



**PET VALU HOLDINGS LTD.**

Consolidated Financial Statements  
For the 52-week period ended January 1, 2022  
and 53-week period ended January 2, 2021

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pet Valu Holdings Ltd.,

### Opinion

We have audited the consolidated financial statements of Pet Valu Holdings Ltd. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at January 1, 2022 and January 2, 2021, and the consolidated statements of income and comprehensive income, consolidated statements of shareholders' deficit and consolidated statements of cash flows for the periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at January 1, 2022 and January 2, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<b>Goodwill and indefinite life intangible assets impairment assessment</b>	
<p>As disclosed in Note 8, the Company has goodwill and indefinite life intangible assets of \$92.9M and \$30.5M, respectively.</p> <p>Goodwill and indefinite life intangible assets must be tested for impairment annually, at the Cash Generating Unit (“CGU”) level. The determination of recoverable amount, being the value-in-use, requires significant judgement and the use of valuation models on the part of management. The Company estimates the recoverable amount of the CGU using a discounted cash flow model based on management’s assumptions of future cash flows and the most appropriate discount and growth rates.</p> <p>This matter has been considered as a key audit matter due to the level of judgment required to estimate the future cash flows, growth rates, and discount rate used in management’s impairment assessment model.</p>	<p>To test the estimated recoverable amount, our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>• Assessed the accuracy of underlying data used in management’s analysis by agreeing to audited balances.</li> <li>• Involved our internal valuation specialists to assess the methodology applied and the various inputs utilized in determining the discount rate by referencing current industry, economic, and comparable company information, as well as company and cash-flow specific risk premiums.</li> <li>• With the assistance of our internal valuation specialists, we also assessed the growth rates utilized in the model by comparing to the industry trends and benchmarks.</li> <li>• Compared the future cash flows and growth rates to the actual and historical performance of the Company.</li> <li>• Performed sensitivity analyses on the significant assumptions, including growth rate and discount rate, to evaluate changes in the recoverable amount that would result from such changes in the assumptions.</li> </ul>

### Other information

Management is responsible for the other information. The other information comprises:

- Management’s Discussion & Analysis
- The information, other than the consolidated financial statements and our auditor’s report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management’s Discussion & Analysis prior to the date of the auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor’s report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

### Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Stephanie Lamont, CPA, CA.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Chartered Professional Accountants  
Licensed Public Accountants

March 8, 2022  
Toronto, Canada

# PET VALU HOLDINGS LTD.

Consolidated Statements of Financial Position  
(Expressed in thousands of Canadian dollars)

	Note	As at January 1, 2022	As at January 2, 2021
(Note 2(a))			
<b>Assets</b>			
<b>Current assets:</b>			
Cash		\$ 50,068	\$ 71,481
Accounts and other receivables	9	14,398	12,629
Inventories, net	10	91,699	78,012
Prepaid expenses and other assets		10,432	8,585
Current portion of lease receivables	5	26,621	23,145
<b>Total current assets</b>		<b>193,218</b>	<b>193,852</b>
<b>Non-current assets:</b>			
Lease receivables	5	121,936	96,743
Right-of-use assets, net	5	80,757	84,950
Property and equipment, net	7	62,067	55,738
Intangible assets, net	8	37,359	36,072
Goodwill	8	92,938	93,276
Deferred tax assets	14	5,601	—
Investment in associate	20, 21	2,179	—
Other assets		3,118	1,488
<b>Total non-current assets</b>		<b>405,955</b>	<b>368,267</b>
<b>Total assets</b>		<b>\$ 599,173</b>	<b>\$ 562,119</b>
<b>Liabilities and Shareholders' Deficit</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	11	\$ 86,977	\$ 99,954
Income taxes payable	14	13,553	1,042
Current portion of deferred franchise fees	4	1,032	891
Current portion of lease liabilities	5	41,960	42,753
Current portion of long-term debt	12	8,875	7,448
<b>Total current liabilities</b>		<b>152,397</b>	<b>152,088</b>
<b>Non-current liabilities:</b>			
Long-term deferred franchise fees	4	3,183	2,475
Long-term lease liabilities	5	196,954	173,906
Long-term debt	12	336,621	698,912
Deferred tax liabilities	14	4,540	4,282
<b>Total non-current liabilities</b>		<b>541,298</b>	<b>879,575</b>
<b>Total liabilities</b>		<b>693,695</b>	<b>1,031,663</b>
<b>Shareholders' deficit:</b>			
Common shares	15	307,497	—
Contributed surplus		1,779	—
Deficit		(403,619)	—
Currency translation reserve		(179)	—
Group's net investment	15	—	(588,530)
Non-controlling interests	15	—	118,986
<b>Total shareholders' deficit</b>		<b>(94,522)</b>	<b>(469,544)</b>
<b>Total liabilities and shareholders' deficit</b>		<b>\$ 599,173</b>	<b>\$ 562,119</b>

Commitments, contingencies and guarantees (Note 24)

Subsequent events (Note 26)

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

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

# PET VALU HOLDINGS LTD.

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

	Note	Periods ended	
		January 1, 2022	January 2, 2021 (Note 2(a))
<b>Revenue:</b>			
Retail sales	4	\$ 347,305	\$ 295,750
Franchise and other revenues	4	428,708	352,709
<b>Total revenue</b>		776,013	648,459
<b>Cost of sales</b>	17	488,834	417,830
<b>Gross profit</b>		287,179	230,629
Selling, general and administrative expenses	18	157,773	127,953
<b>Total operating income</b>		129,406	102,676
Interest expenses, net	13	46,873	64,009
Gain on foreign exchange	12	(42,560)	(1,402)
Share of loss from associate	20	8	—
<b>Income before income taxes</b>		125,085	40,069
Income taxes expense	14	26,292	11,447
<b>Net income</b>		98,793	28,622
Less:			
Net income attributable to non-controlling interests	15	3,430	7,419
<b>Net income attributable to the shareholders of the Company</b>		95,363	21,203
<b>Other comprehensive income, net of tax:</b>			
Currency translation adjustments reclassified to net income	12	(29,665)	—
Currency translation adjustments that may be reclassified to net income, net of tax		21,082	19,017
Comprehensive income for the period attributable to the shareholders of the Company		\$ 86,780	\$ 40,220
<b>Basic net income per share attributable to the common shareholders</b>	16	\$ 1.36	\$ 0.39
<b>Diluted net income per share attributable to the common shareholders</b>	16	\$ 1.33	\$ 0.38

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

# PET VALU HOLDINGS LTD.

Consolidated Statements of Shareholders' Deficit  
(Expressed in thousands of Canadian dollars)

For the period ended January 1, 2022	Common shares	Contributed surplus	Deficit	Currency translation reserve	Group's net investment	Non- controlling interests	Total
<b>Balance, January 2, 2021</b>	\$ —	\$ —	\$ —	\$ —	\$ (588,530)	\$ 118,986	\$ (469,544)
Net income	—	—	51,090	—	44,273	3,430	98,793
Net distributions (Note 25)	—	—	—	—	(16,983)	—	(16,983)
Foreign currency translation	—	—	—	12	(8,595)	—	(8,583)
Capital reorganization (Note 15)	6,781	—	(454,009)	(191)	569,835	(122,416)	—
Issuance of common shares, net of issuance costs (Note 15)	300,653	—	—	—	—	—	300,653
Exercise of share options (Note 15)	63	—	—	—	—	—	63
Share-based compensation on option plans (Note 19)	—	1,779	—	—	—	—	1,779
Dividends on common shares (Note 15)	—	—	(700)	—	—	—	(700)
<b>Balance, January 1, 2022</b>	\$ 307,497	\$ 1,779	\$ (403,619)	\$ (179)	\$ —	\$ —	\$ (94,522)

For the period ended January 2, 2021 (Note 2(a))	Group's net investment	Non- controlling interests	Total net investment
<b>Balance, December 28, 2019</b>	\$ (609,922)	\$ 111,567	\$ (498,355)
Net income	21,203	7,419	28,622
Net distributions (Note 25)	(18,828)	—	(18,828)
Foreign currency translation	19,017	—	19,017
<b>Balance, January 2, 2021</b>	\$ (588,530)	\$ 118,986	\$ (469,544)

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

# PET VALU HOLDINGS LTD.

## Consolidated Statements of Cash Flows (Expressed in thousands of Canadian dollars)

		Periods ended	
	Note	January 1, 2022	January 2, 2021 (Note 2(a))
<b>Cash provided by (used in):</b>			
<b>Operating activities:</b>			
Net income for the period		\$ 98,793	\$ 28,622
Adjustments for:			
Depreciation and amortization	5,7,8	33,714	32,052
Impairment of right-of-use assets	5	17	—
Deferred franchise fees		849	396
Gain on disposal of property and equipment		(1,016)	(937)
Loss (gain) on sale of right-of-use assets	5	117	(56)
Gain on foreign exchange	12	(42,560)	(1,402)
Share-based compensation expense	19	2,199	—
Share of loss from associate	20	8	—
Interest expenses, net	13	46,873	64,009
Income taxes expense	14	26,292	11,447
Income taxes paid		(13,117)	(9,958)
Change in non-cash operating working capital:			
Accounts receivable		(1,181)	(447)
Inventories		(13,687)	(6,419)
Prepaid expenses		277	(4,111)
Accounts payable and accrued liabilities		581	38,945
<b>Net cash provided by operating activities</b>		<b>138,159</b>	<b>152,141</b>
<b>Financing activities:</b>			
Issuance of common shares, net of transaction costs	15	295,210	—
Proceeds from exercise of share options	15	63	—
Dividends paid on common shares	15	(700)	—
Proceeds of 2021 Term Facility	12	355,000	—
Repayment of 2021 Term Facility	12	(4,438)	—
Proceeds of 2021 Revolving Credit Facility	12	40,000	—
Repayment of 2021 Revolving Credit Facility	12	(40,000)	—
Repayment of 2016 Term Loans	12	(680,424)	(7,866)
Proceeds of 2016 Revolving Credit Facility	12	—	28,112
Repayment of 2016 Revolving Credit Facility	12	—	(28,112)
Interest paid on long-term debt		(41,290)	(55,442)
Repayment of principal on lease liabilities	5	(46,640)	(42,446)
Interest paid on lease liabilities	5,13	(11,557)	(11,316)
Financing costs	12	(6,589)	—
Standby letter of credit commitment fees	13,14	(4,994)	—
Net distributions	25	(16,983)	(18,828)
<b>Net cash used in financing activities</b>		<b>(163,342)</b>	<b>(135,898)</b>
<b>Investing activities:</b>			
Purchases of property and equipment	7	(23,787)	(15,328)
Purchase of intangible assets	8	(2,399)	(3,814)
Proceeds on disposal of property and equipment		5,167	2,259
Right-of-use asset initial direct costs		(2,275)	(1,129)
Tenant allowances		744	1,016
Notes receivable		(2,348)	514
Lease receivables	5	24,089	22,419
Interest received on lease receivables and other		6,974	6,460
Investment in associate	20	(2,174)	—
Repurchase of franchises	6	—	(850)
<b>Net cash provided by investing activities</b>		<b>3,991</b>	<b>11,547</b>
<b>Effect of exchange rate on cash</b>		<b>(221)</b>	<b>(146)</b>
<b>Net (decrease) increase in cash</b>		<b>(21,413)</b>	<b>27,644</b>
<b>Cash, beginning of period</b>		<b>71,481</b>	<b>43,837</b>
<b>Cash, end of period</b>		<b>\$ 50,068</b>	<b>\$ 71,481</b>

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

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

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## 1. Description of business:

Pet Valu Holdings Ltd. and its subsidiaries (collectively referred to as the "Company") is a specialty retailer and wholesaler of pet food and pet-related supplies. As of January 1, 2022, the Company operates 227 corporate-owned stores (January 2, 2021 — 232) and has 406 franchise stores (January 2, 2021 — 373) in nine provinces in Canada.

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

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 per common share resulted in net proceeds to the Company of \$299,647 after underwriting commissions of \$16,603. The Company also incurred \$4,437 of other incremental expenses directly associated to the Offering. The total net proceeds after underwriting fees and incremental expenses were \$295,210. See Note 15 for further details on the impact to the Company's share capital.

The common shares are listed on the Toronto Stock Exchange under the symbol "PET".

## 2. Basis of presentation:

(a) Basis of presentation:

(i) Post-Offering:

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

<b>Subsidiaries</b>
Pet Valu Canada Holding Corporation
Pet Holdings ULC
Pet Valu Canada Inc.
Pet Valu Canada Franchising Inc.
Pet Retail Brands North America Holdings ULC
Pet Valu Management Services Inc.
Pet Retail Brands US Holdings LLC

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements  
(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

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## 2. Basis of presentation (continued):

### (ii) Pre-Offering:

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

These legal entities included in the Group are as follows:

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

As the periods prior to June 30, 2021 represent a portion of the business of Pet Valu Holdings Ltd. that was not organized in a single legal entity, the net assets of the Company have been reflected as the Group's net investment and non-controlling interests. Non-controlling interests represent perpetual preferred shares of a subsidiary of the Company issued to former common equity holders as a result of a group reorganization in 2016 (Note 15(a)). Transactions and balances between the Company and the Group are reflected as related party transactions within these financial statements. All intercompany balances and transactions within the Company have been eliminated.

These financial statements include the assets, liabilities, revenues, and costs that are directly associated with the business activities of the Company. In addition, for the periods prior to June 30, 2021, all of the Group's U.S. dollar denominated Term Loans (Note 12) have been allocated to the Company from the Group's U.S. dollar functional currency subsidiary, resulting in the majority of the currency translation adjustments being included in other comprehensive income. The Group's U.S. dollar denominated Term Loans were fully repaid on closing of the Offering. These financial statements also include certain costs related to the Company prior to the Offering that have been allocated from the Group (Note 25(b)) for the period ended January 2, 2021. These shared costs have been allocated primarily based on proportionate revenue and are primarily related to corporate administrative expenses and employee-related costs including share-based compensation and other benefits for corporate and shared employees for the following functional groups: corporate management, information technology, legal services, procurement services, accounting and finance services, merchandising and distribution services, and store operations support.

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements  
(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

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## 2. Basis of presentation (continued):

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

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

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

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

### (b) Fiscal period:

The Company operates under a 52- or 53-week fiscal year ending on the Saturday nearest to December 31. The 2021 fiscal year is for the 52-week period from January 3, 2021 to January 1, 2022. The 2020 fiscal year is for the 53-week period from December 29, 2019 to January 2, 2021.

### (c) Statement of compliance:

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The policies set out below have been consistently applied to all periods presented unless otherwise noted.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on March 8, 2022.

### (d) Basis of measurement:

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

The significant accounting policies set out below have been applied consistently in the preparation of the financial statements for the periods presented.

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

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## 2. Basis of presentation (continued):

### (e) Presentation currency:

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

### (f) Use of estimates and judgments:

The preparation of the financial statements requires management to make various judgments and estimates in applying the Company's accounting policies that affect the reported amounts and disclosures made in the financial statements and accompanying notes.

These judgments and estimates are based on management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant judgments and estimates made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include the following:

#### (i) Inventory valuation:

Merchandise inventories are carried at the lower of cost and net realizable value. The estimation of net realizable value is based on the most reliable evidence available of the amount the merchandise inventories are expected to realize. If carrying value exceeds net realizable amount, a write-down is recognized. Additionally, estimation is required for inventory provisions due to shrinkage.

#### (ii) Impairment of non-financial assets:

The Company is required to use judgment in determining the grouping of assets to identify its cash-generating units ("CGUs") for the purpose of testing store related property and equipment, and right-of-use ("ROU") assets. Judgment is further required to determine appropriate groupings of CGUs for the level at which non-store related assets are tested for impairment, including intangible assets and goodwill. Furthermore, on a quarterly basis, judgment has been used in determining whether there has been an indication of impairment, which would require the completion of a quarterly impairment test, in addition to the annual requirement.

The Company's estimate of a CGU's or group of CGUs' recoverable amount is based on value in use ("VIU") and involves estimating future cash inflows.

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements  
(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

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## 2. Basis of presentation (continued):

VIU is determined based on the Company's assumptions regarding future events, future cash flow projections, growth rates and discount rates.

(iii) Share-based compensation:

The Company measures the value of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. The Company is also required to determine the most appropriate inputs to the valuation model, including estimates and assumptions with respect to expected life, risk-free interest rate, volatility, distribution yield, and forfeiture rate.

(iv) Leases:

The Company has applied judgment to determine the lease term for lease contracts that include renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognized (Note 5).

The Company is required to estimate the incremental borrowing rates used to discount lease liabilities if the interest rate implicit in the lease is not readily determined. In determining the incremental borrowing rates, management considers the Company's creditworthiness, the term of the leased asset and Canadian corporate bond yields for companies of a similar credit rating as the Company (Note 5).

(v) Provisions:

The Company reviews provisions at each reporting date using judgments to determine the probability that an outflow of economic benefit will result from the legal or constructive obligation and an estimate of the associated obligation. Due to the judgmental nature of these items, future settlements may differ from amounts recognized.

(vi) Income taxes:

In calculating current and deferred income and other taxes, the Company uses judgment when interpreting the tax rules in jurisdictions where the Company operates. The Company also uses judgment in classifying transactions and assessing probable outcomes of claimed deductions, which considers expectations of future operating results, the timing and reversal of temporary differences and possible audits of income tax and other tax filings by tax authorities (Note 14).

(vii) Control, joint control, or level of influence:

When determining the appropriate basis of accounting for the Company's interest in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities (Note 20).

# PET VALU HOLDINGS LTD.

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## 2. Basis of presentation (continued):

### (viii) Fair value measurements:

Certain of the Company's financial assets are measured at fair value. In estimating fair value, the Company uses market-observable data to the extent it is available. In certain cases where market-observable data is not available, the Company will engage third-party qualified valuation specialists to perform the valuation. Information about the valuation techniques and inputs used in determining the fair value of financial instruments is disclosed in Note 21.

### (g) COVID-19 pandemic:

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

Since the onset of the COVID-19 pandemic, the Company's operations have been considered "essential services" in certain provinces in Canada where the Company operates, enabling stores to operate on a limited basis despite governmental lock-down measures in place in certain jurisdictions. Although the Company's corporate-owned stores and franchised stores have remained open, they have been subject to stringent social distancing requirements and in some jurisdictions, such as Ontario, operating under alternate methods of sale such as curbside pick-up for certain periods of time. Refer to Note 5 for additional information on certain actions taken by the Company during the COVID-19 pandemic.

During the period ended January 1, 2022, more than 50% of our stores were restricted to curbside pick-up shopping for 20 weeks, specifically for 10 weeks in first quarter of 2021 and for 10 weeks in second quarter of 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, importing and processing costs and an increase in insurance premiums. The Company has experienced intermittent delays in access to goods due to certain supply chain disruptions and is exposed to risks based on manufacturing shutdowns due to the COVID-19 pandemic.

In order to protect against potential supply shortages or delays, the Company increased inventory levels during periods ended January 1, 2022 and January 2, 2021 and expects to continue to hold increased inventory levels through the period ending December 31, 2022. As a result and due to continued global supply chain disruptions, incremental freight costs have been incurred, including during the fourth quarter of the period ended January 1, 2022.

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

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## 2. Basis of presentation (continued):

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.

## 3. Significant accounting policies:

### (a) Principles of consolidation:

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

### (b) Foreign currency:

Each of the Company's operating subsidiaries maintains its accounting records in its functional currency.

#### (i) Foreign currency transactions:

Transactions carried out in foreign currencies are translated into Canadian dollars using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated at the exchange rate at that date. Foreign currency denominated non-monetary assets and liabilities are measured at the historical exchange rate prevailing at the transaction date. Realized and unrealized foreign currency gains or losses are recognized as income or expense for the period, specifically as (gain) loss on foreign exchange in the consolidated statements of income and comprehensive income.

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### 3. Significant accounting policies (continued):

(ii) Foreign currency translation:

If the functional currency of an entity included in these financial statements is not Canadian dollars, their financial statements are translated into Canadian dollars using the current rate method. Assets and liabilities are translated using the end-of-period exchange rates. Income and expenses are translated at the average exchange rates for each period. Equity accounts are translated at historical foreign exchange rates. Foreign currency differences on translation are reported as a component of shareholders' deficit in the financial statements.

(c) Business combinations:

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The excess of the consideration transferred over the fair value of the net assets acquired is recorded as goodwill. If the consideration transferred is less than the net assets acquired, the difference is recognized directly in the consolidated statements of income and comprehensive income as a gain on acquisition. Results of operations of a business acquired are included in the Company's financial statements from the date of the business acquisition. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

(d) Investment in associates:

Associates are entities over which the Company has significant influence. Significant influence is assumed when the Company has 20%-49% ownership interest, unless qualitative factors overcome this assumption. In addition, potential voting rights that are currently exercisable are taken into account.

Investments in associates are accounted for under the equity method and initially recognized at cost including transaction costs. After initial recognition, the financial statements include the Company's share of the profit or loss and other comprehensive income of the associate, after aligning with the accounting policies of the Company, until the date on which significant influence ceases. The Company does not recognize losses exceeding the carrying value of its interest in the associate.

# PET VALU HOLDINGS LTD.

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### 3. Significant accounting policies (continued):

The entire carrying amount of the investment is assessed for indicators of impairment at each reporting date. An impairment test is performed when there is objective evidence of impairment, such as significant adverse changes in the environment in which the associate operates or a significant or prolonged decline in the fair value of the investment below its carrying amount. An impairment loss is recorded when the recoverable amount becomes lower than the carrying amount.

#### (e) Inventories and cost of sales:

Inventories are valued at the lower of cost and net realizable value as determined by the first-in, first-out basis and consist of merchandising inventories. Net realizable value is the estimated selling price of inventory during the normal course of business less estimated selling expenses.

Cost of sales reflects the direct cost of merchandise plus purchasing, warehousing, distribution, depreciation expense for store and distribution centre ROU assets and occupancy costs related to store operations, such as variable lease payments and general store maintenance.

If carrying value exceeds net realizable amount, a write-down is recognized. The write-downs are reversed if the circumstances that caused the initial write-down no longer exist. In addition, as part of inventory valuations, the Company accrues for inventory shrinkage for lost or stolen items based on historical trends.

#### (f) Property and equipment:

The Company's property and equipment are measured at cost less accumulated depreciation and impairment losses, with the exception of land, which is held at historical cost.

The cost of an item of property and equipment includes expenditures that are directly attributable to the acquisition or construction of the asset.

Depreciation is recorded on a straight-line basis over the estimated useful lives as outlined below:

Category	Useful life
Buildings	Up to 25 years
Leasehold improvements	Shorter of remaining lease term or estimated useful life of improvement
Furniture, fixtures and equipment	3 – 10 years

The Company assesses an asset's residual value, useful life and depreciation method on an annual basis and adjusts if appropriate.

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

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### 3. Significant accounting policies (continued):

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment and are recognized in the consolidated statement of income and comprehensive income.

#### (g) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right of control for the use of an identified asset for a period of time in exchange for consideration. The Company recognizes an ROU asset and a lease liability at the lease commencement date, which is the date the leased asset is available for use. The ROU asset is primarily composed of leased premises for corporate-owned stores, office space, and distribution centres, as well as leased vehicles, and material handling equipment. The ROU asset is initially measured based on the initial amount of the lease liability. The lease liabilities include the net present value of the following lease payments:

- (i) fixed payments (including any in-substance fixed payments, less any lease incentives receivable);
- (ii) variable lease payments that are based on an index or a rate;
- (iii) amounts expected to be payable by the lessee under residual value guarantees; and
- (iv) exercise price of any purchase option if the Company is reasonably certain to exercise that option.

The ROU assets are depreciated to the earlier of the end of useful life of the ROU asset or the lease term using the straight-line method as this most closely reflects the expected pattern of the consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the ROU asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

Lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate, which is the rate the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

ROU assets are measured at cost, comprising the amount of the initial measurement of the lease liability, plus any lease payments made at or before the commencement date less any lease incentives received, plus any initial direct costs, and restoration costs.

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

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### 3. Significant accounting policies (continued):

The lease liability is classified and accounted for at the amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset unless it has been reduced to zero. Any further reduction in the lease liability is then recognized in profit or loss.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, the Company remeasures the lease liability with a corresponding adjustment to the ROU asset.

The Company enters into head lease agreements for most of its franchise store locations and, in turn, enters into a sublease with its franchisees. The Company, as an intermediate lessor, classifies a sublease by reference to the ROU asset arising from the head lease, rather than by reference to the underlying asset.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the ROU asset. If this is the case, then the lease is accounted for as a net investment in finance lease. If not, then it is an operating lease. As part of this assessment the Company considers certain indicators such as whether the lease is for the major part of the economic life of the ROU asset.

The Company has assessed its subleases to franchisees as a net investment in finance lease, which are included in lease receivables on the consolidated statements of financial position.

When the Company enters into a sublease, the Company:

- (i) derecognizes the ROU asset relating to the head lease that it transfers to the sublessee and recognizes the lease receivable;
- (ii) recognizes any difference between the ROU asset and the lease receivable in profit or loss; and
- (iii) retains the lease liability relating to the head lease in its consolidated statements of financial position, which represents the lease payments owed to the head lessor.

The Company recognizes finance income on the lease receivables using the effective interest method.

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### 3. Significant accounting policies (continued):

Lease receivables for the franchise store subleases were measured at the present value of the lease payments from the franchisee discounted using the incremental borrowing rate on the head lease.

(h) Intangible assets and goodwill:

Intangible assets acquired are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with indefinite useful lives consist of trade names, most significantly the Pet Valu trade name, which are not amortized, but are tested for impairment annually at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. The Company currently plans to continue operating under the Pet Valu and other trade names for the foreseeable future, and therefore these assets are assessed as having an indefinite useful life. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable assets acquired and liabilities assumed in a business combination. Goodwill is measured at cost less any accumulated impairment and is not amortized.

Intangible assets with finite lives consist of the franchise agreements, software, and other intellectual property including trade names and non-compete agreements. These assets are amortized on a straight-line basis over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed on an annual basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income and comprehensive income in selling, general and administrative expenses.

Estimated useful lives are as follows:

Category	Useful life
Franchise agreements	10 years
Software	3 – 10 years
Other (trade names and non-compete agreements)	3 – 10 years
Pet Valu trade name	Indefinite
Goodwill	Indefinite

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### 3. Significant accounting policies (continued):

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income and comprehensive income.

(i) Impairment of non-financial assets:

Non-financial assets with finite lives are tested for impairment at each reporting date whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill and indefinite-life intangible assets are tested for impairment at least annually in the fourth quarter of the year, and whenever there is an indication that the asset may be impaired.

The Company considers indicators that include, but are not limited to: a history of operating losses at the individual store level; expected future cash inflows from a retail location that are not expected to recover the remaining carrying value of the assets of the location; significant negative industry or economic trends; knowledge of transactions involving the sale of similar assets at amounts below their carrying value; and expectations to dispose of non-financial assets before the end of their estimated useful lives.

An impairment loss is immediately recognized in profit or loss by the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is based on the greater of the CGU's fair value less cost to sell ("FVLCS") and its VIU. The VIU is the present value of estimated future cash inflows, using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The FVLCS is the amount for which an asset or CGU can be sold in a transaction under normal market conditions between knowledgeable and willing contracting parties, less costs to sell.

For purposes of measuring recoverable amounts, store assets that include store property and equipment and ROU assets, are grouped at the lowest levels for which there are largely independent cash inflows, which is referred to as a CGU. For the Company, that is at the individual store level.

The Company's non-store related assets, which include goodwill and intangible assets do not generate separate cash inflows. If there is an indication that a non-store related asset may be impaired, then the recoverable amount is determined at the corporate level, which is the lowest level for which there are largely independent cash inflows and the lowest level that these assets are monitored for internal management purposes.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously. An impairment loss in respect of goodwill is not reversed.

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### 3. Significant accounting policies (continued):

(j) Income taxes:

Income taxes have been recorded at statutory rates based on income reported in these financial statements. Income taxes payable in respect of the components that were not historically separate tax-paying legal entities have been included in income taxes payable. In addition, deferred taxes have been recognized to the extent that they would have been realized if the company were a separate tax-paying entity as represented in these financial statements.

Income taxes expense (recovery) comprises current and deferred income taxes. Current income taxes and deferred income taxes are recognized in net income for the period, except for items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable on the taxable income or net income for the period, using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. All financial instruments are initially measured at fair value.

# PET VALU HOLDINGS LTD.

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### 3. Significant accounting policies (continued):

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in net income on the consolidated statements of income and comprehensive income.

(i) Financial assets:

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or FVTPL. The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets classified as FVTPL are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as FVOCI are measured at fair value with any subsequent remeasurement recognized in other comprehensive income. When FVOCI financial assets that are not considered equity investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets not designated at FVTPL and held to maturity are measured at amortized cost using the effective interest rate method.

(ii) Financial liabilities:

The Company classifies its financial liabilities as either financial liabilities at FVTPL or amortized cost. Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at FVTPL are stated at fair value with changes being recognized in profit or loss.

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### 3. Significant accounting policies (continued):

(iii) Classification of financial instruments:

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics and management intent as outlined below:

	Classification
Financial assets:	
Cash	Amortized cost
Accounts and other receivables	Amortized cost
Notes receivable	Amortized cost
Lease receivables	Amortized cost
Call option	FVTPL
Financial liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Lease liabilities	Amortized cost
Long-term debt	Amortized cost

(iv) Impairment of financial assets:

At the end of each reporting period, the Company applies the expected credit loss ("ECL") model to assess for impairment of financial assets measured at amortized cost. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of franchise receivables, trade and other receivables, and lease receivables. The Company applies the simplified approach to impairment for financial assets by recognizing lifetime expected losses. Lifetime ECL represents the ECL that will result from all probable default events over the expected life of a financial asset. The allowance for ECLs is recorded against the financial assets and the net change in the allowance for ECLs is recorded in net income.

For franchise receivables, trade and other receivables, and lease receivables, the Company has established a provision matrix that considers the probability of default based on historical credit loss experience, adjusted for forward-looking factors specific to franchisees, vendors, landlords, and macroeconomic conditions. Additionally, the probability of default on franchise and lease receivables is assessed through regular monitoring of store performance and review of franchisee payment history. In assessing ECL, the Company also considers the expected loss given default including the available collateral such as leasehold improvements, ROU assets, store inventory and personal guarantees, where applicable, that are pledged in the franchise and sub-lease agreements.

# PET VALU HOLDINGS LTD.

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### 3. Significant accounting policies (continued):

Franchise receivables, trade and other receivables, and lease receivables are considered in default when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a franchisee, vendor, or landlord to engage in a repayment plan with the Company, a failure to make payments for a period of greater than 180 days past due, and no remaining vendor payments or head lease payments to offset against the trade or other receivables. On this basis, the Company has assessed the risk of default to be minimal.

#### (v) Derecognition:

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the asset. Any interest in transferred financial assets created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when its contractual obligations are discharged, cancelled, or expire.

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statements of financial position, where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

#### (l) Revenue recognition:

##### (i) Retail sales:

The Company's retail sales include corporate-owned store retail and e-commerce merchandise sales as well as in-store grooming services.

Revenue is recognized for corporate-owned store sales when control passes, which occurs at a point in time when the customer completes a transaction in the store and receives the merchandise.

The Company's e-commerce operation recognizes revenue when delivery has been completed to the customer.

The Company recognizes revenue for in-store pet grooming services once the service is completed, as this is when the customer has the ability to direct the use of and obtain the benefits of the service.

Retail sales are presented net of indirect tax collected from the customer on behalf of government authorities. Payment terms for all retail sales are at the point of sale.

# PET VALU HOLDINGS LTD.

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### 3. Significant accounting policies (continued):

Retail sales revenue is recognized net of sales discounts and net of an estimated sales return reserve. The Company's sales return policy is generally limited to 30 days and historically has been immaterial. The sales return reserve reflects an estimate of sales returns based on projected merchandise returns determined using historical average return percentages.

The Company administers frequent buyer loyalty programs. These loyalty programs represent a material right to the customer that may be redeemed on future products and services. A portion of revenue from products or services sold that have an associated free-unit loyalty program is deferred based on an estimate of the amount to be earned and the likelihood of the customer reaching the threshold of earning the associated reward (a free product). For certain vendor-supported free-unit loyalty programs, the Company receives reimbursement from the vendor for the cost of the free-unit redeemed by the customer. A portion of the costs from products sold that have an associated vendor-supported free-unit loyalty program is deferred based on an estimate of the amount to be earned and the likelihood of the customer reaching the threshold of earning the associated reward. The expected redemption percentage for all frequent buyer loyalty programs is based on historical redemption patterns and incorporates current information or trends. The revenue previously deferred is recognized when the points or free-unit rewards are redeemed or expire. Depending on the loyalty program type, free-unit rewards expire between 12 and 36 months from the date of issuance.

(ii) Franchise revenues:

Franchise revenues include both one-time and ongoing amounts, consisting mostly of initial and renewal franchise fees, royalties, percentage rent and common area maintenance and realty tax revenues from properties subleased to franchisees, wholesale sales, promotion fees, and fees for services.

All franchise agreements between the Company and franchisees are executed through the legal entity Pet Valu Canada Inc. (the "Franchisor") and are included in these financial statements. Franchise agreements grant individual franchisees the exclusive right to operate a franchise store within a designated territory. The franchise agreements typically provide for a 10-year initial term, with an opportunity to enter into one or more renewal franchise agreements subject to certain conditions. The franchise agreement requires the Franchisor to perform various activities to support the brand and/or franchisees and these activities represent a single performance obligation.

Initial franchise fees for the licence to operate a franchise store are paid in advance at signing and are deferred as a contract liability and recognized as revenue on a straight-line basis over the applicable franchise agreement term as the Company satisfies its performance obligation per the terms of such franchise agreement.

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### 3. Significant accounting policies (continued):

Franchise royalties are variable consideration based on a percentage of the franchisees' retail sales, which are recognized in the period the franchisees' underlying sales occur and are not included in the initial franchise fee.

Percentage rent is calculated based on a percentage of the franchisees' retail sales that exceeds base rent collected on the lease receivable and is included in royalties and sub-lease revenues (Note 4).

Wholesale sales represent sales of merchandise from the Company's warehouses to franchisees and are recognized at the time of delivery, as title has passed and the Company has transferred possession to the franchisee. Canadian franchisees purchase most of their wholesale inventory from the Company.

Promotion fees represent charges to franchisees to fund system-wide or regional advertising campaigns, under the terms of the franchise agreements. These fees are variable consideration based on a percentage of the franchisees' retail sales and are recognized in the period the franchisees' underlying sales occur and are not included in the initial franchise fee.

Fees for services provided by the Company to a franchisee are recognized when the service has been performed as this is when the franchisee has the ability to direct the use of and obtain the benefits of the service. Fees collected in advance are deferred until earned.

On the sale of an existing corporate-owned store to a franchisee, costs relating to the sale of the store are charged to expense as incurred and proceeds (excluding fees) in excess of the net book value of store assets sold to the franchisee are recorded as a gain on the date of sale and are included in selling, general and administrative expenses.

The Company does not incur a significant amount of contract acquisition costs in conducting its franchising activities. The Company's franchising arrangements do not contain a significant financing component.

(iii) Other revenues:

The Company administers gift card programs. Customer purchases of gift cards are not recognized as revenue until the card is redeemed and the customer purchases merchandise using the gift card. If redemption occurs at a franchisee-owned store, the gift card revenue is remitted to the franchisee. Gift cards do not carry an expiration date; therefore, customers can redeem their gift cards for merchandise indefinitely. Management reviews unredeemed gift cards and recognizes revenue for these amounts when it is determined the likelihood of redemption is remote.

# PET VALU HOLDINGS LTD.

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### 3. Significant accounting policies (continued):

(m) Share capital:

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

(n) Dividends:

Dividends declared and payable to the Company's common shareholders are recognized as a liability in the consolidated statements of financial position in the period in which the dividends are approved by the Company's Board of Directors.

(o) Share-based compensation:

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

The Company has a legacy share option compensation plan (the "Legacy Plan") pursuant to which it has granted share options to current and former directors and employees. Concurrent with the Offering, the Company amended and restated the Legacy Plan so that no additional awards could be made under the Legacy Plan, but share options previously granted under the Legacy Plan continue to remain outstanding in accordance with their terms and will continue to be governed by the provisions of the Legacy Plan.

Following the amendment of the Legacy Plan, the Company adopted a long-term incentive plan (the "LTIP") pursuant to which it can grant awards of share options to eligible participants. These awards are equity-settled share-based awards at the option of the Company.

*Equity-settled awards:*

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

Upon the exercise of share options, the corresponding amounts previously credited to contributed surplus are transferred to share capital.

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

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### 3. Significant accounting policies (continued):

(ii) Deferred share unit plan:

In connection with the Offering, the Company adopted a deferred share unit plan (the “DSU Plan”) for non-employee board members. Each eligible director receives a portion of his or her annual director retainer in deferred share units (“DSUs”). The cash portion of the retainer is paid on a quarterly basis. The DSU portion of the retainer is granted on an annual basis based on the market price of the Company's common shares on the date of such grant and vests in four equal installments on a quarterly basis. DSUs may only be redeemed when a director ceases to be a member of the Board. DSUs issued by the Company under the DSU Plan are settled in cash and are accounted for as cash-settled awards. The cost of the service received as consideration is initially measured based on the market price of the Company's common shares at the date of grant. Deferred share units are remeasured at each reporting date based on the market price of the Company's common shares with changes in fair value recognized as share-based compensation expense for the proportion of the service that has been rendered at that date.

(p) Net income per share:

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

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

(q) Provisions:

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

(r) Advertising and promotion fund:

Pursuant to the franchise agreements, the Company and its franchisees typically contribute 2.5% of their weekly store merchandise sales to a promotion fund. This fund is used to carry out marketing and advertising activities. Advertising contributions received from franchisees are included in franchise and other revenues, and advertising expenses are included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

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### 3. Significant accounting policies (continued):

(s) Other comprehensive income:

Other comprehensive income refers to revenue, expenses, gains and losses that are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to the Group's net investment, net of tax. Other comprehensive income comprises unrealized gains and losses on foreign currency translation adjustments.

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

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

(u) New standards and interpretations 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. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. These amendments will not have a significant impact on the Company's financial statements.

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 will be effective for annual periods beginning on or after January 1, 2022. These amendments will not have a significant impact on the Company's financial statements.

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements  
(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

### 3. Significant accounting policies (continued):

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

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

### 4. Revenue:

The following table disaggregates the Company's retail sales and franchise revenue by category for the periods ended January 1, 2022 and January 2, 2021:

	January 1, 2022	January 2, 2021
<b>Retail sales:</b>		
Merchandise sales	\$ 343,730	\$ 293,209
In-store services	3,575	2,541
<b>Total retail sales</b>	<b>347,305</b>	<b>295,750</b>
<b>Franchise and other revenues:</b>		
Wholesale merchandise sales	339,167	283,475
Royalties and sub-lease revenues	69,885	54,639
Franchise contributions for advertising and other services	19,656	14,595
<b>Total franchise and other revenues</b>	<b>428,708</b>	<b>352,709</b>
<b>Total revenue</b>	<b>\$ 776,013</b>	<b>\$ 648,459</b>

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

## 4. Revenue (continued):

The changes in the Company's contract liabilities for the period ended January 1, 2022 are as follows:

	Beginning balance	Recognition of revenue included in beginning balance <sup>(1)</sup>	Contract liability, net of revenue, recognized during the period <sup>(2)</sup>	Ending balance
<b>Franchise fees</b>	\$ 3,366	\$ (1,020)	\$ 1,869	\$ 4,215
<b>Loyalty programs (Note 11)</b>	5,294	(5,294)	6,780	6,780
<b>Gift cards (Note 11)</b>	1,239	(1,239)	1,648	1,648

<sup>(1)</sup> Includes franchise fees recognized in revenue, redemptions of loyalty points/rewards and gift cards.

<sup>(2)</sup> Includes franchise fees on new or renewed franchise agreements, issuances of loyalty points/rewards, activation of gift cards and estimated gift card breakage.

The balance of franchise fees as of January 1, 2022 that are expected to be recognized in revenue are as follows:

2022	\$	1,032
2023		720
2024		719
2025		584
2026		389
Thereafter		771
<b>Total</b>	\$	<b>4,215</b>

## 5. Leases:

(a) ROU assets:

The following tables reconcile the changes in ROU assets for the period ended:

	Leased premises		Other		Total
<b>Balance, January 2, 2021</b>	\$	79,900	\$	5,050	\$ 84,950
Net additions		14,487		408	14,895
Depreciation		(17,733)		(1,338)	(19,071)
Impairment		(17)		—	(17)
<b>Balance, January 1, 2022</b>	\$	<b>76,637</b>	\$	<b>4,120</b>	<b>\$ 80,757</b>

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements  
(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

## 5. Leases (continued):

	Leased premises		Other		Total
<b>Balance, December 28, 2019</b>	\$	81,496	\$	4,140	\$ 85,636
Net additions		16,596		2,229	18,825
Depreciation		(18,192)		(1,319)	(19,511)
<b>Balance, January 2, 2021</b>	\$	79,900	\$	5,050	\$ 84,950

Depreciation is included in cost of sales and selling, general and administrative expenses in the consolidated statements of income and comprehensive income for the period ended January 1, 2022 in the amounts of \$18,375 and \$696, respectively (January 2, 2021 — \$18,832 and \$679, respectively). Loss on sale of ROU assets of \$117 and gain of \$56 were recognized on the sale of corporate-owned stores to franchisees for the periods ended January 1, 2022 and January 2, 2021, respectively. Impairment charges against ROU assets of \$17 were incurred as a result of relocating a corporate-owned store during the 13-week period ended October 2, 2021.

### (b) Lease liabilities

The following tables reconcile the changes in lease liabilities for the period ended:

	Leased premises		Other		Total
<b>Balance, January 2, 2021</b>	\$	211,540	\$	5,119	\$ 216,659
Additions		65,885		395	66,280
Interest expense on lease liabilities		11,216		341	11,557
Deferred lease payments		2,615		—	2,615
Repayment of interest and principal		(56,573)		(1,624)	(58,197)
<b>Balance, January 1, 2022</b>	\$	234,683	\$	4,231	\$ 238,914
Current portion of lease liabilities	\$	40,898	\$	1,062	\$ 41,960
Lease liabilities		193,785		3,169	196,954
<b>Total lease liabilities</b>	\$	234,683	\$	4,231	\$ 238,914

	Leased premises		Other		Total
<b>Balance, December 28, 2019</b>	\$	205,644	\$	4,289	\$ 209,933
Additions		49,559		2,292	51,851
Interest expense on lease liabilities		10,919		397	11,316
Deferred lease payments		(2,679)		—	(2,679)
Repayment of interest and principal		(51,903)		(1,859)	(53,762)
<b>Balance, January 2, 2021</b>	\$	211,540	\$	5,119	\$ 216,659
Current portion of lease liabilities	\$	41,572	\$	1,181	\$ 42,753
Lease liabilities		169,968		3,938	173,906
<b>Total lease liabilities</b>	\$	211,540	\$	5,119	\$ 216,659

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

## 5. Leases (continued):

The Company makes variable lease payments for common area maintenance, property tax, security, and utilities on leased premises. The Company also has certain retail store leases where portions of the lease payments are contingent on a percentage of sales earned in the retail store. Expenses for variable lease components included in cost of sales and selling, general and administrative expenses in the consolidated statements of income and comprehensive income for the period ended January 1, 2022 were \$23,529 and \$189, respectively (January 2, 2021 — \$23,615 and \$279, respectively).

As a result of the COVID-19 pandemic, the Company negotiated with landlords to defer rent amounts due during the period ended January 2, 2021. The total deferred lease payments as of January 1, 2022 were \$64 (January 2, 2021 — \$2,679) are included in accrued liabilities and are expected to be settled in the next 12 months.

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

2022		\$	52,594
2023			52,671
2024			47,070
2025			41,606
2026			28,288
Thereafter			54,911
<b>Total</b>		\$	<b>277,140</b>

### (c) Lease receivables:

The Company is considered an intermediate lessor related to head leases the Company has for franchise store locations. As of January 1, 2022 and January 2, 2021, the Company had lease receivables as follows:

		<b>January 1, 2022</b>		<b>January 2, 2021</b>
Current portion of lease receivables	\$	26,621	\$	23,145
Lease receivables		121,936		96,743
<b>Total lease receivables</b>	\$	<b>148,557</b>	\$	<b>119,888</b>

Finance income on lease receivables for the period ended January 1, 2022 was \$6,692 (January 2, 2021 — \$5,895). Franchisees make variable lease payments primarily for common area maintenance, property tax, and a percentage of sales earned in their retail store. Revenue from variable lease components included in franchise sales and other revenue in the consolidated statements of income and comprehensive income for the period ended January 1, 2022 was \$32,847 (January 2, 2021 — \$23,672).

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Notes to Consolidated Financial Statements  
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For the periods ended January 1, 2022 and January 2, 2021

## 5. Leases (continued):

The Company assesses the collectability of all lease receivables on an ongoing basis by considering its historical credit loss experience, current and forward-looking macroeconomic conditions, and other relevant factors (Note 3(k)(iv)). Based on this analysis, the expected credit loss is less than 1.0% of the lease receivables as of January 1, 2022 and January 2, 2021, respectively.

As a result of the COVID-19 pandemic, in the first fiscal quarter of 2020, the Company provided \$3,221 of variable rent relief. Variable rent was determined as a percentage of sales, earned from the first fiscal quarter of retail sales at properties subleased to franchisees. The Company also forgave \$767 of variable rent charges in the month of April 2020 to mitigate the effects of COVID-19 on its franchisees.

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

2022	\$	33,189
2023		30,468
2024		27,213
2025		24,674
2026		19,388
Thereafter		38,171
Total undiscounted lease receivables		173,103
Unearned interest income		(24,546)
<b>Total lease receivables</b>	\$	<b>148,557</b>

## 6. Business acquisitions:

*Franchise repurchases:*

Included in the financial statements are repurchases of franchise stores. The repurchases have been accounted for through the acquisition method. There were no repurchases of franchise stores for the period ended January 1, 2022. The following table discloses franchise repurchases for the period ended January 2, 2021:

		<b>January 2, 2021</b>
<b>Number of stores repurchased</b>		<b>2</b>
Inventories	\$	209
Property and equipment		182
Goodwill (Note 8)		459
<b>Cash consideration</b>	\$	<b>850</b>

# PET VALU HOLDINGS LTD.

Notes to Consolidated Financial Statements

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For the periods ended January 1, 2022 and January 2, 2021

## 7. Property and equipment:

The Company's property and equipment include the following:

	Land	Building	Furniture and fixtures	Equipment	Leasehold improvements	Total
<b>Cost</b>						
<b>January 2, 2021</b>	\$ 120	\$ 497	\$ 47,793	\$ 902	\$ 77,788	\$ 127,100
Additions	—	—	11,054	1,613	11,120	23,787
Disposal/retirement	—	—	(2,233)	(101)	(5,196)	(7,530)
<b>January 1, 2022</b>	120	497	56,614	2,414	83,712	143,357
<b>Accumulated depreciation</b>						
<b>January 2, 2021</b>	—	(225)	(26,819)	(421)	(43,897)	(71,362)
Depreciation	—	(20)	(6,057)	(145)	(7,313)	(13,535)
Disposal/retirement	—	—	1,065	84	2,458	3,607
<b>January 1, 2022</b>	—	(245)	(31,811)	(482)	(48,752)	(81,290)
<b>Net book value, January 1, 2022</b>	\$ 120	\$ 252	\$ 24,803	\$ 1,932	\$ 34,960	\$ 62,067
<b>Cost</b>						
<b>December 28, 2019</b>	\$ 120	\$ 497	\$ 41,713	\$ 564	\$ 71,323	\$ 114,217
Additions	—	—	6,975	355	8,181	15,511
Disposal/retirement	—	—	(895)	(17)	(1,716)	(2,628)
<b>January 2, 2021</b>	120	497	47,793	902	77,788	127,100
<b>Accumulated depreciation</b>						
<b>December 28, 2019</b>	—	(205)	(23,045)	(359)	(37,815)	(61,424)
Depreciation	—	(20)	(4,255)	(75)	(6,991)	(11,341)
Disposal/retirement	—	—	481	13	909	1,403
<b>January 2, 2021</b>	—	(225)	(26,819)	(421)	(43,897)	(71,362)
<b>Net book value, January 2, 2021</b>	\$ 120	\$ 272	\$ 20,974	\$ 481	\$ 33,891	\$ 55,738

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Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, unless otherwise stated)

For the periods ended January 1, 2022 and January 2, 2021

## 7. Property and equipment (continued):

For the period ended January 1, 2022, there were no events or changes in circumstances that indicated the carrying amount of property and equipment and ROU assets at corporate-owned store locations may not be recoverable; therefore, these assets were not tested for impairment. For the period ended January 2, 2021, the Company performed impairment tests on certain corporate-owned store locations with indicators of impairment; however, no impairment charges were recorded as the recoverable amounts were determined to be higher than the carrying values. The recoverable amount for a retail location is based on the VIU of the related CGU. When determining the VIU of a retail location, the Company develops a discounted cash flow model for each CGU. Sales forecasts for cash inflows are based on actual operating results, operating budgets, and long-term growth rates. For the period ended January 2, 2021, the estimate of the VIU of the relevant CGUs was determined using a discount rate of 8.0%.

## 8. Intangible assets and goodwill:

The Company's intangible assets include the following:

	Franchise agreements	Software	Definite- life trade name	Non- compete agreements	Indefinite- life trade name	Total
<b>Cost</b>						
<b>January 2, 2021</b>	\$ 32,400	\$ 19,937	\$ 2,815	\$ 760	\$ 30,500	\$ 86,412
Additions	—	2,399	—	—	—	2,399
Disposal/retirement	—	(14)	—	—	—	(14)
<b>January 1, 2022</b>	32,400	22,322	2,815	760	30,500	88,797
<b>Accumulated amortization</b>						
<b>January 2, 2021</b>	(32,400)	(14,909)	(2,273)	(758)	—	(50,340)
Amortization	—	(998)	(108)	(2)	—	(1,108)
Disposal/retirement	—	10	—	—	—	10
<b>January 1, 2022</b>	(32,400)	(15,897)	(2,381)	(760)	—	(51,438)
<b>Net book value, January 1, 2022</b>	\$ —	\$ 6,425	\$ 434	\$ —	\$ 30,500	\$ 37,359

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Notes to Consolidated Financial Statements  
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For the periods ended January 1, 2022 and January 2, 2021

## 8. Intangible assets and goodwill (continued):

	Franchise agreements	Software	Definite-life trade name	Non-compete agreements	Indefinite-life trade name	Total
<b>Cost</b>						
<b>December 28, 2019</b>	\$ 32,400	\$ 16,126	\$ 2,815	\$ 760	\$ 30,500	\$ 82,601
Additions	—	3,814	—	—	—	3,814
Disposal/retirement	—	(3)	—	—	—	(3)
<b>January 2, 2021</b>	32,400	19,937	2,815	760	30,500	86,412
<b>Accumulated amortization</b>						
<b>December 28, 2019</b>	(32,400)	(14,174)	(1,943)	(626)	—	(49,143)
Amortization	—	(738)	(330)	(132)	—	(1,200)
Disposal/retirement	—	3	—	—	—	3
<b>January 2, 2021</b>	(32,400)	(14,909)	(2,273)	(758)	—	(50,340)
<b>Net book value, January 2, 2021</b>	\$ —	\$ 5,028	\$ 542	\$ 2	\$ 30,500	\$ 36,072

Goodwill changed during the periods as follows:

	Periods ended	
	January 1, 2022	January 2, 2021
<b>Beginning balance</b>	\$ 93,276	\$ 92,940
Net change in goodwill during the period	(338)	336
<b>Ending balance</b>	\$ 92,938	\$ 93,276

For the period ended January 1, 2022, included in the net change in goodwill during the period are \$nil additions (January 2, 2021 — \$459) to the goodwill balances due to the acquisitions described in Note 6, which are net of reductions to goodwill balances of \$338 (January 2, 2021 — \$123) due to the sale of corporate-owned stores to franchisees

During the fourth quarter of the periods ended January 1, 2022 and January 2, 2021, the Company performed an impairment test, and the recoverable amount of the CGUs for each year was determined to be higher than their carrying value, and as such, no impairment was recorded.

The VIU for goodwill and the indefinite-life trade name was calculated using key assumptions including discounted cash inflows over five years based on management's budget projections. Other assumptions used in the Company's annual impairment assessment as at January 1, 2022 include:

- Terminal growth rate of 2.0% (January 2, 2021 — 2.0%)
- After-tax discount rate of 7.3% (January 2, 2021 — 8.0%)

A reasonable change in these assumptions would not have resulted in an impairment.

# PET VALU HOLDINGS LTD.

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For the periods ended January 1, 2022 and January 2, 2021

## 9. Accounts and other receivables:

The Company's accounts and other receivables include the following:

		<b>January 1, 2022</b>		<b>January 2, 2021</b>
Franchise receivables	\$	5,967	\$	4,406
Trade accounts receivable		5,639		5,600
Other		2,792		2,623
	\$	14,398	\$	12,629

The Company's accounts and other receivables are aged no more than 90 days and 70% are aged less than 30 days. The Company's franchise receivables consist primarily of franchise billings from the last few days of the fiscal year, which are settled within the first days of the next fiscal year. The Company's trade accounts receivable primarily consist of balances due from vendors related to volume and co-operative advertising rebates. The other receivables primarily consist of tenant allowances from landlords.

The maximum exposure to credit risk at the reporting date is the carrying value of the accounts and other receivables. The Company assesses the collectability of all receivables on an ongoing basis by considering its historical credit loss experience, current and forward-looking macroeconomic conditions, and other relevant factors (Note 3(k)(iv)). Historically, the Company has not experienced defaults on receivables from franchisees, vendors and landlords. Based on this analysis, the expected credit loss is less than 1% of the accounts and other receivables as of January 1, 2022 and January 2, 2021, respectively.

## 10. Inventories:

The Company's inventories comprise the following:

		<b>January 1, 2022</b>		<b>January 2, 2021</b>
Merchandise	\$	93,507	\$	79,768
Provision for obsolescence and shrinkage		(1,808)		(1,756)
	\$	91,699	\$	78,012

Included in cost of sales are write-downs due to obsolescence, damage, and shrinkage of \$4,891 and \$3,497, for the periods ended January 1, 2022 and January 2, 2021, respectively.

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## 11. Accounts payable and accrued liabilities:

The Company's accounts payable and accrued liabilities include the following:

	January 1, 2022	January 2, 2021
Trade payables	\$ 35,402	\$ 33,518
Accrued liabilities	21,690	26,960
Accrued interest	—	11,189
Accrued salaries, wages, benefits and incentives	17,068	18,018
Loyalty program liabilities (Note 4)	6,780	5,294
Gift card liabilities (Note 4)	1,648	1,239
Sales taxes payable	4,389	3,736
	\$ 86,977	\$ 99,954

## 12. Long-term debt:

Total long-term debt, net of deferred financing costs, as of January 1, 2022 and January 2, 2021 consist of the following:

	January 1, 2022	January 2, 2021
<b>Term loans:</b>		
2021 Term Facility (a)	\$ 350,562	\$ —
2016 Term Loan facility, US\$519,113 (2020 — US\$521,837) (b)	—	664,403
2016 Delayed Draw Term Loan Facility, US\$38,600 (2020 — US\$38,800) (b)	—	49,400
	350,562	713,803
Deferred financing costs (c)	(5,066)	(7,443)
	345,496	706,360
Less current portion of long-term debt	(8,875)	(7,448)
<b>Total long-term debt</b>	\$ 336,621	\$ 698,912

### (a) 2021 Credit Agreement:

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

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## 12. Long-term debt (continued):

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

Borrowings under the 2021 Credit Facilities will bear interest, according to the type of borrowing advanced, at short-term floating rates (based on a reference rate of U.S. base rate, the Canadian prime rate, 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 January 1, 2022, the interest rate on the 2021 Credit Facilities was 2.52%.

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.

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

As of January 1, 2022, mandatory long-term debt repayments are as follows:

2022	\$	8,875
2023		17,750
2024		17,750
2025		17,750
2026		288,437
		350,562
Less current portion of long-term debt		(8,875)
<b>Total long-term debt</b>	<b>\$</b>	<b>341,687</b>

Voluntary prepayments of the 2021 Term Facility are permitted at any time (subject to minimum repayment amounts and customary notice periods set forth in the 2021 Credit Agreement) without premium or penalty (other than customary "breakage" costs, if applicable) and will reduce the scheduled principal repayments. The 2021 Credit Agreement provides that amounts under the 2021 Revolving Facility may be borrowed, repaid and re-borrowed.

The Company had unused borrowing capacity available under the 2021 Revolving Facility of \$130,000 as of January 1, 2022.

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## 12. Long-term debt (continued):

### (b) 2016 Credit Agreement:

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

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

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

### (c) Deferred financing costs:

In connection with the 2021 Credit Agreement, deferred financing costs of \$5,668 were incurred. The total unamortized deferred financing costs were \$5,066 as of January 1, 2022 (January 2, 2021 — \$7,443) and are being amortized using the effective interest rate method. As a result of the extinguishment of the 2016 Credit Agreement, the unamortized balance of the deferred financing costs on the 2016 Credit Facilities of \$5,729 was written off as debt extinguishment costs during the 13-week period ended July 3, 2021. These amounts were included as interest expense in the consolidated statements of income and comprehensive income.

## 13. Interest expense:

Interest expenses, net consist of the following:

	January 1, 2022	January 2, 2021
2016 Credit Agreement	\$ 22,717	\$ 54,100
2021 Credit Agreement	5,394	—
Amortization of deferred financing costs	3,312	5,097
Debt extinguishment costs	5,729	—
Interest on lease liabilities	11,557	11,316
Interest income on lease receivables	(6,692)	(5,895)
Standby letter of credit commitment fees	4,994	—
Other interest income	(138)	(609)
<b>Interest expenses, net</b>	<b>\$ 46,873</b>	<b>\$ 64,009</b>

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## 14. Income taxes:

Significant components of income taxes expense consist of the following for the periods ended:

	January 1, 2022	January 2, 2021
<b>Current tax expense:</b>		
Current periods	\$ 24,746	\$ 11,753
Adjustments with respect to prior periods	966	(26)
	25,712	11,727
<b>Deferred tax expense (recovery):</b>		
Origination and reversal of temporary differences	630	(208)
Adjustments with respect to prior periods	(50)	(12)
Changes in substantively enacted tax rates	—	(60)
	580	(280)
<b>Income taxes expense</b>	<b>\$ 26,292</b>	<b>\$ 11,447</b>

The Company's income taxes expense differs from that calculated by applying the combined substantively enacted Canadian federal and provincial statutory income tax rates for the periods ended January 1, 2022 and January 2, 2021 of 26.5%, respectively, as follows:

	January 1, 2022	January 2, 2021
<b>Income before income taxes</b>	<b>\$ 125,085</b>	<b>\$ 40,069</b>
<b>Expected income taxes expense</b>	<b>\$ 33,148</b>	<b>\$ 10,618</b>
<b>Increase (decrease) in income taxes resulting from:</b>		
Change in tax rates	—	(15)
Non-deductible expenditures	911	819
Non-taxable currency translation adjustments	(7,861)	—
Capital gain benefit on foreign exchange forward contract (Note 12)	(1,676)	—
Imputed income from former foreign affiliates	1,404	—
Other	366	25
<b>Income taxes expense</b>	<b>\$ 26,292</b>	<b>\$ 11,447</b>

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## 14. Income taxes (continued):

The tax effects of the significant temporary differences that comprise deferred tax assets and liabilities as at January 1, 2022 and January 2, 2021 are as follows:

	January 1, 2022	January 2, 2021
<b>Deferred tax assets:</b>		
Loss carryforwards	\$ 7,759	\$ 1
IFRS 16, <i>Leases</i>	3,755	4,368
Financing fees	4,504	—
Reserves and accruals	1,506	1,307
Deferred franchise fees	1,115	894
Capital lease obligation	1,120	1,360
Other	1,337	522
	\$ 21,096	\$ 8,452
<b>Deferred tax liabilities:</b>		
Intangible assets and property fair value increments on business acquisition	\$ 8,187	\$ 8,731
Property and equipment	4,837	2,728
Other	302	1,274
	\$ 13,326	\$ 12,733
<b>Value of deferred tax assets not recognized in the current period</b>	(6,709)	(1)
<b>Net deferred tax assets (liabilities)</b>	\$ 1,061	\$ (4,282)

The net change in deferred income tax liabilities is recorded as follows:

	January 1, 2022	January 2, 2021
Deferred tax expense recorded in net income	\$ (580)	\$ 280
Deferred tax expense recorded through current tax payable	87	—
Deferred tax expense recorded in retained earnings	5,836	—
Deferred tax expense recorded in other comprehensive income	—	518
	\$ 5,343	\$ 798

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## 14. Income taxes (continued):

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

## 15. Share capital:

### (a) Capital reorganization:

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

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

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## 15. Share capital (continued):

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

Immediately prior to the closing of the Offering, all of the Company's outstanding Class X common shares, Class Y common shares, Class A preferred shares, Class B preferred shares, and Class C preferred shares were exchanged for common shares in the Company. The Class X common shares and Class Y common shares of the Company were exchanged on a one-for-one basis for common shares, and all of the outstanding options to acquire Class X common shares under the Legacy Plan became options to acquire common shares (Note 19(a)). The Class A preferred shares, Class B preferred shares and Class C preferred shares of the Company were exchanged based on their liquidation value plus accrued but unpaid dividends divided by the fair market value of the Company's common shares (\$20.00 per common share) at the closing of the Offering. In addition, as part of the capital reorganization, non-controlling interests were redeemed for nominal consideration.

Following the foregoing share exchanges, all of the Company's issued and outstanding common shares were consolidated on a one-to-0.928 basis. Options to acquire common shares under the legacy share option compensation plan were also consolidated on a one-to-0.928 basis at a post-consolidated exercise price converted to Canadian dollars such that the in-the-money value of such options remained unchanged (Note 19(a)).

Following the share consolidation and immediately prior to the closing of the Offering, the Company issued 61,434 common shares to key management personnel based on prior service and achievement of critical business initiatives. The Company recorded share-based compensation expense in relation to the awards of \$1,229, which is included in selling, general and administrative expenses for the period ended January 1, 2022. This amount was previously recorded as bonus expense and included in selling, general and administrative expenses in the period ended January 2, 2021 and reclassified to share-based compensation as a result of being paid through the issuance of common shares in lieu of cash. The share-based compensation expense in relation to the awards is recorded in net distributions on a carve-out basis in the consolidated statements of shareholders' deficit and consolidated statements of cash flows.

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

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

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

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## 15. Share capital (continued):

### (b) Issuance of common shares and secondary offering:

Following the capital reorganization, the Company completed the Offering of 15,812,500 common shares from treasury, including 2,062,500 common shares issued pursuant to the exercise in full by the underwriters of the over-allotment option granted by the Company, at an offering price of \$20.00, which resulted in net proceeds to the Company of \$299,647 after underwriting commissions of \$16,603. The Company incurred \$4,437 of other incremental expenses directly associated to the Offering. The total net proceeds after underwriting fees and incremental expenses were \$295,210. Income tax recovery of \$5,443 related to the underwriting commissions and other transaction costs was recorded as an increase to common shares.

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

The Company issued 110,076 common shares for a cash consideration of \$63 during the period ended January 1, 2022, following the exercise of share options under the Legacy Plan (Note 19(a)).

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

As of January 1, 2022, there were 70,083,989 common shares and no preferred shares issued and outstanding.

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

	Common shares outstanding	Amount
<b>Balance, January 2, 2021</b>	—	\$ —
Capital reorganization from Group's net investment	54,161,413	6,781
Issuance of common shares, net of issuance costs	15,812,500	300,653
Exercise of share options	110,076	63
<b>Balance, January 1, 2022</b>	70,083,989	\$ 307,497

### (c) Dividends:

The Company's dividend policy is at the discretion of the Board of Directors. For the period ended January 1, 2022, the Company paid \$700 in dividends to holders of common shares (January 2, 2021 — \$nil), or \$0.01 per common share (January 2, 2021 — \$nil).

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## 16. Net income per share:

### (a) Basic net income per share:

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

	January 1, 2022	January 2, 2021
Net income attributable to shareholders of the Company	\$ 95,363	\$ 21,203
Weighted average number of common shares outstanding during the period ( <i>thousands</i> )*	69,987	54,161
<b>Basic net income per share attributable to the common shareholders</b>	<b>\$ 1.36</b>	<b>\$ 0.39</b>

\*For comparative purposes, the weighted average number of common shares for the period ended January 2, 2021 is presented on a pro-forma basis to reflect the capital reorganization that occurred immediately prior to the Offering (Note 15).

### (b) Diluted net income per share:

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

	January 1, 2022	January 2, 2021
Net income attributable to shareholders of the Company	\$ 95,363	\$ 21,203
Weighted average number of common shares outstanding during the period ( <i>thousands</i> )*	71,659	55,484
<b>Diluted net income per share attributable to the common shareholders</b>	<b>\$ 1.33</b>	<b>\$ 0.38</b>

\*For comparative purposes, the weighted average number of common shares for the period ended January 2, 2021 is presented on a pro-forma basis to reflect the capital reorganization and the Legacy Plan immediately prior to the Offering (Note 15).

During the period ended January 1, 2022, 596,433 performance-based share options granted pursuant to the Legacy Plan were not included in the calculation of diluted net income per share, as the vesting conditions required to convert these options to common shares were not met (January 2, 2021 — 855,680).

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## 17. Cost of sales:

	Periods ended	
	January 1, 2022	January 2, 2021
Merchandise costs	\$ 389,709	\$ 332,379
Store occupancy costs	42,293	42,300
Distribution costs	56,832	43,151
	<u>\$ 488,834</u>	<u>\$ 417,830</u>

## 18. Selling, general and administrative expenses:

	Periods ended	
	January 1, 2022	January 2, 2021
Salaries, wages and benefits	\$ 85,580	\$ 70,448
Depreciation and amortization	13,294	11,359
Advertising	21,338	16,499
Technology and telecommunication	13,142	10,308
Professional fees	14,106	12,920
Other store expenses	4,920	4,816
Other selling, general and administrative expenses	5,393	1,603
	<u>\$ 157,773</u>	<u>\$ 127,953</u>

## 19. Share-based compensation:

### (a) Legacy Plan:

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

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

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

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## 19. Share-based compensation (continued):

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

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

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

	Options	Weighted average exercise price
<b>Outstanding, December 28, 2019</b>	4,194,576	US\$7.08
Exercised	(53,500)	US\$0.01
Forfeited	(236,678)	US\$8.61
<b>Outstanding, January 2, 2021</b>	3,904,398	US\$7.08
Granted	465,000	US\$8.95
Exercised	(444,797)	US\$2.63
Forfeited	(886,948)	US\$6.24
<b>Outstanding, June 30, 2021</b>	3,037,653	US\$8.27
Options converted concurrent with the Offering <sup>(1)</sup>	2,819,041	\$8.97
Exercised	(110,076)	\$0.57
Forfeited	(5,568)	\$9.73
<b>Outstanding, January 1, 2022</b>	2,703,397	\$9.31

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

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## 19. Share-based compensation (continued):

	Options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding, January 1, 2022	2,703,397	\$ 9.31	7.07	\$ 72,351
Vested and expected to vest	2,703,397	\$ 9.31	7.07	\$ 72,351
Exercisable, January 1, 2022	1,516,235	\$ 8.98	6.77	\$ 41,081

The weighted-average assumptions used in the model for options granted during the period ended January 1, 2022 are as follows:

Weighted-average risk-free interest rate	1.12 %
Expected life (years)	5.5 — 7.5
Expected dividend yield	—
Expected volatility	41 %
Forfeiture rate	—
Weighted-average fair value per option granted	\$4.63

During the period ended January 1, 2022, the Company recorded share-based compensation expense in relation to the Legacy Plan of \$2,654 (January 2, 2021 — \$1,990), which was included in selling, general and administrative expenses. The share-based compensation expense incurred for the period ended January 1, 2022 was allocated between pre-Offering and post-Offering in the amount of \$1,305 and \$1,349, respectively. The share-based compensation expense for the pre-Offering period and the period ended January 2, 2021, is recorded in net distributions on a carve-out basis in the consolidated statements of shareholders' deficit and consolidated statements of cash flows.

### (b) LTIP:

In connection with the Offering, the Company adopted the LTIP, pursuant to which it can grant awards of share options, stock appreciation rights, tandem stock appreciation rights, restricted share units, performance share units and restricted stock to eligible participants. Any individual employed by the Company, including a service provider, who in the opinion of the Board of Directors is in a position to contribute to the success of the Company shall be eligible to receive awards under the LTIP. The number of common shares that can be issued under the LTIP, combined with all other security-based compensation arrangements of the Company, shall not exceed 10% of the aggregate number of issued and outstanding common shares, from time to time.

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## 19. Share-based compensation (continued):

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

The tables below summarize the option activity as of January 1, 2022:

	Options	Weighted average exercise price
<b>Outstanding, January 2, 2021</b>	—	\$ —
Granted	276,490	\$ 20.00
<b>Outstanding, January 1, 2022</b>	276,490	\$ 20.00

	Options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding, January 1, 2022	276,490	\$ 20.00	9.50	\$ 4,443
Expected to vest	276,490	\$ 20.00	9.50	\$ 4,443

The weighted-average assumptions used in the model for options granted during the period ended January 1, 2022 are as follows:

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

During the period ended January 1, 2022, the Company recorded share-based compensation expense in relation to the LTIP share options of \$430 (January 2, 2021 — \$nil), which was included in selling, general and administrative expenses.

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## 19. Share-based compensation (continued):

### (c) Deferred share unit plan:

In connection with the Offering, the Company adopted a DSU Plan for non-employee board members. Each eligible director receives a portion of his or her annual director retainer in DSUs. The cash portion of the retainer is paid on a quarterly basis. The DSU portion of the retainer is granted on an annual basis based on the market price of the Company's common shares on the date of such grant. DSUs may only be redeemed when a director ceases to be a member of the Board. DSUs issued by the Company under the DSU Plan are settled in cash and are accounted for as cash-settled awards.

The Company is required to record a liability for the potential future settlement of the vested DSUs at each reporting date by reference to the fair value of the liability. The DSUs vest in four equal installments on the last day of each fiscal quarter during the one-year period following the grant date. Additional DSUs issued in lieu of cash dividends vest at the same time and are subject to the same conditions as the DSUs to which they are attributable.

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

	Number of DSUs
<b>Outstanding, January 2, 2021</b>	—
Granted	30,493
Forfeited	(5,000)
Additional units issued in lieu of cash dividends	8
<b>Outstanding, January 1, 2022</b>	25,501

The fair market value of future DSU cash-settlement obligations was \$420 at January 1, 2022 (January 2, 2021 – \$nil). The Company incurred \$420 of share-based compensation expense from the changes to fair market value of DSU cash-settlement obligations for the period ended January 1, 2022 (January 2, 2021 — \$nil).

## 20. Investment in associate:

On November 24, 2021, the Company acquired a 19.9% ownership interest in HAFTAL LLC (“HAFTAL”) for cash consideration of \$2,174 (US\$1,725). This ownership interest and other rights give the Company significant influence over HAFTAL, and the Company is accounting for its investment using the equity method. HAFTAL is a Delaware-based company formed for the purposes of developing an elevated experience for tracking pet health and lifestyle statistics.

In connection with the investment, the Company received a call option to purchase the remaining interest in HAFTAL. The call option has a term of five years following the date of the initial investment and is exercisable after April 1, 2023. The call option was initially measured at its fair value of \$670 (US\$532). The call option is accounted for at FVTPL and is included in the investment in associate in the Company's consolidated statements of financial position (Note 21).

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For the periods ended January 1, 2022 and January 2, 2021

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## 21. Financial instruments and risk management:

### (a) Credit risk:

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

### (b) Liquidity risk:

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

### (c) Market risk:

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

#### (i) Foreign currency risk:

The Company is exposed to currency risk related to some of its purchases. Specifically, the Company sources some of its merchandise in U.S. dollars. Inventory purchases sourced outside Canada and primarily denominated in U.S. dollars represented approximately 31% for the periods ended January 1, 2022 and January 2, 2021.

The Company is also exposed to currency risk on financial assets and liabilities denominated in foreign currencies. These assets and liabilities are of a short-term nature and management does not believe they represent a significant risk to the Company. A five percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed income before income taxes for the period ended January 1, 2022 by \$487 (January 2, 2021 — \$6), as a result of the revaluation on these financial assets and liabilities.

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## 21. Financial instruments and risk management (continued):

### (ii) Interest rate risk:

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 2021 Credit Facilities and 2016 Credit Facilities (Note 12) are at variable interest rates. Changes in the banks' prime lending rates, the LIBOR rate or bankers' acceptance rate can cause fluctuations in interest payments and cash flows.

A one percentage point change in the applicable interest rate on the 2021 Credit Agreement would have changed income before taxes for the period ended January 1, 2022 by \$3,506. A one percentage point change in the applicable interest rate on the 2016 Credit Agreement would have changed income before taxes for the period ended January 2, 2021 by \$6,989.

### (d) Fair values:

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

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

There were no transfers between levels of the fair value hierarchy for the periods ended January 1, 2022 and January 2, 2021.

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

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## 21. Financial instruments and risk management (continued):

The carrying amounts and fair values of the call option and long-term debt are as follows:

	January 1, 2022		January 2, 2021	
	Carrying value	Fair value	Carrying value	Fair value
<b>Assets:</b>				
Call option (Note 20)	(Level 3) \$	674 \$	674 \$	— \$
<b>Liabilities:</b>				
Long-term debt, including current portion <sup>(1)</sup>	(Level 2)	\$345,496	\$350,562	\$706,360
		\$713,803		

<sup>(1)</sup> Carrying value is net of deferred financing fees.

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

## 22. Capital management:

The Company's capital management objectives are to maintain prudent financial flexibility and strength in order to pursue its strategy of growth and to provide stakeholder value creation. The Company defines capital as the aggregate of its shareholders' deficit and long-term debt.

In order to maintain or adjust its capital structure, the Company may elect to issue or repay financial liabilities, issue shares, repurchase shares, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances.

The Company is subject to financial and customary affirmative and negative covenants pursuant to the 2021 Credit Agreement presented in Note 12.

## 23. Operating segments:

The Company defines an operating segment on the same basis that it uses to evaluate performance internally and to allocate resources by the Chief Operating Decision Maker (the "CODM"). The Company has determined that the Chief Executive Officer is its CODM and there is one operating segment. Operating revenues are primarily composed of retail sales and franchise revenues (Note 4).

## 24. Commitments, contingencies and guarantees:

### (a) Guarantees of indebtedness:

The Company has provided the following guarantees as of January 1, 2022:

- (i) Guarantee of certain lease obligations for a former subsidiary of the Company. The lease obligations expire on February 27, 2023. As of January 1, 2022, the future lease commitment is \$831 (US\$655) (January 2, 2021 — \$4,222 (US\$3,316)).

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## 24. Commitments, contingencies and guarantees (continued):

### (b) Bank comfort letters:

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

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

### (c) Other:

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

## 25. Related party transactions:

### (a) Transactions with related parties:

Prior to the Offering, the Company was a party to a management agreement with an affiliated entity, which provided management services. The Company incurred management fees and expenses for the period ended January 1, 2022 of \$679 (January 2, 2021 — \$1,133), which is included in selling, general and administrative expenses. The balance due was \$nil and \$1,252 at January 1, 2022 and January 2, 2021, respectively, and is included in accrued liabilities. Concurrent with the closing of the Offering, the Company terminated the management agreement with the affiliated entity.

On May 1, 2021, the Company entered into a transition services agreement with its former subsidiaries, pursuant to which the parties provides to each other certain information technology, real estate and human resources and benefits services on a no cost or at cost basis. The transition services agreement has a term of 18 months from the closing of the Offering unless earlier terminated upon notice. The Company charged the former subsidiaries \$931 under the transition services agreement for the period ended January 1, 2022. Prior to the transition services agreement, the Company provided services to these subsidiaries from January 3, 2021 to April 30, 2021 and charged \$550 to the subsidiaries during that period.

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## 25. Related party transactions (continued):

Effective June 30, 2021, 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 product sourcing and brand license agreement has an initial term of 18 months and will be automatically renewable for successive 18-month terms unless earlier terminated upon notice. The Company earned sourcing fees of \$757 under the product sourcing and brand license agreement for the period ended January 1, 2022.

As a result of a reorganization of the Group in 2016, certain share-based payment awards that were previously held by the Company's employees under a historical share option plan were exercised, with employees receiving loans from the Company to fund the strike price and their personal tax obligations. These employee loans are denominated in U.S. dollars and had a balance outstanding of \$762 (US\$601) as of January 1, 2022 (January 2, 2021 — \$891 (US\$700)).

During the period ended December 28, 2019, the Company received a promissory note related to the exercise of options by an employee. This promissory note had a balance outstanding of \$179 (US\$141) as of January 1, 2022 (January 2, 2021 — \$180 (US\$141)).

During the period ended December 28, 2019, the Group issued Class X common shares to certain directors of the Company for an aggregate subscription price of \$1,831 (US\$1,400). The Company received cash of \$915 (US\$700) from the issuance of common shares and promissory notes to fund the remaining aggregate subscription price. These promissory notes were repaid during the period ended January 1, 2022. The promissory notes had a balance outstanding of \$891 (US\$700) as of January 2, 2021 and are presented in the Company's consolidated statements of financial position as a deduction from Group's net investment.

Net distributions represent the net distributions related to funding between the Company and the Group and net distributions to the shareholders of the Group. Net distributions to the Group were \$3,921 for the period ended January 1, 2022 (January 2, 2021 — \$18,828). Net distributions to the shareholders of the Group were \$13,062 for the period ended January 1, 2022 (January 2, 2021 — \$nil).

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

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## 25. Related party transactions (continued):

### (b) Allocation of the Group's expenses:

The Company has been allocated shared expenses from the Group of \$27,705 for the period ended January 2, 2021, which was reflected in cost of sales and selling and general administrative expenses in the consolidated statements of income and comprehensive income. As of January 3, 2021, the Company operationally separated from the Group, and as a result the Company has not been allocated shared expenses for the period ended January 1, 2022. As described in Note 2(a), the shared expenses have been allocated primarily on a proportionate revenue basis. The allocated costs for the period ended January 2, 2021 include corporate administrative expenses and employee related costs for the following functional groups: corporate management, information technology, legal services, procurement services, accounting and finance services, merchandising and distribution services, and store operations support.

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

### (c) Compensation of key management personnel:

Key management personnel include the Board of Directors as well as senior executives and officers of the Company that are responsible for planning, directing and controlling the Company's business activities.

Key management personnel remuneration includes the following:

	Periods ended	
	January 1, 2022	January 2, 2021
Salaries and benefits	\$ 10,992	\$ 4,867
Share-based compensation	4,701	1,897
Termination benefits	—	239
Directors' fees	636	352
	\$ 16,329	\$ 7,355

The compensation amounts noted in the above table are recognized in selling, general and administrative expenses during the reporting periods.

## 26. Subsequent events:

On February 25, 2022, the Company completed the acquisition of Les Franchises Chico Inc., a specialty retailer and wholesaler of pet food and pet-related supplies in Quebec, Canada, for a total purchase price of approximately \$17,000 which includes \$3,000 of contingent consideration payable on the achievement of certain performance milestones. The final consideration to be paid is also subject to working capital adjustments in accordance with the purchase agreement.

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## **26. Subsequent events (continued):**

On March 9, 2022, the Company announced that its Board declared a dividend of \$0.06 per common share payable on April 15, 2022 to holders of common shares of record as at the close of business on March 31, 2022.