



PET VALU HOLDINGS LTD.

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

(Fiscal Year Ended December 31, 2022)

The following Management's Discussion and Analysis ("MD&A") for Pet Valu Holdings Ltd. ("we", "Pet Valu" or the "Company") was prepared as of March 6, 2023 and provides information concerning the Company's financial condition and results of operations for the 13-week and 52-week periods ended December 31, 2022 and January 1, 2022, respectively. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes for Fiscal 2022 (as hereinafter defined). Additionally, readers should refer to the "Risk Factors" set forth in the Company's annual information form ("AIF") dated March 6, 2023 for further information. Additional information about Pet Valu Holdings Ltd. can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Basis of Presentation

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

The Company operates on a 52- or 53-week fiscal year, concluding on the Saturday nearest to December 31. The Company's fiscal quarters conclude on the Saturday nearest to the end of each quarter. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter will have 14 weeks. The 13-week and 52-week periods ended December 31, 2022 and January 1, 2022, represent the Company's results for its fourth quarter and the fiscal year of the relevant financial years.

All references in this MD&A to "Q4 2022" are to the 13-week period ended December 31, 2022, to "Q4 2021" are to the 13-week period ended January 1, 2022, to "Fiscal 2022" are to the 52-week period ended December 31, 2022, and to "Fiscal 2021" are to the 52-week period ended January 1, 2022. Figures presented in this MD&A are in thousands of Canadian dollars unless otherwise indicated.

For the purposes of this MD&A, for the periods prior to the closing of the Company's initial public offering (refer to section "Initial Public Offering" for additional information) on June 30, 2021, the Company was not operating as a stand-alone entity and as a result, the financial information is 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 United States operations to its shareholder).

The audited consolidated financial statements and accompanying notes for Fiscal 2022 and this MD&A were authorized for issue by the Company's Board of Directors.

Non-IFRS Measures and Supplementary Financial Measures

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

Forward-Looking Information

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

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

Many factors could cause the Company's actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the

forward-looking information, including, without limitation, the factors discussed in the “Risk Factors” section of this MD&A and in our most recent annual information form dated March 6, 2022 (“AIF”). A copy of the AIF can be accessed under our profile on SEDAR at www.sedar.com. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully.

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

Financial Highlights

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

Q4 2022 Compared to Q4 2021

	Quarters Ended		
	December 31, 2022	January 1, 2022	% Change
	13 weeks	13 weeks	
Revenue	\$ 266,044	\$ 223,053	19.3 %
Gross profit margin	36.2 %	36.8 %	n/a
Operating income	\$ 42,411	\$ 41,266	2.8 %
Net income	\$ 25,881	\$ 26,741	(3.2)%
System-wide sales ⁽¹⁾⁽²⁾	\$ 360,634	\$ 288,467	25.0 %
System-wide stores ⁽¹⁾	744	633	17.5 %
Same-store sales growth ⁽¹⁾	11.8 %	16.7 %	n/a
Same-store transaction growth ⁽¹⁾	4.6 %	10.8 %	n/a
Same-store average spend per transaction growth ⁽¹⁾	6.9 %	5.4 %	n/a
EBITDA ⁽³⁾	\$ 52,424	\$ 49,790	5.3 %
Adjusted EBITDA ⁽³⁾	\$ 59,301	\$ 53,335	11.2 %
Adjusted Net Income ⁽³⁾	\$ 31,127	\$ 29,296	6.3 %
Adjusted Net Income per Diluted Share ⁽³⁾	\$ 0.43	\$ 0.41	4.9 %
Free Cash Flow ⁽³⁾	\$ 25,020	\$ 35,277	(29.1)%

Notes:

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

(2) System-wide sales includes \$29.6 million sales from Chico (as hereinafter defined) (see “Acquisition of Chico”).

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

Fiscal 2022 Compared to Fiscal 2021

	Fiscal Year Ended		
	December 31, 2022	January 1, 2022	% Change
	52 weeks	52 weeks	
Revenue	\$ 951,697	\$ 776,013	22.6 %
Gross profit margin	37.0 %	37.0 %	n/a
Operating income	\$ 160,192	\$ 129,406	23.8 %
Net income	\$ 100,766	\$ 98,793	2.0 %
System-wide sales ⁽¹⁾⁽²⁾	\$ 1,290,719	\$ 998,139	29.3 %
System-wide stores ⁽¹⁾	744	633	17.5 %
Same-store sales growth ⁽¹⁾	17.1 %	17.8 %	n/a
Same-store transaction growth ⁽¹⁾	11.8 %	10.5 %	n/a
Same-store average spend per transaction growth ⁽¹⁾	4.8 %	6.6 %	n/a
EBITDA ⁽³⁾	\$ 197,222	\$ 205,672	(4.1)%
Adjusted EBITDA ⁽³⁾⁽⁴⁾	\$ 214,844	\$ 182,319	17.8 %
Adjusted Net Income ⁽³⁾⁽⁴⁾	\$ 114,571	\$ 72,970	57.0 %
Adjusted Net Income per Diluted Share ⁽³⁾	\$ 1.59	\$ 1.02	55.9 %
Free Cash Flow ⁽³⁾	\$ 50,184	\$ 86,301	(41.9)%

Notes:

- (1) System-wide sales, system-wide stores, same-store sales growth, same-store transaction growth, and same-store average spend per transaction growth are supplementary financial measures. For further information on supplementary financial measures, see "Non-IFRS and Supplementary Financial Measures".
- (2) System-wide sales includes \$91.4 million sales from Chico (see "Acquisition of Chico").
- (3) EBITDA, Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share, and Free Cash Flow are non-IFRS measures. Non-IFRS measures are not determined in accordance with IFRS, do not have standardized meanings and may not be comparable to similar financial measures presented by other companies. See "Selected Consolidated Financial Information and Industry Metrics" for a reconciliation of net income, an IFRS measure, to EBITDA, Adjusted EBITDA and Adjusted Net Income. See "– Liquidity and Capital Resources – Free Cash Flow" for a reconciliation of Free Cash Flow.
- (4) In Q3 2022, the Company revised its definition of Adjusted EBITDA and Adjusted Net Income to exclude the gain on the fair value of a call option related to an investment in an associate. Comparative figures for Fiscal 2021 are not impacted by the change in definition.

Overview

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

Since opening our first store in 1976, Pet Valu has grown to become Canada's leading pet retailer. As of Q4 2022, we operate 744 corporate-owned and franchised locations across the country – more than three times the number of stores of our closest competitor. Over our history, we have earned the trust and loyalty of devoted pet owners with our compassionate and knowledgeable service, our premium product offering which includes our award-winning proprietary brands, our in-store services and our expanding omni-channel capabilities. This winning strategy is underpinned by our highly flexible operating model which allows us to deliver superior unit economics and growth.

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

Recent Developments

Initial Public Offering

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 \$299.6 million after underwriting commissions of \$16.6 million. The Company also incurred \$4.4 million of other incremental expenses directly associated to the Offering. The total net proceeds after underwriting fees and incremental expenses were \$295.2 million. The Company's common shares are listed on the Toronto Stock Exchange under the symbol "PET".

2021 Secondary Offering

On September 28, 2021, a secondary offering (the "2021 Secondary Offering") of the Company's common shares was completed by its principal shareholders on a bought deal basis. The 2021 Secondary Offering of 7,000,000 common shares at an offering price of \$32.25 raised gross proceeds of \$225.8 million for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the 2021 Secondary Offering. Underwriting fees were paid by the principal shareholders, and other expenses related to the 2021 Secondary Offering of approximately \$0.3 million were paid by the Company and included in selling, general and administrative expenses in Fiscal 2021.

Acquisition of Chico

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, for a total purchase price of approximately \$17.0 million which includes \$3.0 million of contingent consideration payable on the achievement of certain performance milestones on the 12-month anniversary of the acquisition. The final consideration to be paid is also subject to working capital adjustments in accordance with the purchase agreement. The purpose of the acquisition was to expand the Company's presence in the Quebec market. The Fiscal 2022 results include the consolidation of Chico from the acquisition date.

2022 Secondary Offering

On November 17, 2022, a secondary offering (the "2022 Secondary Offering") of the Company's common shares was completed by its principal shareholders on a bought deal basis. The 2022 Secondary Offering of 5,175,000 common shares at an offering price of \$37.40 per common share raised gross proceeds of \$193.5 million for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the 2022 Secondary Offering. Underwriting fees were paid by the principal shareholders, and other expenses related to the 2022 Secondary Offering of approximately \$0.4 million were paid by the Company and included in selling, general and administrative expenses for the period ended December 31, 2022.

Selected Consolidated Financial Information and Industry Metrics

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

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Revenue				
Retail sales	\$ 109,289	\$ 96,664	\$ 402,586	\$ 347,305
Franchise and other revenues	156,755	126,389	549,111	428,708
Total Revenue	266,044	223,053	951,697	776,013
Cost of sales	169,740	141,029	599,400	488,834
Gross profit	96,304	82,024	352,297	287,179
Selling, general and administrative expenses	53,893	40,758	192,105	157,773
Operating income	42,411	41,266	160,192	129,406
Interest expenses, net	6,429	4,403	20,478	46,873
Loss (gain) on foreign exchange	180	105	1,111	(42,560)
Other loss (income)	139	8	(68)	8
Income before income taxes	35,663	36,750	138,671	125,085
Income tax expense	9,782	10,009	37,905	26,292
Net income	25,881	26,741	100,766	98,793
Attributable to:				
Equity holders of the Company	25,881	26,741	100,766	95,363
Non-controlling interests	—	—	—	3,430
Net income	\$ 25,881	\$ 26,741	\$ 100,766	\$ 98,793
Basic net income per share attributable to the common shareholders	\$ 0.37	\$ 0.38	\$ 1.43	\$ 1.36
Diluted net income per share attributable to the common shareholders	\$ 0.36	\$ 0.37	\$ 1.40	\$ 1.33

	Fiscal Year Ended	
	December 31, 2022	January 1, 2022
Total assets	\$ 740,176	\$ 599,173
Total non-current liabilities	550,595	541,298

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

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 25,881	\$ 26,741	\$ 100,766	\$ 98,793
Depreciation and amortization	10,332	8,637	38,073	33,714
Interest expenses, net	6,429	4,403	20,478	46,873
Income taxes expense	9,782	10,009	37,905	26,292
EBITDA	52,424	49,790	197,222	205,672
Adjustments to EBITDA:				
Management fees ⁽¹⁾	—	—	—	679
Information technology transformation costs ⁽²⁾	1,984	1,518	5,313	5,314
IPO readiness and separation costs ⁽³⁾	—	—	—	4,229
Business transformation costs ⁽⁴⁾	1,482	514	2,697	2,438
Other professional fees ⁽⁵⁾	714	246	1,873	1,789
Share-based compensation ⁽⁶⁾	1,930	1,154	6,248	4,733
Asset impairments ⁽⁷⁾	448	—	448	17
Loss (gain) on foreign exchange ⁽⁸⁾	180	105	1,111	(42,560)
Investment in associate ⁽⁹⁾	139	8	(68)	8
Adjusted EBITDA	\$ 59,301	\$ 53,335	\$ 214,844	\$ 182,319
Adjusted EBITDA as a percentage of revenue	22.3%	23.9%	22.6%	23.5%

Notes:

- (1) Represents management fees paid to entities affiliated with Roark Capital Management, LLC ("Roark"). Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; (ii) retention bonuses for certain key management personnel in connection with the Offering; and (iii) Fiscal 2021 includes professional fees incurred with respect to the 2021 Secondary Offering.
- (4) For Fiscal 2022, represents expenses associated to supply chain transformation initiatives, including the new distribution centre. For Fiscal 2021, predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Professional fees primarily incurred with respect to: (i) the Canada Revenue Agency's ("CRA") examination of the Company's Canadian tax filings for the 2016 fiscal year; (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022; and (iii) professional fees incurred with respect to the 2022 Secondary Offering.
- (6) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (7) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (8) Represents foreign exchange gains and losses.
- (9) Represents the Company's share of loss from associate (Q4 2022 and Fiscal 2022 — \$0.2 million and \$0.5 million, respectively) and the gain on the fair value of the related call option (Q4 2022 and Fiscal 2022 — \$0.1 million and \$0.6 million, respectively). In Q3 2022, the Company revised its definition of Adjusted EBITDA to exclude the gain on the fair value of the related call option. Comparative figures for Fiscal 2021 are not impacted by the change in definition.

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

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Reconciliation of net income to Adjusted Net Income:				
Net income	\$ 25,881	\$ 26,741	\$ 100,766	\$ 98,793
Adjustments to net income:				
Management fees ⁽¹⁾	—	—	—	679
Information technology transformation costs ⁽²⁾	1,984	1,518	5,313	5,314
IPO readiness and separation costs ⁽³⁾	—	—	—	4,229
Business transformation costs ⁽⁴⁾	1,482	514	2,697	2,438
Other professional fees ⁽⁵⁾	714	246	1,873	1,789
Share-based compensation ⁽⁶⁾	1,930	1,154	6,248	4,733
Asset impairments ⁽⁷⁾	448	—	448	17
Loss (gain) on foreign exchange ⁽⁸⁾	180	105	1,111	(42,560)
Investment in associate ⁽⁹⁾	139	8	(68)	8
Tax effect of adjustments to net income	(1,631)	(990)	(3,817)	(2,470)
Adjusted Net Income	\$ 31,127	\$ 29,296	\$ 114,571	\$ 72,970
Adjusted Net Income as a percentage of revenue	11.7%	13.1%	12.0%	9.4%
Adjusted Net Income per Diluted Share	\$ 0.43	\$ 0.41	\$ 1.59	\$ 1.02

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; (ii) retention bonuses for certain key management personnel in connection with the Offering; and (iii) Fiscal 2021 includes professional fees incurred with respect to the 2021 Secondary Offering.
- (4) For Fiscal 2022, represents expenses associated to supply chain transformation initiatives, including the new distribution centre. For Fiscal 2021, predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year; (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022; and (iii) professional fees incurred with respect to the 2022 Secondary Offering.
- (6) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (7) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (8) Represents foreign exchange gains and losses.
- (9) Represents the Company's share of loss from associate (Q4 2022 and Fiscal 2022 — \$0.2 million and \$0.5 million, respectively) and the gain on the fair value of the related call option (Q4 2022 and Fiscal 2022 — \$0.1 million and \$0.6 million, respectively). In Q3 2022, the Company revised its definition of Adjusted Net Income to exclude the gain on the fair value of the related call option. Comparative figures for Fiscal 2021 are not impacted by the change in definition.

Supplemental Information on Leased Premises

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

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Depreciation expense on right-of-use assets ⁽¹⁾	\$ 4,716	\$ 4,411	\$ 18,565	\$ 17,733
Interest expense on lease liabilities ⁽¹⁾	3,002	2,829	11,577	11,216
Interest income on lease receivables ⁽¹⁾	(1,979)	(1,767)	(7,418)	(6,692)
Net depreciation and interest expense associated to leased premises	\$ 5,739	\$ 5,473	\$ 22,724	\$ 22,257

Note:

⁽¹⁾ Represents income and expenses for leased premises included in the consolidated statements of financial position related to the application of IFRS 16, *Leases*. Specifically, this includes depreciation on right-of-use assets for leased premises, interest expense on lease liabilities for leased premises and interest income on lease receivables. For additional information, refer to notes 5 and 13 of the audited consolidated financial statements for the periods ended December 31, 2022 and January 1, 2022.

Summary of Factors Affecting Performance

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

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 resulted in governments worldwide, including the Canadian government, enacting emergency measures to combat the spread of the virus. These measures, which included the implementation of travel restrictions, self-imposed quarantine periods, retail store closures and capacity limitations, and social distancing requirements caused material disruption to businesses globally resulting in an economic slowdown.

In Fiscal 2021, more than 50% of our stores were restricted to curbside pick-up shopping for 20 weeks, specifically for 10 weeks in Q1 2021 and for 10 weeks in Q2 2021. On January 3, 2022, additional restrictions were put in place across provinces in response to rising cases related to the Omicron variant. Specifically, in Ontario temporary restrictions limiting retail operations to 50% capacity were reinstated. In February 2022, most provinces started easing restrictions and in Ontario all capacity limitations were lifted as of March 1, 2022.

The Company has been, and could continue to be, impacted by the COVID-19 pandemic by increased costs related to increased commodity prices, the rise in global transportation, and importing and processing costs. 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. In order to protect against potential supply shortages or delays, the Company increased inventory levels during Fiscal 2020, Fiscal 2021, and Fiscal 2022. As a result of continued global supply chain disruptions, incremental freight costs have been incurred, including during Fiscal 2022.

The extent of the impact of COVID-19 on the financial position and financial results of the Company in future periods will depend on future developments, including the duration or resurgence of the pandemic, the related government responses and any resulting health and safety measures or directives put in place by public health authorities, which are uncertain and cannot be predicted.

Store Expansion and Enhancement

Between 2020 and 2022, we grew our store footprint at a compound annual growth rate of 8.2%, having opened 18 net new stores in 2020, 28 net new stores in 2021, 45 net new stores in 2022 and acquired 66 franchised stores as part of the Chico acquisition. In Fiscal 2023, the Company plans to open 40 to 50 new stores, inclusive of Chico stores and mixed between corporate-owned and franchised stores. In addition to opening new stores, the Company has increased sales and operating results by enhancing elements of its existing stores by enlarging square footage, adding in-store services, and relocating or renovating stores. From 2020 to 2022, we and our franchisees expanded, renovated, or relocated an average of 25 stores per year. The Company and its franchisees plan to expand, renovate or relocate between 20 to 30 stores in Fiscal 2023.

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

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022 13 weeks	January 1, 2022 13 weeks	December 31, 2022 52 weeks	January 1, 2022 52 weeks
Corporate-owned stores:				
Beginning of period	230	224	227	232
New stores opened	6	6	14	15
Re-franchised ⁽¹⁾	(10)	(2)	(14)	(18)
Stores closed	(1)	(1)	(2)	(2)
Corporate-owned stores end of period	225	227	225	227
Franchised stores:				
Beginning of period	499	398	406	373
New stores opened	10	6	34	15
Chico acquisition	—	—	66	—
Re-franchised ⁽¹⁾	10	2	14	18
Stores closed	—	—	(1)	—
Franchised stores end of period	519	406	519	406
System-wide stores	744	633	744	633
Stores renovated, expanded or relocated⁽²⁾	15	10	35	23

Notes:

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

⁽²⁾ During Q4 2022, Q4 2021, Fiscal 2022, and Fiscal 2021, the Company renovated, expanded, or relocated a total of nine, two, 20, and eight corporate-owned stores, respectively. During Q4 2022, Q4 2021, Fiscal 2022, and Fiscal 2021, there were six, eight, 15, and 15 franchised stores renovated, expanded, or relocated respectively.

How We Assess the Performance of Our Business

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

- The Company's retail sales include corporate-owned retail store and e-commerce merchandise sales as well as in-store grooming and dog wash services. Retail sales are net of sales tax collected from the customer on behalf of government authorities.
- Franchise and other revenues include both one-time and ongoing amounts, consisting of initial and renewal franchise fees, royalties, percentage rent and common area maintenance and realty tax revenues from properties subleased to franchisees, wholesale merchandise sales, promotion fees, and fees for other services. Franchise royalties, promotion fees and percentage rent are based on a percentage of the franchisees' retail sales. Percentage rent represents the Company's variable participation in sales performance when such figure is in excess of a contractual minimum base rent. Specifically, franchisees pay the higher of 8% of franchise retail sales or base rent. The portion in excess of base rent is included in royalties and sublease revenues.

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

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

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

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

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

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

Adjusted EBITDA. Adjusted EBITDA is defined as net income (loss) before interest expense (net), income tax expense (recovery) and depreciation and amortization adjusted for the impact of certain expenses, costs or benefits incurred which in management's view are not indicative of the underlying business performance, including management fees, information technology transformation costs (representing discrete, project-based implementation costs associated with new technology systems and discrete software as a service ("SaaS") arrangements costs for transformational initiatives), IPO readiness and separation costs, business transformation costs, COVID-19 pandemic costs, other professional fees (incurred with respect to the examination of tax filings for the 2016 fiscal year), share-based compensation expense, asset impairments, gain (loss) on foreign exchange, investment in associate (representing the share of gain or loss from an associate and any gains or losses on a related call option) and pro forma costs to normalize on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the

Company. We believe Adjusted EBITDA is a useful measure of operating performance as it provides a more relevant picture of operating results by facilitating a comparison of our performance on a consistent basis from period-to-period and provides a more complete understanding of factors and trends affecting our business.

Adjusted Net Income. Adjusted Net Income is defined as net income (loss), adjusted for the impact of certain expenses, costs or benefits incurred which in management's view are not indicative of the underlying business performance, including management fees, information technology transformation costs (representing discrete, project-based implementation costs associated with new technology systems and discrete SaaS arrangements costs for transformational initiatives), IPO readiness and separation costs, business transformation costs, COVID-19 pandemic costs, other professional fees (incurred with respect to the examination of tax filings for the 2016 fiscal year), share-based compensation expense, asset impairments, gain (loss) on foreign exchange, investment in associate (representing the share of gain or loss from an associate and any gains or losses on a related call option) and pro forma costs to normalize on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, net of related tax effects. We believe Adjusted Net Income is a useful measure of performance, as it provides a more relevant picture of results and facilitates a comparison of our performance on a consistent basis from period-to-period and provides a more complete understanding of factors and trends affecting our business.

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

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

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

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

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

Same-store sales growth. Same-store sales growth is defined as the percentage change in retail sales generated by system-wide stores, that have been opened for at least 52 weeks and e-commerce sales relative to the same period in the prior fiscal year. Stores that are renovated, expanded, or relocated are included in the metric on the first day of operation if the original store was open for at least 52 weeks. Stores that are acquired through business acquisitions are excluded from this metric for at least 52 weeks from the date of the acquisition. For Fiscal 2021, same-store sales growth has been calculated by aligning the 2020 fiscal calendar to match the 2021 fiscal calendar given the 53rd week in Fiscal 2020. The primary drivers of same-store sales growth are changes in the transaction count and the average spend per transaction. Same-store sales growth is used by management to better understand the level of growth of our business as it explains what portion of the sales growth is attributable to established stores and what portion can be attributed to the opening of new stores.

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

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

Results of Operations

Analysis of Results for Q4 2022 compared to Q4 2021

Revenue. Total revenue was \$266.0 million in Q4 2022, an increase of \$43.0 million, or 19.3%, compared to \$223.1 million in Q4 2021. The current quarter includes \$3.1 million of franchise and other revenues from the acquisition of Chico. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues, as described in more detail below.

Retail sales. Retail sales were \$109.3 million in Q4 2022, an increase of \$12.6 million, or 13.1%, as compared to \$96.7 million in Q4 2021. The increase in retail sales was primarily attributable to higher same-store sales growth and new store openings in the last 12 months partially offset by re-franchised stores.

Franchise and other revenues. Franchise and other revenues were \$156.8 million in Q4 2022, an increase of \$30.4 million, or 24.0%, as compared to \$126.4 million in Q4 2021. The current quarter includes \$3.1 million of franchise and other revenues from the acquisition of Chico. Excluding the impact of Chico, the increase in franchise and other revenues was mostly due to higher wholesale merchandise sales of \$23.9 million and higher royalties and sub-lease revenues of \$2.6 million driven by: (i) higher same-store sales growth; and (ii) an increase in the number of franchised stores.

Same-store sales growth. Same-store sales growth was 11.8% in Q4 2022 primarily driven by a 4.6% increase in same-store transactions and a 6.9% increase in same-store average spend per transaction. Same store sales growth in Q4 2022 included a benefit, representing approximately 1.4%, due to the timing of New Year's day. This is compared to same-store sales growth of 16.7% in Q4 2021,

which primarily consisted of a 10.8% increase in same-store transactions and a 5.4% increase in same-store average spend per transaction.

Gross profit. Gross profit increased by \$14.3 million, or 17.4%, to \$96.3 million in Q4 2022, compared to \$82.0 million in Q4 2021. Gross profit margin was 36.2% in Q4 2022 compared to 36.8% in Q4 2021. The gross profit margin decrease was primarily driven by: (i) the unfavourable impact of the weaker Canadian dollar on non-domestic sourced products primarily denominated in U.S. dollars; (ii) higher wholesale merchandise sales due to increased franchise penetration; (iii) sales mix due to increased sales in national brands; partially offset by (iv) vendor recoveries associated with supply chain disruptions; and (v) the acquisition of Chico.

SG&A expenses. SG&A expenses were \$53.9 million in Q4 2022, an increase of \$13.1 million, or 32.2%, compared to \$40.8 million in Q4 2021. SG&A expenses represented 20.3% and 18.3% of total revenue for Q4 2022 and Q4 2021, respectively. The increase of \$13.1 million in SG&A expenses was primarily due to: (i) increased compensation costs as a result of headcount and salary investments; (ii) higher technology costs to modernize our systems including our warehousing and omni-channel capabilities; (iii) higher depreciation and amortization; partially offset by (iv) higher gain on the sale of assets due to more re-franchised stores in Q4 2022.

Operating income. Operating income increased by \$1.1 million to \$42.4 million in Q4 2022, compared to \$41.3 million in Q4 2021. The change in operating income is explained by the factors impacting gross profit and SG&A expenses described above.

Net interest expense. Net interest expense was \$6.4 million in Q4 2022, an increase of \$2.0 million, or 46.0%, compared to \$4.4 million in Q4 2021. The increase was primarily driven by higher interest expense on the 2021 Term Facility (as hereinafter defined) resulting from higher interest rates on lower total debt outstanding compared to Q4 2021 .

Income taxes. Income taxes were \$9.8 million in Q4 2022 compared to \$10.0 million in Q4 2021, a decrease of \$0.2 million year over year. The decrease in income taxes was primarily the result of lower taxable earnings in Q4 2022. The effective income tax rate was 27.4% in Q4 2022 compared to 27.2% in Q4 2021. The Q4 2022 and Q4 2021 effective tax rate is higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses.

Net income. Net income decreased by \$0.9 million to \$25.9 million in Q4 2022, compared to \$26.7 million in Q4 2021. The change in net income is explained by the factors described above.

Diluted net income per share attributable to the common shareholders. Diluted net income per share attributable to the common shareholders decreased by \$0.01 to \$0.36 in Q4 2022, compared to \$0.37 in Q4 2021. The 2.7% year over year decrease results primarily from the factors described above.

Adjusted EBITDA. Adjusted EBITDA increased by \$6.0 million, or 11.2%, to \$59.3 million in Q4 2022, compared to \$53.3 million in Q4 2021. The increase in Adjusted EBITDA was primarily due to higher EBITDA of \$2.6 million as explained by the factors described above and excludes business transformation costs, share-based compensation, other professional fees, information technology transformation costs, asset impairments, investment in associate, and loss on foreign exchange. Adjusted EBITDA as a percentage of revenue was 22.3% and 23.9% in Q4 2022 and Q4 2021, respectively.

Adjusted Net Income. Adjusted Net Income increased by \$1.8 million to \$31.1 million in Q4 2022, compared to \$29.3 million in Q4 2021. Adjusted Net Income as a percentage of revenue was 11.7% in Q4 2022 and 13.1% in Q4 2021. The 1.4% year over year decrease results from the factors described above.

Adjusted Net Income per Diluted Share. Adjusted Net Income per Diluted Share increased by \$0.02 to \$0.43 in Q4 2022, compared to \$0.41 in Q4 2021. The 4.9% year over year increase results primarily from the factors described above.

Analysis of Results for Fiscal 2022 compared to Fiscal 2021

Revenue. Total revenue was \$951.7 million in Fiscal 2022, an increase of \$175.7 million, or 22.6%, compared to \$776.0 million in Fiscal 2021. The current year includes \$9.7 million of franchise and other revenues from the acquisition of Chico. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues, as described in more detail below.

Retail sales. Retail sales were \$402.6 million in Fiscal 2022, an increase of \$55.3 million, or 15.9%, as compared to \$347.3 million in Fiscal 2021. The increase in retail sales was primarily attributable to higher same-store sales growth and new stores opened in the last 12 months partially offset by re-franchised stores.

Franchise and other revenues. Franchise and other revenues were \$549.1 million in Fiscal 2022, an increase of \$120.4 million, or 28.1%, as compared to \$428.7 million in Fiscal 2021. The current year includes \$9.7 million of franchise and other revenues from the acquisition of Chico. Excluding the impact of Chico, the increase in franchise and other revenues was mostly driven by higher wholesale merchandise sales of \$89.5 million and higher royalties and sub-lease revenues of \$16.8 million primarily due to: (i) higher same-store sales growth; and (ii) an increase in the number of franchised stores.

Same-store sales growth. Same-store sales growth was 17.1% in Fiscal 2022 primarily driven by a 11.8% increase in same-store transactions and a 4.8% increase in same-store average spend per transaction. Same store sales growth in Fiscal 2022 included a benefit, representing approximately 0.4%, due to the timing of New Year's day. This is compared to same-store sales growth of 17.8% in Fiscal 2021 which primarily consisted of a 10.5% increase in same-store transactions and a 6.6% increase in same-store average spend per transaction. Same-store transactions and same-store average spend per transaction in Fiscal 2021 were impacted by a shift in consumer behaviour associated with COVID-19 restrictions.

Gross profit. Gross profit increased by \$65.1 million, or 22.7%, to \$352.3 million in Fiscal 2022, compared to \$287.2 million in Fiscal 2021. Gross profit margin was 37.0% of revenue in Fiscal 2022 and in Fiscal 2021. The gross profit margin shifts between Fiscal 2022 and Fiscal 2021 are mainly explained by: (i) leverage gained on fixed costs due to higher revenue; (ii) duty and vendor recoveries associated to COVID relief measures and supply chain disruption; (iii) the acquisition of Chico; offset by (iv) higher wholesale merchandise sales and increased franchise penetration; (v) lower product margins as pricing adjustments were more than offset by higher costs including incremental freight costs; and (vi) the unfavourable impact of the weaker Canadian dollar on non-domestic sourced products primarily denominated in U.S. dollars.

SG&A expenses. SG&A expenses were \$192.1 million in Fiscal 2022, an increase of \$34.3 million, or 21.8%, compared to \$157.8 million in Fiscal 2021. SG&A expenses represented 20.2% and 20.3% of total sales and revenue for Fiscal 2022 and Fiscal 2021, respectively. The increase of \$34.3 million in SG&A expenses was primarily due to: (i) increased compensation costs as a result of headcount and salary investments; (ii) higher technology costs to modernize our systems including our omni-channel and warehousing capabilities; (iii) higher advertising expenses; (iv) depreciation and amortization; partially offset by (v) lower professional fees as Fiscal 2021 included fees to support the Offering and separation activities.

Operating income. Operating income increased by \$30.8 million to \$160.2 million in Fiscal 2022, compared to \$129.4 million in Fiscal 2021. The change in operating income is explained by the factors impacting gross profit and SG&A expenses described above.

Net interest expense. Net interest expense was \$20.5 million in Fiscal 2022, a decrease of \$26.4 million, or 56.3%, compared to \$46.9 million in Fiscal 2021. The decrease was primarily driven by: (i)

lower interest expense on the 2021 Term Facility (as hereinafter defined) resulting from lower interest rates and lower total debt outstanding compared to the 2016 Term Loan (as hereinafter defined) which was repaid following the closing of the Offering in Fiscal 2021; (ii) lower fees on the commitment for the standby letter of credit; and (iii) lower amortization of deferred financing costs. The decrease in net interest expense is also attributable to the prior year write off of \$5.7 million of unamortized deferred financing costs as debt extinguishment costs upon repayment of the 2016 Credit Agreement (as hereinafter defined) following the closing of the Offering in Fiscal 2021.

Income taxes. Income taxes were \$37.9 million in Fiscal 2022 compared to \$26.3 million in Fiscal 2021, an increase of \$11.6 million year over year. The increase in income taxes was primarily the result of higher taxable earnings in Fiscal 2022. The effective income tax rate was 27.3% in Fiscal 2022 compared to 21.0% in the prior year. The Fiscal 2022 effective tax rate is higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses. The Fiscal 2021 effective tax rate is lower than the blended statutory rate of 26.5% primarily because of the favourable tax treatment on foreign exchange gains related to the repayment of the 2016 Term Loans and on the settlement of a foreign exchange forward contract (See “Liquidity and Capital Resources – Credit Facilities”), partially offset by \$1.4 million cumulative income tax expense related to the enactment of Bill C-30 and interest income earned from advances made to our former U.S legal entity subsidiaries for 2019 and 2020. The Company previously made protective elections to impute taxable interest income from these advances under the Pertinent Loan or Indebtedness regime.

Net income. Net income increased by \$2.0 million to \$100.8 million in Fiscal 2022, compared to \$98.8 million in Fiscal 2021. In addition to the factors described above, the change in net income is also explained by a higher gain on foreign exchange of \$43.2 million in Fiscal 2021 from the repayment of the 2016 Term Loans and from the settlement of a foreign exchange forward contract (See “Liquidity and Capital Resources – Credit Facilities”).

Diluted net income per share attributable to the common shareholders. Diluted net income per share attributable to the common shareholders increased by \$0.07 to \$1.40 in Fiscal 2022, compared to \$1.33 in Fiscal 2021. The 5.3% year over year increase results primarily from the factors described above.

Adjusted EBITDA. Adjusted EBITDA increased by \$32.5 million, or 17.8%, to \$214.8 million in Fiscal 2022, compared to \$182.3 million in Fiscal 2021. The increase in Adjusted EBITDA was primarily due to higher EBITDA of \$35.2 million, excluding the impact of foreign exchange gains or losses, and as explained by the factors described above. Adjusted EBITDA also excludes readiness for the Offering and separation costs, share-based compensation, management fees, asset impairments, business transformation costs, other professional fees, investment in associate, and information technology transformation costs. Adjusted EBITDA as a percentage of revenue was 22.6% and 23.5% in Fiscal 2022 and Fiscal 2021, respectively.

Adjusted Net Income. Adjusted Net Income increased by \$41.6 million to \$114.6 million in Fiscal 2022, compared to \$73.0 million in Fiscal 2021. Adjusted Net Income as a percentage of revenue was 12.0% in Fiscal 2022 and 9.4% in Fiscal 2021. The 2.6% year over year increase results from the factors described above.

Adjusted Net Income per Diluted Share. Adjusted Net Income per Diluted Share increased by \$0.57 to \$1.59 in Fiscal 2022, compared to \$1.02 in Fiscal 2021. The 55.9% year over year increase results primarily from the factors described above.

Total Assets

Fiscal 2022 compared to Fiscal 2021

Total assets were \$740.2 million at Fiscal 2022, an increase of \$141.0 million or 23.5%, compared to \$599.2 million at Fiscal 2021. The change is mostly explained by an increase in property and equipment of \$29.7 million due to the construction-in-progress of the new distribution centre, and leasehold improvements and furniture and fixtures for corporate-owned stores, higher inventory of \$26.7 million primarily due to growth in revenue and to support supply chain stability in light of global supply chain challenges, higher lease receivables of \$22.5 million resulting from the opening of new franchise stores and corporate-owned stores sold to franchisees, an increase in intangible assets of \$14.9 million primarily resulting from the acquisition of Chico, an increase in cash of \$13.0 million, and an increase in prepaid expenses and other assets of \$11.8 million primarily due to the timing of lease payments.

Total Non-Current Liabilities

Fiscal 2022 compared to Fiscal 2021

Total non-current liabilities were \$550.6 million at Fiscal 2022, an increase of \$9.3 million, compared to \$541.3 million at Fiscal 2021. The increase was mostly driven by an increase in long-term lease liabilities of \$19.0 million resulting from the growth in store counts and renewal of existing leases, higher deferred tax liabilities of \$3.7 million from intangible assets related to the Chico acquisition, and higher other liabilities of \$2.3 million related to cash-settlement obligations for units under the Company's long term incentive plan; partially offset by lower long-term debt of \$16.6 million as a result of principal repayments on the 2021 Term Facility and a shift to current liabilities to reflect the current portion of the long-term debt.

Selected Quarterly Results and Performance Measures

The following table summarizes selected results of the Company's operations for the last eight most recently completed quarters (information is in thousands of Canadian dollars unless otherwise noted). The unaudited quarterly results, excluding other performance measures, have been prepared in accordance with IFRS. Due to seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. In general, the fourth quarter has the strongest volume due to the holiday season. Additionally, quarterly performance can be impacted by the timing of holidays and significant weather changes. For Fiscal 2022, the results include the consolidation of Chico from the acquisition date of February 25, 2022. For Fiscal 2021, the gross profit margin improvement over the first three quarters was primarily driven by: (i) the favourable impact of the stronger Canadian dollar on products sourced outside Canada and primarily denominated in U.S. dollars; and (ii) leverage gained on fixed costs due to higher revenue. During the fourth quarter of Fiscal 2021, gross profit margin benefited from the stronger Canadian dollar and leverage on fixed costs, but was partially offset by the absorption of incremental freight costs due to global supply chain issues.

	Fiscal 2022				Fiscal 2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks
IFRS Measures								
Revenue	\$266,044	\$244,724	\$227,676	\$213,253	\$223,053	\$200,706	\$182,182	\$170,072
Gross profit	\$ 96,304	\$ 93,542	\$ 85,371	\$ 77,080	\$ 82,024	\$ 78,332	\$ 67,160	\$ 59,663
Gross profit margin	36.2%	38.2%	37.5%	36.1%	36.8%	39.0%	36.9%	35.1%
Operating Income	\$ 42,411	\$ 43,311	\$ 39,309	\$ 35,161	\$ 41,266	\$ 38,961	\$ 26,557	\$ 22,622
Net income	\$ 25,881	\$ 26,986	\$ 25,278	\$ 22,621	\$ 26,741	\$ 24,349	\$ 44,294	\$ 3,409
Weighted average number of common shares (in thousands) ⁽¹⁾	70,762	70,576	70,336	70,128	69,997	69,979	69,974	54,161
Weighted average number of diluted common shares (in thousands) ⁽¹⁾	72,135	71,828	71,794	71,666	71,659	71,461	71,364	55,484
Basic net income per share attributable to the common shareholders ⁽¹⁾	\$ 0.37	\$ 0.38	\$ 0.36	\$ 0.32	\$ 0.38	\$ 0.35	\$ 0.61	\$ 0.03
Diluted net income per share attributable to the common shareholders ⁽¹⁾	\$ 0.36	\$ 0.38	\$ 0.35	\$ 0.32	\$ 0.37	\$ 0.34	\$ 0.60	\$ 0.03
Non-IFRS Measures and Supplementary Financial Measures								
System-wide sales ⁽²⁾⁽³⁾	\$360,634	\$331,649	\$312,508	\$285,928	\$288,467	\$258,592	\$231,452	\$219,628
System-wide stores ⁽²⁾	744	729	717	705	633	622	616	609
Same-store sales growth ⁽²⁾	11.8%	14.7%	21.2%	22.8%	16.7%	20.3%	28.4%	6.9%
EBITDA ⁽⁴⁾	\$ 52,424	\$ 52,157	\$ 48,611	\$ 44,030	\$ 49,790	\$ 47,026	\$ 78,047	\$ 30,809
Adjusted EBITDA ⁽⁴⁾⁽⁵⁾	\$ 59,301	\$ 56,954	\$ 51,807	\$ 46,782	\$ 53,335	\$ 50,668	\$ 42,303	\$ 36,013
Adjusted Net Income ⁽⁴⁾⁽⁵⁾	\$ 31,127	\$ 30,749	\$ 27,876	\$ 24,819	\$ 29,296	\$ 27,687	\$ 8,695	\$ 7,292
Adjusted Net Income per Diluted Share ⁽¹⁾⁽⁴⁾	\$ 0.43	\$ 0.43	\$ 0.39	\$ 0.35	\$ 0.41	\$ 0.39	\$ 0.12	\$ 0.13

Notes:

- (1) Basic and diluted net income (loss) per share attributable to the common shareholders and Adjusted Net Income per Diluted Share for Q1 2021 are calculated on a pro-forma basis using the weighted average common shares outstanding based on the capital reorganization and the Company's amended and restated share option plan immediately prior to the Offering.
- (2) System-wide sales, system-wide stores and same-store sales growth are supplementary financial measures. For further information on supplementary financial measures, see "Non-IFRS and Supplementary Financial Measures" section of this MD&A.
- (3) System-wide sales in Q1, Q2, Q3, and Q4 2022 includes sales from Chico of \$9.7 million, \$24.6 million, \$27.5 million, and \$29.6 million respectively (see "Acquisition of Chico").
- (4) EBITDA, Adjusted EBITDA, Adjusted Net Income, and Adjusted Net Income per Diluted Share are non-IFRS measures. See below for a reconciliation from net income, an IFRS measure, for each fiscal quarter in Fiscal 2022 and Fiscal 2021. For the reconciliation of net income to EBITDA, Adjusted EBITDA, and Adjusted Net Income for Q4 2022, see "Selected Consolidated Financial Information and Industry Metrics".
- (5) In Q3 2022, the Company revised its definition of Adjusted EBITDA and Adjusted Net Income to exclude the gain on the fair value of the call option related to an investment in an associate. Comparative figures prior to Q2 2022 are not impacted by the change in definition. The previously reported Q2 2022 Adjusted EBITDA of \$52.1 million was revised to exclude a \$0.2 million gain on the fair value of the call option. The previously reported Q2 2022 Adjusted Net Income of \$28.1 million was revised to exclude a \$0.2 million gain on the fair value of the call option, net of tax.

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

	Fiscal 2022				Fiscal 2021		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks
Reconciliation of net income to Adjusted EBITDA:							
Net income	\$ 26,986	\$ 25,278	\$ 22,621	\$ 26,741	\$ 24,349	\$ 44,294	\$ 3,409
Depreciation and amortization	9,595	9,270	8,876	8,637	8,434	8,554	8,089
Interest expenses, net	5,508	4,560	3,981	4,403	4,492	19,981	17,997
Income taxes expense	10,068	9,503	8,552	10,009	9,751	5,218	1,314
EBITDA	52,157	48,611	44,030	49,790	47,026	78,047	30,809
Adjustments to EBITDA:							
Management fees ⁽¹⁾	—	—	—	—	—	439	240
Information technology transformation costs ⁽²⁾	1,252	1,007	1,070	1,518	1,239	1,305	1,252
IPO readiness and separation costs ⁽³⁾	—	—	—	—	709	2,191	1,329
Business transformation costs ⁽⁴⁾	834	381	—	514	205	1,100	619
Other professional fees ⁽⁵⁾	163	348	648	246	80	275	1,188
Share-based compensation ⁽⁶⁾	1,799	1,492	1,027	1,154	1,023	1,882	674
Asset impairments ⁽⁷⁾	—	—	—	—	17	—	—
(Gain) loss on foreign exchange ⁽⁸⁾	832	120	(21)	105	369	(42,936)	(98)
Investment in associate ⁽⁹⁾	(83)	(152)	28	8	—	—	—
Adjusted EBITDA	\$ 56,954	\$ 51,807	\$ 46,782	\$ 53,335	\$ 50,668	\$ 42,303	\$ 36,013

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; (ii) retention bonuses for certain key management personnel in connection with the Offering; and (iii) in Q3 2021, professional fees incurred with respect to the 2021 Secondary Offering. In Q2 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Q2 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (4) For Fiscal 2022, represents expenses associated to supply chain transformation initiatives, including the new distribution centre. For Fiscal 2021, predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year; and (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022.
- (6) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan. Share-based compensation for Q2 2021 also includes expense in relation to retention bonuses of \$1.2 million which were paid through the issuance of common shares in lieu of cash. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020.
- (7) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (8) Represents foreign exchange gains and losses.
- (9) Represents the Company's share of loss from associate and the gain on the fair value of the related call option. During Q3 2022, the Company revised its definition of Adjusted EBITDA to exclude the gain on the fair value of the related call option. Comparative figures prior to Q2 2022 are not impacted by the change in definition. The previously reported Q2 2022 Adjusted EBITDA of \$52.1 million was revised to exclude a \$0.2 million gain on the fair value of the call option.

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

	Fiscal 2022				Fiscal 2021		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks
Reconciliation of net income to Adjusted Net Income:							
Net income	\$ 26,986	\$ 25,278	\$ 22,621	\$ 26,741	\$ 24,349	\$ 44,294	\$ 3,409
Adjustments to net income:							
Management fees ⁽¹⁾	—	—	—	—	—	439	240
Information technology transformation costs ⁽²⁾	1,252	1,007	1,070	1,518	1,239	1,305	1,252
IPO readiness and separation costs ⁽³⁾	—	—	—	—	709	2,191	1,329
Business transformation costs ⁽⁴⁾	834	381	—	514	205	1,100	619
Other professional fees ⁽⁵⁾	163	348	648	246	80	275	1,188
Share-based compensation ⁽⁶⁾	1,799	1,492	1,027	1,154	1,023	1,882	674
Asset impairments ⁽⁷⁾	—	—	—	—	17	—	—
(Gain) loss on foreign exchange ⁽⁸⁾	832	120	(21)	105	369	(42,936)	(98)
Investment in associate ⁽⁹⁾	(83)	(152)	28	8	—	—	—
Tax effect of adjustments to net income	(1,034)	(598)	(554)	(990)	(304)	145	(1,321)
Adjusted Net Income	\$ 30,749	\$ 27,876	\$ 24,819	\$ 29,296	\$ 27,687	\$ 8,695	\$ 7,292

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; (ii) retention bonuses for certain key management personnel in connection with the Offering; and (iii) in Q3 2021, professional fees incurred with respect to the 2021 Secondary Offering. In Q2 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Q2 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (4) For Fiscal 2022, represents expenses associated to supply chain transformation initiatives, including the new distribution centre. For Fiscal 2021, predominately represents severance, recruitment, and consulting expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year; and (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022.
- (6) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan. Share-based compensation for Fiscal 2021 also includes expense in relation to retention bonuses of \$1.2 million which were paid through the issuance of common shares in lieu of cash. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020.
- (7) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (8) Represents foreign exchange gains and losses.
- (9) Represents the Company's share of loss from associate and the gain on the fair value of the related call option. During Q3 2022, the Company revised its definition of Adjusted Net Income to exclude the gain on the fair value of the related call option. Comparative figures prior to Q2 2022 are not impacted by the change in definition. The previously reported Q2 2022 Adjusted Net Income of \$28.1 million was revised to exclude a \$0.2 million gain on the fair value of the call option, net of tax.

Liquidity and Capital Resources

Overview

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

As of Fiscal 2022, available liquidity was approximately \$193.0 million, as compared to \$180.1 million as of Fiscal 2021, and was comprised of:

- cash and cash equivalents of \$63.0 million, as compared to \$50.1 million as of Fiscal 2021; and
- available borrowings of \$130.0 million under the 2021 Revolving Facility (as hereinafter defined), as of Fiscal 2022 and Fiscal 2021.

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

Credit Facilities

2021 Credit Agreement

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

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

Borrowings under the 2021 Credit Facilities will bear interest, according to the type of borrowing advanced, at short-term floating rates (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 Fiscal 2022, the effective interest rate on the 2021 Credit Facilities was 6.87% (Fiscal 2021 — 2.52%).

As of Fiscal 2022, the aggregate amount outstanding under the 2021 Term Facility and 2021 Revolving Facility was \$341.7 million and \$nil, respectively.

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

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

2016 Credit Agreement

On July 5, 2016, the Company entered into a US\$605.0 million credit agreement with a consortium of lenders (the “2016 Credit Agreement”), which provides for (i) a term loan with a principal amount of US\$545.0 million under a secured term loan facility (“2016 Term Loan”); (ii) a revolving credit facility for up to US\$20.0 million (“2016 Revolving Credit Facility”); and (iii) a delayed draw term loan of US\$40.0 million (“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\$550.0 million in exchange for Canadian dollars to be settled on the closing of the Offering. The Company settled the foreign exchange forward contract on June 30, 2021, and recognized a foreign currency gain of \$13.5 million.

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 \$29.7 million were reclassified to gain on foreign exchange from accumulated other comprehensive income within the Group’s net investment.

Deferred financing costs

In connection with the 2021 Credit Agreement, deferred financing costs of \$5.7 million were incurred. The total unamortized deferred financing costs were \$3.9 million as of Fiscal 2022 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 \$5.7 million were written off as debt extinguishment costs. These amounts were included as interest expense.

Cash Flows

The following table presents cash flows for the periods indicated:

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Net cash provided by operating activities	\$ 46,940	\$ 53,091	\$ 123,524	\$ 138,159
Net cash used in financing activities	(20,270)	(20,253)	(92,804)	(163,342)
Net cash (used in) provided by investing activities	(11,429)	(6,018)	(17,325)	3,991
Effect of exchange rate changes on cash	11	(64)	(429)	(221)
Net increase (decrease) in cash	\$ 15,252	\$ 26,756	\$ 12,966	\$ (21,413)

Analysis of Cash Flow for Q4 2022 and Fiscal 2022

Net cash provided by operating activities:

For Q4 2022, net cash provided by operating activities totalled \$46.9 million, a decrease of \$6.2 million, compared to net cash provided by operating activities of \$53.1 million in Q4 2021. The decrease is explained by a combined \$6.4 million net change in operating working capital comprised of a \$2.1 million decrease in net operating working capital in Q4 2022 compared to an increase of \$4.3 million in Q4 2021. The change is explained by: (i) lower accounts payable and accrued liabilities due to the timing of payments related to inventory purchases; (ii) higher prepaids due to the timing of lease payments and higher prepayment of interest on long-term debt; (iii) higher receivables due to the timing of franchisee billings, growth in store count, and receivables related to the construction and renovation of new and existing stores; partially offset by (iv) lower inventory due to strong sales volume during the holiday season. The remaining decrease was due to higher federal corporate tax instalments of \$2.8 million which was offset by \$3.1 million of higher net income (adjusted for items not involving cash).

For Fiscal 2022, net cash provided by operating activities totalled \$123.5 million, a decrease of \$14.6 million, compared to net cash provided by operating activities of \$138.2 million in Fiscal 2021. The decrease is explained by a combined \$25.3 million net change in operating working capital comprised of a \$39.3 million decrease in net operating working capital in Fiscal 2022 compared to a decrease of \$14.0 million in Fiscal 2021. The change is explained by: (i) higher inventory due to an increase in demand and to support supply chain stability in light of global supply chain challenges; (ii) higher prepaids due to the timing of lease payments and higher prepayment of interest on long-term debt; (iii) higher receivables due to the timing of franchisee billings, growth in store count, and the construction and renovation of new and existing stores; partially offset by (iv) higher accounts payable and accrued liabilities due to the timing of payments. The remaining decrease was due to higher federal corporate tax instalments of \$23.6 million and security deposits paid of \$5.1 million in relation to the new distribution centre lease agreement offset by \$39.3 million of higher net income (adjusted for items not involving cash).

Net cash used in financing activities:

Net cash used in financing activities totalled \$20.3 million in Q4 2022 and Q4 2021. The change in financing activities between Q4 2022 and Q4 2021 are: (i) lower principal payments on lease liabilities due to the timing of year-end in Q4 2022; (ii) higher proceeds from the exercise of share options; offset by (iii) higher interest payments on long-term debt; and (iv) higher dividends paid on common shares.

For Fiscal 2022, net cash used in financing activities totalled \$92.8 million, compared to \$163.3 million in Fiscal 2021. The decrease is primarily driven by: (i) lower interest payments on long-

term debt; (ii) lower net distributions; (iii) higher proceeds from the exercise of share options; (iv) the absence of financing costs in Fiscal 2022; (v) lower commitment fees on the standby letter of credit, (vi) lower principal payments on lease liabilities due to the timing of year-end in Fiscal 2022; partially offset by (vii) higher dividends paid on common shares; and (viii) higher principal repayments on the 2021 Term Facility. In addition, the comparative year included the repayment of the 2016 Term Loans which were partially offset by the proceeds received from the 2021 Credit Facilities and from the issuance of common shares.

Net cash (used in) provided by investing activities:

For Q4 2022, net cash used in investing activities totalled \$11.4 million, compared to net cash used in investing activities of \$6.0 million in Q4 2021. The increase is explained by higher Net Capital Expenditures⁽¹⁾ of \$11.2 million due to: (i) construction-in-progress of the new distribution centre; (ii) leasehold improvements and furniture and fixtures for corporate-owned stores; partially offset by (iii) higher proceeds on disposal of property and equipment from the sale of corporate-owned stores to franchisees. In addition, Q4 2022 benefited from higher payments from notes receivable to franchisees for renovations at existing franchise stores and a lower investment in associate.

For Fiscal 2022, net cash used in investing activities totalled \$17.3 million, compared to net cash provided by investing activities of \$4.0 million in Fiscal 2021. This change is explained by higher Net Capital Expenditures of \$16.9 million due to: (i) leasehold improvements and furniture and fixtures for corporate-owned stores; (ii) construction-in-progress of the new distribution centre; and (iii) lower proceeds on disposal of property and equipment from the sale of corporate-owned stores to franchisees. In addition, Fiscal 2022 included the acquisition of Chico, partially offset by higher payments of principal and interest from lease receivables and notes receivable.

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

Free Cash Flows

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

	Quarters Ended		Fiscal Year Ended	
	December 31, 2022 13 weeks	January 1, 2022 13 weeks	December 31, 2022 52 weeks	January 1, 2022 52 weeks
Cash provided by operating activities	\$ 46,940	\$ 53,091	\$ 123,524	\$ 138,159
Cash (used in) provided by investing activities	(11,429)	(6,018)	(17,325)	3,991
Repayment of principal on lease liabilities	(7,371)	(11,473)	(43,212)	(46,640)
Interest paid on lease liabilities	(3,065)	(2,908)	(11,853)	(11,557)
Notes receivable	(55)	2,585	(950)	2,348
Free Cash Flow	\$ 25,020	\$ 35,277	\$ 50,184	\$ 86,301

Analysis of Free Cash Flow for Q4 2022 and Fiscal 2022

Free cash flows amounted to \$25.0 million in Q4 2022 compared to \$35.3 million in Q4 2021, a decrease of \$10.3 million primarily driven by a decrease in cash from operating activities, an increase in cash used for investing activities partially offset by a decrease in repayment of principal on lease liabilities due to timing of lease payments.

Free cash flows amounted to \$50.2 million in Fiscal 2022 compared to \$86.3 million in Fiscal 2021, a decrease of \$36.1 million primarily driven by a decrease in cash from investing activities and operating activities, partially offset by a decrease in repayment of principal on lease liabilities due to timing of lease payments.

Contractual Obligations, Guarantees, and Contingencies

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as of Fiscal 2022.

	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Thereafter	Total
Accounts payable and accrued liabilities	\$ 103,782	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 103,782
Lease liabilities	62,809	58,025	53,622	39,666	29,204	66,427	309,753
Long-term debt	17,750	17,750	17,750	288,437	—	—	341,687
Lease commitments with future commencement dates ⁽¹⁾	8,917	9,186	9,461	9,742	10,037	54,893	102,236
Purchase obligations ⁽²⁾	13,307	5,219	—	—	—	—	18,526
Total contractual obligations	\$ 206,565	\$ 90,180	\$ 80,833	\$ 337,845	\$ 39,241	\$ 121,320	\$ 875,984

Notes:

⁽¹⁾ Represents lease commitments related to the new distribution centre in the Greater Toronto Area. The lease is for an initial term of 10 years commencing August 1, 2023.

⁽²⁾ Represents purchase obligations to complete leasehold improvements and procure certain material handling systems for the new distribution center in the Greater Toronto Area.

Guarantees of indebtedness

The Company has provided the following guarantees as of Fiscal 2022:

- (i) Guarantee of certain lease obligations for a former subsidiary of the Company. The lease obligations expire on February 27, 2023. As of Q4 2022, the future lease commitment is \$0.1 million (US\$0.1 million) (Fiscal 2021 — \$0.8 million (US\$0.7 million)).

Bank comfort letters

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

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

Litigation

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

Income Taxes

The Company is subject to routine audits of its tax filing positions by the CRA on an ongoing basis. The CRA is currently examining the Company's tax filings for the 2016 taxation year and subsequent taxation years and, in connection with such audit, is reviewing the transaction pursuant to which the Company indirectly acquired its former interest in Pet Supermarket, Inc. To date, the CRA has not proposed any reassessment of the Company's tax liability as a consequence of such audit. The Company and its tax advisors continue to believe that the Company's tax filing positions are appropriate, and accordingly no amounts have been accrued in the 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 will 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 \$3.7 million 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 audited consolidated financial statements for Fiscal 2021. The Company will incur ongoing commitment fees of \$1.3 million 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 \$3.0 million annually, although there can be no assurance that such costs would not exceed this amount or that the facility will fully cover any reassessment.

Related Party Transactions

Management fees

The Company was a party to an agreement with Roark which provided management services. The Company did not incur management fees and expenses for Fiscal 2022 (Fiscal 2021 — \$0.7 million). The balance due was \$nil at Fiscal 2022 and Fiscal 2021, respectively. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.

Employee loans

During the 52-week fiscal year ended December 28, 2019, the Company received a promissory note related to the exercise of options by an employee. This promissory note had a balance outstanding of \$0.5 million (US\$0.4 million) as of Fiscal 2022 (Fiscal 2021 — \$0.6 million (US\$0.5 million)).

Transition services agreement

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 had an initial term of 18 months from the closing of the Offering and was renewed until May 1,

2023. The Company charged the former subsidiaries \$0.1 million for Fiscal 2022 under the transition services agreement (Fiscal 2021 — \$0.9 million). Prior to the transition services agreement, the Company provided services to these subsidiaries from the beginning of Fiscal 2021 and charged \$0.6 million to the subsidiaries during that period.

Product sourcing and brand license agreement

In connection with the 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 \$0.9 million for Fiscal 2022 under the product sourcing and brand license agreement (Fiscal 2021 — \$0.8 million).

Share Information Prior to the Capital Reorganization

Included in the Group's net investment are two classes of common shares issued and outstanding, Class X and Class Y, and three classes of perpetual preferred shares issued and outstanding, Class A, Class B, and Class C. The two classes of common shares have no par value. All three classes of preferred shares have no par value and are entitled to cumulative dividends at a rate of 8.6%. They also have a liquidation value of US\$1,000 per share plus any unpaid dividends less any previous distributions on the shares. Prior to the share reorganization and the completion of the Offering, (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.

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 amended and restated share option plan became options to acquire common shares. 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.

Non-controlling interests represented issued perpetual preferred shares and accumulated but unpaid dividends of a subsidiary of the Company. These shares earned a stated cumulative dividend of 8.6% per annum, and did not have redemption features. They also had a liquidation value of US\$1,000 per share plus any unpaid dividends less any previous distributions on the shares. As such, these non-controlling interests were classified as equity. Non-controlling interests were redeemed for nominal consideration in connection with the reorganization.

Current Share Information

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

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

As of March 6, 2023, there were 70,976,471 common shares and 2,210,839 share options, each exercisable for one common share, issued and outstanding.

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

Dividends

Subject to financial results, capital requirements, available cash flow, the need for funds to finance ongoing operations and other factors that the Board of Directors may consider relevant, it is the intention of the Board of Directors to declare a quarterly cash dividend. It is expected that future cash dividend payments will be made to common shareholders of record as of a date to be determined by the Board of Directors. The actual payment, amount and timing of any dividends are not guaranteed and are subject to the discretion of our Board of Directors. See "Risk Factors" in this MD&A.

During Fiscal 2022, the Company paid \$16.9 million in dividends to holders of common shares or \$0.24 per common share. During Fiscal 2021, the Company paid \$0.7 million in dividends to holders of common shares, or \$0.01 per common share.

Critical Accounting Estimates and Judgments

The critical accounting estimates and judgments as disclosed in the Company's audited consolidated financial statements and accompanying notes for Fiscal 2022 have been applied consistently in the preparation of this MD&A.

Risk Factors

For a detailed description of risk factors relating to the Company, please refer to the "Risk Factors" section of the Company's AIF, which is available on SEDAR at www.sedar.com.

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

Foreign Currency Risk

The Company is exposed to currency risk related to some of its purchases. Specifically, the Company sources some of its merchandise in U.S. dollars. Inventory purchases sourced outside Canada and primarily denominated in U.S. dollars represented approximately 30% and 31% for Fiscal 2022 and Fiscal 2021, respectively.

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

Fiscal 2022 by \$0.4 million (Fiscal 2021 — \$0.5 million) as a result of the revaluation on these financial assets and liabilities.

Interest Rate Risk

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

A one percentage point change in the applicable interest rate on the 2021 Credit Agreement based on the debt outstanding as at Fiscal 2022 would have changed income before taxes for Fiscal 2022 by \$3.4 million (Fiscal 2021 — \$3.5 million).

Credit Risk

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

Liquidity Risk

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

Recent Accounting Pronouncements

Adoption of new accounting standards and amendments

In May 2020, the IASB issued the package of narrow-scope amendments to three standards (IFRS 3, *Business Combinations*, IAS 16, *Property, Plant and Equipment*, and IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*) as well as the IASB's Annual Improvements 2018 - 2020, which are changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in the standards. These amendments are effective for annual periods beginning on or after January 1, 2022. These amendments had no impact on the financial statements of the Company.

In May 2021, the IASB amended 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. The Company has early adopted the amendments for the period ended December 31, 2022 and this had no significant impact on the financial statements of the Company.

Accounting standards and amendments issued but not yet adopted

In January 2020, IASB issued *Classification of Liabilities as Current or Non-current*, which amends IAS 1, *Presentation of Financial Statements*. The narrow-scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of "settlement" to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. In October 2022, the IASB issued further amendments to IAS 1, *Presentation of Financial Statements*, that aim to improve the information companies provide about long-term debt with covenants. The amendments to IAS 1 specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

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. These amendments are not expected to have an impact on the Company's financial statements.

In September 2022, the IASB issued *Lease Liability in a Sale and Leaseback*, which amends IFRS 16, *Leases*. The narrow scope amendments add to requirements explaining how to account for a sale and leaseback after the date of the transaction. These amendments will not change the accounting for leases other than those arising in a sale and leaseback transaction. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. These amendments are not expected to have an impact on the Company's financial statements.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management, including its certifying officers, namely the Chief Executive Officer ("CEO") and Chief Financial Officer or the individual performing similar functions to those of the CFO ("CFO"), as appropriate to allow timely decisions regarding public disclosure. An evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), was carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, the CEO and CFO have concluded that the design and operation of these controls were effective as at December 31, 2022.

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

evaluation, the CEO and the CFO have concluded that the design and operation of the Company's internal controls over financial reporting, as defined by NI 52-109, were effective as at December 31, 2022.

Furthermore, there were no changes in our internal controls over financial reporting in Q4 2022 that materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

In accordance with NI 52-109, the CEO and the CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude such control, policies and procedures of Chico. The Company acquired Chico on February 25, 2022. Chico's results since its acquisition by the Company until the end of Fiscal 2022 are included in our consolidated results. Since the date of the acquisition, Chico represents less than or approximately 1.0% of revenues, net income, total assets and total liabilities as of December 31, 2022. Further details related to the acquisition of Chico are disclosed in Note 6 of the audited consolidated financial statements and accompanying notes for Fiscal 2022.

The scope limitation is primarily based on the time required to assess Chico's disclosure controls and procedures and internal controls over financial reporting in a manner consistent with the Company's other operations.

Subsequent Events

On March 6, 2023, the Board of Directors of the Company declared a dividend of \$0.10 per common share payable on April 17, 2023 to holders of common shares of record as at the close of business on March 31, 2023.

Outlook

For the full year 2023, the Company expects:

- Revenue between \$1,050 and \$1,075 million, supported by same-store sales growth of between 7% and 10%, and 40 to 50 new store openings;
- Gross profit margin slightly below the Company's historical range of 35% to 36%, as the Company faces unfavourable foreign exchange rates and incurs approximately 80 basis points of cost associated with its supply chain transformation;
- Adjusted EBITDA between \$230 and \$237 million, which incorporates expense leverage on investments made in 2022, partially offset by the unfavourable foreign exchange rates;
- Adjusted Net Income per Diluted Share between \$1.60 and \$1.66;
- Business transformation costs of approximately \$13 million, Information Technology costs of approximately \$7 million, and share-based compensation of approximately \$8 million, all of which are excluded from Adjusted EBITDA and Adjusted Net Income per Diluted Share; and
- Net Capital Expenditures of approximately \$60 million, roughly half of which is attributable to investments in the Company's supply chain transformation.

Additional Information

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