



PET VALU HOLDINGS LTD.

Condensed Interim Consolidated Financial Statements
For the 13-week and 39-week periods ended
October 2, 2021 and September 26, 2020
(Unaudited)

PET VALU HOLDINGS LTD.

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

	Note	As at October 2, 2021	As at January 2, 2021
			(Note 2(a))
Assets			
Current assets:			
Cash		\$ 23,312	\$ 71,481
Accounts and other receivables		15,261	12,629
Inventories, net		88,122	78,012
Prepaid expenses and other assets		12,662	8,585
Current portion of lease receivables	5	25,244	23,145
Total current assets		164,601	193,852
Non-current assets:			
Lease receivables	5	110,322	96,743
Right-of-use assets	5	78,850	84,950
Property and equipment	7	57,097	55,738
Intangible assets	8	36,924	36,072
Goodwill		93,101	93,276
Other assets		1,251	1,488
Total non-current assets		377,545	368,267
Total assets		\$ 542,146	\$ 562,119
Liabilities and Shareholders' Deficit			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 82,747	\$ 99,954
Income taxes payable	11	7,498	1,042
Current portion of deferred franchise fees		995	891
Current portion of lease liabilities	5	44,997	42,753
Current portion of long-term debt	9	8,875	7,448
Total current liabilities		145,112	152,088
Non-current liabilities:			
Long-term deferred franchise fees		3,036	2,475
Long-term lease liabilities	5	179,203	173,906
Long-term debt	9	338,538	698,912
Deferred tax liabilities	11	3,145	4,282
Total non-current liabilities		523,922	879,575
Total liabilities		669,034	1,031,663
Shareholders' deficit:			
Common shares	12	302,053	—
Contributed surplus		900	—
Deficit		(429,660)	—
Currency translation reserve		(181)	—
Group's net investment	12	—	(588,530)
Non-controlling interests	12	—	118,986
Total shareholders' deficit		(126,888)	(469,544)
Total liabilities and shareholders' deficit		\$ 542,146	\$ 562,119

Commitments, contingencies and guarantees (Note 16)

Subsequent events (Note 18)

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

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

PET VALU HOLDINGS LTD.

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

	Note	13-week periods ended		39-week periods ended	
		October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
		(Note 2(a))		(Note 2(a))	
Revenue:					
Retail sales	4	\$ 88,836	\$ 72,890	\$ 250,641	\$ 205,685
Franchise and other revenues	4	111,870	86,922	302,319	239,368
Total revenue		200,706	159,812	552,960	445,053
Cost of sales		122,374	101,877	347,805	289,921
Gross profit		78,332	57,935	205,155	155,132
Selling, general and administrative expenses		39,354	30,910	116,998	87,020
Asset impairments	5	17	—	17	—
Total operating income		38,961	27,025	88,140	68,112
Interest expenses, net	10	4,492	15,011	42,470	48,338
Loss (gain) on foreign exchange	9	369	(164)	(42,665)	(936)
Income before income taxes		34,100	12,178	88,335	20,710
Income taxes expense	11	9,751	3,479	16,283	5,917
Net income		24,349	8,699	72,052	14,793
Less:					
Net income attributable to non-controlling interests	12	—	1,749	3,430	5,604
Net income attributable to the Company		24,349	6,950	68,622	9,189
Other comprehensive income, net of tax:					
Currency translation adjustments reclassified to net income	9	—	—	(29,665)	—
Currency translation adjustments that may be reclassified to net income, net of tax		10	16,139	21,080	(19,330)
Comprehensive income (loss) for the period attributable to the Company		\$ 24,359	\$ 23,089	\$ 60,037	\$ (10,141)
Basic net income per share attributable to the Company	13	\$ 0.35	\$ 0.13	\$ 0.98	\$ 0.17
Diluted net income per share attributable to the Company	13	\$ 0.34	\$ 0.13	\$ 0.96	\$ 0.17

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, in thousands of Canadian dollars)

	Note	13-week periods ended		39-week periods ended	
		October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
			(Note 2(a))		(Note 2(a))
Cash provided by (used in):					
Operating activities:					
Net income for the period		\$ 24,349	\$ 8,699	\$ 72,052	\$ 14,793
Adjustments for:					
Depreciation and amortization	5,7,8	8,434	7,874	25,077	23,406
Impairment of right-of-use assets	5	17	—	17	—
Deferred franchise fees		336	(19)	665	70
(Gain) loss on disposal of property and equipment		(430)	7	(858)	(68)
Gain on sale of right-of-use assets	5	(109)	(51)	(285)	(76)
Loss (gain) on foreign exchange	9	369	(164)	(42,665)	(936)
Share-based compensation expense	14	1,023	—	1,045	—
Interest expenses, net	10	4,492	15,011	42,470	48,338
Income taxes expense	11	9,751	3,479	16,283	5,917
Income taxes (paid) refunded		(2,719)	23	(10,398)	(2,467)
Change in non-cash operating working capital:					
Accounts receivable		1,999	(1,529)	(2,604)	1,620
Inventories		(1,333)	(6,553)	(10,110)	(909)
Prepaid expenses		(1,922)	(98)	(1,742)	(858)
Accounts payable and accrued liabilities		12,184	2,592	(3,879)	33,617
Net cash provided by operating activities		56,441	29,271	85,068	122,447
Financing activities:					
Issuance of common shares, net of transaction costs	12	—	—	295,210	—
Proceeds from exercise of share options	12	62	—	62	—
Proceeds of 2021 Term Facility	9	—	—	355,000	—
Repayment of 2021 Term Facility	9	(2,219)	—	(2,219)	—
Proceeds of 2021 Revolving Credit Facility		—	—	40,000	—
Repayment of 2021 Revolving Credit Facility	9	(40,000)	—	(40,000)	—
Repayment of 2016 Term Loans	9	—	(1,962)	(680,424)	(5,945)
Proceeds of 2016 Revolving Credit Facility		—	—	—	28,112
Repayment of 2016 Revolving Credit Facility	9	—	(28,112)	—	(28,112)
Interest paid on long-term debt		(2,560)	(13,592)	(38,975)	(43,066)
Repayment of principal on lease liabilities	5	(11,361)	(10,204)	(35,167)	(30,543)
Interest paid on lease liabilities	5,10	(2,888)	(2,855)	(8,649)	(8,186)
Financing costs	9	—	—	(6,589)	—
Standby letter of credit commitment fees	10,11	(52)	—	(4,355)	—
Net distributions	17	—	(1,958)	(16,983)	(15,921)
Net cash used in financing activities		(59,018)	(58,683)	(143,089)	(103,661)
Investing activities:					
Purchases of property and equipment	7	(4,490)	(2,296)	(14,770)	(5,482)
Purchase of intangible assets	8	(461)	(491)	(1,594)	(1,566)
Proceeds on disposal of property and equipment		2,240	316	4,443	424
Right-of-use asset initial direct costs		(598)	(678)	(1,435)	(830)
Tenant allowances		(25)	(72)	246	448
Notes receivable		16	369	237	531
Lease receivables	5	6,118	5,489	17,750	16,391
Interest received on lease receivables and other		1,775	1,590	5,132	4,649
Repurchase of franchises	6	—	—	—	(283)
Net cash provided by investing activities		4,575	4,227	10,009	14,282
Effect of exchange rate on cash		(168)	675	(157)	(546)
Net increase (decrease) in cash		1,830	(24,510)	(48,169)	32,522
Cash, beginning of period		21,482	100,869	71,481	43,837
Cash, end of period		\$ 23,312	\$ 76,359	\$ 23,312	\$ 76,359

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

PET VALU HOLDINGS LTD.

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

For the 39-week period ended October 2, 2021	Common Shares	Contributed Surplus	Deficit	Currency translation reserve	Group's net investment	Non- controlling interests	Total
Balance, January 2, 2021	\$ —	\$ —	\$ —	\$ —	\$ (588,530)	\$ 118,986	\$ (469,544)
Net income	—	—	24,349	—	44,273	3,430	72,052
Net distributions (Note 17)	—	—	—	—	(16,983)	—	(16,983)
Foreign currency translation	—	—	—	10	(8,595)	—	(8,585)
Capital reorganization (Note 12)	6,781	—	(454,009)	(191)	569,835	(122,416)	—
Issuance of common shares, net of issuance costs (Note 12)	295,210	—	—	—	—	—	295,210
Exercise of share options (Note 12)	62	—	—	—	—	—	62
Share-based compensation on option plans (Note 14)	—	900	—	—	—	—	900
Balance, October 2, 2021	\$ 302,053	\$ 900	\$ (429,660)	\$ (181)	\$ —	\$ —	\$ (126,888)

For the 39-week period ended September 26, 2020 (Note 2(a))	Group's net investment	Non- controlling interests	Total net investment
Balance, December 28, 2019	\$ (609,922)	\$ 111,567	\$ (498,355)
Net income	9,189	5,604	14,793
Net distributions (Note 17)	(15,921)	—	(15,921)
Foreign currency translation	(19,330)	—	(19,330)
Balance, September 26, 2020	\$ (635,984)	\$ 117,171	\$ (518,813)

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

PET VALU HOLDINGS LTD.

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

For the 13-week and 39-week periods ended October 2, 2021 and September 26, 2020

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 October 2, 2021, the Company operates 224 corporate-owned stores (January 2, 2021 — 232) and has 398 franchise stores (January 2, 2021 — 373) in nine provinces in Canada.

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

On June 30, 2021, the Company completed an initial public offering of 15,812,500 common shares (the "Offering"), including 2,062,500 common shares issued pursuant to the exercise in full by the underwriters of the over-allotment option granted by the Company. The offering price of \$20.00 resulted in net proceeds to the Company of \$299,647 after underwriting commissions of \$16,603. The Company also incurred \$4,437 of other incremental expenses directly associated to the Offering. The total net proceeds after underwriting fees and incremental expenses were \$295,210. See Note 12 for further details on the impact to the Company's share capital.

On completion of the Offering, the common shares began trading on the Toronto Stock Exchange under the stock symbol "PET".

2. Basis of presentation:

(a) Basis of presentation:

(i) Post-Offering:

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

Subsidiaries
Pet Valu Canada Holding Corporation
Pet Holdings ULC
Pet Valu Canada Inc.
Pet Valu Canada Franchising Inc.
Pet Retail Brands North America Holdings ULC
PRB Management Services Inc.
Pet Retail Brands US Holdings LLC

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2. Basis of presentation (continued):

(ii) Pre-Offering:

Prior to the Offering, the Company was not operating as a stand-alone entity and as a result, the financial information for periods prior to June 30, 2021 are presented on a carve-out basis that includes only legal entities representing the Canadian operations of Pet Valu Holdings Ltd. (referred to as the "Group", prior to the distribution of its U.S. operations to its shareholder).

These legal entities included in the Group are as follows:

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

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

These interim financial statements include the assets, liabilities, revenues, and costs that are directly associated with the business activities of the Company. In addition, for the periods prior to June 30, 2021, all of the Group's U.S. dollar denominated Term Loans (Note 9) have been allocated to the Company from the Group's U.S. dollar functional currency subsidiary resulting in the majority of the currency translation adjustments being included in other comprehensive income (loss). The Group's U.S. dollar denominated Term Loans were fully repaid on closing of the Offering. These interim financial statements also include certain costs related to the Company prior to the Offering that have been allocated from the Group (Note 17(b)) for the 13-week and 26-week periods ended June 27, 2020. These shared costs have been allocated primarily based on proportionate revenue and are primarily related to corporate administrative expenses and employee related costs including share-based compensation and other benefits for corporate and shared employees for the following functional groups: corporate management, information technology, legal services, procurement services, accounting and finance services, merchandising and distribution services, and store operations support.

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

For the 13-week and 39-week periods ended October 2, 2021 and September 26, 2020

2. Basis of presentation (continued):

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

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

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

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

(b) Statement of compliance:

These interim financial statements have been prepared under International Financial Reporting Standards (“IFRS”) in accordance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”), on a basis consistent with those accounting policies followed by the Company in the most recent audited annual carve-out consolidated financial statements. Certain information, in particular the accompanying notes normally included in the audited annual carve-out consolidated financial statements prepared in accordance with IFRS, has been omitted or condensed. Accordingly, these interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual carve-out consolidated financial statements and the notes thereto for the 53-week period ended January 2, 2021.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 15, 2021.

(c) Basis of measurement:

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

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

For the 13-week and 39-week periods ended October 2, 2021 and September 26, 2020

2. Basis of presentation (continued):

(d) Presentation currency:

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

(e) Use of estimates and judgments:

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied in Note 2 of the audited carve-out consolidated financial statements for the 53-week period ended January 2, 2021.

(f) COVID-19 pandemic:

On March 11, 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", as a global pandemic. This has resulted in governments worldwide, including the Canadian government, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods and social distancing have caused material disruption to businesses globally resulting in an economic slowdown.

Since the onset of the COVID-19 pandemic, the Company's operations have been considered "essential services" in certain provinces in Canada where the Company operates but restricted to curbside pick-up for certain periods of time in Ontario, enabling stores to operate on a limited basis despite governmental lock-down measures in place in certain jurisdictions. Although the Company's corporate-owned stores and franchised stores have remained open, they have been subject to stringent social distancing requirements and in some jurisdictions operating under alternate methods of sale such as curbside pick-up. The Company's actions to mitigate the effects of the COVID-19 pandemic on its operations and its franchisees are described in the audited carve-out consolidated financial statements for the 53-week period ended January 2, 2021.

In April 2021, in response to a third wave of COVID-19 in Canada and resulting changes to Ontario provincial guidelines, operations at all Ontario corporate-owned and franchised stores shifted to curbside pick-up and e-commerce fulfillment. On June 11, 2021, the Government of Ontario permitted the Company's retail stores to open store locations at 15% capacity. On June 30, 2021, revised Ontario provincial guidelines increased capacity limits of the Company's retail stores to 25%. On July 16, 2021, Ontario entered the final stage of the government's reopening plan, which permits essential and non-essential retail to open with capacity limited to permit physical distancing of two metres.

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

For the 13-week and 39-week periods ended October 2, 2021 and September 26, 2020

2. Basis of presentation (continued):

The Company has been, and expects to be for the remainder of 2021, impacted by the COVID-19 pandemic by increased costs related to increased commodity prices, the rise in global transportation, importing and processing costs and an increase in insurance premiums. The Company has experienced intermittent delays in access to goods due to certain supply chain disruptions and is exposed to risks based on manufacturing shutdowns due to the COVID-19 pandemic. To date, the Company has not experienced any material supply chain impact as a result of COVID-19.

The future impact of COVID-19 and government restrictions is uncertain and dependent on the duration and spread of the virus and ultimately, the successful continued rollout of vaccinations across the country. As a result, it is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Company in future periods.

3. Significant accounting policies:

These interim financial statements have been prepared using the accounting policies as outlined in Note 3 of the audited carve-out consolidated financial statements for the 53-week period ended January 2, 2021 and have been applied consistently in the preparation of these interim consolidated financial statements. Changes to significant accounting policies are described below:

(a) Principles of consolidation:

The interim financial statements incorporate the financial statements of the Company and legal entities controlled by the Company and its subsidiaries. The Company determines control based on its ability to exercise power that significantly affects the entities' relevant day-to-day activities. Control is also determined by the Company's exposure to the variability in returns on investment in the entity, whether favorable or unfavorable. Furthermore, control is defined by the Company's ability to direct the decisions made by the entity which ultimately impact return on investment. The existence and effect of substantive voting rights are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is determined and they are unconsolidated from the date on which control is deemed to have ceased. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions, unrealized gains and losses resulting from intercompany transactions and dividends are eliminated in full.

(b) Share capital:

Following the Offering, the Company's common shares are classified as shareholders' equity. Incremental costs directly attributable to the issuance of common shares are shown in equity as a deduction, net of tax, from the proceeds of the issuance. When common shares are re-purchased for cancellation, the amount of consideration paid, which includes directly attributable costs, net of tax, is recognized as a deduction from equity. The excess of the purchase price over the carrying amount of the shares is charged to deficit or retained earnings.

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Notes to Condensed Interim Consolidated Financial Statements
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3. Significant accounting policies (continued):

(c) Share-based compensation:

(i) Legacy option plan and long-term incentive plan:

The Company has a legacy share option compensation plan (the "Legacy Plan") pursuant to which it has granted share options to current and former directors and employees. Concurrent with the Offering, the Company amended and restated the Legacy Plan so that no additional awards could be made under the Legacy Plan, but share options previously granted under the Legacy Plan continue to remain outstanding in accordance with their terms and will continue to be governed by the provisions of the Legacy Plan. Following the amendment of the Legacy Plan, the Company adopted a long-term incentive plan (the "LTIP") pursuant to which it can grant awards of share options to eligible participants. These awards are equity-settled share-based awards at the option of the Company.

Equity-settled awards:

The Black-Scholes option pricing model is used to value share options which requires the use of subjective assumptions. These assumptions include the estimated length of time employees will retain their share options before exercising (the "expected term"), the expected volatility of the Company's common share price over the expected term, the risk-free interest rate, the forfeiture rate, and the dividend yield. Share-based compensation cost for service awards with multiple vesting provisions is recognized over the employee's requisite service period on a graded vesting basis. Share-based compensation expense is recognized in net income with a corresponding increase in contributed surplus. Any consideration paid by plan participants on the exercise of share options is credited to common share capital. Upon the exercise of share options, the corresponding amounts previously credited to contributed surplus are transferred to share capital.

(ii) Deferred share unit plan:

In connection with the Offering, the Company adopted a deferred share unit plan (the "DSU Plan") for non-employee board members. Each eligible director receives a portion of his or her annual director retainer in deferred share units ("DSUs"). The retainers will be paid on a quarterly basis with the number of DSUs to be issued being determined based on the market price of the Company's common shares on the date of each such issuance. DSUs may only be redeemed when a director ceases to be a member of the Board. DSUs issued by the Company under the DSU Plan are settled in cash and are accounted for as cash-settled awards. The cost of the service received as consideration is initially measured based on the market price of the Company's common shares at the date of grant. If immediately vested, the grant-date fair value is recognized as share-based compensation expense with a corresponding increase recorded in other liabilities. Otherwise, deferred share units are remeasured at each reporting date based on the market price of the Company's common shares with changes in fair value recognized as share-based compensation expense for the proportion of the service that has been rendered at that date.

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

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3. Significant accounting policies (continued):

(d) Net income per share:

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

Diluted net income per share is calculated by dividing the net income, adjusted for the effects of dilutive options and share units if applicable, for the period attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period, plus the weighted average number of common shares that would be issued on exercise of dilutive options and share units granted, as calculated under the treasury stock method.

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

In March 2021, the IASB amended COVID-19 Related Rent Concessions, which amends IFRS 16, *Leases*, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. The amendment extended the application of the practical expedient by one year to cover rent concessions that reduce only lease payments due on or before June 30, 2022. The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. The Company adopted the amendment effective for the 52-week period ending January 1, 2022, and has elected to apply the provided practical expedient. As a result, the Company accounts for a change in lease payments resulting from COVID-19-related rent deferrals as deferred payables included in accrued liabilities (Note 5). Under this approach, there is no remeasurement of the lease liability.

(f) New standards and interpretations not yet adopted:

In February 2021, the IASB amended IFRS standards IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The narrow scope amendments will help improve accounting policy disclosure and distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

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

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

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4. Revenue:

The following table disaggregates the Company's retail sales and franchise revenue by category for the periods ended October 2, 2021 and September 26, 2020:

	13-week periods ended		39-week periods ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Retail sales:				
Merchandise sales	\$ 87,832	\$ 72,165	\$ 248,106	\$ 203,780
In-store services	1,004	725	2,535	1,905
Total retail sales	88,836	72,890	250,641	205,685
Franchise and other revenues:				
Wholesale merchandise sales	87,732	68,562	238,867	193,178
Royalties and sub-lease revenues	18,460	14,627	48,819	36,394
Franchise contributions for advertising and other services	5,678	3,733	14,633	9,796
Total franchise and other revenues	111,870	86,922	302,319	239,368
Total revenue	\$ 200,706	\$ 159,812	\$ 552,960	\$ 445,053

5. Leases:

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

The following table reconciles the change in ROU assets for the period ended October 2, 2021:

	Leased premises		Other		Total
Balance, January 2, 2021	\$ 79,900	\$ 5,050	\$ 84,950		
Net additions	7,878	375	8,253		
Depreciation	(13,322)	(1,014)	(14,336)		
Impairment	(17)	—	(17)		
Balance, October 2, 2021	\$ 74,439	\$ 4,411	\$ 78,850		

Depreciation on ROU assets is included in cost of sales and selling, general and administrative expenses in the interim consolidated statements of income. The depreciation included in cost of sales for the 13-week and 39-week periods ended October 2, 2021 was \$4,569 and \$13,814, respectively (13-week and 39-week periods ended September 26, 2020 — \$4,656 and \$13,739, respectively). The depreciation included in selling, general and administrative expenses for the 13-week and 39-week periods ended October 2, 2021 was \$174 and \$522, respectively (13-week and 39-week periods ended September 26, 2020 — \$166 and \$495, respectively).

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5. Leases (continued):

Gain on sales of ROU assets recognized on the sale of corporate-owned stores to franchisees for the 13-week and 39-week periods ended October 2, 2021 were \$109 and \$285, respectively (13-week and 39-week periods ended September 26, 2020 — \$51 and \$76, respectively). Impairment charges against ROU assets of \$17 were incurred as a result of relocating a corporate-owned store for the 13-week and 39-week periods ended October 2, 2021, respectively (13-week and 39-week periods ended September 26, 2020 — \$nil, respectively).

(b) Lease liabilities

The following table reconciles the change in lease liabilities for the period ended October 2, 2021:

	Leased premises		Other		Total
Balance, January 2, 2021	\$	211,540	\$	5,119	\$ 216,659
Additions		39,886		363	40,249
Interest expense on lease liabilities		8,387		262	8,649
Deferred lease payments		2,459		—	2,459
Repayment of interest and principal		(42,579)		(1,237)	(43,816)
Balance, October 2, 2021	\$	219,693	\$	4,507	\$ 224,200
Current portion of lease liabilities	\$	43,806	\$	1,191	\$ 44,997
Lease liabilities		175,887		3,316	179,203
Total lease liabilities	\$	219,693	\$	4,507	\$ 224,200

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 interim consolidated statements of income. Expenses for variable lease components included in cost of sales for the 13-week and 39-week periods ended October 2, 2021 were \$6,046 and \$17,573, respectively (13-week and 39-week periods ended September 26, 2020 — \$5,913 and \$17,337, respectively). Expenses for variable lease components included in selling, general and administrative expenses for the 13-week and 39-week periods ended October 2, 2021 were \$24 and \$134, respectively (13-week and 39-week periods ended September 26, 2020 — \$50 and \$202, respectively).

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

Remainder of fiscal year 2021	\$	14,064
2022		50,046
2023		48,916
2024		43,417
2025		37,496
Thereafter		67,330
Total	\$	261,269

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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 October 2, 2021 and January 2, 2021, the Company had lease receivables as follows:

		October 2, 2021		January 2, 2021
Current portion of lease receivables	\$	25,244	\$	23,145
Lease receivables		110,322		96,743
Total lease receivables	\$	135,566	\$	119,888

Finance income on lease receivables for the 13-week and 39-week periods ended October 2, 2021 was \$1,708 and \$4,925, respectively (13-week and 39-week periods ended September 26, 2020 — \$1,464 and \$4,243, respectively). Franchisees make variable lease payments primarily for common area maintenance, property tax, and a percentage of sales earned in their retail store. Revenue from variable lease components included in franchise sales and other revenue in the condensed interim consolidated statements of income and comprehensive income (loss) for the 13-week and 39-week periods ended October 2, 2021 was \$8,753 and \$22,793, respectively (13-week and 39-week periods ended September 26, 2020 — \$7,044 and \$15,057, respectively).

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

Remainder of fiscal year 2021	\$	7,960
2022		30,964
2023		27,383
2024		24,235
2025		21,572
Thereafter		45,637
Total undiscounted lease receivables		157,751
Unearned interest income		(22,185)
Total lease receivables	\$	135,566

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6. Business acquisitions:

Franchise repurchases:

Included in the interim financial statements are repurchases of franchise stores. The repurchases have been accounted for through the acquisition method. There were no repurchases of franchise stores for the period ended October 2, 2021. The following table discloses franchise repurchases for the 39-week period ended September 26, 2020:

	September 26, 2020
Number of stores repurchased	1
Inventories	\$ 103
Property and equipment	66
Goodwill	114
Cash Consideration	\$ 283

7. Property and equipment:

During the 13-week and 39-week periods ended October 2, 2021, the Company had property and equipment additions of \$4,490 and \$14,770, 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 September 26, 2020 — \$2,296 and \$5,548, respectively). Depreciation on property and equipment for 13-week and 39-week periods ended October 2, 2021 was \$3,409 and \$10,003, respectively (13-week and 39-week periods ended September 26, 2020 — \$2,785 and \$8,203, respectively).

8. Intangible assets:

During the 13-week and 39-week period ended October 2, 2021, the Company had intangible asset additions of \$461 and \$1,594, the majority of which were related to software (13-week and 39-week periods ended September 26, 2020 — \$491 and \$1,566, respectively). Amortization on intangible assets for the 13-week and 39-week periods ended October 2, 2021 was \$282 and \$738, respectively (13-week and 39-week periods ended September 26, 2020 — \$267 and \$969, respectively).

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9. Long-term debt:

Total long-term debt, net of deferred financing costs, as of October 2, 2021 and January 2, 2021 consist of the following:

	October 2, 2021	January 2, 2021
Term loans:		
2021 Term Facility (a)	\$ 352,781	\$ —
2016 Term Loan facility, US\$519,113 (2020 — US\$521,837) (b)	—	664,403
2016 Delayed Draw Term Loan Facility, US\$38,600 (2020 — US\$38,800) (b)	—	49,400
	352,781	713,803
Deferred financing costs (c)	(5,368)	(7,443)
	347,413	706,360
Less current portion of long-term debt	(8,875)	(7,448)
Total long-term debt	\$ 338,538	\$ 698,912

(a) 2021 Credit Agreement:

In connection with the Offering, the Company entered into a credit agreement with a syndicate of lenders (the "2021 Credit Agreement") which provides for (i) a \$355,000 term facility (the "2021 Term Facility") and (ii) a \$130,000 revolving credit facility (the "2021 Revolving Facility"), a portion of which not in excess of \$20,000 shall be available for the issuance of letters of credit in Canadian or U.S. dollars (collectively referred to as the "2021 Credit Facilities").

The 2021 Credit Facilities mature on June 30, 2026. The 2021 Term Facility is repayable in quarterly instalments and contains mandatory prepayment provisions with respect to non-ordinary course asset sales, excess cash flow and issuances of debt obligations (excluding debt permitted to be incurred under the 2021 Credit Agreement) by the Company and its subsidiaries (in each case, subject to customary thresholds, qualifications and exceptions set forth in the 2021 Credit Agreement).

Borrowings under the 2021 Credit Facilities will bear interest, according to the type of borrowing advanced, at short-term floating rates (based on a reference rate of U.S. base rate, the Canadian prime rate or the LIBOR rate or bankers' acceptance rate, as applicable), plus a margin per annum depending on the Company's net total leverage ratio. As of October 2, 2021, the interest rate on the 2021 Credit Facilities was 2.70%.

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.

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9. Long-term debt (continued):

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

As of October 2, 2021, mandatory long-term debt repayments are as follows:

Remainder of fiscal year 2021	\$	2,219
2022		8,875
2023		17,750
2024		17,750
2025		17,750
2026		288,437
		352,781
Less current portion of long-term debt		(8,875)
Total long-term debt	\$	343,906

Voluntary prepayments of the 2021 Term Facility are permitted at any time (subject to minimum repayment amounts and customary notice periods set forth in the 2021 Credit Agreement) without premium or penalty (other than customary “breakage” costs, if applicable) and will reduce the scheduled principal repayments. The 2021 Credit Agreement provides that amounts under the 2021 Revolving Facility may be borrowed, repaid and re-borrowed. The Company had unused borrowing capacity available under the 2021 Revolving Facility of \$130,000 as of October 2, 2021.

(b) 2016 Credit Agreement:

On July 5, 2016, the Company entered into a US\$605,000 credit agreement with a consortium of lenders (the “2016 Credit Agreement”), which provides for (i) a term loan with a principal amount of US\$545,000 under a secured term loan facility (“2016 Term Loan”); (ii) a revolving credit facility for up to US\$20,000 (“2016 Revolving Credit Facility”); and (iii) a delayed draw term loan of US\$40,000 (“2016 Delayed Draw Term Loan”) (collectively referred to as the “2016 Credit Facilities”). As part of the Offering, the Company terminated the 2016 Credit Agreement and entered into the 2021 Credit Agreement. As such, on June 30, 2021, all outstanding debt on the 2016 Credit Facilities was repaid.

In order to mitigate the foreign currency risk on the repayment of the 2016 Credit Facilities, on June 9, 2021, the Company entered into a foreign exchange forward contract to purchase US\$550,000 in exchange for Canadian dollars to be settled on the closing of the Offering. The Company settled the forward exchange forward contract on June 30, 2021, and recognized a foreign currency gain of \$13,459.

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9. Long-term debt (continued):

In addition, as all of the 2016 Credit Facilities were allocated to the Company from the Group's U.S. dollar functional currency subsidiary, upon extinguishment of the facilities, the accumulated foreign currency translation adjustments of \$29,665 were reclassified to gain on foreign exchange from currency translation reserve within the Group's net investment.

(c) Deferred financing costs:

In connection with the 2021 Credit Agreement, deferred financing costs of \$5,668 were incurred. The total unamortized deferred financing costs were \$5,368 as of October 2, 2021 and are being amortized using the effective interest rate method. As a result of the extinguishment of the 2016 Credit Agreement, the unamortized balance of the deferred financing costs on the 2016 Credit Facilities of \$5,729 were written off as debt extinguishment costs during the 13-week period ended July 3, 2021. These amounts were included as interest expense in the condensed interim consolidated statement of income.

10. Interest expense:

Interest expenses, net consists of the following:

	13-week periods ended		39-week periods ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
2016 Credit Agreement	\$ —	\$ 12,498	\$ 22,717	\$ 41,091
2021 Credit Agreement	2,732	—	2,862	—
Amortization of deferred financing costs	313	1,249	3,010	3,756
Debt extinguishment costs	—	—	5,729	—
Interest on lease liabilities	2,888	2,855	8,649	8,186
Interest income on lease receivables	(1,708)	(1,464)	(4,925)	(4,243)
Standby letter of credit commitment fees	341	—	4,644	—
Other interest income	(74)	(127)	(216)	(452)
Interest expenses, net	\$ 4,492	\$ 15,011	\$ 42,470	\$ 48,338

11. Income taxes:

The income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. Income taxes expense for the 13-week and 39-week periods ended October 2, 2021 was \$9,751 and \$16,283 (13-week and 39-week periods ended September 26, 2020 — \$3,479 and \$5,917, respectively). The Company's effective income tax rate for the 13-week and 39-week periods ended October 2, 2021 was 28.6% and 18.4%, respectively (13-week and 39-week periods ended September 26, 2020 — 28.6%). The statutory income tax rate for the 13-week and 39-week periods ended October 2, 2021 was 26.5% (13-week and 39-week periods ended September 26, 2020 — 26.5%).

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11. Income taxes (continued):

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

12. Share capital:

(a) Capital reorganization:

Prior to the capital reorganization, the Company was authorized to issue (i) an unlimited number of Class X common shares, (ii) an unlimited number of Class Y common shares, (iii) an unlimited number of Class A preferred shares, (iv) an unlimited number of Class B preferred shares, and (v) an unlimited number of Class C preferred shares, in each case without nominal or par value. All three classes of preferred shares were entitled to cumulative dividends at a rate of 8.6%. They also had a liquidation value of US\$1,000 per share plus any unpaid dividends less any previous distributions on the shares. There were \$72,884 of accumulated but unpaid dividends on outstanding preferred shares immediately prior to the capital reorganization (January 2, 2021 — \$65,962).

Prior to the capital reorganization, non-controlling interests represented issued perpetual preferred shares and accumulated but unpaid dividends of a subsidiary of the Company. These shares earned a stated cumulative dividend of 8.6% per annum, and did not have redemption features. They also had a liquidation value of US\$1,000 per share plus any unpaid dividends less any previous distributions on the shares. As such, these non controlling interests are classified as equity. There were \$36,934 of accumulated but unpaid dividends on outstanding non-controlling interest preferred shares immediately prior to the capital reorganization (January 2, 2021 — \$33,505).

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12. Share capital (continued):

As of June 30, 2021, the date of the reorganization, (i) 31,195,059 Class X common shares, (ii) 16,011,583 Class Y common shares, (iii) 58,555 Class A preferred shares, (iv) 39,155 Class B preferred shares, and (v) 31,821 Class C preferred shares, were issued and outstanding. These common and preferred shares were included in Group's net investment prior to June 30, 2021.

Immediately prior to the closing of the Offering, all of the Company's outstanding Class X common shares, Class Y common shares, Class A preferred shares, Class B preferred shares, and Class C preferred shares were exchanged for common shares in the Company. The Class X common shares and Class Y common shares of the Company were exchanged on a one-for-one basis for common shares, and all of the outstanding options to acquire Class X common shares under the legacy share option compensation plan became options to acquire common shares (Note 14(a)). The Class A preferred shares, Class B preferred shares and Class C preferred shares of the Company were exchanged based on their liquidation value plus accrued but unpaid dividends divided by the fair market value of the Company's common shares (\$20.00 per common share) at the closing of the Offering. In addition, as part of the capital reorganization, non-controlling interests were redeemed for nominal consideration.

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

Following the share consolidation and immediately prior to the closing of the Offering, the Company issued 61,434 common shares to key management personnel based on prior service and achievement of critical business initiatives. The Company recorded share-based compensation expense in relation to the awards of \$1,229 which is included in selling, general and administrative expenses for the 39-week period ended October 2, 2021. This amount was previously recorded as bonus expense and included in selling, general and administrative expenses in the 53-week period ended January 2, 2021 and reclassified to share-based compensation as a result of being paid through the issuance of common shares in lieu of cash. The share-based compensation expense in relation to the awards is recorded in net distributions on a carve-out basis in the condensed interim consolidated statements of shareholders' deficit and condensed interim consolidated statements of cash flows.

The Company's authorized share capital following the capital reorganization consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

The holders of common shares are entitled to receive dividends as declared from time to time by the Board of Directors. Shareholders are entitled to one vote per common share at shareholder meetings of the Company.

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.

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12. Share capital (continued):

(b) Issuance of common shares and secondary offering:

Following the capital reorganization, the Company completed the Offering of 15,812,500 common shares from treasury, including 2,062,500 common shares issued pursuant to the exercise in full by the underwriters of the over-allotment option granted by the Company, at an offering price of \$20.00, which resulted in net proceeds to the Company of \$299,647 after underwriting commissions of \$16,603. The Company incurred \$4,437 of other incremental expenses directly associated to the Offering. The total net proceeds after underwriting fees and incremental expenses were \$295,210.

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

The Company issued 18,595 common shares for a cash consideration of \$62 during the 13-week period ended October 2, 2021, following the exercise of share options under the legacy share option compensation plan (Note 14(a)).

On September 28, 2021, a secondary offering (the "Secondary Offering") of the Company's common shares was completed by its principal shareholders on a bought deal basis. The Secondary Offering of 7,000,000 common shares at an offering price of \$32.25 raised gross proceeds of \$225,750 for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the Secondary Offering. Underwriting fees were paid by the principal shareholders, and other expenses related to the Secondary Offering of approximately \$355 were paid by the Company and included in selling, general and administrative expenses.

As of October 2, 2021, there were 69,992,508 common shares and no preferred shares issued and outstanding.

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

	Common shares outstanding	Amount
Balance, January 2, 2021	—	\$ —
Capital reorganization from Group's net investment	54,161,413	6,781
Issuance of common shares, net of issuance costs	15,812,500	295,210
Exercise of share options	18,595	62
Balance, October 2, 2021	69,992,508	\$ 302,053

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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	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Net income attributable to shareholders of the Company	\$ 24,349	\$ 6,950	\$ 68,622	\$ 9,189
Weighted average number of common shares outstanding during the period (<i>thousands</i>)*	69,979	54,161	69,978	54,161
Basic net income per share attributable to the Company	\$ 0.35	\$ 0.13	\$ 0.98	\$ 0.17

*For comparative purposes, the weighted average number of common shares for the 13-week and 39-week periods ended September 26, 2020 are presented on a pro-forma basis to reflect the capital reorganization that occurred immediately prior to the Offering (Note 12).

(b) Diluted net income per share:

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

	13-week periods ended		39-week periods ended	
	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Net income attributable to shareholders of the Company	\$ 24,349	\$ 6,950	\$ 68,622	\$ 9,189
Weighted average number of common shares outstanding during the period (<i>thousands</i>)*	71,461	55,484	71,461	55,484
Diluted net income per share attributable to the Company	\$ 0.34	\$ 0.13	\$ 0.96	\$ 0.17

*For comparative purposes, the weighted average number of common shares for the 13-week and 39-week periods ended September 26, 2020 are presented on a pro-forma basis to reflect the capital reorganization and the legacy share option compensation plan immediately prior to the Offering (Note 12).

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13. Net income per share (continued):

During the 13-week and 39-week periods ended October 2, 2021, 851,504 legacy performance-based share options were not included in the calculation of diluted net income per share, respectively, as the conditions required to convert these options to common shares were not met. (13-week and 39-week periods ended September 26, 2020 — 855,680, respectively),

14. Share-based compensation:

(a) Legacy Plan:

The Company has a Legacy Plan pursuant to which it has granted share options to current and former directors and employees. Prior to the Offering, the Legacy Plan was administered by the Group and as a result of the carve-out process, for periods prior to June 30, 2021, the Company was allocated the proportionate share of the share option plan associated with the Company's employees and directors.

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

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

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

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

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14. Share-based compensation (continued):

The tables below summarize the option activity under the Legacy Plan:

	Options	Weighted average exercise price
Outstanding, January 2, 2021	3,904,398	US\$7.08
Granted	465,000	US\$8.95
Exercised	(444,797)	US\$2.63
Forfeited	(886,948)	US\$6.24
Outstanding, June 30, 2021	3,037,653	US\$8.27
Options converted concurrent with the Offering ⁽¹⁾	2,819,041	\$8.97
Exercised	(18,595)	\$3.30
Forfeited	(5,568)	\$9.73
Outstanding, October 2, 2021	2,794,878	\$9.00

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

	Options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding, October 2, 2021	2,794,878	\$ 9.00	7.39	\$ 55,806
Vested and expected to vest	2,794,878	\$ 9.00	7.39	\$ 55,806
Exercisable, October 2, 2021	1,154,332	\$ 7.97	7.07	\$ 24,242

The weighted-average assumptions used in the model for options granted during the 39-week period ended October 2, 2021 are as follows:

Weighted-average risk-free interest rate	1.12 %
Expected life (years)	5.5 — 7.5
Expected dividend yield	—
Expected volatility	41 %
Forfeiture rate	—
Weighted-average fair value per option granted	US\$3.74

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14. Share-based compensation (continued):

During the 13-week and 39-week periods ended October 2, 2021, the Company recorded share-based compensation expense in relation to the Legacy Plan of \$663 and \$1,990, respectively (13-week and 39-week periods ended September 26, 2020 — \$476 and \$1,279, respectively), which were included in selling, general and administrative expenses. The share-based compensation expense incurred for the 39-week period ended October 2, 2021 was allocated between pre-Offering and post-Offering in the amount of \$1,305 and \$685, respectively. The share-based compensation expense for the pre-Offering period and the 39-week period ended June 27, 2020, is recorded in net distributions on a carve-out basis in the condensed interim consolidated statements of shareholders' deficit and condensed interim consolidated statements of cash flows.

(b) LTIP:

In connection with the Offering, the Company adopted the LTIP pursuant to which it can grant awards of share options, stock appreciation rights, tandem stock appreciation rights, restricted share units, performance share units and restricted stock to eligible participants. Any individual employed by the Company, including a service provider, who in the opinion of the Board of Directors is in a position to contribute to the success of the Company shall be eligible to receive awards under the LTIP provided that only officers and employees of the Company shall be eligible to receive options under the LTIP. The number of common shares that can be issued under the LTIP, combined with the Company's Legacy Plan, shall not exceed 10% of the number of the aggregate issued and outstanding common shares.

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

The tables below summarize the option activity as of October 2, 2021:

	Options	Weighted average exercise price
Outstanding, January 2, 2021	—	\$ —
Granted	276,490	\$ 20.00
Exercised	—	\$ —
Forfeited	—	\$ —
Outstanding, October 2, 2021	276,490	\$ 20.00

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14. Share-based compensation (continued):

	Options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding, October 2, 2021	276,490	\$ 20.00	9.75	\$ 2,480
Expected to vest	276,490	\$ 20.00	9.75	\$ 2,480

The weighted-average assumptions used in the model for options granted during the 39-week period ended October 2, 2021 are as follows:

Weighted-average risk-free interest rate	1.11 %
Expected life (years)	6.0 — 6.5
Expected dividend yield	0.20 %
Expected volatility	24 %
Forfeiture rate	—
Weighted-average fair value per option granted	\$ 5.09

During the 13-week and 39-week periods ended October 2, 2021, the Company recorded share-based compensation expense in relation to the LTIP share options of \$215 (13-week and 39-week periods ended September 26, 2020 — \$nil), which were included in selling, general and administrative expenses.

(c) Deferred share unit plan:

In connection with the Offering, the Company adopted a DSU Plan for non-employee board members. Each eligible director receives a portion of his or her annual director retainer in DSUs. The retainers will be paid on a quarterly basis with the number of DSUs to be issued being determined based on the market price of the common shares (as defined in the DSU Plan) on the date of each such issuance. DSUs may only be redeemed when a director ceases to be a member of the Board. DSUs issued by the Company under the DSU Plan are settled in cash and are accounted for as cash-settled awards. The Company is required to record a liability for the potential future settlement of the vested DSUs at each reporting date by reference to the fair value of the liability. The DSUs vest in four equal installments on the last day of each fiscal quarter during the one year period following the grant date.

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14. Share-based compensation (continued):

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

	Number of DSUs
Outstanding, January 2, 2021	—
Granted	25,000
Exercised	—
Forfeited	(5,000)
Outstanding, October 2, 2021	20,000

The fair market value of future DSU cash-settlement obligations was \$145 at October 2, 2021 (January 2, 2021 – \$nil). The Company incurred \$145 of share-based compensation expense from the changes to fair market value of DSU cash-settlement obligations for the 13-week and 39-week periods ended October 2, 2021 (13-week and 39-week periods ended September 26, 2020 — \$nil).

15. Financial instruments and risk management:

(a) Credit risk:

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

(b) Liquidity risk:

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

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15. Financial instruments and risk management (continued):

(c) Market risk:

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

(i) Foreign currency risk:

The Company is exposed to currency risk related to some of its purchases. Specifically, the Company sources some of its merchandise in U.S. dollars. Inventory purchases sourced outside Canada and primarily denominated in U.S. dollars represented approximately 30% and 31%, respectively, for the 39-week period ended October 2, 2021 and the 53-week period ended January 2, 2021.

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. 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 October 2, 2021 by \$371 (39-week period ended September 26, 2020 — \$211), as a result of the revaluation on these financial assets and liabilities.

(ii) Interest rate risk:

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 2021 Credit Facilities and 2016 Credit Facilities (Note 9) are at variable interest rates. Changes in the banks' prime lending rates, the LIBOR rate or bankers' acceptance rate can cause fluctuations in interest payments and cash flows.

A one percentage point change in the applicable interest rate on the 2021 Credit Agreement would have changed income before taxes for the 39-week period ended October 2, 2021 by \$2,646. A one percentage point change in the applicable interest rate on the 2016 Credit Agreement would have changed income before taxes for the 39-week period ended September 26, 2020 by \$5,354.

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15. Financial instruments and risk management (continued):

(d) Fair values:

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

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

There were no transfers between levels of the fair value hierarchy for the periods ended October 2, 2021 and September 26, 2020.

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. For long-term debt, its carrying value, net of deferred financing fees, approximates its fair value as shown below:

	October 2, 2021		January 2, 2021	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt, including current portion ⁽¹⁾ (Level 2)	\$347,413	\$352,781	\$706,360	\$713,803

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

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16. Commitments, contingencies and guarantees:

(a) Guarantees of indebtedness:

The Company has provided the following guarantees as of October 2, 2021:

- (i) Guarantee of certain lease obligations for a former subsidiary of the Company. The lease obligations expire on February 27, 2023. As of October 2, 2021, the future lease commitment is \$1,053 (US\$832) (January 2, 2021 — \$4,222 (US\$3,316)).

(b) 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 interim consolidated financial statements.

(c) Other:

The Company may, from time to time, be named as a defendant in legal proceedings that arises 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.

17. Related party transactions:

(a) Transactions with related parties:

Prior to the Offering, the Company was a party to a management agreement with an affiliated entity, which provided management services. The Company incurred management fees and expenses for the 13-week and 39-week periods ended October 2, 2021 of \$nil and \$679, respectively (13-week and 39-week periods ended September 26, 2020 — \$284 and \$1,085, respectively), which is included in selling, general and administrative expenses. The balance due was \$nil and \$1,252 at October 2, 2021 and January 2, 2021, respectively, and is included in accrued liabilities. Concurrent with the closing of the Offering, the Company terminated the management agreement with the affiliated entity.

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17. Related party transactions (continued):

On May 1, 2021, the Company entered into a transition services agreement with its former subsidiaries, pursuant to which the parties will provide to each other certain information technology, real estate and human resources and benefits services on a no cost or at cost basis. The transition services agreement has a term of 18 months from the closing of the Offering unless earlier terminated upon notice. The Company charged the former subsidiaries \$344 and \$608 under the transition services agreement for the 13-week and 39-week periods ended October 2, 2021, respectively. Prior to the transition services agreement, the Company provided services to these subsidiaries from January 3, 2021 to April 30, 2021 and charged \$550 to the subsidiaries during that period.

Effective June 30, 2021, the Company entered into a product sourcing and brand license agreement with a former subsidiary, pursuant to which the Company will source certain pet food and pet supply products licensed under the Company's proprietary brands in consideration of a sourcing fee. The product sourcing and brand license agreement will have an initial term of 18 months and will be automatically renewable for successive 18-month terms unless earlier terminated upon notice. The Company earned sourcing fees of \$271 and \$517 under the product sourcing and brand license agreement for the 13-week and 39-week periods ended October 2, 2021, respectively.

As a result of a reorganization of the Group in 2016, certain share-based payment awards that were previously held by the Company's employees under a historical share option plan were exercised with employees receiving loans from the Company to fund the strike price and their personal tax obligations. These employee loans are denominated in U.S. dollars and had a balance outstanding of \$761 (US\$601) as of October 2, 2021 (January 2, 2021 — \$891 (US\$700)).

During the period ended December 28, 2019, the Group issued Class X common shares to certain directors of the Company for an aggregate subscription price of \$1,831 (US\$1,400). The Company received cash of \$915 (US\$700) from the issuance of common shares and promissory notes to fund the remaining aggregate subscription price. These promissory notes were repaid during the 13-week period ended July 3, 2021.

Net distributions represent the net distributions related to funding between the Company and the Group and net distributions to the shareholders of the Group. Net distributions to the Group were \$nil and \$3,921 for the 13-week and 39-week periods ended October 2, 2021, respectively (13-week and 39-week periods ended September 26, 2020 — \$1,958 and \$15,921, respectively). Net distributions to the shareholders of the Group were \$nil and \$13,062 for the 13-week and 39-week periods ended October 2, 2021, respectively (13-week and 39-week periods ended September 26, 2020 — \$nil).

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

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17. Related party transactions (continued):

(b) Allocation of the Group's expenses:

The Company has been allocated shared expenses from the Group of \$6,601 and \$16,812 for the 13-week and 39-week periods ended September 26, 2020, respectively, which have been reflected in cost of sales and selling and general administrative expenses in the consolidated statements of income and comprehensive income (loss). As of January 3, 2021, the Company operationally separated from the Group and as a result the Company has not been allocated shared expenses for the 13-week and 39-week periods ended October 2, 2021. As described in Note 2(a), the shared expenses have been allocated primarily on a proportionate revenue basis. The allocated costs for the 13-week and 39-week periods ended September 26, 2020 include corporate administrative expenses and employee related costs for the following functional groups: corporate management, information technology, legal services, procurement services, accounting and finance services, merchandising and distribution services, and store operations support.

The Company and the Group considered these shared expense allocations to be a reasonable reflection of the underlying nature of the operations of these entities. The allocations may not, however, reflect the expenses the Company would have incurred as a stand-alone company.

18. Subsequent events:

The Company's dividend policy is at the discretion of the Board of Directors. On November 16, 2021, the Company announced that its Board declared a dividend of \$0.01 per common share payable on December 15, 2021 to holders of common shares of record as at the close of business on November 30, 2021.