

Sleep Country Canada Holdings Inc.

Management's Discussion and Analysis

March 31, 2022

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1 Preface

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of May 4, 2022 and is intended to assist readers in understanding the financial performance and financial condition of Sleep Country Canada Holdings Inc. (the "**Company**") for the first quarter ended March 31, 2022 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company and the accompanying notes for the first quarter ended March 31, 2022 and the audited consolidated financial statements of the Company and the accompanying notes for the year ended December 31, 2021 and the related MD&A.

Basis of Presentation

All references in this MD&A to "**Q1 2022**" are to the Company's quarter ended March 31, 2022, "**Q1 2021**" are to the Company's quarter ended March 31, 2021 and "**Q1 2020**" are to the Company's quarter ended March 31, 2020.

The Company's Q1 2022 unaudited condensed interim consolidated financial statements and the accompanying notes have been prepared in accordance with International Accounting Standard ("**IAS**") 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board ("**IASB**"). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**"), have been omitted or condensed. Accordingly, the condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2021. 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 unaudited condensed interim consolidated financial statements of the Company and the accompanying notes for the first quarter ended March 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 May 4, 2022.

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 2021 annual information form (the "**AIF**") filed on March 3, 2022. A copy of the AIF can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be less significant may also adversely affect the Company.

The Company cautions that the list of risk factors and uncertainties described in this MD&A and the AIF are not exhaustive and that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual strategies, prospects, events, performance and results may vary significantly from those expected. There can be no assurance that the actual strategies, prospects, results, performance, events or activities anticipated by the Company will be realized or even if substantially realized, that they will have the expected consequences to, or effects on, the Company. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and forward-looking statements and are cautioned not to place undue reliance on such information and statements. The Company does not undertake to update any such forward-looking information or forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws.

2 Overview

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

The Company's omnichannel retail banners are Sleep Country Canada™ and Dormez-vous™ (in Quebec). Sleep Country Canada launched its banner in Vancouver, British Columbia in 1994 and thereafter the banner expanded across Canada (except in Quebec). Similarly, Dormez-vous launched its banner in Montreal, Quebec in 1994 and subsequently expanded within Quebec. As at March 31, 2022, cumulatively, these banners have a growing network of 286 corporate-owned stores (Q1 2021 – 283 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 sleep partner.

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

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

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

As at March 31, 2022, the Banners are supported by the Company's distribution network which includes 20 warehouses (Q1 2021 – 17 warehouses) across Canada.

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

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

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

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

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

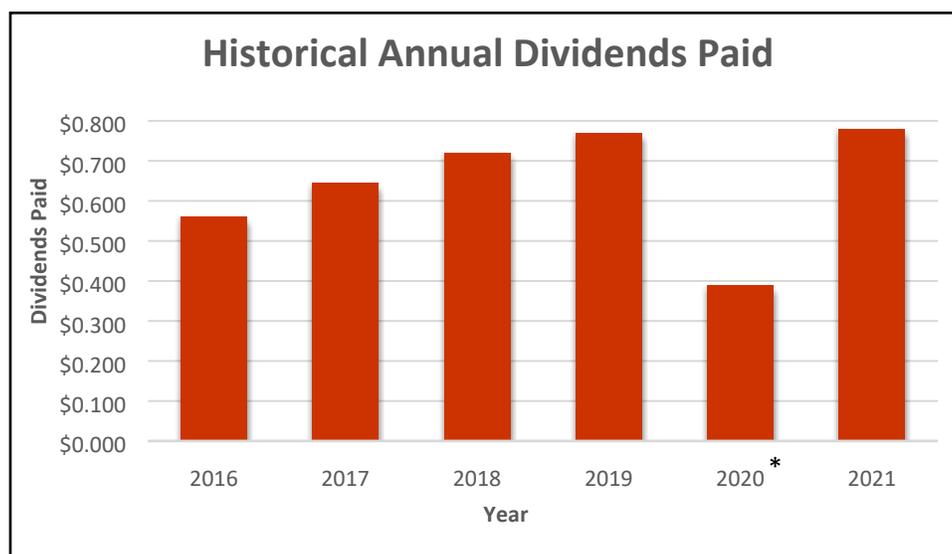
3 Dividends and Share Purchases

Dividends:

In the last 3 years, the Board has periodically declared dividends on the Company's common shares as follows:

Date of declaration	Record date	Payment date	Dividend declared (per share)
February 5, 2019	February 15, 2019	February 26, 2019	\$ 0.185
May 6, 2019	May 21, 2019	May 31, 2019	\$ 0.195
August 8, 2019	August 20, 2019	August 29, 2019	\$ 0.195
October 31, 2019	November 19, 2019	November 29, 2019	\$ 0.195
February 4, 2020	February 14, 2020	February 25, 2020	\$ 0.195
November 9, 2020	November 20, 2020	November 30, 2020	\$ 0.195
February 9, 2021	February 18, 2021	February 26, 2021	\$ 0.195
May 10, 2021	May 21, 2021	May 31, 2021	\$ 0.195
August 3, 2021	August 20, 2021	August 30, 2021	\$ 0.195
November 11, 2021	November 19, 2021	November 29, 2021	\$ 0.195
February 8, 2022	February 18, 2022	February 28, 2022	\$ 0.195
May 4, 2022	May 20, 2022	May 30, 2022	\$ 0.215

All dividends are designated as “eligible dividends” for Canadian tax purposes.



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

Share Purchases:

On March 7, 2022, the Company received approval from the Toronto Stock Exchange (the "**TSX**") to commence a normal course issuer bid ("**NCIB**"). Pursuant to the NCIB, the Company proposes to purchase through the facilities of the TSX or alternative trading systems, from time to time over the next 12 months, if considered advisable, up to a maximum of 1,673,920 of the Company's common shares, representing approximately 5.3% of the public float as of February 28, 2022. Purchases were permitted to commence through the TSX on March 9, 2022 and 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.

Since March 9, 2022, the Company purchased and cancelled 85,073 common shares at an average price of \$28.33 for total consideration of \$2.4 million.

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

SSS is primarily driven by:

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

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

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 will pursue opportunities to expand its product assortment to better meet its customers sleep needs.

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

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

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

Online Expansion Opportunities

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

The sleepcountry.ca and dormezvous.com websites provide customers with access to the full range of sleep products available at the Sleep Country and Dormez-vous retail stores. These websites are supported by 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 with the same differentiated sleep expertise available at the Company's retail stores. This enhanced omnichannel experience gives customers the flexibility to shop when they want, how they want and where they want.

Endy's direct-to-consumer business model leverages its eCommerce platform which is supported by its digital chat and phone line. Since Endy's launch in 2015, it has become 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 Hush's Product 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 a leading assortment of sleep accessories including pillows, sheets, duvets, mattresses-in-a-box and lifestyle bases 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 will be the exclusive provider of traditional mattresses, 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 and new markets, to hire and train new associates for its stores and warehouses and create top-of-mind brand awareness for its Banners.

Stores in enclosed malls provide the Company with a unique opportunity to gain the attention of the captive audience, while capitalizing on the decline of department stores in recent years. As at March 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 (i.e. warehouses, thereby learning the Company's service model and culture).

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

Canada customers.

The following table summarizes the Company's corporate-owned store count for each of the quarters ended March 31, 2022 and March 31, 2021, and each of the annual years ended December 31, 2021 and December 31, 2020.

		Q1		Annual
	2022	2021	2021	2020
Number of stores, beginning of period ⁽¹⁾	285	281	281	276
Stores newly opened ⁽¹⁾	1	2	6	6
Stores closed ⁽¹⁾	-	-	2	1
Number of stores, end of period ⁽¹⁾	286	283	285	281
Number of stores in enhanced store design, end of period ⁽¹⁾	237	226	236	220
Stores relocated ⁽¹⁾	-	1	1	2
Stores renovated ⁽¹⁾	-	4	10	19

Note:

- (1) Excludes the ten pilot Sleep Country and Dormez-vous express stores, opened in Q4 2021, 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 March 31, 2022, there are 237 corporate-owned stores or 83% of the store network that feature the store design introduced in 2014, of which 79 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 average percentage of annual sales by quarter for the fiscal years 2017 to 2019, from the Company's omnichannel retail banners, is as follows:

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

Due to the impact and uncertainties of the COVID-19 pandemic in Canada in 2020 and 2021, the Company did not include 2020 and 2021 in the above mentioned sales seasonality. The extent of COVID-19's impact on the overall economy, consumer purchasing behaviour and the impact of public health measures, such as mandated stores closures, are uncertain and may have had an impact on seasonality in the retail mattress industry.

Gross Profit

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

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

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

5 Interim MD&A – Quarterly Highlights

	Q1		
<i>(C\$ thousands unless otherwise stated; other than store count and EPS)</i>	2022	2021	Change
Revenues	\$ 207,028	\$ 183,020	13.1%
SSS ⁽¹⁾	8.8%	19.6%	
Stores opened	1	2	
Stores closed	-	-	
Stores renovated/relocated	-	5	
Gross profit margin %	34.6%	27.5%	
Operating EBITDA ⁽¹⁾	46,714	31,457	48.5%
Operating EBITDA margin ⁽¹⁾ %	22.6%	17.2%	
Net income	\$ 18,518	\$ 8,692	113.0%
Net income attributable to the Company	\$ 18,413	\$ 8,692	111.8%
Adjusted net income attributable to the Company ⁽¹⁾	\$ 20,800	\$ 9,621	116.2%
Basic EPS	\$ 0.50	\$ 0.24	108.3%
Diluted EPS	\$ 0.49	\$ 0.23	113.0%
Basic adjusted EPS ⁽¹⁾	\$ 0.56	\$ 0.26	115.4%
Diluted adjusted EPS ⁽¹⁾	\$ 0.56	\$ 0.26	115.4%

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.

Highlights of Results in Q1 2022

Q1 2022 compared to Q1 2021 - See “Non-IFRS and Other Measures”.

- Revenues increased by \$24.0 million or 13.1% from \$183.0 million in Q1 2021 to \$207.0 million in Q1 2022 mainly driven by a 8.8% increase in SSS, the opening of three net new stores since Q1 2021 and revenue earned from Hush acquired in Q4 2021.
- eCommerce sales represented 20.8% of Revenues;
- Gross profit margin increased by 710 basis points from 27.5% in Q1 2021 to 34.6% in Q1 2022;
- Operating EBITDA margin increased by 540 basis points from 17.2% in Q1 2021 to 22.6% in Q1 2022;
- Net income attributable to the Company increased by \$9.7 million or 111.8% from \$8.7 million in Q1 2021 to \$18.4 million in Q1 2022;
- Adjusted net income attributable to the Company increased by \$11.2 million or 116.2% from \$9.6 million in Q1 2021 to \$20.8 million in Q1 2022;
- Basic EPS increased by \$0.26 or 108.3% from \$0.24 in Q1 2021 to \$0.50 in Q1 2022; and
- Basic adjusted EPS increased by \$0.30 or 115.4% from \$0.26 in Q1 2021 to \$0.56 in Q1 2022.

Outlook

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

Key initiatives planned for 2022 include continuing to:

- invest in and evolve new ERP system, which includes a new in-store point of sale system, supply chain demand planning tool and warehouse management system;
- invest in digital infrastructure and marketing capabilities across the Banners, grow and optimize our existing eCommerce platforms, including third-party online marketplace channels and invest in customer relationship management tools;
 - 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 grocery 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 will be the exclusive provider of traditional mattresses, 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.
- enhance the omnichannel customer experience across the Company's omnichannel banners through the new ERP system, which will deliver new capabilities to connect the digital and store experience and enable more robust analytics;
- invest in an elevated in-store customer experience across our retail store network, opening a minimum of six new stores and renovating 20 to 30 stores;
 - In Q1 2022, the Company opened one new store located in Ontario;
- increase digital marketing spend to drive engagement across the marketing funnel and traffic to the Company's websites and stores; and
- expand the sleep product assortment through strategic partnerships and in-house innovation.

Selected Financial Information

The following table presents selected IFRS and certain non-IFRS financial measures and ratios of the Company and should be read in conjunction with the unaudited condensed interim consolidated financial statements for Q1 2022 and Q1 2021.

<i>(C\$ thousands unless otherwise stated; other than EPS)</i>	2022	2021	Q1 Change
Consolidated Income Statement			
Revenues	\$ 207,028	\$ 183,020	13.1%
Cost of sales	135,395	132,770	2.0%
Gross profit	71,633	50,250	42.6%
General and administrative expenses	43,124	34,062	26.6%
Income before finance related expenses, interest and other expenses (income) - net and income taxes	28,509	16,188	76.1%
Finance related expenses	3,029	4,010	(24.5%)
Interest and other expenses (income) - net	56	351	(84.0%)
Net income before provision for income taxes	25,424	11,827	115.0%
Provision for income taxes	6,906	3,135	120.3%
Net income	\$ 18,518	\$ 8,692	113.0%
Net income attributable to the Company	\$ 18,413	\$ 8,692	111.8%
EBITDA⁽¹⁾	\$ 44,239	\$ 30,369	45.7%
Operating EBITDA⁽¹⁾	\$ 46,714	\$ 31,457	48.5%
Operating EBITDA margin⁽¹⁾ %	22.6%	17.2%	
Adjusted net income attributable to the Company⁽¹⁾	\$ 20,800	\$ 9,621	116.2%
Basic EPS	\$ 0.50	\$ 0.24	108.3%
Diluted EPS	\$ 0.49	\$ 0.23	113.0%
Basic adjusted EPS⁽¹⁾	\$ 0.56	\$ 0.26	115.4%
Diluted adjusted EPS⁽¹⁾	\$ 0.56	\$ 0.26	115.4%
Dividends declared per share	\$ 0.195	\$ 0.195	0.0%
	31-Mar-22	31-Dec-21	
Total Assets	\$ 978,703	\$ 988,035	
Total Long-term lease liabilities and long-term debt	\$ 355,900	\$ 346,233	

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.

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 unaudited condensed interim consolidated financial statements for Q1 2021 and Q1 2020.

	Q1		
<i>(C\$ thousands unless otherwise stated; other than EPS)</i>	2021	2020	Change ⁽²⁾
Consolidated Income Statement			
Revenues	\$ 183,020	\$ 151,586	20.7%
Cost of sales	132,770	110,434	20.2%
Gross profit	50,250	41,152	22.1%
General and administrative expenses	34,062	28,979	17.5%
Income before finance related expenses, interest and other expenses (income) - net and income taxes	16,188	12,173	33.0%
Finance related expenses	4,010	5,429	(26.1%)
Interest and other expenses (income) - net	351	(117)	(400.0%)
Net income before provision for income taxes	11,827	6,861	72.4%
Provision for income taxes	3,135	1,868	67.8%
Net income	\$ 8,692	\$ 4,993	74.1%
Net income attributable to the Company	\$ 8,692	\$ 4,993	74.1%
EBITDA⁽¹⁾	\$ 30,369	\$ 26,428	14.9%
Operating EBITDA⁽¹⁾	\$ 31,457	\$ 27,858	12.9%
Operating EBITDA margin⁽¹⁾ %	17.2%	18.4%	
Adjusted net income attributable to the Company⁽¹⁾	\$ 9,621	\$ 6,107	57.5%
Basic EPS	\$ 0.24	\$ 0.14	71.4%
Diluted EPS	\$ 0.23	\$ 0.14	64.3%
Basic adjusted EPS⁽¹⁾	\$ 0.26	\$ 0.17	52.9%
Diluted adjusted EPS⁽¹⁾	\$ 0.26	\$ 0.17	52.9%
Dividends declared per share	\$ 0.195	\$ 0.195	0.0%
	31-Mar-21	31-Dec-20	
Total Assets	\$ 911,982	\$ 902,351	
Total Long-term lease liabilities and long-term debt	\$ 395,963	\$ 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 Q1 2021 MD&A for discussion related to performance analysis.

6 First Quarter 2022 versus First Quarter 2021

Revenues

Revenues increased by \$24.0 million or 13.1% from \$183.0 million in Q1 2021 to \$207.0 million in Q1 2022 mainly driven by a 8.8% increase in SSS (See “Non-IFRS and Other Measures”), the opening of three net new stores since Q1 2021 and revenue earned from Hush acquired in Q4 2021. In Q1 2022, eCommerce sales were 20.8% of Revenues.

The increase in total revenues was comprised of an increase in mattresses and accessories sales in Q1 2022 over Q1 2021.

	Q1				
<i>(C\$ millions unless otherwise stated)</i>	2022	2021	Change	Change (%)	
Mattresses	\$ 159.0	\$ 145.2	\$ 13.8	9.5%	
Accessories	\$ 48.0	\$ 37.8	\$ 10.2	27.0%	
Total	\$ 207.0	\$ 183.0	\$ 24.0	13.1%	

Gross profit

Gross profit increased by \$21.3 million from \$50.3 million in Q1 2021 to \$71.6 million in Q1 2022. Gross profit margin increased by 710 basis points from 27.5% for Q1 2021 to 34.6% for Q1 2022. The increase was attributable to higher average unit selling prices in Q1 2022 versus Q1 2021 as well as a result of the following:

- inventory and other directly related expenses, net of volume rebates, decreased as percentage of revenue by 4.9% from 46.9% in Q1 2021 to 42.0% in Q1 2022. As a percentage of revenue, the decrease was driven by lower product costs – net of volume rebates, inventory adjustments and delivery costs partially offset by higher transport costs;
- sales and distribution compensation expenses decreased as a percentage of revenue by 0.9% from 14.8% in Q1 2021 to 13.9% in Q1 2022 mainly due to lower severance costs in addition to higher wage costs in Q1 2021 associated with the Company’s stores remaining open for curbside pick-up during the temporary store closures in Q1 2021. This decrease was partially offset by an increase in sales commission costs due to the shift of revenue earned from its eCommerce platforms to its retail stores and higher salaries.
- other expenses decreased as a percentage of revenue by 0.7% from 1.3% in Q1 2021 to 0.6% in Q1 2022 mainly due to lower COVID-19 personal protective equipment expenses;
- depreciation expenses decreased as a percentage of revenue by 0.5% from 6.0% in Q1 2021 to 5.5% in Q1 2022 due to the Company leveraging its depreciation costs; and
- store occupancy costs decreased as a percentage of revenue by 0.2% from 3.6% in Q1 2021 to 3.4% in Q1 2022 due to the Company leveraging its occupancy costs.

General and administrative (“G&A”) expenses

Total G&A expenses increased by \$9.0 million or 26.6% from \$34.1 million in Q1 2021 to \$43.1 million in Q1 2022, and, as a percentage of revenue, G&A expenses increased from 18.6% of revenue in Q1 2021 to 20.8% of revenue in Q1 2022.

<i>(C\$ millions unless otherwise stated)</i>	Q1				
	2022	% of revenue	2021	% of revenue	Change
Media and advertising expenses ⁽¹⁾	\$ 14.3	6.9%	\$ 12.1	6.6%	\$ 2.2
Salaries, wages and benefits ⁽²⁾	10.9	5.2%	8.1	4.4%	2.8
Credit card and finance charges ⁽³⁾	4.3	2.1%	3.8	2.1%	0.5
Occupancy charges	2.5	1.2%	2.3	1.3%	0.2
Professional fees ⁽⁴⁾	2.6	1.3%	1.2	0.7%	1.4
Telecommunication and information technology ⁽⁵⁾	2.7	1.3%	2.0	1.1%	0.7
Mattresses recycling and donations	0.8	0.4%	1.0	0.5%	(0.2)
Depreciation and Amortization ⁽⁶⁾	4.4	2.1%	3.2	1.7%	1.2
Other	0.6	0.3%	0.4	0.2%	0.2
Total G&A expenses	\$ 43.1	20.8%	\$ 34.1	18.6%	\$ 9.0

Notes:

- (1) Media and advertising expenses increased by \$2.2 million mainly due to an increase in radio, television, billboard and online advertising. This increase was partially offset by an increase in advertising credits and a decrease in newspaper advertising and production costs.
- (2) Salaries, wages and benefits increased by \$2.8 million as a result of an increase in compensation and related expenses incurred in the regular course of business.
- (3) Credit card and finance charges are variable costs and these costs remain consistent as a percentage of revenue from Q1 2021 to Q1 2022.
- (4) Professional fees increased by \$1.4 million mainly due to an increase in consulting fees primarily related to the ERP implementation.
- (5) Telecommunication and information technology expenses increased by \$0.7 million mainly due to increased software licensing fees and support costs.
- (6) Depreciation and amortization expenses increased by \$1.2 million mainly due to the increase in tangible and intangible depreciation and IFRS 16 related depreciation on the Company’s leased warehouse and property and equipment, including the addition of two new warehouses in Q3 2021.

EBITDA

EBITDA increased by \$13.8 million or 45.7% from \$30.4 million in Q1 2021 to \$44.2 million in Q1 2022. The increase was primarily due to strong revenue growth in Q1 2022 combined with an improved gross profit margin and partially offset by an increase in G&A expenses. See “Non-IFRS and Other Measures”.

Operating EBITDA

Operating EBITDA was \$46.7 million for Q1 2022, or 22.6% of Revenues, compared to \$31.5 million for Q1 2021, or 17.2% of Revenues, representing an increase of \$15.2 million or 48.5% mainly due to the increase in EBITDA. See “Non-IFRS and Other Measures”.

Finance related expenses

Finance related expenses decreased by \$1.0 million from \$4.0 million in Q1 2021 to \$3.0 million in Q1 2022. This change was mainly due to an unrealized gain of \$1.2 million on the Company’s interest swap as at March 31, 2022 and a decrease in the interest expense on the Company’s senior secured credit facility. These decreases were partially offset by the change in fair value of the redemption liabilities related to the Hush acquisition.

Income taxes

The effective income tax rate increased by 0.7% from 26.5% in Q1 2021 to 27.2% in Q1 2022. Net income before income taxes in Q1 2022 increased by \$13.6 million from \$11.8 million in Q1 2021 to \$25.4 million in Q1 2022 resulting in an increase to income taxes of \$3.8 million.

Net income attributable to the Company

Net income attributable to the Company for Q1 2022 increased by \$9.7 million from \$8.7 million (\$0.24 per share) in Q1 2021 to \$18.4 million (\$0.50 per share) in Q1 2022.

Adjusted net income attributable to the Company

Adjusted net income attributable to the Company for Q1 2022 increased by \$11.2 million from \$9.6 million (\$0.26 per share) in Q1 2021 to \$20.8 million (\$0.56 per share) in Q1 2022. See “Non-IFRS and Other Measures”.

7 Summary of Quarterly Results

The Company's revenue is impacted by seasonality, with the third quarter typically generating the greatest contribution to revenues and the first quarter the least. Accordingly, results of operations for any interim period are not necessarily indicative of the results of operations for the full fiscal year. The following table displays the Company's financial performance for the last eight quarters and it has been prepared in accordance with IFRS, except where indicated. The extent of COVID-19's impact on the overall economy, consumer purchasing behaviour and the impact of public health measures, such as mandated stores closures, are uncertain and may have had an impact on seasonality in the retail mattress industry.

	2022				2021			2020	
<i>(C\$ thousands unless otherwise stated, except EPS)</i>	Q1	Q4	Q3	Q2	Q1	TOTAL	Q4	Q3	Q2
Revenues	\$ 207,028	\$ 271,158	\$ 273,840	\$ 192,175	\$ 183,020	\$ 920,194	\$ 248,861	\$ 242,351	\$ 114,900
SSS ⁽¹⁾	8.8%	3.2%	10.6%	65.5%	19.6%	18.3%	32.4%	14.5%	N/A ²
Gross profit	\$ 71,633	\$ 97,720	\$ 102,726	\$ 66,351	\$ 50,250	\$ 317,048	\$ 82,162	\$ 84,213	\$ 36,970
Gross profit margin %	34.6%	36.0%	37.5%	34.5%	27.5%	34.5%	33.0%	34.7%	32.2%
EBITDA ⁽¹⁾	\$ 44,239	\$ 57,314	\$ 69,412	\$ 42,452	\$ 30,369	\$ 199,549	\$ 52,847	\$ 64,024	\$ 23,145
Operating EBITDA ⁽¹⁾	\$ 46,714	\$ 62,065	\$ 73,659	\$ 43,706	\$ 31,457	\$ 210,889	\$ 53,848	\$ 65,294	\$ 24,470
Operating EBITDA margin ⁽¹⁾ %	22.6%	22.9%	26.9%	22.7%	17.2%	22.9%	21.6%	26.9%	21.3%
Net income (loss) attributable to the Company	\$ 18,413	\$ 26,433	\$ 36,458	\$ 17,019	\$ 8,692	\$ 88,603	\$ 26,571	\$ 32,216	\$ (471)
Adjusted net income attributable to the Company ⁽¹⁾	\$ 20,800	\$ 30,977	\$ 39,707	\$ 18,036	\$ 9,621	\$ 98,342	\$ 27,404	\$ 33,217	\$ 4,866
Basic EPS	\$ 0.50	\$ 0.72	\$ 0.99	\$ 0.46	\$ 0.24	\$ 2.41	\$ 0.72	\$ 0.88	\$ (0.01)
Diluted EPS	\$ 0.49	\$ 0.71	\$ 0.98	\$ 0.46	\$ 0.23	\$ 2.38	\$ 0.72	\$ 0.87	\$ (0.01)
Basic adjusted EPS ⁽¹⁾	\$ 0.56	\$ 0.84	\$ 1.08	\$ 0.49	\$ 0.26	\$ 2.67	\$ 0.75	\$ 0.91	\$ 0.13
Diluted adjusted EPS ⁽¹⁾	\$ 0.56	\$ 0.83	\$ 1.07	\$ 0.48	\$ 0.26	\$ 2.64	\$ 0.74	\$ 0.90	\$ 0.13

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.
- (2) The initial extended temporary closure of the Company's retail stores in Spring 2020 due to onset of the COVID-19 pandemic resulted in the Company's retail stores being closed an average of 54.0% of its normal operating days in Q2 2020. The Company did not report Q2 2020 SSS as it was not a representative measure of the Company's performance.

8 Segment Reporting

As at March 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 and Canada, its country of domicile.

9 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 \$32.8 million with an additional \$182.0 million (not including the \$100.0 million accordion) of liquidity available under the Company's credit facility as at March 31, 2022.

A summary of net cash flows by activities is presented below for Q1 2022 and Q1 2021:

		Q1
<i>(C\$ thousands unless otherwise stated)</i>	2022	2021
Cash flows provided by (used by) operating activities	\$ 5,458	\$ (9,927)
Cash flows used by investing activities	(1,848)	(18,678)
Cash flows provided by (used by) financing activities	(7,363)	25,922
Net decrease in cash	(3,753)	(2,683)
Cash at beginning of the period	36,546	38,317
Cash at end of the period	\$ 32,793	\$ 35,634

Net cash flows provided by (used in) operating activities

Net cash flows provided by operating activities in Q1 2022 were \$5.5 million and consisted of the positive impact of cash generated from operating activities of \$39.5 million offset by \$34.0 million of cash used as a result of an increase in working capital. The increase in working capital in Q1 2022 was primarily driven by higher inventories and lower trade and other payables and customer deposits, which were offset lower prepaid expenses and deposits and trade and other receivables.

Net cash flows used by operating activities in Q1 2021 were \$9.9 million and consisted of the positive impact of cash generated from operating activities of \$28.4 million offset by \$38.2 million of cash used as a result of an increase in working capital. The increase in working capital in Q1 2021 was primarily driven by higher inventories and prepaid expenses and deposits, lower trade and other payables and lower customer

deposits, partially offset by lower trade and other receivables. 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 Q1 2022 were \$1.8 million and consisted primarily of investments in capital expenditure related to computer hardware, furniture and equipment and leasehold improvements and spend on the investment in the new ERP system.

Net cash flows used by investing activities in Q1 2021 consisted primarily of investments in capital expenditure related to new store openings, store renovations, spend on the investment in the new ERP system and eCommerce platforms, and on store hardware refresh. Additionally the Company used \$15.1 million of cash from investing activities to pay the contingent consideration due under the purchase agreement related to the Endy acquisition in 2018.

Net cash flows provided by (used by) financing activities

Net cash flows used by financing activities in Q1 2022 were \$7.4 million and consisted primarily of dividends paid on the common shares of \$7.2 million, the repayment of lease obligations of \$9.6 million, interest payments of \$3.7 million on lease liabilities and the senior secured credit facility and the repurchase for cancellation of the Company's common shares under the NCIB of \$2.4 million. These cash outflows were partially offset by an additional draw on the senior secured credit facility of \$15.0 million and \$0.5 million received from common shares issued due to exercised stock options.

Net cash flows provided by financing activities in Q1 2021 were \$25.9 million and consisted primarily of an additional loan of \$45.0 million taken through the senior secured credit facility, partially to fund the \$25.0 million contingent consideration payment related to the Endy acquisition, and \$1.6 million from common shares used due to exercised stock options. These cash inflows were partially offset by dividends on the common shares of \$7.2 million, repayment of lease obligations of \$9.6 million and interest payments of \$4.0 million on lease liabilities and the senior secured credit facility.

Contractual obligations

There were no substantial changes to the Company's contractual obligations reported in the Company's Management's Discussion and Analysis for the fiscal year ended December 31, 2021 ("**2021 Annual MD&A**"), a copy of which can be accessed under Company's profile on SEDAR.

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 March 31, 2022.

The senior secured credit facility is secured by all of the present and after acquired personal property of the Company. As at March 31, 2022, the balance outstanding on the senior secured credit facility was \$78.0 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 \$1.0 million (December 31, 2021 – \$1.1 million).

The senior secured credit facility allows for the debt to be held in Canadian or US dollars. During the three-months ended and as at March 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 March 31, 2022 and March 31, 2021, nor did it have any subsequent to March 31, 2022.

Related party transactions

There were no substantial changes to the Company's related party transactions reported in the 2021 Annual MD&A.

10 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 and risks and uncertainties related to COVID-19, 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.

The Company's senior secured credit facility allows funds to be borrowed in Canadian and U.S. dollars. To mitigate any foreign exchange risk related to any U.S. dollar denominated debt, the Company enters into forward foreign exchange contracts to sell U.S. dollars in an amount equal to the principal amount of its U.S. dollar denominated borrowings.

Cash Flow and Fair Value Interest Risk

The Company has no significant interest-bearing assets. Its income and operating cash flows are substantially independent of changes in market interest rates.

The Company's primary interest rate risk arises from long-term debt. It manages its exposure to changes in interest rates by using a combination of fixed and variable rate debt and varying lengths of terms to achieve the desired proportion of variable and fixed rate debt. Additionally, in Q2 2021, the Company entered into a fixed rate swap for the notional amount of \$60.0 million to manage its interest rate risk. An increase (or decrease) in interest rates by 1% would result in a \$0.2 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, all deposits are held at banks possessing a credit rating of AA- or better. Sales to retail customers are settled in cash, financed by third-party financing companies or by using major credit cards. The Company transfers the credit risk for financing plans to third-party financing companies. The third-party financing company that the Company deals with carries a minimum rating of BBB or better.

There are no significant impaired receivables that have not been provided for in the allowance. There are no amounts considered past due or impaired.

Liquidity Risk

Liquidity risk is the risk the Company will not be able to meet a demand for cash or fund its obligations as they come due. It also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Prudent liquidity management implies maintaining sufficient cash and the availability of funding through an adequate number of committed credit facilities.

Capital Risk

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for its common shareholders in the form of cash dividends, benefits to other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

In order to maintain or adjust the capital structure, the Company may issue new shares, purchase its own shares or sell assets to reduce long-term debt.

Technology Risk

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

11 Critical Accounting Estimates

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

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.

The unaudited condensed interim consolidated financial statements of the Company for Q1 2022 have been prepared using critical accounting estimates consistent with those included in Note 4 of the Company's 2021 audited annual consolidated financial statements.

12 Financial Instruments

As at March 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 swaps and redemption liabilities.

The carrying values of cash, trade and other receivables, trade and other payables, and customer deposits approximate their fair values due to the relatively short periods to maturity of these financial instruments. The carrying value of the senior secured credit facility approximates its fair value as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at March 31, 2022. The interest rate swap obtained effective April 1, 2021 is recorded at fair value is based on observable quoted market prices for identical financial instruments in active markets as at March 31, 2022. The redemption liabilities related to the acquisition of Hush were initially recorded at fair value measured at the expected outcome (discounted) determined based on an earnings formula and the expected earnings levels over the measurement period and subsequently measured at amortized cost. The Company's financial instruments are exposed to certain financial risks, including currency risk, interest rate risk, credit risk and liquidity risk, which are discussed above under the section "Risk Factors".

13 Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining appropriate internal controls over financial reporting ("ICFR"). ICFR is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS. In designing ICFR, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and cannot provide absolute assurance with respect to the prevention or detection of misstatements. Additionally, management is required to use judgment in evaluating ICFR.

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

The Company's ICFR includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

A "material weakness" in internal controls over financial reporting is a deficiency, or a combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected in a timely basis by the company's internal controls.

The Certifying Officers have evaluated the effectiveness of the Company's ICFR as at March 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 March 31, 2022 and that no material weaknesses were identified through their evaluation subject to the scope limitation described below.

In accordance with the provisions of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, Management, including the CEO and CFO, have limited the scope of their

design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude such controls, policies and procedures of Hush.

The Company acquired Hush on October 22, 2021. Hush's financial results are included in the Company's condensed interim consolidated financial statements for the quarter ended March 31, 2022. The net income generated by Hush did not significantly contribute to the Company's net income for the quarter ended March 31, 2022. For the Consolidated Statement of Financial Position, Hush constitutes 3.6% of total current assets, 4.0% of total assets, 2.5% of total current liabilities and 1.5% of total liabilities as at March 31, 2022.

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

14 Current and Future Accounting Standards

The unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2021.

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.

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.

15 Outstanding Share Data

As of the date hereof, 36,953,466 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 1,214,027 stock options to purchase an equivalent number of common shares, 254,409 performance share units, 148,207 restricted share units and 67,857 deferred share units are issued and outstanding. For further details concerning the rights, privileges and restrictions attached to the common shares and the Class A common shares, please refer to the section entitled "Description of Share Capital" in the AIF.

16 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 and Operating Days, 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.

Same Store Sales (SSS)

SSS is a supplementary financial measure used in the retail industry to compare sales derived from established stores over a certain period compared to the same period in the prior year. The Company has embarked on an omnichannel approach to engaging with customers. This approach allows customers to shop online for home delivery or purchase in any store locations. Due to the customer cross-channel behavior, the Company reports a single comparable sales metric, inclusive of store and eCommerce channels. SSS calculation excludes sales of excess inventory to third parties. SSS helps to explain what portion of revenue growth can be attributed to growth in established stores and eCommerce sales and what portion can be attributed to the opening of new stores. The Company acquired Hush in Q4 2021 and its earned revenue is not included in the Company's calculation of SSS.

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
- interest and other expenses – net;
- finance related expenses;
- income taxes; and
- depreciation and amortization.

Operating EBITDA is defined as EBITDA adjusted for:

- 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:

- ERP implementation expenses;
- share-based compensation; and
- Accretion expense on redemption liabilities related to Hush acquisition in Q4 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.

Operating Days

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

Calculation of Non-IFRS and Other Measures

	Q1	
<i>(C\$ thousands unless otherwise stated, except EPS)</i>	2022	2021
Reconciliation of net income attributable to the Company to EBITDA and Operating EBITDA:		
Net income attributable to the Company	\$ 18,413	\$ 8,692
Add impact of the following:		
Non-controlling interests	105	-
Interest and other expenses - net	56	351
Finance related expenses	3,029	4,010
Income taxes	6,906	3,135
Depreciation and amortization	15,730	14,181
EBITDA	44,239	30,369
Adjustments:		
ERP implementation costs ⁽¹⁾	1,140	-
Share-based compensation ⁽²⁾	1,335	1,088
Total adjustments	\$ 2,475	\$ 1,088
Operating EBITDA	\$ 46,714	\$ 31,457
Operating EBITDA margin %	22.6%	17.2%
Reconciliation of net income attributable to the Company to adjusted net income attributable to the Company:		
Net income attributable to the Company	\$ 18,413	\$ 8,692
Adjustments:		
ERP Implementation costs ⁽¹⁾	1,140	-
Share-based compensation ⁽²⁾	1,335	1,088
Accretion expense ⁽³⁾	474	-
Tax impact of all adjustments ⁽⁴⁾	(562)	(159)
Total adjustments	\$ 2,387	\$ 929
Adjusted net income attributable to the Company	\$ 20,800	\$ 9,621
Weighted average number of shares – Basic	36,943	36,726
Basic EPS	\$ 0.50	\$ 0.24
Diluted EPS	\$ 0.49	\$ 0.23
Basic adjusted EPS	\$ 0.56	\$ 0.26
Diluted adjusted EPS⁽⁵⁾	\$ 0.56	\$ 0.26

Notes:

- (1) Adjustment for charges related to its ERP implementation project that commenced in 2019 and results in significantly increased costs during the implementation phase relative to the ongoing operating costs.
- (2) Adjustment for share-based compensation, a non-cash item.
- (3) Adjustment for accretion expense for the redemption liabilities related to Hush acquisition in Q4 2021.
- (4) The related tax effects are calculated at the Company's effective tax rate.
- (5) The weighted average number of diluted shares for Q1 2022 is 37,472 and for Q1 2021 is 37,355.

17 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.