



PET VALU HOLDINGS LTD.

Consolidated Financial Statements

For the years ended January 3, 2026 and December 28, 2024

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pet Valu Holdings Ltd.,

Opinion

We have audited the consolidated financial statements of Pet Valu Holdings Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at January 3, 2026 and December 28, 2024, and the consolidated statements of income and comprehensive income, consolidated statements of shareholders' equity and consolidated statements of cash flows for the periods then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at January 3, 2026 and December 28, 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for opinion

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

Key Audit Matter

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

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

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| Goodwill and indefinite life intangible assets impairment assessment | |
| <p>As disclosed in Note 9, the Group has goodwill and indefinite life intangible assets of \$100.4M and \$42.5M, respectively.</p> <p>Goodwill and indefinite life intangible assets must be tested for impairment at least annually, at the cash generating unit (CGU) or group of CGUs level. The determination of recoverable amount, being the value-in-use, requires the use of valuation models and significant judgement on the part of management. Recoverable amounts are based on management's view of variables and market conditions such as future cash flows and the most appropriate discount and growth rates. The Group's policy for impairment together with the related significant accounting estimates and assumptions is described in notes 2 and 3 of the consolidated financial statements.</p> <p>Management allocated the goodwill acquired from business combinations and the carrying values of the Pet Valu trade names of \$30,500 to the consolidated CGU group.</p> <p>The assessment of the recoverable amount of the consolidated CGU group has been considered as a key audit matter due to the level of judgment required to estimate the future cash flows and discount rates used in management's impairment assessment model.</p> | <p>To test the estimated recoverable amounts, our audit procedures included, among others, assessing the valuation methodology and evaluating significant assumptions and the accuracy of underlying data used by management in its analysis.</p> <p>We evaluated the Group's model, valuation methodology, and significant assumptions, including discount rates. We evaluated with the assistance of our valuation specialists, the Group's discount rate by referencing current industry, economic and comparable company information.</p> <p>We assessed the historical accuracy of management's estimates on cash flow projections and growth rates by comparing management's past projections to actual and historical performance.</p> <p>We performed sensitivity analyses on the significant assumptions, including growth rates and discount rates, to evaluate changes in the recoverable amount that would result from changes in the assumptions.</p> <p>We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties around this matter.</p> |

Other information

Management is responsible for the other information. The other information comprises Management's Discussion & Analysis.

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

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

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

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

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

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

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

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

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

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

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

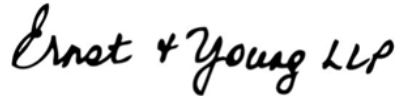
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other

matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Jeff Glassford.

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

Chartered Professional Accountants
Licensed Public Accountants

March 2, 2026
Toronto, Canada

PET VALU HOLDINGS LTD.

Consolidated Statements of Income and Comprehensive Income

(In thousands of Canadian dollars, except per share amounts)

| | Note | Years ended | |
|--|------|--------------------|----------------------|
| | | January 3, 2026 | December 28, 2024 |
| | | \$ | \$ |
| Revenue | | | |
| Retail sales | 4 | 427,344 | 405,357 |
| Franchise and other revenues | 4 | 748,212 | 691,836 |
| Total revenue | | 1,175,556 | 1,097,193 |
| Cost of sales | 17 | 786,716 | 732,554 |
| Gross profit | | 388,840 | 364,639 |
| Selling, general and administrative expenses | 18 | 224,684 | 209,316 |
| Total operating income | | 164,156 | 155,323 |
| Interest expenses, net | 19 | 30,480 | 32,103 |
| (Gain) loss on foreign exchange | | (78) | 1,836 |
| Income before income taxes | | 133,754 | 121,384 |
| Income tax expense | 13 | 35,954 | 33,964 |
| Net income and comprehensive income | | 97,800 | 87,420 |
| Net income per share | | | |
| Basic | 16 | 1.41 | 1.22 |
| Diluted | 16 | 1.39 | 1.21 |

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

PET VALU HOLDINGS LTD.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

| | Note | As at January 3, 2026 \$ | As at December 28, 2024 \$ |
|---|------|--------------------------------|----------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash | | 35,721 | 35,141 |
| Trade and other receivables | 5 | 34,346 | 34,963 |
| Inventories | 17 | 131,050 | 124,577 |
| Prepaid expenses and other assets | | 14,950 | 10,585 |
| Lease receivables | 7 | 41,508 | 40,339 |
| Income taxes recoverable | 13 | — | 905 |
| Total current assets | | 257,575 | 246,510 |
| Long-term lease receivables | 7 | 172,171 | 170,052 |
| Right-of-use assets | 7 | 272,944 | 242,796 |
| Property and equipment | 8 | 174,225 | 151,462 |
| Intangible assets | 9 | 48,444 | 50,248 |
| Goodwill | 9 | 100,412 | 98,180 |
| Deferred tax assets | 13 | 8,174 | 7,814 |
| Other assets | | 3,715 | 3,869 |
| Total assets | | 1,037,660 | 970,931 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | 113,140 | 101,638 |
| Deferred franchise fees | 4 | 1,481 | 1,427 |
| Lease liabilities | 7 | 77,126 | 76,881 |
| Income taxes payable | 13 | 2,144 | — |
| Other liabilities | 20 | 4,856 | 4,119 |
| Provisions | 14 | 120 | 355 |
| Total current liabilities | | 198,867 | 184,420 |
| Long-term deferred franchise fees | 4 | 4,578 | 4,522 |
| Long-term lease liabilities | 7 | 437,029 | 394,393 |
| Long-term debt | 11 | 288,987 | 278,020 |
| Deferred tax liabilities | 13 | 2,892 | 7,551 |
| Other liabilities | 20 | 2,996 | 2,711 |
| Provisions | 14 | 4,037 | 3,565 |
| Total liabilities | | 939,386 | 875,182 |
| Shareholders' equity | | | |
| Common shares | 15 | 332,655 | 313,829 |
| Contributed surplus | | 4,957 | 10,376 |
| Deficit | | (239,197) | (228,315) |
| Currency translation reserve | | (141) | (141) |
| Total shareholders' equity | | 98,274 | 95,749 |
| Total liabilities and shareholders' equity | | 1,037,660 | 970,931 |

Commitments, contingencies and guarantees (Note 22)

Subsequent events (Note 24)

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

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

PET VALU HOLDINGS LTD.

Consolidated Statements of Shareholders' Equity

(In thousands of Canadian dollars)

| | Note | Common shares \$ | Contributed surplus \$ | Deficit \$ | Currency translation reserve \$ | Total \$ |
|--|--------|------------------------|------------------------------|------------------|--|---------------|
| As at December 28, 2024 | | 313,829 | 10,376 | (228,315) | (141) | 95,749 |
| Net income and comprehensive income | | — | — | 97,800 | — | 97,800 |
| Exercise of share options | 15, 20 | 29,082 | (7,069) | — | — | 22,013 |
| Share-based compensation - option plans | 20 | — | 1,650 | — | — | 1,650 |
| Dividends on common shares | 15 | — | — | (33,162) | — | (33,162) |
| Shares repurchased for cancellation | 15 | (14,256) | — | (75,520) | — | (89,776) |
| Change in automatic share purchase plan commitment | 15 | 4,000 | — | — | — | 4,000 |
| As at January 3, 2026 | | 332,655 | 4,957 | (239,197) | (141) | 98,274 |

| | Note | Common shares \$ | Contributed surplus \$ | Deficit \$ | Currency translation reserve \$ | Total \$ |
|--|--------|------------------------|------------------------------|---------------|--|-------------|
| As at December 30, 2023 | | 321,752 | 6,877 | (258,768) | (141) | 69,720 |
| Net income and comprehensive income | | — | — | 87,420 | — | 87,420 |
| Exercise of share options | 15, 20 | 6,187 | (2,098) | — | — | 4,089 |
| Share-based compensation - option plans | 20 | — | 5,597 | — | — | 5,597 |
| Dividends on common shares | 15 | — | — | (31,470) | — | (31,470) |
| Shares repurchased for cancellation | 15 | (5,110) | — | (25,497) | — | (30,607) |
| Automatic share purchase plan commitment | 15 | (9,000) | — | — | — | (9,000) |
| As at December 28, 2024 | | 313,829 | 10,376 | (228,315) | (141) | 95,749 |

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

PET VALU HOLDINGS LTD.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

| | Note | Years ended | |
|--|---------|--------------------|----------------------|
| | | January 3, 2026 | December 28, 2024 |
| | | \$ | \$ |
| Cash provided by (used in) | | | |
| Operating activities | | | |
| Net income | | 97,800 | 87,420 |
| Adjustments for items not affecting cash: | | | |
| Depreciation and amortization | 7, 8, 9 | 73,687 | 65,913 |
| Impairment of property and equipment | 8 | 109 | 216 |
| Impairment of right-of-use assets | 7 | 163 | 528 |
| Deferred franchise fees | | 158 | 129 |
| Gain on disposal of property and equipment | | (4,848) | (3,565) |
| Gain on disposal of right-of-use assets | 7 | (106) | (49) |
| (Gain) loss on foreign exchange | | (78) | 1,836 |
| Share-based compensation expense | 20 | 6,015 | 7,203 |
| Interest expenses, net | 19 | 30,480 | 32,103 |
| Income tax expense | 13 | 35,954 | 33,964 |
| Income taxes paid | | (39,293) | (31,213) |
| Changes in operating working capital: | | | |
| Trade and other receivables | | (235) | (7,351) |
| Inventories | | (5,166) | (2,259) |
| Prepaid expenses | | (4,365) | 8,818 |
| Trade and other payables | | 11,891 | 6,383 |
| Net cash provided by operating activities | | 202,166 | 200,076 |
| Financing activities | | | |
| Proceeds from exercise of share options | 15 | 22,013 | 4,089 |
| Shares repurchased for cancellation | 15 | (88,015) | (30,007) |
| Dividends paid on common shares | 15 | (33,162) | (31,470) |
| Repayment of Term Facility | 11 | — | (13,312) |
| Net drawings on Revolving Facility | 11 | 10,000 | — |
| Interest paid on long-term debt | | (14,518) | (22,847) |
| Repayment of principal on lease liabilities | 7 | (79,488) | (64,898) |
| Interest paid on lease liabilities | 7 | (24,519) | (23,409) |
| Tenant allowances received | 7 | 9,640 | 2,272 |
| Financing costs | 11 | — | (1,971) |
| Standby letter of credit fees | 11 | (171) | — |
| Net cash used in financing activities | | (198,220) | (181,553) |
| Investing activities | | | |
| Purchases of property and equipment | 8 | (54,530) | (60,612) |
| Purchases of intangible assets | 9 | (2,188) | (2,121) |
| Proceeds on disposal of property and equipment | | 8,480 | 8,178 |
| Right-of-use asset initial direct costs | | (2,469) | (2,549) |
| Notes receivable | | 462 | 598 |
| Receipt of principal on lease receivables | 7 | 40,531 | 35,176 |
| Interest received on lease receivables and other | | 11,283 | 11,914 |
| Repurchase of franchises | 6 | (4,797) | (1,378) |
| Net cash used in investing activities | | (3,228) | (10,794) |
| Effect of exchange rate on cash | | (138) | (1,032) |
| Net increase in cash | | 580 | 6,697 |
| Cash, beginning of year | | 35,141 | 28,444 |
| Cash, end of year | | 35,721 | 35,141 |

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

PET VALU HOLDINGS LTD.

Notes to the Consolidated Financial Statements For the years ended January 3, 2026 and December 28, 2024

(In thousands of Canadian dollars, unless otherwise stated)

1. Description of business

Pet Valu Holdings Ltd. and its subsidiaries (collectively referred to as the “Company”) is a specialty retailer and wholesaler of pet food and pet-related supplies. As at January 3, 2026, the Company operates 250 corporate-owned stores (December 28, 2024 — 220) and has 613 franchise stores (December 28, 2024 — 604) in 10 provinces in Canada.

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

The Company’s common shares are listed on the Toronto Stock Exchange (“TSX”) under the symbol “PET”.

2. Basis of presentation

(a) Basis of presentation

The consolidated financial statements (the “financial statements”) have been prepared in accordance with IFRS[®] Accounting Standards and were approved and authorized for issuance by the Board of Directors of the Company on March 2, 2026.

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

The financial statements are presented in Canadian dollars, which is the Company’s functional currency. All values are rounded to the nearest thousand, except where otherwise indicated.

The financial statements include comparative information in respect of the previous year. Certain comparative amounts have been reclassified to conform to the financial presentation adopted in the current year.

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

(b) Fiscal year

The Company operates under a 52- or 53-week fiscal year ending on the Saturday nearest to December 31. The 2025 and 2024 fiscal years are for the 53-week period from December 29, 2024 to January 3, 2026 and 52-week period from December 31, 2023 to December 28, 2024, respectively.

(c) Basis of consolidation

The financial statements include the accounts of the Company and the following wholly owned subsidiaries: Pet Valu Canada Holding Corporation, Pet Holdings ULC, Pet Valu Canada Inc., Les Franchises Chico Inc., Pet Retail Brands North America Holdings ULC, Pet Valu Management Services Inc., and Pet Retail Brands US Holdings LLC. Subsidiaries are consolidated from the date on which control is determined, which is when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

All intercompany balances, transactions, unrealized gains and losses resulting from intercompany transactions, and dividends are eliminated in full.

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments and estimates in applying the Company’s accounting policies. These judgments and estimates affect the reported amounts and the disclosures presented in the financial statements.

PET VALU HOLDINGS LTD.

Notes to the Consolidated Financial Statements For the years ended January 3, 2026 and December 28, 2024

(In thousands of Canadian dollars, unless otherwise stated)

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

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

Significant judgments and estimates made by management in applying the Company's accounting policies, which have the most significant effect on the amounts recognized in the financial statements, include the following:

(i) Inventory valuation

The carrying value of merchandise inventories is assessed at the lower of cost and net realizable value. In determining net realizable value, judgment is exercised in estimating the expected selling prices of inventories in the ordinary course of business. These estimates take into account factors such as anticipated customer demand, expected selling prices, inventory aging, seasonal trends, product expiration, and historical sales patterns. Judgment is also applied in establishing provisions for inventory shrinkage and obsolescence. These provisions are based on historical loss experience, current trends, and expected future sales and are reviewed at each reporting period.

(ii) Impairment of non-financial assets

The Company applies judgment in determining the appropriate grouping of assets into cash-generating units ("CGUs") for the purpose of testing non-financial assets for impairment. For store-related property and equipment, right-of-use ("ROU") assets, CGUs have been identified as individual stores or groups of stores, reflecting how these assets are managed and utilized to generate cash inflows. For non-store-related assets, including goodwill and indefinite-life intangible assets other than the Chico trade name, impairment testing is performed at the operating segment level, which represents the lowest level at which these assets are monitored for internal management purposes. The Chico trade name is tested for impairment at the consolidated Chico CGU. In addition, on a quarterly basis, management applies judgment to assess whether indicators of impairment exist, which would trigger a quarterly impairment test outside the annual testing cycle for goodwill and indefinite-life intangible assets.

For all impairment tests, the Company compares the carrying amount of the CGU or group of CGUs with its recoverable amount, which is the higher of value in use ("VIU") or fair value less costs of disposal ("FVLCD"). Recoverable amount is first determined using a VIU approach, which represents the present value of the future cash flows that the CGU or group of CGUs is expected to generate, discounted using an appropriate pre-tax discount rate. Future cash flows are projected over a multi-year period using recent historical results and management forecasts, with a terminal value calculated by applying a perpetual growth rate to the final year's cash flows. The growth rate applied in determining the terminal value reflects the Company's estimate of the long-term growth rate applicable to the relevant CGU or group of CGUs.

Where VIU indicates a potential impairment, the Company also estimates FVLCD. FVLCD is determined using valuation techniques appropriate in the circumstances, incorporating observable market data where available and reflecting assumptions that market participants would use in pricing the CGU or group of CGUs.

PET VALU HOLDINGS LTD.

Notes to the Consolidated Financial Statements For the years ended January 3, 2026 and December 28, 2024

(In thousands of Canadian dollars, unless otherwise stated)

(iii) Share-based compensation

The Company measures the value of equity-settled transactions with employees by reference to the fair value of the equity instruments at the grant date. Estimating the fair value requires management to select the most appropriate valuation model for each grant, which depends on the specific terms and conditions of the equity instruments.

Judgment is also required in determining the key inputs to the valuation model, including the expected life of the equity instrument, expected volatility of the Company's share price, and dividend yield. Management also estimates expected forfeitures, reflecting the likelihood that employees may leave the Company or otherwise forfeit their awards prior to vesting. The forfeiture estimates are based on historical experience and adjusted for known or anticipated changes in employee turnover.

The Company also makes significant estimates when determining the fair value of performance-based cash-settled awards. These estimates include assumptions about the Company's future share price, expected volatility, anticipated market conditions, and projected financial performance.

(iv) Leases

The Company determines the lease term as the non-cancellable period of the lease together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Judgment is applied in evaluating whether it is reasonably certain that the Company will exercise the option to renew or terminate the lease. In making this determination, the Company considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option.

The Company is required to estimate the incremental borrowing rate ("IBR") used to discount lease liabilities if the interest rate implicit in the lease is not readily determined. In determining the IBRs, management considers the Company's creditworthiness, the term of the leased asset, and Canadian corporate bond yields for companies of a similar credit rating as the Company. The IBRs are subject to change due to changes in the business and macroeconomic environment.

(v) Provisions

Judgment is applied in determining whether the Company has a present obligation to restore leased premises at the end of the lease term, based on the terms of lease agreements and past practice. The measurement of restoration provisions requires estimates of the expected future costs and timing of restoration activities, which are discounted to present value using an appropriate discount rate. Changes in these assumptions may result in adjustments to the provision and the related ROU asset.

(vi) Income taxes

In calculating current and deferred income and other taxes, the Company applies judgment in interpreting the tax legislation in the jurisdictions in which it operates. Judgment is also required in classifying transactions and in assessing the probable outcomes of tax positions and claimed deductions, including assumptions related to future taxable income, the timing and reversal of temporary differences, and the likelihood and outcome of audits or reviews by tax authorities.

PET VALU HOLDINGS LTD.

Notes to the Consolidated Financial Statements For the years ended January 3, 2026 and December 28, 2024

(In thousands of Canadian dollars, unless otherwise stated)

(vii) Business combinations

Franchise repurchases are accounted for using the acquisition method, which requires the allocation of purchase consideration to the identifiable assets acquired and liabilities assumed based on their fair values at the acquisition date. As the Company's acquisitions typically comprise inventories and property and equipment, fair value measurements primarily involve estimates of the net realizable value of inventories and the depreciated replacement cost of property and equipment.

The determination of these fair values requires judgment, including the assessment of appropriate valuation methodologies and assumptions. The Company may engage independent valuation specialists to assist in determining fair values where appropriate. Any excess of the purchase consideration over the fair value of the net identifiable assets acquired is recognized as goodwill.

(viii) Depreciation and amortization

The Company employs significant estimates to determine the estimated useful lives of property and equipment, intangible assets, and ROU assets, considering the nature of the asset, contractual rights, and expected use. The Company reviews depreciation and amortization methods and useful lives annually or whenever circumstances change and adjusts its methods and assumptions on a prospective basis.

3. Material accounting policies

(a) Revenue

(i) Retail sales

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

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

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

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

The Company evaluates arrangements with third-party marketplace facilitators to determine whether revenue should be presented on a gross or net basis by assessing whether it acts as a principal or agent under each arrangement. This assessment is based on whether the Company controls the specified goods before they are transferred to the customer. For marketplace transactions conducted through third-party platforms and fulfilled at corporate-owned stores, the Company acts as the principal and records retail sales on a gross basis, as it controls the goods prior to transfer to the customer.

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

PET VALU HOLDINGS LTD.

Notes to the Consolidated Financial Statements For the years ended January 3, 2026 and December 28, 2024

(In thousands of Canadian dollars, unless otherwise stated)

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

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

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

(ii) Franchise revenues

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

Franchise agreements grant individual franchisees the exclusive right to operate a franchise store within a designated territory. The franchise agreements typically provide for a 10-year initial term, with an opportunity to enter into two 5-year renewal franchise agreements subject to certain conditions. The franchise agreement requires the Company to perform various activities to support the brand and/or franchisees, and these activities represent a single performance obligation.

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

Franchise royalties are variable consideration based on a percentage of the franchisees' retail sales, which are recognized in the period the franchisees' underlying sales occur.

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

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

Promotion fees represent charges to franchisees to fund system-wide or regional advertising campaigns under the terms of the franchise agreements. These fees are variable consideration based on a percentage of the franchisees' retail sales, and are recognized in the period the franchisees' underlying sales occur.

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

For marketplace transactions fulfilled at franchise stores, the Company acts as an agent, as it does not control the goods before they are transferred to the customer. In these cases, revenue is recognized on a net basis, representing the commission or fee earned for facilitating the transaction.

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

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

(b) Advertising and promotion fund contributions

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

(c) Inventories and cost of sales

Merchandise inventories are measured at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis and includes costs of purchases, net of vendor allowances, transportation costs and other directly attributable costs incurred in bringing inventories to their present location and condition.

Net realizable value represents the estimated selling price in the ordinary course of business, less estimated costs to complete the sale. Inventories are written down when cost is not recoverable due to obsolescence, damage or declines in selling prices. Provisions for inventory shrinkage related to lost or stolen items are recognized based on historical experience.

Cost of sales includes the direct cost of merchandise, purchasing, warehousing and distribution costs, depreciation of store ROU assets and distribution centre assets, and store-related occupancy costs including variable lease payments and general store maintenance.

(d) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses, with the exception of land, which is measured at cost less impairment losses.

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During construction, items of property and equipment are classified as construction-in-progress. When the asset is available for its intended use, the related costs are transferred from construction-in-progress to the appropriate category of property and equipment and depreciation commences at that time.

Depreciation is recognized so as to depreciate the cost of the assets less their residual values over their useful lives using the straight-line method. The Company reviews the depreciation methods, useful lives and residual values at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives are as follows:

| | |
|-----------------------------------|---|
| Buildings | Up to 25 years |
| Leasehold improvements | Shorter of remaining lease term and useful life |
| Furniture, fixtures and equipment | 3 – 15 years |

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment and are recognized in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

(e) Leases

(i) The Company as lessee

At contract inception, the Company assesses whether a contract is, or contains, a lease by evaluating whether it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes an ROU asset and a lease liability at the commencement date, being the date the leased asset is available for use. ROU assets primarily consist of leased premises for corporate-owned stores, office space, and distribution centres, as well as leased vehicles and material handling equipment.

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

Lease liabilities are measured at the present value of the lease payments over the lease term, discounted using the interest rate implicit in the lease or, if not readily determinable, the Company's IBR. Lease payments include fixed payments and variable payments linked to an index or rate, less any lease incentives receivable.

ROU assets are depreciated on a straight-line basis from the commencement date to the earlier of the asset's useful life or the end of the lease term, unless the Company is reasonably certain to exercise a purchase option, in which case depreciation is over the useful life of the underlying asset. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option, or periods covered by a termination option if the Company is reasonably certain not to exercise that option. ROU assets are also reduced by impairment losses, if any, and adjusted for certain remeasurements of the related lease liability.

The lease liability is initially recognized at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments due to changes in an index or rate, a change in the Company's estimate of the amounts payable under a residual value guarantee, or a change in the assessment of whether a purchase, renewal or termination option will be exercised. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset unless the carrying amount has been reduced to zero, in which case any further reduction is recognized in profit or loss.

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(ii) The Company as intermediate lessor

The Company enters into sublease arrangements for certain franchise store locations while maintaining the head lease under the original lease agreement. As an intermediate lessor, the Company classifies each sublease by reference to the ROU asset arising from the head lease, rather than the underlying asset.

The Company has determined that its subleases to franchisees qualify as finance leases, and the net investment in these subleases is recognized as lease receivables in the consolidated statements of financial position.

When the Company enters into a sublease, it:

- (i) derecognizes the portion of the ROU asset transferred to the sublessee and recognizes a lease receivable;
- (ii) recognizes any difference between the carrying amount of the ROU asset and the lease receivable in profit or loss; and
- (iii) retains the lease liability relating to the head lease in the consolidated statements of financial position, representing lease payments owed to the head lessor.

The Company recognizes finance income on lease receivables using the effective interest method. Lease receivables are measured at the present value of the lease payments from the franchisee, discounted using the IBR on the head lease.

(f) Business combinations

Business combinations are accounted for using the acquisition method, whereby the fair value of consideration transferred is allocated to the fair value of assets acquired and liabilities assumed at the acquisition date. Transaction costs directly attributable to an acquisition are expensed as incurred and included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

Goodwill arising on a business combination represents the excess of consideration transferred over the fair value of net assets acquired and liabilities assumed. The results of operations of an acquired business are included in the Company's financial statements from the acquisition date.

Purchase price allocations may be provisional during a measurement period of up to one year to provide reasonable time to obtain the information necessary to identify and measure the assets acquired and liabilities assumed. Measurement period adjustments are recognized in the period in which the adjustment is determined, with fair value adjustments applied retrospectively.

(g) Goodwill and intangible assets

Goodwill is initially recognized at cost, representing the excess of consideration transferred in a business combination over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets are measured at cost less accumulated amortization and impairment losses.

Intangible assets with indefinite useful lives comprise trade names, which are not amortized but are tested for impairment annually at the CGU level. The assessment of whether an intangible asset has an indefinite useful life is reviewed each year to determine if the classification remains appropriate. The Company currently intends to continue operating under the Pet Valu and Chico trade names; accordingly, these assets are considered to have indefinite useful lives. If this assessment changes and an asset is determined to have a finite useful life, the change is applied prospectively.

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Intangible assets with finite useful lives include franchise agreements, software, and other intellectual property, including trade names and non-compete agreements. These assets are amortized on a straight-line basis over their estimated useful lives and are tested for impairment whenever there is an indication of impairment. The Company reviews the amortization method and useful lives at each reporting date, with any changes in estimate applied prospectively. Amortization expense is recognized in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

The estimated useful lives are as follows:

| | |
|--|--------------|
| Franchise agreements | 9 – 10 years |
| Software | 3 – 10 years |
| Other (trade names and non-compete agreements) | 3 – 10 years |

An intangible asset is derecognized upon disposal, i.e., when control of the asset is transferred or when no future economic benefits are expected. Any gain or loss, calculated as the difference between net disposal proceeds and the asset's carrying amount, is included in the consolidated statements of income and comprehensive income.

(h) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that an asset or CGU may be impaired. If such an indication exists, or when annual impairment testing is required, the Company estimates the recoverable amount of the asset or CGU. An asset's or CGU's recoverable amount is the higher of its VIU and FVLCD.

Indicators of impairment include, but are not limited to, sustained operating losses, adverse changes in expected future cash flows, significant negative industry or economic trends, observable market transactions for similar assets below carrying value, and plans to dispose of assets before the end of their estimated useful lives.

The recoverable amount is determined for individual assets unless the asset does not generate cash inflows that are largely independent of other assets or groups of assets, in which case, the recoverable amount is determined for the relevant CGU. Refer to Note 2(d)(ii) for further information.

An impairment loss is recognized when the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

Goodwill and indefinite-life intangible assets are tested for impairment at least annually in the fourth quarter, and more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For assets other than goodwill, the Company assesses at each reporting date whether there is an indication that a previously recognized impairment loss no longer exists or has decreased. If such an indication exists, the recoverable amount of the asset or CGU is re-estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment was recognized. Any reversal is limited to the extent that the carrying amount does not exceed the recoverable amount or the carrying amount that would have been determined, net of depreciation, had no prior impairment loss been recognized. Reversals of impairment losses are recognized in the consolidated statements of income and comprehensive income.

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(i) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value. Transaction costs that are directly attributable to the acquisition, issuance or modification of financial assets and financial liabilities, except for those classified at fair value through profit or loss ("FVTPL"), are added to or deducted from the fair value of the financial assets or financial liabilities, as applicable. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in the consolidated statements of income and comprehensive income.

(i) Financial assets

Financial assets are classified at initial recognition based on the business model in which they are held and the characteristics of their contractual cash flows. At initial recognition, financial assets are classified as subsequently measured at amortized cost, at fair value through other comprehensive income ("FVOCI") or at FVTPL.

Financial assets not designated as FVTPL upon initial recognition are classified and measured at amortized cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and the contractual terms give rise, on specified dates, to cash flows that correspond only to payments of principal and interest. Otherwise, they are classified and measured at FVOCI, as long as the asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and the sale of financial assets, and the contractual terms, on specified dates, give rise to cash flows that correspond only to payments of principal and interest.

The Company's financial assets consist of the following:

| | Classification |
|-----------------------------|----------------|
| Cash | Amortized cost |
| Trade and other receivables | Amortized cost |
| Notes receivable | Amortized cost |
| Lease receivables | Amortized cost |

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statements of income and comprehensive income when the asset is derecognized, modified or impaired.

(ii) Financial liabilities

Financial liabilities are classified at initial recognition as financial liabilities at FVTPL or amortized cost. The Company's financial liabilities consist of the following:

| | Classification |
|--------------------------|----------------|
| Trade and other payables | Amortized cost |
| Lease liabilities | Amortized cost |
| Long-term debt | Amortized cost |

Financial liabilities at amortized cost are subsequently measured using the effective interest method.

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For modified financial liabilities, a gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. The gain or loss on modification is accreted using the effective interest method.

(iii) Impairment of financial assets

At the end of each reporting period, the Company applies the expected credit loss (“ECL”) model to assess for impairment of financial assets measured at amortized cost. Financial assets measured at amortized cost and subject to the ECL model consist primarily of trade and other receivables, including franchise receivables, lease receivables, and notes receivable.

The Company applies the simplified approach to ECLs for trade, franchise and lease receivables, by recognizing lifetime ECLs. Lifetime ECLs represent the ECLs arising from all probable default events over the expected life of the financial asset. The allowance for ECLs is recognized against the related financial assets, and changes in the allowance are recorded in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

For notes receivable, the Company applies the general ECL model. Under this model, if credit risk is assessed as low or has not significantly increased since initial recognition, the ECL is measured based on 12-month ECL, representing the portion of lifetime ECLs that result from default events that are possible within 12 months after the reporting date. If a significant increase in credit risk occurs since initial recognition, the ECL is measured based on lifetime ECLs.

For trade, franchise, lease and notes receivables, the Company uses a provision matrix to estimate ECLs. The provision matrix reflects the probability of default based on historical credit loss experience, adjusted for forward-looking factors specific to vendors, franchisees, landlords, and macroeconomic conditions.

The probability of default for franchise receivables, notes receivable, and lease receivables is assessed through regular monitoring of store performance and review of franchisee payment history. In determining ECLs, the Company also considers the expected loss given default, taking into account available collateral including leasehold improvements, ROU assets, store inventory and personal guarantees, where applicable, pledged under franchise and sub-lease agreements.

Trade and other receivables are considered in default when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a vendor, franchisee or landlord to engage in a repayment plan with the Company, payments overdue by more than 90 days, and no remaining vendor or head lease payments to offset the receivable balance.

(iv) Derecognition

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

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

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

(j) Share capital

Common shares issued by the Company are recorded in shareholders' equity at the proceeds received, net of directly attributable issuance costs and any related tax effects.

When the Company repurchases common shares for cancellation, the consideration paid, including directly attributable costs, net of tax, is deducted from shareholders' equity. Any excess of the repurchase price over the carrying amount of shares is charged to deficit or retained earnings.

(k) Dividends

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

(l) Share-based compensation

(i) Amended and Restated Share Option Plan and long-term incentive plan

The Company has an Amended and Restated Share Option Plan (formerly the Legacy Option Plan or the Legacy Plan) ("Share Option Plan") under which share options were granted to current and former directors and employees. The plan was amended and restated so that no additional awards can be granted; however, previously granted share options remain outstanding in accordance with their terms and continue to be governed by the provisions of the Share Option Plan.

Following the amendment of the Share Option Plan, the Company adopted a long-term incentive plan (the "LTIP") under which it may grant share options, restricted share units ("RSUs"), and performance share units ("PSUs") to eligible participants. Share options granted under the Share Option Plan and LTIP are accounted for as equity-settled share-based awards at the option of the Company, while RSUs and PSUs are accounted for as cash-settled awards.

Equity-settled awards

The fair value of equity-settled share options is estimated at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions on which the awards are granted. Service and non-market performance conditions are not included in the grant date fair value; however, the likelihood of satisfying these conditions is considered in estimating the number of awards expected to vest. Market performance conditions are incorporated into the grant date fair value.

Share-based compensation expense is recognized over the employee's requisite service period on a graded vesting basis. No expense is recognized for awards that do not ultimately vest if the service or non-market performance conditions are not satisfied. For awards with market performance conditions, vesting occurs when the service and any non-market performance conditions are satisfied. Market conditions are reflected in the grant-date fair value and do not affect the number of awards that vest, irrespective of whether the market condition is ultimately achieved.

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Share-based compensation expense is recognized in selling, general and administrative expenses with a corresponding increase in contributed surplus. Upon exercise of share options, any consideration received from plan participants is credited to common share capital and amounts previously recognized in contributed surplus are transferred to share capital.

The dilutive effect of outstanding share options is reflected in the computation of diluted net income per share.

Cash-settled awards

RSUs and PSUs are grants of notional common shares redeemable for cash based on the market value of the Company's common shares and are non-dilutive to common shareholders. RSUs and PSUs are initially measured at the market value of the Company's common shares at the grant date, taking into account expected achievement of applicable performance conditions for PSUs. The grant-date fair value is recognized as share-based compensation expense over the requisite service period, with a corresponding increase in other liabilities for the proportion of services rendered to date. RSUs and PSUs are subsequently remeasured at each reporting date based on the market value of the Company's common shares and, if applicable, the expected achievement of performance conditions, with changes in fair value recognized as share-based compensation expense for the proportion of the services rendered to date.

(ii) Deferred share unit plan

The Company has a deferred share unit plan (the "DSU Plan") for non-employee directors. Under the plan, each eligible director receives a portion of their annual retainer in deferred share units ("DSUs") with the cash portion of the retainer paid quarterly. DSUs are granted annually based on the market price of the Company's common shares on the grant date and vest in four equal quarterly installments. DSUs may only be redeemed when a director ceases to be a member of the Board. DSUs are settled in cash and are accounted for as cash-settled awards. The cost of the service received is initially measured based on the market price of the Company's common shares on the grant date. DSUs are subsequently remeasured at each reporting date based on the market price of the Company's common shares, with changes in fair value recognized as share-based compensation expense for the proportion of the services rendered to date.

(m) Income taxes

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

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date, in the jurisdictions wherein the Company operates and generates taxable income. The Company periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

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

(n) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date. At each reporting date, monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate at that date. Foreign currency denominated non-monetary assets and liabilities are measured at the historical exchange rate prevailing at the transaction date. Realized and unrealized foreign currency gains or losses are recognized as (gain) loss on foreign exchange in the consolidated statements of income and comprehensive income.

(o) Provisions

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

A restoration provision arises from a legal obligation to restore a leased premise when the Company is contractually required to return the premise to its original condition at the end of the lease. The provision is initially recognized at the best estimate of the expenditure required to settle the liability and, if material, is discounted to present value, with a corresponding increase in the carrying amount of the related ROU asset. The restoration liability is classified in current and non-current provisions and is accreted to its projected future value over time. The ROU asset is depreciated over the remaining lease term. Any differences between the recorded provision and the actual restoration costs incurred are recognized as a gain or loss in the consolidated statements of income and comprehensive income.

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(p) New standards and interpretations

New standards and amendments not yet adopted

- IFRS 18, *Presentation and Disclosure of Financial Statements* (“IFRS 18”) — IFRS 18 replaces IAS 1, *Presentation of Financial Statements*. IFRS 18 introduces new categories and subtotals in the statement of income and comprehensive income, new requirements for the disclosure of management-defined performance measures, and new requirements for the location, aggregation and disaggregation of financial information. In addition, narrow-scope amendments have been made to IAS 7, *Statement of Cash Flows* (“IAS 7”), which include changing the starting point for determining cash flows from operations under the indirect method and the removal of the optionality around the classification of cash flows from dividends and interest. The amendments are effective for reporting periods beginning on or after January 1, 2027.
- Amendments to IFRS 9, *Financial Instruments* (“IFRS 9”), and IFRS 7, *Financial Instruments: Disclosures* (“IFRS 7”). The amendments clarify how to assess the contractual cash flow characteristics of financial assets with environmental, social and corporate governance linked features or other similar contingent features, and clarify the date on which a financial asset or financial liability is derecognized. Furthermore, for financial liabilities settled, in full or in part, in cash using an electronic payment system, an entity is permitted to make an accounting policy election to derecognize the liability before the settlement date if certain conditions are met. The amendments are effective for annual reporting periods beginning on or after January 1, 2026.
- In July 2024, the International Accounting Standards Board (“IASB”) issued nine narrow-scope amendments as part of its regular maintenance of the standards. These amendments include clarifications, simplifications, corrections, and changes aimed at improving the consistency of IFRS 1, *First-time Adoption of International Financial Reporting Standards*; IFRS 7; IFRS 9; IFRS 10, *Consolidated Financial Statements*; and IAS 7. The amendments are effective for annual reporting periods beginning on or after January 1, 2026.

The Company expects that the introduction of IFRS 18 will have a material impact on the Company’s financial statements given the new presentation requirements and the requirement to disclose management-defined performance measures. For all other amendments, the Company does not expect that the amendments will have a material impact. All new standards and amendments to existing standards will be adopted by the Company as of their effective date.

4. Operating segment and revenue

The Company defines an operating segment on the same basis that it uses to evaluate performance internally and to allocate resources by the Chief Operating Decision Maker (the “CODM”). The Company has determined that the Chief Executive Officer is its CODM and there is one operating segment.

All of the Company’s revenue and non-current assets are derived from and located within Canada. The Company does not derive revenue from any single customer that exceeds 10% of the Company’s revenue.

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The following table presents a disaggregation of retails sales and franchise and other revenues for the years ended January 3, 2026 and December 28, 2024:

| | January 3, 2026 \$ | December 28, 2024 \$ |
|-------------------------------------|--------------------------|----------------------------|
| <i>Retail sales</i> | | |
| Merchandise sales | 421,997 | 399,592 |
| In-store services | 5,347 | 5,765 |
| | 427,344 | 405,357 |
| <i>Franchise and other revenues</i> | | |
| Wholesale merchandise sales | 598,873 | 549,149 |
| Royalties and sub-lease revenues | 115,454 | 107,293 |
| Promotion and other service fees | 33,885 | 35,394 |
| | 748,212 | 691,836 |
| Total revenue | 1,175,556 | 1,097,193 |

As at January 3, 2026, the Company has recognized contract liabilities in the consolidated statements of financial position of \$17,468 (December 28, 2024 — \$16,311). The following table presents the changes in the Company's contract liabilities for the year ended January 3, 2026:

| | As at December 28, 2024 \$ | Recognition of revenue included in beginning balance ⁽¹⁾ \$ | Contract liability, net of revenue, recognized during the year ⁽²⁾ \$ | As at January 3, 2026 \$ |
|----------------------------|-------------------------------------|--|--|-----------------------------------|
| Franchise fees | 5,949 | (1,629) | 1,739 | 6,059 |
| Loyalty programs (Note 10) | 8,887 | (8,887) | 9,726 | 9,726 |
| Gift cards (Note 10) | 1,475 | (1,163) | 1,371 | 1,683 |

⁽¹⁾ Includes franchise fees recognized in revenue, redemptions of loyalty rewards and gift cards, and estimated gift card breakage.

⁽²⁾ Includes franchise fees on new or renewed franchise agreements, issuances of loyalty rewards, and activations of gift cards.

The balance of franchise fees as at January 3, 2026 is expected to be recognized in revenue in the following fiscal years:

| | \$ |
|------------|--------------|
| 2026 | 1,481 |
| 2027 | 806 |
| 2028 | 915 |
| 2029 | 820 |
| 2030 | 675 |
| Thereafter | 1,362 |
| Total | 6,059 |

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5. Trade and other receivables

Trade and other receivables include the following:

| | As at January 3, 2026 | As at December 28, 2024 |
|-----------------------------------|--------------------------|----------------------------|
| | \$ | \$ |
| Franchise receivables | 16,748 | 19,580 |
| Trade receivables | 14,885 | 10,621 |
| Other | 3,566 | 5,107 |
| | 35,199 | 35,308 |
| Allowance for ECL | (853) | (345) |
| Total trade and other receivables | 34,346 | 34,963 |

Trade and other receivables are generally aged no more than 120 days, with approximately 75% aged less than 30 days. Franchise receivables primarily relate to billings issued in the final days of the fiscal year and are typically collected within the first few days of the subsequent year. Trade receivables consist primarily of amounts due from vendors in respect of volume and co-operative advertising rebates, while other receivables relate largely to tenant allowances from landlords.

The Company evaluates the collectibility of trade and other receivables on an ongoing basis (refer to Note 3(i)(iii)). Historically, the Company has not experienced significant defaults on outstanding balances, and the maximum exposure to credit risk at the reporting date is the carrying amount of these receivables. For the year ended January 3, 2026, the Company recognized an ECL expense of \$508, which is included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income (December 28, 2024 — \$75).

6. Business acquisitions

Franchise repurchases

The following table summarizes the fair value of assets acquired through franchise repurchases for the years ended January 3, 2026 and December 28, 2024:

| | January 3, 2026 | December 28, 2024 |
|------------------------------|--------------------|----------------------|
| | \$ | \$ |
| Number of stores repurchased | 12 | 2 |
| Inventories | 1,307 | 249 |
| Property and equipment | 1,185 | 112 |
| Goodwill | 2,305 | 1,017 |
| Total cash consideration | 4,797 | 1,378 |

The fair values of inventories were measured based on estimated selling prices less costs to sell. The fair values of property and equipment were determined using a replacement cost approach, reflecting the current cost of comparable assets, adjusted for physical deterioration and obsolescence.

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Goodwill reflects the value of the acquired store's established market presence and location characteristics, together with expected synergies from integration into the Company's corporate retail network, including merchandising alignment, purchasing leverage and brand-related benefits. The goodwill recognized is not deductible for tax purposes.

For all store repurchases completed during the year ended January 3, 2026, the purchase price allocations are considered provisional. Adjustments may be recognized during the measurement period as the Company finalizes its estimates of the fair values of the assets acquired, including inventories and property and equipment. All store repurchases that were completed on or prior to December 28, 2024 and accounted for on a provisional basis have since been finalized.

From their respective acquisition dates, the repurchased franchise stores contributed revenue and net income of \$6,163 and \$725, respectively, for the year ended January 3, 2026 (December 28, 2024 — \$2,224 and \$497, respectively).

7. Leases

(a) ROU assets

The following tables present the changes in ROU assets for the years ended January 3, 2026 and December 28, 2024:

| | Leased premises \$ | Other \$ | Total \$ |
|------------------------------|-----------------------|--------------|----------------|
| As at December 28, 2024 | 237,551 | 5,245 | 242,796 |
| Net additions ⁽¹⁾ | 67,876 | 2,348 | 70,224 |
| Depreciation | (38,356) | (1,557) | (39,913) |
| Impairment | (163) | — | (163) |
| As at January 3, 2026 | 266,908 | 6,036 | 272,944 |

⁽¹⁾ Includes net additions to leased premises of \$18,693 related to the new Calgary distribution centre.

| | Leased premises \$ | Other \$ | Total \$ |
|--------------------------------|-----------------------|--------------|----------------|
| As at December 30, 2023 | 233,848 | 4,093 | 237,941 |
| Net additions | 39,242 | 2,513 | 41,755 |
| Depreciation | (35,011) | (1,361) | (36,372) |
| Impairment | (528) | — | (528) |
| As at December 28, 2024 | 237,551 | 5,245 | 242,796 |

During the year ended January 3, 2026, depreciation on ROU assets of \$39,369 and \$544 was recognized within cost of sales and selling, general and administrative expenses, respectively, in the consolidated statements of income and comprehensive income (December 28, 2024 — \$35,838 and \$534, respectively).

During the year ended January 3, 2026, the Company recognized a gain of \$106 on the disposal of ROU assets in connection with the sale of corporate-owned stores to franchisees, which is included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income (December 28, 2024 — \$49).

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During the year ended January 3, 2026, the Company recognized an impairment charge of \$163 against the carrying value of the ROU assets for certain corporate-owned store locations (December 28, 2024 — \$528). The recoverable amount for each affected location was determined using the VIU of the related CGU. Refer to Note 2 for a discussion of the key judgments and estimates applied in determining VIU. For the year ended January 3, 2026, the VIU calculations incorporated a pre-tax discount rate of 11.7% (December 28, 2024 — 8.6%).

During the year ended January 3, 2026, the Company received cash tenant allowances of \$9,640, including \$6,508 related to the completion of leasehold improvements at the new Calgary distribution centre (December 28, 2024 — \$2,272).

(b) Lease liabilities

The following tables present the changes in lease liabilities for the years ended January 3, 2026 and December 28, 2024:

| | Leased premises \$ | Other \$ | Total \$ |
|---------------------------------------|-----------------------|--------------|----------------|
| As at December 28, 2024 | 466,028 | 5,246 | 471,274 |
| Additions ⁽¹⁾ | 118,637 | 2,679 | 121,316 |
| Interest expense on lease liabilities | 25,304 | 268 | 25,572 |
| Repayment of interest and principal | (102,001) | (2,006) | (104,007) |
| As at January 3, 2026 | 507,968 | 6,187 | 514,155 |
| Current portion of lease liabilities | 75,655 | 1,471 | 77,126 |
| Long-term lease liabilities | 432,313 | 4,716 | 437,029 |
| Total lease liabilities | 507,968 | 6,187 | 514,155 |

⁽¹⁾ Includes additions to leased premises of \$18,693 related to the new Calgary distribution centre.

| | Leased premises \$ | Other \$ | Total \$ |
|---------------------------------------|-----------------------|-------------|-------------|
| As at December 30, 2023 | 439,593 | 4,308 | 443,901 |
| Additions | 89,763 | 2,508 | 92,271 |
| Interest expense on lease liabilities | 23,163 | 246 | 23,409 |
| Repayment of interest and principal | (86,491) | (1,816) | (88,307) |
| As at December 28, 2024 | 466,028 | 5,246 | 471,274 |
| Current portion of lease liabilities | 75,368 | 1,513 | 76,881 |
| Lease liabilities | 390,660 | 3,733 | 394,393 |
| Total lease liabilities | 466,028 | 5,246 | 471,274 |

The Company incurs variable lease payments for common area maintenance, property taxes, security and utilities related to its leased premises. In addition, certain retail store leases include payments that are contingent on a percentage of the store's sales. For the year ended January 3, 2026, variable lease expenses of \$41,372 and \$95 were included in cost of sales and selling, general and administrative expenses, respectively, in the consolidated statements of income and comprehensive income (December 28, 2024 — \$36,792 and \$109, respectively).

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

| | \$ |
|--|----------------|
| 2026 | 100,958 |
| 2027 | 93,626 |
| 2028 | 78,486 |
| 2029 | 79,576 |
| 2030 | 72,609 |
| Thereafter | 189,120 |
| Total undiscounted lease payments | 614,375 |

(c) Lease receivables

The Company is considered an intermediate lessor for certain head leases associated with franchise store locations. Details of the Company's lease receivables include the following:

| | As at January 3, 2026 \$ | As at December 28, 2024 \$ |
|--------------------------------------|--------------------------------|----------------------------------|
| Current portion of lease receivables | 41,508 | 40,339 |
| Long-term lease receivables | 172,171 | 170,052 |
| Total lease receivables | 213,679 | 210,391 |

For the year ended January 3, 2026, the Company recognized finance income on lease receivables of \$10,394 in interest, net in the consolidated statements of income and comprehensive income (December 28, 2024 — \$9,969).

Franchisees also make variable lease payments primarily for common area maintenance, property taxes and a percentage of sales earned in their retail store. For the year ended January 3, 2026, revenue from these variable lease payments was \$55,038 and has been included in franchise and other revenues in the consolidated statements of income and comprehensive income (December 28, 2024 — \$50,875).

The Company evaluates the collectability of all lease receivables on an ongoing basis (refer to Note 3(i)(iii)). Based on this assessment, the ECL was determined to be less than 1.0% of the lease receivables as at January 3, 2026 and December 28, 2024, respectively.

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The following is a summary of the contractual undiscounted cash inflows for lease receivables:

| | \$ |
|--------------------------------------|----------------|
| 2026 | 50,697 |
| 2027 | 45,094 |
| 2028 | 37,387 |
| 2029 | 32,561 |
| 2030 | 27,994 |
| Thereafter | 53,292 |
| Total undiscounted lease receivables | 247,025 |
| Unearned interest income | (33,346) |
| Total lease receivables | 213,679 |

8. Property and equipment

The following tables present the changes in property and equipment for the years ended January 3, 2026 and December 28, 2024:

| | Land and buildings \$ | Furniture, fixtures, and equipment \$ | Leasehold improvements \$ | Construction- in-progress ⁽¹⁾ \$ | Total \$ |
|---------------------------------|-----------------------------|--|---------------------------------|---|------------------|
| <i>Cost</i> | | | | | |
| As at December 28, 2024 | 617 | 112,040 | 139,922 | 2,013 | 254,592 |
| Additions | — | 15,976 | 28,459 | 11,578 | 56,013 |
| Transfers | — | 7,119 | 6,472 | (13,591) | — |
| Disposals | — | (5,013) | (6,918) | — | (11,931) |
| As at January 3, 2026 | 617 | 130,122 | 167,935 | — | 298,674 |
| <i>Accumulated depreciation</i> | | | | | |
| As at December 28, 2024 | (321) | (40,323) | (62,486) | — | (103,130) |
| Depreciation | (20) | (14,288) | (15,474) | — | (29,782) |
| Disposals | — | 3,801 | 4,771 | — | 8,572 |
| Impairment | — | (41) | (68) | — | (109) |
| As at January 3, 2026 | (341) | (50,851) | (73,257) | — | (124,449) |
| <i>Net book value</i> | | | | | |
| As at January 3, 2026 | 276 | 79,271 | 94,678 | — | 174,225 |

PET VALU HOLDINGS LTD.

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(In thousands of Canadian dollars, unless otherwise stated)

| | Land and buildings \$ | Furniture, fixtures, and equipment \$ | Leasehold improvements \$ | Construction- in-progress ⁽¹⁾ \$ | Total \$ |
|---------------------------------|-----------------------------|--|---------------------------------|---|-------------|
| <i>Cost</i> | | | | | |
| As at December 30, 2023 | 617 | 80,832 | 121,065 | 14,414 | 216,928 |
| Additions | — | 18,146 | 24,099 | 18,661 | 60,906 |
| Transfers | — | 24,076 | 6,986 | (31,062) | — |
| Disposals | — | (11,014) | (12,228) | — | (23,242) |
| As at December 28, 2024 | 617 | 112,040 | 139,922 | 2,013 | 254,592 |
| <i>Accumulated depreciation</i> | | | | | |
| As at December 30, 2023 | (301) | (37,592) | (58,542) | — | (96,435) |
| Depreciation | (20) | (12,241) | (13,202) | — | (25,463) |
| Disposals | — | 9,510 | 9,474 | — | 18,984 |
| Impairment | — | — | (216) | — | (216) |
| As at December 28, 2024 | (321) | (40,323) | (62,486) | — | (103,130) |
| <i>Net book value</i> | | | | | |
| As at December 28, 2024 | 296 | 71,717 | 77,436 | 2,013 | 151,462 |

⁽¹⁾ During the years ended January 3, 2026 and December 28, 2024, construction-in-progress includes costs associated with new distribution centres.

During the year ended January 3, 2026, the Company recognized an impairment charge of \$109 against the carrying value of the property and equipment for certain corporate-owned store locations (December 28, 2024 — \$216). The recoverable amount for each affected location was determined using the VIU of the related CGU. Refer to Note 2 for a discussion of the key judgments and estimates applied in determining VIU. For the year ended January 3, 2026, the VIU calculations incorporated a pre-tax discount rate of 11.7% (December 28, 2024 — 8.6%).

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Notes to the Consolidated Financial Statements For the years ended January 3, 2026 and December 28, 2024

(In thousands of Canadian dollars, unless otherwise stated)

9. Intangible assets and goodwill

The following tables present the changes in intangible assets for the years ended January 3, 2026 and December 28, 2024:

| | Franchise agreements | Software | Definite-life trade names | Non- compete agreements | Indefinite- life trade names | Total |
|---------------------------------|-------------------------|-----------------|---------------------------------|-------------------------------|------------------------------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Cost</i> | | | | | | |
| As at December 28, 2024 | 33,901 | 26,179 | 2,815 | 853 | 42,469 | 106,217 |
| Additions | — | 2,188 | — | — | — | 2,188 |
| Disposals | — | (46) | — | — | — | (46) |
| As at January 3, 2026 | 33,901 | 28,321 | 2,815 | 853 | 42,469 | 108,359 |
| <i>Accumulated amortization</i> | | | | | | |
| As at December 28, 2024 | (32,861) | (19,591) | (2,705) | (812) | — | (55,969) |
| Amortization | (171) | (3,692) | (110) | (19) | — | (3,992) |
| Disposals | — | 46 | — | — | — | 46 |
| As at January 3, 2026 | (33,032) | (23,237) | (2,815) | (831) | — | (59,915) |
| <i>Net book value</i> | | | | | | |
| As at January 3, 2026 | 869 | 5,084 | — | 22 | 42,469 | 48,444 |

| | Franchise agreements | Software | Definite-life trade names | Non- compete agreements | Indefinite-life trade names | Total |
|---------------------------------|-------------------------|-----------------|------------------------------|-------------------------------|--------------------------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Cost</i> | | | | | | |
| As at December 30, 2023 | 33,901 | 24,240 | 2,815 | 853 | 42,469 | 104,278 |
| Additions | — | 2,121 | — | — | — | 2,121 |
| Disposals | — | (182) | — | — | — | (182) |
| As at December 28, 2024 | 33,901 | 26,179 | 2,815 | 853 | 42,469 | 106,217 |
| <i>Accumulated amortization</i> | | | | | | |
| As at December 30, 2023 | (32,693) | (15,990) | (2,597) | (793) | — | (52,073) |
| Amortization | (168) | (3,783) | (108) | (19) | — | (4,078) |
| Disposals | — | 182 | — | — | — | 182 |
| As at December 28, 2024 | (32,861) | (19,591) | (2,705) | (812) | — | (55,969) |
| <i>Net book value</i> | | | | | | |
| As at December 28, 2024 | 1,040 | 6,588 | 110 | 41 | 42,469 | 50,248 |

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The following table presents the changes in goodwill for the years ended January 3, 2026 and December 28, 2024:

| | \$ |
|--|----------------|
| As at December 30, 2023 | 97,562 |
| Additions related to franchise repurchases (Note 6) | 1,017 |
| Reductions related to corporate-owned stores sold to franchisees | (399) |
| As at December 28, 2024 | 98,180 |
| Additions related to franchise repurchases (Note 6) | 2,305 |
| Reductions related to corporate-owned stores sold to franchisees | (73) |
| As at January 3, 2026 | 100,412 |

When evaluating assets for impairment, goodwill and the Pet Valu trade names of \$30,500 are allocated to the Company's consolidated CGU group, its sole operating segment. The Chico trade name of \$11,969 is allocated to the Chico CGU (December 28, 2024 — \$30,500 and \$11,969, respectively).

For the years ended January 3, 2026 and December 28, 2024, the recoverable amounts of both the consolidated CGU group and the Chico CGU exceeded their carrying values and no impairment was recognized. The Company's annual impairment assessments incorporated the following key assumptions:

- Terminal growth rate of 2.0% (December 28, 2024 — 2.0%)
- Pre-tax discount rate of 10.0% (December 28, 2024 — 8.1%)

Based on the Company's sensitivity analysis, management concluded that no reasonably possible change in the key assumptions would result in the carrying amount of goodwill exceeding its recoverable amount.

10. Trade and other payables

Trade and other payables include the following:

| | As at January 3, 2026 | As at December 28, 2024 |
|--|--------------------------|----------------------------|
| | \$ | \$ |
| Trade payables and accruals | 69,973 | 58,494 |
| Payroll and related accruals | 19,463 | 16,906 |
| Automatic share purchase plan obligation (Note 15) | 5,000 | 9,000 |
| Loyalty and gift card liabilities (Note 4) | 11,409 | 10,362 |
| Sales taxes payable | 6,148 | 5,580 |
| Interest payable | 1,147 | 1,296 |
| Total trade and other payables | 113,140 | 101,638 |

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(In thousands of Canadian dollars, unless otherwise stated)

11. Long-term debt

Long-term debt includes the following:

| | As at January 3, 2026 | As at December 28, 2024 |
|----------------------------------|--------------------------|----------------------------|
| | \$ | \$ |
| Term Facility ⁽¹⁾ (a) | 281,846 | 281,638 |
| Revolving Facility (a) | 10,000 | — |
| | 291,846 | 281,638 |
| Deferred financing costs (b) | (2,859) | (3,618) |
| Total long-term debt | 288,987 | 278,020 |

⁽¹⁾ Net of repayments, as applicable, gain on modification of debt, and related accretion.

(a) Credit Agreement

The Company entered into a credit agreement on June 30, 2021 with a syndicate of lenders consisting of (i) a \$355,000 term facility and (ii) a \$130,000 revolving credit facility, of which up to \$20,000 was available for the issuance of letters of credit in Canadian or U.S. dollars.

On May 24, 2023, the Company amended the credit agreement to update the reference rates for short-term floating rate borrowings, replacing the LIBOR rate and the bankers' acceptance rate with the secured overnight financing rate ("SOFR") and the Canadian reference rate, respectively.

On April 26, 2024, the Company completed a second amendment to the credit agreement modifying the Canadian reference rate to the Canadian Overnight Repo Rate Average ("CORRA").

On October 31, 2024, the Company entered into a third amended and restated credit agreement (the "Credit Agreement"), which provides for (i) a \$282,625 term facility ("Term Facility") and (ii) a \$175,000 revolving credit facility ("Revolving Facility"), of which up to \$20,000 may be used for the issuance of letters of credit in Canadian or U.S. dollars (the "Revolving Facility" and together with the Term Facility, the "Credit Facilities").

The Credit Agreement extended the maturity date of the Credit Facilities to October 31, 2029 and requires mandatory quarterly principal repayments on the Term Facility only if the net total leverage ratio reaches a certain threshold. The Term Facility also contains mandatory prepayment provisions related to non-ordinary course asset sales, excess cash flow and issuances of debt obligations by the Company and its subsidiaries, subject to customary thresholds and exceptions.

Voluntary prepayments of the Term Facility are permitted at any time, subject to minimum repayment amounts and customary notice periods, without premium or penalty other than applicable "breakage" costs. Any such prepayments will reduce the scheduled principal repayments, if applicable. The credit agreement also provides that amounts under the Revolving Facility may be borrowed, repaid and re-borrowed.

Management determined that the Credit Agreement constituted a modification of long-term debt. Accordingly, for the year ended December 28, 2024, the Company recognized a gain on debt modification of \$1,019 in interest expenses, net, in the consolidated statements of income and comprehensive income. The Company also incurred deferred financing costs of \$1,971, which are being amortized over the term of the amended agreement.

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During the year ended January 3, 2026, the Company drew down \$32,000 under the Revolving Facility in connection with common shares repurchased for cancellation (refer to Note 15), of which \$22,000 was repaid by the end of the fiscal year.

As at January 3, 2026, the Company has outstanding standby letters of credit under the Revolving Facility of \$14,501 (December 28, 2024 — \$nil). The standby letters of credit were advanced in relation to income tax matters with the Canada Revenue Agency (“CRA”) (refer to Note 13). For the year ended January 3, 2026, the Company incurred fees on the outstanding standby letters of credit of \$173 (December 28, 2024 — \$nil).

Borrowings under the Credit Facilities bear interest, according to the type of borrowing advanced, at short-term floating rates based on a reference rate (CORRA, the U.S. base rate, the Canadian prime rate, or SOFR as applicable), plus a margin per annum determined by the Company’s net total leverage ratio. As at January 3, 2026, the interest rate in effect on the Credit Facilities is 4.05% (December 28, 2024 — 5.40%).

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

The Credit Agreement contains affirmative and negative covenants customary for credit facilities of this nature, subject to certain exceptions. The Credit Agreement also contains certain financial covenants to be complied with over the term of the Credit Facilities, specifically, (i) a net total leverage ratio and a net first lien leverage coverage ratio that must be no greater than 5 times and 4.25 times, respectively, of consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”) as defined in the credit agreement; and (ii) an interest coverage ratio of not less than 3 times consolidated EBITDA. The covenants are tested for compliance at the end of each quarter. As at January 3, 2026 and December 28, 2024, the Company was in full compliance with all of its covenants, and there was no indication that it will have difficulty complying with these covenants in the future.

The following table presents the changes in long-term debt for the years ended January 3, 2026 and December 28, 2024:

| | \$ |
|---|----------------|
| As at December 30, 2023 | 293,224 |
| Repayments | (13,312) |
| Deferred financing costs paid | (1,971) |
| Accretion of deferred financing costs | 1,066 |
| Gain on modification of long-term debt | (1,019) |
| Accretion of gain on modification of long-term debt | 32 |
| As at December 28, 2024 | 278,020 |
| Accretion of deferred financing costs | 759 |
| Accretion of gain on modification of long-term debt | 208 |
| Net drawings of Revolving Facility | 10,000 |
| As at January 3, 2026 | 288,987 |

As at January 3, 2026 and December 28, 2024, the Company had unused borrowing capacity available under the Revolving Facility of \$150,499 and \$175,000, respectively.

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(b) Deferred financing costs

The Company has incurred deferred financing costs of \$7,639 in connection with the Company's Credit Facilities. These costs are being amortized to interest expenses, net in the consolidated statements of income and comprehensive income using the effective interest method. As at January 3, 2026, the unamortized deferred financing costs were \$2,859 (December 28, 2024 — \$3,618).

12. Financial instruments and risk management

(a) Fair values of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the years ended January 3, 2026 and December 28, 2024, there were no transfers between levels of the fair value hierarchy.

The carrying amounts of cash, trade and other receivables, and trade and other payables approximate their fair values due to the short-term maturity of these financial instruments. The carrying amounts and fair values of the Company's long-term debt are as follows:

| | | As at January 3, 2026 | | As at December 28, 2024 | |
|-------------------------------|-----------|-----------------------|------------|-------------------------|------------|
| | | Carrying value | Fair value | Carrying value | Fair value |
| | | \$ | \$ | \$ | \$ |
| Long-term debt ⁽¹⁾ | (Level 2) | 288,987 | 292,625 | 278,020 | 282,625 |

⁽¹⁾ Carrying value is net of deferred financing costs and gain on modification of debt.

(b) Financial risk management objectives

The Company's activities expose it to a variety of financial risks, which includes credit risk, market risk, including foreign exchange rate risk and interest rate risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

(i) 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. This risk arises primarily from the Company's cash, trade and other receivables, and lease receivables. Credit risk related to cash is minimized by holding deposits with multiple high-quality financial institutions. Credit risk associated with supplier receivables is managed through the Company's ability to offset amounts receivable from suppliers against amounts payable to them. Credit risk related to franchisee receivables and lease receivables is mitigated through short-term settlement terms and a thorough franchisee screening process, including an assessment of each franchisee's access to adequate financing prior to acceptance.

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(In thousands of Canadian dollars, unless otherwise stated)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due. The Company manages this risk through active working capital and cash flow management, and by maintaining access to various sources of financing, including bank debt and finance leases. All trade and other payables are due within 12 months of the date of these financial statements.

(iii) Market risk

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

- Foreign currency risk

The Company is exposed to foreign currency risk related to purchases of merchandise in U.S. dollars.

The Company is also exposed to foreign currency risk on financial assets and liabilities denominated in foreign currencies. These assets and liabilities are short-term in nature and management does not consider the related exposure to be a significant risk. A five-percentage point change in the Canadian dollar relative to the U.S. dollar, assuming all other variables remain constant, would have changed income before income taxes for the year ended January 3, 2026 by \$311 due to the revaluation on these financial assets and liabilities (December 28, 2024 — \$708).

- Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Term Facility bears interest at variable interest rates, and fluctuations in short-term floating rates can affect the Company's interest payments and related cash flows.

For the year ended January 3, 2026, a one percentage point change in the applicable interest rate under the credit agreement based on the debt outstanding as at January 3, 2026, would have changed income before income taxes by \$2,926 (December 28, 2024 — \$2,826).

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Notes to the Consolidated Financial Statements For the years ended January 3, 2026 and December 28, 2024

(In thousands of Canadian dollars, unless otherwise stated)

13. Income taxes

The following table presents the significant components of income tax expense for the years ended January 3, 2026 and December 28, 2024:

| | January 3, 2026 \$ | December 28, 2024 \$ |
|---|--------------------------|----------------------------|
| <i>Current tax expense</i> | | |
| Current year | 40,995 | 35,741 |
| Adjustments with respect to prior years | (22) | 120 |
| | 40,973 | 35,861 |
| <i>Deferred tax recovery</i> | | |
| Origination and reversal of temporary differences | (4,968) | (1,777) |
| Adjustments with respect to prior years | (51) | (120) |
| | (5,019) | (1,897) |
| Income tax expense | 35,954 | 33,964 |

The Company's income tax expense differs from the amount calculated by applying the combined Canadian federal and provincial statutory income tax rate of 26.5% to income before income taxes for the years ended January 3, 2026 and December 28, 2024 as follows:

| | January 3, 2026 \$ | December 28, 2024 \$ |
|---|--------------------------|----------------------------|
| Income before income taxes | 133,754 | 121,384 |
| Expected income tax expense | 35,445 | 32,167 |
| Increase (decrease) in income taxes resulting from: | | |
| Change in deferred tax asset recognition | 653 | (75) |
| Non-deductible expenditures | 545 | 1,575 |
| Other | (689) | 297 |
| Income tax expense | 35,954 | 33,964 |

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The tax effects of the significant temporary differences that give rise to the Company's deferred tax assets and liabilities as at January 3, 2026 and December 28, 2024 are as follows:

| | January 3, 2026 | December 28, 2024 |
|--|--------------------|----------------------|
| | \$ | \$ |
| <i>Deferred tax assets</i> | | |
| Ordinary loss carryforwards | 16,147 | 14,839 |
| Capital loss carryforwards | 7,211 | 7,253 |
| IFRS 16, Leases | 137,690 | 124,834 |
| Financing fees | — | 924 |
| Reserves and accruals | 4,511 | 4,034 |
| Deferred franchise fees | 1,396 | 1,354 |
| Capital lease obligation | 1,643 | 1,394 |
| Other | 770 | 906 |
| | 169,368 | 155,538 |
| <i>Deferred tax liabilities</i> | | |
| Intangible assets and property fair value increments on business acquisition | 11,074 | 10,517 |
| IFRS 16, Leases | 127,260 | 118,535 |
| Property and equipment | 6,782 | 7,717 |
| Other | 644 | 262 |
| | 145,760 | 137,031 |
| Deferred tax assets not recognized in the current year | (18,326) | (18,244) |
| Net deferred tax assets | 5,282 | 263 |

As at January 3, 2026, the Company had approximately \$16,147 of tax effected ordinary loss carryforwards available (December 28, 2024 — \$14,839). The total U.S. federal losses as at January 3, 2026 are \$10,410 (December 28, 2024 — \$10,164) and have no expiry date. No deferred tax asset has been recognized with respect to these losses. The Canadian losses that expire between 2039 and 2045 as at January 3, 2026 are \$5,737 (December 28, 2024 — \$4,675). A deferred tax asset has been recognized on these Canadian losses as the Company expects to have taxable income available to utilize these losses. As at January 3, 2026, the Company has approximately \$7,211 of tax effected capital loss carryforwards available (December 28, 2024 — \$7,253). The U.S. losses that expire in 2028 as at January 3, 2026 are \$848 (December 28, 2024 — \$890). The Canadian losses as at January 3, 2026 were \$6,363 (December 28, 2024 — \$6,363) and have no expiry date. No income tax benefit has been recognized in respect of those losses.

The Company is subject to routine audits of its tax filing positions by the CRA. In September 2023, the CRA reassessed the Company approximately \$6,000 of additional income tax plus interest for the 2018 taxation year, citing the non-deductibility of certain interest expenses ("2018 reassessment"). In April 2024, the CRA issued proposal letters indicating its intent to deny similar interest expense deductions for the Company's 2019 and 2020 taxation years, consistent with the 2018 reassessment, and accordingly, in June 2024, the CRA reassessed the Company approximately \$6,400 of additional income tax plus interest for the 2019 taxation year ("2019 reassessment").

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In January 2025, the CRA issued a further proposal to deny the deduction of certain intercompany dividends for the Company's 2016, 2017, and 2018 taxation years. This proposal also confirmed that the CRA would not proceed with the April 2024 proposal regarding interest deductions for the Company's 2020 taxation year. In March 2025, the CRA reassessed the Company approximately \$18,400 of additional income tax plus interest based on the January 2025 proposal ("2016–2018 reassessments").

The Company had previously filed objections with the CRA in relation to the 2018 reassessment and the 2019 reassessment. In August 2025, the CRA notified the Company that it would allow the objections in full, and subsequently, it reversed both the 2018 reassessment and the 2019 reassessment.

The Company has filed objections to, and intends to vigorously contest, the 2016–2018 reassessments. The Company and its tax advisors believe that the Company's tax filing positions are appropriate. Accordingly, no amount or provision has been recorded in the financial statements in respect of the 2016–2018 reassessments.

The Company has outstanding standby letters of credit related to the notice of objections for the 2016–2018 reassessments (refer to Note 11 for additional information). The letter of credit related to the 2019 reassessment was released by the CRA in November 2025.

14. Provisions

The Company recognizes a restoration provision related to its contractual obligations to return lease premises to their original condition at the end of the lease term. A corresponding increase is recognized in the cost of the associated ROU asset. The following table presents the changes in the Company's restoration provision for the years ended January 3, 2026 and December 28, 2024:

| | \$ |
|-------------------------|--------------|
| As at December 30, 2023 | 3,295 |
| Additions | 1,223 |
| Settlements | (694) |
| Accretion expense | 96 |
| As at December 28, 2024 | 3,920 |
| Additions | 349 |
| Settlements | (203) |
| Reversals | (32) |
| Accretion expense | 123 |
| As at January 3, 2026 | 4,157 |
| Current provisions | 120 |
| Non-current provisions | 4,037 |
| Total provisions | 4,157 |

15. Share capital

(a) Authorized share capital

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

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

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

As at January 3, 2026, there are 68,926,379 common shares issued and outstanding. No preferred shares have been issued by the Company.

The following table presents the changes in the Company's share capital for the years ended January 3, 2026 and December 28, 2024:

| | Common shares outstanding # | Amount \$ |
|--|-----------------------------------|----------------|
| As at December 30, 2023 | 71,463,986 | 321,752 |
| Exercise of share options | 419,895 | 6,187 |
| Shares repurchased for cancellation | (1,139,037) | (5,110) |
| Share repurchase commitment under automatic share purchase plan | — | (9,000) |
| As at December 28, 2024 | 70,744,844 | 313,829 |
| Exercise of share options | 1,321,033 | 29,082 |
| Shares repurchased for cancellation | (3,139,498) | (14,256) |
| Change in automatic share purchase plan commitment | — | 4,000 |
| As at January 3, 2026 | 68,926,379 | 332,655 |

Dividends

The Company's dividend policy is at the discretion of the Board of Directors. For the year ended January 3, 2026, the Company paid \$33,162 in dividends to holders of common shares (December 28, 2024 — \$31,470) or \$0.48 per common share (December 28, 2024 — \$0.44).

(b) Shares repurchased for cancellation

(i) Normal course issuer bid ("NCIB") and automatic share purchase plan ("ASPP")

The Company maintains a program of NCIBs approved by the TSX, each permitting the repurchase for cancellation of up to approximately 5% (or, for the 2023 NCIB (defined herein), 2.5%) of the Company's issued and outstanding common shares as of the applicable notice date. Each NCIB is effective for a 12-month period.

2023 NCIB

On November 28, 2023, the Company announced that the TSX had accepted its notice of intention to launch an NCIB ("2023 NCIB"). The 2023 NCIB permitted the purchase of up to 1,786,599 common shares, representing approximately 2.5% of the common shares of the Company outstanding as at November 16, 2023. The 2023 NCIB commenced November 30, 2023 and concluded November 29, 2024.

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2024 NCIB

On November 28, 2024, the Company announced that the TSX had accepted its notice of intention to renew its NCIB (“2024 NCIB”). The 2024 NCIB authorized the purchase of up to 3,572,004 common shares, representing approximately 5% of the common shares of the Company outstanding as at November 18, 2024. The 2024 NCIB commenced December 2, 2024 and concluded on December 1, 2025.

During the year ended December 28, 2024, the Company repurchased 1,139,037 common shares for cancellation under the 2023 NCIB and 2024 NCIB (amounting to 691,875 for the 2023 NCIB and 447,162 for the 2024 NCIB, correspondingly) for total cash consideration of \$30,007. The Company also recognized taxes of \$600 for common shares repurchased during the year ended December 28, 2024, with a corresponding increase to deficit.

2025 NCIB

On November 28, 2025, the Company announced that the TSX had accepted its notice of intention to renew its NCIB (“2025 NCIB”). The 2025 NCIB permits the purchase of up to 3,449,181 common shares, representing approximately 5% of the common shares of the Company outstanding as at November 19, 2025. The 2025 NCIB commenced December 2, 2025 and will continue until the earliest of December 1, 2026, the date the authorized number of shares is acquired, or earlier termination by the Company.

During the year ended January 3, 2026, the Company repurchased 1,060,498 common shares for cancellation under the 2024 NCIB for total cash consideration of \$28,036. The Company also recognized taxes of \$561 for common shares repurchased under the 2024 NCIB during the year ended January 3, 2026, with a corresponding increase to deficit.

ASPPs

In connection with each NCIB, the Company implemented an ASPP with a designated broker, effective November 24, 2023 for the 2023 ASPP; December 2, 2024 for the 2024 ASPP; and December 2, 2025 for the 2025 ASPP. The ASPPs allow for repurchases during periods in which the Company would otherwise be restricted from buying shares under insider-trading or blackout rules. Prior to entering blackout periods, the Company may, but is not required to, instruct its broker to make purchases at the broker’s discretion, subject to parameters set by the Company and in accordance with the NCIB, TSX rules, securities laws, and the terms of the ASPP. Each ASPP operated concurrently with, and terminated upon completion or expiry of, its related NCIB.

The Company records a liability for the share purchase commitment during blackout periods based on the parameters of the 2025 ASPP and for the comparative period based on the parameters of the 2024 ASPP. As at January 3, 2026, an estimated maximum obligation of \$5,000 under the 2025 ASPP is included in trade and other payables (December 28, 2024 — \$9,000).

(ii) Share repurchase

On May 12, 2025, the Company purchased for cancellation an aggregate of 2,079,000 common shares at a price of \$28.85 per common share from PV Holdings S.à.r.l., Roark Capital Partners II AIV AG, L.P., RCPS Equity Cayman LP, and Roark Capital Partners Parallel II AIV AG, L.P. (collectively, the “principal shareholders”), each an entity controlled directly or indirectly by Roark Capital Management, LLC, for total cash consideration of \$59,979 (the “Share Repurchase”). The Company also recognized taxes of \$1,200 in relation to the Share Repurchase during the year ended January 3, 2026, with a corresponding increase to deficit.

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During the year ended January 3, 2026, under the 2024 NCIB and the Share Repurchase, the Company repurchased an aggregate of 3,139,498 common shares for cancellation for cash consideration of \$88,015.

(c) Secondary offering

On May 15, 2024, a secondary offering (the “2024 Secondary Offering”) of the Company’s common shares was completed by its principal shareholders on a bought deal basis. The 2024 Secondary Offering of 5,903,000 common shares at an offering price of \$29.65 per common share raised gross proceeds of \$175,024 for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the 2024 Secondary Offering. Underwriting fees were paid by the principal shareholders, and other expenses related to the 2024 Secondary Offering of approximately \$224 were paid by the Company and included in selling, general and administrative expenses for the year ended December 28, 2024.

On May 16, 2025, a secondary offering of the Company’s common shares was completed by its principal shareholders on a bought deal basis, and on May 21, 2025, the exercise in full of the over-allotment option granted to the underwriters in connection with the secondary offering was completed (collectively, the “May 2025 Secondary Offering”). The May 2025 Secondary Offering of 5,980,000 common shares at an offering price of \$28.85 per common share raised gross proceeds of \$172,523 for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the May 2025 Secondary Offering. Underwriting fees were paid by the principal shareholders, and other expenses related to the May 2025 Secondary Offering of approximately \$319 were paid by the Company and included in selling, general and administrative expenses for the year ended January 3, 2026.

On June 9, 2025, a secondary offering (the “June 2025 Secondary Offering”) of the Company’s common shares was completed by its principal shareholders on a bought deal basis. The June 2025 Secondary Offering of 19,969,450 common shares at an offering price of \$28.85 per common share raised gross proceeds of \$576,119 for the principal shareholders. The Company did not issue additional common shares or receive any of the proceeds from the June 2025 Secondary Offering. Underwriting fees and other expenses were paid by the principal shareholders. Following the completion of the June 2025 Secondary Offering, the principal shareholders no longer own any common shares of the Company.

16. Net income per share

(a) Basic net income per share

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

| | January 3, 2026 | December 28, 2024 |
|--|--------------------|----------------------|
| | \$ | \$ |
| Net income | 97,800 | 87,420 |
| Basic weighted average number of common shares outstanding during the year (<i>thousands</i>) | 69,273 | 71,493 |
| Basic net income per common share | 1.41 | 1.22 |

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(b) Diluted net income per share

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

| | January 3, 2026 | December 28, 2024 |
|---|----------------------------|----------------------|
| | \$ | \$ |
| Net income | 97,800 | 87,420 |
| Diluted weighted average number of common shares outstanding during the year (<i>thousands</i>) | 70,279 | 72,329 |
| Diluted net income per common share | 1.39 | 1.21 |

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

| | January 3, 2026 | December 28, 2024 |
|--|----------------------------|----------------------|
| | # | # |
| Basic weighted average number of common shares outstanding during the year | 69,273 | 71,493 |
| Dilutive effect of share options in the Amended and Restated Share Option Plan | 399 | 717 |
| Dilutive effect of share options in the LTIP | 607 | 119 |
| Diluted weighted average number of common shares outstanding during the year | 70,279 | 72,329 |

For the year ended December 28, 2024, 26,912 performance-based share options were not included in the calculation of diluted net income per share as the vesting conditions required to convert these options to common shares were not met.

For the year ended January 3, 2026, 611,732 service-based LTIP share options were not included in the calculation of diluted net income per share as they were not in the money or the vesting conditions were not expected to be met (December 28, 2024 — 677,819).

For the year ended January 3, 2026, 376,249 performance-based LTIP share options were not included in the calculation of diluted net income per share, as the vesting conditions required to convert these options to common shares were not met (December 28, 2024 — 564,374).

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17. Cost of sales

The following table presents a breakdown of cost of sales for the years ended January 3, 2026 and December 28, 2024:

| | January 3, 2026 | December 28, 2024 |
|-----------------------|--------------------|----------------------|
| | \$ | \$ |
| Merchandise costs | 616,583 | 569,783 |
| Store occupancy costs | 63,411 | 55,933 |
| Distribution costs | 106,722 | 106,838 |
| Total cost of sales | 786,716 | 732,554 |

For the years ended January 3, 2026 and December 28, 2024, cost of sales includes write-downs of \$2,197 and \$3,729, respectively, due to obsolescence, shrinkage and damage.

18. Selling, general and administrative expenses

The following table presents a breakdown of selling, general and administrative expenses for the years ended January 3, 2026 and December 28, 2024:

| | January 3, 2026 | December 28, 2024 |
|--|--------------------|----------------------|
| | \$ | \$ |
| Employee benefits expense | 125,453 | 115,970 |
| Depreciation and amortization | 24,218 | 22,225 |
| Marketing and advertising | 28,804 | 28,047 |
| Technology and telecommunication | 22,854 | 24,402 |
| Professional fees | 7,647 | 7,560 |
| Other store expenses | 7,514 | 6,591 |
| Other selling, general and administrative expenses | 8,194 | 4,521 |
| Total selling, general and administrative expenses | 224,684 | 209,316 |

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19. Interest expenses, net

The following table presents a breakdown of interest expenses, net for the years ended January 3, 2026 and December 28, 2024:

| | January 3, 2026 \$ | December 28, 2024 \$ |
|---|--------------------------|----------------------------|
| Interest on long-term debt | 14,367 | 20,454 |
| Gain on modification of long-term debt | — | (1,019) |
| Accretion of gain on modification of long-term debt | 208 | 32 |
| Accretion of deferred financing costs | 759 | 1,066 |
| Interest on lease liabilities | 25,572 | 23,409 |
| Interest income on lease receivables | (10,394) | (9,969) |
| Standby letter of credit fees | 173 | — |
| Other interest income, net | (205) | (1,870) |
| Interest expenses, net | 30,480 | 32,103 |

20. Share-based compensation

(a) Share Option Plan

The Company has the Share Option Plan pursuant to which it has granted share options to current and former directors and employees.

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

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

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

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The following table summarizes the option activity under the Share Option Plan:

| | Number of Options | Weighted average exercise price \$ |
|--------------------------------|----------------------|---------------------------------------|
| Outstanding, December 30, 2023 | 1,258,963 | 9.72 |
| Exercised | (419,717) | 9.73 |
| Forfeited | (41,760) | 9.73 |
| Outstanding, December 28, 2024 | 797,486 | 9.72 |
| Exercised | (641,577) | 9.71 |
| Forfeited | (7,424) | 9.73 |
| Outstanding, January 3, 2026 | 148,485 | 9.73 |

The following table provides information relating to the share options outstanding and exercisable under the Share Option Plan as at January 3, 2026:

| | Share options outstanding | | | Share options exercisable | | |
|----------------------|-------------------------------|---|---|-------------------------------|---|---|
| | Number of share options | Weighted average remaining contractual term (years) | Weighted average exercise price \$ | Number of share options | Weighted average remaining contractual term (years) | Weighted average exercise price \$ |
| Exercise price \$ | | | | | | |
| 9.73 | 148,485 | 4.60 | 9.73 | 139,205 | 4.57 | 9.73 |

During the year ended January 3, 2026, the Company recognized share-based compensation expense in relation to the Share Option Plan of \$17, which was included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income (December 28, 2024 — \$3).

(b) LTIP

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

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The number and the timing of the awards granted to eligible participants are determined by the Board of Directors. The exercise price per share with respect to each share option is also determined by the Board of Directors but cannot be less than the Market Price (as defined in the LTIP) of the common shares on the day on which the share option is granted. Share options typically vest over a period of three or four years and may contain service-based and performance-based vesting conditions. Share options granted under the plan may be exercised during a period not exceeding ten years from the grant date subject to earlier termination due to employment termination, death or disability. The performance-based options issued under the LTIP are based on the relative total shareholder return compared to the return of the following indices: S&P/TSX Completion Index, S&P/TSX Capped Composite Consumer Discretionary, and S&P/TSX Capped Composite Consumer Staples. The fair values of the service-based options and performance-based options are calculated at the date of the grant using the Black-Scholes option pricing model and the Monte Carlo simulation method, respectively.

RSUs and PSUs issued by the Company under the LTIP are settled in cash and are accounted for as cash-settled awards. The Company is required to record a liability for the potential future settlement of the vested RSUs and PSUs at each reporting date by reference to the fair value of the liability. The RSUs and PSUs cliff vest in three years following the grant date. The performance-based component of PSUs is based 50% on operating income growth before share-based compensation expense and 50% on total return to the Company's shareholders relative to the total return of companies comprising a blend of the S&P/TSX Completion Index, S&P/TSX Capped Composite Consumer Discretionary, and the S&P/TSX Capped Composite Consumer Staples. The number of PSUs that vest is determined by multiplying the number of units granted to the participant by the adjustment factor, which ranges from 0 to 2.0, depending on the achievement of such targets. Additional RSUs and PSUs issued in lieu of cash dividends vest at the same time and are subject to the same conditions as the RSUs and PSUs to which they are attributable.

(i) Share options

The following table summarizes the share option activity under the LTIP:

| | Number of Options | Weighted average exercise price \$ |
|--------------------------------|--------------------------|---|
| Outstanding, December 30, 2023 | 1,671,279 | 26.53 |
| Granted | 297,102 | 29.98 |
| Exercised | (178) | 28.14 |
| Forfeited | (70,369) | 33.56 |
| Outstanding, December 28, 2024 | 1,897,834 | 26.81 |
| Granted | 526,993 | 23.70 |
| Exercised | (679,456) | 23.23 |
| Forfeited | (106,570) | 30.22 |
| Outstanding, January 3, 2026 | 1,638,801 | 27.08 |

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The following table provides information relating to the share options outstanding and exercisable under the LTIP as at January 3, 2026:

| Exercise price range \$ | Share options outstanding | | | Share options exercisable | | |
|-------------------------|---------------------------|---|------------------------------------|---------------------------|---|------------------------------------|
| | Number of share options | Weighted average remaining contractual term (years) | Weighted average exercise price \$ | Number of share options | Weighted average remaining contractual term (years) | Weighted average exercise price \$ |
| 20.00 — 29.98 | 1,330,079 | 7.02 | 24.90 | 124,828 | 6.87 | 26.77 |
| 30.26 — 40.24 | 308,722 | 6.93 | 36.45 | 180,625 | 6.76 | 35.78 |
| 20.00 — 40.24 | 1,638,801 | 7.01 | 27.08 | 305,453 | 6.80 | 32.10 |

The Company uses the Black-Scholes option pricing model to calculate the fair value of the service-based options at the date of grant. The weighted average assumptions used in the model for options granted during the years ended January 3, 2026 and December 28, 2024 are as follows:

| | January 3, 2026 | December 28, 2024 |
|--|-----------------|-------------------|
| Weighted average risk-free interest rate | 2.62 % | 3.45 % |
| Expected life (years) | 5.50 — 7.00 | 5.50 — 7.00 |
| Expected dividend yield | 2.03 % | 1.47 % |
| Expected volatility | 29.65 % | 31.92 % |
| Weighted average fair value per option granted | \$ 6.33 | \$ 9.68 |

During the year ended January 3, 2026, the Company recognized share-based compensation expense in relation to the LTIP share options of \$1,633, which was included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income (December 28, 2024 — \$5,594).

(ii) RSUs

The following table summarizes the RSU activity under the LTIP:

| | Number of RSUs |
|--------------------------------|----------------|
| Outstanding, December 30, 2023 | 187,819 |
| Granted ⁽¹⁾ | 155,363 |
| Exercised | (6,926) |
| Forfeited | (33,104) |
| Outstanding, December 28, 2024 | 303,152 |
| Granted ⁽¹⁾ | 196,512 |
| Exercised | (83,501) |
| Forfeited | (27,319) |
| Outstanding, January 3, 2026 | 388,844 |

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

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The fair market value of future RSU cash-settled obligations was \$4,043 at January 3, 2026 (December 28, 2024 — \$3,448). During the year ended January 3, 2026, the Company recognized share-based compensation expense for RSU cash-settled obligations of \$2,961, which was included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income (December 28, 2024 — \$1,443).

(iii) PSUs

The following table summarizes the PSU activity under the LTIP:

| | Number of PSUs |
|--------------------------------|----------------|
| Outstanding, December 30, 2023 | 136,974 |
| Granted ⁽¹⁾ | 99,315 |
| Forfeited | (40,933) |
| Outstanding, December 28, 2024 | 195,356 |
| Granted ⁽¹⁾ | 137,067 |
| Exercised | (34,887) |
| Forfeited | (34,301) |
| Outstanding, January 3, 2026 | 263,235 |

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

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

The key inputs used in the measurement of the fair value of the PSUs for the years ended January 3, 2026 and December 28, 2024 are as follows:

| | January 3, 2026 | December 28, 2024 |
|---|--------------------|----------------------|
| Average share price as at grant date | \$ 26.99 | \$ 34.82 |
| Share price as at valuation date | \$ 27.74 | \$ 24.54 |
| Average risk-free interest rate | 2.43 % | 2.88 % |
| Average expected remaining life (years) | 1.50 | 1.51 |
| Average expected volatility | 34.28 % | 23.28 % |

The fair market value of future PSU cash-settled obligations was \$848 at January 3, 2026 (December 28, 2024 — \$1,399). During the year ended January 3, 2026, the Company recognized share-based compensation expense for PSU cash-settled obligations of \$393, which was included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income (December 28, 2024 — recovery of \$118).

PET VALU HOLDINGS LTD.

Notes to the Consolidated Financial Statements For the years ended January 3, 2026 and December 28, 2024

(In thousands of Canadian dollars, unless otherwise stated)

(c) DSU Plan

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

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

The following table summarizes the Company's DSU Plan activity:

| | Number of DSUs |
|--------------------------------|-----------------------|
| Outstanding, December 30, 2023 | 53,549 |
| Granted ⁽¹⁾ | 20,566 |
| Outstanding, December 28, 2024 | 74,115 |
| Granted ⁽¹⁾ | 28,136 |
| Outstanding, January 3, 2026 | 102,251 |

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

The fair market value of future DSU cash-settled obligations was \$2,739 at January 3, 2026 (December 28, 2024 — \$1,728). During the year ended January 3, 2026, the Company recognized share-based compensation expense for DSU cash-settled obligations of \$1,011, which was included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income (December 28, 2024 — \$281).

21. Capital management

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

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

The Company is subject to financial and customary affirmative and negative covenants pursuant to the Credit Facilities presented in Note 11.

22. Commitments, contingencies and guarantees

(a) Lease commitments

As at January 3, 2026, the Company has future undiscounted minimum lease payments of \$23,317 for leases committed to but not yet commenced.

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Notes to the Consolidated Financial Statements For the years ended January 3, 2026 and December 28, 2024

(In thousands of Canadian dollars, unless otherwise stated)

(b) Bank comfort letters

The Company has provided comfort letters to certain financial institutions upon their request when they provide financing to new franchisees. Under these letters, the Company agrees that, for a period of three years from the date of issuance, if the bank is forced to realize on its security, including inventory held by the franchisee, the Company will repurchase inventory previously sold to the franchisee at a discount of 15%, provided the inventory can be transferred to the Company free and clear of all liens, charges, and encumbrances and third-party rights.

In practice, the Company typically exercises its rights under the franchise agreement before the franchisee reaches default under their finance arrangement; therefore, the likelihood of being required to repurchase inventory under these comfort letters is considered remote. As a result, no provision has been recorded in the accompanying financial statements.

(c) Other

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

23. Related party transactions

Compensation of key management personnel

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

The following table presents a breakdown of key management personnel compensation for the years ended January 3, 2026 and December 28, 2024:

| | January 3, 2026 | December 28, 2024 |
|---|----------------------------|----------------------|
| | \$ | \$ |
| Short-term employee benefits | 7,915 | 7,275 |
| Share-based compensation | 2,084 | 4,828 |
| Post-employment benefits | 1,118 | 1,834 |
| Directors' fees | 502 | 585 |
| Total key management personnel compensation | 11,619 | 14,522 |

The compensation amounts noted in the above table were included in selling, general and administrative expenses.

24. Subsequent events

On March 2, 2026, the Board of Directors of the Company declared a dividend of \$0.13 per common share payable on April 15, 2026 to holders of common shares of record as at the close of business on March 31, 2026.

Subsequent to the year ended January 3, 2026, under the 2025 NCIB, the Company repurchased and cancelled 173,323 common shares for cash consideration of \$4,960.