



PET VALU HOLDINGS LTD.

Condensed Interim Consolidated Financial Statements
For the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021
(Unaudited)

PET VALU HOLDINGS LTD.

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

	Note	As at July 2, 2022	As at January 1, 2022
Assets			
Current assets:			
Cash		\$ 39,467	\$ 50,068
Accounts and other receivables		19,621	14,398
Inventories, net		116,773	91,699
Prepaid expenses and other assets		14,130	10,432
Current portion of lease receivables	5	27,517	26,621
Total current assets		217,508	193,218
Non-current assets:			
Lease receivables	5	125,007	121,936
Right-of-use assets, net	5, 6	83,987	80,757
Property and equipment, net	6, 7	63,791	62,067
Intangible assets, net	6, 8	52,072	37,359
Goodwill	6	98,061	92,938
Deferred tax assets	11	5,565	5,601
Investment in associate	15, 16	3,500	2,179
Other assets		7,902	3,118
Total non-current assets		439,885	405,955
Total assets		\$ 657,393	\$ 599,173
Liabilities and Shareholders' Deficit			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 100,718	\$ 86,977
Income taxes payable	11	6,704	13,553
Current portion of deferred franchise fees		1,148	1,032
Current portion of lease liabilities	5, 6	48,795	41,960
Current portion of long-term debt	9	13,312	8,875
Total current liabilities		170,677	152,397
Non-current liabilities:			
Long-term deferred franchise fees		3,472	3,183
Long-term lease liabilities	5, 6	196,760	196,954
Long-term debt	9	328,345	336,621
Deferred tax liabilities	6, 11	6,973	4,540
Other liabilities		600	—
Total non-current liabilities		536,150	541,298
Total liabilities		706,827	693,695
Shareholders' deficit:			
Common shares	12	311,680	307,497
Contributed surplus		3,222	1,779
Deficit		(364,160)	(403,619)
Currency translation reserve		(176)	(179)
Total shareholders' deficit		(49,434)	(94,522)
Total liabilities and shareholders' deficit		\$ 657,393	\$ 599,173
Commitments, contingencies and guarantees (Note 17)			
Subsequent events (Note 19)			

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

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

PET VALU HOLDINGS LTD.

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

		13-week periods ended		26-week periods ended	
	Note	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
		(Note 2(b))		(Note 2(b))	
Revenue:					
Retail sales	4	\$ 97,055	\$ 82,161	\$ 190,130	\$ 161,805
Franchise and other revenues	4	130,621	100,021	250,799	190,449
Total revenue		227,676	182,182	440,929	352,254
Cost of sales		142,305	115,022	278,478	225,431
Gross profit		85,371	67,160	162,451	126,823
Selling, general and administrative expenses		46,062	40,603	87,981	77,644
Total operating income		39,309	26,557	74,470	49,179
Interest expenses, net	10	4,560	19,981	8,541	37,978
Loss (gain) on foreign exchange	9	120	(42,936)	99	(43,034)
Other income	15	(152)	—	(124)	—
Income before income taxes		34,781	49,512	65,954	54,235
Income taxes expense	11	9,503	5,218	18,055	6,532
Net income		25,278	44,294	47,899	47,703
Less:					
Net income attributable to non-controlling interests	12	—	1,649	—	3,430
Net income attributable to the shareholders of the Company		25,278	42,645	47,899	44,273
Other comprehensive income, net of tax:					
Currency translation adjustments reclassified to net income	9	—	(29,665)	—	(29,665)
Currency translation adjustments that may be reclassified to net income, net of tax		5	11,455	3	21,070
Comprehensive income for the period attributable to the shareholders of the Company		\$ 25,283	\$ 24,435	\$ 47,902	\$ 35,678
Basic net income per share attributable to the common shareholders	13	\$ 0.36	\$ 0.61	\$ 0.68	\$ 0.63
Diluted net income per share attributable to the common shareholders	13	\$ 0.35	\$ 0.60	\$ 0.67	\$ 0.62

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PET VALU HOLDINGS LTD.

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

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

For the 26-week period ended July 3, 2021	Common Shares	Contributed Surplus	Deficit	Currency translation reserve	Group's net investment	Non- controlling interests	Total
Balance, January 2, 2021	\$ —	\$ —	\$ —	\$ —	\$ (588,530)	\$ 118,986	\$ (469,544)
Net income	—	—	—	—	44,273	3,430	47,703
Net distributions (Note 18)	—	—	—	—	(16,983)	—	(16,983)
Foreign currency translation	—	—	—	—	(8,595)	—	(8,595)
Capital reorganization (Note 12)	6,781	—	(454,009)	(191)	569,835	(122,416)	—
Issuance of common shares, net of issuance costs (Note 12)	295,210	—	—	—	—	—	295,210
Share-based compensation on option plans (Note 14)	—	22	—	—	—	—	22
Balance, July 3, 2021	\$ 301,991	\$ 22	\$ (454,009)	\$ (191)	\$ —	\$ —	\$ (152,187)

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PET VALU HOLDINGS LTD.

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

		13-week periods ended		26-week periods ended	
	Note	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
		(Note 2(b))		(Note 2(b))	
Cash provided by (used in):					
Operating activities:					
Net income for the period		\$ 25,278	\$ 44,294	\$ 47,899	\$ 47,703
Adjustments for items not affecting cash:					
Depreciation and amortization	5, 7, 8	9,270	8,554	18,146	16,643
Deferred franchise fees		(46)	116	(94)	329
Gain on disposal of property and equipment		(34)	(297)	(42)	(428)
Loss (gain) on sale of right-of-use assets	5	122	(137)	160	(176)
Loss (gain) on foreign exchange	9	120	(42,936)	99	(43,034)
Gain on financial instruments	15, 16	(244)	—	(244)	—
Share-based compensation expense	14	1,492	22	2,519	22
Share of loss from associate	15	92	—	120	—
Interest expenses, net	10	4,560	19,981	8,541	37,978
Income taxes expense	11	9,503	5,218	18,055	6,532
Income taxes paid		(6,248)	(2,464)	(25,573)	(7,679)
Security deposits paid	17	(5,073)	—	(5,073)	—
Change in non-cash operating working capital:					
Accounts receivable		(3,964)	(1,965)	(3,679)	(4,603)
Inventories		(16,319)	(1,444)	(24,556)	(8,777)
Prepaid expenses		(1,167)	(352)	(1,837)	180
Accounts payable and accrued liabilities		15,947	3,079	8,319	(16,063)
Net cash provided by operating activities		33,289	31,669	42,760	28,627
Financing activities:					
Issuance of common shares, net of transaction costs	12	—	295,210	—	295,210
Proceeds from exercise of share options	12	3,596	—	4,183	—
Dividends paid on common shares	12	(8,440)	—	(8,440)	—
Proceeds of 2021 Term Facility	9	—	355,000	—	355,000
Repayment of 2021 Term Facility	9	(2,220)	—	(4,438)	—
Proceeds of 2021 Revolving Credit Facility	9	—	40,000	—	40,000
Repayment of 2016 Term Loans	9	—	(676,717)	—	(680,424)
Interest paid on long-term debt		(4,216)	(13,800)	(7,171)	(36,415)
Repayment of principal on lease liabilities	5	(12,046)	(11,620)	(23,815)	(23,806)
Interest paid on lease liabilities	5, 10	(2,911)	(2,881)	(5,818)	(5,761)
Financing costs	9	—	(5,672)	—	(6,589)
Standby letter of credit commitment fees	10, 11	—	(613)	(314)	(4,303)
Net distributions	18	—	(2,007)	—	(16,983)
Net cash used in financing activities		(26,237)	(23,100)	(45,813)	(84,071)
Investing activities:					
Business acquisition, net of cash	6	—	—	(12,829)	—
Purchases of property and equipment	7	(4,532)	(6,120)	(9,652)	(10,280)
Purchase of intangible assets	8	(1,360)	(925)	(1,973)	(1,133)
Proceeds on disposal of property and equipment		713	1,639	775	2,203
Right-of-use asset initial direct costs		(278)	(457)	(618)	(837)
Tenant allowances		57	—	555	271
Notes receivable		108	161	298	221
Lease receivables	5	6,707	5,901	13,229	11,632
Interest received on lease receivables and other		1,903	1,676	3,815	3,357
Investment in associate	15	(1,134)	—	(1,134)	—
Net cash provided by (used in) investing activities		2,184	1,875	(7,534)	5,434
Effect of exchange rate on cash		3	(16)	(14)	11
Net increase (decrease) in cash		9,239	10,428	(10,601)	(49,999)
Cash, beginning of period		30,228	11,054	50,068	71,481
Cash, end of period		\$ 39,467	\$ 21,482	\$ 39,467	\$ 21,482

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

PET VALU HOLDINGS LTD.

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

For the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021

1. Description of business:

Pet Valu Holdings Ltd. and its subsidiaries (collectively referred to as the "Company") is a specialty retailer and wholesaler of pet food and pet-related supplies. As of July 2, 2022, the Company operates 230 corporate-owned stores (January 1, 2022 — 227) and has 487 franchise stores (January 1, 2022 — 406) in ten provinces in Canada.

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

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

2. Basis of presentation:

(a) Basis of presentation:

These unaudited condensed interim consolidated financial statements ("interim financial statements") refer to the condensed interim consolidated financial statements of the Company, and include the accounts of the Company and its subsidiaries with intercompany transactions and balances eliminated. The Company has the following wholly-owned and/or controlled subsidiaries:

<u>Subsidiaries</u>
Pet Valu Canada Holding Corporation
Pet Holdings ULC
Pet Valu Canada Inc.
Pet Valu Canada Franchising Inc.
Les Franchises Chico Inc. (Note 6)
9353-0145 Quebec Inc. (Note 6)
Pet Retail Brands North America Holdings ULC
Pet Valu Management Services Inc.
Pet Retail Brands US Holdings LLC

(b) Carve-out:

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 per common share resulted in net proceeds to the Company of \$299,647 after underwriting commissions of \$16,603. The Company also incurred \$4,437 of other incremental expenses directly associated to the Offering. The total net proceeds after underwriting fees and incremental expenses were \$295,210. See Note 12 for further details on the impact to the Company's share capital.

PET VALU HOLDINGS LTD.

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

For the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021

2. Basis of presentation (continued):

Prior to the Offering, the Company was not operating as a stand-alone entity and as a result, the financial information for periods prior to June 30, 2021, are 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).

These legal entities included in the Group are as follows:

<u>Canadian Operations</u>	<u>U.S. Operations</u>
Pet Valu Holdings Ltd.	Pet Retail Brands, Inc.
Pet Valu Canada Holding Corporation	Pet Valu, Inc.
Pet Holdings ULC	Pet Supermarket, Inc.
Pet Valu Canada Inc.	Pet Super Partners, LLC
Pet Valu Canada Franchising Inc.	West Pet Spa, LLC
Pet Retail Brands North America Holdings ULC	
Pet Valu Management Services Inc.	
Pet Retail Brands US Holdings LLC	

As the periods prior to June 30, 2021, represent a portion of the business of Pet Valu Holdings Ltd. which was not organized in a single legal entity, the net assets of the Company have been reflected as the Group’s net investment and non-controlling interests. Non-controlling interests represent perpetual preferred shares of a subsidiary of the Company issued to former common equity holders as a result of a group reorganization in 2016 (Note 12(a)). Transactions and balances between the Company and the Group are reflected as related party transactions within these interim financial statements. All intercompany balances and transactions within the Company have been eliminated.

These interim financial statements include the assets, liabilities, revenues, and costs that are directly associated with the business activities of the Company. In addition, for the periods prior to June 30, 2021, all of the Group’s U.S. dollar denominated Term Loans (Note 9) have been allocated to the Company from the Group’s U.S. dollar functional currency subsidiary resulting in the majority of the currency translation adjustments being included in other comprehensive income (loss). The Group’s U.S. dollar denominated Term Loans were fully repaid on closing of the Offering.

Management believes the assumptions and the allocations in the interim financial statements for the periods prior to June 30, 2021 are reasonable. However, the amounts recorded for these transactions and allocations are not necessarily representative of the amount that would have been reflected in the interim financial statements had the Company operated independently of the Group. Accordingly, these interim financial statements may not be indicative of what the consolidated results of operations, consolidated financial position, or consolidated cash flows would have been had the Company been a stand-alone entity.

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

For the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021

2. Basis of presentation (continued):

Immediately prior to the closing of the Offering, the Company distributed its U.S. operations to its shareholder and as a result the Company has no economic interest in the former subsidiaries with U.S. operations and any related indebtedness was extinguished.

The term “Company” is used through the interim financial statements and applies to either the entity pre-Offering or post-Offering.

All references to “\$” or “dollars” are to the currency of Canada unless otherwise indicated.

(c) Statement of compliance:

These interim financial statements have been prepared under International Financial Reporting Standards (“IFRS”) in accordance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). The interim financial statements are prepared on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements. Certain information, in particular the accompanying notes normally included in the audited annual consolidated financial statements, has been omitted or condensed. Accordingly, these interim financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements and the notes thereto for the 52-week period ended January 1, 2022.

These interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 8, 2022.

(d) Basis of measurement:

These interim financial statements have been prepared on a historical cost basis, unless otherwise stated.

(e) Presentation currency:

The interim financial statements are presented in Canadian dollars, the Company’s functional currency, unless otherwise stated. All financial information presented in Canadian dollars has been rounded to the nearest thousand, unless otherwise stated.

(f) Use of estimates and judgments:

In preparing these interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and key sources of estimation of uncertainty were the same as those applied in Note 2 of the audited consolidated financial statements for the 52-week period ended January 1, 2022. Actual results could differ from those estimates and assumptions.

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

For the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021

2. Basis of presentation (continued):

(g) 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 and social distancing have caused material disruption to businesses globally resulting in an economic slowdown.

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.

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.

3. Significant accounting policies:

These interim financial statements have been prepared using the accounting policies as outlined in Note 3 of the audited consolidated financial statements for the 52-week period ended January 1, 2022 and have been applied consistently in the preparation of these interim consolidated financial statements. Changes to significant accounting policies are described below:

(a) Share-based compensation:

Long-term incentive plan:

During the 26-week period ended July 2, 2022, the Company granted restricted share units ("RSUs"), and performance share units ("PSUs") to eligible participants under the Company's long-term incentive plan (the "LTIP"). These awards are cash-settled share-based awards.

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

For the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021

3. Significant accounting policies (continued):

Cash-settled awards:

RSUs and PSUs are grants of notional common shares that are redeemable for cash based on the market value of the Company's common shares and are non-dilutive to common shareholders. RSUs and PSUs are initially measured based on the market value of the Company's common shares at the date of grant and if applicable, consider the expected achievement of performance conditions. The grant-date fair value is recognized as share-based compensation expense with a corresponding increase recorded in other liabilities for the proportion of the service that has been rendered at that date. RSUs and PSUs are remeasured at each reporting date based on the market value of the Company's common shares and if applicable, consider the expected achievement of performance conditions, with changes in fair value recognized as share-based compensation expense for the proportion of the service that has been rendered at that date.

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

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. The Company has adopted these amendments in its interim financial statements for the 52-week period beginning on January 2, 2022. There was no impact on the interim financial statements.

4. Revenue:

The following table disaggregates the Company's retail sales and franchise revenue by category for the periods ended July 2, 2022 and July 3, 2021:

	13-week periods ended		26-week periods ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Retail sales:				
Merchandise sales	\$ 95,871	\$ 81,356	\$ 187,901	\$ 160,274
In-store services	1,184	805	2,229	1,531
Total retail sales	97,055	82,161	190,130	161,805
Franchise and other revenues:				
Wholesale merchandise sales	102,075	79,631	195,902	151,135
Royalties and sub-lease revenues	21,277	15,572	41,450	30,359
Franchise contributions for advertising and other services	7,269	4,818	13,447	8,955
Total franchise and other revenues	130,621	100,021	250,799	190,449
Total revenue	\$ 227,676	\$ 182,182	\$ 440,929	\$ 352,254

PET VALU HOLDINGS LTD.

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

For the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021

5. Leases:

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

The following table reconciles the changes in ROU assets for the period ended July 2, 2022:

	Leased premises		Other		Total
Balance, January 1, 2022	\$	76,637	\$	4,120	\$ 80,757
Net additions		12,005		504	12,509
Acquired through business acquisition (Note 6)		528		—	528
Depreciation		(9,157)		(650)	(9,807)
Balance, July 2, 2022	\$	80,013	\$	3,974	\$ 83,987

Depreciation is included in cost of sales and selling, general and administrative expenses in the condensed interim consolidated statements of income and comprehensive income. The depreciation included in cost of sales for the 13-week and 26-week periods ended July 2, 2022 was \$4,790 and \$9,454, respectively (13-week and 26-week periods ended July 3, 2021 — \$4,608 and \$9,245, respectively). The depreciation included in selling, general and administrative expenses for the 13-week and 26-week periods ended July 2, 2022 was \$178 and \$353, respectively (13-week and 26-week periods ended July 3, 2021 — \$174 and \$348, respectively). Loss on sale of ROU assets recognized in the sale of corporate-owned stores to franchisees for the 13-week and 26-week periods ended July 2, 2022 were \$122 and \$160, respectively. The Company recorded a gain on sale of ROU assets of \$137 and \$176 for the 13-week and 26-week periods ended July 3, 2021, respectively.

(b) Lease liabilities

The following table reconciles the changes in lease liabilities for the period ended July 2, 2022:

	Leased premises		Other		Total
Balance, January 1, 2022	\$	234,683	\$	4,231	\$ 238,914
Additions		29,357		512	29,869
Acquired through business acquisition (Note 6)		528		—	528
Interest expense on lease liabilities		5,673		145	5,818
Deferred lease payments		59		—	59
Repayment of interest and principal		(28,828)		(805)	(29,633)
Balance, July 2, 2022	\$	241,472	\$	4,083	\$ 245,555
Current portion of lease liabilities	\$	47,552	\$	1,243	\$ 48,795
Lease liabilities		193,920		2,840	196,760
Total lease liabilities	\$	241,472	\$	4,083	\$ 245,555

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

For the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021

5. Leases (continued):

The Company makes variable lease payments for common area maintenance, property tax, security, and utilities on leased premises. The Company also has certain retail store leases where portions of the lease payments are contingent on a percentage of sales earned in the retail store. Expenses for variable lease components are included in cost of sales and selling, general and administrative expenses in the condensed interim consolidated statements of income and comprehensive income. Expenses for variable lease components included in cost of sales for the the 13-week and 26-week periods ended July 2, 2022 were \$6,525 and \$12,878, respectively (13-week and 26-week periods ended July 3, 2021 — \$5,629 and \$11,527, respectively). Expenses for variable lease components included in selling, general and administrative expenses for the 13-week and 26-week periods ended July 2, 2022 were \$39 and \$100, respectively (13-week and 26-week periods ended July 3, 2021 — \$65 and \$110, respectively).

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

Remainder of fiscal year 2022	\$	24,944
2023		58,046
2024		52,242
2025		47,098
2026		33,316
Thereafter		67,270
Total	\$	282,916

(c) Lease receivables:

The Company is considered an intermediate lessor related to head leases the Company has for franchise store locations. As of July 2, 2022 and January 1, 2022, the Company had lease receivables as follows:

		July 2, 2022		January 1, 2022
Current portion of lease receivables	\$	27,517	\$	26,621
Lease receivables		125,007		121,936
Total lease receivables	\$	152,524	\$	148,557

Finance income on lease receivables for the 13-week and 26-week periods ended July 2, 2022 was \$1,790 and \$3,566, respectively (13-week and 26-week periods ended July 3, 2021 — \$1,630 and \$3,217, respectively). Franchisees make variable lease payments primarily for common area maintenance, property tax, and a percentage of sales earned in their retail store. Revenue from variable lease components included in franchise sales and other revenue in the condensed interim consolidated statements of income and comprehensive income for the 13-week and 26-week periods ended July 2, 2022 was \$9,852 and \$19,429, respectively (13-week and 26-week periods ended July 3, 2021 — \$7,172 and \$14,040, respectively).

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

For the 13-week and 26-week periods ended July 2, 2022 and July 3, 2021

5. Leases (continued):

The following table presents the contractual undiscounted cash inflows for lease receivables:

Remainder of fiscal year 2022	\$	17,254
2023		33,182
2024		30,017
2025		27,666
2026		22,381
Thereafter		46,266
Total undiscounted lease receivables		176,766
Unearned interest income		(24,242)
Total lease receivables	\$	152,524

6. Business acquisitions:

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

The following table summarizes the purchase consideration that was paid or payable at the date of the acquisition:

	February 25, 2022
Cash paid	\$ 14,307
Contingent consideration	3,000
Net purchase price	17,307
Less: cash acquired and contingent consideration	(4,478)
Net consideration paid/cash outflow⁽¹⁾	\$ 12,829

⁽¹⁾ Includes \$2,600 in holdbacks paid to escrow for working capital adjustments and indemnity purposes.

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6. Business acquisitions (continued):

The following table summarizes the preliminary purchase price allocation based on management's estimate of the fair values:

	February 25, 2022
Cash	\$ 1,478
Accounts and other receivables, net	1,493
Inventories, net	518
Prepaid expenses and other assets	35
Current assets acquired	3,524
Right-of-use assets	528
Property and equipment, net	220
Intangible assets, net	13,597
Goodwill	5,123
Total assets acquired	22,992
Accounts payable and accrued liabilities	1,603
Income taxes payable	701
Current portion of deferred franchise fees	45
Current portion of lease liabilities	158
Current liabilities assumed	2,507
Long-term deferred franchise fees	373
Long-term lease liabilities	370
Deferred tax liabilities	2,435
Total liabilities assumed	5,685
Net assets acquired	\$ 17,307

Intangible assets consist of trade names, franchise and non-compete agreements. Recognized goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to expected future synergies and revenue growth. The goodwill is not deductible for tax purposes.

Acquisition related costs of \$462, incurred during the 26-week period ended July 2, 2022, are included in selling, general and administrative expenses in the condensed interim consolidated statements of income and comprehensive income and in operating activities in the condensed interim consolidated statements of cash flows.

The sellers of the shares, at the time of acquisition, are also entitled to receive a contingent consideration payment of up to \$3,000 based on Chico achieving certain performance milestones on the 12-month anniversary of the acquisition date.

The purchase price allocation is still preliminary and may be subject to revision.

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7. Property and equipment:

During the 13-week and 26-week periods ended July 2, 2022, the Company had property and equipment additions of \$4,532 and \$9,652, the majority of which were related to leasehold improvements and furniture and fixtures for its corporate-owned stores (13-week and 26-week periods ended July 3, 2021 — \$6,120 and \$10,280, respectively). As part of the Chico acquisition on February 25, 2022, the Company also acquired \$220 of property and equipment, the majority of which were related to furniture and fixtures and automotive equipment (Note 6). Depreciation on property and equipment for the 13-week and 26-week periods ended July 2, 2022 were \$3,830 and \$7,482 (13-week and 26-week periods ended July 3, 2021 — \$3,474 and \$6,594, respectively).

8. Intangible assets:

During the 13-week and 26-week periods ended July 2, 2022, the Company had intangible asset additions of \$1,360 and \$1,973, the majority of which were related to software (13-week and 26-week periods ended July 3, 2021 — \$925 and \$1,133, respectively). As part of the Chico acquisition on February 25, 2022, the Company also acquired certain intangible assets, the fair value of which was determined to be \$13,597 (Note 6). Amortization on intangible assets for the 13-week and 26-week periods ended July 2, 2022 were \$472 and \$857 (13-week and 26-week periods ended July 3, 2021 — \$298 and \$456, respectively).

9. Long-term debt:

Total long-term debt, net of deferred financing costs, as of July 2, 2022 and January 1, 2022 consist of the following:

		July 2, 2022	January 1, 2022
Term loans:			
2021 Term Facility (a)	\$	346,124	\$ 350,562
Deferred financing costs (c)		(4,467)	(5,066)
		341,657	345,496
Less current portion of long-term debt		(13,312)	(8,875)
Total long-term debt	\$	328,345	\$ 336,621

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9. Long-term debt (continued):

(a) 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 \$355,000 term facility (the "2021 Term Facility") and (ii) a \$130,000 revolving credit facility (the "2021 Revolving Facility"), a portion of which not in excess of \$20,000 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).

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, 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 July 2, 2022, the interest rate on the 2021 Credit Facilities was 4.76%.

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.

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

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9. Long-term debt (continued):

As of July 2, 2022, mandatory long-term debt repayments are as follows:

Remainder of fiscal year 2022	\$	4,438
2023		17,750
2024		17,750
2025		17,750
2026		288,436
		346,124
Less current portion of long-term debt		(13,312)
Total long-term debt	\$	332,812

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 Facility may be borrowed, repaid and re-borrowed.

The Company had unused borrowing capacity available under the 2021 Revolving Facility of \$130,000 as of July 2, 2022.

(b) 2016 Credit Agreement:

On July 5, 2016, the Company entered into a US\$605,000 credit agreement with a consortium of lenders (the “2016 Credit Agreement”), which provides for (i) a term loan with a principal amount of US\$545,000 under a secured term loan facility (“2016 Term Loan”); (ii) a revolving credit facility for up to US\$20,000 (“2016 Revolving Credit Facility”); and (iii) a delayed draw term loan of US\$40,000 (“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\$550,000 in exchange for Canadian dollars to be settled on the closing of the Offering. The Company settled the foreign exchange forward contract on June 30, 2021, and recognized a foreign currency gain of \$13,459.

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 \$29,665 were reclassified to gain on foreign exchange from currency translation reserve within the Group’s net investment.

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9. Long-term debt (continued):

(c) Deferred financing costs:

In connection with the 2021 Credit Agreement, deferred financing costs of \$5,668 were incurred. The total unamortized deferred financing costs were \$4,467 as of July 2, 2022 (January 1, 2022 — \$5,066) and are being amortized using the effective interest rate method. Amortization of deferred financing costs for the 13-week and 26-week periods ended July 3, 2021 are in relation to the 2016 Credit Agreement.

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 \$5,729 were written off as debt extinguishment costs for the 13-week and 26-week periods ended July 3, 2021. These amounts were included as interest expense in the condensed interim consolidated statement of income.

10. Interest expense:

Interest expenses, net consist of the following:

	13-week periods ended		26-week periods ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
2016 Credit Agreement	\$ —	\$ 11,016	\$ —	\$ 22,717
2021 Credit Agreement	2,994	130	5,346	130
Amortization of deferred financing costs	299	1,409	599	2,697
Debt extinguishment costs	—	5,729	—	5,729
Interest on lease liabilities	2,911	2,881	5,818	5,761
Interest income on lease receivables	(1,790)	(1,630)	(3,566)	(3,217)
Standby letter of credit commitment fees	337	499	656	4,303
Other interest income	(191)	(53)	(312)	(142)
Interest expenses, net	\$ 4,560	\$ 19,981	\$ 8,541	\$ 37,978

11. Income taxes:

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. Income taxes expense for the 13-week and 26-week periods ended July 2, 2022 were \$9,503 and \$18,055 (13-week and 26-week periods ended July 3, 2021 — \$5,218 and \$6,532, respectively). The Company's effective income tax rate for the 13-week and 26-week periods ended July 2, 2022 were 27.3% and 27.4% (13-week and 26-week periods ended July 3, 2021 — 10.5% and 12.0%). The statutory income tax rate for the 13-week and 26-week periods ended July 2, 2022 was 26.5% (13-week and 26-week periods ended July 3, 2021 — 26.5%).

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11. Income taxes (continued):

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

12. Share capital:

(a) Capital reorganization:

Prior to the capital reorganization on June 30, 2021, the Company was authorized to issue (i) an unlimited number of Class X common shares, (ii) an unlimited number of Class Y common shares, (iii) an unlimited number of Class A preferred shares, (iv) an unlimited number of Class B preferred shares, and (v) an unlimited number of Class C preferred shares, in each case without nominal or par value. All three classes of preferred shares were entitled to cumulative dividends at a rate of 8.6%. They also had a liquidation value of US\$1,000 per share plus any unpaid dividends less any previous distributions on the shares.

Prior to the capital reorganization, 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.

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12. Share capital (continued):

As of June 30, 2021, the date of the capital reorganization, (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. These common and preferred shares were included in Group's net investment prior to June 30, 2021.

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 Company's legacy share option plan (as amended and restated on closing of the Offering, the "Amended and Restated Share Option Plan") became options to acquire common shares (Note 14(a)). 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. In addition, as part of the capital reorganization, non-controlling interests were redeemed for nominal consideration.

Following the foregoing share exchanges, all of the Company's issued and outstanding common shares were consolidated on a one-to-0.928 basis. Options to acquire common shares under the Amended and Restated Share Option Plan were also consolidated on a one-to-0.928 basis at a post-consolidated exercise price converted to Canadian dollars such that the in-the-money value of such options remained unchanged (Note 14(a)).

Following the share consolidation and immediately prior to the closing of the Offering, the Company issued 61,434 common shares to key management personnel based on prior service and achievement of critical business initiatives. The Company recorded share-based compensation expense in relation to the awards of \$1,229, which was included in selling, general and administrative expenses for the 13-week and 26-week periods ended July 3, 2021. This amount was previously recorded as bonus expense and included in selling, general and administrative expenses in the 52-week period ended January 2, 2021 and reclassified to share-based compensation as a result of being paid through the issuance of common shares in lieu of cash. The share-based compensation expense in relation to the awards is recorded in net distributions on a carve-out basis in the consolidated statements of shareholders' deficit and consolidated statements of cash flows for the 52-week period ended January 1, 2022.

The Company's authorized share capital following the capital reorganization 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.

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12. Share capital (continued):

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.

(b) Issuance of common shares and secondary offering:

Following the capital reorganization, the Company completed the Offering of 15,812,500 common shares from treasury, 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, at an offering price of \$20.00, which resulted in net proceeds to the Company of \$299,647 after underwriting commissions of \$16,603. The Company incurred \$4,437 of other incremental expenses directly associated to the Offering. The total net proceeds after underwriting fees and incremental expenses were \$295,210. Income tax recovery of \$5,443 related to the underwriting commissions and other transaction costs was recorded as an increase to common shares for the 52-week period ended January 1, 2022.

All costs that were incremental and directly attributable to the issuance of common shares from treasury were recorded as a reduction to share capital. All other costs incurred in relation to preparing the Company to operate and report as a publicly listed entity were included in selling, general and administrative expenses.

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 per common share raised gross proceeds of \$225,750 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 \$355 were paid by the Company and included in selling, general and administrative expenses for the 52-week period ended January 1, 2022.

As of July 2, 2022, there were 70,543,347 common shares and no preferred shares issued and outstanding.

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12. Share capital (continued):

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

	Common shares outstanding	Amount
Balance, January 2, 2021	—	\$ —
Capital reorganization from Group's net investment	54,161,413	6,781
Issuance of common shares, net of issuance costs	15,812,500	300,653
Exercise of share options	110,076	63
Balance, January 1, 2022	70,083,989	\$ 307,497
Exercise of share options	459,358	4,183
Balance, July 2, 2022	70,543,347	\$ 311,680

(c) Dividends:

The Company's dividend policy is at the discretion of the Board of Directors. During the 26-week period ended July 2, 2022, the Company paid \$8,440 in dividends to holders of common shares or \$0.06 per common share. There were no dividends declared or paid during the period ended July 3, 2021.

13. Net income per share:

(a) Basic net income per share:

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

	13-week periods ended		26-week periods ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net income attributable to shareholders of the Company	\$ 25,278	\$ 42,645	\$ 47,899	\$ 44,273
Weighted average number of common shares outstanding during the period (<i>thousands</i>)	70,336	69,974	70,232	69,974
Basic net income per share attributable to the common shareholders	\$ 0.36	\$ 0.61	\$ 0.68	\$ 0.63

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13. Net income per share (continued):

(b) Diluted net income per share:

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

	13-week periods ended		26-week periods ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net income attributable to shareholders of the Company	\$ 25,278	\$ 42,645	\$ 47,899	\$ 44,273
Weighted average number of common shares outstanding during the period (<i>thousands</i>)	71,794	71,364	71,791	71,364
Diluted net income per share attributable to the common shareholders	\$ 0.35	\$ 0.60	\$ 0.67	\$ 0.62

For the 13-week and 26-week periods ended July 2, 2022, 580,657 performance-based share options granted pursuant to the Amended and Restated Share Option Plan were not included in the calculation of diluted net income per share, as the vesting conditions required to convert these options to common shares were not met (13-week and 26-week periods ended July 3, 2021 — 855,680).

For the 13-week and 26-week periods ended July 2, 2022, 199,911 LTIP share options were not included in the calculation of diluted net income per share, as they were anti-dilutive and/or not in the money (13-week and 26-week periods ended July 3, 2021 — nil).

14. Share-based compensation:

(a) Amended and Restated Share Option Plan:

The Company has an Amended and Restated Share Option Plan (formerly referred to as the Legacy Option Plan or the Legacy Plan) pursuant to which it has granted share options to current and former directors and employees. Prior to the Offering, this plan was administered by the Group, and as a result of the carve-out process, for periods prior to June 30, 2021, the Company was allocated the proportionate share of this plan associated with the Company's employees and directors.

Concurrent with the Offering, the Company amended and restated the Amended and Restated Share Option Plan so that no additional awards could be made under this plan, but share options previously granted under this plan continue to remain outstanding in accordance with their terms and will continue to be governed by the provisions of the Amended and Restated Share Option Plan.

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14. Share-based compensation (continued):

In connection with the Offering, options to acquire Class X common shares became options to acquire common shares in the Company on a one-to-0.928 basis at a post-consolidated exercise price converted to Canadian dollars such that the in-the-money value of such options to the holder remained unchanged.

Amended and Restated Share Option Plan option awards were granted at an exercise price determined by the Company's Board of Directors, which was not less than the fair market value of the underlying share on the date the option was granted. The Amended and Restated Share Option Plan option awards generally vest equally from the date of grant over five years and generally contain an equal number of service-based and performance-based awards. The share options can generally be exercised up to five years after the five-year vesting period and, therefore, the contractual term of each option granted is typically ten years. The Company accounts for the Amended and Restated Share Option Plan as an equity-settled plan.

The fair value of each option award was calculated on the date of grant using the Black-Scholes option pricing model. Expected volatilities were based on the historical volatility of comparable publicly traded companies operating in the Company's industry. The expected life of options granted was based on management's best estimate using the mid-point between the vesting date and the maturity date for each tranche. The risk-free rate for periods within the expected life of the option was based on the U.S. Treasury yield curve in effect at the time of grant.

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

	Options	Weighted average exercise price
Outstanding, January 2, 2021	3,904,398	US\$7.08
Granted	465,000	US\$8.95
Exercised	(444,797)	US\$2.63
Forfeited	(886,948)	US\$6.24
Outstanding, June 30, 2021	3,037,653	US\$8.27
Options converted concurrent with the Offering ⁽¹⁾	2,819,041	\$8.97
Exercised	(110,076)	\$0.57
Forfeited	(5,568)	\$9.73
Outstanding, January 1, 2022	2,703,397	\$9.31
Exercised	(459,358)	\$9.11
Forfeited	(29,696)	\$9.73
Outstanding, July 2, 2022	2,214,343	\$9.34

⁽¹⁾ Reflects the options and weighted average exercise price after the one-to-0.928 share consolidation and conversion to Canadian dollars.

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14. Share-based compensation (continued):

	Options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding, July 2, 2022	2,214,343	\$ 9.34	6.61	\$ 47,734
Vested and expected to vest	2,214,343	\$ 9.34	6.61	\$ 47,734
Exercisable, July 2, 2022	1,134,370	\$ 8.98	6.23	\$ 24,871

During the 13-week and 26-week periods ended July 2, 2022, the Company recorded share-based compensation expense in relation to the Amended and Restated Share Option Plan of \$464 and \$929 (13-week and 26-week periods ended July 3, 2021 — \$653 and \$1,327), which was included in selling, general and administrative expenses. The share-based compensation expense incurred for the 26-week period ended July 3, 2021 was allocated between pre-Offering and post-Offering in the amount of \$1,305 and \$22, respectively. The share-based compensation expense for the pre-Offering period was recorded in net distributions on a carve-out basis in the consolidated statements of shareholders' deficit and consolidated statements of cash flows.

(b) LTIP:

In connection with the Offering, the Company adopted the LTIP, pursuant to which it can grant awards of share options, stock appreciation rights, tandem stock appreciation rights, RSUs, PSUs and restricted stock to eligible participants. Any individual employed by the Company, including a service provider, who in the opinion of the Board of Directors is in a position to contribute to the success of the Company shall be eligible to receive awards under the LTIP. The number of common shares that can be issued under the LTIP, combined with all other security-based compensation arrangements of the Company, shall not exceed 10% of the aggregate number of issued and outstanding common shares, from time to time.

The number and the timing of the awards granted to eligible participants is determined by the Board of Directors. The exercise price per share with respect to each share option is also determined by the Board of Directors but cannot be less than the Market Price (as defined in the LTIP) of the common shares on the day on which the share option is granted. Share options typically vest over a period of three or four years. Share options granted under the plan may be exercised during a period not exceeding ten years from the grant date subject to earlier termination due to employment termination, death or disability. The Company uses the Black-Scholes option pricing model to calculate the fair value of options at the date of grant.

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14. Share-based compensation (continued):

RSUs and PSUs issued by the Company under the LTIP are settled in cash and are accounted for as cash-settled awards. The Company is required to record a liability for the potential future settlement of the vested RSUs and PSUs at each reporting date by reference to the fair value of the liability. The RSUs and PSUs cliff vest in three years following the grant date. The performance based component of PSUs is based 50% on operating income growth before share-based compensation expense and 50% total return to the Company's shareholders relative to the total return of companies comprising a blend of the S&P/TSX Completion Index, S&P/TSX Capped Consumer Discretionary, and the S&P/TSX Capped Consumer Staples. The number of PSUs that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which ranges from 0 to 2.0, depending on the achievement of such targets. Additional RSUs and PSUs issued in lieu of cash dividends vest at the same time and are subject to the same conditions as the RSUs and PSUs to which they are attributable.

(i) Share options:

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

	Options	Weighted average exercise price
Outstanding, January 2, 2021	—	\$ —
Granted	276,490	\$ 20.00
Outstanding, January 1, 2022	276,490	\$ 20.00
Granted	289,336	\$ 30.89
Forfeited	(11,861)	\$ 20.49
Outstanding, July 2, 2022	553,965	\$ 25.68

	Options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding, July 2, 2022	553,965	\$ 25.68	9.42	\$ 3,137
Expected to vest	525,103	\$ 25.39	9.40	\$ 3,113

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14. Share-based compensation (continued):

The weighted-average assumptions used in the model for options granted during the 26-week period ended July 2, 2022 are as follows:

Weighted-average risk-free interest rate	2.50 %
Expected life (years)	5.50 — 7.00
Expected dividend yield	0.79 %
Expected volatility	26.14 %
Forfeiture rate	10.00 %
Weighted-average fair value per option granted	\$ 8.75

During the 13-week and 26-week periods ended July 2, 2022, the Company recorded share-based compensation expense in relation to the LTIP share options of \$331 and \$514, respectively (13-week and 26-week periods ended July 3, 2021 — \$nil), which was included in selling, general and administrative expenses.

(ii) RSUs:

The table below summarizes the RSU activity as of July 2, 2022:

	Number of RSUs
Outstanding, January 1, 2022	—
Granted	89,473
Forfeited	(711)
Additional units issued in lieu of cash dividends	350
Outstanding, July 2, 2022	89,112

The fair market value of future RSU cash-settlement obligations was \$290 at July 2, 2022 (July 3, 2021 — \$nil). During the 13-week and 26-week periods ended July 2, 2022, the Company incurred share-based compensation expense from the changes to fair market value of RSU cash-settlement obligations of \$223 and \$290, respectively (13-week and 26-week periods ended July 3, 2021 — \$nil).

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14. Share-based compensation (continued):

(iii) PSUs:

The table below summarizes the PSU activity as of July 2, 2022:

	Number of PSUs
Outstanding, January 1, 2022	—
Granted	86,811
Additional units issued in lieu of cash dividends	343
Outstanding, July 2, 2022	87,154

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

The key inputs used in the measurement of the fair value of the PSUs are as follows:

Share price as of grant date	\$	28.24
Risk-free interest rate		2.06 %
Expected life (years)		3.00
Expected volatility		42.46 %

The fair market value of future PSU cash-settlement obligations was \$311 at July 2, 2022 (July 3, 2021 – \$nil). During the 13-week and 26-week periods ended July 2, 2022, the Company incurred share-based compensation expense from the changes to fair market value of PSU cash-settlement obligations of \$245 and \$311, respectively (13-week and 26-week periods ended July 3, 2021 — \$nil).

(c) Deferred share unit plan:

In connection with the Offering, the Company adopted a deferred share unit plan for non-employee board members. Each eligible director receives a portion of his or her annual director retainer in deferred share units ("DSUs"). The cash portion of the retainer is paid on a quarterly basis. The DSU portion of the retainer is granted on an annual basis based on the market price of the Company's common shares on the date of such grant. DSUs may only be redeemed when a director ceases to be a member of the Board. DSUs issued by the Company under the DSU Plan are settled in cash and are accounted for as cash-settled awards.

The Company is required to record a liability for the potential future settlement of the vested DSUs at each reporting date by reference to the fair value of the liability. The DSUs vest in four equal installments on the last day of each fiscal quarter during the one-year period following the grant date. Additional DSUs issued in lieu of cash dividends vest at the same time and are subject to the same conditions as the DSUs to which they are attributable.

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14. Share-based compensation (continued):

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

	Number of DSUs
Outstanding, January 2, 2021	—
Granted	30,493
Forfeited	(5,000)
Additional units issued in lieu of cash dividends	8
Outstanding, January 1, 2022	25,501
Granted	23,068
Additional units issued in lieu of cash dividends	110
Outstanding, July 2, 2022	48,679

The fair market value of future DSU cash-settlement obligations was \$895 at July 2, 2022 (July 3, 2021 – \$nil). During the 13-week and 26-week periods ended July 2, 2022, the Company incurred share-based compensation expense from the changes to fair market value of DSU cash-settlement obligations of \$229 and \$475, respectively (13-week and 26-week periods ended July 3, 2021 — \$nil).

15. Investment in associate:

The Company has a 19.9% ownership interest in HAFTAL LLC (“HAFTAL”). This ownership interest and other rights give the Company significant influence over HAFTAL, and the Company is accounting for its investment using the equity method. HAFTAL is a Delaware-based company formed for the purposes of developing an elevated experience for tracking pet health and lifestyle statistics.

In connection with the investment, the Company has a call option to purchase the remaining interest in HAFTAL. The call option has a term of five years following the date of the initial investment and is exercisable after April 1, 2023. The call option is accounted for at FVTPL and is included in the investment in associate in the Company's consolidated statements of financial position (Note 16).

The Company's share of loss from associate and the gain on the fair value of the call option is included in other income in the condensed interim consolidated statements of income and comprehensive income.

On June 8, 2022, the Company made an additional investment of \$1,134 (US\$900) in HAFTAL. Following this investment, the Company's ownership interest in HAFTAL remains unchanged.

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15. Investment in associate (continued):

The following table reconciles the change in the investment in associate for the 26-week period ended July 2, 2022:

	Investment		Call option		Total
Balance, January 1, 2022	\$	1,505	\$	674	\$ 2,179
Additional investment		1,134		—	1,134
Share of loss from associate		(120)		—	(120)
Unrealized gain on fair value		—		244	244
Currency translation adjustments		49		14	63
Balance, July 2, 2022	\$	2,568	\$	932	\$ 3,500

16. Financial instruments and risk management:

(a) Credit risk:

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

(b) Liquidity risk:

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company mitigates liquidity risk by management of working capital, cash flows, and by maintaining various financing sources, including bank debt and finance leases. Adequate availability is maintained on the operating loan component of its credit facility to minimize this risk (Note 9). The Company's trade and other payables are all due within 12 months from the date of these financial statements.

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16. Financial instruments and risk management (continued):

(c) Market risk:

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

(i) Foreign currency risk:

The Company is exposed to currency risk related to some of its purchases. Specifically, the Company sources some of its merchandise in U.S. dollars. Inventory purchases sourced outside Canada and primarily denominated in U.S. dollars represented approximately 30% for the 26-week periods ended July 2, 2022 and July 3, 2021.

The Company is also exposed to currency risk on financial assets and liabilities denominated in foreign currencies. These assets and liabilities are of a short-term nature and management does not believe they represent a significant risk to the Company. A five percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed income before income taxes for the 26-week period ended July 2, 2022 by \$269 (26-week period ended July 3, 2021 — \$271), as a result of the revaluation on these financial assets and liabilities.

(ii) Interest rate risk:

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 2021 Credit Facilities and 2016 Credit Facilities (Note 9) are at variable interest rates. Changes in the banks' prime lending rates, the LIBOR rate 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 the 26-week period ended July 2, 2022 by \$1,731. A one percentage point change in the applicable interest rate on the 2016 Credit Agreement would have changed income before taxes for the 26-week period ended July 3, 2021 by \$1,902.

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16. Financial instruments and risk management (continued):

(d) Fair values:

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

- Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2 – inputs other than quoted market prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Level 3 – inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect the difference between the instruments.

There were no transfers between levels of the fair value hierarchy for the periods ended July 2, 2022 and July 3, 2021.

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

The carrying amounts and fair values of the call option and long-term debt are as follows:

		July 2, 2022		January 1, 2022	
		Carrying value	Fair value	Carrying value	Fair value
Assets:					
Call option (Note 15)	(Level 3)	\$ 932	\$ 932	\$ 674	\$ 674
Liabilities:					
Contingent consideration related to the acquisition of Chico (Note 6)	(Level 3)	\$ 3,000	\$ 3,000	\$ —	\$ —
Long-term debt, including current portion ⁽¹⁾	(Level 2)	\$ 341,657	\$ 346,124	\$ 345,496	\$ 350,562

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

The Company used the Black-Scholes option pricing model to determine the fair value of the call option.

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17. Commitments, contingencies and guarantees:

(a) Distribution centre commitments:

On March 31, 2022, the Company entered into lease and construction agreements for a new distribution centre in the Greater Toronto Area. The lease is for an initial term of 10 years commencing August 1, 2023. The Company expects future undiscounted contractual lease payments of \$102,236 over the term of the lease. The Company estimates that \$5,650 is required to complete leasehold improvements which is expected to be paid within 12 to 18 months. During the 13-week period ended July 2, 2022, the Company paid \$5,073 in security deposits in relation to the distribution centre lease agreement. These security deposits are included in other assets in the Company's consolidated statements of financial position.

(b) Guarantees of indebtedness:

The Company has provided the following guarantees as of July 2, 2022:

- (i) Guarantee of certain lease obligations for a former subsidiary of the Company. The lease obligations expire on February 27, 2023. As of July 2, 2022, the future lease commitment is \$475 (US\$368) (January 1, 2022 — \$831 (US\$655)).

(c) Bank comfort letters:

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

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

(d) Other:

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

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18. Related party transactions:

Prior to the Offering, the Company was a party to a management agreement with an affiliated entity, which provided management services. The Company incurred management fees and expenses for the 13-week and 26-week periods ended July 2, 2022 of \$nil, respectively (13-week and 26-week periods ended July 3, 2021 — \$439 and \$679, respectively), which is included in selling, general and administrative expenses. The balance due was \$nil at July 2, 2022 and January 1, 2022, respectively. Concurrent with the closing of the Offering, the Company terminated the management agreement with the affiliated entity.

On May 1, 2021, the Company entered into a transition services agreement with its former subsidiaries, pursuant to which the parties provides 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. The Company charged the former subsidiaries \$nil and \$114 under the transition services agreement for the the 13-week and 26-week periods ended July 2, 2022, respectively (13-week and 26-week periods ended July 3, 2021 — \$264). Prior to the transition services agreement, the Company provided services to these subsidiaries from January 3, 2021 to April 30, 2021 and charged \$550 to the subsidiaries during that period.

Effective June 30, 2021, 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 and will be automatically renewable for successive 18-month terms unless earlier terminated upon notice. The Company earned sourcing fees of \$266 and \$518 under the product sourcing and brand license agreement for the 13-week and 26-week periods ended July 2, 2022, respectively (13-week and 26-week periods ended July 3, 2021 — \$246).

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 \$774 (US\$601) as of July 2, 2022 (January 1, 2022 — \$762 (US\$601)).

During the period ended December 28, 2019, the Company received a promissory note related to the exercise of options by an employee. This promissory note had a balance outstanding of \$182 (US\$141) as of July 2, 2022 (January 1, 2022 — \$179 (US\$141)).

Net distributions represent the net distributions related to funding between the Company and the Group and net distributions to the shareholders of the Group. Net distributions to the Group were \$2,007 and \$3,921 for the 13-week and 26-week periods ended July 3, 2021, respectively. Net distributions to the shareholders of the Group were \$nil and \$13,062 for the 13-week and 26-week periods ended July 3, 2021, respectively.

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

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19. Subsequent events:

On August 8, 2022, the Board of Directors of the Company declared a dividend of \$0.06 per common share payable on September 15, 2022 to holders of common shares of record as at the close of business on August 31, 2022.