

# **Sleep Country Canada Holdings Inc.**

Consolidated Financial Statements

**December 31, 2022 and December 31, 2021**



## Independent auditor's report

To the Shareholders of Sleep Country Canada Holding Inc.

---

### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Sleep Country Canada Holding Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in shareholder's equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

---

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP  
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5  
T: +1 905 815 6300, F: +1 905 815 6499

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



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment assessment of goodwill and indefinite life intangible assets</b></p> <p><i>Refer to note 3 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments and note 10 – Goodwill and intangible assets to the consolidated financial statements.</i></p> <p>The Company had goodwill of \$317.0 million and indefinite life intangible assets of \$101.5 million as at December 31, 2022. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Goodwill and indefinite life intangible assets (brands) are allocated to CGUs for the purpose of impairment testing. Management tests goodwill and brands for impairment annually on December 31 or more frequently if events or changes in circumstances indicate the asset might be impaired. The impairment tests are performed by comparing the carrying values of the CGUs with their recoverable amounts, which is the higher of their fair value less costs of disposal and their value in use.</p> <p>Management used the value in use approach to determine the fair value of the Sleep Country, Endy and Hush CGUs (the CGUs) based on discounted cash flow models. Significant assumptions used in the discounted cash flow models included growth rates and terminal growth rates. No impairment was recognized as a result of the 2022 impairment tests.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"><li>• Evaluated how management determined the recoverable amounts of the goodwill and indefinite life intangible assets for the CGU's which included the following:<ul style="list-style-type: none"><li>– Tested the appropriateness of the approach used and the mathematical accuracy of the discounted cash flow models.</li><li>– Tested the reasonableness of the significant assumptions applied by management in the discounted cash flow models by:<ul style="list-style-type: none"><li>○ comparing the growth rates to the budget approved by the Board of Directors, and current and past performance, and considering consistency with available third party published industry data; and</li><li>○ comparing the terminal growth rates to current and past performance and considering consistency with available third party published industry data.</li></ul></li><li>– Tested the underlying data used in the discounted cash flow models.</li><li>– Tested the disclosures made in the consolidated financial statements.</li></ul></li></ul>



#### Key audit matter

#### How our audit addressed the key audit matter

We considered this a key audit matter due to (i) the significance of the goodwill and indefinite life intangible assets balances; (ii) the significant judgments made by management in determining the recoverable amounts of the CGUs, including the use of significant assumptions; and (iii) the audit effort and auditor's judgment involved in testing those significant assumptions.

---

#### Other information

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

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

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

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

---

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going



concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

---

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

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

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

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



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

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

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

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

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

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario  
March 2, 2023

**Sleep Country Canada Holdings Inc.**  
**Consolidated Statements of Financial Position**  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars)

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

**Approved by the Board of Directors**

**(Signed) Mandeep Chawla - Director**

**(Signed) David Shaw - Director**

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

**Sleep Country Canada Holdings Inc.**  
**Consolidated Statements of Income and Comprehensive Income**  
**For the years ended December 31, 2022 and December 31, 2021**

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

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

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



**Sleep Country Canada Holdings Inc.**  
Consolidated Statements of Changes in Shareholders' Equity  
For the years ended December 31, 2022 and December 31, 2021

(in thousands of Canadian dollars, except share amounts)

	Equity Attributable to Sleep Country Canada Holdings Inc.						Non-Controlling Interests	Total Shareholders' Equity
	Share Capital and Other							
	Number of Shares	Common Shares \$	Contributed Surplus \$	Retained Earnings \$	Other Reserves \$	Total \$	\$	\$
<b>Balance – January 1, 2021</b>	36,700,764	345,247	8,963	4,332	—	358,542	—	358,542
Net income for the year	—	—	—	88,603	—	88,603	379	88,982
Other comprehensive income for the year	—	—	—	—	—	—	—	—
Comprehensive income for the year	—	—	—	88,603	—	88,603	379	88,982
Dividends declared	—	—	—	(28,705)	—	(28,705)	—	(28,705)
Shares issued on settlement of share-based compensation option/unit (note 19)	213,223	5,332	(2,058)	—	—	3,274	—	3,274
Share-based compensation (note 19)	—	—	5,485	—	—	5,485	—	5,485
Purchase commitment of non-controlling interests (note 20)	—	—	—	(23,013)	—	(23,013)	—	(23,013)
Non-controlling interests arising on a business combination (note 20)	—	—	—	—	—	—	5,399	5,399
<b>Balance – December 31, 2021</b>	<b>36,913,987</b>	<b>350,579</b>	<b>12,390</b>	<b>41,217</b>	<b>—</b>	<b>404,186</b>	<b>5,778</b>	<b>409,964</b>
<b>Balance – January 1, 2022</b>	<b>36,913,987</b>	<b>350,579</b>	<b>12,390</b>	<b>41,217</b>	<b>—</b>	<b>404,186</b>	<b>5,778</b>	<b>409,964</b>
Net income for the year	—	—	—	110,471	—	110,471	225	110,696
Other comprehensive loss for the year	—	—	—	—	(25)	(25)	2	(23)
Comprehensive income for the year	—	—	—	110,471	(25)	110,446	227	110,673
Dividends declared	—	—	510	(30,919)	—	(30,409)	—	(30,409)
Shares issued on settlement of share-based compensation option/unit (note 19)	263,365	5,747	(2,946)	—	—	2,801	—	2,801
Share-based compensation (note 19)	—	—	4,935	—	—	4,935	—	4,935
Shares repurchased under normal course issuer bid ("NCIB") (note 14)	(2,339,409)	(22,116)	—	(36,389)	—	(58,505)	—	(58,505)
Share repurchase commitment under automatic share purchase plan ("ASPP") (note 14)	—	(20,660)	—	—	—	(20,660)	—	(20,660)
Non-controlling interests (note 20)	—	—	—	—	—	—	1,279	1,279
<b>Balance – December 31, 2022</b>	<b>34,837,943</b>	<b>313,550</b>	<b>14,889</b>	<b>84,380</b>	<b>(25)</b>	<b>412,794</b>	<b>7,284</b>	<b>420,078</b>

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

**Sleep Country Canada Holdings Inc.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars)

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

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

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

#### 1 Organization

Sleep Country Canada Holdings Inc. (the “**Company**”) was incorporated by articles of incorporation under the Canada Business Corporations Act on May 27, 2015. The Company is authorized to issue an unlimited number of common shares and Class A common shares without par value. The common shares are voting and entitled to dividends if and when declared by the Board of Directors (the “**Board**”).

The Company is Canada's leading specialty sleep retailer with a national retail store network and multiple eCommerce platforms. The Company has 289 corporate-owned stores and 20 warehouses across Canada and operates under retail banners: Sleep Country Canada™, Dormez-vous™, Endy™ and Hush™.

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

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

#### 2 Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

#### 3 Summary of significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

##### Consolidation

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

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

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

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

#### **Financial assets and liabilities**

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

Financial assets are derecognized when the contractual rights to receive cash flows from the financial assets expire and financial liabilities are derecognized when obligations under the contracts expire, are discharged or are cancelled. Financial assets upon initial recognition are classified into two categories: (1) those to be measured subsequently at fair value (either through other comprehensive income or through net income); and (2) those to be measured at amortized cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The following classifications have been applied:

- cash and trade and other receivables are classified as financial assets measured at amortized cost;
- trade and other payables, customer deposits, other liabilities and long-term debt have been classified as financial liabilities measured at amortized costs; and
- Interest rate swaps have been classified as financial liabilities measured at fair-value through net income.

The redemption liabilities presented within other liabilities are recognized initially at fair value, and are subsequently measured at amortized cost, which is the carrying value. Any difference between the carrying value and the redemption value is recognized in the consolidated statements of income and comprehensive income. For changes in the estimated liabilities amount, a gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

Long-term debt is recognized initially at fair value, net of recognized transaction costs, and is subsequently measured at amortized cost, which is the carrying value. Any difference between the carrying value and the redemption value is recognized in the consolidated statements of income and comprehensive income using the effective interest rate method. For debt modifications, a gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

Fees paid on initial recognition and subsequent modifications on the senior credit facilities are capitalized and amortized over the period of the facility to which it relates and are presented net of long-term debt in the consolidated statements of financial position.

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9 - Financial Instruments, which requires expected lifetime losses to be recognized at the time of initial recognition of the receivables.

#### **Derivative financial instruments**

Forward foreign exchange contracts are periodically used to limit foreign currency risks relating to the Company's senior secured credit facility (note 13) when denominated in US dollars. Interest rate swaps are periodically used to limit the interest rate risk relating to the Company's senior secured credit facility (note 13).

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

These contracts are treated as derivative instruments and they are measured at mark-to-market in the period, with changes in fair value recorded in the consolidated statements of income and comprehensive income within finance related expenses.

#### Offsetting financial instruments

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

#### Foreign currency translation

- Functional and presentation currency

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

- Transactions and balances

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

- Foreign operations

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

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

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

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

#### Segment information

As at December 31, 2022, the Company manages its business on the basis of three operating segments, Sleep Country/Dormez-vous, Endy and Hush, which is consistent with the internal reporting provided to the chief operating decision-maker, the Chief Executive Officer. The Company has only one reportable segment as the operating segments meet the aggregation criteria of IFRS 8, Operating Segments. The Company aggregates these reporting segments because the nature of products, services, methods of distribution and economic characteristics are similar. The Company operates primarily in Canada, its country of domicile.

#### Inventories

Inventories are stated at the lower of their carrying value determined on a specific item on an actual cost basis and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses. Cost of inventories includes the cost of merchandise and the costs incurred to deliver inventory to the Company's distribution centres including freight and duties. Volume rebates earned are deducted in determining the carrying value of inventory.

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

#### Property and equipment

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

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

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

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

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

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

#### Goodwill and intangible assets

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

- Computer software

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

- Non-compete contracts

Non-compete contracts are amortized over an estimated life of up to five years.

- Brands

Sleep Country and Dormez-vous brands are recorded at cost and are not subject to amortization, as they have an indefinite life. The Company has determined these brands have an indefinite life because the Company has the ability and intention to renew the brand names indefinitely and an analysis of product life cycle studies and market and competitive trends provides evidence that the brands will generate net cash inflows for the group for an indefinite period. They are tested for impairment annually, as at the dates of these consolidated statements of financial position, or more frequently if events or circumstances indicate they may be impaired.

The Endy and Hush brands are recorded at fair value at the time of acquisition and are subject to amortization over an estimated life of 20 years.

- Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed. Goodwill is not amortized and the Company tests goodwill for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired.

#### Impairment of non-financial assets

- Impairment of goodwill and indefinite life intangible assets

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

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Goodwill and indefinite life intangible assets (brands) are allocated to cash generating units (“CGUs”) or groups of CGUs for the purpose of impairment testing. The allocation is

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

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

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

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

- Impairment reversals

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

#### **Trade and other payables**

Trade and other payables are obligations to pay for goods or services that have been acquired or rendered in the ordinary course of business. Trade and other payables are classified as current liabilities if payment is due or expected within one year or less. Otherwise, they are presented as non-current liabilities. Trade and other payables are recognized initially at fair value and subsequently are measured at amortized cost.

#### **Customer deposits**

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



# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

#### Decommissioning provisions

Decommissioning provisions represent the cost of the Company's obligation to rehabilitate its leased premises and are estimated based on the present value of expected future rehabilitation costs and recognized in the period in which the obligation is incurred. The present value of these costs is added to the cost of the associated asset and is amortized over its useful life, while the corresponding liability will accrete to its future value over the same period.

#### Share-based compensation

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

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

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

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

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

DSUs granted vest in equal installments on the last day of each month of the fiscal year immediately following the grant date, and relate to the applicable portion of the Directors' annual retainer.

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

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

settlement of PSUs, RSUs and DSUs, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

#### Revenue recognition

Revenue is recognized based on the five-step model outlined in IFRS 15 - Revenue from contracts with customers. Revenue is derived from the sale of goods and services and is recognized at a point in time when the performance obligation is fulfilled. The performance obligation is deemed fulfilled when the control of the products has transferred to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Provisions for returns relating to the Company's various customer satisfaction programs are accrued based on historical experience. Revenue from sale of third party warranties is recognized based on the net amount of consideration the Company retains after paying the third party the consideration received in exchange for the services to be provided by the third party.

#### Income taxes

Income taxes comprise of current and deferred income taxes. Income taxes are recognized in the consolidated statements of income and comprehensive income, except to the extent that they relate to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is recognized directly in other comprehensive income or equity, respectively.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Income taxes provided for by the Company are accounted for using the liability method. Deferred income taxes arise due to the temporary differences in the financial reporting and tax bases of assets and liabilities. Changes in these temporary differences are reflected in the provision for deferred income taxes using substantively enacted income tax rates and regulations. Deferred income taxes are recognized for all temporary differences, except where they arise from goodwill that is not tax deductible, on the initial recognition of an asset or liability that is not a business combination and at the time of the transaction affects neither accounting nor taxable income. In addition, deferred tax liabilities are not recognized for taxable temporary differences arising from investments in subsidiaries and associates where the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized to the extent that the recoverability of deferred income tax assets is considered more likely than not.

#### Leases

Leases are accounted for by recognizing a right-of-use asset and a lease liability except for low-value assets and short-term leases (less than 12 months) which are recognized in the consolidated statements of income and comprehensive income on a straight-line method.

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

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

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

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

#### **Business combinations**

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

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

#### **Accounting standards issued but not yet in effect**

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

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

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

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

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

#### *Disclosure of Accounting Policies (Amendments to IAS 1)*

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

#### *Definition of Accounting Estimates (Amendments to IAS 8)*

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

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

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

## **4 Critical accounting estimates and judgments**

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

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

### **Impairment of goodwill and brands**

The Company is required to use judgment in determining the appropriate groupings of CGUs, in order to determine the level at which goodwill and intangible assets are tested for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed. In determining the recoverable amount of a CGU, various estimates are employed. The Company determines the higher of its fair value less costs of disposal and its value in use, using estimates such as projected future sales, earnings, capital investments and discount rates. Projected future sales and earnings are consistent with strategic plans provided to the Company's Board of Directors. Discount rates are based on an estimate of the Company's weighted average cost of capital taking into account external industry information reflecting the risk associated with the specific cash flows. As at reporting dates for these consolidated financial statements, impairment reviews were performed by comparing the carrying value with the recoverable amount of the CGU to which goodwill and brands have been allocated.

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

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

#### Business combinations

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

#### 5 Cash

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

#### 6 Trade and other receivables

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

The Company's trade and other receivables consist of balances due from vendors related to volume and co-operative advertising rebates and balances due from third party financing companies. The carrying amounts of the Company's trade and other receivables approximate their fair values.

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

#### 7 Inventories

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

**8 Property and equipment**

	<b>Computer hardware \$</b>	<b>Furniture, fixtures and other \$</b>	<b>Leasehold improvements \$</b>	<b>Total \$</b>
<b>Year ended December 31, 2021</b>				
<b>Cost</b>				
At January 1, 2021	6,387	12,629	104,389	123,405
Acquisition through business combination (note 20)	—	46	—	46
Additions	1,528	3,161	14,848	19,537
Disposals	(787)	(638)	(2,136)	(3,561)
<b>At December 31, 2021</b>	<b>7,128</b>	<b>15,198</b>	<b>117,101</b>	<b>139,427</b>
<b>Accumulated depreciation</b>				
At January 1, 2021	4,568	7,731	42,955	55,254
Depreciation	1,469	2,207	12,307	15,983
Disposal	(786)	(575)	(2,123)	(3,484)
<b>At December 31, 2021</b>	<b>5,251</b>	<b>9,363</b>	<b>53,139</b>	<b>67,753</b>
<b>Net book value</b>	<b>1,877</b>	<b>5,835</b>	<b>63,962</b>	<b>71,674</b>
<b>Year ended December 31, 2022</b>				
<b>Cost</b>				
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)
<b>At December 31, 2022</b>	<b>7,089</b>	<b>16,220</b>	<b>122,578</b>	<b>145,887</b>
<b>Accumulated depreciation</b>				
At January 1, 2022	5,251	9,363	53,139	67,753
Depreciation	1,221	2,392	13,148	16,761
Disposal	(1,305)	(803)	(195)	(2,303)
<b>At December 31, 2022</b>	<b>5,167</b>	<b>10,952</b>	<b>66,092</b>	<b>82,211</b>
<b>Net book value</b>	<b>1,922</b>	<b>5,268</b>	<b>56,486</b>	<b>63,676</b>

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

**9 Right-of-use assets and lease liabilities**

<b>Right-of-use assets</b>	<b>Properties</b>	<b>Trucks</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Year ended December 31, 2021</b>			
At January 1, 2021	255,793	2,438	258,231
Acquisition through business combination (note 20)	124	—	124
Net additions with a corresponding increase to the lease liability	56,059	(109)	55,950
Cash additions due to initial direct cost incurred during the year	194	—	194
Additions of restorative obligations	236	—	236
Assets derecognized	(275)	—	(275)
Tenant inducements received	(2,776)	—	(2,776)
Depreciation	(37,761)	(826)	(38,587)
<b>At December 31, 2021</b>	<b>271,594</b>	<b>1,503</b>	<b>273,097</b>
<b>Year ended December 31, 2022</b>			
At January 1, 2022	271,594	1,503	273,097
Net additions with a corresponding increase to the lease liability	31,447	607	32,054
Cash additions due to initial direct cost incurred during the year	58	—	58
Additions of restorative obligations	39	—	39
Assets derecognized	(1,486)	—	(1,486)
Tenant inducements received	(797)	—	(797)
Depreciation	(38,920)	(896)	(39,816)
<b>At December 31, 2022</b>	<b>261,935</b>	<b>1,214</b>	<b>263,149</b>

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

---

(in thousands of Canadian dollars, unless otherwise noted)

<b>Lease liabilities – Current and non-current</b>	<b>Total \$</b>
<b>Year ended December 31, 2021</b>	
At January 1, 2021	303,973
Acquisition through business combination (note 20)	132
Net additions with a corresponding increase to right-of-use assets	55,950
Gross lease payment	(49,751)
Interest expense on lease liabilities	11,944
	<hr/>
<b>At December 31, 2021</b>	<b>322,248</b>
<b>Year ended December 31, 2022</b>	
At January 1, 2022	322,248
Net additions with a corresponding increase to right-of-use assets	32,054
Liabilities derecognized	(1,803)
Gross lease payment	(50,807)
Interest expense on lease liabilities	12,090
	<hr/>
<b>At December 31, 2022</b>	<b>313,782</b>

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

	<b>2022 \$</b>	<b>2021 \$</b>
Current	38,612	37,910
Non-current	275,170	284,338
	<hr/>	<hr/>
	<b>313,782</b>	<b>322,248</b>



**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

**10 Goodwill and intangible assets**

	<b>Intangible assets</b>				<b>Total</b>	<b>Goodwill</b>
	<b>Brands – indefinite life</b>	<b>Brands – definite life</b>	<b>Non – compete contracts</b>	<b>Computer software</b>		
	\$	\$	\$	\$	\$	\$
<b>Year ended December 31, 2021</b>						
<b>Cost</b>						
At January 1, 2021	101,540	21,961	2,949	34,708	161,158	300,884
Acquisition through business combination (note 20)	—	16,140	450	16	16,606	17,485
Additions	—	—	—	8,177	8,177	—
Disposals	—	—	(1,402)	(1,295)	(2,697)	—
<b>At December 31, 2021</b>	<b>101,540</b>	<b>38,101</b>	<b>1,997</b>	<b>41,606</b>	<b>183,244</b>	<b>318,369</b>
<b>Accumulated amortization</b>						
At January 1, 2021	—	2,273	2,876	8,575	13,724	—
Amortization	—	1,254	54	4,848	6,156	—
Disposals	—	—	(1,402)	(1,096)	(2,498)	—
<b>At December 31, 2021</b>	<b>—</b>	<b>3,527</b>	<b>1,528</b>	<b>12,327</b>	<b>17,382</b>	<b>—</b>
<b>Net book value</b>	<b>101,540</b>	<b>34,574</b>	<b>469</b>	<b>29,279</b>	<b>165,862</b>	<b>318,369</b>
<b>Year ended December 31, 2022</b>						
<b>Cost</b>						
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)
<b>At December 31, 2022</b>	<b>101,540</b>	<b>38,101</b>	<b>1,997</b>	<b>54,766</b>	<b>196,404</b>	<b>316,785</b>
<b>Accumulated amortization</b>						
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)	—
<b>At December 31, 2022</b>	<b>—</b>	<b>5,432</b>	<b>1,654</b>	<b>17,951</b>	<b>25,037</b>	<b>—</b>
<b>Net book value</b>	<b>101,540</b>	<b>32,669</b>	<b>343</b>	<b>36,815</b>	<b>171,367</b>	<b>316,785</b>

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

---

(in thousands of Canadian dollars, unless otherwise noted)

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

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

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

The Company performs annual goodwill impairment tests at the end of each fiscal year, for the CGUs using the recoverable amounts based on the value in use (discounted cash flows) approach. Recoverable amounts were determined for the CGUs using the 2023 budget approved by the Board of Directors that made maximum use of observable markets for inputs and outputs. For periods beyond the budget period, cash flows were extrapolated using growth rates of 3.0% (2021 – 3.0%) and a terminal growth rate of 3.0% (2021 – 3.0%). A discount rate of 13.0% was used for Sleep Country (2021 - 9.1%), 17.5% was used for Endy (2021 – 9.1%) and 17.5% was used for Hush (2021 – N/A). As at December 31, 2022, any reasonable changes to the model assumptions would not result in an impairment.

The Company has determined, using appropriate valuation methodologies, that there was no impairment of its goodwill or brands as at the reporting dates of these consolidated financial statements. As at December 31, 2022, any reasonable changes to the impairment model assumptions would not result in an impairment.

**11 Trade and other payables**

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

**12 Other liabilities**

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

At the time of the Hush acquisition on October 22, 2021, the Company entered into an agreement to acquire the remaining 48% of outstanding common shares in three equal increments of 16% over a three-year period starting March 31, 2023. The consideration paid for each share increment purchase will be calculated based on specified earnings levels achieved during the three-year period. On December 31, 2022, the Company remeasured the redemption liabilities at \$10,066 (2021 - \$23,013) based on the expected outcome during the three-year redemption period and the change was recorded in finance related expenses in the consolidated statement of income and other comprehensive income as at December 31, 2022. The expected outcome (discounted) is determined based on an earnings formula and the expected earnings levels over the measurement period.

**13 Long-term debt**

The Company has a senior secured credit facility of \$260,000 with an additional \$100,000 available on its accordion, which is scheduled to mature on October 22, 2026. Under the terms of the senior secured credit facility, certain financial and non-financial covenants must be complied with per the agreement. The Company is in compliance with all covenants as at December 31, 2022. The senior secured credit facility is secured by all of the present and after-acquired personal property of the Company. As at December 31, 2022, the balance outstanding on the senior secured credit facility was \$100,000 (2021 – \$63,000). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of \$918 (2021 – \$1,105). The senior secured credit facility allows for the debt to be held in Canadian or U.S. dollars. As at December 31, 2022, the Company held the debt in Canadian dollars.

Interest on the senior secured credit facility is based on the prime or bankers' acceptance rates plus applicable margins based on the achievement of certain targets, as defined by the amended and restated senior secured credit agreement. The Company entered into a fixed interest rate swap, effective April 1, 2021 ending on April 1, 2024, for the notional amount of \$60,000 whereby the Company pays a fixed rate of 1.072% and receives interest at a variable rate equal to the Canadian Dollar Offered Rate for 3-month bankers' acceptances ("**3-month CDOR**") on the notional amount. The swap is being used to manage the volatility of interest rates on the outstanding balance on its senior secured credit facility.

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

**14 Share capital and other**

The following table outlines the issued and outstanding shares:

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

**Common shares and Class A common shares**

The holders of common shares are entitled to receive notice of any meetings of shareholders, to attend and to cast one vote per common share at all such meetings. Holders of common shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the common shares entitled to vote in any election of directors may elect all directors standing for election. Holders of common shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Board at its discretion from funds legally available therefore and on liquidation, dissolution or winding up of the Company are entitled to receive on a pro rata basis the net assets of the Company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the common shares with respect to dividends or liquidation. The common shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

Holders of Class A common shares will be entitled to the same rights and privileges as holders of common shares described above and will rank equally with the holders of common shares on liquidation, dissolution, or winding up of the Company. The Class A common shares will not carry any pre-emptive or subscription rights, nor will they contain any sinking or purchase fund provisions. Class A common shares are redeemable at the option of the Company on written notice to the holders of the Class A common shares, with the redemption price being equal to the price per common share in the IPO. As at December 31, 2022, there were no outstanding Class A common shares (2021– nil).

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

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

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

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

#### 15 Expense by nature

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

---

(in thousands of Canadian dollars, unless otherwise noted)

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

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

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

**16 Finance related (income) expenses**

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

---

(in thousands of Canadian dollars, unless otherwise noted)

**17 Income taxes**

**Components of income tax provision**

Components of the income tax provision are as follows:

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

**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:

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

---

(in thousands of Canadian dollars, unless otherwise noted)

**Deferred income tax liability**

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

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

The Company has recognized a deferred tax asset of \$3,498 (2021 – \$3,949), which is dependent on future taxable income. The Company expects that it will be able to utilize the deferred tax asset in the future.

As at December 31, 2022, the Company has unused capital losses of \$19,739 (2021 – \$19,739) with no expiry date.

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

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

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

The Company was required to pay a minimum of 50% of the amount issued in the Notices of Reassessment within 30 days of the date of these Notices. Accordingly, payments of \$2,988 were made and included in prepaid expenses and deposits on the consolidated statements of financial position.

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

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



**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

---

(in thousands of Canadian dollars, unless otherwise noted)

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

**18 Earnings per share ("EPS")**

Basic EPS amounts are calculated by dividing the net income attributable to common shareholders of Sleep Country Canada Holdings Inc. by the weighted average number of shares outstanding during the year.

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

The below table summarizes the dilution impact of stock options:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Dilutive</b>	526,791	841,555
<b>Anti-dilutive</b>	511,999	316,158
<b>Total</b>	<u>1,038,790</u>	<u>1,157,713</u>

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

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

<b>Attributable to common shareholders of Sleep Country Canada Holdings Inc.</b>			
			<b>2022</b>
	<b>Net income attributable to Sleep Country Canada Holdings Inc. \$</b>	<b>Weighted average number of shares (in thousands of shares)</b>	<b>EPS \$</b>
Basic	110,471	36,316	3.04
Diluted	110,471	36,648	3.01
<b>Attributable to common shareholders of Sleep Country Canada Holdings Inc.</b>			
			<b>2021</b>
	<b>Net income attributable to Sleep Country Canada Holdings Inc. \$</b>	<b>Weighted average number of shares (in thousands of shares)</b>	<b>EPS \$</b>
Basic	88,603	36,810	2.41
Diluted	88,603	37,208	2.38

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

#### 19 Share-based compensation

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

The LTIP and DSU plan can be settled in shares or cash at the discretion of the Board. The Company accounts for these plans as equity-settled and it has no intention to settle in cash. The expense associated with these instruments are recorded as share-based compensation expense through the consolidated statements of income and comprehensive income with a corresponding entry made to contributed surplus in share capital and other on the consolidated statements of financial position and the consolidated statements of shareholders' equity. The contributed surplus balance is reduced as the options or units under these plans are exercised and the amount initially recorded in contributed surplus is reclassified to common shares.

Share-based compensation expense is summarized as follows:

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

The Company recorded \$44 (2021 – \$337) in payroll taxes related to share-based compensation which is not included in the above table.

The maximum number of common shares that may be issued, under all share-based compensation arrangements implemented by the Company including stock options, PSUs, RSUs and DSUs, may not exceed 6.5% of the total number of common shares issued and outstanding. The maximum number of common shares that may be issued within any one-year period under all share-based compensation arrangements implemented by the Company may not exceed 1.5% of the then issued and outstanding number of common shares. The maximum number of common shares that may be issued under the PSU plan, the RSU plan and the DSU plan cumulatively is 2.6% of the total number of common shares issued and outstanding.

#### a) Stock options

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

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

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

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

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

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

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

Exercise price range	Stock options outstanding			Stock options exercisable		
	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price \$	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price \$
\$15.94 to \$17.00	198,230	6.4	16.12	118,096	5.9	16.24
\$19.31 to \$27.73	425,328	6.1	22.13	114,870	3.2	19.31
\$30.70 to \$38.83	415,232	5.6	33.32	337,128	5.0	33.52
	1,038,790	6.0	25.46	570,094	4.8	27.08

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

The Black-Scholes model was used to estimate the fair value of stock options. In determining the fair value of these associate stock options, the following assumptions were used:

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

b) PSU plan

A PSU represents the right to receive a common share settled by the issuance of treasury shares or purchased on the open market or the cash equivalent at the market value of a share at the vesting date at the discretion of the Board. The Company has no intention to settle in cash. PSUs generally vest 100% on the third anniversary of the grant date.

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

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

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

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

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

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

---

(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:

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

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

d) DSU plan

A DSU represents the right to receive a common share settled by the issuance of treasury shares or purchased on the open market. DSUs granted vest in equal installments on the last day of each month of the year immediately following the grant date, and relate to the applicable portion of the Directors' annual retainer.

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

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

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

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

---

(in thousands of Canadian dollars, unless otherwise noted)

**20 Business combination**

On October 22, 2021, the Company acquired 52% of the issued and outstanding common shares of Hush, a direct-to-consumer sleep retailer, for a cash consideration of \$23,333.

This acquisition has been accounted for as a business combination.

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

	\$
Purchase consideration	
Cash purchase price	23,333
Final allocation of purchase consideration to net assets acquired	
Net working capital	(1,305)
Indemnification asset	500
Property and equipment (note 8)	46
Right-of-use assets (note 9)	124
Intangible assets (note 10)	16,606
Deferred tax liabilities (note 17)	(2,001)
Lease liabilities (note 9)	(132)
Other liabilities (note 12)	273
Total net assets acquired	<u>14,111</u>
Non-controlling interests	(6,678)
Goodwill (note 10)	<u>15,900</u>
Total net assets acquired, non-controlling interests and goodwill	<u>23,333</u>

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

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

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

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

Acquisition related costs of \$438 are included in general and administrative expenses in the consolidated statement of income and comprehensive income and in operating cash flows in the consolidated statement of cash flows for year ended December 31, 2021.

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

Pursuant to the Hush share purchase agreement, the Company is indemnified by the non-controlling interests against losses suffered or incurred as a result of or arising from taxes payable by Hush in respect of pre-closing tax periods. The Company has recorded liability on its consolidated statement of financial position at the acquisition date and recorded the corresponding indemnification asset to offset the liability.

## 21 Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest risks), credit risk and liquidity risk. The Company's overall risk management program and business practices seek to minimize any potential adverse effects on the Company's consolidated financial performance.

Risk management is carried out by the senior management team and is overseen by the Board of Directors.

### Market risk

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

- Foreign exchange risk

A portion of the Company's sales and purchases are denominated in U.S. dollars which results in foreign currency exposure related to fluctuations between the Canadian and U.S. dollars. Foreign currency forward contracts can be used from time to time to mitigate risks associated with forecasted USD merchandise purchases sold in Canada.

- Cash flow and fair value interest risk

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

The Company's primary interest rate risk arises from long-term debt. The Company manages its exposure to changes in interest rates by using a combination of fixed and variable rate debt and utilizing interest rate swaps as necessary to achieve the desired proportion of variable and fixed rate debt. As at December 31, 2022, an increase or decrease in interest rates by 1% would result in an increase or a decrease of \$400 (2021 – \$30) on interest expense on the credit facilities.



# **Sleep Country Canada Holdings Inc.**

## Notes to Consolidated Financial Statements

### **As at December 31, 2022 and December 31, 2021**

---

(in thousands of Canadian dollars, unless otherwise noted)

#### **Credit risk**

Credit risk refers to the risk of losses due to failure of the Company's customers or other counterparties to meet their payment obligations. Credit risk arises from deposits with banks, as well as credit exposures from mattress vendors for the payment of volume and co-operative advertising rebate amounts and balances owed from third party financing companies under the various financing plans the Company offers its customers. In accordance with the Company's investment practice, all deposits are held at banks possessing a credit rating of AA- or better. Sales to retail customers are settled in cash, financed by third party financing companies or by using major credit cards. The Company transfers the credit risk for financing plans to third party financing companies. The third party financing companies that the Company deals with carry a minimum rating of BBB or better.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

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

#### **Liquidity risk**

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

As at December 31, 2022, the Company's cash balance was \$78,318 with an additional \$160,000 (not including the \$100,000 accordion) of liquidity available under the Company's credit facility.

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

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

	<b>Within 1 year \$</b>	<b>Between 1 and 5 years \$</b>	<b>Over 5 years \$</b>
At December 31, 2022			
Trade and other payables	106,883	—	—
Lease liabilities	51,187	173,621	157,889
Long-term debt	1,400	104,200	—
Other liabilities	22,705	12,723	—
	182,175	290,544	157,889
At December 31, 2021			
Trade and other payables	107,886	—	—
Lease liabilities	48,320	127,929	39,259
Long-term debt	2,980	74,169	—
Other liabilities	—	34,634	—
	159,186	236,732	39,259

**Fair value of financial instruments**

The different levels used to determine fair values have been defined as follows:

- Level 1 – inputs use quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the Company has the ability to access.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 inputs include quoted prices for similar financial assets and financial liabilities in active markets, and inputs other than quoted prices that are observable for the financial liabilities.
- Level 3 – inputs are unobservable inputs for the financial asset or financial liability and include situations where there is little, if any, market activity for the financial asset or financial liabilities.

The following describes the fair value determinations of financial instruments:

- The carrying values of cash, trade and other receivables, trade and other payables, customer deposits and the share repurchase commitment under the ASPP approximate their fair values due to the relatively short periods to maturity of these financial instruments.
- The carrying value of the senior secured credit facility approximates its fair value as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at December 31, 2022 and December 31, 2021.

**Sleep Country Canada Holdings Inc.**  
Notes to Consolidated Financial Statements  
**As at December 31, 2022 and December 31, 2021**

(in thousands of Canadian dollars, unless otherwise noted)

- The interest rate swap obtained effective April 1, 2021 is recognized at fair value based on observable quoted market prices for identical financial instruments in active markets as at December 31, 2022 and December 31, 2021. The interest rate swap is included in trade and other receivables in the consolidated statements of financial position.
- The redemption liabilities related to the acquisition of Hush were initially recognized at fair value on acquisition date and subsequently measured at amortized cost. The inputs to the measurement of the fair value of the redemption liabilities related to acquisitions are Level 3 inputs. The fair value measurements were made using a discounted cash flow model; significant model inputs were expected future pre-tax earnings over the measurement period (determined with reference to the specific acquired business) and a pre-tax discount rate of 14%. The discount rate is attributable to the level of risk related to economic growth factors combined with the length of the contingent payment periods; and the dispersion was driven by unique characteristics of the businesses acquired and the respective terms for these future payments. A 1% increase in the weighted average discount rate would decrease the fair value of redemption liabilities by \$112 (2021 - \$491).

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

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

**Capital risk management**

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

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

**22 Contingent liabilities and unrecognized contractual commitments**

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisers and consultants, leasing contracts, licence agreements, information technology agreements, and various product and service agreements. These indemnification arrangements may require the Company to

# Sleep Country Canada Holdings Inc.

## Notes to Consolidated Financial Statements

### As at December 31, 2022 and December 31, 2021

---

(in thousands of Canadian dollars, unless otherwise noted)

compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined. The Company, whenever possible, tries to limit this potential liability within the particular agreement or contract; however, due to the unpredictability of future events, the maximum amount of any potential reimbursement required to be made by the Company or its subsidiary entities cannot be reasonably estimated, but could have a material adverse effect on the Company.

#### 23 Related party transactions and balances

Key management personnel are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board of Directors. The Company considers key management to be the Company's Board of Directors and its Named Executive Officers ("NEO").

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

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

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

#### 24 Subsequent events

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

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