Sleep Well. Stay Well.™

Annual Report 2023

Sleep Country Canada Holdings Inc.

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

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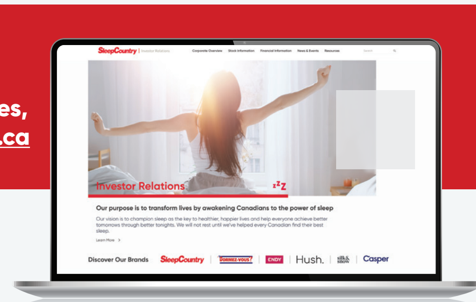
For Sleep Country's most recent reports, disclosures, and stock information, please visit ir.sleepcountry.ca



About Sleep Country

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

Our Sleep Ecosystem

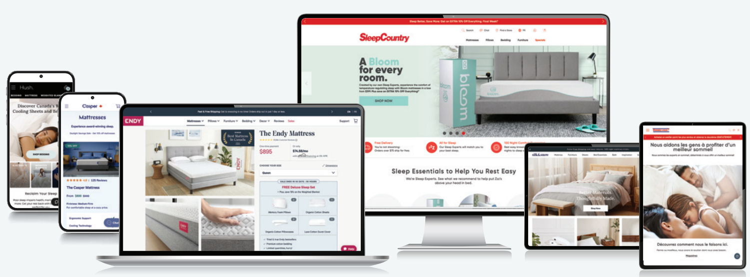
Our leading omnichannel ecosystem allows our customers to seamlessly purchase our innovative sleep products across our physical and digital touchpoints.

Our Brands

SleepCountry | Dormez-vous? | ENDY | Hush. | silk & snow | the rest | Casper[1]

Growing network of 301 stores

6 leading eCommerce platforms



Extensive product assortment from the world's leading sleep brands

15+ mattress brands
50+ sleep accessory brands

Elevated sleep expertise

1,100+
Sleep Experts

Exceptional logistics and strong supply chain

19 warehouses

Partnerships with leading Canadian retailers

6 leading retail brands, including:
- Walmart
- Best Buy

[1] The Company operates the Casper brand in Canada exclusively.

A Message from our Chair

Christine Magee, Chair, Sleep Country

"As we head into our 30th year, the Board remains deeply committed and confident in Sleep Country's ability to achieve our strategic plan. We are confident in our ability to deliver long-term, profitable growth and exceptional value for our shareholders."

Dear fellow shareholders;

As we celebrate Sleep Country's upcoming momentous 30th anniversary, it is hard to believe that three decades ago, we embarked on this journey to transform Canadians' sleep habits and provide an exceptional customer experience. It is the unwavering support and dedication of our incredible team, our shareholders and the millions of Canadians who have chosen Sleep Country that has fueled our success.

Reflecting on 2023

Fiscal 2023 presented its fair share of obstacles, from global events to economic headwinds. Yet, our team rose to the occasion, demonstrating the same spirit of innovation, ingenuity, and resilience that has been a hallmark of Sleep Country. We are very pleased with Sleep Country's 2023 performance. This would not have been possible without our focus on operational excellence, exceptional customer experiences, and sourcing the best, most innovative products available. A heartfelt thank you to our leadership team and dedicated associates across all our banners – Sleep Country/Dormez-vous, Endy, Hush, and our 2023 acquisitions, Silk & Snow and Casper (Canada).

Additionally, we successfully launched three new brick-and-mortar concepts for Canadians to enjoy (Endy, Silk & Snow and the rest), further invested in our infrastructure, and continued to refine and transform our direct-to-consumer approach by bringing these brands to life in a physical environment with the goal of providing Canadians with unparalleled sleep solutions. As our industry evolves, Sleep Country remains at the forefront, solidifying our position as Canada's most trusted specialty sleep retailer.

Investing in our People

Our success is directly tied to the dedication and expertise of our associates. In 2023, we continued to invest in their growth through comprehensive training programs and a commitment to fostering a positive and inclusive work environment. We strongly believe that our commitment to our associates translates into an elevated experience for our customers.

Our Board

As we head into our 30th year, the Board remains deeply committed and confident in Sleep Country's ability to achieve our strategic plan. We are confident in our ability to deliver long-term, profitable growth and exceptional value for our shareholders. Our commitment to innovation, exceptional customer service, and employee well-being will continue to be the cornerstones of our success.

I would like to personally thank my fellow Board members for their continued support, strategic guidance and passionate commitment to our business. Your leadership and passion are invaluable to our journey.

Thank you to our valued shareholders for your continued trust and support. We are incredibly excited about the opportunities ahead and remain dedicated to transforming lives by awakening Canadians to the power of sleep for many years to come..

Sleep well, and stay well.

Christine Magee

A Message from our President and CEO

Stewart Schaefer, President and CEO, Sleep Country

My fellow shareholders;

As we embark on the year ahead, marking Sleep Country's 30th anniversary, it is exciting to see how this legacy business continues to be reimagined, driving growth as we lead our industry through innovation in this ever-changing retail environment. Our passion and steadfast focus on continuing to build the best customer experience has only grown with time.

2023 marked a pivotal year in our strategic initiatives. We grew our channels of distributions for all our brands, engaged our customers more frequently through a broader assortment of sleep solutions, drove operational efficiencies and continued to invest in building strong awareness in the distinct personalities of each of our brands.

What we have accomplished in 2023 builds on our multi-year transformation plan that continues to position us as the leader in helping Canadians get their best night's sleep. I am proud to share our 2023 accomplishments and highlight the strategies that propelled us forward in this noteworthy year.

Navigating Challenges, Delivering Results

In an ever-changing environment impacted by geo-political issues, high interest rates and inflation, we continued to see consumer spending impacted especially on larger discretionary purchases. In the face of this volatility, I am especially proud of my team and how they continued to navigate our business delivering a solid finish to 2023 with revenue growth of 0.7% contributing to a CAGR of 7.0% over the last four years. Our efforts towards efficient sourcing contributed to an increase in our gross profit margin by 50 basis points year over year.

Maintaining our position as Canada's leading omnichannel sleep retailer, we continued to expand our brand portfolio through the acquisitions of Silk & Snow, one of Canada's fastest growing direct-to-consumer sleep retailers, followed by Casper (Canada) in early 2023. These key acquisitions perfectly align with the Company's strategic journey to expand and offer Canadians the very best sleep solutions.

Unlocking Synergies and Embracing Innovation

Our very talented team has been working to unlock synergies across all our banners while preserving the unique identities of each of our brands which translates into tremendous value for both our customers and shareholders.

In 2023, one of our key strategic initiatives focused on starting to bring our direct-to-consumer brands - Endy, Hush, Silk & Snow and Casper (Canada) - into Sleep Country's well-established warehouse and distribution network. This initiative creates cost savings while leveraging our fixed costs allowing us to directly manage our inventory and have more control over the order fulfillment process to better serve our customers. Also, by leveraging Sleep Country's distribution network, our online brands can provide customers, in certain geographies, with an elevated delivery experience through Sleep Country's Green Glove Delivery where customers can choose to have their mattress, base and/or boxspring assembled for them in the room of their choice and their old mattress and excess packaging removed and responsibly disposed or recycled.

Looking ahead, we envision Sleep Country as the ultimate sleep ecosystem offering a comprehensive suite of solutions that cater to every sleeper's needs. By fostering collaboration and knowledge-sharing between our diverse brands, we can push the boundaries of sleep technology and innovation. We are excited to continue exceeding customer expectations as we transform lives by awakening Canadians to the power of sleep.

Elevating the Customer Journey: Online, In-Store and Beyond

We continue to see the in-store experience play a critical role in our customers' journey. Many customers start by browsing products on our ecommerce platforms but then come into one of our brick-and-mortar locations to test out the products before completing their sleep purchases.

A Message from our President and CEO con't

Just before the 2023 holiday season, we successfully opened three new brick-and-mortar concepts. We brought two of our beloved digital brands, Endy and Silk & Snow, into the tactile environment. Customers were excited to come in and experience these two highly recognized online brands in person. We were also very excited to introduce our first luxury sleep retail brand, *the rest*, showcasing premium high-end sleep solutions at Toronto's prestigious Yorkdale Shopping Centre.

The early results from these new stores are quite positive. Our customers appreciate the opportunity to experience the quality and comfort of our products firsthand further validating our plan to invest in an elevated in-store experience across our entire retail network. Planned renovations and new store openings in 2024 will feature innovative store formats that cater to modern consumer expectations.

> **"2023 marked a pivotal year in our strategic initiatives. We grew our channels of distributions for all our brands, engaged our customers more frequently through a broader assortment of sleep solutions, drove operational efficiencies and continued to invest in building strong awareness in the distinct personalities of each of our brands."**

Building on a Legacy of Sleep Solutions for Years to Come:

As we look forward to fiscal 2024, our focus remains on three key priorities:

- **Growth through Innovation:** We'll continue to invest in research and development ensuring our product offerings are at the forefront of cutting-edge sleep technology and cater to the health and wellbeing of our customer needs. We'll explore new materials, designs and functionalities to create even more innovative and supportive sleep solutions. Additionally, we'll remain focused on identifying and acquiring brands that complement our existing portfolio and strengthen our market position.
- **Exceptional Customer Experience**: We'll further personalize and enhance the way customers interact with us. This includes ongoing investments in employee training to ensure our associates have the knowledge and expertise to provide exceptional customer service both online and in-store. We'll also continue to leverage technology to personalize the customer journey offering targeted recommendations and promotions based on individual needs and preferences. Furthermore, we'll explore ways to create a more seamless online shopping experience and simplify the in-store checkout process.
- **Operational Excellence:** We will continue to streamline operations to maximize efficiencies. This includes exploring opportunities for automation and process optimization while maintaining the high-quality standards that our customers expect. We'll also continue to invest in our supply chain management practices to source responsibly produced inventory, reduce product costs, achieve timely product delivery and minimize supply disruptions.

By staying true to these priorities, I am confident we will continue to create value for all stakeholders. Our commitment to innovation, exceptional customer service, and operational excellence solidifies our position as Canada's leading and most trusted sleep retailer.

A Heartfelt Thank You

In closing, I want to express my deepest gratitude to our incredible teams across all our brands. Their dedication, drive and talent are the bedrock of Sleep Country's success. Words cannot express our appreciation for all that you do. Similarly, the wisdom and guidance of our Board have been invaluable to my team and me. Together, we stand as Canada's most trusted sleep retailer and we're thrilled about the future, eager to help even more Canadians unlock the transformative power of their best night's sleep.

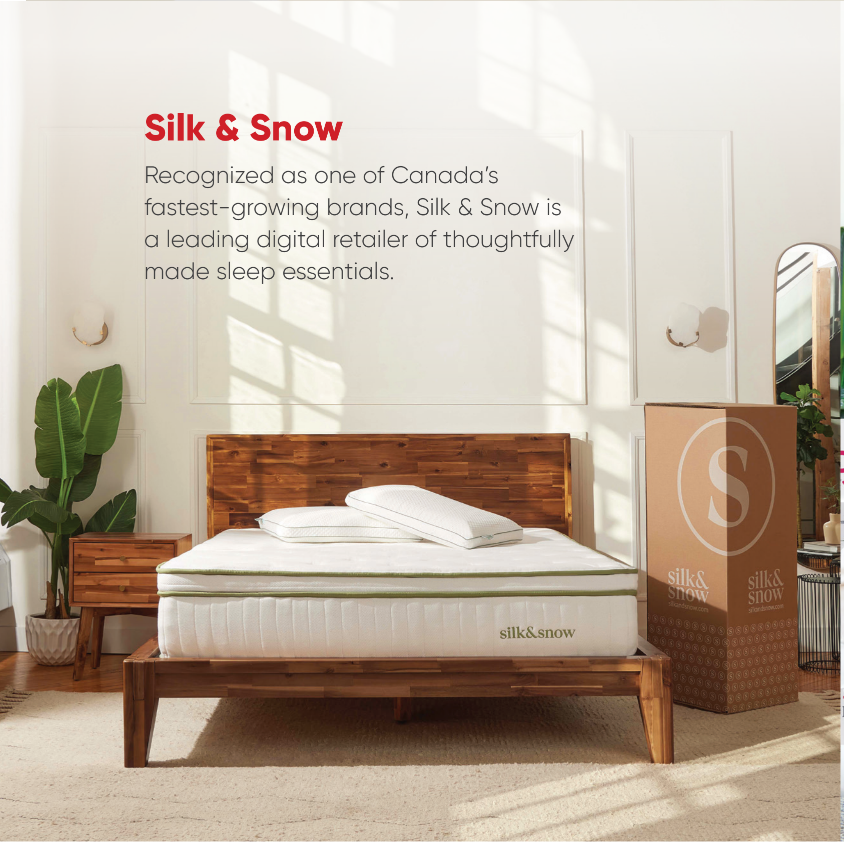
Sleep well. Stay well.

Stewart

Our Brand Portfolio At-A-Glance

Sleep Country

Canada's sleep destination, Sleep Country, has been committed to awakening Canadians to the *power of sleep* for nearly thirty years through unparalleled expertise and world-class customer experience.



Silk & Snow

Recognized as one of Canada's fastest-growing brands, Silk & Snow is a leading digital retailer of thoughtfully made sleep essentials.

Endy

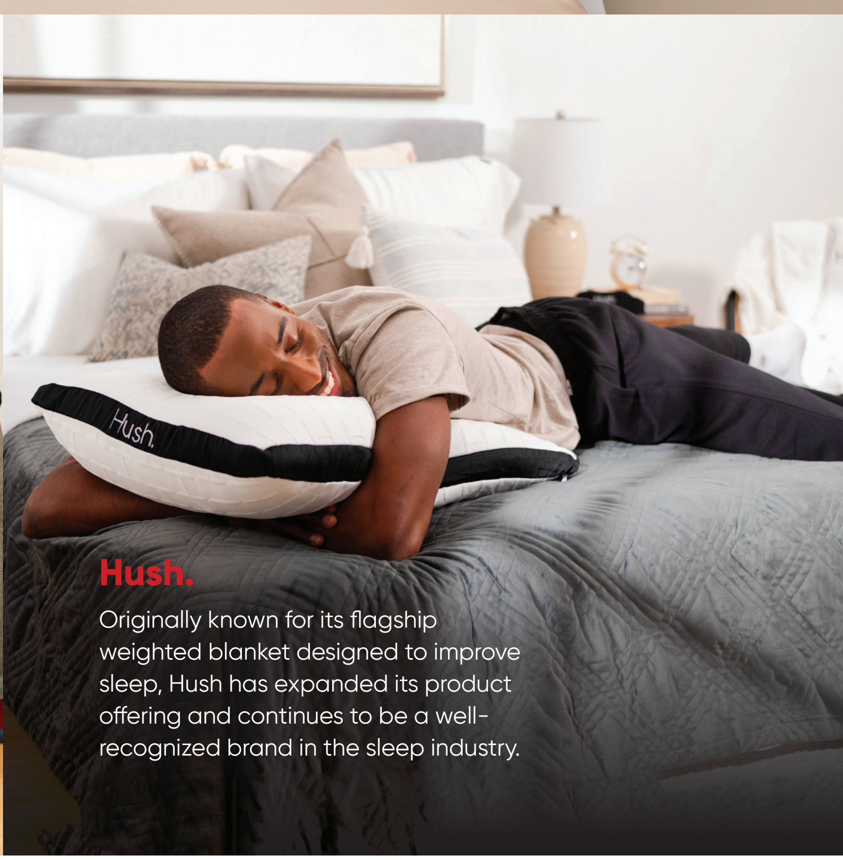
As Canada's first bed-in-box, Endy skyrocketed from disruptor to one of the country's leading sleep brands, expanding its assortment to a complete sleep system.

Dormez-vous

Founded in Montreal nearly thirty years ago, Dormez-vous has become Quebec's sleep expert, through an unmatched product assortment and world-class customer experience.

Casper

As one of the original disruptors in the mattress space, Casper is one of the most recognized sleep brands in the world.



Hush.

Originally known for its flagship weighted blanket designed to improve sleep, Hush has expanded its product offering and continues to be a well-recognized brand in the sleep industry.

Growth Strategy

Building on its nearly 30-year foundation of success and unwavering commitment to sleep, the Company drives long-term sustainable growth for its stakeholders through its four strategic pillars: Sleep Well, People Well, Earth Well and Govern Well.

1. Sleep Well

The Company is focused on providing world-class customer experience, channel and product innovation and helping customers improve their well-being through the power of sleep.

2. People Well

The Company is committed to fairness and equity for its employees, partners, customers and communities. Its focus includes talent attraction and retention, diversity, inclusion and belonging ("EDI&B"), providing safe and respectful workplaces, and giving back to the communities where the Company lives and works.

3. Earth Well

The Company aims to achieve net-zero by 2040. It is focused on positively impacting the environment and reducing its carbon footprint by decarbonizing its operations, sourcing responsibly-made products and applying conscientious waste management.

4. Govern Well

The Company is focused on strong governance, compliance, ethics and integrity to build and maintain stakeholders' trust.

2023 Highlights

Casper

Acquired Casper in Canada, one of the most recognized sleep brands in the world

Opened our first store-within-a-store - Sleep Country and Silk & Snow in Ottawa

1 million

Customers served through our physical and digital touchpoints

silk&snow

Acquired Silk & Snow, one of Canada's fastest growing sleep brands

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

the rest

Launched Canada's first ultra-premium sleep retail store at Yorkdale Shopping Centre

147,000+

Mattresses and foundations recycled or upcycled

12

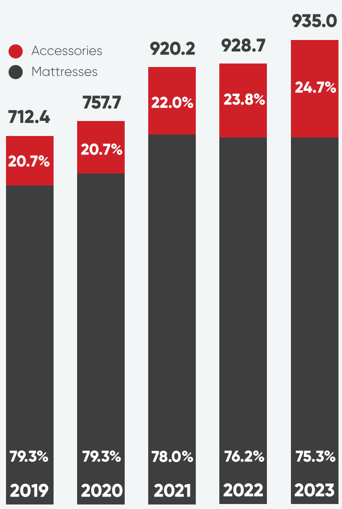
Net new stores added to nationwide store network

OPEN

Opened Endy's first-ever brick-and-mortar store at Sherway Gardens Mall, bringing this digital brand into a tactile environment

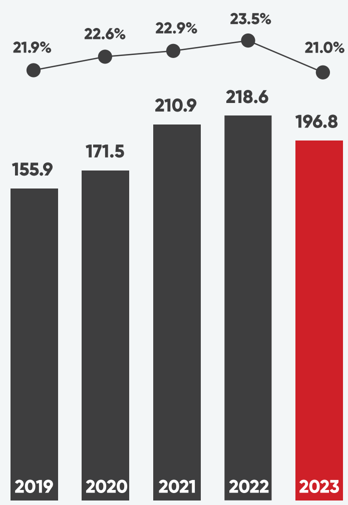
Financial Performance

Revenues
(C$ Millions)



Operating EBITDA[1]
(C$ Millions)

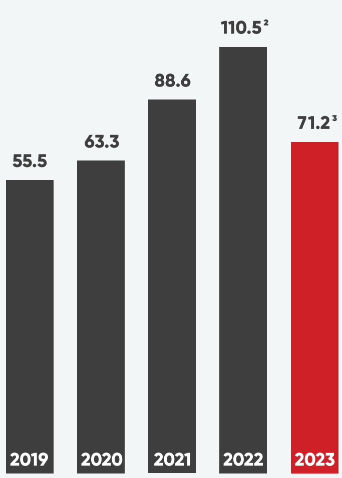
Operating EBITDA Margin[1]
(% Percent)



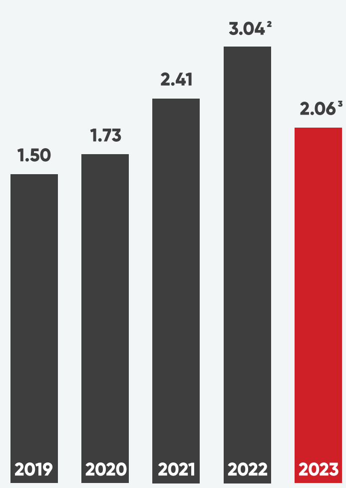
"I am very proud to report another record year in Revenues, contributing to a CAGR of 7.0% over the last four years."

– Stewart Schaefer,
President and CEO,
Sleep Country

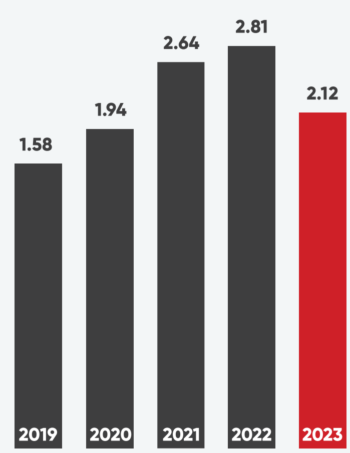
Net Income Attributable to the Company
(C$ Millions)



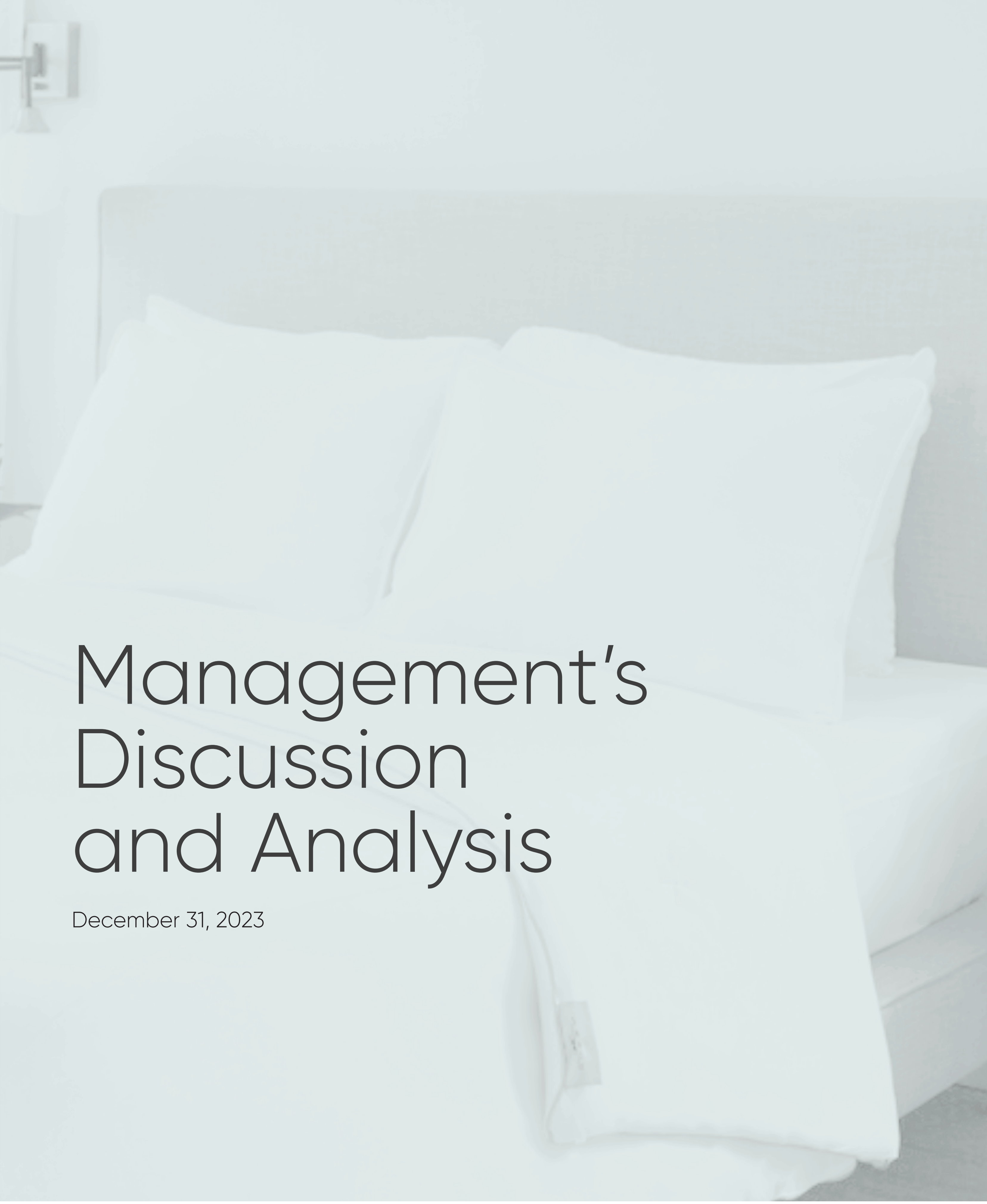
Basic EPS
(C$ Per Share)



Diluted Adjusted EPS[1]
(C$ Per Share)



[1] For more information on these non-IFRS and other measures, refer to "Non-IFRS and Other Measures" in the Management's Discussion and Analysis section of the report.
[2] Net Income Attributable to the Company and Basic EPS were positively impacted by $20.5 million or $0.57 per share, due to a true-down of the redemption liabilities related to the Hush acquisition, to reflect the estimated shift in achievement of the initial EBITDA targets to beyond the redemption period.
[3] Net Income Attributable to the Company and Basic EPS were positively impacted by $4.7 million or $0.13 per share, due to a true-down of the redemption liabilities related to the Hush acquisition, to reflect the estimated shift in achievement of the initial EBITDA targets to beyond the redemption period.



Management's Discussion and Analysis

December 31, 2023

1. Preface

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of March 6, 2024 and it is intended to assist readers in understanding the financial performance and financial condition of Sleep Country Canada Holdings Inc. (the "**Company**") for the fourth quarter and year ended December 31, 2023 and it should be read in conjunction with the audited consolidated financial statements of the Company and the accompanying notes for the years ended December 31, 2023 and December 31, 2022 and the related MD&A.

Basis of Preparation

All references in this MD&A to "**Q4 2023**" are to the Company's quarter ended December 31, 2023, "**Q4 2022**" are to the Company's quarter ended December 31, 2022 and "**Q4 2021**" are to the Company's quarter ended December 31, 2021. All references in the MD&A to "**2023**" are to the Company's year ended December 31, 2023, "**2022**" are to the Company's year ended December 31, 2022, and "**2021**" are to the Company's year ended December 31, 2021.

The Company's audited consolidated financial statements for the years ended December 31, 2023 and December 31, 2022 and the accompanying notes have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS® Accounting Standards**"), using the accounting policies described therein.

All amounts are presented in thousands of Canadian dollars, except number of stores, number of shares and per share amounts or unless otherwise indicated.

The audited consolidated financial statements of the Company and the accompanying notes for year ended December 31, 2023 and this MD&A were reviewed by the Company's Audit Committee. They were approved by the Company's Board of Directors (the "**Board**") on March 6, 2024.

Forward-looking Information

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

Forward-looking information and forward-looking statements are based on information available to management at the time they are made, underlying estimates, opinions and assumptions made by management and management's current good faith belief with respect to future strategies, prospects, events, performance and results, and are subject to inherent risks and uncertainties surrounding future expectations generally. Such risks and uncertainties include, but are not limited to, those described below under the sections "Risk Factors" and those described in the Company's 2023 annual information form (the "**AIF**") filed on March 6, 2024. A copy of the AIF can be accessed under the Company's profile on SEDAR+ at www.sedarplus.ca. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be less significant may also adversely affect the Company.

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

2. Overview

The Company is Canada's leading specialty sleep retailer driven by its purpose to transform lives by awakening Canadians to the power of sleep. Its vision is to champion sleep as the key to healthier, happier lives and help everyone achieve better tomorrows through better tonights.

The Company has an industry-leading sleep ecosystem which it continuously enhances through actively assessing opportunities to support its business model across infrastructure, channel, partnership and experience to best serve Canadians' sleep needs.

Building on its 29-year foundation of success, the Company drives long-term sustainable growth for its stakeholders through its four strategic pillars; Sleep Well, People Well, Earth Well and Govern Well.

1. Sleep Well
    - The Company is focused on providing world-class customer experience, channel and product innovation and helping customers improve their well-being through the power of sleep.
2. People Well
    - The Company is committed to fairness and equity for its employees, partners, customers and communities. Its focus includes talent attraction and retention, diversity, inclusion and belonging ("**EDI&B**"), providing safe and respectful workplaces, and giving back to the communities where the Company lives and works.
3. Earth Well
    - The Company aims to achieve net-zero by 2040. It is focused on positively impacting the environment and reducing its carbon footprint by decarbonizing its operations, sourcing responsibly-made products and applying conscientious waste management.
4. Govern Well
    - The Company is focused on strong governance, compliance, ethics and integrity to build and maintain stakeholders' trust.

The Company believes the combination of its purpose, strategy and operations differentiates itself from its competitors. With its foundation, differentiated service model, unmatched sleep ecosystem, superior brand trust and commitment to customer experience, the Company has positioned itself as a leader in sleep.

The Company operates under three omnichannel retail banners: Sleep Country™, Dormez-vous™, and Casper™ ("**Casper Canada**") and three direct-to-consumer retail banners: Endy™, Hush™ and Silk & Snow™. These banners are collectively referred to as the "**Banners**".

The Sleep Country banner launched in Vancouver, British Columbia in 1994 and thereafter it has expanded across Canada (except in Quebec). Similarly, the Dormez-vous banner launched in Montreal, Quebec in 1994 and subsequently expanded within the province of Quebec. The Sleep Country and Dormez-vous banners offer their customers Canada’s largest domestic and imported mattress selection and complementary sleep related products. The Company provides its customers with elevated sleep expertise via its “Sleep Experts”, who are dedicated to matching all customers to their best night’s sleep, at all its customer touch points. The Sleep Country and Dormez-vous brands are highly recognized in the Canadian retail landscape.

In Q4 2021, the Company introduced its Sleep Country/Dormez-vous Express Stores in Walmart Canada locations. Each Express Store has an average footprint between 500 and 800 square feet and offers cash-and-carry products as well as traditional mattresses which are delivered with the Company's green-glove delivery service. A curated assortment of products, from the Company's leading mattress-in-a-box selection, to sheets, pillows and headboards, as well as a selection of traditional mattresses for customers to experience, are available at each Express Store location. These stores are staffed by the Company's highly trained Sleep Experts, who bring their renowned sleep expertise to Walmart Canada customers. As at December 31, 2023, the Company had 19 pilot Express Stores (December 31, 2022 – 17 stores) nationwide.

Endy introduced its first mattress-in-a-box offering in 2015 on its eCommerce platform. Through its online sales and digital capabilities, Endy has become one of Canada’s most recognized online sleep brands, offering customers an expanding product assortment to meet their sleep needs. In Q4 2023, Endy opened its first brick-and-mortar store providing existing and new customers with an new access point for customers to purchase Endy's sleep products.

Founded in 2018, Hush introduced its weighted blankets to consumers which were received with success. Thereafter, Hush has expanded its product offerings to include mattresses and a variety of sleep accessories which are sold through its eCommerce platforms and across numerous retail partners across North America.

In January 2023, the Company acquired Silk & Snow, a direct-to-consumer sleep retailer of thoughtfully made high-quality sleep and lifestyle products. Founded in 2017, Silk & Snow quickly became recognized as one of Canada’s top growing companies. In Q4 2023, the Company launched its first-ever store-within-a-store with two of its brands, Sleep Country and Silk & Snow, thereby bringing Silk & Snow into the tactile environment and providing customers with an expanded offering of elevated sleep essentials.

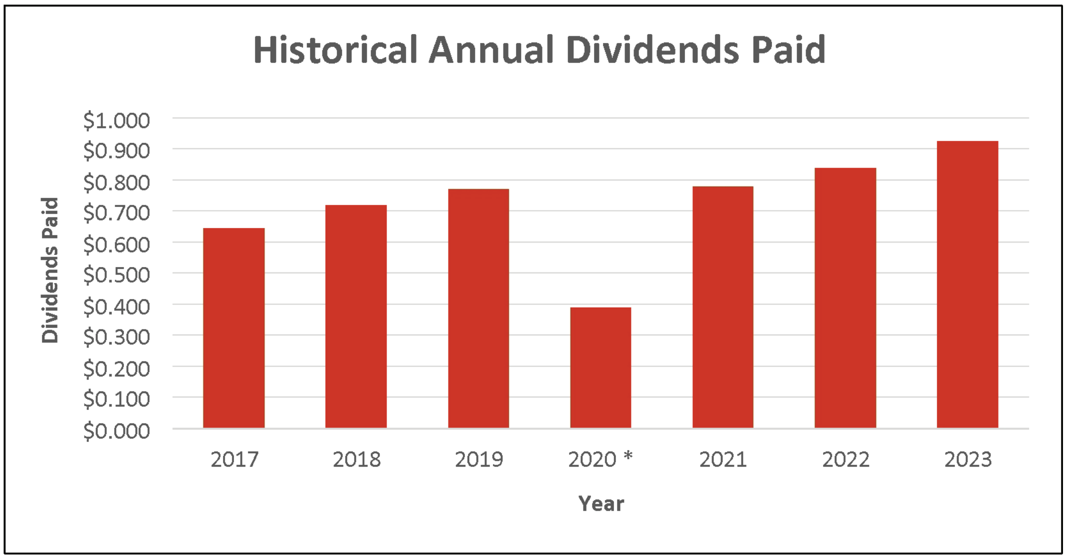
In April 2023, the Company acquired the Canadian operations of Casper Sleep Inc., including six retail stores. The Casper brand is one of the most recognized sleep brands in the world. Its product offering includes a wide range of sleep products including mattresses, bed frames, pillows, bedding and other sleep accessories.

In November 2023, the Company launched its first ultra-premium retail concept store, the rest™. The rest is built on the Company's foundation and sleep expertise, offering customers a selection of the world's most luxurious mattresses and a finely curated selection of ultra-premium quality accessories. The retail boutique brings customers a bespoke shopping experience providing them with the utmost personal care and guidance to find their absolute best rest.

3. Dividends and Share Repurchases

<u>Dividends</u>

The Board has periodically declared dividends on the Company's common shares. The chart below illustrates the annual dividends paid from 2017 to 2023.



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

In the last twelve quarters, the Company declared and paid the following dividends:

Date of declaration	Record date	Payment date	Dividend declared (per common share)
February 9, 2021	February 18, 2021	February 26, 2021	$ 0.195
May 10, 2021	May 21, 2021	May 31, 2021	$ 0.195
August 3, 2021	August 20, 2021	August 30, 2021	$ 0.195
November 11, 2021	November 19, 2021	November 29, 2021	$ 0.195
February 8, 2022	February 18, 2022	February 28, 2022	$ 0.195
May 4, 2022	May 20, 2022	May 30, 2022	$ 0.215
July 28, 2022	August 19, 2022	August 29, 2022	$ 0.215
November 4, 2022	November 21, 2022	November 30 2022	$ 0.215
February 9, 2023	February 17, 2023	February 28, 2023	$ 0.215
May 8, 2023	May 24, 2023	May 31, 2023	$ 0.237
August 10, 2023	August 25, 2023	August 31, 2023	$ 0.237
November 9, 2023	November 24, 2023	November 30, 2023	$ 0.237

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

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

Share Repurchases

On March 7, 2022, the Company received approval from the Toronto Stock Exchange ("**TSX**") to commence a normal course issuer bid ("**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.

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.

In 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 $37.3 million (2022 – $57.7 million).

The Company plans on filing a notice of intention with the TSX to commence a new NCIB when the current NCIB expires on March 8, 2024. If this notice is accepted by the TSX, the Company expects to be permitted to purchase through the facilities of the TSX or alternative trading systems, from time to time over the 12 months following such acceptance, if considered advisable, up to a maximum amount of the Company's common shares, that represents 10% of the public float as at February 29, 2024.

4. Factors Affecting the Results of Operations

Revenues

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

Revenue is recognized when the performance obligation is deemed to be fulfilled and the control of the products has transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Provisions for returns relating to the Company's various customer satisfaction programs are accrued based on historical experience.

Building on the Company's strong brands and market position, the Company seeks opportunities to grow its same store sales (or "**SSS**"- see section "Non-IFRS and Other Measures"), which includes revenues from both its existing retail stores and digital channels. The Company's revenue growth initiatives include:

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

SSS is primarily driven by:

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

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

Product Expansion Opportunities

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

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

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

- Simba, a U.K. leading mattress-in-a-box and sleep accessories retailer; and
- Malouf, a U.S. industry leader in innovative bedding and furniture products.

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

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

Online Expansion Opportunities

The Company has multiple eCommerce platforms; sleepcountry.ca, dormezvous.com, endy.com, hush.ca, hushblankets.com, silkandsnow.com and casper.ca.

The Company's eCommerce platforms provide customers access to the full assortment of products, both in-store and online, across Canada. The Company's banners - Hush and Silk & Snow – also retails in the USA through their eCommerce platforms. Additionally, the Company has a wide range of products that are only available online through the Company's various drop ship arrangements. These websites are supported via phone and/or online chat providing customers access to sleep expertise like the in-store customer experience.

The Company has also expanded its sleep ecosystem through partnerships with third-party online marketplaces to increase its customer reach, diversify its sales channels and further bolster its omnichannel offering. The Company partnered with Walmart to supply mattresses and sleep accessories on the Walmart.ca marketplace. Through this partnership, the Company offers Walmart customers a wide assortment of mattress brands, in addition to its leading accessories including pillows, pillowcases, sheets, weighted blankets, mattress protectors, mattress toppers, platforms and pet beds.

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

Store Expansion Opportunities

The Company has the ability to add new stores in existing markets (in-fill stores), satellite markets and new markets. An existing market or in-fill opportunity is a pre-existing built out region in which the Company already has an established store presence serviced by one or more existing warehouses. A satellite market is a new region that is adjacent or close to a pre-existing built-out region, which benefits from advertising spill and is serviced logistically from the nearby warehouse. A new market is a brand new territory in which the Company did not previously operate, requiring incremental advertising and distribution logistics.

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

Stores in enclosed malls provide the Company with a unique opportunity to gain the attention of the captive audience, while capitalizing on the decline of department stores in recent years. As at December 31, 2023, the Company had 19 mall stores in Canada.

The Company's site selection strategy is focused on maximizing sales per store and per region throughout its store network. Prior to identifying and ultimately selecting locations for new stores, the Company conducts extensive analysis utilizing the following factors:

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

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

The following table summarizes the Company's corporate-owned store count for years ended December 31, 2023 and December 31, 2022:

2023	Number of stores, beginning of year	Stores newly opened	Stores closed	**Number of stores, end of year**	Stores renovated
Sleep Country[1]	227	3	1	**229**	2
Dormez-vous[1]	62	2	1	**63**	-
Casper[2]	-	6	-	**6**	-
Endy	-	1	-	**1**	-
Sleep Country/Silk & Snow[3]	-	1	-	**1**	-
the rest	-	1	-	**1**	-
Total	289	14	2	**301**	2

2022	Number of stores, beginning of year	Stores newly opened	Stores closed	**Number of stores, end of year**	Stores renovated
Sleep Country[1]	224	4	1	**227**	-
Dormez-vous[1]	61	1	-	**62**	-
Casper	-	-	-	**-**	-
Endy	-	-	-	**-**	-
Sleep Country/Silk & Snow	-	-	-	**-**	-
the rest	-	-	-	**-**	-
Total	285	5	1	**289**	-

Notes:

(1) Excludes the Company's pilot Express Stores operating in Walmart Canada licensee spaces;
(2) Includes the six Casper stores acquired as part of the acquisition of the Canadian assets from Casper Sleep Inc. in April 2023;
(3) In Q4 2023, the Company opened a store-within-a-store between two of its banners; Sleep Country and Silk & Snow.

Store Design

The Company continuously evaluates its store design to provide customers with the optimal shopping experience. As at December 31, 2023, there are 249 corporate-owned Sleep Country/Dormez-vous stores or 85% of the Sleep Country/Dormez-vous store network that feature the store design introduced in 2014, of which 89 are new stores, 149 are renovated stores and 11 are relocations of existing stores. The Company is developing a new store design that will be introduced in 2024.

Competition

The sleep industry is highly competitive and includes national and regional full-line furniture retailers, department stores, mass merchants, small regional specialty bedding retailers, eCommerce retailers and online marketplaces. The Company is Canada's leading specialty sleep retailer with its national Sleep Country, Dormez-vous and Casper retail store network and multiple eCommerce platforms, including its retail presence on several prominent third-party online marketplaces. The Company believes it can maintain and strengthen its leading market position through its differentiated sleep ecosystem, trusted brands, unmatched product assortment, superior sleep expertise and customer experience. The Company continues to actively assess opportunities for infrastructure, channels, partnerships, products and customer experience improvements across all its Banners to best serve Canadians' sleep needs.

Supply Chain

The Company relies on third party manufacturers to obtain its merchandise. Merchandise is sourced domestically in Canada as well as from countries around the world (for example - U.S., China, Italy and Spain). The Company can be adversely impacted by political, regulatory, economic and legal factors including duties, tariffs, sanctions, pandemics, labour strikes, currency exchange rates and other factors relating to foreign trade.

Seasonality

The retail mattress industry is affected by seasonal conditions. The Company typically experiences higher sales and a greater proportion of income during the third and fourth quarters due to seasonal factors including the concentration of the summer and holiday season. Sales have historically trended lower in the first quarter as consumers tighten their spending after the holiday season and shop less in the cold winter months.

The table below illustrates the Company's average percentage of annual sales by quarter for 2019, 2022 and 2023 from the Company's banners. Due to the uncertainties of the impact of the COVID-19 pandemic in Canada in 2020 and 2021, the Company did not include 2020 and 2021 in the below mentioned sales seasonality. The extent of COVID-19's impact on the overall economy, consumer purchasing behaviour and the impact of public health measures, such as mandated store closures, are uncertain and may have had an impact on seasonality in the retail sleep space.

First quarter	22%
Second quarter	24%
Third quarter	28%
Fourth quarter	26%
Annual total	100%

Gross Profit

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

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

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

5. Fourth Quarter and Annual Highlights

(C$ thousands unless otherwise stated; other than store count and EPS)	Q4 **2023**	Q4 2022	Q4 Change	Annual **2023**	Annual 2022	Annual Change
Revenues	**$ 255,602**	$ 243,028	5.2%	**$ 935,044**	$ 928,657	0.7%
SSS (%)[1]	**(3.2%)**	(11.5%)		**(6.4%)**	(1.8%)	
Stores opened[2]	**5**	2		**14**	5	
Stores closed[2]	**-**	-		**2**	1	
Stores renovated[2]	**2**	-		**2**	-	
Gross profit margin (%)	**37.7%**	37.5%		**37.2%**	36.7%	
Operating EBITDA[1]	**$ 51,356**	$ 53,005	(3.1%)	**$ 196,758**	$ 218,559	(10.0%)
Operating EBITDA margin (%)[1]	**20.1%**	21.8%		**21.0%**	23.5%	
Net income	**$ 22,825**	$ 40,783	(44.0%)	**$ 71,535**	$ 110,696	(35.4%)
Net income attributable to the Company	**$ 22,471**	$ 40,469	(44.5%)	**$ 71,192**	$ 110,471	(35.6%)
Adjusted net income attributable to the Company[1]	**$ 19,308**	$ 23,874	(19.1%)	**$ 74,143**	$ 102,868	(27.9%)
Basic EPS	**$ 0.66**	$ 1.14	(42.1%)	**$ 2.06**	$ 3.04	(32.2%)
Diluted EPS	**$ 0.65**	$ 1.13	(42.5%)	**$ 2.04**	$ 3.01	(32.2%)
Basic adjusted EPS[1]	**$ 0.57**	$ 0.67	(14.9%)	**$ 2.14**	$ 2.83	(24.4%)
Diluted adjusted EPS[1]	**$ 0.56**	$ 0.67	(16.4%)	**$ 2.12**	$ 2.81	(24.6%)

Notes:

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

(2) See the section titled "Store Expansion Opportunities" for further details on stores opened, closed and renovated.

Highlights of Results in Q4 2023

Q4 2023 compared to Q4 2022 - See “Non-IFRS and Other Measures”.

- Revenues increased by $12.6 million or 5.2% from $243.0 million in Q4 2022 to $255.6 million in Q4 2023 mainly due to incremental revenue earned from new stores, wrap stores opened in 2022 and the acquisitions of Silk & Snow and Casper Canada completed in January 2023 and April 2023 respectively. This increase was partially offset by a decrease in SSS by 3.2%;
- Revenues attributed to eCommerce increased by 530 basis points from 21.1% in Q4 2022 to 26.4% in Q4 2023;
- Gross profit increased by $5.2 million or 5.7% from $91.1 million in Q4 2022 to $96.3 million in Q4 2023;
- Gross profit margin increased by 20 basis points from 37.5% in Q4 2022 to 37.7% in Q4 2023;
- Operating EBITDA decreased by $1.6 million or 3.1% from $53.0 million in Q4 2022 to $51.4 million in Q4 2023 mainly due to higher advertising, credit card and financing charges, telecommunication and information technology and other expenses that were also impacted by incremental spend due to the acquisitions of Silk & Snow and Casper Canada; partially offset by an improved gross profit margin and lower compensation costs;
- Operating EBITDA margin decreased by 170 basis points from 21.8% in Q4 2022 to 20.1% in Q4 2023;
- Net income attributable to the Company decreased by $18.0 million or 44.5% from $40.5 million in Q4 2022 to $22.5 million in Q4 2023 mainly due to the decrease in Operating EBITDA and an increase in finance related expenses, depreciation and amortization expenses; partially offset by a decrease in income taxes;
- Adjusted net income attributable to the Company decreased by $4.6 million or 19.1% from $23.9 million in Q4 2022 to $19.3 million in Q4 2023;
- Diluted EPS decreased by $0.48 or 42.5% from $1.13 in Q4 2022 to $0.65 in Q4 2023; and
- Diluted adjusted EPS decreased by $0.11 or 16.4% from $0.67 in Q4 2022 to $0.56 in Q4 2023.

Highlights of Results in 2023

2023 compared to 2022 - See “Non-IFRS and Other Measures”.

- Revenues increased by $6.3 million or 0.7% from $928.7 million in 2022 to $935.0 million in 2023 mainly due to incremental revenue earned from new stores, wrap stores opened in 2022 and the acquisitions of Silk & Snow and Casper Canada, which was partially offset by a decrease in SSS by 6.4%;
- Revenues attributed to eCommerce increased by 310 basis points from 19.6% in 2022 to 22.7% in 2023;
- Gross profit increased by $6.5 million or 1.9% from $341.0 million in 2022 to $347.5 million in 2023;
- Gross profit margin increased by 50 basis points from 36.7% in 2022 to 37.2% in 2023;
- Operating EBITDA decreased by $21.8 million or 10.0% from $218.6 million in 2022 to $196.8 million in 2023 mainly due to higher advertising, compensation, credit card and financing charges, occupancy, telecommunication and information technology and other costs that were also impacted by the acquisitions of Silk & Snow and Casper Canada; partially offset by an improved gross profit margin;
- Operating EBITDA margin decreased by 250 basis points from 23.5% in 2022 to 21.0% in 2023;
- Net income attributable to the Company decreased by $39.3 million or 35.6% from $110.5 million in 2022 to $71.2 million in 2023 mainly due to the decrease in Operating EBITDA and an increase in finance related expenses, depreciation and amortization expenses; partially offset by a decrease in income taxes;
- Adjusted net income attributable to the Company decreased by $28.8 million or 27.9% from $102.9 million in 2022 to $74.1 million in 2023;
- Diluted EPS decreased by $0.97 or 32.2% from $3.01 in 2022 to $2.04 in 2023; and
- Diluted adjusted EPS decreased by $0.69 or 24.6% from $2.81 in 2022 to $2.12 in 2023.

Outlook

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

Key initiatives planned for 2024 include continuing to:

- explore new growth opportunities to further expand the Company's business in sleep;
- expand its sleep product assortment through strategic partnerships and in-house innovation;
- invest in an elevated in-store experience across its retail store network including rolling out new and innovative store formats for planned renovations and new stores;
    - launch new SCC/DV store design in select stores in 2024;
    - open a minimum of six new stores on a consolidated basis including opening multi-banner store-within-a-store layouts;
- continued investments to the Company's digital transformation projects, including its ERP enhancements to evolve front-end and back-end operations, marketing capabilities and customer relationship management tools;
- continue to focus on strategic initiatives to leverage strengths across the Company's banners to drive efficiencies on a consolidated basis; and
- plan on filing a notice of intention with the TSX to commence a new NCIB to repurchase common shares, at the Company's discretion, for up to 10% of the public float.

Selected Financial Information

The following table presents selected IFRS and certain non-IFRS financial measures and ratios of the Company and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2023 and December 31, 2022.

	Q4			Annual		
(C$ thousands unless otherwise stated; other than EPS)	**2023**	2022	Change	**2023**	2022	Change
Consolidated Income Statement						
Revenues	**$ 255,602**	$ 243,028	5.2%	**$ 935,044**	$ 928,657	0.7%
Cost of sales	**159,335**	151,953	4.9%	**587,570**	587,629	0.0%
Gross profit	**96,267**	91,075	5.7%	**347,474**	341,028	1.9%
General and administrative expenses	**64,293**	57,540	11.7%	**227,883**	196,167	16.2%
Operating income	**31,974**	33,535	(4.7%)	**119,591**	144,861	(17.4%)
Finance related expenses (income)	**2,416**	(15,533)	(115.6%)	**23,471**	(889)	(2740.2%)
Other expenses (income)	**(127)**	65	(295.4%)	**(550)**	(292)	88.4%
Net income before income taxes	**29,685**	49,003	(39.4%)	**96,670**	146,042	(33.8%)
Income taxes	**6,860**	8,220	(16.5%)	**25,135**	35,346	(28.8%)
Net income	**$ 22,825**	$ 40,783	(44.0%)	**$ 71,535**	$ 110,696	(35.4%)
Net income attributable to the Company	**$ 22,471**	$ 40,469	(44.5%)	**$ 71,192**	$ 110,471	(35.6%)
EBITDA(1)	**$ 50,218**	$ 50,711	(1.0%)	**$ 189,206**	$ 210,494	(10.1%)
Operating EBITDA(1)	**$ 51,356**	$ 53,005	(3.1%)	**$ 196,758**	$ 218,559	(10.0%)
Operating EBITDA margin (%)(1)	**20.1%**	21.8%		**21.0%**	23.5%	
Adjusted net income attributable to the Company(1)	**$ 19,308**	$ 23,874	(19.1%)	**$ 74,143**	$ 102,868	(27.9%)
Basic EPS	**$ 0.66**	$ 1.14	(42.1%)	**$ 2.06**	$ 3.04	(32.2%)
Diluted EPS	**$ 0.65**	$ 1.13	(42.5%)	**$ 2.04**	$ 3.01	(32.2%)
Basic adjusted EPS(1)	**$ 0.57**	$ 0.67	(14.9%)	**$ 2.14**	$ 2.83	(24.4%)
Diluted adjusted EPS(1)	**$ 0.56**	$ 0.67	(16.4%)	**$ 2.12**	$ 2.81	(24.6%)
Dividends declared per share	**$ 0.237**	$ 0.215	10.2%	**$ 0.926**	$ 0.840	10.2%

	31-Dec-23	31-Dec-22
Total assets	**$1,112,474**	**$1,021,719**
Total long-term lease liabilities and debt	**$ 449,292**	**$ 374,252**

Note:

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

The following table presents selected IFRS and certain non-IFRS financial measures and ratios of the Company and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2022 and December 31, 2021.

	Q4			Annual		
(C$ thousands unless otherwise stated; other than EPS)	**2022**	2021	Change[2]	**2022**	2021	Change[2]
Consolidated Income Statement						
Revenues	**$ 243,028**	$ 271,158	(10.4%)	**$ 928,657**	$ 920,194	0.9%
Cost of sales	**151,953**	173,438	(12.4%)	**587,629**	603,146	(2.6)%
Gross profit	**91,075**	97,720	(6.8%)	**341,028**	317,048	7.6%
General and administrative expenses	**57,540**	56,263	2.3%	**196,167**	178,225	10.1%
Operating income	**33,535**	41,457	(19.1%)	**144,861**	138,823	4.3%
Finance related expenses (income)	**(15,533)**	4,259	(464.7%)	**(889)**	16,837	(105.3%)
Other expenses (income)	**65**	(51)	(227.5%)	**(292)**	142	(305.6%)
Net income before income taxes	**49,003**	37,249	31.6%	**146,042**	121,844	19.9%
Income taxes	**8,220**	10,437	(21.2%)	**35,346**	32,862	7.6%
Net income	**$ 40,783**	$ 26,812	52.1%	**$ 110,696**	$ 88,982	24.4%
Net income attributable to the Company	**$ 40,469**	$ 26,433	53.1%	**$ 110,471**	$ 88,603	24.7%
EBITDA[1]	**$ 50,711**	$ 57,314	(11.5%)	**$ 210,494**	$ 199,549	5.5%
Operating EBITDA[1]	**$ 53,005**	$ 62,065	(14.6%)	**$ 218,559**	$ 210,889	3.6%
Operating EBITDA margin (%)[1]	**21.8%**	22.9%		**23.5%**	22.9%	
Adjusted net income attributable to the Company[1]	**$ 23,874**	$ 30,977	(22.9%)	**$ 102,868**	$ 98,342	4.6%
Basic EPS	**$ 1.14**	$ 0.72	58.3%	**$ 3.04**	$ 2.41	26.1%
Diluted EPS	**$ 1.13**	$ 0.71	59.2%	**$ 3.01**	$ 2.38	26.5%
Basic adjusted EPS[1]	**$ 0.67**	$ 0.84	(20.2%)	**$ 2.83**	$ 2.67	6.0%
Diluted adjusted EPS[1]	**$ 0.67**	$ 0.83	(19.3%)	**$ 2.81**	$ 2.64	6.4%
Dividends declared per share	**$ 0.215**	$ 0.195	10.3%	**$ 0.840**	$ 0.780	7.7%
	31-Dec-22			**31-Dec-21**		
Total assets	**$1,021,719**			**$ 988,035**		
Total long-term lease liabilities and debt	**$ 374,252**			**$ 346,233**		

Notes:

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

(2) See the Q4 2022 MD&A for discussion related to performance analysis.

6. Fourth Quarter 2023 versus Fourth Quarter 2022

Revenues

Revenues increased by $12.6 million or 5.2% from $243.0 million in Q4 2022 to $255.6 million in Q4 2023 mainly due to incremental revenue earned from new stores, wrap stores opened in 2022 and the acquisitions of Silk & Snow and Casper Canada completed in January 2023 and April 2023 respectively. This increase was partially offset by a decrease in SSS by 3.2% (See "Non-IFRS and Other Measures").

Revenues attributed to eCommerce increased by 530 basis points from 21.1% in Q4 2022 to 26.4% in Q4 2023.

The increase in Revenues by $12.6 million was comprised of a $9.3 million increase in mattresses revenues and a $3.3 million increase in accessories revenues in Q4 2023 versus Q4 2022.

					Q4
(C$ millions unless otherwise stated)		**2023**	2022	Change	Change (%)
Mattresses	**$**	**189.9**	$ 180.6	$ 9.3	5.1%
Accessories	**$**	**65.7**	$ 62.4	$ 3.3	5.3%
Total	**$**	**255.6**	$ 243.0	$ 12.6	5.2%

Gross profit

Gross profit increased by $5.2 million from $91.1 million in Q4 2022 to $96.3 million in Q4 2023. Gross profit margin increased by 20 basis points from 37.5% in Q4 2022 to 37.7% in Q4 2023. The increase in gross profit margin in Q4 2023 versus Q4 2022 was mainly a result of the following:

- inventory and other directly related expenses decreased, as percentage of Revenues, by 0.2% from 41.7% in Q4 2022 to 41.5% in Q4 2023 primarily due to higher AUSP and lower product and transportation costs, partially offset by higher inventory allowances and higher delivery costs mainly driven by growth in eCommerce Revenues;
- store occupancy costs decreased, as a percentage of Revenues, by 0.1% from 2.9% in Q4 2022 to 2.8% in Q4 2023 due to the Company leveraging its occupancy costs;
- other expenses decreased, as a percentage of Revenues, by 0.1% from 0.7% in Q4 2022 to 0.6% in Q4 2023 due to an decrease in supplies expense; and
- sales and distribution compensation expenses increased, as a percentage of Revenues, by 0.3% from 12.5% in Q4 2022 to 12.8% in Q4 2023 due to increases in salaries, wages and sales incentives under the normal course of business.

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

Total G&A expenses increased by $6.8 million or 11.7% from $57.5 million in Q4 2022 to $64.3 million in Q4 2023, and, as a percentage of Revenues, G&A expenses increased from 23.7% of Revenues in Q4 2022 to 25.2% of Revenues in Q4 2023.

					Q4
(C$ millions unless otherwise stated)	**2023**	**% of Revenues**	2022	% of Revenues	Change
Media and advertising expenses[1]	**$ 28.2**	**11.0%**	$ 23.7	9.8%	$ 4.5
Salaries, wages and benefits[2]	**10.6**	**4.2%**	12.4	5.1%	(1.8)
Credit card and finance charges[3]	**6.4**	**2.5%**	5.6	2.3%	0.8
Occupancy charges	**2.8**	**1.1%**	2.5	1.0%	0.3
Professional fees[4]	**2.4**	**1.0%**	3.1	1.3%	(0.7)
Telecommunication and information technology[5]	**4.1**	**1.6%**	3.0	1.2%	1.1
Mattresses recycling and donations	**1.0**	**0.4%**	0.1	0.0%	0.9
Depreciation and amortization	**6.2**	**2.4%**	5.8	2.4%	0.4
Other[6]	**2.6**	**1.0%**	1.3	0.6%	1.3
Total G&A expenses	**$ 64.3**	**25.2%**	$ 57.5	23.7%	$ 6.8

Notes:

(1) Media and advertising expenses increased by $4.5 million due to an increase in online advertising impacted by the incremental spend by Silk & Snow and Casper Canada acquired in 2023, as well as, increases in television advertising costs and production costs. These increases were partially offset by decreases in radio, newspaper and billboard advertising costs and advertising fees.

(2) Salaries, wages and benefits decreased by $1.8 million mainly due to a decrease in bonus expenses, partially offset by an increase in compensation expenses incurred in the regular course of business and incremental headcount from the acquisitions of Silk & Snow and Casper Canada.

(3) Credit card and finance charges are variable costs and these costs increased as a percentage of Revenues by 0.2% mainly due to increased financing rates and incremental fees incurred by Silk & Snow and Casper Canada.

(4) Professional fees decreased by $0.7 million mainly due to $0.4 million in legal fees incurred in Q4 2022 related to the acquisition of Silk & Snow that closed on January 4, 2023.

(5) Telecommunication and information technology expenses increased by $1.1 million mainly due to increases in software licensing fees and support expenses.

(6) Other expenses increased by $1.3 million due to higher administrative, supplies, travel, meals and entertainment expenses in addition to the return of company events from the pre-pandemic period.

EBITDA

EBITDA decreased by $0.5 million or 1.0% from $50.7 million in Q4 2022 to $50.2 million in Q4 2023. The decrease was mainly due to higher advertising, credit card and financing charges, telecommunication and information technology and other expenses that were impacted by incremental spend due to the acquisitions of Silk & Snow and Casper Canada; partially offset by an improved gross profit margin and lower compensation costs. See “Non-IFRS and Other Measures”.

Operating EBITDA

Operating EBITDA was $51.4 million for Q4 2023, or 20.1% of Revenues, compared to $53.0 million for Q4 2022, or 21.8% of Revenues, representing a decrease of $1.6 million or 3.1% mainly due to the decrease in EBITDA. See “Non-IFRS and Other Measures”.

Finance related expenses (income)

Finance related expenses (income) increased by $17.9 million from income of $15.5 million in Q4 2022 to expenses of $2.4 million in Q4 2023 due to higher interest expenses on the Company's lease obligations and its senior secured credit facility, impacted by the higher interest rates and debt levels, an unrealized loss on the Company's interest rate swap and lower realized gains on the Company's share repurchases under the ASPP in Q4 2023. Additionally, this change was positively impacted by a $4.7 million reduction to the Hush redemption liabilities in Q4 2023, offset by the $20.5 million reduction to the redemption liabilities in Q4 2022. These adjustments to the redemption liabilities were to reflect the estimated shift in achievement of the initial EBITDA targets to beyond the redemption period.

Income taxes

Net income before income taxes in Q4 2023 decreased by $19.3 million from $49.0 million in Q4 2022 to $29.7 million in Q4 2023. The Company’s effective income tax rate increased by 630 basis points from 16.8% in Q4 2022 to 23.1% in Q4 2023. The change in the effective tax rate is mainly driven by the $20.5 million adjustment in Q4 2022 due to the reduction of the Hush redemption liabilities which was partially offset by a $4.7 million adjustment of the Hush redemption liabilities in Q4 2023 that are not deductible for tax purposes. The decrease in net income before tax was partially offset by the increase in effective tax rate and resulted in a decrease to income taxes of $1.3 million in Q4 2023 versus Q4 2022.

Net income attributable to the Company

Net income attributable to the Company for Q4 2023 decreased by $18.0 million from $40.5 million ($1.14 per share) in Q4 2022 to $22.5 million ($0.66 per share) in Q4 2023.

Adjusted net income attributable to the Company

Adjusted net income attributable to the Company for Q4 2023 decreased by $4.6 million from $23.9 million ($0.67 per share) in Q4 2022 to $19.3 million ($0.57 per share) in Q4 2023. See “Non-IFRS and Other Measures”.

7. Annual Financial Results 2023 versus 2022

Revenues increased by $6.3 million or 0.7% from $928.7 million in 2022 to $935.0 million in 2023 mainly due to incremental revenue earned from new stores, wrap stores opened in 2022 and the acquisitions of Silk & Snow and Casper Canada completed in January 2023 and April 2023 respectively. This increase was partially offset by a decrease in SSS by 6.4% (See “Non-IFRS and Other Measures”).

Revenues attributed to eCommerce increased by 310 basis points from 19.6% in 2022 to 22.7% in 2023.

The increase in Revenues by $6.3 million was comprised of an increase in accessories revenues of $10.2 million partially offset by a decrease in mattresses revenues of $3.9 million in 2023 versus 2022.

							Annual
(C$ millions unless otherwise stated)		**2023**		2022		Change	Change (%)
Mattresses	**$**	**704.2**	$	708.1	$	(3.9)	(0.6%)
Accessories	**$**	**230.8**	$	220.6	$	10.2	4.6%
Total	**$**	**935.0**	$	928.7	$	6.3	0.7%

<u>Gross profit</u>

Gross profit increased by $6.5 million from $341.0 million in 2022 to $347.5 million in 2023. Gross profit margin increased by 50 basis points from 36.7% in 2022 to 37.2% in 2023. Gross profit margin was impacted in 2023 versus 2022 by the following:

- inventory and other directly related expenses decreased as a percentage of Revenues by 0.9% from 41.7% in 2022 to 40.8% in 2023 primarily due to higher AUSP and lower product costs, partially offset by higher inventory allowances and higher delivery costs mainly driven by growth in eCommerce Revenues;
- sales and distribution compensation expenses increased as a percentage of Revenues by 0.2% from 13.2% in 2022 to 13.4% in 2023 due to increases in salaries, wages and benefits under the normal course of business; and
- store occupancy costs increased as a percentage of Revenues by 0.2% from 2.9% in 2022 to 3.1% in 2023 due to the Company deleveraging its occupancy costs which were also impacted by the Company's 14 new stores of which six stores were part of the Casper Canada acquisition.

G&A expenses

Total G&A expenses increased by $31.7 million or 16.2% from $196.2 million in 2022 to $227.9 million in 2023, and, as a percentage of Revenues, G&A expenses increased from 21.1% of Revenues in 2022 to 24.4% of Revenues in 2023.

					Annual
(C$ millions unless otherwise stated)	**2023**	**% of Revenues**	2022	% of Revenues	Change
Media and advertising expenses[1]	**$ 87.1**	**9.3%**	$ 74.9	8.1%	$ 12.2
Salaries, wages and benefits[2]	**48.5**	**5.2%**	42.8	4.6%	5.7
Credit card and finance charges[3]	**22.4**	**2.4%**	19.9	2.1%	2.5
Occupancy charges	**10.9**	**1.2%**	9.6	1.0%	1.3
Professional fees	**10.8**	**1.1%**	10.0	1.1%	0.8
Telecommunication and information technology[4]	**14.6**	**1.6%**	11.5	1.2%	3.1
Mattresses recycling and donations	**3.7**	**0.4%**	2.9	0.3%	0.8
Depreciation and amortization[5]	**23.0**	**2.5%**	20.2	2.2%	2.8
Other[6]	**6.9**	**0.7%**	4.4	0.5%	2.5
Total G&A expenses	**$ 227.9**	**24.4%**	$ 196.2	21.1%	$ 31.7

Notes:

(1) Media and advertising expenses increased by $12.2 million due to an increase in online advertising mainly impacted by the incremental spend by Silk & Snow and Casper Canada acquired in 2023, as well as increases in television and billboard advertising, production and publicity costs. These increases were partially offset by decreases in newspaper and radio advertising costs and an increase in advertising credits.

(2) Salaries, wages and benefits increased by $5.7 million mainly due to an increase in compensation expenses incurred in the regular course of business, incremental headcount from the acquisitions of Silk & Snow and Casper Canada, and an increase in share-based compensation partially impacted by the over performance of the 2021 PSU plan. This increase was partially offset by a decrease in bonus expenses.

(3) Credit card and finance charges are variable costs and these costs increased as a percentage of Revenues by 0.3% mainly due to increased financing rates and incremental fees incurred by Silk & Snow and Casper Canada.

(4) Telecommunication and information technology expenses increased by $3.1 million mainly due to increases in software licensing fees and software support expenses.

(5) Depreciation expenses increased by $2.8 million mainly due to the increase in tangible and intangible depreciation.

(6) Other expenses increased by $2.5 million mainly due to increases in supplies, travel, meals and entertainment expenses in addition to the return of company events from the pre-pandemic period.

EBITDA

EBITDA decreased by $21.3 million from $210.5 million in 2022 to $189.2 million in 2023. The decrease was mainly due to higher advertising, compensation, credit card and financing charges, occupancy, telecommunication and information technology and other costs that were impacted by the acquisitions of Silk & Snow and Casper Canada; partially offset by an improved gross profit margin. See “Non-IFRS and Other Measures”.

Operating EBITDA

Operating EBITDA was $196.8 million for 2023, or 21.0% of Revenues, compared to $218.6 million for 2022, or 23.5% of Revenues, representing a decrease of $21.8 million or 10.0% mainly due to the decrease in EBITDA. See “Non-IFRS and Other Measures”.

Finance related expenses (income)

Finance related expenses (income) increased by $24.4 million from income of $0.9 million in 2022 to expenses of $23.5 million in 2023 due to higher interest expenses on the Company's lease obligations and its senior secured credit facility, impacted by the higher interest rates and debt levels, in addition to an unrealized loss on the Company's interest rate swap in 2023. Additionally, this change was positively impacted by a $4.7 million reduction to the Hush redemption liabilities in 2023, offset by the $20.5 million reduction to the redemption liabilities in 2022. These adjustments to the redemption liabilities were to reflect the estimated shift in achievement of the initial EBITDA targets to beyond the redemption period.

Income taxes

Net income before income taxes in 2023 decreased by $49.3 million from $146.0 million in 2022 to $96.7 million in 2023. The Company’s effective income tax rate increased by 180 basis points from 24.2% in 2022 to 26.0% in 2023. The change in the effective tax rate is mainly driven by the $20.5 million adjustment in Q4 2022 due to the reduction of the Hush redemption liabilities which was partially offset by a $4.7 million adjustment of the Hush redemption liabilities in Q4 2023 that are not deductible for tax purposes. The decrease in net income before tax was partially offset by the increase in effective tax rate and resulted in a decrease to income taxes of $10.2 million in 2023 versus 2022.

Net Income attributable to the Company

Net Income attributable to the Company for 2023 decreased by $39.3 million from $110.5 million ($3.04 per share) in 2022 to $71.2 million ($2.06 per share) in 2023.

Adjusted net income attributable to the Company

Adjusted net income attributable to the Company for 2023 decreased by $28.8 million from $102.9 million ($2.83 per share) in 2022 to $74.1 million ($2.14 per share) in 2023. See “Non-IFRS and Other Measures”.

8. Summary of Quarterly Results

The Company's Revenues are impacted by seasonality, with the third quarter typically generating the greatest contribution to revenues and the first quarter the least. Accordingly, results of operations for any interim period are not necessarily indicative of the results of operations for the full fiscal year. The following table displays the Company's financial performance for the last eight quarters and it has been prepared in accordance with IFRS, except where indicated.

					2023					2022
(C$ thousands unless otherwise stated, except EPS)	Q4	Q3	Q2	Q1	**Annual**	Q4	Q3	Q2	Q1	**Annual**
Revenues	$ 255,602	$ 255,748	$ 217,199	$ 206,495	**$ 935,044**	$ 243,028	$ 251,026	$ 227,575	$ 207,028	**$ 928,657**
SSS (%)(1)	(3.2%)	(5.5%)	(10.9%)	(6.2%)	**(6.4%)**	(11.5%)	(11.1%)	15.1%	8.8%	**(1.8%)**
Gross profit	$ 96,267	$ 101,447	$ 78,970	$ 70,789	**$ 347,474**	$ 91,075	$ 96,623	$ 81,700	$ 71,633	**$ 341,028**
Gross profit margin (%)	37.7%	39.7%	36.4%	34.3%	**37.2%**	37.5%	38.5%	35.9%	34.6%	**36.7%**
EBITDA(1)	$ 50,218	$ 57,893	$ 41,428	$ 39,668	**$ 189,206**	$ 50,711	$ 63,683	$ 51,866	$ 44,239	**$ 210,494**
Operating EBITDA(1)	$ 51,356	$ 59,839	$ 44,204	$ 41,360	**$ 196,758**	$ 53,005	$ 65,603	$ 53,242	$ 46,714	**$ 218,559**
Operating EBITDA margin (%)(1)	20.1%	23.4%	20.4%	20.0%	**21.0%**	21.8%	26.1%	23.4%	22.6%	**23.5%**
Net income attributable to the Company	$ 22,471	$ 24,705	$ 12,685	$ 11,330	**$ 71,192**	$ 40,469	$ 28,926	$ 22,665	$ 18,413	**$ 110,471**
Adjusted net income attributable to the Company(1)	$ 19,308	$ 26,790	$ 14,796	$ 13,248	**$ 74,143**	$ 23,874	$ 32,457	$ 25,739	$ 20,800	**$ 102,868**
Basic EPS	$ 0.66	$ 0.71	$ 0.36	$ 0.32	**$ 2.06**	$ 1.14	$ 0.80	$ 0.61	$ 0.50	**$ 3.04**
Diluted EPS	$ 0.65	$ 0.70	$ 0.36	$ 0.32	**$ 2.04**	$ 1.13	$ 0.79	$ 0.61	$ 0.49	**$ 3.01**
Basic adjusted EPS(1)	$ 0.57	$ 0.77	$ 0.43	$ 0.38	**$ 2.14**	$ 0.67	$ 0.90	$ 0.70	$ 0.56	**$ 2.83**
Diluted adjusted EPS(1)	$ 0.56	$ 0.76	$ 0.42	$ 0.37	**$ 2.12**	$ 0.67	$ 0.89	$ 0.69	$ 0.56	**$ 2.81**

Note:

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

9. Segment Reporting

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 ("**CEO**"). The Company has only one reportable segment as the operating segments meet the aggregation criteria of IFRS 8 - Operating Segments. The Company aggregates these reporting segments because the nature of products, services, methods of distribution and economic characteristics are similar. The Company operates primarily in Canada, its country of domicile.

10. Liquidity and Capital Resources

Liquidity

The Company's primary sources of cash consist of existing cash balances, operating activities and available credit facilities. The Company's primary uses of cash are to fund operating expenses, capital expenditures, finance costs, tax expenses, principal debt payments, dividends, business acquisitions, investments and share repurchases.

The Company believes cash generated from operations, together with cash on hand and amounts available under the Company's credit facilities will be sufficient to meet its future cash requirements. However, the Company's ability to fund future cash requirements will depend on its future operating performance. This could be affected by general economic, financial and other factors including factors beyond its control, despite the risk management strategies that the Company puts in place. See the section entitled "Risk Factors" in the AIF for a discussion of the various risks and uncertainties that may affect the Company's ability to fund its future cash requirements.

The Company reviews new store openings, acquisitions and investment opportunities in the normal course of its business and may, if suitable opportunities arise, realize these opportunities to meet the Company's business strategy. Historically, the funding for any such acquisitions or investments has come from cash flow generated from operating activities and/or additional debt.

The Company's cash balance was $37.4 million with an additional $98.7 million (not including the $100.0 million accordion) of liquidity available under the Company's credit facility as at December 31, 2023.

A summary of net cash flows by activities is presented below for 2023 and 2022:

	Annual	
(C$ thousands unless otherwise stated)	**2023**	2022
Cash flows provided by operating activities	**$ 153,978**	$ 163,060
Cash flows used by investing activities	**(124,316)**	(18,224)
Cash flows used by financing activities	**(70,599)**	(103,044)
Effects of foreign currency exchange rate changes on cash	**(10)**	(20)
Net increase (decrease) in cash	**(40,947)**	41,772
Cash at beginning of the period	**78,318**	36,546
Cash at end of the period	**$ 37,371**	$ 78,318

Net cash flows provided by operating activities

Net cash flows provided by operating activities in 2023 were $154.0 million and consisted of the positive impact of cash generated from operating activities of $166.5 million offset by $12.6 million of cash used as a result of an increase in working capital. The increase in working capital in 2023 was primarily driven by higher trade and other receivables and prepaid expenses and deposits, and lower trade and other payables, which were partially offset by lower inventories and higher deferred revenues.

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

Net cash flows used by investing activities

Net cash flows used by investing activities in 2023 were $124.3 million and consisted primarily of $59.4 million used in the acquisitions of Silk & Snow and Casper Canada, $20.1 million invested in the convertible note receivable and warrant of Casper U.S., $1.3 million used to purchase an additional 16% share ownership from non-controlling shareholders of Hush Blankets Inc., with the remaining cash flows of $43.4 million used mainly on capital expenditure related to enhancements on the Company's ERP system and eCommerce platforms, leasehold improvements, computer hardware and furniture and equipment.

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

Net *cash flows used by financing activities*

Net cash flows used by financing activities in 2023 were $70.6 million and consisted of the repayment of the principal on lease obligations of $38.8 million, the repurchase for cancellation of the Company's common shares under the NCIB of $37.3 million, dividends paid on the common shares of $32.0 million, the repayment on the senior secured credit facility of $31.0 million and interest payments of $24.2 million on lease liabilities and the senior secured credit facility. These cash outflows were partially offset by an additional draw on the senior secured credit facility of $92.3 million and proceeds received from common shares issued due to exercised stock options of $0.4 million.

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

Contractual obligations

The following table summarizes the Company's significant contractual obligations as at December 31, 2023 based on undiscounted cash flow (including interest where applicable) which may differ from the carrying values of the liabilities at the reporting date:

			2023
(C$ thousands unless otherwise stated)	**Within 1 year**	**Between 1 and 5 years**	**Over 5 years**
Trade and other payables	$ 110,966	$ -	$ -
Lease liabilities	56,281	198,692	233,834
Long-term debt(1)	12,506	183,913	-
Other liabilities(2)	23,136	5,492	-
	$ 202,889	$ 388,097	$ 233,834

Notes:

(1) Long-term debt represents the interest and principal amounts on the senior secured credit facility, which is scheduled to mature on October 22, 2026, with a balance outstanding at December 31, 2023 of $161.3 million.

(2) Other liabilities includes $20.0 million representing the estimated maximum obligation for shares to be repurchased under the ASPP, $2.1 million representing the contingent consideration liability related to the acquisition of Silk & Snow, and $6.6 million representing the redemption

liabilities to acquire the shares of non-controlling interests in Hush over the remaining two-year period.

Capital Resources

Senior secured credit facility

The Company has a senior secured credit facility of $260.0 million with an additional $100.0 million available on its accordion, which is scheduled to mature on October 22, 2026. Under the terms of the senior secured credit facility, certain financial and non-financial covenants must be complied with. The Company is in compliance with all covenants as at December 31, 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 $161.3 million (December 31, 2022 – $100.0 million). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of $0.7 million (December 31, 2022 – $0.9 million).

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

Interest on the senior secured credit facility is based on the prime or bankers' acceptance rates plus applicable margins based on the achievement of certain targets, as defined by the amended and restated senior secured credit agreement. The Company entered into a fixed interest rate swap, effective April 1, 2021 ending on April 1, 2024, for the notional amount of $60.0 million whereby the Company pays a fixed rate of 1.072% and receives interest at a variable rate equal to the Canadian Dollar Offered Rate for 3-month bankers' acceptances ("**3-month CDOR**") on the notional amount. The swap is being used to manage the volatility of interest rates on the outstanding balance on its senior secured credit facility.

Off-balance sheet arrangements

The Company did not have any material off-balance sheet arrangements as at December 31, 2023 and December 31, 2022, nor did it have any subsequent to December 31, 2023.

11. Transactions with Key Management Personnel

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company incurred the following expenses in relation to key management personnel:

		Annual
(C$ thousands unless otherwise stated)	**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

12. Risk Factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk, capital risk and technology risk. The Company's overall risk management program and business practices seek to minimize any potential adverse effects on its financial performance.

Risk management is carried out by the senior management team and is reviewed by the Board.

For an understanding of other potential risks, including, non-financial risks, see the section entitled "Risk Factors" in the AIF.

Market Risk

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

Foreign Exchange Risk

The Company's operating results are reported in Canadian dollars. A portion of the Company's sales and purchases are denominated in U.S. dollars which results in foreign currency exposure related to fluctuations between the Canadian and U.S. dollars. The Company does not currently use foreign exchange options or forward contracts to hedge its foreign currency risk relating to sales and purchases. A sudden increase in the U.S. dollar relative to the Canadian dollar could result in higher costs to the Company, which could in turn result in increased prices and reduced sales, decreased profit margins and could negatively impact the Company's business and financial results.

Cash Flow and Fair Value Interest Risk

The Company'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. It manages its exposure to changes in interest rates by using a combination of fixed and variable rate debt and varying lengths of terms to achieve the desired proportion of variable and fixed rate debt. Additionally, the Company holds a fixed rate swap for the notional amount of $60.0 million to manage its interest rate risk. An increase (or decrease) in interest rates by 1% would result in a $1.0 million increase (or decrease) of the annual interest expense of the credit facility. The Company has leases that carry interest at variable rates.

Credit Risk

Credit risk refers to the risk of losses due to the failure of the Company's customers or other counter-parties to meet their payment obligations. Credit risk arises from deposits with banks, receivables with counter-parties as well as credit exposures from vendors for the payment of volume and co-operative advertising rebate amounts and balances owed from third-party financing companies under the various financing plans the Company offers its customers. In order to manage the Company's 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 company that the Company deals with carries a minimum rating of BBB or better.

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

Liquidity Risk

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

Capital Risk

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

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

Technology and Cyber Security Risk

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

In addition, in the normal course of its business, the Company collects, uses, discloses and retains sensitive and confidential customer and employee information. Although the Company has security measures in place, the Company's facilities and systems and those of its third-party service providers may be vulnerable to security breaches, hacking, computer viruses, misplaced or lost data, programming and/or human errors and other similar events. Any security or data privacy incident, including one involving the misappropriation, loss or other unauthorized use or disclosure of confidential or personal information, whether by the Company or its vendors, could damage the Company's reputation and its relationships with its customers, expose the Company to risks of litigation and liability and may have a material adverse effect on the Company's business.

13. Critical Accounting Estimates and Judgments

The Company's critical accounting estimates are included in Note 4 of the Company's 2023 audited annual consolidated financial statements and are described below.

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

Impairment of goodwill and brands

The Company is required to use judgment in determining the appropriate groupings of CGUs, in order to determine the level at which goodwill and intangible assets are tested for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed. 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 the consolidated financial statements, impairment reviews were performed by comparing the carrying value with the recoverable amount of the CGU to which goodwill and brands have been allocated. The Company has determined there had been no impairment as at the reporting dates of the consolidated financial statements.

Business combinations

For each business combination, the Company measures the identifiable assets acquired and the liabilities assumed at 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.

14. Financial Instruments

As at December 31, 2023, the financial instruments consisted of cash, trade and other receivables, convertible note receivable, warrant, trade and other payables, deferred revenues, long-term debt under the Company's senior secured credit facility, interest rate swap, redemption liabilities, contingent consideration liability and the share repurchase commitment under ASPP.

- The carrying values of cash, trade and other receivables, trade and other payables, deferred revenues and the share repurchase commitment under ASPP approximate their fair values due to the relatively short periods to maturity of these financial instruments.
- The carrying value of the long-term debt under the Company's 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 convertible note receivable is recognized at fair value measured using the Black-Scholes pricing model and the Crank-Nicolson finite difference method.
- The warrant is recognized at fair value measured using the Binomial option pricing model.
- The redemption liabilities related to the acquisition of Hush were initially recognized at fair value measured at the expected outcome (discounted) determined based on an earnings formula and the expected earnings levels over the measurement period and subsequently measured at amortized cost.
- The contingent consideration liability related to the acquisition of Silk & Snow was initially recognized at fair value measured at the expected outcome (discounted) determined based on an upon an earnings formula and the expected achievement levels against certain growth and profitability targets in aggregate over the contingency period and subsequently measured at amortized cost.

The Company’s financial instruments are exposed to certain financial risks, including currency risk, interest rate risk, credit risk and liquidity risk, which are discussed above under the section “Risk Factors”.

15. Internal Controls Over Financial Reporting

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

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

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

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

The Certifying Officers have evaluated the effectiveness of the Company's ICFR as at December 31, 2023 using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, the Certifying Officers concluded that the ICFR, as defined by National Instrument 52-109 – Certification of Disclosure on Issuers' Annual and Interim Filings, are appropriately designed and were operating effectively as at December 31, 2023 and that no material weaknesses were identified through their evaluation.

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

The Company acquired the business of Casper Canada on April 14, 2023. Casper Canada's financial results are included in the Company's condensed interim consolidated financial statements for or the quarter ended December 31, 2023. For the Consolidated Statement of Financial Position, Casper Canada constitutes 4.6% of total current assets, 4.2% of total assets, 2.0% of total current liabilities and 1.2% of total liabilities as at December 31, 2023.

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

16. Disclosure Controls and Procedures

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

The Company's system of disclosure controls and procedures includes, but is not limited to, the Company's Disclosure Policy, the Company's Codes of Business Conduct, the effective functioning of the Company's Disclosure Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Disclosure Committee, verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the consolidated financial statements, MD&As, AIF, Management Information Circular and other documents and external communications.

Based on an evaluation of the Company’s disclosure control and procedures, the Certifying Officers have concluded that these controls are appropriately designed and were operating effectively as of December 31, 2023. Although the Company’s disclosure controls and procedures were operating effectively as of December 31, 2023, there can be no assurance that the Company’s disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company’s regulatory filings.

17. Current and Future Accounting Standards

A summary of the Company’s material accounting policies is included in Note 3 of the Company’s 2023 audited annual consolidated financial statements.

<u>Accounting standards, interpretations and amendments not yet adopted</u>

There are 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.

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 recognising 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.

18. Outstanding Share Data

As of the date hereof, 33,529,713 common shares and no Class A common shares of the Company are issued and outstanding. As of the date hereof, 1,110,633 stock options to purchase an equivalent number of common shares, 213,700 performance share units, 235,902 restricted share units and 94,598 deferred share units are issued and outstanding. For further details concerning the rights, privileges and restrictions attached to the common shares and the Class A common shares, please refer to the section entitled “Capital Structure” in the AIF.

19. Non-IFRS and Other Measures

The Company prepares its consolidated financial statements in accordance with IFRS Accounting Standards. In order to provide additional insight into the business, to provide investors with supplemental measures of its operating performance and to highlight trends in its business that may not otherwise be apparent when relying solely on IFRS financial measures, the Company has also provided in this MD&A certain supplementary financial measures, such as SSS, non-IFRS measures such as EBITDA, Operating EBITDA, Adjusted net income, Basic adjusted EPS, Diluted adjusted EPS, and non-IFRS ratios including Operating EBITDA margin each as defined below. These measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Management also uses these measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. The Company also believes that securities analysts, investors and other interested parties frequently use these measures in the evaluation of issuers.

Readers are cautioned that these measures are not recognized under IFRS Accounting Standards and do not have a standardized meaning prescribed by IFRS Accounting Standards. They are therefore unlikely to be comparable to similarly titled measures presented by other publicly traded companies. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS Accounting Standards. See below for further details concerning how the Company calculates these measures and for reconciliations to the most comparable IFRS measures.

Same Store Sales (SSS)

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

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

EBITDA, Operating EBITDA, and Operating EBITDA margin

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

EBITDA is defined as net income attributable to the Company adjusted for:

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

Operating EBITDA is defined as EBITDA adjusted for:

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

Operating EBITDA margin is defined as Operating EBITDA divided by Revenues.

Adjusted net income attributable to the Company

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

- acquisition costs;
- ERP implementation costs;
- share-based compensation; and
- accretion on the redemption liabilities related to the Hush acquisition and accretion on the contingent consideration liability related to the Silk & Snow acquisition.

Basic adjusted earnings per share (Basic adjusted EPS)

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

Diluted adjusted earnings per share (Diluted adjusted EPS)

Diluted adjusted EPS is defined as adjusted net income attributable to the Company divided by weighted average number of shares issued and outstanding during the period adjusted for the effects of dilutive stock options, performance share units, restricted share units and deferred share units.

Calculation of Non-IFRS and Other Measures

(C$ thousands unless otherwise stated, except EPS)	Q4 **2023**	Q4 2022	Annual **2023**	Annual 2022
Reconciliation of net income attributable to the Company to EBITDA and Operating EBITDA:				
Net income attributable to the Company	**$ 22,471**	$ 40,469	**$ 71,192**	$ 110,471
Add impact of the following:				
Non-controlling interests	**354**	314	**343**	225
Other expenses (income)	**(127)**	65	**(550)**	(292)
Finance related expenses (income)	**2,416**	(15,533)	**23,471**	(889)
Income taxes	**6,860**	8,220	**25,135**	35,346
Depreciation and amortization	**18,244**	17,176	**69,615**	65,633
EBITDA	**50,218**	50,711	**189,206**	210,494
Adjustments:				
Acquisition costs[1]	**-**	449	**1,255**	449
ERP implementation costs[2]	**-**	603	**-**	2,637
Share-based compensation[3]	**1,138**	1,242	**6,297**	4,979
Total adjustments	**$ 1,138**	$ 2,294	**$ 7,552**	$ 8,065
Operating EBITDA	**$ 51,356**	$ 53,005	**$ 196,758**	$ 218,559
Operating EBITDA margin (%)	**20.1%**	21.8%	**21.0%**	23.5%
Reconciliation of net income attributable to the Company to adjusted net income attributable to the Company:				
Net income attributable to the Company	**$ 22,471**	$ 40,469	**$ 71,192**	$ 110,471
Adjustments:				
Acquisition costs[1]	**-**	449	**1,255**	449
ERP implementation costs[2]	**-**	603	**-**	2,637
Share-based compensation[3]	**1,138**	1,242	**6,297**	4,979
Accretion expense[4]	**(4,070)**	(18,370)	**(2,880)**	(13,850)
Tax impact of all adjustments[5]	**(231)**	(519)	**$ (1,721)**	$ (1,818)
Total adjustments	**$ (3,163)**	$ (16,595)	**$ 2,951**	$ (7,603)
Adjusted net income attributable to the Company	**$ 19,308**	$ 23,874	**$ 74,143**	$ 102,868
Weighted average number of shares – Basic	**34,154**	35,456	**34,622**	36,316
Weighted average number of shares – Diluted	**34,466**	35,747	**34,922**	36,648
Basic EPS	**$ 0.66**	$ 1.14	**$ 2.06**	$ 3.04
Diluted EPS	**$ 0.65**	$ 1.13	**$ 2.04**	$ 3.01
Basic adjusted EPS	**$ 0.57**	$ 0.67	**$ 2.14**	$ 2.83
Diluted adjusted EPS	**$ 0.56**	$ 0.67	**$ 2.12**	$ 2.81

Notes:

(1) Adjustment for professional fees incurred in relation to acquisition activities.

(2) Adjustment for charges related to the Company's ERP implementation project resulting in significantly increased costs during the implementation phase relative to the ongoing operating costs.

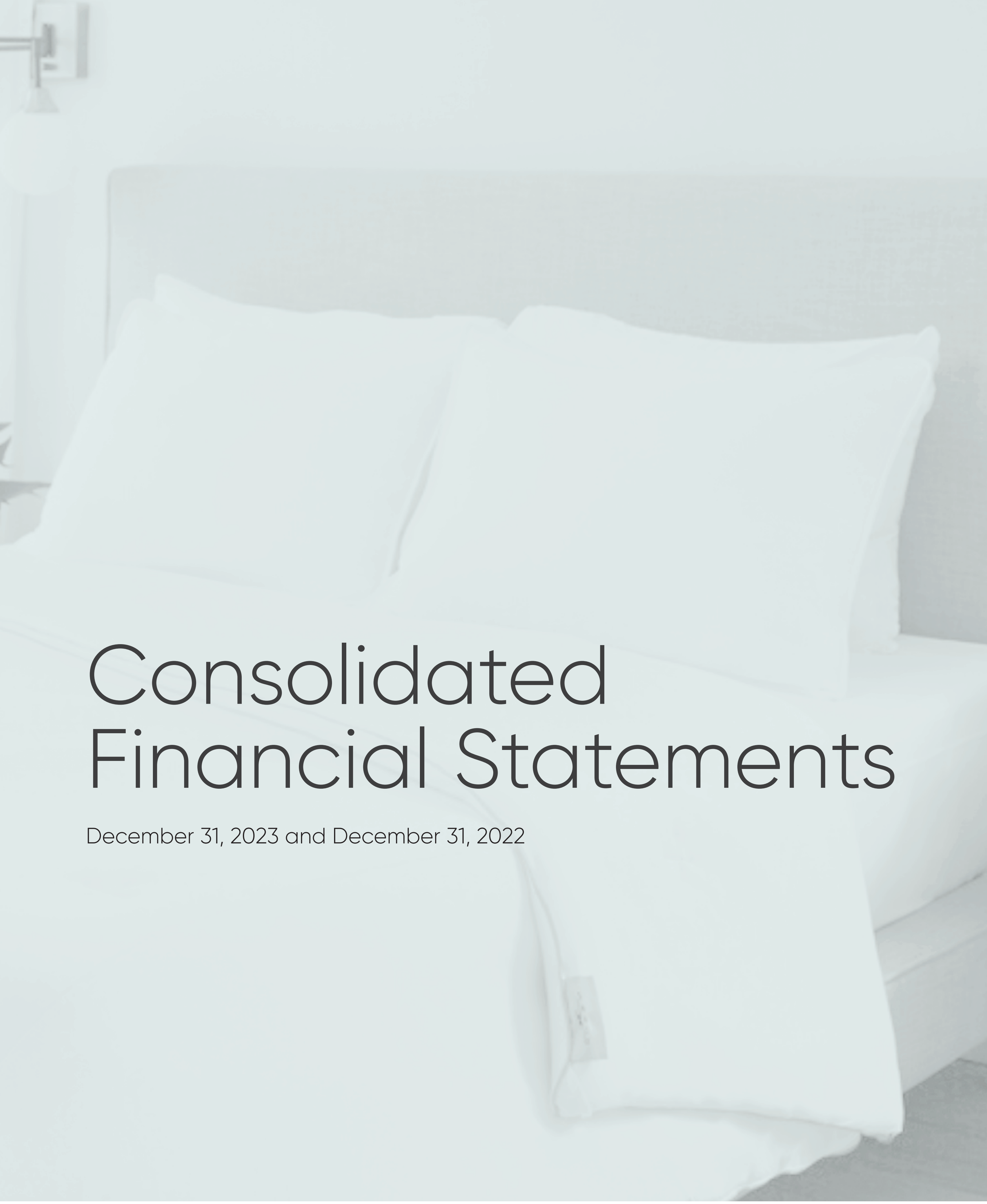
(3) Adjustment for share-based compensation.

(4) Adjustment for accretion of the redemption liabilities related to the Hush acquisition and the contingent consideration liability related to the Silk & Snow acquisition.

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

20. Additional Information

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



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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2500, Toronto, Ontario, Canada M5J 0B2
T.: +1 416 863 1133, F.: +1 416 365 8215, Fax to mail: ca_toronto_18_york_fax@pwc.com

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

(in thousands of Canadian dollars, unless otherwise noted)

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

(in thousands of Canadian dollars, unless otherwise noted)

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.

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

(in thousands of Canadian dollars, unless otherwise noted)

include some current members of the Company’s Board and the Company’s management. The Company believes it will be able to sustain its tax positions, and consequently no reserve has been made.

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

(in thousands of Canadian dollars, unless otherwise noted)

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.

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

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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.

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Sleep Country Canada Holdings Inc.
7920 Airport Road, Brampton, ON, L6T 4N8
Telephone 289-748-0206

sleepcountry.ca | dormezvous.com | endy.com | hush.ca | hushblankets.com | silkandsnow.com | therest.ca | casper.ca