



PET VALU HOLDINGS LTD.

Condensed Interim Consolidated Financial Statements
For the 13-week and 39-week periods ended September 28, 2024 and September 30, 2023
(Unaudited)

PET VALU HOLDINGS LTD.

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

	Note	As at September 28, 2024	As at December 30, 2023
Assets			
Current assets:			
Cash		\$ 35,430	\$ 28,444
Accounts and other receivables		29,327	27,875
Inventories, net		134,750	122,069
Income taxes recoverable	11	8,286	6,012
Prepaid expenses and other assets		11,380	19,403
Current portion of lease receivables	5	38,062	34,332
Total current assets		257,235	238,135
Non-current assets:			
Long-term lease receivables	5	165,579	159,101
Right-of-use assets, net	5	233,843	237,941
Property and equipment, net	7	145,324	120,493
Intangible assets, net	8	50,751	52,205
Goodwill		97,969	97,562
Deferred tax assets	11	7,230	7,230
Other assets		3,904	4,240
Total non-current assets		704,600	678,772
Total assets		\$ 961,835	\$ 916,907
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 102,203	\$ 88,416
Provisions		343	669
Current portion of deferred franchise fees		1,427	1,344
Current portion of lease liabilities	5	68,479	64,068
Current portion of long-term debt	9	17,750	17,750
Total current liabilities		190,202	172,247
Non-current liabilities:			
Long-term deferred franchise fees		4,480	4,166
Long-term lease liabilities	5	385,474	379,833
Long-term debt	9	262,995	275,474
Deferred tax liabilities	11	8,864	8,864
Other liabilities		2,766	3,977
Provisions		3,536	2,626
Total non-current liabilities		668,115	674,940
Total liabilities		858,317	847,187
Shareholders' equity:			
Common shares	12	319,629	321,752
Contributed surplus		9,652	6,877
Deficit		(225,622)	(258,768)
Currency translation reserve		(141)	(141)
Total shareholders' equity		103,518	69,720
Total liabilities and shareholders' equity		\$ 961,835	\$ 916,907

Commitments, contingencies and guarantees (Note 16)

Subsequent events (Note 18)

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		39-week periods ended	
		September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Revenue:					
Retail sales	4	\$ 99,962	\$ 106,708	\$ 300,428	\$ 311,739
Franchise and other revenues	4	176,068	155,586	501,616	457,220
Total revenue		276,030	262,294	802,044	768,959
Cost of sales		186,651	174,977	537,621	502,323
Gross profit		89,379	87,317	264,423	266,636
Selling, general and administrative expenses		49,023	49,947	156,972	154,175
Total operating income		40,356	37,370	107,451	112,461
Interest expenses, net	10	8,326	8,128	25,551	22,190
(Gain) loss on foreign exchange		(100)	246	571	444
Other loss		—	3,160	—	4,718
Income before income taxes		32,130	25,836	81,329	85,109
Income tax expense	11	8,972	7,860	22,814	24,326
Net income		23,158	17,976	58,515	60,783
Other comprehensive income, net of tax:					
Currency translation adjustments that may be reclassified to net income, net of tax		—	(25)	—	18
Comprehensive income for the period attributable to the shareholders of the Company		\$ 23,158	\$ 17,951	\$ 58,515	\$ 60,801
Basic net income per share attributable to the common shareholders	13	\$ 0.32	\$ 0.25	\$ 0.82	\$ 0.85
Diluted net income per share attributable to the common shareholders	13	\$ 0.32	\$ 0.25	\$ 0.81	\$ 0.84

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

PET VALU HOLDINGS LTD.

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

	Common shares	Contributed surplus	Deficit	Currency translation reserve	Total
For the period ended September 28, 2024					
Balance, December 30, 2023	\$ 321,752	\$ 6,877	\$ (258,768)	\$ (141)	\$ 69,720
Net income	—	—	58,515	—	58,515
Exercise of share options (Notes 12, 14)	6,187	(2,098)	—	—	4,089
Share-based compensation on option plans (Note 14)	—	4,873	—	—	4,873
Dividends on common shares (Note 12)	—	—	(23,638)	—	(23,638)
Shares repurchased for cancellation (Note 12)	(353)	—	(1,731)	—	(2,084)
Automatic share purchase plan commitment (Note 12)	(7,957)	—	—	—	(7,957)
Balance, September 28, 2024	\$ 319,629	\$ 9,652	\$ (225,622)	\$ (141)	\$ 103,518

	Common shares	Contributed surplus	Deficit	Currency translation reserve	Total
For the period ended September 30, 2023					
Balance, December 31, 2022	\$ 316,208	\$ 4,107	\$ (319,780)	\$ (159)	\$ 376
Net income	—	—	60,783	—	60,783
Exercise of share options (Notes 12, 14)	5,490	(1,141)	—	—	4,349
Share-based compensation on option plans (Note 14)	—	2,243	—	—	2,243
Foreign currency translation	—	—	—	18	18
Dividends on common shares (Note 12)	—	—	(21,390)	—	(21,390)
Balance, September 30, 2023	\$ 321,698	\$ 5,209	\$ (280,387)	\$ (141)	\$ 46,379

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

PET VALU HOLDINGS LTD.

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

	Note	13-week periods ended		39-week periods ended	
		September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Cash provided by (used in):					
Operating activities:					
Net income for the period		\$ 23,158	\$ 17,976	\$ 58,515	\$ 60,783
Adjustments for items not affecting cash:					
Depreciation and amortization	5, 7, 8	16,531	14,187	49,129	35,719
Deferred franchise fees		181	74	88	137
Gain on disposal of property and equipment		(1,200)	(1,017)	(2,810)	(1,321)
(Gain) loss on sale of right-of-use assets	5	(180)	155	(32)	689
(Gain) loss on foreign exchange		(100)	246	571	444
Loss on financial instruments		—	—	—	1,302
Share-based compensation expense	14	2,149	1,025	7,027	2,989
Share of loss from associate		—	3,160	—	3,416
Interest expenses, net	10	8,326	8,128	25,551	22,190
Income tax expense	11	8,972	7,860	22,814	24,326
Income taxes paid		(8,881)	(9,360)	(24,881)	(43,130)
Changes in non-cash operating working capital:					
Accounts receivable		979	(601)	(1,515)	(1,740)
Inventories		(1,150)	(4,261)	(12,505)	(16,541)
Prepaid expenses		10,155	(8,151)	8,023	(4,589)
Accounts payable and accrued liabilities		(3,241)	5,023	2,364	(4,544)
Net cash provided by operating activities		55,699	34,444	132,339	80,130
Financing activities:					
Proceeds from exercise of share options	12	3,270	5	4,089	4,349
Shares repurchased for cancellation	12	(2,043)	—	(2,043)	—
Dividends paid on common shares	12	(7,907)	(7,146)	(23,638)	(21,390)
Repayment of 2021 Term Facility	9	(4,437)	(4,438)	(13,312)	(41,312)
Interest paid on long-term debt		(8,493)	(3,797)	(19,805)	(7,664)
Repayment of principal on lease liabilities	5	(16,541)	(8,210)	(48,108)	(39,068)
Interest paid on lease liabilities	5, 10	(5,865)	(4,554)	(17,494)	(11,151)
Standby letter of credit commitment fees	10	—	(209)	—	(872)
Net cash used in financing activities		(42,016)	(28,349)	(120,311)	(117,108)
Investing activities:					
Business acquisition, net of cash acquired		—	—	—	(3,000)
Purchases of property and equipment	7	(16,661)	(14,881)	(43,139)	(42,262)
Purchase of intangible assets	8	(254)	(714)	(1,518)	(2,689)
Proceeds on disposal of property and equipment		2,848	1,669	6,104	2,870
Right-of-use asset initial direct costs		(474)	(464)	(1,418)	(1,454)
Tenant allowances		177	537	1,046	1,185
Notes receivable		154	157	505	1,050
Lease receivables	5	8,890	7,692	25,829	22,269
Interest received on lease receivables and other		2,949	2,556	8,939	8,065
Repurchase of franchises	6	—	—	(971)	(512)
Net cash used in investing activities		(2,371)	(3,448)	(4,623)	(14,478)
Effect of exchange rate on cash		31	(113)	(419)	(237)
Net increase (decrease) in cash		11,343	2,534	6,986	(51,693)
Cash, beginning of period		24,087	8,807	28,444	63,034
Cash, end of period		\$ 35,430	\$ 11,341	\$ 35,430	\$ 11,341

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 39-week periods ended September 28, 2024 and September 30, 2023

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 at September 28, 2024, the Company operates 214 corporate-owned stores (December 30, 2023 — 222) and has 591 franchise stores (December 30, 2023 — 561) 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 ("TSX") 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* ("IAS 34"), 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 30, 2023.

These interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 4, 2024.

(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 uncertainty were the same as those applied in Note 2 of the audited annual consolidated financial statements for the 52-week period ended December 30, 2023. Actual results could differ from those estimates and assumptions.

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

For the 13-week and 39-week periods ended September 28, 2024 and September 30, 2023

3. Material 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 30, 2023 and have been applied consistently in the preparation of these interim financial statements. Changes to the material accounting policies are described below:

(a) Share capital:

When common shares are repurchased for cancellation, the amount of consideration paid, which includes directly attributable costs, net of tax, is recognized as a deduction from equity. The excess of the purchase price over the carrying amount of shares is charged to deficit or retained earnings.

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

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current*, which amends IAS 1, *Presentation of Financial Statements* ("IAS 1"). The narrow-scope amendments affect only the presentation of liabilities in the statements of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. They also introduce a definition of "settlement" to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. In October 2022, the IASB issued further amendments to IAS 1 that aim to improve the information companies provide about long-term debt with covenants. The amendments to IAS 1 specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements. The Company has adopted these amendments in its interim financial statements for the 52-week period beginning on December 31, 2023. There was no impact on the interim financial statements.

In September 2022, the IASB issued *Lease Liability in a Sale and Leaseback*, which amends IFRS 16, *Leases*. The narrow-scope amendments add to requirements explaining how to account for a sale and leaseback after the date of the transaction. These amendments will not change the accounting for leases other than those arising in a sale and leaseback transaction. The Company has adopted these amendments in its interim financial statements for the 52-week period beginning on December 31, 2023. There was no impact on the interim financial statements.

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

For the 13-week and 39-week periods ended September 28, 2024 and September 30, 2023

3. Material accounting policies (continued):

(c) New standards and interpretations not yet adopted:

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure of Financial Statements* ("IFRS 18"), which replaces IAS 1. IFRS 18 introduces new requirements on presentation within the statement of income or loss, including specified totals and subtotals, disclosure of management-defined performance measures, and aggregation and disaggregation of financial information based on identified roles of the primary financial statements and the notes. In addition, narrow-scope amendments have been made to IAS 7, *Statement of Cash Flows* ("IAS 7"), which include changing the starting point for determining cash flows from operations under the indirect method and the removal of the optionality around the classification of cash flows from dividends and interest. Some requirements previously included in IAS 1 have been moved to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, which has also been renamed to IAS 8, *Basis of Preparation of Financial Statements*. IAS 34 was also amended to require the disclosure of management-defined performance measures. Minor consequential amendments to other standards were also made. The amendments are effective for reporting periods beginning on or after January 1, 2027. Earlier application is permitted. The Company is currently assessing the potential impact of IFRS 18 and the narrow-scope amendments.

In May 2024, the IASB issued narrow-scope amendments to the classification and measurement requirements in IFRS 9, *Financial Instruments* ("IFRS 9"), and disclosures in IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"). The amendments clarify the classification of financial assets with environmental, social and corporate governance linked features, and other similar contingent features, including how to assess the contractual cash flow characteristics. The amendments also clarify the date on which a financial asset or financial liability is derecognized. Furthermore, for financial liabilities settled, in full or in part, in cash using an electronic payment system, an entity is permitted to make an accounting policy election to derecognize the liability before settlement date if certain conditions are met. In addition, the IASB introduced additional disclosure requirements to enhance transparency for investors regarding investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features. The amendments are effective for annual reporting periods beginning on or after January 1, 2026. Earlier adoption is permitted for certain amendments. The Company is currently assessing the potential impact of the narrow-scope amendments.

In July 2024, the IASB issued nine narrow-scope amendments as part of its regular maintenance of the standards. These amendments include clarifications, simplifications, corrections, and changes aimed at improving the consistency of IFRS 1, *First-time Adoption of International Financial Reporting Standards*; IFRS 7; IFRS 9; IFRS 10, *Consolidated Financial Statements*; and IAS 7. The amendments are effective for annual reporting periods beginning on or after January 1, 2026. Earlier adoption is permitted. The Company is currently assessing the potential impact of the narrow-scope amendments.

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

For the 13-week and 39-week periods ended September 28, 2024 and September 30, 2023

4. Revenue:

The following table disaggregates the Company's retail sales and franchise revenue by category for the periods ended September 28, 2024 and September 30, 2023:

	13-week periods ended		39-week periods ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Retail sales:				
Merchandise sales	\$ 98,477	\$ 105,297	\$ 295,969	\$ 307,926
In-store services	1,485	1,411	4,459	3,813
Total retail sales	99,962	106,708	300,428	311,739
Franchise and other revenues:				
Wholesale merchandise sales	139,940	123,007	396,201	360,359
Royalties and sub-lease revenues	26,352	24,335	77,917	71,428
Promotion and other service fees	9,776	8,244	27,498	25,433
Total franchise and other revenues	176,068	155,586	501,616	457,220
Total revenue	\$ 276,030	\$ 262,294	\$ 802,044	\$ 768,959

5. Leases:

(a) Right-of-use ("ROU") assets:

The following table reconciles the changes in ROU assets for the period ended September 28, 2024:

	Leased premises		Other		Total
Balance, December 30, 2023	\$ 233,848	\$ 4,093	\$ 237,941		
Net additions	22,411	921	23,332		
Depreciation	(26,415)	(1,015)	(27,430)		
Balance, September 28, 2024	\$ 229,844	\$ 3,999	\$ 233,843		

Depreciation on ROU assets is included in cost of sales and selling, general and administrative expenses in the condensed interim consolidated statements of income and comprehensive income. The depreciation included in cost of sales for the 13-week and 39-week periods ended September 28, 2024 was \$9,053 and \$27,030, respectively (13-week and 39-week periods ended September 30, 2023 — \$7,217 and \$17,186, respectively). The depreciation included in selling, general and administrative expenses for the 13-week and 39-week periods ended September 28, 2024 was \$133 and \$400, respectively (13-week and 39-week periods ended September 30, 2023 — \$488 and \$979, respectively). (Gain) loss on sale of ROU assets of \$(180) and \$(32) were recognized on the sale of corporate-owned stores to franchisees for the 13-week and 39-week periods ended September 28, 2024, respectively (13-week and 39-week periods ended September 30, 2023 — \$155 and \$689, respectively).

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

For the 13-week and 39-week periods ended September 28, 2024 and September 30, 2023

5. Leases (continued):

(b) Lease liabilities:

The following table reconciles the changes in lease liabilities for the period ended September 28, 2024:

	Leased premises		Other		Total
Balance, December 30, 2023	\$	439,593	\$	4,308	\$ 443,901
Additions		57,235		925	58,160
Interest expense on lease liabilities		17,307		187	17,494
Repayment of interest and principal		(64,337)		(1,265)	(65,602)
Balance, September 28, 2024	\$	449,798	\$	4,155	\$ 453,953
Current portion of lease liabilities	\$	67,264	\$	1,215	\$ 68,479
Long-term lease liabilities		382,534		2,940	385,474
Total lease liabilities	\$	449,798	\$	4,155	\$ 453,953

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 condensed interim consolidated statements of income and comprehensive income. Expenses for variable lease components included in cost of sales for the 13-week and 39-week periods ended September 28, 2024 were \$9,335 and \$27,970, respectively (13-week and 39-week periods ended September 30, 2023 — \$8,169 and \$23,360, respectively). Expenses for variable lease components included in selling, general and administrative expenses for the 13-week and 39-week periods ended September 28, 2024 were \$23 and \$81, respectively (13-week and 39-week periods ended September 30, 2023 — \$44 and \$138, respectively).

(c) Lease receivables:

The Company is considered an intermediate lessor related to head leases the Company has for franchise store locations. As at September 28, 2024 and December 30, 2023, the Company had lease receivables as follows:

	September 28, 2024		December 30, 2023	
Current portion of lease receivables	\$	38,062	\$	34,332
Long-term lease receivables		165,579		159,101
Total lease receivables	\$	203,641	\$	193,433

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

For the 13-week and 39-week periods ended September 28, 2024 and September 30, 2023

5. Leases (continued):

Finance income on lease receivables for the 13-week and 39-week periods ended September 28, 2024 was \$2,527 and \$7,406, respectively (13-week and 39-week periods ended September 30, 2023 — \$2,249 and \$6,484, 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 condensed interim consolidated statements of income and comprehensive income for the 13-week and 39-week periods ended September 28, 2024 was \$12,418 and \$36,918, respectively (13-week and 39-week periods ended September 30, 2023 — \$10,998 and \$32,851, respectively).

6. Business acquisitions:

Franchise repurchases:

The following table discloses franchise repurchases for the 39-week periods ended September 28, 2024 and September 30, 2023. The franchise repurchases have been accounted for through the acquisition method.

	September 28, 2024	September 30, 2023
Number of stores repurchased	1	1
Inventories	\$ 176	\$ 96
Property and equipment	20	309
Goodwill	775	107
Cash consideration	\$ 971	\$ 512

7. Property and equipment:

During the 13-week and 39-week periods ended September 28, 2024, the Company had property and equipment additions of \$18,348 and \$46,464, respectively (13-week and 39-week periods ended September 30, 2023 — \$14,158 and \$38,569, respectively). During the 13-week and 39-week periods ended September 28, 2024, the Company had net disposals of \$1,262 and \$2,906, respectively, the majority of which were related to leasehold improvements and furniture and fixtures for its corporate-owned stores (13-week and 39-week periods ended September 30, 2023 — \$622 and \$1,315, respectively). Depreciation on property and equipment for the 13-week and 39-week periods ended September 28, 2024 was \$6,290 and \$18,727, respectively (13-week and 39-week periods ended September 30, 2023 — \$5,552 and \$15,167, respectively).

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For the 13-week and 39-week periods ended September 28, 2024 and September 30, 2023

8. Intangible assets:

During the 13-week and 39-week periods ended September 28, 2024, the Company had intangible asset additions of \$254 and \$1,518, respectively, the majority of which were related to software (13-week and 39-week periods ended September 30, 2023 — \$714 and \$2,689, respectively). Amortization on intangible assets for the 13-week and 39-week periods ended September 28, 2024 was \$1,055 and \$2,972, respectively (13-week and 39-week periods ended September 30, 2023 — \$930 and \$2,387, respectively).

9. Long-term debt:

Total long-term debt, net of deferred financing costs, as at September 28, 2024 and December 30, 2023 consists of the following:

	September 28, 2024	December 30, 2023
2021 Term Facility (a)	\$ 282,625	\$ 295,937
Deferred financing costs	(1,880)	(2,713)
	280,745	293,224
Less current portion of long-term debt	(17,750)	(17,750)
Total long-term debt	\$ 262,995	\$ 275,474

(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 at September 28, 2024 and September 30, 2023, the Company was in compliance with all of its covenants.

The Company had unused borrowing capacity available under the 2021 Revolving Facility of \$130,000 as at September 28, 2024.

During the 39-week period ended September 28, 2024, the 2021 Credit Agreement was amended to update the type of borrowing advanced at certain short-term floating rates. Specifically, the Canadian reference rate was modified to the Canadian Overnight Repo Rate Average ("CORRA").

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For the 13-week and 39-week periods ended September 28, 2024 and September 30, 2023

10. Interest expenses:

Interest expenses, net consist of the following:

	13-week periods ended		39-week periods ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
2021 Credit Agreement	\$ 5,115	\$ 5,719	\$ 16,168	\$ 17,202
Amortization of deferred financing costs	279	289	853	875
Interest on lease liabilities	5,865	4,554	17,494	11,151
Interest income on lease receivables	(2,527)	(2,249)	(7,406)	(6,484)
Standby letter of credit commitment fees	—	205	—	868
Other interest income, net	(406)	(390)	(1,558)	(1,422)
Interest expenses, net	\$ 8,326	\$ 8,128	\$ 25,551	\$ 22,190

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 tax expense for the 13-week and 39-week periods ended September 28, 2024 was \$8,972 and \$22,814, respectively (13-week and 39-week periods ended September 30, 2023 — \$7,860 and \$24,326, respectively). The Company's effective income tax rates for the 13-week and 39-week periods ended September 28, 2024 was 27.9% and 28.1%, respectively (13-week and 39-week periods ended September 30, 2023 — 30.4% and 28.6%, respectively). The statutory income tax rate for the 13-week and 39-week periods ended September 28, 2024 was 26.5% (13-week and 39-week periods ended September 30, 2023 — 26.5%).

The Company is subject to routine audits of its tax filing positions by the Canada Revenue Agency ("CRA"). In September 2023, the CRA reassessed the Company an additional approximately \$6,000 of income tax plus interest in respect of the Company's 2018 taxation year on the basis that certain interest expenses incurred in that year were not deductible ("2018 reassessment"). In April 2024, the Company received proposal letters from the CRA proposing to deny the deduction of certain interest expenses incurred by the Company in the 2019 and 2020 taxation years on a basis consistent with the 2018 reassessment. In June 2024, the CRA reassessed the Company an additional approximately \$6,400 of income tax plus interest in respect of the Company's 2019 taxation year ("2019 reassessment"). No reassessment for the 2020 taxation year has been received from the CRA, but should the Company be so reassessed on a similar basis as the 2019 taxation year, it could have a potential additional exposure of approximately \$6,600 of income tax plus interest. It is possible that the CRA will also reassess certain subsequent taxation years on a similar basis. The Company has filed objections to, and intends to vigorously contest, the 2018 and 2019 reassessments, and intends to similarly contest any such reassessment of the 2020 taxation year, as well as any other subsequent years that are assessed on a similar basis. The Company and its tax advisors believe that the Company's tax filing positions are appropriate. Accordingly, no amount or provision has been recorded in the interim financial statements in respect of the 2018 and 2019 reassessments and 2020 potential exposure.

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11. Income taxes (continued):

The CRA is also currently examining the Company's tax filing positions for the 2016 year and subsequent taxation years with respect to certain cross-border matters. To date, the CRA has not reassessed 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 recorded in the interim financial statements in respect of any potential reassessment which may result from such audit. If the CRA were to reassess the Company, the Company would vigorously oppose any such reassessment. The Company has tax insurance against the risk of the Company ultimately being unsuccessful in opposing certain potential reassessments that may arise in connection with its acquisition of its former interest in Pet Supermarket, Inc.; although, there can be no assurance that such insurance will cover any tax which may ultimately be imposed.

12. Share capital:

(a) Authorized share capital:

As at September 28, 2024, there were 71,805,088 common shares and no preferred shares issued and outstanding.

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

	Common shares outstanding	Amount
Balance, December 30, 2023	71,463,986 \$	321,752
Exercise of share options	419,895	6,187
Shares repurchased for cancellation	(78,793)	(353)
Share repurchase commitment under automatic share purchase plan	—	(7,957)
Balance, September 28, 2024	71,805,088 \$	319,629

(b) Dividends:

The Company's dividend policy is at the discretion of the Board of Directors. For the 39-week period ended September 28, 2024, the Company paid \$23,638 in dividends to holders of common shares (39-week period ended September 30, 2023 — \$21,390) or \$0.33 per common share (39-week period ended September 30, 2023 — \$0.30 per common share).

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12. Share capital (continued):

(c) Normal course issuer bid:

On November 28, 2023, the Company announced that the TSX had accepted its notice of intention to launch a normal course issuer bid ("NCIB"). Pursuant to the NCIB, the Company may purchase for cancellation up to an aggregate of 1,786,599 common shares, representing approximately 2.5% of the Company's issued and outstanding common shares as at November 16, 2023, over the 12-month period commencing November 30, 2023 and ending November 29, 2024. During the 13-week and 39-week periods ended September 28, 2024, the Company repurchased 78,793 common shares for cancellation for total cash consideration of \$2,043. The Company accrued taxes of \$41 for the common share repurchases made during the 13-week and 39-week periods ended September 28, 2024, with a corresponding increase to deficit.

Effective November 24, 2023, the Company established an automatic share purchase plan ("ASPP") in connection with the NCIB to facilitate the purchase of common shares during certain periods when the Company would 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, NCIB, TSX rules, and applicable securities laws. The Company records a liability for the share purchase commitment during blackout periods based on the parameters of the ASPP. As at September 28, 2024, an estimated maximum obligation of \$7,957 under the ASPP was included in accounts payable and accrued liabilities.

(d) Secondary offering:

On May 15, 2024, a secondary offering (the "2024 Secondary Offering") of the Company's common shares was completed by its principal shareholders on a bought deal basis. The 2024 Secondary Offering of 5,903,000 common shares at an offering price of \$29.65 per common share raised gross proceeds of \$175,024 for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the 2024 Secondary Offering. Underwriting fees were paid by the principal shareholders, and other expenses related to the 2024 Secondary Offering of approximately \$224 were paid by the Company and included in selling, general and administrative expenses for the 39-week period ended September 28, 2024.

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13. Net income per share:

(a) Basic net income per share:

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

	13-week periods ended		39-week periods ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Net income attributable to shareholders of the Company	\$ 23,158	\$ 17,976	\$ 58,515	\$ 60,783
Weighted average number of common shares outstanding during the period (<i>thousands</i>)	71,679	71,464	71,546	71,226
Basic net income per share attributable to the common shareholders	\$ 0.32	\$ 0.25	\$ 0.82	\$ 0.85

(b) Diluted net income per share:

Diluted net income per share is calculated by dividing the net income for the period attributable to shareholders, adjusted for the effects of dilutive options and share units, if applicable, for the period attributable to the shareholders of the Company by the weighted average number of common shares outstanding during the period, plus the weighted average number of common shares that would be issued on exercise of dilutive options and share units granted, as calculated under the treasury stock method.

	13-week periods ended		39-week periods ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Net income attributable to shareholders of the Company	\$ 23,158	\$ 17,976	\$ 58,515	\$ 60,783
Weighted average number of common shares outstanding during the period (<i>thousands</i>)	72,423	72,138	72,513	72,244
Diluted net income per share attributable to the common shareholders	\$ 0.32	\$ 0.25	\$ 0.81	\$ 0.84

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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		39-week periods ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Basic weighted average number of common shares	71,679	71,464	71,546	71,226
Dilutive effect of share options in the Amended and Restated Share Option Plan	669	622	835	916
Dilutive effect of share options in the LTIP	75	52	132	102
Diluted weighted average number of common shares	72,423	72,138	72,513	72,244

For the 13-week and 39-week periods ended September 28, 2024, 81,664 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 39-week periods ended September 30, 2023 — 296,357).

For the 13-week and 39-week periods ended September 28, 2024, 729,461 and 662,329 service-based LTIP share options were not included in the calculation of diluted net income per share as they were not in the money (13-week and 39-week periods ended September 30, 2023 — 461,466 and 215,136).

For the 13-week and 39-week periods ended September 28, 2024, 564,374 performance-based LTIP share options 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 39-week periods ended September 30, 2023 — nil).

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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 30, 2023	1,258,963	\$ 9.72
Exercised	(419,717)	\$ 9.73
Outstanding, September 28, 2024	839,246	\$ 9.72

Exercise price range	Share options outstanding			Share options exercisable		
	Number of share options	Weighted average remaining contractual term (years)	Weighted average exercise price	Number of share options	Weighted average remaining contractual term (years)	Weighted average exercise price
\$0.01 - \$9.73	839,246	\$ 5.00	9.72	689,838	4.71	\$ 9.71

During the 13-week and 39-week periods ended September 28, 2024, the Company recorded share-based compensation expense in relation to the Amended and Restated Share Option Plan of \$45 and \$137, respectively (13-week and 39-week periods ended September 30, 2023 — \$299 and \$917, 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 30, 2023	1,671,279	\$ 26.53
Granted	297,102	\$ 29.98
Exercised	(178)	\$ 28.14
Forfeited	(18,727)	\$ 35.01
Outstanding, September 28, 2024	1,949,476	\$ 26.98

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14. Share-based compensation (continued):

Exercise price range	Share options outstanding			Share options exercisable		
	Number of share options	Weighted average remaining contractual term (years)	Weighted average exercise price	Number of share options	Weighted average remaining contractual term (years)	Weighted average exercise price
\$20.00 - \$29.98	1,577,851	6.80	\$ 24.74	224,432	6.86	\$ 21.21
\$30.26 - \$40.24	371,625	8.08	\$ 36.47	134,138	7.95	\$ 35.11
\$20.00 - \$40.24	1,949,476	7.04	\$ 26.98	358,570	7.27	\$ 26.41

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 39-week period ended September 28, 2024 are as follows:

Weighted-average risk-free interest rate	3.45 %
Expected life (years)	5.50 - 7.00
Expected dividend yield	1.47 %
Expected volatility	31.92 %
Forfeiture rate	10.00 %
Weighted-average fair value per option granted	\$ 9.68

During the 13-week and 39-week periods ended September 28, 2024, the Company recorded share-based compensation expense in relation to the LTIP share options of \$1,480 and \$4,736, respectively (13-week and 39-week periods ended September 30, 2023 — \$742 and \$1,326, 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 30, 2023	187,819
Granted	135,834
Exercised	(6,926)
Forfeited	(9,607)
Outstanding, September 28, 2024	307,120

The fair market value of future RSU cash-settlement obligations was \$3,204 at September 28, 2024 (September 30, 2023 — \$1,502). During the 13-week and 39-week periods ended September 28, 2024, the Company recorded share-based compensation expense for RSU cash-settlement obligations of \$322 and \$1,200, respectively (13-week and 39-week periods ended September 30, 2023 — \$89 and \$559, respectively).

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14. Share-based compensation (continued):

(iii) PSUs:

The table below summarizes the PSU activity under the LTIP:

	Number of PSUs
Outstanding, December 30, 2023	136,974
Granted	98,460
Outstanding, September 28, 2024	235,434

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 39-week period ended September 28, 2024 are as follows:

Share price as at grant date	\$ 29.85
Risk-free interest rate	4.25 %
Expected life (years)	3.00
Expected volatility	31.97 %

The fair market value of future PSU cash-settlement obligations was \$2,219 at September 28, 2024 (September 30, 2023 — \$1,407). During the 13-week and 39-week periods ended September 28, 2024, the Company recorded share-based compensation expense for PSU cash-settlement obligations of \$187 and \$703, respectively (13-week and 39-week periods ended September 30, 2023 — \$13 and \$304, 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 30, 2023	53,549
Granted	19,193
Outstanding, September 28, 2024	72,742

The fair market value of future DSU cash-settlement obligations was \$1,698 at September 28, 2024 (September 30, 2023 — \$1,528). During the 13-week and 39-week periods ended September 28, 2024, the Company recorded share-based compensation expense (recovery) for DSU cash-settled obligations of \$115 and \$251, respectively (13-week and 39-week periods ended September 30, 2023 — \$(118) and \$(117), respectively).

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15. 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 the management of working capital and 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 interim financial statements.

(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 consists of two types of risk: foreign currency risk and interest rate risk.

(i) Foreign currency risk:

The Company is exposed to foreign 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 foreign 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 39-week period ended September 28, 2024 by \$382 (39-week period ended September 30, 2023 — \$559), 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 (Note 9) are at variable interest rates. Changes in the short-term floating rates can cause fluctuations in interest payments and cash flows.

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15. Financial instruments and risk management (continued):

A one percentage point change in the applicable interest rate on the 2021 Credit Agreement based on the debt outstanding as at September 28, 2024 would have changed income before income taxes for the 39-week period ended September 28, 2024 by \$2,120 (39-week period ended September 30, 2023 — \$2,253).

(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
- 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.

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 long-term debt are as follows:

	September 28, 2024		December 30, 2023	
	Carrying value	Fair value	Carrying value	Fair value
Liabilities:				
Long-term debt, including current portion ⁽¹⁾	(Level 2) \$ 280,745	\$ 282,625	\$ 293,224	\$ 295,937

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

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16. Commitments, contingencies and guarantees:

(a) Distribution centre commitments:

The Company has provided the following commitments as at September 28, 2024:

(i) Greater Toronto Area:

The Company entered into agreements to procure certain equipment with commitments totalling approximately \$169 to be paid in fiscal year 2024.

(ii) Metro Vancouver Region:

The Company entered into agreements to procure certain equipment with commitments totalling approximately \$783 to be paid in fiscal years 2024 and 2025.

(b) 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 interim financial statements.

(c) 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.

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17. Related party transactions:

During the period ended January 1, 2022, 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. This agreement terminates on August 9, 2027 and automatically renews for successive 18-month periods unless terminated earlier. The Company earned sourcing fees of \$143 and \$522 under the product sourcing and brand license agreement for the 13-week and 39-week periods ended September 28, 2024, respectively (13-week and 39-week periods ended September 30, 2023 — \$219 and \$790, respectively).

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.

18. Subsequent events:

- (a) On November 4, 2024, the Board of Directors of the Company declared a dividend of \$0.11 per common share payable on December 16, 2024 to holders of common shares of record as at the close of business on November 29, 2024.
- (b) On October 31, 2024, the Company amended its 2021 Credit Agreement in order to, among other things, extend the term to October 31, 2029 and increase the borrowing capacity of the 2021 Revolving Credit Facility to \$175,000.
- (c) On October 18, 2024, the Company entered into a lease agreement for a distribution centre in Calgary, Alberta. The lease is for an initial term of approximately 10 years commencing on March 1, 2025. The Company expects future undiscounted contractual lease payments of up to approximately \$32,000 over the term of the lease.