



PET VALU HOLDINGS LTD.

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

(First Quarter Ended March 30, 2024)

The following Management's Discussion and Analysis ("MD&A") for Pet Valu Holdings Ltd. ("we", "Pet Valu" or the "Company") was prepared as at May 6, 2024 and provides information concerning the Company's financial condition and results of operations for the 13-week periods ended March 30, 2024 and April 1, 2023, respectively. This MD&A should be read in conjunction with the Company's unaudited condensed interim financial statements and notes for Q1 2024 (as hereinafter defined) and the Company's audited consolidated financial statements and notes for Fiscal 2023 (as hereinafter defined) and the related MD&A. Additionally, readers should refer to the "Risk Factors" set forth in the Company's annual information form dated March 4, 2024 ("AIF") for further information. Additional information about Pet Valu Holdings Ltd. can be found on SEDAR+ at www.sedarplus.ca.

Basis of Presentation

The Company's audited consolidated financial statements and unaudited condensed interim consolidated financial statements (together, the "consolidated financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, respectively, using the accounting policies described therein. All amounts are presented in thousands of Canadian dollars unless otherwise indicated and per share amounts. The Company is managed based on one operating and reportable segment.

The Company operates on a 52- or 53-week fiscal year, concluding on the Saturday nearest to December 31. The Company's fiscal quarters conclude on the Saturday nearest to the end of each quarter. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter will have 14 weeks. The 13-week periods ended March 30, 2024 and April 1, 2023, represent the Company's results for its first quarter of the relevant financial years.

All references in this MD&A to "Q1 2024" are to the 13-week period ended March 30, 2024, to "Q1 2023" are to the 13-week period ended April 1, 2023, to "Fiscal 2024" are to the 52-week period ending December 28, 2024, and to "Fiscal 2023" are to the 52-week period ended December 30, 2023. Figures presented in this MD&A are in thousands of Canadian dollars unless otherwise indicated.

The unaudited condensed interim consolidated financial statements and accompanying notes for Q1 2024 and this MD&A were authorized for issue by the Company's Board of Directors.

Non-IFRS and Other Financial Measures

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

Forward-Looking Information

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

Forward-looking information may relate to the Company's future financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, store openings and enhancements, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", "continue", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "should", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

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

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

Financial Highlights

The following tables set forth the selected financial information and industry metrics for the periods indicated (in thousands, except system-wide stores or as otherwise noted). We refer the reader to the section entitled "How We Assess the Performance of Our Business" of this MD&A for the definition of the items in the following table and, when applicable, to the section entitled "Selected Consolidated Financial Information and Industry Metrics" for reconciliations of non-IFRS measures with the most directly comparable IFRS measures.

Q1 2024 Compared to Q1 2023

	Quarters Ended		
	March 30, 2024	April 1, 2023	
	13 weeks	13 weeks	% Change
Revenue	\$ 260,786	\$ 250,292	4.2 %
Gross profit margin	33.5 %	34.8 %	n/a
Operating income	\$ 33,299	\$ 34,867	(4.5)%
Net income	\$ 17,518	\$ 18,729	(6.5)%
System-wide sales ⁽¹⁾	\$ 352,881	\$ 339,649	3.9 %
System-wide stores	794	751	5.7 %
Same-store sales growth ⁽¹⁾	0.8 %	9.4 %	n/a
Same-store transaction growth ⁽¹⁾	(2.3)%	3.0 %	n/a
Same-store average spend per transaction growth ⁽¹⁾	3.2 %	6.3 %	n/a
EBITDA ⁽²⁾	\$ 49,021	\$ 43,759	12.0 %
Adjusted EBITDA ⁽²⁾	\$ 56,580	\$ 48,798	15.9 %
Adjusted Net Income ⁽²⁾	\$ 25,334	\$ 22,952	10.4 %
Adjusted Net Income per Diluted Share ⁽³⁾	\$ 0.35	\$ 0.32	9.4 %
Free Cash Flow ⁽²⁾	\$ 23,135	\$ (16,707)	238.5 %

Notes:

(1) System-wide sales, same-store sales growth, same-store transaction growth, and same-store average spend per transaction growth are supplementary financial measures. For further information on supplementary financial measures, see "Non-IFRS and Other Financial Measures".

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

⁽³⁾ Adjusted Net Income per Diluted Share is a non-IFRS ratio. Non-IFRS ratios are not determined in accordance with IFRS, do not have standardized meanings and may not be comparable to similar financial measures presented by other companies. For further information on non-IFRS ratios, see "Non-IFRS Measures and Other Financial Measures" and "How We Assess the Performance of our Business".

Overview

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

Since opening our first store in 1976, Pet Valu has grown to become Canada's leading pet retailer. As at the end of Q1 2024, we operate 794 corporate-owned and franchised locations across the country – more than three times the number of stores of our closest competitor. Over our history, we have earned the trust and loyalty of devoted pet owners with our compassionate and knowledgeable service, our premium product offering which includes our award-winning proprietary brands, our in-store services and our expanding omni-channel capabilities. This winning strategy is underpinned by our highly flexible operating model which allows us to deliver superior unit economics and growth.

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

Recent Developments

Fiscal 2023:

2023 Secondary Offering

On June 1, 2023, a secondary offering (the "2023 Secondary Offering") of the Company's common shares was completed by its principal shareholders on a bought deal basis. The 2023 Secondary Offering of 4,690,000 common shares at an offering price of \$32.05 per common share raised gross proceeds of \$150.3 million for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the 2023 Secondary Offering. Underwriting fees were paid by the principal shareholders, and other expenses related to the 2023 Secondary Offering of approximately \$0.3 million were paid by the Company and included in selling, general and administrative expenses in Fiscal 2023.

Opening of Greater Toronto Area ("GTA") Distribution Centre

In July 2023, the Company officially commenced operation of its state-of-the-art 670,000 square foot distribution centre in Brampton, Ontario, representing a key milestone in the Company's nationwide \$110.0 million supply chain transformation and facilitating wholesale capability for Chico franchisees starting in November 2023.

New Metro Vancouver Region ("MVR") Distribution Centre

In July 2023, the Company entered into a lease for a new 350,000 square foot LEED-certified distribution centre in Surrey, British Columbia. The Company took possession of the distribution centre on November 1, 2023 and is currently completing its tenant fit-up work.

Normal Course Issuer Bid

On November 28, 2023, the Company announced that the Toronto Stock Exchange ("TSX") had accepted its notice of intention to launch a normal course issuer bid ("NCIB"). Pursuant to the NCIB, the Company may purchase for cancellation up to an aggregate of 1,786,599 common shares, representing approximately 2.5% of the Company's issued and outstanding common shares as at November 16, 2023, over the 12-month period commencing November 30, 2023 and ending November 29, 2024.

Effective November 24, 2023, the Company established an automatic share purchase plan ("ASPP") in connection with the NCIB to facilitate the purchase of common shares during certain periods when the Company would not be permitted to purchase shares due to regulatory restrictions or a self-imposed black out period. Before entering a black out period, the Company may, but is not required to, instruct its designated broker to make purchases at the broker's sole discretion and based on parameters set by the Company in accordance with the ASPP, NCIB, TSX rules, and applicable securities laws.

Selected Consolidated Financial Information and Industry Metrics

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

	Quarters Ended	
	March 30, 2024	April 1, 2023
	13 weeks	13 weeks
Revenue		
Retail sales	\$ 100,309	\$ 102,019
Franchise and other revenues	160,477	148,273
Total Revenue	260,786	250,292
Cost of sales	173,435	163,078
Gross profit	87,351	87,214
Selling, general and administrative expenses	54,052	52,347
Operating income	33,299	34,867
Interest expenses, net	8,555	6,907
Loss on foreign exchange	397	311
Other loss	—	1,425
Income before income taxes	24,347	26,224
Income tax expense	6,829	7,495
Net income	17,518	18,729
Basic net income per share attributable to the common shareholders	\$ 0.25	\$ 0.26
Diluted net income per share attributable to the common shareholders	\$ 0.24	\$ 0.26

	Quarter Ended	Fiscal Year Ended
	March 30, 2024	December 30, 2023
Total assets	\$ 943,920	\$ 916,907
Total non-current liabilities	673,936	674,940

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

	Quarters Ended	
	March 30, 2024	April 1, 2023
	13 weeks	13 weeks
Reconciliation of net income to Adjusted EBITDA:		
Net income	\$ 17,518	\$ 18,729
Depreciation and amortization	16,119	10,628
Interest expenses, net	8,555	6,907
Income tax expense	6,829	7,495
EBITDA	49,021	43,759
Adjustments to EBITDA:		
Information technology transformation costs ⁽¹⁾	2,132	722
Business transformation costs ⁽²⁾	1,505	1,580
Other professional fees ⁽³⁾	456	—
Share-based compensation ⁽⁴⁾	3,069	1,001
Loss on foreign exchange ⁽⁵⁾	397	311
Investment in associate ⁽⁶⁾	—	1,425
Adjusted EBITDA	\$ 56,580	\$ 48,798
Adjusted EBITDA as a percentage of revenue⁽⁷⁾	21.7%	19.5%

Notes:

- (1) Represents discrete, project-based implementation costs associated with new information technology systems and discrete Software-as-a-Service ("SaaS") arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (2) Represents expenses associated with supply chain transformation initiatives such as duplicative warehousing and distribution costs, implementation costs associated with new information technology systems and other transition costs incurred during the transition to a new distribution centre. The expenses included in cost of sales in Q1 2024 were \$0.7 million (Q1 2023 – \$nil). The expenses included in selling, general, and administrative expenses were \$0.8 million in Q1 2024 (Q1 2023 – \$1.6 million).
- (3) Professional fees primarily incurred with respect to the Canada Revenue Agency's ("CRA") examination of the Company's Canadian tax filings for the 2016 and 2018 fiscal years.
- (4) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (5) Represents foreign exchange gains and losses.
- (6) Represents the Company's share of loss from associate of \$0.1 million for Q1 2023 and loss on the fair value of the related call option for Q1 2023 of \$1.3 million.
- (7) Adjusted EBITDA as a percentage of revenue is a non-IFRS ratio. Non-IFRS ratios are not determined in accordance with IFRS, do not have standardized meanings and may not be comparable to similar financial measures presented by other companies. For further information on non-IFRS ratios, see "Non-IFRS Measures and Other Financial Measures" and "How We Assess the Performance of our Business".

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

	Quarters Ended	
	March 30, 2024	April 1, 2023
	13 weeks	13 weeks
Reconciliation of net income to Adjusted Net Income:		
Net income	\$ 17,518	\$ 18,729
Adjustments to net income:		
Information technology transformation costs ⁽¹⁾	2,132	722
Business transformation costs ⁽²⁾	4,156	1,580
Other professional fees ⁽³⁾	456	—
Share-based compensation ⁽⁴⁾	3,069	1,001
Loss on foreign exchange ⁽⁵⁾	397	311
Investment in associate ⁽⁶⁾	—	1,425
Tax effect of adjustments to net income	(2,394)	(816)
Adjusted Net Income	\$ 25,334	\$ 22,952
Adjusted Net Income as a percentage of revenue⁽⁷⁾	9.7%	9.2%
Adjusted Net Income per Diluted Share	\$ 0.35	\$ 0.32

Notes:

- (1) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (2) Represents expenses associated with supply chain transformation initiatives such as duplicative warehousing and distribution costs, implementation costs associated with new information technology systems, and other transition costs incurred during the transition to a new distribution centre. This also includes duplicative depreciation expense on property and equipment and right-of-use assets, and interest expense on lease liabilities. The expenses included in cost of sales in Q1 2024 were \$2.4 million (Q1 2023 – \$nil). The expenses included in selling, general, and administrative expenses were \$0.8 million in Q1 2024 (Q1 2023 – \$1.6 million). The interest expense on the lease liability in Q1 2024 was \$1.0 million (Q1 2023 – \$nil).
- (3) Professional fees primarily incurred with respect to the CRA's examination of the Company's Canadian tax filings for the 2016 and 2018 fiscal years.
- (4) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (5) Represents foreign exchange gains and losses.
- (6) Represents the Company's share of loss from associate of \$0.1 million for Q1 2023 and loss on the fair value of the related call option for Q1 2023 of \$1.3 million.
- (7) Adjusted Net Income as a percentage of revenue is a non-IFRS ratio. Non-IFRS ratios are not determined in accordance with IFRS, do not have standardized meanings and may not be comparable to similar financial measures presented by other companies. For further information on non-IFRS ratios, see "Non-IFRS Measures and Other Financial Measures" and "How We Assess the Performance of our Business".

Supplemental Information on Leased Premises

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

	Quarters Ended	
	March 30, 2024	April 1, 2023
	13 weeks	13 weeks
Depreciation expense on right-of-use assets ⁽¹⁾	\$ 8,715	\$ 4,758
Interest expense on lease liabilities ⁽¹⁾	5,708	3,140
Interest income on lease receivables ⁽¹⁾	(2,415)	(2,067)
Net depreciation and interest expense associated to leased premises	\$ 12,008	\$ 5,831

Note:

⁽¹⁾ Represents income and expenses for leased premises included in the unaudited condensed interim consolidated statements of financial position related to the application of IFRS 16, *Leases*. Specifically, this includes depreciation on right-of-use assets for leased premises, interest expense on lease liabilities for leased premises and interest income on lease receivables. For additional information, refer to the unaudited condensed interim consolidated financial statements for the periods ended March 30, 2024 and April 1, 2023.

Summary of Factors Affecting Performance

We believe that our performance and future success depends on a number of factors that present significant opportunities for us. These factors are also subject to, and may pose, a number of inherent risks and challenges. Refer to "Risk Factors" in our most recent AIF for additional information.

Store Expansion and Enhancement

Between 2021 and 2023, we grew our store network at a compound annual growth rate of 9.0%, having opened 28 net new stores in 2021, 45 net new stores and acquired 66 franchised stores as part of the Chico acquisition in 2022, and 39 net new stores in 2023. In Fiscal 2024, the Company plans to open 40 to 50 new stores, mixed between corporate-owned and franchised stores. In addition to opening new stores, the Company has increased sales and operating results by enhancing elements of its existing stores by enlarging square footage, adding in-store services, and relocating or renovating stores. From 2021 to 2023, we and our franchisees expanded, renovated, or relocated an average of 33 stores per year. The Company and its franchisees plan to expand, renovate or relocate between 20 to 30 stores in Fiscal 2024.

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

	Quarters Ended	
	March 30, 2024	April 1, 2023
	13 weeks	13 weeks
Corporate-owned stores:		
Beginning of period	222	225
New stores opened	8	2
Re-franchised ⁽¹⁾	(2)	(1)
Corporate-owned stores end of period	228	226
Franchised stores:		
Beginning of period	561	519
New stores opened	3	5
Re-franchised ⁽¹⁾	2	1
Franchised stores end of period	566	525
System-wide stores	794	751
Stores renovated, expanded or relocated⁽²⁾	7	2

Notes:

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

⁽²⁾ During Q1 2024 and Q1 2023, the Company renovated, expanded, or relocated a total of five and two corporate-owned stores, respectively. During Q1 2024 and Q1 2023, there were two and nil franchised stores renovated, expanded, or relocated respectively.

How We Assess the Performance of Our Business

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

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

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

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

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

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

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

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

Adjusted EBITDA. Adjusted EBITDA is defined as net income (loss) before interest expense (net), income tax expense (recovery) and depreciation and amortization adjusted for the impact of certain expenses, costs or benefits incurred which in management’s view are not indicative of the underlying business performance, including information technology transformation costs (representing discrete, project-based implementation costs associated with new technology systems and discrete SaaS arrangements costs for transformational initiatives), business transformation costs, other professional fees (incurred with respect to the CRA’s examination of tax filings for the 2016 and 2018 fiscal years, the Chico acquisition, the 2022 Secondary Offering, and the 2023 Secondary Offering), share-based compensation expense, asset impairments, gain or loss on foreign exchange, and investment in associate (representing the share of gain or loss from an associate, including impairment losses, and any gains or losses on a related call option). We believe Adjusted EBITDA is a useful measure of operating performance as it provides a more relevant picture of operating results by facilitating a comparison of our performance on a consistent basis from period-to-period and provides a more complete understanding of factors and trends affecting our business.

Adjusted EBITDA as a percentage of revenue or Adjusted EBITDA margin. Adjusted EBITDA as percentage of revenue or Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue. We believe Adjusted EBITDA as a percentage of revenue or Adjusted EBITDA margin is a useful measure to assess performance as it facilitates a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business.

Adjusted Net Income. Adjusted Net Income is defined as net income (loss), adjusted for the impact of certain expenses, costs or benefits incurred which in management’s view are not indicative of the underlying business performance, including information technology transformation costs (representing discrete, project-based implementation costs associated with new technology systems and discrete SaaS arrangements costs for transformational initiatives), business transformation costs, other professional fees (incurred with respect to the CRA’s examination of tax filings for the 2016 and 2018 fiscal years, the Chico acquisition, the 2022 Secondary Offering, and the 2023 Secondary Offering), share-based compensation expense, asset impairments, gain or loss on foreign exchange, and investment in associate (representing the share of gain or loss from an associate, including impairment losses, and any gains or losses on a related call option). We believe Adjusted Net Income is a useful measure of performance, as it provides a more relevant picture of results and facilitates a comparison of our performance on a consistent basis from period-to-period and provides a more complete understanding of factors and trends affecting our business.

Adjusted Net Income as a percentage of revenue. Adjusted Net Income as a percentage of revenue is defined as Adjusted Net Income divided by revenue. We believe Adjusted Net Income as a percentage of revenue is a useful measure to assess performance as it facilitates a comparison of our operating performance on a consistent basis from period-to-period and provides a more complete understanding of factors and trends affecting our business.

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

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

Net Capital Expenditures. Net Capital Expenditures represents purchases of property and equipment, purchase of intangible assets, proceeds on disposal of property and equipment and tenant allowances on a cash basis as disclosed in our consolidated statements of cash flows in the investing activities.

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

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

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

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

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

opened for at least 52 weeks and e-commerce sales relative to the same period in the prior fiscal year. Stores that are acquired through business acquisitions are excluded from this metric for at least 52 weeks from the date of the acquisition.

Results of Operations

Analysis of Results for Q1 2024 compared to Q1 2023

Revenue. Total revenue was \$260.8 million in Q1 2024, an increase of \$10.5 million, or 4.2%, compared to \$250.3 million in Q1 2023. The increase in revenue was mostly driven by growth in franchise and other revenues, as described in more detail below.

Retail sales. Retail sales were \$100.3 million in Q1 2024, a decrease of \$1.7 million, or 1.7%, as compared to \$102.0 million in Q1 2023. The decrease in retail sales was primarily attributable to re-franchised stores partially offset by higher same-store sales growth and new store openings in the last 12 months.

Franchise and other revenues. Franchise and other revenues were \$160.5 million in Q1 2024, an increase of \$12.2 million, or 8.2%, as compared to \$148.3 million in Q1 2023. The increase in franchise and other revenues was mostly due to higher wholesale merchandise sales of \$8.8 million, higher royalties and sub-lease revenues of \$2.4 million, and higher franchise contributions for advertising and other services of \$1.0 million driven by an increase in the number of re-franchised and new stores in the last 12 months.

Same-store sales growth. Same-store sales growth was 0.8% in Q1 2024 primarily driven by a 3.2% increase in same-store average spend per transaction and partially offset by a 2.3% decrease in same-store transactions. This is compared to same-store sales growth of 9.4% in Q1 2023, which primarily consisted of a 3.0% increase in same-store transactions and a 6.3% increase in same-store average spend per transaction.

Gross profit. Gross profit increased by \$0.1 million, or 0.2%, to \$87.4 million in Q1 2024, compared to \$87.2 million in Q1 2023. Gross profit margin was 33.5% in Q1 2024, compared to 34.8% in Q1 2023. Excluding costs related to the supply chain transformation of 0.9%, the gross profit margin was 34.4% and decreased by 0.4%. The decrease was primarily driven by: (i) higher distribution and occupancy costs from the new GTA distribution centre; (ii) higher wholesale merchandise sales; partially offset by (iii) lower inbound freight costs.

SG&A expenses. SG&A expenses were \$54.1 million in Q1 2024, an increase of \$1.7 million, or 3.3%, compared to \$52.3 million in Q1 2023. SG&A expenses represented 20.7% and 20.9% of total revenue for Q1 2024 and Q1 2023, respectively. The increase of \$1.7 million in SG&A expenses was primarily due to: (i) increased compensation costs as a result of share-based compensation and salary investments; (ii) higher depreciation and amortization from store growth and investments in other assets; partially offset by (iii) higher gain on sale of assets for re-franchised stores; and (iv) lower professional fees and other expenses.

Operating income. Operating income decreased by \$1.6 million to \$33.3 million in Q1 2024, compared to \$34.9 million in Q1 2023. The decrease in operating income is explained by the factors impacting gross profit and SG&A expenses described above.

Net interest expense. Net interest expense was \$8.6 million in Q1 2024, an increase of \$1.6 million, or 23.9%, compared to \$6.9 million in Q1 2023. The increase was primarily driven by higher interest expense on lease liabilities resulting from the new GTA and MVR distribution centres.

Income taxes. Income taxes were \$6.8 million in Q1 2024 compared to \$7.5 million in Q1 2023, a decrease of \$0.7 million year over year. The decrease in income taxes was primarily the result of lower taxable earnings in Q1 2024. The effective income tax rate was 28.0% in Q1 2024 compared to 28.6% in Q1 2023. The Q1 2024 and Q1 2023 effective tax rate was higher than the blended statutory rate of 26.5% primarily due to non-deductible expenses.

Net income. Net income decreased by \$1.2 million to \$17.5 million in Q1 2024, compared to \$18.7 million in Q1 2023. The decrease in net income is primarily explained by the lower operating income, higher net interest expense partially offset by lower income taxes, as described above, and by the loss recognized on the derecognition of the call option related to an investment in associate included in Q1 2023.

Diluted net income per share attributable to the common shareholders. Diluted net income per share attributable to the common shareholders decreased by \$0.02 to \$0.24 in Q1 2024, compared to \$0.26 in Q1 2023 primarily due to the decrease in net income as explained by the factors above.

Adjusted EBITDA. Adjusted EBITDA increased by \$7.8 million, or 15.9%, to \$56.6 million in Q1 2024, compared to \$48.8 million in Q1 2023. Adjusted EBITDA excludes \$2.5 million of overall net higher costs from share-based compensation, information technology transformation, other professional fees, loss on foreign exchange, business transformation costs and investment in associate. Adjusted EBITDA also increased due to higher EBITDA of \$5.3 million in Q1 2024 compared to Q1 2023. Adjusted EBITDA as a percentage of revenue was 21.7% and 19.5% in Q1 2024 and Q1 2023, respectively.

Adjusted Net Income. Adjusted Net Income increased by \$2.4 million to \$25.3 million in Q1 2024, compared to \$23.0 million in Q1 2023. Adjusted Net Income as a percentage of revenue was 9.7% in Q1 2024 and 9.2% in Q1 2023, respectively. The 0.5% year over year increase results from the factors described above.

Adjusted Net Income per Diluted Share. Adjusted Net Income per Diluted Share increased by \$0.03 to \$0.35 in Q1 2024, compared to \$0.32 in Q1 2023. The 9.4% year over year increase results primarily from the factors described above.

Total Assets

Q1 2024 compared to Fiscal 2023

Total assets were \$943.9 million at Q1 2024, an increase of \$27.0 million or 2.9%, compared to \$916.9 million at Fiscal 2023. The change was mostly explained by an increase in cash of \$12.7 million (refer to "Liquidity and Capital Resources"), an increase in inventory of \$7.7 million, an increase in property and equipment of \$7.4 million mostly due to the new GTA and MVR distribution centres and leasehold improvements for stores, an increase in right-of-use assets of \$4.2 million resulting from the renewal of existing leases and the growth in store count, an increase in accounts and other receivables of \$3.1 million primarily due to the construction and renovation of new and existing franchised stores; partially offset by a decrease in prepaid expenses and other assets of \$8.7 million due to the timing of lease payments.

Total Non-Current Liabilities

Q1 2024 compared to Fiscal 2023

Total non-current liabilities were \$673.9 million at Q1 2024, a decrease of \$1.0 million, compared to \$674.9 million at Fiscal 2023. The decrease was mostly driven by lower long-term debt of \$4.2 million due to the quarterly principal repayment on the 2021 Term Facility and a decrease in other liabilities of

\$2.0 million due to the reclassification of certain cash-settled restricted and performance share units to current liabilities, partially offset by an increase in long-term lease liabilities of \$5.1 million resulting from the renewal of existing leases and the growth in store count.

Selected Quarterly Results and Performance Measures

The following table summarizes selected results of the Company's operations for the last eight most recently completed quarters (information is in thousands of Canadian dollars unless otherwise noted). The unaudited quarterly results, excluding other performance measures, have been prepared in accordance with IFRS. Due to seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. In general, the fourth quarter has the strongest volume due to the holiday season. Additionally, quarterly performance can be impacted by the timing of holidays and significant weather changes. For Fiscal 2022, the results include the consolidation of Chico from the acquisition date of February 25, 2022.

	Fiscal 2024	Fiscal 2023				Fiscal 2022			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	
IFRS Measures									
Revenue	\$260,786	\$286,908	\$262,294	\$256,373	\$250,292	\$266,044	\$244,724	\$227,676	
Gross profit	\$ 87,351	\$ 98,501	\$ 87,317	\$ 92,105	\$ 87,214	\$ 96,304	\$ 93,542	\$ 85,371	
Gross profit margin	33.5%	34.3%	33.3%	35.9%	34.8%	36.2%	38.2%	37.5%	
Operating Income	\$ 33,299	\$ 48,265	\$ 37,370	\$ 40,224	\$ 34,867	\$ 42,411	\$ 43,311	\$ 39,309	
Net income	\$ 17,518	\$ 28,765	\$ 17,976	\$ 24,078	\$ 18,729	\$ 25,881	\$ 26,986	\$ 25,278	
Weighted average number of common shares (in thousands)	71,464	71,464	71,464	71,234	70,985	70,762	70,576	70,336	
Weighted average number of diluted common shares (in thousands)	72,514	72,296	72,138	72,294	72,246	72,135	71,828	71,794	
Basic net income per share attributable to the common shareholders	\$ 0.25	\$ 0.40	\$ 0.25	\$ 0.34	\$ 0.26	\$ 0.37	\$ 0.38	\$ 0.36	
Diluted net income per share attributable to the common shareholders	\$ 0.24	\$ 0.40	\$ 0.25	\$ 0.33	\$ 0.26	\$ 0.36	\$ 0.38	\$ 0.35	
Non-IFRS Measures and Supplementary Financial Measures									
System-wide sales ⁽¹⁾	\$352,881	\$379,013	\$357,153	\$343,918	\$339,649	\$360,634	\$331,649	\$312,508	
System-wide stores	794	783	766	758	751	744	729	717	
Same-store sales growth	0.8%	1.9%	4.2%	6.0%	9.4%	11.8%	14.7%	21.2%	
EBITDA	\$ 49,021	\$ 63,520	\$ 48,151	\$ 51,108	\$ 43,759	\$ 52,424	\$ 52,157	\$ 48,611	
Adjusted EBITDA ⁽²⁾	\$ 56,580	\$ 71,256	\$ 57,167	\$ 53,817	\$ 48,798	\$ 59,301	\$ 56,954	\$ 51,807	
Adjusted Net Income ⁽²⁾	\$ 25,334	\$ 39,096	\$ 28,222	\$ 26,268	\$ 22,952	\$ 31,127	\$ 30,749	\$ 27,876	
Adjusted Net Income per Diluted Share ⁽²⁾	\$ 0.35	\$ 0.54	\$ 0.39	\$ 0.36	\$ 0.32	\$ 0.43	\$ 0.43	\$ 0.39	

Notes:

⁽¹⁾ System-wide sales in Q2, Q3, and Q4 2022 includes sales from Chico of \$24.6 million, \$27.5 million, and \$29.6 million respectively. Q1 2023 includes system-wide sales from Chico of \$28.6 million.

⁽²⁾ In Q3 2022, the Company revised its definition of Adjusted EBITDA and Adjusted Net Income to exclude the gain or loss on the fair value of the call option related to an investment in an associate. Comparative figures prior to Q2 2022 are not impacted by the change in definition. The previously reported Q2 2022 Adjusted EBITDA of \$52.1 million was revised to exclude a \$0.2 million gain on the fair value of the call option. The previously reported Q2 2022 Adjusted Net Income of \$28.1 million was revised to exclude a \$0.2 million gain on the fair value of the call option, net of tax.

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

	Fiscal 2023				Fiscal 2022		
	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks
Reconciliation of net income to Adjusted EBITDA:							
Net income	\$ 28,765	\$ 17,976	\$ 24,078	\$ 18,729	\$ 25,881	\$ 26,986	\$ 25,278
Depreciation and amortization	14,999	14,187	10,904	10,628	10,332	9,595	9,270
Interest expenses, net	8,456	8,128	7,155	6,907	6,429	5,508	4,560
Income tax expense	11,300	7,860	8,971	7,495	9,782	10,068	9,503
EBITDA	63,520	48,151	51,108	43,759	52,424	52,157	48,611
Adjustments to EBITDA:							
Information technology transformation costs ⁽¹⁾	864	1,294	429	722	1,984	1,252	1,007
Business transformation costs ⁽²⁾	4,037	3,124	948	1,580	1,482	834	381
Other professional fees ⁽³⁾	225	167	349	—	714	163	348
Share-based compensation ⁽⁴⁾	2,866	1,025	963	1,001	1,930	1,799	1,492
Asset impairments ⁽⁵⁾	—	—	—	—	448	—	—
(Gain) loss on foreign exchange ⁽⁶⁾	(256)	246	(113)	311	180	832	120
Investment in associate ⁽⁷⁾	—	3,160	133	1,425	139	(83)	(152)
Adjusted EBITDA	\$ 71,256	\$ 57,167	\$ 53,817	\$ 48,798	\$ 59,301	\$ 56,954	\$ 51,807

Notes:

- (1) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (2) For Fiscal 2023 and 2022, represents expenses associated with supply chain transformation initiatives such as duplicative warehousing and distribution costs, implementation costs associated with new information technology systems, and other transition costs incurred during the transition to the new GTA distribution centre. Additionally, business transformation costs include severance related expenses associated with restructuring activities in certain business support functions in Q4 2023.
- (3) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year and in Fiscal 2023 for the 2018 fiscal year; (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022, and (iii) professional fees incurred with respect to the 2022 Secondary Offering and 2023 Secondary Offering.
- (4) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (5) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (6) Represents foreign exchange gains and losses.
- (7) Represents the Company's share of loss from associate and the gain or loss on the fair value of the related call option. During Q3 2022, the Company revised its definition of Adjusted EBITDA to exclude the gain or loss on the fair value of the call option related to an investment in associate. Comparative figures prior to Q2 2022 are not impacted by the change in definition. The previously reported Q2 2022 Adjusted EBITDA of \$52.1 million was revised to exclude a \$0.2 million gain on the fair value of the call option.

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

	Fiscal 2023				Fiscal 2022		
	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks
Reconciliation of net income to Adjusted Net Income:							
Net income	\$ 28,765	\$ 17,976	\$ 24,078	\$ 18,729	\$ 25,881	\$ 26,986	\$ 25,278
Adjustments to net income:							
Information technology transformation costs ⁽¹⁾	864	1,294	429	722	1,984	1,252	1,007
Business transformation costs ⁽²⁾	9,558	6,704	948	1,580	1,482	834	381
Other professional fees ⁽³⁾	225	167	349	—	714	163	348
Share-based compensation ⁽⁴⁾	2,866	1,025	963	1,001	1,930	1,799	1,492
Asset impairments ⁽⁵⁾	—	—	—	—	448	—	—
(Gain) loss on foreign exchange ⁽⁶⁾	(256)	246	(113)	311	180	832	120
Investment in associate ⁽⁷⁾	—	3,160	133	1,425	139	(83)	(152)
Tax effect of adjustments to net income	(2,926)	(2,350)	(519)	(816)	(1,631)	(1,034)	(598)
Adjusted Net Income	\$ 39,096	\$ 28,222	\$ 26,268	\$ 22,952	\$ 31,127	\$ 30,749	\$ 27,876

Notes:

- (1) Represents implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (2) For Fiscal 2023 and 2022, represents expenses associated with supply chain transformation initiatives such as duplicative warehousing and distribution costs, implementation costs associated with new information technology systems, and other transition costs incurred during the transition to the new GTA distribution centre. From Q3 2023 onward, this also includes duplicative depreciation expense on property and equipment and right-of-use assets, and interest expense on lease liabilities. Additionally, business transformation costs include severance related expenses associated with restructuring activities in certain business support functions in Q4 2023.
- (3) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year and in Fiscal 2023 for the 2018 fiscal year; (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022; and (iii) professional fees incurred with respect to the 2022 Secondary Offering and 2023 Secondary Offering.
- (4) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (5) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (6) Represents foreign exchange gains and losses.
- (7) Represents the Company's share of loss from associate and the gain or loss on the fair value of the related call option. During Q3 2022, the Company revised its definition of Adjusted Net Income to exclude the gain or loss on the fair value of the call option related to an investment in associate. Comparative figures prior to Q2 2022 are not impacted by the change in definition. The previously reported Q2 2022 Adjusted Net Income of \$28.1 million was revised to exclude a \$0.2 million gain on the fair value of the call option, net of tax.

Liquidity and Capital Resources

Overview

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

As at the end of Q1 2024, available liquidity was approximately \$171.2 million, as compared to \$158.4 million as at the end of Fiscal 2023, and was comprised of:

- cash and cash equivalents of \$41.2 million, as compared to \$28.4 million as at the end of Fiscal 2023; and
- available borrowings of \$130.0 million under the 2021 Revolving Facility (as hereinafter defined), as at the end of Q1 2024 and Fiscal 2023.

We believe that our cash and cash equivalents combined with the expected cash flow from operations and liquidity to be available under the 2021 Credit Facilities (as hereinafter defined) will be sufficient to finance our continued operations for at least the next 12 months, including our operating expenses, capital expenditures, debt service and return to shareholders. In addition, we believe that our capital structure provides us with significant financial flexibility to pursue our future growth strategies and provide returns to shareholders, including through repurchases of common shares and increases, where appropriate, in our targeted dividend policy. However, our ability to fund operating expenses, capital expenditures, future debt service requirements, future growth strategies and return to shareholders will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See “Risk Factors” and “Summary of Factors Affecting Performance” in this MD&A.

Credit Facilities

2021 Credit Agreement

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

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

Borrowings under the 2021 Credit Facilities will bear interest, according to the type of borrowing advanced, at short-term floating rates, plus a margin per annum depending on the Company's net total

leverage ratio. As at the end of Q1 2024, the effective interest rate on the 2021 Credit Facilities was 7.40% (Q1 2023 — 6.93%).

As at the end of Q1 2024, the aggregate amount outstanding under the 2021 Term Facility and 2021 Revolving Facility was \$291.5 million and \$nil, respectively.

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

The 2021 Credit Agreement contains affirmative and negative covenants customary for credit facilities of this nature, subject to certain exceptions set forth in the 2021 Credit Agreement. The 2021 Credit Agreement also contains certain financial covenants over the term of the 2021 Credit Facilities which includes a net leverage ratio and an interest coverage ratio. As at the end of Q1 2024, the Company was in compliance with all of its covenants.

During Fiscal 2023, the Company amended the 2021 Credit Agreement to update the type of borrowing advanced at short-term floating rates. Specifically, the reference rates were modified from the LIBOR rate and the bankers' acceptance rate to the Secured Overnight Financing Rate ("SOFR") and Canadian reference rate, respectively.

Deferred financing costs

In connection with the 2021 Credit Agreement, deferred financing costs of \$5.7 million were incurred. The total unamortized deferred financing costs were \$2.4 million as at the end of Q1 2024 and are being amortized using the effective interest rate method. These amounts were included as interest expense.

Cash Flows

The following table presents cash flows for the periods indicated:

	Quarters Ended	
	March 30, 2024	April 1, 2023
	13 weeks	13 weeks
Net cash provided by operating activities	\$ 44,884	\$ 5,207
Net cash used in financing activities	(31,660)	(55,002)
Net cash used in investing activities	(197)	(765)
Effect of exchange rate changes on cash	(321)	(224)
Net increase (decrease) in cash	\$ 12,706	\$ (50,784)

Analysis of Cash Flow for Q1 2024

Net cash provided by operating activities:

For Q1 2024, net cash provided by operating activities totalled \$44.9 million, an increase of \$39.7 million, compared to net cash provided by operating activities of \$5.2 million in Q1 2023. The increase is explained by lower income tax payments of \$17.3 million and higher net income of \$5.2 million (adjusted for items not involving cash). The remaining increase was due to a \$17.2 million net change in operating working capital explained by: (i) lower net change in inventory due to the timing of purchases and global supply chain improvements; (ii) lower prepaids due to the timing of lease payments; (iii) lower accounts payable and accrued liabilities due to timing of payments and lower non-trade related payables; partially

offset by (iv) higher receivables due to the timing of franchisee billings, and construction and renovation of franchise stores.

Net cash used in financing activities:

For Q1 2024, net cash used in financing activities totalled \$31.7 million, compared to net cash used in financing activities of \$55.0 million in Q1 2023. The decrease is primarily driven by: (i) lower principal repayments on the 2021 Term Facility as the comparative period included a \$28.0 million voluntary repayment; partially offset by (ii) higher interest paid on long-term debt due to the timing of payments.

Net cash used in investing activities:

For Q1 2024, net cash used in investing activities totalled \$0.2 million, compared to net cash used in investing activities of \$0.8 million in Q1 2023. The decrease is explained by higher principal and interest payments collected on lease receivables partially offset by higher Net Capital Expenditures⁽¹⁾ of \$0.6 million due to: (i) higher expenditures on leasehold improvements and furniture and fixtures for corporate-owned stores and the construction in progress of the new GTA and MVR distribution centres; partially offset by (ii) higher proceeds on disposal of property and equipment from the sale of corporate-owned stores to franchisees.

⁽¹⁾ Net Capital Expenditures is a non-IFRS measure. Non-IFRS measures are not determined in accordance with IFRS, do not have standardized meanings and may not be comparable to similar financial measures presented by other companies. See "How We Assess the Performance of Our Business" for the definition of Net Capital Expenditures.

Free Cash Flows

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

	Quarters Ended	
	March 30, 2024	April 1, 2023
	13 weeks	13 weeks
Cash provided by operating activities	\$ 44,884	\$ 5,207
Cash used in investing activities	(197)	(765)
Repayment of principal on lease liabilities	(15,623)	(17,879)
Interest paid on lease liabilities	(5,772)	(3,204)
Notes receivable	(157)	(66)
Free Cash Flow	\$ 23,135	\$ (16,707)

Analysis of Free Cash Flow for Q1 2024

Free cash flows amounted to \$23.1 million in Q1 2024 compared to \$(16.7) million in Q1 2023, an increase of \$39.8 million primarily driven by an increase in cash from operating activities and a decrease in payments of principal on lease liabilities due to the timing of quarter end, partially offset by an increase in interest paid on lease liabilities driven by the new GTA and MVR distribution centres and store network expansion.

Contractual Obligations, Guarantees, and Contingencies

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at the end of Q1 2024.

	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal 2028	Thereafter	Total
Accounts payable and accrued liabilities	\$ 103,493	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 103,493
Lease liabilities	65,614	90,837	74,265	64,812	51,313	202,809	549,650
Long-term debt	13,313	17,750	260,437	—	—	—	291,500
Purchase obligations ⁽¹⁾	9,960	—	—	—	—	—	9,960
Total contractual obligations	\$ 192,380	\$ 108,587	\$ 334,702	\$ 64,812	\$ 51,313	\$ 202,809	\$ 954,603

Notes:

⁽¹⁾ Represents purchase obligations to procure certain material handling systems and equipment for the new GTA and MVR distribution centres.

Bank comfort letters

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

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

Litigation

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

Income Taxes

The Company is subject to routine audits of its tax filing positions by the Canada Revenue Agency ("CRA"). In September 2023, the CRA reassessed the Company an additional approximately \$6.0 million of income tax plus interest in respect of the Company's 2018 taxation year on the basis that certain interest expenses incurred in that year were not deductible ("2018 reassessment"). In April 2024, the Company received proposal letters from the CRA proposing to deny the deduction of certain interest expenses incurred by the Company in the 2019 and 2020 taxation years on a basis consistent with the 2018 reassessment. No reassessment for either of those taxation years has been received from the CRA, but should the Company be so reassessed, it could have a potential additional exposure of up to \$24.7 million of income tax plus interest. It is possible that the CRA will also reassess certain subsequent taxation years on a similar basis. The Company has filed an objection to, and intends to vigorously contest, the 2018 reassessment, and the Company intends to similarly contest, any such reassessment of its 2019 and 2020 taxation years, or any other subsequent years that are assessed on a similar basis. The Company and its tax advisors believe that the Company's tax filing positions are appropriate.

Accordingly, no amount or provision has been recorded in the consolidated financial statements in respect of the 2018 reassessment or the 2019 and 2020 proposal letters.

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

Related Party Transactions

Product sourcing and brand license agreement

During the 52-week fiscal year ended January 1, 2022, the Company entered into a product sourcing and brand license agreement with a former subsidiary, pursuant to which the Company sources certain pet food and pet supply products licensed under the Company's proprietary brands in consideration of a sourcing fee. 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 \$0.2 million for Q1 2024 under the product sourcing and brand license agreement (Q1 2023 — \$0.2 million).

Share Information

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

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

As at May 6, 2024, there were 71,464,164 common shares and 3,216,231 share options, each exercisable for one common share, issued and outstanding.

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

Dividends

Subject to financial results, capital requirements, available cash flow, the need for funds to finance ongoing operations and other factors that the Board of Directors may consider relevant, it is the intention of the Board of Directors to declare a quarterly cash dividend. It is expected that future cash dividend payments will be made to common shareholders of record as at a date to be determined by the

Board of Directors. The actual payment, amount and timing of any dividends are not guaranteed and are subject to the discretion of our Board of Directors. See “Risk Factors” in this MD&A.

During Q1 2024, the Company announced that its Board declared \$7.9 million in dividends to holders of common shares (Q1 2023 — \$7.1 million) or \$0.11 per common share (Q1 2023 — \$0.10 per common share). These dividends were paid on April 15, 2024 and recorded as dividends payable in accounts payable and accrued liabilities during Q1 2024. There were no dividends paid during Q1 2023.

Critical Accounting Estimates and Judgments

The critical accounting estimates and judgments as disclosed in the Company’s audited consolidated financial statements and accompanying notes for Fiscal 2023 have been applied consistently in the preparation of this MD&A.

Risk Factors

For a detailed description of risk factors relating to the Company, please refer to the “Risk Factors” section of the Company’s AIF, which is available on SEDAR+ at www.sedarplus.ca.

The Company’s activities expose it to a variety of financial risks: credit risk, liquidity risk, foreign currency risk, and interest rate risk. The Company’s overall risk management program and business practices seek to minimize any potential adverse effects on the Company’s consolidated financial performance. Risk management is carried out by the senior management team under policies approved by the Company’s Board of Directors.

Foreign Currency Risk

The Company is exposed to currency risk related to some of its purchases. Specifically, the Company sources some of its merchandise in U.S. dollars. Inventory purchases sourced outside Canada and primarily denominated in U.S. dollars represented approximately 23% on a trailing twelve months basis as at the end of Q1 2024.

The Company is also exposed to currency risks on financial assets and liabilities denominated in foreign currencies. These assets and liabilities are of a short-term nature and management does not believe they represent a significant risk to the Company. As a result of the revaluation of these financial assets and liabilities, a five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed income before income taxes for Q1 2024 by \$0.5 million (Q1 2023 — \$0.4 million) as a result of the revaluation on these financial assets and liabilities.

Interest Rate Risk

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

A one percentage point change in the applicable interest rate on the 2021 Credit Agreement based on the debt outstanding as at the end of Q1 2024 would have changed income before taxes for Q1 2024 by \$0.7 million (Q1 2023 — \$0.8 million).

Credit Risk

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

Liquidity Risk

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

Recent Accounting Pronouncements

Adoption of new accounting standards and amendments

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

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

Accounting standards and amendments issued but not yet adopted

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure of Financial Statements* which replaces IAS 1. IFRS 18 introduces new requirements on presentation within the statement of income or loss, including specified totals and subtotals, disclosure of management-defined performance measures, and aggregation and disaggregation of financial information based on identified roles of the

primary financial statements and the notes. In addition, narrow scope amendments have been made to IAS 7, *Statement of Cash Flows* which include changing the starting point for determining cash flows from operations under the indirect method and the removal of the optionality around the classification of cash flows from dividends and interest. Some requirements previously included in IAS 1 have been moved to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, which has also been renamed to IAS 8, *Basis of Preparation of Financial Statements*. IAS 34, *Interim Financial Reporting* was also amended to require the disclosure of management-defined performance measures. Minor consequential amendments to other standards were also made. The amendments are effective for reporting periods beginning on or after January 1, 2027. Earlier application is permitted. The Company is currently assessing the potential impact of IFRS 18 and the narrow scope amendments.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its certifying officers, namely the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding public disclosure. An evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), was carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, the CEO and CFO have concluded that the design of these controls were effective as at March 30, 2024.

The Company also maintains a system of internal controls over financial reporting designed under the supervision of the Company's CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework (2013) established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, the CEO and the CFO have concluded that the design of the Company's internal controls over financial reporting, as defined by NI 52-109, was effective as at March 30, 2024.

Subsequent Events

On May 6, 2024, the Board of Directors of the Company declared a dividend of \$0.11 per common share payable on June 17, 2024 to holders of common shares of record as at the close of business on May 31, 2024.

Outlook

For the full year 2024, the Company expects:

- Revenue between \$1.11 and \$1.14 billion, supported by same-store sales growth of between 2% and 5%, 40 to 50 new store openings and higher wholesale merchandise sales penetration with Chico franchisees;
- Adjusted EBITDA between \$248 and \$254 million, supported by operating expense leverage, partially offset by pricing investment;
- Adjusted Net Income per Diluted Share between \$1.57 and \$1.63, which incorporates approximately \$20 million pre-tax, or \$0.20 per diluted share, of incremental depreciation and lease liability interest expense associated with the new GTA and MVR distribution centres;

- Business transformation costs of approximately \$17 million pre-tax, information technology costs of approximately \$7 million pre-tax, and share-based compensation of approximately \$12 million pre-tax, all of which are excluded from Adjusted EBITDA and Adjusted Net Income per Diluted Share; and
- Net Capital Expenditures of approximately \$55 million, roughly half of which is attributable to investments in the Company's supply chain transformation.

Additional Information

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