Indigo

Enrich your life®

THIRD QUARTER REPORT

FOR THE 13 AND 39-WEEK PERIODS ENDED DECEMBER 28, 2019

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 6, 2020 and is based primarily on the unaudited interim condensed consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 13 and 39-week periods ended December 28, 2019 and December 29, 2018. The Company's unaudited interim condensed consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." These statements reflect the adoption of International Financial Reporting Standards "IFRS" 16 *Leases* on March 31, 2019, using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, and no restatement of the prior comparative period. Please see "Adoption of IFRS 16 *Leases*" for further information. Except as otherwise noted, the same accounting policies and methods of computation as those used in the preparation of the fiscal 2019 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements do not contain all disclosures required by IFRS for annual financial statements. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes contained in this Quarterly Report, the audited annual consolidated financial statements and accompanying notes for the 52-week period ended March 30, 2019 and the MD&A included in the Company's fiscal 2019 Annual Report. The Annual Report and additional information about the Company, including the Annual Information Form, can be found on SEDAR at *www.sedar.com*.

Overview

Indigo is Canada's largest book, gift, and specialty toy retailer, operating stores in all ten provinces and one territory and offering online sales through the *indigo.ca* website and the Company's mobile applications. The Company also has retail operations in the United States through a wholly-owned subsidiary, operating its first retail store in Short Hills, New Jersey. As at December 28, 2019, the Company operated 88 superstores under the banners *Chapters* and *Indigo* and 111 small format stores under the banners *Coles*, *Indigospirit* and *The Book Company*.

The Company is inclusive of its wholly-owned subsidiaries; Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), along with its equity investment in Unplug Meditation, LLC ("Unplug").

The Company supports a separate registered charity called the Indigo Love of Reading Foundation (the "Foundation"). The Foundation provides new books and learning material to high-needs elementary schools across the country through donations from Indigo, its customers, its suppliers, and its employees.

Results of Operations

The following table summarizes the Company's consolidated results of operations for the periods indicated. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended December 28, 2019 and December 29, 2018. The Company implemented IFRS 16 *Leases*, on March 31, 2019 using the modified retrospective approach. As a result, the Company's fiscal 2020 results reflect lease accounting under IFRS 16, while the comparative quarters have not been restated. This resulted in a material increase to adjusted EBITDA.

(millions of Canadian dollars)	**13-week period ended December 28, 2019**	**% Revenue**	13-week period ended December 29, 2018	% Revenue	**39-week period ended December 28, 2019**	**% Revenue**	39-week period ended December 29, 2018	% Revenue
Revenue	**383.7**	**100.0**	426.0	100.0	**779.7**	**100.0**	847.7	100.0
Cost of sales	**(216.9)**	**56.5**	(252.7)	59.3	**(444.1)**	**57.0**	(499.0)	58.9
Cost of operations	**(77.8)**	**20.3**	(100.0)	23.5	**(197.4)**	**25.3**	(252.5)	29.8
Selling, general, and administrative expenses	**(29.2)**	**7.6**	(38.2)	9.0	**(79.8)**	**10.2**	(92.8)	10.9
Adjusted EBITDA[1]	**59.8**	**15.6**	35.1	8.2	**58.4**	**7.5**	3.4	0.4
Depreciation of property, plant and equipment, and right-of-use assets	**(15.6)**	**4.1**	(5.7)	1.3	**(47.5)**	**6.1**	(15.9)	1.9
Amortization of intangible assets	**(3.4)**	**0.9**	(2.9)	0.7	**(10.0)**	**1.3**	(7.5)	0.9
Gain (loss) on disposal of capital assets and equity investments	**1.4**	**0.4**	(0.5)	0.1	**0.5**	**0.1**	(0.9)	0.1
Net interest income (expense)	**(6.0)**	**1.6**	0.7	0.2	**(17.2)**	**2.2**	2.3	0.3
Share of earnings (loss) from equity investments	**–**	**–**	2.8	0.7	**(1.6)**	**0.2**	1.7	0.2
Earnings (loss) before income taxes	**36.3**	**9.5**	29.5	6.9	**(17.5)**	**2.2**	(16.9)	2.0

1 Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments. Also see "Non-IFRS Financial Measures".

Adjusted EBITDA is a key indicator used by the Company to measure performance against internal targets and prior period results and is commonly used by financial analysts and investors to assess performance. This measure is specific to Indigo and has no standardized meaning prescribed by IFRS. Therefore, adjusted EBITDA may not be comparable to similar measures presented by other companies. A reconciliation of adjusted EBITDA to earnings (loss) before income taxes, the most directly comparable measure determined under IFRS, is presented above for informational purposes.

Adoption of IFRS 16 *Leases* ("IFRS 16")

The Company's financial performance in fiscal 2020 was materially impacted by the adoption of IFRS 16 *Leases*, which supersedes IAS 17. IFRS 16 introduced a single lessee accounting model which required substantially all the Company's operating leases to be recorded on balance sheet as a right-of-use asset and a lease liability, representing the right to use the underlying asset during the lease term and the obligation to make future lease payments, respectively. The Company implemented the standard on March 31, 2019 using the modified retrospective approach; therefore, the Company's 2020 results reflect lease accounting under IFRS 16. Prior year results have not been restated, as permitted under the transition provisions in the standard, and continue to be reported under IAS 17.

Certain lease-related expenses which were previously recorded in operating expenses are now recorded as depreciation on the right-of-use asset and interest expense on the lease liability, line items which are reported below the adjusted EBITDA key performance indicator. The depreciation expense associated with the right-of-use asset is recognized on a straight-line basis over the associated lease term, while the interest expense declines over the life of the lease, as the liability is repaid. From a measurement perspective, lease-related expenses are higher in the first half of the lease term, and lower in the second half when compared to the previous accounting method because of the recognition pattern for interest expense. Combined with the change in presentation on the consolidated statements of earnings (loss), this resulted in a positive year-over-year variance in adjusted EBITDA.

The impact of this adoption on the Company's statement of earnings (loss) for the 13-week periods ended December 28, 2019 and December 29, 2018 is as follows:

(millions of Canadian dollars)	**13-week period ended December 28, 2019 IFRS 16**	**Impact of IFRS 16**	**13-week period ended December 28, 2019 IAS 17**	**% Revenue**	13-week period ended December 29, 2018 IAS 17	% Revenue
Revenue	**383.7**	–	**383.7**	**100.0**	426.0	100.0
Cost of sales	**(216.9)**	–	**(216.9)**	**56.5**	(252.7)	59.3
Cost of operations	**(77.8)**	**(15.6)**	**(93.4)**	**24.3**	(100.0)	23.5
Selling, general, and administrative expenses	**(29.2)**	**(1.0)**	**(30.2)**	**7.9**	(38.2)	9.0
Adjusted EBITDA[1]	**59.8**	**(16.6)**	**43.2**	**11.3**	35.1	8.2
Depreciation of property, plant and equipment, and right-of-use assets	**(15.6)**	**10.0**	**(5.6)**	**1.5**	(5.7)	1.3
Amortization of intangible assets	**(3.4)**	–	**(3.4)**	**0.9**	(2.9)	0.7
Gain (loss) on disposal of capital assets and equity investments	**1.4**	–	**1.4**	**0.4**	(0.5)	0.1
Net interest income (expense)	**(6.0)**	**6.5**	**0.5**	**0.1**	0.7	0.2
Share of earnings from equity investments	–	–	–	–	2.8	0.7
Earnings before income taxes	**36.3**	**(0.1)**	**36.2**	**9.4**	29.5	6.9
Income tax expense	**(10.4)**	–	**(10.4)**	**(2.7)**	(8.0)	1.9
Net earnings	**25.8**	**(0.1)**	**25.7**	**6.7**	21.5	5.0

1 Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments. Also see "Non-IFRS Financial Measures".

The impact of this adoption on the Company's statement of earnings (loss) for the 39-week periods ended December 28, 2019 and December 29, 2018 is as follows:

(millions of Canadian dollars)	**39-week period ended December 28, 2019 IFRS 16**	**Impact of IFRS 16**	**39-week period ended December 28, 2019 IAS 17**	**% Revenue**	39-week period ended December 29, 2018 IAS 17	% Revenue
Revenue	**779.7**	**–**	**779.7**	**100.0**	847.7	100.0
Cost of sales	**(444.1)**	**–**	**(444.1)**	**57.0**	(499.0)	58.9
Cost of operations	**(197.4)**	**(47.0)**	**(244.4)**	**31.3**	(252.5)	29.8
Selling, general, and administrative expenses	**(79.8)**	**(3.1)**	**(82.9)**	**10.6**	(92.8)	10.9
Adjusted EBITDA[1]	**58.4**	**(50.1)**	**8.3**	**1.1**	3.4	0.4
Depreciation of property, plant and equipment, and right-of-use assets	**(47.5)**	**30.0**	**(17.5)**	**2.2**	(15.9)	1.9
Amortization of intangible assets	**(10.0)**	**–**	**(10.0)**	**1.3**	(7.5)	0.9
Gain (loss) on disposal of capital assets and equity investments	**0.5**	**–**	**0.5**	**0.1**	(0.9)	0.1
Net interest income (expense)	**(17.2)**	**18.9**	**1.7**	**0.2**	2.3	0.3
Share of earnings (loss) from equity investments	**(1.6)**	**–**	**(1.6)**	**0.2**	1.7	0.2
Loss before income taxes	**(17.5)**	**(1.2)**	**(18.7)**	**2.4**	(16.9)	2.0
Income tax recovery	**3.8**	**0.4**	**4.2**	**0.5**	3.9	0.5
Net loss	**(13.7)**	**(0.8)**	**(14.5)**	**1.9**	(13.0)	1.5

1 Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments. Also see "Non-IFRS Financial Measures".

Refer to the "Adoption of IFRS 16 *Leases*" section of this MD&A and Note 3 of the unaudited interim condensed consolidated financial statements for further details regarding the adoption of IFRS 16 and the impact to the consolidated balance sheets and opening retained earnings.

Revenue

Total consolidated revenue for the 13-week period ended December 28, 2019 decreased $42.3 million or 9.9% to $383.7 million from $426.0 million for the 13-week period ended December 29, 2018. This decline in revenue was primarily a result of softer traffic, strong competitive pressures and the Company's planned efforts to reduce promotions to improve profitability. Notably, the Company's Black Friday promotional program was targeted at the higher-margin retail channel in the current period to moderate unprofitable sales. Print and general merchandise sales were also challenged without a breakout print title or toy item this holiday season.

Total comparable sales, which includes online sales, decreased by 10.5% for the third quarter. Comparable retail superstore sales for the quarter decreased 10.1%, while small format stores decreased 11.2%. While total comparable sales declined in line with total consolidated revenue for the reasons discussed above, the Company experienced record sales days in both the retail and online channels during the peak holiday season. Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are defined as sales generated by stores that have been open for more than 52 weeks. These measures exclude sales fluctuations due to store openings and closings, significant renovations, permanent relocations, material changes in square footage, and the impact of a 53-week fiscal year, when applicable. These measures are key performance indicators for the Company but have no standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

Retail revenue decreased by $34.5 million or 9.9% to $313.4 million for the 13-week period ended December 28, 2019 compared to $347.9 million for the same period last year. This decline in revenue was primarily driven by the reasons discussed above.

Online revenue decreased by $9.5 million or 12.7% to $65.5 million for the 13-week period ended December 28, 2019 compared to $75.0 million in the same period last year. The Company strategically scaled back promotions compared to the prior period, and refined the merchandising strategy to remove low-price low-margin items which historically drove traffic and sales at the expense of profitability once the channel's fulfillment expenses were considered. These efforts have led to improvements in profitability in the online channel.

Revenue from other sources includes café revenue, irewards card sales, revenue from unredeemed gift cards ("gift card breakage"), revenue from unredeemed Plum points ("Plum breakage"), Plum Plus membership fees ("Plum Plus revenue"), corporate sales, and revenue-sharing with Rakuten Kobo Inc. ("Kobo"). Revenue from other sources increased $1.9 million or 61.3% to $5.0 million for the 13-week period ended December 28, 2019 compared to $3.1 million in the same period last year, primarily driven by the launch of Plum Plus, the Company's new paid membership program.

On a fiscal year-to-date basis, total consolidated revenue decreased by $68.0 million or 8.0% to $779.7 million compared to $847.7 million for the same period last year, due to the reasons discussed above.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	% increase/ (decrease)	Comparable sales % increase/ (decrease)
Superstores	**264.3**	289.2	(8.6)	(10.1)
Small format stores	**49.1**	58.7	(16.4)	(11.2)
Online (including store kiosks)	**65.5**	75.0	(12.7)	(11.5)
Other[1]	**5.0**	3.1	61.3	N/A
Total	**383.7**	426.0	(9.9)	(10.5)

1 Includes cafés, irewards, gift card breakage, Plum breakage, Plum Plus revenue, corporate sales, and Kobo revenue share.

Reconciliations between total revenue and comparable sales are provided below:

(millions of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018
Total retail store revenue	**313.4**	347.9
Total online revenue	**65.5**	75.0
Adjustments for non-comparable items	**(16.0)**	(17.3)
Total comparable sales	**362.9**	406.6

	Superstores		Small format stores	
(millions of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018
Total revenue by format	**264.3**	289.2	**49.1**	58.7
Adjustments for stores not in both fiscal periods	**(15.9)**	(12.8)	**(0.1)**	(3.5)
Comparable retail store sales	**248.4**	276.4	**49.0**	55.2

Revenue by product line is as follows:

	13-week period ended December 28, 2019	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
Print[1]	**49.7%**	49.6%	**54.7%**	53.9%
General merchandise[2]	**49.0%**	49.5%	**43.7%**	44.3%
Other[3]	**1.3%**	0.9%	**1.6%**	1.8%
Total	**100.0%**	100.0%	**100.0%**	100.0%

1 Includes books, magazines, newspapers, and related shipping revenue.
2 Includes lifestyle, paper, toys, electronics, eReaders, eReader accessories, and related shipping revenue.
3 Includes cafés, irewards, gift card breakage, Plum breakage, Plum Plus revenue, corporate sales, and Kobo revenue share.

Cost of Sales

Cost of sales includes the landed cost of goods sold, online shipping costs, inventory shrink and damage reserve, less all vendor support programs. Cost of sales decreased $35.8 million to $216.9 million for the 13-week period ended December 28, 2019, compared to $252.7 million for the same period last year. As a percent of total revenue, cost of sales decreased 2.8% to 56.5% compared to 59.3% for the same period last year. This improvement was driven by a reduction in promotional discounting, after employing a higher promotional cadence in response to sales disruptions from store renovations and the Canadian postal strike in the prior year. Disciplined inventory management also resulted in lower markdowns throughout the quarter, which further improved the omni-channel gross margin rate across both print and general merchandise categories.

On a fiscal year-to-date basis, cost of sales decreased by $54.9 million to $444.1 million compared to $499.0 million for the same period last year. Year-to-date cost of sales as a percent of total revenue decreased 1.9% to 57.0% compared to 58.9% in the prior year for the same reasons discussed above.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations decreased $22.2 million to $77.8 million for the 13-week period ended December 28, 2019 compared to $100.0 million for the same period last year. Excluding the impact of IFRS 16, cost of operations decreased by $6.6 million from the prior year. The Company achieved $6.6 million of operating costs savings through productivity initiatives and the impact of lower sales volumes on variable costs in the store and distribution network. As a percent of total revenue, normalized cost of operations increased by 0.8% to 24.3% this year, compared to 23.5% for the same period last year as the efficiencies realized were offset by the impact of a declining sales base.

On a fiscal year-to-date basis, cost of operations decreased by $55.1 million to $197.4 million compared to $252.5 million for the same period last year. Excluding the impact of IFRS 16, cost of operations decreased by $8.1 million from the prior year. The Company eliminated $11.8 million in costs through increased productivity in its stores and distribution centres, and as a result of decreased sales volumes, partially offset by $3.6 million in incremental costs associated with net-new superstores opened throughout fiscal 2019. Year-to-date normalized cost of operations as a percent of total revenue increased by 1.5% to 31.3%, compared to 29.8% for the same period last year, as discussed above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include marketing, head office costs, and operating expenses associated with the Company's strategic initiatives. These expenses decreased $9.0 million to $29.2 million for the 13-week period ended December 28, 2019 compared to $38.2 million for the same period last year. Excluding the impact of IFRS 16, selling, general and administrative expenses decreased by $8.0 million. The Company achieved $6.0 million in savings in the quarter through a reduction in strategic project spending and lower labour costs. As a percent of total revenue, normalized selling, general and administrative expenses decreased by 1.1% to 7.9%, compared to 9.0% for the same period last year.

On a fiscal year-to-date basis, selling, general and administrative expenses decreased $13.0 million to $79.8 million compared to $92.8 million for the same period last year. Excluding the impact of IFRS 16, selling, general and administrative expenses decreased by $9.9 million. The Company achieved $9.7 million in cost cutting initiatives to date through disciplined strategic spending, offset by an increase in termination benefits expense of $1.3 million, primarily associated with the move of the Company's New York office to Toronto. Year-to-date normalized selling, general and administrative expenses as a percent of total revenue decreased 0.3% to 10.6% compared to 10.9% in the same period last year.

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments increased $24.7 million to $59.8 million for the 13-week period ended December 28, 2019, compared to $35.1 million for the same period last year. Excluding the impact of IFRS 16, adjusted EBITDA increased $8.1 million. Despite lower sales, the increase in normalized adjusted EBITDA was driven by a disciplined focus on initiatives to improve margin rate, realizing efficiencies in the Company's store and distribution network, and other efforts taken to streamline its cost base. Normalized adjusted EBITDA as a percent of revenue increased by 3.1% to 11.3% from 8.2% for the same period last year.

On a fiscal year-to-date basis, adjusted EBITDA increased $55.0 million to $58.4 million compared to $3.4 million for the same period last year. Excluding the impact of IFRS 16, adjusted EBITDA increased $4.9 million, for the same reasons discussed above. Year-to-date normalized adjusted EBITDA as a percent of total revenue increased 0.7% to 1.1% this year from 0.4% in the same period last year. A reconciliation of adjusted EBITDA to net earnings (loss) before income taxes has been included in the "Results of Operations" section of this MD&A.

Capital Assets

Depreciation and amortization for the 13-week period ended December 28, 2019 increased by $10.4 million to $19.0 million compared to $8.6 million for the same period last year, which reflects the depreciation of the IFRS 16 right-of-use assets in the current period. Excluding the impact of IFRS 16, depreciation and amortization increased $0.4 million as a result of significant investments in capital assets made throughout fiscal 2019. Capital expenditures in the third quarter of fiscal 2020 totaled $0.8 million compared to $20.1 million in the same period last year. This decrease is a result of the completion of the capital investment program undertaken during fiscal 2019 across the Company's retail outlets, digital platforms and supply chain facilities. Capital expenditures for the third quarter of fiscal 2020 included $0.2 million for technology equipment, and $1.9 million primarily for application software and internal development costs, which are classified as intangible assets. Capital asset additions for retail store renovations and equipment were in a net return position of $1.3 million, reflecting the receipt of lease incentives in the quarter.

On a fiscal year-to-date basis, depreciation and amortization increased by $34.1 million to $57.5 million compared to $23.4 million in the same period last year. Excluding the impact of IFRS 16, depreciation and amortization increased by $4.1 million for the same reasons discussed above. Year-to-date, the Company has spent $9.9 million on capital expenditures compared to $68.6 million last year, again due to the completion of the capital investment program implemented in fiscal 2019. Capital expenditures for the current year included $0.8 million for technology equipment, and $6.8 million primarily for application software and internal development costs, which are classified as intangible assets. Capital asset additions for retail store renovations and equipment were $2.3 million, net of lease incentives received. None of the capital expenditures were financed through leases.

Net Interest Income (Expense)

The Company recognized net interest expense of $6.0 million for the 13-week period ended December 28, 2019, which reflects the interest expense associated with the IFRS 16 lease liability in the current period, compared to net interest income of $0.7 million for the same period last year. Excluding the impact of IFRS 16, net interest income decreased by $0.2 million. Compared to the prior year, the Company generated lower interest income as a lower cash balance was maintained throughout the period in interest-bearing short-term investments.

On a fiscal year-to-date basis, the Company recognized net interest expense of $17.2 million compared to net interest income of $2.3 million in the same period last year. Excluding the impact of IFRS 16, net interest income decreased by $0.6 million for the same reasons discussed above.

Equity Investments

The Company uses the equity method to account for its investment in Unplug, and its prior investment in Calendar Club of Canada Limited Partnership ("Calendar Club"). The Company recognizes its share of equity investment earnings and losses as part of consolidated net earnings and losses.

During the quarter, the Company sold its equity investments in Calendar Club to Paris Southern Lights Inc. (a minority partner in the partnership). The financial impact of the transaction consisted of proceeds of $1.8 million, which generated a gain on the sale of $1.5 million. The Company recognized no equity income from Calendar Club in the quarter as a result of the sale transaction. On a fiscal year-to-date basis, Indigo had recognized a net loss from Calendar Club of $1.6 million.

Earnings from Unplug were immaterial for the 39-week periods ended December 28, 2019 and December 29, 2018.

Income Taxes

The Company recognized a non-cash income tax expense of $10.4 million for the 13-week period ended December 28, 2019, compared to recognizing a non-cash income tax expense of $8.0 million for the same period last year. The impact of IFRS 16 to the income tax expense was immaterial during the period. The increased income tax expense recognized related to the decrease in deferred tax assets as a result of higher net income compared to the prior year.

On a fiscal year-to-date basis, Indigo recognized a non-cash income tax recovery of $3.8 million, which includes the current tax impact of adopting IFRS 16, compared to recognizing a non-cash income tax recovery of $3.9 million in the same period last year. Excluding the impact of IFRS 16, the income tax recovery increased by $0.4 million due to the change in net income in the period.

The Company used a statutory tax rate of 26.7% to calculate the income tax recovery in the current period. Based on a full 52-week period, the Company does not expect to pay cash income taxes as it has sufficient non-capital loss carry forwards to offset any anticipated taxable income. The Company has reviewed the deferred tax asset balance alongside the Company's future income projections, and concluded that the asset should continue to be recognized.

Net Earnings (Loss)

The Company recognized net earnings of $25.8 million for the 13-week period ended December 28, 2019 ($0.94 basic net earnings per common share), compared to net earnings of $21.5 million ($0.80 basic net earnings per common share) for the same period last year. The impact of adopting IFRS 16 to the net earnings position in the current period was an earnings improvement of $0.1 million. The increase was driven by the margin rate and operating cost improvements achieved, which outpaced the impact of lower sales, as discussed.

On a fiscal year-to-date basis, the Company recognized a net loss of $13.7 million ($0.50 basic net loss per common share), compared to a net loss of $13.0 million ($0.48 basic net loss per common share) in the same period last year. The impact of adopting IFRS 16 to the net loss position was an earnings improvement of $0.8 million. The noted decline in profitability was driven by the top-line decline in revenue throughout the year, as a result of the current competitive landscape and the Company's deliberate actions to reduce promotions. On a year-to-date basis, this was not completely offset by the above noted profitability improvements.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists primarily of gains and losses related to hedge accounting and the Company's foreign currency translation adjustments. The Company has a formal hedging policy to mitigate foreign exchange risk, entering into contracts to manage the currency fluctuation risk associated with forecasted U.S. dollar expenses, primarily for general merchandise inventory purchases. Financial instruments used to mitigate risk include foreign exchange forward contracts. All contracts entered into during the quarter have been designated as cash flow hedges for accounting purposes and extend over a period not exceeding 12 months.

During the 13-week period ended December 28, 2019, the Company entered into forward contracts with total notional amounts of C$32.9 million to buy U.S. dollars and sell Canadian dollars. In the same period last year, the Company entered into contracts with total notional amounts of C$28.1 million. On a fiscal year-to-date basis, the Company entered into contracts with total notional amounts of C$90.7 million to buy U.S. dollars and sell Canadian dollars, compared to entering contracts with total notional amounts of C$130.2 million in the same period last year.

As at December 28, 2019, the Company had remaining contracts in place representing a total notional amount of $68.2 million and an unrealized net loss of $0.8 million, compared to a total notional amount of C$77.4 million and an unrealized net gain of $4.2 million as at December 29, 2018. During the 13 and 39-week periods ended December 28, 2019, net losses (net of taxes) of below $0.1 million, and net gains (net of taxes) of $0.6 million, respectively, from settled contracts were reclassified from other comprehensive income to inventory and expenses, compared to reclassified net gains (net of taxes) of $1.1 million and $1.6 million for the same periods last year.

Seasonality and Third Quarter Results

Indigo's business is highly seasonal and follows quarterly sales and profit (loss) fluctuation patterns, which are similar to those of other retailers that are highly dependent on the November/December holiday season. A disproportionate amount of revenues and profits are earned in the third quarter. As a result, quarterly performance is not necessarily indicative of the Company's performance for the rest of the year.

The following table sets out revenue, net earnings (loss) and basic and diluted earnings (loss) per share for the preceding eight fiscal quarters.

(millions of Canadian dollars, except per share data)	Fiscal quarters							
	Q3 Fiscal 2020[2]	Q2 Fiscal 2020[2]	Q1 Fiscal 2020[2]	Q4 Fiscal 2019	Q3 Fiscal 2019	Q2 Fiscal 2019	Q1 Fiscal 2019	Q4 Fiscal 2018[1]
Revenue	**383.7**	203.4	192.6	199.2	426.0	216.3	205.4	215.4
Total net earnings (loss)	**25.8**	(20.5)	(19.1)	(23.8)	21.5	(19.1)	(15.4)	(10.7)
Basic earnings (loss) per share	**$0.94**	($0.74)	($0.69)	($0.86)	$0.80	($0.70)	($0.57)	($0.40)
Diluted earnings (loss) per share	**$0.94**	($0.74)	($0.69)	($0.86)	$0.79	($0.70)	($0.57)	($0.40)

1 Balances were restated in fiscal 2019 as a result of the adoption of IFRS 15. Refer to Note 4 of the consolidated financial statements in the Company's fiscal 2019 Annual Report for additional information.

2 The Company implemented IFRS 16 *Leases*, on March 31, 2019 using the modified retrospective approach. As a result, the Company's fiscal 2020 results reflect lease accounting under IFRS 16, while the prior quarters have not been restated. Refer to the "Results of Operations" section of this MD&A to assist with year-over-year variance analysis.

Overview of Consolidated Balance Sheets

Assets

As at December 28, 2019, total assets increased $452.5 million to $1,186.5 million, compared to $734.0 million as at December 29, 2018, which reflects the inclusion of the right-of-use asset as per IFRS 16 of $450.0 million and the deferred tax impact of $38.6 million. Excluding the impact of IFRS 16, total assets decreased by $36.1 million, primarily driven by a decrease in cash and cash equivalents, inventories, and property, plant and equipment, partially offset by higher deferred tax assets. Cash and cash equivalents and short-term investments decreased $25.3 million compared to the same period in the prior year as cash was used to fund operations, and the capital investment program undertaken in fiscal 2019. The decrease in inventories of $6.2 million was driven by the Company's continuous efforts to optimize inventory levels. The net decrease in property, plant and equipment of $9.1 million was a result of accumulated amortization in the period. This was partially offset by an increase in deferred tax assets of $13.9 million, excluding the impact of IFRS 16, primarily as a result of the net loss recognized in the previous four quarters.

On a fiscal year-to-date basis, total assets increased by $576.0 million to $1,186.5 million compared to $610.5 million as at March 30, 2019. Excluding the impact of IFRS 16, total assets increased by $87.4 million. The increase was driven by a $95.5 million net increase in cash and cash equivalents and short-term investments, which is consistent with the seasonal nature of the business and a continued effort to protect cash and capital. Accounts receivable increased by $9.2 million primarily driven by sales during the fiscal 2020 holiday season. Deferred tax assets also increased by $4.7 million, excluding the impact of IFRS 16, primarily as a result of the year-to-date net loss recognized. This was partially offset by a decrease in inventories of $5.3 million, from the continued focus on stronger management of inventory levels. Net property, plant and equipment also decreased by $15.5 million for the reasons discussed above.

Liabilities

As at December 28, 2019, total liabilities increased $602.0 million to $939.3 million, compared to $337.3 million as at December 29, 2018, which includes an adjustment of $596.9 million to liabilities since the adoption of IFRS 16, primarily from the recognition of the lease liabilities. Excluding the impact of IFRS 16, total liabilities increased by $5.1 million. This increase was driven by a $7.9 million increase in unredeemed gift card liability due to sustained changes in customer redemption patterns. This was partially offset by a timing related net

decrease in current and long-term accounts payable and accrued liabilities of $6.3 million, excluding the impact of IFRS 16.

On a fiscal year-to-date basis, total liabilities increased $699.0 million to $939.3 million compared to $240.3 million as at March 30, 2019. Excluding the impact of IFRS 16, total liabilities increased $102.1 million primarily driven by a $80.9 million increase in current accounts payable and accrued liabilities and a $16.9 million increase in unredeemed gift card liabilities, which is consistent with the seasonal nature of the retail business after the holiday season.

Equity

Total equity at December 28, 2019 decreased $149.5 million to $247.2 million, compared to $396.7 million as at December 29, 2018, which includes to-date adjustments to retained earnings for IFRS 16 of $108.2 million. Excluding the impact of IFRS 16, total equity decreased by $41.2 million as a result of the net loss generated over the past four quarters.

On a fiscal year-to-date basis, total equity decreased $122.9 million to $247.2 million as at December 28, 2019, compared to $370.1 million as at March 30, 2019. Excluding the impact of IFRS 16, total equity decreased by $14.7 million, primarily due to the year-to-date net loss recognized.

The weighted average number of common shares outstanding for the third quarter of fiscal 2020 was 27,508,106 compared to 26,976,713 for the same period last year. As at February 6, 2020, the number of outstanding common shares was 27,273,961 with a book value of $227.0 million.

Working Capital and Leverage

The Company's working capital position usually declines from the end of its fiscal year until the third fiscal quarter due to the seasonal nature of the business. The Company relies on cash and accounts payable to fund the business before generating a disproportionate amount of cash during the November/December holiday season.

The Company reported working capital of $121.0 million as at December 28, 2019, compared to $204.9 million as at December 29, 2018 and $164.1 million as at March 30, 2019. Excluding the impact of IFRS 16, the Company reported working capital of $165.0 million as at December 28, 2019. The decrease in working capital compared to the same period last year was primarily a result of the decrease in cash and cash equivalents, as previously discussed.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $169.6 million for the 13-week period ended December 28, 2019 compared to an increase of $189.6 million in the same period last year. The change in the current period was driven by cash flows generated from operating activities of $173.9 million and from investing activities of $12.6 million, partially offset by cash flows used in financing activities of $16.6 million.

On a fiscal year-to-date basis, cash and cash equivalents increased $174.9 million, compared to an increase of $99.0 million for the same period last year. The increase in the current year was driven by cash flows generated from operating activities of $153.9 million and investing activities of $70.9 million, partially offset by cash flows used in financing activities of $49.6 million.

Cash Flows From Operating Activities

The Company generated cash flows of $173.9 million from operating activities in the 13-week period ended December 28, 2019 compared to $148.2 million in the same period last year, a change of $25.7 million. This is inclusive of the impact of IFRS 16, which had a $16.6 million impact to cash flows from operating activities. Excluding the impact of IFRS 16, the Company generated cash flows from operating activities of $157.3 million, an additional $9.1 million compared to the prior year. This was primarily driven by the additional $8.1 million of adjusted EBITDA recognized in the period.

On a fiscal year-to-date basis, cash flows generated from operating activities increased by $52.9 million to $153.9 million in the current period compared to $101.0 million in the same period last year. This is inclusive of the above mentioned impact of IFRS 16, which had a $49.6 million impact to cash flows from operating activities. Excluding the impact of IFRS 16, the Company generated cash flows for operating activities of $104.3 million, a change of $3.3 million from the prior period. This was primarily a result of the additional $4.9 million of adjusted EBITDA recognized in the period, partially offset by the decrease of cash generated from working capital of $2.7 million.

Cash Flows From (Used for) Investing Activities

The Company generated cash flows of $12.6 million from investing activities in the 13-week period ended December 28, 2019 compared to $40.8 million in the same period last year, a change of $28.2 million. The decrease was driven by the maturity of $12.8 million of short-term investments in the period, compared to the $60.2 million in the prior year. This was partially offset by the smaller capital investment program in fiscal 2020.

On a fiscal year-to-date basis, the Company generated cash flows of $70.9 million from investing activities compared to using $5.8 million in the same period last year, a change of $76.7 million. The increase was driven by the smaller capital investment program discussed above, and an additional $19.4 million of short-term investment maturities in the period.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
Construction, renovations, and equipment (net of lease incentives)	**(1.3)**	14.2	**2.3**	50.2
Intangible assets (primarily application software and internal development costs)	**1.9**	4.5	**6.8**	14.7
Technology equipment	**0.2**	1.4	**0.8**	3.7
Total	**0.8**	20.1	**9.9**	68.6

Cash Flows From (Used for) Financing Activities

The Company used cash flows of $16.6 million for financing activities in the 13-week period ended December 28, 2019 compared to generating cash flows of $0.1 million in the same period last year, a change of $16.7 million. All cash flows used for financing activities in the current period were associated with IFRS 16 lease liabilities. Excluding the impact of IFRS 16, the Company had no cash flow financing activities as no share-based compensation options were exercised in the current period.

On a fiscal year-to-date basis, the Company used cash flows of $49.6 million for financing activities, compared to generating cash flows of $2.9 million in the same period last year, which is inclusive of the impact of IFRS 16. Excluding the impact of IFRS 16, the Company had no cash flows from financing activities, for the reasons discussed above.

Liquidity and Capital Resources

The Company has a highly seasonal business that generates a significant portion of its revenue and cash flows during the November/December holiday season. The Company has minimal accounts receivable and a majority of book products are purchased on trade terms with the right to return. The Company's main sources of capital are cash flows generated from operations, cash and cash equivalents, and short-term investments.

Based on the Company's liquidity position and cash flow forecast, management expects its current cash position and future cash flows generated from operations to be sufficient to meet its working capital needs for fiscal 2020. In addition, the Company has the ability to reduce capital spending if necessary; however, a long-term decline in capital expenditures may negatively impact revenue and profit growth.

Accounting Policies

Critical Accounting Judgments and Estimates

The discussion and analysis of Indigo's operations and financial condition are based upon the unaudited interim condensed consolidated financial statements which have been prepared in accordance with IAS 34. The preparation of these unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses. These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable under the circumstances. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates.

Material judgments and estimates are made with respect to: gift card breakage; Plum breakage; Plum Plus revenue; fair value of Plum points; inventory shrinkage; reserves for slow-moving or damaged products and products that have been permanently marked down; vendor settlement; fair value of share-based instruments and number of equity instruments expected to vest; identification of cash generating units ("CGUs") and expected future cash flows from CGUs; depreciation and amortization periods; lease recognition and measurement; and recognition and valuation of deferred tax assets.

The Company evaluates its judgments and estimates on an ongoing basis and methods used to calculate critical accounting estimates are consistent with prior periods, except as noted. The significant accounting policies and significant judgments and estimates of the Company are described in notes 3 and 4 of the consolidated financial statements contained in the Company's fiscal 2019 Annual Report.

Accounting Standards Implemented in Fiscal 2020

IFRS 16 *Leases*

Effective in the first quarter of fiscal 2020, the Company adopted IFRS 16, which introduces a single lessee accounting model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 and supersedes IAS 17.

The Company adopted the standard on March 31, 2019, applying the requirements using the modified retrospective transition method, with the cumulative effect recognized in retained earnings. Prior year figures were not restated, as permitted under the transition provisions in the standard, and continue to be reported under IAS 17. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for substantially all operating leases where the Company is a lessee.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

(millions of Canadian dollars)	As at March 30, 2019 IAS 17	IFRS 16 Adjustment	As at March 31, 2019 IFRS 16
Assets			
Right-of-use assets	–	407.5	407.5
Deferred tax assets	47.9	38.9	86.8
Liabilities			
Accounts payable and accrued liabilities	179.2	1.2	180.4
Short-term lease liabilities	–	43.1	43.1
Long-term accrued liabilities	4.7	(3.5)	1.2
Long-term lease liabilities	–	514.7	514.7
Equity			
Retained earnings	131.3	(109.1)	22.2

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities are measured at the present value of the remaining fixed lease payments, discounted using the Company's incremental borrowing rate as of March 31, 2019. The weighted average rate applied to the lease liabilities recognized in the consolidated balance sheet as at March 31, 2019 was 4.52 percent.

The associated right-of-use assets were primarily measured as if the standard had been applied since the commencement date of the lease, but discounted using the Company's incremental borrowing rate at the date of initial application.

In applying IFRS 16, the Company has used the following practical expedients permitted by the standard:

- the exclusion of short-term leases and contracts for which the underlying asset is of low value,
- the exclusion of initial direct costs from the right-of-use assets on transition,

- the treatment of lease and non-lease components as a single lease component for the real estate class of assets,
- the onerous lease provisions recognized as at March 30, 2019 as an alternative to performing an impairment review on right-of-use assets as at March 31, 2019,
- the use of hindsight in determining lease term at the date of initial application,
- and the use of a single discount rate for a portfolio of leases with reasonably similar underlying characteristics.

The impact on the Company's statement of loss for the 13 and 39-week periods ended December 28, 2019 is outlined in the Results of Operations section of this MD&A to assist with year-over-year variance analysis.

On completion of the IFRS 16 implementation, the Company updated its lease accounting policies as follows:

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future lease payments, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods for which the Company has the right to use an underlying asset, together with periods covered by an option to extend or terminate, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis over the lease term from the date the underlying asset is available for use.

Variable lease payments that do not meet IFRS 16 measurement parameters are not included in the measurement of the lease liabilities and are recognized in cost of operations and selling, administrative, and other expenses as incurred.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported on a timely basis to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), so that appropriate decisions can be made by them regarding public disclosure.

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such disclosure controls and procedures.

Internal Controls over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation. Additionally, management is necessarily required to use judgment in evaluating controls and procedures.

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such internal controls over financial reporting using the framework established in the Internal Control – Integrated Framework ("COSO Framework") published in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission.

Changes in Internal Controls over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on September 29, 2019 and ended on December 28, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company has determined that no material changes in internal controls over financial reporting have occurred in this period.

Cautionary Statement Regarding Forward-Looking Statements

The above discussion includes forward-looking statements. All statements other than statements of historical facts included in this discussion that address activities, events, or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience, analysis, and its perception of historical trends, current conditions, and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform to the expectations and predictions of the Company is subject to a number of risks and uncertainties, including the general economic, market, or business conditions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this discussion are qualified by these cautionary statements and there can be no assurance that results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

Non-IFRS Financial Measures

The Company prepares its unaudited interim condensed consolidated financial statements in accordance with IFRS. To provide additional insight into the business, the Company has also provided non-IFRS data, including comparable sales and adjusted EBITDA, in the discussion and analysis section above. These measures are specific to Indigo and have no standardized meaning prescribed by IFRS. Therefore, these measures may not be comparable to similar measures presented by other companies. The adoption of IFRS 16 in fiscal 2020 hinders the comparability of underlying performance with periods prior to the accounting standard adoption. A reconciliation of the IFRS 16 impact on the current year period was included in this report to reconcile adjusted EBITDA and reported net earnings (loss) as stated in the Company's unaudited interim condensed consolidated financial statements to their values excluding the impact of the new accounting standard.

Total comparable sales (including online), comparable retail store sales, and adjusted EBITDA are key indicators used by the Company to measure performance against internal targets and prior period results. These measures are commonly used by financial analysts and investors to compare the Company to other retailers.

Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are based on a 52-week fiscal year and defined as sales generated by stores that have been open for more than 52 weeks. These measures exclude sales fluctuations due to store openings and closings, significant renovations, permanent relocation, and material changes in square footage. Both measures are key performance indicators for the Company. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments. The method of calculating adjusted EBITDA is consistent with that used in prior periods.

Reconciliations between total comparable sales, comparable retail store sales, and revenue (the most comparable IFRS measure), and between adjusted EBITDA and net earnings (loss) before income taxes (the most comparable IFRS measure) were included earlier in this report.

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NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements.

Heather Reisman
Chair and Chief Executive Officer

Craig Loudon
Chief Financial Officer and
Executive Vice President, Supply Chain

Dated as of the 6th day of February, 2020.

Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	**As at December 28, 2019**	As at December 29, 2018	As at March 30, 2019
ASSETS			
Current			
Cash and cash equivalents (note 5)	**216,198**	249,251	41,290
Short-term investments (note 5)	**7,750**	–	87,150
Accounts receivable	**19,755**	21,394	10,543
Loan receivable (note 14)	**720**	–	–
Inventories (note 6)	**247,261**	253,486	252,541
Prepaid expenses	**6,604**	6,802	5,802
Income taxes receivable	**138**	382	483
Derivative assets (note 7)	**19**	4,189	1,070
Other assets	**3,465**	3,346	853
Total current assets	**501,910**	538,850	399,732
Loan receivable (note 14)	**926**	–	–
Property, plant, and equipment, net	**110,455**	119,569	125,906
Right-of-use assets, net (note 3)	**449,998**	–	–
Intangible assets, net	**29,351**	31,407	32,527
Equity investments (note 14)	**2,611**	5,495	4,359
Deferred tax assets (note 3)	**91,228**	38,648	47,940
Total assets	**1,186,479**	733,969	610,464
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities (note 3)	**261,281**	268,403	179,180
Unredeemed gift card liability	**65,676**	57,751	48,729
Provisions	**180**	154	60
Deferred revenue	**10,234**	7,625	7,636
Short-term lease liabilities (notes 3 and 8)	**42,707**	–	–
Derivative liabilities (note 7)	**803**	–	–
Total current liabilities	**380,881**	333,933	235,605
Long-term accrued liabilities (note 3)	**1,476**	3,320	4,698
Long-term provisions	**45**	45	45
Long-term lease liabilities (notes 3 and 8)	**556,873**	–	–
Total liabilities	**939,275**	337,298	240,348
Equity			
Share capital (note 9)	**226,986**	225,530	225,531
Contributed surplus (note 10)	**12,463**	12,526	12,716
Retained earnings (note 3)	**8,554**	155,550	131,311
Accumulated other comprehensive income (loss) (note 7)	**(799)**	3,065	558
Total equity	**247,204**	396,671	370,116
Total liabilities and equity	**1,186,479**	733,969	610,464

See accompanying notes

On behalf of the Board:

Heather Reisman, Director

Anne Marie O'Donovan, Director

Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
Revenue (note 11)	**383,737**	425,971	**779,657**	847,660
Cost of sales	**(216,872)**	(252,700)	**(444,119)**	(499,034)
Gross profit	**166,865**	173,271	**335,538**	348,626
Operating, selling, and other expenses (note 11)	**(124,641)**	(147,294)	**(334,233)**	(369,548)
Operating profit (loss)	**42,224**	25,977	**1,305**	(20,922)
Net interest income (expense) (notes 3 and 8)	**(5,964)**	722	**(17,234)**	2,282
Share of earnings (loss) from equity investments (note 14)	**–**	2,812	**(1,588)**	1,694
Earnings (loss) before income taxes	**36,260**	29,511	**(17,517)**	(16,946)
Income tax recovery (expense)	**(10,411)**	(8,032)	**3,842**	3,911
Net earnings (loss)	**25,849**	21,479	**(13,675)**	(13,035)
Other comprehensive income (loss) (note 7)				
Items that are or may be reclassified subsequently to net earnings (loss):				
Net change in fair value of cash flow hedges [net of taxes of 190 and 283; 2018 – (1,401) and (1,404)]	**(520)**	3,815	**(771)**	3,821
Reclassification of net realized (gain) loss [net of taxes of 0 and 215; 2018 – 404 and 557]	**2**	(1,100)	**(586)**	(1,571)
Other comprehensive income (loss)	**(518)**	2,715	**(1,357)**	2,250
Total comprehensive earnings (loss)	**25,331**	24,194	**(15,032)**	(10,785)
Net earnings (loss) per common share (note 12)				
Basic	**$0.94**	$0.80	**($0.50)**	($0.48)
Diluted	**$0.94**	$0.79	**($0.50)**	($0.48)

See accompanying notes

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, March 31, 2018	221,854	11,621	168,585	815	402,875
Net loss	–	–	(13,035)	–	(13,035)
Exercise of options (notes 9 and 10)	3,616	(709)	–	–	2,907
Directors' deferred stock units converted (note 9)	60	(60)	–	–	–
Share-based compensation (note 10)	–	1,414	–	–	1,414
Directors' compensation (note 10)	–	260	–	–	260
Other comprehensive income (note 7)	–	–	–	2,250	2,250
Balance, December 29, 2018	225,530	12,526	155,550	3,065	396,671
Balance, March 30, 2019	**225,531**	**12,716**	**131,311**	**558**	**370,116**
Adjustment on adoption of IFRS 16 (note 3)	**–**	**–**	**(109,083)**	**–**	**(109,083)**
Balance, March 31, 2019	**225,531**	**12,716**	**22,229**	**558**	**261,033**
Net loss	**–**	**–**	**(13,675)**	**–**	**(13,675)**
Directors' deferred stock units converted (note 9)	**1,455**	**(1,455)**	**–**	**–**	**–**
Share-based compensation (note 10)	**–**	**980**	**–**	**–**	**980**
Directors' compensation (note 10)	**–**	**222**	**–**	**–**	**222**
Other comprehensive loss (note 7)	**–**	**–**	**–**	**(1,357)**	**(1,357)**
Balance, December 28, 2019	**226,986**	**12,463**	**8,554**	**(799)**	**247,204**

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss)	**25,849**	21,479	**(13,675)**	(13,035)
Adjustments to reconcile net earnings (loss) to cash flows from operating activities				
Depreciation of property, plant, and equipment and right-of-use assets (note 3)	**15,631**	5,700	**47,477**	15,865
Amortization of intangible assets	**3,393**	2,921	**9,971**	7,475
Gain on disposal of equity investments (note 14)	**(1,484)**	–	**(1,484)**	–
Loss on disposal of capital assets	**70**	527	**1,021**	857
Share-based compensation (note 10)	**359**	438	**980**	1,414
Directors' compensation (note 10)	**65**	75	**222**	260
Deferred income tax expense (recovery)	**10,411**	8,213	**(3,842)**	(3,913)
Other	**278**	(434)	**634**	(909)
Net change in non-cash working capital balances related to operations (note 13)	**113,337**	112,840	**93,806**	96,973
Interest expense (notes 3 and 8)	**6,466**	3	**18,867**	6
Interest income	**(460)**	(726)	**(1,633)**	(2,288)
Share of (earnings) loss from equity investments	–	(2,812)	**1,588**	(1,694)
Cash flows from operating activities	**173,915**	148,224	**153,932**	101,011
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES				
Net purchases of property, plant, and equipment	**1,098**	(15,669)	**(3,134)**	(53,967)
Addition of intangible assets	**(1,879)**	(4,451)	**(6,804)**	(14,676)
Change in short-term investments	**12,750**	60,222	**79,400**	60,000
Distribution from equity investments	**–**	–	**–**	528
Interest received	**587**	726	**1,413**	2,288
Cash flows from (used for) investing activities	**12,556**	40,828	**70,875**	(5,827)
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES				
Repayment of principal on lease liabilities (notes 3 and 8)	**(10,137)**	–	**(30,752)**	–
Interest paid (notes 3 and 8)	**(6,465)**	–	**(18,867)**	–
Proceeds from share issuances (note 10)	**–**	143	**–**	2,907
Cash flows from (used for) financing activities	**(16,602)**	143	**(49,619)**	2,907
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(286)**	433	**(280)**	904
Net increase in cash and cash equivalents during the period	**169,583**	189,628	**174,908**	98,995
Cash and cash equivalents, beginning of period	**46,615**	59,623	**41,290**	150,256
Cash and cash equivalents, end of period	**216,198**	249,251	**216,198**	249,251

See accompanying notes

Notes to Consolidated Financial Statements

December 28, 2019
(Unaudited)

1. CORPORATE INFORMATION

Indigo Books & Music Inc. (the "Company" or "Indigo") is a corporation domiciled and incorporated under the laws of the Province of Ontario in Canada. The Company's registered office is located at 620 King Street West, Suite 400, Toronto, Ontario, M5V 1M6, Canada. The unaudited interim condensed consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiaries, Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), along with its equity investment in Unplug Meditation, LLC ("Unplug"). The Company is the ultimate parent of the consolidated organization.

2. BASIS OF PREPARATION

Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." The same accounting policies and methods of computation as those used in the preparation of the fiscal 2019 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements, except as noted. These statements reflect the adoption of IFRS 16 *Leases*, on March 31, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period. Please see "IFRS 16 *Leases*" in Note 3 for further information. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's fiscal 2019 Annual Report.

The unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended December 28, 2019 (including comparatives) were approved by the Board of Directors on February 6, 2020.

Significant Judgments and Estimates

The preparation of these unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses. These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable under the circumstances. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates.

Material judgments and estimates are made with respect to: revenue recognition from unredeemed gift cards ("gift card breakage"); revenue from unredeemed Plum points ("Plum breakage"); Plum Plus membership fees ("Plum Plus revenue"); fair value of Plum points; inventory shrinkage; reserves for slow-moving or damaged products and products that have been permanently marked down; vendor settlement; fair value of share-based instruments and number of equity instruments expected to vest; identification of cash generating units ("CGUs") and expected future cash flows from CGUs; depreciation and amortization periods; lease recognition and measurement; and recognition and valuation of deferred tax assets.

3. CHANGES IN ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements have been prepared using the accounting policies as outlined in note 4 of the fiscal 2019 Annual Report, with the exception of the accounting standards adopted in the year ending March 28, 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Changes to significant accounting policies are described below.

IFRS 16 *Leases*

Effective in the first quarter of fiscal 2020, the Company adopted IFRS 16, which introduces a single lessee accounting model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 and supersedes IAS 17.

The Company adopted the standard on March 31, 2019, applying the requirements using the modified retrospective transition method, with the cumulative effect recognized in retained earnings. Prior year figures were not restated, as permitted under the transition provisions in the standard, and continue to be reported under IAS 17. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for substantially all operating leases where the Company is a lessee.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

(thousands of Canadian dollars)	As at March 30, 2019 IAS 17	IFRS 16 Adjustment	As at March 31, 2019 IFRS 16
Assets			
Right-of-use assets	–	407,496	407,496
Deferred tax assets	47,940	38,944	86,804
Liabilities			
Accounts payable and accrued liabilities	179,180	1,207	180,387
Short-term lease liabilities	–	43,085	43,085
Long-term accrued liabilities	4,698	(3,471)	1,227
Long-term lease liabilities	–	514,700	514,700
Equity			
Retained earnings	131,311	(109,081)	22,230

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities are measured at the present value of the remaining fixed lease payments, discounted using the Company's incremental borrowing rate as of March 31, 2019. The weighted average rate applied to the lease liabilities recognized in the consolidated balance sheet as at March 31, 2019 was 4.52 percent.

The associated right-of-use assets were primarily measured as if the standard had been applied since the commencement date of the lease, but discounted using the Company's incremental borrowing rate at the date of initial application.

In applying IFRS 16, the Company has used the following practical expedients permitted by the standard:

- the exclusion of short-term leases and contracts for which the underlying asset is of low value,
- the exclusion of initial direct costs from the right-of-use assets on transition,
- the treatment of lease and non-lease components as a single lease component for the real estate class of assets,
- the onerous lease provisions recognized as at March 30, 2019 as an alternative to performing an impairment review on right-of-use assets as at March 31, 2019,
- the use of hindsight in determining lease term at the date of initial application,
- and the use of a single discount rate for a portfolio of leases with reasonably similar underlying characteristics.

The following table reconciles the operating lease commitments as at March 30, 2019 to the opening balance of lease liabilities as at March 31, 2019:

(thousands of Canadian dollars)	Lease Liabilities
Operating lease commitments as at March 30, 2019	404,596
Adjustments as a result of different treatment of extension options and non-lease components	401,314
Adjustments as a result of short-term and low value asset leases exemptions	(13,120)
Effect of discounting using the Company's incremental borrowing rate	(239,702)
Contracts outside IAS 17 scope included in IFRS 16 Lease definition	4,798
Lease liabilities recognized as at March 31, 2019	**557,886**

On completion of the IFRS 16 implementation, the Company updated its lease accounting policies as follows:

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future lease payments, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods for which the Company has the right to use an underlying asset, together both with periods covered by an option to extend or terminate, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis over the lease term from the date the underlying asset is available for use.

Variable lease payments that do not meet IFRS 16 measurement parameters are not included in the measurement of the lease liabilities and are recognized in cost of operations and selling, administrative, and other expenses as incurred.

4. SEASONALITY OF OPERATIONS

The business of Indigo follows a seasonal pattern, with sales of merchandise being highest in the third fiscal quarter due to consumer holiday buying patterns. As a result, a disproportionate portion of total annual revenue is typically earned in the third fiscal quarter. Therefore, the results of operations for the 13 and 39-week periods ended December 28, 2019 and December 29, 2018 are not indicative of the results of other periods.

5. CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	**December 28, 2019**	December 29, 2018	March 30, 2019
Cash	**214,849**	247,428	39,466
Restricted cash	**1,212**	1,593	1,593
Cash equivalents	**137**	230	231
Cash and cash equivalents	**216,198**	249,251	41,290

Restricted cash represents cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of offshore merchandise.

As at December 28, 2019, the Company held short-term investments of $7.8 million (December 29, 2018 – $0.0 million; March 30, 2019 – $87.2 million). Short-term investments consist of guaranteed investment securities with an original maturity date greater than 90 days and remaining term to maturity of less than or equal to 365 days from the date of acquisition. These investments are non-redeemable until the maturity date, and therefore they are classified separately from cash and cash equivalents.

6. INVENTORIES

The cost of inventories recognized as an expense during the 13 and 39-week periods ended December 28, 2019 were $219.7 million and $444.4 million, respectively (2018: 13 weeks – $255.0 million; 39 weeks – $496.9 million). Inventories consist of the landed cost of goods sold and exclude inventory shrink and damage reserves, and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost during the 13 and 39-week periods ended December 28, 2019 were $0.5 million and $5.9 million, respectively (2018: 13 weeks – $0.5 million; 39 weeks – $6.8 million). The amount of inventory with net realizable value equal to cost was $5.1 million as at December 28, 2019 (December 29, 2018 – $3.8 million).

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, such as foreign exchange forward contracts, to manage the currency fluctuation risk associated with forecasted U.S. dollar payments, primarily for general merchandise inventory purchases. These contracts have been designated as cash flow hedges for accounting purposes. The fair values of derivative financial instruments are determined based on observable market information as well as valuations determined by external valuators with experience in financial markets.

During the 13 and 39-week periods ended December 28, 2019, the Company entered into forward contracts with total notional amounts of C$32.9 million and C$90.7 million, respectively, to purchase U.S. dollar/ Canadian dollar currency pair forwards (2018: 13 weeks – C$28.1 million; 39 weeks – C$130.2 million). As at December 28, 2019, the Company had remaining contracts in place representing a total notional amount of C$68.2 million (December 29, 2018 – C$77.4 million) at an average forward rate of 1.32 (December 29, 2018 – 1.29). These contracts extend over a period not exceeding 12 months. There were no forecast transactions for which hedge accounting had been used in the previous period, but which were no longer expected to occur, or hedging relationships discontinued and restarted during the 13 and 39-week periods ended December 28, 2019, as well as in the prior year.

The total fair value of the contracts as at December 28, 2019 resulted in the recognition of a derivative asset less than $0.1 million (December 29, 2018 – $4.2 million; March 30, 2019 – $1.1 million), and a derivative liability of $0.8 million (December 29, 2018 – $0.0 million; March 30, 2019 – $0.0 million).

For the 13 and 39-week periods ended December 28, 2019, the Company had net losses (net of taxes) of $0.5 million and $0.8 million, respectively, from the change in fair value of outstanding cash flow hedges (2018: 13 weeks – net gains of $3.8 million; 39 weeks – net gains of $3.8 million). During the same periods, net losses (net of taxes) of below $0.1 million and net gains (net of taxes) of $0.6 million, respectively, from settled contracts were reclassified from other comprehensive income to inventory and expenses (2018: 13 weeks – net gains of $1.1 million; 39 weeks – net gains of $1.6 million). This resulted in an other comprehensive loss of $0.5 million and $1.4 million for the 13 and 39-week periods ended December 28, 2019, respectively (2018: 13 weeks – income of $2.7 million; 39 weeks – income of $2.3 million).

Reclassified amounts resulting from hedge ineffectiveness, as well as any realized foreign exchange amounts as a result of derivative financial instruments were both immaterial in the quarters ended December 28, 2019 and December 29, 2018.

8. LEASE LIABILITY

The following table reconciles the change in lease liabilities for the 13-week period ended December 28, 2019:

(thousands of Canadian dollars)	Lease Liabilities
Balance as at September 29, 2019	570,668
Lease renewals included in the scope of IFRS 16	39,046
Accretion of lease liabilities	6,465
Repayment of interest and principle on lease liabilities	(16,599)
Balance as at December 28, 2019	**599,580**

The following table reconciles the change in lease liabilities for the 39-week period ended December 28, 2019:

(thousands of Canadian dollars)	Lease Liabilities
Balance as at March 31, 2019	557,785
Lease renewals included in the scope of IFRS 16	72,543
Accretion of lease liabilities	18,867
Repayment of interest and principle on lease liabilities	(49,615)
Balance as at December 28, 2019	**599,580**

9. SHARE CAPITAL

Share capital consists of the following:

	39-week period ended December 28, 2019		39-week period ended December 29, 2018		52-week period ended March 30, 2019	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**27,136,386**	**225,531**	26,800,609	221,854	26,800,609	221,854
Issued during the period						
Directors' deferred stock units converted	**137,575**	**1,455**	4,021	60	4,021	60
Adjustment for share exchange per 2001 merger agreement	**–**	**–**	519	–	519	–
Options exercised	–	–	331,137	3,616	331,237	3,617
Balance, end of period	**27,273,961**	**226,986**	27,136,286	225,530	27,136,386	225,531

10. SHARE-BASED COMPENSATION

As at December 28, 2019, 2,333,038 stock options were outstanding with exercise prices ranging from \$6.60 to \$18.40. Of these outstanding stock options, 1,087,238 were exercisable at a weighted average exercise price of

$15.73. As at December 29, 2018, there were 1,957,113 stock options outstanding of which 830,653 were exercisable.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period. There were no options granted during the 13-week periods ended December 28, 2019 and December 29, 2018. During the 39-week period ended December 28, 2019, the pre-forfeiture value of the options granted was $1.3 million (2018 – $1.8 million).

The fair value of the employee stock options is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions during the periods presented:

	39-week period ended December 28, 2019	39-week period ended December 29, 2018
Black-Scholes option pricing assumptions		
Risk-free interest rate	**1.3%**	2.2%
Expected volatility	**32.9%**	27.8%
Expected time until exercise	**2.6 years**	3.0 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**26.7%**	26.4%

Directors' Compensation

The Company has established a Directors' Deferred Stock Unit Plan ("DSU Plan"). Under the DSU Plan, Directors annually elect whether to receive their annual retainer fees and other Board-related compensation in the form of deferred stock units ("DSUs") or receive up to 50% of this compensation in cash. All Directors' compensation during the 13 and 39-week periods ended December 28, 2019 was in the form of DSUs (2018 – all DSUs).

The number of shares reserved for issuance under this plan is 500,000. During the 13 and 39-week periods ended December 28, 2019, the Company issued 15,514 DSUs with a value of $0.1 million and 39,165 DSUs with a value of $0.2 million, respectively (2018: 13 weeks – 6,729 DSUs with a value of $0.1 million; 39 weeks – 18,818 DSUs with a value of $0.3 million). The number of DSUs to be issued to each Director is based on a set fee schedule. The grant date fair value of the outstanding DSUs as at December 28, 2019 was $4.3 million (December 29, 2018 – $4.0 million) and was recorded in contributed surplus. The fair value of DSUs is equal to the traded price of the Company's common shares on the grant date.

11. SUPPLEMENTARY OPERATING INFORMATION

Set out below is the disaggregation of the Company's revenue from contracts with customers.

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
Print[1]	**190,713**	211,390	**426,495**	457,015
General merchandise[2]	**188,067**	210,582	**340,602**	375,737
Other[3]	**4,957**	3,999	**12,560**	14,908
Total	**383,737**	425,971	**779,657**	847,660

1 Includes books, magazines, newspapers, and related shipping revenue.

2 Includes lifestyle, paper, toys, electronics, eReaders, eReader accessories, and related shipping revenue

3 Includes cafés, irewards, gift card breakage, Plum breakage, Plum Plus revenue, corporate sales, and Rakuten Kobo Inc. ("Kobo") revenue share.

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
Superstores	**264,272**	289,195	**542,859**	573,980
Small format stores	**49,052**	58,662	**100,528**	117,232
Online (including store kiosks)	**65,456**	75,003	**123,710**	142,428
Other[1]	**4,957**	3,111	**12,560**	14,020
Total	**383,737**	425,971	**779,657**	847,660

1 Includes cafés, irewards, gift card breakage, Plum breakage, Plum Plus revenue, corporate sales, and Kobo revenue share.

Supplemental operating and administrative expenses information:

(thousands of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
Wages, salaries, and bonuses	**54,858**	59,626	**146,327**	153,077
Short-term benefits expense	**5,124**	5,427	**15,556**	16,041
Termination benefits expense	**1,266**	1,727	**4,210**	2,918
Retirement benefits expense	**433**	462	**1,325**	1,392
Share-based compensation	**359**	438	**980**	1,414
Total employee benefits expense	**62,040**	67,680	**168,398**	174,842

Termination benefits arise when the Company terminates certain employment agreements.

12. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is calculated based on the weighted average number of shares outstanding during the period. In calculating diluted earnings per share amounts under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculations as the assumed exercise of the Company's stock options do not result in adjustment to net earnings. The reconciliation of the denominator in calculating diluted earnings per share amounts for the 13 and 39-week periods ended December 28, 2019 and December 29, 2018 is as follows:

(thousands of shares)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
Weighted average number of common shares outstanding, basic	**27,520**	26,977	**27,508**	27,051
Effect of dilutive securities – stock options	**–**	46	**–**	–
Weighted average number of common shares outstanding, diluted	**27,520**	27,023	**27,508**	27,051

For the 13-week period ended December 28, 2019, all outstanding stock options were anti-dilutive (2018 – 1,672,450 options). Anti-dilutive stock options were excluded from the computation of diluted earnings per common share. The Company's stock options were anti-dilutive for the 39-week periods ended December 28, 2019 and December 29, 2018, as the Company reported losses.

13. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
Accounts receivable	**54**	900	**(9,212)**	(14,647)
Inventories	**51,429**	50,296	**5,280**	11,100
Prepaid expenses	**885**	1,716	**(802)**	(2,678)
Income taxes recoverable	**502**	(382)	**345**	(382)
Other assets	**(2,516)**	(2,363)	**(2,612)**	(2,481)
Accounts payable and accrued liabilities (current and long-term) and other[1]	**38,028**	40,143	**81,142**	92,096
Unredeemed gift card liability	**22,689**	22,515	**16,947**	13,533
Provisions (current and long-term)	**180**	(6)	**120**	(12)
Deferred revenue	**2,086**	173	**2,598**	596
Income taxes payable	**–**	(152)	**–**	(152)
Net change in non-cash working capital balances related to operations	**113,337**	112,840	**93,806**	96,973

1 This change has been impacted by the adoption of IFRS 16. Please see Note 3 of the unaudited interim condensed consolidated financial statements for further information.

14. RELATED PARTY TRANSACTIONS

The Company's related parties include its key management personnel, shareholders, defined contribution retirement plan, equity investments in associates, and subsidiaries. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with Key Management Personnel

Key management of the Company includes members of the Board of Directors as well as members of the Executive Team. Key management personnel remuneration includes the following:

(thousands of Canadian dollars)	**13-week period ended December 28, 2019**	13-week period ended December 29, 2018	**39-week period ended December 28, 2019**	39-week period ended December 29, 2018
Wages, salaries, and bonus	**1,650**	2,047	**4,845**	6,012
Short-term benefits expense	**32**	36	**100**	118
Termination benefits expense	**–**	–	**793**	–
Retirement benefits expense	**16**	23	**52**	62
Share-based compensation	**214**	257	**541**	898
Directors' compensation	**65**	75	**222**	260
Total remuneration	**1,977**	2,438	**6,553**	7,350

Transactions with Shareholders

During the third quarter of fiscal 2020, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. During the 13 and 39-week periods ended December 28, 2019, the Company paid $1.2 million and $1.9 million, respectively for these transactions (2018: 13 weeks – $1.0 million; 39 weeks – $3.1 million). As at December 28, 2019, Indigo did not have an outstanding payable to these companies, but holds $1.0 million of restricted cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of merchandise from these companies (December 29, 2018 – $0.1 million payable and $1.0 million restricted cash). All transactions were measured at fair market value and were in the normal course of business, under normal commercial terms, for both Indigo and the related companies.

Transactions with Defined Contribution Retirement Plan

The Company's transactions with the defined contribution retirement plan include contributions paid to the retirement plan as disclosed in note 11. The Company has not entered into other transactions with the retirement plan.

Transactions with Associates

During the quarter, the Company sold its equity investments in Calendar Club of Canada Limited Partnership ("Calendar Club") and Calendar Club of Canada Ltd. (the general partner of the partnership) to Paris Southern Lights Inc. (a minority partner in the partnership). The financial impact of the transaction consisted of proceeds of $1.8 million, which generated a gain on the sale of $1.5 million. As at December 28, 2019, the fair value of the proceeds receivable is $1.6 million, to be paid in installments over the next three years. The outstanding working capital loan receivable of $6.6 million was repaid on the close of the transaction.

The Company recognized no equity income from Calendar Club in the quarter as a result of the sale transaction. On a fiscal year-to-date basis, Indigo had recognized a net loss from Calendar Club of $1.6 million.

Earnings from Unplug were immaterial for the 39-week periods ended December 28, 2019 and December 29, 2018.

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Toronto Stock Exchange

Trading Symbol

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