PET VALU HOLDINGS LTD.

Condensed Interim Consolidated Financial Statements
For the 13-week and 39-week periods ended September 30, 2023 and October 1, 2022
(Unaudited)

PET VALU HOLDINGS LTD.

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

	Note	As at September 30, 2023	As at December 31, 2022
Assets			
Current assets:			
Cash		$ 11,341	$ 63,034
Accounts and other receivables		24,519	22,965
Inventories, net		135,047	118,410
Income taxes recoverable	11	3,944	—
Prepaid expenses and other assets		21,040	22,262
Current portion of lease receivables	5	32,653	29,827
Total current assets		228,544	256,498
Non-current assets:			
Long-term lease receivables	5	152,176	141,187
Right-of-use assets, net	5	172,294	82,242
Property and equipment, net	7	113,861	91,774
Intangible assets, net	8	52,582	52,280
Goodwill		97,600	97,574
Deferred tax assets	11	6,652	6,652
Investment in associate	15, 16	—	4,708
Other assets		4,223	7,261
Total non-current assets		599,388	483,678
Total assets		$ 827,932	$ 740,176
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 96,699	$ 103,782
Income taxes payable	11	—	15,141
Current portion of deferred franchise fees		1,238	1,197
Current portion of lease liabilities	5	59,609	51,335
Current portion of long-term debt	9	17,750	17,750
Total current liabilities		175,296	189,205
Non-current liabilities:			
Long-term deferred franchise fees		4,091	4,017
Long-term lease liabilities	5	308,527	215,966
Long-term debt	9	279,626	320,063
Deferred tax liabilities	11	8,246	8,250
Other liabilities	17	5,767	2,299
Total non-current liabilities		606,257	550,595
Total liabilities		781,553	739,800
Shareholders' equity:			
Common shares	12	321,698	316,208
Contributed surplus		5,209	4,107
Deficit		(280,387)	(319,780)
Currency translation reserve		(141)	(159)
Total shareholders' equity		46,379	376
Total liabilities and shareholders' equity		$ 827,932	$ 740,176

Commitments, contingencies and guarantees (Note 18)
Subsequent events (Note 20)

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

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

PET VALU HOLDINGS LTD.

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

		13-week periods ended		39-week periods ended	
	Note	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Revenue:					
Retail sales	4	$ 106,708	$ 103,167	$ 311,739	$ 293,297
Franchise and other revenues	4	155,586	141,557	457,220	392,356
Total revenue		262,294	244,724	768,959	685,653
Cost of sales		174,977	151,182	502,323	429,660
Gross profit		87,317	93,542	266,636	255,993
Selling, general and administrative expenses		49,947	50,231	154,175	138,212
Total operating income		37,370	43,311	112,461	117,781
Interest expenses, net	10	8,128	5,508	22,190	14,049
Loss on foreign exchange		246	832	444	931
Other loss (gain)	15	3,160	(83)	4,718	(207)
Income before income taxes		25,836	37,054	85,109	103,008
Income tax expense	11	7,860	10,068	24,326	28,123
Net income		17,976	26,986	60,783	74,885
Other comprehensive income, net of tax:					
Currency translation adjustments that may be reclassified to net income, net of tax		(25)	22	18	25
Comprehensive income for the period attributable to the shareholders of the Company		$ 17,951	$ 27,008	$ 60,801	$ 74,910
Basic net income per share attributable to the common shareholders	13	$ 0.25	$ 0.38	$ 0.85	$ 1.06
Diluted net income per share attributable to the common shareholders	13	$ 0.25	$ 0.38	$ 0.84	$ 1.04

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

PET VALU HOLDINGS LTD.

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

For the 39-week period ended September 30, 2023	Common shares	Contributed surplus	Deficit	Currency translation reserve	Total
Balance, December 31, 2022	$ 316,208	$ 4,107	$ (319,780)	$ (159)	$ 376
Net income	—	—	60,783	—	60,783
Exercise of share options (Notes 12, 14)	5,490	(1,141)	—	—	4,349
Share-based compensation on option plans (Note 14)	—	2,243	—	—	2,243
Foreign currency translation	—	—	—	18	18
Dividends on common shares (Note 12)	—	—	(21,390)	—	(21,390)
Balance, September 30, 2023	$ 321,698	$ 5,209	$ (280,387)	$ (141)	$ 46,379

For the 39-week period ended October 1, 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	—	—	74,885	—	74,885
Exercise of share options (Notes 12, 14)	4,694	—	—	—	4,694
Share-based compensation on option plans (Note 14)	—	2,254	—	—	2,254
Foreign currency translation	—	—	—	25	25
Dividends on common shares (Note 12)	—	—	(12,676)	—	(12,676)
Balance, October 1, 2022	$ 312,191	$ 4,033	$ (341,410)	$ (154)	$ (25,340)

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

PET VALU HOLDINGS LTD.

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

		13-week periods ended		39-week periods ended	
	Note	**September 30, 2023**	**October 1, 2022**	**September 30, 2023**	**October 1, 2022**
Cash provided by (used in):					
Operating activities:					
Net income for the period		$ 17,976	$ 26,986	$ 60,783	$ 74,885
Adjustments for items not affecting cash:					
Depreciation and amortization	5, 7, 8	14,187	9,595	35,719	27,741
Deferred franchise fees		74	160	137	66
Gain on disposal of property and equipment		(1,017)	(277)	(1,321)	(319)
Loss on sale of right-of-use assets	5	155	300	689	460
Loss on foreign exchange		246	832	444	931
(Gain) loss on financial instruments	15	—	(255)	1,302	(499)
Share-based compensation expense	14	1,025	1,799	2,989	4,318
Share of loss from associate	15	3,160	172	3,416	292
Interest expenses, net	10	8,128	5,508	22,190	14,049
Income tax expense	11	7,860	10,068	24,326	28,123
Income taxes paid		(9,360)	(5,550)	(43,130)	(31,123)
Security deposits paid		—	—	—	(5,073)
Changes in non-cash operating working capital:					
Accounts receivable		(601)	(1,927)	(1,740)	(5,606)
Inventories		(4,261)	(19,191)	(16,541)	(43,747)
Prepaid expenses		(8,151)	(1,378)	(4,589)	(3,215)
Accounts payable and accrued liabilities		5,023	6,982	(4,544)	15,301
Net cash provided by operating activities		34,444	33,824	80,130	76,584
Financing activities:					
Proceeds from exercise of share options	12	5	511	4,349	4,694
Dividends paid on common shares	12	(7,146)	(4,236)	(21,390)	(12,676)
Repayment of 2021 Term Facility	9	(4,438)	(2,218)	(41,312)	(6,656)
Interest paid on long-term debt		(3,797)	(5,468)	(7,664)	(12,639)
Repayment of principal on lease liabilities	5	(8,210)	(12,026)	(39,068)	(35,841)
Interest paid on lease liabilities	5, 10	(4,554)	(2,970)	(11,151)	(8,788)
Standby letter of credit commitment fees		(209)	(314)	(872)	(628)
Net cash used in financing activities		(28,349)	(26,721)	(117,108)	(72,534)
Investing activities:					
Business acquisition, net of cash acquired	6	—	291	(3,000)	(12,538)
Purchases of property and equipment	7	(14,881)	(7,041)	(42,262)	(16,693)
Purchase of intangible assets	8	(714)	(713)	(2,689)	(2,686)
Proceeds on disposal of property and equipment		1,669	607	2,870	1,382
Right-of-use asset initial direct costs		(464)	(600)	(1,454)	(1,218)
Tenant allowances		537	117	1,185	672
Notes receivable		157	597	1,050	895
Lease receivables	5	7,692	6,788	22,269	20,017
Interest received on lease receivables and other		2,556	2,237	8,065	6,052
Investment in associate	15	—	(645)	—	(1,779)
Repurchase of franchises	6	—	—	(512)	—
Net cash (used in) provided by investing activities		(3,448)	1,638	(14,478)	(5,896)
Effect of exchange rate on cash		(113)	(426)	(237)	(440)
Net increase (decrease) in cash		2,534	8,315	(51,693)	(2,286)
Cash, beginning of period		8,807	39,467	63,034	50,068
Cash, end of period		$ 11,341	$ 47,782	$ 11,341	$ 47,782

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 September 30, 2023, the Company operates 225 corporate-owned stores (December 31, 2022 — 225) and has 541 franchise stores (December 31, 2022 — 519) in 10 provinces in Canada.

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

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

2. Basis of presentation:

(a) Statement of compliance:

These condensed interim consolidated financial statements ("interim financial statements") have been prepared under International Financial Reporting Standards (“IFRS”) in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, 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 November 6, 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 uncertainty were the same as those applied in Note 2 of the audited annual consolidated financial statements for the 52-week period ended December 31, 2022. Actual results could differ from those estimates and assumptions.

3. Significant accounting policies:

These interim financial statements have been prepared using the accounting policies as outlined in Note 3 of the audited annual consolidated financial statements for the 52-week period ended December 31, 2022 and have been applied consistently in the preparation of these interim financial statements. Changes to significant accounting policies are described below:

(a) Provisions:

A restoration provision is a legal obligation associated with the restoration of a leased premise when the Company is contractually obligated to restore the leased premise to the original condition at the end of the lease. The Company recognizes the best estimate of the expenditure required to settle the liability and discounted to present value where the effect is material, with the corresponding increase in the carrying value of the related right-of-use ("ROU") asset when such obligations are incurred. The liability is classified in other liabilities and is accreted to its projected future value over time. The ROU asset is depreciated over the remaining lease term. Differences between the recorded provision and the actual restoration costs incurred are recognized as a gain or loss in the condensed interim consolidated statements of income and comprehensive income.

(b) 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.

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

4. Revenue:

The following table disaggregates the Company's retail sales and franchise revenue by category for the periods ended September 30, 2023 and October 1, 2022:

	13-week periods ended		39-week periods ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Retail sales:				
Merchandise sales	$ 105,297	$ 101,927	$ 307,926	$ 289,828
In-store services	1,411	1,240	3,813	3,469
Total retail sales	106,708	103,167	311,739	293,297
Franchise and other revenues:				
Wholesale merchandise sales	123,007	110,875	360,359	306,777
Royalties and sub-lease revenues	24,335	22,830	71,428	64,280
Franchise contributions for advertising and other services	8,244	7,852	25,433	21,299
Total franchise and other revenues	155,586	141,557	457,220	392,356
Total revenue	$ 262,294	$ 244,724	$ 768,959	$ 685,653

5. Leases:

(a) ROU assets:

The following table reconciles the changes in ROU assets for the period ended September 30, 2023:

	Leased premises	Other	Total
Balance, December 31, 2022	$ 78,532	$ 3,710	$ 82,242
Net additions(1)	107,535	682	108,217
Depreciation	(17,109)	(1,056)	(18,165)
Balance, September 30, 2023	$ 168,958	$ 3,336	$ 172,294

(1) Includes net additions to ROU assets of $84,310 related to the new Greater Toronto Area ("GTA") distribution centre.

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. The depreciation included in cost of sales for the 13-week and 39-week periods ended September 30, 2023 was $7,217 and $17,186, respectively (13-week and 39-week periods ended October 1, 2022 — $4,841 and $14,295, respectively). The depreciation included in selling, general and administrative expenses for the 13-week and 39-week periods ended September 30, 2023 was $488 and $979, respectively (13-week and 39-week periods ended October 1, 2022 — $178 and $531, respectively). Loss on sale of ROU assets recognized on the sale of corporate-owned stores to franchisees for the 13-week and 39-week periods ended September 30, 2023 were $155 and $689, respectively (13-week and 39-week periods ended October 1, 2022 — $300 and $460, respectively).

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

5. Leases (continued):

(b) Lease liabilities:

The following table reconciles the changes in lease liabilities for the period ended September 30, 2023:

	Leased premises	Other	Total
Balance, December 31, 2022	$ 263,347	$ 3,954	$ 267,301
Additions[(1)]	139,218	685	139,903
Interest expense on lease liabilities	10,967	184	11,151
Repayment of interest and principal	(48,934)	(1,285)	(50,219)
Balance, September 30, 2023	$ 364,598	$ 3,538	$ 368,136
Current portion of lease liabilities	$ 58,425	$ 1,184	$ 59,609
Long-term lease liabilities	306,173	2,354	308,527
Total lease liabilities	$ 364,598	$ 3,538	$ 368,136

(1) Includes additions to lease liabilities of $79,684 related to the new GTA distribution centre.

The Company makes variable lease payments for common area maintenance, property tax, security, and utilities on leased premises. The Company also has certain retail store leases where portions of the lease payments are contingent on a percentage of sales earned in the retail store. Expenses for variable lease components are included in cost of sales and selling, general and administrative expenses in the condensed interim consolidated statements of income and comprehensive income. Expenses for variable lease components included in cost of sales for the 13-week and 39-week periods ended September 30, 2023 were $8,169 and $23,360, respectively (13-week and 39-week periods ended October 1, 2022 — $6,783 and $19,661, respectively). Expenses for variable lease components included in selling, general and administrative expenses for the 13-week and 39-week periods ended September 30, 2023 were $44 and $138, respectively (13-week and 39-week periods ended October 1, 2022 — $36 and $136, respectively).

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

Remainder for fiscal year 2023	$ 19,214
2024	75,873
2025	74,939
2026	59,040
2027	49,383
Thereafter	162,755
Total	$ 441,204

(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 September 30, 2023 and December 31, 2022, the Company had lease receivables as follows:

		September 30, 2023		December 31, 2022
Current portion of lease receivables	$	32,653	$	29,827
Long-term lease receivables		152,176		141,187
Total lease receivables	$	184,829	$	171,014

Finance income on lease receivables for the 13-week and 39-week periods ended September 30, 2023 was $2,249 and $6,484, respectively (13-week and 39-week periods ended October 1, 2022 — $1,873 and $5,439, respectively). Franchisees make variable lease payments primarily for common area maintenance, property tax, and a percentage of sales earned in their retail store. Revenue from variable lease components included in franchise and other revenues in the condensed interim consolidated statements of income and comprehensive income for the 13-week and 39-week periods ended September 30, 2023 was $10,998 and $32,851, respectively (13-week and 39-week periods ended October 1, 2022 — $10,697 and $30,126, respectively).

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. The contingent consideration was paid to sellers during the 13-week period ended July 1, 2023, which was within 90 days of the 12-month anniversary date of the acquisition.

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

6. Business acquisitions (continued):

Franchise repurchases:

The following table discloses franchise repurchases for the 39-week period ended September 30, 2023. There were no repurchases of franchise stores for the period ended October 1, 2022. The franchise repurchases have been accounted for through the acquisition method.

		September 30, 2023
Number of stores repurchased		1
Inventories	$	96
Property and equipment		309
Goodwill		107
Cash consideration	$	512

7. Property and equipment:

During the 13-week and 39-week periods ended September 30, 2023, the Company had property and equipment additions of $14,158 and $38,569, respectively (13-week and 39-week periods ended October 1, 2022 — $7,041 and $16,693, respectively). During the 13-week and 39-week periods ended September 30, 2023, the Company had net disposals of $622 and $1,315, respectively, the majority of which were related to leasehold improvements and furniture and fixtures for its corporate-owned stores (13-week and 39-week periods ended October 1, 2022 — $276 and $942, respectively). Depreciation on property and equipment for the 13-week and 39-week periods ended September 30, 2023 was $5,552 and $15,167, respectively (13-week and 39-week periods ended October 1, 2022 — $3,962 and $11,444, respectively).

8. Intangible assets:

During the 13-week and 39-week periods ended September 30, 2023, the Company had intangible asset additions of $714 and $2,689, respectively, the majority of which were related to software (13-week and 39-week periods ended October 1, 2022 — $713 and $2,686, respectively). Amortization on intangible assets for the 13-week and 39-week periods ended ended September 30, 2023 was $930 and $2,387, respectively (13-week and 39-week periods ended October 1, 2022 — $614 and $1,471, respectively).

(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 September 30, 2023 and December 31, 2022 consists of the following:

	September 30, 2023	December 31, 2022
2021 Term Facility (a)	$ 300,375	$ 341,687
Deferred financing costs	(2,999)	(3,874)
	297,376	337,813
Less current portion of long-term debt	(17,750)	(17,750)
Total long-term debt	$ 279,626	$ 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 September 30, 2023 and October 1, 2022, the Company was in compliance with all of its covenants.

During the 39-week period ended September 30, 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 SOFR rate and Canadian reference rate, respectively.

The Company had unused borrowing capacity available under the 2021 Revolving Facility of $130,000 as of September 30, 2023.

10. Interest expenses:

Interest expenses, net consist of the following:

	13-week periods ended		39-week periods ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
2021 Credit Agreement	$ 5,719	$ 4,253	$ 17,202	$ 9,599
Amortization of deferred financing costs	289	297	875	896
Interest on lease liabilities	4,554	2,970	11,151	8,788
Interest income on lease receivables	(2,249)	(1,873)	(6,484)	(5,439)
Standby letter of credit commitment fees	205	332	868	988
Other interest income, net	(390)	(471)	(1,422)	(783)
Interest expenses, net	$ 8,128	$ 5,508	$ 22,190	$ 14,049

11. Income taxes:

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. Income tax expenses for the 13-week and 39-week periods ended September 30, 2023 were $7,860 and $24,326, respectively (13-week and 39-week periods ended October 1, 2022 — $10,068 and $28,123, respectively). The Company's effective income tax rates for the 13-week and 39-week periods ended September 30, 2023 were 30.4% and 28.6%, respectively (13-week and 39-week periods ended October 1, 2022 — 27.2% and 27.3%, respectively). The statutory income tax rate for the 13-week and 39-week periods ended September 30, 2023 was 26.5% (13-week and 39-week periods ended October 1, 2022 — 26.5%).

The Company is subject to routine audits of its tax filing positions by the Canada Revenue Agency ("CRA"). In September 2023, the CRA reassessed the Company an additional approximately $6,000 of income tax plus interest in respect of the Company's 2018 taxation year on the basis that certain interest expenses incurred in that year were not deductible. It is possible that the CRA will reassess certain subsequent taxation years on a similar basis. The Company intends to vigorously contest the reassessment. The Company and its tax advisors believe that the tax filing positions are appropriate. Accordingly, no amounts or provision has been recorded in the consolidated financial statements in respect of the 2018 reassessment.

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 fully cover the amount of tax which may ultimately be imposed.

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

12. Share capital:

(a) Common shares:

As of September 30, 2023, there were 71,463,986 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	487,515		5,490
Balance, September 30, 2023	71,463,986	$	321,698

(b) Dividends:

The Company's dividend policy is at the discretion of the Board of Directors. For the 39-week period ended September 30, 2023, the Company paid $21,390 in dividends to holders of common shares (39-week period ended October 1, 2022 — $12,676) or $0.30 per common share (39-week period ended October 1, 2022 — $0.18).

(c) 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 $150,315 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 $322 were paid by the Company and included in selling, general and administrative expenses for the 39-week period ended September 30, 2023.

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

13. Net income per share:

(a) Basic net income per share:

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

	13-week periods ended		39-week periods ended	
	September 30, 2023	**October 1, 2022**	**September 30, 2023**	**October 1, 2022**
Net income attributable to shareholders of the Company	$ 17,976	$ 26,986	$ 60,783	$ 74,885
Weighted average number of common shares outstanding during the period *(thousands)*	71,464	70,576	71,226	70,347
Basic net income per share attributable to the common shareholders	$ 0.25	$ 0.38	$ 0.85	$ 1.06

(b) Diluted net income per share:

Diluted 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 adjusted for the effects of potentially dilutive share options and share units.

	13-week periods ended		39-week periods ended	
	September 30, 2023	**October 1, 2022**	**September 30, 2023**	**October 1, 2022**
Net income attributable to shareholders of the Company	$ 17,976	$ 26,986	$ 60,783	$ 74,885
Weighted average number of common shares outstanding during the period *(thousands)*	72,138	71,828	72,244	71,825
Diluted net income per share attributable to the common shareholders	$ 0.25	$ 0.38	$ 0.84	$ 1.04

13. Net income per share (continued):

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

	13-week periods ended		39-week periods ended	
	September 30, 2023	**October 1, 2022**	**September 30, 2023**	**October 1, 2022**
Basic weighted average number of common shares	71,464	70,576	71,226	70,347
Dilutive effect of share options in the Amended and Restated Share Option Plan	622	1,144	916	1,372
Dilutive effect of share options in the LTIP	52	108	102	106
Diluted weighted average number of common shares	72,138	71,828	72,244	71,825

For the 13-week and 39-week periods ended September 30, 2023, 296,357 performance-based share options granted pursuant to the Amended and Restated Share Option Plan were not included in the calculation of diluted net income per share, as the vesting conditions required to convert these options to common shares were not met (13-week and 39-week periods ended October 1, 2022 — 580,657).

For the 13-week and 39-week periods ended September 30, 2023, 461,466 and 215,136 LTIP share options were not included in the calculation of diluted net income per share, respectively, as they were anti-dilutive and/or not in the money (13-week and 39-week periods ended October 1, 2022 — 199,251).

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	(478,176)	$ 8.66
Forfeited	(30,160)	$ 9.73
Outstanding, September 30, 2023	1,258,963	$ 9.72

(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, September 30, 2023	1,258,963	$ 9.72	5.77	$ 18,468
Vested and expected to vest	1,258,963	$ 9.72	5.77	$ 18,468
Exercisable, September 30, 2023	694,084	$ 9.71	5.53	$ 10,187

During the 13-week and 39-week periods ended September 30, 2023, the Company recorded share-based compensation expense in relation to the Amended and Restated Share Option Plan of $299 and $917, respectively (13-week and 39-week periods ended October 1, 2022 — $465 and $1,394, respectively), which was included in selling, general and administrative expenses.

(b) LTIP:

(i) Share options:

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

	Options	Weighted average exercise price
Outstanding, December 31, 2022	532,143	$ 25.78
Granted	230,966	$ 40.08
Exercised	(9,339)	$ 22.06
Forfeited	(101,284)	$ 26.42
Outstanding, September 30, 2023	652,486	$ 30.80

	Options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding, September 30, 2023	652,486	$ 30.80	8.63	$ 839
Vested and expected to vest	612,737	$ 30.46	8.60	$ 839
Exercisable, September 30, 2023	123,782	$ 25.31	8.15	$ 280

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

14. Share-based compensation (continued):

The Company uses the Black-Scholes option pricing model to calculate the fair value of options at the date of grant. The weighted-average assumptions used in the model for options granted during the 39-week period ended September 30, 2023 are as follows:

Weighted-average risk-free interest rate		3.43 %
Expected life (years)		5.50 — 7.00
Expected dividend yield		1.00 %
Expected volatility		28.40 %
Forfeiture rate		10.00 %
Weighted-average fair value per option granted	$	12.54

During the 13-week and 39-week periods ended September 30, 2023, the Company recorded share-based compensation expense in relation to the LTIP share options of $742 and $1,326, respectively (13-week and 39-week periods ended October 1, 2022 — $346 and $860, respectively), which was included in selling, general and administrative expenses.

(ii) RSUs:

The table below summarizes the RSU activity under the LTIP:

	Number of RSUs
Outstanding, December 31, 2022	94,259
Granted[(1)]	96,587
Forfeited	(16,121)
Outstanding, September 30, 2023	174,725

[(1)] Includes additional units issued in lieu of cash dividends.

The fair market value of future RSU cash-settlement obligations was $1,502 at September 30, 2023 (October 1, 2022 — $610). During the 13-week and 39-week periods ended September 30, 2023, the Company recorded share-based compensation expense for RSU cash-settlement obligations of $89 and $559, respectively (13-week and 39-week periods ended October 1, 2022 — $320 and $610, respectively).

(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[1]	69,753
Forfeited	(12,342)
Outstanding, September 30, 2023	136,498

[1] Includes additional units issued in lieu of cash dividends.

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

The key inputs used in the measurement of the fair value of the PSUs granted during the 39-week period ended September 30, 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 $1,407 at September 30, 2023 (October 1, 2022 — $630). During the 13-week and 39-week periods ended September 30, 2023, the Company recorded share-based compensation expense for PSU cash-settlement obligations of $13 and $304, respectively (13-week and 39-week periods ended October 1, 2022 — $319 and $630, respectively).

(c) Deferred share unit plan ("DSU Plan"):

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

	Number of DSUs
Outstanding, December 31, 2022	51,893
Granted[1]	18,069
Forfeited	(1,055)
Outstanding, September 30, 2023	68,907

[1] Includes additional units issued in lieu of cash dividends.

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

14. Share-based compensation (continued):

The fair market value of future DSU cash-settlement obligations was $1,528 at September 30, 2023 (October 1, 2022 — $1,244). During the 13-week and 39-week periods ended September 30, 2023, the Company recorded share-based compensation (recovery) expense for DSU cash-settled obligations of $(118) and $(117), respectively (13-week and 39-week periods ended October 1, 2022 — $349 and $824, respectively).

15. Investment in associate:

During the 39-week period ended September 30, 2023, the agreement in connection with the investment in HAFTAL LLC 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 condensed interim consolidated statements of financial position. During the 13-week and 39-week periods ended September 30, 2023, the Company recorded an impairment loss of $3,160, which is included in share of loss from associate. The Company's share of loss from associate and the loss on the derecognition of the Call Option are included in other loss (gain) in the condensed interim consolidated statements of income and comprehensive income.

The following table reconciles the change in the investment in associate for the 39-week period ended September 30, 2023:

	Investment	Call Option	Total
Balance, December 31, 2022	$ 3,417	$ 1,291	$ 4,708
Share of loss from associate[1]	(3,416)	—	(3,416)
Loss on derecognition	—	(1,302)	(1,302)
Currency translation adjustments	(1)	11	10
Balance, September 30, 2023	$ —	$ —	$ —

[1] Includes impairment of investment in associate.

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.

16. Financial instruments and risk management (continued):

(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 condensed interim consolidated financial statements.

(c) Market risk:

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk 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 39-week period ended September 30, 2023 by $559 (39-week period ended October 1, 2022 — $363), 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 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 September 30, 2023 would have changed income before income taxes for the 39-week period ended September 30, 2023 by $2,253 (39-week period ended October 1, 2022 — $2,579).

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

16. Financial instruments and risk management (continued):

(d) Fair values:

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

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

There were no transfers between levels of the fair value hierarchy for the 39-week periods ended September 30, 2023 and October 1, 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:

		September 30, 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
Long-term debt, including current portion[1]	(Level 2)	$ 297,376	$ 300,375	$ 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 as of December 31, 2022.

17. Provisions:

For the 39-week period ended September 30, 2023, the Company recognized a restoration provision of $2,583 associated with the new GTA distribution centre as the Company is contractually obligated to restore the leased premise to the original condition at the end of the lease. The restoration provision is included in other liabilities on the condensed interim consolidated statements of financial position. The Company recognized a corresponding increase in the cost of the associated ROU asset.

18. Commitments, contingencies and guarantees:

(a) Distribution centre commitments:

(i) Greater Toronto Area:

On December 19, 2022, the Company entered into an agreement to procure certain material handling systems with commitments totaling approximately $6,959 to be paid in fiscal years 2023 and 2024.

(ii) Metro Vancouver region:

On July 19, 2023, the Company entered into a lease agreement for a distribution centre in the Metro Vancouver region. The lease is for an initial term of 10 years with lease payments commencing on January 1, 2024. The Company expects future undiscounted contractual lease payments of approximately $92,000 over the term of the lease.

(b) Guarantees of indebtedness:

The Company has provided the following guarantees as of September 30, 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 September 30, 2023, the future lease commitment is $214 (US$158) (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.

18. Commitments, contingencies and guarantees (continued):

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 condensed interim consolidated 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 condensed interim consolidated financial position, operating results or liquidity.

19. Related party transactions:

On May 1, 2021, the Company entered into a transition services agreement with its former subsidiaries, pursuant to which the parties provide to each other certain information technology, real estate and human resources and benefits services on a no cost or at cost basis. The transition services agreement expired on August 23, 2023. The Company charged the former subsidiaries $nil under the transition services agreement for the the 13-week and 39-week periods ended September 30, 2023 (13-week and 39-week periods ended October 1, 2022 — $nil and $114, respectively).

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 $219 and $790 under the product sourcing and brand license agreement for the 13-week and 39-week periods ended September 30, 2023, respectively (13-week and 39-week periods ended October 1, 2022 — $236 and $754, respectively).

During the period ended December 28, 2019, the Company received a promissory note related to the exercise of options by an employee. During the 39-week period ended September 30, 2023, the outstanding balance of $499 (US$372) was repaid by the employee. This promissory note had a balance outstanding of $504 (US$372) as of December 31, 2022.

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.

20. Subsequent events:

On November 6, 2023, the Board of Directors of the Company declared a dividend of $0.10 per common share payable on December 15, 2023 to holders of common shares of record as at the close of business on November 30, 2023.