



PET VALU HOLDINGS LTD.

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

(Second Quarter Ended July 3, 2021)

The following Management's Discussion and Analysis ("MD&A") for Pet Valu Holdings Ltd. ("we", "Pet Valu" or the "Company") was prepared as of August 12, 2021 and provides information concerning the Company's financial condition and results of operations for the 13-week and 26-week periods ended July 3, 2021 and June 27, 2020. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes for Q2 2021 and YTD 2021 (as hereinafter defined) and the Company's audited carve-out consolidated financial statements and accompanying notes for Fiscal 2020 (as hereinafter defined) and the related MD&A. Additionally, readers should refer to the "Risk Factors" set forth in the Company's supplemented PREP prospectus ("Prospectus") dated June 23, 2021 for further information. Additional information about Pet Valu Holdings Ltd. can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Basis of Presentation

For the purposes of this MD&A, for the periods prior to the closing of the initial public offering (see "Initial Public Offering"), the Company was not operating as a stand-alone entity and as a result, the financial information is presented on a carve-out basis that includes only legal entities representing the Canadian operations of Pet Valu Holdings Ltd. (referred to as the "Group", prior to the distribution of its U.S. operations to its shareholder).

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

The Company operates on a 52- or 53-week fiscal year, concluding on the Saturday nearest to December 31. Fiscal 2020 consisted of 53 weeks and Fiscal 2019 and Fiscal 2018 ended December 28, 2019 and December 29, 2018, respectively, and each consisted of 52 weeks. The Company's next fiscal year with 53 weeks will be fiscal 2026. The Company's fiscal quarters conclude on the Saturday nearest to the end of each quarter. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter will have 14 weeks. The 13-week and 26-week periods ended July 3, 2021 and June 27, 2020, respectively, represent the Company's results for its second quarter and the first two quarters of the relevant financial years.

All references in this MD&A to “Q2 2021” are to the 13-week period ended July 3, 2021, to “Q2 2020” are to the 13-week period ended June 27, 2020, to “YTD 2021” are to the 26-week period ended July 3, 2021, and to “YTD 2020” are to the 26-week period ended June 27, 2020. All references in this MD&A to “Fiscal 2021” are to the 52-week period ending January 1, 2022 and to “Fiscal 2020” are to the 53-week period ended January 2, 2021. Figures presented in this MD&A are in thousands of Canadian dollars unless otherwise indicated.

The unaudited condensed interim consolidated financial statements and accompanying notes for Q2 2021 and YTD 2021 and this MD&A were authorized for issue by the Company’s Board of Directors.

Non-IFRS Measures and Industry Metrics

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

Forward-Looking Information

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

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “targets”, “expects” or “does not expect”, “is expected”, “an opportunity exists”, “budget”, “scheduled”, “estimates”, “outlook”, “forecasts”, “projection”, “prospects”, “strategy”, “intends”, “anticipates”, “does not anticipate”, “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “should”, “might”, “will”, “will be taken”, “occur” or “be achieved”. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not facts but instead represent management’s expectations, estimates and projections regarding future events or circumstances.

Many factors could cause the Company's actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking information, including, without limitation, the factors discussed in the "Risk Factors" section of this MD&A and in our Prospectus filed in connection with our initial public offering completed on June 30, 2021. A copy of the Prospectus can be accessed under our profile on SEDAR at www.sedar.com. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully.

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

Overview

Pet Valu is Canada's leading pet retailer. Since opening our first store in 1976, we have grown to over 600 corporate-owned or franchised locations across the country – more than four times the number of stores of our closest competitor. Over our history, we have earned the trust and loyalty of discerning pet owners with our compassionate and knowledgeable service, our premium product offering which includes our award-winning, proprietary brands, our in-store services and our expanding omni-channel capabilities. This winning strategy is underpinned by our highly flexible operating model which allows us to deliver superior unit economics and growth.

We and our licensed franchisees have the largest specialty pet store network in Canada which creates significant brand awareness and provides our stores with access to millions of Canadian pet owners. We combine our scale with a highly localized retail strategy allowing us to offer our customers premium products at competitive prices while delivering personalized service. In addition to our nationally recognized and trusted Pet Valu banner, which represents 80% of our stores, we also operate three banners in British Columbia – Bosley's by Pet Valu, Tisol, Total Pet – and the Paulmac's Pets banner in Ontario. These longstanding banners are deeply embedded in their respective communities and benefit from the scale of our national operating network.

We and our franchisees deliver compelling and engaging retail experiences through our welcoming, easy-to-shop stores and our friendly, compassionate and highly trained Animal Care Experts ("ACEs"). Our premium consumables-focused product offering, e.g., pet food and treats, accounts for 70% of product sales, drives recurring revenue and repeat store traffic, and is complemented and differentiated by our proprietary brands with over 1,500 items, which are available only at Pet Valu's banners. Our complementary in-store service offerings, which include full-service grooming and self-serve dog washes, drive incremental customer traffic, extend the duration of customer store visits and increase overall engagement. To provide our customers added convenience, since 2019, we have made significant investments in our omni-channel capabilities and now offer "Shop Ahead" options for in-store pickup and direct-to-customer shipping for online orders. Together with our pet-centric culture, these offerings create the "memorable moments" our customers have come to associate with Pet Valu.

We have a highly flexible, franchise-led operating model due to our small store format, adaptable store layouts, and both franchise and corporate ownership model. Pet Valu stores typically range in size from 3,000 to 5,500 square feet and each store is merchandised and designed to meet the needs and customer preferences of its surrounding community. This adaptability helps create consistent, exceptional unit economics across urban, suburban, and rural markets, and provides the flexibility to invest in competitive real estate markets. Our approach to store ownership, in which over 60% of stores are owned and operated by franchisees, leverages the advantages of both franchised and corporate-owned operating models. Our franchisees engender a level of operational commitment and passion for pets and their communities that drives customer loyalty and strengthens our overall brand, and they typically see an approximately four-year payback on their initial franchise investment. Our corporate-owned stores allow us to test new products, develop and standardize best practices, and serve as a complementary growth mechanism allowing us to react quickly to attractive real estate opportunities. This hybrid operating strategy is key to our ability to sustain strong store and sales growth, generate significant Free Cash Flow (as hereinafter defined) and strong investment returns for mature stores.

We and our franchisees are the local pet authority for Canadian pet lovers. Together, our highly trained, pet-loving ACEs provide trusted advice and expert product recommendations to pet owners in all stages of their pet's lifecycle and Pet Valu's stores are often the first place new and existing pet owners turn to for their pet care needs. This high-touch, compassionate service environment allows ACEs to establish trusted, long-term relationships in which they play an active role in their local pet community. Outside stores, we and our franchisees proudly support pets throughout the communities we serve. For over 10 years, we have routinely partnered with our customers and franchisees across Canada to donate more than \$19 million to local animal shelters and rescues, aided over 37,000 homeless pets in finding their forever homes, and proudly serve as the national feeding sponsor of the Lions Foundation of Canada Dog Guides Program.

Initial Public Offering

On June 30, 2021, the Company completed an initial public offering of 15,812,500 common shares (the "Offering"), including 2,062,500 common shares issued pursuant to the exercise in full by the Underwriters of the over-allotment option granted by the Company. The offering price of \$20.00 resulted in net proceeds to the Company of \$299.6 million after underwriting commissions of \$16.6 million. The Company also incurred \$4.4 million of other incremental expenses directly associated to the Offering. The total net proceeds after underwriting fees and incremental expenses were \$295.2 million. The Company's common shares are listed on the Toronto Stock Exchange under the stock symbol "PET".

Upon closing of the Offering, the Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. Immediately prior to the closing of the Offering, the Company completed a share capital reorganization in which 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 and all of the outstanding options to acquire Class X common shares of the Company under the legacy option plan became options to acquire common shares.

In connection with the Offering, the Company negotiated a new credit agreement with a syndicate of lenders. See "Liquidity and Capital Resources" in this MD&A.

Financial Highlights

We refer the reader to the section entitled, "How We Assess the Performance of Our Business" of this MD&A for the definition of the items discussed below and, when applicable, to the section entitled "Selected Consolidated Financial Information and Industry Metrics" for reconciliations of non-IFRS measures with the most directly comparable IFRS measures.

Q2 2021 Compared to Q2 2020

Select highlights include the following:

- System-wide sales increased by 33.4% to \$231.5 million from \$173.5 million in Q2 2020
- Same-store sales growth increased to 28.4% from (3.9)% in Q2 2020
- Revenue increased by 38.4% to \$182.2 million from \$131.6 million in Q2 2020
- Gross profit margin increased to 36.9% from 33.3% in Q2 2020
- Adjusted EBITDA increased by 52.6% to \$42.3 million from \$27.7 million in Q2 2020
- Net income increased to \$44.3 million from \$0.3 million in Q2 2020
- Adjusted Net Income increased to \$8.7 million from \$2.6 million in Q2 2020
- Adjusted Net Income per Diluted Share increased to \$0.12 from \$0.05 in Q2 2020
- Free Cash Flow decreased to \$18.9 million from \$29.9 million in Q2 2020

YTD 2021 Compared to YTD 2020

Select highlights include the following:

- System-wide sales increased by 20.0% to \$451.1 million from \$376.0 million in YTD 2020
- Same-store sales growth increased to 17.0% from 5.2% in YTD 2020
- Revenue increased by 23.5% to \$352.3 million from \$285.2 million in YTD 2020
- Gross profit margin increased to 36.0% from 34.1% in YTD 2020
- Adjusted EBITDA increased by 30.0% to \$78.3 million to \$60.3 million from YTD 2020
- Net income increased to \$47.7 million from \$6.1 million in YTD 2020
- Adjusted Net Income increased to \$16.0 million from \$8.4 million in YTD 2020
- Adjusted Net Income per Diluted Share increased to \$0.22 from \$0.15 in YTD 2020
- Free Cash Flow decreased to \$4.3 million from \$77.4 million in YTD 2020

Summary of Factors Affecting Performance

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, retail store closures and capacity limitations, and social distancing requirements have caused material disruption to businesses globally resulting in an economic slowdown.

Since the onset of the COVID-19 pandemic, the Company’s operations have been considered “essential services” in certain provinces in Canada where the Company operates but restricted to curbside pick-up for certain periods of time in Ontario, enabling stores to operate on a limited basis despite governmental lock-down measures in place in certain jurisdictions. Although the Company’s corporate-owned stores and franchised stores have remained open, they were subject to stringent social distancing requirements and in some jurisdictions under alternate methods of sale such as curbside pick-up. These actions resulted in a temporary decrease to customer traffic volumes and revenues during April and May 2020. The Company’s sales improved significantly in June 2020 and resumed year on year growth thereafter. Capacity restrictions have continued in various forms in the subsequent months. The Company’s continued growth since May 2020 has been underpinned by enhanced operating protocols to protect the health and safety of customers and associates, expanded e-commerce capabilities to serve customers online and complement in-store shopping.

In April 2021, in response to a third wave of COVID-19 in Canada and resulting changes to Ontario provincial guidelines, operations at all Ontario corporate-owned and franchised stores shifted to curbside pick-up and e-commerce fulfillment. On June 11, 2021, the Government of Ontario permitted our retail stores to open store locations at 15% capacity. On June 30, 2021, revised Ontario provincial guidelines increased capacity limits of our retail stores to 25%. Subsequent to quarter end, on July 16, 2021, Ontario entered the final stage of the government’s reopening plan, which permits essential and non-essential retail to open with capacity limited to permit physical distancing of 2 metres. Ontario’s response to the third wave impacted how customers shopped at our stores, but did not significantly impact traffic volumes and revenues compared to the way in which the initial governmental lockdowns resulted in a temporary decrease to customer traffic volumes and revenues during Q2 2020. In addition, for other Canadian provinces, certain restrictions were in place during the quarter. Overall, during Q2 2021, more than 50% of our stores were restricted to curbside pick-up shopping for 10 weeks.

During Fiscal 2020, the Company took several actions to mitigate the effects of the COVID-19 pandemic on its operations and its franchisees, as follows:

- (i) Provided \$3.2 million in variable rent relief (which represents the Company's variable participation in sales performance when such figure is in excess of a contractual minimum base rent), determined as a percentage of sales, earned from the first fiscal quarter of 2020 from properties subleased to franchisees. The Company also forgave \$0.8 million of variable rent charges in the month of April 2020. The Company does not intend to provide similar rent relief in the future.
- (ii) For the month of April 2020, the Company temporarily reduced franchisee contributions to the Promotion Fund from 2.5% to 0.75% of their weekly store merchandise sales.
- (iii) Reduced inventory purchases to align with estimated demand.
- (iv) Negotiated extended repayment terms for payables with trade and non-trade vendors.
- (v) Engaged in negotiations regarding rent deferrals and abatements with landlords and franchisees.

- (vi) Implemented personal protection equipment, social distancing signage and additional cleaning protocols in all stores.
- (vii) Launched our commercially transacting website www.petvalu.ca, to better serve our customers and meet omni-channel demand.

The Company has been, and expects to be for the remainder of 2021, impacted by the COVID-19 pandemic by increased costs related to increased commodity prices, the rise in global transportation, importing and processing costs and an increase in insurance premiums. The Company has experienced intermittent delays in access to goods due to certain supply chain disruptions and is exposed to risks based on manufacturing shutdowns due to the COVID-19 pandemic. To date, the Company has not experienced any material supply chain impact as a result of COVID-19. In order to protect against potential supply shortages or delays, the Company increased inventory levels during 2020 and expects to continue to hold increased inventory levels through 2021.

In response to COVID-19, government authorities have implemented, and are continuing to implement, significant assistance programs to provide economic support to individuals and businesses. The Company has not received assistance from federal or provincial government support programs made available in the context of the COVID-19 pandemic, with the exception of deferral programs offered to Canadian businesses in Q1 2020 and Q2 2020 for corporate, sales and payroll taxes.

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

Our Brand

The Company is the market leading specialty pet retailer and largest small format specialty retailer of pet foods, treats, toys and accessories in Canada. Maintaining and growing our brand appeal is critical to our continued success, as any loss of brand appeal may adversely affect our business and financial results. To maintain brand awareness, we leverage our national store network, our compelling and engaging retail experience and loyalty program, and our local community engagement. To capture new customers, we are implementing a 360-degree marketing approach, undertaking strategic store expansions, renovations and relocations, and growing our e-commerce and omni-channel opportunities, including the greater use of analytics.

Product Innovation and Merchandise Planning Strategy

Our premium, consumables-focused product selection is designed to support the needs of pet parents across the full lifecycle of their pets, and provide the breadth and variety needed to cover all their pets' daily needs. Our offering includes premium national pet food brands, such as Acana, Orijen and Hill's, that are not typically available outside of specialty pet retail distribution channels. Approximately 70% of our product sales come from consumable products such as pet food and treats, which drive recurring revenue and repeat store traffic.

Our award-winning proprietary brand portfolio encompasses over 1,500 items available only at our banners. Penetration of these products has grown to over 30% of system-wide product sales, driving recurring traffic and margin enhancement. Our proprietary brands have similar price points, but with higher product margin of more than 1,200 basis points compared to similarly priced national brand products.

Store Expansion and Enhancement

Between 2016 and 2020 we grew our store footprint at a compound annual growth rate of 3.3% having recently opened 15 net new stores in 2019 and 18 net new stores in 2020. Over the course of Fiscal 2021, the Company plans to open between 25 to 30 new locations – a mix of corporate-owned and franchised. The Company's site selection strategy is focused on maximizing growth of system-wide revenue and profitability. Prior to identifying and ultimately selecting locations for new stores, management conducts extensive analysis utilizing the following factors: (i) the level of retail activity and traffic patterns leveraging aggregated, anonymous GPS travel data; (ii) the presence or absence of specific competitors and preferable co-tenants; (iii) the population and demographics of the area, including expected housing development; (iv) the total rent and occupancy cost per square foot; (v) the location of existing Company stores and current franchisee territories; and (vi) most likely localized product and services offerings based on the space and local customers segments.

As of July 3, 2021, we have opened 12 stores in 2021. We have also identified more than 60 other locations grouped in three different stages, which are expected to open between 2021 and early 2023, as follows: (i) 24 leases signed for stores expected to open in either 2021 or 2022; (ii) 22 leases in negotiation for stores to open in either 2021 or 2022; and (iii) more than four additional stores identified and analyzed for recommendation and approval by the Company's management to proceed to lease negotiation.

In addition to opening new stores, the Company has increased sales and operating results by enhancing elements of its existing stores by enlarging square footage, adding in-store services, relocating or renovating. Since the start of Fiscal 2018 to Q2 2021, the Company has expanded, relocated, or renovated 62 stores. The Company's current plan is to selectively enlarge, relocate, or renovate over 12 to 15 existing stores over the remainder of Fiscal 2021.

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

	Quarters Ended		Year to Date Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
	13 weeks	13 weeks	26 weeks	26 weeks
Corporate-owned stores:				
Beginning of period	232	227	232	227
New stores opened	4	1	7	2
Re-franchised ⁽¹⁾	(6)	—	(8)	—
Franchise acquisition ⁽¹⁾	—	1	—	1
Stores closed	—	—	(1)	(1)
Corporate-owned stores end of period	230	229	230	229
Franchised stores:				
Beginning of period	377	360	373	360
New stores opened	3	2	5	2
Re-franchised ⁽¹⁾	6	—	8	—
Franchise acquisition ⁽¹⁾	—	(1)	—	(1)
Stores closed	—	(1)	—	(1)
Franchised stores end of period	386	360	386	360
System-wide stores	616	589	616	589
Stores renovated, expanded or relocated⁽²⁾	8	2	10	5

Notes:

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

⁽²⁾ The Company renovated, expanded, or relocated a total of four, zero, four, and two corporate-owned stores during Q2 2021, Q2 2020, YTD 2021, and YTD 2020, respectively. There were four, two, six, and three franchised stores renovated, expanded, or relocated during Q2 2021, Q2 2020, YTD 2021, and YTD 2020, respectively.

Competition

The Company competes with specialty pet retailers, supermarkets, mass merchandisers, value retailers, independent pet retailers, and digital retailers. Competition may intensify as new competitors enter into the markets in which the Company's stores operate. Competition is characterized by many factors, including reputation, product mix, advertising, price, quality, service, location and digital applications. In order to compete with regard to these factors, the Company provides consumers with a differentiated, compelling and engaging retail experience. This experience includes expert, compassionate advice from our ACEs, a consumables-focused product offering that includes a carefully curated assortment of national brands, award-winning proprietary brands, and in-store services such as grooming services and dog wash stations. The Company's differentiated approach is supported by our integrated omni-channel capabilities and our rapidly growing loyalty program, which has over 1.6 million active members. The Company also continuously reviews market research to identify changes or initiatives to differentiate itself from competitors.

Consumer Trends

The pet products and services retail industry is subject to shifts in consumer trends, preferences and consumer spending. The Company's sales and operating results depend, in part, on its ability to predict or respond to changes in trends and consumer preferences in a timely manner. The Company's response to such changes involves refreshing the product mix with new brands and proprietary brand product launches, and exclusive products which reflect the latest trends. This allows the Company to satisfy changing consumer preferences, drive higher customer loyalty and increase visit frequency. The Company's diversified mix of pet products satisfies a broad range of pet owners, which allows us to attract a wide customer base and increases our addressable market.

The Company's revenue is also impacted by discretionary spending by consumers, which is affected by many factors that are beyond our control, including, but not limited to, general economic conditions, consumer disposable income levels, consumer confidence levels, consumer debt, the cost of basic necessities and other goods, and the effects of weather and natural disasters.

Technology Investments

Since 2019, the Company has spent approximately \$25 million refreshing its information technology to improve its operating effectiveness and support its growth. These investments in Fiscal 2021 include the ongoing implementation of a new point of sale system across the Company's store network to further enhance its omni-channel operations and customer relationship management capabilities. Other investments include the implementation of discrete software as a service ("SaaS") platforms to support merchandise planning, inventory management, order management, e-commerce and omni-channel capabilities, customer relationship management and human resource management. These system implementations are defined, multi-year projects that are carefully planned and supported by third party consultants and the implementation progress is monitored throughout all phases of the project. The Company's information systems are evaluated on an on-going basis to identify strategic opportunities to leverage technology to transform the business and to ensure current systems continue to support the Company's business and future growth objectives.

Weather

Prolonged extreme or unseasonal weather conditions affect the Company's business and financial results. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, or other extreme weather conditions could disrupt supply chains, shift customer behaviour to our e-commerce channel, and increase or decrease the sale of seasonal items and other products.

How We Assess the Performance of Our Business

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

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

contractual minimum base rent. Specifically, franchisees pay the higher of 8% of franchise retail sales or base rent. The portion in excess of base rent is included in royalties and sublease revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Selected Consolidated Financial Information and Industry Metrics

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

	Quarters Ended		Year to Date Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
	13 weeks	13 weeks	26 weeks	26 weeks
Revenue				
Retail sales	\$ 82,161	\$ 61,579	\$ 161,805	\$ 132,795
Franchise and other revenues	100,021	70,045	190,449	152,446
	182,182	131,624	352,254	285,241
Cost of sales	115,022	87,851	225,431	188,044
Gross profit	67,160	43,773	126,823	97,197
Selling, general and administrative expenses	40,603	27,174	77,644	56,110
Operating income	26,557	16,599	49,179	41,087
Interest expenses, net	19,981	16,452	37,978	33,327
Gain on foreign exchange	(42,936)	(311)	(43,034)	(772)
Income before income taxes	49,512	458	54,235	8,532
Income tax expense	5,218	131	6,532	2,438
Net income	44,294	327	47,703	6,094
Attributable to:				
Equity holders of the Group	42,645	(1,581)	44,273	2,239
Non-controlling interests	1,649	1,908	3,430	3,855
Net income	\$ 44,294	\$ 327	\$ 47,703	\$ 6,094
Basic net income (loss) per share attributable to the Company ⁽¹⁾	\$ 0.61	\$ (0.03)	\$ 0.63	\$ 0.04
Diluted net income (loss) per share attributable to the Company ⁽¹⁾	\$ 0.60	\$ (0.03)	\$ 0.62	\$ 0.04

Notes:

⁽¹⁾ Basic and diluted net income (loss) per share attributable to the Company for Q2 2020 and YTD 2020 are calculated on a pro-forma basis using the weighted average common shares outstanding based on the capital reorganization and the legacy stock option compensation plan immediately prior to the Offering.

	Quarter Ended	Fiscal Year Ended
	July 3, 2021	January 2, 2021
Total assets	\$ 533,637	\$ 562,119
Total non-current liabilities	561,226	879,575

The following table sets forth the selected financial information and industry metrics for the periods indicated (in thousands, except system-wide stores or otherwise noted):

	Quarters Ended		Year to Date Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
	13 weeks	13 weeks	26 weeks	26 weeks
Revenue	\$ 182,182	\$ 131,624	\$ 352,254	\$ 285,241
Net income	\$ 44,294	\$ 327	\$ 47,703	\$ 6,094
System-wide sales	\$ 231,452	\$ 173,502	\$ 451,080	\$ 376,003
System-wide stores	616	589	616	589
Same-store sales growth	28.4 %	(3.9)%	17.0 %	5.2 %
Same-store transaction growth	25.6 %	(24.4)%	9.0 %	(9.7)%
Same-store average spend per transaction growth	2.2 %	27.1 %	7.3 %	16.6 %
EBITDA ⁽¹⁾	\$ 78,047	\$ 24,681	\$ 108,856	\$ 57,391
Adjusted EBITDA ⁽¹⁾	\$ 42,303	\$ 27,723	\$ 78,316	\$ 60,260
Adjusted Net Income ⁽¹⁾	\$ 8,695	\$ 2,569	\$ 15,987	\$ 8,369
Adjusted Net Income per Diluted Share ⁽¹⁾	\$ 0.12	\$ 0.05	\$ 0.22	\$ 0.15
Free Cash Flow ⁽¹⁾	\$ 18,882	\$ 29,888	\$ 4,273	\$ 77,399

Notes:

⁽¹⁾ EBITDA, Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income per Diluted Share, and Free Cash Flow are non-IFRS measures. See below for a reconciliation of net income, an IFRS measure, to EBITDA, Adjusted EBITDA and Adjusted Net Income. See “– Liquidity and Capital Resources – Free Cash Flow” for a reconciliation of Free Cash Flow.

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

	Quarters Ended		Year to Date Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
	13 weeks	13 weeks	26 weeks	26 weeks
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 44,294	\$ 327	\$ 47,703	\$ 6,094
Depreciation and amortization	8,554	7,771	16,643	15,532
Interest expenses, net	19,981	16,452	37,978	33,327
Income taxes expense	5,218	131	6,532	2,438
EBITDA	78,047	24,681	108,856	57,391
Adjustments to EBITDA:				
Management fees ⁽¹⁾	439	569	679	801
Information technology transformation costs ⁽²⁾	1,305	2,439	2,557	3,905
IPO readiness and separation costs ⁽³⁾	2,191	420	3,520	1,518
Business transformation costs ⁽⁴⁾	1,100	593	1,719	772
COVID-19 pandemic ⁽⁵⁾	—	1,597	—	1,724
Other professional fees ⁽⁶⁾	275	103	1,463	136
Share-based compensation ⁽⁷⁾	1,882	409	2,556	803
Gain on foreign exchange ⁽⁸⁾	(42,936)	(311)	(43,034)	(772)
Pro forma costs ⁽⁹⁾	—	(2,777)	—	(6,018)
Adjusted EBITDA	\$ 42,303	\$ 27,723	\$ 78,316	\$ 60,260
Adjusted EBITDA as a percentage of revenue	23.2%	21.1%	22.2%	21.1%

Notes:

- (1) Represents management fees paid to entities affiliated with Roark Capital Management, LLC ("Roark"). Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; and (ii) retention bonuses for certain key management personnel in connection with the Offering. In Q2 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Q2 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (4) Predominately represents severance and recruitment expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Represents non-recurring costs incurred in Fiscal 2020 in response to the COVID-19 pandemic including personal protective equipment for Company employees, signage for the stores, short-term increased hourly pay and one-time bonuses for store associates and warehouse staff awarded in the second quarter of 2020, and professional fees associated with planning key initiatives for cash flow management and the negotiation of rent deferrals and abatements with landlords and franchisees.
- (6) Professional fees incurred with respect to the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year.
- (7) Represents non-cash, share-based compensation. In Q2 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Q2 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (8) Represents foreign exchange gains.
- (9) Represents pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, for Fiscal 2020. These costs represent compensation costs associated with supply chain, merchandising, distribution and other corporate functions, as well as information technology costs. Approximately 18% of the pro forma costs relate to cost of sales and 82% to SG&A. Beginning in Q1 2021, our on-going expenses are reported directly in cost of sales and SG&A, as those costs are now directly incurred by the Company.

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

	Quarters Ended		Year to Date Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
	13 weeks	13 weeks	26 weeks	26 weeks
Reconciliation of net income to Adjusted Net Income:				
Net income	\$ 44,294	\$ 327	\$ 47,703	\$ 6,094
Adjustments to net income:				
Management fees ⁽¹⁾	439	569	679	801
Information technology transformation costs ⁽²⁾	1,305	2,439	2,557	3,905
IPO readiness and separation costs ⁽³⁾	2,191	420	3,520	1,518
Business transformation costs ⁽⁴⁾	1,100	593	1,719	772
COVID-19 pandemic ⁽⁵⁾	—	1,597	—	1,724
Other professional fees ⁽⁶⁾	275	103	1,463	136
Share-based compensation ⁽⁷⁾	1,882	409	2,556	803
Gain on foreign exchange ⁽⁸⁾	(42,936)	(311)	(43,034)	(772)
Pro forma costs ⁽⁹⁾	—	(2,777)	—	(6,018)
Tax effect of adjustments to net income	145	(800)	(1,176)	(594)
Adjusted Net Income	\$ 8,695	\$ 2,569	\$ 15,987	\$ 8,369
Adjusted Net Income as a percentage of revenue	4.8%	2.0%	4.5%	2.9%
Adjusted Net Income per Diluted Share⁽¹⁰⁾	\$ 0.12	\$ 0.05	\$ 0.22	\$ 0.15

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees for projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; and (ii) retention bonuses for certain key management personnel in connection with the Offering. In Q2 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Q2 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (4) Predominately represents severance and recruitment expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Represents non-recurring costs incurred in Fiscal 2020 in response to the COVID-19 pandemic including personal protective equipment for Company employees, signage for the stores, short-term increased hourly pay and one-time bonuses for store associates and warehouse staff awarded in the second quarter of 2020, and professional fees associated with planning key initiatives for cash flow management and the negotiation of rent deferrals and abatements with landlords and franchisees.
- (6) Professional fees incurred with respect to the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year.
- (7) Represents non-cash, share-based compensation. In Q2 2021, the Company recorded share-based compensation expense in relation to the retention bonuses of \$1.2 million which is included in SG&A. This amount was previously recorded as bonus expense and included in SG&A in Fiscal 2020 and reclassified to share-based compensation in Q2 2021 as a result of being paid through the issuance of common shares in lieu of cash.
- (8) Represents foreign exchange gains.
- (9) Represents pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, for Fiscal 2020. These costs represent compensation costs associated with supply chain, merchandising, distribution and other corporate functions, as well as information technology costs. Approximately 18% of the pro forma costs relate to cost of sales and 82% to SG&A. Beginning in Q1 2021, our on-going expenses are reported directly in cost of sales and SG&A, as those costs are now directly incurred by the Company.
- (10) Adjusted Net Income per Diluted Share for Q2 2020 and YTD 2020 are calculated on a pro-forma basis using the weighted average common shares outstanding based on the capital reorganization and the legacy stock option compensation plan immediately prior to the Offering.

Supplemental Information on Leased Premises

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

	Quarters Ended		Year to Date Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Depreciation expense on right-of-use assets ⁽¹⁾	\$ 4,449	\$ 4,426	\$ 8,920	\$ 8,790
Interest expense on lease liabilities ⁽¹⁾	2,794	2,599	5,582	5,180
Interest income on lease receivables ⁽¹⁾	(1,630)	(1,388)	(3,217)	(2,779)
Net depreciation and interest expense associated to leased premises	\$ 5,613	\$ 5,637	\$ 11,285	\$ 11,191

Note:

⁽¹⁾ Represents income and expenses for leased premises included in the consolidated statements of financial position related to the application of IFRS 16, *Leases*. Specifically, this includes depreciation on right-of-use assets for leased premises, interest expense on lease liabilities for leased premises and interest income on lease receivables. For additional information, refer to notes 5 and 10 of the unaudited interim condensed consolidated financial statements for the periods ended July 3, 2021 and June 27, 2020.

Results of Operations

Analysis of Results for Q2 2021 compared to Q2 2020

Revenue. Total revenue was \$182.2 million in Q2 2021, an increase of \$50.6 million, or 38.4%, as compared to \$131.6 million in Q2 2020. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues, as described in more detail below.

Retail sales. Retail sales were \$82.2 million in Q2 2021, an increase of \$20.6 million, or 33.4%, as compared to \$61.6 million in Q2 2020. The increase in retail sales was primarily attributable to: (i) an increase in same store-sales growth compared to Q2 2020 which was significantly impacted by the onset of the pandemic and the initial round of governmental lock-down measures resulting in a temporary decrease to customer traffic volumes and revenues during April and May 2020; and (ii) the opening of 17 new stores and the re-acquiring of one franchised store, partially offset by the re-franchising of 16 existing stores and the closure of one store since the end of the second quarter last year.

Franchise and other revenues. Franchise and other revenues were \$100.0 million in Q2 2021, an increase of \$30.0 million, or 42.8%, as compared to \$70.0 million in Q2 2020. The increase in franchise and other revenues was mostly due to higher wholesale merchandise sales of \$22.8 million and royalties of \$2.1 million driven by (i) higher same-store sales growth as the comparative period was significantly impacted by the onset of the pandemic and the initial round of governmental lock-down measures resulting in a temporary decrease to customer traffic volumes and revenues during April and May 2020; and (ii) an increase in the number of franchised stores from 360 as of the end of Q2 2020 to 386 as of the end of Q2 2021. The increase in franchise and other revenues in the quarter was also explained by higher sub-lease revenues of \$2.3 million and higher franchisee contributions to the Promotion Fund of \$2.3 million, both of which were partly driven by the factors described above in addition to \$0.8 million of variable rent relief provided to franchisees in Q2 2020, and for the month of April 2020, the Company temporarily reduced franchisee contributions to the Promotion Fund from 2.5% to 0.75% of their weekly store merchandise sales.

Same-store sales growth. Same-store sales growth was 28.4% in Q2 2021 primarily driven by a 25.6% increase in same-store transactions and a 2.2% increase in same-store average spend per transaction. This is compared to same-store sales growth of (3.9)% in Q2 2020 which consisted of a (24.4)% decrease in same-store transactions and a 27.1% increase in same-store average spend per transaction.

Gross profit. Gross profit increased by \$23.4 million, or 53.4%, to \$67.2 million in Q2 2021, compared to \$43.8 million in Q2 2020. Gross profit margin was 36.9% in Q2 2021 compared to 33.3% in Q2 2020. The gross profit margin increase of 3.6% was primarily driven by: (i) leverage gained on fixed costs due to higher revenue; (ii) the favourable impact of the stronger Canadian dollar on products sourced outside Canada and primarily denominated in U.S. dollars; (iii) relief provided to franchisees in Q2 2020 for variable rent and contributions to the Promotion Fund; (iv) higher discounts to employees in Q2 2020; and (v) partially offset by the absorption of incremental freight costs due to global supply chain issues, distribution costs driven by e-commerce sales, and incremental wages in our warehouses to support increased demand and COVID-related absences.

SG&A expenses. SG&A expenses were \$40.6 million in Q2 2021, an increase of \$13.4 million, or 49.4%, compared to \$27.2 million in Q2 2020. SG&A expenses represented 22.3% and 20.6% of total revenue for Q2 2021 and Q2 2020, respectively. The increase of \$13.4 million in SG&A expenses was primarily due to: (i) increased compensation costs of \$6.8 million as a result of the Company operating separately from the Group, a full quarter of compensation expense related to headcount investments made in the second half of Fiscal 2020 to align with certain strategic initiatives, and additional bonus expense for key management as a result of the performance of the business and the completion of the Offering; (ii) higher advertising expenses of \$3.0 million due to reduced advertising activity in Q2 2020 given the onset of the pandemic; and (iii) higher professional fees of \$1.9 million to support the preparation of the Offering and separation activities.

Net interest expense. Net interest expense was \$20.0 million in Q2 2021, an increase of \$3.5 million, or 21.5%, compared to \$16.5 million in Q2 2020. The increase was primarily driven by the write-off of unamortized deferred financing costs on the 2016 Credit Facilities of \$5.7 million, partially offset by lower interest expense on the 2016 Credit Facilities resulting from lower interest rates and total debt outstanding.

Income taxes. Income taxes were \$5.2 million in Q2 2021 compared to \$0.1 million in Q2 2020, an increase of \$5.1 million year over year. The increase in income taxes was primarily the result of higher taxable earnings in Q2 2021. The effective income tax rate was 10.5% in Q2 2021 compared to 28.6% in the prior year. The Q2 2021 effective tax rate is lower than the blended statutory rate of 26.5% primarily because of favourable tax treatments on foreign exchange gains related to the repayment of the 2016 Term Loans and on the settlement of a foreign exchange forward contract (See "Liquidity and Capital Resources – Credit Facilities"), partially offset by \$1.4 million cumulative income tax expense related to the enactment of Bill C-30 and interest income earned from advances made to its former U.S legal entity subsidiaries for 2019 and 2020. The Company previously had made protective elections to impute taxable interest income from these advances under the Pertinent Loan or Indebtedness regime. The Q2 2020 effective tax rate is higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses.

Net income. Net income increased by \$44.0 million to \$44.3 million in Q2 2021, compared to \$0.3 million in Q2 2020. In addition to the factors described above, the change in net income is also explained by a higher gain on foreign exchange of \$42.6 million from the repayment of the 2016 Term Loans and the settlement of a foreign exchange forward contract (See "Liquidity and Capital Resources – Credit Facilities").

Adjusted EBITDA. Adjusted EBITDA increased by \$14.6 million, or 52.6%, to \$42.3 million in Q2 2021, compared to \$27.7 million in Q2 2020. The increase in Adjusted EBITDA results from higher EBITDA of \$53.4 million quarter over quarter as explained by factors above and excludes gains on foreign exchange, readiness for the Offering and separation costs, share-based compensation, business transformation costs and other professional fees, COVID-19 pandemic costs, information technology transformation costs and management fees. Adjusted EBITDA as a percentage of revenue was 23.2% and 21.1% respectively in Q2 2021 and Q2 2020.

Adjusted Net Income. Adjusted Net Income increased by \$6.1 million to \$8.7 million in Q2 2021, compared to \$2.6 million in Q2 2020. Adjusted Net Income as a percentage of revenue was 4.8% in Q2 2021 and 2.0% in Q2 2020. The 2.8% year over year improvement results from the factors described above.

Analysis of Results for YTD 2021 compared to YTD 2020

Revenue. Total revenue was \$352.3 million in YTD 2021, an increase of \$67.0 million, or 23.5%, as compared to \$285.2 million in YTD 2020. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues, as described in more detail below.

Retail sales. Retail sales were \$161.8 million in YTD 2021, an increase of \$29.0 million, or 21.8%, as compared to \$132.8 million in YTD 2020. The increase in retail sales was primarily attributable to: (i) higher same-store sales growth compared to YTD 2020 which was significantly impacted by the onset of the pandemic and the initial round of governmental lock-down measures; and (ii) the opening of 17 new stores and the re-acquiring of one franchised store, partially offset by the re-franchising of 16 existing stores and the closure of one store since the end of the second quarter last year.

Franchise and other revenues. Franchise and other revenues were \$190.4 million in YTD 2021, an increase of \$38.0 million, or 24.9%, as compared to \$152.4 million in YTD 2020. The increase in franchise and other revenues was mostly driven by higher wholesale merchandise sales of \$26.5 million and royalties of \$2.5 million primarily due to: (i) higher same-store sales growth as the comparative period was significantly impacted by the onset of the pandemic and the initial round of governmental lock-down measures resulting in a temporary decrease to customer traffic volumes and revenues during April and May 2020; and (ii) an increase in the number of franchised stores from 360 as of the end of Q2 2020 to 386 as of the end of Q2 2021. The increase in franchise and other revenues in the quarter was also explained by higher sub-lease revenues of \$6.0 million and higher franchisee contributions to the Promotion Fund of \$2.3 million, both of which were partly driven by the factors described above in addition to \$4.0 million related to variable rent relief provided to franchisees in YTD 2020, and for the month of April 2020, the Company temporarily reduced franchisee contributions to the Promotion Fund from 2.5% to 0.75% of their weekly store merchandise sales.

Same-store sales growth. Same-store sales growth was 17.0% in YTD 2021 primarily driven by a 9.0% increase in same-store transactions and a 7.3% increase in same-store average spend per transaction. This is compared to same-store sales growth of 5.2% in YTD 2020 which consisted of a (9.7)% decrease in same-store transactions and a 16.6% increase in same-store average spend per transaction.

Gross profit. Gross profit increased by \$29.6 million, or 30.5%, to \$126.8 million in YTD 2021, compared to \$97.2 million in YTD 2020. Gross profit margin was 36.0% of revenue in YTD 2021 compared to 34.1% in YTD 2020. The margin increase was primarily driven by: (i) leverage gained on fixed costs due to higher revenue; (ii) an increase in sub-lease revenues given that \$4.0 million of variable rent relief was provided to franchisees, and reduced franchisee contributions to the Promotion Fund in YTD 2020; (iii) the favourable impact of the stronger Canadian dollar on products sourced outside Canada and primarily denominated in U.S. dollars; and (iv) partially offset by the absorption of incremental freight costs due to global supply chain issues, distribution costs driven by e-commerce sales, and incremental wages in our warehouses to support increased demand and COVID-related absences.

SG&A expenses. SG&A expenses were \$77.6 million in YTD 2021, an increase of \$21.5 million, or 38.4%, compared to \$56.1 million in YTD 2020. SG&A expenses represented 22.0% and 19.7% of total sales and revenue for YTD 2021 and YTD 2020, respectively. The increase of \$21.5 million in SG&A expenses was primarily due to: (i) increased compensation costs of \$11.3 million as a result of the Company operating separately from the Group, and two full quarters of compensation expense from headcount investments made in the second half of Fiscal 2020 to align with certain strategic initiatives, and bonus expense for key management due to the performance of the business and the completion of the Offering; (ii) higher professional fees of \$4.0 million to support the preparation of the Offering, separation activities and other taxation matters; (iii) a total of \$3.4 million related to advertising due to reduced advertising activity in YTD 2020 given the onset of the pandemic; and (iv) higher information technology expenses of \$1.6 million associated with the implementation of SaaS arrangements.

Net interest expense. Net interest expense was \$38.0 million in YTD 2021, an increase of \$4.7 million, or 14.0%, compared to \$33.3 million in YTD 2020. The increase was primarily driven by the write-off of unamortized deferred financing costs on the 2016 Credit Facilities totalling \$5.7 million, fees on the commitment for the standby letter of credit of \$4.3 million, partially offset by lower interest expense on the 2016 Credit Facilities resulting from lower interest rates and total debt outstanding.

Income taxes. Income taxes were \$6.5 million in YTD 2021 compared to \$2.4 million in YTD 2020, an increase of \$4.1 million year over year. The increase in income taxes was primarily the result of higher taxable earnings in YTD 2021. The effective income tax rate was 12.0% in YTD 2021 compared to 28.6% in the prior year. The YTD 2021 effective tax rate is lower than the blended statutory rate of 26.5% primarily because of the favourable tax treatment on foreign exchange gains related to the repayment of the 2016 Term Loans and on the settlement of a foreign exchange forward contract (See "Liquidity and Capital Resources – Credit Facilities"), partially offset by \$1.4 million cumulative income tax expense related to the enactment of Bill C-30 and interest income earned from advances made to its former U.S. legal entity subsidiaries for 2019 and 2020. The Company previously had made protective elections to impute taxable interest income from these advances under the Pertinent Loan or Indebtedness regime. The YTD 2020 effective tax rate is higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses.

Net income. Net income increased by \$41.6 million to \$47.7 million in YTD 2021, compared to \$6.1 million in YTD 2020. In addition to the factors described above, the change in net income is also explained by a higher gain of \$42.3 million from the repayment of the 2016 Term Loan and from the settlement of a foreign exchange forward contract (See "Liquidity and Capital Resources – Credit Facilities").

Adjusted EBITDA. Adjusted EBITDA increased by \$18.1 million, or 30.0%, to \$78.3 million in YTD 2021, compared to \$60.3 million in YTD 2020. The increase in Adjusted EBITDA results from higher EBITDA of \$51.5 million year over year as explained by the factors above and excludes gains on foreign exchange, readiness for the Offering and separation costs, share-based compensation, business transformation costs and other professional fees, COVID-19 pandemic costs, information technology transformation costs and management fees. Adjusted EBITDA as a percentage of revenue was 22.2% and 21.1%, respectively, in YTD 2021 and YTD 2020.

Adjusted Net Income. Adjusted Net Income increased by \$7.6 million to \$16.0 million in YTD 2021, compared to \$8.4 million in YTD 2020. Adjusted Net Income as a percentage of revenue was 4.5% in YTD 2021 and 2.9% in YTD 2020. The 1.6% year over year improvement results from the factors described above.

Total Assets

YTD 2021 compared to Fiscal 2020

Total assets decreased by \$28.5 million or 5.1% from Fiscal 2020 to YTD 2021 mostly explained by a decrease in cash of \$50.0 million and a decrease in right-of-use assets of \$3.8 million resulting from corporate-owned stores sold to franchisees, partially offset by higher inventory of \$8.8 million primarily to support supply chain stability in light of global supply chain challenges and growth in revenue, and higher lease receivables of \$7.2 million resulting from corporate-owned stores sold to franchisees and the opening of new franchise stores, and higher accounts and other receivables of \$4.6 million due to the construction and renovation of new and existing franchise stores.

Total Non-Current Liabilities

YTD 2021 compared to Fiscal 2020

Total non-current liabilities decreased by \$318.3 million or 36.2% mostly driven by a decrease in long-term debt of \$318.5 million as a result of the repayment of the 2016 Term Loans partially offset by the amounts drawn on the 2021 Credit Facilities.

Selected Quarterly Results and Performance Measures

The following table summarizes selected results of the Company's operations for the last eight most recently completed quarters (information is in thousands of Canadian dollars unless otherwise noted). The unaudited quarterly results, excluding other performance measures, have been prepared in accordance with IFRS. Due to seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. In general, the fourth quarter has the strongest volume due to the holiday season. Additionally, quarterly performance can be impacted by the timing of holidays and significant weather changes. For Fiscal 2020, the gross profit margin across the quarters varied based on several factors: (i) Q1 included \$3.2 million of pandemic-related variable rent relief for franchisees; (ii) Q2 expenses deleveraged due to lower sales resulting from COVID-19 lockdowns, \$0.8 million of pandemic-related variable rent relief for franchisees, and in the month of April 2020, the Company temporarily reduced franchisee contributions to the Promotion Fund from 2.5% to 0.75% of their weekly store merchandise sales; and (iii) Q3 and Q4 experienced improvement as consumers increased their purchases of higher-margin train, treat, and play category items as they spent more time at home with their pets and due to expenses leveraged on higher sales volumes.

	Fiscal 2021			Fiscal 2020			Fiscal 2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	13 weeks	13 weeks	14 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks
IFRS Measures								
Revenue	\$182,182	\$170,072	\$203,405	\$159,813	\$131,624	\$153,617	\$157,221	\$142,440
Gross profit	\$ 67,160	\$ 59,663	\$ 75,496	\$ 57,936	\$ 43,773	\$ 53,424	\$ 57,094	\$ 51,328
Gross profit margin	36.9%	35.1%	37.1%	36.3%	33.3%	34.8%	36.3%	36.0%
Operating Income	\$ 26,557	\$ 22,622	\$ 34,563	\$ 27,026	\$ 16,599	\$ 24,488	\$ 31,321	\$ 24,398
Net income	\$ 44,294	\$ 3,409	\$ 13,829	\$ 8,699	\$ 327	\$ 5,767	\$ 10,275	\$ 5,205
Basic net income (loss) per share attributable to the Company ⁽¹⁾	\$ 0.61	\$ 0.03	\$ 0.22	\$ 0.13	\$ (0.03)	\$ 0.07	\$ 0.16	\$ 0.06
Diluted net income (loss) per share attributable to the Company ⁽¹⁾	\$ 0.60	\$ 0.03	\$ 0.22	\$ 0.13	\$ (0.03)	\$ 0.07	\$ 0.15	\$ 0.06
Non-IFRS Measures								
System-wide sales	\$231,452	\$219,628	\$258,153	\$207,696	\$173,502	\$202,501	\$202,094	\$183,064
System-wide stores	616	609	605	592	589	587	587	582
Same-store sales growth	28.4 %	6.9 %	18.0 %	12.4 %	(3.9)%	14.6 %	7.7 %	7.3 %
EBITDA ⁽²⁾	\$ 78,047	\$ 30,809	\$ 43,676	\$ 35,063	\$ 24,681	\$ 32,710	\$ 39,267	\$ 32,686
Adjusted EBITDA ⁽²⁾	\$ 42,303	\$ 36,013	\$ 47,819	\$ 36,336	\$ 27,723	\$ 32,537	\$ 40,424	\$ 31,524
Adjusted Net Income ⁽²⁾	\$ 8,695	\$ 7,292	\$ 17,252	\$ 9,874	\$ 2,569	\$ 5,800	\$ 11,356	\$ 4,481
Adjusted Net Income per Diluted Share ⁽¹⁾⁽²⁾	\$ 0.12	\$ 0.13	\$ 0.31	\$ 0.18	\$ 0.05	\$ 0.10	\$ 0.20	\$ 0.08

Notes:

(1) Basic and diluted net income (loss) per share attributable to the Company and Adjusted Net Income per Diluted Share for Q1 2021 and the quarters ended in Fiscal 2020 and Fiscal 2019 are calculated on a pro-forma basis using the weighted average common shares outstanding based on the capital reorganization and the legacy stock option compensation plan immediately prior to the Offering.

(2) EBITDA, Adjusted EBITDA, Adjusted Net Income, and Adjusted Net Income per Diluted Share are non-IFRS measures. See below for a reconciliation from net income, an IFRS measure for Q1 2021 and the quarters ended in Fiscal 2020 and Fiscal 2019. For the reconciliation of net income to EBITDA, Adjusted EBITDA, and Adjusted Net Income for Q2 2021 and YTD 2021 see "Selected Consolidated Financial Information and Industry Metrics".

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

	Fiscal 2021		Fiscal 2020		Fiscal 2019		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	13 weeks	14 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks
Reconciliation of net income to Adjusted EBITDA:							
Net income	\$ 3,409	\$ 13,829	\$ 8,699	\$ 327	\$ 5,767	\$ 10,275	\$ 5,205
Depreciation and amortization	8,089	8,646	7,874	7,771	7,761	7,989	8,309
Interest expenses, net	17,997	15,671	15,011	16,452	16,875	16,800	17,046
Income taxes expense	1,314	5,530	3,479	131	2,307	4,203	2,126
EBITDA	30,809	43,676	35,063	24,681	32,710	39,267	32,686
Adjustments to EBITDA:							
Management fees ⁽¹⁾	240	48	284	569	232	279	230
Information technology transformation costs ⁽²⁾	1,252	2,801	1,746	2,439	1,466	1,786	1,298
IPO readiness and separation costs ⁽³⁾	1,329	4,253	1,910	420	1,098	—	—
Business transformation costs ⁽⁴⁾	619	548	286	593	179	982	33
COVID-19 pandemic ⁽⁵⁾	—	2	107	1,597	127	—	—
Other professional fees ⁽⁶⁾	1,188	538	—	103	33	46	—
Share-based compensation ⁽⁷⁾	674	711	476	409	394	1,084	261
Asset impairments ⁽⁸⁾	—	—	—	—	—	254	—
(Gain) loss on foreign exchange ⁽⁹⁾	(98)	(466)	(164)	(311)	(461)	44	21
Pro forma costs ⁽¹⁰⁾	—	(4,292)	(3,372)	(2,777)	(3,241)	(3,318)	(3,005)
Adjusted EBITDA	\$ 36,013	\$ 47,819	\$ 36,336	\$ 27,723	\$ 32,537	\$ 40,424	\$ 31,524

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees from projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; and (ii) retention bonuses for certain key management personnel in connection with the Offering.
- (4) Predominately represents severance and recruitment expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Represents non-recurring costs incurred in Fiscal 2020 in response to the COVID-19 pandemic including personal protective equipment for Company employees, signage for the stores, short-term increased hourly pay and one-time bonuses for store associates and warehouse staff awarded in the second quarter of 2020 and professional fees associated with planning key initiatives for cash flow management and the negotiation of rent deferrals and abatements with landlords and franchisees.
- (6) Professional fees incurred with respect to the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year.
- (7) Represents non-cash, share-based compensation.
- (8) Non-cash impairment charge taken against certain leasehold improvements and right-of-use assets for stores.
- (9) Represents foreign exchange gains and losses.
- (10) Represents pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, for Fiscal 2020. These costs represent compensation costs associated with supply chain, merchandising, distribution and other corporate functions, as well as information technology costs. Approximately 18% of the pro forma costs relate to cost of sales and 82% to SG&A. Beginning in Q1 2021, our on-going expenses are reported directly in cost of sales and SG&A, as those costs are now directly incurred by the Company.

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

	Fiscal 2021		Fiscal 2020		Fiscal 2019		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	13 weeks	14 weeks	13 weeks	13 weeks	13 weeks	13 weeks	13 weeks
Reconciliation of net income to Adjusted Net Income:							
Net income	\$ 3,409	\$ 13,829	\$ 8,699	\$ 327	\$ 5,767	\$ 10,275	\$ 5,205
Adjustments to net income:							
Management fees ⁽¹⁾	240	48	284	569	232	279	230
Information technology transformation costs ⁽²⁾	1,252	2,801	1,746	2,439	1,466	1,786	1,298
IPO readiness and separation costs ⁽³⁾	1,329	4,253	1,910	420	1,098	—	—
Business transformation costs ⁽⁴⁾	619	548	286	593	179	982	33
COVID-19 pandemic ⁽⁵⁾	—	2	107	1,597	127	—	—
Other professional fees ⁽⁶⁾	1,188	538	—	103	33	46	—
Share-based compensation ⁽⁷⁾	674	711	476	409	394	1,084	261
Asset impairments ⁽⁸⁾	—	—	—	—	—	254	—
(Gain) loss on foreign exchange ⁽⁹⁾	(98)	(466)	(164)	(311)	(461)	44	21
Pro forma costs ⁽¹⁰⁾	—	(4,292)	(3,372)	(2,777)	(3,241)	(3,318)	(3,005)
Tax effect of adjustments to net income	(1,321)	(720)	(98)	(800)	206	(76)	438
Adjusted Net Income	\$ 7,292	\$ 17,252	\$ 9,874	\$ 2,569	\$ 5,800	\$ 11,356	\$ 4,481

Notes:

- (1) Represents management fees paid to entities affiliated with Roark. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.
- (2) Represents implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (3) Represents expenses incurred related to the following: (i) consulting, legal and accounting fees from projects and process improvements incurred in the preparation of the Offering and the legal restructuring to separate the Company from the Group; and (ii) retention bonuses for certain key management personnel in connection with the Offering.
- (4) Predominately represents severance and recruitment expenses associated to the strategic reorganization in the senior leadership team and key functional departments as part of the Company's separation from the Group.
- (5) Represents non-recurring costs incurred in Fiscal 2020 in response to the COVID-19 pandemic including personal protective equipment for Company employees, signage for the stores, short-term increased hourly pay and one-time bonuses for store associates and warehouse staff awarded in the second quarter of 2020 and professional fees associated with planning key initiatives for cash flow management and the negotiation of rent deferrals and abatements with landlords and franchisees.
- (6) Professional fees incurred with respect to the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year.
- (7) Represents non-cash, share-based compensation.
- (8) Non-cash impairment charge taken against certain leasehold improvements and right-of-use assets for stores.
- (9) Represents foreign exchange gains and losses.
- (10) Represents pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated with the Company, for Fiscal 2020. These costs represent compensation costs associated with supply chain, merchandising, distribution and other corporate functions, as well as information technology costs. Approximately 18% of the pro forma costs relate to cost of sales and 82% to SG&A. Beginning in Q1 2021, our on-going expenses are reported directly in cost of sales and SG&A, as those costs are now directly incurred by the Company.

Liquidity and Capital Resources

Overview

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

As of Q2 2021, we had approximately \$111.5 million, as compared to \$96.9 million as of Fiscal 2020, of available liquidity comprised of:

- cash and cash equivalents of \$21.5 million, as compared to \$71.5 million as of Fiscal 2020; and
- available borrowings of \$90.0 million under the 2021 Revolving Facility (as hereinafter defined), as compared to \$25.5 million (US\$20.0 million) as of Fiscal 2020, under the 2016 Revolving Credit Facility (as hereinafter defined).

We believe that our cash and cash equivalents combined with the expected cash flow from operations and liquidity to be available under the 2021 Credit Facilities (as hereinafter defined) will be sufficient to finance our continued operations for at least the next 12 months including our operating expenses, capital expenditures requirements, the additional expenses we expect to incur as a public company and under a separated structure (for information on pro forma costs to normalize for on-going expenses previously allocated to entities forming part of the Group, specifically operations in the United States, which are no longer affiliated to the Company, refer to the reconciliation of net income to Adjusted EBITDA under “– Selected Consolidated Financial Information and Industry Metrics”). In addition, we believe that our capital structure provides us with significant financial flexibility to pursue our future growth strategies. However, our ability to fund operating expenses, capital expenditures, dividends and future debt service requirements will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See “Summary of Factors Affecting Performance” in this MD&A.

Credit Facilities

2021 Credit Agreement

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

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

Borrowings under the 2021 Credit Facilities will bear interest, according to the type of borrowing advanced, at short-term floating rates (based on a reference rate of U.S. base rate, the Canadian prime rate or the LIBOR rate or bankers' acceptance rate, as applicable), plus a margin per annum depending on the Company's net total leverage ratio. As of Q2 2021, the interest rate on the 2021 Credit Facilities was 2.69%.

As of Q2 2021, the aggregate amount outstanding under the 2021 Term Facility and 2021 Revolving Facility was \$355.0 million and \$40.0 million, respectively.

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

The 2021 Credit Agreement contains affirmative and negative covenants customary for credit facilities of this nature, subject to certain exceptions set forth in the 2021 Credit Agreement. The 2021 Credit Agreement also contains certain financial covenants over the term of the 2021 Credit Facilities which includes a net leverage ratio and an interest coverage ratio. As of Q2 2021, the Company was in compliance with all of its covenants.

2016 Credit Agreement

On July 5, 2016, the Company entered into a US\$605.0 million credit agreement with a consortium of lenders (the "2016 Credit Agreement"), which provides for (i) a term loan with a principal amount of US\$545.0 million under a secured term loan facility ("2016 Term Loan"); (ii) a revolving credit facility for up to US\$20.0 million ("2016 Revolving Credit Facility"); and (iii) a delayed draw term loan of US\$40.0 million ("2016 Delayed Draw Term Loan") (collectively referred to as the "2016 Credit Facilities"). As part of the Offering, the Company terminated the 2016 Credit Agreement and entered into the 2021 Credit Agreement. As such, on June 30, 2021, all outstanding debt on the 2016 Credit Facilities was repaid.

In order to mitigate the foreign currency risk on the repayment of the 2016 Credit Facilities, on June 9, 2021, the Company entered into a foreign exchange forward contract to purchase US\$550.0 million in exchange for Canadian dollars to be settled on the closing of the Offering. The Company settled the forward exchange forward contract on June 30, 2021, and recognized a foreign currency gain of \$13.5 million.

In addition, as all of the 2016 Credit Facilities were allocated to the Company from the Group's U.S. dollar functional currency subsidiary, upon extinguishment of the facilities, the accumulated foreign currency translation adjustments of \$29.7 million were reclassified to gain on foreign exchange from accumulated other comprehensive income within the Group's net investment.

Deferred financing costs

In connection with the 2021 Credit Agreement, deferred financing costs of \$5.7 million were incurred. The total unamortized deferred financing costs were \$5.7 million as of Q2 2021 and are being amortized using the effective interest rate method. As a result of the extinguishment of the 2016 Credit Agreement, the unamortized balance of the deferred financing costs on the 2016 Credit Facilities of \$5.7 million were written off as debt extinguishment costs. These amounts were included as interest expense.

Cash Flows

The following table presents cash flows for the periods indicated:

	Quarters Ended		Year to Date Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
	13 weeks	13 weeks	26 weeks	26 weeks
Net cash provided by operating activities	\$ 31,669	\$ 37,847	\$ 28,627	\$ 93,176
Net cash used in financing activities	(23,100)	(32,671)	(84,071)	(44,978)
Net cash provided by investing activities	1,875	4,990	5,434	10,055
Effect of exchange rate changes on cash and cash equivalents	(16)	(957)	11	(1,221)
Net increase (decrease) in cash and cash equivalents	\$ 10,428	\$ 9,209	\$ (49,999)	\$ 57,032

Analysis of Cash Flow for Q2 2021 and YTD 2021

Net cash provided by operating activities.

For Q2 2021, net cash provided by operating activities totalled \$31.7 million, compared to net cash provided by operating activities of \$37.8 million in Q2 2020. The decrease was primarily due to a combined \$14.1 million net change in operating working capital, comprised of a \$0.7 million decrease in net operating working capital in Q2 2021 compared to an increase of \$13.4 million in Q2 2020 explained by: (i) the Q2 2020 benefit of payment term extensions and deferred payments as a result of the pandemic; (ii) higher inventory build in Q2 2021 to support supply chain stability in light of global supply chain challenges and increase in demand; and (iii) increased franchise receivables related to the construction and renovation of new and existing franchised stores and the timing of franchise billings. In addition to the changes in operating working capital, Q2 2021 benefited from higher net income (adjusted for items not involving cash) compared to Q2 2020 which was significantly impacted by the beginning of the pandemic and the initial round of governmental lock-down measures resulting in a temporary decrease to customer traffic volumes and revenues during April and May 2020. Offsetting the increase in cash provided by operating activities are higher federal corporate tax instalments in Q2 2021 compared to Q2 2020 during which the Company deferred corporate tax instalments as permitted by the government pandemic relief programs in effect at that time. The magnitude of the combined Q2 2021 and Q2 2020 change in operating working capital is an anomaly predominately caused by the Company's reaction to the pandemic.

For YTD 2021, net cash provided by operating activities totalled \$28.6 million, compared to net cash provided by operating activities of \$93.2 million in YTD 2020. The decrease was primarily due to a combined \$68.3 million net change in operating working capital comprised of a \$29.3 million decrease in net operating working capital in YTD 2021 compared to an increase of \$39.1 million in YTD 2020 explained by: (i) the YTD 2020 benefit of payment term extensions and deferred payments as a result of the pandemic, (ii) higher inventory build in YTD 2021 to support supply chain stability in light of global supply chain challenges and increase in demand; (iii) higher payments in connection with the initial public offering readiness activities; (iv) increased franchise receivables related to the construction and renovation of new and existing franchised stores and the timing of franchise billings; and (v) higher federal corporate tax instalments in YTD 2021 compared to YTD 2020 during which the Company deferred corporate tax instalments as permitted by the government pandemic relief programs in effect at that time. The magnitude of the combined YTD 2021 and YTD 2020 change in operating working capital is an anomaly predominately caused by the Company's reaction to the pandemic and the timing of the quarter end of April 3, 2021.

Net cash used in financing activities.

For Q2 2021, net cash used in financing activities totalled \$23.1 million, compared to \$32.7 million in Q2 2020. The decrease is primarily driven by: (i) net proceeds from the issuance of common shares and the amounts drawn on the 2021 Credit Facilities after repayment of the 2016 Term Loans; (ii) lower net distributions; (iii) lower interest paid on the 2016 Term Loans; (iv) partially offset by the payment of financing costs on the new 2021 Credit Facilities and the payment of fees on the commitment for the standby letter of credit; and (v) a prepayment of interest in Q2 2021 for the 2021 Credit Facilities as a result of borrowing using banker's acceptances.

For YTD 2021, net cash used in financing activities totalled \$84.1 million, compared to \$45.0 million in YTD 2020. The increase is primarily driven by (i) an additional quarterly payment of interest on the 2016 Term Loans in Q1 2021 due to the timing of the quarter end; (ii) a prepayment of interest on the 2021 Credit Facilities in Q2 2021 as a result of borrowing using banker's acceptances; (iii) payment of financing costs on the new 2021 Credit Facilities and amendment of the 2016 Credit Facilities; (iv) payment of fees on the commitment for the standby letter of credit; (v) higher payments on lease liabilities; (vi) higher net distributions; and (vii) partially offset by net proceeds from the issuance of common shares and the amounts drawn on the 2021 Credit Facilities after repayment of the 2016 Term Loans. YTD 2020 benefited from \$28.1 million drawn on the Company's 2016 Revolving Credit Facility completed in response to the initial COVID-19 governmental lock-down measures. The amount drawn on the Revolving Credit Facility was fully repaid during the third quarter of 2020.

Net cash provided by investing activities.

For Q2 2021, net cash provided by investing activities totalled \$1.9 million, compared to \$5.0 million in Q2 2020. This decrease was primarily due to higher capital expenditures for leasehold improvements and furniture and fixtures for corporate-owned stores and technology investments in a new point-of-sale system across the store network partially offset by proceeds on the sale of corporate-owned stores to franchisees.

For YTD 2021, net cash provided by investing activities totalled \$5.4 million, compared to \$10.1 million in YTD 2020. This decrease was primarily due to higher capital expenditures for leasehold improvements and furniture and fixtures for corporate-owned stores and technology investments in a new point-of-sale system across the store network partially offset by proceeds on the sale of corporate-owned stores to franchisees.

Free Cash Flows

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

	Quarters Ended		Year to Date Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
	13 weeks	13 weeks	26 weeks	26 weeks
Cash provided by operating activities	\$ 31,669	\$ 37,847	\$ 28,627	\$ 93,176
Cash provided by investing activities	1,875	4,990	5,434	10,055
Repayment of principal on lease liabilities	(11,620)	(10,133)	(23,806)	(20,339)
Interest paid on lease liabilities	(2,881)	(2,675)	(5,761)	(5,331)
Notes receivables	(161)	(141)	(221)	(162)
Free Cash Flow	\$ 18,882	\$ 29,888	\$ 4,273	\$ 77,399

Analysis of Free Cash Flow for Q2 2021 and YTD 2021

Free cash flows amounted to \$18.9 million in Q2 2021 compared to \$29.9 million in Q2 2020, a decrease of \$11.0 million mostly driven by a decrease in cash provided by operating activities and a decrease in cash provided by investing activities, in addition to higher repayment of principal and interest on lease liabilities.

Free cash flows amounted to \$4.3 million in YTD 2021 compared to \$77.4 million in YTD 2020, a decrease of \$73.1 million mostly driven by a decrease in cash provided by operating activities and a decrease in cash provided by investing activities, in addition to higher repayment of principal and interest on lease liabilities.

Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as of Q2 2021.

	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Thereafter	Total
Accounts payable and accrued liabilities	\$ 70,398	\$ —	\$ —	\$ —	\$ —	\$ —	70,398
Lease liabilities	27,560	47,870	46,418	40,853	34,709	59,060	256,470
Long-term debt	4,438	8,875	17,750	17,750	17,750	328,437	395,000
Total contractual obligations	\$ 102,396	\$ 56,745	\$ 64,168	\$ 58,603	\$ 52,459	\$ 387,497	\$ 721,868

Off-Balance Sheet Arrangements

Guarantees of indebtedness

The Company has provided the following guarantees as of Q2 2021:

- (i) Guarantee of certain lease obligations for an affiliate company of the Group. The lease obligations expire on February 27, 2023. As of Q2 2021, the future lease commitment is \$1.1 million (US\$0.9 million) (Fiscal 2020 — \$4.2 million (US\$3.3 million)).

Bank comfort letters

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

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

Litigation

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

Income Taxes

The Company is subject to routine audits of its tax filing positions by the CRA on an ongoing basis. The CRA is currently examining the Company's tax filings for the 2016 taxation year and, in connection with such audit, is reviewing the transaction pursuant to which the Company indirectly acquired its former interest in Pet Supermarket, Inc. To date, the CRA has not proposed any reassessment of the Company's tax liability as a consequence of such audit. The Company and its tax advisors continue to believe that the Company's tax filing positions are appropriate, and accordingly no amounts have been accrued in the consolidated financial statements in respect of any such potential reassessment. If the CRA were to reassess the Company, the Company would expect to vigorously oppose any such reassessment. The Company has tax insurance against the risk of the Company ultimately being unsuccessful in opposing any such reassessment that it believes might be proposed by the CRA, although there can be no assurance that such insurance will fully cover the amount of tax which may ultimately be imposed. If the CRA were to issue such a reassessment, the Company would be required to pay the amount owing or provide acceptable security to the CRA with respect to the amount under appeal, pending resolution of the reassessment. On February 26, 2021, the Company incurred costs of \$3.7 million to obtain a commitment for a standby letter of credit facility that would be available to provide such security in respect of any such reassessment that it believes might be proposed by the CRA. These costs were reported as interest expense in the condensed interim consolidated statement of income for YTD 2021. The Company will incur ongoing commitment fees of \$1.3 million annually to the extent that such standby letter of credit facility remains unused. If the Company were to use that facility to provide security to the CRA as discussed above, it would incur additional interest costs estimated not to exceed \$3.0 million annually, although there can be no assurance that such costs would not exceed this amount or that the facility will fully cover any reassessment.

Related Party Transactions

Management fees

The Company was a party to an agreement with Roark which provides management services. The Company incurred management fees and expenses for Q2 2021 and YTD 2021 of \$0.4 million and \$0.7 million, respectively (Q2 2020 and YTD 2020 — \$0.6 million and \$0.8 million, respectively), which is included in SG&A. The balance due was \$nil and \$1.3 million at Q2 2021 and Fiscal 2020, respectively, and was included in accrued liabilities. Concurrent with the closing of the Offering, the Company terminated the management agreement with Roark.

Employee and director loans

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 stock 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 \$0.7 million (US\$0.6 million) as of Q2 2021 (Fiscal 2020 — \$0.9 million (US\$0.7 million)).

During Fiscal 2019, the Group issued common shares to certain directors of the Company for an aggregate subscription price of \$1.8 million (US\$1.4 million). The Company received cash of \$0.9 million (US\$0.7 million) from the issuance of common shares and issued promissory notes to fund the remaining aggregate subscription price. These promissory notes were repaid in Q2 2021.

Transition services agreement

On May 1, 2021, the Company entered into a transition services agreement with its former subsidiaries, pursuant to which the parties will provide to each other certain information technology, real estate and human resources and benefits services on a no cost or at cost basis. The transition services agreement has a term of 18 months from the closing of the Offering unless earlier terminated upon notice. For Q2 2021, the Company charged the former subsidiaries \$0.3 million under the transition services agreement. Prior to the transition services agreement, the Company provided services to these subsidiaries from the beginning of Fiscal 2021 and charged \$0.6 million to the subsidiaries during that period.

Product sourcing and brand license agreement

In connection with the Offering, the Company entered into a product sourcing and brand license agreement with a former subsidiary, pursuant to which the Company will source certain pet food and pet supply products licensed under the Company's proprietary brands in consideration of a sourcing fee. The product sourcing and brand license agreement will have an initial term of 18 months and will be automatically renewable for successive 18-month terms unless earlier terminated upon notice. The Company earned sourcing fees of \$0.2 million under the product sourcing and brand license agreement in Q2 2021.

Allocation of shared expenses and net distributions

The Company has been allocated shared expenses from the Group of \$4.9 million and \$10.2 million for the periods ended Q2 2020 and YTD 2020, respectively, which have been reflected in cost of sales and SG&A in the interim consolidated statements of income and comprehensive income (loss). As of January 3, 2021, the Company operationally separated from the Group and as a result the Company has not been allocated shared expenses for YTD 2021. The shared expenses have been allocated primarily on a proportionate revenue basis. The allocated costs are related to corporate administrative expenses and employee related costs including salaries and other benefits and compensation 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.

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.

Share Information Prior to the Capital Reorganization

Included in the Group's net investment are two classes of common shares issued and outstanding, Class X and Class Y, and three classes of perpetual preferred shares issued and outstanding, Class A, Class B, and Class C. The two classes of common shares have no par value. All three classes of preferred shares have no par value and are entitled to cumulative dividends at a rate of 8.6%. They also have a liquidation value of US\$1,000 per share plus any unpaid dividends less any previous distributions on the shares. Prior to the share reorganization and the completion of the Offering, (i) 31,195,059 Class X common shares, (ii) 16,011,583 Class Y common shares, (iii) 58,555 Class A preferred shares, (iv) 39,155 Class B preferred shares, and (v) 31,821 Class C preferred shares, were issued and outstanding.

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

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

Current Share Information

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

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

As of August 12, 2021, there were 69,973,913 common shares and 3,095,531 stock options, each exercisable for one common share, issued and outstanding.

Dividends

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

Initially, the Company anticipates paying quarterly cash common share dividends, with annualized aggregate dividend payments of approximately \$2.8 million (or approximately \$0.04 per common share on an annual basis). Accordingly, the Company expects the first dividend payment on the common shares would be declared following the announcement of the Company's results for the third quarter of Fiscal 2021 in November 2021 and would be paid in December 2021. We expect the first dividend would be equal to an aggregate amount of approximately \$0.7 million (or approximately \$0.01 per common share). The actual payment, amount and timing of any dividends are not guaranteed and are subject to the discretion of our Board of Directors. See "Risk Factors" in this MD&A.

Critical Accounting Estimates and Judgments

The critical accounting estimates and judgments as disclosed in the Company's audited carve-out consolidated financial statements and accompanying notes for Fiscal 2020 have been applied consistently in the preparation of this MD&A.

Risk Factors

For a detailed description of risk factors relating to the Company, please refer to the "Risk Factors" section of our Prospectus dated June 23, 2021, which is available on SEDAR at www.sedar.com.

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

Foreign Exchange Risk

The Company is exposed to currency risk related to some of its purchases. Specifically, the Company sources some of its merchandise in U.S. dollars. Inventory purchases sourced outside Canada and primarily denominated in U.S. dollars represented approximately 30% and 31%, respectively, for the 26-week period ended July 3, 2021 and the 53-week period ended January 2, 2021.

The Company is also exposed to currency risks on financial assets and liabilities denominated in foreign currencies. These assets and liabilities are of a short-term nature and management does not believe they represent a significant risk to the Company. As a result of the revaluation of these financial assets and liabilities, a five-percentage point change in the Canadian dollar against the U.S. dollar, assuming that all other variables are constant, would have changed income before income taxes for YTD 2021 by \$0.3 million (YTD 2020 — \$1.1 million) as a result of the revaluation on these financial assets and liabilities.

Interest Rate Risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The bank term loan is at variable interest rates. Changes in the banks' prime lending rates and the LIBOR 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 YTD 2021 by \$1.9 million. A one percentage point change in the applicable interest rate on the 2016 Credit Agreement would have changed income before taxes for YTD 2020 by \$3.5 million.

Credit Risk

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

Liquidity Risk

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

Recent Accounting Pronouncements

Adoption of new accounting standards and amendments

In 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 leases payments due on or before June 30, 2022. The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. The Company adopted the amendment effective for the 52-week period ending January 1, 2022, and has elected to apply the provided practical expedient. As a result, the Company accounts for a change in lease payments resulting from COVID-19-related rent deferrals as deferred payables included in accrued liabilities. Under this approach, there is no remeasurement of the lease liability.

Accounting standards and amendments issued but not yet adopted

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

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

Disclosure Controls and Internal Control Over Financial Reporting

As we recently became a reporting issuer, we are filing abbreviated CEO and CFO certifications in respect of our first interim period ending after becoming a reporting issuer in accordance with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). In particular, the certifying officers filing the certificates required under NI 52-109 are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Outlook

Based on year-to-date performance, and expectations for the balance of the year, the Company expects to achieve the following for the full year 2021:

- Revenue of approximately \$730 million, supported by same-store sales growth slightly above 10% and 25-30 new store openings. On a two-year basis, same-store sales growth is expected to remain above 20% through the remainder of the year;
- Adjusted EBITDA of approximately \$158 million, which includes the impact of incremental public company costs;
- Adjusted Net Income of approximately \$56 million or \$0.78 per diluted share; and
- Capital expenditures of approximately \$20 million.

Since the onset of the COVID-19 pandemic in early 2020, Pet Valu's performance has been significantly impacted by shifts in consumption patterns, various iterations of pandemic-related operating restrictions, and industry-wide supply chain disruptions. While restrictions have eased in recent months, a heightened level of uncertainty remains regarding potential for future disruption in the second half of 2021. The above outlook is based on several assumptions, including, but not limited to, the continued gradual normalization in the industry and operating environment through the remainder of 2021.

Additional Information

Additional information relating to the Company, including the Company's most recent quarterly report and annual and quarterly reports filed with the Prospectus, is available on SEDAR at www.sedar.com. The Company's common shares are listed for trading on the Toronto Stock Exchange under the symbol "PET".