



PET VALU HOLDINGS LTD.

Condensed Interim Consolidated Financial Statements
For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022
(Unaudited)

PET VALU HOLDINGS LTD.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited, expressed in thousands of Canadian dollars)

	Note	As at July 1, 2023	As at December 31, 2022
Assets			
Current assets:			
Cash		\$ 8,807	\$ 63,034
Accounts and other receivables		23,864	22,965
Inventories, net		130,786	118,410
Income taxes recoverable	11	2,183	—
Prepaid expenses and other assets		12,889	22,262
Current portion of lease receivables	5	31,431	29,827
Total current assets		209,960	256,498
Non-current assets:			
Long-term lease receivables	5	148,415	141,187
Right-of-use assets, net	5	173,521	82,242
Property and equipment, net	7	105,877	91,774
Intangible assets, net	8	52,798	52,280
Goodwill		97,623	97,574
Deferred tax assets	11	6,652	6,652
Investment in associate	15, 16	3,089	4,708
Other assets		4,324	7,261
Total non-current assets		592,299	483,678
Total assets		\$ 802,259	\$ 740,176
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 90,088	\$ 103,782
Income taxes payable	11	—	15,141
Current portion of deferred franchise fees		1,266	1,197
Current portion of lease liabilities	5	52,110	51,335
Current portion of long-term debt	9	17,750	17,750
Total current liabilities		161,214	189,205
Non-current liabilities:			
Long-term deferred franchise fees		4,011	4,017
Long-term lease liabilities	5	304,843	215,966
Long-term debt	9	283,775	320,063
Deferred tax liabilities	11	8,246	8,250
Other liabilities	17	5,642	2,299
Total non-current liabilities		606,517	550,595
Total liabilities		767,731	739,800
Shareholders' equity:			
Common shares	12	321,693	316,208
Contributed surplus		4,168	4,107
Deficit		(291,217)	(319,780)
Currency translation reserve		(116)	(159)
Total shareholders' equity		34,528	376
Total liabilities and shareholders' equity		\$ 802,259	\$ 740,176

Commitments, contingencies and guarantees (Note 18)

Subsequent events (Note 20)

On behalf of the Board of Directors: *Anthony Truesdale (signed)*, Director

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

PET VALU HOLDINGS LTD.

Condensed Interim Consolidated Statements of Income and Comprehensive Income
(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

	Note	13-week periods ended		26-week periods ended	
		July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Revenue:					
Retail sales	4	\$ 103,012	\$ 97,055	\$ 205,031	\$ 190,130
Franchise and other revenues	4	153,361	130,621	301,634	250,799
Total revenue		256,373	227,676	506,665	440,929
Cost of sales		164,268	142,305	327,346	278,478
Gross profit		92,105	85,371	179,319	162,451
Selling, general and administrative expenses		51,881	46,062	104,228	87,981
Total operating income		40,224	39,309	75,091	74,470
Interest expenses, net	10	7,155	4,560	14,062	8,541
(Gain) loss on foreign exchange		(113)	120	198	99
Other loss (gain)	15	133	(152)	1,558	(124)
Income before income taxes		33,049	34,781	59,273	65,954
Income tax expense	11	8,971	9,503	16,466	18,055
Net income		24,078	25,278	42,807	47,899
Other comprehensive income, net of tax:					
Currency translation adjustments that may be reclassified to net income, net of tax		29	5	43	3
Comprehensive income for the period attributable to the shareholders of the Company		\$ 24,107	\$ 25,283	\$ 42,850	\$ 47,902
Basic net income per share attributable to the common shareholders	13	\$ 0.34	\$ 0.36	\$ 0.60	\$ 0.68
Diluted net income per share attributable to the common shareholders	13	\$ 0.33	\$ 0.35	\$ 0.59	\$ 0.67

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PET VALU HOLDINGS LTD.

Condensed Interim Consolidated Statements of Shareholders' Equity (Deficit)
(Unaudited, expressed in thousands of Canadian dollars)

For the 26-week period ended July 1, 2023	Common shares	Contributed surplus	Deficit	Currency translation reserve	Total
Balance, December 31, 2022	\$ 316,208	\$ 4,107	\$ (319,780)	\$ (159)	\$ 376
Net income	—	—	42,807	—	42,807
Exercise of share options (Note 12, 14)	5,485	(1,141)	—	—	4,344
Share-based compensation on option plans (Note 14)	—	1,202	—	—	1,202
Foreign currency translation	—	—	—	43	43
Dividends on common shares (Note 12)	—	—	(14,244)	—	(14,244)
Balance, July 1, 2023	\$ 321,693	\$ 4,168	\$ (291,217)	\$ (116)	\$ 34,528

For the 26-week period ended July 2, 2022	Common shares	Contributed surplus	Deficit	Currency translation reserve	Total
Balance, January 1, 2022	\$ 307,497	\$ 1,779	\$ (403,619)	\$ (179)	\$ (94,522)
Net income	—	—	47,899	—	47,899
Exercise of share options (Note 12, 14)	4,183	—	—	—	4,183
Share-based compensation on option plans (Note 14)	—	1,443	—	—	1,443
Foreign currency translation	—	—	—	3	3
Dividends on common shares (Note 12)	—	—	(8,440)	—	(8,440)
Balance, July 2, 2022	\$ 311,680	\$ 3,222	\$ (364,160)	\$ (176)	\$ (49,434)

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PET VALU HOLDINGS LTD.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited, expressed in thousands of Canadian dollars)

		13-week periods ended		26-week periods ended	
	Note	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Cash provided by (used in):					
Operating activities:					
Net income for the period		\$ 24,078	\$ 25,278	\$ 42,807	\$ 47,899
Adjustments for items not affecting cash:					
Depreciation and amortization	5, 7, 8	10,904	9,270	21,532	18,146
Deferred franchise fees		(20)	(46)	63	(94)
Gain on disposal of property and equipment		(167)	(34)	(304)	(42)
Loss on sale of right-of-use assets	5	179	122	534	160
(Gain) loss on foreign exchange		(113)	120	198	99
(Gain) loss on financial instruments	15	—	(244)	1,302	(244)
Share-based compensation expense	14	963	1,492	1,964	2,519
Share of loss from associate	15	133	92	256	120
Interest expenses, net	10	7,155	4,560	14,062	8,541
Income tax expense	11	8,971	9,503	16,466	18,055
Income taxes paid		(9,360)	(6,248)	(33,770)	(25,573)
Security deposits paid		—	(5,073)	—	(5,073)
Change in non-cash operating working capital:					
Accounts receivable		(1,787)	(3,964)	(1,139)	(3,679)
Inventories		9,424	(16,319)	(12,280)	(24,556)
Prepaid expenses		641	(1,167)	3,562	(1,837)
Accounts payable and accrued liabilities		(10,522)	15,947	(9,567)	8,319
Net cash provided by operating activities		40,479	33,289	45,686	42,760
Financing activities:					
Proceeds from exercise of share options	12	3,736	3,596	4,344	4,183
Dividends paid on common shares	12	(14,244)	(8,440)	(14,244)	(8,440)
Repayment of 2021 Term Facility	9	(4,436)	(2,220)	(36,874)	(4,438)
Interest paid on long-term debt		(2,094)	(4,216)	(3,867)	(7,171)
Repayment of principal on lease liabilities	5	(12,979)	(12,046)	(30,858)	(23,815)
Interest paid on lease liabilities	5, 10	(3,393)	(2,911)	(6,597)	(5,818)
Standby letter of credit commitment fees	11	(347)	—	(663)	(314)
Net cash used in financing activities		(33,757)	(26,237)	(88,759)	(45,813)
Investing activities:					
Business acquisition, net of cash acquired	6	(3,000)	—	(3,000)	(12,829)
Purchases of property and equipment	7	(16,663)	(4,532)	(27,381)	(9,652)
Purchase of intangible assets	8	(1,432)	(1,360)	(1,975)	(1,973)
Proceeds on disposal of property and equipment		918	713	1,201	775
Right-of-use asset initial direct costs		(522)	(278)	(990)	(618)
Tenant allowances		221	57	648	555
Notes receivable		827	108	893	298
Lease receivables	5	7,364	6,707	14,577	13,229
Interest received on lease receivables and other		2,534	1,903	5,509	3,815
Investment in associate	15	—	(1,134)	—	(1,134)
Repurchase of franchises	6	(512)	—	(512)	—
Net cash (used in) provided by investing activities		(10,265)	2,184	(11,030)	(7,534)
Effect of exchange rate on cash		100	3	(124)	(14)
Net (decrease) increase in cash		(3,443)	9,239	(54,227)	(10,601)
Cash, beginning of period		12,250	30,228	63,034	50,068
Cash, end of period		\$ 8,807	\$ 39,467	\$ 8,807	\$ 39,467

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

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

1. Description of business:

Pet Valu Holdings Ltd. and its subsidiaries (collectively referred to as the "Company") is a specialty retailer and wholesaler of pet food and pet-related supplies. As of July 1, 2023, the Company operates 226 corporate-owned stores (December 31, 2022 — 225) and has 532 franchise stores (December 31, 2022 — 519) in 10 provinces in Canada.

The Company is incorporated under the *Business Corporations Act* (British Columbia). The Company's head office is located at 130 Royal Crest Court, Markham, Ontario, Canada.

The Company's common shares are listed on the Toronto Stock Exchange under the symbol "PET".

2. Basis of presentation:

(a) Statement of compliance:

These condensed interim consolidated financial statements ("interim financial statements") have been prepared under International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). The interim financial statements are prepared on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements. Certain notes normally included in the audited annual consolidated financial statements have been omitted or condensed. Accordingly, these interim financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements and the notes thereto for the 52-week period ended December 31, 2022.

These interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 7, 2023.

(b) Use of estimates and judgments:

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied in Note 2 of the audited annual consolidated financial statements for the 52-week period ended December 31, 2022. Actual results could differ from those estimates and assumptions.

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

3. Significant accounting policies:

These interim financial statements have been prepared using the accounting policies as outlined in Note 3 of the audited annual consolidated financial statements for the 52-week period ended December 31, 2022 and have been applied consistently in the preparation of these interim financial statements. Changes to significant accounting policies are described below:

(a) Provisions:

A restoration provision is a legal obligation associated with the restoration of a leased premise when the Company is contractually obligated to restore the leased premise to the original condition at the end of the lease. The Company recognizes the best estimate of the expenditure required to settle the liability and discounted to present value where the effect is material, with the corresponding increase in the carrying value of the related right-of-use ("ROU") asset when such obligations are incurred. The liability is classified in other liabilities and is accreted to its projected future value over time. The ROU asset is depreciated over the remaining lease term. Differences between the recorded provision and the actual restoration costs incurred are recognized as a gain or loss in the consolidated statements of income and comprehensive income.

(b) New standards and interpretations adopted in the period:

In February 2021, the IASB amended IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The narrow-scope amendments will help improve accounting policy disclosure and distinguish changes in accounting estimates from changes in accounting policies. The Company has adopted these amendments in its interim financial statements for the 52-week period beginning on January 1, 2023. There was no impact on the interim financial statements.

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

4. Revenue:

The following table disaggregates the Company's retail sales and franchise revenue by category for the periods ended July 1, 2023 and July 2, 2022:

	13-week periods ended		26-week periods ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Retail sales:				
Merchandise sales	\$ 101,708	\$ 95,871	\$ 202,629	\$ 187,901
In-store services	1,304	1,184	2,402	2,229
Total retail sales	103,012	97,055	205,031	190,130
Franchise and other revenues:				
Wholesale merchandise sales	120,296	102,075	237,352	195,902
Royalties and sub-lease revenues	23,799	21,277	47,093	41,450
Franchise contributions for advertising and other services	9,266	7,269	17,189	13,447
Total franchise and other revenues	153,361	130,621	301,634	250,799
Total revenue	\$ 256,373	\$ 227,676	\$ 506,665	\$ 440,929

5. Leases:

(a) ROU assets:

The following table reconciles the changes in ROU assets for the period ended July 1, 2023:

	Leased premises		Other		Total
Balance, December 31, 2022	\$	78,532	\$	3,710	\$ 82,242
Net additions ⁽¹⁾		101,098		641	101,739
Depreciation		(9,763)		(697)	(10,460)
Balance, July 1, 2023	\$	169,867	\$	3,654	\$ 173,521

⁽¹⁾ Includes net additions to ROU assets of \$84,310 related to the new distribution centre.

Depreciation on ROU assets is included in cost of sales and selling, general and administrative expenses in the consolidated statements of income and comprehensive income. The depreciation included in cost of sales for the 13-week and 26-week periods ended July 1, 2023 was \$5,047 and \$9,969, respectively (13-week and 26-week periods ended July 2, 2022 — \$4,790 and \$9,454, respectively). The depreciation included in selling, general and administrative expenses for the 13-week and 26-week periods ended July 1, 2023 was \$313 and \$491, respectively (13-week and 26-week periods ended July 2, 2022 — \$178 and \$353, respectively). Loss on sale of ROU assets recognized on the sale of corporate-owned stores to franchisees for the 13-week and 26-week periods ended July 1, 2023 were \$179 and \$534, respectively (13-week and 26-week periods ended July 2, 2022 — \$122 and \$160, respectively).

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

5. Leases (continued):

(b) Lease liabilities:

The following table reconciles the changes in lease liabilities for the period ended July 1, 2023:

	Leased premises	Other	Total
Balance, December 31, 2022	\$ 263,347	\$ 3,954	\$ 267,301
Additions ⁽¹⁾	119,866	644	120,510
Interest expense on lease liabilities	6,470	127	6,597
Repayment of interest and principal	(36,441)	(1,014)	(37,455)
Balance, July 1, 2023	\$ 353,242	\$ 3,711	\$ 356,953
Current portion of lease liabilities	\$ 51,015	\$ 1,095	\$ 52,110
Long-term lease liabilities	302,227	2,616	304,843
Total lease liabilities	\$ 353,242	\$ 3,711	\$ 356,953

⁽¹⁾ Includes additions to lease liabilities of \$79,684 related to the new distribution centre.

The Company makes variable lease payments for common area maintenance, property tax, security, and utilities on leased premises. The Company also has certain retail store leases where portions of the lease payments are contingent on a percentage of sales earned in the retail store. Expenses for variable lease components are included in cost of sales and selling, general and administrative expenses in the consolidated statements of income and comprehensive income. Expenses for variable lease components included in cost of sales for the 13-week and 26-week periods ended July 1, 2023 were \$7,784 and \$15,191, respectively (13-week and 26-week periods ended July 2, 2022 — \$6,525 and \$12,878, respectively). Expenses for variable lease components included in selling, general and administrative expenses for the 13-week and 26-week periods ended July 1, 2023 were \$43 and \$94, respectively (13-week and 26-week periods ended July 2, 2022 — \$39 and \$100, respectively).

The following is a summary of the Company's future undiscounted contractual lease payments:

2023	\$ 31,448
2024	73,234
2025	71,625
2026	55,852
2027	45,839
Thereafter	151,489
Total	\$ 429,487

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
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For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

5. Leases (continued):

(c) Lease receivables:

The Company is considered an intermediate lessor related to head leases the Company has for franchise store locations. As of July 1, 2023 and December 31, 2022, the Company had lease receivables as follows:

		July 1, 2023		December 31, 2022
Current portion of lease receivables	\$	31,431	\$	29,827
Long-term lease receivables		148,415		141,187
Total lease receivables	\$	179,846	\$	171,014

Finance income on lease receivables for the 13-week and 26-week periods ended July 1, 2023 was \$2,168 and \$4,235, respectively (13-week and 26-week periods ended July 2, 2022 — \$1,790 and \$3,566, respectively). Franchisees make variable lease payments primarily for common area maintenance, property tax, and a percentage of sales earned in their retail store. Revenue from variable lease components included in franchise and other revenues in the consolidated statements of income and comprehensive income for the 13-week and 26-week periods ended July 1, 2023 was \$11,110 and \$21,853, respectively (13-week and 26-week periods ended July 2, 2022 — \$9,852 and \$19,429, respectively).

6. Business acquisitions:

On February 25, 2022, the Company acquired all of the issued and outstanding shares of Les Franchises Chico Inc. and 9353-0145 Quebec Inc. (collectively referred to as “Chico”), a franchisor of pet specialty stores in Quebec, Canada. The purpose of the acquisition was to expand the Company’s presence into the Quebec market.

The sellers of the shares were entitled to receive contingent consideration of \$3,000 based on the achievement of certain performance milestones. The contingent consideration was paid to sellers during the period ended July 1, 2023, which was within 90 days of the 12-month anniversary date of the acquisition.

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

6. Business acquisitions (continued):

Franchise repurchases:

The following table discloses franchise repurchases for the period ended July 1, 2023. There were no repurchases of franchise stores for the period ended July 2, 2022. The franchise repurchases have been accounted for through the acquisition method.

		July 1, 2023
Number of stores repurchased		1
Inventories	\$	96
Property and equipment		309
Goodwill		107
Cash consideration	\$	512

7. Property and equipment:

During the 13-week and 26-week periods ended July 1, 2023, the Company had property and equipment additions of \$16,251 and \$24,411, respectively (13-week and 26-week periods ended July 2, 2022 — \$4,532 and \$9,652, respectively). During the 13-week and 26-week week periods ended July 1, 2023, the Company had net disposals of \$559 and \$693, respectively, the majority of which were related to leasehold improvements and furniture and fixtures for its corporate-owned stores (13-week and 26-week periods ended July 2, 2022 — \$234 and \$666, respectively). Depreciation on property and equipment for the 13-week and 26-week periods ended July 1, 2023 were \$4,808 and \$9,615, respectively (13-week and 26-week periods ended July 2, 2022 — \$3,830 and \$7,482, respectively).

8. Intangible assets:

During the 13-week and 26-week periods ended July 1, 2023, the Company had intangible asset additions of \$1,432 and \$1,975, respectively, the majority of which were related to software (13-week and 26-week periods ended July 2, 2022 — \$1,360 and \$1,973, respectively). Amortization on intangible assets for the 13-week and 26-week periods ended ended July 1, 2023 were \$736 and \$1,457, respectively (13-week and 26-week periods ended July 2, 2022 — \$472 and \$857, respectively).

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
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For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

9. Long-term debt:

Total long-term debt, net of deferred financing costs, as of July 1, 2023 and December 31, 2022 consists of the following:

		July 1, 2023		December 31, 2022
2021 Term Facility (a)	\$	304,813	\$	341,687
Deferred financing costs		(3,288)		(3,874)
		301,525		337,813
Less current portion of long-term debt		(17,750)		(17,750)
Total long-term debt	\$	283,775	\$	320,063

(a) 2021 Credit Agreement:

The 2021 Credit Agreement contains affirmative and negative covenants customary for credit facilities of this nature, subject to certain exceptions set forth in the 2021 Credit Agreement. The 2021 Credit Agreement also contains certain financial covenants over the term of the 2021 Credit Facilities, which include a net leverage ratio and an interest coverage ratio. As of July 1, 2023 and July 2, 2022, the Company was in compliance with all of its covenants.

During the period ended July 1, 2023, the Company amended the 2021 Credit Agreement to update the type of borrowing advanced at short-term floating rates. Specifically, the reference rates were modified from the LIBOR rate and the bankers' acceptance rate to the SOFR rate and Canadian reference rate, respectively.

The Company had unused borrowing capacity available under the 2021 Revolving Facility of \$130,000 as of July 1, 2023.

10. Interest expenses:

Interest expenses, net consist of the following:

	13-week periods ended		26-week periods ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
2021 Credit Agreement	5,494	2,994	\$ 11,483	\$ 5,346
Amortization of deferred financing costs	291	299	586	599
Interest on lease liabilities	3,393	2,911	6,597	5,818
Interest income on lease receivables	(2,168)	(1,790)	(4,235)	(3,566)
Standby letter of credit commitment fees	342	337	663	656
Other interest income	(197)	(191)	(1,032)	(312)
Interest expenses, net	\$ 7,155	\$ 4,560	\$ 14,062	\$ 8,541

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Notes to Condensed Interim Consolidated Financial Statements
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For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

11. Income taxes:

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. Income taxes expense for the 13-week and 26-week periods ended July 1, 2023 were \$8,971 and \$16,466, respectively (13-week and 26-week periods ended July 2, 2022 — \$9,503 and \$18,055, respectively). The Company's effective income tax rates for the 13-week and 26-week periods ended July 1, 2023 were 27.1% and 27.8%, respectively (13-week and 26-week periods ended July 2, 2022 — 27.3% and 27.4%, respectively). The statutory income tax rate for the 13-week and 26-week periods ended July 1, 2023 was 26.5% (13-week and 26-week periods ended July 2, 2022 — 26.5%).

The Company is subject to routine audits of its tax filing positions by the Canada Revenue Agency ("CRA") on an ongoing basis. The CRA is currently examining the Company's tax filings for the 2016 and subsequent taxation years and, in connection with such audit, is reviewing the transaction pursuant to which the Company indirectly acquired its former interest in Pet Supermarket, Inc. To date, the CRA has not proposed any reassessment of the Company's tax liability as a consequence of such audit. The Company and its tax advisors continue to believe that the Company's tax filing positions are appropriate, and accordingly no amounts have been accrued in the consolidated financial statements in respect of any such potential reassessment. If the CRA were to reassess the Company, the Company would expect to vigorously oppose any such reassessment. The Company has tax insurance against the risk of the Company ultimately being unsuccessful in opposing any such reassessment that it believes might be proposed by the CRA, although there can be no assurance that such insurance would fully cover the amount of tax which may ultimately be imposed. If the CRA were to issue such a reassessment, the Company would be required to pay the amount owing or provide acceptable security to the CRA with respect to the amount under appeal, pending resolution of the reassessment. On February 26, 2021, the Company incurred costs of \$3,690 to obtain a commitment for a standby letter of credit facility that would be available to provide such security in respect of any such reassessment that it believes might be proposed by the CRA. These costs were reported as interest expense in the consolidated statements of income and comprehensive income. The Company will incur ongoing commitment fees of \$1,250 annually to the extent that such standby letter of credit facility remains unused. If the Company were to use that facility to provide security to the CRA as discussed above, it would incur additional interest costs estimated not to exceed \$3,000 annually, although there can be no assurance that such costs would not exceed this amount or that the facility will fully cover any reassessment.

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

12. Share capital:

(a) Common shares:

As of July 1, 2023, there were 71,463,808 common shares outstanding.

The following table provides a summary of changes to the Company's share capital:

	Common shares outstanding	Amount
Balance, December 31, 2022	70,976,471	\$ 316,208
Exercise of share options	487,337	5,485
Balance, July 1, 2023	71,463,808	\$ 321,693

(b) Dividends:

The Company's dividend policy is at the discretion of the Board of Directors. For the 26-week period ended July 1, 2023, the Company paid \$14,244 in dividends to holders of common shares (26-week period ended July 2, 2022 — \$8,440) or \$0.20 per common share (26-week period ended July 2, 2022 — \$0.12).

(c) Secondary offering:

On June 1, 2023, a secondary offering (the "2023 Secondary Offering") of the Company's common shares was completed by its principal shareholders on a bought deal basis. The 2023 Secondary Offering of 4,690,000 common shares at an offering price of \$32.05 per common share raised gross proceeds of \$150,315 for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the 2023 Secondary Offering. Underwriting fees were paid by the principal shareholders, and other expenses related to the 2023 Secondary Offering of approximately \$322 were paid by the Company and included in selling, general and administrative expenses for the period ended July 1, 2023.

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

13. Net income per share:

(a) Basic net income per share:

Basic net income per share is calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period.

	13-week periods ended		26-week periods ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net income attributable to shareholders of the Company	\$ 24,078	\$ 25,278	\$ 42,807	\$ 47,899
Weighted average number of common shares outstanding during the period (<i>thousands</i>)	71,234	70,336	71,110	70,232
Basic net income per share attributable to the common shareholders	\$ 0.34	\$ 0.36	\$ 0.60	\$ 0.68

(b) Diluted net income per share:

Diluted net income per share is calculated by dividing the income attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period adjusted for the effects of potentially dilutive share options and share units.

	13-week periods ended		26-week periods ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net income attributable to shareholders of the Company	\$ 24,078	\$ 25,278	\$ 42,807	\$ 47,899
Weighted average number of common shares outstanding during the period (<i>thousands</i>)	72,294	71,794	72,294	71,791
Diluted net income per share attributable to the common shareholders	\$ 0.33	\$ 0.35	\$ 0.59	\$ 0.67

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

13. Net income per share (continued):

The following table provides a reconciliation from the basic weighted average number of common shares outstanding to the diluted weighted average number of common shares outstanding (number of shares in thousands):

	13-week periods ended		26-week periods ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Basic weighted average number of common shares	71,234	70,336	71,110	70,232
Dilutive effect of share options in the Amended and Restated Share Option Plan	936	1,356	1,056	1,460
Dilutive effect of share options in the LTIP	124	102	128	99
Diluted weighted average number of common shares	72,294	71,794	72,294	71,791

For the 13-week and 26-week periods ended July 1, 2023, 296,357 performance-based share options granted pursuant to the Amended and Restated Share Option Plan were not included in the calculation of diluted net income per share, as the vesting conditions required to convert these options to common shares were not met (13-week and 26-week periods ended July 2, 2022 — 580,657).

For the 13-week and 26-week periods ended July 1, 2023, 219,920 LTIP share options were not included in the calculation of diluted net income per share, as they were anti-dilutive and/or not in the money (13-week and 26-week periods ended July 2, 2022 — 199,911).

14. Share-based compensation:

(a) Amended and Restated Share Option Plan:

The tables below summarize the option activity under the Amended and Restated Share Option Plan:

	Options	Weighted average exercise price
Outstanding, December 31, 2022	1,767,299	\$ 9.44
Exercised	(478,176)	\$ 8.66
Forfeited	(30,160)	\$ 9.73
Outstanding, July 1, 2023	1,258,963	\$ 9.72

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

14. Share-based compensation (continued):

	Options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding, July 1, 2023	1,258,963	\$ 9.72	6.02	\$ 26,034
Vested and expected to vest	1,258,963	\$ 9.72	6.02	\$ 26,034
Exercisable, July 1, 2023	694,084	\$ 9.71	5.78	\$ 14,358

During the 13-week and 26-week periods ended July 1, 2023, the Company recorded share-based compensation expense in relation to the Amended and Restated Share Option Plan of \$300 and \$618, respectively (13-week and 26-week periods ended July 2, 2022 — \$464 and \$929, respectively), which was included in selling, general and administrative expenses.

(b) LTIP:

(i) Share options:

The tables below summarize the share option activity under the LTIP:

	Options	Weighted average exercise price
Outstanding, December 31, 2022	532,143	\$ 25.78
Granted	227,170	\$ 40.24
Exercised	(9,161)	\$ 21.94
Forfeited	(91,958)	\$ 25.47
Outstanding, July 1, 2023	658,194	\$ 30.87

	Options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding, July 1, 2023	658,194	\$ 30.87	8.88	\$ 2,147
Vested and expected to vest	611,304	\$ 30.53	8.84	\$ 2,131
Exercisable, July 1, 2023	121,137	\$ 25.17	8.39	\$ 702

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

14. Share-based compensation (continued):

The Company uses the Black-Scholes option pricing model to calculate the fair value of options at the date of grant. The weighted-average assumptions used in the model for options granted during the 26-week period ended July 1, 2023 are as follows:

Weighted-average risk-free interest rate	3.42 %
Expected life (years)	5.50 — 7.00
Expected dividend yield	0.99 %
Expected volatility	28.42 %
Forfeiture rate	10.00 %
Weighted-average fair value per option granted	\$ 12.60

During the 13-week and 26-week periods ended July 1, 2023, the Company recorded share-based compensation expense in relation to the LTIP share options of \$383 and \$584, respectively (13-week and 26-week periods ended July 2, 2022 — \$331 and \$514, respectively), which was included in selling, general and administrative expenses.

(ii) RSUs:

The table below summarizes the RSU activity under the LTIP:

	Number of RSUs
Outstanding, December 31, 2022	94,259
Granted	89,284
Forfeited	(13,070)
Additional units issued in lieu of cash dividends	1,025
Outstanding, July 1, 2023	171,498

The fair market value of future RSU cash-settlement obligations was \$1,413 at July 1, 2023 (July 2, 2022 — \$290). During the 13-week and 26-week periods ended July 1, 2023, the Company recorded share-based compensation expense for RSU cash-settlement obligations of \$246 and \$470, respectively (13-week and 26-week periods ended July 2, 2022 — \$223 and \$290, respectively).

(iii) PSUs:

The table below summarizes the PSU activity under the LTIP:

	Number of PSUs
Outstanding, December 31, 2022	79,087
Granted	68,420
Forfeited	(12,342)
Additional units issued in lieu of cash dividends	809
Outstanding, July 1, 2023	135,974

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

14. Share-based compensation (continued):

The expectation of the adjustment factor for the performance target linked to the total return to the Company's shareholders relative to the total return of companies comprising a blend of the S&P/TSX Completion Index, S&P/TSX Capped Consumer Discretionary, and the S&P/TSX Capped Consumer Staples is measured based on the Monte Carlo simulation method.

The key inputs used in the measurement of the fair value of the PSUs granted during the 26-week period ended July 1, 2023 are as follows:

Share price as of grant date	\$	39.79
Risk-free interest rate		4.64 %
Expected life (years)		3.00
Expected volatility		35.37 %

The fair market value of future PSU cash-settlement obligations was \$1,393 at July 1, 2023 (July 2, 2022 — \$311). During the 13-week and 26-week periods ended July 1, 2023, the Company recorded share-based compensation expense for PSU cash-settlement obligations of \$160 and \$291, respectively (13-week and 26-week periods ended July 2, 2022 — \$245 and \$311, respectively).

(c) Deferred share unit plan ("DSU Plan"):

The following is a summary of the Company's DSU Plan activity:

	Number of DSUs
Outstanding, December 31, 2022	51,893
Granted	13,544
Forfeited	(1,055)
Additional units issued in lieu of cash dividends	347
Outstanding, July 1, 2023	64,729

The fair market value of future DSU cash-settlement obligations was \$1,646 at July 1, 2023 (July 2, 2022 — \$895). During the 13-week and 26-week periods ended July 1, 2023, the Company recorded share-based compensation (recovery) expense for DSU cash-settled obligations of \$(126) and \$1, respectively (13-week and 26-week periods ended July 2, 2022 — \$229 and \$475, respectively).

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

15. Investment in associate:

During the 26-week period ended July 1, 2023, the agreement in connection with the investment in HAFTAL LLC ("HAFTAL") was amended to eliminate the call option to purchase the remaining interest in the investment (the "Call Option"). As a result, the Company derecognized the Call Option from the investment in associate in the consolidated statements of financial position. The Company's share of loss from associate and the loss on the derecognition of the Call Option are included in other loss (gain) in the consolidated statements of income and comprehensive income.

The following table reconciles the change in the investment in associate for the 26-week period ended July 1, 2023:

		Investment		Call Option		Total
Balance, December 31, 2022	\$	3,417	\$	1,291	\$	4,708
Share of loss from associate		(256)		—		(256)
Loss on derecognition		—		(1,302)		(1,302)
Currency translation adjustments		(72)		11		(61)
Balance, July 1, 2023	\$	3,089	\$	—	\$	3,089

16. Financial instruments and risk management:

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, accounts and other receivables and lease receivables. The risk on cash and cash equivalents is mitigated by the fact that its deposits are with various high-quality financial institutions. The Company has receivables from the Company's suppliers and from the Company's franchise operators. The credit risk on its receivables from suppliers is managed by the ability to offset any monies owed by the supplier against amounts owed to the suppliers. The management of credit risk on the Company's franchisee accounts receivable and lease receivable is maintained by having short settlement terms on these receivables, and prior to accepting a franchisee, the Company undertakes a detailed screening process that includes the requirement that a franchisee has sufficient financing.

(b) Liquidity risk:

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company mitigates liquidity risk by management of working capital, cash flows, and by maintaining various financing sources, including bank debt and finance leases. Adequate availability is maintained on the operating loan component of its credit facility to minimize this risk. The Company's trade and other payables are all due within 12 months from the date of these consolidated financial statements.

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

16. Financial instruments and risk management (continued):

(c) Market risk:

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: foreign currency risk and interest rate risk.

(i) Foreign currency risk:

The Company is exposed to currency risk related to some of its purchases. Specifically, the Company sources some of its merchandise in U.S. dollars.

The Company is also exposed to currency risk on financial assets and liabilities denominated in foreign currencies. These assets and liabilities are of a short-term nature, and management does not believe they represent a significant risk to the Company. A five percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed income before income taxes for the 26-week period ended July 1, 2023 by \$368 (26-week period ended July 2, 2022 — \$269), as a result of the revaluation on these financial assets and liabilities.

(ii) Interest rate risk:

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 2021 Credit Facilities are at variable interest rates. Changes in the short-term floating rates can cause fluctuations in interest payments and cash flows.

A one percentage point change in the applicable interest rate on the 2021 Credit Agreement based on the debt outstanding as at July 1, 2023 would have changed income before income taxes for the 26-week period ended July 1, 2023 by \$1,524 (26-week period ended July 2, 2022 — \$1,731).

(d) Fair values:

Financial instruments that are measured subsequent to initial recognition at fair value are to be categorized in Levels 1 to 3 of the fair value hierarchy, based on the degree to which the fair value is observable. The three levels of the fair value hierarchy are:

- Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2 – inputs other than quoted market prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

16. Financial instruments and risk management (continued):

- Level 3 – inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect the difference between the instruments.

There were no transfers between levels of the fair value hierarchy for the 26-week periods ended July 1, 2023 and July 2, 2022.

The carrying values of cash, accounts and other receivables, and accounts payable and accrued liabilities approximate fair values due to the short-term maturity of these financial instruments.

The carrying amounts and fair values of the Call Option, contingent consideration, and long-term debt are as follows:

		July 1, 2023		December 31, 2022	
		Carrying value	Fair value	Carrying value	Fair value
Assets:					
Call Option (Note 15)	(Level 3)	\$ —	\$ —	\$ 1,291	\$ 1,291
Liabilities:					
Contingent consideration related to the acquisition of Chico (Note 6)	(Level 3)	\$ —	\$ —	\$ 3,000	\$ 3,000
Long-term debt, including current portion ⁽¹⁾	(Level 2)	\$ 301,525	\$ 304,813	\$ 337,813	\$ 341,687

⁽¹⁾ Carrying value is net of deferred financing fees.

The Company used the Black-Scholes option pricing model to determine the fair value of the Call Option as of December 31, 2022.

17. Provisions:

For the period ended July 1, 2023, the Company recognized a restoration provision of \$2,583 associated with the new distribution centre in the Greater Toronto Area as the Company is contractually obligated to restore the leased premise to the original condition at the end of the lease. The restoration provision is included in other liabilities on the consolidated statements of financial position. The Company recognized a corresponding increase in the cost of the associated ROU asset.

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

18. Commitments, contingencies and guarantees:

(a) Distribution centre commitments:

On December 19, 2022, the Company entered into an agreement to procure certain material handling systems with commitments totaling approximately \$9,569 to be paid in fiscal years 2023 and 2024.

(b) Guarantees of indebtedness:

The Company has provided the following guarantees as of July 1, 2023:

- (i) Guarantee of certain lease obligations for a former subsidiary of the Company. The lease obligations expired on February 27, 2023 and were renewed for an additional 12-month term. As of July 1, 2023, the future lease commitment is \$408 (US\$308) (December 31, 2022 — \$82 (US\$60)).

(c) Bank comfort letters:

The Company has provided comfort letters to certain financial institutions at their request when these financial institutions provide financing to new franchisees. In the comfort letters, the Company has agreed that for three years from the date of the letter, if the bank is forced to realize on its security, including inventory held by the franchisee, the Company will repurchase the inventory previously sold to the franchisee at a stated discount of 15%, provided that such inventory can be sold by the bank to the Company free and clear of any and all liens, charges and encumbrances or rights of others.

Standard practice is for the Company to realize its rights under the franchise agreement prior to the franchisee reaching default under their finance arrangement; therefore, the risk associated with being required to repurchase inventory under these comfort letters is considered remote. Accordingly, no amount has been provided for in the accompanying consolidated financial statements.

(d) Other:

The Company may, from time to time, be named as a defendant in legal proceedings that arise from its normal course of business. Although the amount of any liability that could arise with respect to any pending claims cannot be estimated, the Company believes that any such liability is not reasonably likely to have a material adverse effect on its consolidated financial position, operating results or liquidity.

PET VALU HOLDINGS LTD.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

For the 13-week and 26-week periods ended July 1, 2023 and July 2, 2022

19. Related party transactions:

On May 1, 2021, the Company entered into a transition services agreement with its former subsidiaries, pursuant to which the parties provide to each other certain information technology, real estate and human resources and benefits services on a no cost or at cost basis. The transition services agreement was renewed until August 23, 2023. The Company charged the former subsidiaries \$nil under the transition services agreement for the the 13-week and 26-week periods ended July 1, 2023 (13-week and 26-week periods ended July 2, 2022 — \$nil and \$114, respectively).

In connection with the Company's initial public offering, the Company entered into a product sourcing and brand license agreement with a former subsidiary, pursuant to which the Company sources certain pet food and pet supply products licensed under the Company's proprietary brands in consideration of a sourcing fee. The original product sourcing and brand license agreement had an initial term of 18 months that was automatically renewable for successive 18-month terms unless earlier terminated upon notice. This agreement was amended and restated on August 10, 2022, and includes an initial term of five years, terminating on August 9, 2027, which automatically renews for successive 18-month periods unless earlier terminated. The Company earned sourcing fees of \$325 and \$571 under the product sourcing and brand license agreement for the 13-week and 26-week periods ended July 1, 2023, respectively (13-week and 26-week periods ended July 2, 2022 — \$266 and \$518, respectively).

During the period ended December 28, 2019, the Company received a promissory note related to the exercise of options by an employee. During the period ended July 1, 2023, the outstanding balance of \$499 (US\$372) was repaid by the employee. This promissory note had a balance outstanding of \$504 (US\$372) as of December 31, 2022.

All of the related party transactions noted above were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

20. Subsequent events:

On July 19, 2023, the Company entered into lease agreement for a distribution centre in the Metro Vancouver Region. The lease is for an initial term of 10 years commencing on January 1, 2024. The Company expects future undiscounted contractual lease payments of approximately \$92,000 over the term of the lease.

On August 7, 2023, the Board of Directors of the Company declared a dividend of \$0.10 per common share payable on September 15, 2023 to holders of common shares of record as at the close of business on August 31, 2023.