Annual Report 2022

Sleep Country Canada Holdings Inc.

Sleep Well. Stay Well.™

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

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For Sleep Country's most recent ESG report, please visit ir.sleepcountry.ca

About Sleep Country

We are driven by our purpose to transform lives by **awakening Canadians to the power of sleep** through our highly differentiated service model, unmatched sleep ecosystem and expertise, superior brand trust and commitment to world-class customer experience.

Our Sleep Ecosystem

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

Our Retail Banners

Sleep Country | Dormez-vous? | Endy | Hush. | silk&snow[1]

Growing network of 289 stores

5 leading eCommerce platforms

Vast product assortment from the world's leading sleep brands

15+ mattress brands
50+ sleep accessory brands

Elevated sleep expertise

1,100+
Sleep Experts

Exceptional logistics and stable supply chain

20 warehouses

Partnerships with leading Canadian retailers

9 partnerships, including:
- Walmart
- Loblaw
- Best Buy

[1] The Silk & Snow acquisition was completed subsequent to year-end on January 4, 2023.

A Message from our President and CEO

Stewart Schaefer, President and CEO, Sleep Country

Dear Shareholders;

In 2022, we continued our journey to champion sleep as the key to healthier, happier lives and help every Canadian achieve better tomorrows through better tonights. Every day, we strive to live our purpose of transforming lives by awakening Canadians to the power of sleep and being Canadians' sleep retailer of choice.

Our teams demonstrated their resilience, adaptability and drive and performed beyond our expectations, while expertly navigating our business through a dynamic economic landscape that included supply chain disruptions, higher costs and a tight labour market. Their hard work underscored their commitment to helping our customers get their best night's sleep. In 2022, we were pleased to serve over 1.1 million customers with their sleep needs.

Even with the backdrop of weakening consumer sentiment, we stayed focused on delivering on our multi-year strategic plan by building on our growth and momentum, and strengthening shareholder value. The investments we made in our sleep ecosystem – our brands, expanded channels, innovative products – and our team's dedication to creating a seamless customer experience, drove continued growth across key metrics in our business.

We increased our revenues by 0.9% to $929 million, our operating EBITDA[1] by 3.6% to $219 million and our diluted adjusted EPS[1] by 6.4% to $2.81, driving shareholder value. At end of the year, our cash balance was $78 million, with access to an additional $160 million under our credit facility (not including the $100 million accordion). We increased our annual dividends paid by 7.7% to $0.84 per share and we repurchased for cancellation 2,339,409 common shares, approximately 6.7% of the public float, against our Normal Course Issuer Bid ("NCIB").

"Over the last few years, our business has grown from being the #1 brick-and-mortar mattress retailer to an integrated omnichannel sleep retailer with the addition of three direct-to-consumer sleep brands into the fold; Endy, Hush, and subsequent to 2022, Silk & Snow."

House of brands

Over the last few years, our business has grown from being the #1 brick-and-mortar mattress retailer to an integrated omnichannel sleep retailer with the addition of three direct-to-consumer sleep brands into the fold; Endy, Hush, and subsequent to 2022, Silk & Snow.

In keeping with our goal to grow our sleep accessories business and be Canada's gateway for the world's best sleep products, subsequent to 2022, we completed our acquisition of Silk & Snow on January 4, 2023. We are extremely pleased to welcome the Silk & Snow team into our family. Silk & Snow is a digital sleep retailer of high-quality affordable luxury sleep and lifestyle products that are thoughtfully made. Founded in 2017, Silk & Snow has become one of Canada's highly known direct-to-consumer sleep brands and has been recognized as one of Canada's top growing companies for the past three years. Through this acquisition, we strategically continued to build our industry-leading sleep ecosystem and expand our innovative and sustainable product assortment to better serve Canadians' sleep needs.

We invested in our ecosystem, further expanding our distribution channels with the launch of Sleep Country/Dormez-vous online stores on the Loblaw Marketplace, adding net four new full service retail stores, and seven Sleep Country/Dormez-vous Express stores in Walmart locations nationwide – growing our total store count for the Express stores to 17 at the end of 2022.

Endy continued to delight its customers and is voted as one of the most trusted brands in Canada. Hush opened its first-ever pop-up retail experience at Yorkdale Shopping Centre in Toronto, bringing their popular online sleep brand to life. Combined, all our brands offer an array of affordable procured bedding products, that are seamlessly accessible to all Canadians from the convenience of their phone.

Investing in our customer experience

We continued our digital transformation with investments in our eCommerce platforms to serve a growing number of customers and enhance their online shopping experience. Our eCommerce businesses represented 19.6% of our Revenues in 2022.

We also launched the innovative *All For Sleep* App, providing tools to empower Canadians and help them improve their sleep habits and wellbeing, while having access to the expertise of our Sleep Experts.

"We continued to support the communities where we live and work with donations of $1.2 million, including $720,000 in mattresses, sheets, pillows, and bedding to support Ukrainians displaced by the war. We also donated $200,000 to the Canadian Mental Health Association reinforcing the message that sleep is crucial to health and wellness."

Making an impact

The release of our first environment, social, and governance ("ESG") report and strategy in 2022 showed our commitment to being a purpose-driven, sustainable business. These initiatives highlight our focus on encouraging people to achieve better health and wellbeing, while driving social change and protecting the environment.

We continued to support the communities where we live and work with donations of $1.2 million, including $720,000 in mattresses, sheets, pillows, and bedding to support Ukrainians displaced by the war. We also donated $200,000 to the Canadian Mental Health Association reinforcing the message that sleep is crucial to health and wellness.

We are especially proud of our workplace and culture recognition with Sleep Country/Dormez-vous named as one of "Canada's Most Admired Corporate Cultures for 2022", and Endy's designation as a "Great Place to Work" for the fourth year in a row. Awards such as these highlight our vibrant culture and recognize our commitment to equity, diversity, inclusion, and belonging for our associates.

Looking ahead

We are very excited about our future and helping even more Canadians achieve their best night's sleep. As we begin 2023, we recognize that we will continue to navigate a challenging macro environment. As consumer confidence continues to be challenged in these economic times, consumers may choose to defer their sleep purchases to a future time. However, we believe with our strong balance sheet, positive cash flow and our sustained growth in market share over the last three years, we are well positioned to capture the deferred purchases as our customers' confidence returns and they are ready to invest in their sleep.

With our continued investment in our strategic plan and the ongoing development of our sleep ecosystem, we are positioned for success. Our emphasis on nurturing customer relationships for the long haul continues to guide us in offering the best assortment of mattresses and sleep accessories across the most relevant distribution channels. We are more determined than ever to deliver seamless and frictionless sleep solutions for all Canadians by continuing to expand our physical and online touchpoints and provide the most comprehensive and innovative portfolio of products.

I'd like to express deep gratitude to our Board, shareholders and partners for your continued support, as well as to our team across all our brands for their commitment to our business, customers, and to each other. Together, all these hard-working individuals make our Company so special, and are the reason that we are Canada's number one sleep partner going onto our 29th year in business.

Sleep well. Stay well.

Stewart

[1] SSS is a supplementary financial measure, Operating EBITDA and Diluted adjusted EPS are each non-IFRS measures. See the section titled "Non-IFRS and Other Measures" in the Management Discussion and Analysis ("MD&A") section in this Annual Report for further details concerning how the Company calculates SSS, Operating EBITDA, and Diluted adjusted EPS and for a reconciliation to the most comparable IFRS measure.

Growth Strategy

We are committed to executing against our strategic growth platforms to further expand our leadership position and deliver sustainable value for our customers, shareholders, associates and communities.

1 **World-class customer experience**

With a focus on the customer, we are committed to delivering a superior and seamless journey across all channels and touchpoints.

2 **Channel and product innovation**

Our 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.

3 **Commitment to helping customers achieve their best sleep as a pillar of well-being**

As a purpose-driven organization, we are dedicated to supporting the well-being of all Canadians by championing sleep as an essential pillar of physical, mental and emotional well-being. With our sleep expertise, we aim to help all Canadians achieve their best sleep in the pursuit of healthier and happier lives.

Highlights

Expanded our industry-leading sleep ecosystem with the acquisition of Silk & Snow[1]

Opened Hush's first-ever pop-up store at Yorkdale Shopping Centre expanding its touchpoint with customers

1.1 million+

Customers served by 1,100+ Sleep Experts

Grew our digital footprint in partnership with Loblaw marketplace reaching millions of online customers

+4

Net new Sleep Country/ Dormez-vous stores opened

125,000+

Mattresses and foundations recycled or upcycled

Expanded Walmart partnership by opening 7 additional Express stores nationwide

Launched our *All For Sleep* mobile app giving users access to tools to help improve their sleep habits and wellbeing

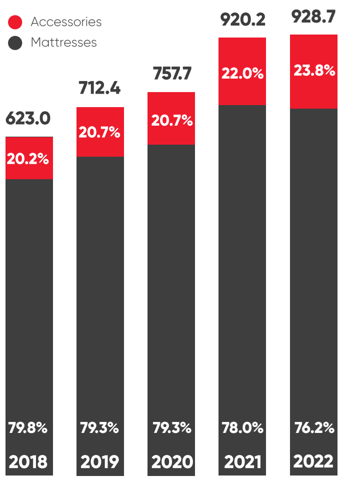
Recognized as one of Canada's Most Admired Corporate Cultures by Waterstone Human Capital

[1] The Silk & Snow acquisition was completed subsequent to year-end on January 4, 2023.

Financial Performance

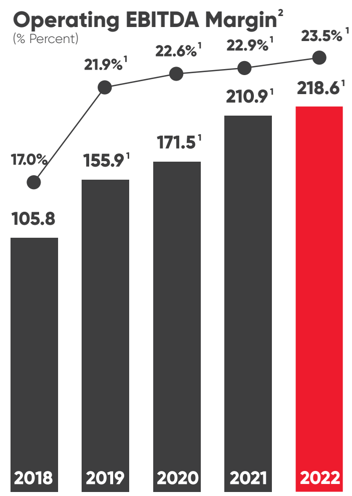
Revenues increased by 0.9% to $928.7 million

Revenues
(C$Millions)



Operating EBITDA[2] improved by 3.6% to $218.6 million

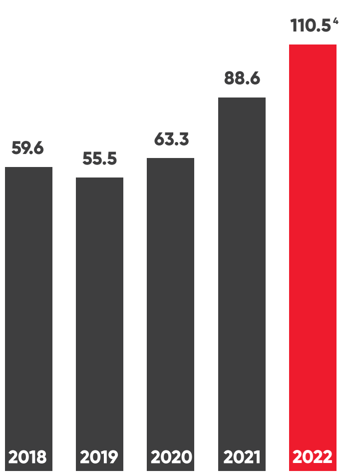
Operating EBITDA[2]
(C$Millions)



> **"The investments we made in our sleep ecosystem – our brands, expanded channels, innovative products – and our team's dedication to creating a seamless customer experience, drove continued growth across key metrics in our business."**
>
> – Stewart Schaefer,
> President and CEO,
> Sleep Country

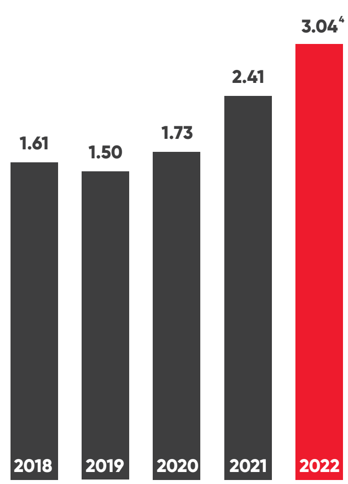
Net Income Attributable to the Company increased by 24.7% to $110.5 million[4]

Net Income Attributable to Company
(C$Millions)



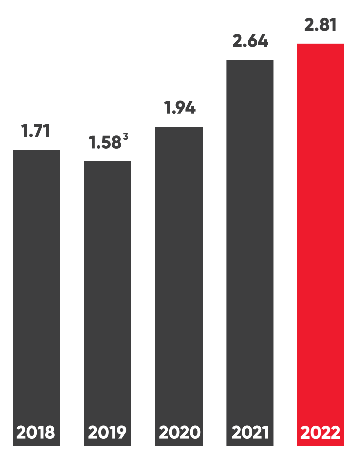
Achieved highest basic EPS at $3.04[4]

Basic EPS
(C$ Per Share)



Achieved highest diluted adjusted EPS[2] at $2.81[3]

Diluted Adjusted EPS[2]
(C$ Per Share)



[1] Figures include IFRS 16 impact.
[2] 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 the report.
[3] 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.
[4] This measure was positively impacted in Fiscal 2022 by a $20.5 million adjustment to the redemption liabilities due to the revised expected outcome related to the Hush acquisition.

Management's Discussion and Analysis

1 Preface

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of March 2, 2023 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, 2022 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, 2022 and December 31, 2021 and the related MD&A.

Basis of Presentation

All references in this MD&A to "**Q4 2022**" are to the Company's quarter ended December 31, 2022, "**Q4 2021**" are to the Company's quarter ended December 31, 2021 and "**Q4 2020**" are to the Company's quarter ended December 31, 2020. All references in this MD&A to "**2022**" are to the Company's year ended December 31, 2022, "**2021**" are to the Company's year ended December 31, 2021 and "**2020**" are to the Company's year ended December 31, 2020.

The Company's audited consolidated financial statements for the years ended December 31, 2022 and December 31, 2021 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, 2022 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 2, 2023.

Forward-looking Information

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

Forward-looking information and forward-looking statements are based on information available to management at the time they are made, underlying estimates, opinions and assumptions made by management and management's current good faith belief with respect to future strategies, prospects, events, performance and results, and are subject to inherent risks and uncertainties surrounding future expectations generally. Such risks and uncertainties include, but are not limited to, those described below under the sections "Risk Factors" and those described in the Company's 2022 annual information form (the "**AIF**") filed on March 2, 2023. 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, 2022, cumulatively, these banners have a growing network of 289 corporate-owned stores (2021 – 285 stores), 17 "Sleep Country Express"/"Dormez-vous Express" stores ("**Express Stores**") (2021 – 10 Express Stores), augmented by its eCommerce platforms – sleepcountry.ca and dormezvous.com – and its 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**"). At all its access points, the Company provides its customers 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 provider of Sleep.

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

Endy introduced its first 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 most 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 on or about 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 offerings to include other sleep accessories, in addition, to introducing the Hush mattresses.

Subsequent to December 31, 2022, on January 1, 2023, the Company acquired substantially all of the net operating assets of Silk & Snow Inc. ("**Silk & Snow**"), a direct-to-consumer sleep retailer. Recognized as one of Canada's top growing companies, Silk & Snow is a digital sleep retailer of high-quality sleep and lifestyle products that are thoughtfully made.

As at December 31, 2022, the Banners are supported by the Company's distribution network which includes 20 warehouses (2021 – 20 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.

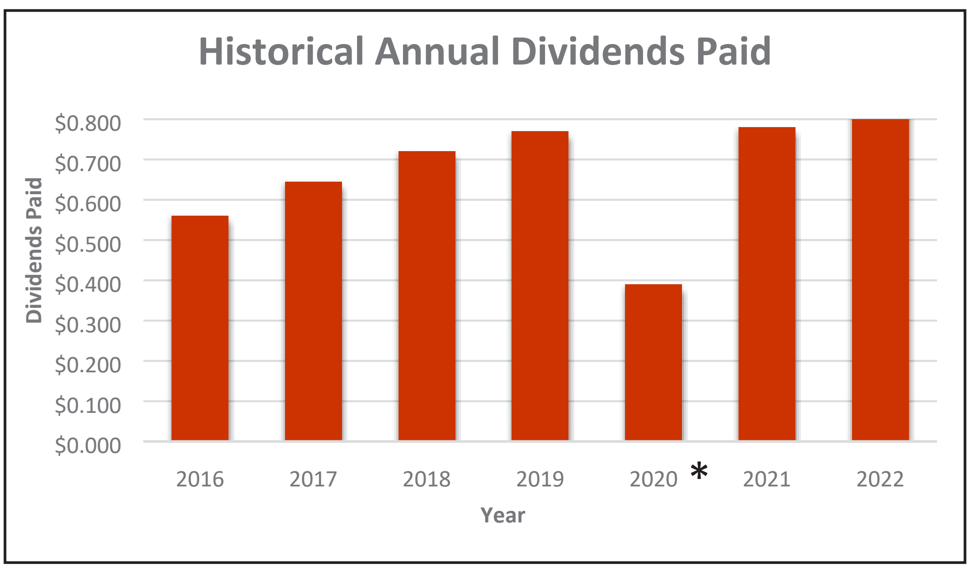
The Company's purpose, strategy and operations differentiate it from its competitors. With its strong 28-year legacy, differentiated service model, unmatched sleep ecosystem, superior brand trust and commitment to customer experience, the Company has positioned itself to continue to be Canada's leading provider of Sleep.

3 Dividends and Share Purchases

Dividends:

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

The Board has periodically declared dividends on the Company's common shares. The chart below illustrates the annual dividends paid from fiscal 2016 to fiscal 2022.



* 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.

In the last 3 years, the Company declared and paid the following dividends:

Date of declaration	Record date	Payment date	Dividend declared (per common share)
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
May 4, 2022	May 20, 2022	May 30, 2022	$ 0.215
July 28, 2022	August 19, 2022	August 29, 2022	$ 0.215
November 4, 2022	November 21, 2022	November 30, 2022	$ 0.215

Subsequent to December 31, 2022, on February 9, 2023, the Company declared a dividend of $0.215 per common share payable on February 28, 2023 to holders of the common shares of record as at the close of business on February 17, 2023.

Share Purchases*:*

On March 7, 2022, the Company received approval from the Toronto Stock Exchange (the "**TSX**") to commence a normal course issuer bid ("**NCIB**"). Pursuant to an amendment to the NCIB on November 29, 2022, the Company is permitted to purchase through the facilities of the TSX or alternative trading systems, from time to time until the completion of the NCIB, if considered advisable, up to a maximum of 3,155,250 of the Company's common shares, representing approximately 10.0% of its public float as of February 28, 2022. Purchases will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2023. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 21,173 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.

Effective June 10, 2022, the Company established an automatic share purchase program ("ASPP") in connection with its NCIB to facilitate the purchase of shares during times when the Company would ordinarily not be permitted to purchase shares due to regulatory restrictions or a self-imposed blackout period. Before entering a blackout period, the Company may, but is not required to, instruct its designated broker to make purchases at the broker's sole discretion and based on parameters set by the Company in accordance with the ASPP, TSX rules and applicable securities laws.

Pursuant to the ASPP established on June 10, 2022, the maximum number of Shares eligible to be purchased through the ASPP was automatically increased to a maximum of 3,155,250 as a result of the amendment to the NCIB.

In 2022, the Company purchased for cancellation 2,339,409 common shares (2021 – nil) at an average price of $24.67 for total consideration of $57.7 million.

The Company plans on filing a notice of intention with the TSX to commence a new NCIB when the current NCIB expires on March 8, 2023. If this notice is accepted by the TSX, the Company expects to be permitted to purchase through the facilities of the TSX or alternative trading systems, from time to time over the 12 months following such acceptance, if considered advisable, up to a maximum amount of the Company's common shares, that represents 10% of the public float.

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 digital channels. The Company's revenue growth initiatives include:

- adding stores in both new and existing markets;
- partnering with new third-party online marketplace sellers;
- growing and optimizing its eCommerce platforms;
- expanding its product assortment;
- reaching more customers through targeted marketing;
- growing lifetime value with existing customers through serving more of their 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.

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, duvet covers, mattress protectors, pillow protectors, mattress toppers and weighted blankets.

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, that 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; and
- 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, Sheex, Tuck and If Only Home. 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.

<u>Online Expansion Opportunities</u>

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 its digital chat and phone line which are serviced by the Company's Sleep Experts. With this service capability, the Company can offer online customers 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 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 is supported by its digital chat and live-video consultation with Sleep Experts. The addition of Hush to the Company's 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.

The Company partnered with Walmart to supply 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.

The Company also has a partnership with Best Buy Canada, one of Canada's largest omnichannel retailers, to offer a selection of the Company's sleep solutions on the Best Buy Marketplace. The Company exclusively retails the traditional mattress category on BestBuy.ca offering a wide assortment of the Company's most recognized mattress brands. In addition, the Company offers lifestyle bases and a leading assortment of sleep accessories including pillows, sheets, duvets on the Best Buy Marketplace.

In Q1 2022, the Company partnered with Canada's largest retailer, Loblaw Companies Ltd., and launched its Sleep Country/Dormez-vous online store across all Loblaw online platforms including Real Canadian

Superstore, Atlantic Superstore, Loblaws, Zehrs, Maxi, Fortinos, Provigo, Valu-Mart, No Frills, Your Independent Grocer and Independent City Market. The Company is the exclusive provider of traditional mattresses on all Loblaw online platforms, offering a wide assortment of the Company's most recognized mattress brands, as well as mattresses-in-a-box, lifestyle bases and a leading assortment of sleep essentials including pillows, sheets and duvets.

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, 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, 2022, 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.

To broaden its customer reach through channel innovation and strategic partnership, in Q4 2021, the Company introduced ten pilot "Sleep Country Express"/"Dormez-vous Express" stores ("**Express Stores**") in Walmart Canada locations. As at December 31, 2022, the Company had 17 pilot Sleep Country/Dormez-vous Express Stores (2021 – 10 stores) in Ontario and Quebec further expanding its partnership with Walmart Canada.

Each Express store has an average footprint between 500 and 800 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, are available at each Express store location. These stores are staffed by the Company's highly trained Sleep Experts, who bring their renowned sleep expertise to Walmart Canada customers.

The following table summarizes the Company's corporate-owned store count for the three-month and twelve-month periods ended December 31, 2022 and December 31, 2021:

	Q4		Annual	
	2022	**2021**	**2022**	**2021**
Number of stores, beginning of period[1]	**287**	287	**285**	281
Stores newly opened[1]	**2**	-	**5**	6
Stores closed[1]	**-**	2	**1**	2
Number of stores, end of period[1]	**289**	285	**289**	285
Number of stores in enhanced store design, end of period[1]			**241**	236
Stores relocated[1]	**-**	-	**-**	1
Stores renovated[1]	**-**	1	**-**	10

Note:

(1) Excludes the Company's pilot Sleep Country/Dormez-vous Express Stores operating in Walmart Canada licensee spaces.

Store Design

The Company continuously evaluates its store design to provide customers with the optimal shopping experience. As at December 31, 2022, there are 241 corporate-owned stores or 83% of the store network that feature the store design introduced in 2014, of which 83 are new stores, 147 are renovated stores and 11 are relocations of existing stores.

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 specialty sleep retailer with its national retail store network and multiple 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.

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.

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 to 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 below table illustrates the Company's average percentage of annual sales by quarter for the fiscal years 2018, 2019 and 2022 from the Company's omnichannel retail banners. Due to the uncertainties of the impact of the COVID-19 pandemic in Canada in 2020 and 2021, the Company did not include 2020 and 2021 in the below mentioned sales seasonality. The extent of COVID-19's impact on the overall economy, consumer purchasing behaviour and the impact of public health measures, such as mandated store closures, are uncertain and may have had an impact on seasonality in the retail mattress industry.

First quarter	22%
Second quarter	23%
Third quarter	29%
Fourth quarter	26%
Yearly total	100%

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 average unit selling prices ("**AUSP**"), sales product mix and Cost of Sales.

5 Fourth Quarter and Annual Highlights

(C$ thousands unless otherwise stated; other than store count and EPS)	Q4			Annual		
	2022	2021	Change	**2022**	2021	Change
Revenues	**$ 243,028**	$ 271,158	(10.4%)	**$ 928,657**	$ 920,194	0.9%
SSS[1]	**(11.5%)**	3.2%		**(1.8%)**	18.3%	
Stores opened[2]	**2**	-		**5**	6	
Stores closed	**-**	2		**1**	2	
Stores renovated/relocated	**-**	1		**-**	11	
Gross profit margin %	**37.5%**	36.0%		**36.7%**	34.5%	
Operating EBITDA[1]	**$ 53,005**	$ 62,065	(14.6%)	**$ 218,559**	$ 210,889	3.6%
Operating EBITDA margin %[1]	**21.8%**	22.9%		**23.5%**	22.9%	
Net income	**$ 40,783**	$ 26,812	52.1%	**$ 110,696**	$ 88,982	24.4%
Net income attributable to the Company	**$ 40,469**	$ 26,433	53.1%	**$ 110,471**	$ 88,603	24.7%
Adjusted net income attributable to the Company[1]	**$ 23,874**	$ 30,977	(22.9%)	**$ 102,868**	$ 98,342	4.6%
Basic EPS	**$ 1.14**	$ 0.72	58.3%	**$ 3.04**	$ 2.41	26.1%
Diluted EPS	**$ 1.13**	$ 0.71	59.2%	**$ 3.01**	$ 2.38	26.5%
Basic adjusted EPS[1]	**$ 0.67**	$ 0.84	(20.2%)	**$ 2.83**	$ 2.67	6.0%
Diluted adjusted EPS[1]	**$ 0.67**	$ 0.83	(19.3%)	**$ 2.81**	$ 2.64	6.4%

Notes:

(1) SSS is a supplementary financial measure, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS 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, Basic adjusted EPS and Diluted adjusted EPS and for a reconciliation to the most comparable IFRS measure.

(2) This figure does not include the Sleep Country Express/Dormez-vous Express Stores in the Walmart Canada licensee spaces. As at December 31, 2022, the Company had 17 Sleep Country/Dormez-vous Express Stores (2021 – 10 stores).

Highlights of Results in Q4 2022

Q4 2022 compared to Q4 2021 - See “Non-IFRS and Other Measures”.

- Revenues decreased by $28.2 million or 10.4% from $271.2 million in Q4 2021 to $243.0 million in Q4 2022 mainly driven by a 11.5% decrease in SSS, partially offset by incremental revenue earned from Hush which was acquired in late October 2021, net four new stores opened in 2022 and wrap stores opened in 2021;
- eCommerce sales as a percentage of Revenues increased by 20 basis points from 20.9% in Q4 2021 to 21.1% in Q4 2022;
- Gross profit margin increased by 150 basis points from 36.0% in Q4 2021 to 37.5% in Q4 2022;
- Operating EBITDA margin decreased by 110 basis points from 22.9% in Q4 2021 to 21.8% in Q4 2022
- Net income attributable to the Company increased by $14.1 million or 53.1% from $26.4 million in Q4 2021 to $40.5 million in Q4 2022, which was impacted by the $20.5 million adjustment of the redemption liabilities due to the revised expected outcome related to the Hush acquisition;
- Adjusted net income attributable to the Company decreased by $7.1 million or 22.9% from $31.0 million in Q4 2021 to $23.9 million in Q4 2022;
- Diluted EPS increased by $0.42 or 59.2% from $0.71 in Q4 2021 to $1.13 in Q4 2022 impacted by:
    - Positive impact from the $20.5 million adjustment to the redemption liabilities of $0.57 per share; and
- Diluted adjusted EPS decreased by $0.16 or 19.3% from $0.83 in Q4 2021 to $0.67 in Q4 2022.

Highlights of Results in 2022

2022 compared to 2021- See “Non-IFRS and Other Measures”.

- Revenues increased by $8.5 million or 0.9% from $920.2 million in 2021 to $928.7 million in 2022 mainly driven by incremental revenue earned from Hush which was acquired in late October 2021, net four new stores opened in 2022, and wrap stores opened in 2021, partially offset by decrease of SSS by 1.8%;
- eCommerce sales a percentage of Revenues decreased by 390 basis points from 23.5% in 2021 to 19.6% in 2022;
- Gross profit margin increased by 220 basis points from 34.5% in 2021 to 36.7% in 2022;
- Operating EBITDA margin increased by 60 basis points from 22.9% in 2021 to 23.5% in 2022;
- Net income attributable to the Company increased by $21.9 million or 24.7% from $88.6 million in 2021 to $110.5 million in 2022, which was impacted by the $20.5 million adjustment of the redemption liabilities due to the revised expected outcome related to the Hush acquisition;
- Adjusted net income attributable to the Company increased by $4.6 million or 4.6% from $98.3 million in 2021 to $102.9 million in 2022;
- Diluted EPS increased by $0.63 or 26.5% from $2.38 in 2021 to $3.01 in 2022 impacted by:
    - Positive impact from the $20.5 million adjustment to the redemption liabilities of $0.57 per share; and
- Diluted adjusted EPS increased by $0.17 or 6.4% from $2.64 in 2021 to $2.81 in 2022.

Outlook

The Company continues to make investments supporting the Company's long-term, profitable growth strategy and reinforcing the Company's position as Canada's leading provider of Sleep. The Company aims to make significant investments to strengthen its omnichannel and digital capabilities, deepen relationships with new and loyal customers, grow its assortment of innovative and relevant sleep products and expand its customer segmentations in the Canadian market.

Key initiatives planned for 2023 include continuing to:

- explore new growth opportunities to further expand the Company's business in sleep;
    - On January 1, 2023, the Company completed its acquisition of Silk & Snow Inc., one of Canada's top growing direct-to-consumer sleep brands specializing in high-quality sleep and lifestyle products. The Company acquired substantially all of the operating assets of Silk & Snow Inc. for an upfront cash consideration of $24.1 million and up to an additional $19.5 million in contingent consideration to be paid in 2026 upon achieving certain growth and profitability targets in aggregate for years 2023, 2024 and 2025;
- expand the sleep product assortment through strategic partnerships and in-house innovation;
- invest in an elevated in-store customer experience across our Sleep Country/Dormez-vous retail store network including rolling out new and innovative store formats for planned renovations and new stores;
    - open a minimum of six new stores in 2023;
    - renovate 20 to 30 stores in 2023;
- consolidate four of the Company's existing warehouses into two new warehouses resulting in better customer experience and operational efficiencies;
- continued rollout of the Company's new ERP regionally and further investments to enhance the Company's ERP to evolve front-end and back-end operations;
- continued investment in the Company's 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; and
- plan on filing a notice of intention with the TSX to commence a new NCIB to repurchase common shares, at the Company's discretion, for up to 10% of the public float.

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 the years ended December 31, 2022 and December 31 2021.

	Q4			Annual		
(C$ thousands unless otherwise stated; other than EPS)	**2022**	2021	Change	**2022**	2021	Change
Consolidated Income Statement						
Revenues	**$ 243,028**	$ 271,158	(10.4%)	**$ 928,657**	$ 920,194	0.9%
Cost of sales	**151,953**	173,438	(12.4%)	**587,629**	603,146	(2.6%)
Gross profit	**91,075**	97,720	(6.8%)	**341,028**	317,048	7.6%
General and administrative expenses	**57,540**	56,263	2.3%	**196,167**	178,225	10.1%
Income before finance related (income) expenses, other (income) expenses and income taxes	**33,535**	41,457	(19.1%)	**144,861**	138,823	4.3%
Finance related (income) expenses	**(15,533)**	4,259	(464.7%)	**(889)**	16,837	(105.3%)
Other (income) expenses	**65**	(51)	(227.5%)	**(292)**	142	(305.6%)
Net income before provision for income taxes	**49,003**	37,249	31.6%	**146,042**	121,844	19.9%
Provision for income taxes	**8,220**	10,437	(21.2%)	**35,346**	32,862	7.6%
Net income	**$ 40,783**	$ 26,812	52.1%	**$ 110,696**	$ 88,982	24.4%
Net income attributable to the Company	**$ 40,469**	$ 26,433	53.1%	**$ 110,471**	$ 88,603	24.7%
EBITDA[1]	**$ 50,711**	$ 57,314	(11.5%)	**$ 210,494**	$ 199,549	5.5%
Operating EBITDA[1]	**$ 53,005**	$ 62,065	(14.6%)	**$ 218,559**	$ 210,889	3.6%
Operating EBITDA margin %[1]	**21.8%**	22.9%		**23.5%**	22.9%	
Adjusted net income attributable to the Company[1]	**$ 23,874**	$ 30,977	(22.9%)	**$ 102,868**	$ 98,342	4.6%
Basic EPS	**$ 1.14**	$ 0.72	58.3%	**$ 3.04**	$ 2.41	26.1%
Diluted EPS	**$ 1.13**	$ 0.71	59.2%	**$ 3.01**	$ 2.38	26.5%
Basic adjusted EPS[1]	**$ 0.67**	$ 0.84	(20.2%)	**$ 2.83**	$ 2.67	6.0%
Diluted adjusted EPS[1]	**$ 0.67**	$ 0.83	(19.3%)	**$ 2.81**	$ 2.64	6.4%
Dividends declared per share	**$ 0.215**	$ 0.195	10.3%	**$ 0.840**	$ 0.780	7.7%

	31-Dec-22	**31-Dec-21**
Total Assets	**$ 1,021,719**	**$ 988,035**
Total Long-term lease liabilities and long-term debt	**$ 374,252**	**$ 346,233**

Note:

(1) EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS 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, Basic adjusted EPS and Diluted adjusted EPS 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 the years ended December 31, 2021 and December 31 2020.

	Q4			Annual		
(C$ thousands unless otherwise stated; other than EPS)	**2021**	2020	Change[(2)]	**2021**	2020	Change[(2)]
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, other (income) expenses 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%)
Other (income) expenses	**(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%
Basic EPS	**$ 0.72**	$ 0.72	0.0%	**$ 2.41**	$ 1.73	39.3%
Diluted EPS	**$ 0.71**	$ 0.72	(1.4%)	**$ 2.38**	$ 1.71	39.2%
Basic adjusted EPS[(1)]	**$ 0.84**	$ 0.75	12.0%	**$ 2.67**	$ 1.95	36.9%
Diluted adjusted EPS[(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, Basic adjusted EPS and Diluted adjusted EPS 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, Basic adjusted EPS and Diluted adjusted EPS and for a reconciliation to the most comparable IFRS measure.

(2) See the Q4 2021 MD&A for discussion related to performance analysis.

6 Fourth Quarter 2022 versus Fourth Quarter 2021

Revenues

Revenues decreased by $28.2 million or 10.4% from $271.2 million in Q4 2021 to $243.0 million in Q4 2022 mainly driven by an 11.5% decrease in SSS (See "Non-IFRS and Other Measures") partially offset by incremental revenue earned from Hush which was acquired in late October 2021, net four new stores opened in 2022, and wrap stores opened in 2021.

In Q4 2022, eCommerce sales as a percentage of revenue increased by 20 basis points from 20.9% in Q4 2021 to 21.1% in Q4 2022.

The decrease in total revenues was comprised of a decrease in mattresses and accessories sales in Q4 2022 over Q4 2021.

				Q4
(C$ millions unless otherwise stated)	**2022**	2021	Change	Change (%)
Mattresses	**$ 180.6**	$ 207.4	$ (26.8)	(12.9%)
Accessories	**$ 62.4**	$ 63.8	$ (1.4)	(2.2%)
Total	**$ 243.0**	$ 271.2	$ (28.2)	(10.4%)

Gross profit

Gross profit decreased by $6.6 million from $97.7 million in Q4 2021 to $91.1 million in Q4 2022. Gross profit margin increased by 150 basis points from 36.0% for Q4 2021 to 37.5% for Q4 2022. The increase in gross profit margin was attributable to higher AUSP in Q4 2022 versus Q4 2021 as well as a result of the following:

- inventory and other directly related expenses, net of volume rebates, decreased as percentage of Revenues by 2.5% from 44.2% in Q4 2021 to 41.7% in Q4 2022 primarily due the increase in AUSP, lower inventory provision adjustments which were partially offset by higher products costs – net of volume rebates, transportation and delivery costs;
- sales and distribution compensation expenses remained unchanged as a percentage of Revenues at 12.5% in Q4 2021 and Q4 2022;
- other expenses remained unchanged as a percentage of Revenues at 0.7% in Q4 2021 and Q4 2022;
- store occupancy costs increased as a percentage of Revenues by 0.5% from 2.4% in Q4 2021 to 2.9% in Q4 2022 due to the Company deleveraging its occupancy costs tied to lower Revenues in Q4 2022; and
- depreciation expenses increased as a percentage of Revenues by 0.5% from 4.2% in Q4 2021 to 4.7% in Q4 2022 due to the Company deleveraging its depreciation costs tied to lower Revenues in Q4 2022.

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

Total G&A expenses increased by $1.2 million or 2.3% from $56.3 million in Q4 2021 to $57.5 million in Q4 2022, and, as a percentage of revenue, G&A expenses increased from 20.7% of Revenues in Q4 2021 to 23.7% of Revenues in Q4 2022.

							Q4
(C$ millions unless otherwise stated)		**2022**	***% of Revenues***		2021	*% of Revenues*	Change
Media and advertising expenses[1]	**$**	**23.7**	**9.8%**	$	22.3	8.2%	$ 1.4
Salaries, wages and benefits		**12.4**	**5.1%**		12.3	4.5%	0.1
Credit card and finance charges		**5.6**	**2.3%**		5.7	2.1%	(0.1)
Occupancy charges		**2.5**	**1.0%**		2.1	0.8%	0.4
Professional fees[2]		**3.1**	**1.3%**		4.2	1.6%	(1.1)
Telecommunication and information technology		**3.0**	**1.2%**		2.9	1.1%	0.1
Mattresses recycling and donations		**0.1**	**0.0%**		1.1	0.4%	(1.0)
Depreciation and amortization[3]		**5.8**	**2.4%**		4.5	1.7%	1.3
Other		**1.3**	**0.6%**		1.2	0.4%	0.1
Total G&A expenses	**$**	**57.5**	**23.7%**	$	56.3	20.7%	$ 1.2

Notes:

(1) Media and advertising expenses increased by $1.4 million mainly due to an increase in online and television advertising, market research costs and advertising fees in addition to a decrease in co-op and advertising credits received in Q4 2022. This increase was partially offset by a decrease billboard advertising, promotional material and advertising production costs.

(2) Professional fees decreased by $1.1 million mainly due to a decrease in consulting fees related to the new ERP, partially offset by an increase in legal fees of which $0.4 million primarily related to the acquisition of Silk & Snow Inc. that closed subsequent to Q4 2022 on January 1, 2023.

(3) Depreciation and amortization expenses increased by $1.3 million mainly due to the increase in intangible depreciation.

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

Total G&A expenses increased by $1.2 million or 2.3% from $56.3 million in Q4 2021 to $57.5 million in Q4 2022, and, as a percentage of revenue, G&A expenses increased from 20.7% of Revenues in Q4 2021 to 23.7% of Revenues in Q4 2022.

								Q4
(C$ millions unless otherwise stated)		**2022**	***% of Revenues***		2021	*% of Revenues*		Change
Media and advertising expenses[1]	**$**	**23.7**	**9.8%**	$	22.3	8.2%	$	1.4
Salaries, wages and benefits		**12.4**	**5.1%**		12.3	4.5%		0.1
Credit card and finance charges		**5.6**	**2.3%**		5.7	2.1%		(0.1)
Occupancy charges		**2.5**	**1.0%**		2.1	0.8%		0.4
Professional fees[2]		**3.1**	**1.3%**		4.2	1.6%		(1.1)
Telecommunication and information technology		**3.0**	**1.2%**		2.9	1.1%		0.1
Mattresses recycling and donations		**0.1**	**0.0%**		1.1	0.4%		(1.0)
Depreciation and amortization[3]		**5.8**	**2.4%**		4.5	1.7%		1.3
Other		**1.3**	**0.6%**		1.2	0.4%		0.1
Total G&A expenses	**$**	**57.5**	**23.7%**	$	56.3	20.7%	$	1.2

Notes:

(1) Media and advertising expenses increased by $1.4 million mainly due to an increase in online and television advertising, market research costs and advertising fees in addition to a decrease in co-op and advertising credits received in Q4 2022. This increase was partially offset by a decrease billboard advertising, promotional material and advertising production costs.

(2) Professional fees decreased by $1.1 million mainly due to a decrease in consulting fees related to the new ERP, partially offset by an increase in legal fees of which $0.4 million primarily related to the acquisition of Silk & Snow Inc. that closed subsequent to Q4 2022 on January 1, 2023.

(3) Depreciation and amortization expenses increased by $1.3 million mainly due to the increase in intangible depreciation.

EBITDA

EBITDA decreased by $6.6 million or 11.5% from $57.3 million in Q4 2021 to $50.7 million in Q4 2022. The decrease was primarily due to lower revenues in Q4 2022, partially offset by an improved gross profit margin. See "Non-IFRS and Other Measures".

Operating EBITDA

Operating EBITDA was $53.0 million for Q4 2022, or 21.8% of Revenues, compared to $62.1 million for Q4 2021, or 22.9% of Revenues, representing a decrease of $9.1 million or 14.6% mainly due to the decrease in EBITDA. See "Non-IFRS and Other Measures".

Finance related (income) expenses

Finance related (income) expenses decreased by $19.8 million from expense of $4.3 million in Q4 2021 to income of $15.5 million in Q4 2022. This decrease was mainly due to the $20.5 million adjustment due to the revised expected outcome of the redemption liabilities related to the Hush acquisition and a gain on shares repurchased under the ASPP offset by decrease in the unrealized gain on the interest rate swap.

Income taxes

Net income before income taxes in Q4 2022 increased by $11.8 million from $37.2 million in Q4 2021 to $49.0 million in Q4 2022. The effective income tax rate decreased by 1120 basis points from 28.0% in Q4 2021 to 16.8% in Q4 2022. This decrease in the effective tax rate is mainly driven by the $20.5 million adjustment of the redemption liabilities related to the Hush acquisition that is not deductible for tax purposes. The lower effective tax rate of 16.8% resulted in a decrease to income taxes of $2.2 million.

Net income attributable to the Company

Net income attributable to the Company for Q4 2022 increased by $14.1 million from $26.4 million ($0.72 per share) in Q4 2021 to $40.5 million ($1.14 per share) in Q4 2022, which was impacted by the $20.5 million adjustment of the redemption liabilities due to the revised expected outcome related to the Hush acquisition.

Adjusted net income attributable to the Company

Adjusted net income attributable to the Company for Q4 2022 decreased by $7.1 million from $31.0 million ($0.84 per share) in Q4 2021 to $23.9 million ($0.67 per share) in Q4 2022. See "Non-IFRS and Other Measures".

7 Annual Financial Results 2022 versus 2021

Revenues

Revenues increased by $8.5 million or 0.9% from $920.2 million in 2021 to $928.7 million in 2022 mainly driven by incremental revenue earned from Hush which was acquired in late October 2021, net four new stores opened in 2022 and wrap stores opened in 2021, partially offset by SSS (See "Non-IFRS and Other Measures") of 1.8%.

In 2022, eCommerce sales as a percentage of revenue decreased by 390 basis points from 23.5% in 2021 to 19.6% in 2022.

The increase in total revenues was comprised of an increase in accessories sales, partially offset by a decrease in mattresses sales in 2022 over 2021.

(C$ millions unless otherwise stated)	**2022**	2021	Change	**Annual** Change (%)
Mattresses	**$ 708.1**	$ 718.2	$ (10.1)	(1.4%)
Accessories	**$ 220.6**	$ 202.0	$ 18.6	9.2%
Total	**$ 928.7**	$ 920.2	$ 8.5	0.9%

Gross profit

Gross profit increased by $24.0 million from $317.0 million in 2021 to $341.0 million in 2022. Gross profit margin increased by 220 basis points from 34.5% for 2021 to 36.7% for 2022. The increase was attributable to higher AUSP in 2022 versus 2021 as well as a result of the following:

- inventory and other directly related expenses, net of volume rebates, decreased as percentage of Revenues by 2.5% from 44.2% in 2021 to 41.7% in 2022 primarily due the increase in AUSP, lower delivery costs and inventory provision adjustments which was partially offset by higher transportation and products costs – net of volume rebates;
- other costs decreased as a percentage of Revenues by 0.1% from 0.7% in 2021 to 0.6% in 2022
- depreciation expenses remained unchanged as a percentage of Revenues at 4.9% in 2021 and 2022;
- store occupancy costs increased as a percentage of Revenues by 0.1% from 2.8% in 2021 to 2.9% in 2022; and
- sales and distribution compensation expenses increased as a percentage of Revenues by 0.2% from 13.0% in 2021 to 13.2% in 2022. In 2022, the Company experienced an increase in higher sales salaries and commissions.

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

Total G&A expenses increased by $18.0 million or 10.1% from $178.2 million in 2021 to $196.2 million in 2022, and, as a percentage of revenues, G&A expenses increased from 19.4% of Revenues in 2021 to 21.1% of revenues in 2022.

(C$ millions unless otherwise stated)	**2022**	***% of revenue***	2021	*% of revenue*	**Annual** Change
Media and advertising expenses[1]	**$ 74.9**	**8.1%**	$ 66.0	7.2%	$ 8.9
Salaries, wages and benefits[2]	**42.8**	**4.6%**	38.6	4.2%	4.2
Credit card and finance charges	**19.9**	**2.1%**	19.4	2.1%	0.5
Occupancy charges	**9.6**	**1.0%**	9.6	1.0%	-
Professional fees[3]	**10.0**	**1.1%**	11.9	1.3%	(1.9)
Telecommunication and information technology[4]	**11.5**	**1.2%**	10.4	1.1%	
Mattresses recycling and donations	**2.9**	**0.3%**	3.9	0.4%	(1.0)
Depreciation and amortization[5]	**20.2**	**2.2%**	15.6	1.7%	4.6
Other[6]	**4.4**	**0.5%**	2.8	0.3%	1.6
Total G&A expenses	**$ 196.2**	**21.1%**	$ 178.2	19.4%	$ 18.0

Notes:

(1) Media and advertising expenses increased by $8.9 million due to an increase in online and television advertising, market research costs and advertising fees including the incremental adverting costs attributed to Hush acquired in Q4 2021. These increases were partially offset by a decrease production costs.

(2) Salaries, wages and benefits increased by $4.2 million mainly as a result of an increase in compensation expenses incurred in the regular course of business, partially offset by a decrease in share-based compensation and bonus expenses.

(3) Professional fees decreased by $1.9 million mainly due to a decrease in consulting fees primarily related to the ERP implementation project, partially offset by an increase in legal fees.

(4) Telecommunication and information technology expenses increased by $1.1 million mainly due to increased software licensing fees and support tied to our ERP and telecommunication expenses.

(5) Depreciation expenses increased by $4.6 million mainly due to the increase in tangible and intangible depreciation.

(6) Other expenses increased by $1.6 million mainly due to higher administrative, training, meals, entertainment and travel expenses.

EBITDA

EBITDA increased by $11.0 million from $199.5 million in 2021 to $210.5 million in 2022. The increase was primarily due to 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 $218.6 million for 2022, or 23.5% of Revenues, compared to $210.9 million for 2021, or 22.9% of Revenues, representing an increase of $7.7 million or 3.6% mainly due to the increase in EBITDA. See "Non-IFRS and Other Measures"

Finance related (income) expenses

Finance related (income) expenses decreased by $17.7 million from expense of $16.8 million in 2021 to income of $0.9 million in 2022 primarily due to the $20.5 million adjustment due to the revised expected outcome of the redemption liabilities related to the Hush acquisition and an increase in the gain on shares repurchased under the ASPP and unrealized gain on the interest rate swap.

Income taxes

The Company's effective income tax rate decreased by 280 basis points from 27.0% in 2021 to 24.2% in 2022. This tax rate decrease is mainly driven by the $20.5 million adjustment of the redemption liabilities related to the Hush acquisition that is not deductible for tax purposes. Net income before income taxes in 2022 increased by $24.2 million from $121.8 million in 2021 to $146.0 million in 2022 resulting in an increase to income taxes of $2.4 million.

Net Income attributable to the Company

Net Income attributable to the Company for 2022 increased by $21.9 million from $88.6 million ($2.41 per share) in 2021 to $110.5 million ($3.04 per share) in 2022, which was impacted by the $20.5 million adjustment of the redemption liabilities due to the revised expected outcome related to the Hush acquisition.

Adjusted net income attributable to the Company

Adjusted net income attributable to the Company for 2022 increased by $4.6 million from $98.3 million ($2.67 per share) in 2021 to $102.9 million ($2.83 per share) in 2022. See "Non-IFRS and Other Measures".

8 Summary of Quarterly Results

The Company's Revenues are 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 extent of COVID-19's impact on the overall economy, consumer purchasing behaviour and the impact of public health measures, such as mandated store closures, may have had an impact on seasonality in the retail mattress industry.

					2022					**2021**
(C$ thousands unless otherwise stated, except EPS)	Q4	Q3	Q2	Q1	**Annual**	Q4	Q3	Q2	Q1	**Annual**
Revenues	$ 243,028	$ 251,026	$ 227,575	$ 207,028	**$ 928,657**	$ 271,158	$ 273,840	$ 192,175	$ 183,020	**$ 920,194**
SSS[1]	(11.5%)	(11.1%)	15.1%	8.8%	**(1.8%)**	3.2%	10.6%	65.5%	19.6%	**18.3%**
Gross profit	$ 91,075	$ 96,623	$ 81,700	$ 71,633	**$ 341,028**	$ 97,720	$ 102,726	$ 66,351	$ 50,250	**$ 317,048**
Gross profit margin %	37.5%	38.5%	35.9%	34.6%	**36.7%**	36.0%	37.5%	34.5%	27.5%	**34.5%**
EBITDA[1]	$ 50,711	$ 63,683	$ 51,866	$ 44,239	**$ 210,494**	$ 57,314	$ 69,412	$ 42,452	$ 30,369	**$ 199,549**
Operating EBITDA[1]	$ 53,005	$ 65,603	$ 53,242	$ 46,714	**$ 218,559**	$ 62,065	$ 73,659	$ 43,706	$ 31,457	**$ 210,889**
Operating EBITDA margin %[1]	21.8%	26.1%	23.4%	22.6%	**23.5%**	22.9%	26.9%	22.7%	17.2%	**22.9%**
Net income attributable to the Company	$ 40,469	$ 28,926	$ 22,665	$ 18,413	**$ 110,471**	$ 26,433	$ 36,458	$ 17,019	$ 8,692	**$ 88,603**
Adjusted net income attributable to the Company[1]	$ 23,874	$ 32,457	$ 25,739	$ 20,800	**$ 102,868**	$ 30,977	$ 39,707	$ 18,036	$ 9,621	**$ 98,342**
Basic EPS	$ 1.14	$ 0.80	$ 0.61	$ 0.50	**$ 3.04**	$ 0.72	$ 0.99	$ 0.46	$ 0.24	**$ 2.41**
Diluted EPS	$ 1.13	$ 0.79	$ 0.61	$ 0.49	**$ 3.01**	$ 0.71	$ 0.98	$ 0.46	$ 0.23	**$ 2.38**
Basic adjusted EPS[1]	$ 0.67	$ 0.90	$ 0.70	$ 0.56	**$ 2.83**	$ 0.84	$ 1.08	$ 0.49	$ 0.26	**$ 2.67**
Diluted adjusted EPS[1]	$ 0.67	$ 0.89	$ 0.69	$ 0.56	**$ 2.81**	$ 0.83	$ 1.07	$ 0.48	$ 0.26	**$ 2.64**

Notes:

(1) SSS is a supplementary financial measure, EBITDA, Operating EBITDA, Adjusted net income attributable to the Company, Basic adjusted EPS and Diluted adjusted EPS 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, Basic adjusted EPS and Diluted adjusted EPS and for a reconciliation to the most comparable IFRS measure.

9 Segment Reporting

As at December 31, 2022, 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 Canada, its country of domicile.

10 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, tax expenses, principal debt 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, 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.

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 $78.3 million with an additional $160.0 million (not including the $100.0 million accordion) of liquidity available under the Company's credit facility as at December 31, 2022.

A summary of net cash flows by activities is presented below for 2022 and 2021:

		Annual
(C$ thousands unless otherwise stated)	**2022**	2021
Cash flows provided by operating activities	**$ 163,060**	$ 156,143
Cash flows used by investing activities	**(18,224)**	(63,106)
Cash flows used by financing activities	**(103,044)**	(94,808)
Effects of foreign currency exchange rate changes on cash	**(20)**	-
Net increase (decrease) in cash	**41,772**	(1,771)
Cash at beginning of the period	**36,546**	38,317
Cash at end of the period	**$ 78,318**	$ 36,546

Net cash flows provided by operating activities

Net cash flows provided by operating activities in 2022 were $163.1 million and consisted of the positive impact of cash generated from operating activities of $181.2 million offset by $18.2 million of cash used as a result of an increase in working capital. The increase in working capital in 2022 was primarily driven by higher inventories and prepaid expenses and deposits, and lower customer deposits and trade and other payables which were partially offset by lower trade and other receivables.

Net cash flows provided by operating activities in 2021 were $156.1 million and consisted 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 partially 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 used by investing activities

Net cash flows used by investing activities in 2022 were $18.2 million and consisted primarily of investments in capital expenditure related to enhancements on the Company's ERP system and eCommerce platforms, leasehold improvements, computer hardware and furniture and equipment.

Net cash flows used by investing activities in 2021 were $63.1 million and consisted 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 by financing activities*

Net cash flows used by financing activities for 2022 were $103.0 million and consisted primarily of the repurchase for cancellation of the Company's common shares under the NCIB of $57.7 million, dividends paid on the common shares of $30.4 million, the repayment of the principal on lease obligations of $38.7 million, the repayment to the senior secured credit facility of $21.0 million and interest payments of $15.9 million on lease liabilities and the senior secured credit facility. These cash outflows were partially offset by an additional draw on the senior secured credit facility of $58.0 million and $2.8 million received from common shares issued due to exercised stock options.

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.

Contractual obligations

The following table summarizes the Company's significant contractual obligations as at December 31, 2022 based on undiscounted cash flow (including interest where applicable) which may differ from the carrying values of the liabilities at the reporting date:

(C$ thousands unless otherwise stated)	**Within 1 year**	**Between 1 and 5 years**	**Over 5 years**
Trade and other payables	$ 106,883	$ -	$ -
Lease liabilities	51,187	173,621	157,889
Long-term debt[(1)]	1,400	104,200	-
Other liabilities[(2)]	22,705	12,723	-
	$ 182,175	$ 290,544	$ 157,889

Notes:

(1) Long-term debt represents the interest and principal amounts on the senior secured credit facility with a balance outstanding, net of transaction costs, as at December 31, 2022 of $99.1 million (2021 - $61.9 million)

(2) Other liabilities includes $20.6 million (2021 – $nil) representing the estimated maximum obligation for shares to be repurchased under the ASPP, and $14.1 million (2021 - $32.0 million) representing the contractual commitment to acquire the remaining shares of non-controlling interests in Hush over a three-year period commencing on or about 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.

On December 20, 2022, the Company announced its intention to acquire substantially all of the operating assets of Silk & Snow Inc. for an upfront cash consideration of $24.1 million and up to an additional $19.5 million in contingent consideration to be paid in 2026 upon achieving certain growth and profitability targets in aggregate for years 2023, 2024 and 2025. On January 1, 2023, the Company completed the acquisition.

Capital Resources

Senior secured credit facility

The Company has a senior secured credit facility of $260.0 million with an additional $100.0 million available on its accordion, 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, 2022.

The senior secured credit facility is secured by all of the present and after acquired personal property of the Company. As at December 31, 2022, the balance outstanding on the senior secured credit facility was $100.0 million (December 31, 2021 – $63.0 million). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $0.9 million (December 31, 2021 – $1.1 million).

The senior secured credit facility allows for the debt to be held in Canadian or US dollars. As at December 31, 2022, the Company held the debt in Canadian dollars.

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 whereby the Company pays a fixed rate of 1.072% and receives interest at a variable rate equal to the Canadian Dollar Offered Rate for 3-month bankers' acceptances ("**3-month 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.

Off-balance sheet arrangements

The Company did not have any material off-balance sheet arrangements as at December 31, 2022 and December 31, 2021, nor did it have any subsequent to December 31, 2022.

Related party transactions

At December 31 2022, trade and other receivables in the Company's consolidated financial statements included $0.5 million (2021 - $nil) receivable from non-controlling interests. There is no balance payable to non-controlling interests at December 31, 2022 (2021 - $2.6 million).

11 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)	**2022**	2021
Salaries and short-term associate benefits	**$ 4,219**	$ 4,599
Share-based compensation	**2,746**	3,260
Directors' fees	**549**	549
	$ 7,514	$ 8,408

12 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.

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.

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 $0.40 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 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, 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 significant 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 enhancements on the Company's ERP system and eCommerce platforms. 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.

13 Critical Accounting Estimates

A summary of significant accounting policies is included in Note 3 of the Company's 2022 audited annual consolidated financial statements. The Company's critical accounting estimates are included in Note 4 of the Company's 2022 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 reporting dates for the consolidated financial statements, 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 the reporting dates of the consolidated financial statements.

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.

14 Financial Instruments

As at December 31, 2022, 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 swap, redemption liabilities and the share repurchase commitment under ASPP.

The carrying values of cash, trade and other receivables, trade and other payables, customer deposits and the share repurchase commitment under ASPP 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, 2022 and December 31 2021. The interest rate swap obtained effective April 1, 2021 is recognized at fair value based on observable quoted market prices for identical financial instruments in active markets as at December 31, 2022 and December 31 2021. The redemption liabilities related to the acquisition of Hush were initially recognized 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".

15 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, 2022. Although the Company's disclosure controls and procedures were operating effectively as of December 31, 2022, 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.

16 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 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 ICFR is a deficiency, or a combination of deficiencies, in ICFR, 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 organization's internal controls.

The Certifying Officers have evaluated the effectiveness of the Company's ICFR as at December 31, 2022 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, 2022 and that no material weaknesses were identified through their evaluation.

17 Current and Future Accounting Standards

A summary of the Company's significant accounting policies is included in Note 3 of the Company's 2022 audited annual consolidated financial statements.

<u>Accounting standards issued but not yet in effect</u>

A number of interpretations and amendments to existing standards have been published by the IASB that are not yet in effect. The Company has not early adopted these interpretations or amendments and the Company is currently evaluating the impact on its consolidated financial statements. The following amendments may have an impact on the Company's consolidated financial statements in future reporting periods:

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1 – Presentation of Financial Statements, to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

Disclosure of Accounting Policies (Amendments to IAS 1)

In February 2021, the IASB issued amendments to IAS 1 – Presentation of Financial Statements, requiring an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments were made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB issued amendments to IAS 8 – Accounting Policies, Changes to Accounting Estimates and Errors, to replace the definition of accounting estimates and help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)

In May 2021, the IASB issued amendments to IAS 12 – Income Taxes, to clarify how companies should account for deferred tax on certain transactions that on initial recognition give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

18 Outstanding Share Data

As of the date hereof, 34,837,943 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 1,038,790 stock options to purchase an equivalent number of common shares, 232,667 performance share units, 170,164 restricted share units and 84,761 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.

19 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 SSS, non-IFRS measures such as EBITDA, Operating EBITDA, Adjusted net income, Basic adjusted EPS, Diluted adjusted EPS, and non-IFRS ratios including Operating EBITDA margin 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.

<u>Same Store Sales (SSS)</u>

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. This measure does not include sales from the Company's Sleep Country/Dormez-vous Express Stores. 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 attributable to the Company adjusted for:

- non-controlling interests
- other (income) expenses;
- finance related (income) expenses;
- income taxes; and
- depreciation and amortization.

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; and
- accretion on redemption liabilities related to the Hush acquisition in October 2021.

Basic adjusted earnings per share (Basic adjusted EPS)

Basic adjusted EPS is defined as adjusted net income attributable to the Company divided by weighted average number of shares issued and outstanding during the period.

Diluted adjusted earnings per share (Diluted adjusted EPS)

Diluted adjusted EPS 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.

Calculation of Non-IFRS and Other Measures

	Q4		Annual	
(C$ thousands unless otherwise stated, except EPS)	**2022**	2021	**2022**	2021
Reconciliation of net income attributable to the Company to EBITDA and Operating EBITDA:				
Net income attributable to the Company	**$ 40,469**	$ 26,433	**$ 110,471**	$ 88,603
Add impact of the following:				
Non-controlling interests	**314**	379	**225**	379
Other (income) expenses	**65**	(51)	**(292)**	142
Finance related (income) expenses	**(15,533)**	4,259	**(889)**	16,837
Income taxes	**8,220**	10,437	**35,346**	32,862
Depreciation and amortization	**17,176**	15,857	**65,633**	60,726
EBITDA	**50,711**	57,314	**210,494**	199,549
Adjustments:				
Acquisition costs(1)	**449**	23	**449**	438
ERP implementation costs(2)	**603**	2,000	**2,637**	5,080
Share-based compensation(3)	**1,242**	2,728	**4,979**	5,822
Total adjustments	**$ 2,294**	$ 4,751	**$ 8,065**	$ 11,340
Operating EBITDA	**$ 53,005**	$ 62,065	**$ 218,559**	$ 210,889
Operating EBITDA margin %	**21.8%**	22.9%	**23.5%**	22.9%
Reconciliation of net income attributable to the Company to adjusted net income attributable to the Company:				
Net income attributable to the Company	**$ 40,469**	$ 26,433	**$ 110,471**	$ 88,603
Adjustments:				
Acquisition costs(1)	**449**	23	**449**	438
ERP implementation costs(2)	**603**	2,000	**2,637**	5,080
Share-based compensation(3)	**1,242**	2,728	**4,979**	5,822
Accretion(4)	**(18,370)**	903	**(13,850)**	903
Tax impact of all adjustments(5)	**(519)**	(1,110)	**$ (1,818)**	$ (2,504)
Total adjustments	**$ (16,595)**	$ 4,544	**$ (7,603)**	$ 9,739
Adjusted net income attributable to the Company	**$ 23,874**	$ 30,977	**$ 102,868**	$ 98,342
Weighted average number of shares – Basic	**35,456**	36,863	**36,316**	36,810
Weighted average number of shares – Diluted	**35,747**	37,333	**36,648**	37,208
Basic EPS	**$ 1.14**	$ 0.72	**$ 3.04**	$ 2.41
Diluted EPS	**$ 1.13**	$ 0.71	**$ 3.01**	$ 2.38
Basic adjusted EPS	**$ 0.67**	$ 0.84	**$ 2.83**	$ 2.67
Diluted adjusted EPS(6)	**$ 0.67**	$ 0.83	**$ 2.81**	$ 2.64

Notes:

(1) Adjustment for professional fees incurred in relation to acquisition of business operations of Hush Blankets Inc. that closed in October 2021 and Silk & Snow Inc. that closed in January 2023.

(2) Adjustment for charges related to its ERP implementation project 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) Adjustment for accretion for the redemption liabilities related to the Hush acquisition in October 2021.

(5) The related tax effects are calculated at the Company's average statutory tax rate.

20 Additional Information

Additional information relating to the Company, including the Company's AIF, quarterly and annual reports and supplementary information is available on SEDAR at www.sedar.com. Press releases and other information are also available at the Company's investor relations website at www.sleepcountryir.ca.

Consolidated Financial Statements

Independent auditor's report

To the Shareholders of Sleep Country Canada Holding Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Sleep Country Canada Holding Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, 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, 2022 and 2021;
- 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

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and indefinite life intangible assets *Refer to note 3 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments and note 10 – Goodwill and intangible assets to the consolidated financial statements.* The Company had goodwill of $317.0 million and indefinite life intangible assets of $101.5 million as at December 31, 2022. 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, Endy and Hush CGUs (the CGUs) based on discounted cash flow models. Significant assumptions used in the discounted cash flow models included growth rates and terminal growth rates. No impairment was recognized as a result of the 2022 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 CGU's 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; and ○ comparing the terminal growth rates to current and past performance and considering consistency with available third party published industry 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 CGUs, including the use of significant assumptions; and (iii) the audit effort and auditor's judgment involved in testing those significant assumptions.	

Other information

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 2, 2023

Sleep Country Canada Holdings Inc.

Consolidated Statements of Financial Position

As at December 31, 2022 and December 31, 2021

(in thousands of Canadian dollars)

	December 31, 2022 $	December 31, 2021 $
Assets		
Current assets		
Cash (note 5)	78,318	36,546
Trade and other receivables (note 6)	14,303	16,678
Inventories (note 7)	98,691	91,539
Prepaid expenses and deposits	9,683	9,329
Other assets	638	500
	201,633	154,592
Non-current assets		
Property and equipment (note 8)	63,676	71,674
Right-of-use assets (note 9)	263,149	273,097
Other assets	1,611	492
Intangible assets (note 10)	171,367	165,862
Goodwill (note 10)	316,785	318,369
Deferred tax assets (note 17)	3,498	3,949
	1,021,719	988,035
Liabilities		
Current liabilities		
Trade and other payables (note 11)	106,883	107,886
Deferred revenues	24,762	33,435
Other liabilities (note 12)	22,525	—
Lease liabilities (note 9)	38,612	37,910
	192,782	179,231
Non-current liabilities		
Other liabilities (note 12)	9,373	27,688
Lease liabilities (note 9)	275,170	284,338
Long-term debt (note 13)	99,082	61,895
Deferred tax liabilities (note 17)	25,234	24,919
	601,641	578,071
Shareholders' Equity		
Share capital and other (note 14)	328,439	362,969
Retained earnings	84,380	41,217
Other reserves	(25)	—
Equity attributable to Sleep Country Canada Holdings Inc.	412,794	404,186
Non-controlling interests	7,284	5,778
	1,021,719	988,035

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, 2022 and December 31, 2021

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

	2022 $	2021 $
Revenues	928,657	920,194
Cost of sales (note 15)	587,629	603,146
Gross profit	341,028	317,048
General and administrative expenses (note 15)	196,167	178,225
Income before finance related expenses, other expenses (income) and income taxes	144,861	138,823
Finance related (income) expenses (note 16)	(889)	16,837
Other (income) expenses	(292)	142
	(1,181)	16,979
Income before provision for income taxes	146,042	121,844
Provision for income taxes (note 17)		
Current	34,381	28,564
Deferred	965	4,298
	35,346	32,862
Net income for the year	110,696	88,982
Net income for the year attributable to:		
Sleep Country Canada Holdings Inc.	110,471	88,603
Non-controlling interests	225	379
	110,696	88,982
Other comprehensive loss		
Items that may be reclassified subsequently to net income:		
Exchange differences on translation of foreign operations	(23)	—
Other comprehensive loss for the year	(23)	—
Comprehensive income for the year	110,673	88,982
Comprehensive income for the year attributable to:		
Sleep Country Canada Holdings Inc.	110,446	88,603
Non-controlling interests	227	379
	110,673	88,982
Earnings per share attributable to Sleep Country Canada Holdings Inc.		
Basic earnings per share (in dollars) (note 18)	3.04	2.41
Diluted earnings per share (in dollars) (note 18)	3.01	2.38

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, 2022 and December 31, 2021

(in thousands of Canadian dollars, except share amounts)

	Equity Attributable to Sleep Country Canada Holdings Inc. — Share Capital and Other							
	Number of Shares	Common Shares $	Contributed Surplus $	Retained Earnings $	Other Reserves $	Total $	Non-Controlling Interests $	Total Shareholders' Equity $
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
Other comprehensive income for the year	—	—	—	—	—	—	—	—
Comprehensive income for the year	—	—	—	88,603	—	88,603	379	88,982
Dividends declared	—	—	—	(28,705)	—	(28,705)	—	(28,705)
Shares issued on settlement of share-based compensation option/unit (note 19)	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
Balance – January 1, 2022	36,913,987	350,579	12,390	41,217	—	404,186	5,778	409,964
Net income for the year	—	—	—	110,471	—	110,471	225	110,696
Other comprehensive loss for the year	—	—	—	—	(25)	(25)	2	(23)
Comprehensive income for the year	—	—	—	110,471	(25)	110,446	227	110,673
Dividends declared	—	—	510	(30,919)	—	(30,409)	—	(30,409)
Shares issued on settlement of share-based compensation option/unit (note 19)	263,365	5,747	(2,946)	—	—	2,801	—	2,801
Share-based compensation (note 19)	—	—	4,935	—	—	4,935	—	4,935
Shares repurchased under normal course issuer bid ("**NCIB** ") (note 14)	(2,339,409)	(22,116)	—	(36,389)	—	(58,505)	—	(58,505)
Share repurchase commitment under automatic share purchase plan ("**ASPP**") (note 14)	—	(20,660)	—	—	—	(20,660)	—	(20,660)
Non-controlling interests (note 20)	—	—	—	—	—	—	1,279	1,279
Balance – December 31, 2022	34,837,943	313,550	14,889	84,380	(25)	412,794	7,284	420,078

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, 2022 and December 31, 2021

(in thousands of Canadian dollars)

Cash provided by (used in)	2022 $	2021 $
Operating activities		
Net income for the year	110,696	88,982
Items not affecting cash		
Depreciation of property and equipment (note 8)	16,761	15,983
Depreciation of right-of-use assets (note 9)	39,816	38,587
Amortization of intangible assets (note 10)	9,057	6,156
Share-based compensation (note 19)	4,935	5,485
Finance related (income) expenses (note 16)	(889)	16,837
Other (income) expenses	(128)	310
Deferred income taxes (note 17)	965	4,298
	181,213	176,638
Changes in non-cash items relating to operating activities		
Changes in working capital		
Trade and other receivables	3,192	3,236
Inventories	(7,152)	(21,375)
Prepaid expenses and deposits	(355)	(1,797)
Trade and other payables	(5,164)	4,026
Customer deposits	(8,674)	5,292
	(18,153)	(10,618)
Payment of contingent consideration	—	(9,877)
	163,060	156,143
Investing activities		
Purchase of property and equipment - net of disposals (note 8)	(7,499)	(19,123)
Additions to right-of-use assets (note 9)	(58)	(194)
Purchase of intangible assets (note 10)	(9,667)	(4,807)
Acquisition of subsidiary (note 20)	—	(23,333)
Issuance of notes receivable	(1,000)	—
Purchase of other assets	—	(526)
Payment of contingent consideration	—	(15,123)
	(18,224)	(63,106)
Financing activities		
Proceeds from options exercised (note 19)	2,801	3,274
Shares repurchased under NCIB (note 14)	(57,717)	—
Proceeds from senior secured credit facility (note 13)	58,000	78,000
Repayment of senior secured credit facility (note 13)	(21,000)	(93,000)
Financing costs on senior secured credit facility (note 13)	(60)	(684)
Dividends paid	(30,409)	(28,705)
Proceeds from non-controlling interests	—	240
Interest paid	(15,942)	(16,126)
Repayment of principal portion of lease liabilities (note 9)	(38,717)	(37,807)
	(103,044)	(94,808)
Effects of foreign currency exchange rate changes on cash	(20)	—
Increase (decrease) in cash during the year	41,772	(1,771)
Cash – Beginning of the year	36,546	38,317
Cash – End of the year	78,318	36,546
Supplementary information		
Purchase of property and equipment in trade and other payables	1,497	368
Purchase of intangible assets in trade and other payables	4,895	3,370

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 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 eCommerce platforms. The Company has 289 corporate-owned stores and 20 warehouses across Canada and operates under retail banners: Sleep Country Canada™, Dormez-vous™, Endy™ and Hush™.

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 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The consolidated financial statements were reviewed by the Company's Audit Committee. They were approved and authorized for issuance by the Board on March 2, 2023.

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 the 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.

(in thousands of Canadian dollars, unless otherwise noted)

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 net income); 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, other liabilities and long-term debt have been classified as financial liabilities measured at amortized costs; and
- Interest rate swaps have been classified as financial liabilities measured at fair-value through net income.

The redemption liabilities presented within other liabilities are recognized initially at fair value, and are 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. For changes in the estimated liabilities 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.

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 initial recognition and subsequent modifications on the 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).

(in thousands of Canadian dollars, unless otherwise noted)

These contracts are treated as derivative instruments and they are measured at mark-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 subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

- Transactions and balances

  Transactions in a foreign currency are translated into the functional currency at the foreign currency exchange rates that approximate the rates 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 rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate that approximate the rates in effect at the date of the transaction. Foreign exchange gains and losses are included in the consolidated statements of income and comprehensive income.

- Foreign operations

  The results and financial position of subsidiaries whose functional currency is different from the Company's functional currency are translated into the presentation currency of the Company as follows:

  - Assets and liabilities are translated at the closing exchange rate at the reporting date.

  - Revenues and expenses of the subsidiaries are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenues and expenses are translated at the dates of the transactions).

  - Equity transactions are translated at exchange rates on the dates of the transactions.

  The resulting foreign exchange translation differences are recorded as exchange differences on translation of foreign operations in other comprehensive income.

(in thousands of Canadian dollars, unless otherwise noted)

Segment information

As at December 31, 2022, 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 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 the 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.

(in thousands of Canadian dollars, unless otherwise noted)

Goodwill and intangible assets

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

- Computer software

  Computer software is recorded at cost less accumulated amortization, net of any impairment loss. Amortization is computed on a straight-line basis based on the estimated useful life of 36 to 90 months.

- Non-compete contracts

  Non-compete contracts are amortized over an estimated life of 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 dates of these consolidated statements of financial position, 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 as at the dates of these consolidated statements of financial position 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

(in thousands of Canadian dollars, unless otherwise noted)

made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination from which the goodwill arose. The impairment tests are performed by comparing the carrying value of the assets (or asset groups) of these CGUs with their recoverable amount, which is the higher of their fair value less costs of disposal and their value in use (which is the present value of the expected future cash flows of the relevant asset or CGU), as determined by management.

- Impairment of definite life intangible assets, right-of-use assets and property and equipment

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

- Impairment reversals

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

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired or rendered in the ordinary course of business. 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. 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.

(in thousands of Canadian dollars, unless otherwise noted)

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 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 revenues (weighted at 25%) and basic earnings per share ("**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

(in thousands of Canadian dollars, unless otherwise noted)

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.

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.

(in thousands of Canadian dollars, unless otherwise noted)

The right-of-use assets are measured at cost, which comprises the lease liability, lease payments made prior to delivery, initial direct costs and restoration obligations less lease incentives. The right-of-use assets are subsequently measured at amortized cost. The assets are depreciated over the term of the lease using the straight-line method.

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

Accounting standards issued but not yet in effect

A number of interpretations and amendments to existing standards have been published by the IASB that are not yet in effect. The Company has not early adopted these interpretations or amendments and the Company is currently evaluating the impact on its consolidated financial statements.

The following amendments may have an impact on the Company's consolidated financial statements in future reporting periods:

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1 – Presentation of Financial Statements, to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

(in thousands of Canadian dollars, unless otherwise noted)

Disclosure of Accounting Policies (Amendments to IAS 1)

In February 2021, the IASB issued amendments to IAS 1 – Presentation of Financial Statements, requiring an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments were made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB issued amendments to IAS 8 – Accounting Policies, Changes to Accounting Estimates and Errors, to replace the definition of accounting estimates and help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)

In May 2021, the IASB issued amendments to IAS 12 – Income Taxes, to clarify how companies should account for deferred tax on certain transactions that on initial recognition give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

4 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and assumptions using judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

The following discusses the most significant accounting judgments and estimates the Company has made in the preparation of the consolidated financial statements.

Impairment of goodwill and brands

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 reporting dates for these consolidated financial statements, impairment reviews were performed by comparing the carrying value with the recoverable amount of the CGU to which goodwill and brands have been allocated.

(in thousands of Canadian dollars, unless otherwise noted)

The Company has determined there had been no impairment as at the reporting dates of these consolidated financial statements (note 10).

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 Cash

The Company's cash balance consists of restricted cash of $744 (2021 - $nil) related to equity transactions under the Company's NCIB awaiting settlement as at December 31, 2022.

6 Trade and other receivables

	2022 **$**	**2021** **$**
Trade and other receivables	14,628	16,973
Allowance for expected credit losses	(325)	(295)
	14,303	16,678

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.

7 Inventories

The inventories on hand by the Company as at December 31, 2022 is $98,691 (2021 - $91,539). The Company records the provision for obsolescence to value inventory to the estimated net realizable value and estimated damages and shrinkage. The write-downs of inventories to net realizable value and due to damage and shrinkage in 2022 was $2,417 (2021 - $4,367) which was recognized in cost of sales. Reversals of previously taken write-downs in 2022 was $2,325 (2021 – $nil).

(in thousands of Canadian dollars, unless otherwise noted)

8 Property and equipment

	Computer hardware $	Furniture, fixtures and other $	Leasehold improvements $	Total $
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
Disposals	(787)	(638)	(2,136)	(3,561)
At December 31, 2021	7,128	15,198	117,101	139,427
Accumulated depreciation				
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
Year ended December 31, 2022				
Cost				
At January 1, 2022	7,128	15,198	117,101	139,427
Additions	1,273	1,899	5,858	9,030
Disposals	(1,312)	(877)	(381)	(2,570)
At December 31, 2022	7,089	16,220	122,578	145,887
Accumulated depreciation				
At January 1, 2022	5,251	9,363	53,139	67,753
Depreciation	1,221	2,392	13,148	16,761
Disposal	(1,305)	(803)	(195)	(2,303)
At December 31, 2022	5,167	10,952	66,092	82,211
Net book value	1,922	5,268	56,486	63,676

(in thousands of Canadian dollars, unless otherwise noted)

9 Right-of-use assets and lease liabilities

Right-of-use assets	Properties $	Trucks $	Total $
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
Year ended December 31, 2022			
At January 1, 2022	271,594	1,503	273,097
Net additions with a corresponding increase to the lease liability	31,447	607	32,054
Cash additions due to initial direct cost incurred during the year	58	—	58
Additions of restorative obligations	39	—	39
Assets derecognized	(1,486)	—	(1,486)
Tenant inducements received	(797)	—	(797)
Depreciation	(38,920)	(896)	(39,816)
At December 31, 2022	261,935	1,214	263,149

(in thousands of Canadian dollars, unless otherwise noted)

Lease liabilities – Current and non-current	**Total** **$**
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 payment	(49,751)
Interest expense on lease liabilities	11,944
At December 31, 2021	322,248
Year ended December 31, 2022	
At January 1, 2022	322,248
Net additions with a corresponding increase to right-of-use assets	32,054
Liabilities derecognized	(1,803)
Gross lease payment	(50,807)
Interest expense on lease liabilities	12,090
At December 31, 2022	313,782

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

	2022 **$**	**2021** **$**
Current	38,612	37,910
Non-current	275,170	284,338
	313,782	322,248

(in thousands of Canadian dollars, unless otherwise noted)

10 Goodwill and intangible assets

	Intangible assets					
	Brands – indefinite life $	**Brands – definite life $**	**Non – compete contracts $**	**Computer software $**	**Total $**	**Goodwill $**
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
Year ended December 31, 2022						
Cost						
At January 1, 2022	101,540	38,101	1,997	41,606	183,244	318,369
Additions	—	—	—	14,562	14,562	—
Disposals	—	—	—	(1,402)	(1,402)	—
Adjustment to non-controlling interests	—	—	—	—	—	(1,584)
At December 31, 2022	101,540	38,101	1,997	54,766	196,404	316,785
Accumulated amortization						
At January 1, 2022	—	3,527	1,528	12,327	17,382	—
Amortization	—	1,905	126	7,026	9,057	—
Disposals	—	—	—	(1,402)	(1,402)	—
At December 31, 2022	—	5,432	1,654	17,951	25,037	—
Net book value	101,540	32,669	343	36,815	171,367	316,785

The Sleep Country and Dormez-vous brands of $101,540 (2021 – $101,540) are included in to the Sleep Country operating segment.

(in thousands of Canadian dollars, unless otherwise noted)

Goodwill of $316,785 (2021 – $318,369) has been allocated to the three CGU's Sleep Country, Endy and Hush as follows:

	2022 $	2021 $
Sleep Country	242,146	242,146
Endy	58,739	58,738
Hush (note 20)	15,900	17,485
	316,785	318,369

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 2023 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% (2021 – 3.0%) and a terminal growth rate of 3.0% (2021 – 3.0%). A discount rate of 13.0% was used for Sleep Country (2021 - 9.1%), 17.5% was used for Endy (2021 – 9.1%) and 17.5% was used for Hush (2021 – N/A). As at December 31, 2022, 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 the reporting dates of these consolidated financial statements. As at December 31, 2022, any reasonable changes to the impairment model assumptions would not result in an impairment.

11 Trade and other payables

	2022 $	2021 $
Trade payables	56,111	62,211
Income taxes payable	11,632	1,392
Accrued expenses	39,140	44,283
	106,883	107,886

(in thousands of Canadian dollars, unless otherwise noted)

12 Other liabilities

	2022 $	2021 $
Current		
Share repurchase commitment under ASPP (note 14)	20,660	—
Redemption liabilities	1,865	—
	22,525	—
Non-current		
Decommissioning provisions	1,145	1,080
Redemption liabilities	8,201	23,916
Other	27	2,692
	9,373	27,688

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 December 31, 2022, the Company remeasured the redemption liabilities at $10,066 (2021 - $23,013) based on the expected outcome during the three-year redemption period and the change was recorded in finance related expenses in the consolidated statement of income and other comprehensive income as at December 31, 2022. 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 additional $100,000 available on its accordion, 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, 2022. The senior secured credit facility is secured by all of the present and after-acquired personal property of the Company. As at December 31, 2022, the balance outstanding on the senior secured credit facility was $100,000 (2021 – $63,000). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $918 (2021 – $1,105). The senior secured credit facility allows for the debt to be held in Canadian or U.S. dollars. As at December 31, 2022, the Company held the debt in Canadian dollars.

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 pays a fixed rate of 1.072% and receives interest at a variable rate equal to the Canadian Dollar Offered Rate for 3-month bankers' acceptances ("**3-month 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.

(in thousands of Canadian dollars, unless otherwise noted)

14 Share capital and other

The following table outlines the issued and outstanding shares:

	2022 $	2021 $
34,837,943 common shares (2021 – 36,913,987)	610,369	626,738
Share repurchase commitment under ASPP	(20,660)	—
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	14,889	12,390
	328,439	362,969

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 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, 2022, there were no outstanding Class A common shares (2021– nil).

On March 7, 2022, the Company received approval from the TSX to commence an NCIB. Pursuant to an amendment to the NCIB on November 29, 2022, the Company is permitted to to purchase through the facilities of the TSX or alternative trading systems, from time to time until the completing of the NCIB, if considered advisable, up to a maximum of 3,155,250 of the Company's common shares, representing approximately 10.0% of the public float as of February 28, 2022. Purchases will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2023. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 21,173 shares (representing 25% of the average daily trading volume of the shares on the TSX for the six months prior to commencement of the NCIB), except where such purchases are made in accordance with the "block purchase" exception under the applicable TSX rules and policies.

(in thousands of Canadian dollars, unless otherwise noted)

Effective June 10, 2022, the Company established an ASPP in connection with its NCIB to facilitate the purchase of shares during times when the Company would ordinarily not be permitted to purchase shares due to regulatory restrictions or a self-imposed blackout period. Before entering a blackout period, the Company may, but is not required to, instruct its designated broker to make purchases at the broker's sole discretion and based on parameters set by the Company in accordance with the ASPP, TSX rules and applicable securities laws. Pursuant to the ASPP established on June 10, 2022, the maximum number of Shares eligible to be purchased through the ASPP was automatically increased to a maximum of 3,155,250 as a result of the amendment to the NCIB. The Company records a liability for share repurchase commitment during blackout period based on the parameters of the NCIB and ASPP. As at December 31, 2022, an estimated maximum obligation of $20,660 (2021 – $nil) was outstanding under the ASPP in other current liabilities on the consolidated statements of financial position.

During the year ended December 31, 2022, the Company purchased for cancellation 2,339,409 common shares (2021 – $nil) at an average price of $24.67 for total consideration of $57,717. The total cash consideration paid exceeded the carrying value of the shares repurchased by $35,601, of which $36,389 was recorded to retained earnings, and a realized gain of $788 was recorded to finance related expenses.

15 Expense by nature

	Cost of sales	
	2022 **$**	**2021** **$**
Inventory and directly related costs recognized as an expense, including write-downs, write-offs and reversals	387,370	406,416
Salaries, wages and benefits	122,192	119,882
Occupancy costs – stores	26,949	25,309
Depreciation and amortization	45,430	45,128
Other	5,688	6,411
	587,629	603,146

(in thousands of Canadian dollars, unless otherwise noted)

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

	General and administrative	
	2022 **$**	**2021** **$**
Media and advertising expenses	74,883	65,978
Salaries, wages and benefits	42,797	38,621
Credit card and finance charges	19,914	19,366
Occupancy costs – distribution centres and other	9,614	9,613
Professional fees	10,030	11,867
Telecommunication and information technology	11,483	10,437
Mattress recycling costs and donations	2,873	3,895
Depreciation and amortization	20,204	15,598
Other	4,369	2,850
	196,167	178,225

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

16 Finance related (income) expenses

	2022 **$**	**2021** **$**
Interest on lease obligations	12,090	11,944
Interest expense on senior secured credit facility	3,623	3,689
Change in redemption liabilities	(13,850)	903
Revolver commitment fees	630	892
Change in fair value on interest rate swap	(2,594)	(591)
Realized gain on share repurchases under ASPP	(788)	—
	(889)	16,837

(in thousands of Canadian dollars, unless otherwise noted)

17 Income taxes

Components of income tax provision

Components of the income tax provision are as follows:

	2022 $	2021 $
Current income tax expense	34,381	28,564
Deferred income tax expense relating to;		
Temporary differences	965	4,298
Deferred income tax rate changes	—	—
	965	4,298
Provision for income taxes	35,346	32,862

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:

	2022 $	2021 $
Income of continuing operations before income taxes	146,042	121,844
Weighted average Canadian income tax rate	26.50%	26.50%
Income tax expense based on statutory income tax rate	38,701	32,289
Difference between rates applicable to Company and rates applicable to subsidiaries	(273)	(202)
Effect of non-deductible expenses and other items	(3,082)	775
Deferred tax rate changes	—	—
	35,346	32,862
Effective income tax rate	24.20%	26.97%

(in thousands of Canadian dollars, unless otherwise noted)

Deferred income tax liability

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

	2022 $	2021 $
Excess of carrying value of intangible assets over tax values	(29,508)	(28,830)
Benefit of share issuance costs and financing fees deductible in future years	(73)	(53)
Loss carry-forwards	3,309	3,327
Other temporary differences	4,536	4,586
	(21,736)	(20,970)

The Company has recognized a deferred tax asset of $3,498 (2021 – $3,949), 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, 2022, the Company has unused capital losses of $19,739 (2021 – $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 were made and included in prepaid expenses and deposits on the consolidated statements of financial position.

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

Pursuant to the indemnification provisions of the pre-IPO share purchase agreement dated July 10, 2015, the Company has a contractual arrangement for all of the above matters with Birch Hill and its co-investors, which

(in thousands of Canadian dollars, unless otherwise noted)

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 Sleep Country Canada Holdings Inc. 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 Sleep Country Canada Holdings Inc. by the weighted average number of shares outstanding during the year adjusted for the effects of potentially dilutive stock options in addition to performance share units ("**PSUs**"), restrictive share units ("**RSUs**") and deferred share units ("**DSUs**") which are dilutive in nature.

The below table summarizes the dilution impact of stock options:

	2022 **$**	**2021** **$**
Dilutive	526,791	841,555
Anti-dilutive	511,999	316,158
Total	1,038,790	1,157,713

(in thousands of Canadian dollars, unless otherwise noted)

The following table illustrates the calculation of basic and diluted EPS:

	Attributable to common shareholders of Sleep Country Canada Holdings Inc.		
			2022
	Net income attributable to Sleep Country Canada Holdings Inc. $	**Weighted average number of shares (in thousands of shares)**	**EPS $**
Basic	110,471	36,316	3.04
Diluted	110,471	36,648	3.01

	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

(in thousands of Canadian dollars, unless otherwise noted)

19 Share-based compensation

The Company has a long-term equity incentive plan ("**LTIP**") for executive officers and certain associates 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.

Share-based compensation expense is summarized as follows:

	2022 **$**	**2021** **$**
1,038,790 stock options (2021 – 1,157,713) (a)	1,102	1,473
232,667 PSUs (2021 – 255,385) (b)	2,387	3,059
170,164 RSUs (2021 – 93,596) (c)	1,080	567
84,761 DSUs (2021 – 67,857) (d)	366	386
	4,935	5,485

The Company recorded $44 (2021 – $337) 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 stock options, 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 2020 typically vest on the grant date's fourth anniversary, and may have a term of up to 10 years. Stock options granted in 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.

(in thousands of Canadian dollars, unless otherwise noted)

The stock option 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.

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

	2022		2021	
	Weighted average exercise price per share option $	Number of options	Weighted average exercise price per share option $	Number of options
Outstanding, at beginning of the year	24.23	1,157,713	22.62	1,204,419
Granted during the year	27.73	102,518	31.16	133,093
Exercised during the year	17.87	(156,675)	18.58	(176,249)
Forfeited during the year	25.39	(64,766)	20.46	(3,550)
Outstanding, at the end of the year	25.46	1,038,790	24.23	1,157,713
Options, exercisable at the end of the year	27.08	570,094	22.73	483,211

The weighted average share price on the date the stock options were exercised during the year was $28.04 (2021 – $34.12).

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	198,230	6.4	16.12	118,096	5.9	16.24
$19.31 to $27.73	425,328	6.1	22.13	114,870	3.2	19.31
$30.70 to $38.83	415,232	5.6	33.32	337,128	5.0	33.52
	1,038,790	6.0	25.46	570,094	4.8	27.08

The weighted average fair value of stock options estimated at the grant date for the year is $9.32 (2021 – $10.06).

(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:

	Grant Date
	March 15, 2022
Risk-free interest rate	1.7%
Expected volatility	41.4%
Estimated dividend yield	2.3%
Expected life of the options (in years)	6.5
Forfeiture rate	3.7%

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 revenues (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 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:

	2022	**2021**
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the year	255,385	225,118
Granted during the year	108,345	73,428
Settled during the year	(106,690)	(27,148)
Forfeited during the year	(24,373)	(16,013)
Outstanding, at the end of the year	232,667	255,385

The weighted average fair value of the grant price for the year was $25.44 (2021 – $33.74).

(in thousands of Canadian dollars, unless otherwise noted)

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:

	2022	2021
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the year	93,596	51,046
Granted during the year	88,051	42,987
Forfeited during the year	(11,483)	(437)
Outstanding, at the end of the year	170,164	93,596

The weighted average fair value of the grant price for the year was $25.77 (2021 – $32.43).

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 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:

	2022	2021
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the year	67,857	60,183
Granted during the year	16,904	17,500
Settled during the year	—	(9,826)
Outstanding, at the end of the year	84,761	67,857

The weighted average fair value of the grant price for the year was $25.73 (2021 – $27.68).

(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 $23,333.

This acquisition has been accounted for as a business combination.

The following table summarizes the purchase consideration paid and the final 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
Final allocation of purchase consideration to net assets acquired	
Net working capital	(1,305)
Indemnification asset	500
Property and equipment (note 8)	46
Right-of-use assets (note 9)	124
Intangible assets (note 10)	16,606
Deferred tax liabilities (note 17)	(2,001)
Lease liabilities (note 9)	(132)
Other liabilities (note 12)	273
Total net assets acquired	14,111
Non-controlling interests	(6,678)
Goodwill (note 10)	15,900
Total net assets acquired, non-controlling interests and goodwill	23,333

At December 31, 2021, the Company had not finalized the accounting for the acquisition. The purchase price allocation above reflects the final allocation of purchase consideration to net assets acquired, which includes a change recorded in 2022 to deferred taxes of $199, other liabilities of $2,665, that resulted in a change to non-controlling interest of $1,279, and goodwill of $1,585. The Company did not make any retrospective adjustments to the net assets acquired nor the purchase consideration recognized at the acquisition date.

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.

(in thousands of Canadian dollars, unless otherwise noted)

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 statement of cash flows for year ended December 31, 2021.

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

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

  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. Foreign currency forward contracts can be used from time to time to mitigate risks associated with forecasted USD 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 swaps as necessary to achieve the desired proportion of variable and fixed rate debt. As at December 31, 2022, an increase or decrease in interest rates by 1% would result in an increase or a decrease of $400 (2021 – $30) on interest expense on the credit facilities.

(in thousands of Canadian dollars, unless otherwise noted)

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, 2022, the Company's cash balance was $78,318 with an additional $160,000 (not including the $100,000 accordion) of liquidity available under the Company's credit facility.

(in thousands of Canadian dollars, unless otherwise noted)

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.

	Within 1 year $	**Between 1 and 5 years $**	**Over 5 years $**
At December 31, 2022			
Trade and other payables	106,883	—	—
Lease liabilities	51,187	173,621	157,889
Long-term debt	1,400	104,200	—
Other liabilities	22,705	12,723	—
	182,175	290,544	157,889
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 liabilities	—	34,634	—
	159,186	236,732	39,259

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, customer deposits and the share repurchase commitment under the ASPP 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, 2022 and December 31, 2021.

(in thousands of Canadian dollars, unless otherwise noted)

- The interest rate swap obtained effective April 1, 2021 is recognized at fair value based on observable quoted market prices for identical financial instruments in active markets as at December 31, 2022 and December 31, 2021. The interest rate swap is included in trade and other receivables in the consolidated statements of financial position.

- The redemption liabilities related to the acquisition of Hush were 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 decrease the fair value of redemption liabilities by $112 (2021 - $491).

  Changes in the value of the redemption liabilities comprises the following:

Redemption liabilities – Current and non-current	**Total** **$**
Year ended December 31, 2021	
At January 1, 2021	—
Amounts recognized at acquisition	23,013
Accretion	903
At December 31, 2021	23,916
Year ended December 31, 2022	
At January 1, 2022	23,916
Change in estimated outcome	(20,458)
Accretion	6,608
At December 31, 2022	10,066

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

(in thousands of Canadian dollars, unless otherwise noted)

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**").

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

	2022 $	2021 $
Salaries and short-term associate benefits	4,219	4,599
Share-based compensation	2,746	3,260
Directors' fees	549	549
	7,514	8,408

At December 31 2022, trade and other receivables included $530 (2021 - $nil) receivable from non-controlling interests. There is no balance payable to non-controlling interests of Hush at December 31, 2022 (2021 - $2,632).

24 Subsequent events

The Company's dividend policy is at the discretion of the Board. On February 9, 2023, the Company declared a dividend of $0.215 per common share that will be payable on February 28, 2023 to holders of the common shares of record as at the close of business on February 17, 2023.

On January 1, 2023, the Company acquired substantially all the operating assets of Silk & Snow Inc., a direct-to-consumer sleep retailer, for an upfront cash consideration of $24,100 and up to an additional $19,500 in contingent consideration to be paid in 2026 upon achieving certain growth and profitability targets in aggregate for years 2023, 2024 and 2025.

Sleep Well. Stay Well.™

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