Annual Report 2021

Sleep Country Canada Holdings Inc.

Sleep Well. Stay Well.™

Transforming Lives through Sleep

We are driven by our purpose to transform lives by **awakening Canadians to the power of sleep** and our vision to **champion sleep** as the key to healthier, happier lives and help everyone achieve better tomorrows through better tonights.

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Who We Are

With our highly differentiated model of service, unmatched sleep ecosystem and expertise, superior brand trust and commitment to world-class customer experience, we strive to transform lives through sleep.

Started in 1994 with four store fronts, we have grown to become Canada's leading specialty sleep retailer with a national retail store network and multiple robust eCommerce platforms.

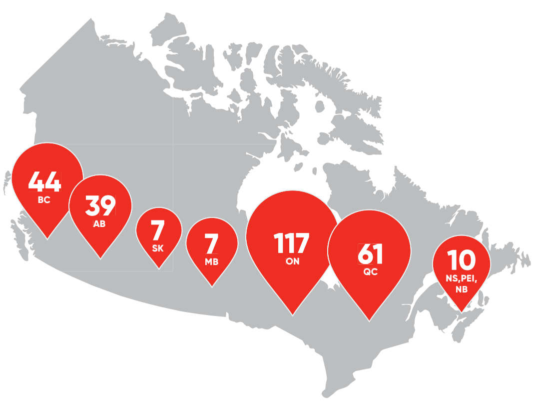
As at December 31, 2021, the Company had 285 corporate-owned stores and 20 warehouses across Canada. Sleep Country Canada Holdings Inc. ("Sleep Country") operates under retail banners: "Sleep Country Canada", with omnichannel operations in Canada excluding Québec; "Dormez-vous" with omnichannel operations in Québec; "Endy", Canada's leading direct-to-consumer online sleep solutions retailer; and recently acquired in Q4 2021 "Hush", one of Canada's fastest-growing digital retailers.

Our Sleep Ecosystem

Our leading omnichannel ecosystem where our customers can seamlessly purchase our innovative sleep products across our physical and digital touchpoints.

SleepCountry | Dormez-vous? | ENDY | Hush.

Growing network of 285 stores

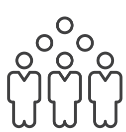


4 leading eCommerce platforms

Vast product assortment from the world's leading sleep brands

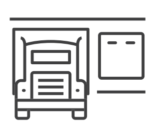
15+ mattress brands
40+ sleep accessory brands

Elevated sleep expertise



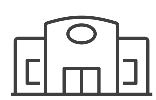
1,000+
Sleep Experts

Exceptional logistics and stable supply chain



20 warehouses

Partnerships with leading Canadian retailers



7 leading
retail brands

A Message from Christine

Dear fellow shareholders,

As we reflect on 2021, we are incredibly proud of our Sleep Country team and their tremendous accomplishments amidst another year of challenges due to the ongoing pandemic. In spite of retail closings and restrictions throughout the year, the team delivered with agility and purpose the strongest performance in our company's history. Our success is a result of our team's focus on exceptional customer experience, unmatched channel and product innovation, and their passionate commitment to helping Canadians achieve their best night's sleep as a pillar of their health and well-being.

"Our success is a result of our team's focus on exceptional customer experience, unmatched channel and product innovation, and passionate commitment to helping Canadians achieve their best night's sleep as a pillar of their health and well-being."

Over the last several years, we have built on our solid foundation and evolved our business to become Canada's trusted sleep brand and leading omnichannel sleep retailer. In 2021, we continued our retail expansion, as we invested in our infrastructure, transformed our digital go-to-market strategy, forged transformative partnerships, expanded our innovative sleep assortment, and significantly improved our customer experience.

Our strong results across our four banners, Sleep Country, Dormez-vous, Endy and Hush (acquired in the fourth quarter), included 39.2% growth in Diluted Earnings per Share from $1.71 in 2020 to $2.38 in 2021. We reported our strongest topline sales and delivered our most profitable year ever.

We are truly grateful to our leadership team and our associates who have proven again they can deliver under any market condition.

Christine Magee, Chair of the Board, Sleep Country

I would like to personally thank my fellow Board members for their continued support, strategic guidance and passionate commitment to our business. I would also like to thank Dave Friesema, who retired at the end of the year, for his leadership and invaluable contributions to Sleep Country's success over his 27 years with the company. With that being said, I am very excited to welcome Stewart Schaefer as our new President and CEO, who joined Sleep Country in 2006 following our acquisition of Dormez-vous, the business that he founded in 1994. In his most recent role as Chief Business Development Officer, he successful led all our growth initiatives including the digital transformation of our business. Stewart's passion for the sleep business is unparalleled and we look forward to our continued success under his leadership and vision.

The Board remains deeply committed and confident in Sleep Country's ability to deliver on our strategic plan, drive long-term profitable growth and shareholder value, while supporting an equitable, diverse and inclusive team, and our communities where we live and work.

Thank you to our shareholders for your continued support and the trust you have placed in us.

Sleep well. Stay well.

Christine Magee

A Message from Stewart

My fellow shareholders,

It is with great pride that I write my first letter as President and CEO of Sleep Country and report our outstanding performance for 2021. We achieved record results across the key metrics of our business, as we continued to evolve into a purpose-driven organization and differentiate ourselves in our industry. Guided by our vision and strategic road map, we have become Canada's leading sleep partner and omnichannel retailer.

While the pandemic continued to present challenges with store closures and ongoing supply chain issues, our team demonstrated agility and determination to exceed our customers' expectations, one customer at a time. I am incredibly grateful to our more than 1,600 associates at Sleep Country, Dormez-vous, Endy and Hush, and to our partners, whose passion for our business and resilience in these ever-changing times inspired me every day.

"We achieved record results across the key metrics of our business, as we continued to evolve into a purpose-driven organization and differentiate ourselves in our industry."

World-class customer experience

Our strategic investments in creating a world-class customer experience across our banners, channel and product innovation, and our commitment to helping our customers get their best sleep as a pillar of wellbeing, combined with outstanding execution by our best-in-class teams, have built the most powerful sleep ecosystem in the world and enabled us to deliver for our customers.

In 2021, we continued our multi-year journey to transform our customer experience, with the expansion of our physical and digital touchpoints where our customers can discover, learn, test, trial and seamlessly purchase our innovative sleep products wherever and whenever they chose to shop.

Stewart Schaefer, President and CEO, Sleep Country

Our exceptional results for the year demonstrate the strength of our growing ecosystem and affinity for our brands. We grew our market share by driving customers into our channels, delivering above expectations with revenue growth of 21.4%, growth in net income attributable to Sleep Country Canada Holdings Inc. of 40.0%, and an EBITDA[1] increase of a record-breaking 19.9% for the year.

Canada's sleep partner

Our bricks and mortar retail network remains critically important in our omnichannel world as customers continue to value our sleep expertise and the in-person shopping experience. This year, we opened six new stores to finish up the year with a total of 285 locations coast to coast. We increased our footprint and visibility to new customer segments with our newest Sleep Country and Dormez-vous Express pilot stores in 10 Walmart Canada Supercentres, strengthening our partnership with Walmart, the world's leading retailer that attracts millions of shoppers to each of their stores every year.

We continued our digital transformation with investments in our eCommerce platforms, including new features and functionality, to enhance our online shopping experience and serve a growing number of customers through our Dreamline chat team. Our eCommerce business fuelled a growing share of sales that represented 23.5% of our total revenues in the year.

Our award-winning Endy business, Canada's number one bed-in-a-box retailer, continued to exceed all our expectations by surpassing 520,000 online transactions. We're very proud of the business that Endy has become and for the recognition it has garnered as Canada's Most Trusted Mattress-in-a-Box brand by Brandspark; Great Place to Work (Canada) for the third consecutive year; Best Workplaces for Start-ups, Today's Youth and Managed by Women; and Canada's Most Admired Corporate Cultures by Waterstone Human Capital.

[1] For more information on these non-IFRS and other measures, refer to "Non-IFRS and Other Measures" in the Management's Discussion and Analysis section of this report."

A Message from Stewart con't

"We continued our multi-year journey to transform our customer experience, with the expansion of our physical and digital touchpoints where our customers can discover, learn, test, trial and seamlessly purchase our innovative sleep products wherever and whenever they chose to shop."

We extended our reach to millions of more new and loyal customers through our exclusive online Sleep Country and Dormez-vous shop-in-shops with walmart.ca, bestbuy.ca and loblaw.ca, that we announced subsequent to year end.

In October we closed our acquisition of Hush, a beloved direct-to-consumer sleep retailer that has built an unbelievable brand and attracted a highly engaged and fiercely loyal customer base in just a few years. This transaction marked the second largest acquisition in our Company's history, and a significant strategic investment as we evolve our digital expertise and build our online communities.

Our innovative and expansive product selection is at the core of our sleep ecosystem. In 2021, we became the exclusive retail and digital partners of Casper's celebrated core-collection of mattresses in Canada, and continued to differentiate ourselves in the Canadian retail marketplace with the world's most relevant sleep brands such as Tempurpedic, Sealy, Simmons, Serta, Kingsdown, Purple and Simba.

We invested in Canadian start-up Sleepout and their portable blackout curtains for the bedroom, and expanded our product portfolio with Hush's innovative wellness accessories including their temperature regulating weighted blankets, ice cooling sheets, famous pillow, and recently launched Mattress-in-a-box. With these additions to our sleep collection, we will continue to grow our digital sleep ecosystem and accessories assortment as a profitable extension of our product mix.

Driven by our purpose

In a year where Canadians became even more committed to their wellbeing, we continued to elevate our purpose to transform lives through the power of sleep. We partnered with Well.ca, celebrated World Sleep Day and engaged our first-ever wellness ambassador Bianca Andrescu, all of which helped us build on the importance of sleep as a critical part of a healthy lifestyle along with diet and exercise.

Throughout the year, as we have done for the last 27 years, we were very proud to continue to support communities across this great country with donations of mattresses, foundations and sleep essentials that helped thousands of families in need get a better night's sleep.

As we look ahead, we are positioned better than ever to continue to lead Canada's sleep space and differentiate our brands with the best assortment of mattresses and sleep accessories across the most relevant distribution channels in the country. While the ripple effects of the pandemic continue to be felt and economic conditions vary widely, our long term strategic initiatives and the sleep ecosystem that we are building have clearly positioned us separately from the pack of other retailers. As a purpose-driven company, we are committed to accelerating our growth and investing in our strategic plan to drive our digital transformation, grow our touchpoints and expand our portfolio of products, all to deliver the best frictionless omnichannel sleep experience for our customers.

I would like to thank our Board, shareholders and all our partners for your support, and again thank our Sleep Country, Dormez-vous, Endy and Hush team members for your dedication to our customers. I am so incredibly proud to lead such a diverse group and feel fortunate to belong to this great organization.

Onwards and upwards,

Stewart Schaefer

The Year in Review

Be Canada's sleep partner through channel and product innovation

6
New Sleep Country/ Dormez-vous store openings across the country

+28%
growth in revenue from accessories product lines

Acquired Hush, an exciting new direct-to-consumer sleep retailer

Piloted 10 Sleep Country/ Dormez-vous Express stores in Walmart Supercentres in Ontario and Quebec

Expanded our digital footprint in partnership with Walmart Canada and Best Buy reaching millions of online customers

The Year in Review con't

Create world-class customer experience
with seamless physical and digital touchpoints

1,000+
Sleep Experts served close to 1+ million customers

$215+ million
Sales through our eCommerce platforms

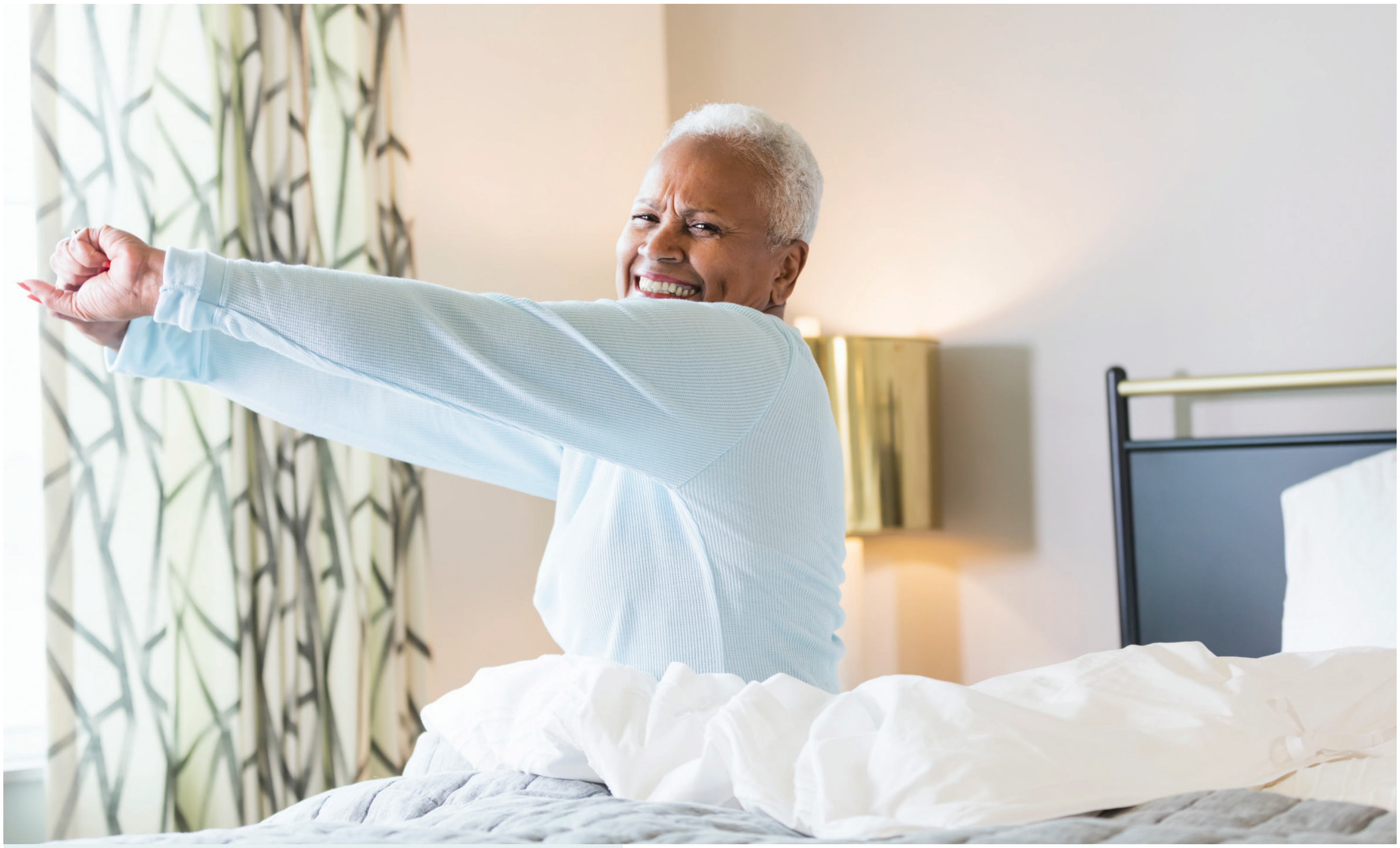
Surpassed 520,000 customer transactions since Endy's inception

Added 3 new warehouses which improves stock availability, expanded assortment and faster fulfillment options

Earned 4.6/5-star rating from customer reviews of Endy.com digital shopping experience

The Year in Review con't

Champion a sleep movement driven by our purpose to transform lives through the power of sleep



50+ million
impressions on first-ever World Sleep Day

180+
charitable partners

Promoted sleep as key to performance, health and wellbeing with brand ambassador Bianca Andrescu

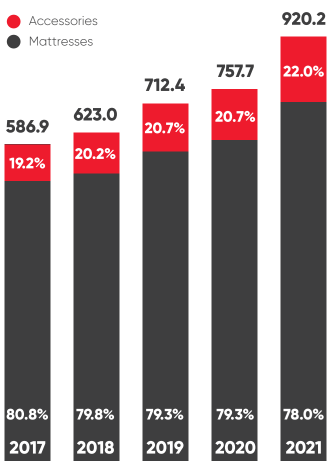
Donated over 30,000 mattresses and foundations and recycled or upcycled over 135,000 mattresses and foundations nationally

Initiated strategic partnership with Well.ca to foster a healthy sleep community

Financial Highlights

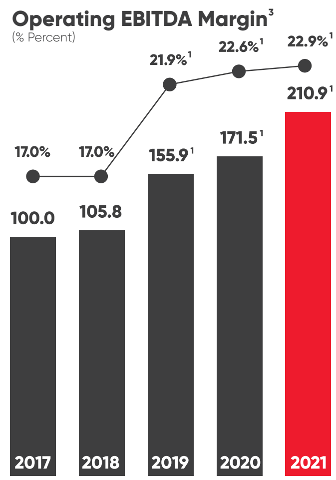
Revenues increased by 21.4% to $920.2 million, the highest revenue in the Company's history

Revenues
(C$Millions)



Operating EBITDA improved by 23.0% to $210.9 million[3]

Operating EBITDA[3]
(C$Millions)

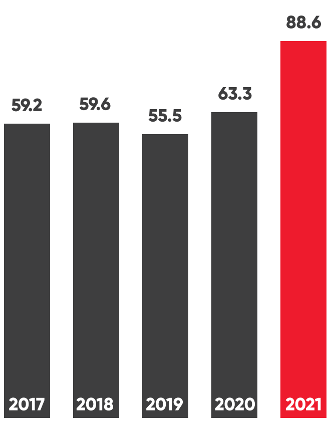


"We achieved record results across the key metrics of our business, as we continued to evolve into a purpose-driven organization and differentiate ourselves in our industry."

– Stewart Schaefer,
President and CEO,
Sleep Country

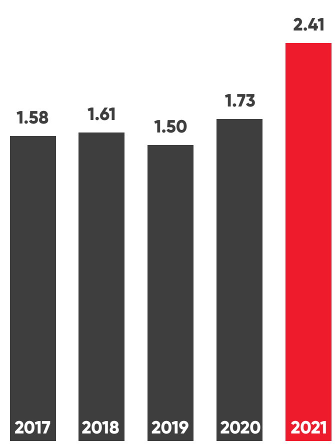
Net Income Attributable to Company increased by 40.0% to $88.6 million

Net Income Attributable to Company
(C$Millions)



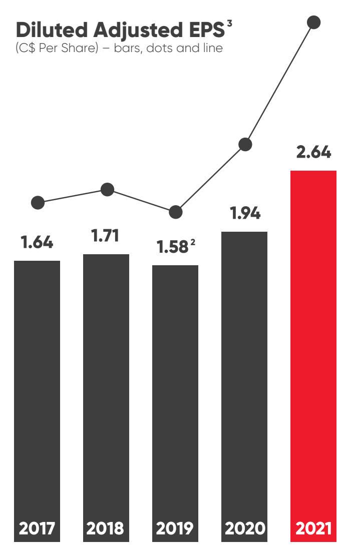
Achieved highest basic earnings per share at $2.41

Basic EPS
(C$ Per Share)

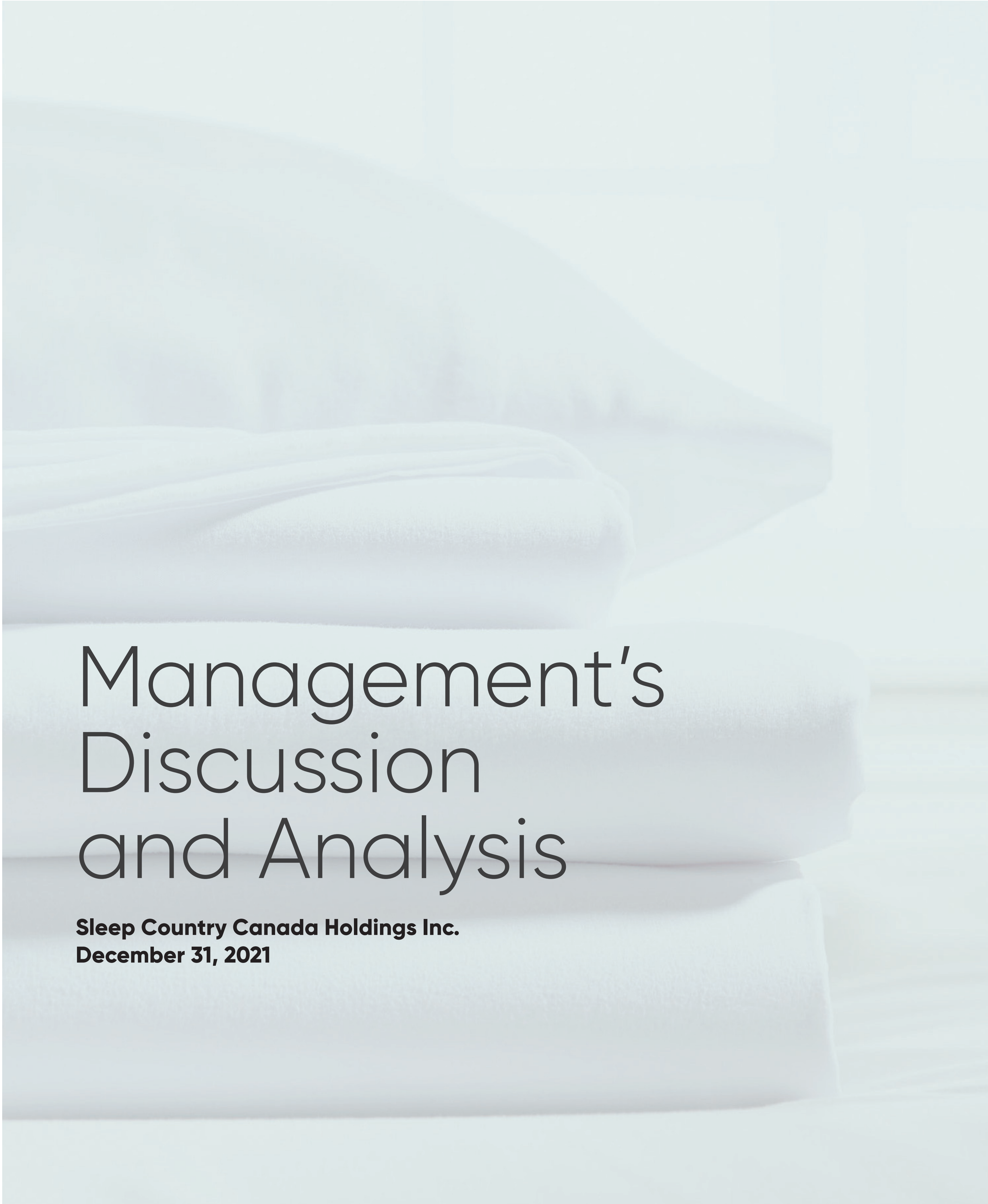


Reached highest diluted adjusted earnings per share at $2.64[3]

Diluted Adjusted EPS[3]
(C$ Per Share) – bars, dots and line



[1] Figures include 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.
[3] For more information on these non-IFRS and other measures, refer to "Non-IFRS and Other Measures" in the Management's Discussion and Analysis section of this report.



Management's Discussion and Analysis

Sleep Country Canada Holdings Inc.
December 31, 2021

1 Preface

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of March 3, 2022 and is intended to assist readers in understanding the financial performance and financial condition of Sleep Country Canada Holdings Inc. (the "**Company**") for the fourth quarter and year ended December 31, 2021 and should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes for the years ended December 31, 2021 and December 31, 2020 and the related MD&A.

<u>Basis of Presentation</u>

All references in this MD&A to "**Q4 2021**" are to the Company's quarter ended December 31, 2021, "**Q4 2020**" are to the Company's quarter ended December 31, 2020 and "**Q4 2019**" are to the Company's quarter ended December 31, 2019. All references in this MD&A to "**2021**" are to the Company's year ended December 31, 2021, "**2020**" are to the Company's year ended December 31, 2020 and "**2019**" are to the Company's year ended December 31, 2019.

The Company's audited consolidated financial statements for the years ended December 31, 2021 and December 31, 2020 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, number of shares and per share amounts or unless otherwise indicated.

The audited consolidated financial statements of the Company and the accompanying notes for the year ended December 31, 2021 and this MD&A were reviewed by the Company's Audit Committee. They were approved by the Company's board of directors (the "Board") on March 3, 2022.

<u>Forward-looking Information</u>

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 "COVID-19 Business Update", the impact of the novel coronavirus ("COVID-19") pandemic, and those described in the Company's 2021 annual information form (the "**AIF**") filed on March 3, 2022. 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.

The Company cautions that the list of risk factors and uncertainties described in this MD&A and the AIF are 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. The Company 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.

2 Overview

The Company is Canada's leading specialty sleep retailer with retail banners Sleep Country Canada™, Dormez-vous™, Endy™ and Hush™ (the "Banners").

The Company's omnichannel retail banners are Sleep Country Canada™ and Dormez-vous™ (in Quebec). Sleep Country Canada launched its banner in Vancouver, British Columbia in 1994 and thereafter the banner expanded across Canada (except in Quebec). Similarly, Dormez-vous launched its banner in Montreal, Quebec in 1994 and subsequently expanded within Quebec. As at December 31, 2021, cumulatively, these banners have a growing network of 285 corporate-owned stores (2020 – 281 stores) augmented by its eCommerce platforms – sleepcountry.ca and dormezvous.com – and its Dreamline digital chat and phone line. The Sleep Country Canada and Dormez-vous banners offer its customers Canada's largest domestic and imported mattress selection and complementary sleep related products ("accessories"). The Company provides its customers, at all its access points, with elevated sleep expertise via its "Sleep Experts" who are dedicated to matching all customers to their best night's sleep. The Sleep Country Canada and Dormez-vous brands are highly recognized in the retail landscape and are considered to be Canada's leading sleep partner.

The Company's direct-to-consumer retail banners are Endy™ and Hush™.

Endy introduced its mattress-in-a-box offering in 2015, on its ecommerce platform supported by its digital chat and phone line. Through its best-in-class online sales and digital capabilities, Endy has become Canada's leading direct-to-consumer sleep solutions retailer offering customers with an expanding product assortment to meet their sleep needs. It has become one of Canada's fastest growing and highly recognized online retail brands.

In Q4 2021, the Company acquired 52% of the common shares of Hush Blankets Inc. ("Hush"), a direct-to-consumer ecommerce sleep retailer. The Company will be acquiring the remaining 48% of the outstanding common shares in three equal increments of 16% over a three-year period starting March 31, 2023. Founded in 2018 Hush introduced its weighted blankets to consumers which were received with huge success. Thereafter, Hush continued to expand its product line to include other sleep accessories including its Hush mattress. Hush has quickly become one of Canada's fastest-growing ecommerce retailers with customers in both Canada and the U.S.

As at December 31, 2021, the Banners are supported by the Company's distribution network which includes 20 company-owned warehouses (2020 – 17 warehouses) across Canada.

Across all its Banners, the Company's purpose is to transform lives by awakening Canadians to the power of sleep with a vision to champion sleep as the key to healthier, happier lives and help everyone achieve better tomorrows through better tonights.

The Company continues to develop its industry-leading sleep ecosystem and it actively assesses opportunities to support its business model across infrastructure, channel, partnership and experience to best serve Canadians' sleep needs.

Building on its foundation of success, the Company drives sustainable growth through its three strategic platforms:

1. World-class customer experience
   - With a focus on the customer, the Company is committed to delivering a superior and seamless journey across all channels and touchpoints;
2. Channel and product innovation
   - The Company's goal is to be Canada's singular leading sleep partner and gateway to the world's best sleep assortment, achieved through dedication to channel and product innovation; and
3. Commitment to helping customers achieve their best sleep as a pillar of well-being
   - As a purpose-driven organization, the Company is dedicated to supporting the well-being of all Canadians by championing sleep as an essential pillar of physical, mental and emotional well-being. With the Company's sleep expertise, it aims to help all Canadians achieve their best sleep in the pursuit of healthier and happier lives.

The Company's purpose, strategy and operations differentiate it from its competitors. With its strong 27-year legacy, differentiated service model, unmatched sleep ecosystem, superior brand trust and commitment to customer experience, the Company has positioned itself to continue to be Canada's leading sleep retailer.

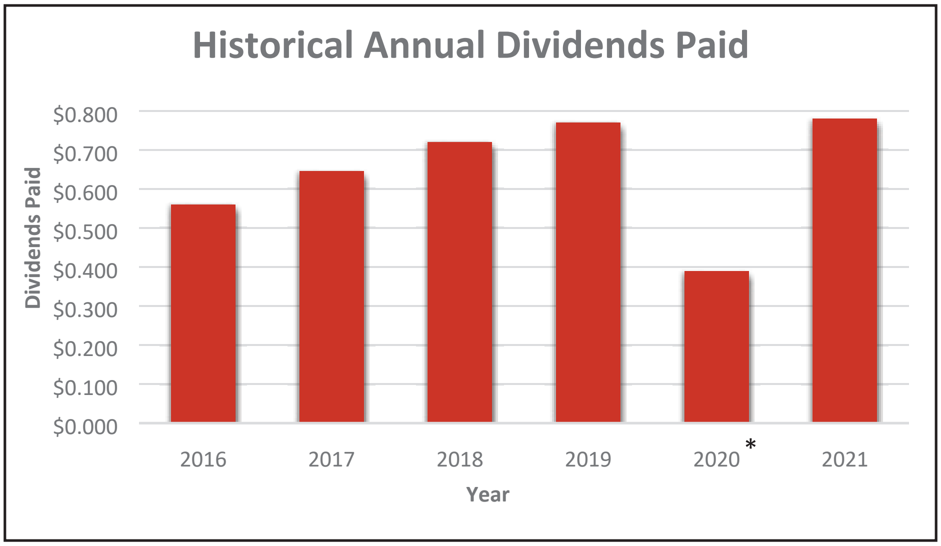
3 Dividends and Share Purchases

Dividends:

The Board 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
May 10, 2021	May 21, 2021	May 31, 2021	$ 0.195
August 3, 2021	August 20, 2021	August 30, 2021	$ 0.195
November 11, 2021	November 19, 2021	November 29, 2021	$ 0.195
February 8, 2022	February 18, 2022	February 28, 2022	$ 0.195

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



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

Share Purchases:

On March 4, 2021, 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 up to 928,933 of the Company's common shares, representing approximately 3.0% of the public float as of February 28, 2021. Purchases were permitted to 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. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 30,660 shares (representing 25% of the average daily trading volume of the shares on the TSX for the six months prior to commencement of the NCIB), except where such purchases are made in accordance with the "block purchase" exception under the applicable TSX rules and policies.

As at December 31, 2021, the Company had not purchased any shares under the NCIB program for cancellation.

4 Factors Affecting the Results of Operations

Revenues

The Company's revenues are derived from the sale of mattresses and accessories through its Banners. Mattresses revenue includes sales of mattresses, lifestyle adjustable bases, boxsprings and frames. Accessories revenue includes the sales of pillows, sheets, duvets, weighted blankets, quilts, duvet covers, mattress toppers, mattress and pillow protectors, pet beds, throws, cushions, sleep bundles, headboards, footboards, storage benches, delivery fees and warranties.

Revenue is recognized when the performance obligation is deemed to be fulfilled and 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. Revenues from the sale of third party warranties are 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 section "Non-IFRS and Other Measures"), which includes revenues from both its existing retail stores and its online channels. The Company's revenue growth initiatives include:

- adding stores in both new and existing markets;
- adding new eCommerce platforms;
- partnering with new third-party online marketplace sellers;
- growing and optimizing its existing eCommerce platforms;
- expanding its product assortment;
- reaching more customers through targeted marketing;
- growing lifetime value with existing customers through serving more sleep needs; and
- growing revenue through strategic channel and brand partnerships.

SSS is primarily driven by:

- changes in customer traffic across sales channels through effective marketing, customer loyalty and word of mouth;
- changes in the conversion rate of shoppers into buyers;
- changes in the average transaction size; and
- changes in economic conditions and consumer confidence.

The Company's revenues are impacted by competition from other retailers that sell similar products and by seasonal patterns.

The COVID-19 pandemic had an economic impact in Canada and on the Company's revenues. See section "COVID-19 Business Update" for 2021 impact and risks and uncertainties related to COVID-19.

Product Expansion Opportunities

One of the Company's goals is to serve its customers' sleep needs by offering them a variety of best-in-class sleep products available in the market across all its Banners. Over the last few years, the Banners have introduced new innovative mattresses, including mattresses-in-box, as well as sleep products, some of which include adjustable bases, pillows, sheets, duvets and duvet covers, mattress protectors, pillow protectors, mattress toppers and weighted blankets. The Company will pursue opportunities to expand its product assortment to better meet its customers sleep needs.

The Company continues to deepen and expand its product assortment through in-house innovations, sourcing new sleep products and strategic business partnerships.

To provide its customers with the best available sleep products the Company has entered into several exclusive partnerships with industry leaders in the North American and European sleep space:

- Purple Innovation, a U.S. mattress and bedding leader, who uses innovation and technology to create comfort solutions including its signature Purple® Mattress.
- Casper Sleep Inc., a U.S. award-winning sleep company
    - Additionally, the Company has partnered with Casper in the development and distribution of new Casper products designed exclusively to meet Canadians' sleep needs.
- Simba, a U.K. leading mattress-in-a-box and sleep accessories retailer
- Malouf, a U.S. industry leader in innovative bedding and furniture products

Additionally, the Company has established drop ship arrangements with select vendors to provide sleep products from brands such as Nautica, Eddie Bauer and Laura Ashley. This program enables the delivery of select sleep products to be shipped directly from the Company's vendors to its customers. This capability allows the Company to offer Canadians an increased product assortment without increasing its inventory risk while achieving time, resource and cost efficiencies. The Company continues to strategically expand the drop ship program.

The Company will continue to explore opportunities to expand its product assortment to better meet its customers sleep needs.

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 warehouses could be impacted by availability of resources, 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 "COVID-19 Business Update" in this MD&A.

Online Expansion Opportunities

Each of the Company's banners have their own eCommerce platforms; sleepcountry.ca, dormezvous.com, endy.com, hush.ca, and hushblankets.com.

The sleepcountry.ca and dormezvous.com websites provide customers with access to the full range of sleep products available at the Sleep Country and Dormez-vous retail stores. These websites are supported by the Dreamline digital chat and phone line which are serviced by the Company's Sleep Experts. With this service capability, the Company can offer online customers with the same differentiated sleep expertise available at the Company's retail stores. This enhanced omnichannel experience gives customers the flexibility to shop when they want, how they want and where they want.

Endy's direct-to-consumer business model leverages its eCommerce platform which is supported by its digital chat and phone line. Since Endy's launch in 2015, it has become one of Canada's fastest growing eCommerce companies and a highly recognized brand through its best-in-class online sales and digital marketing capabilities.

Hush's direct-to-consumer business model leverages its eCommerce platform which are supported by digital chat and live video consultation with Product Experts. The addition of Hush to the Company's ensemble of robust eCommerce platforms has allowed the Company to continue to expand its digital footprint both nationally and in the United States.

The Company has also expanded its sleep ecosystem through partnerships with third-party online marketplaces to expand its customer reach and transform lives by awakening Canadians to the power of sleep. For instance, the Company partnered with Walmart to supply mattresses including mattresses-in-a-box and traditional mattresses on the Walmart.ca marketplace. In addition to mattresses, the Company 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 percent 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 the Company's omnichannel offering.

In Q2 2021, the Company entered into a partnership with Best Buy Canada, one of Canada's largest omnichannel retailers, offering a selection of the Company's sleep solutions on the Best Buy Marketplace. The Company exclusively retails the traditional mattress category on BestBuy.ca which includes mattress brands such as Tempur-Pedic, Sealy, Serta, Simmons, Simba and Purple. In addition, the Company offers leading assortment of sleep accessories including pillows, sheets, duvets, mattresses-in-a-box and lifestyle bases on the Best Buy Marketplace.

Store Expansion Opportunities

The Company has the ability to add new stores in existing markets (in-fill stores), satellite markets and new markets. An existing market or in-fill opportunity is a pre-existing built out region in which the Company already has an established store presence serviced by one or more existing warehouses. 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 warehouse. 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 its store network every year since its inception in 1994. The capacity to expand its store presence depends on the Company's ability to choose new locations and new markets, to hire and train new associates for its stores and warehouses and create top-of-mind brand awareness for its Banners.

Stores in enclosed malls provide the Company with a unique opportunity to gain the attention of the captive audience, while capitalizing on the decline of department stores in recent years. As at December 31, 2021, the Company had 12 mall stores in Canada.

The Company'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 the Company can successfully incorporate its culture, vision and purpose into the new region. To attain this goal, the Company 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 across the Company (i.e. warehouses, thereby learning the Company's service model and culture).

To broaden its customer reach through channel innovation and strategic partnership, in Q4 2021, the Company introduced its pilot of ten "Sleep Country Express" and "Dormez-vous Express" stores ("**Express stores**") in Walmart Canada locations across Ontario and Quebec. Each Express store has an average footprint of 500 square feet and offers cash-and-carry products as well as traditional mattresses which are delivered with the Company's white-glove service. A curated assortment of products, from the Company's leading mattress-in-a-box selection to sheets, pillows and headboards, as well as 8-9 traditional mattresses for customers to experience on-site, are available at each Express store location. These stores are staffed by the Company's highly trained Sleep Experts, who will bring their renowned sleep expertise to Walmart Canada customers.

The following table summarizes the Company’s corporate-owned store count for each of the three-month periods and twelve-months ended December 31, 2021 and December 31, 2020.

	Q4		Annual	
	2021	**2020**	**2021**	**2020**
Number of stores, beginning of period(1)	**287**	280	**281**	276
Stores newly opened(1)	**-**	2	**6**	6
Stores closed(1)	**2**	1	**2**	1
Number of stores, end of period(1)	**285**	**281**	**285**	**281**
Number of stores in enhanced store design, end of period(1)			**236**	**220**
Stores relocated(1)	**-**	-	**1**	2
Stores renovated(1)	**1**	12	**10**	19

Notes:

(1) Excludes the ten pilot Sleep Country and Dormez-vous express stores opened in Q4 2021 operating in Walmart Canada licensee spaces.

Enhanced Store Design

The Company continues to enhance and evaluate the design and layout of its stores to provide customers with the optimal shopping experience. The enhanced store design was first introduced in certain existing stores in 2014. As at December 31, 2021, there are 236 corporate-owned stores or 83% of the store network that feature the enhanced store design, of which 78 are new stores, 147 are renovated stores and 11 are relocations of existing stores. The Company continuously evaluates its store design and it will continue to renovate its stores, as required, to provide the optimal customer experience.

In response to the COVID-19 pandemic and its associated uncertainties, the Company closely monitored and evaluated the timing of its scheduled store renovations. Refer to section entitled “Outlook” for additional information and specific guidance on capital investments for fiscal 2022. For risks and uncertainties related to COVID-19, refer to the section entitled “COVID-19 Business Update” in this MD&A.

Competition

The sleep industry is highly competitive and includes national and regional full-line furniture retailers, department stores, mass merchants, small regional specialty bedding retailers, eCommerce retailers and online marketplaces. The Company is Canada’s leading omnichannel and direct-to-consumer specialty sleep retailer with its national retail store network and robust eCommerce platforms including its retail presence on several prominent third-party online marketplaces. Management believes it can maintain and strengthen its leading market position through its differentiated sleep ecosystem, trusted brands, unmatched product assortment, superior sleep expertise and customer experience. The Company continues to actively assess opportunities for infrastructure, channels, partnerships, products and customer experience improvements across all its Banners to best 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 “COVID-19 Business Update” in this MD&A.

Supply Chain

The Company relies on third party manufacturers to obtain its merchandise. Merchandise is sourced domestically in Canada as well as from countries around the world (for example - 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 and 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 "COVID-19 Business Update" in this MD&A.

Seasonality

The retail mattress industry is affected by seasonal conditions. The Company typically experiences higher sales and a greater proportion of income during the third and fourth quarters due seasonal factors including the concentration of the summer and holiday season. Sales have historically trended lower in the first quarter as consumers tighten their spending after the holiday season and shop less in the cold winter weather. The average percentage of annual sales by quarter for the fiscal years 2017 to 2019, from the Company's omnichannel retail banners, 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 and 2021, the Company did not include 2020 and 2021 in the above mentioned sales seasonality.

The uncertainty around the impact of COVID-19 on the overall economy and consumer purchasing behavior may have had an impact on seasonality. Additionally, the uncertainty around the impact of the COVID-19 measures, including stores closures, that may have altered the typical seasonal impact. For risks and uncertainties related to COVID-19, refer to the section "COVID-19 Business Update" 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 inventory at its current cost levels may be negatively impacted by the ongoing 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 "COVID-19 Business Update" in this MD&A.

5 Fourth Quarter and Annual Highlights

(C$ thousands unless otherwise stated; other than store count and earnings per share)	Q4			Annual		
	2021	2020	Change	**2021**	2020	Change
Revenues	**$ 271,158**	$ 248,861	9.0%	**$ 920,194**	$ 757,699	21.4%
SSS[1]	**3.2%**	32.4%		**18.3%**	N/A[3]	
Stores opened[2]	**-**	2		**6**	6	
Stores closed	**2**	1		**2**	1	
Stores renovated/relocated	**1**	12		**11**	21	
Gross profit margin %	**36.0%**	33.0%		**34.5%**	32.3%	
Operating EBITDA[1]	**62,065**	53,848	15.3%	**210,889**	171,469	23.0%
Operating EBITDA margin %[1]	**22.9%**	21.6%		**22.9%**	22.6%	
Net income	**$ 26,812**	$ 26,571	0.9%	**$ 88,982**	$ 63,307	40.6%
Net income attributable to the Company	**$ 26,433**	$ 26,571	(0.5%)	**$ 88,603**	$ 63,307	40.0%
Adjusted net income attributable to the Company[1]	**$ 30,977**	$ 27,404	13.0%	**$ 98,342**	$ 71,593	37.4%
Earnings per share - Basic	**$ 0.72**	$ 0.72	0.0%	**$ 2.41**	$ 1.73	39.3%
Earnings per share - Diluted	**$ 0.71**	$ 0.72	(1.4%)	**$ 2.38**	$ 1.71	39.2%
Adjusted earnings per share - Basic[1]	**$ 0.84**	$ 0.75	12.0%	**$ 2.67**	$ 1.95	36.9%
Adjusted earnings per share - Diluted[1]	**$ 0.83**	$ 0.74	12.2%	**$ 2.64**	$ 1.94	36.1%

Notes:

(1) SSS is a supplementary financial measure, Operating EBITDA, Adjusted net income attributable to the Company, Adjusted earnings per share - Basic and Adjusted earnings per share - Diluted are each non-IFRS measures, and Operating EBITDA margin is a non-IFRS ratio. See the section titled "Non-IFRS and Other Measures" for further details concerning how the Company calculates SSS, Operating EBITDA, Operating EBITDA margin, Adjusted net income attributable to the Company, Adjusted earnings per share - Basic and Adjusted earnings per share - Diluted and for a reconciliation to the most comparable IFRS measure.

(2) This figure does not include the ten pilot Sleep Country Express/Dormez-vous Express stores opened in Q4 2021 in Walmart Canada licensee spaces.

(3) The temporary closure of the Company's retail stores in 2020 resulted in the Company's retail stores being closed for an average of 19.8% of its normal operating days (see "Non-IFRS and Other Measures"). As a result, the Company did not report 2020 SSS as it was not a representative measure of the Company's performance.

Highlights of Results in Q4 2021

Q4 2021 compared to Q4 2020 - See "Non-IFRS and Other Measures".

- Revenues increased by $22.3 million or 9.0% from $248.9 million in Q4 2020 to $271.2 million in Q4 2021 mainly driven by a 3.2% increase in SSS, four net new stores opened in 2021 and post-acquisition revenue from Hush acquired on October 22, 2021;
- eCommerce sales represented 20.9% of Revenues;
- Gross profit margin increased by 3.0% from 33.0% in Q4 2020 to 36.0% in Q4 2021;
- Operating EBITDA margin increased by 1.3% from 21.6% in Q4 2020 to 22.9% in Q4 2021;
- Net income attributable to the Company decreased by $0.2 million or 0.5% from $26.6 million in Q4 2020 to $26.4 million in Q4 2021;
- Adjusted net income attributable to the Company increased by $3.6 million or 13.0% from $27.4 million in Q4 2020 to $31.0 million in Q4 2021;
- Basic earnings per share remained unchanged at $0.72 in Q4 2020 and Q4 2021; and
- Basic adjusted earnings per share increased by $0.09 or 12.0% from $0.75 in Q4 2020 to $0.84 in Q4 2021.

Highlights of Results in 2021

2021 compared to 2020 - See "Non-IFRS and Other Measures".

- Revenues increased by $162.5 million or 21.4% from $757.7 million to $920.2 million mainly driven by an 18.3% increase in SSS, four net new stores opened in 2021 and post-acquisition revenue from Hush acquired on October 22, 2021;
    - Government mandated closures due to COVID-19 resulted in the Company's retail store network being temporarily closed for an average of 16.6% of its normal operating days in 2021 compared to 19.8% of its normal operating days in 2020;
- eCommerce sales represented 23.5% of Revenues;
- Gross profit margin increased by 2.2% from 32.3% in 2020 to 34.5% in 2021;
- Operating EBITDA margin increased by 0.3% from 22.6% in 2020 to 22.9% in 2021;
- Net income attributable to the Company increased by $25.3 million or 40.0% from $63.3 million in 2020 to $88.6 million in 2021;
- Adjusted net income attributable to the Company increased by $26.7 million or 37.4% from $71.6 million in 2020 to $98.3 million in 2021;
- Basic earnings per share increased by $0.68 from $1.73 in 2020 to $2.41 in 2021; and
- Basic adjusted earnings per share increased by $0.72 or 36.9% from $1.95 in 2020 to $2.67 in 2021.

Outlook

The Company believes that the COVID-19 pandemic may continue to have an impact on the Company's business in 2022 (refer to section entitled "Forward-looking Information"). 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 closely monitoring the impact of the pandemic on the business and making appropriate adjustments to reflect the evolving environment.

The Company continues to make significant investments to strengthen its omnichannel and digital capabilities, deepen relationships with new and loyal customers, expand its assortment of innovative and relevant sleep products and increase its market share. These investments support the Company's long-term, profitable growth strategy and reinforce the Company's position as Canada's foremost sleep retailer.

Key initiatives planned for 2022 include continuing to:

- invest in and evolve new ERP system, which includes a new in-store point of sale system, supply chain demand planning tool and warehouse management system;
- invest in digital infrastructure and marketing capabilities across the Banners, grow and optimize our existing eCommerce platforms, including third-party online marketplace channels and invest in customer relationship management tools;
- enhance the omnichannel customer experience across the Company's omnichannel banners through the new ERP system, which will deliver new capabilities to connect the digital and store experience and enable more robust analytics;
- invest in an elevated in-store customer experience across our retail store network, opening a minimum of six new stores and renovating 20 to 30 stores;
- increase digital marketing spend to drive engagement across the marketing funnel and traffic to the Company's websites and stores; and
- expand the sleep product assortment through strategic partnerships and in-house innovation.

Selected Financial Information

The following table presents selected IFRS and certain non-IFRS financial measures and ratios of the Company and should be read in conjunction with the audited consolidated financial statements for years ended December 31, 2021 and December 31, 2020.

	Q4			Annual		
(C$ thousands unless otherwise stated; other than earnings per share)	**2021**	2020	Change	**2021**	2020	Change
Consolidated Income Statement						
Revenues	**$ 271,158**	$ 248,861	9.0%	**$ 920,194**	$ 757,699	21.4%
Cost of sales	**173,438**	166,699	4.0%	**603,146**	513,203	17.5%
Gross profit	**97,720**	82,162	18.9%	**317,048**	244,496	29.7%
General and administrative expenses	**56,263**	43,665	28.9%	**178,225**	134,926	32.1%
Income before finance related expenses, interest and other expenses (income) - net and income taxes	**41,457**	38,497	7.7%	**138,823**	109,570	26.7%
Finance related expenses	**4,259**	4,830	(11.8%)	**16,837**	25,363	(33.6%)
Interest and other expenses (income) - net	**(51)**	25	(304.0%)	**142**	200	(29.0%)
Net income before provision for income taxes	**37,249**	33,642	10.7%	**121,844**	84,007	45.0%
Provision for income taxes	**10,437**	7,071	47.6%	**32,862**	20,700	58.8%
Net income	**$ 26,812**	$ 26,571	0.9%	**$ 88,982**	$ 63,307	40.6%
Net income attributable to the Company	**$ 26,433**	$ 26,571	(0.5%)	**$ 88,603**	$ 63,307	40.0%
EBITDA[1]	**$ 57,314**	$ 52,847	8.5%	**$ 199,549**	$ 166,443	19.9%
Operating EBITDA[1]	**$ 62,065**	$ 53,848	15.3%	**$ 210,889**	$ 171,469	23.0%
Operating EBITDA margin %[1]	**22.9%**	21.6%		**22.9%**	22.6%	
Adjusted net income attributable to the Company[1]	**$ 30,977**	$ 27,404	13.0%	**$ 98,342**	$ 71,593	37.4%
Earnings per share - Basic	**$ 0.72**	$ 0.72	0.0%	**$ 2.41**	$ 1.73	39.3%
Earnings per share - Diluted	**$ 0.71**	$ 0.72	(1.4%)	**$ 2.38**	$ 1.71	39.2%
Adjusted earnings per share - Basic[1]	**$ 0.84**	$ 0.75	12.0%	**$ 2.67**	$ 1.95	36.9%
Adjusted earnings per share - Diluted[1]	**$ 0.83**	$ 0.74	12.2%	**$ 2.64**	$ 1.94	36.1%
Dividends declared per share	**$ 0.195**	$ 0.195	0.0%	**$ 0.780**	$ 0.390	100.0%

	31-Dec-21	**31-Dec-20**
Total Assets	**$ 988,035**	**$ 902,351**
Total Long-term lease liabilities and long-term debt	**$ 346,233**	**$ 345,575**

Notes:

(1) EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Adjusted earnings per share - Basic and Adjusted earnings per share - Diluted are each non-IFRS measures and Operating EBITDA margin is a non-IFRS ratio. See the section titled “Non-IFRS and Other Measures” for further details concerning how the Company calculates EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Adjusted earnings per share - Basic and Adjusted earnings per share - Diluted and for a reconciliation to the most comparable IFRS measure.

The following table presents selected IFRS and certain non-IFRS financial measures and ratios of the Company and should be read in conjunction with the audited consolidated financial statements for years ended December 31, 2020 and December 31, 2019.

	Q4			Annual		
(C$ thousands unless otherwise stated; other than earnings per share)	**2020**	2019	Change[(2)]	**2020**	2019	Change[(2)]
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 and other expenses (income) - net 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 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%
Net income attributable to the Company	**$ 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 %[(1)]	**21.6%**	22.2%		**22.6%**	21.9%	
Adjusted net income attributable to the Company[(1)]	**$ 27,404**	$ 15,725	74.3%	**$ 71,593**	$ 58,902	21.5%
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%	**$ 1.95**	$ 1.59	22.6%
Adjusted earnings per share - Diluted[(1)]	**$ 0.74**	$ 0.42	76.2%	**$ 1.94**	$ 1.58	22.8%
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**
Total Long-term lease liabilities and long-term debt	**$ 345,575**	**$ 446,196**

Notes:

(1) EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Adjusted earnings per share - Basic and Adjusted earnings per share - Diluted are each non-IFRS measures and Operating EBITDA margin is a non-IFRS ratio. See the section titled "Non-IFRS and Other Measures" for further details concerning how the Company calculates EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Adjusted earnings per share - Basic and Adjusted earnings per share - Diluted and for a reconciliation to the most comparable IFRS measure.

(2) See the Q4 2020 MD&A for discussion related to performance analysis.

6 Fourth Quarter 2021 versus Fourth Quarter 2020

Revenues

Revenues increased by $22.3 million or 9.0% from $248.9 million in Q4 2020 to $271.2 million in Q4 2021 mainly driven by a 3.2% increase in SSS (See “Non-IFRS and Other Measures”), four net new stores opened in 2021 and post-acquisition revenue from Hush acquired on October 22, 2021. In Q4 2021, eCommerce sales were 20.9% of revenues.

The increase in total revenues was comprised of an increase in mattresses and accessories sales in Q4 2021 over Q4 2020.

							Q4
(C$ millions unless otherwise stated)		**2021**		2020		Change	Change (%)
Mattresses	**$**	**207.4**	$	196.8	$	10.6	5.4%
Accessories	**$**	**63.8**	$	52.1	$	11.7	22.5%
Total	**$**	**271.2**	$	248.9	$	22.3	9.0%

Gross profit

Gross profit increased by $15.5 million from $82.2 million in Q4 2020 to $97.7 million in Q4 2021. Gross profit margin increased by 3.0% from 33.0% for Q4 2020 to 36.0% for Q4 2021. The increase was attributable to higher average unit selling prices in Q4 2021 versus Q4 2020 as well as a result of the following:

- inventory and other directly related expenses, net of volume rebates, decreased as percentage of revenue by 1.7% from 45.9% in Q4 2020 to 44.2% in Q4 2021. As a percentage, the decrease was driven by lower product costs – net of volume rebates and inventory adjustments partially offset by higher transport and delivery costs;
- sales and distribution compensation expenses decreased as a percentage of revenue by 0.8% from 13.3% in Q4 2020 to 12.5% in Q4 2021. This decrease was mainly attributable to lower temporary wages which was partially offset by higher sales salaries and associate benefits expenses;
- depreciation expenses decreased as a percentage of revenue by 0.2% from 4.4% in Q4 2020 to 4.2% in Q4 2021 due to the Company leveraging its depreciation costs; and
- store occupancy costs decreased as a percentage of revenue by 0.1% from 2.5% in Q4 2020 to 2.4% in Q4 2021 due to the Company leveraging its occupancy costs.

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

Total G&A expenses increased by $12.6 million or 28.9% from $43.7 million in Q4 2020 to $56.3 million in Q4 2021, and, as a percentage of revenue, G&A expenses increased from 17.5% of revenue in Q4 2020 to 20.7% of revenue in Q4 2021.

						Q4
(C$ millions unless otherwise stated)		**2021**	***% of revenue***	2020	*% of revenue*	Change
Media and advertising expenses[1]	**$**	**22.3**	**8.2%**	$ 18.2	7.3%	$ 4.1
Salaries, wages and benefits[2]		**12.3**	**4.5%**	9.9	4.0%	2.4
Credit card and finance charges[3]		**5.7**	**2.1%**	5.1	2.0%	0.6
Occupancy charges		**2.1**	**0.8%**	2.0	0.8%	0.1
Professional fees[4]		**4.2**	**1.6%**	1.3	0.5%	2.9
Telecommunication and information technology[5]		**2.9**	**1.1%**	2.3	0.9%	0.6
Mattresses recycling and donations		**1.1**	**0.4%**	0.9	0.4%	0.2
Depreciation and Amortization[6]		**4.5**	**1.7%**	3.3	1.3%	1.2
Other[7]		**1.2**	**0.4%**	0.7	0.3%	0.5
Total G&A expenses	**$**	**56.3**	**20.7%**	$ 43.7	17.5%	$ 12.6

Notes:

(1) Media and advertising expenses increased by $4.1 million mainly due to an increase in online and television advertising and a decrease in advertising credits received in Q4 2021. This increase was partially offset by a decrease in newspaper and radio advertising and a decrease in advertising fees.

(2) Salaries, wages and benefits increased by $2.4 million as a result of an increase in compensation expenses incurred in the regular course of business, associate benefits and share-based compensation. This increase was partially offset by a decrease in bonus expenses due to timing of the accrual in Q3 2021 versus Q4 2020.

(3) Credit card and finance charges are variable costs and these costs remain consistent as a percentage of revenue from Q4 2020 to Q4 2021.

(4) Professional fees increased by $2.9 million mainly due an increase in consulting fees related to the ERP implementation.

(5) Telecommunication and information technology expenses increased by $0.6 million mainly due to increased software licensing fees and support.

(6) Depreciation expenses increased by $1.2 million mainly due to the increase in tangible and intangible depreciation and IFRS 16 related depreciation on the Company's leased warehouse and property and equipment depreciation, including the addition of two new warehouses in Q3 2021.

(7) Other expenses increased by $0.5 million mainly due to higher administrative expenses and higher meals, entertainment and travel expenses.

EBITDA

EBITDA increased by $4.5 million or 8.5% from $52.8 million in Q4 2020 to $57.3 million in Q4 2021. The increase was primarily due to strong revenue growth in Q4 2021 combined with an improved gross profit margin and partially offset by an increase in G&A expenses. See "Non-IFRS and Other Measures".

Operating EBITDA

Operating EBITDA was $62.1 million for Q4 2021, or 22.9% of revenue, compared to $53.8 million for Q4 2020, or 21.6% of revenue, representing an increase of $8.3 million or 15.3% mainly due to the increase in EBITDA. See "Non-IFRS and Other Measures".

Finance related expenses

Finance related expenses decreased by $0.5 million from $4.8 million in Q4 2020 to $4.3 million in Q4 2021. This change was mainly due to an unrealized gain of $0.6 million on the Company's interest swap as at December 31, 2021. This unrealized gain was partially offset by an increase in interest expense on the Company's lease liabilities.

Income taxes

The effective income tax rate increased by 7.0% from 21.0% in Q4 2020 to 28.0% in Q4 2021. Net income before income taxes in Q4 2021 increased by $3.6 million from $33.6 million in Q4 2020 to $37.2 million in Q4 2021 resulting in an increase to income taxes of $3.3 million.

Net income attributable to the Company

Net income attributable to the Company for Q4 2021 decreased by $0.2 million from $26.6 million ($0.72 per share) in Q4 2020 to $26.4 million ($0.72 per share) in Q4 2021.

Adjusted net income attributable to the Company

Adjusted net income attributable to the Company for Q4 2021 increased by $3.6 million from $27.4 million ($0.75 per share) in Q4 2020 to $31.0 million ($0.84 per share) in Q4 2021. See "Non-IFRS and Other Measures".

7 Annual Financial Results 2021 versus 2020

Revenues

Revenues increased by $162.5 million or 21.4% from $757.7 million in 2020 to $920.2 million in 2021. This increase was mainly driven by an 18.3% increase in SSS (See "Non-IFRS and Other Measures"), net four new stores opened in fiscal 2021 and post-acquisition revenue from Hush acquired on October 22, 2021. The Company's retail store network was temporarily closed for an average of 16.6% of its normal operating days in 2021 compared to 19.8% of its normal operating days in 2020. In 2021, eCommerce sales were 23.5% of revenues.

The increase in total revenues was comprised of an increase in mattresses and accessories sales in 2021 over 2020.

(C$ millions unless otherwise stated)		**2021**		2020		Change	**Annual** Change (%)
Mattresses	**$**	**718.2**	$	600.6	$	117.6	19.6%
Accessories	**$**	**202.0**	$	157.1	$	44.9	28.6%
Total	**$**	**920.2**	$	757.7	$	162.5	21.4%

Gross profit

Gross profit increased by $72.5 million from $244.5 million in 2020 to $317.0 million in 2021. Gross profit margin increased by 2.2% from 32.3% for 2020 to 34.5% for 2021. The increase was attributable to higher average unit selling prices in 2021 versus 2020 as well as a result of the following:

- inventory and other directly related expenses, net of volume rebates, decreased as percentage of revenue by 1.5% from 45.7% in 2020 to 44.2% in 2021. As a percentage, the decrease was driven by lower direct product costs – net of volume rebates and inventory adjustments partially offset by higher delivery costs;
- depreciation expenses decreased as a percentage of revenue by 0.9% from 5.8% in 2020 to 4.9%in 2021 due to the Company leveraging its depreciation costs;
- store occupancy costs decreased as a percentage of revenue by 0.5% from 3.3% in 2020 to 2.8% in 2021 due to the Company leveraging its occupancy costs;
- other expenses decreased as a percentage of revenue by 0.2% from 0.9% in 2020 to 0.7% in 2021 mainly due to lower COVID-19 personal protective equipment expenses; and
- sales and distribution compensation expenses increased as a percentage of revenue by 1.0% from 12.0% in 2020 to 13.0% in 2021. The increase was largely tied to wage subsidies received from the Canadian Emergency Wage Subsidy ("**CEWS**") program in 2020. In 2020, during the temporary closure of the Company's store network for 19.8% of its operating days, the Company retained its furloughed employees at reduced pay. These incurred compensation costs were supported by the wage subsidies of $13.4 million from the CEWS program for the period of March 15, 2020 to July 4, 2020. In 2021, the Company did not apply for the CEWS program during the temporary closure of its store network for 16.6% of its operating days. Additionally, in 2021, the Company experienced lower wages, bonuses, associate benefits and sales incentive costs.

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

Total G&A expenses increased by $43.3 million or 32.1% from $134.9 million in 2020 to $178.2 million in 2021, and, as a percentage of revenue, G&A expenses increased from 17.8% of revenue in 2020 to 19.4% of revenue in 2021.

							Annual
(C$ millions unless otherwise stated)		**2021**	***% of revenue***		2020	*% of revenue*	Change
Media and advertising expenses[1]	**$**	**66.0**	**7.2%**	$	51.8	6.8%	$ 14.2
Salaries, wages and benefits[2]		**38.6**	**4.2%**		29.3	3.9%	9.3
Credit card and finance charges[3]		**19.4**	**2.1%**		17.6	2.3%	1.8
Occupancy charges[4]		**9.6**	**1.0%**		6.2	0.8%	3.4
Professional fees[5]		**11.9**	**1.3%**		4.4	0.6%	7.5
Telecommunication and information technology[6]		**10.4**	**1.1%**		6.9	0.9%	3.5
Mattresses recycling and Donations		**3.9**	**0.4%**		3.4	0.5%	0.5
Depreciation and Amortization[7]		**15.6**	**1.7%**		12.8	1.7%	2.8
Other		**2.8**	**0.3%**		2.5	0.3%	0.3
Total G&A expenses	**$**	**178.2**	**19.4%**	$	134.9	17.8%	$ 43.3

Notes:

(1) Media and advertising expenses increased by $14.2 million due to an increase in online and television advertising and production. The 2021 increase was partially offset by an increase in co-op and advertising credits received in 2021.

(2) Salaries, wages and benefits increased by $9.3 million mainly as a result of a decrease in wage subsidies of $1.5 million that the Company received under the CEWS program in 2020. The Company did not apply for the CEWS program in 2021. Additionally, the Company experienced an increase in compensation expenses incurred in the regular course of business, bonuses, share-based compensation and payroll taxes.

(3) Credit card and finance charges are variable costs. These costs decreased as a percentage of revenue by 0.2% in 2021 over 2020.

(4) Occupancy charges increased by $3.4 million mainly due to an increase in operating costs at the Company's warehouses.

(5) Professional fees increased by $7.5 million mainly due consulting expenses for various projects of which $5.0 million was related to the ERP implementation and $0.4 million of fees related to the Hush acquisition on October 22, 2021.

(6) Telecommunication and information technology expenses increased by $3.5 million mainly due to increased software licensing fees and support.

(7) Depreciation expenses increased by $2.8 million mainly due to an increase in intangible depreciation and IFRS 16 related depreciation on the Company's leased warehouse and property and equipment depreciation.

EBITDA

EBITDA increased by $33.1 million from $166.4 million in 2020 to $199.5 million in 2021. The increase was primarily due to strong revenue growth in 2021 combined with an improved gross profit margin and partially offset by an increase in G&A expenses. See “Non-IFRS and Other Measures”.

Operating EBITDA

Operating EBITDA was $210.9 million for 2021, or 22.9% of revenue, compared to $171.5 million for 2020, or 22.6% of revenue, representing an increase of $39.4 million or 23.0% mainly due to the increase in EBITDA. See “Non-IFRS and Other Measures”.

Finance related expenses

Finance related expenses decreased by $8.6 million from $25.4 million in 2020 to $16.8 million in 2021. This change was mainly due to a $2.2M decrease in the Company’s interest expense on its senior secured credit facility and a $4.3 million adjustment in Q2 2020 on Endy’s contingent consideration liability, in addition to the $3.2 million periodic accretion expense related to the Endy acquisition in 2020. The contingent consideration liability was subsequently paid in full in March 2021. These decreases were partially offset by increases in the revolver commitment fees and interest expense on the Company’s lease liabilities.

Income taxes

The Company’s effective income tax rate increased by 2.3% from 24.6% in 2020 to 27.0% in 2021. Net income before income taxes in 2021 increased by $37.8 million from $84.0 million in 2020 to $121.8 million in 2021 resulting in an increase to income taxes of $12.2 million.

Net Income attributable to the Company

Net Income attributable to the Company for 2021 increased by $25.3 million from $63.3 million ($1.73 per share) in 2020 to $88.6 million ($2.41 per share) in 2021.

Adjusted Net Income attributable to the Company

Adjusted Net Income attributable to the Company for 2021 increased by $26.7 million from $71.6 million ($1.95 per share) in 2020 to $98.3 million ($2.67 per share) in 2021. See “Non-IFRS and Other Measures”.

8 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. The uncertainty around the impact of COVID-19 on the overall economy and consumer purchasing behavior may have had an impact on seasonality. Additionally, the uncertainty around the impact of the COVID-19 measures, including stores closures, that may have altered the typical seasonal impact. For risks and uncertainties related to COVID-19, refer to the section "COVID-19 Business Update" in this MD&A.

					2021					2020
(C$ thousands unless otherwise stated, except earnings per share)	**Q4**	Q3	Q2	Q1	**TOTAL**	Q4	Q3	Q2	Q1	**TOTAL**
Revenues	**$ 271,158**	$ 273,840	$ 192,175	$ 183,020	**$ 920,194**	$ 248,861	$ 242,351	$ 114,900	$ 151,586	**$ 757,699**
SSS[(1)]	**3.2%**	10.6%	65.5%	19.6%	**18.3%**	32.4%	14.5%	N/A[2]	(0.9%)	**N/A[2]**
Gross profit	**$ 97,720**	$ 102,726	$ 66,351	$ 50,250	**$ 317,048**	$ 82,162	$ 84,213	$ 36,970	$ 41,152	**$ 244,496**
Gross profit margin	**36.0%**	37.5%	34.5%	27.5%	**34.5%**	33.0%	34.7%	32.2%	27.1%	**32.3%**
EBITDA[(1)]	**$ 57,314**	$ 69,412	$ 42,452	$ 30,369	**$ 199,549**	$ 52,847	$ 64,024	$ 23,145	$ 26,428	**$ 166,443**
Operating EBITDA[(1)]	**$ 62,065**	$ 73,659	$ 43,706	$ 31,457	**$ 210,889**	$ 53,848	$ 65,294	$ 24,470	$ 27,858	**$ 171,469**
Operating EBITDA margin %[(1)]	**22.9%**	26.9%	22.7%	17.2%	**22.9%**	21.6%	26.9%	21.3%	18.4%	**22.6%**
Net income (loss)	**$ 26,812**	$ 36,458	$ 17,019	$ 8,692	**$ 88,982**	$ 26,571	$ 32,216	$ (471)	$ 4,993	**$ 63,307**
Net income (loss) attributable to the Company	**$ 26,433**	$ 36,458	$ 17,019	$ 8,692	**$ 88,603**	$ 26,571	$ 32,216	$ (471)	$ 4,993	**$ 63,307**
Adjusted net income attributable to the Company[(1)]	**$ 30,977**	$ 39,707	$ 18,036	$ 9,621	**$ 98,342**	$ 27,404	$ 33,217	$ 4,866	$ 6,107	**$ 71,593**
Earnings (Loss) per share – Basic	**$ 0.72**	$ 0.99	$ 0.46	$ 0.24	**$ 2.41**	$ 0.72	$ 0.88	$ (0.01)	$ 0.14	**$ 1.73**
Earnings (Loss) per share – Diluted	**$ 0.71**	$ 0.98	$ 0.46	$ 0.23	**$ 2.38**	$ 0.72	$ 0.87	$ (0.01)	$ 0.14	**$ 1.71**
Adjusted Earnings per share – Basic[(1)]	**$ 0.84**	$ 1.08	$ 0.49	$ 0.26	**$ 2.67**	$ 0.75	$ 0.91	$ 0.13	$ 0.17	**$ 1.95**
Adjusted Earnings per share – Diluted[(1)]	**$ 0.83**	$ 1.07	$ 0.48	$ 0.26	**$ 2.64**	$ 0.74	$ 0.90	$ 0.13	$ 0.17	**$ 1.94**

Notes:

(1) SSS is a supplementary financial measure, EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Adjusted earnings per share - Basic and Adjusted earnings per share - Diluted are each non-IFRS measures and Operating EBITDA margin is a non-IFRS ratio. See the section titled "Non-IFRS and Other Measures" for further details concerning how the Company calculates SSS, EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Adjusted earnings per share - Basic and Adjusted Earnings per share - Diluted and for a reconciliation to the most comparable IFRS measure.

(2) The initial extended temporary closure of the Company's retail stores in Spring 2020 due to the COVID-19 pandemic resulted in the Company's retail stores being closed an average of 54% of its normal operating days in Q2 2020. The Company did not report Q2 2020 SSS or 2020 annual SSS as it was not a representative measure of the Company's performance.

9 COVID-19 Business Update

The COVID-19 pandemic continued to have a direct impact on the Company's operations. One of the more significant impacts includes the closure of retail stores.

In 2020, as the number of verified COVID-19 cases grew significantly across Canada, all the Company's stores were closed effective March 21, 2020 and as provincial and municipal restrictions eased, the Company began to re-open its store network beginning May 11, 2020. All of the Company's stores reopened and resumed operations by June 24, 2020. During this time, the Company retained its furloughed employees with reduced pay with assistance from the CEWS program. The Company qualified for CEWS payments for the period of March 15, 2020 to July 4, 2020. All benefits from the CEWS program were recorded in the Company's Q2 2020 and Q3 2020 results.

In Fall 2020, the Company closed its retail stores in certain locations as required by municipal and provincial governments to contain the spread of the virus. This partial lockdown of the Company's store network continued into fiscal 2021. The Company's municipal and provincial mandated temporary store closures during the second lockdown were as follows:

Regions	Lockdown Start Date	Stores Reopened Date	# of Stores
Manitoba	12-Nov-20	23-Jan-21	7
Toronto and Peel	23-Nov-20	08-Mar-21	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	08-Mar-21	1
Remaining Ontario	26-Dec-20	16-Feb-21	54

The partial lockdown of certain of the Company's retail stores resulted in stores being closed on an average of 32.9% of their normal operating days in Q1 2021 versus an average of 10.2% of their normal operating days in Q1 2020. Affected sales associates were on temporary leave without pay with their employment reinstated upon the reopening of the Company's stores.

In April 2021, as the number of verified COVID-19 cases surged in Canada, certain municipal and provincial governments mandated the closure of non-essential businesses in an attempt to contain the spread of the virus. The Company's municipal and provincial mandated temporary store closures during the third lockdown were as follows:

Regions	Lockdown Start Date	Last Date Stores Reopened	# of Stores
Quebec	01-Apr-21	23-May-21	13
Ontario	08-Apr-21	30-June-21	115
Nova Scotia	28-Apr-21	1-June-21	5

In Q2 2021, the partial lockdown of certain of the Company's retail stores resulted in stores being closed on an average of 32.7% of their normal operating days versus an average of 54.0% of their normal operating days in Q2 2020. Affected sales associates were on temporary leave without pay with their employment reinstated upon the reopening of the Company's stores. As the restrictions eased in the affected regions, the Company reopened its stores in May and June 2021.

In Q3 2021, similar to Q3 2020, there were no store closures in the Company's retail store network.

In Q4 2021, there were no store closures in the Company's retail store network. In Q4 2020, the municipal and provincial mandated partial lockdown of certain of the Company's retail stores resulted in stores being closed on an average of 10.5% of their normal operating days.

On an annualized basis, in 2021, the Company's retail store network had been temporarily closed for an average of 16.6% of its normal operating days similar to 19.8% of its normal operating days in 2020.

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 material reduction in revenue and/or profitability as a result of:
    - a partial or complete closure of the Company's retail stores and/or warehouses;
    - significant economic challenges that lead to financial constraints on customers;
    - a 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;
- uncertainty associated with the costs, availability and retention of resources required to provide the appropriate/required levels of service to the Company's customers including the cost of training and availability of the Company's sales, warehouse, customer service and delivery associates;
- 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 warehouses;
- uncertainty associated with potential cost increases, delays and resource availability required to complete major projects on time and on budget;
- 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;
- 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
- 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 materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

10 Segment Performance

As at December 31, 2021, the Company manages its business on the basis of three operating segments, Sleep Country/Dormez-vous, Endy and Hush, 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 primarily in and Canada, its country of domicile.

11 Liquidity and Capital Resources

Liquidity

The Company's primary sources of cash consist of existing cash balances, operating activities and available credit facilities. The Company'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.

The Company believes cash generated from operations, together with cash on hand and amounts available under the Company's credit facilities will be sufficient to meet its future cash requirements. However, the Company'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 "COVID-19 Business Update" 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 the Company'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.

The Company's cash balance was $36.5 million with an additional $197.0 million (not including the $100 million accordion) of liquidity available under the Company's credit facility as at December 31, 2021.

A summary of net cash flows by activities is presented below for 2021 and 2020:

	Annual	
(C$ thousands unless otherwise stated)	**2021**	2020
Cash flows provided by operating activities	**$ 156,143**	$ 173,700
Cash flows used by investing activities	**(63,106)**	(17,657)
Cash flows used by financing activities	**(94,808)**	(161,766)
Net decrease in cash	**(1,771)**	(5,723)
Cash at beginning of the period	**38,317**	44,040
Cash at end of the period	**$ 36,546**	$ 38,317

Net cash flows provided by operating activities

Net cash flows provided by operating activities in 2021 were $156.1 million comprised of the positive impact of cash generated from operating activities of $176.6 million offset by $20.5 million of cash used as a result of an increase in working capital. The increase in working capital in 2021 was primarily driven by higher inventories and prepaid expenses and deposits, which were offset by lower trade and other receivables, higher trade and other payables and customer deposits. Additionally, the Company used $9.9 million of cash from operating activities to pay the contingent consideration due under the purchase agreement related to the Endy acquisition in 2018.

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 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 used by investing activities

Net cash flows used by investing activities in 2021 were $63.1 million comprised primarily of $23.3 million used in the acquisition of Hush, as well as $15.1 million used to pay the contingent consideration due under the purchase agreement related to the Endy acquisition in 2018. The remaining cash flows used by investing activities in 2021 are attributed to investments in capital expenditure related to new store openings, store renovations and hardware refresh, spend on the investment in the new ERP system and the eCommerce platforms.

Net cash flows used in investing activities in 2020 consists 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 in store hardware refresh.

Net cash flows used by financing activities

Net cash flows used by financing activities in 2021 were $94.8 million, consisting primarily of the repayment of the net loan of $15.0 million in 2021 to the senior secured credit facility, dividends paid on the common shares of $28.7 million, the repayment of lease obligations of $37.8 million and interest payments of $16.1 million on lease liabilities and the senior secured credit facility. These cash outflows were partially offset by $3.3 million received from common shares issued due to exercised stock options.

Net cash flows used in financing activities in 2020 were $161.8 million, consisting primarily of the repayment of the net loan of $98.2 million in 2020 to the senior secured credit facility. Additionally, the decrease also included dividends paid 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.

Contractual obligations

The following table summarizes the Company's significant contractual obligations as at December 31, 2021 based on undiscounted cash flow (including interest where applicable) which may differ from the carrying values of the liabilities at the reporting date:

			2021
(C$ thousands unless otherwise stated)	**Within 1 year**	**Between 1 and 5 years**	**Over 5 years**
Trade and other payables	$ 107,886	$ —	$ —
Lease liabilities	48,320	127,929	39,259
Long-term debt	2,980	74,169	—
Other long-term liabilities	—	34,634	—
	$ 159,186	$ 236,732	$ 39,259

The long-term debt represents a senior secured credit facility with a balance outstanding, net of transaction costs, as at December 31, 2021 of $61.9 million (December 31, 2020 - $77.3 million).

The other long-term liabilities of $34.6 million includes $32.0 million representing the contractual commitment to acquire the remaining shares of non-controlling interests in Hush over a three-year period commencing March 31, 2023. The commitment is measured at the expected outcome determined based on an earnings formula and the expected earnings levels over the measurement period.

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

The Company has a senior secured credit facility of $260.0 million with an accordion amount of $100.0 million which is scheduled to mature on October 22, 2026. 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, 2021.

The senior secured credit facility is secured by all of the present and after acquired personal property of the Company. As at December 31, 2021, the balance outstanding on the senior secured credit facility was $63.0 million (December 31, 2020 – $78.0 million). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $1.1 million (December 31, 2020 – $0.7 million).

The senior secured credit facility allows for the debt to be held in Canadian or U.S. dollars. For the year ended December 31, 2021 , the Company held the majority of the debt in U.S. dollars for 197 days as the debt held in U.S. dollars had a lower interest rate. To mitigate the foreign exchange risk, the Company entered into forward foreign exchange contracts to sell U.S. dollars in the equal amount of the debt with an overall impact of $nil recorded in interest and other expenses in the consolidated statements of income and comprehensive income. As at December 31, 2021, 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.

The Company entered into a fixed interest rate swap, effective April 1, 2021 ending on April 1, 2024, for the notional amount of $60.0 million to manage the volatility of interest rates on the outstanding balance on its senior secured credit facility.

Off-balance sheet arrangements

The Company did not have any material off-balance sheet arrangements as at December 31, 2021 and December 31, 2020, nor did it have any subsequent to December 31, 2021.

Related party transactions

As at December 31, 2021. and December 31, 2020, there were no balances due from or payable to a related party.

12 Transactions with Key Management Personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the Board of Directors and its Named Executive Officers ("NEO"). The Company incurred the following compensation expenses in relation to key management personnel:

				Annual
(C$ thousands unless otherwise stated)		**2021**		2020
Salaries and short-term associate benefits	**$**	**4,599**	$	4,357
Share-based compensation		**3,260**		2,586
Directors' fees		**549**		542
	$	**8,408**	$	7,485

13 Risk Factors

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, liquidity risk, capital risk and technology risk. The Company's overall risk management program and business practices seek to minimize any potential adverse effects on its financial performance.

Risk management is carried out by the senior management team and is reviewed by the 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 "COVID-19 Business Update" in this MD&A.

Market Risk

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

Foreign Exchange Risk

The Company's operating results are reported in Canadian dollars. A portion of the Company's sales and purchases are denominated in U.S. dollars which results in foreign currency exposure related to fluctuations between the Canadian and U.S. dollars. The Company does not currently use foreign exchange options or forward contracts to hedge its foreign currency risk relating to sales and purchases. A sudden increase in the U.S. 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 it to borrow in Canadian and U.S. dollars. To mitigate any foreign exchange risk related to its U.S. dollar denominated debt, the Company enters into forward foreign exchange contracts to sell U.S. dollars in an amount equal to the principal amount of its U.S. dollar denominated borrowings.

Cash Flow and Fair Value Interest Risk

The Company has no significant interest-bearing assets. Its 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. It 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. Additionally, in Q2 2021, the Company entered into a fixed rate swap for the notional amount of $60.0 million to manage its interest rate risk. An increase (or decrease) in interest rates by 1% would result in a $0.03 million increase (or decrease) of the annual interest expense of the credit facility. The Company has leases that carry interest at variable rates.

Credit Risk

Credit risk refers to the risk of losses due to the 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 the Company'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 the Company 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 the Company 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 number of committed credit facilities.

Capital Risk

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, 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.

14 Critical Accounting Estimates

A summary of significant accounting policies is included in Note 3 of the Company's 2021 audited annual consolidated financial statements. The Company's critical accounting estimates are included in Note 4 of the Company's 2021 audited annual consolidated financial statements and are described below.

Critical accounting estimates require management to make certain judgements and estimates, which may differ from actual results. Accounting estimates are based on historical experience and other factors that management believes to be reasonable under the time frame and circumstances. Changes in management's accounting estimates can have a material impact on the financial results of the Company.

Impairment of goodwill and brands

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, 2021 and December 31, 2020, 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 had been no impairment as at both of those dates.

Business combinations

For each business combination, the Company measures the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individual identifiable assets and liabilities, including the recognition and measurement of any identified intangible assets and the final determination of the amount of goodwill or gain on acquisition. The inputs to the exercise of judgments include legal, contractual, business and economic factors. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings and impairment tests.

15 Financial Instruments

As at December 31, 2021, the financial instruments consisted of cash, trade and other receivables, trade and other payables, customer deposits, the Company's senior secured credit facility, lease liabilities, interest rate swaps and redemption 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, 2021. The interest rate swap obtained effective April 1, 2021 is recorded at fair value is based on observable quoted market prices for identical financial instruments in active markets as at December 31, 2021. The redemption liabilities related to the acquisition of Hush was initially recorded at fair value measured at the expected outcome (discounted) determined based on an earnings formula and the expected earnings levels over the measurement period and subsequently measured at amortized cost. 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".

16 Disclosure Controls and Procedures

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

The Company's system of disclosure controls and procedures includes, but is not limited to, the Company's Disclosure Policy, the Company's Codes 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, 2021. Although the Company's disclosure controls and procedures were operating effectively as of December 31, 2021, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's regulatory filings.

17 Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining appropriate internal controls over financial reporting ("**ICFR**"). 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, 2021 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, 2021 and that no material weaknesses were identified through their evaluation subject to the scope limitation described below.

In accordance with the provisions of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, Management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude such controls, policies and procedures of Hush.

The Company acquired Hush on October 22, 2021. Hush's results since its acquisition by the Company until the end of the fourth quarter are included in the Company's Consolidated Statements of Income and Comprehensive Income. Since the date of acquisition, Hush has generated revenue of $8.9 million, and net income of $0.8 million which is approximately 0.9% of the Company's consolidated net income and comprehensive income for the year ended December 31, 2021. For the Consolidated Statement of Financial Position, Hush constitutes 3% of total current assets, 4% of total assets, 3% of total current liabilities and 1% of total liabilities as at December 31 2021. Further details related to the acquisition of Hush are disclosed in note 20 of the Company's consolidated financial statements for the year end December 31, 2021.

The scope limitation is primarily based on the time required to assess Hush's disclosure controls and procedures and internal control over financial reporting in a manner consistent with the Company's other operations.

18 Current and Future Accounting Standards

A summary of the Company's significant accounting policies is included in Note 3 of the 2021 audited annual consolidated financial statements.

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC") have issued the following decision in April 2021.

Configuration or Customization Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)

IFRIC made a final decision regarding configuration or customization costs in a cloud computing arrangement and when an intangible asset is recorded. There are no significant adjustments to the amounts recognized in the consolidated financial statements for year ended December 31, 2021.

19 Outstanding Share Data

As of the date hereof, 36,913,987 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 1,157,713 stock options to purchase an equivalent number of common shares, 255,385 performance share units, 93,596 restricted share units and 67,857 deferred share units are issued and outstanding. For further details concerning the rights, privileges and restrictions attached to the common shares and the Class A common shares, please refer to the section entitled "Description of Share Capital" in the AIF.

20 Non-IFRS and Other 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 supplementary financial measures, such as “Same Store Sales” or “SSS”, Non-IFRS measures such as “EBITDA”, “Operating EBITDA”, “Adjusted Net income”, “Adjusted earnings per share - Basic”, “Adjusted earnings per share - Diluted”, Non-IFRS ratios including “Operating EBITDA margin”, and other supplementary measures including “Operating Days”, 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 these 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 these measures in the evaluation of issuers.

Readers are cautioned that these 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 measures and for reconciliations to the most comparable IFRS measures.

Same Store Sales (SSS)

SSS is a supplementary financial 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 metric, 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.

The Company calculates SSS as the percentage increase or decrease in sales of stores opened for at least 12 complete months relative to the same period in the prior year.

EBITDA, Operating EBITDA, and Operating EBITDA margin

EBITDA and Operating EBITDA are used by the Company 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:

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

Operating EBITDA margin is defined as Operating EBITDA divided by revenues:

Adjusted Net income attributable to the Company

Adjusted Net income attributable to the Company is used by the Company to assess its operating performance. Adjusted Net income attributable to the Company is defined as Net income attributable to the Company adjusted for:

- acquisition costs;
- ERP implementation expenses;
- share-based compensation;
- Endy one-time adjustment to contingent consideration; and
- Hush accretion expense on redemption liabilities.

Adjusted earnings per share - Basic

Adjusted earnings per share - Basic is defined as Adjusted Net income attributable to the Company divided by weighted average number of shares issued and outstanding during the period.

Adjusted earnings per share - Diluted

Adjusted earnings per share - Diluted is defined as Adjusted Net income attributable to 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

(C$ thousands unless otherwise stated, except earnings per share)	Q4 **2021**	Q4 2020	Annual **2021**	Annual 2020
Reconciliation of net income attributable to the Company to EBITDA and Operating EBITDA:				
Net income attributable to the Company	**$ 26,433**	$ 26,571	**$ 88,603**	$ 63,307
Add impact of the following:	**-**	-	**-**	-
Non-controlling interests	**379**	-	**379**	-
Interest and other expenses - net	**(51)**	25	**142**	200
Finance related expenses	**4,259**	4,830	**16,837**	25,363
Income taxes	**10,437**	7,071	**32,862**	20,700
Depreciation and amortization	**15,857**	14,350	**60,726**	56,873
EBITDA	**$ 57,314**	$ 52,847	**$ 199,549**	$ 166,443
Adjustments:				
Acquisition costs(1)	**23**	-	**438**	-
ERP implementation costs(2)	**2,000**	249	**5,080**	1,674
Share-based compensation(3)	**2,728**	752	**5,822**	3,352
Total adjustments	**$ 4,751**	$ 1,001	**$ 11,340**	$ 5,026
Operating EBITDA	**$ 62,065**	$ 53,848	**$ 210,889**	$ 171,469
Operating EBITDA margin %	**22.9%**	21.6%	**22.9%**	22.6%
Reconciliation of net income attributable to the Company to adjusted net income attributable to the Company:				
Net income attributable to the Company	**$ 26,433**	$ 26,571	**$ 88,603**	$ 63,307
Adjustments:				
Acquisition costs(1)	**23**	-	**438**	-
ERP Implementation costs(2)	**2,000**	249	**5,080**	1,674
Share-based compensation(3)	**2,728**	752	**5,822**	3,352
Endy accretion expense(4)	**-**	-	**-**	4,257
Hush accretion expense(5)	**903**	-	**903**	-
Tax impact of all adjustments(6)	**(1,110)**	(168)	**$ (2,504)**	$ (997)
Total adjustments	**$ 4,544**	$ 833	**$ 9,739**	$ 8,286
Adjusted net income attributable to the Company	**$ 30,977**	$ 27,404	**$ 98,342**	$ 71,593
Weighted average number of shares – Basic	**36,863**	36,694	**36,810**	36,675
Earnings per share – Basic	**$ 0.72**	$ 0.72	**$ 2.41**	$ 1.73
Earnings per share – Diluted	**$ 0.71**	$ 0.72	**$ 2.38**	$ 1.71
Adjusted earnings per share – Basic	**$ 0.84**	$ 0.75	**$ 2.67**	$ 1.95
Adjusted earnings per share – Diluted(7)	**$ 0.83**	$ 0.74	**$ 2.64**	$ 1.94

Notes:

(1) Adjustment for professional fees incurred in relation to acquisition of business operations of Hush Blankets Inc. in October 2021.

(2) Adjustment for charges related to its ERP implementation project that commenced in 2019 and results in significantly increased costs during the implementation phase relative to the ongoing operating costs.

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

(4) 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.

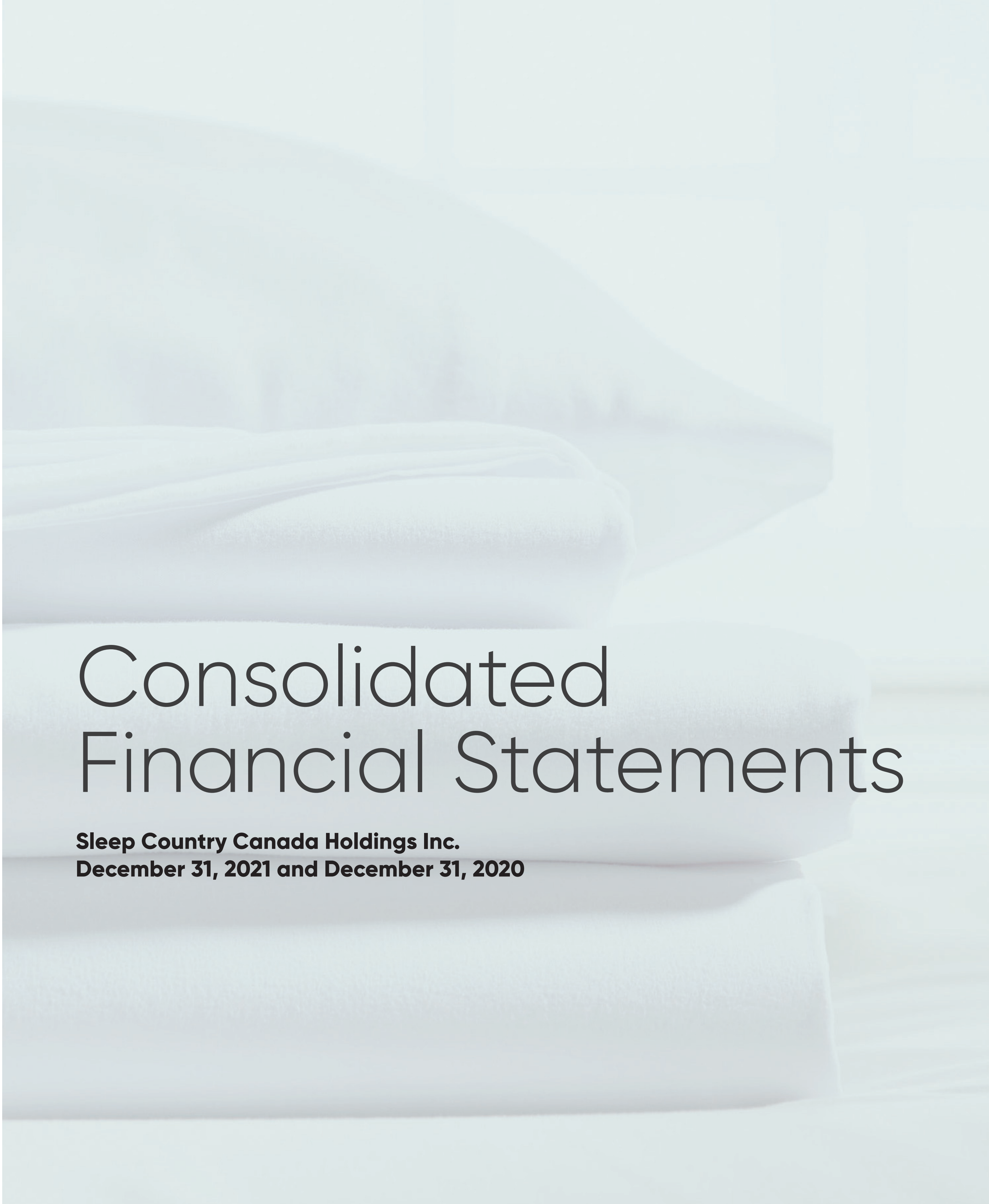
(5) Adjustment for accretion expenses on the redemption liabilities related to Hush.

(6) The related tax effects are calculated at the Company's effective tax rate.

(7) The weighted average number of diluted shares for Q4 2021 is 37,333; for Q4 2020 is 37,031; 2021 is 37,208 and 2020 is 36,992.

21 Additional Information

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



Consolidated Financial Statements

Sleep Country Canada Holdings Inc.
December 31, 2021 and December 31, 2020

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, 2021 and 2020, 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, 2021 and 2020;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in shareholder's 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
T: +1 905 815 6300, F: +1 905 815 6499

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, 2021. 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 of the Sleep Country and Endy cash generating units (CGUs) *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 $318.4 million and indefinite life intangible assets of $101.5 million as at December 31, 2021. 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 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 values of the CGUs with their recoverable amounts, which is the higher of their fair value less costs of disposal and their value in use. Management used the value in use approach to determine the fair value of the Sleep Country and Endy CGUs based on discounted cash flow models. Significant assumptions used in the discounted cash flow models included growth rates, terminal growth rates and discount rates. No impairment was recognized as a result of the 2021 impairment tests.	Our approach to addressing the matter included the following procedures, among others: • Evaluated how management determined the recoverable amounts of the goodwill and indefinite life intangible assets for the Sleep Country and Endy CGUs, which included the following: – Tested the appropriateness of the approach 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 growth rates to the budget approved by the Board of Directors, and current and past performance, and considering consistency with available third party published industry data; ○ comparing the terminal growth rates to current and past performance 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.

Key audit matter	How our audit addressed the key audit matter
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 Sleep Country and Endy CGUs, including the use of significant assumptions; and (iii) the audit effort and auditor's judgment involved in testing those significant assumptions.	
Valuation of the brand intangible asset acquired in the Hush business combination *Refer to note 3 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments, note 9 – Goodwill and intangible assets and note 20 – Business combination to the consolidated financial statements.* The Company acquired 52% of the issued and outstanding common shares of Hush for cash consideration of $23.3 million during 2021. The fair value of the identifiable assets acquired included $16.6 million in intangible assets, which primarily relates to the brand. Management applied significant judgment in estimating the fair value of the brand. To estimate the fair value of the brand, management used the royalty relief method using a discounted cash flow model. Management developed significant assumptions related to revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) forecasts, royalty rates and the discount rate. We considered this a key audit matter due to (i) the significant judgment by management in estimating the fair value of the brand, including the development of significant assumptions; (ii) the auditor's judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management; and (iii) the audit effort which	Our approach to addressing the matter included the following procedures, among others: • Tested how management estimated the fair value of the brand, which included the following: − Read the purchase agreement. − Tested the underlying data used by management in the discounted cash flow model. − Evaluated the reasonableness of significant assumptions used by management related to revenue and EBITDA forecasts by considering the current and past performance of Hush, growth assumptions from the budget approved by the Board of Directors and other brands owned by the Company, as well as economic and industry data. − Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of the royalty relief method and discounted cash flow model, as well as certain significant assumptions such as royalty rates and the discount rate. − Tested the disclosures made in the financial statements.

Key audit matter	How our audit addressed the key audit matter
involved the use of professionals with specialized skill and knowledge in the field of valuation.	

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 3, 2022

Sleep Country Canada Holdings Inc.
Consolidated Statements of Financial Position
As at December 31, 2021 and December 31, 2020

(in thousands of Canadian dollars)

	December 31, 2021 $	December 31, 2020 $
Assets		
Current assets		
Cash	36,546	38,317
Trade and other receivables (note 5)	16,678	9,668
Inventories (note 6)	91,539	68,717
Prepaid expenses and deposits	9,329	6,611
Other assets (note 20)	500	—
	154,592	123,313
Property and equipment (note 7)	71,674	68,151
Right-of-use assets (note 8)	273,097	258,231
Deferred tax assets (note 17)	3,949	4,338
Other assets	492	—
Intangible assets (note 9)	165,862	147,434
Goodwill (note 9)	318,369	300,884
	988,035	902,351
Liabilities		
Current liabilities		
Trade and other payables (note 10)	107,886	91,741
Customer deposits	33,435	26,145
Lease liabilities (note 8)	37,910	35,671
Contingent consideration (note 11)	—	25,000
	179,231	178,557
Other liabilities (note 12)	27,688	867
Deferred tax liabilities (note 17)	24,919	18,810
Lease liabilities (note 8)	284,338	268,302
Long-term debt (note 13)	61,895	77,273
	578,071	543,809
Shareholders' Equity		
Share capital and other (note 14)	362,969	354,210
Retained earnings	41,217	4,332
Equity attributable to Sleep Country Canada Holdings Inc.	404,186	358,542
Non-controlling interests	5,778	—
	988,035	902,351

Approved by the Board of Directors

(Signed) Mandeep Chawla - Director

(Signed) David Shaw - Director

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

Sleep Country Canada Holdings Inc.
Consolidated Statements of Income and Comprehensive Income
For the years ended December 31, 2021 and December 31, 2020

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

	2021 $	2020 $
Revenues	920,194	757,699
Cost of sales (note 15)	603,146	513,203
Gross profit	317,048	244,496
General and administrative expenses (note 15)	178,225	134,926
Income before finance related expenses, interest and other expenses and income taxes	138,823	109,570
Finance related expenses (note 16)	16,837	25,363
Interest and other expenses – net	142	200
	16,979	25,563
Income before provision for income taxes	121,844	84,007
Provision for income taxes (note 17)		
Current	28,564	24,259
Deferred	4,298	(3,559)
	32,862	20,700
Net income and comprehensive income for the year	88,982	63,307
Net income and comprehensive income attributable to:		
Sleep Country Canada Holdings Inc.	88,603	63,307
Non-controlling interests	379	—
	88,982	63,307
Earnings per share attributable to Sleep Country Canada Holdings Inc.		
Basic earnings per share (in dollars) (note 18)	2.41	1.73
Diluted earnings per share (in dollars) (note 18)	2.38	1.71

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

Sleep Country Canada Holdings Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2021 and December 31, 2020

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

	Equity Attributable to Sleep Country Canada Holdings Inc.						
	Share Capital and Other						
	Number of shares	Common Shares $	Contributed surplus $	Retained Earnings $	Total $	Non-controlling interests $	Total Shareholders' Equity $
Balance – January 1, 2020	36,642,185	343,151	7,707	(45,348)	305,510	—	305,510
					—	—	
Net income for the year	—	—	—	63,307	63,307	—	63,307
Dividends declared and paid	—	—	—	(13,627)	(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	—	3,352
Balance – December 31, 2020	36,700,764	345,247	8,963	4,332	358,542	—	358,542
Balance – January 1, 2021	36,700,764	345,247	8,963	4,332	358,542	—	358,542
Net income for the year	—	—	—	88,603	88,603	379	88,982
Dividends declared and paid	—	—	—	(28,705)	(28,705)	—	(28,705)
Shares issued on exercise of share-based compensation option/unit	213,223	5,332	(2,058)	—	3,274	—	3,274
Share-based compensation (note 19)	—	—	5,485	—	5,485	—	5,485
Purchase commitment of non-controlling interests (note 20)	—	—	—	(23,013)	(23,013)	—	(23,013)
Non-controlling interests arising on a business combination (note 20)	—	—	—	—	—	5,399	5,399
Balance – December 31, 2021	36,913,987	350,579	12,390	41,217	404,186	5,778	409,964

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

Sleep Country Canada Holdings Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and December 31, 2020

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

Cash provided by (used in)	2021 $	2020 $
Operating activities		
Net income for the year	88,982	63,307
Items not affecting cash		
Depreciation of property and equipment (note 7)	15,983	15,306
Depreciation of right-of-use assets (note 8)	38,587	36,576
Amortization of intangible assets (note 9)	6,156	4,991
Share-based compensation (note 19)	5,485	3,352
Finance related expenses (note 16)	16,837	25,363
Other expenses	310	(28)
Deferred income taxes (note 17)	4,298	(3,559)
	176,638	145,308
Changes in non-cash items relating to operating activities		
Changes in working capital		
Trade and other receivables	3,236	12,381
Inventories	(21,375)	(3,356)
Prepaid expenses and deposits	(1,797)	(603)
Trade and other payables	4,026	18,240
Customer deposits	5,292	1,730
	(10,618)	28,392
Payment of contingent consideration (note 11)	(9,877)	—
	156,143	173,700
Investing activities		
Purchase of property and equipment - net of disposals (note 7)	(19,123)	(10,838)
Addition of right-of-use assets (note 8)	(194)	(58)
Purchase of intangible assets (note 9)	(4,807)	(6,761)
Acquisition of business combination (note 20)	(23,333)	—
Purchase of other assets	(526)	—
Payment of contingent consideration (note 11)	(15,123)	—
	(63,106)	(17,657)
Financing activities		
Proceeds from options exercised (note 19)	3,274	—
Proceeds from senior secured credit facility (note 13)	78,000	34,200
Repayment of senior secured credit facility (note 13)	(93,000)	(132,000)
Financing costs on senior secured credit facility (note 13)	(684)	(358)
Dividends paid	(28,705)	(13,627)
Proceeds from non-controlling interests	240	—
Interest paid	(16,126)	(17,416)
Repayment of principal portion of lease liabilities (note 8)	(37,807)	(32,565)
	(94,808)	(161,766)
Decrease in cash during the year	(1,771)	(5,723)
Cash – Beginning of the year	38,317	44,040
Cash – End of the year	36,546	38,317
Supplementary information		
Additions to property and equipment in trade and other payables	368	1,133
Additions to intangibles in trade and other payables	3,370	4,096

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

(in thousands of Canadian dollars, unless otherwise noted)

1 Organization

Sleep Country Canada Holdings Inc. (the "**Company**") 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 (the "**Board**").

The Company is Canada's leading specialty sleep retailer with a national retail store network and multiple robust eCommerce platforms. The Company has 285 corporate-owned stores and 20 corporately-run warehouses across Canada and operates under retail banners: Sleep Country Canada™, with omnichannel operations in Canada excluding Québec; Dormez-vous™ with omnichannel operations in Québec; Endy™, Canada's leading direct-to-consumer online sleep solutions retailer; and Hush™, one of Canada's fastest growing digital sleep retailers. The Company is a purpose-led organization dedicated to transforming lives by awakening Canadians to the power of sleep, and is committed to building a company culture of inclusion and diversity where differences are embraced and valued. The Company meaningfully and positively supports its environment and the communities where it operates through its comprehensive mattress and foundation recycling program that keeps mattresses out of landfills, as well as its bed donation program that contributes new and gently used mattresses and foundations to Canadian charities to help families and children in need get a good night's sleep.

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

The Company's common shares are listed on the Toronto Stock Exchange ("**TSX**") under the stock symbol "ZZZ".

2 Basis of presentation

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee ("**IFRIC**").

The consolidated financial statements were reviewed by the Company's Audit Committee. They were approved and authorized for issuance by the Board on March 3, 2022.

(in thousands of Canadian dollars, unless otherwise noted)

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.

Consolidation

The consolidated financial statements of the Company include the financial results of the Company and its entities it controls. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The Company assesses control on an ongoing basis.

Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation and consistent accounting policies are applied across the Company.

Non-controlling interests are recorded in the consolidated financial statements and represent the non-controlling shareholders' equity in an entity consolidated by the Company for which the Company's ownership is less than 100%. Transactions with non-controlling interests are treated as transactions with equity owners of the Company. Changes in the Company's ownership interest in its subsidiaries are accounted for as equity transactions.

Financial assets and liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to receive cash flows from the financial 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 Company'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, redemption liabilities and long-term debt have been classified as other financial liabilities measured at amortized costs;
- Interest rate swaps have been classified as other financial liabilities measured at fair-value through profit and loss.

Redemption liabilities are recognized initially at fair value, 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 changes in the estimated redemption amount, 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.

(in thousands of Canadian dollars, unless otherwise noted)

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 13) when denominated in US dollars. Interest rate swaps are periodically used to limit the interest rate risk relating to the Company's senior secured credit facility (note 13). 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 within finance related expenses.

Offsetting financial instruments

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

Foreign currency translation

- Functional and presentation currency

  Items included in the consolidated financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the subsidiaries is Canadian dollars. The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

- Transactions and balances

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

(in thousands of Canadian dollars, unless otherwise noted)

Segment information

As at December 31, 2021, the Company manages its business on the basis of three operating segments, Sleep Country/Dormez-vous, Endy and Hush, 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 primarily in and Canada, 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. Cost of inventories includes the cost of merchandise and all costs incurred to deliver inventory to the Company's distribution centres including freight and duties. Volume rebates earned are deducted in determining the carrying value of inventory.

The Company periodically reviews its inventories and makes provisions as necessary to appropriately value obsolete or damaged goods. In addition, as part of inventory valuations, the Company accrues for inventory shrinkage for lost or stolen items based on historical trends.

Property and equipment

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

Computer hardware	36 months
Furniture, fixtures and other	48 to 60 months
Leasehold improvements	lesser of the lease term or 120 months

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

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

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

Goodwill and intangible assets

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

(in thousands of Canadian dollars, unless otherwise noted)

- 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 up to five 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 these 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 and Hush brands are recorded at fair value at the time of acquisition and are 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 the Company 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

  The Company tests goodwill and its indefinite life intangible assets for impairment annually on December 31st or more frequently if events or changes in circumstances indicate the asset might be impaired. The asset will be written down if the carrying amount of the asset exceeds the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset.

  For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Goodwill and indefinite life intangible assets (brands) are 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

(in thousands of Canadian dollars, unless otherwise noted)

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

Decommissioning provisions

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

(in thousands of Canadian dollars, unless otherwise noted)

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 long-term equity incentive plan ("**LTIP**") for certain associates and executive officers in the Company. The LTIP includes stock options, performance share units ("**PSUs**") and restricted share units ("**RSUs**") for certain associates and key management personnel. The Company has a deferred share unit ("**DSU**") plan for its Directors.

The LTIP and DSU plan can be settled in shares or cash at the discretion of the Board. Historically, the LTIP and DSU plan have been settled in common shares and are accounted for as equity-settled awards.

Stock options granted prior to fiscal 2020 typically vest on the grant date's fourth anniversary, and may have a term of up to 10 years. Stock options granted in fiscal 2020 onwards will vest in equal installments over a period of three years from the grant date and may have a term of up to 10 years. The stock option exercise price is determined by the Board at the grant date and may not be less than the market price on the grant date. The market price is generally the volume weighted average trading price of the Common Shares on the TSX or such other exchange on which the common shares are trading during the five trading days immediately preceding the grant date. The fair value of stock options at grant date is calculated using the Black-Scholes valuation model.

PSUs generally vest 100% on the third anniversary of the grant date. The number of units that will vest is calculated based on a performance adjustment factor of between 0.0 and 2.0 which is determined based on the Company's revenue (weighted at 25%) and basic EPS (weighted at 75%) performance relative to the Board established targets that have been set for the three-year performance period between the grant date and the vesting date of the PSUs. For PSUs granted prior to fiscal 2020, the number of units that will vest is calculated based on a performance adjustment factor of between 0.5 and 1.5 which is determined based on the Company's performance relative to the Board established target on profitability that has been set for the three-year performance period between the grant date and the vesting date of the PSUs.

RSUs generally vest 100% on the third anniversary of the grant date. The number of units which will vest and are paid is equal to the number of units originally granted to a participant.

DSUs granted vest in equal installments 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.

The compensation expense for equity-settled plans is prorated over the vesting or performance period, with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures. Upon exercise of options, the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital. Upon settlement of PSUs, RSUs and DSUs, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

(in thousands of Canadian dollars, unless otherwise noted)

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.

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 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 from 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. In addition, deferred tax liabilities are not recognized for taxable temporary differences arising from investments in subsidiaries and associates where the reversal of the temporary difference can be controlled 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

(in thousands of Canadian dollars, unless otherwise noted)

subsequently measured at amortized cost. The assets are depreciated over the term of the lease using the straight-line method.

Extension and termination options exist for a number of leases, particularly for properties. The Company assesses all facts and circumstances available in determining the probability of exercising available extension and termination options. The Company includes the extension option in calculating the lease term when it determines that it is reasonably certain that the Company will exercise the available extension option. The Company reassesses whether an extension option is included in the lease term when there is a change in events and circumstances which affect that decision, and re-measures the lease liability upon change in the assessment.

Business combinations

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

Non-controlling interests are recognized at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Change in accounting policies

IAS 38 - Intangible Assets

Configuration or Customization Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)

In April 2021, IFRIC, a committee of the IASB, made a final decision regarding configuration or customization costs in a cloud computing arrangement and when an intangible asset is recorded. 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.

(in thousands of Canadian dollars, unless otherwise noted)

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, 2021 and December 31, 2020, 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 had been no impairment as at both of those dates (note 9).

Business combinations

For each business combination, the Company measures the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individual identifiable assets and liabilities, including the recognition and measurement of any identified intangible assets and the final determination of the amount of goodwill or gain on acquisition. The inputs to the exercise of judgments include legal, contractual, business and economic factors. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings and impairment tests.

5 Trade and other receivables

	2021 $	2020 $
Trade and other receivables	16,973	9,804
Allowance for expected credit losses	(295)	(136)
	16,678	9,668

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 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

The inventories on hand by the Company as at December 31, 2021 is $91,539 (2020 - $68,717). The Company records the provision for obsolescence to value inventory to the estimated net realizable value and estimated

(in thousands of Canadian dollars, unless otherwise noted)

damages and shrinkage. This provision resulted in an expense in cost of sales of $4,367 (2020 – $4,407). There were no reversals of previously taken write-downs in 2021 (2020 – $nil).

7 Property and equipment

	Computer hardware $	Furniture, fixtures and other $	Leasehold improvements $	Total $
Year ended December 31, 2020				
Cost				
At January 1, 2020	6,167	12,973	98,891	118,031
Additions	869	1,162	9,940	11,971
Disposal	(649)	(1,506)	(4,442)	(6,597)
At December 31, 2020	6,387	12,629	104,389	123,405
Accumulated depreciation				
At January 1, 2020	3,741	7,063	35,741	46,545
Depreciation	1,476	2,174	11,656	15,306
Disposal	(649)	(1,506)	(4,442)	(6,597)
At December 31, 2020	4,568	7,731	42,955	55,254
Net book value	1,819	4,898	61,434	68,151
Year ended December 31, 2021				
Cost				
At January 1, 2021	6,387	12,629	104,389	123,405
Acquisition through business combination (note 20)	—	46	—	46
Additions	1,528	3,161	14,848	19,537
Disposal	(787)	(638)	(2,136)	(3,561)
At December 31, 2021	7,128	15,198	117,101	139,427
Accumulated depreciation				
At December 31, 2021				
At January 1, 2021	4,568	7,731	42,955	55,254
Depreciation	1,469	2,207	12,307	15,983
Disposal	(786)	(575)	(2,123)	(3,484)
At December 31, 2021	5,251	9,363	53,139	67,753
Net book value	1,877	5,835	63,962	71,674

(in thousands of Canadian dollars, unless otherwise noted)

8 Right-of-use assets and lease liabilities

Right-of-use assets	Properties $	Trucks $	Total $
Year ended December 31, 2020			
At January 1, 2020	261,248	2,529	263,777
Net additions 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	(35,724)	(852)	(36,576)
At December 31, 2020	255,793	2,438	258,231
Year ended December 31, 2021			
At January 1, 2021	255,793	2,438	258,231
Acquisition through business combination (note 20)	124	—	124
Net additions with a corresponding increase to the lease liability	56,059	(109)	55,950
Cash additions due to initial direct cost incurred during the year	194	—	194
Additions of restorative obligations	236	—	236
Assets derecognized	(275)	—	(275)
Tenant inducements received	(2,776)	—	(2,776)
Depreciation	(37,761)	(826)	(38,587)
At December 31, 2021	271,594	1,503	273,097

(in thousands of Canadian dollars, unless otherwise noted)

Lease liabilities – Current and long-term	**Total $**
Year ended December 31, 2020	
At January 1, 2020	304,421
Net additions with a corresponding increase to right-of-use assets	32,117
Gross lease payments	(44,003)
Interest expense on lease liabilities	11,438
At December 31, 2020	303,973
Year ended December 31, 2021	
At January 1, 2021	303,973
Acquisition through business combination (note 20)	132
Net additions with a corresponding increase to right-of-use assets	55,950
Gross lease payments	(49,751)
Interest expense on lease liabilities	11,944
At December 31, 2021	322,248

Lease liabilities are presented in the consolidated statements of financial position as follows:

	2021 $	**2020 $**
Current	37,910	35,671
Long-term	284,338	268,302
	322,248	303,973

(in thousands of Canadian dollars, unless otherwise noted)

9 Goodwill and intangible assets

	Intangible assets					
	Brands – indefinite life $	**Brands – definite life $**	**Non – compete contracts $**	**Computer software $**	**Total $**	**Goodwill $**
Year ended December 31, 2020						
Cost						
At January 1, 2020	101,540	21,961	2,949	26,053	152,503	300,884
Additions	—	—	—	10,857	10,857	—
Disposals	—	—	—	(2,202)	(2,202)	—
At December 31, 2020	101,540	21,961	2,949	34,708	161,158	300,884
Accumulated amortization						
At January 1, 2020	—	1,175	2,742	7,018	10,935	—
Amortization	—	1,098	134	3,759	4,991	—
Disposals	—	—	—	(2,202)	(2,202)	—
At December 31, 2020	—	2,273	2,876	8,575	13,724	—
Net book value	101,540	19,688	73	26,133	147,434	300,884
Year ended December 31, 2021						
Cost						
At January 1, 2021	101,540	21,961	2,949	34,708	161,158	300,884
Acquisition through business combination (note 20)	—	16,140	450	16	16,606	17,485
Additions	—	—	—	8,177	8,177	—
Disposals	—	—	(1,402)	(1,295)	(2,697)	—
At December 31, 2021	101,540	38,101	1,997	41,606	183,244	318,369
Accumulated amortization						
At January 1, 2021	—	2,273	2,876	8,575	13,724	—
Amortization	—	1,254	54	4,848	6,156	—
Disposals	—	—	(1,402)	(1,096)	(2,498)	—
At December 31, 2021	—	3,527	1,528	12,327	17,382	—
Net book value	101,540	34,574	469	29,279	165,862	318,369

The Sleep Country and Dormez-vous brands of $101,540 (2020 – $101,540) are included in to the Sleep Country operating segment.

(in thousands of Canadian dollars, unless otherwise noted)

Goodwill of $318,369 (2020 – $300,884) has been allocated to the three CGU's Sleep Country, Endy and Hush as follows:

	2021 $	2020 $
Sleep Country	242,146	242,146
Endy	58,738	58,738
Hush (note 20)	17,485	—
	318,369	300,884

In assessing goodwill for impairment, the Company compared the aggregate recoverable amount of the assets included in the CGUs to their respective carrying amounts. The recoverable amount is the higher of value in use and fair value less costs of disposal.

The Company performs annual goodwill impairment tests at the end of each fiscal year, 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 2022 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 3.0% (2020 – 3.0%) and a terminal growth rate of 3.0% (2020 – 3.0%). A discount rate of 9.1% (2020 – 9.0%) was used in the model. As at December 31, 2021, any reasonable changes to the model assumptions would not result in an impairment.

The Company has determined, using appropriate valuation methodologies, that there was no impairment of its goodwill or brands as at December 31, 2021 or December 31, 2020.

10 Trade and other payables

	2021 $	2020 $
Trade payables	62,211	55,793
Income taxes payable	1,392	7,018
Accrued expenses	44,283	28,930
	107,886	91,741

11 Contingent consideration

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, Overwater was entitled to receive a contingent consideration payment, up to a maximum of $25,000 to be paid in Q1 fiscal 2021, if the acquired business achieved pre-determined targets during the measurement period ending on December 31, 2020.

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) was determined based on an earnings formula and the likelihood of achieving specified earnings levels over the measurement period. The contingent consideration liability was valued based on an expected payout of the maximum $25,000. As at

(in thousands of Canadian dollars, unless otherwise noted)

December 31, 2020, the outstanding balance of the contingent consideration was $25,000. The contingent consideration to Overwater was paid in March 2021.

12 Other liabilities

	2021 $	2020 $
Decommissioning provisions	1,080	819
Redemption liabilities	23,916	—
Other (note 20)	2,692	48
	27,688	867

At the time of the Hush acquisition on October 22, 2021, the Company entered into an agreement to acquire the remaining 48% of outstanding common shares in three equal increments of 16% over a three-year period starting March 31, 2023. The consideration paid for each share increment purchase will be calculated based on specified earnings levels achieved during the three-year period. On October 22, 2021, The Company recorded redemption liabilities of $23,013 based on its expected outcome during the three-year redemption period. The expected outcome (discounted) is determined based on an earnings formula and the expected earnings levels over the measurement period.

13 Long-term debt

The Company has a senior secured credit facility of $260,000 with an accordion amount of $100,000 which is scheduled to mature on October 22, 2026. Under the terms of the senior secured credit facility, certain financial and non-financial covenants must be complied with per the agreement. The Company is in compliance with all covenants as at December 31, 2021.

The senior secured credit facility is secured by all of the present and after acquired personal property of the Company. As at December 31, 2021, the balance outstanding on the senior secured credit facility was $63,000 (2020 – $78,000). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $1,105 (2020 – $727).

The senior secured credit facility allows for the debt to be held in Canadian or US dollars. During the year ended December 31, 2021, the Company held the majority of the debt in US dollars for 197 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 the consolidated statements of income and comprehensive income. As at December 31, 2021, 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.

The Company entered into a fixed interest rate swap, effective April 1, 2021 ending on April 1, 2024, for the notional amount of $60,000 whereby the Company receives a fixed rate of 1.072% and pays interest at a

(in thousands of Canadian dollars, unless otherwise noted)

variable rate equal to 3 months CDOR on the notional amount. The swap is being used to manage the volatility of interest rates on the outstanding balance on its senior secured credit facility.

14 Share capital and other

The Company is authorized to issue an unlimited number of common shares and Class A common shares without par value. The following table outlines the issued and outstanding shares:

	2021 $	2020 $
36,913,987 common shares (2020 – 36,700,764)	626,738	621,406
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	12,390	8,963
	362,969	354,210

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, 2021, there were no outstanding Class A common shares (2020 – nil).

On March 4, 2021, 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 928,933 of the Company's common shares, representing approximately 3.0% of the public float as of February 28, 2021. Purchases were permitted to 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. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 30,660 Shares (representing 25% of the average daily trading volume of the Shares on the TSX for the six

(in thousands of Canadian dollars, unless otherwise noted)

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 the years ended December 31, 2021 and December 31 2020, the Company did not purchase common shares for cancellation.

15 Expense by nature

	Cost of sales	
	2021	**2020**
	$	**$**
Inventory and directly related costs recognized as an expense, including write-downs, write-offs and reversals	406,416	346,457
Salaries, wages and benefits	119,882	90,966
Occupancy costs – stores	25,309	24,992
Depreciation and amortization	45,128	44,074
Other	6,411	6,714
	603,146	513,203

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

	General and administrative	
	2021	**2020**
	$	**$**
Media and advertising expenses	65,978	51,761
Salaries, wages and benefits	38,621	29,344
Credit card and finance charges	19,366	17,596
Occupancy costs – distribution centres and other	9,613	6,179
Professional fees	11,867	4,436
Telecommunication and information technology	10,437	6,891
Mattress recycling costs and donations	3,895	3,416
Depreciation and amortization	15,598	12,799
Other	2,850	2,504
	178,225	134,926

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

(in thousands of Canadian dollars, unless otherwise noted)

16 Finance related expenses

	2021 $	2020 $
Interest on lease obligations	11,944	11,438
Interest expense on senior secured credit facility	3,689	5,926
Change in fair value on contingent consideration	—	7,463
Change in redemption liabilities	903	—
Revolver commitment fees	892	536
Change in fair value on interest rate swap	(591)	—
	16,837	25,363

17 Income taxes

Components of income tax provision

Components of the income tax provision are as follows:

	2021 $	2020 $
Current income tax expense	28,564	24,259
Deferred income tax expense relating to;		
Temporary differences	4,298	(3,460)
Deferred income tax rate changes	—	(99)
	4,298	(3,559)
Provision for income taxes	32,862	20,700

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:

	2021 $	2020 $
Income of continuing operations before income taxes	121,844	84,007
Weighted average Canadian income tax rate	26.50%	26.50%
Income tax expense based on statutory income tax rate	32,289	22,262
Difference between rates applicable to Company and rates applicable to subsidiaries	(202)	(75)
Effect of non-deductible expenses and other items	775	(1,388)
Deferred tax rate changes	—	(99)
	32,862	20,700
Effective income tax rate	26.97%	24.64%

(in thousands of Canadian dollars, unless otherwise noted)

Deferred income tax liability

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

	2021 $	2020 $
Excess of carrying value of intangible assets over tax values	(28,830)	(25,634)
Benefit of share issuance costs and financing fees deductible in future years	(53)	(36)
Loss carry-forwards	3,327	2,645
Other temporary differences	4,586	8,553
	(20,970)	(14,472)

The Company has recognized a deferred tax asset of $3,949 (2020 – $4,338), 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, 2021, the Company has unused capital losses of $19,739 (2020 – $19,739) with no expiry date.

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

On February 1, 2018, the Canada Revenue Agency (CRA) issued a notice of proposed adjustments for the 2014 taxation year, which also results in consequential income adjustments for the 2015 and 2016 taxation years. The proposed adjustments relate to restructuring transactions in the Company's pre-initial public offering (IPO) structure and certain related transactions.

In June 2018, CRA issued Notices of Reassessments related to certain of these items with an exposure of $3,480 which includes interest. On September 5, 2018, the Company filed Notices of Objection with CRA. Subsequently, the Company received an acknowledgement of receipt from CRA to the Notices of Objection. The Company 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.

(in thousands of Canadian dollars, unless otherwise noted)

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

18 Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the net income 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 income 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 in addition to PSUs, RSUs and DSUs which are dilutive in nature.

The table below summarizes the dilution impact:

	2021 **$**	**2020** **$**
Dilutive	841,555	378,831
Anti-dilutive	316,158	825,588
Total	1,157,713	1,204,419

(in thousands of Canadian dollars, unless otherwise noted)

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

	Attributable to common shareholders of Sleep Country Canada Holdings Inc.		
			2021
	Net income attributable to Sleep Country Canada Holdings Inc. **$**	**Weighted average number of shares** (in thousands of shares)	**EPS** **$**
Basic	88,603	36,810	2.41
Diluted	88,603	37,208	2.38

	Attributable to common shareholders of Sleep Country Canada Holdings Inc.		
			2020
	Net income attributable to Sleep Country Canada Holdings Inc. **$**	**Weighted average number of shares** (in thousands of shares)	**EPS** **$**
Basic	63,307	36,675	1.73
Diluted	63,307	36,992	1.71

19 Share-based compensation

The Company has a long-term equity incentive plan ("**LTIP**") for certain associates and executive officers in the Company. The LTIP includes stock options, PSUs and RSUs. Additionally, the Company has a DSU plan for its Board.

The LTIP and DSU plan can be settled in shares or cash at the discretion of the Board. The Company accounts for these plans as equity settled and it has no intention to settle in cash. The expense associated with these instruments are 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 and the consolidated statements of shareholders' equity. The contributed surplus balance is reduced as the options or units under these plans are exercised and the amount initially recorded in contributed surplus is reclassified to common shares.

(in thousands of Canadian dollars, unless otherwise noted)

Share-based compensation expense is summarized as follows:

	2021 $	2020 $
1,157,713 stock options (2020 – 1,204,419) (a)	1,473	1,244
255,385 PSUs (2020 – 225,118) (b)	3,059	1,536
93,596 RSUs (2020 – 51,046) (c)	386	216
67,857 DSUs (2020 – 60,183) (d)	567	356
	5,485	3,352

The Company recorded $337 (2020 – $42) in payroll taxes related to share-based compensation which is not included in the above table.

The maximum number of common shares that may be issued, under all share-based compensation arrangements implemented by the Company including the stock option, PSUs, RSUs and DSUs, 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 share-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 cumulatively is 2.6% of the total number of common shares issued and outstanding.

a) Stock options

The stock option exercise price is determined by the Board at the grant date and may not be less than the market price on the grant date. The market price is generally the volume weighted average trading price of the Common Shares on the TSX or such other exchange on which the common shares are trading during the five trading days immediately preceding the grant date.

Stock options granted prior to fiscal 2020 typically vest on the grant date's fourth anniversary, and may have a term of up to 10 years. Stock options granted in fiscal 2020 onwards will vest in equal installments over a period of three years from the grant date and may have a term of up to 10 years.

The plan allows for the cashless exercise of options at the Board's discretion, if the common shares issuable upon the exercise of the options are to be immediately sold. This amount may, at the discretion of the Board, be settled in cash, by the issuance of Common Shares from treasury or in Common Shares acquired on the market. Historically, the Board has settled granted stock options by issuance of common shares from treasury. The Company has no intention to settle in cash.

(in thousands of Canadian dollars, unless otherwise noted)

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

	2021		2020	
	Weighted average exercise price per share option $	Number of stock options	Weighted average exercise price per share option $	Number of stock options
Outstanding, at beginning of the year	22.62	1,204,419	24.59	976,080
Granted during the year	31.16	133,093	15.94	268,638
Exercised during the year	18.58	(176,249)	—	—
Forfeited during the year	20.46	(3,550)	26.78	(40,299)
Outstanding, at the end of the year	24.23	1,157,713	22.62	1,204,419
Options, exercisable at the end of the year	22.73	483,211	18.66	390,379

The weighted average share price on the date the stock options were exercised during the year was $34.12 (2020 – not applicable).

The Company's outstanding and exercisable stock option weighted average remaining contractual life and exercise price were as follows:

	Stock options outstanding			Stock options exercisable		
Exercise price range	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price $	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price $
$15.94 to $17.00	288,350	7.2	16.16	110,266	5.6	16.53
$19.31 to $21.23	427,322	5.8	20.29	195,907	4.2	19.31
$30.70 to $38.83	442,041	6.7	32.70	177,038	5.2	32.39
	1,157,713	6.5	24.00	483,211	4.9	23.47

The weighted average fair value of stock options estimated at the grant date for the year is $10.06 (2020 – $2.71).

(in thousands of Canadian dollars, unless otherwise noted)

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:

	2021
	March 10, 2021, May 20, 2021 and November 23, 2021
Risk-free interest rate	0.4% - 1.6%
Expected volatility	39.9% - 42.3%
Estimated dividend yield	2.5% - 4.4%
Expected life of the options (in years)	6.5
Forfeiture rate	3.7%

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

b) PSU plan

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 at the market value of a share at the vesting date at the discretion of the Board. The Company has no intention to settle in cash. PSUs generally vest 100% on the third anniversary of the grant date.

The number of units that will vest is calculated based on a performance adjustment factor of between 0.0 and 2.0 which is determined based on the Company's revenue (weighted at 25%) and basic EPS (weighted at 75%) performance relative to the Board established targets that have been set for the three-year performance period between the grant date and the vesting date of the PSUs.

For PSUs granted prior to fiscal 2020, the number of units that will vest is calculated based on a performance adjustment factor of between 0.5 and 1.5 which is determined based on the Company's performance relative to the Board established target on profitability that has been set for the three-year performance period between the grant date and the vesting date of the PSUs.

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

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

	2021	**2020**
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the year	225,118	178,864
Granted during the year	73,428	111,849
Exercised during the year	(27,148)	(58,579)
Forfeited during the year	(1,390)	(7,016)
Cancelled during the year	(14,623)	—
Outstanding, at the end of the year	255,385	225,118

(in thousands of Canadian dollars, unless otherwise noted)

The weighted average fair value of the grant price for the year was $33.74 (2020 – $17.38).

c) RSU plan

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. The Company has no intention to settle in cash. RSUs generally vest 100% on the third anniversary of the grant date. The number of units which will vest and are paid is equal to the number of units originally granted to a participant.

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

	2021	**2020**
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the year	51,046	—
Granted during the year	42,987	51,046
Exercised during the year	—	—
Forfeited during the year	(437)	—
Outstanding, at the end of the year	93,596	51,046

The weighted average fair value of the grant price for the year was $32.43 (2020 – $15.94).

d) DSU plan

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 installments 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.

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

	2021	**2020**
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the year	60,183	34,430
Granted during the year	17,500	25,753
Exercised during the year	(9,826)	—
Outstanding, at the end of the year	67,857	60,183

The weighted average fair value of the grant price for the year was $27.68 (2020 – $13.59).

(in thousands of Canadian dollars, unless otherwise noted)

20 Business combination

On October 22, 2021, the Company acquired 52% of the issued and outstanding common shares of Hush, a direct-to-consumer sleep retailer, for a cash consideration of $23.3 million.

This acquisition has been accounted for as a business combination.

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

	$
Purchase consideration	
Cash purchase price	23,333
Allocation of purchase consideration to net assets acquired	
Net working capital	(1,305)
Indemnification asset	500
Property and equipment (note 7)	46
Right-of-use assets (note 8)	124
Intangible assets (note 9)	16,606
Deferred tax liabilities (note 17)	(2,200)
Lease liabilities (note 8)	(132)
Other liabilities (note 12)	(2,392)
Total net assets acquired	11,247
Non-controlling interests	(5,399)
Goodwill (note 9)	17,485
Total net assets acquired, non-controlling interests and Goodwill	23,333

The Company has recognized the non-controlling interests at its proportionate share of the acquired net identifiable assets.

To estimate the fair value of the brand, the Company used the royalty relief method using a discounted cash flow model. The Company developed significant assumptions related to revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") forecasts, royalty rates and discount rate.

At the time these financial statements were authorized for issue, the Company had not finalized the accounting for the acquisition. The purchase consideration and allocation of purchase consideration to the net assets acquired is provisional and subject to change as at December 31, 2021. The Company will finalize these amounts as it obtains the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to

(in thousands of Canadian dollars, unless otherwise noted)

the provisional amounts recognized at the acquisition date. These changes could be significant. The Company will finalize these amounts no later than one year from the acquisition date.

Acquisition related costs of $438 are included in general and administrative expenses in the consolidated statement of income and comprehensive income and in operating cash flows in the consolidated statements of cash flows for year ended December 31, 2021. At the time of acquisition and as at December 31, 2021, there is a $2,632 amount payable to the non-controlling interests. This amount has been included in Other liabilities in the consolidated statement of financial position.

Recognized goodwill reflects the value assigned to expected future synergies, a portion of which is tax deductible.

The results of operations since October 22, 2021, the date of acquisition, have been included in these consolidated financial statements. Since the date of acquisition, Hush has generated revenue of approximately $8,927 and net income of $790. Pursuant to the Hush share purchase agreement, the Company is indemnified by the non-controlling interests against losses suffered or incurred as a result of or arising from taxes payable by Hush in respect of pre-closing tax periods. The Company has recorded liability on its consolidated statement of financial position at the acquisition date and recorded the corresponding indemnification asset to offset the liability.

21 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 primarily in Canada. The exposure related to foreign exchange is mainly limited to US dollar payments to suppliers. Foreign currency forward contracts can be used from time to time to mitigate risks associated with forecasted U.S. dollar merchandise purchases sold in Canada.

- 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

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swaps as necessary to achieve the desired proportion of variable and fixed rate debt. As at December 31, 2021, an increase or decrease in interest rates by 1% would result in an increase or a decrease of $30 (2020 – $780) 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 the Company'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 the Company 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.

The trade and other receivables presented on the consolidated statements of financial position are net of expected credit losses.

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.

As at December 31, 2021, the Company's cash balance was $36.5 million with an additional $197.0 million (not including the $100 million accordion) of liquidity available under the Company's credit facility.

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 in the table reflect the contractual undiscounted cash flows (including interest where applicable) which may differ to the carrying values of the liabilities at the reporting date.

(in thousands of Canadian dollars, unless otherwise noted)

	Within 1 year $	Between 1 and 5 years $	Over 5 years $
At December 31,2021			
Trade and other payables	107,886	—	—
Lease liabilities	48,320	127,929	39,259
Long-term debt	2,980	74,169	—
Other long-term liabilities	—	34,634	—
	159,186	236,732	39,259
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

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, 2021 and December 31, 2020.
- The interest rate swap obtained effective April 1, 2021 is recorded at fair value based on observable quoted market prices for identical financial instruments in active markets as at December 31, 2021. The interest rate swap is included in trade and other receivables in the consolidated statement of financial position as at December 31, 2021.

(in thousands of Canadian dollars, unless otherwise noted)

- The redemption liabilities related to the acquisition of Hush was initially recognized at fair value on acquisition date and subsequently measured at amortized cost. The inputs to the measurement of the fair value of the redemption liabilities related to acquisitions are Level 3 inputs. The fair value measurements were made using a discounted cash flow model; significant model inputs were expected future pre-tax earnings over the measurement period (determined with reference to the specific acquired business) and a pre-tax discount rate of 14%. The discount rate is attributable to the level of risk related to economic growth factors combined with the length of the contingent payment periods; and the dispersion was driven by unique characteristics of the businesses acquired and the respective terms for these future payments. A 1% increase in the weighted average discount rate would increase the fair value of redemption liabilities by $491.

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.

22 Contingent liabilities and unrecognized contractual commitments

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.

23 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 Company's Board of Directors and its Named Executive Officers ("NEO").

As at December 31, 2021 and December 31, 2020, there were no balances due from or payable to a related party.

(in thousands of Canadian dollars, unless otherwise noted)

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

	2021 $	2020 $
Salaries and short-term associate benefits	4,599	4,357
Share-based compensation	3,260	2,586
Directors' fees	549	542
	8,408	7,485

24 Comparative figures

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

25 COVID-19 business update

The COVID-19 pandemic onset in early 2020 continued to have an impact on the Company's operations in 2021.

As at January 1, 2021, 182 stores or 65% of the Company's store network was closed. The stores reopened during the months February and March 2021 as restrictions eased in regions. In April 2021, as the number of verified COVID-19 cases resurged in Canada, certain municipal and provincial governments mandated the closure of non-essential businesses. This order resulted in the Company temporarily closing 133 of its stores for various intervals of time during the months of April, May and June 2021. As restrictions eased in the affected regions, the Company reopened its stores during the months May and June 2021. The Company's stores remained open for the remaining of the fiscal year.

The duration and impact of the COVID-19 pandemic is uncertain at this time. The impact of the pandemic 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.

26 Subsequent events

The Company's dividend policy is at the discretion of the Board. On February 8, 2022, the Company declared a dividend of $0.195 per common share that will be payable on February 28, 2022 to holders of the common shares of record as at the close of business on February 18, 2022.

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