

Sleep Country Canada Holdings Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

September 30, 2022

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

(in thousands of Canadian dollars)

	September 30, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Cash	55,061	36,546
Trade and other receivables	13,647	16,678
Inventories	102,487	91,539
Prepaid expenses and deposits (note 4)	9,001	9,329
Other assets	638	500
	<hr/>	<hr/>
	180,834	154,592
Property and equipment	64,252	71,674
Right-of-use assets	254,838	273,097
Other non-current assets	492	492
Intangible assets	167,425	165,862
Goodwill	316,984	318,369
Deferred tax assets	3,568	3,949
	<hr/>	<hr/>
	988,393	988,035
Liabilities		
Current liabilities		
Trade and other payables	113,394	107,886
Customer deposits	21,840	33,435
Other liabilities (note 5)	22,048	—
Current portion lease liabilities	38,772	37,910
	<hr/>	<hr/>
	196,054	179,231
Other non-current liabilities (note 5)	20,064	27,688
Long-term lease liabilities	265,624	284,338
Long-term debt (note 6)	62,021	61,895
Deferred tax liabilities	27,581	24,919
	<hr/>	<hr/>
	571,344	578,071
Shareholders' Equity		
Share capital and other (note 7)	344,336	362,969
Retained earnings	65,744	41,217
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Equity attributable to Sleep Country Canada Holdings Inc.	410,080	404,186
Non-controlling interests	6,969	5,778
	<hr/>	<hr/>
	988,393	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 September 30, 2022 \$	Three-month period ended September 30, 2021 \$	Nine-month period ended September 30, 2022 \$	Nine-month period ended September 30, 2021 \$
Revenues	251,026	273,840	685,629	649,035
Cost of sales	154,403	171,114	435,675	429,708
Gross profit	96,623	102,726	249,954	219,327
General and administrative expenses	49,793	48,840	138,627	121,962
Income before finance related expenses, Other expenses (income) and income taxes	46,830	53,886	111,327	97,365
Finance related expenses (note 8)	6,319	3,979	14,643	12,578
Other expenses (income)	215	22	(361)	194
	6,534	4,001	14,282	12,772
Income before provision for income taxes	40,296	49,885	97,045	84,593
Provision for income taxes				
Current	10,159	12,825	24,086	21,247
Deferred	1,156	602	3,043	1,176
	11,315	13,427	27,129	22,423
Net income and comprehensive income for the period	28,981	36,458	69,916	62,170
Net income (loss) and comprehensive income attributable to:				
Sleep Country Canada Holdings Inc.	28,926	36,458	70,004	62,170
Non-controlling interests	55	—	(88)	—
	28,981	36,458	69,916	62,170
Earnings per share attributable to Sleep Country Canada Holdings Inc.				
Basic earnings per share (in dollars) (note 9)	0.80	0.99	1.91	1.69
Diluted earnings per share (in dollars) (note 9)	0.79	0.98	1.89	1.67

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				Total		
	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	—	—	—	62,170	62,170	—	62,170
Dividends declared	—	—	—	(21,519)	(21,519)	—	(21,519)
Shares issued on settlement of share-based compensation option/unit (note 10)	136,412	3,456	(1,662)	—	1,794	—	1,794
Share-based compensation (note 10)	—	—	2,959	—	2,959	—	2,959
Balance – September 30, 2021	36,837,176	348,703	10,260	44,983	403,946	—	403,946
Balance – January 1, 2022	36,913,987	350,579	12,390	41,217	404,186	5,778	409,964
Net income (loss) for the period	—	—	—	70,004	70,004	(88)	69,916
Dividends declared	—	—	384	(23,214)	(22,830)	—	(22,830)
Shares issued on settlement of share-based compensation option/unit (note 10)	261,479	5,711	(2,910)	—	2,801	—	2,801
Share-based compensation (note 10)	—	—	3,736	—	3,736	—	3,736
Shares repurchased under normal course issuer bid (“NCIB”) (note 7)	(1,362,877)	(12,998)	—	(22,263)	(35,261)	—	(35,261)
Share repurchase commitment under automatic share purchase plan (“ASPP”) (note 7)	—	(12,556)	—	—	(12,556)	—	(12,556)
Non-controlling interests	—	—	—	—	—	1,279	1,279
Balance – September 30, 2022	35,812,589	330,736	13,600	65,744	410,080	6,969	417,049

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)

	Nine-month period ended September 30, 2022 \$	Nine-month period ended September 30, 2021 \$
Cash provided by (used in)		
Operating activities		
Net income for the period	69,916	62,170
Items not affecting cash		
Depreciation of property and equipment	12,551	11,770
Depreciation of right-of-use assets	29,738	28,714
Amortization of intangible assets	6,169	4,385
Share-based compensation (note 10)	3,736	2,959
Finance related expenses (note 8)	14,643	12,578
Other expenses	(31)	238
Deferred income taxes	3,043	1,176
	<u>139,765</u>	<u>123,990</u>
Changes in non-cash items relating to operating activities		
Changes in working capital		
Trade and other receivables	3,254	(380)
Inventories	(10,948)	(9,002)
Prepaid expenses and deposits	328	(1,855)
Other current assets	(138)	—
Trade and other payables	2,820	4,399
Customer deposits	(11,595)	3,784
	<u>(16,279)</u>	<u>(3,054)</u>
Payment of contingent consideration	—	(9,877)
	<u>123,486</u>	<u>111,059</u>
Investing activities		
Purchase of property and equipment - net of disposals	(4,389)	(16,789)
Additions to right-of-use assets	(117)	(178)
Purchase of intangible assets	(3,719)	(3,930)
Purchase of other assets	—	(520)
Payment of contingent consideration	—	(15,123)
	<u>(8,225)</u>	<u>(36,540)</u>
Financing activities		
Proceeds from options exercised (note 10)	2,801	1,794
Shares repurchased under NCIB (note 7)	(35,790)	—
Proceeds from senior secured credit facility (note 6)	21,000	65,000
Repayment of senior secured credit facility (note 6)	(21,000)	(80,000)
Dividends paid	(22,830)	(21,519)
Interest paid	(11,824)	(12,328)
Repayment of principal portion of lease liabilities	(29,103)	(28,432)
	<u>(96,746)</u>	<u>(75,485)</u>
Increase (decrease) in cash during the period	18,515	(966)
Cash – Beginning of the period	36,546	38,317
Cash – End of the period	<u>55,061</u>	<u>37,351</u>
Supplementary information		
Purchase of property and equipment in trade and other payables	966	492
Purchase of intangible assets in trade and other payables	4,013	2,635
Purchase of other assets in trade and other payables	—	13
Additions to right-of-use assets with offset in lease liabilities - net	11,569	45,469

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

Sleep Country Canada Holdings Inc.

Notes to Condensed Interim Consolidated Financial Statements

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(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 287 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™ 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 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 November 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.

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

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

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

Disclosure of Accounting Policies (Amendments to IAS 1)

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

Definition of Accounting Estimates (Amendments to IAS 8)

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

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

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

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.

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

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

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

5 Other liabilities

	September 30, 2022	December 31, 2021
	\$	\$
Current		
Share repurchase commitment under ASPP (note 7)	12,556	—
Redemption Liabilities	9,492	—
	<u>22,048</u>	<u>—</u>
Non-current		
Decommissioning provisions	1,100	1,080
Redemption liabilities	18,944	23,916
Other	20	2,692
	<u>20,064</u>	<u>27,688</u>

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 September 30, 2022. The senior secured credit facility is secured by all of the present and after-acquired personal property of the Company. As at September 30, 2022, the balance outstanding on the senior secured credit facility was \$63,000 (December 31, 2021 – \$63,000). The long-term debt liability balance in the consolidated statements of financial position is net of transaction costs of \$979 (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 nine-month period ended September 30, 2022, the Company held the debt in Canadian dollars.

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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.

7 Share capital and other

The following table outlines the issued and outstanding shares:

	September 30, 2022	December 31, 2021
	\$	\$
35,812,589 common shares (December 31, 2021 – 36,913,987)	619,451	626,738
Share repurchase commitment under ASPP	(12,556)	—
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	13,600	12,390
	<u>344,336</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 September 30, 2022, there were no outstanding Class A common shares (December 31, 2021– nil).

On March 7, 2022, the Company received approval from the TSX to commence an NCIB. Pursuant to the NCIB, the Company proposed 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

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common shares, representing approximately 5.3% of the public float as of February 28, 2022. Purchases were permitted to commence through the TSX on March 9, 2022 and will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2023. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 21,173 shares (representing 25% of the average daily trading volume of the shares on the TSX for the six months prior to commencement of the NCIB), except where such purchases are made in accordance with the "block purchase" exception under the applicable TSX rules and policies.

On June 8, 2022, the TSX accepted the Company's amendment to the NCIB to permit the Company to purchase through the facilities of the TSX or alternative trading systems, from time to time until the completion of the NCIB, if considered advisable, up to a maximum of 2,100,000 of the Company's common shares, being approximately 6.67% of its public float as of February 28, 2022. Purchases were permitted to commence under the amended NCIB through the TSX on June 10, 2022 and will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2023. The Company may 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 applicable TSX rules and policies.

On 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. The Company records a liability for share repurchase commitment during blackout period based on the parameters of the NCIB and ASPP. As at September 30, 2022, an estimated maximum obligation of \$12,556 (December 31, 2021 – \$nil) was outstanding under the ASPP in other current liabilities on the consolidated statements of financial position.

During the nine-month period ended September 30, 2022, the Company purchased for cancellation 1,362,877 common shares at an average price of \$26.26 for total consideration of \$35,790. During the nine-month period ended September 30, 2022, the total cash consideration paid exceeded the carrying value of the shares repurchased by \$22,263, which was charged to retained earnings.

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September 30, 2022

(in thousands of Canadian dollars, unless otherwise noted)

8 Finance related expenses

	Nine-month period ended September 30, 2022 \$	Nine-month period ended September 30, 2021 \$
Interest on lease obligations	8,841	8,940
Interest expense on senior secured credit facility	2,782	2,904
Change in redemption liabilities	4,520	—
Revolver commitment fees	461	703
Change in fair value on interest rate swap	(2,490)	31
Realized gain on share repurchases under ASPP	529	—
	<u>14,643</u>	<u>12,578</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 of stock options:

	Three-month period ended September 30, 2022 Number of options	Three-month period ended September 30, 2021 Number of options	Nine-month period ended September 30, 2022 Number of options	Nine-month period ended September 30, 2021 Number of options
Dilutive	528,996	912,256	629,144	785,818
Anti-dilutive	518,838	318,589	418,690	445,027
Total	<u>1,047,834</u>	<u>1,230,845</u>	<u>1,047,834</u>	<u>1,230,845</u>

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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 September 30, 2022			Nine-month period ended September 30, 2022		
	Net income attributable to Sleep Country Canada Holdings Inc. \$	Weighted average number of shares (in thousands of shares)	EPS \$	Net income attributable to Sleep Country Canada Holdings Inc. \$	Weighted average number of shares (in thousands of shares)	EPS \$
Basic	28,926	36,017	0.80	70,004	36,606	1.91
Diluted	28,926	36,404	0.79	70,004	36,984	1.89

Attributable to common shareholders of Sleep Country Canada Holdings Inc.						
	Three-month period ended September 30, 2021			Nine-month period ended September 30, 2021		
	Net income attributable to Sleep Country Canada Holdings Inc. \$	Weighted average number of shares (in thousands of shares)	EPS \$	Net income attributable to Sleep Country Canada Holdings Inc. \$	Weighted average number of shares (in thousands of shares)	EPS \$
Basic	36,458	36,831	0.99	62,170	36,792	1.69
Diluted	36,458	37,256	0.98	62,170	37,215	1.67

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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:

	Nine-month period ended September 30, 2022 \$	Nine-month period ended September 30, 2021 \$
1,047,834 stock options (September 30, 2021 – 1,230,845) (a)	826	1,148
235,116 PSUs (September 30, 2021 – 251,506) (b)	1,858	1,339
144,855 RSUs (September 30, 2021 – 85,119) (c)	750	409
83,970 DSUs (September 30, 2021 – 64,665) (d)	302	63
	<hr/>	<hr/>
	3,736	2,959

The Company recorded \$nil (September 30, 2021 – \$135) 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.

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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 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 period were as follows:

	Nine-month period ended September 30, 2022		Nine-month period ended September 30, 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	102,518	30.75	126,438
Exercised during the period	17.87	(156,675)	17.95	(100,012)
Forfeited during the period	25.18	(55,722)	—	—
Outstanding, at the end of the period	25.47	1,047,834	23.84	1,230,845
Options, exercisable at the end of the period	27.19	572,620	22.91	559,953

The weighted average share price on the date the stock options were exercised during the period was \$28.04 (September 30, 2021 – \$31.07).

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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	200,435	6.7	16.12	120,301	6.2	16.24
\$19.31 to \$27.73	428,709	6.4	22.18	114,870	3.4	19.31
\$30.70 to \$38.83	418,690	5.9	33.31	337,449	5.3	33.78
	1,047,834	6.2	25.47	572,620	5.1	27.19

The weighted average fair value of stock options estimated at the grant date for the period is \$9.32 (September 30, 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.

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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:

	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 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	106,173	68,159
Settled during the period	(104,804)	(27,148)
Forfeited during the period	(21,638)	(14,623)
Outstanding, at the end of the period	235,116	251,506

The weighted average fair value of the grant price for the period was \$25.47 (September 30, 2021 – \$30.76).

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:

	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 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	61,375	34,073
Forfeited during the period	(10,116)	—
Outstanding, at the end of the period	144,855	85,119

The weighted average fair value of the grant price for the period was \$27.29 (September 30, 2021 – \$30.76).

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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:

	Nine-month period ended September 30, 2022	Nine-month period ended September 30, 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	16,113	13,734
Settled during the period	—	(9,252)
Outstanding, at the end of the period	<u>83,970</u>	<u>64,665</u>

The weighted average fair value of the grant price for the period was \$25.85 (September 30, 2021 – \$28.06).

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, customer deposits and the share repurchase commitment under ASPP approximate their fair values due to the relatively short periods to maturity of these financial instruments.
- The carrying value of the 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 September 30, 2022 and December 31, 2021.

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- 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 September 30, 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 \$314.

12 Subsequent events

The Company's dividend policy is at the discretion of the Board. On November 4, 2022, the Company declared a dividend of \$0.215 per common share that will be payable on November 30, 2022 to holders of the common shares of record as at the close of business on November 21, 2022.