



Sleep Country Canada Holdings Inc.

**Interim Condensed Consolidated Financial Statements
(Unaudited)**

March 31, 2024

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

(in thousands of Canadian dollars)

	March 31, 2024	December 31, 2023
	\$	\$
Assets		
Current assets		
Cash	31,059	37,371
Trade and other receivables	25,656	24,940
Inventories	93,401	94,885
Prepaid expenses and deposits	18,650	15,365
Other assets	708	638
	<u>169,474</u>	<u>173,199</u>
Non-current assets		
Other assets (note 4)	23,655	22,894
Property and equipment	74,204	74,390
Right-of-use assets	270,066	272,805
Intangible assets	229,131	226,599
Goodwill	336,197	336,197
Deferred tax assets	7,927	6,390
	<u>1,110,654</u>	<u>1,112,474</u>
Liabilities		
Current liabilities		
Trade and other payables	98,208	110,966
Deferred revenues	20,817	29,995
Other liabilities (note 5)	14,488	22,971
Lease liabilities	38,960	38,499
	<u>172,473</u>	<u>202,431</u>
Non-current liabilities		
Other liabilities (note 5)	6,610	6,533
Long-term debt (note 6)	176,087	160,627
Lease liabilities	286,936	288,665
Deferred tax liabilities	25,274	25,264
	<u>667,380</u>	<u>683,520</u>
Shareholders' Equity		
Share capital and other (note 7)	334,522	321,118
Retained earnings	103,361	102,664
Other reserves	(13)	(27)
	<u>437,870</u>	<u>423,755</u>
Equity attributable to Sleep Country Canada Holdings Inc.	<u>437,870</u>	<u>423,755</u>
Non-controlling interests	5,404	5,199
	<u>1,110,654</u>	<u>1,112,474</u>

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.

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

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

	Three-month period ended March 31, 2024 \$	Three-month period ended March 31, 2023 \$
Revenues	209,715	206,495
Cost of sales	136,802	135,706
Gross profit	72,913	70,789
Selling, general and administrative expenses	52,782	48,119
Operating income	20,131	22,670
Finance related expenses (note 8)	8,324	6,469
Other expenses (income)	(568)	540
Net income before income taxes	12,375	15,661
Income taxes	3,436	4,368
Net income for the period	8,939	11,293
Net income (loss) for the period attributable to:		
Sleep Country Canada Holdings Inc.	8,735	11,330
Non-controlling interests	204	(37)
	8,939	11,293
Items that may be reclassified subsequently to net income (loss):		
Exchange differences on translation of foreign operations	15	3
Other comprehensive income for the period	15	3
Comprehensive income for the period	8,954	11,296
Comprehensive income (loss) for the period attributable to:		
Sleep Country Canada Holdings Inc.	8,749	11,332
Non-controlling interests	205	(36)
	8,954	11,296
Earnings per share attributable to Sleep Country Canada Holdings Inc.		
Basic earnings per share (in dollars) (note 9)	0.26	0.33
Diluted earnings per share (in dollars) (note 9)	0.26	0.32

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

Sleep Country Canada Holdings Inc.

Interim Condensed 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 \$	Other Reserves \$	Total \$	\$	\$
Balance – January 1, 2023	34,837,943	313,550	14,889	84,380	(25)	412,794	7,284	420,078
Net income (loss) for the period	—	—	—	11,330	—	11,330	(37)	11,293
Other comprehensive income for the period	—	—	—	—	2	2	1	3
Comprehensive income (loss) for the period	—	—	—	11,330	2	11,332	(36)	11,296
Dividends declared	—	—	108	(7,571)	—	(7,463)	—	(7,463)
Settlement of share-based compensation (note 10)	197,339	3,222	(3,129)	—	—	93	—	93
Share-based compensation (note 10)	—	—	1,133	—	—	1,133	—	1,133
Repurchase of shares for cancellation (note 7)	(299,519)	(2,820)	—	(4,255)	—	(7,075)	—	(7,075)
Net change in share repurchase commitment under automatic share purchase plan (note 7)	—	20,660	—	—	—	20,660	—	20,660
Balance – March 31, 2023	34,735,763	334,612	13,001	83,884	(23)	431,474	7,248	438,722
Balance – January 1, 2024	33,529,713	304,114	17,004	102,664	(27)	423,755	5,199	428,954
Net income for the period	—	—	—	8,735	—	8,735	204	8,939
Other comprehensive income for the period	—	—	—	—	14	14	1	15
Comprehensive income for the period	—	—	—	8,735	14	8,749	205	8,954
Dividends declared	—	—	92	(8,038)	—	(7,946)	—	(7,946)
Settlement of share-based compensation (note 10)	359,066	9,561	(5,456)	—	—	4,105	—	4,105
Share-based compensation (note 10)	—	—	559	—	—	559	—	559
Net change in share repurchase commitment under automatic share purchase plan (note 7)	—	8,648	—	—	—	8,648	—	8,648
Balance – March 31, 2024	33,888,779	322,323	12,199	103,361	(13)	437,870	5,404	443,274

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

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

(in thousands of Canadian dollars)

	Three-month period ended March 31, 2024 \$	Three-month period ended March 31, 2023 \$
Cash provided by (used in)		
Operating activities		
Net income for the period	8,939	11,293
Adjustments for:		
Depreciation of property and equipment	4,674	4,180
Depreciation of right-of-use assets	10,659	9,879
Amortization of intangible assets	2,365	2,939
Share-based compensation (note 10)	559	1,133
Finance related expenses (note 8)	8,324	6,469
Deferred income taxes	(1,525)	660
Other non-cash expenses (income)	(819)	185
	<u>33,176</u>	<u>36,738</u>
Changes in non-cash items relating to operating activities		
Changes in working capital		
Trade and other receivables	(996)	(1,787)
Inventories	1,484	10,907
Prepaid expenses and deposits	(3,285)	(7,179)
Trade and other payables	(19,557)	(28,550)
Deferred revenues	(9,183)	(5,344)
	<u>(31,537)</u>	<u>(31,953)</u>
	<u>1,639</u>	<u>4,785</u>
Investing activities		
Purchase of property and equipment - net of disposals	(2,003)	(3,026)
Additions to right-of-use assets	(38)	—
Purchase of intangible assets	(897)	(1,574)
Acquisition of other assets	—	(20,105)
Acquisition of business combinations	—	(24,089)
	<u>(2,938)</u>	<u>(48,794)</u>
Financing activities		
Proceeds from options exercised (note 10)	4,105	93
Shares repurchased under normal course issuer bid (note 7)	—	(7,263)
Advances under long-term debt (note 6)	15,400	39,500
Dividends paid	(7,946)	(7,463)
Interest paid	(7,119)	(4,699)
Repayment of principal portion of lease liabilities	(9,479)	(9,674)
	<u>(5,039)</u>	<u>10,494</u>
Decrease in cash during the period	(6,338)	(33,515)
Effects of foreign currency exchange rate changes on cash	26	8
Cash – Beginning of the period	<u>37,371</u>	<u>78,318</u>
Cash – End of the period	<u>31,059</u>	<u>44,811</u>
Supplementary information		
Purchase of property and equipment in trade and other payables	2,476	967
Purchase of intangible assets in trade and other payables	4,000	5,885
Additions to right-of-use assets with offset in lease liabilities - net	8,211	7,826

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

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Notes to Interim Condensed 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 305 corporate-owned stores and 19 warehouses across Canada and operates under retail banners: Sleep Country™, Dormez-vous™, Endy™, Hush™, Silk & Snow™ and Casper™ ("**Casper Canada**").

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

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

2 Basis of preparation

These unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS® Accounting Standards**") as applicable to interim financial statements, including International Accounting Standard ("**IAS® Standards**") 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 IFRS Accounting Standards have been omitted or condensed. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2023.

These unaudited interim condensed consolidated financial statements were reviewed by the Company's Audit Committee. They were approved and authorized for issuance by the Board on May 7, 2024.

3 Material accounting policies

These unaudited interim condensed 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, 2023, in addition to the adoption of new standards effective as of January 1, 2024. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2024, but do not have an impact on the interim condensed consolidated financial statements of the Company.

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Notes to Interim Condensed Consolidated Financial Statements

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4 Other non-current assets

	March 31, 2024	December 31, 2023
	\$	\$
Convertible note receivable	19,578	18,906
Warrant	2,127	2,050
Other	1,950	1,938
	<hr/>	<hr/>
	23,655	22,894
	<hr/>	<hr/>

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

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

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

Details on the valuation methodology of the convertible note receivable and warrant are disclosed in note 11.

5 Other liabilities

	March 31, 2024	December 31, 2023
	\$	\$
Current		
Share repurchase commitment under automatic share purchase plan (note 7)	11,361	20,009
Redemption liabilities	3,127	2,962
	<hr/>	<hr/>
	14,488	22,971
	<hr/>	<hr/>
Non-current		
Redemption liabilities	2,843	2,702
Decommissioning provisions	1,943	2,029
Contingent consideration liability	1,555	1,493
Other	269	309
	<hr/>	<hr/>
	6,610	6,533
	<hr/>	<hr/>

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 for each share increment purchase is calculated based on specified

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

As at March 31, 2024, the Company recognized its redemption liabilities at \$5,970 (December 31, 2023 – \$5,644) based on the expected outcome during the remaining two increments and the change was recorded in finance related expenses. The expected outcome (discounted) is determined based on an earnings formula and the expected earnings levels over the measurement period. Details on the measurement of the redemption liabilities are disclosed in note 11.

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, the Company must comply with certain financial and non-financial covenants. The Company is in compliance with all covenants as at March 31, 2024. The senior secured credit facility is secured by the present and after-acquired personal property of the Company. As at March 31, 2024, the balance outstanding on the senior secured credit facility was \$176,700 (December 31, 2023 – \$161,300). The long-term debt balance in the consolidated statement of financial position is net of transaction costs of \$613 (December 31, 2023 – \$673).

The senior secured credit facility allows for the debt to be held in Canadian or U.S. dollars. As at March 31, 2024, the Company held its debt in Canadian dollars.

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

	March 31, 2024	December 31, 2023
	\$	\$
33,888,779 common shares (December 31, 2023 – 33,529,713)	609,843	600,282
Share repurchase commitment under automatic share purchase plan	(11,361)	(20,009)
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	12,199	17,004
	<hr/>	<hr/>
	334,522	321,118
	<hr/>	<hr/>

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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 March 31, 2024, there were no outstanding Class A common shares (December 31, 2023 – nil).

On March 9, 2023, the Company announced that it received approval from the TSX on a normal course issuer bid ("**NCIB**"). Pursuant to the NCIB, the Company is permitted to purchase through the facilities of the TSX, other designated exchanges and/or alternative trading systems, from time to time over a twelve-month period until the completion of the NCIB, if considered advisable, up to a maximum of 2,675,550 of the Company's common shares, representing approximately 10.0% of its public float of 26,755,502 as of February 28, 2023. Purchases under the NCIB were completed on March 8, 2024.

On March 7, 2024, the Company announced that it received approval from the TSX on a new NCIB. Pursuant to the NCIB, the Company is permitted to purchase through the facilities of the TSX, other designated exchanges and/or alternative trading systems, from time to time over a twelve-month period until the completion of the NCIB, if considered advisable, up to a maximum of 2,368,443 of the Company's common shares, representing approximately 10.0% of its public float of 23,684,435 as of February 29, 2024. Purchases were permitted to commence on March 11, 2024 and the NCIB will conclude on the earlier of the date on which purchases under the bid have been completed and March 10, 2025. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 15,927 shares except where such purchases are made in accordance with the "block purchase" exception under the applicable TSX rules and policies.

The Company established an automatic share purchase program ("**ASPP**") in connection with its NCIB to facilitate the purchase of shares during times when the Company would ordinarily not be permitted to purchase shares due to regulatory restrictions or a self-imposed blackout period. Before entering a blackout period, the Company may, but is not required to, instruct its designated broker to make purchases at the broker's sole discretion and based on parameters set by the Company in accordance with the ASPP, TSX rules and

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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 March 31, 2024, an estimated maximum obligation of \$11,361 (December 31, 2023 – \$20,009) was outstanding under the ASPP in other current liabilities.

During the three-month period ended March 31, 2024, the Company did not purchase common shares for cancellation. During the three-month period ended March 31, 2023, the Company purchased for cancellation 299,519 common shares at an average price of \$24.25 for total consideration of \$7,263. The total cash consideration paid exceeded the carrying value of the shares repurchased by \$4,443, of which \$4,255 was recorded under retained earnings, and a realized loss of \$188 was recorded under finance related expenses.

8 Finance related expenses

	Three-month period ended March 31, 2024 \$	Three-month period ended March 31, 2023 \$
Interest on lease obligations	4,547	3,470
Interest expense on long-term debt	2,677	1,548
Change in fair value on interest rate swap	656	491
Change in redemption liabilities	306	596
Revolver commitment fees	77	123
Change in contingent consideration liability	61	53
Realized loss on share repurchases under ASPP	—	188
	<hr/> 8,324	<hr/> 6,469

9 Earnings per share

Basic earnings per share ("**EPS**") amounts are calculated by dividing the net income attributable to common shareholders of Sleep Country Canada Holdings Inc. by the weighted average number of shares outstanding during the 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.

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The below table summarizes the dilution impact of stock options:

	Three-month period ended March 31, 2024	Three-month period ended March 31, 2023
Dilutive	399,165	514,491
Anti-dilutive	658,342	643,552
Total	1,057,507	1,158,043

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, 2024			
	Net income attributable to Sleep Country Canada Holdings Inc. \$	Weighted average number of shares (in thousands of shares)	EPS \$
Basic	8,735	33,605	0.26
Diluted	8,735	34,042	0.26
Attributable to common shareholders of Sleep Country Canada Holdings Inc.			
Three-month period ended March 31, 2023			
	Net income attributable to Sleep Country Canada Holdings Inc. \$	Weighted average number of shares (in thousands of shares)	EPS \$
Basic	11,330	34,787	0.33
Diluted	11,330	35,584	0.32

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’

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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, 2024 \$	Three-month period ended March 31, 2023 \$
1,057,507 stock options (March 31, 2023 – 1,158,043) (a)	227	284
242,558 PSUs (March 31, 2023 – 265,785) (b)	(148)	462
325,078 RSUs (March 31, 2023 – 255,871) (c)	449	361
95,384 DSUs (March 31, 2023 – 85,488) (d)	31	26
	<hr/> 559	<hr/> 1,133

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 generally 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.

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

	Three-month period ended March 31, 2024		Three-month period ended March 31, 2023	
	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	25.55	1,110,633	25.46	1,038,790
Granted during the period	29.77	165,404	24.51	132,090
Exercised during the period	19.25	(213,213)	17.40	(5,348)
Forfeited during the period	27.67	(5,317)	16.79	(7,489)
Outstanding, at the end of the period	27.47	1,057,507	25.45	1,158,043
Options, exercisable at the end of the period	27.26	783,059	25.29	894,335

The weighted average share price, on the date the stock options were exercised, during the period was \$29.26 (March 31, 2023 – \$23.27).

The Company's weighted average remaining contractual life and exercise price of its outstanding and exercisable stock options 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	107,875	5.0	16.16	107,875	5.0	16.16
\$19.31 to \$29.77	541,216	7.4	25.29	267,675	5.3	22.49
\$30.70 to \$38.83	408,416	4.4	33.35	407,509	4.4	33.33
	1,057,507	6.0	27.47	783,059	4.8	27.26

The weighted average fair value of stock options estimated at the grant date for the period is \$7.53 (2023 – \$8.58).

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

	Grant Date
	March 18, 2024
Risk-free interest rate	3.5%
Expected volatility	33.3%
Estimated dividend yield	3.8%
Expected life of the options (in years)	6.5

b) PSU plan

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

The number of units that will vest is calculated based on a performance adjustment factor of between 0.0 and 2.0 which is determined based on the Company's revenues (weighted at 25%) and basic EPS (weighted at 75%) performance relative to the Board established targets that have been set for the three-year performance period between the grant date and the vesting date of the PSUs. Therefore, the number of units that vest and are paid out may be higher or lower than the number of units originally granted to a participant.

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

	Three-month period ended March 31, 2024	Three-month period ended March 31, 2023
	Number of units (vested and unvested)	Number of units (vested and unvested)
Outstanding, at beginning of the period	213,700	232,667
Granted during the period	149,912	189,924
Settled during the period	(114,452)	(153,590)
Forfeited during the period	(6,602)	(3,216)
Outstanding, at the end of the period	<u>242,558</u>	<u>265,785</u>

The weighted average fair value of the grant price for the period was \$30.27 (March 31, 2023 – \$20.20).

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.

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The Company's RSU plan transactions during the period were as follows:

	Three-month period ended March 31, 2024	Three-month period ended March 31, 2023
	Number of units (vested and unvested)	Number of units (vested and unvested)
Outstanding, at beginning of the period	235,902	170,164
Granted during the period	123,877	126,406
Settled during the period	(31,401)	(38,401)
Forfeited during the period	(3,300)	(2,298)
Outstanding, at the end of the period	<u>325,078</u>	<u>255,871</u>

The weighted average fair value of the grant price for the period was \$29.13 (March 31, 2023 – \$24.51).

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, 2024	Three-month period ended March 31, 2023
	Number of units (vested and unvested)	Number of units (vested and unvested)
Outstanding, at beginning of the period	94,598	84,761
Granted during the period	<u>786</u>	<u>727</u>
Outstanding, at the end of the period	<u>95,384</u>	<u>85,488</u>

The weighted average fair value of the grant price for the period was \$23.85 (March 31, 2023 – \$23.17).

11 Financial instruments and risk management

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.

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- Level 3 – inputs are unobservable inputs for the financial asset or financial liability and include situations where there is little, if any, market activity for the financial asset or financial liabilities.

The following describes the fair value determinations of financial instruments:

- The carrying values of cash, trade and other receivables, trade and other payables, deferred revenues and the share repurchase commitment under the ASPP approximate their fair values due to the relatively short periods to maturity of these financial instruments.
- The carrying value of the long-term debt under the senior secured credit facility approximates its fair value as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at March 31, 2024 and December 31, 2023.
- 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 March 31, 2024 and December 31, 2023. The interest rate swap is included in trade and other receivables in the interim condensed consolidated statements of financial position.
- The convertible note receivable is recognized at fair value. The inputs to the measurement of fair value are level 3 inputs. The Company valued the convertible note receivable using the Black-Scholes pricing model and the Crank-Nicolson finite difference method; significant model inputs include share price, risk-free interest rate and expected volatility. An increase or decrease in the model inputs would result in an increase or decrease in the fair value the convertible note receivable. Changes in the value of the convertible note receivable for the three-month period ended March 31, 2024 consisted of interest income of \$498 (March 31, 2023 - \$nil) and unrealized foreign exchange losses of \$174 (March 31, 2023 - \$nil) recognized within other income in the interim condensed consolidated statement of income and other comprehensive income.
- The warrant is recognized at fair value. The inputs to the measurement of fair value are level 3 inputs. The Company valued the warrant using the Binomial option pricing model; significant model inputs include share price, risk-free interest rate and expected volatility. An increase or decrease in the model inputs would result in an increase or decrease in the fair value the warrant. Changes in the value of the warrant for the three-month period ended March 31, 2024 consisted of unrealized foreign exchange losses of \$77 (March 31, 2023 - \$nil) recognized within other income in the interim condensed consolidated statement of income and other comprehensive income.
- The redemption liabilities related to the acquisition of Hush were initially recognized at fair value on acquisition date and subsequently measured at amortized cost. The inputs to the measurement of the fair value are level 3 inputs. The fair value measurements were made using a discounted cash flow model; significant model inputs were expected future pre-tax earnings over the measurement period (determined with reference to the specific acquired business) and a pre-tax discount rate of 14%. The discount rate is attributable to the level of risk related to economic growth factors combined with the length of the contingent payment periods; and the dispersion was driven by unique characteristics of the businesses acquired and the respective terms for these future payments. Changes in the value of the redemption liabilities for the three-month period ended March 31, 2024 consisted of accretion expense of \$306 (March 31, 2023 - \$596) recognized within finance related expenses in the interim condensed consolidated statement of income and comprehensive income.

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- The contingent consideration liability related to the acquisition of Silk & Snow was initially recognized at fair value on acquisition date and subsequently measured at amortized cost. The inputs to the measurement of fair value are level 3 inputs. The amount of payment is determined based on a formula, the key inputs to which are (i) a contractually agreed maximum payment of up to \$19,500, (ii) a contractually specified earnings level and (iii) the actual pre-tax earnings for the contingency period. The inputs to the measurement of the fair value of the contingent liability are Level 3 inputs. The fair value measurement was made using a discounted cash flow model; significant model inputs were expected future pre-tax earnings over the contingency period (determined with reference to the specific acquired business) and a pre-tax discount rate of 17.5%. The discount rate is attributable to the level of risk related to economic growth factors combined with the length of the contingent payment periods; and the dispersion was driven by unique characteristics of the businesses acquired and the respective terms for these future payments. Changes in the value of the contingent consideration liability for the three-month period ended March 31, 2024 consisted of accretion expense of \$61 (March 31, 2023 - \$53) recognized within finance related expenses in the interim condensed consolidated statement of income and other comprehensive income.

12 Subsequent events

The Company's dividend policy is at the discretion of the Board. On May 7, 2024, the Company declared a dividend of \$0.237 per common share that will be payable on May 30, 2024 to holders of the common shares of record as at the close of business on May 23, 2024.

In April 2024, the Company completed its acquisition of the remaining 32% of the outstanding common shares of Hush Blankets Inc. At the time these financial statements were authorized for issue, the Company had not finalized the cash consideration for the acquisition. As at March 31, 2024, the total redemption liabilities related to the Hush acquisition, recorded on its interim condensed statement of financial position was \$5,970. The Company does not expect the final cash consideration to differ significantly from this amount.