

Sleep Country Canada Holdings Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

March 31, 2022

Sleep Country Canada Holdings Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	March 31, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Cash	32,793	36,546
Trade and other receivables	14,441	16,678
Inventories	96,906	91,539
Prepaid expenses and deposits (note 4)	8,467	9,329
Other assets	500	500
	<hr/>	<hr/>
	153,107	154,592
Property and equipment	68,464	71,674
Right-of-use assets	268,556	273,097
Other non-current assets	492	492
Intangible assets	166,024	165,862
Goodwill	318,369	318,369
Deferred tax assets	3,691	3,949
	<hr/>	<hr/>
	978,703	988,035
Liabilities		
Current liabilities		
Trade and other payables	84,141	107,886
Customer deposits	25,281	33,435
Current portion lease liabilities	38,944	37,910
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	148,366	179,231
Other non-current liabilities (note 5)	28,160	27,688
Long-term lease liabilities	278,947	284,338
Long-term debt (note 6)	76,953	61,895
Deferred tax liabilities	25,534	24,919
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	557,960	578,071
Shareholders' Equity		
Share capital and other (note 7)	364,028	362,969
Retained earnings	50,832	41,217
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Equity attributable to Sleep Country Canada Holdings Inc.	414,860	404,186
Non-controlling interests	5,883	5,778
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	978,703	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.

Condensed Interim Consolidated Statements of Income and Comprehensive Income (Unaudited)

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

	Three-month period ended March 31, 2022 \$	Three-month period ended March 31, 2021 \$
Revenues	207,028	183,020
Cost of sales	135,395	132,770
Gross profit	71,633	50,250
General and administrative expenses	43,124	34,062
Income before finance related expenses, interest and other expenses and income taxes	28,509	16,188
Finance related expenses (note 8)	3,029	4,010
Interest and other expenses – net	56	351
Income before provision for income taxes	3,085	4,361
Provision for income taxes	25,424	11,827
Current	6,033	2,868
Deferred	873	267
Net income and comprehensive income for the period	6,906	3,135
Net income and comprehensive income attributable to:	18,518	8,692
Sleep Country Canada Holdings Inc.	18,413	8,692
Non-controlling interests	105	—
	18,518	8,692
Earnings per share attributable to Sleep Country Canada Holdings Inc.		
Basic earnings per share (in dollars) (note 9)	0.50	0.24
Diluted earnings per share (in dollars) (note 9)	0.49	0.23

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

Sleep Country Canada Holdings Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(in thousands of Canadian dollars)

	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 \$	Total \$	\$	\$
Balance – January 1, 2021	36,700,764	345,247	8,963	4,332	358,542	—	358,542
Net income for the period	—	—	—	8,692	8,692	—	8,692
Dividends declared and paid	—	—	—	(7,156)	(7,156)	—	(7,156)
Shares issued on settlement of share-based compensation option/unit (note 10)	116,911	3,047	(1,420)	—	1,627	—	1,627
Share-based compensation (note 10)	—	—	1,043	—	1,043	—	1,043
Balance – March 31, 2021	36,817,675	348,294	8,586	5,868	362,748	—	362,748
Balance – January 1, 2022	36,913,987	350,579	12,390	41,217	404,186	5,778	409,964
Net income for the period	—	—	—	18,413	18,413	105	18,518
Dividends declared and paid	—	—	—	(7,198)	(7,198)	—	(7,198)
Shares issued on settlement of share-based compensation option/unit (note 10)	124,552	2,692	(2,158)	—	534	—	534
Share-based compensation (note 10)	—	—	1,335	—	1,335	—	1,335
Shares repurchased under normal course issuer bid (“NCIB”) (note 7)	(85,073)	(810)	—	(1,600)	(2,410)	—	(2,410)
Balance – March 31, 2022	36,953,466	352,461	11,567	50,832	414,860	5,883	420,743

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

Sleep Country Canada Holdings Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)

	Three-month period ended March 31, 2022 \$	Three-month period ended March 31, 2021 \$
Cash provided by (used in)		
Operating activities		
Net income for the period	18,518	8,692
Items not affecting cash		
Depreciation of property and equipment	4,197	3,855
Depreciation of right-of-use assets	9,769	9,135
Amortization of intangible assets	1,764	1,191
Share-based compensation (note 10)	1,335	1,043
Finance related expenses (note 8)	3,029	4,010
Other expenses	(23)	168
Deferred income taxes	873	267
	<u>39,462</u>	<u>28,361</u>
Changes in non-cash items relating to operating activities		
Changes in working capital		
Trade and other receivables	2,243	268
Inventories	(5,367)	(3,171)
Prepaid expenses and deposits	862	(484)
Trade and other payables	(23,588)	(24,294)
Customer deposits	(8,154)	(730)
	<u>(34,004)</u>	<u>(28,411)</u>
Payment of contingent consideration	—	(9,877)
	<u>5,458</u>	<u>(9,927)</u>
Investing activities		
Purchase of property and equipment - net of disposals	(791)	(2,629)
Additions to right-of-use assets	(13)	(28)
Purchase of intangible assets	(1,044)	(898)
Payment of contingent consideration	—	(15,123)
	<u>(1,848)</u>	<u>(18,678)</u>
Financing activities		
Proceeds from options exercised (note 10)	534	1,627
Shares repurchased under NCIB (note 7)	(2,410)	—
Proceeds from senior secured credit facility (note 6)	15,000	45,000
Dividends paid	(7,198)	(7,156)
Interest paid	(3,717)	(3,957)
Repayment of principal portion of lease liabilities	(9,572)	(9,592)
	<u>(7,363)</u>	<u>25,922</u>
Decrease in cash during the period	<u>(3,753)</u>	<u>(2,683)</u>
Cash – Beginning of the period	<u>36,546</u>	<u>38,317</u>
Cash – End of the period	<u>32,793</u>	<u>35,634</u>
Supplementary information		
Purchase of property and equipment in trade and other payables	180	2,369
Purchase of intangible assets in trade and other payables	882	2,871
Additions to right-of-use assets with offset in lease liabilities	5,215	14,667

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

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2022

(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 are 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 286 corporate-owned stores and 20 warehouses across Canada and operates under retail banners: Sleep Country Canada™, with omnichannel operations in Canada excluding Québec; Dormez-vous™ with omnichannel operations in Québec; Endy™, Canada's leading direct-to-consumer online sleep solutions retailer; and Hush™, one of Canada's fastest growing digital sleep retailers.

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 condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board (“**IASB**”). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“**IFRS**”) have been omitted or condensed. Accordingly, the condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2021.

The condensed interim consolidated financial statements were reviewed by the Company's Audit Committee. They were approved and authorized for issuance by the Board on May 4, 2022.

3 Summary of significant accounting policies

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

Accounting standards issued but not yet in effect

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

Sleep Country Canada Holdings Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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

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

Disclosure of Accounting Policies (Amendments to IAS 1)

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

Definition of Accounting Estimates (Amendments to IAS 8)

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

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

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

4 Prepaid expenses and deposits

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 Statement of Financial Position.

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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

Pursuant to the indemnification provisions of the pre-IPO share purchase agreement dated July 10, 2015, the Company has a contractual arrangement for all of the above matters with Birch Hill and its co-investors, which include some current members of the Company's Board and the Company's management. The Company believes it will be able to sustain its tax positions, and consequently no reserve has been made.

5 Other non-current liabilities

As at March 31, 2022 and December 31, 2021, there was \$2,632 payable to the non-controlling interests. This liability was acquired by the Company on October 21, 2021 through the Hush acquisition.

6 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 March 31, 2022.

The senior secured credit facility is secured by all of the present and after-acquired personal property of the Company. As at March 31, 2022, the balance outstanding on the senior secured credit facility was \$78,000 (December 31 2021 – \$63,000). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of \$1,047 (December 31, 2021 – \$1,105).

The senior secured credit facility allows for the debt to be held in Canadian or U.S. dollars. During the three-months ended and as at March 31, 2022, the Company held the debt in Canadian dollars.

Interest on the senior secured credit facility is based on the prime or bankers' acceptance rates plus applicable margins based on the achievement of certain targets, as defined by the amended and restated senior secured credit agreement. The Company entered into a fixed interest rate swap, effective April 1, 2021 ending on April 1, 2024, for the notional amount of \$60,000 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 Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

7 Share capital and other

The Company is authorized to issue an unlimited number of common shares and Class A common shares without par value. The following table outlines the issued and outstanding shares:

	March 31, 2022 \$	December 31, 2021 \$
36,953,466 common shares (December 31, 2021 – 36,913,987)	628,620	626,738
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	11,567	12,390
	<u>364,028</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 of Directors 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 March 31, 2022, there were no outstanding Class A common shares (December 31, 2021– nil).

On March 7, 2022, the Company received approval from the Toronto Stock Exchange (the "TSX") to commence a normal course issuer bid ("NCIB"). Pursuant to the NCIB, the Company proposes to purchase through the facilities of the TSX or alternative trading systems, from time to time over the next 12 months, if considered advisable, up to a maximum of 1,673,920 of the Company's common shares, representing approximately 5.3% of the public float as of February 28, 2022. Purchases were permitted to commence through the TSX on March 9, 2022 and will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2023. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 21,173 shares (representing 25% of the average daily trading volume of the shares on the TSX for the six months prior to commencement of the NCIB),

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

except where such purchases are made in accordance with the "block purchase" exception under the applicable TSX rules and policies.

Since March 9, 2022, the Company purchased and cancelled 85,073 common shares, at an average price of \$28.33 for total consideration of \$2,410 (March 31, 2021- \$nil). During the period ended March 31, 2022, the total cash consideration paid exceeded the carrying value of the shares repurchased by \$1,600 (March 31, 2021- \$nil), which was charged to retained earnings.

8 Finance related expenses

	Three-month period ended March 31, 2022 \$	Three-month period ended March 31, 2021 \$
Interest on lease obligations	2,958	2,913
Interest expense on senior secured credit facility	688	862
Change in redemption liabilities	474	—
Revolver commitment fees	159	235
Change in fair value on interest rate swap	(1,250)	—
	<u>3,029</u>	<u>4,010</u>

9 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 period.

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 period 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:

	Three-month period ended March 31, 2022 \$	Three-month period ended March 31, 2021 \$
Dilutive	1,078,367	796,067
Anti-dilutive	135,660	436,479
Total	<u>1,214,027</u>	<u>1,232,546</u>

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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

	Attributable to common shareholders of Sleep Country Canada Holdings Inc.		
	Three-month period ended		
	March 31, 2022		
	Net income attributable to Sleep Country Canada Holdings Inc.	Weighted average number of shares	EPS
	\$	(in thousands of shares)	\$
Basic	18,413	36,943	0.50
Diluted	18,413	37,472	0.49

	Attributable to common shareholders of Sleep Country Canada Holdings Inc.		
	Three-month period ended		
	March 31, 2021		
	Net income attributable to Sleep Country Canada Holdings Inc.	Weighted average number of shares	EPS
	\$	(in thousands of shares)	\$
Basic	8,692	36,726	0.24
Diluted	8,692	37,355	0.23

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

10 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:

	Three-month period ended March 31, 2022 \$	Three-month period ended March 31, 2021 \$
1,214,027 stock options (March 31, 2021 – 1,232,546) (a)	336	439
254,409 PSUs (March 31, 2021 – 246,532) (b)	683	452
148,207 RSUs (March 31, 2021 – 82,631) (c)	192	95
67,857 DSUs (March 31, 2021 – 62,794) (d)	124	57
	1,335	1,043

The Company recorded \$nil (March 31, 2021 – \$45) 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 the stock option, 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.

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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.

The stock options 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 period were as follows:

	Three-month period ended March 31, 2022		Three-month period ended March 31, 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 period	24.23	1,157,713	22.62	1,204,419
Granted during the period	27.73	106,825	30.70	117,890
Exercised during the period	16.85	(31,673)	18.12	(89,763)
Cancelled during the period	24.03	(18,838)	—	—
Outstanding, at the end of the period	24.73	1,214,027	23.72	1,232,546
Options, exercisable at the end of the period	25.67	706,925	22.79	570,202

The weighted average share price on the date the stock options were exercised during the period was \$30.04 (March 31, 2021 – 31.13).

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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	249,947	7.3	16.08	164,266	7.0	16.16
\$19.31 to \$27.73	529,223	6.5	21.79	195,907	3.9	19.31
\$30.70 to \$38.83	434,857	6.4	33.28	346,752	5.8	33.76
	1,214,027	6.6	24.73	706,925	5.6	25.67

The weighted average fair value of stock options estimated at the grant date for the period is \$9.32 (March 31, 2021 – \$8.23).

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

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

b) PSU plan

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

The number of units that will vest is calculated based on a performance adjustment factor of between 0.0 and 2.0 which is determined based on the Company's revenue (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.

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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 period were as follows:

	Three-month period ended March 31, 2022	Three-month period ended March 31, 2021
	Number of units (vested and unvested)	Number of units (vested and unvested)
Outstanding, at beginning of the period	255,385	225,118
Granted during the period	99,450	63,185
Settled during the period	(92,879)	(27,148)
Cancelled during the period	(7,547)	(14,623)
Outstanding, at the end of the period	254,409	246,532

The weighted average fair value of the grant price for the period was \$25.89 (March 31, 2021 – \$30.70).

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 period were as follows:

	Three-month period ended March 31, 2022	Three-month period ended March 31, 2021
	Number of units (vested and unvested)	Number of units (vested and unvested)
Outstanding, at beginning of the period	93,596	51,046
Granted during the period	57,526	31,585
Cancelled during the period	(2,915)	—
Outstanding, at the end of the period	148,207	82,631

The weighted average fair value of the grant price for the period was \$27.73 (March 31, 2021 – \$30.70).

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

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 period were as follows:

	Three-month period ended March 31, 2022	Three-month period ended March 31, 2021
	Number of units (vested and unvested)	Number of units (vested and unvested)
Outstanding, at beginning of the period	67,857	60,183
Granted during the period	—	2,611
Outstanding, at the end of the period	<u>67,857</u>	<u>62,794</u>

The weighted average fair value of the grant price for the period was not applicable (March 31, 2021 – \$13.59).

11 Financial instruments

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 and customer deposits approximate their fair values due to the relatively short periods to maturity of these financial instruments.
- The carrying value of the senior secured credit facility approximates its fair value as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at March 31, 2022 and December 31, 2021.

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022

(in thousands of Canadian dollars, unless otherwise noted)

- The interest rate swap obtained effective April 1, 2021 is recorded at fair value based on observable quoted market prices for identical financial instruments in active markets as at March 31, 2022 and December 31, 2021. The interest rate swap is included in trade and other receivables in the condensed interim consolidated statement 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 \$428.

12 Subsequent events

The Company's dividend policy is at the discretion of the Board. On May 4, 2022, the Company declared a dividend of \$0.215 per common share that will be payable on May 30, 2022 to holders of the common shares of record as at the close of business on May 20, 2022.