Sleep Country Canada Holdings Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

June 30, 2023

Sleep Country Canada Holdings Inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	June 30, 2023 $	December 31, 2022 $
Assets		
Current assets		
Cash	48,099	78,318
Trade and other receivables	23,241	14,303
Inventories	90,256	98,691
Prepaid expenses and deposits	15,983	9,683
Other assets	638	638
	178,217	201,633
Non-current assets		
Property and equipment	65,700	63,676
Right-of-use assets	267,140	263,149
Investments (note 4)	21,653	1,611
Intangible assets	215,122	171,367
Goodwill	336,197	316,785
Deferred tax assets	4,855	3,498
	1,088,884	1,021,719
Liabilities		
Current liabilities		
Trade and other payables	93,936	106,883
Deferred revenues	22,256	24,762
Other liabilities (note 5)	22,831	22,525
Lease liabilities	39,107	38,612
	178,130	192,782
Non-current liabilities		
Other liabilities (note 5)	7,726	9,373
Long-term debt (note 6)	168,304	99,082
Lease liabilities	279,684	275,170
Deferred tax liabilities	26,478	25,234
	660,322	601,641
Shareholders' Equity		
Share capital and other (note 7)	333,127	328,439
Retained earnings	88,133	84,380
Other reserves	(27)	(25)
Equity attributable to Sleep Country Canada Holdings Inc.	421,233	412,794
Non-controlling interests	7,329	7,284
	1,088,884	1,021,719

Approved by the Board of Directors

(Signed) Mandeep Chawla - Director

(Signed) David Shaw - Director

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

Sleep Country Canada Holdings Inc.

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

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

	Three-month period ended June 30, 2023 $	Three-month period ended June 30, 2022 $	Six-month period ended June 30, 2023 $	Six-month period ended June 30, 2022 $
Revenues	217,199	227,575	423,694	434,603
Cost of sales	138,229	145,839	273,935	281,236
Gross profit	78,970	81,736	149,759	153,367
General and administrative expenses	54,744	45,745	102,863	88,869
Income before finance related expenses, other expenses (income) and income taxes	24,226	35,991	46,896	64,498
Finance related expenses (note 8)	6,636	5,296	13,105	8,325
Other expenses (income)	54	(631)	594	(575)
	6,690	4,665	13,699	7,750
Income before provision for income taxes	17,536	31,326	33,197	56,748
Provision for income taxes				
Current	5,442	7,894	9,150	13,926
Deferred	(673)	1,014	(13)	1,887
	4,769	8,908	9,137	15,813
Net income for the period	12,767	22,418	24,060	40,935
Net income (loss) for the period attributable to:				
Sleep Country Canada Holdings Inc.	12,685	22,665	24,015	41,078
Non-controlling interests	82	(247)	45	(143)
	12,767	22,418	24,060	40,935
Items that may be reclassified subsequently to net income (loss):				
Exchange differences on translation of foreign operations	(6)	—	(2)	—
Other comprehensive income (loss) for the period	(6)	—	(2)	—
Comprehensive income for the period	12,761	22,418	24,058	40,935
Comprehensive income (loss) for the period attributable to:				
Sleep Country Canada Holdings Inc.	12,681	22,665	24,013	41,078
Non-controlling interests	80	(247)	45	(143)
	12,761	22,418	24,058	40,935
Earnings per share attributable to Sleep Country Canada Holdings Inc.				
Basic earnings per share (in dollars) (note 9)	0.36	0.61	0.69	1.11
Diluted earnings per share (in dollars) (note 9)	0.36	0.61	0.68	1.10

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.							
	Share Capital and Other							
	Number of Shares	Common Shares $	Contributed Surplus $	Retained Earnings $	Other Reserves $	Total $	Non-Controlling Interests $	Total Shareholders' Equity $
Balance – January 1, 2022	36,913,987	350,579	12,390	41,217	—	404,186	5,778	409,964
Net income (loss) for the period	—	—	—	41,078	—	41,078	(143)	40,935
Other comprehensive income for the period	—	—	—	—	—	—	—	—
Comprehensive income (loss) for the period	—	—	—	41,078	—	41,078	(143)	40,935
Dividends declared	—	—	252	(15,367)	—	(15,115)	—	(15,115)
Shares issued on settlement of share-							—	
based compensation option/unit (note 10)	203,744	4,366	(2,501)	—	—	1,865	—	1,865
Share-based compensation (note 10)	—	—	2,661	—	—	2,661	—	2,661
Shares repurchased under normal course issuer bid (note 7)	(835,301)	(7,968)	—	(14,038)	—	(22,006)	—	(22,006)
Net change in share repurchase commitment under automatic share purchase plan (note 7)	—	(11,205)	—	—	—	(11,205)	—	(11,205)
Non-controlling interests	—	—	—	—	—	—	1,279	1,279
Balance – June 30, 2022	36,282,430	335,772	12,802	52,890	—	401,464	6,914	408,378
Balance – January 1, 2023	34,837,943	313,550	14,889	84,380	(25)	412,794	7,284	420,078
Net income for the period	—	—	—	24,015	—	24,015	45	24,060
Other comprehensive income (loss) for the period	—	—	—	—	(2)	(2)	—	(2)
Comprehensive income (loss) for the period	—	—	—	24,015	(2)	24,013	45	24,058
Dividends declared	—	—	300	(16,007)	—	(15,707)	—	(15,707)
Shares issued on settlement of share-based compensation option/unit (note 10)	250,706	4,070	(3,847)	—	—	223	—	223
Share-based compensation (note 10)	—	—	3,213	—	—	3,213	—	3,213
Shares repurchased under normal course issuer bid (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)	—	3,772	—	—	—	3,772	—	3,772
Balance – June 30, 2023	34,789,130	318,572	14,555	88,133	(27)	421,233	7,329	428,562

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)

Cash provided by (used in)	**Six-month period ended June 30, 2023 $**	**Six-month period ended June 30, 2022 $**
Operating activities		
Net income for the period	24,060	40,935
Adjustments for:		
Depreciation of property and equipment	8,623	8,428
Depreciation of right-of-use assets	20,209	19,693
Amortization of intangible assets	5,368	3,484
Share-based compensation (note 10)	3,213	2,661
Finance related expenses (note 8)	13,105	8,325
Other (income) expenses	76	(212)
Deferred income taxes	(13)	1,887
	74,641	85,201
Changes in non-cash items relating to operating activities		
Changes in working capital		
Trade and other receivables	(8,763)	3,971
Inventories	16,941	(9,508)
Prepaid expenses and deposits	(5,769)	(423)
Trade and other payables	(21,581)	(15,770)
Deferred revenues	(3,585)	(9,268)
	(22,757)	(30,998)
	51,884	54,203
Investing activities		
Purchase of property and equipment - net of disposals	(7,217)	(2,480)
Additions to right-of-use assets	(13)	(59)
Purchase of intangible assets	(11,886)	(1,201)
Acquisition of investments (note 4)	(20,105)	—
Acquisitions of business combinations (note 11)	(58,864)	—
	(98,085)	(3,740)
Financing activities		
Proceeds from options exercised (note 10)	223	1,865
Shares repurchased under normal course issuer bid (note 7)	(7,263)	(21,980)
Proceeds from senior secured credit facility (note 6)	69,100	21,000
Dividends paid	(15,707)	(15,115)
Interest paid	(10,966)	(7,603)
Repayment of principal portion of lease liabilities	(19,410)	(19,312)
	15,977	(41,145)
Effects of foreign currency exchange rate changes on cash	5	—
Increase (decrease) in cash during the period	(30,219)	9,318
Cash – Beginning of the period	78,318	36,546
Cash – End of the period	48,099	45,864
Supplementary information		
Purchase of property and equipment in trade and other payables	1,201	740
Purchase of intangible assets in trade and other payables	3,065	3,451
Additions to right-of-use assets with offset in lease liabilities - net	18,405	5,849

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

(in thousands of Canadian dollars, unless otherwise noted)

1 Organization

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

The Company is Canada's leading specialty sleep retailer with a national retail store network and multiple eCommerce platforms. The Company has 295 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 presentation

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as applicable to interim financial statements, including 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 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, 2022.

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 August 10, 2023.

3 Summary of significant accounting policies

The 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, 2022, except for those noted below in addition to the adoption of new standards effective as of January 1, 2023. 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 2023, but do have an impact on the interim condensed consolidated financial statements of the Company.

Financial assets and liabilities

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

(in thousands of Canadian dollars, unless otherwise noted)

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

- cash and trade and other receivables are classified as financial assets measured at amortized cost;
- the convertible note receivable and the warrant are measured at fair value through net income ("**FVTPL**");
- trade and other payables, customer deposits, other liabilities and long-term debt have been classified as financial liabilities measured at amortized costs; and
- Interest rate swaps have been classified as financial liabilities measured at FVTPL.

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

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

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

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

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

(in thousands of Canadian dollars, unless otherwise noted)

4 Investments

	June 30, 2023 $	December 31, 2022 $
Convertible note receivable	17,965	—
Warrant	2,052	—
Other	1,636	1,611
	21,653	1,611

On March 14, 2023, the Company made an investment in a convertible note receivable and a warrant with 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% per annum, compounded quarterly in arrears. At any time prior to the maturity date, at the option of the Company, the principal and any accrued interest may be converted into common shares, representing approximately 4.8% of the shares of the Investee. After March 15, 2025, the Investee may prepay or redeem the convertible note at a price in cash equal to the initial principal amount plus accrued interest, and an additional premium of 0.5x the initial principal amount.

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

Total consideration to the Investee on March 14, 2023 was $27,354, of which the fair values of the convertible note receivable and the warrant were determined to be $17,985 and $2,120 respectively. The remaining consideration of $7,249 was treated as a prepayment for the acquisition of Casper Sleep Inc.'s Canadian operations, which closed on April 14, 2023.

Details on the valuation technique of the convertible note receivable and warrant are disclosed in note 12.

(in thousands of Canadian dollars, unless otherwise noted)

5 Other liabilities

	June 30, 2023 $	December 31, 2022 $
Current		
Share repurchase commitment under automatic share purchase plan (note 7)	16,888	20,660
Redemption liabilities	5,373	1,865
Other	570	—
	22,831	22,525
Non-current		
Redemption liabilities	5,181	8,201
Contingent consideration liability (note 11)	1,378	—
Decommissioning provisions	1,157	1,145
Other	10	27
	7,726	9,373

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 June 30, 2023. The senior secured credit facility is secured by all of the present and after-acquired personal property of the Company. As at June 30, 2023, the balance outstanding on the senior secured credit facility was $169,100 (December 31, 2022 – $100,000). The long-term debt balance in the consolidated statements of financial position is net of transaction costs of $796 (December 31, 2022 – $918).

The senior secured credit facility allows for the debt to be held in Canadian or U.S. dollars. As at June 30, 2023, the Company held the debt in Canadian dollars.

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

(in thousands of Canadian dollars, unless otherwise noted)

7 Share capital and other

The following table outlines the issued and outstanding shares:

	June 30, 2023 $	**December 31, 2022 $**
34,789,130 common shares (December 31, 2022 – 34,837,943)	611,619	610,369
Share repurchase commitment under automatic share purchase plan	(16,888)	(20,660)
Reorganization adjustment and other	(276,159)	(276,159)
Contributed surplus	14,555	14,889
	333,127	328,439

Common shares and Class A common shares

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

Holders of Class A common shares will be entitled to the same rights and privileges as holders of common shares described above and will rank equally with the holders of common shares on liquidation, dissolution, or winding up of the Company. The Class A common shares will not carry any pre-emptive or subscription rights, nor will they contain any sinking or purchase fund provisions. Class A common shares are redeemable at the option of the Company on written notice to the holders of the Class A common shares, with the redemption price being equal to the price per common share in the IPO. As at June 30, 2023, there were no outstanding Class A common shares (December 31, 2022– nil).

On March 7, 2022, the Company received approval from the Toronto Stock Exchange ("**TSX**") to commence a normal course issuer bid ("**NCIB**"). Pursuant to an amendment to the NCIB on November 29, 2022, the Company was permitted to purchase through the facilities of the TSX or alternative trading systems, from time to time until the completion of the NCIB, if considered advisable, up to a maximum of 3,155,250 of the Company's common shares, representing approximately 10.0% of the public float as of February 28, 2022. Purchases under this NCIB concluded on March 8, 2023.

(in thousands of Canadian dollars, unless otherwise noted)

Effective June 10, 2022, the Company established an automatic share purchase program ("**ASPP**") in connection with its NCIB to facilitate the purchase of shares during times when the Company would ordinarily not be permitted to purchase shares due to regulatory restrictions or a self-imposed blackout period. Before entering a blackout period, the Company may, but is not required to, instruct its designated broker to make purchases at the broker's sole discretion and based on parameters set by the Company in accordance with the ASPP, TSX rules and applicable securities laws. The Company records a liability for share repurchase commitment during blackout period based on the parameters of the NCIB and ASPP.

On March 9, 2023, the Company received approval from the TSX on a new NCIB. Pursuant to the NCIB, the Company is permitted to purchase through the facilities of the TSX, other designated exchanges and/or alternative trading systems, from time to time over a twelve-month period until the completion of the NCIB, if considered advisable, up to a maximum of 2,675,550 of the Company's common shares, representing approximately 10.0% of its public float of 26,755,502 as of February 28, 2023. Purchases will conclude on the earlier of the date on which purchases under the bid have been completed and March 8, 2024. In accordance with the rules and by-laws of the TSX, the Company has been permitted to purchase up to a daily maximum of 21,782 shares (representing 25% of the average daily trading volume of the shares on the TSX for the six months prior to commencement of the NCIB), except where such purchases are made in accordance with the "block purchase" exception under the applicable TSX rules and policies.

Effective March 9 2023, the Company received pre-clearance from the TSX and established a new ASPP in connection with its current NCIB.

During the six-month period ended June 30, 2023, the Company purchased for cancellation of 299,519 common shares (June 30, 2022 – 835,301) at an average price of $24.25 (June 30, 2022 – $26.31) for total consideration of $7,263 (June 30, 2022 – $21,980). The total cash consideration paid exceeded the carrying value of the shares repurchased by $4,443 (June 30, 2022 – $14,012), of which $4,255 (June 30, 2023 – $14,038) was recorded under retained earnings, and a realized loss of $188 (June 30, 2022 – gain of $26) was recorded under finance related expenses.

8 Finance related expenses

	Six-month period ended June 30, 2023 $	Six-month period ended June 30, 2022 $
Interest on lease obligations	7,343	5,876
Interest expense on senior secured credit facility	4,113	1,636
Change in redemption liabilities	488	2,459
Change in fair value on interest rate swap	665	(1,929)
Revolver commitment fees	201	309
Realized loss (gain) on share repurchases under ASPP	188	(26)
Change in contingent consideration	107	—
	13,105	8,325

(in thousands of Canadian dollars, unless otherwise noted)

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.

The below table summarizes the dilution impact of stock options:

	Three-month period ended June 30, 2023 $	Three-month period ended June 30, 2022 $	Six-month period ended June 30, 2023 $	Six-month period ended June 30, 2022 $
Dilutive	507,788	587,583	636,712	690,101
Anti-dilutive	637,716	529,816	508,792	427,298
Total	1,145,504	1,117,399	1,145,504	1,117,399

(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 June 30, 2023			Six-month period ended June 30, 2023		
	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	12,685	34,767	0.36	24,015	34,777	0.69
Diluted	12,685	35,241	0.36	24,015	35,217	0.68

	Attributable to common shareholders of Sleep Country Canada Holdings Inc.					
	Three-month period ended June 30, 2022			Six-month period ended June 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	22,665	36,868	0.61	41,078	36,905	1.11
Diluted	22,665	37,315	0.61	41,078	37,348	1.10

(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:

	Six-month period ended June 30, 2023 $	**Six-month period ended June 30, 2022 $**
1,145,504 stock options (June 30, 2022 – 1,117,399) (a)	531	620
225,887 PSUs (June 30, 2022 – 247,758) (b)	1,561	1,358
246,446 RSUs (June 30, 2022 – 146,750) (c)	897	510
106,507 DSUs (June 30, 2022 – 82,629) (d)	224	173
	3,213	2,661

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

a) Stock options

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

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

(in thousands of Canadian dollars, unless otherwise noted)

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

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

	Six-month period ended June 30, 2023		Six-month period ended June 30, 2022	
	Weighted average exercise price per share option $	Number of options	Weighted average exercise price per share option $	Number of options
Outstanding, at beginning of the period	25.46	1,038,790	24.23	1,157,713
Granted during the period	24.51	130,421	27.73	102,518
Exercised during the period	18.53	(12,051)	17.39	(107,199)
Forfeited during the period	20.51	(11,656)	24.55	(35,633)
Outstanding, at the end of the period	25.48	1,145,504	25.20	1,117,399
Options, exercisable at the end of the period	25.18	892,265	26.58	626,207

The weighted average share price, on the date the stock options were exercised, during the period was $24.85 (June 30, 2022 – $27.55).

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

	Stock options outstanding			Stock options exercisable		
Exercise price range	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price $	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price $
$15.94 to $17.00	185,135	5.9	16.13	185,135	5.9	16.13
$19.31 to $27.73	546,018	6.6	22.68	333,326	5.0	21.17
$30.70 to $38.83	414,351	5.1	33.32	373,804	4.9	33.52
	1,145,504	5.9	25.48	892,265	5.1	25.30

The weighted average fair value of stock options estimated at the grant date for the period is $8.58 (June 30, 2022 – $9.23).

(in thousands of Canadian dollars, unless otherwise noted)

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

	Grant Date
	March 14, 2023
Risk-free interest rate	3.4%
Expected volatility	43.4%
Estimated dividend yield	3.0%
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:

	Six-month period ended June 30, 2023	**Six-month period ended June 30, 2022**
	Number of units (vested and unvested)	**Number of units (vested and unvested)**
Outstanding, at beginning of the period	232,667	255,385
Granted during the period	190,772	102,311
Settled during the period	(190,921)	(96,545)
Forfeited during the period	(6,631)	(13,393)
Outstanding, at the end of the period	225,887	247,758

The weighted average fair value of the grant price for the period was $20.25 (June 30, 2022 – $25.53).

(in thousands of Canadian dollars, unless otherwise noted)

c) RSU plan

A RSU represents the right to receive a common share settled by the issuance of treasury shares or purchased on the open market or the cash equivalent of the market value of a share at the vesting date at the discretion of the Board. The Company has no intention to settle in cash. RSUs generally vest 100% on the third anniversary of the grant date. The number of units which will vest and are paid is equal to the number of units originally granted to a participant.

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

	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	Number of units (vested and unvested)	Number of units (vested and unvested)
Outstanding, at beginning of the period	170,164	93,596
Granted during the period	128,022	58,992
Settled during the period	(47,734)	—
Forfeited during the period	(4,006)	(5,838)
Outstanding, at the end of the period	246,446	146,750

The weighted average fair value of the grant price for the period was $24.54 (June 30, 2022 – $27.38).

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:

	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	Number of units (vested and unvested)	Number of units (vested and unvested)
Outstanding, at beginning of the period	84,761	67,857
Granted during the period	21,746	14,772
Outstanding, at the end of the period	106,507	82,629

The weighted average fair value of the grant price for the period was $25.14 (June 30, 2022 – $26.10).

(in thousands of Canadian dollars, unless otherwise noted)

11 Business combinations

Silk & Snow

On January 4, 2023, the Company completed an asset purchase agreement for substantially all of the net assets of Silk & Snow Inc., a direct-to-consumer sleep retailer.

This acquisition has been accounted for using the acquisition method.

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

	$
Purchase consideration	
Cash consideration	24,089
Working capital adjustment	571
Contingent consideration	1,271
Total purchase consideration	25,931
Allocation of purchase consideration to net assets acquired	
Trade and other receivables	624
Inventories	6,811
Prepaid expenses and deposits	532
Property and equipment	377
Right-of-use assets	255
Intangible assets	12,137
Deferred tax assets	100
Trade and other payables	(3,180)
Deferred revenues	(1,081)
Lease liabilities	(255)
Total net assets acquired	16,320
Goodwill	9,611
Total net assets acquired and goodwill	25,931

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

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

(in thousands of Canadian dollars, unless otherwise noted)

Pursuant to the purchase agreement, the seller is entitled to receive a contingent consideration payment if the acquired business achieves specified earnings level during the period commencing on January 1, 2023 and ending on December 31, 2025. At the date of acquisition, the Company recorded a contingent consideration liability of $1,271 based on expected outcome (discounted) at the end of the contingency period.

At the time these financial statements were authorized for issue, the Company had not finalized the accounting for the acquisition. The purchase consideration, allocation of purchase consideration to the net assets acquired, and fair value of the net assets acquired is provisional and subject to change as at June 30, 2023. Any changes resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recognized at the acquisition date. These changes could be significant. The Company will finalize these amounts no later than one year from the acquisition date.

The results of operations since January 1, 2023, the date of acquisition, have been included in these consolidated financial statements.

Casper Canada

On April 14, 2023, the Company completed an asset purchase agreement for substantially all of the net assets of Casper Sleep Inc.'s Canadian operations.

This acquisition has been accounted for using the acquisition method.

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

	$
Purchase consideration	
Cash consideration	34,775
Total purchase consideration	34,775
Allocation of purchase consideration to net assets acquired	
Inventory	1,695
Property and equipment	1,822
Right-of-use assets	5,746
Intangible assets	22,035
Trade and other payables	(578)
Lease liabilities	(5,746)
Total net assets acquired	24,974
Goodwill	9,801
Total net assets acquired and goodwill	34,775

(in thousands of Canadian dollars, unless otherwise noted)

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

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

The total cash consideration of $34,775 for the acquisition of Casper Canada includes $27,526 consideration paid on closing in addition to $7,249 that was prepaid on March 14 2023.

At the time these financial statements were authorized for issue, the Company had not finalized the accounting for the acquisition. The purchase consideration, allocation of purchase consideration to the net assets acquired, and fair value of the net assets acquired is provisional and subject to change as at June 30, 2023. Any changes resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recognized at the acquisition date. These changes could be significant. The Company will finalize these amounts no later than one year from the acquisition date.

12 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.

- 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 June 30, 2023 and December 31, 2022.

- The interest rate swap obtained effective April 1, 2021 is recognized at fair value based on observable quoted market prices for identical financial instruments in active markets as at June 30, 2023 and December

(in thousands of Canadian dollars, unless otherwise noted)

31, 2022. The interest rate swap is included in trade and other receivables in the consolidated statements of financial position.

- The convertible note receivable is recognized at fair value. The inputs to the measurement of fair value are level 3 inputs. The Company valued the convertible note receivable using the Black-Scholes pricing model and the Crank-Nicolson finite difference method; significant model inputs include share price, risk-free interest rate and expected volatility. An increase or decrease in the model inputs would result in an increase or decrease in the fair value the convertible note receivable.

- 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.

- 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. A 1% increase in the weighted average discount rate would decrease the value of redemption liabilities at June 30, 2023 by $83 (December 31, 2022 - $112).

- The contingent consideration liability related to the acquisition of Silk & Snow is 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. A 1% increase in the weighted average discount rate would decrease the value of the contingent consideration liability at June 30, 2023 by $29.

13 Subsequent events

The Company's dividend policy is at the discretion of the Board. On August 10, 2023, the Company declared a dividend of $0.237 per common share that will be payable on August 31, 2023 to holders of the common shares of record as at the close of business on August 25, 2023.