Sleep Country Canada Holdings Inc.

Consolidated Financial Statements

December 31, 2023 and December 31, 2022

Independent auditor's report

To the Shareholders of Sleep Country Canada Holdings Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Sleep Country Canada Holdings Inc. and its subsidiaries (together, the Company) as at December 31, 2023 and 2022, 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 Accounting Standards).

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

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include material 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.

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, 2023. 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.

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Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill for the Hush Cash Generating Unit *Refer to note 3 – Material accounting policies, note 4 – Critical accounting estimates and judgments and note 11 – Goodwill and intangible assets to the consolidated financial statements.* The Hush cash generating unit (CGU) had goodwill of $15.9 million as at December 31, 2023. Goodwill is allocated to CGUs or groups of CGUs for the purpose of impairment testing. Management tests goodwill 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. The determination of the recoverable amount of a CGU employs various estimates and requires judgment. Management used the value in use approach to determine the fair value of the Hush CGU based on a discounted cash flow model. The assumptions used in the discounted cash flow model include the revenue growth rates. No impairment was recognized as a result of the 2023 impairment test. We considered this a key audit matter due to (i) the significant judgments made by management in determining the recoverable amount of the CGU; and (ii) the audit effort and auditor's judgment involved in performing procedures to test revenue growth rates applied by management in determining the recoverable amount.	Our approach to addressing the matter included the following procedures, among others: • Evaluated how management determined the recoverable amount of the Hush CGU, which included the following: – Tested the appropriateness of the value in use approach used by management and the mathematical accuracy of the discounted cash flow model. – Evaluated the reasonableness of the revenue growth rates applied by management, which included comparing the growth rates to the budget approved by the Board of Directors, and current and past performance of the Hush CGU and other CGUs of the Company and by considering the consistency with available third party published industry data and other comparable companies. – Tested the underlying data used in the discounted cash flow model.

Other information

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

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

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

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

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 6, 2024

Sleep Country Canada Holdings Inc.

Consolidated Statements of Financial Position

As at December 31, 2023 and December 31, 2022

(in thousands of Canadian dollars)

	December 31, 2023 $	December 31, 2022 $
Assets		
Current assets		
Cash (note 5)	37,371	78,318
Trade and other receivables (note 6)	24,940	14,303
Inventories (note 7)	94,885	98,691
Prepaid expenses and deposits	15,365	9,683
Other assets	638	638
	173,199	201,633
Non-current assets		
Other assets (note 8)	22,894	1,611
Property and equipment (note 9)	74,390	63,676
Right-of-use assets (note 10)	272,805	263,149
Intangible assets (note 11)	226,599	171,367
Goodwill (note 11)	336,197	316,785
Deferred tax assets (note 18)	6,390	3,498
	1,112,474	1,021,719
Liabilities		
Current liabilities		
Trade and other payables (note 12)	110,966	106,883
Deferred revenues	29,995	24,762
Other liabilities (note 13)	22,971	22,525
Lease liabilities (note 10)	38,499	38,612
	202,431	192,782
Non-current liabilities		
Other liabilities (note 13)	6,533	9,373
Long-term debt (note 14)	160,627	99,082
Lease liabilities (note 10)	288,665	275,170
Deferred tax liabilities (note 18)	25,264	25,234
	683,520	601,641
Shareholders' Equity		
Share capital and other (note 15)	321,118	328,439
Retained earnings	102,664	84,380
Other reserves	(27)	(25)
Equity attributable to Sleep Country Canada Holdings Inc.	423,755	412,794
Non-controlling interests	5,199	7,284
	1,112,474	1,021,719

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, 2023 and December 31, 2022

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

	2023 $	2022 $
Revenues	935,044	928,657
Cost of sales (note 16)	587,570	587,629
Gross profit	347,474	341,028
General and administrative expenses (note 16)	227,883	196,167
Operating income	119,591	144,861
Finance related expenses (income) (note 17)	23,471	(889)
Other income	(550)	(292)
Net income before income taxes	96,670	146,042
Income taxes (note 18)	25,135	35,346
Net income for the year	71,535	110,696
Net income for the year attributable to:		
Sleep Country Canada Holdings Inc.	71,192	110,471
Non-controlling interests	343	225
	71,535	110,696
Items that may be reclassified subsequently to net income:		
Exchange differences on translation of foreign operations	(2)	(23)
Other comprehensive loss for the year	(2)	(23)
Comprehensive income for the year	71,533	110,673
Comprehensive income for the year attributable to:		
Sleep Country Canada Holdings Inc.	71,190	110,446
Non-controlling interests	343	227
	71,533	110,673
Earnings per share attributable to Sleep Country Canada Holdings Inc.		
Basic earnings per share (in dollars) (note 19)	2.06	3.04
Diluted earnings per share (in dollars) (note 19)	2.04	3.01

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, 2023 and December 31, 2022

(in thousands of Canadian dollars)

	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, 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 income (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)
Settlement of share-based compensation (note 20)	263,365	5,747	(2,946)	—	—	2,801	—	2,801
Share-based compensation (note 20)	—	—	4,935	—	—	4,935	—	4,935
Repurchase of shares for cancellation (note 15)	(2,339,409)	(22,116)	—	(36,389)	—	(58,505)	—	(58,505)
Net change in share repurchase commitment under automatic share purchase plan (note 15)	—	(20,660)	—	—	—	(20,660)	—	(20,660)
Non-controlling interests	—	—	—	—	—	—	1,279	1,279
Balance – December 31, 2022	34,837,943	313,550	14,889	84,380	(25)	412,794	7,284	420,078
Balance – January 1, 2023	34,837,943	313,550	14,889	84,380	(25)	412,794	7,284	420,078
Net income for the year	—	—	—	71,192	—	71,192	343	71,535
Other comprehensive loss for the year	—	—	—	—	(2)	(2)	—	(2)
Comprehensive income for the year	—	—	—	71,192	(2)	71,190	343	71,533
Dividends declared	—	—	549	(32,510)	—	(31,961)	—	(31,961)
Settlement of share-based compensation (note 20)	288,680	5,109	(4,676)	—	—	433	—	433
Share-based compensation (note 20)	—	—	6,242	—	—	6,242	—	6,242
Repurchase of shares for cancellation (note 15)	(1,596,910)	(15,196)	—	(22,826)	—	(38,022)	—	(38,022)
Changes in ownership interest in non-controlling interests	—	—	—	2,428	—	2,428	(2,428)	—
Net change in share repurchase commitment under automatic share purchase plan (note 15)	—	651	—	—	—	651	—	651
Balance – December 31, 2023	33,529,713	304,114	17,004	102,664	(27)	423,755	5,199	428,954

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, 2023 and December 31, 2022

(in thousands of Canadian dollars)

Cash provided by (used in)	2023 $	2022 $
Operating activities		
Net income for the year	71,535	110,696
Adjustments for:		
Depreciation of property and equipment (note 9)	17,744	16,761
Depreciation of right-of-use assets (note 10)	41,941	39,816
Amortization of intangible assets (note 11)	9,930	9,057
Share-based compensation (note 20)	6,242	4,935
Finance related expenses (note 17)	23,471	(889)
Deferred income taxes (note 18)	(2,764)	965
Other non-cash (income) expenses	(1,567)	(128)
	166,532	181,213
Changes in non-cash items relating to operating activities		
Changes in working capital		
Trade and other receivables	(9,784)	3,192
Inventories	12,312	(7,152)
Prepaid expenses and deposits	(5,151)	(355)
Trade and other payables	(14,086)	(5,164)
Deferred revenues	4,155	(8,674)
	(12,554)	(18,153)
	153,978	163,060
Investing activities		
Purchase of property and equipment - net of disposals (note 9)	(20,955)	(7,499)
Additions to right-of-use assets (note 10)	(50)	(58)
Purchase of intangible assets (note 11)	(22,471)	(9,667)
Acquisition of other assets (note 8)	(20,105)	(1,000)
Acquisition of business combinations (note 21)	(59,435)	—
Purchase of non-controlling interests (note 13)	(1,300)	—
	(124,316)	(18,224)
Financing activities		
Proceeds from options exercised (note 20)	433	2,801
Shares repurchased under normal course issuer bid (note 15)	(37,335)	(57,717)
Advances under long-term debt (note 14)	92,300	58,000
Repayment of long-term debt (note 14)	(31,000)	(21,000)
Financing costs on long-term debt (note 14)	—	(60)
Dividends paid	(31,961)	(30,409)
Interest paid	(24,215)	(15,942)
Repayment of principal portion of lease liabilities (note 10)	(38,821)	(38,717)
	(70,599)	(103,044)
Effects of foreign currency exchange rate changes on cash	(10)	(20)
Increase (decrease) in cash during the year	(40,947)	41,772
Cash – Beginning of the year	78,318	36,546
Cash – End of the year	37,371	78,318
Supplementary information		
Purchase of property and equipment in trade and other payables	5,253	1,497
Purchase of intangible assets in trade and other payables	8,519	4,895

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 301 corporate-owned stores and 19 warehouses across Canada and operates under retail banners: Sleep Country™, Dormez-vous™, Endy™, Hush™, Silk & Snow™ and Casper™ ("**Casper Canada**").

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 preparation

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 ("**IFRS® Accounting Standards**").

The consolidated financial statements were reviewed by the Company's Audit Committee. They were approved and authorized for issuance by the Board on March 6, 2024.

3 Material accounting policies

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:

(i) those to be measured subsequently at fair value either through other comprehensive income ("**FVOCI**") or through net income ("**FVTPL**"); and

(ii) 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;
- the convertible note receivable and the warrant are measured at FVTPL;
- trade and other payables, deferred revenues, 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 FVTPL.

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.

The contingent consideration liability presented within other liabilities is recognized initially at fair value, and is subsequently measured at amortized cost, which is the carrying value. Any difference between the carrying value and the consideration amount is recognized in the consolidated statement of income and comprehensive income. For changes in the estimated consideration 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 statement 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 long-term debt are capitalized and amortized over the period of the facility to which it relates and the fees are presented net of long-term debt in the consolidated statements of financial position.

(in thousands of Canadian dollars, unless otherwise noted)

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. The credit risk associated with the convertible note receivable is considered as part of the fair value measurement at the reporting date.

Derivative financial instruments

Interest rate swaps are periodically used to limit the interest rate risk relating to the Company's long-term debt.

These contracts are treated as derivative instruments and they are measured at mark-to-market in the year, 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;

(in thousands of Canadian dollars, unless otherwise noted)

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

Segment information

As at December 31, 2023, the Company manages its business on the basis of five operating segments, Sleep Country/Dormez-vous, Endy, Hush, Silk & Snow and Casper Canada, 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, freight, duties and is net of rebates. The Company periodically reviews its inventories and makes provisions as necessary to appropriately value for shrinkage and obsolete or damaged goods.

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 equipment	48 to 60 months
Leasehold improvements	lesser of the lease term or 120 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.

- Software

  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, Hush, Silk & Snow and Casper Canada 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 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

(in thousands of Canadian dollars, unless otherwise noted)

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 statement 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.

Deferred revenues

Deferred revenues represent amounts paid by customers in advance of delivery of product and/or services. These amounts can be for all or a portion of the total sales price of the product. The amounts received representing the deferred revenues are unencumbered and can be used for general operating purposes. Once the product and/or service is delivered to the customer, therefore fulfilling the performance obligation, the liability is relieved and is recorded in revenues. Over time, some portion of the deferred revenue is not redeemed (breakage). The expected breakage amount based on historical actuals are recognized as revenue in proportion to the redemption pattern exercised by the customers.

Decommissioning provisions

Decommissioning provisions represent the cost of the Company's obligation to restore its leased premises and the provisions are estimated based on the present value of expected future restoration 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.

(in thousands of Canadian dollars, unless otherwise noted)

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 ("**DSUs**") plan for its Directors.

The LTIP and DSU plans are accounted for as equity-settled awards.

The cost of equity-settled awards is determined by the fair value at the date when the grant is made using an appropriate valuation model, of which further details are given in note 20.

The compensation expense 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 stock options, the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital. Upon settlement of PSUs, RSUs and DSUs, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

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 customer satisfaction programs are accrued based on historical experience.

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 statement of income and comprehensive income on a straight-line method.

Lease liabilities are recorded based on the present value of the non-cancellable lease payments over the lease term and discounted at the Company's incremental borrowing rate. Lease payments include fixed payments and variable payments.

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

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 statement 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, interpretations, and amendments not yet adopted

A number of interpretations and amendments to existing standards have been published by the International Accounting Standards Board ("**IASB®**) that are not yet in effect. The Company has not early adopted these interpretations or amendments. The interpretations and amendments not expected to have an impact on the Company's consolidated financial statements have not been disclosed.

(in thousands of Canadian dollars, unless otherwise noted)

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

Non-current Liabilities with Covenants (Amendments to IAS 1)

In October 2022, the IASB issued amendments to IAS 1 – Presentation of Financial Statements, seeking to improve the information that an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively. The Company is in the process of assessing the impact of this amendment on its consolidated financial statements.

International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)

In December 2021, the Organization for Economic Co-operation and Development ("**OECD**") issued model rules for a new global minimum tax framework ("**Pillar Two**"), and various governments around the world have issued, or are in the process of issuing, legislation on this. In Canada, the government released draft legislation on Pillar Two in August 2023. In May and June 2023 respectively, the IASB issued amendments to IAS 12 - Income Taxes, introducing a mandatory temporary exception to recognizing and disclosing information about deferred tax assets and liabilities that relate to tax law enacted or substantively enacted to implement the Pillar Two model rules. The Company is yet to apply the mandatory temporary exception as the Pillar Two legislation has not yet been enacted in the jurisdiction in which it operates. The Company is in the process of assessing the impact of this international tax reform on its consolidated financial statements.

4 Critical accounting estimates and judgments

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

Impairment of goodwill and brands

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. The determination of recoverable amount employs various estimates and requires judgment. The Company uses assumptions including revenue growth rates, terminal growth rates beyond the forecast period and discount rates when determining the recoverable amounts of CGUs. 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,

(in thousands of Canadian dollars, unless otherwise noted)

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 these consolidated financial statements (note 11).

Business combinations

For each business combination, the Company measures the identifiable assets acquired and the assumed liabilities at fair value at their acquisition date. 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

As at December 31, 2023, the Company's cash balance consists of no restricted amounts. As at December 31, 2022, cash consisted of $744 in restricted cash related to equity transactions under the Company's normal course issuer bid ("**NCIB**") that were awaiting settlement as at December 31, 2022.

6 Trade and other receivables

	2023 **$**	**2022** **$**
Trade and other receivables	25,435	14,628
Allowance for expected credit losses	(495)	(325)
	24,940	14,303

The Company's trade and other receivables consist of cash transactions awaiting settlement, rebates and balances due from third-party financing companies.

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

(in thousands of Canadian dollars, unless otherwise noted)

7 Inventories

The Company's inventories on hand as at December 31, 2023 is $94,885 (2022 – $98,691). The Company records a 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 damages and shrinkage in 2023 was $5,079 (2022 – $2,417), which was recognized in cost of sales. There were no reversals of previously recorded write-downs of inventories in 2023 (2022 – $2,325).

8 Other non-current assets

	2023 $	2022 $
Convertible note receivable	18,906	—
Warrant	2,050	—
Other	1,938	1,611
	22,894	1,611

On March 14, 2023, the Company issued a convertible note receivable and a warrant to the controlling shareholder of Casper Sleep Inc. (the "**Investee**").

The convertible note receivable has a maturity date of March 14, 2028, with interest at a fixed rate of 7.0% per annum, compounded quarterly in arrears. At any time prior to the maturity date, at the option of the Company, the principal and any accrued interest may be converted into common shares, representing approximately 4.8% of the shares of the Investee. After March 15, 2025, the Investee may prepay or redeem the convertible note at a price in cash equal to the initial principal amount plus accrued interest, and an additional premium of 0.5x the initial principal amount.

The warrant to purchase common shares of the Investee has an expiry date of March 14, 2026 and an exercise price of $0.01. At any time prior to the expiry date, the Company may exercise its right to purchase common shares.

Total consideration to the Investee on March 14, 2023 was $27,354, of which the fair values of the convertible note receivable and the warrant were determined to be $17,985 and $2,120 respectively.

Details on the valuation methodology of the convertible note receivable and warrant are disclosed in note 22.

(in thousands of Canadian dollars, unless otherwise noted)

9 Property and equipment

	Computer hardware $	Furniture, fixtures and equipment $	Leasehold improvements $	Total $
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
Disposals	(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
Cost				
At January 1, 2023	7,089	16,220	122,578	145,887
Additions	3,827	3,683	18,808	26,318
Acquisition through business combinations (note 21)	28	1,050	1,121	2,199
Disposals	(1,553)	(1,249)	(48)	(2,850)
At December 31, 2023	9,391	19,704	142,459	171,554
Accumulated depreciation				
At January 1, 2023	5,167	10,952	66,092	82,211
Depreciation	1,712	2,478	13,554	17,744
Disposals	(1,552)	(1,191)	(48)	(2,791)
At December 31, 2023	5,327	12,239	79,598	97,164
Net book value	4,064	7,465	62,861	74,390

(in thousands of Canadian dollars, unless otherwise noted)

10 Right-of-use assets and lease liabilities

Right-of-use assets

	Properties $	Trucks $	Total $
At January 1, 2022	271,594	1,503	273,097
Additions and modifications - net of lease inducements	30,747	607	31,354
Terminations and other adjustments	(1,486)	—	(1,486)
Depreciation	(38,920)	(896)	(39,816)
At December 31, 2022	261,935	1,214	263,149
At January 1, 2023	261,935	1,214	263,149
Additions and modifications - net of lease inducements	44,817	1,236	46,053
Acquisition through business combinations (note 21)	6,001	—	6,001
Terminations and other adjustments	(457)	—	(457)
Depreciation	(41,112)	(829)	(41,941)
At December 31, 2023	271,184	1,621	272,805

Lease liabilities – Current and non-current

	Total $
At January 1, 2022	322,248
Net additions and modifications	32,054
Interest expense on lease liabilities	12,090
Terminations and other adjustments	(1,803)
Gross lease payment	(50,807)
At December 31, 2022	313,782
At January 1, 2023	313,782
Net additions and modifications	46,646
Acquisition through business combinations (note 21)	6,001
Interest expense on lease liabilities	15,545
Terminations and other adjustments	(444)
Gross lease payment	(54,366)
At December 31, 2023	327,164

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

	2023 $	2022 $
Current	38,499	38,612
Non-current	288,665	275,170
	327,164	313,782

(in thousands of Canadian dollars, unless otherwise noted)

11 Goodwill and intangible assets

	Intangible assets					
	Brands – indefinite life $	**Brands – definite life $**	**Non – compete contracts $**	**Software $**	**Total $**	**Goodwill $**
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
Cost						
At January 1, 2023	101,540	38,101	1,997	54,766	196,404	316,785
Additions	—	—	—	30,990	30,990	—
Acquisition through business combinations (note 21)	—	31,672	2,211	289	34,172	19,412
Disposals	—	—	—	(3,067)	(3,067)	—
At December 31, 2023	101,540	69,773	4,208	82,978	258,499	336,197
Accumulated amortization						
At January 1, 2023	—	5,432	1,654	17,951	25,037	—
Amortization	—	3,203	413	6,314	9,930	—
Disposals	—	—	—	(3,067)	(3,067)	—
At December 31, 2023	—	8,635	2,067	21,198	31,900	—
Net book value	101,540	61,138	2,141	61,780	226,599	336,197

(in thousands of Canadian dollars, unless otherwise noted)

The Sleep Country and Dormez-vous brands of $101,540 (2022 – $101,540) are included in to the Sleep Country operating segment.

Goodwill of $336,197 (2022 – $316,785) has been allocated to the five CGUs (Sleep Country, Endy, Hush, Casper Canada and Silk & Snow) as follows:

	2023 **$**	**2022** **$**
Sleep Country	242,146	242,146
Endy	58,739	58,739
Hush	15,900	15,900
Casper Canada (note 21)	9,801	—
Silk & Snow (note 21)	9,611	—
	336,197	316,785

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 the fair value less costs of disposal and the value in use.

The Company performs annual goodwill impairment tests for the CGUs using the recoverable amounts based on the value in use (discounted cash flows) approach at the end of each fiscal year. Recoverable amounts were determined for the CGUs using the 2024 budget approved by the Board and the four-year forecast that made maximum use of observable markets for inputs and outputs. The assumptions used include revenue growth rates, terminal growth rates beyond the forecast period and discount rates.

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, 2023, any reasonable changes to the impairment model assumptions would not result in an impairment.

12 Trade and other payables

	2023 **$**	**2022** **$**
Trade payables	70,640	56,111
Accrued expenses	40,309	39,140
Income taxes payable	17	11,632
	110,966	106,883

(in thousands of Canadian dollars, unless otherwise noted)

13 Other liabilities

	2023 $	2022 $
Current		
Share repurchase commitment under automatic share purchase plan (note 15)	20,009	20,660
Redemption liabilities	2,962	1,865
	22,971	22,525
Non-current		
Redemption liabilities	2,702	8,201
Contingent consideration liability (note 21)	1,493	—
Decommissioning provisions	2,029	1,145
Other	309	27
	6,533	9,373

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 was calculated based on specified earnings levels achieved during the three-year period. The Company completed its acquisition of the first 16% increment in 2023 for a total consideration of $1,300.

As at December 31, 2023, the Company remeasured its redemption liabilities at $5,664 (2022 – $10,066) based on the expected outcome during the remaining two increments and the change was recorded in finance related expenses. The expected outcome (discounted) is determined based on an earnings formula and the expected earnings levels over the measurement period. Details on the measurement of the redemption liabilities are disclosed in note 22.

14 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, 2023. The senior secured credit facility is secured by the present and after-acquired personal property of the Company. As at December 31, 2023, the balance outstanding on the senior secured credit facility was $161,300 (2022 – $100,000). The long-term debt balance in the consolidated statement of financial position is net of transaction costs of $673 (2022 – $918).

The senior secured credit facility allows for the debt to be held in Canadian or U.S. dollars. As at December 31, 2023, the Company held its 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-**

(in thousands of Canadian dollars, unless otherwise noted)

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.

15 Share capital and other

The following table outlines the issued and outstanding shares:

	2023 $	2022 $
33,529,713 common shares (2022 – 34,837,943)	600,282	610,369
Share repurchase commitment under automatic share purchase plan	(20,009)	(20,660)
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	17,004	14,889
	321,118	328,439

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, 2023, there were no outstanding Class A common shares (2022 – nil).

On March 7, 2022, the Company received approval from the Toronto Stock Exchange ("**TSX**") to commence an NCIB. Pursuant to an amendment to the NCIB on November 29, 2022, the Company was 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 the public float as of February 28, 2022. Purchases under this NCIB concluded on March 8, 2023.

On March 9, 2023, the Company received approval from the TSX on a new NCIB. Pursuant to the NCIB, the Company is permitted to purchase through the facilities of the TSX, other designated exchanges and/or alternative trading systems, from time to time over a twelve-month period until the completion of the NCIB, if considered advisable, up to a maximum of 2,675,550 of the Company's common shares, representing approximately 10.0% of its public float of 26,755,502 as of February 28, 2023. Purchases will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2024. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 21,782 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)

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. 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, 2023, an estimated maximum obligation of $20,009 (2022 – $20,660) was outstanding under the ASPP in other current liabilities.

For the year ended December 31, 2023, the Company purchased 1,596,910 common shares (2022 – 2,339,409) for cancellation at an average price of $23.38 (2022 – $24.67) for total consideration of $37,335 (2022 – $57,717). The total cash consideration paid exceeded the carrying value of the shares repurchased by $22,139 (2022 – $35,601), of which $22,826 (2022 – $36,389) was recorded under retained earnings, and a realized gain of $687 (2022 – $788) was recorded under finance related expenses.

16 Expense by nature

	Cost of sales	
	2023	**2022**
	$	**$**
Inventory and directly related product costs	381,579	387,370
Salaries, wages and benefits	125,427	122,192
Occupancy costs – stores	28,977	26,949
Depreciation	46,622	45,430
Other	4,965	5,688
	587,570	587,629

The depreciation included in cost of sales relates to depreciation on property and equipment for stores and operations.

(in thousands of Canadian dollars, unless otherwise noted)

	General and administrative	
	2023 **$**	**2022** **$**
Media and advertising expenses	87,061	74,883
Salaries, wages and benefits	48,497	42,797
Credit card and finance charges	22,423	19,914
Occupancy costs – warehouses and other	10,854	9,614
Professional fees	10,772	10,030
Telecommunication and information technology	14,593	11,483
Mattress recycling costs and donations	3,727	2,873
Depreciation and amortization	22,993	20,204
Other	6,963	4,369
	227,883	196,167

The depreciation and amortization included in general and administrative expenses relates to intangibles and property and equipment associated to warehouses, office and other.

17 Finance related expenses (income)

	2023 **$**	**2022** **$**
Interest on lease obligations	15,545	12,090
Interest expense on long-term debt	9,236	3,623
Change in fair value on interest rate swap	1,882	(2,594)
Revolver commitment fees	375	630
Change in contingent consideration liability	222	—
Realized gain on share repurchases under ASPP	(687)	(788)
Change in redemption liabilities	(3,102)	(13,850)
	23,471	(889)

(in thousands of Canadian dollars, unless otherwise noted)

18 Income taxes

Components of income tax provision

Components of the income tax provision are as follows:

	2023 $	2022 $
Current income tax expense relating to:		
Temporary differences	30,278	34,381
Adjustments with respect to prior years	(2,379)	—
	27,899	34,381
Deferred income tax expense relating to:		
Temporary differences	(2,764)	965
Provision for income taxes	25,135	35,346

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:

	2023 $	2022 $
Net income before income taxes	96,670	146,042
Weighted average Canadian income tax rate	26.5%	26.5%
Income tax expense based on statutory income tax rate	25,618	38,701
Difference between rates applicable to Company and rates applicable to subsidiaries	(199)	(273)
Effect of non-deductible expenses and other items	(284)	(3,082)
	25,135	35,346
Effective income tax rate	26.0%	24.2%

(in thousands of Canadian dollars, unless otherwise noted)

Deferred tax liability

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

	2023 $	2022 $
Excess of carrying value of intangible assets over tax values	(30,699)	(29,508)
Benefit of share issuance costs and financing fees deductible in future years	(68)	(73)
Loss carry-forwards	6,322	3,309
Other temporary differences	5,571	4,536
	(18,874)	(21,736)

The Company has recognized a deferred tax asset of $6,390 (2022 – $3,498), 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, 2023, the Company has unused capital losses of $19,739 (2022 – $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. In March 2024, the Company received a response letter from the CRA which included responses to these Notices. The Company is currently reviewing the CRA's responses 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 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.

19 Earnings per share

Basic earnings per share ("**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:

	2023 $	2022 $
Dilutive	612,106	526,791
Anti-dilutive	498,527	511,999
Total	1,110,633	1,038,790

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

	Attributable to common shareholders of Sleep Country Canada Holdings Inc.		
			2023
	Net income attributable to Sleep Country Canada Holdings Inc. $	**Weighted average number of shares (in thousands of shares)**	**EPS $**
Basic	71,192	34,622	2.06
Diluted	71,192	34,922	2.04

	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

(in thousands of Canadian dollars, unless otherwise noted)

20 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:

	2023 **$**	**2022** **$**
1,110,633 stock options (2022 – 1,038,790) (a)	947	1,102
213,700 PSUs (2022 – 232,667) (b)	3,000	2,387
235,902 RSUs (2022 – 170,164) (c)	1,831	1,080
94,598 DSUs (2022 – 84,761) (d)	464	366
	6,242	4,935

The Company recorded $55 (2022 – $44) 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:

	2023		2022	
	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	25.46	1,038,790	24.23	1,157,713
Granted during the year	24.51	131,961	27.73	102,518
Exercised during the year	18.01	(24,006)	17.87	(156,675)
Forfeited during the year	24.08	(36,112)	25.39	(64,766)
Outstanding, at the end of the year	25.55	1,110,633	25.46	1,038,790
Options, exercisable at the end of the year	25.33	895,498	27.08	570,094

The weighted average share price, on the date the stock options were exercised, during the year was $23.89 (2022 – $28.04).

The Company's weighted average remaining contractual life and exercise price of its outstanding and exercisable stock options 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	178,400	5.3	16.14	178,400	5.3	16.14
$19.31 to $27.73	521,958	6.0	22.65	343,284	4.5	21.13
$30.70 to $38.83	410,275	4.6	33.33	373,814	4.4	33.57
	1,110,633	5.4	25.55	895,498	4.6	25.33

The weighted average fair value of stock options estimated at the grant date for the year is $8.55 (2022 – $9.32).

(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 stock options, the following assumptions were used:

	Grant Dates
	March 14, 2023 and September 5, 2023
Risk-free interest rate	3.4% - 3.7%
Expected volatility	35.1% - 43.4%
Estimated dividend yield	3.0% - 3.9%
Expected life of the options (in years)	6.5

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.

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:

	2023	**2022**
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the year	232,667	255,385
Granted during the year	199,194	108,345
Settled during the year	(197,591)	(106,690)
Forfeited during the year	(20,570)	(24,373)
Outstanding, at the end of the year	213,700	232,667

The weighted average fair value of the grant price for the year was $20.73 (2022 – $25.44).

(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:

	2023	**2022**
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the year	170,164	93,596
Granted during the year	133,077	88,051
Settled during the year	(54,721)	—
Forfeited during the year	(12,618)	(11,483)
Outstanding, at the end of the year	235,902	170,164

The weighted average fair value of the grant price for the year was $24.59 (2022 – $25.77).

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:

	2023	**2022**
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the year	84,761	67,857
Granted during the year	23,710	16,904
Settled during the year	(12,362)	—
Forfeited during the year	(1,511)	—
Outstanding, at the end of the year	94,598	84,761

The weighted average fair value of the grant price for the year was $25.02 (2022 – $25.73).

(in thousands of Canadian dollars, unless otherwise noted)

21 Business combinations

Silk & Snow

On January 4, 2023, the Company completed an asset purchase agreement for substantially all of the net assets of Silk & Snow Inc., a direct-to-consumer sleep retailer.

This acquisition has been accounted for using the acquisition method.

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

	$
Purchase consideration	
Cash consideration	24,089
Working capital adjustment	571
Contingent consideration	1,271
Total purchase consideration	25,931
Allocation of purchase consideration to net assets acquired	
Trade and other receivables	624
Inventories	6,811
Prepaid expenses and deposits	532
Property and equipment	377
Right-of-use assets	255
Intangible assets	12,137
Deferred tax assets	100
Trade and other payables	(3,180)
Deferred revenues	(1,081)
Lease liabilities	(255)
Total net assets acquired	16,320
Goodwill	9,611
Total net assets acquired and goodwill	25,931

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

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

Pursuant to the purchase agreement, the seller is entitled to receive a contingent consideration payment if the acquired business achieves specified earnings level during the period commencing on January 1, 2023 and ending on December 31, 2025. At the date of acquisition, the Company recorded a contingent consideration liability of $1,271 based on expected outcome (discounted) at the end of the contingency period.

(in thousands of Canadian dollars, unless otherwise noted)

The results of operations since January 1, 2023, the date of acquisition, have been included in these consolidated financial statements.

Casper Canada

On April 14, 2023, the Company completed an asset purchase agreement for substantially all of the net assets of Casper Sleep Inc.'s Canadian operations.

This acquisition has been accounted for using the acquisition method.

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

	$
Purchase consideration	
Cash consideration	34,775
Total purchase consideration	34,775
Allocation of purchase consideration to net assets acquired	
Inventory	1,695
Property and equipment	1,822
Right-of-use assets	5,746
Intangible assets	22,035
Trade and other payables	(578)
Lease liabilities	(5,746)
Total net assets acquired	24,974
Goodwill	9,801
Total net assets acquired and goodwill	34,775

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

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

(in thousands of Canadian dollars, unless otherwise noted)

22 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.

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 U.S. dollar merchandise purchases sold in Canada.

- Cash flow and fair value interest risk

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 variable and fixed rate debt by utilizing interest rate swaps to achieve the desired proportion of variable and fixed rate debt. As at December 31, 2023, an increase or decrease in interest rates by 1% would result in an increase or a decrease of $1,013 (2022 – $400) on interest expense on the credit facilities.

Credit risk

Credit risk refers to the risk of losses due to failure of the Company's customers or other counterparties to meet their payment obligations. Credit risk arises from deposits with banks, as well as credit exposures from vendors for the payment of rebate amounts and balances owed from third party financing companies under the various financing plans the Company offers its customers. In order to manage its credit risk, the Company closely monitors its financial assets and holds its deposits at highly-rated financial institutions. 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

(in thousands of Canadian dollars, unless otherwise noted)

repayment plan with the group, and a failure to make contractual payments for a period of greater than 90 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, 2023, the Company's cash balance was $37,371 with an additional $98,700 (not including the $100,000 accordion) of liquidity available under the Company's credit facility.

The table below analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period from the consolidated statements of financial position dates to the contractual maturity date. The amounts in the table reflect the contractual undiscounted cash flows (including interest where applicable) which may differ to the carrying values of the liabilities at the reporting date.

	Within 1 year $	**Between 1 and 5 years $**	**Over 5 years $**
At December 31, 2023			
Trade and other payables	110,966	—	—
Lease liabilities	56,281	198,692	233,834
Long-term debt	12,506	183,913	—
Other liabilities	23,136	5,492	—
	202,889	388,097	233,834
At December 31, 2022			
Trade and other payables	106,883	—	—
Lease liabilities	51,187	173,621	157,889
Long-term debt	6,936	119,476	—
Other liabilities	22,705	12,723	—
	187,711	305,820	157,889

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

(in thousands of Canadian dollars, unless otherwise noted)

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, deferred revenues 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 long-term debt under 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, 2023 and December 31, 2022.

- 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, 2023 and December 31, 2022. The interest rate swap is included in trade and other receivables in the consolidated statements of financial position.

- The convertible note receivable is recognized at fair value. The inputs to the measurement of fair value are level 3 inputs. The Company valued the convertible note receivable using the Black-Scholes pricing model and the Crank-Nicolson finite difference method; significant model inputs include share price, risk-free interest rate and expected volatility. An increase or decrease in the model inputs would result in an increase or decrease in the fair value the convertible note receivable. Changes in the value of the convertible note receivable for the year ended December 31, 2023 consisted of interest income of $1,546 and unrealized foreign exchange losses of $625 recognized within other income in the consolidated statement of income and other comprehensive income.

- The warrant is recognized at fair value. The inputs to the measurement of fair value are level 3 inputs. The Company valued the warrant using the Binomial option pricing model; significant model inputs include share price, risk-free interest rate and expected volatility. An increase or decrease in the model inputs would result in an increase or decrease in the fair value the warrant. Changes in the value of the warrant for the year ended December 31, 2023 consisted of unrealized foreign exchange losses of $70 recognized within other income in the consolidated statement of income and other comprehensive income.

- 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 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.

(in thousands of Canadian dollars, unless otherwise noted)

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

Redemption liabilities – Current and non-current	**Total $**
At January 1, 2022	23,916
Changed in estimated outcome	(20,458)
Accretion	6,608
At December 31, 2022	10,066
At January 1, 2023	10,066
Change in estimated outcome	(5,387)
Purchase of non-controlling interests	(1,300)
Accretion	2,285
At December 31, 2023	5,664

- The contingent consideration liability related to the acquisition of Silk & Snow was initially recognized at fair value on acquisition date and subsequently measured at amortized cost. The inputs to the measurement of fair value are level 3 inputs. The amount of payment is determined based on a formula, the key inputs to which are (i) a contractually agreed maximum payment of up to $19,500, (ii) a contractually specified earnings level and (iii) the actual pre-tax earnings for the contingency period. The inputs to the measurement of the fair value of the contingent liability are Level 3 inputs. The fair value measurement was made using a discounted cash flow model; significant model inputs were expected future pre-tax earnings over the contingency period (determined with reference to the specific acquired business) and a pre-tax discount rate of 17.5%. 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. Changes in the value of the contingent consideration liability for the year ended December 31, 2023 consisted of accretion expense of $222 recognized within finance related expenses in the consolidated statement of income and other comprehensive income.

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 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.

23 Contingent liabilities and unrecognized contractual commitments

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisers and consultants, leasing contracts, licence agreements, information technology agreements, and various product and service agreements. These indemnification arrangements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In

(in thousands of Canadian dollars, unless otherwise noted)

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 cannot be reasonably estimated, but could have a material adverse effect on the Company.

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

	2023 $	2022 $
Salaries and short-term benefits	2,368	4,219
Share-based compensation	3,129	2,746
Directors' fees	532	549
	6,029	7,514

25 Subsequent events

On February 5, 2024, the Company declared a dividend of $0.237 per common share that was paid on February 29, 2024 to holders of the common shares of record as at the close of business on February 21, 2024.