

PET VALU™

Better Pet Nutrition

PET VALU, INC.

Quarterly Report

Thirteen Weeks Ended April 4, 2009

(The financial statements contained herein are prepared in accordance
with Canadian Generally Accepted Accounting Principles)
(in U.S. dollars)

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Pet Valu, Inc.

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Company Profile

The first PET VALU store was opened in Ontario, Canada in 1976 by Geoff and Carole Holt. By 1977, there were three stores in the Toronto area. Ten years later, the company had over 75 locations and began to franchise existing stores. In 1993, with more than 120 stores, the company went public on the Toronto Stock Exchange ("TSX"). The TSX stock symbol for Pet Valu Canada Inc., Pet Valu, Inc.'s publicly traded Canadian operating subsidiary, is PVC. In 1995, the company opened its first U.S. store in Bowie, Maryland.

The Company is a specialty retailer and wholesaler of pet food and pet-related supplies. As of May 2009, it had over 350 stores located in Ontario, Manitoba, Maryland, Virginia, Pennsylvania, and New Jersey. The Canadian stores operate under the names PET VALU®, PET VALU BETTER PET NUTRITION®, PAULMAC'S PET FOOD®, BERRYS and BERRYS...YOUR PETSCHOICE, and together comprise the largest number of retail outlets in Canada dedicated to the sale of food and supplies for dogs, cats, caged birds, wild birds, fish, reptiles and small animals. The Company offers a wide range of pet food and pet-related supply products, including national and premium brands of pet foods, private label pet foods and pet supplies, purchased from over 200 suppliers in 9 countries. The products are purchased, warehoused and distributed to all franchised and corporate stores through Peton Distributors Inc., a wholly owned subsidiary of Pet Valu Canada Inc.

Our philosophy is to provide pet owners with a wide selection of better quality pet foods and pet-related supply products than can generally be found at grocery stores and mass merchandisers. We offer friendly customer service and good value in conveniently located stores. Stores range in size from 1,000 to 4,000 square feet and are located in or near neighbourhood shopping plazas. Our franchisees and staff are knowledgeable about the needs of pets. We encourage them to augment their expertise through informational product seminars, and articles in our in-house publication, the FOCUS.

Pet Valu, Inc.

Management's Discussion & Analysis

For purposes of this discussion, "Pet Valu" or the "Company" refers to Pet Valu, Inc. and its subsidiaries.

This Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results, and financial condition.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the thirteen week period ended April 4, 2009. The 2008 fiscal year refers to the 53-week period ended January 3, 2009 and the 2007 fiscal year refers to the 52-week period ended December 29, 2007. Unless otherwise indicated, all amounts are expressed in U.S. dollars. References to Canadian dollars are noted by using the International Monetary symbol for Canadian dollars, namely "C\$".

This MD&A is current as of May 13, 2009. Additional information relating to the Company, including the fiscal 2008 Annual Report of Pet Valu, Inc. and the Annual Information Form of Pet Valu, Inc., is available on-line at www.sedar.com.

Cautionary Statement Regarding Forward-Looking Information

Certain information in this MD&A and in other public announcements by the Company is forward-looking. Forward-looking information includes information concerning the future financial performance, business strategy, plans, goals, objectives, business prospects and opportunities of Pet Valu, Inc. and its affiliates. This information is subject to important risks and uncertainties, which are difficult to predict and assumptions which may prove to be inaccurate. Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; changes in consumer spending; the outcome of legal proceedings as they arise; general economic conditions and normal business uncertainty; the availability of suitable store locations; customer preferences towards product offerings; adverse climate changes; the occurrence of a pandemic or other catastrophic event which could create shortages of labour, products or services required to operate the business profitably; fluctuations in foreign currency exchange rates; changes in the Company's relationship with its merchandise and service suppliers; interest rate fluctuations and other changes in borrowing costs; the outcome of strategic alternatives being considered by the Company's board of directors; and changes in laws, rules and regulations applicable to the Company or the markets in which the Company operates. The Company cautions that this is not an exhaustive list of factors that may affect the forward-looking information in the MD&A. Potential investors and readers are urged to give careful consideration to all of these factors in evaluating any forward-looking information and are cautioned not to place undue reliance on such information.

While the Company believes that its forecasts and assumptions are reasonable, results or events predicted in this forward-looking information may differ materially from actual results or events.

Overview

The Company's principal business is that of a specialty retailer and wholesaler of food and supplies for dogs, cats, birds, fish, reptiles, and small animals and a franchisor of pet food and pet-related supply outlets. The Company was founded in 1976 with the opening of its first retail outlet in Ontario, Canada. Canadian operations have grown through "greenfield" store development and through the acquisition of smaller chains. In 1995, the Company entered the U.S. market by opening its first retail outlet in the state of Maryland. At the end of the first quarter of fiscal 2009, there were 295 stores operating in Canada and 62 stores operating in the U.S. Of the 295 Canadian stores, 171 stores were franchised and 124 were company-owned. In the U.S., 60 stores were company-owned and two were franchised. PET VALU stores are located in Ontario, Manitoba, Pennsylvania, New Jersey, Maryland and Virginia. The Company's Paulmac's Pet Food Inc. ("Paulmac's") stores and Your Petschoice Inc. ("Berrys") stores are located in Ontario.

The Company classifies its operations into two geographical operating segments, Canadian operations and U.S. operations. Canadian stores are operated by Pet Valu Canada Inc., Paulmac's, or Berrys. Canadian stores are also franchised through Pet Valu Canada Inc. or Paulmac's. Berrys does not franchise its stores. U.S. stores are operated by, or franchised through, Pet Valu, Inc.'s U.S. operating subsidiary, Pet Valu International Inc.

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Products and Services

PET VALU, PAULMAC'S and BERRYS stores offer a wide range of pet food and pet-related supply products, including national and premium brand products. PET VALU stores also carry a broad selection of private label dog, cat and other pet foods marketed under trademarks owned by Pet Valu Canada Inc. Company-owned and franchise stores also offer customers a large variety of non-food products, such as rawhide products, collars, leashes, flea and tick products, pet cages and carriers, dog and cat toys, cat litter and other pet-related accessories. These products include both brand name and private label brands. Additional pet food and pet-related supply products, not regularly carried by stores, are available by special order from Company warehouses.

In Canada, some PET VALU, some BERRYS and most PAULMAC'S stores sell fish, birds, reptiles, and/or small animals and some PET VALU and PAULMAC'S stores offer grooming services. Stores in Canada and the U.S. carry a range of wild bird products and none sell dogs or cats. Some stores in Canada and the U.S., however, facilitate the adoptions of cats and/or dogs, on behalf of local animal welfare organizations.

The Company has ongoing programs to identify higher quality, differentiated merchandise brands as well as to develop additional private label offerings which take a wellness-focused approach to pet nutrition. Through the introduction of these specialty and private label food offerings as well as unique pet-related supply products the Company seeks to differentiate itself from many of its principal competitors in the sale of pet food and supplies.

Warehousing and Distribution

The Company purchases, warehouses, and distributes pet food and pet-related supplies for and to all stores in Canada and the U.S. There are ten leased and two owned distribution facilities in Canada and two leased distribution facilities in the U.S. Total space in these facilities, inclusive of office space located therein, is approximately 525,000 square feet. Most of these facilities are located regionally to support local small box store delivery logistics.

Distribution services in both countries are provided by a fleet of company-owned and leased vehicles and supplemented by outside carriers.

Franchising

In Canada, Company revenues in relation to franchise operations are generated from fees and gains on the sale of franchises, from ongoing merchandise sales to franchisees, and from royalty and other income from franchise operations. Franchisees purchase the majority of their inventory from the Company. In Canada, PET VALU franchises are sold on a turnkey basis and the price of a franchise includes leasehold improvements where applicable, equipment, merchandise inventory, goodwill where applicable, franchise fees, and a site development fee. PET VALU franchisees pay a royalty as a percentage of gross sales or imputed gross sales and percentage rent equal to the amount by which a fixed percentage of gross sales or imputed gross sales exceeds the base rent payable by the franchisee under the sublease. They also pay distribution fees for the delivery of merchandise to their stores calculated on the basis of a percentage of the retail value of products and they contribute to a promotion fund which is used to defray certain Company expenses in relation to promotional activities. They are also responsible, generally, for the costs of operating the business, including rent, employee wages and benefits, and other costs. Transfer fees are charged on the sale of existing franchises to new franchisees. PAULMAC's franchisees pay a royalty as a percentage of gross sales and are responsible, generally, for the costs of operating the business, including rent, employee wages and benefits, and other costs. PET VALU franchisees in Canada and PAULMAC's franchisees sign a franchise agreement and, generally, a lease or sublease. The Company is not currently offering new PAULMAC'S franchises.

The Company has a U.S. franchise system which differs from the Canadian system; however, the Company is not currently offering new PET VALU franchises in the U.S. and, as at April 4, 2009, there were only two U.S. franchises in operation. Subsequent to April 4, 2009 one U.S. franchise was repurchased by the Company.

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Key Accomplishments

During fiscal 2008 and the first quarter of fiscal 2009, the Company pursued key priorities intended to improve results from operations, liquidity, capital resources and cash flow.

Reniching

The Company continued to pursue a long-term objective of shifting its product offering to higher-margin, high-quality pet products, which include pet specialty brands and private label products featuring a wellness-focused approach to pet nutrition. This reniching program has improved and is expected to continue to improve operating profits and enhance the image of the Company as a specialty retailer.

Acquisition

On August 22, 2008, the Company completed the purchase of a 15 store pet food and supply business known as BERRYS or BERRYS...YOUR PETSCHOICE. These stores are all located in eastern Ontario. The purchase price of C\$2.4 million was financed using Pet Valu's existing bank operating line. The Berrys operations and the anticipated operating synergies are expected to incrementally contribute an approximate C\$600,000 to Pet Valu's consolidated income before income taxes during the first 12 months of inclusion within the Pet Valu group of stores.

Inventory Investment

The Company's inventory buying system is designed to take advantage of opportunities, including those in relation to cost inflation. As a result, the Company's warehouse inventory levels have increased by approximately C\$0.9 million during the first quarter 2009. The Company believes that recent declines in various commodity prices will slow the rate of any cost increases in fiscal 2009 and will likely result in a reduction of these inventories in fiscal 2009.

Development of Canadian Corporate Store Programs

During fiscal 2008, the Company dedicated an increasing amount of effort to the operation of its Canadian company-owned stores by developing and implementing programs designed to increase sales and operating profitability. These programs included more product and sales training for corporate store staff and an incentive program for corporate store managers. These programs have contributed to an increase in comparable store sales of 9.7% for company-owned stores in Canada in the first quarter of fiscal 2009.

Amendment of Bank Credit Agreement

During the third quarter of fiscal 2008, the Company entered into an agreement with its principal bank to amend its existing credit agreement dated as of July 14, 2006 ("Credit Agreement"). The amendment increased the revolving line of credit in the Credit Agreement from a maximum of C\$15 million to a maximum of C\$20 million. In addition, the amendment created a new C\$5 million term loan that bears interest at prime plus 1% and is repayable in 24 equal monthly installments. The amendment did not materially change any other terms contained in the Credit Agreement.

Repayment of 10% Non-convertible Debentures

In accordance with a debenture holder agreement dated July 24, 2006, the scheduled repayment of principal and accrued interest for the 10% non-convertible debentures created under this agreement was made on July 24, 2008 by cash payments to the debenture holders. The amount of the payments was C\$8,877,836, consisting of principal repayments of C\$8,820,000 and accrued interest of C\$57,836. These payments were financed from the new bank term loan, the Company's bank operating line and funds provided from operations.

Other Developments

Review of Strategic Alternatives

As previously disclosed, the Company commenced a review of its alternatives to enhance shareholder value with the advice and assistance of its financial advisor, TD Securities Inc., and its legal advisors after receiving an unsolicited approach from a potential acquirer. The Company's board of directors has established a special committee of directors to supervise the review process and to make recommendations to the Company's board of directors. There can be no assurance that any definitive transaction proposal will result from this process, or that any transaction, if proposed, will be completed.

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Changes in Economic Conditions

The economic conditions in the markets in which the Company operates have changed significantly during the course of fiscal 2008 and the first quarter of fiscal 2009. Commodity prices increased throughout fiscal 2008 and many suppliers increased the cost of their products purchased by the Company, which in turn resulted in increased retail prices. However, the Company believes sales have not been materially adversely affected by the changes in these conditions. The Company continues to record gains in same store sales in both Canada and the United States. The Company believes that its various operating strategies including product differentiation and inventory investments will continue to mitigate weaker economic conditions.

Summary of Quarterly Results

The Company's financial information is prepared using Canadian generally accepted accounting principles ("GAAP"). The reporting currency is U.S. dollars. The functional currency is U.S. dollars for the U.S. operations and Canadian dollars for the Canadian operations. As the Canadian operations comprise the majority of the consolidated operations, the foreign currency exchange rate between the Canadian and U.S. dollars has a material effect on the consolidated U.S. dollar results.

Eight quarter summary

(expressed in thousands of U.S. dollars except for per share amounts)

	Fiscal 2007			Fiscal 2008				Fiscal 2009
	2 nd Quarter	3 rd Quarter	4 th Quarter	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	1 st Quarter
System-wide sales ⁽¹⁾	\$ 48,528	\$ 52,496	\$ 60,323	\$ 53,270	\$ 54,592	\$ 56,242	\$ 58,108	\$ 49,101
Sales and revenue	38,645	41,518	46,937	42,800	44,257	46,585	47,369	41,274
EBITDA ⁽²⁾	4,893	5,743	7,852	5,261	6,260	6,613	5,790	4,475
EBITDA before non-comparable items ⁽³⁾	4,893	5,743	8,026	5,261	6,630	7,599	6,783	4,840
Loss (Gain) on foreign exchange	(248)	(437)	(65)	248	(127)	324	2,248	178
Net income	2,770	3,138	4,716	2,835	3,595	3,970	4,339	2,726
Net income before non-comparable items ⁽³⁾	2,770	3,138	4,702	2,835	3,841	4,625	4,127	2,968
Net income per share – basic	0.32	0.36	0.55	0.32	0.38	0.42	0.46	0.29
Net income per share – diluted	0.27	0.31	0.46	0.28	0.35	0.39	0.42	0.27
Net income per share before non-comparable items ⁽⁴⁾								
Basic	0.32	0.36	0.55	0.32	0.41	0.49	0.43	0.31
Diluted	0.27	0.31	0.46	0.28	0.38	0.45	0.40	0.29
Non comparable items								
Strategic alternative related costs	-	-	-	-	-	505	1,048	365
Shareholder proxy costs	-	-	-	-	370	480	(54)	-
Future tax recovery on NOLs	-	-	(125)	-	-	-	(874)	-
Executive employment related payment	-	-	640	-	-	-	-	-
Promotion fund allowance	-	-	(466)	-	-	-	-	-
Applicable tax on non-comparable items	-	-	(63)	-	(124)	(330)	(331)	(122)
Exchange rate at end of quarter	1.0654	0.9948	0.9805	1.0215	1.0106	1.0328	1.2156	1.2304
Average exchange rate	1.0975	1.0455	0.9810	1.0042	1.0099	1.0397	1.2083	1.2455

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- (1) System-wide sales represent retail sales to customers through company-owned and franchise stores.
- (2) Earnings before interest, taxes, depreciation and amortization of goodwill is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, the Company's method of calculating EBITDA may differ from other companies. Management believes EBITDA is a useful supplemental measure as it provides investors with an indication of cash available prior to debt service, capital expenditures and income taxes.
- (3) Net income before non-comparable items and EBITDA before non-comparable items are not recognized measures under GAAP. As these measures do not have standardized meanings prescribed by GAAP, the Company's method of calculating net income before non-comparable items and EBITDA before non-comparable items may differ from other companies. Management believes net income before non-comparable items and EBITDA before non-comparable items are useful supplemental measures as they provide investors with measures that can be used to compare year over year net income and EBITDA without the effects of non-recurring or non-operational activities.
- (4) Net income per share before non-comparable items is not a recognized measure under GAAP. As this measure does not have a standardized meaning prescribed by GAAP, the Company's method of calculating net income per share before non-comparable items may differ from other companies. Management believes net income per share before non-comparable items is a useful supplemental measure as it provides investors with a measure that can be used to compare year-over-year net income without the effects of non-recurring or non-operational activities.

Non-comparable items

Non-comparable items are non-recurring and/or non-operational items incurred by the Company during the applicable period.

The Company incurred expenses of \$1,552,782 in fiscal 2008 and \$365,121 in the first quarter of fiscal 2009 related to actions taken assessing strategic alternatives (see "Other Developments – Review of strategic alternatives").

In connection with a May 2008 proxy contest, costs of \$350,530 were incurred directly by the Company. In addition, expenses of \$445,155 incurred by the party who initiated the contest, Goodwood Inc., were reimbursed by the Company.

The Company reduced the valuation allowance relating to the net operating loss ("NOL") carryforwards for tax purposes of the U.S. operations in fiscal 2008 and 2007. The result of the reduction in the valuation allowance is a future tax recovery of \$874,000 in fiscal 2008 and \$125,000 in fiscal 2007.

A one-time expense of approximately \$640,000 in relation to an employment contract between the Chief Executive Officer of the Company ("CEO") and the Company was incurred in fiscal 2007. The contract expired as of December 31, 2007 and a new contract was executed with the CEO effective January 1, 2008. The new contract does not contain provisions for any one-time payments of similar magnitude in the context of expiry of the contract.

The Company and its franchisees make contributions to the Canadian promotion fund, which is used for marketing and advertising activities. The Company determined that the deficit balance of the promotion fund at the end of fiscal 2007 was likely to be recovered in fiscal 2008 having regard to the magnitude of the promotion fund deficit and the Company's assessment of its future promotional plans. Therefore, the allowance of \$466,000 from fiscal 2006, was reversed in full in fiscal 2007. The fund was in a surplus position at the end of fiscal 2008 and the first quarter of fiscal 2009 and therefore, there was no allowance required in fiscal 2008 or the first quarter of fiscal 2009.

For a more in depth discussion of non-comparable items, please refer to the section of this MD&A entitled "Results of Operations".

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Effect of Translating C\$ Functional Currency for the Canadian Operations into US\$ Reporting Currency

The Company is comprised of various Canadian and U.S. subsidiaries. Generally, the country in which the subsidiary operates will determine the functional currency. The reporting currency for the consolidated financial statements is U.S. dollars. Therefore, for each subsidiary whose functional currency is not U.S. dollars, the statement of operations and the balance sheet are converted to U.S. dollars at the end of the period using the average foreign currency exchange rate for the period and the end of period foreign currency exchange rate, respectively. For the first quarter of fiscal 2009 the Canadian dollar was 19.4% weaker than the comparable period of the prior year. At April 4, 2009, the Canadian dollar was 1.2% weaker than at January 3, 2009. These effects were somewhat offset when the results of operations and balance sheets of subsidiaries which use the U.S. dollar as their functional currency were consolidated with the results of operations and balance sheets of the Canadian subsidiaries.

Summary of effects of translating Canadian operations into US dollar reporting currency
(All amounts in millions of US dollars)

	Q1 2008 Reported	Q1 2009 Reported	Foreign Exchange (1)
System-wide sales	\$ 53.3	\$ 49.1	\$ (9.5)
Sales and revenue	42.8	41.3	(7.6)
EBITDA	5.3	4.5	(0.9)
EBITDA before non-comparable items	5.3	4.8	(1.0)
Net income	2.8	2.7	(0.5)
Net income before non-comparable items	2.8	3.0	(0.5)

(1) Foreign exchange represents the impact of the change in currency exchange rates used in translating the Canadian operations from the functional currency of Canadian dollars into the reporting currency of US dollars

Comparison of First Quarter Fiscal 2009 to First Quarter Fiscal 2008

Store Operations

During the first quarter of fiscal 2009, the Company opened three new stores in Canada and closed one Canadian store. Store operations are evaluated on an on-going basis with openings and closings resulting from shifts in demographics, quality of locations, population growth, and competition.

In the first quarter of fiscal 2009, the average number of stores in operation was 356.5, fourteen stores more than the average for the first quarter of the prior year. The increase is entirely in Canada as the average number of stores in operation in the US was consistent at 62 between the first quarter of the current year and the first quarter of the prior year.

System-wide sales

(\$49.1 million – 2009, \$53.3 million – 2008)

During the first quarter of fiscal 2009, system-wide sales decreased by \$4.2 million or 7.8% from the prior year. The change in foreign currency exchange rates resulted in a decrease in system-wide sales from the comparable period of the prior year of \$9.5 million. Before the effects of the change in foreign currency exchange rates, the system-wide sales in the Canadian operations increased by \$4.6 million or 10.3%. The system-wide sales in the U.S. operations increased by \$0.8 million or 8.9%. The Berrys' stores, which were acquired in the third quarter of fiscal 2008, contributed \$1.0 million to sales during the first quarter of fiscal 2009.

Comparable store sales represent a year-over-year comparison of the same group of stores that were open during both years of comparison. A store becomes comparable one year after its first full month of operation. Comparable store sales increased by 7.9% in Canada and by 8.9% in the U.S. Factors contributing to the increase in Canada include product differentiation strategies, store image strategies, in-store inventory positions, and retail price inflation. As a result of differentiation strategies, higher margin product sales have continued to show strong growth, while lower margin product sales declines have moderated. Store image strategies and improved in-store inventory positions have contributed to more positive shopping experiences for customers, resulting in higher sales levels. Similar factors existed in the U.S.

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Sales and revenue

(\$41.3 million – 2009, \$42.8 million – 2008)

Sales and revenue represent retail sales through company-owned stores in Canada and the U.S., retail sales through franchise stores in the U.S., merchandise sales to franchisees in Canada, initial and continuing franchise fees in both countries, and wholesale sales to third parties. The Company's sales and revenue decreased by \$1.5 million or 3.6% in the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008. The change in foreign currency exchange rates resulted in a decrease in sales and revenue of \$7.6 million. Before the effects of the change in foreign currency exchange rates, the sales and revenue in the Canadian operations increased by \$5.3 million or 15.7%. The sales and revenue from the U.S. operations increased by \$0.8 million or 8.8%. Increases in comparable store sales and the purchase of franchises contributed to the increase in sales and revenue in Canada and the U.S. The acquired Berrys' stores contributed \$1.0 million to sales during the first quarter of fiscal 2009.

In the first quarter of fiscal 2009, total merchandise sales through company-owned stores increased by \$2.2 million to \$21.9 million, accounting for an increase of 5.2% in consolidated sales and revenue. The change in foreign currency exchange rates resulted in a decrease in merchandise sales through company-owned stores of \$3.1 million. Before the effects of the change in foreign currency exchange rates, the merchandise sales through company-owned stores in the Canadian operations increased by \$4.5 million or 40%. Increases in Canada were due to both the increase in the number of company-owned stores in operation and the increase in comparable store sales. In the U.S. operations, merchandise sales through company-owned stores increased by \$0.8 million or 9.0%.

Merchandise revenue from franchisees includes (1) merchandise sales at U.S. franchise stores; and (2) merchandise sold to Canadian franchisees together with related franchise distribution charges, royalty revenue and percentage rent revenue. Total merchandise revenue from franchise stores decreased by \$3.7 million to \$18.9 million, accounting for an 8.6% decrease in consolidated sales and revenue. The change in foreign currency exchange rates resulted in a decrease in revenue from franchisees of \$4.5 million. Before the effects of the change in foreign currency exchange rates, the merchandise revenue from franchise stores in the Canadian operations increased by \$0.8 million or 3.4%. In the U.S. operations, merchandise revenue from franchise stores was consistent with the prior year. In the Canadian operations, increases in comparable store sales were partially offset by a 7.2% decrease in the average number of franchise stores in operation.

Initial fees, other revenues and gains on the sale of franchises in the first quarter of fiscal 2009 of \$0.2 million were consistent with the prior year.

Wholesale revenue in fiscal 2008 of \$0.2 million was consistent with the prior year.

Gross profit

(\$12.8 million – 2009, \$13.5 million – 2008)

Gross profit on sales and revenue decreased by \$0.7 million or 4.7% in the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008. The change in foreign currency exchange rates resulted in a decrease in gross profit of \$2.4 million. Before the effects of the change in foreign currency exchange rates, gross profit in the Canadian operations increased by \$1.3 million or 12.1%. In the U.S. operations, gross profit increased by \$0.4 million or 17.7%. Blended gross profit margins decreased to 31.1% in the first quarter of fiscal 2009, as compared to 31.5% in the first quarter of the prior year.

Store operating expenses

(\$4.6 million – 2009, \$4.2 million – 2008)

Store operating expenses increased by \$0.4 million or 8.5% in the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008. The change in foreign currency exchange rates resulted in a decrease of \$0.6 million in store operating expenses. Before the effects of the change in foreign currency exchange rates, store operating expenses in the Canadian operations increased by \$1.0 million or 44.0%. In the U.S. operations, store operating expenses were consistent with the comparable period of the prior year. A 30% increase in the number of Canadian company-owned stores and increases in wages and bank charges contributed to the increase in store operating expenses.

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General and administrative expenses

(\$4.1 million – 2009, \$4.2 million – 2008)

General and administrative expenses decreased by \$0.1 million or 3.6% in the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008. The change in foreign currency exchange rates resulted in a decrease of \$0.9 million in general and administrative expenses. Before the effects of the change in foreign currency exchange rates, general and administrative expenses in the Canadian operations increased by \$0.9 million or 21.6%. In the U.S. operations, general and administrative decreased by \$0.1 million. Included in general and administrative expenses in the first quarter of fiscal 2009 were non-comparable items totaling \$0.4 million from the Company's actions in response to the expression of interest to acquire the Company and the assessment of strategic alternatives. Contributing to the increase in general and administrative expenses in Canada were increases in wages and benefits of \$0.3 million relating to annual salary increases and the addition of staff in various administrative departments and increases of \$0.2 million in other items.

Foreign exchange gains / losses

(\$0.2 million loss – 2009, \$0.2 million loss – 2008)

Foreign currency exchange losses in the first quarter of fiscal 2009 were less than \$0.1 million lower than losses in the comparable period of the prior year. Losses of approximately \$0.1 million were incurred in relation to a US dollar denominated loan to the Canadian operations from the US operations. These losses are non-cash losses and will not be realized until the loan is repaid. The remaining \$0.1 million loss is in relation to US dollar denominated bank operating loans and accounts payable in the Canadian operations. The Company has adopted a policy to limit the amount of US dollar denominated borrowings under its operating loans to \$1 million, to minimize foreign exchange gains or losses of this nature.

Net interest expense

(\$0.2 million – 2009, \$0.5 million – 2008)

Net interest expense decreased by \$0.3 million or 58.6% in the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008. The change in foreign currency exchange rates resulted in a decrease of less than \$0.1 million in net interest expense. Before the effects of the change in foreign currency exchange rates, net interest expense in the Canadian operations decreased by \$0.2 million. In the U.S. operations, net interest expense was consistent with the comparable period of the prior year. Repayment of debentures in fiscal 2008 and reductions in bank borrowings contributed to the reduction in interest expense.

Income taxes

(\$1.1 million – 2009, \$1.5 million – 2008)

The provision for income taxes for the first quarter of fiscal 2009 was \$0.4 million less than the comparable period of the prior year. The effective tax rate for the first quarter of fiscal 2009 was 28.3% as compared to 33.9% in the first quarter of fiscal 2008. A higher percentage of the consolidated pre-tax income was generated by the U.S. operations in the first quarter of fiscal 2009 than the first quarter of fiscal 2008, which attracts no income tax provision due to the availability of NOL carryforwards to offset taxable income.

The Company reviews the likelihood of a realization of the NOL carryforwards of the U.S. operations on a regular basis. The Company believes it is more likely than not that a portion of the NOL carryforwards will be realized based on the current and projected taxable income of the U.S. operations. There is no adjustment to the valuation allowance relating to NOL carryforwards during interim periods.

Net income

(\$2.7 million – 2009, \$2.8 million – 2008)

Net income for the first quarter of fiscal 2009 decreased by \$0.1 million from the comparable period of the prior year. Net income before non-comparable items for the first quarter of fiscal 2009 was \$3.0 million as compared to \$2.8 million in the first quarter of fiscal 2008. Canadian operations net income before non-comparable items in the first quarter of fiscal 2009, excluding the effects of the change in the foreign currency exchange rates, increased by \$0.1 million as compared to the comparable period of the prior year. The change in foreign currency exchange rates resulted in a decrease of \$0.5 million in Canadian operations net income before non-comparable items. US operations net income increased by \$0.5 million. There were no non-comparable items in the US operations. Sales increases and improvements in blended gross profit margins in the US operations were partially offset by increases in operating expenses.

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Liquidity and Financial Position

At April 4, 2009, the Company had cash and short term investments of \$3.1 million as compared to \$2.4 million at the end of fiscal 2008.

The Company had non-cash working capital of \$13.9 million at the end of the first quarter of fiscal 2009, which was \$1.1 million more than the non-cash working capital of \$12.8 million at the end of fiscal 2008, largely due to an increase in inventory. There are no requirements to increase working capital in fiscal 2009; however, as store locations are added in the future or the breadth of product lines are expanded, inventory requirements may increase.

Merchandise accounts payable leveraging (trade payables over inventory) was 16.9% as of April 4, 2009 as compared to 16.0% as of January 3, 2009. The Company maintains a relatively low level of leveraging due to efforts to realize increased vendor discounts and allowances.

Total assets increased by approximately \$2.5 million to \$75.8 million at April 4, 2009, as compared to \$73.3 million at the end of fiscal 2008. In the first quarter of fiscal 2009, the change in foreign currency exchange rates resulted in a decrease of \$0.7 million in total assets. Before the effects of the change in foreign currency exchange rates, total assets in the Canadian operations increased by \$2.2 million or 3.7%. In the U.S. operations, total assets increased by \$1.0 million. An increase in warehouse inventory levels due to the inventory investment program, and increases in store inventory and fixed assets from franchise repurchases contributed to the increase in assets.

Cash used in operating activities in the first quarter of fiscal 2009 was \$0.1 million as compared to cash provided by operating activities of \$1.9 million in the comparable period of the prior year. Cash from operations was used for working capital items including an increase in inventory levels and a reduction in payables.

Net cash used in investing activities for the first quarter of fiscal 2009 was \$1.3 million as compared to \$1.0 million in the first quarter of fiscal 2008. In addition to the normal replacement of existing assets, the Company acquired various franchises. In Canada, as part of regular operations, franchises were repurchased on an on-going basis. During the first quarter of fiscal 2009, the Company repurchased seven franchise stores (2008 – two) for \$695,028 (2008 - \$552,283). Cash flow from operations was used to support the cost of repurchasing franchise store assets.

Replacements of certain property and equipment were funded through vendor leasing programs.

Net cash used in financing activities in the first quarter of fiscal 2009 was \$2.3 million as compared to \$0.1 million in the comparable period of the prior year. During the first quarter of fiscal 2009, the Company borrowed additional funds from the bank operating line to fund the operating and investing activities. In the first quarter of fiscal 2008, the Company received \$1.9 million from the exercise of warrants by certain warrant holders and used \$1.3 million to acquire exchangeable shares of Pet Valu Canada Inc. under a normal course issuer bid.

The Company anticipates that cash flow from current operations will be sufficient to meet debt servicing obligations for fiscal 2009. Future expansion will be funded through operating cash flow. The Company anticipates that it will continue to generate positive cash flow for the foreseeable future.

The Company has certain debt obligations that will mature in fiscal 2009. The Company has adequate financial resources to meet these maturities as they come due.

Capital Resources

The Company's Credit Agreement provides the Company with a C\$20 million revolving line of credit for a term of five years and a C\$5 million term loan to be repaid over twenty-four months. The Credit Agreement contains a financial covenant in relation to debt service and certain limitations regarding indebtedness, liens, leases, dividends and capital expenditures. The Company is in compliance with the covenants contained in the Credit Agreement as of the date hereof.

At April 4, 2009, the Company had utilized C\$10.1 million of the revolving line of credit as compared to C\$6.2 million at January 3, 2009.

During the third quarter of fiscal 2008, a new term loan for C\$5 million was drawn.

Pet Valu, Inc.

On March 5, 2008, 785,411 warrants to purchase exchangeable shares of Pet Valu Canada Inc. at C\$2.00 per share and 66,533 warrants to purchase exchangeable shares of Pet Valu Canada Inc. at C\$5.50 per share were exercised for proceeds of C\$1,936,754.

The Company does not have any commitments with respect to future capital expenditures. Replacement of existing capital assets will occur as required. Additions of furniture and fixtures are normally financed through internal cash flow. Additions of tractors, trailers, warehouse material handling equipment, and some computer and office equipment may be financed through vendor leasing programs.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements as of April 4, 2009 or January 3, 2009.

Contingent Liabilities

There are various claims outstanding against the Company including the matters referred to in the litigation paragraphs of the "Risks and Uncertainties" section of this MD&A.

Financial Instruments

The Company's consolidated financial statements include various financial instruments, namely, cash and short term investments, accounts receivable, other receivables, notes receivable, bank overdraft, bank operating loans, accounts payable and accrued liabilities, long term debt and subordinated debentures.

Cash and short term investments

The Company's excess cash is invested in overnight deposits with high quality financial institutions to generate a return on these funds. The Company assesses the credit and interest rate risks on these investments as minimal.

Accounts Receivable and Other Receivables

The Company's accounts receivable and other receivables are from its suppliers and the Company's franchise operators. The Company assesses the credit risk on its receivables from franchises to be minimal due to the short settlement terms on these receivables and the distributed nature of the balance between a large number of franchise operators. The Company assesses the credit risk on its receivables from its suppliers to be minimal due to its ability to offset any monies owed by the supplier against amounts owed to the supplier for goods purchased.

Long term debt

The Company's long term debt consists of a term loan with its bank, capital leases and supplier and other notes payable. The term loan, which comprises the majority of the long term debt, and the supplier and other notes payable have floating rates of interest based on Canadian and U.S. bank prime. The Company believes that debt subject to variable interest rates is at an acceptable level and that any current obligations affected by minor fluctuations in rates can be met by current operations.

Foreign currency exchange risk on financial instruments

The Company is exposed to risks arising from fluctuations in currency exchange rates between Canadian dollars and United States dollars. Generally, this risk is minimal as the majority of the financial instruments are short term in nature and held in the local currency of the respective operating company. The Canadian subsidiaries borrow US dollars through their bank operating line and from the US subsidiaries to facilitate merchandise purchases from US suppliers. While the amount borrowed in foreign currencies at any given time varies, borrowing levels at the end of the first quarter of fiscal 2009 would result in gains or losses of approximately \$360,000 for each 5% change in the Canadian / US currency exchange rate, with gains occurring as the Canadian dollar strengthens and losses occurring as the Canadian dollar weakens. The Company has adopted a policy to limit the amount of US dollar denominated borrowings under its operating loans to \$1 million, to minimize the foreign exchange gains or losses.

Pet Valu, Inc.

Risks and Uncertainties

The Company is exposed to a number of risks in the normal course of its business that have the potential to affect operating performance. Exposure to certain risks is an integral part of carrying on business.

Competition

The Company's stores compete with four main types of competitors: (i) grocery product retailers; (ii) pet specialty stores; (iii) pet product superstores; and (iv) pet shops. Grocery product retailers include grocery stores, mass merchandisers, warehouse clubs, and convenience retailers such as some convenience stores, discount stores, drug stores, and hardware general merchandise stores.

The Company's stores compete with these groups by seeking to offer products at competitive prices as well as higher margin, high-quality products including private label and natural and wellness focused products, and by seeking to provide a convenient, friendly, service-oriented shopping environment in which customers may discuss their pets and obtain product information and advice about the care of their pets from knowledgeable staff.

The Company expects continued increases in competition and plans to address this challenge by employing strategies focused on its key competitive strengths. These include customer service, convenience, and the introduction of new specialty and wellness focused products.

Dependence on Key Personnel

The success of the Company is dependent to a significant degree upon the expertise and experience of its senior management, most of whom have been with the Company for many years. The Company's continued success could depend on its ability to retain current management or hire comparable replacement personnel.

Reliance on Suppliers, Product Lines and Current Distribution Arrangements

The Company purchases significant amounts of its merchandise from certain key suppliers. A termination or interruption in the flow of merchandise from any of these vendors or any other significant suppliers of pet food or pet-related supplies offered by the Company could have an adverse impact on the Company.

Economic Conditions and Resulting Product Cost Inflation

Economic conditions including escalating costs in energy, agricultural products, and livestock used either in the production of food products or as ingredients in food products sold by the Company may result in inflation in the cost of many products sold by the Company. In periods of cost inflation, the Company believes retail prices could increase among all retailers. The Company's inventory investment strategy is expected to provide a competitive advantage in this regard. In the event that weaker economic conditions persist and consumers begin to change their purchasing patterns, the Company's convenient locations and strong private label programs are expected to provide it with an advantage.

Foreign Exchange Risks Associated with Merchandise Purchased in Foreign Currencies

The Company purchases certain of its goods for resale from foreign suppliers in foreign currencies. The foreign currency exchange rate at the time of purchase is included in the calculation of the cost of the product. There are, therefore, the usual risks associated with exchange rate fluctuations. Currently, the Company's Canadian subsidiaries purchase approximately 25% of its products in US dollars. The Company does not currently hedge against changes in the US / Canadian currency exchange rates.

Risks Associated with Importing Merchandise

The Company imports merchandise into Canada from the US and other countries and into the US from Canada and other countries. This merchandise includes products that are subject to various laws and rules, including those administered by the Food and Drug Administration in the U.S. and the Canadian Food Inspection Agency in Canada. These agencies are empowered to act to prevent the importing of goods for various reasons within their mandate. Broad import restrictions could negatively impact the ability of the Company to source products demanded by its customers. For example, import and export controls on animal protein ingredients of pet products pursuant to events such as the discovery of bovine spongiform encephalopathy in cattle or the avian flu virus in poultry could disrupt the supply of products available for the Company to sell, or affect the price of brand name products or the raw material ingredients for its private label products.

Pet Valu, Inc.

Leases

The Company leases space for most of the company-owned and franchise stores, as well as the majority of warehouse and office facilities. The terms of the leases vary by location. In the event of unreasonable rent increases upon renewal of store leases or an inability to secure renewals, relocation costs should not, in general, be material due to store sizes. However, there is the usual risk associated with the loss of a profitable retail location and the inability to find a substitute location of equal profitability. The Company does not anticipate at the present time any material impact on profitability in relation to potential losses of desirable store locations. With respect to warehouse and office facilities, the Company expects that it will be in a position to find adequate facilities in the event that it is unable to reach satisfactory extensions of lease terms at current locations.

Environmental Matters

As an owner, occupier, and lessor of property, the Company is subject to various laws relating to environmental matters. Under such laws an owner, occupier, or lessor could be liable for the costs of removal and remediation of certain contaminants with respect to the properties it owns, occupies, or leases. These risks are believed to be limited.

Litigation

Paulmac's is currently defending a motor vehicle claim where the amount claimed for damages totals C\$3.6 million and the limit of insurance coverage is C\$2.0 million. Moreover, the plaintiffs made a claim for punitive damages and there is no insurance coverage for punitive damages. While the outcome of this litigation is not certain, the Company believes that there are substantive defences to this claim.

Pet Valu, Inc. and its affiliates (other than Paulmac's) have, both before and after this claim, and Paulmac's has, since its acquisition by Pet Valu Canada Inc., maintained automobile insurance coverage limits which have been, and are, well in excess of the above limit and which have been, and are, adequate in the view of management to cover future risks similar to the above.

In fiscal 2007 Pet Valu, Inc. and Pet Valu Canada Inc. (the "Pet Valu Companies") were joined, or targeted to be joined, as defendants, along with manufacturers, Menu Foods Income Fund and its affiliates, certain other pet food retailers, and others, in five potential class action lawsuits concerning the manufacture and sale of pet food products alleged to contain melamine. The actions in which the Pet Valu Companies were joined were commenced in the Court Queen's Bench, Judicial Centre of Regina, Saskatchewan on or about March 21, 2007 (by the Plaintiffs Charmaine McBain, Kate Ibbetson, and Angela Kaye), in the Supreme Court of British Columbia on or about March 23, 2007 (by the Plaintiff Katherine Ewasew), and in the Supreme Court of Newfoundland and Labrador, Trial Division on or about September 5, 2007 (by the Plaintiff Glenn Esau). Actions in which the Pet Valu Companies were targeted to be joined were commenced in the Ontario Superior Court of Justice on or about March 28, 2007 (by the Plaintiffs Sharon Powell, Bobby-Joe Ravensky and Katherine Ewasew) and in the Court of Queen's Bench, Winnipeg Centre, Manitoba on or about March 30, 2007 (by the Plaintiff Barb Silva and Bobby-Joe Ravensky).

In the first half of fiscal 2008, a settlement agreement was reached involving all five above actions as well as approximately 100 other actions commenced in the U.S. and Canada which do not involve the Pet Valu Companies. The settlement agreement received final approval of the U.S. and Canadian courts in the latter half of 2008 but two appeals have since been filed in the U.S. contesting the final approval by the U.S. Court and these appeals will postpone the payment of any claims pursuant to the settlement. No date has been set for the hearing of these appeals. The settlement agreement creates a settlement fund of US\$24 million to be administered by a neutral claims administrator that will allow a potential recovery of up to 100% of all economic damages incurred by pet owners subject to certain limitations. The Pet Valu Companies expect that the settlement will have no financial impact on them.

From time to time, the Company is named as a defendant in other legal proceedings arising from its normal business activities. Although the amount of any liability that could arise with respect to currently pending actions cannot be estimated, in the opinion of the Company, any such liability is not likely to have a material adverse effect on its financial position, operating results or liquidity.

Seasonality

The Company does not have a significant exposure to seasonal fluctuations among its product lines. Historically, fourth quarter earnings tend to be stronger due to higher store sales and increased margins.

Pet Valu, Inc.

Inflation

The results of operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation, the Company believes that in areas other than retail pricing and product costs, which are discussed above, the effects of inflation on its operations have been immaterial over the last three years.

Market risks

The Company does not engage in financial transactions for trading or speculative purposes.

Expansion Plans

Expansion by the Company either through greenfield development or synergistic acquisition depends on several factors such as its ability to obtain favourable store sites and / or identify synergistic competitors, and to compete in existing or new markets.

Other Risks

Additional risks include: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; changes in consumer spending; customer preferences toward product offerings; adverse climate changes; the occurrence of a pandemic or other catastrophic event which could create shortages of labour, products or services required to operate the business profitably; the outcome of strategic alternatives being considered by the Company's board of directors; and changes in the laws, rules and regulations applicable to the Company or the markets in which the Company operates.

Transactions with related parties

There were no transactions with related parties in the first quarter of fiscal 2009. The Company had the following transactions with related parties in the first quarter of fiscal 2008:

- a) Interest payments were made on debentures held by certain officers and former directors of C\$209,710 in the first quarter of fiscal 2008. The principal amounts of these debentures and all outstanding interest was repaid on the maturity date of July 24, 2008.
- b) Payments of C\$3,750 for the first quarter of fiscal 2008 were made to a former director of the Company for consulting services provided regarding various matters.

Critical accounting estimates

There were no new critical accounting estimates in the first quarter of fiscal 2009. Please see the discussion of critical accounting estimates in the MD&A for the year ended January 3, 2009.

Changes in Accounting Policies including Initial Adoption

In December 2006, the CICA issued Handbook Section 1535. This section establishes standards for disclosing information about an entity's capital and how it is managed. An entity must disclose information to enable the users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The effect of adopting Section 1535 is that the Company explicitly discloses its objectives, policies and processes for managing capital (Note 7).

In December 2006, the CICA issued Handbook Section 3862 and Section 3863. Entities are required to provide disclosures and presentations in the financial statements to enable the users of those statements to evaluate the significance of the financial instruments for the entity's financial position and performance. The additional disclosures and presentations will also enable the users to evaluate the extent of risks arising from financial instruments and how well the entity manages those risks. The sections apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. An entity may choose to early adopt the requirements in conjunction with Handbook Section 3855. The effect of adopting Sections 3862 and 3863 is that the Company has placed more emphasis on disclosure of the nature and extent of risks arising from financial instruments to which the Company is exposed and how those risks are managed (Note 13).

Pet Valu, Inc.

In June 2007, the CICA issued Handbook Section 3031. This section replaced the existing Handbook Section 3030 Inventories. The section establishes standards for the measurement and disclosure of inventories. The section states that inventories shall be measured at the lower of cost and net realizable value. Cost is defined as all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location. An entity may use the standard cost method or the retail method if it is determined that the results approximate cost. It is applicable to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of Handbook Section 3031 has not had a material effect on the Company's financial position, results of operations, or cash flows.

In February 2008, the CICA issued Handbook Section 3064. This new handbook section replaces Section 3062 Goodwill and Intangibles and Section 3450 Research and Development Costs. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The section outlines the criteria to be used to recognize an intangible asset. It gives further guidance on capitalizing intangible assets during the research and development stages. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of Handbook Section 3064 did not have a material effect on the Company's financial position, results of operations, or cash flows.

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as currently used by the Company, being converged with International Financial Reporting Standards ("IFRS") over a transitional period, with a changeover date for the first fiscal year beginning on or after January 1, 2011. The Company will begin the development of an IFRS changeover plan later this year, which will include an assessment of resource and training requirements, analyzing key differences and selecting accounting policies under IFRS and IFRS 1 exemptions. The Company plans to assess the impact on accounting policies, data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, during the period prior to the changeover date.

Outstanding Share Data

The following table contains the number of outstanding voting or equity securities. Please refer to notes 6 and 8 of the first quarter fiscal 2009 financial statements for additional information.

	<u>May. 12, 2009</u>	<u>Apr. 4, 2009</u>	<u>Jan. 3, 2009</u>
Common Stock of Pet Valu, Inc.	100	100	100
Special Voting Stock of Pet Valu, Inc.	-	-	-
Additional Special Voting Stock of Pet Valu, Inc.	9,626,274	9,626,274	9,626,274
Exchangeable Shares of Pet Valu Canada Inc.	9,495,020	9,495,020	9,495,020
Common Shares of Pet Valu Canada Inc. (held by Pet Valu, Inc.)	1	1	1
Non-voting securities convertible into Exchangeable Shares of Pet Valu Canada Inc.:			
8.5% debentures of Pet Valu Canada Inc. (face value C\$3.7 million)	672,727	672,727	672,727

Pet Valu, Inc.

Outlook

The Company continues to pursue strategic initiatives to improve earnings during 2009 as were outlined in the Outlook section of the fiscal 2008 Annual Report.

Strategies Addressing Current Economic Conditions

The Company has implemented specific programs to address recession-based impacts. These include specific initiatives with respect to reductions in occupancy costs and other cost areas where reductions might be possible as a result of the current economic conditions. Cost reductions on warehouse leases are expected as leases are renewed during the third quarter of fiscal 2009 or otherwise negotiated for new facilities.

To the extent that there has been changes to the customer buying patterns as a result of the current economic conditions, the Company's financial performance has not been materially impacted. The Company will continue to monitor activity in all the markets in which the Company operates and respond accordingly.

Pursuit of Organic Growth

Organic growth has resulted primarily from the Company's reniching programs, including the additions of new differentiated products and the continued development of private label products. These reniching programs are ongoing and include various degrees of product differentiation, staff training, facilities upgrades, and customer service initiatives. The Company will continue to focus on these programs for the foreseeable future with the goal of increasing sales, maintaining strong margins and improving the customer experience and product selection.

Franchising

An updated franchise program is expected to be finalized later this year in order to extend the terms of existing franchise agreements, facilitate the franchising of corporate stores, and improve the capacity to enter new markets by franchising greenfield stores.

Initiatives to Sustain Growth in Earnings

Improvements to the efficiency of the operation of the business are being sought through expanded automation in relation to both routine decision-making and inventory management. Improvements to productivity are being pursued through the introduction of performance management measures at all levels of staffing.

Improvements to margins are being pursued through the continuous expansion of private label lines and the introduction of more specialized products.

Pet Valu, Inc.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company has designed disclosure controls and procedures to provide reasonable assurance that material information related to the Company is included in the annual and quarterly filings. In addition, the Company evaluated the effectiveness of the disclosure controls and procedures as of the end of the annual filing period of January 3, 2009 and concluded that these controls were effective.

The Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company evaluated the effectiveness of the internal controls over financial reporting as of the end of the annual filing period of January 3, 2009 and concluded that these controls were effective.

There have been no changes in the Company's internal controls over financial reporting during the first quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Pet Valu, Inc.

May 12, 2009

To the Shareholders of Pet Valu, Inc.:

An auditor has not reviewed the consolidated balance sheet or the consolidated statement of shareholders' equity of Pet Valu, Inc. as at April 4, 2009, nor the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the thirteen week period then ended.

Pet Valu, Inc.

Consolidated Balance Sheets

In accordance with Canadian generally accepted accounting principles

(Unaudited)

(In U.S. dollars)

	April 4, 2009	January 3, 2009
Assets		
Current assets		
Cash and short-term investments	\$ 3,145,441	\$ 2,425,424
Accounts receivable	1,874,044	1,605,128
Income taxes recoverable	436,805	-
Other receivables	882,275	962,771
Inventories	35,231,314	34,237,470
Prepaid expenses and other assets	2,888,383	3,071,558
Future income taxes (Note 10)	939,069	960,893
Total current assets	45,397,331	43,263,244
Notes receivable (Less allowances of \$3,764, 2008 - \$3,810)	12,719	15,730
Deferred rent receivable and other assets	989,441	983,261
Property and equipment, net of accumulated depreciation and amortization	8,810,994	8,515,195
Goodwill	15,730,974	15,703,335
Future income taxes (Note 10)	4,833,290	4,837,327
Total assets	\$ 75,774,749	\$ 73,318,092
Liabilities and Shareholders' Equity		
Current liabilities		
Bank overdraft	\$ 1,232,385	\$ 1,457,101
Bank operating loans (Note 4)	8,186,967	5,132,159
Current portion of long-term debt including capital lease obligations (Note 5)	2,453,255	2,486,299
Deferred gain on warehouse sale	97,682	152,108
Trade accounts payable	5,941,478	5,468,561
Accrued liabilities	4,042,265	5,774,612
Accrued wages and benefits	3,498,211	3,988,362
Income taxes payable	-	620,101
Subordinated debentures (Note 6)	2,935,634	2,947,258
Total current liabilities	28,387,877	28,026,561
Deferred franchise revenue	5,153	5,492
Deferred rent payable	2,504,094	2,431,255
Long-term debt including capital lease obligations, less current maturities (Note 5)	1,778,919	2,237,030
Total liabilities	32,676,043	32,700,338
Contingencies (Note 11)		
Shareholders' Equity		
Accumulated earnings	26,970,693	24,245,113
Accumulated other comprehensive loss	(7,250,668)	(6,987,180)
	19,720,025	17,257,933
Capital stock (Notes 8 and 9)	963	963
Contributed surplus	24,069,703	24,050,843
Treasury stock – exchangeable shares, at cost	(691,985)	(691,985)
Total shareholders' equity	43,098,706	40,617,754
Total liabilities and shareholders' equity	\$ 75,774,749	\$ 73,318,092

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

Pet Valu, Inc.

Consolidated Statements of Operations

In accordance with Canadian generally accepted accounting principles

(Unaudited)

(In U.S. dollars)

	Thirteen Weeks Ended	
	April 4, 2009	March 29, 2008
Sales and revenue	\$ 41,274,373	\$ 42,800,203
Cost of sales including occupancy costs	28,330,361	29,315,889
Gross profit	12,844,012	13,484,314
Store operating expenses excluding occupancy costs	4,578,741	4,219,737
General and administrative expenses	4,083,438	4,236,219
	4,181,833	5,028,358
Net interest expense	202,877	489,910
Loss on foreign exchange	177,520	248,291
Income before income taxes	3,801,436	4,290,157
Income taxes provision	1,075,856	1,455,325
Net income	\$ 2,725,580	\$ 2,834,832
Basic EPS (Note 2)	\$ 0.29	\$ 0.32
Diluted EPS (Note 2)	0.27	0.28
Weighted average number of common stock and exchangeable shares outstanding:		
Basic (Note 2)	9,495,120	8,757,434
Diluted (Note 2)	10,348,217	10,303,162

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

Pet Valu, Inc.

Consolidated Statements of Comprehensive Income

In accordance with Canadian generally accepted accounting principles

(Unaudited)

(In U.S. dollars)

	Thirteen Weeks Ended	
	April 4, 2009	March 29, 2008
Net Income	\$ 2,725,580	\$ 2,834,832
Other comprehensive income		
Unrealized foreign currency translation gains and losses	(263,488)	(725,784)
Comprehensive Income	\$ 2,462,092	\$ 2,109,048

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

Pet Valu, Inc.

Consolidated Statements of Shareholders' Equity

In accordance with Canadian generally accepted accounting principles

(Unaudited)

(In U.S. dollars)

	Additional Special Voting Stock	Contributed Surplus	Accumulated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity (Deficit)
Balance – December 29, 2007	\$ 963	\$ 21,805,645	\$ 11,070,145	\$ (2,269,085)	\$ (691,985)	\$ 29,915,683
Stock-based compensation costs	–	53,997	–	–	–	53,997
Repurchase of Exchangeable Shares (Note 8)	–	(350,578)	(1,563,605)	–	–	(1,914,183)
Issuance of Exchangeable Shares (Note 9)	–	2,541,779	–	–	–	2,541,779
Net Income	–	–	14,738,573	–	–	14,738,573
Foreign currency translation Adjustments	–	–	–	(4,718,095)	–	(4,718,095)
Balance – January 3, 2009	\$ 963	\$ 24,050,843	\$ 24,245,113	\$ (6,987,180)	\$ (691,985)	\$ 40,617,754
Stock-based compensation costs	–	18,860	–	–	–	18,860
Net Income	–	–	2,725,580	–	–	2,725,580
Foreign currency translation adjustments	–	–	–	(263,488)	–	(263,488)
Balance – April 4, 2009	\$ 963	\$ 24,069,703	\$ 26,970,693	\$ (7,250,668)	\$ (691,985)	\$ 43,098,706

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

Pet Valu, Inc.

Consolidated Statements of Cash Flows

In accordance with Canadian generally accepted accounting principles
(Unaudited)
(In U.S. dollars)

Thirteen Weeks Ended
April 4, 2009 March 29, 2008

	April 4, 2009	March 29, 2008
Operating activities		
Net income	\$ 2,725,580	\$ 2,834,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	470,648	480,955
Future income taxes	14,934	18,821
Loss (gain) on disposal of property and equipment	8,160	(10,133)
Amortization of debenture discount	23,538	29,194
Loss on foreign exchange	177,520	248,291
Stock based compensation costs	18,860	4,399
Deferred charges	80,372	120,200
Amortization of deferred gain on warehouse sale	(51,958)	(64,443)
Changes in other operating assets and liabilities:		
(Increase) decrease in receivables	(210,450)	694,359
Increase in inventories	(917,346)	(1,058,604)
Decrease in prepaid expenses	153,460	201,469
Increase (decrease) in trade accounts payable	518,382	(109,969)
Decrease in accrued liabilities	(2,112,347)	(413,265)
Decrease in income taxes	(1,036,629)	(1,057,154)
Net cash (used in) provided by operating activities	(137,276)	1,918,952
Investing activities		
Purchases of property and equipment	(633,687)	(479,086)
Proceeds on disposal of property and equipment	3,212	10,573
Business Acquisitions (Note 3)	(695,028)	(552,283)
Notes and other receivables	2,518	4,047
Net cash used in investing activities	(1,322,985)	(1,016,749)
Financing activities		
Borrowing of short-term financing	3,078,756	824,646
Decrease in bank overdraft	(204,677)	(634,898)
Repayment of capital lease obligation	(89,642)	(92,768)
Issuance of Exchangeable Shares	-	1,934,131
Repayment of term loan financing	(501,807)	(629,380)
Repurchase of Exchangeable Shares	-	(1,262,866)
Net cash provided by financing activities	2,282,630	138,865
Effect of exchange rate changes on cash	(102,352)	(89,776)
Net increase in cash	720,017	951,292
Cash and short-term investments – Beginning of fiscal period	2,425,424	1,635,834
Cash and short-term investments – End of fiscal period	\$ 3,145,441	\$ 2,587,126

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

Pet Valu, Inc.

Notes to Consolidated Financial Statements

For the thirteen week periods ended April 4, 2009 and March 29, 2008

In accordance with Canadian generally accepted accounting principles
(Unaudited)

(All amounts are expressed in U.S. dollars, unless otherwise indicated.)

(Canadian dollar reporting shall be cited as C\$)

1. Significant Accounting Policies

The unaudited interim consolidated financial statements (the "financial statements") have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the accounts of Pet Valu, Inc. and its subsidiaries. These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the 53 week period ended January 3, 2009.

These financial statements follow the same accounting policies and their methods of application as described in the most recent annual financial statements for the 53 week period ended January 3, 2009, except as noted below.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to current year's presentation.

Newly Adopted Accounting Standards

In December 2006, the CICA issued Handbook Section 1535. This section establishes standards for disclosing information about an entity's capital and how it is managed. An entity must disclose information to enable the users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The effect of adopting Section 1535 is that the Company explicitly discloses its objectives, policies and processes for managing capital (Note 7).

In December 2006, the CICA issued Handbook Section 3862 and Section 3863. Entities are required to provide disclosures and presentations in the financial statements to enable the users of those statements to evaluate the significance of the financial instruments for the entity's financial position and performance. The additional disclosures and presentations will also enable the users to evaluate the extent of risks arising from financial instruments and how well the entity manages those risks. The sections apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. An entity may choose to early adopt the requirements in conjunction with Handbook Section 3855. The effect of adopting Sections 3862 and 3863 is that the Company has placed more emphasis on disclosure of the nature and extent of risks arising from financial instruments to which the Company is exposed and how those risks are managed (Note 13).

In June 2007, the CICA issued Handbook Section 3031. This section replaced the existing Handbook Section 3030 Inventories. The section establishes standards for the measurement and disclosure of inventories. The section states that inventories shall be measured at the lower of cost and net realizable value. Cost is defined as all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location. An entity may use the standard cost method or the retail method if it is determined that the results approximate cost. It is applicable to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of Handbook Section 3031 has not had a material effect on the Company's financial position, results of operations, or cash flows.

In February 2008, the CICA issued Handbook Section 3064. This new handbook section replaces Section 3062 Goodwill and Intangibles and Section 3450 Research and Development Costs. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The section outlines the criteria to be used to recognize an intangible asset. It gives further guidance on capitalizing intangible assets during the research and development stages. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of Handbook Section 3064 did not have a material effect on the Company's financial position, results of operations, or cash flows.

Pet Valu, Inc.

2. Net Earnings per Share

Basic earnings per share ("EPS") exclude potentially dilutive securities and are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed assuming the conversion or exercise of all dilutive securities such as convertible debentures, options and warrants.

In order to reflect the economic substance of the Company's capital structure, the computation of basic EPS is based on the aggregate number of shares of common stock of Pet Valu, Inc. ("Common Stock") and exchangeable shares of its subsidiary, Pet Valu Canada Inc. ("Exchangeable Shares"), excluding treasury stock. Diluted EPS is based on the diluted effect of equity and debt instruments convertible into either Common Stock or Exchangeable Shares (Note 9).

In the first quarter of fiscal 2009 and fiscal 2008, the calculation of diluted EPS included certain stock options, warrants and convertible debt outstanding during the relevant period. The debt was convertible into 672,727 Exchangeable Shares. Stock options and warrants to purchase 333,390 Exchangeable Shares and/or Common Stock were outstanding on April 4, 2009 (January 3, 2009 – 333,390) (Note 9). The Company uses the treasury method to determine the number of Exchangeable Shares to be added to the denominator due to dilutive warrants and options.

Net income applicable to holders of Common Stock and Exchangeable Shares:
(In U.S. dollars)

	13 Weeks Ended	
	April 4, 2009	March 29, 2008
Net income for the year	\$ 2,725,580	\$ 2,834,832
Net income applicable to holders of Common Stock and Exchangeable Shares		
Basic	\$ 2,725,580	\$ 2,834,832
Interest on 8.5% debenture	41,980	52,067
Diluted	\$ 2,767,560	\$ 2,886,899
Basic EPS	\$ 0.29	\$ 0.32
Diluted EPS	\$ 0.27	\$ 0.28
Weighted average number of Common Stock and Exchangeable Shares outstanding:		
Basic	9,495,120	8,757,434
Effect of dilutive stock options outstanding	180,370	366,062
Effect of dilutive warrants outstanding	-	506,939
Effect of conversion of 8.5% debenture	672,727	672,727
Diluted	10,348,217	10,303,162

Pet Valu, Inc.

3. Business Acquisitions

	13 Weeks Ended	
	April 4, 2009	March 29, 2008
Franchise Repurchases (see a below)	\$ 695,028	\$ 552,283
Other Business Acquisition (see b below)	-	-
Net Cash Consideration Paid	\$ 695,028	\$ 552,283

a) Franchise Repurchases

Included in the consolidated financial results of the Company are repurchases of franchise stores. The repurchases have been accounted for through the purchase method.

	13 Weeks Ended	
	April 4, 2009	March 29, 2008
Number of Stores Repurchased	7	2
Inventory	\$ 416,666	\$ 171,607
Property and equipment	68,503	29,038
Goodwill	209,859	351,638
Cash consideration	\$ 695,028	\$ 552,283

b) Other Business Acquisition

On August 22, 2008, the Company's Canadian operating subsidiary, Pet Valu Canada Inc., acquired 100% of the issued and outstanding shares of four corporations; Pets Choice Distributors Ltd, 1517256 Ontario Inc., 1202772 Ontario Ltd. and 869317 Ontario Ltd.. Together, these four companies operate a chain of 15 pet food and supply retail stores operating under the "Berrys...Your PetsChoice" banner in eastern Ontario. The primary reasons for the acquisition were to increase sales and gross margins and to expand the Company's presence in Ontario.

The aggregate purchase price was \$2,270,645 and was paid in cash from the Company's bank operating line of credit. The cash consideration paid, net of cash acquired of \$39,904, was \$2,230,741.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	August 22, 2008
Current assets	\$ 842,005
Property and equipment	31,801
Goodwill	1,722,246
Total assets acquired	\$ 2,596,052
Current liabilities assumed	365,311
Net assets acquired	\$ 2,230,741

The \$1,722,246 of goodwill was assigned to the Canadian segment for purposes of segmented reporting. None of the goodwill is expected to be deductible for tax purposes.

Pet Valu, Inc.

3. Business Acquisitions (Continued)

The following table shows the consolidated financial results of the Company as if the acquisition had been completed at the beginning of the 2008 fiscal year.

	13 Weeks Ended March 29, 2008	
Proforma revenue	\$	43,824,899
Proforma net income	\$	2,930,280
Proforma earnings per share		
Basic	\$	0.33
Diluted	\$	0.29
Weighted average number of Common Stock and Exchangeable Shares outstanding:		
Basic		8,757,434
Diluted		10,303,162

4. Bank Operating Loans

In July 2006, the Company entered into an amended and restated credit agreement with Bank of Montreal and Harris, N.A. The credit agreement provides the Company with a revolving line of credit for a term of five years and a C\$5,000,000 term loan to be repaid over twenty-four months. Borrowings under the revolving line of credit are limited to the lesser of the loan ceiling (C\$20 million as at April 4, 2009 and January 3, 2009) and a borrowing base calculation related to inventories and franchise receivables.

On July 23, 2008, the Company entered into an amending agreement with its bank that increased the ceiling on the revolving line of credit from a maximum of C\$15 million to a maximum of C\$20 million. In addition, the amendment created a new C\$5 million term loan that bears interest at prime plus 1% and is repayable in 24 equal monthly installments. Concurrently with the execution of the amending agreement, the balance of the term loan on that date, plus all accrued interest, totaling C\$627,160, was repaid. All other terms in the existing credit agreement remained substantially the same. On April 4, 2009, the borrowings outstanding under the credit facility were \$8,186,967 (January 3, 2009 - \$5,132,159). The borrowing base calculation exceeded the loan ceiling; therefore borrowings were limited to C\$20,000,000 at April 4, 2009 and January 3, 2009. The resulting availability at April 4, 2009 was C\$9,926,756 (January 3, 2009 - C\$13,761,348). Interest on the revolving line of credit is calculated using the bank's prime rate plus 0.25% per annum. The interest rates at April 4, 2009 were 2.75% for Canadian dollar borrowings and 4.00% for U.S. dollar borrowings. In addition, a fee of 0.25% is charged on the unused portion of the credit facility.

The facility is collateralized by liens against all assets of the Company, subject to certain permitted encumbrances.

Pursuant to the above agreement, in addition to its borrowing base restrictions, the Company must comply with certain general covenants which include, among others, a minimum consolidated debt service ratio. The Company was in compliance with the covenants at April 4, 2009.

Pet Valu, Inc.

5. Long-term Debt

	April 4, 2009			January 3, 2009		
	Long-term	Current	Total	Long-term	Current	Total
Bank term loan	\$ 677,286	\$2,031,860	\$ 2,709,146	\$ 1,199,682	\$2,056,598	\$ 3,256,280
Supplier notes payable	108,137	108,137	216,274	108,632	108,632	217,264
Capitalized lease obligations	993,496	313,258	1,306,754	928,716	321,069	1,249,785
Total	\$ 1,778,919	\$2,453,255	\$ 4,232,174	\$ 2,237,030	\$2,486,299	\$ 4,723,329

Bank Term Loan

The bank term loan is part of the amended and restated credit agreement (Note 4). The loan bears interest at prime plus 1% (3.50% at April 4, 2009) and matures July 23, 2010. The loan is repayable in 24 equal monthly installments.

Supplier Notes Payable

During fiscal 2000, the Company entered into loan agreements with a supplier. These loans are payable in annual principal installments of C\$50,000 and US\$67,500, respectively and mature in 2010. The loans bear interest, payable monthly, at Canadian bank prime (2.50% at April 4, 2009) and U.S. prime for U.S. dollar borrowings within the United States (3.25% at April 4, 2009), respectively. Pursuant to the loan agreements, the Company must meet certain merchandise purchase targets. If the targets are not met, the principal repayments are accelerated based on a formula.

Capital Lease Obligations

The Company financed certain automotive equipment and computer and office equipment under capital leases with a capitalized cost included in property and equipment of \$2,107,877 and \$2,283,502 as at April 4, 2009 and January 3, 2009, respectively. Accumulated depreciation relating to these assets was \$853,114 and \$1,082,075 as at April 4, 2009 and January 3, 2009, respectively.

Future repayments are as follows:

	Bank Term Loans	Supplier Notes Payable	Capitalized Lease Obligations	Total
2009	\$ 1,523,895	\$ 108,137	\$ 319,498	\$ 1,951,530
2010	1,185,251	108,137	348,010	1,641,398
2011	-	-	279,203	279,203
2012	-	-	235,383	235,383
2013	-	-	196,573	196,573
2014	-	-	114,742	114,742
2015	-	-	79,394	79,394
2016	-	-	35,418	35,418
2017	-	-	6,847	6,847
	\$ 2,709,146	\$ 216,274	\$ 1,615,068	\$ 4,540,488
Less: Interest	-	-	308,314	308,314
Current Maturities	2,031,860	108,137	313,258	2,453,255
Total	\$ 677,286	\$ 108,137	\$ 993,496	\$ 1,778,919

Pet Valu, Inc.

6. Subordinated Debentures

	April 4, 2009			January 3, 2009		
	Face Value (Converted from C\$)	Unamortized Discount	Net	Face Value (Converted from C\$)	Unamortized Discount	Net
8.5% subordinate (convertible)	\$ 2,935,634	\$ -	\$ 2,935,634	\$ 2,947,258	\$ -	\$ 2,947,258
10% subordinate (non-convertible)	-	-	-	-	-	-
	\$ 2,935,634	\$ -	\$ 2,935,634	\$ 2,947,258	\$ -	\$ 2,947,258
Balance Sheet Classification						
Current	2,935,634	-	2,935,634	2,947,258	-	2,947,258
Non-Current	-	-	-	-	-	-
	\$ 2,935,634	\$ -	\$ 2,935,634	\$ 2,947,258	\$ -	\$ 2,947,258

(a) 8.5% Convertible

Pet Valu Canada Inc. has an outstanding 8.5% convertible subordinated unsecured debenture in the amount of C\$3,700,000. This debenture is convertible, at any time, into Exchangeable Shares at a conversion price of C\$5.50 per share and is repayable by Pet Valu Canada Inc. on the terms specified in the applicable debenture holder agreement. The debenture is due in December of 2009. Interest on this debenture is paid quarterly.

(b) 10% Non-convertible

A private placement of 10% non-convertible unsecured subordinated debentures of Pet Valu Canada Inc. and guaranteed by Pet Valu, Inc. in the principal amount of C\$8,820,000 was completed on July 24, 2006. Interest on the 10% debentures was paid quarterly. The initial term of these debentures was two years. The holders had an option to extend for an additional two years. However, the deadline for holders to exercise their options to extend the debenture term expired and no holders exercised their option to extend. In accordance with the debenture agreement, the scheduled repayment of principal and accrued interest for the 10% Non Convertible Debentures was made on July 24, 2008 by cash payments to the debenture holders. The amount of the payments was C\$8,877,836, made up of principal repayments of C\$8,820,000 and accrued interest of C\$57,836. These payments were financed from the new Bank Term Loan (Notes 4 and 5), the Company's Bank Operating Line (Note 4) and funds provided from operations.

The investors in the private placement included, among others, certain then directors and/or officers of Pet Valu, Inc. and Pet Valu Canada Inc., directly or indirectly. In particular, Geoffrey Holt, who was a director (until May of 2008) and continues to be an officer of both companies, invested C\$5,000,000 through Holtcorp Inc., a personal holding company; Douglas Lunau, who was a director of both companies (until May of 2008), invested C\$3,000,000 through the Lunau Family Trust; Breena Holt, who was a director of both companies (until May of 2008) and a consultant to Pet Valu Canada Inc., invested C\$150,000; Darryl Squires, who was a director of both companies (until May of 2008), invested C\$20,000; and John Turner, who is an officer and part-time employee of Pet Valu Canada Inc., invested C\$150,000. As a result of a sale of certain of these debentures by Holtcorp Inc. to the Lunau Family Trust, completed on July 1, 2007, the principal amount of Holtcorp Inc.'s investment became C\$4,500,000 and that of Lunau Family Trust became C\$3,500,000.

Pet Valu, Inc.

7. Capital Disclosures

The Company considers its capital to include shareholders' equity and its subordinated debentures. As at April 4, 2009, the Company's capital was \$46,034,340 (January 3, 2009 - \$43,565,012).

The Company's objective when managing its capital is to seek continuous improvement in the return to its shareholders while maintaining a low to moderate tolerance level for risk. The objective is achieved by prudently managing the capital generated through internal growth and profitability, through the use of lower cost capital, including capital leases and bank debt, and raising share capital or debt when required to fund opportunities as they arise. The Company may also return capital to shareholders through the repurchase of shares or reduce debt where it determines either of these to be an effective method of achieving the above objective. The Company does not use ratios in the management of its capital.

The Company is not subject to any externally imposed capital requirements, although the Company's credit agreement with its bank contains certain restrictions on the issuance of debt, prepayment of debt, and dividends or distributions to shareholders.

8. Capital Stock

Authorized

9,626,274	Additional Special Voting Stock with a par value of \$0.0001 per share, possessing as a class a total number of votes equal to the number of outstanding Exchangeable Shares from time to time not owned by Pet Valu, Inc. or any of its subsidiaries.
100,000,000	Preferred Stock with 8% cumulative dividends, a par value of \$0.0624 per share, redeemable at the option of both the Company and the holder based on terms as defined.
20,000,000	Common Stock with a par value of \$0.0001 per share, possessing one vote per share.

Issued and Outstanding

	April 4, 2009		January 3, 2009	
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount
Additional Special Voting Stock	9,626,274	\$ 963	9,626,274	\$ 963
Common Stock	100	-	100	-
Additional paid-in capital		22,004,581		21,958,547
		\$ 22,005,544		\$ 21,959,510

In fiscal 2000, the Company reacquired the 100,000,000 shares of Preferred Stock and 1,000,000 warrants as part of a private placement. The Preferred Stock is now held by one of Pet Valu Canada Inc.'s subsidiaries, PVUS Holdings Inc. and is eliminated on consolidation. The warrants were cancelled.

Pet Valu Canada Inc. Shares

	April 4, 2009			January 3, 2009	
	Authorized	Issued	Outstanding	Pet Valu, Inc. Common Equivalents	Pet Valu, Inc. Common Equivalents
Common Shares, no par value	Unlimited	1	1	-	-
Exchangeable Shares, no par value	Unlimited	9,848,720	9,495,020	9,495,020	9,495,020
Class A Preferred Shares, no par value	7,000,000	-	-	-	-
Class B Preferred Shares, no par value	176,845	-	-	-	-
Class C Preferred Shares, no par value	1	-	-	-	-

Pet Valu Canada Inc. had one common share issued to Pet Valu, Inc. as of April 4, 2009 and January 3, 2009 which has been eliminated in consolidation.

Pet Valu, Inc.

8. Capital Stock (Continued)

Exchangeable Shares

The Exchangeable Shares have the right to dividends and can vote on an equivalent basis with the Common Stock and have exercise privileges which could result in the exchange of the Exchangeable Shares for Common Stock. The Exchangeable Shares vote in Pet Valu, Inc. through the Additional Special Voting Stock, which is held by CIBC Mellon Trust Company as trustee.

In order to reflect the economic substance of the Company's capital structure, the value of the Exchangeable Shares and equity instruments of Pet Valu Canada Inc. convertible into Exchangeable Shares have been included in shareholders' equity in the consolidated financial statements.

Pet Valu, Inc. held 353,700 Exchangeable Shares at April 4, 2009 and January 3, 2009 in treasury at cost.

During fiscal 2008, Pet Valu Canada Inc. repurchased and cancelled 131,400 Exchangeable Shares under a normal course issuer bid for cash in the amount of \$1,914,183. There have been no repurchases in the first quarter of fiscal 2009.

9. Stock Options and Warrants

The Company's Executive Stock Option Plan and Board Stock Option Plan (collectively, the "Plans") provide for the granting of options to purchase Exchangeable Shares to certain full-time employees and to members of the Company's Board of Directors. Required disclosure information with respect to these Plans has been combined due to the similarities of the Plans.

The Company has reserved 669,550 Exchangeable Shares of Pet Valu Canada Inc. for issuance pursuant to its Plans of which 336,160 are available for grant.

The weighted average fair value of the Common Stock and Exchangeable Share options granted in fiscal 2008 was \$3.06 per share. There were no Common Stock and Exchangeable Share options granted in the first quarter of fiscal 2009. The fair value of the Common Stock and Exchangeable Share options granted is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions:

	Fiscal periods ended	
	April 4, 2009	January 3, 2009
Expected dividend rate	-	0%
Expected volatility	-	33%
Weighted average risk-free interest rate	-	3.0%
Expected lives (years)	-	3

Pursuant to the terms of the Board Stock Option Plan, new board members are entitled to receive options that vest and become exercisable at a rate of 2,000 per year of service on the Board. Such options expire three years after vesting. The Board Plan permits the board to grant additional options to existing directors as well.

Pursuant to the terms of the Executive Stock Option Plan, certain full time employees are eligible to receive options that may be granted from time to time by the Company. The option exercise period shall not exceed ten years.

As of April 4, 2009, there were 9,000 Board options vested and exercisable and 287,890 Executive options vested and exercisable with weighted average exercise prices of C\$2.26 and C\$4.49, respectively.

Pet Valu, Inc.

9. Stock Options and Warrants (Continued)

Information with respect to all options outstanding is as follows:
(all amounts in Canadian dollars)

	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding December 29, 2007	479,950	\$ 1.30 – 4.99	\$ 2.97
Granted	79,500	11.74	11.74
Exercised	(208,060)	2.06 – 4.99	3.09
Cancelled	(18,000)	3.26 – 4.99	3.84
Outstanding January 3, 2009	333,390	\$ 1.30 – 11.74	\$ 4.94
Granted	-	-	-
Exercised	-	-	-
Cancelled	-	-	-
Outstanding January 3, 2009	333,390	\$ 1.30 – 11.74	\$ 4.94

The weighted average remaining term of options outstanding at April 4, 2009 was 1.04 years.

The following table summarizes information about stock options outstanding at April 4, 2009:

Range of exercise price	Options Outstanding	Options outstanding		Options exercisable	
		Weighted Average Remaining Contractual Life(yrs)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$ 1.30 – 1.46	5,720	1.78	\$ 1.44	5,720	\$ 1.44
2.06	35,000	5.62	2.06	25,000	2.06
2.80	139,670	0.72	2.80	139,670	2.80
3.26	4,000	0.60	3.26	4,000	3.26
3.28	69,500	0.53	3.28	69,500	3.28
11.74	79,500	4.75	11.74	53,000	11.74
	333,390			296,890	

Warrants

On March 5, 2008, 785,411 warrants exercisable at C\$2.00 and 66,533 warrants exercisable at C\$5.50 were exercised for proceeds of C\$1,936,754.

No warrants are outstanding as of April 4, 2009.

Issuance of Exchangeable Shares

	13 Weeks Ended			
	April 4, 2009		March 29, 2008	
	Shares Issued	Proceeds	Shares Issued	Proceeds
Exercise of Stock Options	-	-	2,000	\$ 5,477
Exercise of Warrants	-	-	851,944	1,928,654
	-	-	857,944	\$ 1,934,131

Pet Valu, Inc.

10. Income Taxes

The Company's future income tax assets are comprised of timing differences related to depreciable assets, intangible assets and net operating loss carryforwards. The Company reduces the future income tax assets by a valuation allowance for the portion of the net operating loss carryforward that management determined does not meet the more likely than not criteria for recognition. An estimate of future taxable income is used in this determination. This estimate is revised once a year in the fourth quarter unless there has been a significant change in the results of operations. Therefore, unless otherwise stated there is no adjustment to the valuation allowance during the interim periods.

11. Contingencies

From time to time, the Company is named as a defendant in legal actions arising from its normal business activities. Although the amount of any liability that could arise with respect to currently pending actions cannot be estimated, in the opinion of the Company, any such liability is unlikely to have a material adverse effect on its financial position, operating results or liquidity.

12. Related Party Transactions

The Company had the following transactions with related parties:

- a) Interest payments were made on debentures held by certain officers and former directors of C\$209,710 in the first quarter of fiscal 2008. The principal amounts of these debentures and all outstanding interest was repaid on the maturity date of July 24, 2008 (Note 6).
- b) Payments of C\$3,750 for the first quarter of fiscal 2008 were made to a former director of the Company for consulting services provided regarding various matters. No payments were made in the first quarter of the current fiscal year.

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

13. Financial Instruments

The Company has classified its assets and liabilities as follows:

Asset/Liability	Classification	Measurement
Cash and short-term investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Notes receivable	Loans and receivables	Amortized cost
Bank indebtedness and bank operating loans	Other liabilities	Amortized cost
Accounts payable and accruals	Other liabilities	Amortized cost
Capital lease obligations and other long-term debt	Other liabilities	Amortized cost
Subordinated debentures	Other liabilities	Amortized cost

The Company's estimate of the fair value of cash and short-term investments, trade accounts receivable, notes receivable and other receivables, trade accounts payable, accrued liabilities, accrued wages and benefits and income taxes payable approximates their carrying value due to the short-term nature of these instruments. The estimated fair value of supplier notes payable, bank overdrafts, bank operating loans, a term loan and other notes payable approximates the carrying value because of their variable interest rates. The carrying value of capital lease obligations approximates their fair value as their interest rates approximate current market interest rates. The subordinated debentures are not listed for trading on a stock exchange and are not actively traded. Accordingly, as fair value of these debentures is not readily determinable, the debentures are recorded at amortized cost.

Pet Valu, Inc.

13. Financial Instruments (Continued)

The Company, through its financial assets and liabilities, is exposed to various risks. The following is an analysis of those risks at April 4, 2009.

Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are cash and short-term investments and accounts and notes receivable. The Company's maximum exposure to credit risk was \$5,914,479 at April 4, 2009 (\$5,009,053 at January 3, 2009). The Company mitigates the risk on cash and short-term investments by the fact that its deposits are with various high quality financial institutions. The Company has receivables from its suppliers and from the Company's franchise operators. The credit risk on its receivables from suppliers is managed by the Company's ability to offset any monies owed by the supplier against amounts owed to the suppliers. The management of credit risk on its franchisee accounts receivable is maintained by having short settlement terms on these receivables.

Liquidity Risk

The Company manages its liquidity risk by maintaining various financing sources, including bank debt, subordinated debentures and capital leases. The Company maintains adequate availability on its operating loan to minimize this risk (Note 4). The Company also prepares financial projections to ensure that it has sufficient funds to meet its contractual debt obligations.

Foreign Currency Exchange Rate Risk

The Company is exposed to currency risks associated with its Canadian subsidiaries which have net liabilities, for bank loans and intercompany accounts, denominated in US dollars. At April 4, 2009, if the Canadian dollar had weakened 5 percent against the US dollar with all other variables held constant, after tax net income for the trailing four quarters would have been \$360,000 lower (Fiscal Year Ended January 3, 2009 - \$550,000). Conversely, if the Canadian dollar had strengthened 5% against the US dollar with all other variables held constant, after tax net income would have been \$360,000 higher (Fiscal Year Ended January 3, 2009 - \$550,000). The lower foreign currency exchange rate sensitivity in net income at April 4, 2009 compared with January 3, 2009 is due to a decrease in US dollar bank borrowings within the Company's Canadian subsidiaries.

Interest Rate Risk

Notes receivable, the bank operating loan (Note 4), bank term loan (Note 5) and supplier notes payable (Note 5) are all at variable interest rates. At April 4, 2009, if interest rates at that date had been 100 basis points lower, with all other variables held constant, after tax net income for the trailing four quarters would have been \$75,000 higher (Fiscal Year Ended January 3, 2009 - \$60,000) due to lower interest expense on variable rate borrowings. Conversely, if interest rates had been 100 basis points higher, with all other variables held constant, net income after taxes would have been \$75,000 lower (Fiscal Year Ended January 3, 2009 - \$60,000).

Pet Valu, Inc.

14. Segmented Financial Information

The Company operates exclusively in the pet product retail industry. The Company's reportable segments are based on geographic area. All intercompany revenues and expenses are eliminated in computing revenues and operating income. The accounting policies of the segments are the same as those described in Note 1 - Significant Accounting Policies.

Operating results and other financial data by segment were as follows:
(in thousands of U.S. dollars)

	Thirteen Weeks Ended	
	April 4, 2009	March 29, 2008
Sales and revenue to external customers		
Canada	\$ 31,814	\$ 34,107
U.S.	9,460	8,693
Total sales and revenue	\$ 41,274	\$ 42,800
Net interest expense		
Canada	\$ 200	\$ 486
U.S.	3	4
Total net interest expense	\$ 203	\$ 490
Net Income		
Canada	\$ 1,903	\$ 2,647
U.S.	823	155
Intersegment elimination	-	33
Total net income	\$ 2,726	\$ 2,835
Depreciation and amortization		
Canada	\$ 385	\$ 397
U.S.	86	84
Total depreciation and amortization	\$ 471	\$ 481
Purchases of property and equipment		
Canada	\$ 602	\$ 401
U.S.	32	78
Total purchases of property and equipment	\$ 634	\$ 479

Total assets and other financial data by segment were as follows:
(in thousands of U.S. dollars)

	April 4, 2009	January 3, 2009
Total assets		
Canada	\$ 105,971	\$ 107,887
U.S.	22,449	21,614
Intersegment elimination	(52,645)	(56,183)
Total assets	\$ 75,775	\$ 73,318
Capital assets and goodwill		
Canada	\$ 23,134	\$ 22,744
U.S.	1,408	1,475
Total capital assets and goodwill	\$ 24,542	\$ 24,219

