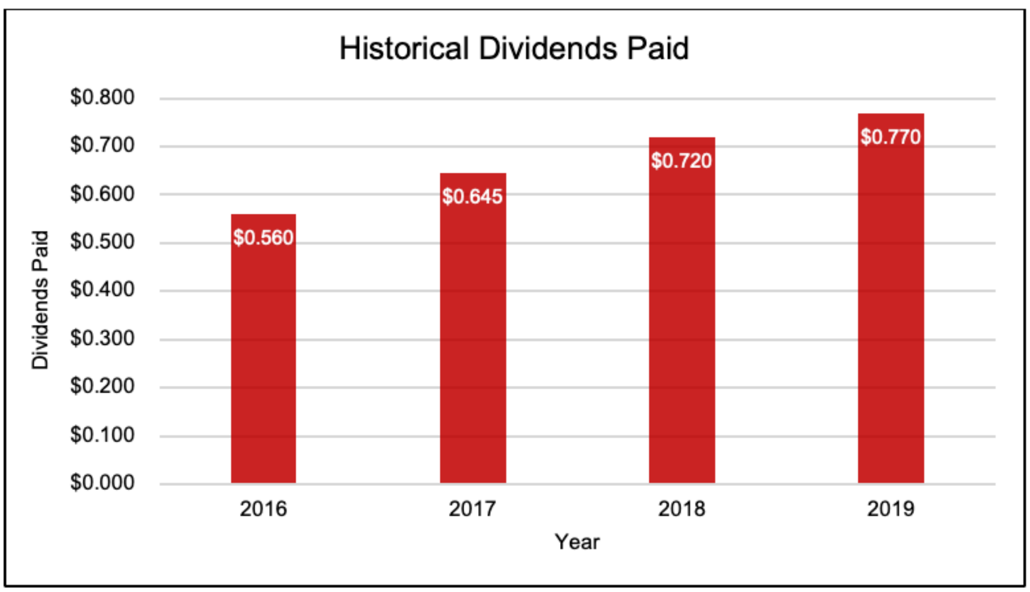
Launched in 2015, Endy is Canada's leading mattress-in-a-box eCommerce retailer. The brand's award-winning Endy mattress-in-a-box is engineered to offer the perfect balance of comfort and support. Endy's product assortment includes The Endy Pillow, The Endy Sheets, The Endy Mattress Protector, The Endy Duvet, The Endy Duvet Cover, The Endy Bed Frame and The Endy Weighted Blanket. On December 6, 2018, Sleep Country acquired substantially all the operating assets of Endy.

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	$ 0.130
May 10, 2016	May 20, 2016	May 30, 2016	$ 0.130
July 28, 2016	August 16, 2016	August 26, 2016	$ 0.150
November 1, 2016	November 18, 2016	November 28, 2016	$ 0.150
January 26, 2017	February 17, 2017	February 27, 2017	$ 0.150
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
May 7, 2018	May 22, 2018	May 31, 2018	$ 0.185
August 2, 2018	August 20, 2018	August 30, 2018	$ 0.185
November 1, 2018	November 19, 2018	November, 29, 2018	$ 0.185
February 5, 2019	February 15, 2019	February 26, 2019	$ 0.185
May 6, 2019	May 21, 2019	May 31, 2019	$ 0.195
August 8, 2019	August 20, 2019	August 29, 2019	$ 0.195
October 31, 2019	November 19, 2019	November 29, 2019	$ 0.195
February 4, 2020	February 14, 2020	February 25, 2020	$ 0.195



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

Share Purchases

In the first quarter of 2019, the Company received approval from the Toronto Stock Exchange (the "TSX") to commence, effective February 28, 2019, a Normal Course Issuer Bid ("NCIB") and purchase through the facilities of the TSX of up to 1,200,000 of the Company's common shares, representing approximately 4.0% of the public float as of February 26, 2019. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 35,204 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. Sleep Country's NCIB expired on February 27, 2020.

As of December 31, 2019, the Company had purchased 510,829 Common Shares, for cancellation, at an average price of $19.59 per share, for a total consideration of $10.0 million.

Subsequent to year end, the Company received acceptance by the TSX on March 4, 2020 of the Company's Notice of Intention to make a NCIB. Pursuant to the NCIB, the Company proposes to purchase through the facilities of the TSX, from time to time over the next 12 months, if considered advisable, up to a maximum of 1,368,363 common shares of the Company, being approximately 4.8% of its public float as of February 29, 2020. Purchases may commence through the TSX on March 9, 2020 and will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2021. The Company may purchase up to a daily maximum of 28,010 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 applicable TSX rules and policies.

5. Factors Affecting The Results of Operations

Revenues

Revenues are derived primarily from the retail sales of mattresses, lifestyle bases and Accessories and are recognized when the performance obligation is fulfilled. The performance obligation is deemed fulfilled when the control of the products has transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Provisions for returns relating to the Company's various customer satisfaction programs are accrued based on historical experience. Revenue from sale of third party warranties is recognized based on the net amount of consideration the Company retains after paying the third party the consideration received in exchange for the services to be provided by the third party.

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 online revenue through its eCommerce platforms, expanding its product offerings and growing revenue through retail partnerships. SCC's revenue is impacted by competition from other retailers that sell similar products and by seasonal patterns.

SSS is primarily driven by:

- changes in customer traffic through marketing;
- changes in the conversion rate of converting shoppers into buyers;
- changes in the average transaction size; and
- changes in economic conditions and consumer confidence.

Online Expansion Opportunities

Sleep Country launched its first eCommerce platform in 2017 to address the growing trend of consumers who research and shop online. Since its launch in 2017, the Company has continually evolved and improved its eCommerce platform. In Q4 2019, the Company launched its new cloud based Oracle eCommerce platform, providing customers a best in class online

(1) See "Non-IFRS Measures".

experience. The new website provides customers an enhanced omnichannel experience by offering them a larger selection of mattresses, lifestyle bases and Accessories. These recent enhancements to the Company's online experience allow customers to interact with the Company's three banners when they want, how they want and where they want.

In December 2018, Sleep Country acquired Endy with a goal of diversifying the product offering, accelerating the growth of the Company's online business and reaching a new customer segment. The acquisition of Endy, along with Sleep Country's new eCommerce website, complements Sleep Country's national store footprint and diverse selection of sleep products. The Company believes that this acquisition strengthens its omnichannel footprint, customer experience and positions Sleep Country strongly to compete against local and potential U.S. and international entrants to the Canadian market.

In March 2019, Sleep Country announced its partnership with Walmart to offer consumers its Bloom mattress-in-a-box collection on a dedicated Bloom storefront on Walmart.ca, thereby accessing Walmart's expansive online customer base. Walmart receives millions of visits to its Canadian website every month and over 80 per cent of Canadian households shop at Walmart. This partnership positions both retailers well to meet consumer demand and further bolsters Sleep Country's omnichannel offering.

Product Expansion Opportunities

SCC's goal is to build on the market position of its Banners and to grow its revenue by continuing to expand its product offering in both the mattresses and Accessories categories. This is achieved by securing exclusive partnerships with international sleep brands and continued in-house innovation.

The original Bloom mattress-in-a-box was launched in 2017 in order to cater to consumers that are looking for affordability, convenience and trust when buying a new mattress-in-a-box. In 2018, SCC added to the original Bloom mattress-in-a-box by introducing three new Bloom mattress-in-a-box products at various price points, thereby extending the mattress-in-a-box offering for every budget and every room.

Sleep Country and Simba, a leading mattress-in-a-box retailer based in the UK, announced their strategic partnership to launch the Simba Hybrid mattress-in-a-box in Canada. This premium mattress-in-a-box was introduced to the Canadian market exclusively by Sleep Country through its eCommerce platform and network of stores, and complements the Bloom mattress-in-a-box offerings. The Simba Hybrid mattress-in-a-box was launched in Q1 2019.

In 2018 and 2019, SCC launched a number of new Accessories such as weighted blankets, silk pillowcases, eye masks, Hotel Collection sheets, throws in a variety of materials from faux cashmere to faux fur, LuxeSilk™ Duvets, baby mattresses and pet beds. SCC intends to continue to expand its product offerings by entering into business partnerships with other mattresses and Accessories players that will be featured in its network of stores and on its eCommerce platforms, branded websites and in-house product innovations.

Store Expansion Opportunities

SCC has the ability to add new stores in existing markets (in-fill stores), in satellite markets and in new markets. An existing market or in-fill opportunity is a pre-existing built out region in which SCC already has an established store presence serviced by one or more existing distribution centres. A satellite market is a new region that 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.

In 2015, Sleep Country opened its first mall store. Since 2017, Sleep Country has opened 10 additional stores within enclosed malls, bringing the overall store count to 11. Stores within enclosed malls represent an additional growth opportunity to service the captive audience that is shopping in these malls and further allows the Company to capitalize on the decline of departmental stores.

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 extensive training including in classroom, in store, and throughout the organization (i.e. distribution centres, thereby learning SCC's service model and culture).

The following table summarizes SCC's store count for each of the three-month periods and fiscal years ended December 31, 2019 and December 31, 2018.

	Q4		Annual	
	2019	**2018**	**2019**	**2018**
Number of stores, beginning of period	**275**	260	**264**	247
Stores newly opened	**1**	4	**12**	17
Number of stores, end of period	**276**	264	**276**	264
Number of stores in new store design, end of period			**193**	155
Stores relocated	**–**	2	**–**	3
Stores renovated	**5**	10	**26**	29

Of the 12 new stores opened in 2019, nine are in-fill stores and three are satellite stores. The nine new in-fill stores include four stores located in enclosed malls.

Enhanced Store Design

An enhanced store design was first introduced in certain existing stores in 2014. As at December 31, 2019, there are 193 stores or 70% of the store network that featured the new store design, of which 66 are new stores, 119 are renovated stores and eight are relocations of existing stores. Over time, SCC intends to select additional stores to renovate to this new design. The Company will continue to feature the new design in all new stores it opens.

Competition

The retail mattresses industry is highly competitive and includes national and regional full-line furniture retailers, departmental retailers, small regional specialty mattresses retailers and online mattress-in-a-box retailers. Of the leading retailers in the mattresses industry, Sleep Country is the only national specialty mattresses retailer. Management believes it can maintain a leading position through its highly differentiated service model that has been unrivalled in execution over the last 25 years and serves as a significant barrier to entry.

Supply Chain

The Company relies on third party manufacturers to obtain its merchandise. Merchandise is sourced domestically in Canada as well as from countries around the world (U.S., China, Italy and Spain) and can be adversely impacted by political, regulatory, economic, legal factors including duties, tariffs, sanctions, pandemics, currency exchange rates along with other factors relating to foreign trade.

Seasonality

The retail mattresses 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, excluding Endy, is as follows:

First quarter	21%
Second quarter	24%
Third quarter	30%
Fourth quarter	25%
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 and operations (excluding distribution centre occupancy costs), 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 ("**AUSP**") and SCC's ability to manage store level occupancy costs.

Product gross margin is affected by changes in sales product mix, suppliers' term discounts, volume rebates, 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. The sales and distribution operation costs include the depreciation and amortization related to the sales and distribution assets.

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. Rebates on products sold are recorded as a reduction to cost of sales, while rebates on products held 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; except store count and earnings per share)	**2019[2]**	2018	**Change**	**2019[2]**	2018	**Change**
Revenues	**$ 186,490**	$ 160,104	16.5%	**$ 712,372**	$ 622,977	14.3%
SSS[1]	**1.9%**	(2.7%)		**0.3%**	1.4%	
Stores opened	1	4		12	17	
Stores renovated/relocated	5	12		26	32	
Gross profit margin[3]	**32.0%**	29.6%		**31.3%**	29.0%	
Operating EBITDA[1]	**$ 41,310**	$ 25,896	59.5%	**$ 155,932**	$ 105,775	47.4%
Operating EBITDA margin %[1]	**22.2%**	16.2%		**21.9%**	17.0%	
Net income	**$ 14,027**	$ 13,313	5.4%	**$ 55,460**	$ 59,641	(7.0%)
Earnings per share – Basic	**$ 0.38**	$ 0.36	5.6%	**$ 1.50**	$ 1.61	(6.8%)
Earnings per share – Diluted	**$ 0.38**	$ 0.36	5.6%	**$ 1.49**	$ 1.59	(6.3%)
Adjusted Net Income[1]	**$ 15,744**	$ 14,776	6.6%	**$ 59,251**	$ 63,861	(7.2%)
Adjusted earnings per share – Basic[1]	**$ 0.43**	$ 0.40	7.5%	**$ 1.60**	$ 1.72	(7.0%)
Adjusted earnings per share – Diluted[1]	**$ 0.42**	$ 0.40	5.0%	**$ 1.59**	$ 1.71	(7.0%)

Notes:

1. See the section below titled "Non-IFRS Measures" for further details concerning how the Company calculates SSS, Operating EBITDA, Adjusted Net Income and Basic and Diluted Adjusted Earnings per Share ("EPS") and for a reconciliation to the most comparable IFRS measure. The SSS measure does not include Endy.
2. On January 1, 2019, the Company adopted the new accounting standard IFRS 16 - Leases ("IFRS 16") and comparative figures have not been restated. The impact of the adoption of this standard is discussed under the heading Current and Future Accounting Standards. As a result, the financial results and the non-IFRS measures for Q4 2019 and 2019 have been impacted compared to Q4 2018 and 2018.
3. Depreciation and amortization expense related to stores and delivery property and equipment assets is classified in cost of sales and the depreciation and amortization expense related to distribution centres, offices, intangibles and other is classified in general and administrative expense. The comparative results for Q4 2018 and 2018 have been revised to conform to this presentation.

Highlights of Results in Q4 2019

Q4 2019 compared to Q4 2018 - See "Non-IFRS Measures".

- Revenues increased by $26.4 million (16.5%), driven by 1.9% SSS growth (excluding Endy), opening of 12 new stores during the year, wrap stores and the inclusion of Endy's sales for the full quarter in 2019;
- Gross profit margins improved by 2.4% from 29.6% in Q4 2018 to 32.0% in Q4 2019;
- Operating EBITDA margins improved by 6.0% from 16.2% in Q4 2018 to 22.2% in Q4 2019 mainly due to the adoption of IFRS 16, whereby the rent for stores, distribution centres, and office leases are no longer being expensed through rent expense, and are instead being expensed through depreciation and interest charges in Q4 2019;
- Net income increased by $0.7 million to $14.0 million in Q4 2019;

- Basic EPS increased by $0.02 to $0.38 in Q4 2019, up from $0.36 in Q4 2018. This increase was impacted by the following additional items in 2019 that were not included in the Company's 2018 results:
  - Negative impact from the adoption of IFRS 16 of ($0.02) per share;
  - Negative impact from interest on the additional debt from the acquisition of Endy of ($0.01) per share;
  - Negative impact from accretion expense on the earn out from the acquisition of Endy of ($0.02);
- Adjusted Net Income increased by $0.9 million;
- Basic Adjusted EPS increased by $0.03 from $0.40 in Q4 2018 to $0.43 in Q4 2019, which was negatively impacted by items noted above as well as adjustments due to share-based compensation and Enterprise Resource Planning ("ERP") implementation costs that were not included in the Company's 2018 results.

Highlights of Results in 2019

2019 compared to 2018 - See "Non-IFRS Measures".

- Revenues increased by $89.4 million (14.3%), driven by 0.3% SSS growth (excluding Endy), the opening of 12 new stores during the year and the inclusion of wrap stores and Endy for the full year in 2019;
- Gross profit margins improved by 2.3% from 29.0% in 2018 to 31.3% in 2019;
- Operating EBITDA margins improved by 4.9% from 17.0% in 2018 to 21.9% in 2019 mainly due to the adoption of IFRS 16, whereby the rent for store, distribution centres, and office leases are no longer being expensed through rent expense, and are instead being expensed through depreciation and interest charges in 2019;
- Net income decreased by $4.2 million to $55.5 million;
- Basic EPS decreased by $0.11 to $1.50 in 2019 down from $1.61 in 2018. The decrease was impacted by the following additional items in 2019 that were not included in the Company's 2018 results:
  - Negative impact from the adoption of IFRS 16 of ($0.08) per share;
  - Negative impact from interest on the additional debt from the Acquisition of Endy of ($0.06) per share;
  - Negative impact from accretion expense on the earn out from the Acquisition of Endy of ($0.07);
- Adjusted Net Income decreased by $4.6 million;
- Basic Adjusted EPS decreased by $0.12 from $1.72 in 2018 to $1.60 in 2019, which was negatively impacted by items noted above as well as adjustments due to share-based compensation and ERP implementation costs that were not included in the Company's 2018 results.

The comparability of the results of Q4 2019 versus Q4 2018 was impacted by the adoption of IFRS 16. The table below summarizes the impact of adoption of IFRS 16 as described on the previous page:

	Q4 2019	**Q4 2018**		**Q4 2018**	**Change**	
(C$ thousands unless otherwise stated; other than earnings per share)	As presented in quarterly interim statements	As presented in quarterly interim statements [3]	*IFRS 16 pro-forma Adjustments[2]*	*Pro-forma[2]*	Q4 2019 versus Q4 2018 pro-forma[1]	
Consolidated Income Statement						
Revenues	**$ 186,490**	$ 160,104	**$** –	**$ 160,104**	$ 26,386	16.5%
Cost of sales	**126,839**	112,669	(1,508)	**111,161**	15,678	14.1%
Gross profit	**59,651**	47,435	1,508	**48,943**	10,708	21.9%
General and administrative expenses	**34,762**	27,199	(394)	**26,805**	7,957	29.7%
Income before finance related expenses, interest income and other expenses (income) and income taxes	**24,889**	20,236	1,902	**22,138**	2,751	12.4%
Finance related expenses	**5,306**	1,287	2,686	**3,973**	1,333	33.6%
Interest and other expenses (income) - net	**(102)**	–	–	–	(102)	–
Net Income before provision for income taxes	**19,685**	18,949	(784)	**18,165**	1,520	8.4%
Provision for income taxes	**5,658**	5,636	(233)	**5,403**	255	4.7%
Net income	**$ 14,027**	$ 13,313	**$** (551)	**$ 12,762**	$ 1,265	9.9%
EBITDA[1]	**$ 39,366**	$ 24,300	**$** 10,328	**$ 34,628**	$ 4,738	13.7%
Operating EBITDA[1]	**$ 41,310**	$ 25,896	**$** 10,328	**$ 36,224**	$ 5,086	14.0%
Operating EBITDA Margin[1]	**22.2%**	16.2%		**22.6%**		
Adjusted Net Income[1]	**$ 15,744**	$ 14,776	**$** (551)	**$ 14,225**	$ 1,519	10.7%
Earnings per share – Basic	**$ 0.38**	$ 0.36		**$ 0.34**	$ 0.04	10.3%
Earnings per share – Diluted	**$ 0.38**	$ 0.36		**$ 0.34**	$ 0.04	10.5%
Adjusted earnings per share - Basic[1]	**$ 0.43**	$ 0.40		**$ 0.38**	$ 0.04	11.1%
Adjusted earnings per share - Diluted[1]	**$ 0.42**	$ 0.40		**$ 0.38**	$ 0.04	11.2%

Notes:

1. See the section below entitled "Non-IFRS Measures" for further details concerning how the Company calculates EBITDA, Operating EBITDA, Adjusted Net Income and Basic and Diluted Adjusted EPS, Pro-forma Q4 2018 and for a reconciliation to the most comparable IFRS measure.
2. On January 1, 2019, the Company adopted the new accounting standard, IFRS 16, and comparative figures have not been restated. The impact of adoption of this standard is discussed under the heading "Current and Future Accounting Standards". As a result, the financial results and the non-IFRS measures for Q4 2019 have been impacted compared to Q4 2018. The IFRS 16 pro-forma adjustments relate to the impact of IFRS 16 on Q4 2018, assuming the standard had been adopted on January 1, 2018. This estimated impact on Q4 2018 has been calculated based on the lease information available as of January 1, 2019, and using similar accounting policies and assumptions as in place upon adoption of the standard on January 1, 2019.
3. On January 1, 2019, the Company reclassified depreciation and amortization expense to Cost of Sales and General and Administrative expenses respectively. These figures have been have been updated for comparative purposes.

The comparability of the results of 2019 versus 2018 was impacted by the adoption of IFRS 16. The table below summarizes the impact of adoption of IFRS 16 as described on the previous page:

	2019	**2018**		**2018**	**Change**	
(C$ thousands unless otherwise stated; other than earnings per share)	As presented in annual statements	As presented in annual statements[3]	*IFRS 16 pro-forma Adjustments*[2]	*Pro-forma*[2]	2019 versus 2018 pro-forma[1]	
Consolidated Income Statement						
Revenues	**$ 712,372**	$ 622,977	**$** –	**$ 622,977**	$ 89,395	14.3%
Cost of sales	**489,082**	442,615	(5,953)	**436,662**	52,420	12.0%
Gross profit	**223,290**	180,362	5,953	**186,315**	36,975	19.8%
General and administrative expenses	**125,826**	93,760	(1,149)	**92,611**	33,215	35.9%
Income before finance related expenses, interest income and other expenses (income) and income taxes	**97,464**	86,602	7,102	**93,704**	3,760	4.0%
Finance related expenses	**21,149**	4,475	10,581	**15,056**	6,093	40.5%
Interest and other expenses (income) - net	**(788)**	(89)	–	(89)	(699)	785.4%
Net Income before provision for income taxes	**77,103**	82,216	(3,479)	**78,737**	(1,634)	(2.1%)
Provision for income taxes	**21,643**	22,575	(955)	**21,620**	23	0.1%
Net income	**$ 55,460**	$ 59,641	**$** (2,524)	**$ 57,117**	$ (1,657)	(2.9%)
EBITDA[1]	**$ 151,914**	$ 101,422	**$** 39,238	**$ 140,660**	$ 11,254	8.0%
Operating EBITDA[1]	**$ 155,932**	$ 105,775	**$** 39,238	**$ 145,013**	$ 10,919	7.5%
Operating EBITDA Margin[1]	**21.9%**	17.0%		**23.3%**		
Adjusted Net Income[1]	**$ 59,251**	$ 63,861	**$** (2,524)	**$ 61,337**	$ (2,086)	(3.4%)
Earnings per share – Basic	**$ 1.50**	$ 1.61		**$ 1.54**	$ (0.05)	(3.0%)
Earnings per share – Diluted	**$ 1.49**	$ 1.59		**$ 1.53**	$ (0.04)	(2.7%)
Adjusted earnings per share - Basic[1]	**$ 1.60**	$ 1.72		**$ 1.66**	$ (0.06)	(3.5%)
Adjusted earnings per share - Diluted[1]	**$ 1.59**	$ 1.71		**$ 1.64**	$ (0.05)	(3.2%)

Notes:

1. See the section below entitled "Non-IFRS Measures" for further details concerning how the Company calculates EBITDA, Operating EBITDA, Adjusted Net Income and Basic and Diluted Adjusted EPS, Pro-forma 2018 and for reconciliation to the most comparable IFRS measure.
2. On January 1, 2019, the Company adopted the new accounting standard, IFRS 16, and comparative figures have not been restated. The impact of adoption of this standard is discussed under the heading "Current and Future Accounting Standards". As a result, the financial results and the non-IFRS measures for 2019 have been impacted compared to 2018. The IFRS 16 pro-forma adjustments relate to the impact of IFRS 16 on 2018, assuming the standard had been adopted on January 1, 2018. This estimated impact on 2018 has been calculated based on the lease information available as of January 1, 2019, and using similar accounting policies and assumptions as in place upon adoption of the standard on January 1, 2019.
3. On January 1, 2019, the Company reclassified depreciation and amortization expense to Cost of Sales and General and Administrative expenses respectively. These figures have been have been updated for comparative purposes.

Outlook

Management continues to make significant investments to strengthen the Company's omnichannel capabilities, grow its customer base and increase its market share. These investments support the Company's long-term, profitable growth strategy and reinforce its position as Canada's premier omnichannel sleep retailer. Key initiatives planned for 2020 include the following:

- opening a minimum of eight new stores;
- renovating 25 to 30 stores to feature the enhanced store design;
- growing SSS (See "Non-IFRS Measures") by optimizing the omnichannel experience through the following initiatives:
    - the revitalized eCommerce website, offering the full lineup of mattresses and a wider assortment of Accessories to enhance the customer experience;
    - investing in sales training and in-store customer experience; and
    - continuing to expand merchandising opportunities in mattresses and sleep Accessories.
- continuing to focus on brand messaging "All for Sleep" and implementing specific tactics including targeted advertising aimed at aggressively capturing more market share;
- continuing to grow Endy's online sales;
- increasing digital marketing spend to drive engagement across the marketing funnel and traffic to the Company's website and stores;
- continuing to invest in advertising the Endy brand using digital advertising channels enhanced with additional traditional media channels to broaden awareness in all Canadian markets; and
- capital expenditures will be driven mainly by investments in a new in-store Point of Sale system, a new warehouse management system, new ERP system, new stores, store renovations and maintenance capital expenditures.

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 2019 and 2018.

					Q4					**Annual**
(C$ thousands unless otherwise stated; except earnings per share)		**2019[2]**		**2018**	**Change**		**2019[2]**		**2018**	**Change**
Consolidated Income Statement										
Revenues	**$**	**186,490**	$	160,104	16.5%	**$**	**712,372**	$	622,977	14.3%
Cost of sales		**126,839**		112,669	12.6%		**489,082**		442,615	10.5%
Gross profit		**59,651**		47,435	25.8%		**223,290**		180,362	23.8%
General and administrative expenses		**34,762**		27,199	27.8%		**125,826**		93,760	34.2%
Income before finance related expenses, interest income and other expenses (income) and income taxes		**24,889**		20,236	23.0%		**97,464**		86,602	12.5%
Finance related expenses		**5,306**		1,287	312.3%		**21,149**		4,475	372.6%
Interest income and other expenses (income) - net		**(102)**		––			**(788)**		(89)	785.4%
Net Income before provision for income taxes		**19,685**		18,949	3.9%		**77,103**		82,216	(6.2%)
Provision for income taxes		**5,658**		5,636	0.4%		**21,643**		22,575	(4.1%)
Net income	**$**	**14,027**	$	13,313	5.4%	**$**	**55,460**	$	59,641	(7.0%)
EBITDA[1]	**$**	**39,366**	$	24,300	62.0%	**$**	**151,914**	$	101,422	49.8%
Operating EBITDA[1]	**$**	**41,310**	$	25,896	59.5%	**$**	**155,932**	$	105,775	47.4%
Operating EBITDA Margin[1]		**22.2%**		16.2%			**21.9%**		17.0%	
Adjusted Net Income[1]	**$**	**15,744**	$	14,776	6.6%	**$**	**59,251**	$	63,861	(7.2%)
Earnings per share – Basic	**$**	**0.38**	$	0.36	5.6%	**$**	**1.50**	$	1.61	(6.8%)
Earnings per share – Diluted	**$**	**0.38**	$	0.36	5.6%	**$**	**1.49**	$	1.59	(6.3%)
Adjusted earnings per share - Basic[1]	**$**	**0.43**	$	0.40	7.5%	**$**	**1.60**	$	1.72	(7.0%)
Adjusted earnings per share - Diluted[1]	**$**	**0.42**	$	0.40	5.0%	**$**	**1.59**	$	1.71	(7.0%)
Dividends declared per share	**$**	**0.195**	$	0.185	5.4%	**$**	**0.770**	**$**	0.720	6.9%
				31-Dec-19					**31-Dec-18**	
Total assets	$			**917,052**		$			**602,106**	
Lease Liabilities and Long-term debt[3]	$			**446,196**		$			**170,036**	

Notes:

1. See the section below entitled "Non-IFRS Measures" for further details concerning how the Company calculates EBITDA, Operating EBITDA, Adjusted Net Income and Basic and Diluted Adjusted EPS and for a reconciliation to the most comparable IFRS measure.
2. On January 1, 2019, the Company adopted the new accounting standard, IFRS 16, and comparative figures have not been restated. The impact of the adoption of this standard is discussed under the heading "Current and Future Accounting Standards". As a result, the financial results and the non-IFRS measures for Q4 2019 and 2019 have been impacted compared to Q4 2018 and 2018.
3. On January 1, 2019, the Company adopted the new accounting standard, IFRS 16. Due to this adoption, as at December 31, 2019, the Company's total lease liabilities and long-term debt balance increased by $271,112 for lease liabilities with a corresponding increase by $263,777 for right-of-use assets.

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 2018 and 2017.

					Q4					Annual
(C$ thousands unless otherwise stated; except earnings per share)		**2018**		2017[(2)]	Change[(3)]		**2018**		2017[(2)]	Change[(3)]
Consolidated Income Statement										
Revenues	**$**	**160,104**	$	153,620	4.2%	**$**	**622,977**	$	586,948	6.1%
Cost of sales		**112,669**		109,027	3.3%		**442,615**		419,834	5.4%
Gross profit		**47,435**		44,593	6.4%		**180,362**		167,114	7.9%
General and administrative expenses		**27,199**		23,200	17.2%		**93,760**		82,397	13.8%
Income before finance related expenses, interest income and other expenses (income) and income taxes		**20,236**		21,393	(5.4%)		**86,602**		84,717	2.2%
Finance related expenses		**1,287**		922	39.6%		**4,475**		3,687	21.4%
Interest income and other expenses (income) - net		**–**		71	(100.0%)		**(89)**		(17)	423.5%
Net Income before provision for income taxes		**18,949**		20,400	(7.1%)		**82,216**		81,047	1.4%
Provision for income taxes		**5,636**		5,551	1.5%		**22,575**		21,801	3.6%
Net income	**$**	**13,313**	$	14,849	(10.3%)	**$**	**59,641**	$	59,246	0.7%
EBITDA[(1)]	**$**	**24,300**	$	24,699	(1.6%)	**$**	**101,422**	$	97,101	4.5%
Operating EBITDA[(1)]	**$**	**25,896**	$	25,750	0.6%	**$**	**105,775**	$	100,022	5.8%
Operating EBITDA Margin[(1)]		**16.2%**		16.8%			**17.0%**		17.0%	
Adjusted Net Income[(1)]	**$**	**14,776**	$	15,900	(7.1%)	**$**	**63,861**	$	62,167	2.7%
Earnings per share – Basic	**$**	**0.36**	$	0.40	(10.0%)	**$**	**1.61**	$	1.58	1.9%
Earnings per share – Diluted	**$**	**0.36**	$	0.39	(7.7%)	**$**	**1.59**	$	1.56	1.9%
Adjusted earnings per share - Basic[(1)]	**$**	**0.40**	$	0.42	(4.8%)	**$**	**1.72**	$	1.65	4.2%
Adjusted earnings per share - Diluted[(1)]	**$**	**0.40**	$	0.42	(4.8%)	**$**	**1.71**	$	1.64	4.3%
Dividends declared per share	**$**	**0.185**	**$**	0.165	12.1%	**$**	**0.720**	**$**	0.645	10.8%
				31-Dec-18					**31-Dec-17[(2)]**	
Total assets	$			**602,106**		$			**482,499**	
Lease Liabilities and Long-term debt	$			**170,036**		$			**107,147**	

Notes:

1. See the section below entitled "Non-IFRS Measures" for further details concerning how the Company calculates EBITDA, Operating EBITDA, Adjusted Net Income and Basic and Diluted Adjusted EPS and for reconciliation to the most comparable IFRS measure.
2. On January 1, 2018, the Company adopted IFRS 15 and as a result the financial results and the non-IFRS measures for 2017 have been restated. The adoption has no material impact on the financial results of the Company and has no impact on the EPS.
3. See the Management Discussion and Analysis for year ended December 31, 2018 for discussion related to performance analysis.

7. Fourth Quarter 2019 versus Fourth Quarter 2018

Revenues

Revenues increased by 16.5% from $160.1 million in Q4 2018 to $186.5 million in Q4 2019 mainly due to the addition of 12 new stores in 2019, wrap stores, the inclusion of revenue from Endy since its acquisition in December 2018 and growth in SSS (excluding Endy) of 1.9%. See "Non-IFRS Measures".

The increase in total revenue was comprised of an increase in both mattresses sales and Accessories sales.

				Q4
(C$ millions unless otherwise stated)	**2019**	**2018**	**Change**	**Change (%)**
Mattresses	**$ 146.2**	$ 126.7	$ 19.5	15.4%
Accessories	**40.3**	33.4	6.9	20.6%
Total	**$ 186.5**	$ 160.1	$ 26.4	16.5%

Gross profit

Gross profit was $59.7 million in Q4 2019 compared to $47.4 million in Q4 2018, representing an increase of $12.3 million. Gross profit margin increased by 2.4% to 32.0% for Q4 2019 from 29.6% for Q4 2018 primarily as a result of the following factors on a net basis:

- inventory and other directly related expenses, net of volume rebates, increased as a percentage of revenue to 45.4% from 44.7%, mainly as a result of lower volume rebates; partially offset by lower direct product costs;
- sales and distribution compensation expenses were 12.9% of revenue in Q4 2019 compared to 14.5% of revenue in Q4 2018 mainly due to the favorable impact of no sales and distribution compensation expense incurred for revenue generated through Endy's online platform, in addition to lower sales compensation expenses incurred for SCC as a percentage of sales in Q4 2019 over Q4 2018;
- store occupancy costs decreased as a percentage of revenue to 3.3% compared to 9.0% of revenue in Q4 2018 or $8.1 million. This was mainly driven by the adoption of IFRS 16 which, effective January 1, 2019, eliminated the base rent charges for leased stores previously included as part of store occupancy costs; and
- depreciation increased to 5.8% of revenue in Q4 2019 from 1.6% of revenue in Q4 2018 or $8.4 million. The majority of this increase relates to the adoption of IFRS 16 on January 1, 2019, subsequent to which, the Company's leased stores are reclassified from operating leases to Right-of-use ("**ROU**") assets and depreciated. In addition, incremental depreciation resulting from new store openings, the new ERP system, and store renovations also contributed to the increase.

General and administrative ("G&A") expenses

Total G&A expenses increased by $7.6 million, or 27.8%, from $27.2 million in Q4 2018 to $34.8 million in Q4 2019; and, as a percentage of revenue, G&A increased from 17.0% of revenue in Q4 2018 to 18.6% of revenue in Q4 2019. The G&A expenses for Q4 2019 compared to Q4 2018 were mainly impacted by the inclusion of the results of Endy in Q4 2019 and the adoption of IFRS 16 effective January 1, 2019.

								Q4
(C$ millions unless otherwise stated)		**2019**	% of revenue		2018	*% of revenue*		Change
Media and advertising expenses[1]	$	**13.5**	**7.2%**	$	10.9	6.8%	$	2.6
Salaries, wages and benefits[2]		**7.0**	**3.8%**		5.1	3.2%		1.9
Credit card and finance charges[3]		**5.0**	**2.7%**		4.0	2.5%		1.0
Occupancy charges[4]		**1.2**	**0.6%**		2.2	1.4%		(1.0)
Professional fees[5]		**1.1**	**0.6%**		0.8	0.5%		0.3
Telecommunication and information technology		**1.8**	**0.9%**		1.0	0.6%		0.8
Mattress recycling and Donations		**0.5**	**0.3%**		0.8	0.5%		(0.3)
Depreciation and amortization[6]		**3.6**	**1.9%**		1.5	1.0%		2.1
Other		**1.1**	**0.6%**		0.9	0.6%		0.2
Total G&A expenses	$	**34.8**	**18.6%**	$	**27.2**	17.0%	$	7.6

Notes:

1. Media and advertising expenses increased by $2.6 million mainly due to the inclusion of advertising expense related to Endy in Q4 2019 and an increase in TV advertising; partially offset by a decrease in internet and newspaper advertising spend during the quarter.
2. Salaries, wages and benefits increased by $1.9 million mainly as a result of the inclusion of compensation expense related to Endy in Q4 2019.
3. Credit card and finance charges are variable costs. These costs increased as a percentage of revenue over Q4 2018 by 0.2% mainly due to the impact of inclusion of expenses related to Endy and providing customers with longer term financing options.
4. Occupancy charges in Q4 2019 include common area maintenance costs, property taxes and other maintenance costs for the distribution centres and office space. Occupancy charges decreased by $1.0 million in Q4 2019 compared to Q4 2018 mainly due the adoption of IFRS 16, which, effective January 1, 2019, eliminated the base rent charges for leased distribution centres previously included as part of occupancy costs now recorded in depreciation expense; partially offset by an increase in occupancy costs related to Endy.
5. Professional fees increased by $0.3 million due to non-recurring professional fees incurred in relation to the ERP project in Q4 2019.
6. The G&A depreciation expense increased by $2.1 million mainly due to an increase in intangible depreciation tied to the revamped eCommerce platform and Finance and Merchandising module of the ERP implementation which was completed in Q4 2019.

EBITDA

EBITDA was $39.4 million for Q4 2019 compared to $24.3 million for Q4 2018, representing an increase of $15.1 million (or 62.0%). See "Non-IFRS Measures".

The Q4 2019 EBITDA was positively impacted by the adoption of IFRS 16 effective January 1, 2019. Starting January 1, 2019, the base rent expense related to all leases, which are mainly comprised of store leases and distribution centres and office leases, are no longer recognized as rental expense, thereby positively impacting EBITDA. The Highlights of Results in Q4 2019 includes a table that computes the pro-forma results of Q4 2018, adjusted for the impact of IFRS 16. After adjusting for the impact of IFRS 16, the Pro-forma EBITDA was $34.6 million for Q4 2018 compared to $39.4 million for Q4 2019, representing an increase of $4.7 million (or 13.7%).

Operating EBITDA

Operating EBITDA was $41.3 million for Q4 2019 or 22.2% of revenue, compared to $25.9 million for Q4 2018, or 16.2% of revenue, representing an increase of $15.4 million (or 59.5%). See "Non-IFRS Measures".

The Q4 2019 Operating EBITDA was positively impacted mainly by the adoption of IFRS 16 as noted above. The Highlights of Results in Q4 2019 includes a table that computes the pro-forma results of Q4 2018, adjusted for the impact of IFRS 16. After adjusting for the impact of IFRS 16, the Pro-forma Operating EBITDA for Q4 2018 was $36.2 million or 22.6% of revenue. When compared to pro-forma Q4 2018, the Q4 2019 Operating EBITDA increased by $5.1 million (or 14.0%).

Finance related expenses

Finance related expenses increased by $4.0 million from $1.3 million in Q4 2018 to $5.3 million in Q4 2019 due to the following reasons:

- the adoption of IFRS 16 effective January 1, 2019 increased interest expense on lease liabilities by $2.8 million;
- interest expense of $0.6 million due to the accretion of the contingent consideration related to the Endy acquisition in December 2018; and
- an increase of $0.6 million in interest expense on the senior secured credit facility. The Company's average debt balance increased mainly due to the additional debt taken to finance the acquisition of Endy in December 2018.

Income taxes

The Net income before income taxes in Q4 2019 increased by $0.8 million from $18.9 million in Q4 2018 to $19.7 million in Q4 2019. This resulted in an increase in income tax expense by $0.1 million to $5.7 million in Q4 2019.

Net income

The Net income for Q4 2019 increased by $0.7 million to $14.0 million compared to $13.3 million in Q4 2018 (Q4 2019 - $0.38 per share; Q4 2018 - $0.36 per share). This increase was mainly driven by a favourable impact to gross profit in Q4 2019. This improvement was offset partly by an increase in G&A expenses and finance related expenses relating to IFRS 16 accounting for leases in 2019 that are not reflected in the 2018 results.

Adjusted Net Income

Adjusted Net Income for Q4 2019 increased by $0.9 million (or 6.6%) from $14.8 million ($0.40 per share) in Q4 2018 to $15.7 million ($0.43 per share) in Q4 2019.

8. Annual Financial Results 2019 versus 2018

Revenues

Revenues increased by 14.3% from $623.0 million in 2018 to $712.4 million in 2019 due to the addition of 12 new stores since December 31, 2018, wrap stores, the inclusion of revenue from Endy since its acquisition in December 2018 and growth in SSS (excluding Endy) of 0.3%. See "Non-IFRS Measures".

The increase in total revenue was comprised of an increase in both mattresses sales and Accessories sales.

(C$ millions unless otherwise stated)	**2019**	**2018**	**Change**	**Annual Change (%)**
Mattresses	**$ 564.7**	$ 496.6	$ 68.1	13.7%
Accessories	**147.7**	126.4	21.3	16.9%
Total	**$ 712.4**	$ 623.0	$ 89.4	14.3%

Gross profit

Gross profit was $223.3 million in 2019 compared to $180.4 million in 2018, representing an increase of $42.9 million. Gross profit margin increased by 2.3% to 31.3% for 2019 from 29.0% in 2018 primarily as a result of the following factors on a net basis:

- inventory and other directly related expenses, net of volume rebates, decreased as a percentage of revenue to 45.1% from 45.3% mainly as a result of achieving higher raw product margins, net of volume rebates; partially offset by higher delivery expenses related to sales made by Endy;
- sales and distribution compensation expenses were 13.8% of revenue in 2019 compared to 14.8% of revenue in 2018 mainly due to the favorable impact of no sales and distribution compensation expense incurred for revenue generated through Endy's online platform. This was partially offset slightly by higher sales compensation expenses incurred for SCC;
- store occupancy costs decreased as a percentage of revenue to 3.3% from 8.9% or $31.7 million. This was mainly driven by the adoption of IFRS 16 which, effective January 1, 2019, eliminated the base rent charges for leased stores previously included as part of store occupancy costs; and
- depreciation increased to 6.0% of revenue in 2019 from 1.5% of revenue in 2018 or $33.5 million. The majority of this increase relates to the adoption of IFRS 16 on January 1, 2019, subsequent to which, the Company's leased stores are reclassified from operating leases to ROU assets and depreciated. In addition, incremental depreciation resulting from new store openings and store renovations also contributed to the increase.

General and administrative ("G&A") expenses

Total G&A expenses increased by $32.0 million, or 34.2%, from $93.8 million in 2018 to $125.8 million in 2019 and, as a percentage of revenue, G&A increased from 15.1% in 2018 to 17.7% in 2019. The G&A expenses for 2019 compared to 2018 were mainly impacted by the inclusion of the results of Endy in 2019 since its acquisition in December 2018 and the adoption of IFRS 16 effective January 1, 2019.

							Q4
(C$ millions unless otherwise stated)		**2019**	**% of revenue**		2018	% of revenue	Change
Media and advertising expenses[1]	$	**52.7**	**7.4%**	$	33.8	5.4%	$ 18.9
Salaries, wages and benefits[2]		**24.8**	**3.5%**		19.9	3.2%	4.9
Credit card and finance charges[3]		**18.6**	**2.6%**		14.8	2.4%	3.8
Occupancy charges[4]		**4.3**	**0.6%**		8.1	1.3%	(3.8)
Professional fees		**2.4**	**0.3%**		2.2	0.4%	0.2
Telecommunication and information technology[5]		**5.4**	**0.8%**		3.9	0.6%	1.5
Mattress recycling and Donations		**2.3**	**0.3%**		2.3	0.4%	–
Depreciation and amortization[6]		**11.8**	**1.7%**		5.6	0.9%	6.2
Other[7]		**3.5**	**0.5%**		3.2	0.5%	0.3
Total G&A expenses	$	**125.8**	**17.7%**	$	93.8	15.1%	$ 32.0

Notes:

1. Media and advertising expenses increased by $18.9 million mainly due to the inclusion of advertising expenses related to Endy since its acquisition in December 2018.
2. Salaries, wages and benefits increased by $4.9 million mainly as a result of the inclusion of compensation expense related to Endy in 2019 since its acquisition in December 2018; partially offset by a decrease to the share-based compensation expense.
3. Credit card and finance charges are variable costs. These costs increased as a percentage of revenue over 2018 by 0.2% mainly due to the impact of inclusion of expenses related to Endy and providing customers with longer term financing options.
4. Occupancy charges in 2019 include common area maintenance costs, property taxes and other maintenance costs for the distribution centres and office space. Occupancy charges decreased by $3.8 million in 2019 compared to 2018 mainly due the adoption of IFRS 16, which, effective January 1, 2019, eliminated the base rent charges for leased distribution centres previously included as part of occupancy costs now recorded in depreciation expense; partially offset by an increase in occupancy cost related to Endy.
5. Telecommunication and information technology costs increased by $1.5 million mainly due to additional software support expenses incurred as part of the new ERP system as well as the inclusion of Endy.
6. The G&A depreciation expense increased by $6.2 million mainly due to the adoption of IFRS 16, as a result of which, effective January 1, 2019, the Company's leased distribution centres and offices are reclassified from operating leases to ROU assets and depreciated. There was additional depreciation and amortization expense related to Endy since its acquisition in December 2018 and additional depreciation on new leasehold improvements made to the distribution centres for offices.
7. Other expenses increased by $0.3 million mainly due to the inclusion of the results of Endy in 2019 since its acquisition in December 2018.

EBITDA

EBITDA was $151.9 million for 2019 compared to 101.4 million for 2018, representing an increase of $50.5 million (or 49.8%). See "Non-IFRS Measures".

The 2019 EBITDA was positively impacted by the adoption of IFRS 16 effective January 1, 2019. Starting January 1, 2019, the base rent expense related to all leases, which are mainly comprised of store leases and distribution centres and office leases, is not expensed, thereby positively impacting EBITDA. The Highlights of Results in 2019 includes a table that computes the pro-forma results of 2018, adjusted for the impact of IFRS 16. After adjusting for the impact of IFRS 16, the Pro-forma EBITDA was $140.7 million for 2018 compared to $151.9 million for 2019, representing an increase of $11.2 million (or 8.0%).

Operating EBITDA

Operating EBITDA was $155.9 million for 2019, or 21.9% of revenue, compared to $105.8 million for 2018, or 17.0% of revenue, representing an increase of $50.1 million (or 47.4%). See "Non-IFRS Measures".

The 2019, Operating EBITDA was positively impacted by the adoption of IFRS 16 as noted above. The Highlights of Results in 2019 includes a table that computes the pro-forma results of 2018, adjusted for the impact of IFRS 16. After adjusting for the impact of IFRS 16, the Pro-forma Operating EBITDA for 2018 was $145.0 million, or 23.3% of revenue. When compared to pro-forma 2018, the 2019 Operating EBITDA increased by $10.9 million (or 7.5%).

Finance related expenses

Finance related expenses increased by $16.6 million from $4.5 million in 2018 to $21.1 million in 2019 due to the following reasons:

- the adoption of IFRS 16 effective January 1, 2019, which increased interest expense on lease liabilities by $11.6 million;
- interest expense of $2.4 million due to the accretion of the contingent consideration related to the Endy's acquisition in December 2018; and
- an increase of $2.9 million in interest expense on the senior secured credit facility. The Company's incurred a higher effective interest rate of 4.07% in 2019 compared to 3.70% in 2018. Additionally, the Company's average debt balance mainly increased due to the additional debt taken to finance the acquisition of Endy in December 2018.

Income taxes

2019 had an income tax expense of $21.6 million versus $22.6 million for 2018 representing a decrease of 4.1%. The effective tax rate for 2019 was at 28.07% compared to 27.46% for 2018. The main reason for the increase in the effective tax rate was due to a decrease in non-deductible stock compensation expenses in 2019 compared to 2018.

Net income

The net income for 2019 was $55.5 million ($1.50 per share) compared to $59.6 million ($1.61 per share) in 2018 representing a decrease of $4.1 million (or 7.0%). The decrease was mainly as a result of higher G&A expenses and finance related expenses in 2019 compared to 2018, partially offset by the favorable impact of increase in gross profit, decrease in income tax expense and an increase in other income as a result of insurance compensation received.

Adjusted net income

Adjusted Net Income for 2019 was $59.3 million ($1.60 per share) compared to $63.9 million ($1.72 per share) for 2018. A decrease of $4.6 million (or 7.2%), mainly as a result of lower net income and lower stock compensation expense incurred in 2019 compared to 2018. Lower stock compensation expense was due to the forfeiture of options and performance share units upon departure of employment of eligible associates.

9. Summary of Quarterly Results

The Company's revenue is impacted by seasonality, with the third quarter typically generating the greatest contribution to revenues, and the first quarter the least. 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.

					2019					**2018**
(C$ thousands unless otherwise stated)	**Q4**	**Q3**	**Q2**	**Q1**	**TOTAL**	**Q4**	**Q3**	**Q2**	**Q1**	**TOTAL**
Revenues	**$ 186,490**	$ 209,973	$ 166,587	$ 149,322	**$ 712,372**	$ 160,104	$ 183,899	$ 143,693	$ 135,281	$ 622,977
SSS[1]	**1.9%**	0.5%	1.9%	(3.4%)	**0.3%**	(2.7%)	0.2%	4.4%	5.1%	1.4%
Gross profit[2]	**$ 59,651**	$ 71,569	$ 49,705	$ 42,365	**$ 223,290**	$ 47,435	$ 59,903	39,047	$ 33,977	$ 180,362
Gross profit margin[2]	**32.0%**	34.1%	29.8%	28.4%	**31.3%**	29.6%	32.6%	27.2%	25.1%	29.0%
EBITDA[1]	**$ 39,366**	$ 48,680	$ 35,276	$ 28,591	**$ 151,914**	$ 24,300	$ 36,772	$ 21,766	$ 18,584	$ 101,422
Operating EBITDA[1]	**$ 41,310**	$ 49,551	$ 35,620	$ 29,450	**$ 155,932**	$ 25,896	$ 37,693	$ 22,893	$ 19,293	$ 105,775
Operating EBITDA Margin	**22.2%**	23.6%	21.4%	19.7%	**21.9%**	16.2%	20.5%	15.9%	14.3%	17.0%
Net income	**$ 14,027**	$ 21,483	$ 12,175	$ 7,775	**$ 55,460**	$ 13,313	$ 23,729	$ 12,279	$ 10,320	$ 59,641
Adjusted Net Income[1]	**$ 15,744**	$ 22,354	$ 12,519	$ 8,634	**$ 59,251**	$ 14,776	$ 24,650	$ 13,406	$ 11,029	$ 63,861
Earnings per share – Basic	**$ 0.38**	$ 0.58	$ 0.33	$ 0.21	**$ 1.50**	$ 0.36	$ 0.64	$ 0.33	$ 0.28	$ 1.61
Earnings per share – Diluted	**$ 0.38**	$ 0.57	$ 0.33	$ 0.21	**$ 1.49**	$ 0.36	$ 0.63	$ 0.33	$ 0.28	$ 1.59
Adjusted earnings per share – Basic[1]	**$ 0.43**	$ 0.60	$ 0.34	$ 0.23	**$ 1.60**	$ 0.40	$ 0.67	$ 0.36	$ 0.30	$ 1.72
Adjusted earnings per share – Diluted[1]	**$ 0.42**	$ 0.60	$ 0.33	$ 0.23	**$ 1.59**	$ 0.40	$ 0.66	$ 0.36	$ 0.29	$ 1.71

Notes:

1. See the section below entitled "Non-IFRS Measures" for further details concerning how the Company calculates SSS, EBITDA, Operating EBITDA, Adjusted Net Income and Basic and Diluted Adjusted EPS and for a reconciliation to the most comparable IFRS measure. The SSS measure does not include Endy.
2. On January 1, 2019, the Company reclassified depreciation and amortization expense to Cost of Sales and General and Administrative expenses respectively. The prior period figures have been updated for comparative purposes.

10. Segment Performance

As at December 31, 2019, the Company manages its business on the basis of two operating segments, SCC and Endy, which is consistent with the internal reporting provided to the chief operating decision-maker, the Chief Executive Officer. The Company has only one reportable segment as the operating segments meet the aggregation criteria of IFRS 8. The Company aggregates these reporting segments because the nature of products, services, methods of distribution and economic characteristics are similar. The Company operates in Canada, which is its country of domicile.

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 expenses, debt principal payments, dividends, business acquisitions and share repurchases. Historically, SCC has experienced higher sales and EBITDA in the second 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 2019 and 2018:

(C$ thousands unless otherwise stated)	**2019**	**2018**
Cash flows from operating activities	**$ 132,060**	$ 68,100
Cash flows used in investing activities	**(35,449)**	(93,157)
Cash flows (used in)/provided by financing activities	**(82,559)**	31,425
Net increase in cash	**14,052**	6,368
Cash at beginning of the year	**29,988**	23,620
Cash at end of the period	**$ 44,040**	$ 29,988

Net cash flows from operating activities

Net cash flows generated from operating activities in 2019 were $132.1 million comprised of the positive impact of cash generated from operating activities of $136.9 million offset by $4.8 million of cash used as a result of an increase in non-cash items relating to operating activities ("working capital"). The increase in working capital in 2019 was primarily driven by higher trade and other receivables, inventories and prepaid expenses and deposits, partially offset by higher trade and other payables and customer deposits.

Net cash flows generated by operating activities in 2018 were $68.1 million in 2018 comprised of the positive impact of cash generated from operating activities of $85.8 million offset by $17.7 million of cash used as a result of an increase in non-cash items relating to working capital. The increase in working capital in 2018 was primarily driven by higher inventories, higher prepaid expenses and deposits, lower trade and other payables, partially offset by higher customer deposits and lower trade and other receivables.

Net cash flows used in investing activities

Net cash flows used in investing activities in 2019 consist mainly of investments in capital expenditure mainly due to new store openings, store renovations, initial spend on the investment in the new ERP system and eCommerce platform and on store hardware refresh.

Net cash flows used in investing activities were 93.2 million for 2018, consisting primarily of $66.0 million used in the acquisition of Endy. The remaining change in 2018 mainly related to investments in capital expenditure mainly due to new store openings and store renovations.

Net cash flows used in/provided by financing activities

Net cash flows used in financing activities were $82.6 million for 2019, consisting primarily of dividends on the common shares of $29.2 million, repurchase of its common shares $10.0 million, repayment of lease obligation of $32.0 million and interest payments of $18.5 million on lease liabilities and the senior secured credit facility; partially offset by net additional loan of $7.2 million taken in 2019 through the senior secured credit facility.

Net cash flows from financing activities were $31.4 million for 2018, consisting primarily of additional loans taken on the senior secured credit facility $63.6 million, partly offset by dividends on the common shares of $26.7 million, interest payments of $5.0 million on the senior secured credit facility and finance leases.

Contractual obligations

The following table summarizes the Company's significant contractual obligations as at December 31, 2019 based on undiscounted cash flow including the estimated interest payable as per the terms of the long-term debt:

	Within 1 year	Between 1 and 5 years	Over 5 years
Trade and other payables	$ 68,156	$ —	$ —
Lease liabilities	45,220	133,190	63,333
Long-term debt	7,155	196,618	—
	$ 120,531	$ 329,808	$ 63,333

The existing credit facility represents a senior secured credit facility with a balance outstanding as at December 31, 2019 of $175.1 million (December 31, 2018 - $168.6 million).

Executive employment agreements allow for total additional payments of approximately $6,124 if a liquidity event occurs, $3,946 if all are terminated without cause, $nil if all are terminated with cause and $2,606 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 advisers and consultants, leasing contracts, licence 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, 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, 2018, SCC held a senior secured credit facility of $150,000, which was scheduled to mature on August 30, 2022. On November 29, 2018, in connection with the purchase of Endy, the senior secured credit agreement was amended. Pursuant to this amendment, the facility was increased from $150,000 to $210,000 and the maturity date was extended to November 29, 2023.

The senior secured credit facility is secured by all of the present and after acquired personal property of the Company. As at December 31, 2019, the balance outstanding on the senior secured credit facility was $175,800 (2018 – $168,600). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $716 (2018 – $1,027).

The senior secured credit facility allows for the debt to be held in Canadian or US dollars. During the year, the Company held the majority of the debt in US dollars for 337 days as the debt held in US dollars had a lower interest rate. 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 income and comprehensive income. As at December 31, 2019, 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, 2019, the applicable margin for bankers’ acceptances was 200 basis points and the applicable margin for prime rate loans was 100 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, 2019, 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, 2019 and December 31, 2018, nor did it have any subsequent to December 31, 2019.

Related party transactions

As at December 31, 2019 and December 31, 2018, there were no balances due from or payable to a related party.

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)	**2019**	2018
Salaries and short-term employee benefits	**$ 2,868**	$ 2,785
Share-based compensation	**2,542**	3,655
Directors fees	**578**	669
	$ 5,988	$ 7,109

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, capital risk and technology 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 counter-parties.

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 $1.8 million increase (or decrease) on annual interest expense on the credit facility. SCC has 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 counter-parties 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 company that SCC deals with carries 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, purchase its own shares or sell assets to reduce long-term debt.

Technology Risk

The company continues to undertake investments in new IT systems to improve the operating effectiveness of the organization. Beginning 2019, this includes implementation of a new cloud based eCommerce platform, a new in-store Point of Sale system, a new warehouse management system and new ERP system. Failure to successfully migrate from legacy systems to the new IT system or a significant disruption in the company's current IT systems during the implementation of the new systems could result in a lack of accurate data to enable management to effectively manage day to day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses.

14. Critical Accounting Estimates

A summary of significant accounting policies is included in Note 3 of SCC's 2019 audited annual consolidated financial statements. The Company's critical accounting estimates are included in Note 4 of SCC's 2019 audited annual consolidated financial statements and are described below. Critical accounting estimates requires management to make certain judgements 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, 2019 and December 31, 2018, impairment reviews were performed by comparing the CGU's carrying value with the recoverable amount of the CGU to which goodwill and brands have been allocated. Management has determined there had been no impairment as at December 31, 2019 and 2018.

15. Financial Instruments

At December 31, 2019, the financial instruments consisted of cash, trade and other receivables, trade and other payables, customer deposits, senior secured credit facilities, contingent consideration liability and 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, 2019 and December 31, 2018. 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".

Fair values of contingent consideration liability

The fair value of the contingent consideration liability recorded on the consolidated statements of financial position as at December 31, 2019 was $17,538. The estimated range of outcomes (undiscounted) for the contingent consideration arrangement is determined based on the formula price and the likelihood of achieving specified earnings levels over the contingency period, and ranges from $nil to a maximum of $25,000. The consideration is contingent on the acquired business achieving certain specified earnings levels during the period commencing on January 1, 2020 and ending on December 31, 2020. During the year ended December 31, 2019, $nil was paid with reference to such contingent consideration (2018 – $nil).

The inputs to the measurement of the fair value of contingent consideration related to acquisitions are Level 3 inputs. The fair value measurements were made using a discounted cash flow model; significant model inputs were expected future operating cash flows (determined with reference to each specific acquired business) and a discount rate of 15.0%. The discount rates is attributable to level of risk related to economic growth factors combined with the length of the contingent payment periods; and the dispersion was driven by unique characteristics of the businesses acquired and the respective terms for these contingent payments. A 1% increase in the weighted average discount rate would reduce the fair value of contingent consideration by $260.

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.

The Company's system of disclosure controls and procedures includes, but is not limited to, the Company's Disclosure Policy, the Company's Code of Business Conduct, the effective functioning of the Company's 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, 2019. Although the Company's disclosure controls and procedures were operating effectively as of December 31, 2019, 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"). The Company's 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. The Company's procedures for financial reporting also include the active involvement of qualified financial professionals, senior management, executive management and the 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 controls 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, 2019 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, 2019 and that no material weaknesses were identified through their evaluation.

18. Current and Future Accounting Standards

IFRIC 23 – Uncertainty over Income Tax Treatments

On January 1, 2019, the Company adopted IFRIC 23, uncertainty over Income Tax Treatment, which clarified how to apply the recognition and measurement requirement in IAS 12, Income Tax, when there is uncertainty over income tax treatments. There are no significant adjustments to the amounts recognized in the consolidated financial statements. .

IFRS 16 - Leases

On January 1, 2019, the Company adopted the new accounting standard IFRS 16 – Leases (IFRS 16), using the modified retrospective approach, and comparative figures have not been restated. A lease is a contract in which the right-of-use of an asset is granted for an agreed upon time in return for compensation. Lease liabilities are recorded on the present value of the non-cancellable lease payments over the lease term and discounted at the Company's incremental borrowing rate. Lease payments include fixed payments and variable payments. The right-of-use assets are measured at cost, which comprises the lease liability, lease payments made prior to delivery, initial direct costs and restoration obligations less lease incentives. The right-of-use assets are subsequently measured at amortized cost. The assets are depreciated over the term of the lease using the straight-line method. The Company has elected to use the relief practical expedient provided for low-value assets and short-term leases (shorter than 12 months), which are expensed in the consolidated statements of income and comprehensive income according to the straight-line method. Extension and termination options exist for a number of leases, particularly for properties. The Company assesses all facts and circumstances available in determining the probability of exercising available extension and termination options. The Company includes the extension option in calculating the lease term when it determines that it is reasonably certain that the Company will exercise the available extension option. The Company reassesses whether an extension option is included in the lease term when there is a change in events and circumstances that affects that decision, and re-measures the lease liability upon change in the assessment.

On adoption, a cumulative adjustment was recognized directly to equity as deficit on January 1, 2019 as illustrated in the note below. For leases previously classified as finance leases, the Company recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying value of the right-of-use asset and the lease liability at the date of initial application. The Company chose the practical expedient to grandfather any contracts that were previously considered to be leases. As part of the initial application of IFRS 16, the Company chose, on a lease-by-lease basis, to measure that right-of-use asset at its carrying amount as if the standard had been applied since the lease's commencement date, discounted using the Company's incremental borrowing rate at the date of initial application. In addition, upon adoption, the Company applied a single discount rate to a portfolio of leases with reasonably similar characteristics. The Company chose the practical expedient to not separate the lease component and its associated non-lease components for its trucks. The Company decided not to apply the new standard for leases with remaining lease terms less than 12 months. Additionally, the Company chose the practical expedients to exclude initial direct costs for the measurement of the right-of-use asset and to use hindsight in determining the lease term where the contract includes extension options. The lease payments associated with short-term leases will be recognized as a straight-line expense in the consolidated statements of income and comprehensive income.

The following reconciliation to the opening balance for the leases liabilities as at January 1, 2019 is based upon operating lease obligations as at December 31, 2018:

(C$ thousands unless otherwise stated)		**January 1, 2019**
Operating lease obligations as at December 31, 2018	$	224,342
Adjustments as a result of a different treatment of renewal options		130,772
Undiscounted minimum lease payments on finance lease liabilities as at December 31, 2018		3,685
Gross leases liabilities as at January 1, 2019		358,799
Discounting		(66,829)
Leases Liabilities as at January 1, 2019	$	291,970

The lease liabilities were discounted at the borrowing rate as at January 1, 2019. The weighted average discount rate was 3.86%.

Leases are shown as follows in the audited consolidated statements of financial position and the consolidated statements of income and comprehensive income for year December 31, 2019.

(C$ thousands unless otherwise stated)		**2019**
Lease in the audited consolidated statements of income and comprehensive income:		
Cost of Sales:		
Depreciation - ROU	$	31,976
General and administrative expenses:		
Depreciation - ROU	$	3,748
Interest and other expenses:		
Interest expense on lease liabilities	$	11,562

The ROU assets include assets that were recognized as finance assets with IAS 17 until December 31, 2018. The ROU assets transactions during the period were as follows:

(C$ thousands unless otherwise stated)

ROU Assets		**Properties**		**Trucks**		**Total**
As at January 1, 2019	$	252,613	$	3,403	$	256,016
Add: Additions during the year with a corresponding increase to the lease liability		43,434		46		44,480
Add: Cash additions due to initial direct cost incurred during the year		35		–		35
Less: Tenant inducements received		(1,030)				(1,030)
Less: Depreciation – right-of-use assets		(34,804)		(920)		(35,724)
As at December 31, 2019	$	261,248	$	2,529	$	263,777

(C$ thousands unless otherwise stated)		**2019**
Lease Liabilities:		
As at January 1, 2019	$	291,970
Add: Additions during the period with corresponding increase to the ROU Asset		44,480
Less: Repayment of principal lease liabilities		(32,029)
As at December 31 2019	**$**	**304,421**

Adjustment of opening balances as at January 1, 2019

The adjustments to the opening balances below resulted from the initial application of IFRS 16 as at January 1, 2019. The prior period amounts were not adjusted. The effects on the transition were recognized directly in equity as deficit.

		December 31, 2018				**January 1, 2019**
(C$ thousands unless otherwise stated)		As previously reported		Adjustments		As adjusted
Assets:						
Property and equipment	$	65,710	$	(3,311)	$	62,399
ROU asset	$	–	$	256,016	$	256,016
Liabilities and Shareholder's Equity:						
Long-term debt - Current portion	$	686	$	(686)	$	–
Lease liabilities - Current Liabilities		–		7,143		7,143
Other liabilities	$	28,988	$	(13,003)	$	15,985
Deferred tax liabilities	$	24,789	$	(6,200)	$	18,589
Lease liabilities		–		284,827		284,827
Long-term debt	$	170,036	$	(2,463)	$	167,573
Deficit	$	(49,444)	$	(16,913)	$	(66,357)

19. Outstanding Share Data

As of the date hereof, 36,642,185 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 976,080 options to purchase an equivalent number of common shares, 178,864 performance share units and 34,430 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 "Basic and Diluted 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. The Company has embarked on an omnichannel approach to engaging with customers. This approach allows customers to shop online for home delivery or purchase in any store locations. Due to the customer cross-channel behavior, the Company reports a single comparable sales metrics, inclusive of store and eCommerce channels. SSS calculation excludes sales of excess inventory to third parties. 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 new 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. Endy was acquired in December 2018, and the revenue of Endy is not included in SSS. The revenue of Endy will be included in the SSS calculation starting January 2020.

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;
- ERP implementation costs; and
- acquisition costs

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;
- ERP implementation costs; and
- acquisition costs.

Adjusted EPS – Basic

Adjusted EPS - Basic 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.

Adjusted EPS – Diluted

Adjusted EPS - Diluted 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 adjusted for the effects of dilutive stock options, Performance share units and Deferred share units.

Pro-forma – Q4 2018 and Pro-forma - 2018

Pro-forma – Q4 2018 and Pro-forma - 2018 is defined as the results of the respective 2018 periods as presented in condensed interim consolidated statement of income and comprehensive Income, adjusted for the estimated impact of IFRS 16 as follows:

- base rent expense, which mainly related to stores and distributions center occupancy leases;
- estimated depreciation on the ROU assets;
- estimated interest on lease liabilities; and
- income tax impact of the above adjustments.

The estimated impact of IFRS 16 has been calculated based on the lease information available as of January 1, 2019, and using similar accounting policy on leases, assumptions and practical expedients as in place upon the formal adoption of the standard on January 1, 2019.

Calculation of Non-IFRS Measures

			Q4			Annual
(C$ thousands unless otherwise stated, except earnings per share)	**2019[5]**	**2018[5]**	***Pro-forma*** **2018[6]**	**2019[5]**	**2018[5]**	***Pro-forma*** **2018[6]**
Reconciliation of net income to EBITDA and Operating EBITDA:						
Net income	**$ 14,027**	$ 13,313	**$ 12,762**	**$ 55,460**	$ 59,641	**$ 57,117**
Interest income and other expenses (income) - net	**(102)**	–	**–**	**(788)**	(89)	**(89)**
Finance related expenses	**5,306**	1,287	**3,973**	**21,149**	4,475	**15,056**
Income taxes	**5,658**	5,636	**5,403**	**21,643**	22,575	**21,620**
Depreciation and amortization	**14,477**	4,064	**12,490**	**54,450**	14,820	**46,956**
EBITDA	**39,366**	24,300	**34,628**	**151,914**	101,422	**140,660**
Adjustments to EBITDA:						
ERP Implementation costs[3]	**809**	–	**–**	**809**	–	**–**
Acquisition costs[2]	**–**	502	**502**	**–**	$ 502	**502**
Share-based compensation[1]	**1,135**	1,094	**1,094**	**3,209**	$ 3,851	**3,851**
Total adjustments	**$ 1,944**	$ 1,596	**$ 1,596**	**$ 4,018**	$ 4,353	**$ 4,353**
Operating EBITDA	**$ 41,310**	$ 25,896	**$ 36,224**	**$ 155,932**	$ 105,775	**$ 145,013**
Operating EBITDA margin	**22.2%**	16.2%	**22.6%**	**21.9%**	17.0%	**23.3%**
Reconciliation of net income to Adjusted Net Income:						
Net income	**$ 14,027**	$ 13,313	**$ 12,762**	**$ 55,460**	$ 59,641	**$ 57,117**
Adjustments:						
ERP Implementation costs[3]	**809**	–	**–**	**809**	–	**–**
Acquisition costs[2]	**–**	502	**502**	**–**	$ 502	**502**
Share-based compensation[1]	**1,135**	1,094	**1,094**	**3,209**	$ 3,851	**3,851**
Total adjustments	**$ 1,944**	**$** 1,596	**$ 1,596**	**$ 4,018**	$ 4,353	**$ 4,353**
Tax impact of all adjustments	**$ (227)**	**$** (133)	**$ (133)**	**$ (227)**	(133)	**$ (133)**
Adjusted Net Income	**$ 15,744**	$ 14,776	$ **14,225**	$ **59,251**	$ 63,861	$ **61,337**
Weighted average number of shares – Basic	**36,919**	37,058	**37,058**	**37,076**	37,029	**37,029**
Earnings per share – Basic	**$ 0.38**	**$** 0.36	**$ 0.34**	**$ 1.50**	$ 1.61	**$ 1.54**
Adjusted earnings per share – Basic	**$ 0.43**	**$** 0.40	**$ 0.38**	**$ 1.60**	$ 1.72	**$ 1.66**
Adjusted earnings per share – Diluted[4]	**$ 0.42**	**$** 0.40	**$ 0.38**	**$ 1.59**	$ 1.71	**$ 1.64**

Notes:

1. Adjustment for share-based compensation, a non-cash item, and the related payroll tax expense, a cash expense.
2. Adjustment for one-time professional fees incurred in relation to acquisition of business operations of Endy in December 2018.
3. The Company incurred charges related to its ERP implementation project which commenced in 2019.
4. The weighted average number of diluted shares for Q4 2019 is 37,159; for Q4 2018 is 37,346; 2019 is 37,323 and 2018 is 37,409.

5. On January 1, 2019, the Company adopted the new accounting standard, IFRS 16, and comparative figures have not been restated. The impact of adoption of this standard is discussed under the heading "Current and Future Accounting Standards". As a result, the financial results and the non-IFRS measures for Q4 2019 and 2019 have been impacted compared to Q4 2018 and 2018.
6. The adjustment for pro-forma relates to estimated calculated impact of IFRS 16 on Q4 2018 and 2018. This estimated impact on Q4 2018 and 2018 has been calculated based on the lease information available as of January 1, 2019, and using similar accounting policy on leases, assumptions and practical expedient as in place upon adoption of the standard on January 1, 2019.

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.

Financial Statements

Sleep Country Canada Holdings Inc.

Consolidated Financial Statements
December 31, 2019 and December 31, 2018
(in thousands of Canadian dollars)

Independent auditor's report

To the Shareholders of Sleep Country Canada Holdings Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Sleep Country Canada Holdings Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, 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 (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Adam Boutros.

(signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 4, 2020

Consolidated Statements of Financial Position

As at December 31, 2019 and December 31, 2018

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

	2019 $	2018 $
Assets		
Current assets		
Cash	44,040	29,988
Trade and other receivables (note 5)	20,899	13,120
Inventories (note 6)	65,361	54,729
Prepaid expenses and deposits (note 12)	6,008	5,545
	136,308	103,382
Property and equipment (note 7)	71,486	65,710
Right-of-use assets (note 3)	263,777	–
Deferred tax assets (note 12)	3,029	3,908
Intangible assets (note 8)	141,568	128,222
Goodwill (note 8)	300,884	300,884
	917,052	602,106
Liabilities		
Current liabilities		
Trade and other payables (note 9)	68,156	51,411
Customer deposits	24,415	22,452
Lease liabilities (note 3)	33,309	686
	125,880	74,549
Other liabilities (note 10)	18,406	28,988
Deferred tax liabilities (note 12)	21,060	24,789
Lease liabilities (note 3)	271,112	–
Long-term debt (note 3 and 11)	175,084	170,036
	611,542	298,362
Shareholders' Equity		
Share capital and other (note 14)	350,858	353,188
Deficit	(45,348)	(49,444)
	305,510	303,744
	917,052	602,106

Contingent liabilities and unrecognized contractual commitments (note 16)

Approved by the Board of Directors

(Signed) Douglas Bradley Director

(Signed) David Shaw Director

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

Sleep Country Canada Holdings Inc.
Consolidated Statements of Income and Comprehensive Income
As at December 31, 2019 and December 31, 2018
(in thousands of Canadian dollars, except per share amounts)

	2019	**2018**
	$	**$**
Revenues	712,372	622,977
Cost of sales (notes 6 and 13)	489,082	442,615
Gross profit	223,290	180,362
General and administrative expenses (notes 13)	125,826	93,760
Income before finance related expenses, interest income and other expenses (income) and income taxes	97,464	86,602
Finance related expenses (note 11)	21,149	4,475
Interest and other expenses (income) – net	(788)	(89)
	20,361	4,386
Income before provision for income taxes	77,103	82,216
Provision for income taxes (note 12)		
Current	18,294	21,728
Deferred	3,349	847
	21,643	22,575
Net income and comprehensive income for the year	55,460	59,641
Earnings per share attributed to common shareholders (notes 15)		
Basic earnings per share (in dollars)	1.50	1.61
Diluted earnings per share (in dollars)	1.49	1.59

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

Sleep Country Canada Holdings Inc.
Consolidated Statements of Changes in Shareholders' Equity
As at December 31, 2019 and December 31, 2018
(in thousands of Canadian dollars, except per share amounts)

	Share capital and other				
	Number of shares	Common shares $	Contributed surplus $	Deficit $	Total equity $
Balance – January 1, 2018	37,008,306	345,670	4,287	(82,790)	267,167
Net income for the year	–	–	–	59,641	59,641
Dividend declared and paid	–	–	–	(26,665)	(26,665)
Shares issued on exercise of share-based compensation option/unit	51,124	536	(867)	370	39
Share-based compensation (note 18)	–	–	3,562	–	3,562
Balance – December 31, 2018	37,059,430	346,206	6,982	(49,444)	303,744
Balance – January 1, 2019	37,059,430	346,206	6,982	(49,444)	303,744
Adjustments as a result of IFRS 16 (note 3)	–	–	–	(16,913)	(16,913)
Adjusted balance – January 1, 2019	37,059,430	346,206	6,982	(66,357)	286,831
Net income for the year	–	–	–	55,460	55,460
Dividend declared and paid	–	–	–	(29,208)	(29,208)
Shares issued on exercise of share-based compensation option/unit	93,584	1,707	(1,707)	–	–
Share-based compensation (note 18)	–	–	2,432	–	2,432
Share repurchase (note 14)	(510,829)	(10,005)	–	–	(10,005)
Excess of purchase price over average cost	–	5,243	–	(5,243)	–
Balance – December 31, 2019	36,642,185	343,151	7,707	(45,348)	305,510

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

Sleep Country Canada Holdings Inc.
Consolidated Statements of Cash Flows
As at December 31, 2019 and December 31, 2018
(in thousands of Canadian dollars, except per share amounts)

	2019 $	2018 $
Cash provided by (used in)		
Operating activities		
Net income for the year	55,460	59,641
Items not affecting cash		
Depreciation of property and equipment and right-of-use assets (notes 3 and 7)	49,976	12,707
Amortization of intangible assets (note 8)	4,473	2,113
Share-based compensation (note 18)	2,432	3,562
Finance related expenses (note 11)	21,149	4,475
Warranty liability	(26)	—
Loss on disposal of property and equipment	45	336
Deferred lease inducements and escalated rent	—	2,048
Decommissioning liabilities	28	57
Deferred income taxes (note 12)	3,349	847
	136,886	85,786
Changes in non-cash items relating to operating activities		
Trade and other receivables	(6,749)	1,065
Inventories	(10,632)	(12,255)
Prepaid expenses and deposits	(464)	(3,356)
Trade and other payables	11,055	(6,232)
Customer deposits	1,964	3,092
	(4,826)	(17,686)
	132,060	68,100
Investing activities		
Purchase of property and equipment and right-of-use assets	(17,630)	(24,591)
Purchase of intangible assets	(17,819)	(2,583)
Acquisition of Endy (note 20)	—	(65,983)
	(35,449)	(93,157)

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

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

	2019 $	2018 $
Financing activities		
Shares issued	—	39
Shares repurchased (note 14)	(10,005)	—
Increase in senior secured credit facility (note 11)	26,700	106,600
Repayment of senior secured credit facility (note 11)	(19,500)	(43,000)
Financing costs on senior secured credit facility	(28)	(575)
Dividends paid	(29,208)	(26,665)
Interest paid	(18,489)	(4,250)
Repayment of principal portion of lease liabilities (note 3)	(32,029)	(724)
	(82,559)	31,425
Increase in cash during the year	14,052	6,368
Cash – Beginning of year	29,988	23,620
Cash – End of year	44,040	29,988
Supplementary information		
Additions to property and equipment and intangibles included in trade and other payables	5,789	918
Additions to property and equipment included in decommissioning liabilities	5	30
Additions to property and equipment included in acquisition of Endy	—	54
Additions to intangible assets included in acquisition of Endy	—	22,119

The accompanying notes are 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 are entitled to dividends if and when declared by the Board of Directors.

As at January 1, 2018, the sole subsidiary of the Company was Sleep Country Canada Inc. (SCCI). On December 6, 2018, the Company acquired the business of Overwater Limited (note 20), operating under the brand name Endy, an online mattress retailer operating in the Canadian market. This acquisition was made by Endy Canada (Endy), a newly formed subsidiary of the Company, by purchasing a majority of the assets of Overwater Limited, net of designated liabilities assumed.

The Company and its subsidiaries operate as an omnichannel specialty mattress and bedding retailer under three retail banners, Sleep Country, Dormez-vous? and Endy. The Company operates through its network of 276 stores and its eCommerce platforms. As at December 31, 2019, the Company has two subsidiaries, SCCI and Endy.

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

2. Basis of presentation

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

The consolidated financial statements of the Company include the financial results of SCC and its two subsidiaries, SCCI and Endy.

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 3, 2020.

3. Summary of 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 provisions 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 are cancelled. Financial assets upon initial recognition are classified in one of two categories: (1) those to be measured subsequently at fair value (either through OCI or through profit or loss); and (2) those to be measured at amortized cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The following classifications have been applied:

- cash and trade and other receivables are classified as financial assets measured at amortized cost;
- trade and other payables, customer deposits, and long-term debt have been classified as other financial liabilities measured at amortized costs.

Long-term debt is recognized initially at fair value, net of recognized transaction costs, and is subsequently measured at amortized cost, which is the carrying value. Any difference between the carrying value and the redemption value is recognized in the consolidated statements of income and comprehensive income using the effective interest rate method. For debt modifications, a gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

Fees paid on the establishment of senior credit facilities are capitalized and amortized over the period of the facility to which it relates and are presented net of long-term debt in the consolidated statements of financial position.

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9, Financial Instruments (IFRS 9) which requires expected lifetime losses to be recognized at the time of initial recognition of the receivables. There was no impact due to this change in accounting policy.

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 income 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 currency of the subsidiaries 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 currency at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates in effect as 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 income and comprehensive income.

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

Segment information

As at December 31, 2019, the Company manages its business on the basis of two operating segments, SCC and Endy, which is consistent with the internal reporting provided to the chief operating decision-maker, the Chief Executive Officer. The Company has only one reportable segment as the operating segments meet the aggregation criteria of IFRS 8. The Company aggregates these reporting segments because the nature of products, services, methods of distribution and economic characteristics are similar. 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 on an actual cost basis and 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.

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

Included in furniture, fixtures and other are office equipment depreciated over 60 months and certain vehicles depreciated over 48 months.

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 acquired assets 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 to 90 months.

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

- Brands
  Sleep Country and Dormez-vous? corporate brands are recorded at cost and are not subject to amortization, as they have an indefinite life. The Company has determined the brands have an indefinite life because the Company has the ability and intention to renew the brand names indefinitely and an analysis of product life cycle studies and market and competitive trends provides evidence that the brands will generate net cash inflows for the group for an indefinite period. They are tested for impairment annually, as at the consolidated statements of financial position dates, or more frequently if events or circumstances indicate they may be impaired.

  The Endy brand was recorded at its fair value at the time of acquisition and is subject to amortization over an estimated life of 20 years.

- 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 the asset might be impaired.

Impairment of non-financial assets

- *Impairment of goodwill and indefinite life intangible assets*
  Management tests goodwill and brands related to the Sleep Country and Dormez-Vous?, corporate brands and goodwill related to Endy for impairment annually on December 31st or more frequently if events or changes in circumstances indicate 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. Value in use is the present value of the future cash flows expected to be derived from the asset.

  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 intangible assets, right-of-use assets and property and equipment*
  Assets that are subject to amortization are periodically reviewed for indicators of impairment. Whenever events or changes in circumstances indicate the carrying amount may not be recoverable, the asset or CGU is tested for impairment. To the extent the asset or CGU's carrying amount exceeds its recoverable amount, an impairment loss is recognized in the consolidated statements of income 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 income 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 are measured at amortized cost.

Customer deposits

Customer deposits represent amounts paid by customers in advance of delivery of product (e.g., 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, therefore fulfilling the performance obligation, the liability is relieved and is recorded in revenue. Over time, some portion of the customer deposits is not redeemed (breakage). The expected breakage amount based on historical actuals are recognized as revenue in proportion to the redemption pattern exercised by the customers.

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 is 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 (PSU) plan and a deferred share unit (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 at 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 compensation expense.

Revenue recognition

Revenue is recognized based on the five-step model outlined in IFRS 15. Revenue is derived from the sale of goods and services and is recognized at a point in time when the performance obligation is fulfilled. The performance obligation is deemed fulfilled when the control of the products has transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Provisions for returns relating to the Company's various customer satisfaction programs are accrued based on historical experience. Revenue from sale of third party warranties is recognized based on the net amount of consideration the Company retains after paying the third party the consideration received in exchange for the services to be provided by the third party.

Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of income and comprehensive income, except to the extent that they relate to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is recognized directly in other comprehensive income 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 subsidiaries are accounted for using the liability method. Deferred income taxes arise due to the temporary differences in the financial reporting and tax bases of assets and liabilities. Changes in these temporary differences are reflected in the provision for deferred income taxes using substantively enacted income tax rates and regulations. Deferred income 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.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred by the Company is measured as the fair value of assets transferred and equity instruments issued at the date of completion of the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The excess of the consideration transferred over the fair value of the net assets acquired is recorded as goodwill. If the consideration transferred is less than the net assets acquired, the difference is recognized directly in the consolidated statements of income and comprehensive income as a gain on acquisition. Results of operations of a business acquired are included in the Company's consolidated financial statements from the date of the business acquisition. Acquisition costs incurred are expensed and included in general and administrative expenses.

The fair value of the contingent consideration is classified as a financial liability and is recorded on the consolidated statements of financial position at the acquisition date and is remeasured at fair value at the end of each period until the end of the contingency period, with fair value adjustments recognized in earnings.

Change in accounting policy

- *IFRIC 23 – Uncertainty over Income Tax Treatments*
  On January 1, 2019, the Company adopted IFRIC 23, uncertainty over Income Tax Treatment, which clarified how to apply the recognition and measurement requirement in IAS 12, Income Tax, when there is uncertainty over income tax treatments. There are no significant adjustments to the amounts recognized in the consolidated financial statements.

- *IFRS 16 - Leases*
  On January 1, 2019, the Company adopted the new accounting standard IFRS 16 – Leases (IFRS 16), using the modified retrospective approach, and comparative figures have not been restated. A lease is a contract in which the right-of-use of an asset is granted for an agreed upon time in return for compensation. Lease liabilities are recorded on the present value of the non-cancellable lease payments over the lease term and discounted at the Company's incremental borrowing rate. Lease payments include fixed payments and variable payments. The right-of-use assets are measured at cost, which comprises the lease liability, lease payments made prior to delivery, initial direct costs and restoration obligations less lease incentives. The right-of-use assets are subsequently measured at amortized cost. The assets are depreciated over the term of the lease using the straight-line method. The Company has elected to use the relief practical expedient provided for low-value assets and short-term leases (shorter than 12 months), which are expensed in the consolidated statements of income and comprehensive income according to the straight-line method. Extension and termination options exist for a number of leases, particularly for properties. The Company assesses all facts and circumstances available in determining the probability of exercising available extension and termination options. The Company includes the extension option in calculating the lease term when it determines that it is reasonably certain that the Company will exercise the available extension option. The Company reassesses whether an extension option is included in the lease term when there is a change in events and circumstances that affects that decision, and re-measures the lease liability upon change in the assessment.

  On adoption, a cumulative adjustment was recognized directly to equity as deficit on January 1, 2019 as illustrated below in this note. For leases previously classified as finance leases, the Company recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying value of the right-of-use asset and the lease liability at the date of initial application. The Company chose the practical expedient to grandfather any contracts that were previously considered to be leases. As part of the initial application of IFRS 16, the Company chose, on a lease-by-lease basis, to measure that right-of-use asset at its carrying amount as if the standard had been applied since the lease's commencement date, discounted using the Company's incremental borrowing rate at the date of initial application. In addition, upon adoption, the Company applied a single discount rate to a portfolio of leases with reasonably similar characteristics. The Company chose the practical expedient to not separate the lease component and its associated non-lease components for its trucks. The Company decided not to apply the new standard for leases with remaining lease terms less than 12 months. Additionally, the Company chose the practical expedients to exclude initial direct costs for the measurement of the right-of-use asset and to use hindsight in determining the lease term where the contract includes extension options. The lease payments associated with short-term leases will be recognized as a straight-line expense in the consolidated statements of income and comprehensive income. The following reconciliation to the opening balance for the lease liabilities as at January 1, 2019 is based on operating lease obligations as at December 31, 2018.

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

	January 1, 2019 $
Operating lease obligations as at December 31, 2018	224,342
Adjustments as a result of a different treatment of renewal options	130,772
Undiscounted minimum lease payments on finance lease liabilities as at December 31, 2018	3,685
Gross lease liabilities as at January 1, 2019	358,799
Discounting	(66,829)
Lease liabilities as at January 1, 2019	291,970

Lease liabilities were discounted at the incremental borrowing rate as at January 1, 2019. The weighted average discount rate was 3.86%.

The right-of-use assets include assets that were recognized as finance assets with IAS 17, Leases, and asset retirement cost until December 31, 2018. The right-of-use assets transactions during the year were as follows:

Right-of-use assets	**Properties $**	**Trucks $**	**Total $**
As at January 1, 2019	252,613	3,403	256,016
Add: Additions during the year with a corresponding increase to the lease liability	44,434	46	44,480
Add: Cash additions due to initial direct cost incurred during the year	35	–	35
Less: Tenant inducements received	(1,030)	–	(1,030)
Less: Depreciation – right-of-use assets	(34,804)	(920)	(35,724)
As at December 31, 2019	261,248	2,529	263,777

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

The lease liabilities transactions during the year were as follows:

Lease liabilities – Current and long-term	**Total** **$**
As at January 1, 2019	291,970
Add: Additions during the year with a corresponding increase to the right-of-use asset	44,480
Less: Repayment of principal portion of lease liabilities in cash	(32,029)
As at December 31, 2019	304,421

Lease in the consolidated statements of income and comprehensive income	**2019** **$**
Cost of sales	
Depreciation – right-of-use assets	31,976
General and administrative expenses	
Depreciation – right-of-use assets	3,748
Interest and other expenses	
Interest expense on lease liabilities (paid in cash) (note 11)	11,562

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

Adjustment of opening balances as at January 1, 2019

The adjustments to the opening balances below resulted from the initial application of IFRS 16 as at January 1, 2019. The prior period amounts were not adjusted. The effects on the transition were recognized directly in equity as deficit.

	As previously reported $	Adjustments $	As adjusted $
Assets			
Property and equipment	65,710	(3,311)	62,399
Right-of-use asset	—	256,016	256,016
Liabilities and shareholders' equity			
Long-term debt – current portion	686	(686)	—
Lease liabilities – current liabilities	—	7,143	7,143
Other liabilities	28,988	(13,003)	15,985
Deferred tax liabilities	24,789	(6,200)	18,589
Lease liabilities	—	284,827	284,827
Long-term debt	170,036	(2,463)	167,573
Deficit	(49,444)	(16,913)	(66,357)

4. Critical accounting estimates and judgments

The preparation of consolidated 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, 2019 and December 31, 2018, impairment reviews were performed by comparing the carrying value with the recoverable amount of the CGU to which goodwill and brands have been allocated. Management has determined there had been no impairment as at both of those dates (note 8).

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

5. Trade and other receivables

	2019	2018
	$	$
Trade and other receivables	15,770	13,194
Income tax receivable	5,264	—
Provision for doubtful debts	(135)	(74)
	20,899	13,120

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

	2019	2018
	$	$
Merchandise	68,285	57,101
Provision for obsolescence	(2,924)	(2,372)
	65,361	54,729
Included in cost of sales		
Writedowns (reversals) of inventory due to net realizable value lower than cost	489	(489)
Writeoffs due to damage or shrinkage	1,023	1,976

There were no reversals of previously taken writedowns in 2019 (2018 – $991). 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, 2018					
At January 1, 2018	1,560	5,897	41,831	3,485	52,773
Additions	1,844	2,250	21,532	387	26,013
Depreciation	(1,054)	(1,786)	(9,144)	(723)	(12,707)
Disposal	—	(17)	(352)	—	(369)
At December 31, 2018	2,350	6,344	53,867	3,149	65,710
At December 31, 2018					
Cost	5,166	12,083	87,293	5,284	109,826
Accumulated depreciation	(2,816)	(5,739)	(33,426)	(2,135)	(44,116)
Net book value	2,350	6,344	53,867	3,149	65,710
Year ended December 31, 2019					
At January 1, 2019	2,350	6,344	53,867	3,149	65,710
Adjustments as a result of IFRS 16 (note 3)	—	—	(162)	(3,149)	(3,311)
Adjusted balance- January 1, 2019	2,350	6,344	53,705	—	62,399
Additions	1,493	1,640	20,300	—	23,433
Depreciation	(1,417)	(2,054)	(10,781)	—	(14,252)
Disposal	—	(20)	(74)	—	(94)
At December 31, 2019	2,426	5,910	63,150	—	71,486
At December 31, 2019					
Cost	6,167	12,973	98,891	—	118,031
Accumulated depreciation	(3,741)	(7,063)	(35,741)	—	(46,545)
Net book value	2,426	5,910	63,150	—	71,486

During the year ended December 31, 2019, the Company disposed of assets with an original cost value of $9,569 (2018 – $9,933) and accumulated depreciation of $9,476 (2018 – $9,564).

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

8. Goodwill and intangible assets

	Intangible assets					
	Brands – indefinite life	**Brands – definite life**	**Non-compete contracts**	**Computer software**	**Total**	**Goodwill**
	$	**$**	**$**	**$**	**$**	**$**
Year ended December 31, 2018						
At January 1, 2018	101,540	—	435	3,658	105,633	242,146
Additions	—	—	—	2,583	2,583	—
Additions - acquisition of Endy (note 20)	—	21,960	145	14	22,119	58,738
Amortization for the year	—	(77)	(169)	(1,867)	(2,113)	—
Disposal	—	—	—	—	—	—
At December 31, 2018	101,540	21,883	411	4,388	128,222	300,884
At December 31, 2018						
Cost	101,540	21,960	2,949	9,140	135,589	300,884
Accumulated amortization	—	(77)	(2,538)	(4,752)	(7,367)	—
Net book value	101,540	21,883	411	4,388	128,222	300,884
Year ended December 31, 2019						
At January 1, 2019	101,540	21,883	411	4,388	128,222	300,884
Additions	—	—	—	17,819	17,819	—
Amortization for the year	—	(1,097)	(204)	(3,172)	(4,473)	—
At December 31, 2019	101,540	20,786	207	19,035	141,568	300,884
At December 31, 2019						
Cost	101,540	21,961	2,949	26,053	152,503	300,884
Accumulated amortization	—	(1,175)	(2,742)	(7,018)	(10,935)	—
Net book value	101,540	20,786	207	19,035	141,568	300,884

During the year ended December 31, 2019, the Company disposed of assets with an original cost value of $905 (2018 – $905) and accumulated depreciation of $905 (2018 – $905).

Goodwill of $300,884 (2018 – $300,884) has been allocated to the two CGU’s Sleep Country and Endy.

The Sleep Country and Dormez-vous corporate brands of $101,540 (2018 – $101,540) have been allocated to the Sleep Country operating segment.

Management has determined, using appropriate valuation methodologies, that there was no impairment of its goodwill or brands as at December 31, 2019 or December 31, 2018.

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

In assessing goodwill and brands for impairment as at December 31, 2019, the Company compared the aggregate recoverable amount of the assets included in the CGUs to their respective carrying amounts as follows:

	2019	**2018**
	$	**$**
Sleep Country	242,146	242,146
Endy (note 20)	58,738	58,738
	300,884	300,884

For the Sleep Country CGU, the recoverable amount has been determined based on the value in use (discounted cash flows) of the CGU using the 2020 budget approved by the Board of Directors 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 5.1% - 5.9% (2018 – 5.0% - 5.7%) and a terminal growth rate of 2.5% (2018 - 2.5%) that approximate the long-term average for the mattress retailer segment. A discount rate of 8.2% (2018 – 8.2%) was used in the model. As at December 31, 2019 and December 31, 2018, any reasonable changes to the model assumptions would not result in an impairment.

For the Endy CGU, the recoverable amount has been determined based on the value in use (discounted cash flows) of the CGU using the 2020 budget 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 5.0% - 23.5% (2018 – 5.5% – 45.6%) and a terminal growth rate of 3.0% (2018 – 3.0%) that approximate the long-term average for the online mattress retailer segment. A discount rate of 15.2% (2018 – 15.2%) was used in the model. As at December 31, 2019 and December 31, 2018, 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

	2019	2018
	$	$
Trade payables	44,303	28,534
Income taxes payable	53	883
Accrued expenses	23,800	21,994
	68,156	51,411

10. Other liabilities

	2019	2018
	$	$
Deferred lease inducements and rent escalation (note 3)	—	13,003
Decommissioning provisions	797	765
Contingent consideration (note 19)	17,538	15,123
Other	71	97
	18,406	28,988

11. Long-term debt

Senior secured credit facility

On January 1, 2018, SCC held a senior secured credit facility of $150,000, which was scheduled to mature on August 30, 2022. On November 29, 2018, in connection with the purchase of Endy, the senior secured credit agreement was amended. Pursuant to this amendment, the facility was increased from $150,000 to $210,000 and the maturity date was extended to November 29, 2023.

The senior secured credit facility is secured by all of the present and after acquired personal property of SCC, SCCI and Endy. As at December 31, 2019, the balance outstanding on the senior secured credit facility was $175,800 (2018 – $168,600). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $716 (2018 – $1,027).

The senior secured credit facility allows for the debt to be held in Canadian or US dollars. During the year, the Company held the majority of the debt in US dollars for 337 days as the debt held in US dollars had a lower interest rate. 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 income and comprehensive income. As at December 31, 2019, 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, 2019, the applicable margin for bankers' acceptances was 200 basis points and the applicable margin for prime rate loans was 100 basis points.

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

Under the terms of the senior secured credit facility, certain financial and non-financial covenants must be complied with. As at December 31, 2019, SCC was in compliance with all covenants under the senior secured credit facility.

Finance related expenses included in the consolidated statements of income and comprehensive income include the following:

	2019	**2018**
	$	**$**
Interest on lease obligations	11,562	270
Accretion on contingent consideration	2,414	—
Revolver commitment fees	134	144
Interest expense on senior secured credit facility	7,039	4,061
	21,149	4,475

12. Income tax

Significant components of the income tax provision are as follows:

	2019	**2018**
	$	**$**
Current income tax expense	18,294	21,728
Deferred income tax expense relating to;		
Temporary differences	3,723	836
Deferred income tax rate changes	(374)	11
	3,349	847
Provision for income taxes	21,643	22,575

(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:

	2019 $	2018 $
Income of continuing operations before income taxes	77,104	82,216
Weighted average Canadian income tax rate	26.50%	26.50%
Income tax expense based on statutory income tax rate	20,433	21,785
Difference between rates applicable to Company and rates applicable to subsidiaries	186	266
Effect of non-deductible expenses and other items	1,398	513
Deferred tax rate changes	(374)	11
	21,643	22,575
Effective income tax rate	28.07%	27.46%

Deferred income tax liability

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

	2019 $	2018 $
Excess of carrying value of intangible assets over tax values	(27,279)	(27,188)
Benefit of share issuance costs and financing fees deductible in future years	340	1,334
Loss carry-forwards – net of unrecognized deferred income tax assets	2,669	2,195
Other temporary differences	6,239	2,800
	(18,031)	(20,859)

SCC has recognized a deferred tax asset of $3,029 (2018 – $3,908), which is dependent on future taxable income. The Company expects that it will be able to utilize the deferred tax asset in the future. On January 1, 2019, SCC adopted IFRS 16 – Leases thereby recognizing an adjustment of $6,200 to deferred tax liabilities at the beginning of the year (note 3).

As at December 31, 2019, the Company has unused capital losses of $19,702 (2018 – $19,702) with no expiry date.

Capital losses may only be used to offset capital gains. No deferred income 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 the 2015 and 2016 taxation years. The proposed adjustments relate to restructuring transactions in the Company's pre-initial public offering (IPO) structure and certain related transactions.

Notices of Reassessment were issued by the CRA related to certain of these issues in June 2018 with an exposure of $3,480, which includes tax and interest. In order to contest the matter, the Company has filed Notices of Objection with the Chief of Appeals, CRA on September 5, 2018. The Company has received an acknowledgement of the receipt of the Notices of Objection by the CRA and is currently awaiting a response to these Notices.

The Company was required to pay a minimum of 50% of the amount issued in the Notices of Reassessment within 30 days of the date of these Notices. Accordingly, payments of $2,988 have been made and are included in prepaid expenses and deposits.

The Company expects to receive a Notice of Reassessment under Part III Tax, pursuant to subsection 184(2) of the Income Tax Act (Canada) on the basis that it paid an excess capital dividend on July 15, 2015. The maximum exposure, including tax, penalty and interest, in this matter is approximately $5,818. In the event the Notice of Reassessment under Part III Tax is received, the Company, with the concurrence of Birch Hill Equity Partners Management Inc. (Birch Hill) and its co-investors, has the ability to file an election under subsection 184(3) to treat the excess amount as a taxable dividend, which is expected to resolve this exposure.

Pursuant to the indemnification provisions of the pre-IPO share purchase agreement dated July 10, 2015, the Company expects to be indemnified for all of the above matters by Birch Hill and its co-investors, which include some current members of the Company's Board of Directors and the Company's management. The Company believes it will be able to sustain its tax positions, and consequently no reserve has been made.

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

13. Expenses by nature

	Cost of sales	
	2019	**2018**
	$	**$**
		(restated – note 3)
Inventory and directly related costs recognized as an expense, including writedowns, writeoffs and reversals	321,335	282,165
Salaries, wages and benefits	98,138	92,387
Occupancy costs – stores	23,371	55,134
Depreciation and amortization	42,682	9,183
Other	3,556	3,746
	489,082	442,615

The depreciation included in cost of sales relates to depreciation on store and delivery property and equipment.

	General and administrative	
	2019	**2018**
	$	**$**
Media and advertising expenses	52,709	33,711
Salaries, wages and benefits	24,778	19,885
Credit card and finance charges	18,606	14,805
Occupancy costs – distribution centres and other	4,253	8,134
Professional fees	2,441	2,239
Telecommunication and information technology	5,323	3,948
Mattress recycling costs and donations	2,292	2,315
Depreciation and amortization	11,767	5,637
Other	3,657	3,086
	125,826	93,760

The depreciation included in general and administrative expenses relates to distribution centres, offices and other property and equipment and intangibles.

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

14. Share capital and other

Authorized share capital

Unlimited common shares

Unlimited Class A common shares

Issued and outstanding, no par value

	2019 $	2018 $
36,642,185 common shares (2018 – 37,059,430)	619,310	622,365
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	7,707	6,982
	350,858	353,188

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 therefore and on 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 on 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 on 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 IPO. As at December 31, 2019, there were no outstanding Class A common shares (2018 – nil).

In the first quarter of 2019, the Company received approval from the Toronto Stock Exchange (the TSX) effective February 28 2019, to commence, within one year of the approval date, a Normal Course Issuer Bid (NCIB) and purchase on the TSX or through alternative trading systems up to 1,200,000 of the Company's common shares, representing approximately 4% of the public float of the Company's common shares issued and outstanding as at February 26, 2019. In accordance with the rules and by-laws of the TSX, the Company was permitted to purchase up to a daily maximum of 35,204 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 were made in accordance with the block purchase exception under the applicable TSX rules and policies.

During 2019, the Company purchased 510,829 common shares for cancellation (2018 – nil), at an average price of $19.59, for a total consideration of $10,005. Sleep Country's NCIB expired on February 27, 2020 and was renewed on March 4, 2020.

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 outstanding during the year.

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

PSU and DSU are dilutive in nature. The table below summarizes the dilution impact of stock options:

	2019 $	2018 $
Dilutive	407,625	459,037
Anti-dilutive	568,455	386,789
	976,080	845,826

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

	Attributable to common shareholders		
			2019
	Net earnings $	Weighted average number of shares (in thousands of shares)	EPS $
Basic	55,460	37,076	1.50
Diluted	55,460	37,323	1.49

	Attributable to common shareholders		
			2018
	Net earnings $	Weighted average number of shares (in thousands of shares)	EPS $
Basic	59,641	37,029	1.61
Diluted	59,641	37,409	1.59

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

16. Contingent liabilities and unrecognized contractual commitments

Executive employment agreements allow for total additional payments of approximately $6,124 if a liquidity event occurs, $3,946 if all are terminated without cause, $nil if all are terminated with cause and $2,606 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 advisers and consultants, leasing contracts, licence 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, 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

Key management personnel are those individuals who have the 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.

As at December 31, 2019 and December 31, 2018, there were no balances due from or payable to a related party.

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

	2019 $	2018 $
Salaries and short-term employee benefits	2,868	2,785
Share-based compensation	2,542	3,655
Directors' fees	578	669
	5,988	7,109

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

18. Share-based compensation

The Company has stock option plan and a PSU plan for certain employees and key management of the Company. The Company has a DSU plan for its Directors.

The stock options, PSUs and DSUs are equity settled and, as such, the expense associated with these instruments is recorded as share-based compensation expense through the consolidated statements of income and comprehensive income with a corresponding entry made to contributed surplus in share capital and other on the consolidated statements of financial position. During the year, the Company recorded $776 (2018 – $289) in payroll taxes related to share-based compensation.

Share-based compensation expense is summarized as follows:

	2019	2018
	$	$
976,080 stock options (2018 – 845,826) (a)	1,068	1,402
178,864 PSUs (2018 – 167,152) (b)	1,028	1,820
34,430 DSUs (2018 – 22,901) (c)	336	340
	2,432	3,562

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.

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

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

	Number of options	**Weighted average exercise price per share $**
Balance – January 1, 2018	692,966	23.21
Granted – March 13, 2018	161,212	36.60
Forfeited – August 31, 2018	(5,028)	26.94
Forfeited – November 14, 2018	(1,298)	32.39
Exercised – November 14, 2018	(2,026)	19.31
Balance – December 31, 2018	845,826	25.73
Balance – January 1, 2019	845,826	25.73
Granted – March 8, 2019	250,585	21.23
Forfeited – May 8, 2019	(111,232)	25.25
Granted – May 28, 2019	5,220	19.45
Forfeited – June 12, 2019	(26,605)	24.82
Forfeited – August 6, 2019	(9,107)	17.00
Granted – September 10, 2019	17,471	20.80
Granted – November 4, 2019	3,922	19.40
Balance – December 31, 2019	976,080	24.59

The vested number of options outstanding as at December 31, 2019 is 110,193 (2018 – nil).
The Black-Scholes model was used to estimate the fair value of stock options. The grant date fair value of the options is the same as the weighted average exercise price. In determining the fair value of these employee stock options, the following assumptions were used:

	Date of grant			
	March 8, 2019	**May 28, 2019**	**September 9, 2019**	**November 4, 2019**
Risk-free interest rate	1.98%	1.98%	1.19%	1.41%
Expected volatility	30.8%	29.98%	29.89%	29.33%
Estimated dividend yield	3.67%	3.99%	3.71%	4.04%
Expected life of the options (in years)	7	7	7	7
Forfeiture rate	0.37%	3.66%	3.66%	3.66%

The risk-free interest rate is based on a Government of Canada five to ten-year benchmark bond yield at the date of grant.

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

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. PSUs vest 100% at the end of the third year after the grant date. The number of units which will vest is determined based on the achievement of certain earnings before interest, taxes, depreciation, and amortization (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 year were as follows:

	Number of units (vested and unvested)	**Grant date fair value per unit**
		$
Balance – January 1, 2018	149,977	24.06
Issued as accelerated performance units – January 10, 2018	180	19.31
Exercised – January 15, 2018	(873)	24.30
Issued as dividend equivalents – February 28, 2018	156	33.48
Granted – March 13, 2018	50,835	36.60
Granted – May 31, 2018	187	31.78
Issued as accelerated performance units – August 8, 2018	16,075	17.00
Exercised – August 8, 2018	(48,225)	17.00
Cancelled – August 31, 2018	(1,160)	28.71
Balance – December 31, 2018	167,152	29.21
Balance – January 1, 2019	167,152	29.21
Exercised – March 7, 2019	(87,640)	19.31
Granted – March 7, 2019	29,214	19.31
Granted – March 8, 2019	87,329	21.23
Forfeited – May 8, 2019	(20,707)	28.88
Granted – May 28, 2019	1,858	19.45
Forfeited – June 12, 2019	(5,857)	26.64
Granted - September 10, 2019	6,118	20.80
Granted - November 4, 2019	1,397	19.40
Balance – December 31, 2019	178,864	28.21

The vested number of units outstanding as at December 31, 2019 is nil (2018 – nil).

(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**
Balance – January 1, 2018	12,506	34.65
Granted – May 17, 2018	9,162	32.74
Granted – August 15, 2018	1,233	31.55
Balance – December 31, 2018	22,901	33.72
Balance – January 1, 2019	22,901	33.72
Granted – May 16, 2019	15,684	19.13
Exercised – May 31, 2019	(1,028)	31.55
Exercised – July 6, 2019	(4,916)	33.91
Granted - August 8, 2019	1,789	20.82
Balance – December 31, 2019	34,430	26.44

The vested number of units outstanding as at December 31, 2019 is 28,160 (2018 – 19,128).

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 is overseen by the Board of Directors.

Market risk

Market risk is the loss that may arise from changes in factors such as interest rates, 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 US 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 $1,758 (2018 – $1,686) on interest expense on the credit facilities.

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.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet a demand for cash or to 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, 2018			
Trade and other payables	51,411	—	—
Lease liabilities	686	2,363	100
Long-term debt	6,464	193,385	—
	58,561	195,748	100
At December 31, 2019			
Trade and other payables	68,156	—	—
Lease liabilities	45,220	133,190	63,333
Long-term debt	7,155	196,618	—
	120,531	329,808	63,333

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, 2019 and December 31, 2018.

- *Fair values of contingent consideration liability*

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

The fair value of the contingent consideration liability recorded on the consolidated statements of financial position as at December 31, 2019 was $17,538 (2018 - $15,123). The estimated range of outcomes (undiscounted) for the contingent consideration arrangement is determined based on the formula price and the likelihood of achieving specified earnings levels over the contingency period, and ranges from $nil to a maximum of $25,000. The consideration is contingent on the acquired business achieving certain specified earnings levels during the period commencing on January 1, 2020 and ending on December 31, 2020. During the year ended December 31, 2019, $nil was paid with reference to such contingent consideration (2018 – $nil).

The inputs to the measurement of the fair value of contingent consideration related to acquisitions are Level 3 inputs. The fair value measurements were made using a discounted cash flow model. Significant model inputs were; expected future operating cash flows (determined with reference to each specific acquired business) and a discount rate of 15%. The discount rate is attributable to the level of risk related to economic growth factors combined with the length of the contingent payment periods; and the dispersion was driven by unique characteristics of the businesses acquired and the respective terms for these contingent payments. A 1% increase in the weighted average discount rate would reduce the fair value of contingent consideration by $260.

	$
	-
Balance – January 1, 2019	15,123
Fair value adjustments - Accretion on contingent consideration	2,415
Balance – December 31, 2019	17,538
Less: Current portion	—
Non-current portion	17,538

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.

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

20. Business combinations

There were no business combinations in 2019.

On December 6, 2018, the Company acquired substantially all of the operating assets of Overwater Limited, a leading online mattress retailer operating under the brand name Endy.

This acquisition has been accounted for as a business combination.

The following table summarizes the purchase consideration that is paid or payable at the date of the acquisition and the allocation of the purchase consideration to the identifiable assets acquired and liabilities assumed based on management's estimate of the fair values:

	$
Purchase consideration	
Cash purchase price, including working capital adjustment	66,080
Other liabilities – Contingent consideration	15,123
Total purchase consideration	81,203
Allocation of purchase consideration to net assets acquired	
Current assets	
Trade and other receivables	184
Inventories	4,147
Prepaid expenses and deposits	356
	4,687
Current liabilities	
Trade and other payables	4,299
Customer deposits	96
	4,395
Net working capital	292
Property and equipment	54
Intangible assets	22,119
Goodwill	58,738
Total net assets acquired	81,203

Acquisition related costs of $502, incurred in 2018, are included in general and administrative expenses in profit or loss and in operating cash flows in the consolidated statements of cash flows.

Recognized goodwill reflects the value assigned to expected future synergies and an assembled workforce within the companies.

The vendor, at the time of acquisition, is entitled to receive a contingent consideration payment if the acquired business achieves specified earnings levels. The ultimate amount of payment is determined based on a formula, the key inputs to which are (i) a contractually agreed maximum payment; (ii) a contractually specified earnings level and (iii) the actual earnings for the contingency period. If the acquired business does not achieve the specified earnings level, the maximum payment is reduced for any shortfall, potentially to nil.

21. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. This includes the reclassification of depreciation expense between cost of sales and general and administrative expenses (note 13).

22. Subsequent event

The Company's dividend policy is at the discretion of the Board of Directors. On February 4, 2020, the Company declared a dividend of $0.195 per common share that was paid on February 25, 2020 to holders of the common shares of record as at the close of business on February 14, 2020.

Subsequent to year end, the Company received approval from the TSX on March 4, 2020, to commence trading effective March 9, 2020, and will expire within one year of the effective date. A NCIB and purchase on the TSX or through alternative trading systems up to 1,368,363 of the Company's common shares, representing approximately 4.8% of the public float of the Company's common shares issued and outstanding as at February 29, 2020. In accordance with the rules and by-laws of the TSX, the Company was permitted to purchase up to a daily maximum of 28,010 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 were made in accordance with the block purchase exception under the applicable TSX rules and policies.

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, 8th Floor

Toronto, ON M5J 2Y1

computershare.com

Shareholder Contact

Craig De Pratto

Chief Financial Officer

Sleep Country Canada

craig.depratto@sleepcountry.ca

Annual Meeting of Shareholders

Date: May 5, 2020

Time: 10:00am (EST)

Scotiabank Centre

Scotia Plaza, 2nd Floor

40 King Street West

Toronto, ON M5H 1H1

Board of Directors

Christine Magee

Chair

Douglas Bradley

John Cassaday

David Friesema

Zabeen Hirji

Andrew Moor

Stacey Mowbray

David Shaw

Officers

David Friesema

Chief Executive Officer

Craig De Pratto

Chief Financial Officer

Stewart Schaefer

Chief Business Development Officer & President, Dormez-vous?

Dave Howcroft

Chief Sales Officer

Capital Stock

As at December 31, 2019, there were 36,642,185 common shares outstanding.

All for Sleep™

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