Transforming lives through sleep

2020 Annual Report

SLEEP COUNTRY CANADA HOLDINGS INC.

Letter from the Chair

Dear Fellow Shareholders,

This past year was marked by domestic and international uncertainty and hardship. We would like to open our Annual Report with recognition of the difficulties experienced in 2020 and extend our thoughts to everyone affected by these challenging times. Furthermore, we are grateful and would like to offer our sincere thanks to all essential frontline workers for the hard work over the last year. We applaud their efforts and dedication.

At the start of the year, retailers were forced, if able, to make a quick pivot and embrace a digital go-to-market strategy. Sleep Country Canada exercised vigilance, agility, innovation and masterful responsiveness in the wake of these challenges. This enabled the Company to achieve an exceptional year, reporting our strongest growth, profitability and cash flow on record. In the second quarter, the Board decided to suspend the dividend and the purchase of any shares under the NCIB to preserve liquidity and financial resources in response to the risks and uncertainties caused by the onset of COVID-19. In the third quarter, we were pleased to reinstate both activities.

I am proud of the exceptional results that were delivered in 2020 across the Company's three brand banners, Sleep Country, Dormez-vous and Endy, including 23.1% growth in Adjusted Basic Earnings per Share from $1.60 in 2019 to $1.97 in 2020. These results reflect the efforts of our outstanding Associates and leadership team. Over the last several years, we have strategically added layers onto our proven business model across infrastructure, channel, partnership, experience and brand. This year's results serve as a testament to the efficacy of our growth strategy in serving new customers and deepening relationships with existing ones. With relentless focus on delivering exceptional customer experience, unmatched channel and product innovation and passionate commitment to helping all Canadians achieve their best sleep as a pillar of health and wellbeing, our strategy uniquely positions us for long-term, profitable growth in any market condition.

Looking forward, our top priorities remain providing safe environments for our customers and ensuring the health and safety of our Associates, whilst focusing and executing against our strategic roadmap. As we build on the success of this past year, we are confident that our powerful foundation, innovative service model and best-in-class leadership team will drive continued market share growth, yield attractive returns and expand our leading role as Canada's sleep retailer of choice.

I would like to personally thank my fellow Board members. Their strategic leadership, passionate commitment and constructive contributions during this tenuous period are greatly appreciated. I would also like to thank Douglas Bradley for his 6 years of service as Chair of the Audit Committee, member of the Nominating and Corporate Governance Committee and member of the Human Resources and Compensation Committee. Doug's sound business acumen provided valuable perspective and his contributions are greatly appreciated. I'm pleased to welcome Mandeep Chawla, who joined us in August, as the incumbent Chair of the Audit Committee upon election at the 2021 AGM. The Board remains resolute in its continued oversight and has full confidence in Sleep Country Canada's ability to serve our customers, support our Associates and communities and ensure long-term value for our Shareholders.

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

Sleep well. Stay well.

Christine Magee

Message from the CEO

To the Sleep Country Community,

Allow me to open this letter with gratitude. I have the privilege of working alongside our team of outstanding Associates across our Sleep Country, Dormez-vous and Endy brands, whose dedication enabled our business to flourish in a year of uncertainty and challenge. This team consistently provides our customers with world-class experiences, and I am continuously impressed by their passion and commitment. I thank them for delivering exceptional service and results this past year.

My thoughts continue to be with those impacted by the ongoing pandemic. The Sleep Country family remains committed to providing a safe environment for our Associates and customers while supporting our communities with quality sleep solutions as an essential component of health and wellbeing. I am gratified that, in this time of great need, Sleep Country donated $1.5 million in sleep essentials to over 70 community organizations and frontline workers across the country, adding to the over 155,000 mattresses we diverted from landfills through donation and recycling.

This year afforded us a valuable opportunity to reflect on what drives us as an organization and the contribution we strive to make on society. Our purpose of transforming lives by awakening Canadians to the power of sleep has never been more important. In service of this purpose, we are proud to chart our organization's course against a clear vision of championing sleep as the key to healthier, happier lives and helping every Canadian achieve better tomorrows through better tonights. We strive to live our purpose every day and are grateful to have helped over 700,000 Canadians improve their lives through sleep last year.

In 2020, we realized tremendous value from past strategic investments and innovations. Over the last several years we have added layers onto our business to anticipate, adapt and evolve with the customer of today and tomorrow, culminating in a diversified and enhanced service model that spans infrastructure, channel, experience and brand. The acquisition of Endy in 2018 and building robust eCommerce platforms for our Sleep Country and Dormez-vous brands in 2019 have proven to be two of our most successful investments to date. These investments, among others, enabled us to pivot to the digital marketplace with agility and achieve record results in a challenging year. I am proud that, despite industry challenges, our business was well-prepared to succeed and grow due to our powerful service model, exceptional team and prudent financial action.

Our purpose and strategy differentiate us from competitors and solidify our position as Canada's leading omnichannel sleep retailer. Coming off a record year, we are energized as we build on our foundation of success and drive sustainable growth through our three strategic platforms:

1. **World-class customer experience.**
   No matter the channel or touchpoint, we are committed to delivering an exceptional customer journey. In 2020, we brought our Associates' sleep expertise to the digital sphere with the launch of our Dreamline digital chat and phone capability. This service reflects our promise to be where our customers need us and has resonated incredibly well with new and loyal customers through over 100,000 interactions since launch.

2. **Channel and product innovation.**
   Our goal is to be Canada's singular sleep partner and gateway to the world's best sleep assortment, achieved through channel and product innovation. We have strategically built a fortified omnichannel ecosystem, including 281 stores from coast-to-coast, robust eCommerce platforms and a wide-reaching marketplace partnership with Walmart.ca. This channel innovation is complemented by our exclusive product partnerships with leading brands such as Malouf and Purple Innovation – significant milestones achieved in 2020.

3. **Commitment to helping customers achieve their best sleep as a pillar of wellbeing.**
Sleep Country is dedicated to supporting the wellbeing of all Canadians by championing sleep as an essential pillar of physical, mental and emotional wellbeing. In 2020, we launched our *Sleep Well. Stay Well.* campaign to connect with new and loyal customers as a partner on their wellness journeys. Moving forward, we remain committed to using our unparalleled sleep expertise to help every Canadian achieve their best night's sleep as an enabler of healthier and happier lives.

There is no stronger proof point of the efficacy of our strategy than our business' exceptional performance. This past year was the best in Sleep Country's 26-year history, with record growth, profitability and cash flow. Our revenue was the highest-ever, increasing by 6.4% to $757.7 million, coupled by accelerated profitability including 10% growth in Operating EBITDA to $171.5 million and 21.8% growth in Adjusted Net Income to $72.1 million. Further, our Adjusted Basic Earnings per Share grew substantially by 23.1% from $1.60 in 2019 to $1.97 in 2020. These record results were achieved despite our stores being closed for 19.8% of store operating days due to COVID-19 retail restrictions.

Our strategy is resonating with Canadians and driving tremendous results, with 21.4% of our 2020 sales derived through digital platforms. Both digital sales and our growing store network contributed to strong sales growth in 2020 – including a record-breaking 32.4% increase in same store sales in Q4. It is more evident than ever that our thoughtfully developed ecosystem is defining how Canadians will choose to shop for sleep solutions for years to come.

Endy continues to lead as an innovator in the eCommerce space, delivering exceptional revenue and earnings growth in 2020 and cementing its position as one of the country's fastest-ever growing retail brands. The Endy team remains focused on setting the gold standard in the eCommerce shopping experience. With more than 250,000 mattresses sold since launch and an average 4.9/5-star rating based on 20,000 customer reviews, Endy has set itself apart as Canada's leader in the digital space. As part of one family, Endy complements Sleep Country and Dormez-vous in providing an exceptional experience for every customer segment.

The impact of COVID-19 on the retail sector cannot be understated, and we know that retail has permanently changed. The future requires brands to seamlessly serve customers across physical and digital touchpoints with opportunities to explore, compare, trial and deliver on their terms. We have been working toward this horizon for years and showcased our clear ability to succeed in this landscape over the last year. With our purpose as our north star, we are confident that our business is uniquely positioned to thrive today and tomorrow.

Looking to the future, we are committed to delivering against our three strategic platforms in pursuit of sustainable, profitable growth for our customers, Associates, communities and shareholders. As a purpose-driven company dedicated to transforming lives through sleep, we look forward to a bright future with our leading family of brands.

Sleep well. Stay well.

Dave Friesema

Purpose & Vision

Our **Purpose** is to transform lives by awakening Canadians to the power of sleep.

Our **Vision** is to champion sleep as the key to healthier, happier lives and help everyone achieve better tomorrows through better tonights.

Canada's Purpose-Driven Leader in Sleep Retail

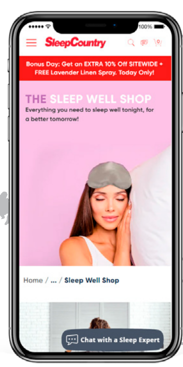
With our highly differentiated model of service, unmatched sleep ecosystem and expertise, superior brand trust and commitment to customer experience, Sleep Country strives to transform lives through sleep.

Leading omnichannel ecosystem
for customers to discover, learn, trial and purchase seamlessly across physical and digital touchpoints.

SleepCountry | DORMEZ-VOUS? | ENDY

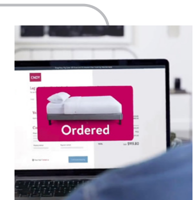
Growing network of 281 stores

3 leading eCommerce platforms



Robust Sleep Country and Dormez-vous websites

Endy, Canada's premier online mattress brand and one of Canada's fastest-ever growing retail brands



sleepcountry.ca | dormezvous.com | endy.com

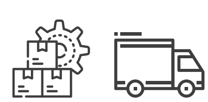
Elevated sleep expertise offered in stores and on our Sleep Country and Dormez-vous websites via our Dreamline chat and phone service

Exclusive assortment of the world's leading sleep brands and in-house innovation position us as Canada's gateway to the world of sleep. Recent brand partnerships include:

SIMBA | MALOUF | purple

Unparalleled logistics and stable supply chain ensure a consistently best-in-class experience

- 17 distribution centres
- White glove delivery service from coast-to-coast



Strong retail channel partnerships reaching broad and complementary customer segments

- Walmart Canada
- Urban Barn

2020 Highlights

- Achieved **highest revenue in company history,** increasing by **6.4% to $757.7M** despite store closures for 19.8%[1] of store operating days
- **Increased adjusted net income by 21.8%** to $72.1M
- Achieved **best-ever diluted adjusted earnings per share,** increasing by **22.6% to $1.95**
- **Paid down $97.8M of the Company's debt** on its senior secured credit facility from $175.1M in 2019 to $77.3M in 2020
- Paused dividend payments in Q2 and Q3 to prudently maintain financial flexibility amid COVID-19, **subsequently restored at $0.195 per share** in Q4 2020

[1] Operating Days are defined as the total calendar days in the period less statutory days on which the stores are closed.

- Showcased agility and strength of digital platforms – **eCommerce sales represented 21.4% of total revenue**
- **Expanded and enhanced physical network** with six new stores and 19 renovations
- Demonstrated innovation by **bringing sleep expertise to the digital sphere** through the Dreamline chat and phone channel
- Announced exclusive partnerships with **leading international sleep brands Malouf and Purple**
- **Donated $1.5M in sleep products** to support local communities during COVID-19 health crisis

- **Endy Mattress voted Product of the Year 2020 for Mattress-in-a-Box category** by Product of the Year Canada, and received coveted Seal of Approval from **Parent Tested, Parent Approved™**
- Both Sleep Country and Endy certified as a **Great Place to Work**, with Sleep Country also recognized as **one of Canada's Best Workplaces for Retail & Hospitality**
- Endy achieved an average **4.9/ 5-star rating based on 20,000 customer reviews**

Growth Strategy

Building on our strong 2020 results, we are committed to living our purpose. We will continue to execute against our **strategic growth platforms** to further expand our leadership position and **deliver sustainable value for our customers, shareholders, Associates and communities.**

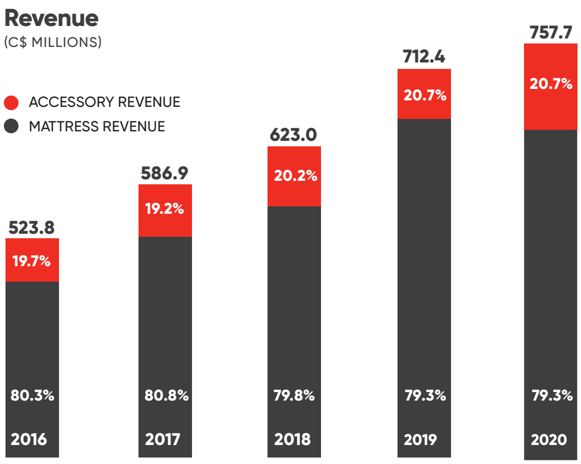
1 **World-class customer experience.**
With relentless focus on the customer, we are committed to delivering an exceptional and seamless journey across all channels and touchpoints.

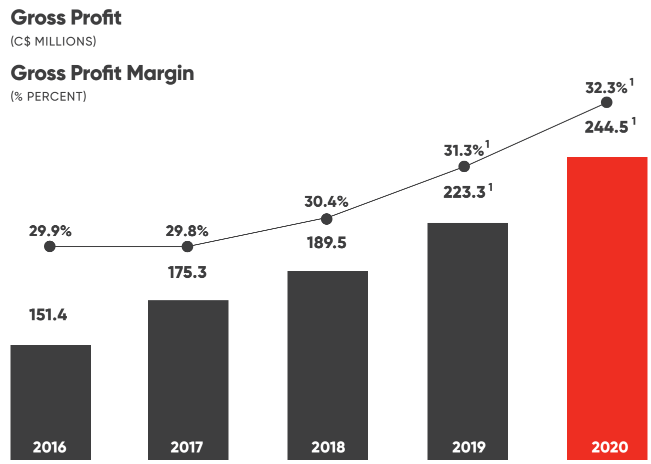
2 **Channel and product innovation.**
Our goal is to be Canada's singular sleep partner and gateway to the world's best sleep assortment, achieved through unwavering dedication to channel and product innovation.

3 **Commitment to helping customers achieve their best sleep as a pillar of wellbeing.**
We are dedicated to supporting the wellbeing of all Canadians by championing sleep as an essential pillar of physical, mental and emotional wellbeing. With our sleep expertise, we strive to help every Canadian achieve their best sleep in pursuit of healthier and happier lives.

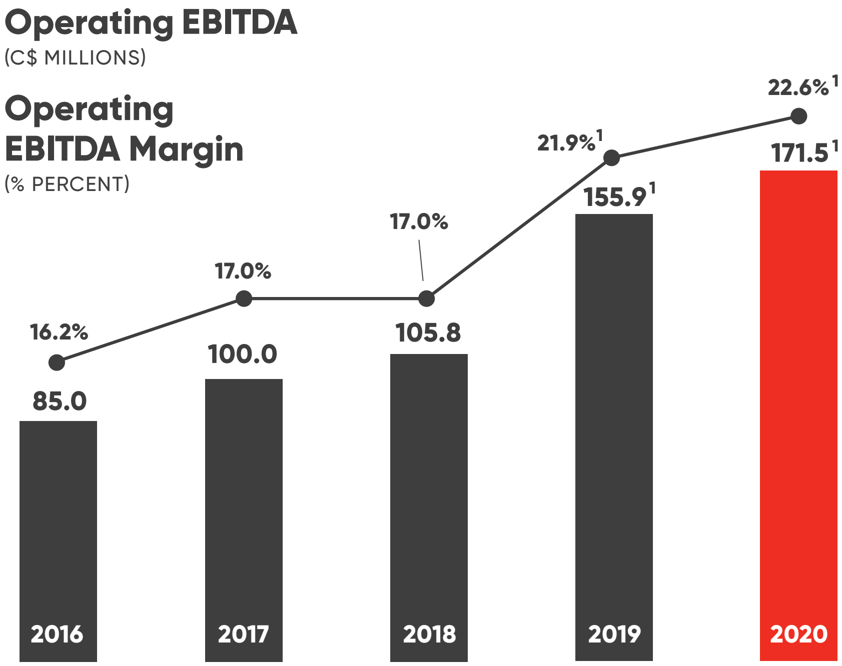
Financial Highlights

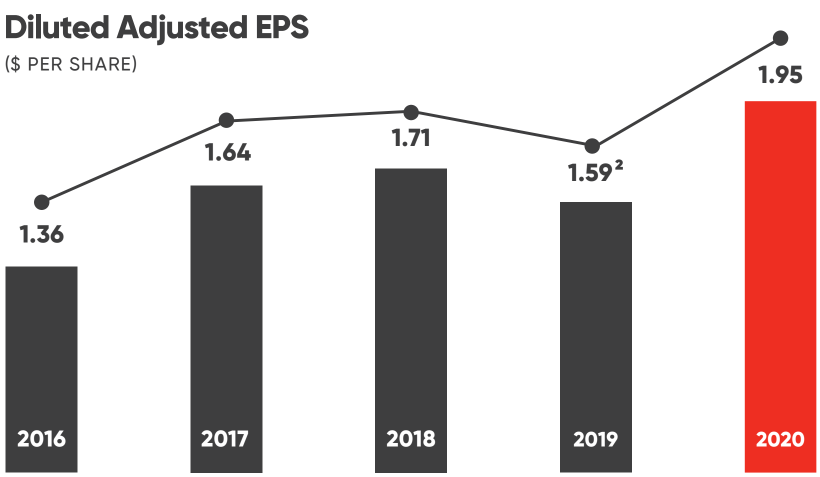
Our record 2020 results demonstrate the efficacy of our strategy in delivering profitable, long-term growth. These powerful results were achieved despite our stores being closed for 19.8% of store operating days due to COVID-19 retail restrictions.





[1] Figures includes IFRS 16 impact





[1] Figures includes IFRS 16 impact

[2] Diluted EPS for fiscal 2019 was negatively impacted by additional items in 2019 that were not included in 2018 results. These items negatively impacted diluted EPS by ($0.21) per share and related to the Endy acquisition and the adoption of IFRS 16.

Environmental & Social Responsibility

We remain committed to meaningfully and positively supporting our environment, our people and our communities. As we strive to live our purpose of transforming lives through sleep, we are honoured to donate quality sleep solutions to Canadian organizations in need. Further, we are proud of our leading Mattress Recycling Program that diverts over 100,000 mattresses from landfills every year through recycling.

Caring through COVID

In response to COVID-19, we assisted **more than 70 non-profit organizations and hospitals** by donating **$1.5M in sleep essentials** to support Canada's most vulnerable communities.

Additionally, through the **Endy Donation Project**, we donated mattresses and bedding that helped transform hospital call rooms to provide frontline workers with moments of comfort and rest when they need it most.

Sleep Country Cares

From the very beginning, it has always been a privilege to give back to the communities where we work and live. Through the **Sleep Country Cares Program**, we are committed to supporting local charities that focus on helping children and families in need.

Bed Donation & Recycling Program

We are proud to be the only national sleep retailer offering a comprehensive Mattress Recycling Program. In 2020, we **diverted over 155,000 mattresses and foundations** from landfills through our Bed Donation & Recycling Program – equivalent to over **85 times the height of the CN Tower.**

Since 2015, Sleep Country, Dormez-vous and Endy have successfully **donated 314,000 mattresses and foundations** to Canadians in need with a further **662,000 recycled** and diverted from landfill over the same timeframe.

Donation beneficiaries include Canadian Mental Health Association, Covenant House, Welcome Collective, Dans la Rue and Furniture Bank.

Reducing Environmental Impact

We are committed to mitigating our environmental footprint. In 2020 we formed a **Sustainability Leadership Team** with a focus on reducing environmental impact through Products, Transportation, Buildings and Waste.

In 2020 the Endy Mattress obtained GREENGUARD Gold certification for meeting rigorous and comprehensive standards for low emissions of pollutants to ensure healthier indoor environments.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of March 2, 2021 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, 2020 and should be read in conjunction with the audited consolidated financial statements of SCC and the accompanying notes for the years ended December 31, 2020 and December 31, 2019 and the related MD&A.

1 Basis of Presentation

All references in this MD&A to "**Q4 2020**" are to SCC's quarter ended December 31, 2020, "**Q4 2019**" are to SCC's quarter ended December 31, 2019 and "**Q4 2018**" are to SCC's quarter ended December 31, 2018. All references in this MD&A to "**2020**" are to SCC's fiscal year ended December 31, 2020, "**2019**" are to SCC's fiscal year ended December 31, 2019 and "**2018**" are to SCC's fiscal year ended December 31, 2018.

The Company's audited consolidated financial statements for fiscal years ended December 31, 2020 and December 31, 2019 and the 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 consolidated financial statements of SCC and the accompanying notes for year ended December 31, 2020 and this MD&A were reviewed by the Company's Audit Committee. This MD&A was approved by the Company's Board of Directors ("**The Board**") on March 2, 2021.

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 indicators 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 sections "Risk Factors" and "Impact of COVID-19 Pandemic on the Company", the impact of the novel coronavirus ("COVID-19") pandemic, and those described in the Company's 2020 annual information form (the "**AIF**") filed on March 2, 2021. 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.

In these unprecedented times, the Company believes that the COVID-19 pandemic creates a number of additional risks and uncertainties for the Company's business, which could impact the results of operations going forward and the forward-looking statements made herein. These include:

(a) a material reduction in revenue and/or profitability as a result of any of the following which may occur:
- another partial or complete closure of the Company's retail stores and/or distribution centres;
- significant economic challenges that lead to financial constraints on customers;
- decline in product demand causing the need to discount products to drive revenue; and
- additional legislation, regulation and/or other government intervention measures impeding normal operations.

(b) uncertainty associated with the costs and availability of resources required to provide the appropriate/required levels of service to the Company's customers including the availability and cost of training the Company's sales, warehouse, customer service and delivery associates;

(c) issues in the Company's ability to offer certain products due to possible supply chain disruptions and/or another partial or full closure of its retail stores and/or distribution centres;

(d) uncertainty associated with potential cost increases, delays and resource availability required to complete major projects on time and on budget;

(e) the uncertainty around the shift in long-term consumer behaviour, such as increased online purchases compared to retail store purchases, could have a material adverse effect on the Company's business, operations, capital resources and/or financial results of operations;

(f) the negative impact on debt and equity capital markets, including the ability to access capital at a reasonable cost and the trading price of the Company's securities, could impact the Company's future capital raising efforts, if required; and

(g) the uncertainty of the impact of the pandemic on the Company's competitive landscape.

The duration and continued impact of the COVID-19 pandemic is unknown at this time. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly, estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

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 robust eCommerce platforms. 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; and
- "Endy™", Canada's leading online mattress-in-a-box retailer.

Sleep Country continues to grow its customer base and take greater market share across the country with new and renovated stores, expanding eCommerce platforms, strategic partnerships, a growing product assortment and targeted marketing. On December 31, 2020, Sleep Country had 281 stores (2019 - 276 stores) and 17 distribution centres (2019 - 17 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 supporting the health and wellbeing of Canadians by matching each customer to their best night's sleep. All the Company's stores are corporate-owned thereby enabling it to develop and maintain a strong culture resulting in a consistent and superior in-store and home delivery customer experience.

The Company continues to grow and optimize its eCommerce platforms through continued investment in the Company's Sleep Country, Dormez-vous? and Endy websites. In addition, the Company retails through the Walmart.ca marketplace as the exclusive vendor of traditional mattresses. The Company continues to invest in omnichannel capabilities to seamlessly link the physical and digital shopping experiences. These investments enable the Company to evolve alongside the Canadian consumer and holistically serve the sleep needs of Canadians across channels and brands.

<u>Sleep Country Canada</u>

Sleep Country Canada launched its concept in the Vancouver market with four stores in 1994 and has since expanded across Canada. As at December 31, 2020, the Banner has 220 corporately owned stores and 14 distribution centres in British Columbia, Alberta, Manitoba, Saskatchewan, Ontario, Nova Scotia, New Brunswick and Prince Edward Island. The Company'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.

<u>Dormez-vous?</u>

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 26 years. As of December 31, 2020, the Dormez-vous? Banner has 61 stores with three distribution centres in Montréal and Québec City.

<u>Endy</u>

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.

In December 2018, the Company acquired substantially all the operating assets of Endy, further strengthening its position as Canada's leading omnichannel specialty sleep retailer. The acquisition diversified the Company's brand portfolio and channel structure, added best-in-class eCommerce and digital marketing capabilities and positioned the Company to expand its customer reach and meet the evolving sleep needs of Canadians.

4 Dividends and Share Purchases

Dividends:

In response to the risks and uncertainties caused by the COVID-19 pandemic since its onset in Q1 2020, the Company temporarily suspended dividends with an intent to reinstate payments at a time and payment level considered prudent by the Company's Board. The Company intended to reinstate the dividends at a future date with the resumption of normal operating conditions and when the Board considered the risks and uncertainties associated with COVID-19 to be unlikely to have a material ongoing impact. As at November 9, 2020, the Board approved and restored the Company's dividend. As the COVID-19 pandemic continues, the Company may consider it advisable to reduce or suspend dividends in the future.

All dividends are designated as "eligible dividends" for Canadian tax purposes. The Board 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
November 9, 2020	November 20, 2020	November 30, 2020	$ 0.195
February 9, 2021	February 18, 2021	February 26, 2021	$ 0.195

* As part of the Company's business continuity measures due to the COVID-19 pandemic, the Company suspended its Q2 2020 and Q3 2020 dividends.

Share Purchases*:*

On March 4, 2020, the Company received approval from the Toronto Stock Exchange (the "**TSX**") to commence a Normal Course Issuer Bid (**"NCIB"**) and purchase through the facilities of the TSX of up to 1,368,363 of the Company's common shares, representing approximately 4.8% of the public float as of February 29, 2020. Purchases were permitted to 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. In accordance with the rules and by-laws of the TSX, the Company has been 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 are made in accordance with the "block purchase" exception under the applicable TSX rules and policies.

In Q2 2020, in response to the risks and uncertainties caused by the onset of the COVID-19 pandemic onset, the Board suspended the purchase of any shares under the Company's NCIB to preserve liquidity and financial resources. As at November 9, 2020, the Board reinstated the option for the Company to purchase common shares for cancellation under the NCIB. As at December 31, 2020, the Company had not purchased any shares under the NCIB program for cancellation.

Subsequent to year end, the Company submitted a Notice of Intention to the TSX to pursue 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 928,933 common shares of the Company, being approximately 3.0% of its public float as of February 28, 2021. Purchases may commence through the TSX on March 9, 2021 and will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2022. The Company may purchase up to a daily maximum of 30,661 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 which 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 the sale of third party warranties is recognized based on the net amount of consideration retained after monies owed to the third party provider.

Building on the Company's strong brands and market position, the Company plans to grow its Same Store Sales (or "**SSS**"- see "Non-IFRS Measures"), which is inclusive of revenues from both existing stores and eCommerce channels. The Company's revenue growth initiatives also include:

- continuing to add stores in both new and existing markets;
- growing and optimizing its eCommerce platforms;
- expanding its product assortment;
- reaching more customers through targeted marketing; and
- growing lifetime value with existing customers through serving more sleep needs and growing revenue through strategic 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 across sales channels, including the Company's eCommerce platforms, through effective marketing, customer loyalty and word of mouth;
- changes in the conversion rate of converting shoppers into buyers;
- changes in the average transaction size; and
- changes in economic conditions and consumer confidence.

The COVID-19 pandemic has had a significant economic impact in Canada and on the Company's revenues. On March 21 2020, in response to the pandemic, the Company decided to temporarily close all its retail store locations and shift all business to its eCommerce platform to aid in curbing the spread of the virus through physical distancing. Shortly thereafter, government authorities placed further restrictions mandating all non-essential businesses to close their physical locations until further notice. In May 2020, as provincial and municipal governments eased restrictions, the Company began reopening its network of stores beginning May 11, 2020. All of the Company's stores reopened and resumed operations by June 24, 2020.

In Fall 2020, as the number of verified COVID-19 cases grew significantly across Canada, municipal and provincial governments increased restrictions to contain the spread of the virus. These restrictions included the closure of non-essential services in certain locations across Canada. As a result, in November 2020, the Company was required to temporarily close 16% of its retail stores. As restrictions continued to increase across Canada, 65% of Company's retail stores were closed as at December 31, 2020. The Company continues to operate curbside pickup, delivery and eCommerce services in regions where permitted.

SSS is an operating metric reported in the Company's MD&A. The initial extended temporary closure of the Company's retail stores in Spring 2020 resulted in the Company's retail stores being closed for an average of 54% of its normal operating days (see "Non-IFRS Measures") in Q2 2020. The timing and partial temporary closure of the Company's stores in Q4 2020 did not have a material impact on delivered sales in Q4 2020 and consequently, the Company will report Q4 SSS. The Company did not report Q2 2020 SSS and consequently, the annual SSS will not be reported as it is not a representative measure of the Company's performance.

For risks and uncertainties related to COVID-19, refer to the section "Forward-looking Information" in this MD&A.

Product Expansion Opportunities

One of the Company's goals is to build market share of its Banners' and to grow its revenue by strategically continuing to expand its product assortment in the sleep ecosystem, including mattresses and Accessories categories.

Over the last few years, the Company has continued to drive significant growth in Accessories through launching exciting new products, brands and categories such as cushions, throws, duvets, pillows, headboards, sheets, silk pillowcases, baby mattresses and pet beds. The Company will continue to expand its product assortment through in-house innovations and strategic business partnerships with the world's most innovative sleep brands.

In addition to Endy's mattress-in-a-box, the Company developed Bloom™, a private label mattress-in-a-box brand. The line has continued to expand and now consists of 5 mattresses at various price points offering customers options for every room and every budget. The Bloom mattresses continue to be one of the most successful mattress-in-a-box product offerings in Canada.

To further serve the growing mattress-in-the-box category, Sleep Country and Simba, a leading mattress-in-a-box retailer based in the U.K., formed a partnership to exclusively sell the Simba Hybrid mattress-in-a-box in Canada. The Simba Hybrid mattress-in-a-box was launched in Q1 2019 through both the Company's eCommerce platforms and retail store network.

In Q3 2020, the Company entered into an exclusive Canadian partnership with Malouf, a U.S. industry leader in innovative bedding and furniture products, to sell Malouf's artisanal bedding and luxury sleep collection which includes pillows, mattress protectors, sheets, designer headboards and travel accessories, through both the Company's eCommerce platforms and retail store network.

In October 2020, the Company announced its newest strategic partnership with Purple Innovation, LLC, a U.S. mattress and bedding leader, that uses innovation and technology to create comfort solutions including the renowned Purple® Mattress. This exclusive Canadian partnership further elevates Sleep Country's extensive premium sleep product assortment and will be available through both the Company's eCommerce platforms and retail store network.

In Q4 2020, in order to provide customers with a larger assortment of Accessories both in-stores and online, the Company initiated drop ship programs with select vendors which enables the delivery of the product(s) directly from our vendors to our customers. This capability allows Sleep Country to offer Canadians an increased assortment without taking on inventory risk or logistics. The Company plans to strategically expand the drop ship program in the next few quarters.

Given the uncertainty caused by the COVID-19 pandemic, the Company's ability to source new products may be negatively impacted, resulting in the deferral of new product launches. The availability of products and the transportation of these products to the Company's distribution centres could be impacted by border restrictions as well as any closure of certain non-essential businesses. For risks and uncertainties related to COVID-19, refer to the section entitled "Forward-looking Information" in this MD&A.

Online Expansion Opportunities

In Q4 2019, the Company launched its new Sleep Country and Dormez-vous? websites providing customers with a best-in-class online experience. The new websites deliver an enhanced omnichannel experience and offer the complete product assortment offered in the Company's retail store network. Customers now have the flexibility to shop when they want, how they want and where they want.

The sudden temporary closure of all the Company's retail stores from March 2020, and subsequent re-openings ranging from mid-May to late June 2020 in certain provinces, resulted in a shift of all our business to our eCommerce platforms. The Company swiftly created an exclusive online Sleep Experts team to service new and loyal customers through its eCommerce platforms. Customers are able to connect with online Sleep Experts to get live support through a dedicated phone line and/or the Live Chat support available on the Company's eCommerce platforms. This capability enables the Company to offer its differentiated sleep expertise in the digital world.

Sleep Country serves as the exclusive partner for traditional mattresses (non-mattress-in-a-box) on the Walmart.ca marketplace. In addition to mattresses, Sleep Country sells a variety of sleep accessories on the Walmart.ca marketplace including pillows, pillowcases, sheets, weighted blankets, mattress protectors, mattress toppers, platforms and pet beds. Walmart receives millions of unique visitors to its Canadian website every month and over 80 per cent of Canadian households shop at Walmart. In addition to mass exposure to a target customer segment, this partnership diversifies the Company's sales channels and further bolsters Sleep Country's omnichannel offering.

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.

The Company has successfully expanded every year since its inception in 1994. The capacity to expand its store presence depends on SCC's ability to choose new locations and new markets, to hire and train new associates for its stores and distribution centres and, in the case of expansion into new markets, create top-of-mind brand awareness for its Banners.

Stores in enclosed malls provide the Company with an unique opportunity to gain the attention of a captive audience, shopping in these malls, while capitalizing on the decline of departmental stores in recent years. As at December 31, 2020, the Company had 12 mall stores in Canada.

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, the Company conducts extensive analysis utilizing the following factors:

- demographics including population density, household income and population growth rates;
- store visibility and accessibility;
- lease and advertising economics;
- competitive dynamics;
- overlap with existing stores and distribution footprint; and
- potential cannibalization of existing stores.

In terms of regional expansion, once a target area has been determined, the Company focuses on ensuring SCC can successfully incorporate its culture, vision and mission into the new region. To attain this goal, SCC starts by ensuring its new core regional team is comprised of existing associates in leadership roles who are willing to relocate. The experienced team is then supplemented with local hires, who receive extensive training including in classroom, in store and throughout the Company (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 years ended December 31, 2020 and December 31, 2019.

	Q4		Annual	
	2020	**2019**	**2020**	**2019**
Number of stores, beginning of period	**280**	275	**276**	264
Stores newly opened	**2**	1	**6**	12
Stores closed	**1**	-	1	-
Number of stores, end of period	**281**	276	**281**	276
Number of stores in new store design, end of period	**-**	-	**220**	193
Stores relocated	**-**	-	**2**	-
Stores renovated	**12**	5	**19**	26

In response to the COVID-19 pandemic and its associated uncertainties, the Company has limited its new store openings. Refer to the section entitled "Outlook" for additional information and specific guidance on further capital investments for fiscal 2021. For risks and uncertainties related to COVID-19, refer to the section "Forward-looking Information" in this MD&A.

<u>Enhanced Store Design</u>

The Company continues to enhance and evaluate the design and layout of its stores to provide customers with the optimal shopping experience. An enhanced store design was first introduced in certain existing stores in 2014. As at December 31, 2020, there are 220 stores or 78% of the store network that feature the enhanced store design, of which 72 are new stores, 138 are renovated stores and 10 are relocations of existing stores. Over time, the Company intends to select additional stores to renovate to this new design. The Company will continue to feature the enhanced design in all new stores opened.

In response to the COVID-19 pandemic and its associated uncertainties, the Company closely monitors and evaluates the timing of its scheduled store renovations to its enhanced store design. Refer to section entitled "Outlook" for additional information and specific guidance on further capital investments for fiscal 2021. For risks and uncertainties related to COVID-19, refer to the section entitled "Forward-looking Information" in this MD&A.

<u>Competition</u>

The retail mattress and bedding industry is highly competitive and includes national and regional full-line furniture retailers, departmental retailers, mass merchants, small regional specialty bedding retailers, online mattress-in-a-box retailers and online marketplaces. In Canada, Sleep Country is the only specialty sleep retailer with a national footprint and unparalleled eCommerce platforms. Management believes it can maintain and strengthen its leading market position through its highly differentiated and elevated service and operating model that has been unrivalled in execution over the last 26 years and serves as a significant barrier to entry. Management continues to add strategic layers to this successful model across infrastructure, channel, partnership and experience, in order to predict and serve Canadians' sleep needs.

The COVID-19 pandemic may have an impact on the Company's competitive landscape. For risks and uncertainties related to COVID-19, refer to the section "Forward-looking Information" in this MD&A.

<u>Supply Chain</u>

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 and legal factors including duties, tariffs, sanctions, pandemics, currency exchange rates along with other factors relating to foreign trade.

The COVID-19 pandemic may have an impact on the Company's ability to source certain merchandise. For risks and uncertainties related to COVID-19, refer to the section "Forward-looking Information" in this MD&A.

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. The average quarterly share of annual sales over the last three fiscal years (2017 to 2019), excluding Endy, is as follows:

First quarter	21%
Second quarter	24%
Third quarter	30%
Fourth quarter	25%
Yearly total	100%

Due to the impact and uncertainties of the COVID-19 pandemic in Canada in 2020, the Company has not included 2020 in the above mentioned sales seasonality.

The uncertainty around the physical distancing measures and potential for another full or partial closures of the Company's stores may alter the typical seasonal impact. Additionally, the uncertainty around the impact of COVID-19 on the overall economy leading to possible reductions and/or deferrals of purchases by the Company's customers may also have an impact on seasonality. For risks and uncertainties related to COVID-19, refer to the section "Forward-looking Information" in this MD&A.

Gross Profit

Gross Profit is calculated from Revenues less Cost of sales. Gross Profit Margin is defined as Gross Profit divided by Revenues.

Cost of sales includes product related costs - net of rebates, sales and distribution costs including compensation, occupancy and depreciation costs. Rebates are driven by the volume of inventory purchased. As an additional incentive, certain suppliers offer step-up thresholds for higher volume rebates. Rebates on inventories sold are recorded as a reduction to cost of sales.

Gross Profit margin is affected by changes in the average unit selling price ("**AUSP**"), sales product mix and Cost of sales.

The COVID-19 pandemic may have an impact on the Company's ability to maintain its gross profit margin. Pressures on AUSP and the Company's ability to obtain its merchandise at its current pricing levels may be negatively impacted by the COVID-19 pandemic. Additionally, the Company's vendor rebate contracts may be negatively impacted as certain milestones within the various vendor agreements may not be achieved if purchases are materially impacted by past and possibly future store closures. For risks and uncertainties related to COVID-19, refer to the section entitled "Forward-looking Information" in this MD&A.

6 Fourth Quarter and Annual Operational Highlights

(C$ thousands unless otherwise stated; other than store count and earnings per share)	Q4 2020	Q4 2019	Q4 Change	Annual 2020	Annual 2019	Annual Change
Revenues	**$ 248,861**	$ 186,490	33.4%	**$ 757,699**	$ 712,372	6.4%
SSS(1)	**32.4%**	1.9%		**N/A2**	0.3%	
Stores opened	**2**	1		**6**	12	
Stores renovated/relocated	**12**	5		**21**	26	
Gross profit margin	**33.0%**	32.0%		**32.3%**	31.3%	
Operating EBITDA(1)	**53,848**	41,310	30.4%	**171,469**	155,932	10.0%
Operating EBITDA margin %	**21.6%**	22.2%		**22.6%**	21.9%	
Net income	**$ 26,571**	$ 14,027	89.4%	**$ 63,307**	$ 55,460	14.1%
Earnings per share - Basic	**$ 0.72**	$ 0.38	89.5%	**$ 1.73**	$ 1.50	15.3%
Earnings per share - Diluted	**$ 0.72**	$ 0.38	89.5%	**$ 1.71**	$ 1.49	14.8%
Adjusted Net Income(1)	**$ 27,506**	$ 15,744	74.7%	**$ 72,148**	$ 59,251	21.8%
Adjusted earnings per share - Basic(1)	**$ 0.75**	$ 0.43	74.4%	**$ 1.97**	$ 1.60	23.1%
Adjusted earnings per share - Diluted(1)	**$ 0.74**	$ 0.42	76.2%	**$ 1.95**	$ 1.59	22.6%

Notes:

(1) See the section 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.

(2) Please see the "Revenues" subsection of "Factors Affecting the Results of Operations" section of this MD&A.

Highlights of Results in Q4 2020

Q4 2020 compared to Q4 2019 - See "Non-IFRS Measures".

- Revenues increased by $62.4 million or 33.4% mainly driven by a 32.4% increase in SSS, 2 new stores and wrap stores;
- eCommerce sales represented 20.1% of Revenues;
- Gross profit margin increased by 1.0% from 32.0% in Q4 2019 to 33.0% in Q4 2020;
- Operating EBITDA margin decreased by 0.6% from 22.2% in Q4 2019 to 21.6% in Q4 2020;
- Net income increased by $12.6 million from $14.0 million in Q4 2019 to $26.6 million in Q4 2020;
- Basic EPS increased by $0.34 from $0.38 in Q4 2019 to $0.72 in Q4 2020;
- Adjusted Net Income increased by $11.8 million from $15.7 million in Q4 2019 to $27.5 million in Q4 2020;
- Basic Adjusted EPS increased by $0.32 from $0.43 in Q4 2019 to $0.75 in Q4 2020; and
- As at December 31, 2020, the Company's cash balance was $38.3 million with an additional $182.0 million of liquidity available under the Company's credit agreement.

Highlights of Results in 2020

2020 compared to 2019 - See “Non-IFRS Measures”.

- Revenues increased by $45.3 million or 6.4% mainly driven by an increase in SSS, 6 new stores and wrap stores;
- eCommerce sales represented 21.4% of Revenues;
- Gross profit margin increased by 1.0% from 31.3% in 2019 to 32.3% in 2020;
- Operating EBITDA margin increased by 0.7% from 21.9% in 2019 to 22.6% in 2020;
- Net income increased by $7.8 million from $55.5 million in 2019 to $63.3 million in 2020;
- Basic EPS increased by $0.23 from $1.50 in 2019 to $1.73 in 2020;
- Adjusted Net Income increased by $12.8 million from $59.3 million in 2019 to $72.1 million in 2020;
- Basic Adjusted EPS increased by $0.37 from $1.60 in 2019 to $1.97 in 2020; and
- As at December 31, 2020, the Company’s cash balance was $38.3 million with an additional $182.0 million of liquidity available under the Company’s credit agreement.

Outlook

The Company believes that the COVID-19 pandemic will continue to have a significant impact on the Company's business in 2021 (refer to section entitled "Impact of COVID-19 Pandemic on the Company"). There remains a significant degree of uncertainty due to the pandemic that may affect the operations and financial results of the Company. The Company is continuing to closely monitor the impact of the pandemic on the business and making appropriate adjustments to reflect the continuously evolving environment.

The Company continues to make significant investments to strengthen the Company's omnichannel capabilities, deepen relationships with new and loyal customers, expand its assortment of the world's most innovative sleep products and increase its leading market share. These investments support the Company's long-term, profitable growth strategy and reinforce its position as Canada's foremost sleep retailer. Key initiatives planned for 2021 include the following:

- continuing to invest in a new ERP system, which includes a new in-store point of sale system, supply chain demand planning tool and warehouse management system. The ERP is scheduled to go-live nationally in 2021;
- continuing to invest in digital infrastructure and omnichannel customer experience across the Sleep Country, Dormez-vous? and Endy banners;
    - digital infrastructure includes growth and optimization of eCommerce platforms, expanding third-party online marketplace channels, investing in customer relationship management tools and investing in digital marketing capabilities;
    - enhanced omnichannel customer experience will be enabled through the new ERP system which enhances the in-store experience and enables enhanced analytics to drive seamless customer journeys across channels;
- continuing to invest in the retail store network and elevated in-store customer experience;
    - opening a minimum of 6 new stores;
    - renovating 20 to 30 stores to feature the enhanced store design;
- continuing to build brand awareness and champion sleep as a pillar of health and wellbeing while implementing specific tactics including targeted advertising aimed at aggressively capturing more market share;
- increasing digital marketing spend to drive engagement across the marketing funnel and traffic to the Company's website and stores; and
- continuing to expand the sleep product assortment through strategic partnerships and in-house innovation.

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 2020 and 2019.

	Q4			Annual		
(C$ thousands unless otherwise stated; other than earnings per share)	**2020**	2019	Change	**2020**	2019	Change
Consolidated Income Statement						
Revenues	**$ 248,861**	$ 186,490	33.4%	**$ 757,699**	$ 712,372	6.4%
Cost of sales	**166,699**	126,839	31.4%	**513,203**	489,082	4.9%
Gross profit	**82,162**	59,651	37.7%	**244,496**	223,290	9.5%
General and administrative expenses	**43,665**	34,762	25.6%	**134,926**	125,826	7.2%
Income before finance related expenses, interest income and other expenses (income) and income taxes	**38,497**	24,889	54.7%	**109,570**	97,464	12.4%
Finance related expenses	**4,830**	5,306	(9.0%)	**25,363**	21,149	19.9%
Interest income and other expenses (income) - net	**25**	(102)	(124.5%)	**200**	(788)	(125.4%)
Net Income before provision for income taxes	**33,642**	19,685	70.9%	**84,007**	77,103	9.0%
Provision for Income taxes	**7,071**	5,658	25.0%	**20,700**	21,643	(4.4%)
Net income	**$ 26,571**	$ 14,027	89.4%	**$ 63,307**	$ 55,460	14.1%
EBITDA[(1)]	**$ 52,847**	$ 39,366	34.2%	**$ 166,443**	$ 151,914	9.6%
Operating EBITDA[(1)]	**$ 53,848**	$ 41,310	30.4%	**$ 171,469**	$ 155,932	10.0%
Operating EBITDA Margin	**21.6%**	22.2%		**22.6%**	21.9%	
Adjusted Net Income[(1)]	**$ 27,506**	$ 15,744	74.7%	**$ 72,148**	$ 59,251	21.8%
Earnings per share - Basic	**$ 0.72**	$ 0.38	89.5%	**$ 1.73**	$ 1.50	15.3%
Earnings per share - Diluted	**$ 0.72**	$ 0.38	89.5%	**$ 1.71**	$ 1.49	14.8%
Adjusted earnings per share - Basic[(1)]	**$ 0.75**	$ 0.43	74.4%	**$ 1.97**	$ 1.60	23.1%
Adjusted earnings per share - Diluted[(1)]	**$ 0.74**	$ 0.42	76.2%	**$ 1.95**	$ 1.59	22.6%
Dividends declared per share	**$ 0.195**	$ 0.195	0.0%	**$ 0.390**	$ 0.770	(49.4%)

	31-Dec-20	**31-Dec-19**
Total assets	**$ 902,351**	**$ 917,052**
Long-term lease liabilities and long-term debt	**$ 345,575**	**$ 446,196**

Notes:

(1) See the section 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.

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; other than earnings per share)	**2019**[2]	2018	Change[3]	**2019**[2]	2018	Change[3]
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	**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**
Long-term lease liabilities and long-term debt	**$ 446,196**	**$ 170,036**

Notes:

(1) See the section 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 accounting standard IFRS 16 - Leases and comparative figures have not been restated. 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) See the Q4 2019 MD&A for discussion related to performance analysis.

7 Fourth Quarter 2020 versus Fourth Quarter 2019

Revenues

Revenues increased by $62.4 million or 33.4% from $186.5 million in Q4 2019 to $248.9 million in Q4 2020. The increase is primarily driven by a 32.4% increase in SSS, 2 new stores and wrap stores. In Q4 2020, eCommerce sales were 20.1% of Revenues. See "Non-IFRS Measures".

The increase in total revenues was comprised of an increase in mattresses and Accessories sales over Q4 2019.

				Q4
(C$ millions unless otherwise stated)	**2020**	**2019**	**Change**	**Change (%)**
Mattresses	**$ 196.8**	$ 146.2	$ 50.6	34.6%
Accessories	**$ 52.1**	$ 40.3	$ 11.8	29.3%
Total	**$ 248.9**	$ 186.5	$ 62.4	33.4%

Gross profit

Gross profit was $82.2 million in Q4 2020 compared to $59.7 million in Q4 2019, representing an increase of $22.5 million. Gross profit margin increased by 1.0% from 32.0% for Q4 2019 to 33.0% for Q4 2020 primarily as a result of the following:

- inventory and other directly related expenses, net of volume rebates, increased as percentage of revenue from 45.3% in Q4 2019 to 45.9% in Q4 2020. The increase was due to higher delivery costs and inventory adjustments that were partially offset by a decrease in direct products costs – net of volume rebates;
- sales and distribution compensation expenses increased as a percentage of revenue from 12.8% in Q4 2019 to 13.3% in Q4 2020. This increase was mainly attributable to COVID-19 related severance costs, higher temporary wages and sales incentive expenses. This increase was partially offset by lower associate benefits expenses and commissions costs due to the shift of revenue earned from the Company's retail stores to its eCommerce platforms;
- other expenses increased as a percentage of revenue from 0.7% in Q4 2019 to 0.8% in Q4 2020 mainly driven by personal protective equipment purchased as a result of the COVID-19 pandemic to ensure the safety and comfort of the Company's customers and associates;
- store occupancy costs decreased as a percentage of revenue from 3.3% in Q4 2019 to 2.5% in Q4 2020 due to the Company leveraging on its occupancy costs; and
- depreciation expenses decreased as a percentage of revenue from 5.8% in Q4 2019 to 4.4% in Q4 2020 due to the Company leveraging on its depreciation costs.

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

Total G&A expenses increased by $8.9 million or 25.6% from $34.8 million in Q4 2019 to $43.7 million in Q4 2020, and, as a percentage of revenue, G&A expenses decreased from 18.6% of revenue in Q4 2019 to 17.5% of revenue in Q4 2020.

								Q4
(C$ millions unless otherwise stated)		**2020**	***% of revenue***		2019	*% of revenue*		Change
Media and advertising expenses[1]	**$**	**18.2**	**7.3%**	$	13.5	7.2%	$	4.7
Salaries, wages and benefits[2]		**9.9**	**4.0%**		7.0	3.8%		2.9
Credit card and finance charges		**5.1**	**2.0%**		5.0	2.7%		0.1
Occupancy charges[3]		**2.0**	**0.8%**		1.2	0.6%		0.8
Professional fees		**1.3**	**0.5%**		1.1	0.6%		0.2
Telecommunication and information technology[4]		**2.3**	**0.9%**		1.7	0.9%		0.6
Mattress recycling and Donations		**0.9**	**0.4%**		0.5	0.3%		0.4
Depreciation and Amortization[5]		**3.3**	**1.3%**		3.6	1.9%		(0.3)
Other[6]		**0.7**	**0.3%**		1.2	0.6%		(0.5)
Total G&A expenses	**$**	**43.7**	**17.5%**	$	34.8	18.6%	$	8.9

Notes:

(1) Media and advertising expenses increased by $4.7 million. This change was due to an increase in online and newspaper advertising which was partially offset by a decrease in radio advertising and an increase in advertising credits received in Q4 2020.

(2) Salaries, wages and benefits increased by $2.9 million mainly as a result of an increase in compensation expenses incurred in the regular course of business including merit increases and the annual bonus compensation. This increase was partially offset by decrease in share-based compensation and associate benefit expenses.

(3) Occupancy charges increased by $0.8 million mainly due to an increase in operating costs at the Company's distribution centres.

(4) Telecommunication and information technology increased by $0.6 million mainly due to increased software support.

(5) G&A depreciation expense decreased by $0.3 million mainly due to a decrease in intangible depreciation which was partially offset by an increase in the IFRS 16 related depreciation on the Company's leased warehouse and property and equipment depreciation.

(6) Other expenses decreased by $0.5 million mainly due lower administrative expenses and lower meals, entertainment and travel expenses.

EBITDA

EBITDA was $52.8 million for Q4 2020 compared to $39.4 million for Q4 2019, representing an increase of $13.4 million or 34.2%. The increase was primarily due to strong revenue growth in Q4 2020 combined with an improved gross profit margin and partially offset by an increase in G&A expenses. See "Non-IFRS Measures".

Operating EBITDA

Operating EBITDA was $53.8 million for Q4 2020 or 21.6% of revenue, compared to $41.3 million for Q4 2019, or 22.2% of revenue, representing an increase of $12.5 million or 30.4% mainly due to the increase in EBITDA and the favorable impact from the adjustments related to the non-recurring ERP implementation and lower share-based compensation expenses. See "Non-IFRS Measures".

Finance related expenses

Finance related expenses decreased by $0.5 million from $5.3 million in Q4 2019 to $4.8 million in Q4 2020 mainly due to the decrease in interest expenses on the senior secured credit facility.

Income taxes

Net income before income taxes in Q4 2020 increased by $13.9 million from $19.7 million in Q4 2019 to $33.6 million in Q4 2020 resulting in an increase to income taxes of $1.4 million.

The net change in income taxes was also impacted by a decrease in the Company's effective tax rate from Q4 2019 to Q4 2020. The change in the Company's effective tax rate is due to the change in the Company's position in 2020 on the deductibility of LTIP expenses including prior year adjustments due to the application of this tax position to prior year tax returns.

Net Income

Net Income for Q4 2020 increased by $12.6 million from $14.0 million in Q4 2019 to $26.6 million in Q4 2020 (Q4 2020 – $0.72 per share; Q4 2019 - $0.38 per share). This increase was mainly driven by the increase in EBITDA and decrease in finance related expenses and partially offset by an increase in income taxes. See "Non-IFRS Measures".

Adjusted Net Income

Adjusted Net Income for Q4 2020 increased by $11.8 million or 74.7% from $15.7 million ($0.43 per share) in Q4 2019 to $27.5 million ($0.75 per share) in Q4 2020. See "Non-IFRS Measures".

8 Annual Financial Results 2020 versus 2019

Revenues

Revenues increased by $45.3 million or 6.4% from $712.4 million in 2019 to $757.7 million in 2020 mainly driven by an increase in SSS, 6 new stores and wrap stores. The increase in revenue was partially offset by the decrease of in-store revenue during the temporary closure of the Company's retail stores for an average of 19.8% of its normal operating days in 2020 due to the COVID-19 pandemic. In 2020, eCommerce sales were 21.4% of Revenues. See "Non-IFRS Measures".

(C$ millions unless otherwise stated)	**2020**	**2019**	**Change**	**Annual Change (%)**
Mattresses	**$ 600.6**	$ 564.7	$ 35.9	6.4%
Accessories	**$ 157.1**	$ 147.7	$ 9.4	6.4%
Total	**$ 757.7**	$ 712.4	$ 45.3	6.4%

Gross profit

Gross profit increased by $21.2 million from $223.3 million in 2019 to $244.5 million in 2020. Gross profit margin increased by 1.0% from 31.3% for 2019 to 32.3% for 2020 primarily as a result of the following:

- inventory and other directly related expenses, net of volume rebates, increased as a percentage of revenue from 45.1% to 45.7%. The increased percentage was driven by higher delivery costs and inventory adjustments which were partially offset by a decrease in direct product costs - net of volume rebates;
- other expenses increased as a percentage of revenue from 0.6% in 2019 to 0.9% in 2020 mainly driven by personal protective equipment purchased as a result of the COVID-pandemic to ensure the safety and comfort of the Company's customers and associates;
- store occupancy costs were constant as a percentage of revenue at 3.3% in 2019 and 2020.
- depreciation expenses decreased as a percentage of revenue from 6.0% in 2019 to 5.8% in 2020. This decrease is due to the Company leveraging on its depreciation costs; and
- sales and distribution compensation expenses decreased as a percentage of revenue from 13.7% in 2019 to 12.0% in 2020. This decrease was primarily attributable to lower commission costs due to the shift of revenue earned from the Company's retail stores to its eCommerce platforms. Government wage subsidies that the Company qualified for under the Canada Emergency Wage Subsidy ("CEWS") federal program also contributed to the decrease as percentage of revenue.

General and administrative expenses

Total G&A expenses increased by $9.1 million, or 7.2%, from $125.8 million in 2019 to $134.9 million in 2020, and, as a percentage of revenue, G&A expenses increased from 17.7% of revenue in 2019 to 17.8% of revenue in 2020.

							Annual
(C$ millions unless otherwise stated)		**2020**	***% of revenue***		2019	*% of revenue*	Change
Media and advertising expenses[1]	**$**	**51.8**	**6.8%**	$	52.7	7.4%	$ (0.9)
Salaries, wages and benefits[2]		**29.3**	**3.9%**		24.8	3.5%	4.5
Credit card and finance charges[3]		**17.6**	**2.3%**		18.6	2.6%	(1.0)
Occupancy charges[4]		**6.2**	**0.8%**		4.3	0.6%	1.9
Professional fees[5]		**4.4**	**0.6%**		2.3	0.3%	2.1
Telecommunication and information technology[6]		**6.9**	**0.9%**		5.3	0.7%	1.6
Mattress recycling and Donations[7]		**3.4**	**0.5%**		2.3	0.3%	1.1
Depreciation and Amortization[8]		**12.8**	**1.7%**		11.8	1.7%	1.0
Other		**2.5**	**0.3%**		3.7	0.5%	(1.2)
Total G&A expenses	**$**	**134.9**	**17.8%**	$	125.8	17.7%	$ 9.1

Notes:

(1) Media and advertising expenses decreased by $0.9 million. This decrease was due to a reduction in advertising activity in 2020. The Company decided to cancel or reduce certain advertising initiatives as a result of the temporary closure of its stores for an average of 19.8% of its normal operating days in 2020 due to the pandemic. The Company experienced a shift in its advertising spend from traditional, such as TV and newspaper, to digital channels.

(2) Salaries, wages and benefits increased by $4.5 million mainly as a result of an increase in compensation expenses incurred in the regular course of business including merit increases, bonuses and share-based compensation. This increase was partially offset by government wage subsidies that the Company qualified for under the CEWS program.

(3) Credit card and finance charges decreased by $1.0 million. These variable costs decreased mainly due to lower financed sales in addition to lower financing rate charges.

(4) Occupancy charges increased by $1.9 million due to an increase in operating costs at the Company's distribution centres.

(5) Professional fees increased by $2.1 million mainly due to expenses related to the ERP implementation and the new long term incentive plan for associates.

(6) Telecommunication and information technology increased by $1.6 million mainly due to increased software support and licensing fees related to the new ERP. This increase was partially offset by a decrease in telephone expenses.

(7) Mattress recycling and donations expenses increased by $1.1 million mainly due to increased donations to provide support to at-risk and vulnerable communities impacted by the pandemic.

(8) G&A depreciation expense increased by $1.0 million mainly due to an increase in property and equipment depreciation in addition to IFRS 16 related depreciation on the Company's leased warehouses. In addition, we saw an increase in our intangible depreciation tied to the revamped eCommerce platform and Finance and Merchandising module of the new ERP which was completed in Q4 2019.

(9) Other expenses decreased by $1.2 million mainly due lower administrative expenses and lower meals, entertainment and travel expenses.

EBITDA

EBITDA was $166.4 million for 2020 compared to $151.9 million for 2019, representing an increase of $14.5 million or 9.6%. The increase was primarily due to an increase in earned revenue aided by an improved gross profit margin and offset by an increase in G&A expenses. See “Non-IFRS Measures”.

Operating EBITDA

Operating EBITDA was $171.5 million for 2020 or 22.6% of revenue, compared to $155.9 million for 2019, or 21.9% of revenue, representing an increase of $15.6 million or 10.0%. This change is mainly due to the increase in EBITDA, the favorable impact of adjustments related to higher share-based compensation and non-recurring ERP implementation costs. See “Non-IFRS Measures”.

Finance related expenses

Finance related expenses increased by $4.3 million from $21.1 million in 2019 to $25.4 million in 2020 due to a one-time $4.3 million adjustment on Endy’s contingent consideration liability in addition to the accretion expense related to the Endy acquisition in December 2018. These increases are partially offset due to the decrease in interest expenses on the senior secured credit facility.

Income taxes

Income taxes decreased by $0.9 million from $21.6 million in 2019 to $20.7 million in 2020. This decrease was impacted by the change in the effective tax rate from 28.07% in 2019 to 24.64% in 2020. The decrease in the Company’s effective tax rate is due to the change in the Company’s position in 2020 on the deductibility of LTIP expenses including prior year adjustments due to the application of this tax position to prior year tax returns.

Net income

Net income for 2020 increased by $7.8 million from $55.5 million in 2019 compared to $63.3 million in 2020 (2020 - $1.73 per share; 2019 - $1.50 per share). This increase was mainly driven by the increase in EBITDA and decrease in income tax expenses, partially offset by an increase in finance related expenses. See “Non-IFRS Measures”.

Adjusted Net Income

Adjusted Net Income in 2020 increased by $12.8 million or 21.8% from $59.3 million ($1.60 per share) in 2019 to $72.1 million ($1.97 per share) in 2020. See “Non-IFRS Measures”.

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 displays the Company's financial performance for the last eight quarters and it has been prepared in accordance with IFRS, except where indicated. Due to the expected continued impact and uncertainties resulting from the COVID-19 pandemic in Canada in 2021, the Company does not expect the 2021 quarterly results to follow the above mentioned seasonality.

(C$ thousands unless otherwise stated, other than earnings per share)	2020					2019				
	Q4	**Q3**	**Q2**	**Q1**	**TOTAL**	**Q4**	**Q3**	**Q2**	**Q1**	**TOTAL**
Revenues	**$ 248,861**	$ 242,351	$ 114,900	$ 151,586	**$ 757.699**	$ 186,490	$ 209,973	$ 166,587	$ 149,322	$ 712,372
SSS[(1)]	**32.4%**	14.5%	N/A[2]	(0.9%)	**N/A[2]**	1.9%	0.5%	1.9%	(3.4%)	0.3%
Gross profit	**$ 82,162**	$ 84,213	$ 36,970	$ 41,152	**$ 244,496**	$ 59,651	$ 71,569	$ 49,705	$ 42,365	$ 223,290
Gross profit margin	**33.0%**	34.7%	32.2%	27.1%	**32.3%**	32.0%	34.1%	29.8%	28.4%	31.3%
EBITDA[(1)]	**$ 52,847**	$ 64,024	$ 23,145	$ 26,428	**$ 166,443**	$ 39,366	$ 48,680	$ 35,276	$ 28,591	$ 151,914
Operating EBITDA[(1)]	**$ 53,848**	$ 65,294	$ 24,470	$ 27,858	**$ 171,469**	$ 41,310	$ 49,551	$ 35,620	$ 29,450	$ 155,932
Operating EBITDA Margin	**21.6%**	26.9%	21.3%	18.4%	**22.6%**	22.2%	23.6%	21.4%	19.7%	21.9%
Net income (loss)	**$ 26,571**	$ 32,216	$ (471)	$ 4,993	**$ 63,307**	$ 14,027	$ 21,483	$ 12,175	$ 7,775	$ 55,460
Adjusted Net Income[(1)]	**$ 27,506**	$ 33,357	$ 5,009	$ 6,267	**$ 72,148**	$ 15,744	$ 22,354	$ 12,519	$ 8,634	$ 59,251
Earnings (Loss) per share – Basic	**$ 0.72**	$ 0.88	$ (0.01)	$ 0.14	**$ 1.73**	$ 0.38	$ 0.58	$ 0.33	$ 0.21	$ 1.50
Earnings (Loss) per share – Diluted	**$ 0.72**	$ 0.87	$ (0.01)	$ 0.14	**$ 1.71**	$ 0.38	$ 0.57	$ 0.33	$ 0.21	$ 1.49
Adjusted earnings per share – Basic[(1)]	**$ 0.75**	$ 0.91	$ 0.14	$ 0.17	**$ 1.97**	$ 0.43	$ 0.60	$ 0.34	$ 0.23	$ 1.60
Adjusted earnings per share – Diluted[(1)]	**$ 0.74**	$ 0.90	$ 0.14	$ 0.17	**$ 1.95**	$ 0.42	$ 0.60	$ 0.33	$ 0.23	$ 1.59

Notes:

(1) See the section 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.

(2) Please see the "Revenues" subsection of "Factors Affecting the Results of Operations" section of this MD&A.

10 Impact of COVID-19 Pandemic on the Company

As a result of the arrival of the COVID-19 pandemic in March 2020 to Canada, the Company enacted its business continuity measures to support ongoing operations, liquidity and financial flexibility. The Company continued using these measures throughout the remaining fiscal year as required. The primary focus of these measures were to keep associates safe, to secure business continuity with suppliers and customers, to offer the government and the community support and to maintain the Company's long-term viability and shareholder value.

Some of the specific measures the Company undertook in response to the pandemic included:

1. Closing its retail stores on March 21, 2020 while its delivery and eCommerce services were permitted to continue operations. Beginning May 11, 2020, as provincial and municipal restrictions eased, SCC began to re-open its store network. All of the Company's stores reopened and resumed operations by June 24, 2020.
2. In Fall 2020, as the number of verified COVID-19 cases grew significantly across Canada, closing its retail stores in certain locations as required by municipal and provincial governments to contain the spread of the virus. As a result, in November 2020, the Company was required to temporarily close 16% of its retail stores. As restrictions continued to increase across Canada, temporary closures grew to 65% of our retail stores as at December 31, 2020.
    - The Company's municipal and provincial mandated store closures are:

Regions	**Lockdown Start Date**	**Stores Reopened Date**	**# of Stores**
Manitoba	12-Nov-20	23-Jan-21	7
Toronto and Peel	23-Nov-20	TBD	38
York	14-Dec-20	22-Feb-21	13
Windsor -Essex	14-Dec-20	10-Feb-21	2
Hamilton	21-Dec-20	16-Feb-21	6
Quebec	25-Dec-20	8-Feb-21	61
North Bay – Parry Sound	26-Dec-20	TBD	1
Remaining Ontario	26-Dec-20	16-Feb-21	54

3. Implementing new safety protocols in its stores, offices and delivery services which include a contactless delivery option;
4. Retaining its furloughed associates with reduced pay during the mandated temporary closure of its stores in Spring 2020, with the financial support provided by the CEWS federal government program;
5. In Fall 2020, during the mandated partial lockdown of its retail stores, putting the affected sales associates on temporary leave without pay;
    - In Q1 2021, upon the reopening of the temporarily closed stores, the Company reinstated employment to all associates on temporary leave;
6. Continuing to have open dialogues with key suppliers, landlords and partners;
7. Actively managing liquidity to be prudent and to ensure financial flexibility through various measures including the following:
    - Securing an incremental $50 million accordion on its senior secured credit agreement;
    - Temporarily deferring 25% to 50% of the base salaries of the Company's Named Executive Officers ("**NEO**"), as defined in the Company's Management Information Circular available on SEDAR, which was reinstated by the Board on November 9, 2020 and subsequently paid in Q4 2020;
    - Temporarily deferring the Board's remaining 2020 cash compensation which was reinstated by the Board on November 9, 2020 and subsequently paid in Q4 2020;

- Cancelled dividend payments in Q2 2020 and Q3 2020. Dividends payments were restored by the Board on November 9, 2020. Refer to section entitled “Dividends and Share Purchases” for additional information; and
- Temporarily suspending the purchase of shares under the Company’s NCIB program which was reinstated by the Board on November 9, 2020. Refer to section entitled “Dividends and Share Purchases” for additional information.

8. Continually evaluating and using available eligible government programs that are beneficial to the Company. The Company qualified for wage subsidies under the CEWS government program from March 15, 2020 to July 4, 2020, which provided the Company with a 75% wage subsidy, on eligible remuneration for eligible associates to a weekly maximum of $847.
9. Deferring certain capital expenditures and implementing certain cost-saving measures across the business. Refer to section entitled “Liquidity and Capital Resources” for additional information.

The duration and continued impact of the COVID-19 pandemic is unknown at this time. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company’s operations, financial results and condition in future periods are also subject to significant uncertainty. Refer to the section entitled “Forward-looking information” for certain specific risks and uncertainties related to COVID-19.

11 Segment Performance

As at December 31, 2020, 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.

12 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. Given the uncertainty tied to the pandemic, the Company is monitoring results closely and reacting in a prudent and timely manner to preserve resources. Since March 2020, Sleep Country has been operating in an unprecedented environment due to the COVID-19 pandemic. The Company took actions, considered prudent and in the best interests of the Company and its shareholders, to manage its liquidity and ensure financial flexibility.

These measures include the following:

- expanded the Company’s credit agreement with an incremental $50 million accordion;
- the Company qualified for the wage subsidies under the CEWS government program from March 15, 2020 to July 4, 2020, which provided the Company with a 75% wage subsidy, on eligible remuneration for eligible associates to a weekly maximum of $847;
- temporary deferral of 25% to 50% of the NEO’s base salaries which was reinstated by the Board on November 9, 2020 and subsequently paid in Q4 2020;
- temporary deferral of the Board’s remaining 2020 cash compensation which was later reinstated by the Board on November 9, 2020 and subsequently paid in Q4 2020;
- cancelled dividend payments in Q2 2020 and Q3 2020. Dividends payments were restored by the Board on November 9, 2020. Refer to section entitled “Dividends and Share Purchases” for additional information;
- temporary suspension of the purchase of shares under the Company’s NCIB program which was reinstated by the Board on November 9, 2020. Refer to section entitled “Dividends and Share Purchases” for additional information; and
- continuing to implement additional cost-saving measures across the business.

The Company believes cash generated from operations, together with cash on hand and amounts available under SCC's credit facilities in conjunction with the temporary liquidity measures described above 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. This could be affected by general economic, financial and other factors including factors beyond its control, such as the risks associated with the current COVID-19 pandemic, despite the risk management strategies that the Company 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. For risks and uncertainties related to COVID-19, refer to the section entitled "Forward-looking Information" in this MD&A.

The Company reviews new store openings, acquisitions 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 2020 and 2019:

(C$ thousands unless otherwise stated)		**2020**		**2019**
Cash flows provided by operating activities	**$**	**173,700**	$	132,060
Cash flows used in investing activities		**(17,657)**		(35,449)
Cash flows provided used in financing activities		**(161,766)**		(82,559)
Net increase (decrease) in cash		**(5,723)**		14,052
Cash at beginning of the year		**44,040**		29,988
Cash at end of the year	**$**	**38,317**	$	44,040

Net cash flows provided by operating activities

Net cash flows provided by operating activities in 2020 were $173.7 million comprised of the positive impact of cash generated from operating activities of $145.3 million and cash generated of $28.4 million as a result of a decrease in non-cash items relating to operating activities ("**working capital**"). The decrease in working capital in 2020 was primarily driven by higher trade and other payables, lower trade and other receivables and higher customer deposits, partially offset by higher inventories and higher prepaid expenses.

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 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 used in investing activities

Net cash flows used in investing activities in 2020 and 2019 consisted primarily of investments in capital expenditure related 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 by financing activities

Net cash flows used in financing activities were $161.8 million for 2020, consisting primarily of the repayment of the net loan of $98.2 million in 2020 to the senior secured credit facility. Additionally, the increase also included dividends on the common shares of $13.6 million, the repayment of lease obligations of $32.6 million and interest payments of $17.4 million on lease liabilities and the senior secured credit facility.

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 of $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.

Contractual obligations

The following table summarizes the Company's significant contractual obligations as at December 31, 2020 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	91,741	-	-
Lease liabilities	46,123	124,673	47,557
Long-term debt	3,221	84,151	-
	141,085	208,824	47,557

The existing credit facility represents a senior secured credit facility with a balance outstanding, net of transaction costs, as at December 31, 2020 of $77.3 million (December 31, 2019 - $175.1 million).

Executive employment agreements allow for total additional payments of approximately $6.3 million if a liquidity event occurs, $4.2 million if all are terminated without cause, $nil if all are terminated with cause and $3.0 million if all are terminated as a result of death.

All directors and/or officers of the Company, and each of its various subsidiary entities, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance with maximum coverage of $10,000 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, 2019, SCC held a senior secured credit facility of $210.0 million, which was scheduled to mature on November 29, 2023.

On May 4, 2020, the Company secured additional liquidity to manage the impact of COVID-19 on the operations. The senior secured credit agreement was amended to include an incremental $50.0 million accordion. Pursuant to this amendment, the facility was increased from $210.0 million to $260.0 million. The maturity date was not extended at this time. Under the terms of the senior secured credit facility, certain financial and non-financial covenants must be complied with. The Company is in compliance with all covenants as at December 31, 2020.

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, 2020, the balance outstanding on the senior secured credit facility was $78.0 million (2019 – $175.8 million). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $0.7 million (2019 – $0.7 million).

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 313 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, 2020, 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, 2020, the applicable margin for bankers' acceptances was 295 basis points and the applicable margin for prime rate loans was 195 basis points.

Off-balance sheet arrangements

SCC did not have any material off-balance sheet arrangements as at December 31, 2020 and December 31, 2019, nor did it have any subsequent to December 31, 2020.

Related party transactions

As at December 31, 2020 and December 31, 2019, there were no balances due from or payable to a related party.

13 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)		**2020**		2019
Salaries and short-term associate benefits	**$**	**4,357**	$	2,868
Share-based compensation		**2,586**		2,542
Directors' fees		**542**		578
	$	**7,485**	$	5,988

14 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.

For an understanding of other potential risks, including non-financial risks, see the section entitled "Risk Factors" in the AIF. For risks and uncertainties related to COVID-19, refer to the section entitled "Forward-looking information" in this MD&A.

<u>Market Risk</u>

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.

<u>Foreign Exchange Risk</u>

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.

<u>Cash Flow and Fair Value Interest Risk</u>

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 $0.8 million increase (or decrease) on the annual interest expense of the credit facility. SCC has leases that carry interest at variable rates.

<u>Credit Risk</u>

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. It 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. This includes the ongoing implementation of a new cloud based eCommerce platform, a new in-store point of sale system, a new warehouse management system and a new ERP system. Failure to successfully migrate from legacy systems to the new systems 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.

15 Critical Accounting Estimates

A summary of significant accounting policies is included in Note 3 of SCC's 2020 audited annual consolidated financial statements. The Company's critical accounting estimates are included in Note 4 of SCC's 2020 audited annual consolidated financial statements and are described below. Critical accounting estimates require the Company to make certain judgements and estimates, which may differ from actual results. Accounting estimates are based on historical experience and other factors that the Company believes to be reasonable under the time frame and circumstances. Changes in the Company's accounting estimates can have a material impact on the financial results of the Company.

Impairment of goodwill and brands

The Company is required to use judgment in determining the 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 the higher of its fair value less costs of disposal and its value in use, 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, 2020 and December 31, 2019, impairment reviews were performed by comparing the carrying value with the recoverable amount of the CGU to which goodwill and brands have been allocated. The Company has determined there has been no impairment as at both of those dates.

16 Financial Instruments

At December 31, 2020, the financial instruments consisted of cash, trade and other receivables, trade and other payables, customer deposits, the Company's senior secured credit facility, contingent consideration liability and lease liabilities.

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, 2020 and December 31, 2019. 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 section "Risk Factors".

As at December 31, 2020, the end of the contingent consideration period, the fair value of the contingent consideration liability is $25.0 million (2019 - $17.5 million).

17 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, 2020. Although the Company's disclosure controls and procedures were operating effectively as of December 31, 2020, 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.

18 Internal Controls Over Financial Reporting

Management is 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. 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. Additionally, management is required to use judgment in evaluating ICFR.

Management is also responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiary is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company's ICFR 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 controls 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, 2020 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, 2020 and that no material weaknesses were identified through their evaluation.

19 Current and Future Accounting Standards

A summary of the Company's significant accounting policies is included in Note 3 of SCC's 2020 audited annual consolidated financial statements.

IFRS 3 - Business combinations

On January 1, 2020, the Company adopted the amended IFRS 3 – Business Combinations accounting standard.

The standard was amended to revise the definition of what constitutes a business, asserting that an existing value-add process along with an input, with the ability to contribute to the creation of an output determines the existence of a business as opposed to just an integrated set of activities and inputs. There are no significant adjustments to the amounts recognized in the consolidated financial statements as a result of this standard.

IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2020, the Company adopted the amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors pertaining to the definition of the word material which now indicates that information omitted, misstated or obscured which could reasonably be expected to influence the decisions of the primary users of the financial statements, given that the decisions are made on the basis of the financial statements. There are no significant adjustments to the amounts recognized in the consolidated financial statements based on this standard.

20 Outstanding Share Data

As of the date hereof, 36,700,764 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 1,204,419 stock options to purchase an equivalent number of common shares, 225,118 performance share units, 51,046 restricted share units and 60,183 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.

21 Non-IFRS Measures

The Company prepares its consolidated 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”, “Operating Days”, “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 eCommerce sales 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.

Due to the initial temporary closure of the Company’s retail stores in Spring 2020, the Company did not report Q2 2020 SSS, and consequently the annual SSS, as it was not representative of the Company’s performance.

EBITDA and Operating EBITDA

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

EBITDA is defined as net income 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:

- ERP implementation expenses; and
- share-based compensation.

Adjusted Net Income

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

- ERP implementation expenses;
- Endy one-time adjustment to contingent consideration; and
- share-based compensation.

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, Restricted share units and Deferred share units.

Operating Days

Operating Days are defined as the total calendar days in the period less statutory days on which the stores are closed.

Calculation of Non-IFRS Measures

	Q4		Annual	
(C$ thousands unless otherwise stated, except earnings per share)	**2020**	2019	**2020**	2019
Reconciliation of net income to EBITDA and Operating EBITDA:				
Net income	**$ 26,571**	$ 14,027	**$ 63,307**	$ 55,460
Interest income and other expenses (income) - net	**25**	(102)	**200**	(788)
Finance related expenses	**4,830**	5,306	**25,363**	21,149
Income taxes	**7,071**	5,658	**20,700**	21,643
Depreciation and amortization	**14,350**	14,477	**56,873**	54,450
EBITDA	**52,847**	39,366	**166,443**	151,914
Adjustments to EBITDA:				
ERP implementation costs(1)	**249**	809	**1,674**	809
Share-based compensation(2)	**752**	1,135	**3,352**	3,209
Total adjustments	**$ 1,001**	$ 1,944	**$ 5,026**	$ 4,018
Operating EBITDA	**$ 53,848**	$ 41,310	**$ 171,469**	$ 155,932
Operating EBITDA margin	**21.6%**	22.2%	**22.6%**	21.9%
Reconciliation of net income to Adjusted Net Income:				
Net income	**$ 26,571**	$ 14,027	**$ 63,307**	$ 55,460
Adjustments:				
ERP Implementation costs(1)	**249**	809	**1,674**	809
Share-based compensation(2)	**752**	1,135	**3,352**	3,209
Endy accretion expense(3)	**-**	-	**4,257**	-
Tax impact of all adjustments(4)	**(66)**	(227)	**$ (442)**	$ (227)
Total adjustments	**$ 935**	$ 1,717	**$ 8,841**	$ 3,791
Adjusted Net Income	**$ 27,506**	$ 15,744	**$ 72,148**	$ 59,251
Weighted average number of shares- Basic	**36,694**	36,919	**36,675**	37,076
Earnings per share – Basic	**$ 0.72**	$ 0.38	**$ 1.73**	$ 1.50
Earnings per share – Diluted	**$ 0.72**	$ 0.38	**$ 1.71**	$ 1.49
Adjusted earnings per share - Basic	**$ 0.75**	$ 0.43	**$ 1.97**	$ 1.60
Adjusted earnings per share - Diluted(5)	**$ 0.74**	$ 0.42	**$ 1.95**	$ 1.59

Notes:

(1) The Company incurred charges related to its ERP implementation project that commenced in 2019.

(2) Adjustment for share-based compensation, a non-cash item.

(3) The Company incurred a non-recurring adjustment of $4.3 million in accretion expenses in Q2 2020 due to the adjustment of the Endy's contingent consideration liability.

(4) The related tax effects are calculated at statutory rates in Canada.

(5) The weighted average number of diluted shares for Q4 2020 is 37,031; for Q4 2019 is 37,159; 2020 is 36,992 and 2019 is 37,323.

22 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.

Sleep Country Canada Holdings Inc.

Consolidated Financial Statements
December 31, 2020 and December 31, 2019
(in thousands of Canadian dollars)

Financial Statements

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, 2020 and 2019, 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, 2020 and 2019;
- 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 significant accounting policies and other explanatory information.

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
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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and indefinite life intangible assets Refer to note 3 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments and note 9 – Goodwill and intangible assets to the consolidated financial statements. The Company had goodwill of $300.9 million and indefinite life intangible assets of $101.5 million as at December 31, 2020. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Goodwill and indefinite life intangible assets (brands) are allocated to cash generating units (CGUs) for the purpose of impairment testing. Management tests goodwill and brands for impairment annually on December 31 or more frequently if events or changes in circumstances indicate the asset might be impaired. The impairment tests are performed by comparing the carrying value of the CGUs with their recoverable amount, which is the higher of their fair value less costs of disposal and their value in use. Management used discounted cash flow models to determine the CGUs' value in use. Significant assumptions used in the discounted cash flow models included revenue growth rates, terminal growth rates and discount rates. No impairment was recognized as a result of the 2020 impairment tests. We considered this a key audit matter due to (i) the significance of the goodwill and indefinite life intangible assets balances; (ii) the significant judgments made by management in determining the recoverable amounts of the CGUs, including the use of significant assumptions; and (iii) the audit effort and auditor's judgment involved in testing those significant assumptions.	• Evaluated how management determined the recoverable amounts of the goodwill and indefinite life intangible assets for each CGU, which included the following: – Tested the appropriateness of the method used and the mathematical accuracy of the discounted cash flow models. – Tested the reasonableness of the significant assumptions applied by management in the discounted cash flow models by: ○ comparing the revenue growth rates to the budget approved by the Board of Directors and historical trends, and considering consistency with available third party published industry data; ○ comparing the terminal growth rates to historical trends and considering consistency with available third party published industry data; and ○ comparing discount rates to externally derived data. – Tested the underlying data used in the discounted cash flow models. – Tested the disclosures made in the consolidated financial statements.

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 express 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 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.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 2, 2021

Sleep Country Canada Holdings Inc.
Consolidated Statements of Financial Position
As at December 31, 2020 and December 31, 2019

(in thousands of Canadian dollars)

Assets	2020 $	2019 $
Current assets		
Cash	38,317	44,040
Trade and other receivables (note 5)	9,668	20,899
Inventories (note 6)	68,717	65,361
Prepaid expenses and deposits (note 13)	6,611	6,008
	123,313	136,308
Property and equipment (note 7)	68,151	71,486
Right-of-use assets (note 8)	258,231	263,777
Deferred tax assets (note 13)	4,338	3,029
Intangible assets (note 9)	147,434	141,568
Goodwill (note 9)	300,884	300,884
	902,351	917,052
Liabilities		
Current liabilities		
Trade and other payables (note 10)	91,741	68,156
Customer deposits	26,145	24,415
Lease liabilities (note 8)	35,671	33,309
Other liabilities (note 11)	25,000	—
	178,557	125,880
Other liabilities (note 11)	867	18,406
Deferred tax liabilities (note 13)	18,810	21,060
Lease liabilities (note 8)	268,302	271,112
Long-term debt (note 3 and 12)	77,273	175,084
	543,809	611,542
Shareholders' Equity		
Share capital and other (note 15)	354,210	350,858
Retained earnings (deficit)	4,332	(45,348)
	358,542	305,510
	902,351	917,052

Contingent liabilities and unrecognized contractual commitments (note 17)

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

Approved by the Board of Directors

(Signed) Douglas Bradley - Director

(Signed) David Shaw - Director

Sleep Country Canada Holdings Inc.
Consolidated Statements of Income and Comprehensive Income
For the years ended December 31, 2020 and December 31, 2019

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

	2020 $	2019 $
Revenues	757,699	712,372
Cost of sales (note 6 and 14)	513,203	489,082
Gross profit	244,496	223,290
General and administrative expenses (note 14)	134,926	125,826
Income before finance related expenses, interest and other expenses and income taxes	109,570	97,464
Finance related expenses (note 12)	25,363	21,149
Interest and other expenses (income) – net	200	(788)
	25,563	20,361
Income before provision for income taxes	84,007	77,103
Provision for income taxes (note 13)		
Current	24,259	18,294
Deferred	(3,559)	3,349
	20,700	21,643
Net income and comprehensive income for the year	63,307	55,460
Earnings per share attributed to common shareholders		
Basic earnings per share (in dollars) (note 16)	1.73	1.50
Diluted earnings per share (in dollars) (note 16)	1.71	1.49

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

Sleep Country Canada Holdings Inc.
Consolidated Statements of Changes in Shareholders' Equity
As at December 31, 2020 and December 31, 2019

(in thousands of Canadian dollars)

	Share Capital and other				
	Number of Shares	Common Shares $	Contributed surplus $	Retained Earnings (Deficit) $	Total equity $
Balance – January 1, 2019	37,059,430	346,206	6,982	(66,357)	286,831
Net income for the year	—	—	—	55,460	55,460
Dividends 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 19)	—	—	2,432	—	2,432
Share repurchase (note 15)	(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
Balance – January 1, 2020	36,642,185	343,151	7,707	(45,348)	305,510
Net income for the year	—	—	—	63,307	63,307
Dividends declared and paid	—	—	—	(13,627)	(13,627)
Shares issued on exercise of share-based compensation option/unit	58,579	2,096	(2,096)	—	—
Share-based compensation (note 19)	—	—	3,352	—	3,352
Balance – December 31, 2020	36,700,764	345,247	8,963	4,332	358,542

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

Sleep Country Canada Holdings Inc.
Consolidated Statements of Cash Flows
As at December 31, 2020 and December 31, 2019

(in thousands of Canadian dollars)

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
Net income for the year	63,307	55,460
Items not affecting cash		
Depreciation of property and equipment (note 7)	15,306	14,252
Depreciation of right-of-use assets (note 8)	36,576	35,724
Amortization of intangible assets (note 9)	4,991	4,473
Share-based compensation (note 19)	3,352	2,432
Finance related expenses (note 12)	25,363	21,149
Warranty liability	(23)	(26)
(Gain) loss on disposal of property and equipment	(42)	45
Decommissioning liabilities	37	28
Deferred income taxes (note 13)	(3,559)	3,349
	145,308	136,886
Changes in non-cash items relating to operating activities		
Trade and other receivables	12,381	(6,749)
Inventories	(3,356)	(10,632)
Prepaid expenses and deposits	(603)	(464)
Trade and other payables	18,240	11,055
Customer deposits	1,730	1,964
	28,392	(4,826)
	173,700	132,060
Investing activities		
Purchase of property and equipment	(10,838)	(17,595)
Purchase of right-of-use assets	(58)	(35)
Purchase of intangible assets	(6,761)	(17,819)
	(17,657)	(35,449)
Financing activities		
Shares repurchased (note 15)	—	(10,005)
Increase in senior secured credit facility (note 12)	34,200	26,700
Repayment of senior secured credit facility (note 12)	(132,000)	(19,500)
Financing costs on senior secured credit facility	(358)	(28)
Dividends paid	(13,627)	(29,208)
Interest paid	(17,416)	(18,489)
Repayment of principal portion of lease liabilities (note 8)	(32,565)	(32,029)
	(161,766)	(82,559)
(Decrease) increase in cash during the year	(5,723)	14,052
Cash – Beginning of the year	44,040	29,988
Cash – End of the year	38,317	44,040
Supplementary information		
Additions to property and equipment included in trade and other payables	1,091	831
Additions to intangibles included in trade and other payables	4,096	4,958

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

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

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 December 31, 2020, the Company has two subsidiaries, Sleep Country Canada Inc. (SCCI) and Endy Canada (Endy). The Company and its subsidiaries operate as an omnichannel specialty sleep retailer under three retail banners, Sleep Country, Dormez-vous? and Endy. The Company operates through its corporate-owned network of 281 stores, 17 distribution centers and its eCommerce platforms. 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 approved and authorized for issuance by the Board of Directors on March 2, 2021.

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.

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

Financial assets are derecognized when the contractual rights to receive cash flows from the financial assets expire and financial liabilities are derecognized when obligations under the contracts expire, are discharged or are cancelled. Financial assets upon initial recognition are classified into two categories: (1) those to be measured subsequently at fair value (either through Other Comprehensive Income 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, which requires expected lifetime losses to be recognized at the time of initial recognition of the receivables.

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 12) 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.

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

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.

Segment information

As at December 31, 2020, 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, Operating Segments. 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.

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.

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

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 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? 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 Sleep Country, Dormez-Vous?, and Endy for impairment annually on December 31st or more frequently if events or changes in circumstances indicate the asset

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

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 associates. 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

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

expected breakage amount based on historical actuals are recognized as revenue in proportion to the redemption pattern exercised by the customers.

Decommissioning provisions

These decommissioning provisions represent the cost of the Company's obligation to rehabilitate its leased premises and are estimated based on the present value of expected future rehabilitation costs and 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 plan). The plan consists of stock options (the stock option plan), a performance share unit (PSU) plan and a restricted share unit (RSU) plan for certain associates and key management personnel. The Company has a deferred share unit (DSU) plan for its Directors.

The stock option, PSU and RSU plans are equity or cash settled share based arrangements, the DSU plan is an equity settled arrangement and payments are measured at the fair value of the equity instrument granted. The fair value of stock options at grant date is calculated using the Black-Scholes valuation model. 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.

Subsequent to the 2020 amendment, stock options vest in equal installments over three years, PSUs vest after three years based on EPS and revenue targets and RSUs will cliff vest after three years. In general prior to the amendment in 2020, stock options cliff vest after four years, PSUs cliff vest after three years based on an Operating EBITDA target and all 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 over the related service period provided to the Company, with a corresponding increase in contributed surplus in share capital. 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 from contracts with customers. 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.

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

Income taxes

Income taxes comprise of 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.

Leases

Leases are accounted for by recognizing a right-of-use asset and a lease liability except for low-value assets and short-term leases (less than 12 months) which are recognized in the consolidated statements of income and comprehensive income on a straight-line method.

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.

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

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 which affect that decision, and re-measures the lease liability upon change in the assessment.

Change in accounting policy

- *IFRS 3 - Business combinations*

  On January 1, 2020, the Company adopted the amended IFRS 3 – Business Combinations accounting standard.

  The standard was amended to revise the definition of what constitutes a business, asserting that an existing value-add process along with an input, with the ability to contribute to the creation of an output determines the existence of a business as opposed to just an integrated set of activities and inputs. There are no significant adjustments to the amounts recognized in the consolidated financial statements.

- *IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*

  Effective January 1, 2020, the Company adopted the amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors pertaining to the definition of the word material which now indicates that information omitted, misstated or obscured which could reasonably be expected to influence the decisions of the primary users of the financial statements, given that the decisions are made on the basis of the financial statements. There are no significant adjustments to the amounts recognized in the consolidated financial statements.

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

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

Management is required to use judgment in determining the 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 the higher of its fair value less costs of disposal and its value in use, 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, 2020 and December 31, 2019, 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 9).

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

5 Trade and other receivables

	2020 $	2019 $
Trade and other receivables	9,718	15,770
Income tax receivable	86	5,264
Provision for doubtful debts	(136)	(135)
	9,668	20,899

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 approximate their fair values.

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

6 Inventories

	2020 $	2019 $
Merchandise	73,266	68,285
Provision for obsolescence	(4,549)	(2,924)
	68,717	65,361
Included in cost of sales		
Write-downs of inventory due to net realizable value lower than cost	1,323	489
Write-offs due to damage or shrinkage	3,084	1,023

There were no reversals of previously taken write-downs in 2020 (2019 – $nil). All inventory is recorded in cost of sales once sold.

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

7 Property and equipment

	Computer hardware $	Furniture, fixtures and other $	Leasehold improvements $	Total $
Year ended December 31, 2019				
At 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
Year ended December 31, 2020				
At January 1, 2020	2,426	5,910	63,150	71,486
Additions	869	1,162	9,940	11,971
Depreciation	(1,476)	(2,174)	(11,656)	(15,306)
At December 31, 2020	1,819	4,898	61,434	68,151
At December 31, 2020				
Cost	6,387	12,629	104,389	123,405
Accumulated depreciation	(4,568)	(7,731)	(42,955)	(55,254)
Net book value	1,819	4,898	61,434	68,151

During the year ended December 31, 2020, the Company disposed of assets with an original cost value of $6,601 (2019 – $9,569) and accumulated depreciation of $6,601 (2019 – $9,476).

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

8 Right-of-use assets and lease liabilities

Right-of-use assets	**Properties** $	**Trucks** $	**Total** $
Year ended December 31, 2019			
At January 1, 2019	252,613	3,403	256,016
Additions during the year with a corresponding increase to the lease liability	44,434	46	44,480
Cash additions due to initial direct cost incurred during the year	35	—	35
Tenant inducements received	(1,030)	—	(1,030)
Depreciation	(34,804)	(920)	(35,724)
At December 31, 2019	261,248	2,529	263,777
Year ended December 31, 2020			
At January 1, 2020	261,248	2,529	263,777
Additions during the year with a corresponding increase to the lease liability	31,356	761	32,117
Cash additions due to initial direct cost incurred during the year	58	—	58
Additions of restorative obligations	5	—	5
Tenant inducements received	(1,150)	—	(1,150)
Depreciation – right-of-use assets	(35,724)	(852)	(36,576)
At December 31, 2020	255,793	2,438	258,231

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

Lease liabilities – Current and long-term	**Total** **$**
Year ended December 31, 2019	
At January 1, 2019	291,970
Additions during the year with a corresponding increase to right-of-use assets	44,480
Repayment of principal portion of lease liabilities in cash	(32,029)
At December 31, 2019	304,421
Year ended December 31, 2020	
At January 1, 2020	304,421
Additions during the year with a corresponding increase to right-of-use assets	32,117
Repayment of principal portion of lease liabilities in cash	(32,565)
At December 31, 2020	303,973

Leases in the consolidated statements of income and comprehensive income

	2020 **$**	**2019** **$**
Cost of sales		
Depreciation – right-of-use assets	32,452	31,976
General and administrative expenses		
Depreciation – right-of-use assets	4,124	3,748
Interest and other expenses		
Interest expense on lease liabilities (paid in cash)	11,438	11,562

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

9 Goodwill and intangible assets

	Intangible assets					
	Brands – indefinite life $	**Brands – definite life $**	**Non – compete contracts $**	**Computer software $**	**Total $**	**Goodwill $**
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	—	(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
Year ended December 31, 2020						
At January 1, 2020	101,540	20,786	207	19,035	141,568	300,884
Additions	—	—	—	10,857	10,857	—
Amortization	—	(1,098)	(134)	(3,759)	(4,991)	—
At December 31, 2020	101,540	19,688	73	26,133	147,434	300,884
At December 31, 2020						
Cost	101,540	21,961	2,949	34,708	161,158	300,884
Accumulated amortization	—	(2,273)	(2,876)	(8,575)	(13,724)	—
Net book value	101,540	19,688	73	26,133	147,434	300,884

During the year ended December 31, 2020, the Company disposed of assets with an original cost value of $2,201 (2019 – $905) and accumulated depreciation of $2,201 (2019 – $905).

Goodwill of $300,884 (2019 – $300,884) has been allocated to the two CGU's Sleep Country and Endy.

The Sleep Country and Dormez-vous? brands of $101,540 (2019 – $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, 2020 or December 31, 2019.

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

In assessing goodwill for impairment as at December 31, 2020, the Company compared the aggregate recoverable amount of the assets included in the CGUs to their respective carrying amounts as follows:

	2020 $	2019 $
Sleep Country	242,146	242,146
Endy	58,738	58,738
	300,884	300,884

The Company performed goodwill impairment tests for the CGUs using the recoverable amounts based on the value in use (discounted cash flows) approach. Recoverable amounts were determined for the CGUs using the 2021 budget approved by the Board of Directors that made maximum use of observable markets for inputs and outputs. For periods beyond the budget period, cash flows were extrapolated using growth rates of 3% (2019 – 5.1% - 23.5%) and a terminal growth rate of 3% (2019 - 2.5%). A discount rate of 9% (2019 – 8.2%) was used in the model. As at December 31, 2020, any reasonable changes to the model assumptions would not result in an impairment.

10 Trade and other payables

	2020 $	2019 $
Trade payables	51,415	44,303
Income taxes payable	7,018	53
Accrued expenses	33,308	23,800
	91,741	68,156

11 Other liabilities

On December 6, 2018, the Company acquired substantially all of the operating assets of Overwater Limited (Overwater), an online mattress retailer operating under the brand name Endy. As part of the purchase agreement, if the acquired business achieved pre-determined targets during the measurement period ending on December 31, 2020, Overwater is entitled to receive a contingent consideration payment, up to a maximum of $25,000 to be paid in Q1 2021.

At the acquisition date, the Company recorded a contingent consideration liability based on its expected outcome at the end of the earn-out period. The expected outcome (undiscounted) is determined based on an earnings formula and the likelihood of achieving specified earnings levels over the measurement period. The contingent consideration liability is valued based on an expected payout of the maximum $25,000.

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

	2020 $	2019 $
Current		
Contingent consideration	25,000	—
Long-term		
Decommissioning provisions	819	797
Contingent consideration	—	17,538
Other	48	71
	867	18,406

12 Long-term debt

Senior secured credit facility

On January 1st, 2019, SCC held a senior secured credit facility of $210,000, which was scheduled to mature on November 29, 2023.

On May 4, 2020, the Company secured additional liquidity to manage the impact of COVID-19 on the Company's operations. The senior secured credit agreement was amended to include an incremental $50,000 accordion. Pursuant to this amendment, the facility was increased from $210,000 to $260,000, the maturity date was not extended as this time. Under the terms of the senior secured credit facility, certain financial and non-financial covenants must be complied with. The Company is in compliance with all covenants as at December 31, 2020.

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, 2020, the balance outstanding on the senior secured credit facility was $78,000 (2019 – $175,800). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $727 (2019 – $716).

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 313 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, 2020, 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, 2020, the applicable margin for bankers' acceptances was 295 basis points and the applicable margin for prime rate loans was 195 basis points.

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

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

	2020 **$**	**2019** **$**
Interest on lease obligations	11,438	11,562
Change in fair value on contingent consideration	7,463	2,414
Revolver commitment fees	536	134
Interest expense on senior secured credit facility	5,926	7,039
	25,363	21,149

13 Income tax

Significant components of the income tax provision are as follows:

	Components of income tax provision	
	2020 **$**	**2019** **$**
Current income tax expense	24,259	18,294
Deferred income tax expense relating to;		
Temporary differences	(3,460)	3,723
Deferred income tax rate changes	(99)	(374)
	(3,559)	3,349
Provision for income taxes	20,700	21,643

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

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:

	2020 $	2019 $
Income of continuing operations before income taxes	84,007	77,104
Weighted average Canadian income tax rate	26.50%	26.50%
Income tax expense based on statutory income tax rate	22,262	20,433
Difference between rates applicable to Company and rates applicable to subsidiaries	(75)	186
Effect of non-deductible expenses and other items	(1,388)	1,398
Deferred tax rate changes	(99)	(374)
	20,700	21,643
Effective income tax rate	24.64%	28.07%

Deferred income tax liability

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

	2020 $	2019 $
Excess of carrying value of intangible assets over tax values	(25,634)	(27,279)
Benefit of share issuance costs and financing fees deductible in future years	(36)	340
Loss carry-forwards	2,645	2,669
Other temporary differences	8,553	6,239
	(14,472)	(18,031)

SCC has recognized a deferred tax asset of $4,338 (2019 – $3,029), which is dependent on future taxable income. The Company expects that it will be able to utilize the deferred tax asset in the future.

As at December 31, 2020, the Company has unused capital losses of $19,739 (2019 – $19,702) with no expiry date.

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

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.

14 Expenses by nature

	Cost of sales	
	2020 **$**	**2019** **$**
Inventory and directly related costs recognized as an expense, including write-downs, write-offs and reversals	346,457	321,179
Salaries, wages and benefits (note 22)	90,966	97,407
Occupancy costs – stores	24,992	23,514
Depreciation and amortization	44,074	42,682
Other	6,714	4,300
	513,203	489,082

The depreciation included in cost of sales relates to depreciation on store and delivery property and equipment. In 2020 the salaries, wages and benefits are net of the Canada Emergency Wage Subsidy (CEWS) of $13,423.

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

	General and administrative	
	2020	**2019**
	$	**$**
Media and advertising expenses	51,761	52,736
Salaries, wages and benefits (note 22)	29,344	24,778
Credit card and finance charges	17,596	18,604
Occupancy costs – distribution centres and other	6,179	4,255
Professional fees	4,436	2,250
Telecommunication and information technology	6,891	5,301
Mattress recycling costs and donations	3,416	2,292
Depreciation and amortization	12,799	11,768
Other	2,504	3,842
	134,926	125,826

The depreciation included in general and administrative expenses relates to distribution centres, offices and other property and equipment and intangibles. In 2020 the salaries, wages and benefits are net of the CEWS of $1,536.

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

15 Share capital and other

Authorized share capital
Unlimited common shares
Unlimited Class A common shares

Issued and outstanding, no par value

	2020 $	2019 $
36,700,764 common shares (2019 – 36,642,185)	621,407	619,310
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	8,962	7,707
	354,210	350,858

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, 2020, there were no outstanding Class A common shares (2019 – nil).

On March 4, 2020, the Company received approval from the Toronto Stock Exchange (the "TSX") to commence a Normal Course Issuer Bid ("NCIB") and purchase through the facilities of the TSX of up to 1,368,363 of the Company’s common shares, representing approximately 4.8% of the public float as of February 29, 2020. Purchases were permitted to 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. In accordance with the rules and by-laws of the TSX, the Company has been 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

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

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.

During 2020, the Company did not purchase common shares for cancellation (2019 - 510,829). The 2019 common shares purchases for cancellation were made at an average price of $19.59, for a total consideration of $10,005.

16 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. PSUs, RSUs and DSUs are dilutive in nature.

The table below summarizes the dilution impact of stock options:

	2020 $	2019 $
Dilutive	378,831	407,625
Anti-dilutive	825,588	568,455
	1,204,419	976,080

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

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

	Attributable to common shareholders		
			2020
	Net earnings $	Weighted average number of shares (in thousands of shares)	EPS $
Basic	63,307	36,675	1.73
Diluted	63,307	36,992	1.71

	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

17 Contingent liabilities and unrecognized contractual commitments

Executive employment agreements allow for total additional payments of approximately $6,345 if a liquidity event occurs, $4,230 if all are terminated without cause, $nil if all are terminated with cause and $2,961 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 $10,000 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

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

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.

18 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, 2020 and December 31, 2019, there were no balances due from or payable to a related party.

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

	2020	**2019**
	$	**$**
Salaries and short-term associate benefits	4,357	2,868
Share-based compensation	2,586	2,542
Directors' fees	542	578
	7,485	5,988

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

19 Share-based compensation

On March 16, 2020, the stock option plan and the PSU plan were amended and an RSU plan was added (the amendment). The amendment to the plans and the new grants made under these amended plans were approved by the shareholders at the Company's Annual General Meeting held on May 21, 2020. The plan amendments now allow for the stock option, PSU and RSU plans to be equity or cash settled at the discretion of the Board of Directors. The Company is continuing to account for these plans as equity settled and has no intention to cash settle. The DSU plan is equity settled. 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.

	2020 $	2019 $
1,204,419 stock options (2019 – 976,080) (a)	1,244	1,068
225,118 PSUs (2019 – 178,864) (b)	1,536	1,028
51,046 RSUs (2019 – nil) (c)	216	—
60,183 DSUs (2019 – 34,430) (d)	356	336
	3,352	2,432

Prior to the amendment, the maximum number of common shares that may be issued under the security-based compensation arrangements, 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. 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.

Subsequent to the amendment, 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, the RSU plan and the DSU plan, may not exceed 6.5% of the total number of common shares issued and outstanding. The maximum number of common shares that may be issued within any one-year period under all security-based compensation arrangements implemented by the Company may not exceed 1.5% of the then issued and outstanding number of common shares. The maximum number of common shares that may be issued under the PSU plan, the RSU plan and the DSU plan is 2.6% of the total number of common shares issued and outstanding.

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

a) Stock options

The Company has a stock option plan under which options to purchase common shares may be granted to officers and associates of the Company.

For stock options granted prior to the amendment, they 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.

For stock options granted subsequent to the amendment, they 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 in equal proportion on the first anniversary, the second anniversary and the third anniversary of the grant date.

All issued options expire after ten years from the date granted. The Company's stock option transactions during the period were as follows:

	Number of options	**Weighted average exercise price per option $**
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
Balance – January 1, 2020	976,080	24.59
Forfeited – January 30, 2020	(21,941)	25.72
Granted – March 16, 2020	268,638	15.94
Forfeited – July 5, 2020	(12,280)	29.10
Forfeited – October 3, 2020	(6,078)	19.31
Balance – December 31, 2020	1,204,419	22.62

The vested number of options outstanding as at December 31, 2020 is 384,301 (December 31, 2019 – 110,193).

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

The Black-Scholes model was used to estimate the fair value of stock options. In determining the fair value of these associate stock options, the following assumptions were used:

	Date of Grant	**Year of Grant**
	March 16, 2020	2019
Risk-free interest rate	1.30%	1.19% - 1.98%
Expected volatility	30.20%	29.33% - 30.8%
Estimated dividend yield	3.90%	3.67% - 4.04%
Expected life of the options (in years)	6.5	7
Forfeiture rate	3.66%	0.37% - 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.

b) PSU plan

The Company has established a PSU plan for associates 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 or the cash equivalent of the market value of a share at the vesting date at the discretion of the Board of Directors. The Company has no intent to cash settle. PSUs vest 100% at the end of the third year after the grant date.

For PSUs issued prior to the amendment, 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.

For PSUs issued subsequent to the amendment, the number of units which will vest is determined based on the weighted sum of the achievement of the average EPS and revenue targets for the Company over the applicable performance period. Achievement will be based 75% on achievement of the EPS target and 25% on achievement of the revenue target as 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 to 2.0, depending on the achievement of such targets.

Therefore, the number of units that will vest and are paid out may be higher or lower than the number of units originally granted to a participant.

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

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

	Number of units (vested and unvested)	**Grant date fair value per unit $**
Balance – January 1, 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
Balance – January 1, 2020	178,864	28.21
Forfeited – January 30, 2020	(4,208)	28.93
Granted – February 28, 2020	9,764	32.39
Exercised – March 11, 2020	(58,579)	32.39
Granted – March 16, 2020	102,085	15.94
Forfeited – July 5, 2020	(1,092)	36.60
Forfeited – July 5, 2020	(1,716)	21.23
Balance – December 31, 2020	225,118	21.74

The vested number of units outstanding as December 31, 2020 is nil (December 31, 2019 – nil).

c) RSU plan

The Company has established a RSU plan for associates and officers of the Company. A RSU represents the right to receive a common share settled by the issuance of treasury shares or purchased on the open market or the cash equivalent of the market value of a share at the vesting date at the discretion of the Board of Directors. The Company has no intent to cash settle. RSUs vest 100% at the end of the third year after the grant date, as long as the associate or officer continues to be employed with the Company at the time of vesting. The number of units which will vest and are paid out is equal to the number of units originally granted to a participant.

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

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

	Number of units (vested and unvested)	Grant date fair value per unit $
Balance – January 1, 2020	—	—
Granted – March 16, 2020	51,046	15.94
Balance – December 31, 2020	51,046	15.94

The vested number of units outstanding as December 31, 2020 is nil.

d) 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, 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
Balance – January 1, 2020	34,430	26.44
Granted – May 13, 2020	25,753	13.59
Balance – December 31, 2020	60,183	20.94

The vested number of units outstanding as at December 31, 2020 is 51,601 (December 31, 2019 – 28,160).

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

20 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 $780 (2019 – $1,758) 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 and other 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.

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

Impairment losses on trade and other 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.

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, 2020			
Trade and other payables	91,741	—	—
Lease liabilities	46,123	124,673	47,557
Long-term debt	3,221	84,151	—
	141,085	208,824	47,557
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

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

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, 2020 and December 31, 2019.
- *Fair values of contingent consideration liability*
  As at December 31, 2020, the ending of the contingent consideration period, the fair value of the liability $25,000 (2019 - $17,538) was recorded on the consolidated statements of financial position.

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.

21 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

22 Impact of COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus, specifically identified as "COVID-19", as a global pandemic.

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

This has resulted in governments worldwide, including the Canadian government, enacting emergency measures to combat the spread of the virus. These measures include the implementation of travel restrictions, self-imposed quarantine periods and physical distancing.

On March 21, 2020, the Company announced its decision to temporarily close all of its 276 store retail locations for the safety of its associates and customers. Starting March 23, 2020, subsequent to the voluntary closure announced by the Company, the provincial governments started announcing the mandatory closure of all non-essential workplaces, which included all of the Company's retail locations. Under the guidelines, the Company was permitted to continue its delivery services. The Company continued to generate revenue through its eCommerce websites for Sleep Country, Dormez-vous? and Endy and dedicated Sleep Expert phone line and/or the live chat support available on the Company's eCommerce platforms. On May 11, 2020, as provinces began to re-open non-essential services, SCC began to re-open its store network based on the restrictions imposed by provincial and municipal governments. All of its store network had re-opened by June 24, 2020.

Beginning November 12, 2020 based on government restrictions in varying municipalities and provinces the Company began closing stores due to the second wave of COVID-19. By December 25, 2020 182 stores, or 65% SCC's store network, in Manitoba, Ontario, and Quebec were closed. The 114 stores in Ontario remained open for curbside pick-up during this time. On January 9, 2021 the 61 Quebec stores opened for curbside pick-up.

The CEWS was passed on April 11, 2020. Due to the significant decline in revenue resulting from the closure of retail stores, SCCI has qualified for and received CEWS that provides a 75% wage subsidy to eligible employers, on eligible remuneration for up to 28 weeks, subject to limits per associate. The Company qualified for the CEWS federal government program in the amount of $14,959 for the period March 15, 2020 to July 4th, 2020, which was recorded net of salaries, wages, and benefits expenses.

To preserve a strong liquidity position, the Company renegotiated short-term rent deferral of certain stores and distribution centres lease payments with certain landlords.

On May 4, 2020, the Board of Directors temporarily suspended the declaration of the Company's dividend. On November 9, 2020 the Board of Directors reinstated the Company's dividend.

The duration and impact of the COVID-19 outbreak is uncertain at this time. The impact of the outbreak on the financial results of the Company will depend on future developments, including the duration and spread of the outbreak and its impact on the overall economy and related advisories and restrictions. It is not possible to reliably estimate the length and severity of these developments and conclusively quantify the impact on the financial results and condition of the Company in future periods.

23 Subsequent Events

The Company's dividend policy is at the discretion of the Board of Directors. On February 9, 2021, the Company declared a dividend of $0.195 per common share that will be payable on February 26, 2021 to holders of the common shares of record as at the close of business on February 18, 2021.

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

Subsequent to year end, the Company submitted a Notice of Intention to the TSX to pursue 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 928,933 common shares of the Company, being approximately 3.0% of its public float as of February 28, 2021. Purchases may commence through the TSX on March 9, 2021 and will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2022. The Company may purchase up to a daily maximum of 30,661 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.

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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 11, 2021

Time: 10:00am (EST)

Virtual Meeting

Participants can attend the meeting virtually by logging in through the following link https://web.lumiagm.com/266273011

Board of Directors

Christine Magee

Chair

Douglas Bradley

John Cassaday

Mandeep Chawla

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, 2020, there were 36,700,764 common shares outstanding.

Sleep well. Stay well.™

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sleepcountry.ca | dormezvous.com | endy.com

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