



PET VALU HOLDINGS LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

(Fiscal Year Ended January 1, 2022)

The following Management's Discussion and Analysis ("MD&A") for Pet Valu Holdings Ltd. ("we", "Pet Valu" or the "Company") was prepared as of March 8, 2022 and provides information concerning the Company's financial condition and results of operations for the 13-week and 52-week and 14-week and 53-week periods ended January 1, 2022 and January 2, 2021, respectively. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes for Fiscal 2021 (as hereinafter defined). Additionally, readers should refer to the "Risk Factors" set forth in the Company's annual information form ("AIF") dated March 8, 2022 for further information. Additional information about Pet Valu Holdings Ltd. can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Basis of Presentation

For the purposes of this MD&A, for the periods prior to the closing of the initial public offering (see "Initial Public Offering"), the Company was not operating as a stand-alone entity and as a result, the financial information is presented on a carve-out basis that includes only legal entities representing the Canadian operations of Pet Valu Holdings Ltd. (referred to as the "Group", prior to the distribution of its U.S. operations to its shareholder).

The Company's audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), using the accounting policies described therein. All amounts are presented in thousands of Canadian dollars unless otherwise indicated and per share amounts. The Company is managed based on one operating and reportable segment.

The Company operates on a 52- or 53-week fiscal year, concluding on the Saturday nearest to December 31. The Company's fiscal quarters conclude on the Saturday nearest to the end of each quarter. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter will have 14 weeks. The 13-week and 52-week periods ended January 1, 2022 and 14-week and 53-week periods ended January 2, 2021, represent the Company's results for its fourth quarter and the fiscal year of the relevant financial years.

All references in this MD&A to "Q4 2021" are to the 13-week period ended January 1, 2022, to "Q4 2020" are to the 14-week period ended January 2, 2021, to "Fiscal 2021" are to the 52-week period ended January 1, 2022 and to "Fiscal 2020" are to the 53-week period ended January 2, 2021. Figures presented in this MD&A are in thousands of Canadian dollars unless otherwise indicated.

The audited consolidated financial statements and accompanying notes for Fiscal 2021 and this MD&A were authorized for issue by the Company's Board of Directors.

Non-IFRS Measures and Supplementary Financial Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for the Company's analysis of its financial information reported under IFRS. The Company uses non-IFRS measures, including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Adjusted Net Income per Diluted Share", and "Free Cash Flow". This MD&A also makes reference to certain supplementary financial measures that are commonly used in the retail industry, including "system-wide stores", "system-wide sales", "same-store sales growth", "same-store transaction growth", and "same-store average spend per transaction growth". These non-IFRS measures and supplementary financial measures are used to provide investors with supplemental measures of the Company's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures and such supplementary financial measures in the evaluation of issuers. Management of the Company uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Refer to "Selected Consolidated Financial Information and Industry Metrics" and "Selected Quarterly Results and Performance Measures" for a reconciliation of net income, an IFRS measure, to EBITDA, Adjusted EBITDA and Adjusted Net Income. Refer to "Liquidity and Capital Resources - Free Cash Flow" for a reconciliation of Free Cash Flow.

Forward-Looking Information

This MD&A contains forward-looking information. Forward-looking information is provided as of the date of this MD&A and is based on management's opinions, estimates and assumptions in light of its experience and perception of historical trends, current trends, current conditions and expected future developments, as well as other factors that management believes appropriate and reasonable in the circumstances. Pet Valu does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", "continue", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "should", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

Many factors could cause the Company's actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking information, including, without limitation, the factors discussed in the "Risk Factors" section of this MD&A and in our most recent AIF. A copy of the AIF can be accessed under our profile on SEDAR at www.sedar.com. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully.

The purpose of the forward-looking information is to provide the reader with a description of management's current expectations regarding the Company's financial performance and may not be

appropriate for other purposes; readers should not place undue reliance on forward-looking information contained herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information, as with forward-looking information generally, are based on current assumptions and subject to risks, uncertainties and other factors. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Overview

Our mission is to be Canada's preferred pet retailer delivering the products, care, expertise, and memorable moments that devoted pet lovers want...locally in stores and everywhere online.

Since opening our first store in 1976, Pet Valu has grown to become Canada's leading pet retailer. As of Fiscal 2021, we operate 633 corporate-owned and franchised locations across the country – more than three times the number of stores of our closest competitor. Over our history, we have earned the trust and loyalty of devoted pet owners with our compassionate and knowledgeable service, our premium product offering which includes our award-winning proprietary brands, our in-store services and our expanding omni-channel capabilities. This winning strategy is underpinned by our highly flexible operating model which allows us to deliver superior unit economics and growth.

We and our franchisees have the largest specialty pet store network in Canada which creates significant brand awareness and provides our stores with access to millions of Canadian pet owners. We combine our scale with a highly localized retail strategy allowing us to offer our customers premium products at competitive prices while delivering personalized service. In addition to our nationally recognized and trusted Pet Valu banner, which represents over 80% of our stores, we also operate three banners in British Columbia – Bosley's by Pet Valu, Tisol, Total Pet – and the Paulmac's Pets banner in Ontario. These longstanding banners are deeply embedded in their respective communities and benefit from the scale of our national operating network.

We and our franchisees deliver compelling and engaging retail experiences through our welcoming, easy-to-shop stores and our friendly, compassionate and highly trained Animal Care Experts ("ACEs"). Our premium consumables-focused product offering, e.g., pet food and treats, accounts for approximately 68% of system-wide sales, drives recurring revenue and repeat store traffic, and is complemented and differentiated by our proprietary brands with over 1,500 items, which are available only at Pet Valu's banners. Our complementary in-store service offerings, which include full-service grooming and self-serve dog washes, drive incremental customer traffic, extend the duration of customer store visits and increase overall engagement. To provide our customers added convenience, since 2019, we have made significant investments in our omni-channel capabilities and now offer "Click & Collect" options for in-store pickup and direct-to-customer shipping for online orders. Together with our pet-centric culture, these offerings create the "memorable moments" our customers have come to associate with Pet Valu.

We have a highly flexible, franchise-led operating model due to our small store format, adaptable store layouts, and both franchise and corporate ownership model. Pet Valu stores typically range in size from 3,000 to 6,000 square feet and each store is merchandised and designed to meet the needs and customer preferences of its surrounding community. This adaptability helps create consistent, exceptional unit economics across urban, suburban, and rural markets, and provides the flexibility to invest in competitive real estate markets. Our approach to store ownership, in which 64% of stores are owned and operated by franchisees, leverages the advantages of both franchised and corporate-owned operating models. Our franchisees engender a level of operational commitment and passion for pets and their communities that drives customer loyalty and strengthens our overall brand, and they typically see an approximately four-year payback on their initial franchise investment. Our corporate-owned stores allow

us to rapidly test new products, innovations and best practice procedures at scale and then standardize operations to accelerate the roll-out of critical changes, products and service offerings with our franchise system. They also serve as a complementary growth mechanism allowing us to react quickly to opportunities in new communities or other attractive markets. This hybrid operating strategy is key to our ability to sustain strong store and sales growth while also generating significant cash flow.

We and our franchisees are the local pet authority for Canadian pet lovers. Together, our highly trained, pet-loving ACEs provide trusted advice and expert product recommendations to pet owners in all stages of their pet's lifecycle and Pet Valu's stores are often the first place new and existing pet owners turn to for their pet care needs. This high-touch, compassionate service environment allows ACEs to establish trusted, long-term relationships in which they play an active role in their local pet community. Outside stores, we and our franchisees proudly support pets throughout the communities we serve. Over a 10-year period, Pet Valu has worked with its customers and stores through annual giving events to raise over \$21.5 million in donations to local animal rescues and shelters. In 2019, we became the national feeding sponsor for the Lions Foundation of Canada Dog Guides Program, and now all in-training and certified Dog Guides are fed our Performatrin and Performatrin Ultra recipe foods for free.

Initial Public Offering

On June 30, 2021, the Company completed an initial public offering of 15,812,500 common shares (the "Offering"), including 2,062,500 common shares issued pursuant to the exercise in full by the underwriters of the over-allotment option granted by the Company. The offering price of \$20.00 resulted in net proceeds to the Company of \$299.6 million after underwriting commissions of \$16.6 million. The Company also incurred \$4.4 million of other incremental expenses directly associated to the Offering. The total net proceeds after underwriting fees and incremental expenses were \$295.2 million. The Company's common shares are listed on the Toronto Stock Exchange under the symbol "PET".

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. Immediately prior to the closing of the Offering, the Company completed a share capital reorganization in which all of the Company's outstanding Class X common shares, Class Y common shares, Class A preferred shares, Class B preferred shares, and Class C preferred shares were exchanged for common shares in the Company and all of the outstanding options to acquire Class X common shares of the Company under the legacy option plan became options to acquire common shares.

In connection with the Offering, the Company negotiated a new credit agreement with a syndicate of lenders. See "Liquidity and Capital Resources" in this MD&A.

Secondary Offering

On September 28, 2021, a secondary offering (the "Secondary Offering") of the Company's common shares was completed by its principal shareholders on a bought deal basis. The Secondary Offering of 7,000,000 common shares at an offering price of \$32.25 raised gross proceeds of \$225.8 million for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the Secondary Offering. Underwriting fees were paid by the principal shareholders, and other expenses related to the Secondary Offering of approximately \$0.3 million were paid by the Company and included in selling, general and administrative expenses.

Financial Highlights

We refer the reader to the section entitled, "How We Assess the Performance of Our Business" of this MD&A for the definition of the items discussed below and, when applicable, to the section entitled

"Selected Consolidated Financial Information and Industry Metrics" for reconciliations of non-IFRS measures with the most directly comparable IFRS measures.

Q4 2021 Compared to Q4 2020

Select highlights include the following:

- System-wide sales increased by 11.7% to \$288.5 million from \$258.2 million in Q4 2020
- Same-store sales growth of 16.7% in Q4 2021
- Revenue increased by 9.7% to \$223.1 million from \$203.4 million in Q4 2020
- Gross profit margin decreased to 36.8% from 37.1% in Q4 2020
- Operating income increased to \$41.3 million from \$34.6 million in Q4 2020
- Adjusted EBITDA increased by 11.5% to \$53.3 million from \$47.8 million in Q4 2020
- Net income increased to \$26.7 million from \$13.8 million in Q4 2020
- Adjusted Net Income increased to \$29.3 million from \$17.3 million in Q4 2020
- Adjusted Net Income per Diluted Share increased to \$0.41 from \$0.31 in Q4 2020
- Free Cash Flow increased to \$35.3 million from \$11.9 million in Q4 2020

Fiscal 2021 Compared to Fiscal 2020

Select highlights include the following:

- System-wide sales increased by 18.6% to \$998.1 million from \$841.9 million in Fiscal 2020
- Same-store sales growth of 17.8% in Fiscal 2021
- Revenue increased by 19.7% to \$776.0 million from \$648.5 million in Fiscal 2020
- Gross profit margin increased to 37.0% from 35.6% in Fiscal 2020
- Operating income increased to \$129.4 million from \$102.7 million in Fiscal 2020
- Adjusted EBITDA increased by 26.2% to \$182.3 million from \$144.4 million in Fiscal 2020
- Net income increased to \$98.8 million from \$28.6 million in Fiscal 2020
- Adjusted Net Income increased to \$73.0 million from \$35.5 million in Fiscal 2020
- Adjusted Net Income per Diluted Share increased to \$1.02 from \$0.64 in Fiscal 2020
- Free Cash Flow decreased to \$86.3 million from \$109.4 million in Fiscal 2020

Summary of Factors Affecting Performance

COVID-19 Pandemic

On March 11, 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", as a global pandemic. This has resulted in

governments worldwide, including the Canadian government, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods, retail store closures and capacity limitations, and social distancing requirements have caused material disruption to businesses globally resulting in an economic slowdown.

Since the onset of the COVID-19 pandemic, the Company's operations have been considered "essential services" in certain provinces in Canada where the Company operates, enabling stores to operate on a limited basis despite governmental lock-down measures in place in certain jurisdictions. Although the Company's corporate-owned stores and franchised stores have remained open, they have been subject to stringent social distancing requirements and in some jurisdictions, such as Ontario, operating under alternate methods of sale such as curbside pick-up for certain periods of time. These actions resulted in a temporary decrease to customer traffic volumes and revenues during April and May 2020. The Company's sales improved significantly in June 2020 and resumed year on year growth thereafter despite transaction growth remaining depressed in Q3 2020 as a result of the shift in consumer behaviour associated to the COVID-19 restrictions. Capacity restrictions have continued in various forms in the subsequent months. The Company's continued growth since May 2020 has been underpinned by enhanced operating protocols to protect the health and safety of customers and associates, expanded e-commerce capabilities to serve customers online and complement in-store shopping.

During Fiscal 2020, the Company took several actions to mitigate the effects of the COVID-19 pandemic on its operations and its franchisees, as follows:

- (i) Provided \$3.2 million in variable rent relief (which represents the Company's variable participation in sales performance when such figure is in excess of a contractual minimum base rent), determined as a percentage of sales, earned from the first fiscal quarter of 2020 from properties subleased to franchisees. The Company also forgave \$0.8 million of variable rent charges in the month of April 2020. The Company does not intend to provide similar rent relief in the future.
- (ii) For the month of April 2020, the Company temporarily reduced franchisee contributions to the Promotion Fund from 2.5% to 0.75% of their weekly store merchandise sales.
- (iii) Reduced inventory purchases to align with estimated demand.
- (iv) Negotiated extended repayment terms for payables with trade and non-trade vendors.
- (v) Engaged in negotiations regarding rent deferrals and abatements with landlords and franchisees.
- (vi) Implemented personal protection equipment, social distancing signage and additional cleaning protocols in all stores.
- (vii) Launched our commercially transacting website www.petvalu.ca, to better serve our customers and meet omni-channel demand.

In response to COVID-19, government authorities implemented significant assistance programs to provide economic support to individuals and businesses. The Company has not received assistance from federal or provincial government support programs made available in the context of the COVID-19 pandemic, with the exception of deferral programs offered to Canadian businesses in Q1 2020 and Q2 2020 for corporate, sales and payroll taxes.

In Fiscal 2021, more than 50% of our stores were restricted to curbside pick-up shopping for 20 weeks, specifically for 10 weeks in Q1 2021 and for 10 weeks in Q2 2021. On January 3, 2022, additional restrictions were put in place across provinces in response to rising cases related to the Omicron variant. Specifically, in Ontario temporary restrictions limiting retail operations to 50% capacity were reinstated. In

February 2022, most provinces started easing restrictions and in Ontario all capacity limitations were lifted as of March 1, 2022.

The Company has been, and could continue to be, impacted by the COVID-19 pandemic by increased costs related to increased commodity prices, the rise in global transportation, importing and processing costs and an increase in insurance premiums. The Company has experienced intermittent delays in access to goods due to certain supply chain disruptions and is exposed to risks based on manufacturing shutdowns due to the COVID-19 pandemic. In order to protect against potential supply shortages or delays, the Company increased inventory levels during Fiscal 2020, Fiscal 2021 and expects to continue to hold increased inventory levels through 2022. As a result and due to continued global supply chain disruptions, incremental freight costs have been incurred, including during the fourth quarter of Fiscal 2021.

The extent of the impact of COVID-19 on the financial position and financial results of the Company in future periods will depend on future developments, including the duration or resurgence of the pandemic, the related government responses and any resulting health and safety measures or directives put in place by public health authorities, which are uncertain and cannot be predicted.

Our Brand

The Company is the market leading specialty pet retailer and largest small format specialty retailer of pet foods, treats, toys and accessories in Canada. Maintaining and growing our brand appeal is critical to our continued success, as any loss of brand appeal may adversely affect our business and financial results. To maintain brand awareness, we leverage our national store network, our compelling and engaging retail experience and loyalty program, and our local community engagement. To capture new customers, we are implementing a 360-degree marketing approach, undertaking strategic store expansions, renovations and relocations, and growing our e-commerce and omni-channel opportunities, including the greater use of analytics.

Product Innovation and Merchandise Planning Strategy

Our premium, consumables-focused product selection is designed to support the needs of pet parents across the full lifecycle of their pets, and provide the breadth and variety needed to cover all their pets' daily needs. Our offering includes premium national pet food brands, such as Acana, Orijen, Stella & Chewy, Hill's Science Diet, Merrick, Blue Buffalo and Kong, that are not typically available outside of specialty pet retail distribution channels.

To complement our national brands, we also have a selection of award-winning proprietary brands available only to Pet Valu customers in Canada, which provide even more high-quality options for pet food and supplies. Our portfolio encompasses over 1,500 items across brands such as Performatrin, Performatrin Ultra, Performatrin Ultra Limited, Performatrin Naturals, Lovibles, Barker's, Bailey & Bella, Jump, and Fresh4Life. Performatrin and Performatrin Ultra foods are the premier brands in our line-up, with more than 35 years and 19 years, respectively, of strong sales history within Pet Valu stores. We have a strong track record of increasing the penetration of our best-in-class portfolio of proprietary pet food and hardlines brands and expect to continue to do so going forward.

Merchandise Sourcing

We purchase most of our merchandise centrally from manufacturers, wholesalers, manufacturers' representatives, and importers. Our strategy is to source merchandise directly from the lowest cost suppliers that meet our high-quality standards while maintaining appropriate supply chain resiliency, especially in today's challenged environment. We currently source our merchandise from Canada, the United States, Belgium, China, Germany, Hong Kong, India, Indonesia, Taiwan and Thailand.

Our supplier base is well diversified, with no single supplier accounting for more than 15% of our total purchases during Fiscal 2020 and Fiscal 2021. In 2021, our top 10 suppliers represented 52% of our total purchases and our top 25 suppliers represented 71% of our total purchases. We have strong and long-standing relationships with our suppliers, including relationships with six of our top 10 suppliers for more than 14 years and each of our top 10 suppliers for more than three years. We generally buy products on an order-by-order basis and usually do not enter into long-term purchase contracts or offer other assurances of continued product supply or guaranteed product cost.

Store Expansion and Enhancement

Between 2019 and 2021 we grew our store footprint at a compound annual growth rate of 3.4% having opened 15 net new stores in 2019, 18 net new stores in 2020, and 28 net new stores in 2021. The Company plans to open 25-35 new locations in 2022.

We manage our real estate portfolio with the goal of maximizing chain-wide store and franchisee profitability while maintaining a disciplined approach to store site selection and opening readiness. We evaluate potential store locations based on a variety of criteria, including (i) the level of retail activity and traffic patterns leveraging aggregated, anonymous GPS travel data; (ii) the presence or absence of specific competitors and preferable co-tenants; (iii) the population and demographics of the area, including expected housing development; (iv) the total rent and occupancy cost per square foot; (v) the location of existing Pet Valu stores and current franchisee territories; and (vi) most likely localized product and services offerings based on the space and local customer segments.

In addition to opening new stores, the Company has increased sales and operating results by enhancing elements of its existing stores by enlarging square footage, adding in-store services, and relocating or renovating. From 2019 to 2021, we and our franchisees expanded, renovated, or relocated an average of 17 stores per year. The Company and its franchisees plan to expand, renovate or relocate between 20 to 30 stores in 2022.

The following table summarizes the change in the Company's store count for the periods indicated:

	Quarters Ended		Fiscal Year Ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
	13 weeks	14 weeks	52 weeks	53 weeks
Corporate-owned stores:				
Beginning of period	224	231	232	227
New stores opened	6	7	15	12
Re-franchised ⁽¹⁾	(2)	(7)	(18)	(8)
Franchise acquisition ⁽¹⁾	—	1	—	2
Stores closed	(1)	—	(2)	(1)
Corporate-owned stores end of period	227	232	227	232
Franchised stores:				
Beginning of period	398	361	373	360
New stores opened	6	6	15	8
Re-franchised ⁽¹⁾	2	7	18	8
Franchise acquisition ⁽¹⁾	—	(1)	—	(2)
Stores closed	—	—	—	(1)
Franchised stores end of period	406	373	406	373
System-wide stores	633	605	633	605
Stores renovated, expanded or relocated⁽²⁾	10	6	23	16

Notes:

⁽¹⁾ Re-franchised means a store previously run as a corporate-owned store and now owned and operated by a franchisee. Franchise acquisition means a store previously run by a franchisee now owned and operated by the Company as a corporate-owned store.

⁽²⁾ The Company renovated, expanded, or relocated a total of two, three, eight, and seven corporate-owned stores during Q4 2021, Q4 2020, Fiscal 2021, and Fiscal 2020, respectively. There were eight, three, 15, and nine franchised stores renovated, expanded, or relocated during Q4 2021, Q4 2020, Fiscal 2021, and Fiscal 2020, respectively.

Competition

The Company competes with specialty pet retailers, “big-box” retailers, grocers, veterinary clinics and other mixed retailers such as dollar stores and department stores. Competition may intensify as new competitors enter into the markets in which the Company’s stores operate. Competition is characterized by many factors, including reputation, product mix, advertising, price, quality, service, location and digital applications. In order to compete with regard to these factors, the Company provides consumers with a differentiated, compelling and engaging retail experience. This experience includes expert, compassionate advice from our ACEs, a consumables-focused product offering that includes a carefully curated assortment of national brands, award-winning proprietary brands, and in-store services such as grooming services and dog wash stations. The Company’s differentiated approach is supported by our integrated omni-channel capabilities and our rapidly growing loyalty program, which has approximately 2.0 million active members that have transacted at one of our stores – corporate-owned and/or franchised – or online in the last 12 months. The Company also continuously reviews market research to identify changes or initiatives to differentiate itself from competitors.

Consumer Trends

The pet products and services retail industry is subject to shifts in consumer trends, preferences and consumer spending. The Company’s sales and operating results depend, in part, on its ability to predict or respond to changes in trends and consumer preferences in a timely manner. The Company’s response to such changes involves refreshing the product mix with new brands and proprietary brand product launches, and exclusive products which reflect the latest trends. This allows the Company to satisfy changing consumer preferences, drive higher customer loyalty and increase visit frequency. The

Company's diversified mix of pet products satisfies a broad range of pet owners, which allows us to attract a wide customer base and increases our addressable market.

The Company's revenue is also impacted by discretionary spending by consumers, which is affected by many factors that are beyond our control, including, but not limited to, general economic conditions, consumer disposable income levels, consumer confidence levels, consumer debt, the cost of basic necessities and other goods, and the effects of weather and natural disasters.

Technology Investments

We rely on information systems to manage all aspects of our business, including customer facing systems such as point of sale, e-commerce, loyalty, and business systems including accounting, finance, HR, inventory management, and store communications. The implementation of these systems has enabled management to efficiently support our customers, conduct our operations and gather, analyze, and assess information across all business segments and geographic locations. Since 2019, we have made investments of approximately over \$35 million to modernize our technology infrastructure and expand our omni-channel capabilities. We and our franchisees have recently completed upgrades of the store POS systems and store networks to enable seamless, integrated click-and-collect, digital receipts, and marketing offer opt-ins, while improving check-out speed and inventory management processes. We believe that our information technology infrastructure is sufficient to support our operational growth and provide us with the information we need to effectively run our business; however, we continue to assess and invest in specific modules and enhancements to continue to improve the efficiency and capacity of our systems. The company will continue to make investments in its information technology transformation, including investments in its omni-channel capabilities, supply chain, merchandising and financial systems.

Seasonality and Weather

The operations are impacted to a limited degree by seasonality, given the high penetration of consumables products sold throughout the year. In particular, we sell select holiday merchandise that is not part of our core assortment during the rest of the year, such as holiday specific toys, apparel and giftable items, and, as a result, see a slightly higher proportion of volume sales in the fourth quarter. Quarterly results can also be affected by the timing of new store openings, completion of renovation, expansion or relocation projects, the timing of certain holidays and prolonged severe weather conditions.

How We Assess the Performance of Our Business

Revenue. The Company's revenue is comprised of retail sales and franchise and other revenues. The following is a brief description of the components of our revenue.

- The Company's retail sales include corporate-owned retail store and e-commerce merchandise sales as well as in-store grooming and dog wash services. Retail sales are net of sales tax collected from the customer on behalf of government authorities.
- Franchise and other revenues include both one-time and ongoing amounts, consisting of initial and renewal franchise fees, royalties, percentage rent and common area maintenance and realty tax revenues from properties subleased to franchisees, wholesale merchandise sales, promotion fees, and fees for other services. Franchise royalties, promotion fees and percentage rent are based on a percentage of the franchisees' retail sales. Percentage rent represents the Company's variable participation in sales performance when such figure is in excess of a contractual minimum base rent. Specifically, franchisees pay the higher of 8% of franchise retail sales or base rent. The portion in excess of base rent is included in royalties and sublease revenues.

Cost of sales. Cost of sales reflects inventory and product-related costs, warehousing and distribution costs, depreciation expense for store and distribution centre right-of-use assets and occupancy costs related to store operations, such as variable lease payments, common area maintenance, utilities and general store maintenance.

Gross profit. Gross profit reflects our revenue less cost of sales.

Gross profit margin. Gross profit margin is defined as gross profit as a percentage of revenue and is impacted by components of cost of sales, product mix and markdowns.

Selling, general and administrative expenses. Selling, general and administrative expenses ("SG&A") are predominantly comprised of wages, benefits, share-based compensation, franchise development expenses, travel, marketing, professional fees and other expenses related to the corporate infrastructure required to support our corporate-owned and franchised stores. SG&A expenses also include depreciation and amortization expenses for all property and equipment at corporate-owned stores and the corporate office, intangible assets, and corporate office right-of-use assets.

Operating income. Operating income is defined as gross profit less selling, general and administrative expenses.

EBITDA. EBITDA is defined as net income (loss) before interest expense (net), income tax expense (recovery) and depreciation and amortization.

Adjusted EBITDA. Adjusted EBITDA is defined as net income (loss) before interest expense (net), income tax expense (recovery) and depreciation and amortization adjusted for the impact of certain expenses, costs or benefits incurred which in management's view are not indicative of the underlying business performance, including management fees, information technology transformation costs (representing discrete, project-based implementation costs associated with new technology systems and discrete software as a service ("SaaS") arrangements costs for transformational initiatives), IPO readiness and separation costs, business transformation costs, COVID-19 pandemic costs, other professional fees (incurred with respect to the examination of tax filings for the 2016 fiscal year), share-based compensation expense, asset impairments, gain (loss) on foreign exchange and pro forma costs to normalize on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company. We believe Adjusted EBITDA is a useful measure of operating performance as it provides a more relevant picture of operating results by facilitating a comparison of our performance on a consistent basis from period-to-period and provides a more complete understanding of factors and trends affecting our business.

Adjusted Net Income. Adjusted Net Income is defined as net income (loss), adjusted for the impact of certain expenses, costs or benefits incurred which in management's view are not indicative of the underlying business performance, including management fees, information technology transformation costs (representing discrete, project-based implementation costs associated with new technology systems and discrete SaaS arrangements costs for transformational initiatives), IPO readiness and separation costs, business transformation costs, COVID-19 pandemic costs, other professional fees (incurred with respect to the examination of tax filings for the 2016 fiscal year), share-based compensation expense, asset impairments, gain (loss) on foreign exchange and pro forma costs to normalize on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, net of related tax effects. We believe Adjusted Net Income is a useful measure of performance, as it provides a more relevant picture of results and facilitates a comparison of our performance on a consistent basis from period-to-period and provides a more complete understanding of factors and trends affecting our business.

Adjusted Net Income per Diluted Share. Adjusted Net Income per Diluted Share is defined as Adjusted Net Income divided by the total weighted average number of outstanding diluted common shares at the end of the most recently completed quarter for the relevant period. We believe Adjusted Net Income per Diluted Share is a useful measure to assess the performance of the Company.

Free Cash Flow. Free Cash Flow is defined as net cash generated from operating activities and investing activities less repayments of principal on lease liabilities, interest on lease liabilities and notes receivables. It is a key metric as an indicator of how much cash is available for debt repayment, share repurchases, re-investment in the Company and other financing activities. Our ability to generate Free Cash Flow is an indicator of the financial strength of our business, as we require capital expenditures to build and maintain stores and purchase new equipment to improve our business and infrastructure.

System-wide stores. System-wide stores reflects the number of total stores, including corporate-owned and franchised stores, open across the system at the end of a particular reporting period. The number of corporate-owned and franchised stores along with the number of operating weeks is used by management to evaluate new store growth, system-wide sales, franchise revenues and store performance.

System-wide sales. System-wide sales reflects the aggregation of retail sales at corporate-owned stores, e-commerce sales, plus the franchise retail sales occurring at franchised stores to their customers. This measure allows management to assess changes in the Company's overall system performance, the health of its brand and the strength of its market position relative to its competitors. System-wide sales are driven by the number of system-wide stores open in any period and their respective growth. For clarity, franchise retail sales are not included in the total revenue figure. The Company's revenue reflects retail sales and franchise and other revenue as defined under the definition of revenue above.

Same-store sales growth. Same-store sales growth is defined as the percentage change in retail sales generated by system-wide stores, that have been opened for at least 52 weeks and e-commerce sales relative to the same period in the prior fiscal year. Stores that are renovated, expanded, or relocated are included in the metric on the first day of operation if the original store was open for at least 52 weeks. For the current year, same-store sales growth has been calculated by aligning the 2020 fiscal calendar to match the 2021 fiscal calendar. The primary drivers of same-store sales growth are changes in the transaction count and the average spend per transaction. Same-store sales growth is used by management to better understand the level of growth of our business as it explains what portion of the sales growth is attributable to established stores and what portion can be attributed to the opening of new stores.

Same-store transaction growth. Same-store transaction growth is defined as the percentage change in the number of store transactions generated by system-wide stores, that have been opened for at least 52 weeks and e-commerce sales relative to the same period in the prior fiscal year. Stores that are renovated, expanded, or relocated are included in the metric on the first day of operation if the original store was open for at least 52 weeks.

Same-store average spend per transaction growth. Same-store average spend per transaction growth is defined as retail sales generated by system-wide stores, that have been opened for at least 52 weeks and e-commerce sales relative to the same period in the prior fiscal year divided by the number of same-store transactions generated by system-wide stores, unless otherwise noted, that have been opened for at least 52 weeks and e-commerce sales relative to the same period in the prior fiscal year.

Selected Consolidated Financial Information and Industry Metrics

The following table summarizes the Company's recent results of operations and selected financial position data for the periods indicated. The selected consolidated financial information set out below has been derived from our unaudited condensed interim consolidated financial statements and related notes (in thousands unless otherwise noted).

	Quarters Ended		Fiscal Year Ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
	13 weeks	14 weeks	52 weeks	53 weeks
Revenue				
Retail sales	\$ 96,664	\$ 90,065	\$ 347,305	\$ 295,750
Franchise and other revenues	126,389	113,341	428,708	352,709
	223,053	203,406	776,013	648,459
Cost of sales	141,029	127,909	488,834	417,830
Gross profit	82,024	75,497	287,179	230,629
Selling, general and administrative expenses	40,758	40,933	157,773	127,953
Operating income	41,266	34,564	129,406	102,676
Interest expenses, net	4,403	15,671	46,873	64,009
Loss (gain) on foreign exchange	105	(466)	(42,560)	(1,402)
Share of loss from associate	8	—	8	—
Income before income taxes	36,750	19,359	125,085	40,069
Income tax expense	10,009	5,530	26,292	11,447
Net income	26,741	13,829	98,793	28,622
Attributable to:				
Equity holders of the Company	26,741	12,014	95,363	21,203
Non-controlling interests	—	1,815	3,430	7,419
Net income	\$ 26,741	\$ 13,829	\$ 98,793	\$ 28,622
Basic net income per share attributable to the common shareholders ⁽¹⁾	\$ 0.38	\$ 0.22	\$ 1.36	\$ 0.39
Diluted net income per share attributable to the common shareholders ⁽¹⁾	\$ 0.37	\$ 0.22	\$ 1.33	\$ 0.38

Notes:

⁽¹⁾ Basic and diluted net income (loss) per share attributable to the common shareholders for Q4 2020 and Fiscal 2020 are calculated on a pro-forma basis using the weighted average common shares outstanding based on the capital reorganization and the legacy option plan immediately prior to the Offering.

	Fiscal Year Ended	
	January 1, 2022	January 2, 2021
Total assets	\$ 599,173	\$ 562,119
Total non-current liabilities	541,298	879,575

The following table sets forth the selected financial information and industry metrics for the periods indicated (in thousands, except system-wide stores or otherwise noted):

	Quarters Ended		Fiscal Year Ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
	13 weeks	14 weeks	52 weeks	53 weeks
Revenue	\$ 223,053	\$ 203,406	\$ 776,013	\$ 648,459
Operating income	\$ 41,266	\$ 34,564	\$ 129,406	\$ 102,676
Net income	\$ 26,741	\$ 13,829	\$ 98,793	\$ 28,622
System-wide sales ⁽¹⁾⁽²⁾	\$ 288,467	\$ 258,153	\$ 998,139	\$ 841,852
System-wide stores ⁽²⁾	633	605	633	605
Same-store sales growth ⁽²⁾	16.7 %	18.0 %	17.8 %	10.6 %
Same-store transaction growth ⁽²⁾	10.8 %	0.8 %	10.5 %	(5.2)%
Same-store average spend per transaction growth ⁽²⁾	5.4 %	17.1 %	6.6 %	16.7 %
EBITDA ⁽³⁾	\$ 49,790	\$ 43,676	\$ 205,672	\$ 136,130
Adjusted EBITDA ⁽³⁾	\$ 53,335	\$ 47,819	\$ 182,319	\$ 144,415
Adjusted Net Income ⁽³⁾	\$ 29,296	\$ 17,252	\$ 72,970	\$ 35,495
Adjusted Net Income per Diluted Share ⁽³⁾	\$ 0.41	\$ 0.31	\$ 1.02	\$ 0.64
Free Cash Flow ⁽³⁾	\$ 35,277	\$ 11,943	\$ 86,301	\$ 109,412

Notes:

⁽¹⁾ Excluding the 14th week of Q4 2020, system-wide sales were \$244.1 million. Excluding the 53rd week of Fiscal 2020, system-wide sales were \$827.8 million.

⁽²⁾ System-wide sales, system-wide stores, same-store sales growth, same-store transaction growth, and same-store average spend per transaction growth are supplementary financial measures. For further information on supplemental financial measures, see "Non-IFRS and Supplementary Financial Measures" section of this MD&A.

⁽³⁾ EBITDA, Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share, and Free Cash Flow are non-IFRS measures. Non-IFRS measures are not determined in accordance with IFRS, do not have standardized meanings and may not be comparable to similar financial measures presented by other companies. See below for a reconciliation of net income, an IFRS measure, to EBITDA, Adjusted EBITDA and Adjusted Net Income. See "– Liquidity and Capital Resources – Free Cash Flow" for a reconciliation of Free Cash Flow.

The following table provides a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods indicated (in thousands unless otherwise noted):

	Quarters Ended		Fiscal Year Ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
	13 weeks	14 weeks	52 weeks	53 weeks
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 26,741	\$ 13,829	\$ 98,793	\$ 28,622
Depreciation and amortization	8,637	8,646	33,714	32,052
Interest expenses, net	4,403	15,671	46,873	64,009
Income taxes expense	10,009	5,530	26,292	11,447
EBITDA	49,790	43,676	205,672	136,130
Adjustments to EBITDA:				
Management fees ⁽¹⁾	—	48	679	1,133
Information technology transformation costs ⁽²⁾	1,518	2,801	5,314	8,452
IPO readiness and separation costs ⁽³⁾	—	4,253	4,229	7,681
Business transformation costs ⁽⁴⁾	514	548	2,438	1,606
COVID-19 pandemic ⁽⁵⁾	—	2	—	1,833
Other professional fees ⁽⁶⁾	246	538	1,789	674
Share-based compensation ⁽⁷⁾	1,154	711	4,733	1,990
Asset impairments ⁽⁸⁾	—	—	17	—
Loss (gain) on foreign exchange ⁽⁹⁾	105	(466)	(42,560)	(1,402)
Share of loss from associate	8	—	8	—
Pro forma costs ⁽¹⁰⁾	—	(4,292)	—	(13,682)
Adjusted EBITDA	\$ 53,335	\$ 47,819	\$ 182,319	\$ 144,415
Adjusted EBITDA as a percentage of revenue	23.9%	23.5%	23.5%	22.3%

Notes:

- (1) Represents management fees paid to entities affiliated with Roark Capital Management, LLC ("Roark"). Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; (ii) retention bonuses for certain key management personnel in connection with the Offering; and (iii) professional fees incurred with respect to the Secondary Offering. In Fiscal 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Fiscal 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (4) Predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Represents non-recurring costs incurred in Fiscal 2020 in response to the COVID-19 pandemic including personal protective equipment for Company employees, signage for the stores, short-term increased hourly pay and one-time bonuses for store associates and warehouse staff awarded in the second quarter of 2020, and professional fees associated with planning key initiatives for cash flow management and the negotiation of rent deferrals and abatements with landlords and franchisees.
- (6) Professional fees primarily incurred with respect to the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year.
- (7) Represents share-based compensation in respect of our legacy option plan, long-term incentive plan, and deferred share unit plan. Share-based compensation for Fiscal 2021 also includes expense in relation to retention bonuses of \$1.2 million which were paid through the issuance of common shares in lieu of cash. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020.
- (8) Non-cash impairment charge taken against certain right-of-use assets for corporate-owned stores.
- (9) Represents foreign exchange gains and losses.
- (10) Represents pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, for Fiscal 2020. These costs represent compensation costs associated with supply chain, merchandising, distribution and other corporate functions, as well as information technology costs. Approximately 18% of the pro forma costs relate to cost of sales and 82% to SG&A. Beginning in Q1 2021, our on-going expenses are reported directly in cost of sales and SG&A, as those costs are now directly incurred by the Company.

The following table provides a reconciliation of net income to Adjusted Net Income for the periods and years indicated (in thousands unless otherwise noted):

	Quarters Ended		Fiscal Year Ended	
	January 1, 2022 13 weeks	January 2, 2021 14 weeks	January 1, 2022 52 weeks	January 2, 2021 53 weeks
Reconciliation of net income to Adjusted Net Income:				
Net income	\$ 26,741	\$ 13,829	\$ 98,793	\$ 28,622
Adjustments to net income:				
Management fees ⁽¹⁾	—	48	679	1,133
Information technology transformation costs ⁽²⁾	1,518	2,801	5,314	8,452
IPO readiness and separation costs ⁽³⁾	—	4,253	4,229	7,681
Business transformation costs ⁽⁴⁾	514	548	2,438	1,606
COVID-19 pandemic ⁽⁵⁾	—	2	—	1,833
Other professional fees ⁽⁶⁾	246	538	1,789	674
Share-based compensation ⁽⁷⁾	1,154	711	4,733	1,990
Asset impairments ⁽⁸⁾	—	—	17	—
Loss (gain) on foreign exchange ⁽⁹⁾	105	(466)	(42,560)	(1,402)
Share of loss from associate	8	—	8	—
Pro forma costs ⁽¹⁰⁾	—	(4,292)	—	(13,682)
Tax effect of adjustments to net income	(990)	(720)	(2,470)	(1,412)
Adjusted Net Income	\$ 29,296	\$ 17,252	\$ 72,970	\$ 35,495
Adjusted Net Income as a percentage of revenue	13.1%	8.5%	9.4%	5.5%
Adjusted Net Income per Diluted Share⁽¹¹⁾	\$ 0.41	\$ 0.31	\$ 1.02	\$ 0.64

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; (ii) retention bonuses for certain key management personnel in connection with the Offering; and (iii) professional fees incurred with respect to the Secondary Offering. In Fiscal 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Fiscal 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (4) Predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Represents non-recurring costs incurred in Fiscal 2020 in response to the COVID-19 pandemic including personal protective equipment for Company employees, signage for the stores, short-term increased hourly pay and one-time bonuses for store associates and warehouse staff awarded in the second quarter of 2020, and professional fees associated with planning key initiatives for cash flow management and the negotiation of rent deferrals and abatements with landlords and franchisees.
- (6) Professional fees primarily incurred with respect to the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year.
- (7) Represents share-based compensation in respect of our legacy option plan, long-term incentive plan, and deferred share unit plan. Share-based compensation for Fiscal 2021 also includes expense in relation to retention bonuses of \$1.2 million which were paid through the issuance of common shares in lieu of cash. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020.
- (8) Non-cash impairment charge taken against certain right-of-use assets for corporate-owned stores.
- (9) Represents foreign exchange gains and losses.
- (10) Represents pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, for Fiscal 2020. These costs represent compensation costs associated with supply chain, merchandising, distribution and other corporate functions, as well as information technology costs. Approximately 18% of the pro forma costs relate to cost of sales and 82% to SG&A. Beginning in Q1 2021, our on-going expenses are reported directly in cost of sales and SG&A, as those costs are now directly incurred by the Company.
- (11) Adjusted Net Income per Diluted Share for Q4 2020 and Fiscal 2020 are calculated on a pro-forma basis using the weighted average common shares outstanding based on the capital reorganization and the legacy option plan immediately prior to the Offering.

Supplemental Information on Leased Premises

The table below provides additional information on expenses for leased premises associated with the application of IFRS 16, *Leases*.

	Quarters Ended		Fiscal Year Ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
Depreciation expense on right-of-use assets ⁽¹⁾	\$ 4,411	\$ 4,900	\$ 17,733	\$ 18,192
Interest expense on lease liabilities ⁽¹⁾	2,829	3,027	11,216	10,919
Interest income on lease receivables ⁽¹⁾	(1,767)	(1,652)	(6,692)	(5,895)
Net depreciation and interest expense associated to leased premises	\$ 5,473	\$ 6,275	\$ 22,257	\$ 23,216

Note:

⁽¹⁾ Represents income and expenses for leased premises included in the consolidated statements of financial position related to the application of IFRS 16, *Leases*. Specifically, this includes depreciation on right-of-use assets for leased premises, interest expense on lease liabilities for leased premises and interest income on lease receivables. For additional information, refer to notes 5 and 10 of the unaudited interim condensed consolidated financial statements for the periods ended January 1, 2022 and January 2, 2021.

Results of Operations

Analysis of Results for Q4 2021 compared to Q4 2020

Revenue. Total revenue was \$223.1 million in Q4 2021, an increase of \$19.6 million, or 9.7%, as compared to \$203.4 million in Q4 2020. The comparative quarter includes \$15.4 million of revenue from the 14th week. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues, as described in more detail below.

Retail sales. Retail sales were \$96.7 million in Q4 2021, an increase of \$6.6 million, or 7.3%, as compared to \$90.1 million in Q4 2020. The comparative quarter, Q4 2020, includes \$5.5 million of retail sales from the 14th week. Excluding the 14th week, the increase in retail sales was primarily attributable to: (i) higher same-store sales growth; and (ii) partially offset by a decrease in the number of corporate-owned stores from 232 as of the end of Fiscal 2020 to 227 as of the end of Fiscal 2021.

Franchise and other revenues. Franchise and other revenues were \$126.4 million in Q4 2021, an increase of \$13.0 million, or 11.5%, as compared to \$113.3 million in Q4 2020. The comparative quarter includes \$9.9 million of franchise and other revenues from the 14th week. Excluding the 14th week, the increase in franchise and other revenues was mostly due to higher wholesale merchandise sales of \$16.2 million, sub-lease revenues of \$3.6 million, and royalties of \$2.8 million driven by (i) higher same-store sales growth; and (ii) an increase in the number of franchised stores from 373 as of the end of Q4 2020 to 406 as of the end of Q4 2021.

Same-store sales growth. Same-store sales growth was 16.7% in Q4 2021 driven by a 10.8% increase in same-store transactions and a 5.4% increase in same-store average spend per transaction. This is compared to same-store sales growth of 18.0% in Q4 2020 which primarily consisted of a 0.8% increase in same-store transactions and a 17.1% increase in same-store average spend per transaction. Same-store transactions and same-store average spend per transaction in Q4 2020 were impacted by a shift in consumer behaviour associated with COVID-19 restrictions.

Gross profit. Gross profit increased by \$6.5 million, or 8.6%, to \$82.0 million in Q4 2021, compared to \$75.5 million in Q4 2020. Gross profit margin was 36.8% in Q4 2021 compared to 37.1% in Q4 2020. The gross profit margin decrease was primarily driven by: (i) the absorption of incremental freight costs due to global supply chain constraints, and higher distribution costs driven by incremental wages and storage to support increased demand and e-commerce sales; (ii) partially offset by the

favourable impact of the stronger Canadian dollar on products sourced outside Canada and primarily denominated in U.S. dollars; and (iii) leverage gained on fixed costs due to higher revenue.

SG&A expenses. SG&A expenses were \$40.8 million in Q4 2021, a decrease of \$0.2 million, or 0.4%, compared to \$40.9 million in Q4 2020. SG&A expenses represented 18.3% and 20.1% of total revenue for Q4 2021 and Q4 2020, respectively. The decrease of \$0.2 million in SG&A expenses was primarily due to: (i) lower professional fees of \$3.3 million as the comparative quarter included fees to support the preparation of the Offering and separation activities; (ii) lower compensation costs of \$0.9 million as the comparative quarter included additional severance as part of business transformation costs and bonus expense related to the Offering as well as an additional week due to the Q4 2020 calendar; (iii) partially offset by \$3.3 million of higher other selling, general and administrative expenses primarily due to additional insurance relating to public company requirements and lower gain on the sale of assets due to fewer re-franchised stores in Q4 2021; (iv) higher advertising expenses of \$0.5 million; and (v) higher depreciation and amortization of \$0.3 million due to leasehold improvements and furniture and fixtures for new and existing corporate-owned stores.

Operating income. Operating income increased by \$6.7 million to \$41.3 million in Q4 2021, compared to \$34.6 million in Q4 2020. The change in operating income is explained by the factors impacting gross profit and SG&A expenses described above.

Net interest expense. Net interest expense was \$4.4 million in Q4 2021, a decrease of \$11.3 million, or 71.9%, compared to \$15.7 million in Q4 2020. The decrease was primarily driven by lower interest expense on the 2021 Credit Facilities resulting from lower interest rates and lower total debt outstanding following the closing of the Offering.

Income taxes. Income taxes were \$10.0 million in Q4 2021 compared to \$5.5 million in Q4 2020, an increase of \$4.5 million year over year. The increase in income taxes was primarily the result of higher taxable earnings in Q4 2021. The effective income tax rate was 27.2% in Q4 2021 compared to 28.6% in Q4 2020. The effective tax rates are higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses.

Net income. Net income increased by \$12.9 million to \$26.7 million in Q4 2021, compared to \$13.8 million in Q4 2020. The change in net income is explained by the factors described above.

Adjusted EBITDA. Adjusted EBITDA increased by \$5.5 million, or 11.5%, to \$53.3 million in Q4 2021, compared to \$47.8 million in Q4 2020. The increase in Adjusted EBITDA results from higher EBITDA of \$6.1 million quarter over quarter as explained by factors above and excludes readiness for the Offering and separation costs, information technology transformation costs, losses and gains on foreign exchange, share-based compensation, business transformation costs, other professional fees, and management fees. Adjusted EBITDA as a percentage of revenue was 23.9% and 23.5% respectively in Q4 2021 and Q4 2020, an improvement of 0.4%.

Adjusted Net Income. Adjusted Net Income increased by \$12.0 million to \$29.3 million in Q4 2021, compared to \$17.3 million in Q4 2020. Adjusted Net Income as a percentage of revenue was 13.1% in Q4 2021 and 8.5% in Q4 2020. The 4.6% year over year improvement results from the factors described above.

Analysis of Results for Fiscal 2021 compared to Fiscal 2020

Revenue. Total revenue was \$776.0 million in Fiscal 2021, an increase of \$127.6 million, or 19.7%, as compared to \$648.5 million in Fiscal 2020. The prior fiscal year includes \$15.4 million of revenue from the 53rd week. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues, as described in more detail below.

Retail sales. Retail sales were \$347.3 million in Fiscal 2021, an increase of \$51.6 million, or 17.4%, as compared to \$295.8 million in Fiscal 2020. The prior fiscal year includes \$5.5 million of retail sales from the 53rd week. Excluding the impact of the 53rd week, the increase in retail sales was primarily attributable to: (i) higher same-store sales growth; and (ii) partially offset by a decrease in the number of corporate-owned stores from 232 as of the end of Fiscal 2020 to 227 as of the end of Fiscal 2021.

Franchise and other revenues. Franchise and other revenues were \$428.7 million in Fiscal 2021, an increase of \$76.0 million, or 21.5%, as compared to \$352.7 million in Fiscal 2020. The prior fiscal year includes \$9.9 million of franchise and other revenues from the 53rd week. Excluding the impact of the 53rd week, the increase in franchise and other revenues was mostly driven by higher wholesale merchandise sales of \$61.9 million and royalties of \$7.5 million primarily due to: (i) higher same-store sales growth; and (ii) an increase in the number of franchised stores from 373 as of the end of Fiscal 2020 to 406 as of the end of Fiscal 2021. The increase in franchise and other revenues was also explained by higher sub-lease revenues of \$11.4 million and higher Promotion Fund revenue of \$3.4 million, both of which were partly driven by the factors described above in addition to \$4.0 million related to variable rent relief provided to franchisees in Fiscal 2020, and for the month of April 2020, the Company temporarily reduced franchisee contributions to the Promotion Fund from 2.5% to 0.75% of their weekly store merchandise sales.

Same-store sales growth. Same-store sales growth was 17.8% in Fiscal 2021 primarily driven by a 10.5% increase in same-store transactions and a 6.6% increase in same-store average spend per transaction. This is compared to same-store sales growth of 10.6% in Fiscal 2020 which primarily consisted of a 16.7% increase in same-store average spend per transaction and a (5.2)% decrease in same-store transactions. Same-store sales growth in Fiscal 2020 was significantly impacted by the onset of the COVID-19 pandemic and the initial round of governmental lock down measures.

Gross profit. Gross profit increased by \$56.6 million, or 24.5%, to \$287.2 million in Fiscal 2021, compared to \$230.6 million in Fiscal 2020. Gross profit margin was 37.0% of revenue in Fiscal 2021 compared to 35.6% in Fiscal 2020. The gross profit margin increase was primarily driven by: (i) the favourable impact of the stronger Canadian dollar on products sourced outside Canada and primarily denominated in U.S. dollars; (ii) leverage gained on fixed costs due to higher revenue and (iii) partially offset by the absorption of incremental freight costs due to global supply chain constraints, and higher distribution costs driven by incremental wages and storage to support increased demand, e-commerce sales and COVID-related absences.

SG&A expenses. SG&A expenses were \$157.8 million in Fiscal 2021, an increase of \$29.8 million, or 23.3%, compared to \$128.0 million in Fiscal 2020. SG&A expenses represented 20.3% and 19.7% of total sales and revenue for Fiscal 2021 and Fiscal 2020, respectively. The increase of \$29.8 million in SG&A expenses was primarily due to: (i) increased compensation costs of \$15.1 million as a result of the Company operating separately from the Group, headcount investments made to align with certain strategic initiatives and requirements applicable to becoming a public company, and bonus expense for key management due to the performance of the business and the completion of the Offering as well as an additional week due to the 2020 fiscal calendar; (ii) higher advertising expenses of \$4.8 million; (iii) higher other selling, general and administrative expense of \$3.8 million primarily due to additional insurance from public company requirements and higher selling expenses for e-commerce sales; (iv) higher information technology expenses of \$2.8 million associated with the implementation of SaaS arrangements; (v) higher depreciation and amortization of \$1.9 million due to leasehold improvements and furniture and fixtures for new and existing corporate-owned stores; and (vi) higher professional fees of \$1.2 million to support the preparation of the Offering and Secondary Offering, separation activities, taxation matters and public entity requirements.

Operating income. Operating income increased by \$26.7 million to \$129.4 million in Fiscal 2021, compared to \$102.7 million in Fiscal 2020. The change in operating income is explained by the factors impacting gross profit and SG&A expenses described above.

Net interest expense. Net interest expense was \$46.9 million in Fiscal 2021, a decrease of \$17.1 million, or 26.8%, compared to \$64.0 million in Fiscal 2020. The decrease was primarily driven by lower interest expense on the 2021 Credit Facilities resulting from lower interest rates and lower total debt outstanding following the closing of the Offering.

Income taxes. Income taxes were \$26.3 million in Fiscal 2021 compared to \$11.4 million in Fiscal 2020, an increase of \$14.8 million year over year. The increase in income taxes was primarily the result of higher taxable earnings in Fiscal 2021. The effective income tax rate was 21.0% in Fiscal 2021 compared to 28.6% in the prior year. The Fiscal 2021 effective tax rate is lower than the blended statutory rate of 26.5% primarily because of the favourable tax treatment on foreign exchange gains related to the repayment of the 2016 Term Loans and on the settlement of a foreign exchange forward contract (See “Liquidity and Capital Resources – Credit Facilities”), partially offset by \$1.4 million cumulative income tax expense related to the enactment of Bill C-30 and interest income earned from advances made to its former U.S legal entity subsidiaries for 2019 and 2020. The Company previously had made protective elections to impute taxable interest income from these advances under the Pertinent Loan or Indebtedness regime. The Fiscal 2020 effective tax rate is higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses.

Net income. Net income increased by \$70.2 million to \$98.8 million in Fiscal 2021, compared to \$28.6 million in Fiscal 2020. In addition to the factors described above, the change in net income is also explained by a higher gain of \$42.3 million from the repayment of the 2016 Term Loan and from the settlement of a foreign exchange forward contract (See “Liquidity and Capital Resources – Credit Facilities”).

Adjusted EBITDA. Adjusted EBITDA increased by \$37.9 million, or 26.2%, to \$182.3 million in Fiscal 2021, compared to \$144.4 million in Fiscal 2020. The increase in Adjusted EBITDA results from higher EBITDA of \$69.5 million year over year as explained by the factors above and excludes gains on foreign exchange, readiness for the Offering and separation costs, information technology transformation costs, share-based compensation, business transformation costs, other professional fees, COVID-19 pandemic costs, and management fees. Adjusted EBITDA as a percentage of revenue was 23.5% and 22.3%, respectively, in Fiscal 2021 and Fiscal 2020, an improvement of 1.2%.

Adjusted Net Income. Adjusted Net Income increased by \$37.5 million to \$73.0 million in Fiscal 2021, compared to \$35.5 million in Fiscal 2020. Adjusted Net Income as a percentage of revenue was 9.4% in Fiscal 2021 and 5.5% in Fiscal 2020. The 3.9% year over year improvement results from the factors described above.

Total Assets

Fiscal 2021 compared to Fiscal 2020

Total assets were \$599.2 million at Fiscal 2021, an increase of \$37.1 million or 6.6%, compared to \$562.1 million at Fiscal 2020. The change is mostly explained by a higher lease receivables of \$28.7 million resulting from corporate-owned stores sold to franchisees and the opening of new franchise stores, higher inventory of \$13.7 million primarily to support supply chain stability in light of global supply chain challenges and growth in revenue, higher property and equipment of \$6.3 million related to leasehold improvements and furniture and fixtures for corporate-owned stores, \$5.6 million of deferred tax assets related to the underwriting commissions and other transaction costs from the Offering, higher intangible assets of \$1.3 million related to software investments, and a \$2.2 million investment in an associate, partially offset by a decrease in cash of \$21.4 million and a decrease in right-of-use assets of \$4.2 million resulting from corporate-owned stores sold to franchisees.

Total Non-Current Liabilities

Fiscal 2021 compared to Fiscal 2020

Total non-current liabilities were \$541.3 million at Fiscal 2021, a decrease of \$338.3 million or (38.5)%, compared to \$879.6 million at Fiscal 2020. The decrease was mostly driven by lower long-term debt of \$362.3 million as a result of the repayment of the 2016 Term Loans partially offset by the amounts drawn on the 2021 Credit Facilities and higher long-term lease liabilities of \$23.0 million.

Selected Quarterly Results and Performance Measures

The following table summarizes selected results of the Company's operations for the last eight most recently completed quarters (information is in thousands of Canadian dollars unless otherwise noted). The unaudited quarterly results, excluding other performance measures, have been prepared in accordance with IFRS. Due to seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. In general, the fourth quarter has the strongest volume due to the holiday season. Additionally, quarterly performance can be impacted by the timing of holidays and significant weather changes. For Fiscal 2020, the gross profit margin across the quarters varied based on several factors: (i) Q1 included \$3.2 million of COVID-19 pandemic-related variable rent relief for franchisees; (ii) Q2 expenses deleveraged due to lower sales resulting from COVID-19 lockdowns, \$0.8 million of COVID-19 pandemic-related variable rent relief for franchisees, and in the month of April 2020, the Company temporarily reduced franchisee contributions to the Promotion Fund from 2.5% to 0.75% of their weekly store merchandise sales; (iii) Q3 and Q4 experienced improvement as consumers increased their purchases of higher-margin train, treat, and play category items as they spent more time at home with their pets and due to expenses leveraged on higher sales volumes; and (iv) Q4 2020 included 14 weeks compared to 13 weeks for other quarters.

	Fiscal 2021				Fiscal 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	13 weeks	13 weeks	13 weeks	13 weeks	14 weeks	13 weeks	13 weeks	13 weeks
IFRS Measures								
Revenue	\$223,053	\$200,706	\$182,182	\$170,072	\$203,406	\$159,812	\$131,624	\$153,617
Gross profit	\$ 82,024	\$ 78,332	\$ 67,160	\$ 59,663	\$ 75,497	\$ 57,935	\$ 43,773	\$ 53,424
Gross profit margin	36.8%	39.0%	36.9%	35.1%	37.1%	36.3%	33.3%	34.8%
Operating Income	\$ 41,266	\$ 38,961	\$ 26,557	\$ 22,622	\$ 34,564	\$ 27,025	\$ 16,599	\$ 24,488
Net income	\$ 26,741	\$ 24,349	\$ 44,294	\$ 3,409	\$ 13,829	\$ 8,699	\$ 327	\$ 5,767
Weighted average number of common shares (in thousands) ⁽¹⁾	69,997	69,979	69,974	54,161	54,161	54,161	54,161	54,161
Weighted average number of diluted common shares (in thousands) ⁽¹⁾	71,659	71,461	71,364	55,484	55,484	55,484	54,161	55,484
Basic net income (loss) per share attributable to the common shareholders ⁽¹⁾	\$ 0.38	\$ 0.35	\$ 0.61	\$ 0.03	\$ 0.22	\$ 0.13	\$ (0.03)	\$ 0.07
Diluted net income (loss) per share attributable to the common shareholders ⁽¹⁾	\$ 0.37	\$ 0.34	\$ 0.60	\$ 0.03	\$ 0.22	\$ 0.13	\$ (0.03)	\$ 0.07
Non-IFRS Measures and Supplementary Financial Measures								
System-wide sales ⁽²⁾	\$288,467	\$258,592	\$231,452	\$219,628	\$258,153	\$207,696	\$173,502	\$202,501
System-wide stores ⁽²⁾	633	622	616	609	605	592	589	587
Same-store sales growth ⁽²⁾	16.7%	20.3%	28.4%	6.9%	18.0%	12.4%	(3.9%)	14.6%
EBITDA ⁽³⁾	\$ 49,790	\$ 47,026	\$ 78,047	\$ 30,809	\$ 43,676	\$ 35,063	\$ 24,681	\$ 32,710
Adjusted EBITDA ⁽³⁾	\$ 53,335	\$ 50,668	\$ 42,303	\$ 36,013	\$ 47,819	\$ 36,336	\$ 27,723	\$ 32,537
Adjusted Net Income ⁽³⁾	\$ 29,296	\$ 27,687	\$ 8,695	\$ 7,292	\$ 17,252	\$ 9,874	\$ 2,569	\$ 5,800
Adjusted Net Income per Diluted Share ⁽¹⁾⁽³⁾	\$ 0.41	\$ 0.39	\$ 0.12	\$ 0.13	\$ 0.31	\$ 0.18	\$ 0.05	\$ 0.10

Notes:

- (1) Basic and diluted net income (loss) per share attributable to the common shareholders and Adjusted Net Income per Diluted Share for Q1 2021 and the quarters ended in Fiscal 2020 are calculated on a pro-forma basis using the weighted average common shares outstanding based on the capital reorganization and the legacy option plan immediately prior to the Offering.
- (2) System-wide sales, system-wide stores and same-store sales growth are supplementary financial measures. For further information on supplemental financial measures, see "Non-IFRS and Supplementary Financial Measures" section of this MD&A.
- (3) EBITDA, Adjusted EBITDA, Adjusted Net Income, and Adjusted Net Income per Diluted Share are non-IFRS measures. See below for a reconciliation from net income, an IFRS measure for Q3 2021, Q2 2021, Q1 2021 and the quarters ended in Fiscal 2020. For the reconciliation of net income to EBITDA, Adjusted EBITDA, and Adjusted Net Income for Q4 2021 and Fiscal 2021 see "Selected Consolidated Financial Information and Industry Metrics".

The following table provides a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods indicated (in thousands unless otherwise noted):

	Fiscal 2021				Fiscal 2020		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	13 weeks	13 weeks	13 weeks	14 weeks	13 weeks	13 weeks	13 weeks
Reconciliation of net income to Adjusted EBITDA:							
Net income	\$ 24,349	\$ 44,294	\$ 3,409	\$ 13,829	\$ 8,699	\$ 327	\$ 5,767
Depreciation and amortization	8,434	8,554	8,089	8,646	7,874	7,771	7,761
Interest expenses, net	4,492	19,981	17,997	15,671	15,011	16,452	16,875
Income taxes expense	9,751	5,218	1,314	5,530	3,479	131	2,307
EBITDA	47,026	78,047	30,809	43,676	35,063	24,681	32,710
Adjustments to EBITDA:							
Management fees ⁽¹⁾	—	439	240	48	284	569	232
Information technology transformation costs ⁽²⁾	1,239	1,305	1,252	2,801	1,746	2,439	1,466
IPO readiness and separation costs ⁽³⁾	709	2,191	1,329	4,253	1,910	420	1,098
Business transformation costs ⁽⁴⁾	205	1,100	619	548	286	593	179
COVID-19 pandemic ⁽⁵⁾	—	—	—	2	107	1,597	127
Other professional fees ⁽⁶⁾	80	275	1,188	538	—	103	33
Share-based compensation ⁽⁷⁾	1,023	1,882	674	711	476	409	394
Asset impairments ⁽⁸⁾	17	—	—	—	—	—	—
(Gain) loss on foreign exchange ⁽⁹⁾	369	(42,936)	(98)	(466)	(164)	(311)	(461)
Pro forma costs ⁽¹⁰⁾	—	—	—	(4,292)	(3,372)	(2,777)	(3,241)
Adjusted EBITDA	\$ 50,668	\$ 42,303	\$ 36,013	\$ 47,819	\$ 36,336	\$ 27,723	\$ 32,537

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; and (ii) retention bonuses for certain key management personnel in connection with the Offering. In Q2 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Q2 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (4) Predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Represents non-recurring costs incurred in Fiscal 2020 in response to the COVID-19 pandemic including personal protective equipment for Company employees, signage for the stores, short-term increased hourly pay and one-time bonuses for store associates and warehouse staff awarded in the second quarter of 2020 and professional fees associated with planning key initiatives for cash flow management and the negotiation of rent deferrals and abatements with landlords and franchisees.
- (6) Professional fees primarily incurred with respect to the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year.
- (7) Represents share-based compensation in respect of our legacy option plan, long-term incentive plan, and deferred share unit plan. Share-based compensation for Q2 2021 also includes expense in relation to retention bonuses of \$1.2 million which were paid through the issuance of common shares in lieu of cash. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020.
- (8) Non-cash impairment charge taken against certain leasehold improvements and right-of-use assets for stores.
- (9) Represents foreign exchange gains and losses.
- (10) Represents pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, for Fiscal 2020. These costs represent compensation costs associated with supply chain, merchandising, distribution and other corporate functions, as well as information technology costs. Approximately 18% of the pro forma costs relate to cost of sales and 82% to SG&A. Beginning in Q1 2021, our on-going expenses are reported directly in cost of sales and SG&A, as those costs are now directly incurred by the Company.

The following table provides a reconciliation of net income to Adjusted Net Income for the periods indicated (in thousands unless otherwise noted):

	Fiscal 2021				Fiscal 2020		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	13 weeks	13 weeks	13 weeks	14 weeks	13 weeks	13 weeks	13 weeks
Reconciliation of net income to Adjusted Net Income:							
Net income	\$ 24,349	\$ 44,294	\$ 3,409	\$ 13,829	\$ 8,699	\$ 327	\$ 5,767
Adjustments to net income:							
Management fees ⁽¹⁾	—	439	240	48	284	569	232
Information technology transformation costs ⁽²⁾	1,239	1,305	1,252	2,801	1,746	2,439	1,466
IPO readiness and separation costs ⁽³⁾	709	2,191	1,329	4,253	1,910	420	1,098
Business transformation costs ⁽⁴⁾	205	1,100	619	548	286	593	179
COVID-19 pandemic ⁽⁵⁾	—	—	—	2	107	1,597	127
Other professional fees ⁽⁶⁾	80	275	1,188	538	—	103	33
Share-based compensation ⁽⁷⁾	1,023	1,882	674	711	476	409	394
Asset impairments ⁽⁸⁾	17	—	—	—	—	—	—
(Gain) loss on foreign exchange ⁽⁹⁾	369	(42,936)	(98)	(466)	(164)	(311)	(461)
Pro forma costs ⁽¹⁰⁾	—	—	—	(4,292)	(3,372)	(2,777)	(3,241)
Tax effect of adjustments to net income	(304)	145	(1,321)	(720)	(98)	(800)	206
Adjusted Net Income	\$ 27,687	\$ 8,695	\$ 7,292	\$ 17,252	\$ 9,874	\$ 2,569	\$ 5,800

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; and (ii) retention bonuses for certain key management personnel in connection with the Offering. In Q2 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Q2 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (4) Predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Represents non-recurring costs incurred in Fiscal 2020 in response to the COVID-19 pandemic including personal protective equipment for Company employees, signage for the stores, short-term increased hourly pay and one-time bonuses for store associates and warehouse staff awarded in the second quarter of 2020 and professional fees associated with planning key initiatives for cash flow management and the negotiation of rent deferrals and abatements with landlords and franchisees.
- (6) Professional fees primarily incurred with respect to the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year.
- (7) Represents share-based compensation in respect of our legacy option plan, long-term incentive plan, and deferred share unit plan. Share-based compensation for Fiscal 2021 also includes expense in relation to retention bonuses of \$1.2 million which were paid through the issuance of common shares in lieu of cash. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020.
- (8) Non-cash impairment charge taken against certain leasehold improvements and right-of-use assets for stores.
- (9) Represents foreign exchange gains and losses.
- (10) Represents pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, for Fiscal 2020. These costs represent compensation costs associated with supply chain, merchandising, distribution and other corporate functions, as well as information technology costs. Approximately 18% of the pro forma costs relate to cost of sales and 82% to SG&A. Beginning in Q1 2021, our on-going expenses are reported directly in cost of sales and SG&A, as those costs are now directly incurred by the Company.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity and capital resources are cash generated from operating activities and borrowings under our credit facility. Our principal uses of funds are operating expenses, working capital, capital expenditures, and debt service requirements.

As of Fiscal 2021, available liquidity was approximately \$180.1 million, as compared to \$96.9 million as of Fiscal 2020, and was comprised of:

- cash and cash equivalents of \$50.1 million, as compared to \$71.5 million as of Fiscal 2020; and
- available borrowings of \$130.0 million under the 2021 Revolving Facility (as hereinafter defined), as compared to \$25.5 million (US\$20.0 million) as of Fiscal 2020, under the 2016 Revolving Credit Facility (as hereinafter defined).

We believe that our cash and cash equivalents combined with the expected cash flow from operations and liquidity to be available under the 2021 Credit Facilities (as hereinafter defined) will be sufficient to finance our continued operations for at least the next 12 months including our operating expenses, capital expenditures requirements, the additional expenses we expect to incur as a public company and under a separated structure (for information on pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated to the Company, refer to the reconciliation of net income to Adjusted EBITDA under “– Selected Consolidated Financial Information and Industry Metrics”). In addition, we believe that our capital structure provides us with significant financial flexibility to pursue our future growth strategies. However, our ability to fund operating expenses, capital expenditures, dividends and future debt service requirements will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See “Summary of Factors Affecting Performance” in this MD&A.

Credit Facilities

2021 Credit Agreement

In connection with the Offering, the Company entered into a credit agreement with a syndicate of lenders (the “2021 Credit Agreement”) which provides for (i) a \$355.0 million term facility (the “2021 Term Facility”) and (ii) a \$130.0 million revolving credit facility (the “2021 Revolving Facility”), a portion of which not in excess of \$20.0 million shall be available for the issuance of letters of credit in Canadian or U.S. dollars (collectively referred to as the “2021 Credit Facilities”).

The 2021 Credit Facilities mature on June 30, 2026. The 2021 Term Facility is repayable in quarterly instalments and contains mandatory prepayment provisions with respect to non-ordinary course asset sales, excess cash flow and issuances of debt obligations (excluding debt permitted to be incurred under the 2021 Credit Agreement) by the Company and its subsidiaries (in each case, subject to customary thresholds, qualifications and exceptions set forth in the 2021 Credit Agreement). Voluntary prepayments of the 2021 Term Facility are permitted at any time (subject to minimum repayment amounts and customary notice periods set forth in the 2021 Credit Agreement) without premium or penalty (other than customary “breakage” costs, if applicable) and will reduce the scheduled principal repayments. The 2021 Credit Agreement provides that amounts under the 2021 Revolving Facilities may be borrowed, repaid and re-borrowed.

Borrowings under the 2021 Credit Facilities will bear interest, according to the type of borrowing advanced, at short-term floating rates (based on a reference rate of U.S. base rate, the Canadian prime rate or the LIBOR rate or bankers' acceptance rate, as applicable), plus a margin per annum depending on the Company's net total leverage ratio. As of Fiscal 2021, the interest rate on the 2021 Credit Facilities was 2.52%.

As of Fiscal 2021, the aggregate amount outstanding under the 2021 Term Facility and 2021 Revolving Facility was \$350.6 million and \$nil, respectively.

The obligations under the 2021 Credit Agreement are unconditionally guaranteed by the Company and are secured by a charge over substantially all of the property and assets of the Company and its subsidiaries.

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 includes a net leverage ratio and an interest coverage ratio. As of Fiscal 2021, the Company was in compliance with all of its covenants.

2016 Credit Agreement

On July 5, 2016, the Company entered into a US\$605.0 million credit agreement with a consortium of lenders (the "2016 Credit Agreement"), which provides for (i) a term loan with a principal amount of US\$545.0 million under a secured term loan facility ("2016 Term Loan"); (ii) a revolving credit facility for up to US\$20.0 million ("2016 Revolving Credit Facility"); and (iii) a delayed draw term loan of US\$40.0 million ("2016 Delayed Draw Term Loan") (collectively referred to as the "2016 Credit Facilities"). As part of the Offering, the Company terminated the 2016 Credit Agreement and entered into the 2021 Credit Agreement. As such, on June 30, 2021, all outstanding debt on the 2016 Credit Facilities was repaid.

In order to mitigate the foreign currency risk on the repayment of the 2016 Credit Facilities, on June 9, 2021, the Company entered into a foreign exchange forward contract to purchase US\$550.0 million in exchange for Canadian dollars to be settled on the closing of the Offering. The Company settled the forward exchange forward contract on June 30, 2021, and recognized a foreign currency gain of \$13.5 million.

In addition, as all of the 2016 Credit Facilities were allocated to the Company from the Group's U.S. dollar functional currency subsidiary, upon extinguishment of the facilities, the accumulated foreign currency translation adjustments of \$29.7 million were reclassified to gain on foreign exchange from accumulated other comprehensive income within the Group's net investment.

Deferred financing costs

In connection with the 2021 Credit Agreement, deferred financing costs of \$5.7 million were incurred. The total unamortized deferred financing costs were \$5.1 million as of Fiscal 2021 and are being amortized using the effective interest rate method. As a result of the extinguishment of the 2016 Credit Agreement, the unamortized balance of the deferred financing costs on the 2016 Credit Facilities of \$5.7 million were written off as debt extinguishment costs. These amounts were included as interest expense.

Cash Flows

The following table presents cash flows for the periods indicated:

	Quarters Ended		Fiscal Year Ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
	13 weeks	14 weeks	52 weeks	53 weeks
Net cash provided by operating activities	\$ 53,091	\$ 29,694	\$ 138,159	\$ 152,141
Net cash used in financing activities	(20,253)	(32,237)	(163,342)	(135,898)
Net cash (used in) provided by investing activities	(6,018)	(2,735)	3,991	11,547
Effect of exchange rate changes on cash	(64)	400	(221)	(146)
Net increase (decrease) in cash	\$ 26,756	\$ (4,878)	\$ (21,413)	\$ 27,644

Analysis of Cash Flow for Q4 2021 and Fiscal 2021

Net cash provided by operating activities:

For Q4 2021, net cash provided by operating activities totalled \$53.1 million, an increase of \$23.4 million, compared to net cash provided by operating activities of \$29.7 million in Q4 2020. The increase is explained by \$13.6 million of higher net income (adjusted for items not involving cash) including lower federal corporate tax instalments in Q4 2021 compared to Q4 2020 during which the Company paid deferred corporate tax instalments as permitted by the government pandemic relief programs in effect at that time. The remaining increase was primarily due to a combined \$9.8 million net change in operating working capital, comprised of a \$4.3 million increase in net operating working capital in Q4 2021 compared to a decrease of \$5.5 million in Q4 2020 explained by: (i) lower prepaids due to the timing of variable lease payments, SaaS fees, and insurance premiums; (ii) lower franchise receivables primarily due to the construction and renovation of new and existing franchised stores; (iii) lower change in inventory; and (iv) partially offset by lower accounts payables in Q4 2021 mostly related to timing of inventory purchases and decreased professional fees.

For Fiscal 2021, net cash provided by operating activities totalled \$138.2 million, a decrease of \$14.0 million, compared to net cash provided by operating activities of \$152.1 million in Fiscal 2020. The decrease is explained by a combined \$42.0 million net change in operating working capital comprised of a \$14.0 million decrease in net operating working capital in Fiscal 2021 compared to an increase of \$28.0 million in Fiscal 2020 explained by: (i) the Fiscal 2020 benefit of payment term extensions and deferred payments as a result of the COVID-19 pandemic; (ii) higher inventory build in Fiscal 2021 to support supply chain stability in light of global supply chain challenges and increase in demand; (iii) higher payments in connection with the Offering readiness activities; (iv) increased franchise receivables related to the timing of franchise billings; and (v) partially offset by lower prepaids due to timing. The decrease in operating working capital was partially offset by \$28.0 million of higher net income (adjusted for items not involving cash) partially offset by higher federal corporate tax instalments in Fiscal 2021 compared to Fiscal 2020 due to higher taxable income. The magnitude of the combined Fiscal 2021 and Fiscal 2020 change in operating working capital is an anomaly predominately caused by the Company's reaction to the COVID-19 pandemic.

Net cash used in financing activities:

For Q4 2021, net cash used in financing activities totalled \$20.3 million, compared to \$32.2 million in Q4 2020. The decrease is primarily driven by: (i) lower interest payments on long-term debt and lower net distributions; (ii) partially offset by dividends paid on common shares; (iii) payment of fees on the commitment for the standby letter of credit; and (iv) higher repayment of amounts drawn on

the 2021 Revolving Credit Facility and 2021 Term Facility compared to repayments on the 2016 Credit Facilities.

For Fiscal 2021, net cash used in financing activities totalled \$163.3 million, compared to \$135.9 million in Fiscal 2020. The increase is primarily driven by: (i) net repayment of the 2016 Term Loans after receiving proceeds from the issuance of common shares and the amounts drawn on the 2021 Credit Facilities; (ii) payment of financing costs on the new 2021 Credit Facilities and amendment of the 2016 Credit Facilities; (iii) payment of fees on the commitment for the standby letter of credit; (iv) higher payments on lease liabilities; and (v) partially offset by lower interest payments on long-term debt.

Net cash (used in) provided by investing activities:

For Q4 2021, net cash used in investing activities totalled \$6.0 million, compared to \$2.7 million in Q4 2020. This increase was primarily due to: (i) an increase in notes receivables to franchisees for renovations at existing franchise stores; (ii) the investment in associate; (iii) lower proceeds on the sale of corporate-owned stores to franchisees; and (iv) partially offset by lower capital expenditures for leasehold improvements and furniture and fixtures for corporate-owned stores and lower capitalized technology investments.

For Fiscal 2021, net cash provided by investing activities totalled \$4.0 million, compared to \$11.5 million in Fiscal 2020. This decrease was primarily due to: (i) higher capital expenditures for leasehold improvements and furniture and fixtures for corporate-owned stores; (ii) an increase in notes receivables to franchisees for renovations at existing franchise stores; (iii) the investment in associate; (iv) partially offset by higher proceeds on the sale of corporate-owned stores to franchisees; (v) higher payments of principal and interest from lease receivables; and (vi) lower capitalized technology investments.

Free Cash Flows

The following table presents free cash flows for the periods indicated (in thousands unless otherwise noted).

	Quarters Ended		Fiscal Year Ended	
	January 1, 2022	January 2, 2021	January 1, 2022	January 2, 2021
	13 weeks	14 weeks	52 weeks	53 weeks
Cash provided by operating activities	\$ 53,091	\$ 29,694	\$ 138,159	\$ 152,141
Cash (used in) provided by investing activities	(6,018)	(2,735)	3,991	11,547
Repayment of principal on lease liabilities	(11,473)	(11,903)	(46,640)	(42,446)
Interest paid on lease liabilities	(2,908)	(3,130)	(11,557)	(11,316)
Notes receivables	2,585	17	2,348	(514)
Free Cash Flow	\$ 35,277	\$ 11,943	\$ 86,301	\$ 109,412

Analysis of Free Cash Flow for Q4 2021 and Fiscal 2021

Free cash flows amounted to \$35.3 million in Q4 2021 compared to \$11.9 million in Q4 2020, an increase of \$23.3 million mostly driven by an increase in cash provided by operating activities and an increase in notes receivables, partially offset by lower cash from investing activities.

Free cash flows amounted to \$86.3 million in Fiscal 2021 compared to \$109.4 million in Fiscal 2020, a decrease of \$23.1 million mostly driven by a decrease in cash provided by operating activities, lower cash from investing activities, and higher repayment of principal and interest on lease liabilities.

Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as of Fiscal 2021.

	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Thereafter	Total
Accounts payable and accrued liabilities	\$ 86,977	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 86,977
Lease liabilities	52,594	52,671	47,070	41,606	28,288	54,911	277,140
Long-term debt	8,875	17,750	17,750	17,750	288,437	—	350,562
Total contractual obligations	\$ 148,446	\$ 70,421	\$ 64,820	\$ 59,356	\$ 316,725	\$ 54,911	\$ 714,679

Off-Balance Sheet Arrangements

Guarantees of indebtedness

The Company has provided the following guarantees as of Fiscal 2021:

- (i) Guarantee of certain lease obligations for an affiliate company of the Group. The lease obligations expire on February 27, 2023. As of Fiscal 2021, the future lease commitment is \$0.8 million (US\$0.7 million) (Fiscal 2020 — \$4.2 million (US\$3.3 million)).

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.

Litigation

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 financial position, operating results or liquidity.

Income Taxes

The Company is subject to routine audits of its tax filing positions by the CRA on an ongoing basis. The CRA is currently examining the Company's tax filings for the 2016 taxation year 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 will 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 \$3.7 million 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 condensed interim consolidated statement of income for Fiscal 2021. The Company will incur ongoing commitment fees of \$1.3 million 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 \$3.0 million annually, although there can be no assurance that such costs would not exceed this amount or that the facility will fully cover any reassessment.

Related Party Transactions

Management fees

The Company was a party to an agreement with Roark which provided management services. The Company incurred management fees and expenses for Fiscal 2021 of \$0.7 million, respectively (Fiscal 2020 — \$1.1 million, respectively), which is included in SG&A. The balance due was \$nil and \$1.3 million at Fiscal 2021 and Fiscal 2020, respectively, and was included in accrued liabilities. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.

Employee and director loans

As a result of a reorganization of the Group in 2016, certain share-based payment awards that were previously held by the Company's employees under a historical share option plan were exercised with employees receiving loans from the Company to fund the strike price and their personal tax obligations. These employee loans are denominated in U.S. dollars and had a balance outstanding of \$0.8 million (US\$0.6 million) as of Fiscal 2021 (Fiscal 2020 — \$0.9 million (US\$0.7 million)).

During the 52-week fiscal year ended December 28, 2019 ("Fiscal 2019"), the Company received a promissory note related to the exercise of options by an employee. This promissory note had a balance outstanding of \$0.2 million (US\$0.1 million) as of Fiscal 2021 (Fiscal 2020 — \$0.2 million (US\$0.1 million)).

During Fiscal 2019, the Group issued common shares to certain directors of the Company for an aggregate subscription price of \$1.8 million (US\$1.4 million). The Company received cash of \$0.9 million (US\$0.7 million) from the issuance of common shares and issued promissory notes to fund the remaining aggregate subscription price. These promissory notes were repaid in Q2 2021.

Transition services agreement

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 has a term of 18 months from the closing of the Offering unless earlier terminated upon notice. For Fiscal 2021, the Company charged the former subsidiaries \$0.9 million under the transition services agreement. Prior to the transition services agreement, the Company provided services to these subsidiaries from the beginning of Fiscal 2021 and charged \$0.6 million to the subsidiaries during that period.

Product sourcing and brand license agreement

In connection with the 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 product sourcing and brand license agreement has an initial term of 18 months that is automatically renewable for successive 18-month terms unless earlier terminated upon notice. The Company earned sourcing fees of \$0.8 million under the product sourcing and brand license agreement in Fiscal 2021.

Allocation of shared expenses and net distributions

The Company has been allocated shared expenses from the Group of \$27.7 million for Fiscal 2020, which have been reflected in cost of sales and SG&A in the consolidated statements of income and comprehensive income (loss). As of January 3, 2021, the Company operationally separated from the Group and as a result the Company has not been allocated shared expenses for Fiscal 2021. The shared expenses have been allocated primarily on a proportionate revenue basis. The allocated costs are related to corporate administrative expenses and employee related costs including salaries and other benefits and compensation for the following functional groups: corporate management, information technology, legal services, procurement services, accounting and finance services, merchandising and distribution services, and store operations support.

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.

Share Information Prior to the Capital Reorganization

Included in the Group's net investment are two classes of common shares issued and outstanding, Class X and Class Y, and three classes of perpetual preferred shares issued and outstanding, Class A, Class B, and Class C. The two classes of common shares have no par value. All three classes of preferred shares have no par value and are entitled to cumulative dividends at a rate of 8.6%. They also have a liquidation value of US\$1,000 per share plus any unpaid dividends less any previous distributions on the shares. Prior to the share reorganization and the completion of the Offering, (i) 31,195,059 Class X common shares, (ii) 16,011,583 Class Y common shares, (iii) 58,555 Class A preferred shares, (iv) 39,155 Class B preferred shares, and (v) 31,821 Class C preferred shares, were issued and outstanding.

Immediately prior to the closing of the Offering, all of the Company's outstanding Class X common shares, Class Y common shares, Class A preferred shares, Class B preferred shares, and Class C preferred shares were exchanged for common shares in the Company. The Class X common shares and Class Y common shares of the Company were exchanged on a one-for-one basis for common shares, and all of the outstanding options to acquire Class X common shares under the legacy option plan became options to acquire common shares. The Class A preferred shares, Class B preferred shares and Class C preferred shares of the Company were exchanged based on their liquidation value plus

accrued but unpaid dividends divided by the fair market value of the Company's common shares (\$20.00 per common share) at the closing of the Offering.

Non-controlling interests represented issued perpetual preferred shares and accumulated but unpaid dividends of a subsidiary of the Company. These shares earned a stated cumulative dividend of 8.6% per annum, and did not have redemption features. They also had a liquidation value of US\$1,000 per share plus any unpaid dividends less any previous distributions on the shares. As such, these non-controlling interests were classified as equity. Non-controlling interests were redeemed for nominal consideration in connection with the reorganization.

Current Share Information

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. The holders of common shares are entitled to receive dividends as declared from time to time by the Board of Directors. Shareholders are entitled to one vote per common share at shareholder meetings of the Company.

Preferred shares of each series, if and when issued, will, with respect to the payment of dividends, be entitled to preference over common shares. Except as provided in any special rights or restrictions attaching to any series of preferred shares issued from time to time, the holders of preferred shares will not be entitled to vote at any shareholder meetings of the Company.

As of March 8, 2022, there were 70,127,411 common shares and 2,936,465 share options, each exercisable for one common share, issued and outstanding.

For further details concerning the rights, privileges and restrictions attached to the common shares, please refer to the section entitled "Description of Share Capital" in the AIF.

Dividends

Subject to financial results, capital requirements, available cash flow, the need for funds to finance ongoing operations and other factors that the Board of Directors may consider relevant, it is the intention of the Board of Directors to declare a quarterly cash dividend. It is expected that future cash dividend payments will be made to common shareholders of record as of a date to be determined by the Board of Directors. The actual payment, amount and timing of any dividends are not guaranteed and are subject to the discretion of our Board of Directors. See "Risk Factors" in this MD&A.

For Fiscal 2021, the Company paid \$0.7 million in dividends to holders of common shares (Fiscal 2020 — \$nil), or \$0.01 per common share (Fiscal 2020 — \$nil).

Critical Accounting Estimates and Judgments

The critical accounting estimates and judgments as disclosed in the Company's audited carve-out consolidated financial statements and accompanying notes for Fiscal 2021 have been applied consistently in the preparation of this MD&A.

Risk Factors

For a detailed description of risk factors relating to the Company, please refer to the "Risk Factors" section of the Company's AIF, which is available on SEDAR at www.sedar.com.

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, foreign currency risk, and interest rate risk. The Company's overall risk management program and business

practices seek to minimize any potential adverse effects on the Company's consolidated financial performance. Risk management is carried out by the senior management team under policies approved by the Company's board of directors.

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. Inventory purchases sourced outside Canada and primarily denominated in U.S. dollars represented approximately 31% for Fiscal 2021 and Fiscal 2020.

The Company is also exposed to currency risks 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. As a result of the revaluation of these financial assets and liabilities, 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 Fiscal 2021 by \$0.5 million (Fiscal 2020 — \$0.01 million) as a result of the revaluation on these financial assets and liabilities.

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 bank term loan is at variable interest rates. Changes in the banks' prime lending rates, the LIBOR or bankers' acceptance rate can cause fluctuations in interest payments and cash flows.

A one percentage point change in the applicable interest rate on the 2021 Credit Agreement would have changed income before taxes for Fiscal 2021 by \$3.5 million. A one percentage point change in the applicable interest rate on the 2016 Credit Agreement would have changed income before taxes for Fiscal 2020 by \$7.0 million.

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 its 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.

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 the Company's credit facility to minimize this risk. The Company's trade and other payables are all due within 12 months of each reporting period.

Recent Accounting Pronouncements

Adoption of new accounting standards and amendments

In March 2021, the IASB amended COVID-19 Related Rent Concessions, which amends IFRS 16, *Leases*, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. The amendment extended the application of the practical expedient by one year to cover rent concessions that reduce only leases payments due on or before June 30, 2022. The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. The Company adopted the amendment effective for the 52-week period ending January 1, 2022, and has elected to apply the provided practical expedient. As a result, the Company accounts for a change in lease payments resulting from COVID-19-related rent deferrals as deferred payables included in accrued liabilities. Under this approach, there is no remeasurement of the lease liability.

Accounting standards and amendments issued but not yet adopted

In January 2020, IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1, *Presentation of Financial Statements*. The narrow-scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies 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 specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of "settlement" to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. These amendments will not have a significant impact on the Company's financial statements.

In May 2020, the IASB issued the package of narrow-scope amendments to three Standards (IFRS 3, *Business Combinations*, IAS 16, *Property, Plant and Equipment*, and IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*) as well as the IASB's Annual Improvements 2018 - 2020, which are changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in the standards. These amendments will be effective for annual periods beginning on or after January 1, 2022. These amendments will not have a significant impact on the Company's financial statements.

In February 2021, the IASB amended IFRS standards 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 amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

In May 2021, the IASB amended IFRS standards IAS 12, *Income Taxes*. The narrow scope amendments specify treatment of the initial recognition exception under IAS 12, *Income Taxes*, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures

designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its certifying officers, namely the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding public disclosure. An evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), was carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, the CEO and CFO have concluded that the design and operation of these controls were effective as at January 1, 2022.

The Company also maintains a system of internal controls over financial reporting designed under the supervision of the Company's CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework (2013) established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the Company's internal controls over financial reporting, as defined by NI 52-109, were effective as at January 1, 2022.

Furthermore, there were no changes in our internal control over financial reporting in Q4 2021 that materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Subsequent Events

On February 25, 2022, the Company completed the acquisition of Les Franchises Chico Inc. ("Chico"), a specialty retailer and wholesaler of pet food and pet-related supplies in Quebec, Canada, for a total purchase price of approximately \$17.0 million which includes \$3.0 million of contingent consideration payable on the achievement of certain performance milestones. The final consideration to be paid is also subject to working capital adjustments in accordance with the purchase agreement.

On March 9, 2022, the Company announced that its Board declared a dividend of \$0.06 per common share payable on April 15, 2022 to holders of common shares of record as at the close of business on March 31, 2022.

Outlook

The following information, except for same-store sales growth, includes the impact of Chico, which was acquired on February 25, 2022.

For the full year 2022, the Company expects:

- Revenue between \$845 and \$870 million, supported by same-store sales growth of between 6% and 9%, and 30 to 45 new store openings inclusive of 5 to 10 stores under the Chico banner in Quebec;
- Adjusted EBITDA between \$187 and \$194 million, which incorporates a full year of public company costs, as well as incremental investments in labour as well as storage and throughput capacity, disclosed in late 2021;
- Adjusted Net Income per Diluted Share between \$1.37 and \$1.44;
- Information technology expenses of approximately \$9 million and share-based compensation of approximately \$7 million, both of which are excluded from Adjusted EBITDA and Adjusted Net Income per diluted share; and
- Net Capital Expenditures⁽¹⁾ between \$20 and \$25 million.

Due to the impact of various forms of government mandated operating restrictions imposed in early 2021, the Company expects year-over-year growth to be stronger in the first half of 2022, particularly the first quarter, compared to year-over-year growth in the second half of the year. The Company also continues to expect the pet industry growth to gradually normalize to historical levels through 2022, as pandemic spend tailwinds ease. The relative distribution of revenue is expected to be more representative of pre-pandemic years, such as 2019.

⁽¹⁾ Net Capital Expenditures represents purchase of property and equipment, purchase of intangible assets, proceeds on disposal of property and equipment and tenant allowances.

Additional Information

Additional information relating to the Company, including the Company's AIF, is available on SEDAR at www.sedar.com. The Company's common shares are listed for trading on the Toronto Stock Exchange under the symbol "PET".