PET VALU HOLDINGS LTD.

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

PET VALU HOLDINGS LTD.

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

	Note	As at April 1, 2023	As at December 31, 2022
Assets			
Current assets:			
Cash		$ 12,250	$ 63,034
Accounts and other receivables		22,243	22,965
Inventories, net		140,114	118,410
Income taxes recoverable	10	1,775	—
Prepaid expenses and other assets		15,125	22,262
Current portion of lease receivables	5	30,537	29,827
Total current assets		222,044	256,498
Non-current assets:			
Long-term lease receivables	5	143,419	141,187
Right-of-use assets, net	5	83,170	82,242
Property and equipment, net	7	94,993	91,774
Intangible assets, net	8	52,102	52,280
Goodwill		97,574	97,574
Deferred tax assets	11	6,652	6,652
Investment in associate	15, 16	3,293	4,708
Other assets		7,194	7,261
Total non-current assets		488,397	483,678
Total assets		$ 710,441	$ 740,176
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 109,469	$ 103,782
Income taxes payable	11	—	15,141
Current portion of deferred franchise fees		1,239	1,197
Current portion of lease liabilities	5	47,063	51,335
Current portion of long-term debt	9	17,750	17,750
Total current liabilities		175,521	189,205
Non-current liabilities:			
Long-term deferred franchise fees		4,092	4,017
Long-term lease liabilities	5	218,865	215,966
Long-term debt	9	287,920	320,063
Deferred tax liabilities	11	8,246	8,250
Other liabilities		2,654	2,299
Total non-current liabilities		521,777	550,595
Total liabilities		697,298	739,800
Shareholders' equity:			
Common shares	12	317,018	316,208
Contributed surplus		4,424	4,107
Deficit		(308,154)	(319,780)
Currency translation reserve		(145)	(159)
Total shareholders' equity		13,143	376
Total liabilities and shareholders' equity		$ 710,441	$ 740,176

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.

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

		13-week periods ended	
	Note	**April 1, 2023**	**April 2, 2022**
Revenue:			
Retail sales	4	$ 102,019	$ 93,075
Franchise and other revenues	4	148,273	120,178
Total revenue		250,292	213,253
Cost of sales		163,078	136,173
Gross profit		87,214	77,080
Selling, general and administrative expenses		52,347	41,919
Total operating income		34,867	35,161
Interest expenses, net	10	6,907	3,981
Loss (gain) on foreign exchange		311	(21)
Other loss	15	1,425	28
Income before income taxes		26,224	31,173
Income taxes expense	11	7,495	8,552
Net income		18,729	22,621
Other comprehensive income, net of tax:			
Currency translation adjustments that may be reclassified to net income, net of tax		14	(2)
Comprehensive income for the period attributable to the shareholders of the Company		$ 18,743	$ 22,619
Basic net income per share attributable to the common shareholders	13	$ 0.26	$ 0.32
Diluted net income per share attributable to the common shareholders	13	$ 0.26	$ 0.32

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

PET VALU HOLDINGS LTD.

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

For the period ended April 1, 2023	**Common shares**	**Contributed surplus**	**Deficit**	**Currency translation reserve**	**Total**
Balance, December 31, 2022	$ 316,208	$ 4,107	$ (319,780)	$ (159)	$ 376
Net income	—	—	18,729	—	18,729
Exercise of share options (Note 14)	810	(202)	—	—	608
Share-based compensation on option plans (Note 14)	—	519	—	—	519
Foreign currency translation	—	—	—	14	14
Dividends on common shares (Note 12)	—	—	(7,103)	—	(7,103)
Balance, April 1, 2023	$ 317,018	$ 4,424	$ (308,154)	$ (145)	$ 13,143

For the period ended April 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	—	—	22,621	—	22,621
Exercise of share options (Note 14)	587	—	—	—	587
Share-based compensation on option plans (Note 14)	—	648	—	—	648
Foreign currency translation	—	—	—	(2)	(2)
Dividends on common shares (Note 12)	—	—	(4,210)	—	(4,210)
Balance, April 2, 2022	$ 308,084	$ 2,427	$ (385,208)	$ (181)	$ (74,878)

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

PET VALU HOLDINGS LTD.

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

		13-week periods ended	
	Note	**April 1, 2023**	**April 2, 2022**
Cash provided by (used in):			
Operating activities:			
Net income for the period		$ 18,729	$ 22,621
Adjustments for items not affecting cash:			
Depreciation and amortization	5, 7, 8	10,628	8,876
Deferred franchise fees		83	(48)
Gain on disposal of property and equipment		(137)	(8)
Loss on sale of right-of-use assets	5	355	38
Loss (gain) on foreign exchange		311	(21)
Loss on financial instruments	15	1,302	—
Share-based compensation expense	14	1,001	1,027
Share of loss from associate	15	123	28
Interest expenses, net	10	6,907	3,981
Income taxes expense	11	7,495	8,552
Income taxes paid		(24,410)	(19,325)
Change in non-cash operating working capital:			
Accounts receivable		648	285
Inventories		(21,704)	(8,237)
Prepaid expenses		2,921	(670)
Accounts payable and accrued liabilities		955	(7,628)
Net cash provided by operating activities		5,207	9,471
Financing activities:			
Proceeds from exercise of share options		608	587
Repayment of 2021 Term Facility	9	(32,438)	(2,218)
Interest paid on long-term debt		(1,773)	(2,955)
Repayment of principal on lease liabilities	5	(17,879)	(11,769)
Interest paid on lease liabilities	5, 10	(3,204)	(2,907)
Standby letter of credit commitment fees	11	(316)	(314)
Net cash used in financing activities		(55,002)	(19,576)
Investing activities:			
Business acquisition, net of cash acquired	6	—	(12,829)
Purchases of property and equipment	7	(10,718)	(5,120)
Purchase of intangible assets	8	(543)	(613)
Proceeds on disposal of property and equipment		283	62
Right-of-use asset initial direct costs		(468)	(340)
Tenant allowances		427	498
Notes receivable		66	190
Lease receivables	5	7,213	6,522
Interest received on lease receivables and other		2,975	1,912
Net cash used in investing activities		(765)	(9,718)
Effect of exchange rate on cash		(224)	(17)
Net decrease in cash		(50,784)	(19,840)
Cash, beginning of period		63,034	50,068
Cash, end of period		$ 12,250	$ 30,228

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

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 April 1, 2023, the Company operates 226 corporate-owned stores (December 31, 2022 — 225) and has 525 franchise stores (December 31, 2022 — 519) 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) 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 notes normally included in the audited annual consolidated financial statements have been omitted or condensed. Accordingly, these interim financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements and the notes thereto for the 52-week period ended December 31, 2022.

These interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 8, 2023.

(b) Use of estimates and judgments:

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

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

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 December 31, 2022 and have been applied consistently in the preparation of these interim financial statements.

New standards and interpretations adopted in the period:

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

4. Revenue:

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

	April 1, 2023	April 2, 2022
Retail sales:		
Merchandise sales	$ 100,921	$ 92,030
In-store services	1,098	1,045
Total retail sales	102,019	93,075
Franchise and other revenues:		
Wholesale merchandise sales	117,056	93,827
Royalties and sub-lease revenues	23,294	20,173
Franchise contributions for advertising and other services	7,923	6,178
Total franchise and other revenues	148,273	120,178
Total revenue	$ 250,292	$ 213,253

5. Leases:

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

The following tables reconcile the changes in ROU assets for the period ended April 1, 2023:

	Leased premises	Other	Total
Balance, December 31, 2022	$ 78,532	$ 3,710	$ 82,242
Net additions	5,597	431	6,028
Depreciation	(4,758)	(342)	(5,100)
Balance, April 1, 2023	$ 79,371	$ 3,799	$ 83,170

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

5. Leases (continued):

Depreciation on ROU assets is included in cost of sales and selling, general and administrative expenses in the consolidated statements of income and comprehensive income for the period ended April 1, 2023 in the amount of $4,922 and $178, respectively (April 2, 2022 — $4,664 and $175, respectively). Loss on sale of ROU assets of $355 and $38 were recognized on the sale of corporate-owned stores to franchisees for the periods ended April 1, 2023 and April 2, 2022, respectively.

(b) Lease liabilities

The following tables reconcile the changes in lease liabilities for the period ended April 1, 2023:

	Leased premises	Other	Total
Balance, December 31, 2022	$ 263,347	$ 3,954	$ 267,301
Additions	16,079	427	16,506
Interest expense on lease liabilities	3,140	64	3,204
Repayment of interest and principal	(20,534)	(549)	(21,083)
Balance, April 1, 2023	$ 262,032	$ 3,896	$ 265,928
Current portion of lease liabilities	$ 45,909	$ 1,154	$ 47,063
Long-term lease liabilities	216,123	2,742	218,865
Total lease liabilities	$ 262,032	$ 3,896	$ 265,928

The Company makes variable lease payments for common area maintenance, property tax, security, and utilities on leased premises. The Company also has certain retail store leases where portions of the lease payments are contingent on a percentage of sales earned in the retail store. Expenses for variable lease components are included in cost of sales and selling, general and administrative expenses in the consolidated statements of income and comprehensive income. Expenses for variable lease components included in cost of sales and selling, general and administrative expenses for the the period ended April 1, 2023 were $7,407 and $51, respectively (April 2, 2022 — $6,353 and $61, respectively).

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

5. Leases (continued):

(c) Lease receivables:

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

		April 1, 2023		December 31, 2022
Current portion of lease receivables	$	30,537	$	29,827
Long-term lease receivables		143,419		141,187
Total lease receivables	$	173,956	$	171,014

Finance income on lease receivables for the period ended April 1, 2023 was $2,067 (April 2, 2022 — $1,776). Franchisees make variable lease payments primarily for common area maintenance, property tax, and a percentage of sales earned in their retail store. Revenue from variable lease components included in franchise and other revenues in the consolidated statements of income and comprehensive income for the period ended April 1, 2023 was $10,743 (April 2, 2022 — $9,577).

6. Business acquisitions:

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

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

7. Property and equipment:

During the period ended April 1, 2023, the Company had property and equipment additions of $8,160 and net disposals of $134, the majority of which were related to leasehold improvements and furniture and fixtures for its corporate-owned stores (April 2, 2022 — $5,120 and $31, respectively). Depreciation on property and equipment for the period ended April 1, 2023 was $4,807 (April 2, 2022 — $3,652).

8. Intangible assets:

During the period ended April 1, 2023, the Company had intangible asset additions of $543, the majority of which were related to software (April 2, 2022 — $613). Amortization on intangible assets for the period ended April 1, 2023 was $721 (April 2, 2022 — $385).

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

9. Long-term debt:

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

		April 1, 2023		December 31, 2022
2021 Term Facility (a)	$	309,249	$	341,687
Deferred financing costs		(3,579)		(3,874)
		305,670		337,813
Less current portion of long-term debt		(17,750)		(17,750)
Total long-term debt	$	287,920	$	320,063

(a) 2021 Credit Agreement:

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

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

10. Interest expense:

Interest expenses, net consist of the following:

		April 1, 2023		April 2, 2022
2021 Credit Agreement	$	5,989	$	2,352
Amortization of deferred financing costs		295		300
Interest on lease liabilities		3,204		2,907
Interest income on lease receivables		(2,067)		(1,776)
Standby letter of credit commitment fees		321		319
Other interest income		(835)		(121)
Interest expenses, net	$	6,907	$	3,981

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 period ended April 1, 2023 was $7,495 (April 2, 2022 — $8,552). The Company's effective income tax rate for the period ended April 1, 2023 was 28.6% (April 2, 2022 — 27.4%). The statutory income tax rate for the period ended April 1, 2023 was 26.5% (April 2, 2022 — 26.5%).

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

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

12. Share capital:

(a) Common shares:

As of April 1, 2023, there were 71,029,578 common shares outstanding.

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

	Common shares outstanding		Amount
Balance, December 31, 2022	70,976,471	$	316,208
Exercise of share options	53,107		810
Balance, April 1, 2023	71,029,578	$	317,018

(b) Dividends:

The Company's dividend policy is at the discretion of the Board of Directors. For the period ended April 1, 2023, the Company announced that its Board declared $7,103 in dividends to holders of common shares (April 2, 2022 — $4,210) or $0.10 per common share (April 2, 2022 — $0.06). These dividends were paid on April 17, 2023 and are recorded as dividends payable in accounts payable and accrued liabilities as of the period ended April 1, 2023. There were no dividends paid during the period ended April 2, 2022.

13. Net income per share:

(a) Basic net income per share:

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

		April 1, 2023		April 2, 2022
Net income attributable to shareholders of the Company	$	18,729	$	22,621
Weighted average number of common shares outstanding during the period *(thousands)*		70,985		70,128
Basic net income per share attributable to the common shareholders	$	0.26	$	0.32

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.

		April 1, 2023		April 2, 2022
Net income attributable to shareholders of the Company	$	18,729	$	22,621
Weighted average number of common shares outstanding during the period *(thousands)*		72,246		71,666
Diluted net income per share attributable to the common shareholders	$	0.26	$	0.32

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

	April 1, 2023	April 2, 2022
Basic weighted average number of common shares	70,985	70,128
Dilutive effect of share options in the Amended and Restated Share Option Plan	1,106	1,440
Dilutive effect of share options in the LTIP	155	98
Diluted weighted average number of common shares	72,246	71,666

For the period ended April 1, 2023, 303,317 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 (April 2, 2022 — 582,513).

For the period ended April 1, 2023, 225,376 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 (April 2, 2022 — nil).

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

14. Share-based compensation:

(a) Amended and Restated Share Option Plan:

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

	Options		Weighted average exercise price
Outstanding, December 31, 2022	1,767,299	$	9.44
Exercised	(44,874)	$	9.73
Forfeited	(16,240)	$	9.73
Outstanding, April 1, 2023	1,706,185	$	9.42

	Options		Weighted average exercise price	Weighted average remaining contractual term (years)		Aggregate intrinsic value
Outstanding, April 1, 2023	1,706,185	$	9.42	6.17	$	48,141
Vested and expected to vest	1,706,185	$	9.42	6.17	$	48,141
Exercisable, April 1, 2023	1,113,465	$	9.26	5.93	$	31,598

During the period ended April 1, 2023, the Company recorded share-based compensation expense in relation to the Amended and Restated Share Option Plan of $318 (April 2, 2022 — $465), which was included in selling, general and administrative expenses.

(b) LTIP:

(i) Share options:

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

	Options		Weighted average exercise price
Outstanding, December 31, 2022	532,143	$	25.78
Granted	227,170	$	40.24
Exercised	(8,233)	$	20.79
Forfeited	(78,521)	$	23.89
Outstanding, April 1, 2023	672,559	$	30.95

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

14. Share-based compensation (continued):

	Options		Weighted average exercise price	Weighted average remaining contractual term (years)		Aggregate intrinsic value
Outstanding, April 1, 2023	672,559	$	30.95	9.13	$	5,086
Vested and expected to vest	624,361	$	30.61	9.10	$	4,914
Exercisable, April 1, 2023	18,082	$	28.14	8.94	$	172

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

		April 1, 2023
Weighted-average risk-free interest rate		3.42 %
Expected life (years)		5.50 — 7.00
Expected dividend yield		0.99 %
Expected volatility		28.42 %
Forfeiture rate		10.00 %
Weighted-average fair value per option granted	$	12.60

During the period ended April 1, 2023, the Company recorded share-based compensation expense in relation to the LTIP share options of $201 (April 2, 2022 — $183), which was included in selling, general and administrative expenses.

(ii) RSUs:

The table below summarizes the RSU activity under the LTIP:

	Number of RSUs
Outstanding, December 31, 2022	94,259
Granted	89,284
Forfeited	(8,634)
Outstanding, April 1, 2023	174,909

The fair market value of future RSU cash-settlement obligations was $1,167 at April 1, 2023 (April 2, 2022 – $67). During the period ended April 1, 2023, the Company incurred share-based compensation expense for RSU cash-settlement obligations of $224 (April 2, 2022 — $67).

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

14. Share-based compensation (continued):

(iii) PSUs:

The table below summarizes the PSU activity under the LTIP:

	Number of PSUs
Outstanding, December 31, 2022	79,087
Granted	68,373
Forfeited	(12,342)
Outstanding, April 1, 2023	135,118

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

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

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

The fair market value of future PSU cash-settlement obligations was $1,233 at April 1, 2023 (April 2, 2022 — $66). During the period ended April 1, 2023, the Company incurred share-based compensation expense for PSU cash-settlement obligations of $131 (April 2, 2022 — $66).

(c) Deferred share unit plan:

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

	Number of DSUs
Outstanding, December 31, 2022	51,893
Granted	1,251
Forfeited	(1,055)
Outstanding, April 1, 2023	52,089

The fair market value of future DSU cash-settlement obligations was $1,773 at April 1, 2023 (April 2, 2022 — $666). During the period ended April 1, 2023, the Company incurred share-based compensation expense for DSU cash-settlement obligations of $127 (April 2, 2022 — $246).

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

15. Investment in associate:

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

The following table reconciles the change in the investment in associate for the period ended April 1, 2023:

	Investment	Call Option	Total
Balance, December 31, 2022	$ 3,417	$ 1,291	$ 4,708
Share of loss from associate	(123)	—	(123)
Loss on derecognition	—	(1,302)	(1,302)
Currency translation adjustments	(1)	11	10
Balance, April 1, 2023	$ 3,293	$ —	$ 3,293

16. Financial instruments and risk management:

(a) Credit risk:

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

(b) Liquidity risk:

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

16. Financial instruments and risk management (continued):

(c) Market risk:

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

(i) Foreign currency risk:

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

The Company is also exposed to currency risk on financial assets and liabilities denominated in foreign currencies. These assets and liabilities are of a short-term nature and management does not believe they represent a significant risk to the Company. A five percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed income before income taxes for the period ended April 1, 2023 by $378 (April 2, 2022 — $159), as a result of the revaluation on these financial assets and liabilities.

(ii) Interest rate risk:

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 2021 Credit Facilities are at variable interest rates. Changes in the 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 based on the debt outstanding as at April 1, 2023 would have changed income before taxes for the period ended April 1, 2023 by $773 (April 2, 2022 — $871).

(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

(Unaudited, expressed in thousands of Canadian dollars, unless otherwise stated)

16. Financial instruments and risk management (continued):

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

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

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

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

		April 1, 2023		December 31, 2022	
		Carrying value	Fair value	Carrying value	Fair value
Assets:					
Call Option (Note 15)	(Level 3)	$ —	$ —	$ 1,291	$ 1,291
Liabilities:					
Contingent consideration related to the acquisition of Chico (Note 6)	(Level 3)	$ 3,000	$ 3,000	$ 3,000	$ 3,000
Long-term debt, including current portion(1)	(Level 2)	$ 305,670	$ 309,249	$ 337,813	$ 341,687

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

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

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 $5,545 is required to complete leasehold improvements which is expected to be paid within 12 to 18 months. Additionally, during the period ended December 31, 2022, the Company entered into an agreement to procure certain material handling systems with commitments totaling approximately $9,569 to be paid in fiscal years 2023 and 2024. During the period ended December 31, 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 April 1, 2023:

(i) Guarantee of certain lease obligations for a former subsidiary of the Company. The lease obligations expired on February 27, 2023 and were renewed for an additional 12-month term. As of April 1, 2023, the future lease commitment is $660 (US$488) (December 31, 2022 — $82 (US$60)).

(c) Bank comfort letters:

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

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

18. Related party transactions:

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 had an initial term of 18 months from the closing of the Company's initial public offering and was renewed until May 1, 2023. The Company charged the former subsidiaries $nil under the transition services agreement for the the period ended April 1, 2023 (April 2, 2022 — $114).

In connection with the Company's initial public offering, the Company entered into a product sourcing and brand license agreement with a former subsidiary, pursuant to which the Company sources certain pet food and pet supply products licensed under the Company’s proprietary brands in consideration of a sourcing fee. The original product sourcing and brand license agreement had an initial term of 18 months that was automatically renewable for successive 18-month terms unless earlier terminated upon notice. This agreement was amended and restated on August 10, 2022, and includes an initial term of five years, terminating on August 9, 2027, which automatically renews for successive 18-month periods unless earlier terminated. The Company earned sourcing fees of $246 under the product sourcing and brand license agreement for the period ended April 1, 2023 (April 2, 2022 — $252).

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 $503 (US$372) as of April 1, 2023 (December 31, 2022 — $504 (US$372)).

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.

19. Subsequent events:

On May 8, 2023, the Board of Directors of the Company declared a dividend of $0.10 per common share payable on June 15, 2023 to holders of common shares of record as at the close of business on May 31, 2023.