

# !ndigo

ANNUAL REPORT FOR THE  
52-WEEK PERIOD ENDED  
MARCH 28, 2020



## The Indigo Mission

To provide our customers with the most inspiring retail and digital environments in the world for books and life-enriching products and experiences.

Indigo operates under the following banners: *Indigo Books & Music*, *Chapters*, *Coles*, *Indigospirit*, *The Book Company*, and *indigo.ca*. The Company employs approximately 6,000 people across the country.

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# Management's Responsibility for Financial Reporting

Management of Indigo Books & Music Inc. (the "Company") is responsible for the preparation and integrity of the consolidated financial statements as well as the information contained in this report. The following consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards, which involve management's best judgments and estimates based on available information.

The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that the consolidated financial statements have been prepared according to and within reasonable limits of materiality and that the financial information throughout this report is consistent. The Board of Directors, along with the Company's management team, have reviewed and approved the consolidated financial statements and information contained within this report.

The Board of Directors monitors management's internal control and financial reporting responsibilities through an Audit Committee composed entirely of independent directors. This Committee meets regularly with senior management and the Company's internal and independent external auditors to discuss internal control, financial reporting, and audit matters. The Audit Committee also meets with the external auditors without the presence of management to discuss audit results.

Ernst & Young LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.



Heather Reisman  
*Chair and Chief Executive Officer*



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

# Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at June 23, 2020 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 52-week periods ended March 28, 2020 and March 30, 2019. The Company's consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using the accounting policies described therein. 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, and no restatement of the prior comparative period. Please see "Adoption of IFRS 16 *Leases*" for further information.

This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes contained in the attached 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](http://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 [www.indigo.ca](http://www.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 one retail store in Short Hills, New Jersey. As at March 28, 2020, the Company operated 88 superstores under the banners *Chapters* and *Indigo* and 108 small format stores under the banners *Coles*, *Indigospirit* and *The Book Company*.

Throughout fiscal 2020, the Company employed an average of approximately 6,000 people (on a full-time, part-time, and casual basis) and generated annual revenue of \$957.7 million. 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 20% 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 materials to high-needs elementary schools across the country through donations from Indigo, its customers, its suppliers, and its employees.

## Statement on COVID-19

In December 2019, COVID-19 surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020, and then characterized the outbreak as a pandemic on March 11, 2020. Shortly thereafter, numerous jurisdictions declared states of emergency and imposed restrictions such as closures, quarantine policies and social distancing measures, negatively impacting the Company's retail operations, distribution centres, and head office operations. During this period, the communicable disease spread globally, with active outbreaks continuing in communities across Canada and the United States.

## Initial Actions

In response to the complex and fast-evolving situation, the Company took the following proactive steps to protect the health and safety of its customers, employees and communities and to ensure the continuity of the Company's business operations:

- announced the temporary closure of its retail locations on March 17, 2020 and made the difficult decision to temporarily lay-off 5,200 of its retail employees;
- closed its head office and support offices and implemented a remote work program to maintain its operations;

- enhanced health and safety precautions at its distribution centres to support its employees; and
- refocused its efforts to its online channel to keep the e-commerce business operational and optimized.

### **Actions Taken to Manage Liquidity**

Following the initial actions in response to the COVID-19 pandemic, in order to preserve cash and take precautionary measures to manage liquidity risk, the Company:

- ceased its normal rent payments as of April 1, 2020 and is in negotiations with its landlords regarding rent abatements;
- assessed and leveraged applicable government business support programs for COVID-19, including the Canada Emergency Wage Subsidy;
- extended payment terms with many of its vendors and plans to reduce its inventory levels while maintaining an optimized assortment;
- implemented a cost reduction plan to minimize non-essential operating costs;
- reviewed the capital investment plans pre-dating COVID-19 to account for the widespread economic impact of COVID-19;
- suspended much of its planned marketing spend in the first half of fiscal 2021;
- reviewed its head office workforce model and commenced certain role restructurings;
- froze salary increases and elected not to pay discretionary fiscal 2020 annual incentive plan bonuses; and
- the Chief Executive Officer elected to temporarily forgo her salary.

While many of these actions are expected to be temporary, the duration and related financial impact cannot be reliably estimated at this time.

### **Current Status**

On May 19, 2020, where permitted by local authorities, the Company began the phased re-opening of its retail stores. The Company's top priority remains the health and safety of its customers, employees and communities, and extensive health and safety measures have been employed based on the guidance and direction from public health authorities. As of the date of this Management Discussion & Analysis, the Company has re-opened 172 of its previously closed retail stores and recalled from temporary layoff 2,878 of its retail leadership and hourly employees. The Company continues its negotiations with its landlords regarding rent abatements to address the financial impacts of COVID-19. Separately, the Company has accelerated its review of its real estate portfolio, and in May 2020, made the decision to not renew the leases for 15 small format stores beyond June 2020.

Since the declaration of the COVID-19 pandemic, the Company's online channel has experienced significant growth in comparison to the prior year. The enhanced health and safety precautions taken to support its distribution centre employees ensured uninterrupted operation of the facilities and allowed the Company to meet the surge in online order volumes. The Company also accelerated the development of its omni-channel fulfilment infrastructure and piloted contactless curbside pick-up in several superstore format stores in an ongoing effort to keep its employees and customers safe.

As of the date of this MD&A, the head office remains closed due to provincial restrictions and the Company is reviewing its health and safety plans for the eventual re-opening of the office and the gradual, phased return of head office employees.

### **Future Developments**

The COVID-19 pandemic has negatively impacted the economy, disrupted consumer spending and supply chains and created significant volatility in financial markets on a global scale, the extent of which will depend on future developments that are highly uncertain and cannot be reliably forecasted. These future developments include new information regarding disease immunity and emerging actions taken to contain the virus, the potential recurrence of a second wave of significant infections, as well as ongoing consumer fears about the disease, which could adversely affect traffic to Indigo's stores, among others. Consumer spending and demand for the Company's product lines may also be negatively impacted by general macroeconomic

conditions resulting from the COVID-19 pandemic. If the Company does not generate sufficient cash flows from operating activities, and sufficient funds are not accessed through other sources, the Company may not be able to cover its expenses, fund its capital needs and adequately respond to competitive challenges, which would have a material adverse impact on its business.

The foregoing statement on COVID-19 is not an exhaustive description of the actual or potential impact of the COVID-19 outbreak on the Company. Given this unprecedented period of uncertainty, there can be no assurances regarding: the closure status of retail locations as a result of COVID-19; the COVID-19-related impacts on the Company's business, operations and performance; credit, foreign currency, and liquidity risks generally; and other risks inherent to the Company's business and/or factors beyond its control which could have a material adverse effect on the company. Investors should also refer to the risks described below under the "Risks and Uncertainties" section of this Management Discussion & Analysis.

## General Development of the Business

It has been over 20 years since the Company launched its first superstore with a commitment to enriching Canadians' lives through books and complementary products. Much has changed since then, and continues to change, in both the book industry and the larger retail landscape. Indigo has been proactive in transforming its business in both its retail stores and digital offerings. The *www.indigo.ca* website has expanded dramatically, offering customers an increased number of titles at a lower cost than a traditional physical bookstore along with a broad range of general merchandise, much of which is unique to Indigo. In addition, digital channels have provided customers with instant accessibility, wide selection, and lower prices.

The distinction between physical retail and digital retail is increasingly blurred as customers expect to have a seamless experience with the Indigo brand regardless of channel. Recognizing this, the Company is continuing to focus on improving the omni-channel customer experience with initiatives that better integrate physical and digital retail. The Company's priorities are to drive a customer inspired retail and digital transformation, build a truly superior gifting experience, and become the best rewarding retail employer in Canada.

The recent outbreak of the COVID-19 pandemic has placed significant limitations on the Company's ability to conduct its business. The Company is focused on being agile and taking the necessary steps to service its customers in the face of the unprecedented and continuing impact of COVID-19. This includes a commitment to the Company's strategic priorities outlined below. See "Statement on COVID-19" above for more information.

### Drive a Customer Inspired Retail Transformation

The Company's physical stores were transformed in recent years as part of the rollout of Indigo's new store concept and its focus on being a truly superior gifting destination. The new store concept reflects Indigo's transformation from a bookstore to the Cultural Department Store; a physical and digital meeting place inspired by and filled with books, music, art, ideas, and beautifully designed lifestyle products. Indigo believes in real books, in living life fully and generously, in being kind to each other and that stories – big and little – connect us.

Over the past three years, the Company has rebranded and renovated 24 stores and opened five new stores to improve the customer experience and product offerings across key gifting categories.

Indigo continues to explore initiatives around further integration of its physical and digital platforms. This includes a mobile checkout POS solution piloted in fiscal 2018 and rolled out in 2019 to facilitate a more connected end-to-end customer experience, as well as expediting customer queues during busy gifting periods. In fiscal 2019, the Company piloted an express pick-up checkout solution, which allows customers to order online and pick up their order in store within the same day, which was then more broadly implemented in fiscal 2020.

Indigo launched a new IndigoBaby concept shop in fiscal 2020 at Indigo CF Sherway Gardens in Toronto, Ontario, as a premier specialty destination for expectant and new parents. The new concept offers a curated assortment of essential products in-store, and an extensive online assortment that can be shipped home. Opened in fiscal 2019, the Company continues to operate its new concept store in Short Hills, New Jersey, and gather learnings regarding American customers' engagement with the Indigo brand.

## Drive a Customer Inspired Enhanced Digital Platform

In addition to reshaping Indigo's physical store offerings, the Company continues to invest heavily in its digital platforms. The Company has a dedicated team solely focused on the agile delivery of digital products and services to further enhance the customer experience. The Company continues its strong social media presence across Facebook, Instagram, Pinterest, and Twitter, with half a million followers on Facebook and over 350,000 on Instagram. In fiscal 2018, the Company focused on several enhancements to improve and simplify the customer experience across its digital platforms.

In the third quarter of fiscal 2020, Indigo launched [www.thoughtfull.co](http://www.thoughtfull.co), a gifting site dedicated to helping customers find unique and meaningful gifts. Thoughtfull™ provides a last-minute gifting solution with digitally fulfilled delivery for a selection of its assortment and Thoughtfull's guided navigation tool, the Thoughtfull Assistant, helps customers find the perfect gift from its marketplace assortment of giftable products, experiences, services, and subscriptions. In fiscal 2020, the Company also launched a new product information management system, which will provide the foundation for an enhanced digital experience.

In fiscal 2018, the Company expanded its online distribution centre and acquired a new facility in Western Canada to support its growth and to improve service levels to customers nationally, especially during the Company's peak third quarter holiday period. In fiscal 2019, the Company's Calgary distribution centre began supporting the Company's Western Canadian retail stores and in fiscal 2020 started serving online customers in Western Canada. Going forward, Indigo will continue to focus on driving end-to-end productivity and process efficiency in the supply chain and across the Company.

Optimizing the Company's *plum*® rewards loyalty program has also been a key area of focus over the past three years. The Company now has a two-tiered loyalty program under the *plum*® rewards brand, *plum* and *plum PLUS*, the latter of which was launched on a national scale in fiscal 2020, replacing the Company's *irewards* program, which is being phased out throughout fiscal 2020-2021. As an annual fee-based discount program, *plum PLUS* offers member discounts and free shipping every day as incremental benefits to the redeemable points offered on almost all products purchased. The success of this program creates a deeper understanding of the Company's customers, as well as direct marketing and communication opportunities with Indigo's best customers. Going forward, the Company will continue to increase its capabilities to utilize this data to personalize each touch point with customers and provide a rich omni-channel shopping experience.

## Build a Truly Superior Gifting Experience

Indigo is committed to becoming the ultimate year-round gifting destination in Canada for gifts that touch the heart and soul. The gifting experience for the major seasonal holidays and for everyday gifting occasions are supported through the Company's expanded assortment of books, lifestyle and baby offerings, and toys. Indigo's focus on making gifting joyful and easy for customers includes a wide selection of gift wrap and greeting cards, as well as tools to help customers make the best gifting decisions. In fiscal 2018, "The Gift Shop", an expanded online gifting experience, was launched on Indigo's digital channels, creating an interactive and curated shopping experience with functionalities to view gift ideas in multiple ways, including by gifting occasion or by recipient. In fiscal 2019, Indigo launched a digital gift registry where customers can create, manage and share their birthday, wedding or baby registry on [www.indigo.ca](http://www.indigo.ca) and on the Indigo mobile application. Gifts listed on registries can be purchased either in stores or on the Company's digital platforms. In fiscal 2019, Indigo also introduced its very own iconic brand gift wrap program with offerings for adults and kids. With a strong commitment to reducing waste, Indigo focused on the design and quality of its branded gift boxes and gift bags to ensure that each is reusable and can be used for treasured keepsakes or to gift again. The IndigoBaby assortment has significantly expanded over the past three fiscal years, and in fiscal 2020, the Company launched an easy-to-navigate and beautifully designed dedicated registry to take the guesswork out of what expectant parents need for their new arrival. As noted above, in fiscal 2020, the Company also launched the [www.thoughtfull.co](http://www.thoughtfull.co) online gifting platform.

The enhanced gifting assortment is supported by the Company's design and global sourcing team that leads the design and development of Indigo's proprietary merchandise. These private-label products are created by the Company's in-house creative team and are manufactured by third parties exclusively for Indigo. This aspect of the business is part of the Company's focus on providing customers with meaningful and giftable merchandise available only at Indigo. The Company is committed to adapting and improving its proprietary product development capability, as well as expanding its line of gift and lifestyle



merchandise which includes home, paper merchandise, and fashion accessories. To further integrate the design and global sourcing teams and enhance its proprietary offerings, in fiscal 2020, the Company closed its New York, New York design studio and relocated the design and global sourcing functions to Indigo's head office in Toronto.

### **Become the Best Rewarding Retail Employer in Canada**

While a key focus of the Company's business is evolving to meet the emerging needs of customers, Indigo is also focused on becoming the best rewarding retail employer in Canada by driving a high performance, growth culture and aspiring for operational excellence to support the Company's continued evolution and new business strategies.

The Company's ambition is to be the best rewarding retail employer, not only in pay, but in a holistic view of the employment relationship that includes a sense of purpose, meaningful relationships, benefits and flexible work opportunities. This Company-wide initiative focuses on driving engagement, high performance and operational excellence while removing inefficiency from the Company's work processes. There are several initiatives underway across the Company including reinforcing Indigo's unique culture through values-based leadership. As well, the Company is focusing on the development of high-performing teams where individuals are encouraged to chart their own career paths and apply their strengths to meaningful work, allowing them to bring their best selves to work. This work involves partnerships across all areas of the Company and is expected to continue to evolve over the next several years.

In fiscal 2020, Indigo continued to attain record-high employee engagement and customer satisfaction scores of 89% and 77%, respectively, as well as receiving external recognition for its employee and customer experience. Indigo received a Diversity and Inclusion award in 2019 from *Universum*, an organization that annually surveys over 1,700,000 students and professionals worldwide. For the 2019 Canada edition of the award, 23,000 students from more than 150 Canadian colleges and universities were asked to rank employers on *Universum's* Diversity & Inclusion Index. Indigo ranked in the top 25 out of 140 employers from different industries in both the Business and Liberal Arts/Humanities categories. This award recognizes companies perceived by students across Canada to be the most diverse and inclusive employers in the country. Indigo was also named a Top Toronto Employer Brand in *Hired's* third annual Brand Health Report. For reference, *Hired* asks its marketplace of tech talent based in Toronto to rank the local companies they find most attractive to work for every year to determine which factors job seekers prioritize when evaluating a potential employer. In addition, *Forbes* selected Indigo as one of Canada's Best Employers in 2019 based on an independent survey from a vast sample of more than 8,000 Canadian employees working for companies employing at least 500 people in their Canadian operations. Indigo was ranked 125<sup>th</sup> out of all selected organizations, and 12<sup>th</sup> in the retail category.

### **Results of Operations**

The following three tables summarize selected financial and operational information for the Company. 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 audited consolidated financial statements for the 52-week periods ended March 28, 2020 and March 30, 2019. 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 year has not been restated. This resulted in a material increase to adjusted EBITDA.

Key elements of the consolidated statements of loss and comprehensive loss for the periods indicated are shown in the following table:

(millions of Canadian dollars)	52-week period ended March 28, 2020	% Revenue	52-week period ended March 30, 2019	% Revenue
Revenue	957.7	100.0	1,046.8	100.0
Cost of sales	(553.6)	57.8	(619.9)	59.2
Cost of operations	(255.6)	26.7	(330.9)	31.6
Selling, general and administrative expenses	(90.1)	9.4	(115.1)	11.0
<b>Adjusted EBITDA<sup>1</sup></b>	<b>58.4</b>	<b>6.1</b>	(19.1)	1.8
Depreciation of property, plant and equipment and right-of-use assets	(63.1)	6.6	(21.9)	2.1
Amortization of intangible assets	(13.4)	1.4	(10.6)	1.0
Loss on disposal of capital assets and equity investments	(0.4)	–	(2.1)	0.2
Impairment losses	(56.6)	5.9	–	–
Net interest income (expense)	(23.5)	2.5	3.2	0.3
Share of earnings (loss) from equity investments	(1.7)	0.2	0.9	0.1
<b>Loss before income taxes</b>	<b>(100.3)</b>	<b>10.5</b>	(49.6)	4.7

<sup>1</sup> 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 loss before income taxes, the most directly comparable measure determined under IFRS, is presented above for informational purposes.

Selected financial information of the Company for the last three fiscal years is shown in the following table:

(millions of Canadian dollars, except per share data)	52-week period ended March 28, 2020	52-week period ended March 30, 2019	52-week period ended March 31, 2018 <sup>1</sup>
<b>Revenue</b>			
Superstores	<b>655.8</b>	711.4	728.6
Small format stores	<b>122.1</b>	144.8	143.6
Online	<b>162.7</b>	175.9	176.8
Other	<b>17.1</b>	14.7	30.6
	<b>957.7</b>	1,046.8	1,079.6
Earnings (loss) before income taxes	<b>(100.3)</b>	(49.6)	30.7
Income tax recovery (expense)	<b>(84.7)</b>	12.8	(8.7)
Net earnings (loss)	<b>(185.0)</b>	(36.8)	21.9
Total assets	<b>883.0</b>	610.5	634.0
Lease liabilities (including current portion)	<b>568.6</b>	–	–
Working capital	<b>85.2</b>	164.1	258.8
Basic earnings (loss) per common share	<b>(\$6.72)</b>	(\$1.35)	\$0.82
Diluted earnings (loss) per common share	<b>(\$6.72)</b>	(\$1.35)	\$0.81

<sup>1</sup> The Company implemented IFRS 15 *Revenue from Contracts with Customers*, in fiscal 2019 using the full retrospective transition method. As a result, certain prior year balances were restated.

Selected operating information of the Company for the last three fiscal years is shown in the following table:

	52-week period ended March 28, 2020	52-week period ended March 30, 2019	52-week period ended March 31, 2018
<b>Comparable Sales Growth<sup>1</sup></b>			
Total retail and online	(7.9%)	(1.1%)	6.2%
Superstores	(8.2%)	(1.8%)	4.0%
Small format stores	(7.4%)	1.2%	2.4%
<b>Stores Opened</b>			
Superstores	–	4	–
Small format stores	–	–	1
	–	4	1
<b>Stores Rebranded, Relocated, or Renovated</b>			
Superstores	3	13	5
Small format stores	–	–	3
	3	13	8
<b>Stores Closed</b>			
Superstores	1	1	3
Small format stores	7	8	1
	8	9	4
<b>Number of Stores Open at Year-End</b>			
Superstores	88	89	86
Small format stores <sup>2</sup>	108	115	123
	196	204	209
<b>Selling Square Footage at Year-End</b> (in thousands)			
Superstores	1,941	1,962	1,887
Small format stores	279	287	308
	2,220	2,249	2,195

1 See “Non-IFRS Financial Measures”.

2 Subsequent to the Company’s fiscal year end, in May 2020 the Company decided not to renew the leases for 15 small format stores beyond June 2020.

### 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 loss, this resulted in a positive year-over-year variance in adjusted EBITDA.

The impact of this adoption on the Company's statement of loss for the 52-week periods ended March 28, 2020 and March 30, 2019 is as follows:

(millions of Canadian dollars)	52-week period ended March 28, 2020 IFRS 16	Impact of IFRS 16	52-week period ended March 28, 2020 IAS 17	% Revenue	52-week period ended March 30, 2019 IAS 17	% Revenue
Revenue	957.7	–	957.7	100.0	1,046.8	100.0
Cost of sales	(553.6)	–	(553.6)	57.8	(619.9)	59.2
Cost of operations	(255.6)	(62.5)	(318.1)	33.2	(330.9)	31.6
Selling, general and administrative expenses	(90.1)	(5.4)	(95.5)	10.0	(115.1)	11.0
<b>Adjusted EBITDA<sup>1</sup></b>	<b>58.4</b>	<b>(67.9)</b>	<b>(9.5)</b>	<b>1.0</b>	<b>(19.1)</b>	<b>1.8</b>
Depreciation of property, plant and equipment and right-of-use assets	(63.1)	40.1	(23.0)	2.4	(21.9)	2.1
Amortization of intangible assets	(13.4)	–	(13.4)	1.4	(10.6)	1.0
Loss on disposal of capital assets and equity investments	(0.4)	–	(0.4)	–	(2.1)	0.2
Impairment losses	(56.6)	40.9	(15.7)	1.6	–	–
Net interest income (expense)	(23.5)	25.6	2.1	0.2	3.2	0.3
Share of earnings (loss) from equity investments	(1.7)	–	(1.7)	0.2	0.9	0.1
<b>Loss before income taxes</b>	<b>(100.3)</b>	<b>38.7</b>	<b>(61.6)</b>	<b>6.4</b>	<b>(49.6)</b>	<b>4.7</b>
Income tax recovery (expense)	(84.7)	37.5	(47.2)	4.9	12.8	1.2
<b>Net Loss</b>	<b>(185.0)</b>	<b>76.2</b>	<b>(108.8)</b>	<b>11.4</b>	<b>(36.8)</b>	<b>3.5</b>

<sup>1</sup> 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 "Accounting Standards Implemented in Fiscal 2020" section of this MD&A and Note 4 of the audited 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 52-week period ended March 28, 2020 decreased \$89.1 million or 8.5% to \$957.7 million compared to \$1,046.8 million for 52-week period ended March 30, 2019. This decline in revenue was primarily due to intensified competitive pressures, softer traffic and the Company's planned efforts to reduce promotions to improve profitability. Notably, this included the deliberate reduction of mass promotions such as the 'Every Book Ships Free' summer campaign and Black Friday promotions in the Company's online channel. Print and general merchandise sales were also challenged without a breakout book title or toy item when compared to fiscal 2019. COVID-19 disruptions also had a material negative impact on sales for the year, primarily due to the temporary store closures which occurred on March 17, 2020, coinciding with many March Break school holidays that would historically drive meaningful retail traffic in the fourth quarter.

Total comparable sales, which includes online sales, decreased by 7.9% for the year. Total comparable sales are 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. In fiscal 2020, these measures also exclude retail sales fluctuations from the temporary store closures associated with COVID-19. 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.

Comparable retail superstore sales for the year decreased 8.2%, while small format stores decreased 7.4%. The decrease was predominantly a result of lower store traffic and significantly less promotional activity undertaken by the Company to preserve its profitability.

Online revenue decreased by \$13.2 million or 7.5% to \$162.7 million for the 52-week period ended March 28, 2020 compared to \$175.9 million last year. The decrease was predominantly a result of the Company's strategy to eliminate unprofitable business in its online channel, partially offset by the acceleration of online sales experienced in late March 2020, fueled by retail store closures and government stay-at-home orders. Digital demand accelerated in conjunction with disruptions from COVID-19 as household spending redirected to at-home entertainment, resulting in significant growth across the Company's book and toy merchandise categories, and partially offset the corresponding revenue loss experienced in retail. While the Company's focus on restoring profitability has resulted in lower revenue as discussed, the strategic initiative was successful in delivering a year-over-year margin increase in the online channel of \$1.8 million.

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 \$2.4 million or 16.3% to \$17.1 million for the 52-week period ended March 28, 2020 compared to \$14.7 million in the same period last year, primarily driven by the launch of *plum PLUS*, the Company's new paid membership program.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	52-week period ended March 28, 2020	52-week period ended March 30, 2019	% increase/ (decrease)	Comparable sales % increase/ (decrease)
Superstores	655.8	711.4	(7.8)	(8.2)
Small format stores	122.1	144.8	(15.7)	(7.4)
Online (including store kiosks)	162.7	175.9	(7.5)	(7.5)
Other <sup>1</sup>	17.1	14.7	16.3	N/A
<b>Total</b>	<b>957.7</b>	<b>1,046.8</b>	<b>(8.5)</b>	<b>(7.9)</b>

<sup>1</sup> 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)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Total retail store revenue	777.9	856.2
Total online revenue	162.7	175.9
Adjustments for non-comparable items	(65.6)	(81.7)
<b>Total comparable sales</b>	<b>875.0</b>	<b>950.4</b>

(millions of Canadian dollars)	Superstores		Small format stores	
	52-week period ended March 28, 2020	52-week period ended March 30, 2019	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Total revenue by format	655.8	711.4	122.1	144.8
Adjustments for non-comparable items	(64.5)	(67.5)	(1.1)	(14.2)
<b>Comparable retail store sales</b>	<b>591.3</b>	<b>643.9</b>	<b>121.0</b>	<b>130.6</b>

Revenue by product line is as follows:

	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Print <sup>1</sup>	55.5%	55.5%
General merchandise <sup>2</sup>	42.7%	43.1%
Other <sup>3</sup>	1.8%	1.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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 \$66.3 million to \$553.6 million for the 52-week period ended March 28, 2020, compared to \$619.9 million for the same period last year. As a percentage of total revenue, cost of sales decreased 1.4% to 57.8% compared to 59.2% for the same period last year.

This rate improvement was the result of focused efforts to eliminate non-margin accretive promotions, following a high promotional cadence in the prior year in response to sales disruptions from store renovations and the Canadian postal strike. Disciplined inventory management also resulted in lower markdowns throughout the year, which further improved the gross margin rate across both print and general merchandise categories. In aggregate however, the rate improvement achieved did not offset the impact of lost sales volume to margin, which was further impacted as a result of COVID-19 temporary store closures.

### Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations decreased \$75.3 million to \$255.6 million for the 52-week period ended March 28, 2020 compared to \$330.9 million for the same period last year. Excluding the impact of IFRS 16, normalized cost of operations decreased by \$12.8 million from the prior year.

The Company achieved \$14.9 million in operational costs savings from the impact of lower sales volumes on variable costs in the store and distribution networks, as well as through productivity initiatives undertaken throughout the year. This was partially offset by incremental costs associated with the Company's online operations. As a percent of total revenue, normalized cost of operations increased by 1.6% to 33.2%, compared to 31.6% for the same period last year as the efficiencies realized were offset by the impact of a declining sales base.

### 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 \$25.0 million to \$90.1 million for the 52-week period ended March 28, 2020 compared to \$115.1 million for the same period last year. Excluding the impact of IFRS 16, normalized selling, general and administrative expenses decreased by \$19.6 million.

The Company achieved \$22.3 million in savings throughout the year through disciplined strategic spending and reduced labour costs, which includes a reduction in incentive compensation. This was partially offset by \$1.7 million of additional costs from the repatriation of the Company's New York design studio to Toronto, mostly in the form of termination expenses. As a percent of total revenue, normalized selling, general and administrative expenses decreased by 1.0% to 10.0% compared to 11.0% for the same period last year.

### **Adjusted EBITDA**

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments. During the 52-week period ended March 28, 2020, adjusted EBITDA increased \$77.5 million to \$58.4 million, compared to a loss of \$19.1 million for the same period last year. Excluding the impact of IFRS 16, adjusted EBITDA increased \$9.6 million to loss of \$9.5 million. As a percentage of total revenue, normalized adjusted EBITDA improved by 0.8%.

The increase in normalized adjusted EBITDA was achieved despite a lower sales base in the current year. This was driven by a disciplined focus on initiatives to improve margin rate, create efficiencies in the Company's store and distribution network, and to streamline the Company's cost base. This was partially offset by temporary store closures in response to the COVID-19 pandemic, and the Company's decision to pay retail labour wages for all scheduled shifts through March, which had an adverse impact to adjusted EBITDA.

A reconciliation of adjusted EBITDA to net loss before income taxes has been included in the "Results of Operations" section of this MD&A.

### **Capital Assets**

Depreciation and amortization for the 52-week period ended March 28, 2020 increased by \$43.9 million to \$76.5 million compared to \$32.6 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 \$3.8 million as a result of significant investments in capital assets made throughout fiscal 2019.

Capital expenditures in fiscal 2020 totaled \$10.6 million compared to \$86.6 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 fiscal 2020 included \$8.4 million for intangible assets, relating primarily to application software and internal development costs, \$1.2 million for technology equipment and \$1.0 million for capital asset additions from retail store renovations. None of the capital expenditures were financed through leases.

### **Impairment Losses**

Impairment losses for the 52-week period ended March 28, 2020 were \$56.6 million, compared to no impairment losses recognized in the prior year. Of this impairment, \$40.9 million was taken against the right-of-use asset. Due to the adverse impact of the COVID-19 pandemic on the global economy, including the impact on the Company's business and share price, and due to the Company's current operating losses, impairment losses were recognized in the current period, as further described in note 5 to the consolidated financial statements.

At each reporting date, the Company assesses whether indicators of asset impairment or impairment reversals existed, in accordance with IAS 36 "*Impairment of Assets*". For assets that can be reasonably and consistently allocated to individual stores, the store level was used as the cash-generating unit ("CGU") and remaining assets are assessed as a corporate asset group. Recoverable amounts for CGUs tested were based on the higher of the value in use and the fair value less cost of disposal, which is calculated from discounted cash flow projections and the amount obtainable from the sale of a CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal, respectively.



### **Net Interest Income (Expense)**

The Company recognized net interest expense of \$23.5 million for the 52-week period ended March 28, 2020, which reflects the interest expense associated with the IFRS 16 lease liability in the current year, compared to net interest income of \$3.2 million in the prior year. Excluding the impact of IFRS 16, net interest income decreased by \$1.1 million to \$2.1 million due to the lower cash balances maintained in interest-bearing short-term investments throughout the year.

### **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 year, 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. Prior to the sale, the Company recognized a net loss from Calendar Club of \$1.6 million.

Earnings from Unplug were immaterial for the 52-week periods ended March 28, 2020 and March 30, 2019.

### **Income Taxes**

The Company recognized a non-cash income tax expense of \$84.7 million for the 52-week period ended March 28, 2020, compared to recognizing a non-cash income tax recovery of \$12.8 million last year. The income tax expense recognized in the current period includes \$37.5 million of income tax impact from IFRS 16, which primarily relates to the tax impact of impairment on the right-of-use asset. Excluding the impact of IFRS 16, income tax expense increased by \$60.0 million to \$47.2 million.

The income tax expense for the 52-week period ended March 28, 2020 was driven by the effect of deferred tax assets that were not recognized in the current period. This decision was influenced by the Company’s current operating loss, and uncertainty surrounding future profitability as a result of the COVID-19 pandemic, among other factors. As such, uncertainty exists surrounding the probability of sufficient taxable income being available to utilize all deferred tax assets within the timeline of management’s forecasts. The time period of future projected taxable profits used to assess the recognition of deferred tax assets was shorter than the expiration period of the non-capital tax loss carryforward, and other deferred tax assets which do not expire.

The Company’s effective tax rate was (84.5%) compared to 25.7% in the prior year.

### **Net Loss**

The Company recognized a net loss of \$185.0 million for the 52-week period ended March 28, 2020 (\$6.72 basic net loss per common share), compared to a net loss of \$36.8 million last year (\$1.35 basic net loss per common share).

The Company implemented IFRS 16 *Leases* on March 31, 2019, recognizing \$388.5 million of right-of-use assets and \$37.5 million of additional deferred tax assets, a material increase to the Company’s consolidated balance sheet. Subsequently, as at March 28, 2020, \$40.9 million of impairment losses were recognized against the right-of-use assets, and the additional \$37.5 million of deferred tax assets were unrecognized. Together, this had a \$78.4 million negative impact to the net loss position, which was partially offset by the additional income from IFRS 16 accounting of \$2.2 million. In totality, IFRS 16 had a \$76.2 million negative impact to the net loss position in the year.

Excluding the impact of IFRS 16, the net loss recognized in the period was \$108.8 million. The increased loss was mainly due to additional impairment losses of \$15.7 million, as well as a deferred tax expense of \$47.2 million from unrecognized the Company’s remaining deferred tax asset balance, as discussed.

Lower profitability was also driven by a decline in revenue, which reflects the current competitive landscape and the Company’s deliberate actions to reduce promotional activity. Although the Company achieved cost improvements throughout the year, these efforts did not offset the impact of a lower sales base. Lost revenue from temporary store closures in response

to the COVID-19 pandemic, and the Company's decision to pay retail labour wages for all scheduled shifts up until the end of March, also had a material negative impact to earnings for the 52-week period ended March 28, 2020.

### Other Comprehensive Income

Other comprehensive income 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 year have been designated as cash flow hedges for accounting purposes and extend over a period not exceeding 12 months.

During the 52-week period ended March 28, 2020, the Company entered into forward contracts with total notional amounts of C\$118.8 million to buy U.S. dollars and sell Canadian dollars, compared to entering contracts with total notional amounts of C\$153.1 million last year. As at March 28, 2020, the Company had remaining contracts in place representing a total notional amount of \$66.2 million and an unrealized net gain of \$3.8 million, compared to a total notional amount of C\$66.9 million and an unrealized net gain of \$1.1 million as at March 30, 2019.

During the fiscal year ended March 28, 2020, the Company had net gains (net of taxes) from the change in fair value of outstanding cash flow hedges of \$2.5 million, compared to net gains (net of taxes) of \$2.4 million in the prior year. During the same respective periods, the Company reclassified net gains (net of taxes) from settled contracts of \$0.5 million from other comprehensive income to inventory and expenses, and net gains (net of taxes) of \$2.5 million in the prior year. This resulted in an overall impact to other comprehensive income of \$2.0 million for the fiscal year ended March 28, 2020 and no impact to other comprehensive income for the fiscal year ended March 30, 2019.

The Company also recognized other comprehensive income of \$0.4 million from the foreign currency translation adjustment on consolidation of its foreign subsidiaries for the fiscal year ended March 28, 2020, compared to an other comprehensive loss of \$0.2 million in the prior year.

### Seasonality and Fourth Quarter Results

Indigo's business is highly seasonal and follows quarterly sales and earnings (loss) fluctuation patterns, which are similar to those of other retailers that are highly dependent on the holiday season. A disproportionate amount of revenues and earnings (losses) 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 impact of certain risks, as discussed in the "Risks and Uncertainties" section of this MD&A, would have a disproportionate impact to the Company's financial performance should any such events occur during the holiday season.

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

(millions of Canadian dollars, except per share data)	Fiscal quarters							
	Q4 Fiscal 2020 <sup>1</sup>	Q3 Fiscal 2020 <sup>1</sup>	Q2 Fiscal 2020 <sup>1</sup>	Q1 Fiscal 2020 <sup>1</sup>	Q4 Fiscal 2019	Q3 Fiscal 2019	Q2 Fiscal 2019	Q1 Fiscal 2019
Revenue	178.1	383.7	203.4	192.6	199.2	426.0	216.3	205.4
Total net earnings (loss)	(171.3)	25.8	(20.5)	(19.1)	(23.8)	21.5	(19.1)	(15.4)
Basic earnings (loss) per common share	(\$6.22)	\$0.94	(\$0.74)	(\$0.69)	(\$0.86)	\$0.80	(\$0.70)	(\$0.57)
Diluted earnings (loss) per common share	(\$6.22)	\$0.94	(\$0.74)	(\$0.69)	(\$0.86)	\$0.79	(\$0.70)	(\$0.57)

<sup>1</sup> 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.

For fiscal 2021, revenue and net earnings (losses) may not follow historic patterns of seasonality presented above, due to the impact of the COVID-19 pandemic.

For the 13-week period ended March 28, 2020, total consolidated revenue decreased by \$21.1 million or 10.6% to \$178.1 million compared to \$199.2 million for the 13-week period ended March 30, 2019. The decrease in revenue was mainly a result of COVID-19 disruptions which had a material negative impact on sales in the fourth quarter, primarily due to the temporary store closures which occurred on March 17, 2020. As a result, retail revenue decreased by \$30.6 million or 18.5% to \$134.4 million for the 13-week period ended March 28, 2020 compared to \$165.0 million for the same period last year. The decrease in retail sales was partially offset by the acceleration of online sales experienced in late March 2020, fueled by retail store closures and government stay-at-home orders, as discussed. Online revenue increased by \$5.5 million or 16.4% to \$39.0 million for the 13-week period ended March 28, 2020 compared to \$33.5 million in the same period last year.

The Company recognized a net loss of \$171.3 million for the 13-week period ended March 28, 2020 (\$6.22 basic net loss per common share), compared to a net loss of \$23.8 million (\$0.86 basic net loss per common share) for the same period last year. The impact of adopting IFRS 16 to the net loss position in the quarter was \$77.0 million, which included the impairment recognized on the right-of-use asset and the associated deferred tax impact. The increased loss compared to the prior year was primarily a result of the impairment losses recognized, and the income tax expense associated with not recognizing the deferred tax assets, as discussed. Contributing to these losses was also the financial impact of COVID-19, which included the impact of temporary store closures and the payment of wages for all scheduled shifts up until the end of March.

## Overview of Consolidated Balance Sheets

### Assets

As at March 28, 2020, total assets increased by \$272.5 million to \$883.0 million compared to \$610.5 million as at March 30, 2019, which reflects the inclusion of the right-of-use asset as per IFRS 16. Excluding the impact of IFRS 16, total assets decreased by \$109.7 million to \$500.8 million, primarily driven by the decrease in deferred tax assets, and the impairment losses recognized in the year. In the current year, the Company did not recognize its net deferred tax assets, compared to recognizing \$47.9 million in the prior year. The Company also recognized an impairment loss of \$15.7 million against non-financial assets, compared to no impairment loss in the prior year. The impairment loss was recognized against and resulted in a decrease to property, plant and equipment of \$12.5 million, intangible assets of \$3.0 million and the equity investment of \$0.2 million. Both the impact to deferred tax assets and impairment losses were influenced by the Company's current operating loss, and uncertainty surrounding future profitability as a result of the COVID-19 pandemic, among other factors.

This decline in total assets was furthered by an additional decrease in property, plant and equipment, a decrease in inventories and a net decrease in cash and cash equivalents and short-term investments, partially offset by an increase in derivative financial instruments. Property, plant, and equipment also decreased by \$22.2 million as a result of increased accumulated amortization associated with the significant capital investment program undertaken in fiscal 2019. Inventories decreased by \$10.7 million, consistent with the Company's continued focus on stronger management of inventory levels. Net cash and cash equivalents and short-term investments decreased by \$8.0 million, due to the operating loss sustained. These decreases were partially offset by the \$2.7 million increase to derivative financial instruments as a result of favourable changes in fair value of outstanding cash flow hedges.

### Liabilities

As at March 28, 2020, total liabilities increased \$558.7 million to \$799.0 million compared to \$240.3 million as at March 30, 2019, which includes the adjustments of \$563.7 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 decreased by \$5.0 million. This decrease was driven by a reduction in accounts payable and accrued liabilities, partially offset by an increase in deferred revenue and unredeemed gift card liability. Accounts payable and accrued liabilities decreased by \$15.9 million, primarily due to the reversal of accrued incentive compensation. This impact was partially offset by a \$3.0 million increase in deferred revenue from the launch of *plum*

rewards, the Company's new paid loyalty program and a \$2.9 million increase in unredeemed gift card liability driven by sustained changes in customer redemption patterns.

## Equity

Total equity at March 28, 2020 decreased \$286.1 million to \$84.0 million, compared to \$370.1 million as at March 30, 2019, which includes to-date adjustments to retained earnings for IFRS 16 of \$181.3 million. Excluding the impact of IFRS 16, total equity decreased by \$104.6 million, primarily due to the net loss recognized in the year. This decrease was partially offset by an increase in accumulated other comprehensive income of \$2.6 million, primarily due to the change in the fair value of outstanding cash flow hedges.

The weighted average number of common shares outstanding for fiscal 2020 was 27,515,109 compared to 27,354,358 last year. As at June 23, 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 reported working capital of \$85.2 million as at March 28, 2020, compared to \$164.1 million as at March 30, 2019. Excluding the impact of IFRS 16, the Company reported working capital of \$154.3 million as at March 28, 2020. The decrease in working capital compared to the same period last year was primarily a result of the decrease in inventories and net decrease in cash and cash equivalents and short-term investments, as previously discussed.

## Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased \$79.2 million during fiscal 2020, compared to a decrease of \$109.0 million in the prior year. The change in cash and cash equivalents during fiscal 2020 was driven by cash flows generated from operating activities of \$65.2 million and investing activities of \$79.3 million, partially offset by cash flows used in financing activities of \$66.0 million.

### Cash Flows From (Used for) Operating Activities

The Company generated cash flows of \$65.2 million from operating activities in fiscal 2020 compared to using \$2.8 million last year, an increase of \$68.0 million. This is inclusive of the impact of IFRS 16, which had a \$66.0 million impact to cash flows from operating activities. Excluding the impact of IFRS 16, the Company used cash flows of \$0.8 million for operating activities, an improvement of \$2.0 million from the prior period. This was primarily a result of the additional \$9.5 million of adjusted EBITDA recognized in the year, partially offset by the decrease of cash generated from working capital of \$8.7 million, excluding the impact of IFRS 16.

### Cash Flows From (Used for) Investing Activities

The Company generated cash flows of \$79.3 million from investing activities in fiscal 2020 compared to using \$109.7 million last year, a change of \$189.0 million. This was partially driven by the maturity of \$87.2 million of short-term investments in fiscal 2020, compared to a re-investment of \$27.2 million in the prior year. Contributing to this increase was the completion of the capital investment program undertaken during fiscal 2019. In the current year, the Company spent \$10.6 million on capital projects compared to spending \$86.6 million last year, a decrease of \$76.0 million. Cash was used for capital projects as follows:

(millions of Canadian dollars)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Construction, renovations, and equipment, net	1.0	60.1
Intangible assets (primarily application software and internal development costs)	8.4	19.1
Technology equipment	1.2	7.4
<b>Total</b>	<b>10.6</b>	<b>86.6</b>

## Cash Flows From (Used for) Financing Activities

The Company used cash flows of \$66.0 million for financing activities in fiscal 2020, compared to generating cash flows of \$2.9 million last year, which reflects the impact of IFRS 16. All cash flows used for financing activities in the current period were associated with the lease liabilities under IFRS 16, which were previously classified as operating activities prior to the implementation of the standard. Excluding the impact of IFRS 16, the Company had no cash flows from financing activities as no share-based compensation options were exercised in the year.

## Liquidity and Capital Resources

The Company has a highly seasonal business that generates a significant portion of its revenue and cash flows during the 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. Cash flows from operating activities could be negatively impacted by decreased demand for the Company's product offerings, which could result from factors such as, but not limited to, adverse economic conditions resulting from the COVID-19 pandemic and associated changes in consumer preferences, by the impact of social distancing policies and general public health sentiment on retail store traffic, and the Company's ability to safely fulfill orders through its online distribution network.

The Company's contractual obligations due over the next five years are summarized below:

(millions of Canadian dollars)	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
<b>Total obligations</b>	67.9	123.9	103.8	162.3	457.9

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, including the currently known impacts of COVID-19, it is expected that the Company's current cash position and future cash flows generated from operations will be sufficient to meet its working capital requirements for fiscal 2021. However, the Company's ability to fund future operations will depend on its operating performance, which could be affected by risks associated by the COVID-19 pandemic, as discussed. The Company can seek to raise additional funding should a significant risk to liquidity arise, as it currently has no outstanding debt financing, and can reduce capital spending if necessary. However, the COVID-19 pandemic creates a number of additional risks to obtaining such funding, such as the ability to access capital at a reasonable cost. Also, a long-term decline in capital expenditures may negatively impact the Company's revenue and profit growth.

For additional discussion surrounding risks and uncertainties related to COVID-19, refer to the "Risks and Uncertainties" section in this MD&A.

## Accounting Policies

### Critical Accounting Judgments and Estimates

The discussion and analysis of Indigo's operations and financial condition are based upon the consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of these 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. The Company also evaluates its judgments and estimates on an ongoing basis. Methods for determining all material judgments and estimates are consistent with those used in prior periods, except as noted. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates. The critical accounting judgments and estimates and significant accounting policies of the Company are described in notes 3 and 4 of the consolidated financial statements.

The following items in the consolidated financial statements involve significant judgment or estimation.

## Use of judgments

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make judgments, apart from those involving estimation, in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the judgments made by the Company. Information about judgments that have the most significant effect on recognition and measurement of assets, liabilities, revenues, and expenses is discussed below. Information about significant estimates is discussed in the following section.

### *Impairment*

An impairment loss is recognized for the amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are reversed if the recoverable amount of the capital asset, CGU, or group of CGUs exceeds its carrying amount, but only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. The Company uses judgment when identifying CGUs, when assessing for indicators of impairment or reversal, and when estimating the recoverable amount of CGUs.

### *Intangible assets*

Initial capitalization of intangible asset costs is based on the Company's judgment that technological and economic feasibility are confirmed and the project will generate future economic benefits by way of estimated future discounted cash flows that are being generated.

### *Leases*

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised. The Company has the option under many of its leases to lease the assets for additional terms of five years, and applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. The Company considers all relevant factors that create an economic incentive for it to exercise the renewal, including store performance, expected future performance and past business practice. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

### *Deferred tax assets*

The recognition of deferred tax assets is based on the Company's judgment. The assessment of the probability of future taxable income against which deferred tax assets can be utilized is based on management's best estimate of future taxable income that the Company expects to achieve from reviewing its latest forecast. This estimate is adjusted for significant non-taxable income and expenses and for specific limits to the use of any unused tax loss or credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses and unused tax credits can be utilized. If estimates of future taxable profit change, unrecognized deferred tax assets can be recognized again in a future period. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties are assessed individually by the Company based on the specific facts and circumstances.

## Use of estimates

Information about estimates that have the most significant effect on the recognition and measurement of assets, liabilities, revenues, and expenses are discussed below.

### *Impairment*

To determine the recoverable amount of an impaired asset, the Company estimates expected future cash flows and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, the Company makes assumptions about certain variables, such as future sales, gross margin rates, expenses, capital expenditures, working capital investments, which are based upon historical experience and expected future performance. Determining the applicable discount rate involves estimating appropriate adjustments to market risk and to Company-specific risk factors.

### *Inventories*

The future realization of the carrying amount of inventory is affected by future sales demand, inventory levels, and product quality. At each balance sheet date, the Company reviews its on-hand inventory and uses historical trends and current inventory mix to determine a reserve for the impact of future markdowns that will take the net realizable value of inventory on-hand below cost. Inventory valuation also incorporates a write-down to reflect future losses on the disposition of obsolete merchandise. The Company reduces inventory for estimated shrinkage that has occurred between physical inventory counts and each reporting date based on historical experience as a percentage of sales. In addition, the Company records a vendor settlement accrual to cover any disputes between the Company and its vendors. The Company estimates this reserve based on historical experience of settlements with its vendors.

### *Property, plant, equipment, and intangible assets (collectively, "capital assets")*

Capital assets are depreciated and amortized over their useful lives, taking into account residual values where appropriate. Assessments of useful lives and residual values are performed on an ongoing basis and take into consideration factors such as technological innovation, maintenance programs, and relevant market information. In assessing residual values, the Company considers the remaining life of the asset, its projected disposal value, and future market conditions.

### *Leases*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Company's incremental borrowing rate ("IBR"). The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities.

The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity and asset-specific estimates (such as the subsidiary's stand-alone credit rating).

### *Revenue*

The Company recognizes revenue for the estimated value of gift cards that are not expected to be redeemed by customers ("gift card breakage") in proportion to the pattern of rights exercised by the customer. The resulting gift card breakage revenue is recognized over the estimated period of redemption based on historical redemption patterns commencing when the gift cards are sold.

The Indigo *plum* rewards program (“*plum*”) allows customers to earn points on their purchases. The allocation of transaction price to the *plum* loyalty obligation, which is the estimated reward tier value of a future redemption net of points management expects will go unredeemed, is based on a relative stand-alone selling price basis. The Company continues to monitor trends in redemption patterns (redemption at each reward level), historical redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed. Points revenue is included as part of total revenue in the Company’s consolidated statements of earnings (loss) and comprehensive earnings (loss).

#### *Share-based payments*

The cost of equity-settled transactions with counterparties is based on the Company’s estimate of the fair value of share-based instruments and the number of equity instruments that will eventually vest. The Company’s estimated fair value of the share-based instruments is calculated using the following variables: risk-free interest rate; expected volatility; expected time until exercise; and expected dividend yield. Risk-free interest rate is based on Government of Canada bond yields, while all other variables are estimated based on the Company’s historical experience with its share-based payments.

## 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.

During the course of the Company’s financial statement close process for the year ended March 28, 2020, accounting errors were identified in the assessment of the modified retrospective application of day one right-of-use assets (“ROU assets”) performed in connection with the adoption of IFRS 16 as at March 31, 2019.

In particular, there were errors identified in performing the likelihood assessment on extension options for one lease contract, and in applying historical data to retrospectively construct the ROU assets for a select number of leases. These errors produced an overstatement of the ROU assets of \$24.4 million, and an understatement of the ROU assets of \$5.4 million, respectively. When appropriately performing the quantification of the ROU assets as at March 31, 2019, the net effect of these errors resulted in the overstatement of ROU assets recognized on IFRS 16 adoption of \$19.5 million, requiring an associated increase of \$24.4 million to long-term lease liabilities, a charge of \$4.0 million to opening retained earnings and an increase of \$1.4 million to the deferred tax asset balance recognized.

Additionally, there was an error with the classification between short-term and long-term lease liabilities of \$25.1 million as a result of implementing an amortization approach rather than the present value of lease payments due within twelve months of the reporting date.

Correction of these errors (which appeared in the unaudited condensed interim consolidated financial statements and related note disclosures for the quarters ended June 29, 2019, September 28, 2019 and December 28, 2019) has a non-cash impact on the ROU asset, deferred tax asset balance, long-term lease liabilities and opening retained earnings (deficit) balance, and will result in lower depreciation of the ROU assets and reduced interest expense going forward.

Correction of these errors would have also impacted working capital disclosures in the referenced quarterly reports. However, the Company provided commentary in its Management Discussion & Analysis to normalized working capital balances, excluding all effects of IFRS 16, which accurately reflected the liquidity position of the Company.



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
<b>Assets</b>			
Right-of-use assets (as restated)	–	388.5	388.5
Deferred tax assets	47.9	37.5	85.4
<b>Liabilities</b>			
Accounts payable and accrued liabilities	179.2	1.2	180.4
Short-term lease liabilities (as restated)	–	68.1	68.1
Long-term accrued liabilities	4.7	(3.5)	1.2
Long-term lease liabilities (as restated)	–	465.2	465.2
<b>Equity</b>			
Retained earnings (as restated)	131.3	(105.1)	26.2

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 52-week period ended March 28, 2020 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.

## Risks and Uncertainties

### COVID-19 Emerging Risk

The COVID-19 pandemic creates a number of risks and uncertainties for the Company's business, which could significantly impact the Company's results of operations going forward and the forward-looking statements made herein.

As an emerging risk, the duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of any current or future government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

Investors should also refer to the Company's description of certain impacts of the ongoing pandemic described above under "Statement on COVID-19".

### Economic Environment

Traditionally, retail businesses are highly susceptible to market conditions in the economy. Economic conditions, both on a global scale and in particular markets, may have significant effects on consumer confidence and spending. A decline in consumer spending, especially during the holiday season, could have an adverse effect on the Company's financial condition. Health pandemics, such as the current COVID-19 outbreak, and the related governmental, private sector and individual consumer responses could reduce retail traffic and consumer spending, result in temporary or permanent closures of stores, offices, and factories, and could disrupt the material flow of goods, which could have an adverse effect on the Company's financial situation. Other variables, such as unanticipated increases in merchandise costs, higher labour costs, increases in shipping rates or interruptions in shipping service, foreign exchange fluctuations, political uncertainty, disruptions in international trade, the impact of natural disasters, geo-political events or acts of terrorism, or higher interest rates or unemployment rates, could also unfavourably impact the Company's financial performance.

### Real Estate

The Company leases all of its retail locations and while it attempts to renew these leases as they come due on favourable terms and conditions, it is susceptible to volatility in the market for supercentre and shopping mall space. Unforeseen increases in occupancy costs, or costs incurred due to unanticipated store closings or relocations, could also unfavourably impact the Company's performance.

As a result of the COVID-19 pandemic, the Company temporarily closed its retail stores on March 17, 2020. Beginning in April 2020, the Company suspended rent payments under a number of its real estate leases in response to business disruptions from COVID-19. The Company is currently negotiating with its landlords to abate certain rent expense in response to the financial impact of COVID-19, as discussed; however, there can be no assurance that such negotiations will be successful and there are additional risks associated with these suspensions.

The inability of the Company to enter into suitable rent relief arrangements could potentially have a cumulative material effect, depending on the number of locations impacted, the materiality of such locations to the overall business, and any dispute under these leases that may result in litigation with the respective landlord.

Investors should also refer to the Company's description of certain impacts of the ongoing pandemic described above under "Statement on COVID-19".

## **Liquidity Risk**

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk is managed by continuously monitoring actual and projected cash flows, taking into account the historical seasonality of the Company's revenue and working capital needs.

However, cash flows from operating activities could be negatively impacted by decreased demand for the Company's product offerings, which could result from factors such as, but not limited to, adverse economic conditions resulting from the COVID-19 pandemic and associated changes in consumer preferences, or by the impact of social distancing policies and general public health sentiment on retail store traffic, and or the Company's ability to safely fulfill orders through its online distribution network.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, including the currently known impacts of COVID-19, it is expected that the Company's current cash position and future cash flows generated from operations will be sufficient to meet its working capital requirements for fiscal 2021. However, the Company's ability to fund future cash requirements will depend on its future operating performance, which could be affected by risks associated by the COVID-19 pandemic, as discussed. The Company could seek to raise additional funding in the event it fails to maintain sufficient liquidity, as it currently has no outstanding debt financing, and reduce capital spending if necessary. However, the COVID-19 pandemic creates a number of additional risks such as the negative impact on debt and equity capital markets, including the ability to access capital at a reasonable cost and the trading price of the Company's securities, which could impact future capital raising efforts if required by the Company. A long-term decline in capital expenditures may negatively impact the Company's revenue and profit growth.

## **Workplace Health and Safety**

The failure of the Company to adhere to appropriate health and safety procedures and to ensure compliance with applicable laws and regulations could result in employee injuries, productivity loss, and liabilities to the Company. To reduce the risk of workplace incidents, the Company has health and safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable legislative requirements.

During the COVID-19 pandemic, the health and safety of the Company's customers, employees and communities have remained a top priority in the face of evolving workplace risks and practices related to the pandemic. The Company has put in place and employed extensive health and safety measures across all of its operations based on the guidance and direction from public health authorities. If government authorities introduce more stringent health and safety laws, the Company may incur additional costs to comply with these requirements, which may have an adverse impact on the Company's financial results. Further, if the Company is unable to meet the current or future health and safety laws, regulations and industry standards related to COVID-19, or despite the Company's efforts and precautions, employees are exposed and infected by the COVID-19 virus, it could have an adverse effect on the Company's abilities to re-open and operate its stores, maintain operations at its distribution centres, or reopen and operate its head office and an impact to customer and employee engagement, all of which could have an adverse effect on the Company's operations and financial performance.

## **Remote Work**

In addition to closing its retail locations, in response to the COVID-19 pandemic the Company also had to close its head office and implement a remote work program to maintain its operations. While employees are generally able to perform their functions in a remote setting from their homes or other locations, certain additional risk factors may negatively impact the Company's ability to perform its operations efficiently, securely and without interruptions. These risk factors, any of which could have an adverse effect on the Company's operations and financial performance, include: increased cybersecurity threats while duties are performed outside the Company's regular offices, increased dependence on telecommunication links such as Internet access in employees' homes, decreased efficiency due to the change in equipment and network speeds used for data processing and use, the timely dissemination and exchange of information in a remote workforce environment and the dependence on certain functions that are difficult to efficiently conduct outside a regular workplace.

## **Competition**

The retail industry is highly competitive and continues to experience fundamental changes in a rapidly evolving environment.

Specialty and independent bookstores, other book superstores, regional multi-store operators, mass merchandisers, supermarkets, retail pharmacies, warehouse clubs, internet booksellers, publisher direct-to-consumer operations and other retailers continue to sell physical book offerings, often at substantially discounted prices. Many of these competitors, as well as other retailers, also offer digital reading options, which compete for the share of the customer's discretionary book and entertainment budget.

The general merchandise retail landscape also features significant competition from established retailers and emerging disruptive digital retail options, and there can be no assurances that the Company will be able to gain market share. The Company competes with local, regional, national, and international retailers and direct-to-consumer companies that sell gift and specialty toy products through both physical and digital platforms. New competitors frequently enter the market and existing competitors may increase market presence, expand merchandise offerings, add new sales channels, or change their pricing methods, all of which increase competition for customers.

Many of the Company's current and potentially future competitors are larger, have greater brand recognition, greater online presence and access to greater financial, marketing and other resources. The size and resources of such competitors may allow them to compete more aggressively, which could adversely impact Indigo's revenue, market share and operating margins. In addition, increased efforts by such competitors, including the introduction of new and innovative products and services as well as aggressive expansion, merchandising or discounting by competitors, could reduce the Company's revenue, market share, and operating margins.

## **Consumer Trends**

The Company's success largely depends on its ability to anticipate and respond to shifts in consumer trends in an agile manner. The general merchandise business is particularly susceptible to changing consumer preferences that cannot be predicted with certainty. If the Company is unable to adequately respond to changing consumer trends or sales forecasts that do not match customer demand, it could experience higher inventory markdowns or an inventory shortage, both of which would have an adverse effect on sales and profitability. This risk is mitigated by the Company's focus on building an assortment of innovative products which resonate with consumers, including through its proprietary brands, and by the breadth of the Company's product range across diversified categories.

## **Reliance on Third Parties in Omni-Channel Business**

As e-commerce continues to become a larger component of the Company's omni-channel business, Indigo relies on third-party logistics partners, such as Canada Post, to fulfill sales transactions with its customers in a dependable and timely manner. Changes in geographic coverage, service levels, capacity levels, and labour disruptions at the Company's logistics partners, including as a result of COVID-19, may adversely affect Indigo's business and financial results.

## **Strategic Initiatives**

The retail industry is constantly changing and management is committed to the Company's continued growth and success. Expansion into new markets, or the launch of new initiatives could place a significant strain on the Company's management, operations, technical performance, financial resources, and internal financial control and reporting functions. The Company will continue to change and modify its strategy based on its economic environment and there can be no assurances that Indigo's strategy will be successful.

## **Relationships with Suppliers**

Indigo relies heavily on suppliers to sell books and general merchandise on acceptable terms and within agreed upon timelines. These suppliers are impacted by, among other things, increases in labour and input costs, labour disputes and disruptions, regulatory changes, political or economic instability, natural disasters, trade restrictions, tariffs, currency exchange rates,

transport costs and other factors, which more recently, include the closure of national borders and disruption of merchandise deliveries due to the effects of the COVID-19 pandemic. To date, the Company has not experienced any significant difficulty in obtaining merchandise and considers its sources of supply to be adequate, however, the Company's flow of merchandise could be affected by the COVID-19 pandemic, including from countries such as China and India. Collectively and individually, these factors are beyond the Company's control and a failure to maintain favorable terms and relationships with these suppliers, or the absence of key suppliers, may affect the Company's ability to compete in the marketplace. As Indigo continues to source a greater portion of its products from overseas, events causing disruptions to imports, changes in trade restrictions and tariffs, or currency fluctuations could negatively impact the Company's revenues and margins.

The Company is also reliant on third parties to provide services essential to daily operations. Any disruption to these third-party services could have an unfavourable impact on the Company's performance and reputation, including significant negative impact in areas such as supply chain logistics, software development and support, transaction and payment processing, and other key processes. The Company cannot make any assurances that it would be able to arrange for alternate or replacement contracts, transactions, or business relationships to mitigate the impact of disruptive events.

### **Inventory Management**

The Company must manage its inventory levels to successfully operate the business. Inventory purchases are based on several variables, such as market trends and sales forecasts. An inability to respond to changing customer preferences or sales forecasts which do not match customer demand may result in an inventory shortage or excess inventory that must be sold at lower prices. While the majority of the Company's book purchases are eligible for return to suppliers at full credit, the evolution of the Company's product assortment, namely general merchandise items, means the Company has an increasing amount of non-returnable inventory. The Company monitors the impact of customer trends on inventory turnover and obsolescence, but inappropriate inventory levels could negatively impact the Company's revenue and financial performance.

### **Product Quality and Product Safety**

The Company sells products produced by third-party manufacturers and relies on vendors to provide quality merchandise compliant with all applicable laws. Some of these products may expose the Company to potential liabilities and costs associated with defective products, product handling, and product safety. As part of its general merchandise assortment, the Company also sells food and personal care products and is subject to the distinctive risks associated with those products.

These risks could result in harm to the Company's customers and expose Indigo to product liability claims, damage the Company's reputation, and lead to product recalls. Liabilities and costs related to product quality and product safety may also have a negative impact on the Company's revenue and financial performance. The Company has policies and controls in place to manage these risks, including maintaining liability insurance and offering product safety guidance to third-party manufacturers.

### **Information Technology and Digital Platforms**

The Company increasingly depends on the proper operation of its information technology platforms and those of third parties to successfully conduct daily business functions, maintain its competitive position in the marketplace and enable its growth strategy. The Company continues to invest in new technologies to expand its competitiveness and customer experience. Any failure in the implementation of these solutions, the operation of current information technology systems, platforms or third-party cloud-based processing could result in a significant disruption to the business, potentially negatively impacting revenue or damaging the Company's reputation. Furthermore, the Company continues to rely on legacy technologies and systems and any failure to maintain and support these legacy systems or migrate to new technology systems could impact Indigo's operational effectiveness.

### **Cybersecurity**

A failure in, or breach of, the Company's information technology, operational or security systems or physical infrastructure, or those of Indigo's third-party vendors, cloud-based services, and other service providers, including as a result of cyberattacks, could disrupt the business, result in the disclosure or misuse of confidential or proprietary information, damage Indigo's brand and reputation, lead to temporary or permanent loss of data, increase the Company's remediation costs and legal liabilities, and impact its financial position and/or ability to achieve its strategic objectives. Although Indigo has business continuity plans, cyber insurance coverage and other safeguards in place, along with robust information security procedures, employee security awareness training and controls, the Company's business operations may be adversely affected by significant and widespread disruption to Indigo's physical information technology infrastructure or operating systems that support the Company's business and customers. As cyber threats continue to evolve and become more difficult to detect, the Company may be required to expend significant additional resources to continue to modify or enhance Indigo's protective measures to protect against, among other things, security breaches, computer viruses and malware, phishing, hacktivism, cyberterrorism, denial-of-service attacks, credentials compromise, or to investigate and remediate any information security vulnerabilities. Additionally, please see the "Remote Work" risk factor above.

### **Disaster Recovery and Business Continuity**

Weather conditions, as well as events such as political or social unrest, natural disasters, disease outbreaks such as the COVID-19 pandemic, or acts of terrorism, could have a material adverse effect on the Company's operations and financial performance. Moreover, if such events were to occur at peak times in the Company's business cycle, the impact of these events on operating performance could be significantly greater than they would otherwise have been. The Company has procedures in place to reduce the impact of business interruptions, crises, and potential disasters, but there can be no assurance that these procedures can fully eliminate the negative impact of such events.

### **Key Personnel**

The Company's continued success will depend to a significant extent upon securing and retaining sufficient talent in management and other key areas. Employees have developed specialized skills and an in-depth knowledge of the business. Failure to effectively attract and retain talented and experienced employees or failure to establish adequate succession planning could result in a lack of requisite knowledge, skill and experience. If the Company does not continue to attract qualified individuals, train them in Indigo's business model, support their development, and retain them, the Company's performance could be adversely impacted and growth could be limited. The loss of the services of key personnel, particularly the Chief Executive Officer, could have a material adverse effect on the Company. To mitigate the risk of personnel loss, the Company has implemented a number of employee engagement and retention strategies.

### **Corporate Reputation**

The Company's corporate reputation and those of its brands are very important to Indigo's success and competitive position. The Company's reputation and, consequently, its brand, may be negatively affected by various factors, some of which may be outside of Indigo's control. Adverse events may damage the Company's reputation and brands at the corporate or retail level. Should negative factors materialize and diminish Indigo's brand equity, there could be a material adverse effect on the Company's operations and financial performance.

### **Intellectual Property**

Infringement of the Company's intellectual property could negatively affect the Company's revenue, profitability and reputation. While the Company is not currently aware of any infringement or material challenges to the use of its trademarks and domain names in Canada or the United States, the Company has a strategy and processes in place to protect and vigorously defend its intellectual property.

### **Credit, Foreign Exchange, and Interest Rate Risks**

Indigo is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. Credit risk primarily arises from accounts receivable, cash and cash equivalents, short-term investments, and derivative financial instruments.

Accounts receivable primarily consists of receivables from financial institutions for the Company's sales by credit card tender, recoveries of credits from suppliers for returned or damaged products, tenant allowances receivable from landlords for renovations and lease inducements and receivables from other companies for sales of products, gift cards, and other services. Credit card payments have minimal credit risk and the limited number of corporate receivables is closely monitored.

The Company limits its exposure to counterparty credit risk related to cash and cash equivalents, short-term investments, and derivative financial instruments by transacting only with highly-rated financial institutions and other counterparties and by managing within specific limits for credit exposure and term to maturity.

The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollars. Decreases in the value of the Canadian dollar relative to the U.S. dollar could negatively impact net earnings since the purchase price of some of the Company's products are negotiated with vendors in U.S. dollars, while the retail price to Indigo's Canadian customers is set in Canadian dollars. The Company also has a U.S. retail store that earns revenue in U.S. dollars and incurs U.S. dollar expenses. The Company maintains a hedging program to mitigate foreign exchange risk.

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on Indigo's cash and cash equivalents and short-term investments. The Company does not currently have any debt and all interest expense recognized in fiscal 2020 relates to its retail lease liabilities. The Company has minimal interest rate risk and does not use any interest rate swaps to manage its risk.

### **Legal Proceedings**

In the normal course of business, Indigo becomes involved from time to time in litigation and disputes. The outcomes of regulatory investigations, litigation and arbitration disputes are inherently difficult to predict, which creates the risk that an unfavourable outcome in any of these matters could negatively affect the Company's business, reputation, financial condition and performance. Regardless of the outcome, litigation may result in substantial costs and expenses to the Company and significantly divert the attention of the Company's management. While the final outcome of such claims and litigation pending as at March 28, 2020 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

### **Regulatory Environment**

The Company's operations and activities are subject to a number of laws and regulations in Canada, the United States and in other countries. Changes to statutes, laws, regulations or regulatory policies, including tax laws, accounting principles, and environmental regulations, or changes in their interpretation, implementation or enforcement, could adversely affect the Company's operations and performance. The Company may incur significant costs in the course of complying with any such changes.

The Company is also subject to continuous examination of its regulatory filings by various securities regulators, tax authorities, and environmental stewards. As a result, authorities may disagree with the positions and conclusions taken by the Company in its filings, resulting in a reassessment. Reassessments could also arise from amended legislation or new interpretations of current legislation. Any reassessment could adversely affect the Company's financial performance.

Failure to comply with applicable regulations could also result in judgment, sanctions, or financial penalties that could adversely impact the Company's reputation and financial performance. The Company believes that it has taken reasonable measures designed to ensure compliance with applicable regulations, but there is no assurance that the Company will always be deemed to be in compliance.

Throughout the COVID-19 pandemic, federal, provincial, state and municipal government authorities have introduced new legislation and regulations, as well as applied existing laws and ordinances in novel ways, in order to mitigate the impacts of the virus. The Company has actively monitored and analysed these government actions, assessed their impact on the

Company's operations, and, where necessary or prudent, implemented changes to the Company's business practices and operations. The imposition of additional regulations or the enactment of any new or more stringent legislation in response to the COVID-19 pandemic could have a material adverse impact on the Company's business and results of operations.

The sourcing and importation of books is governed by the Book Importation Regulations to the *Copyright Act* (Canada). Any changes to the existing regulatory framework may impact the Company's ability to secure and maintain favorable terms and access to essential products, which could negatively impact the Company's revenues and margins and its ability to compete in the marketplace. As well, the distribution and sale of books is a regulated cultural industry in which foreign investments to acquire control of an existing cultural business are subject to review under the *Investment Canada Act*. There is no assurance that the existing regulatory framework will not change in the future or that it will be effective in preventing foreign-owned retailers from competing in Canada or by acting as a constraint on the acquisition by foreign investors of Canadian retailers involved in a cultural business. An increased number of competitors could have an adverse effect on the Company's financial performance.

### **Compliance with Privacy Laws**

A number of Canadian federal and provincial statutes, as well as corresponding U.S. federal and state statutes, govern the privacy rights of the Company's employees and customers. These privacy laws create certain obligations regarding the Company's handling of personal information, including obligations relating to obtaining appropriate consent, limitations on use, retention, and disclosure of personal information, and ensuring appropriate security safeguards are in place. In the course of its business, the Company maintains records containing sensitive information identifying or relating to individual customers and employees. Although the Company has implemented systems and processes to comply with applicable privacy laws in connection with the collection, use, retention, and disclosure of such personal information, if a significant failure of such systems was to occur, the Company's business and reputation could be adversely affected.

### **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. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at March 28, 2020.

### **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. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at March 28, 2020.



## 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 quarter and year ended on March 28, 2020 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 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 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. In fiscal 2020, these measures also exclude retail sales fluctuations from the temporary store closures associated with COVID-19, which occurred on March 17, 2020.

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.

# Independent Auditor's Report

To the Shareholders of Indigo Books & Music Inc.

## Opinion

We have audited the consolidated financial statements of Indigo Books & Music Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at March 28, 2020 and March 30, 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 28, 2020 and March 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

## Basis for Opinion

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

## Other Information

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

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

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

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

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

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

The logo for Ernst & Young LLP is written in a black, cursive script font.

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
June 23, 2020

# Consolidated Balance Sheets

(thousands of Canadian dollars)	As at March 28, 2020	As at March 30, 2019
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (note 6)	120,473	41,290
Short-term investments (note 6)	–	87,150
Accounts receivable	7,640	10,543
Inventories (note 7)	241,812	252,541
Prepaid expenses	6,062	5,802
Income taxes receivable	138	483
Derivative assets (note 8)	3,794	1,070
Other assets (note 12)	2,320	853
<b>Total current assets</b>	<b>382,239</b>	<b>399,732</b>
Loan receivable (note 12)	446	–
Property, plant, and equipment, net (notes 5 and 9)	91,215	125,906
Right-of-use assets, net (notes 4, 5 and 10)	382,146	–
Intangible assets, net (notes 5 and 11)	24,571	32,527
Equity investment, net (notes 5 and 12)	2,353	4,359
Deferred tax assets (notes 4 and 13)	–	47,940
<b>Total assets</b>	<b>882,970</b>	<b>610,464</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (notes 4 and 22)	164,294	179,180
Unredeemed gift card liability	51,673	48,729
Provisions (notes 14 and 22)	2,034	60
Deferred revenue	10,682	7,636
Short-term lease liabilities (notes 4, 10 and 22)	68,402	–
<b>Total current liabilities</b>	<b>297,085</b>	<b>235,605</b>
Long-term accrued liabilities (notes 4 and 22)	1,196	4,698
Long-term provisions (note 14)	469	45
Long-term lease liabilities (notes 4 and 10)	500,215	–
<b>Total liabilities</b>	<b>798,965</b>	<b>240,348</b>
<b>Equity</b>		
Share capital (note 16)	226,986	225,531
Contributed surplus (note 17)	12,822	12,716
Retained earnings (deficit) (note 4)	(158,801)	131,311
Accumulated other comprehensive income (note 8)	2,998	558
<b>Total equity</b>	<b>84,005</b>	<b>370,116</b>
<b>Total liabilities and equity</b>	<b>882,970</b>	<b>610,464</b>

See accompanying notes

On behalf of the Board:



Heather Reisman  
Director



Anne Marie O'Donovan  
Director

# Consolidated Statements of Loss and Comprehensive Loss

(thousands of Canadian dollars, except per share data)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
<b>Revenue</b> (note 18)	<b>957,722</b>	1,046,824
Cost of sales	<b>(553,627)</b>	(619,878)
<b>Gross profit</b>	<b>404,095</b>	426,946
Operating, selling, and other expenses (notes 9, 11, and 12)	<b>(422,624)</b>	(480,662)
Impairment losses (note 5)	<b>(56,582)</b>	–
<b>Operating loss</b>	<b>(75,111)</b>	(53,716)
Net interest income (expense) (note 10)	<b>(23,524)</b>	3,220
Share of earnings (loss) from equity investments (note 12)	<b>(1,651)</b>	858
<b>Loss before income taxes</b>	<b>(100,286)</b>	(49,638)
Income tax recovery (expense) (note 13)	<b>(84,712)</b>	12,840
<b>Net loss</b>	<b>(184,998)</b>	(36,798)
<b>Other comprehensive income (loss)</b> (note 8)		
Items that are or may be reclassified subsequently to net loss:		
Net change in fair value of cash flow hedges [net of taxes of (912); 2019 – (897)]	<b>2,492</b>	2,439
Reclassification of net realized gain [net of taxes of 182; 2019 – 908]	<b>(497)</b>	(2,471)
Foreign currency translation adjustment [net of taxes of 43; 2019 – (6)]	<b>445</b>	(225)
<b>Other comprehensive income (loss)</b>	<b>2,440</b>	(257)
<b>Total comprehensive loss</b>	<b>(182,558)</b>	(37,055)
<b>Net loss per common share</b> (note 19)		
Basic	<b>(\$6.72)</b>	(\$1.35)
Diluted	<b>(\$6.72)</b>	(\$1.35)

See accompanying notes

# Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Equity
Balance, March 31, 2018	221,854	11,621	168,109	815	402,399
Net loss for the period	–	–	(36,798)	–	(36,798)
Exercise of options (notes 16 and 17)	3,617	(709)	–	–	2,908
Directors' deferred stock units converted (note 16)	60	(60)	–	–	–
Share-based compensation (note 17)	–	1,514	–	–	1,514
Directors' compensation (note 17)	–	350	–	–	350
Other comprehensive loss (note 8)	–	–	–	(32)	(32)
Foreign currency translation adjustment	–	–	–	(225)	(225)
Balance, March 30, 2019	225,531	12,716	131,311	558	370,116
Balance, March 30, 2019	<b>225,531</b>	<b>12,716</b>	<b>131,311</b>	<b>558</b>	<b>370,116</b>
Adjustment on adoption of IFRS 16 (note 4)	–	–	(105,114)	–	(105,114)
<b>Balance, March 31, 2019</b>	<b>225,531</b>	<b>12,716</b>	<b>26,197</b>	<b>558</b>	<b>265,002</b>
Net loss for the period	–	–	(184,998)	–	(184,998)
Directors' deferred stock units converted (note 16)	<b>1,455</b>	<b>(1,455)</b>	–	–	–
Share-based compensation (note 17)	–	<b>1,268</b>	–	–	<b>1,268</b>
Directors' compensation (note 17)	–	<b>293</b>	–	–	<b>293</b>
Other comprehensive income (note 8)	–	–	–	<b>1,995</b>	<b>1,995</b>
Foreign currency translation adjustment	–	–	–	<b>445</b>	<b>445</b>
<b>Balance, March 28, 2020</b>	<b>226,986</b>	<b>12,822</b>	<b>(158,801)</b>	<b>2,998</b>	<b>84,005</b>

See accompanying notes

# Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
<b>OPERATING ACTIVITIES</b>		
Net loss	(184,998)	(36,798)
Adjustments to reconcile net loss to cash flows from (used for) operating activities		
Depreciation of property, plant and equipment and right-of-use assets (notes 9 and 10)	63,106	21,920
Amortization of intangible assets (note 11)	13,374	10,650
Gain on disposal of equity investments (note 12)	(1,484)	–
Loss on disposal of capital assets (notes 9 and 11)	1,932	2,088
Impairment losses (note 5)	56,582	–
Share-based compensation (note 17)	1,268	1,514
Directors' compensation (note 17)	293	350
Deferred income tax expense (recovery) (note 13)	84,712	(12,840)
Other	377	(809)
Net change in non-cash working capital balances related to operations (note 20)	4,512	15,211
Interest expense (note 10)	25,585	6
Interest income	(1,714)	(3,226)
Share of (earnings) loss from equity investments (note 12)	1,651	(858)
<b>Cash flows from (used for) operating activities</b>	<b>65,196</b>	<b>(2,792)</b>
<b>INVESTING ACTIVITIES</b>		
Net purchases of property, plant, and equipment (note 9)	(2,223)	(67,505)
Addition of intangible assets (note 11)	(8,397)	(19,056)
Change in short-term investments (note 6)	87,150	(27,150)
Distribution from equity investments (note 12)	–	829
Principal payment on loan receivable (note 12)	719	–
Interest received	2,034	3,225
<b>Cash flows from (used for) investing activities</b>	<b>79,283</b>	<b>(109,657)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of principal on lease liabilities (note 10)	(40,391)	–
Interest paid (note 10)	(25,585)	–
Proceeds from share issuances (notes 16 and 17)	–	2,908
<b>Cash flows from (used for) financing activities</b>	<b>(65,976)</b>	<b>2,908</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	680	575
<b>Net increase in cash and cash equivalents during the period</b>	<b>79,183</b>	<b>(108,966)</b>
Cash and cash equivalents, beginning of period	41,290	150,256
<b>Cash and cash equivalents, end of period</b>	<b>120,473</b>	<b>41,290</b>

See accompanying notes

# Notes to Consolidated Financial Statements

March 28, 2020

## 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 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. NATURE OF OPERATIONS

Indigo is Canada’s largest book, gift, and specialty toy retailer and was formed as a result of the August 2001 amalgamation of Chapters Inc. and Indigo Books & Music Inc. The Company operates a chain of retail bookstores across all ten provinces and one territory in Canada, including 88 superstores (2019 – 89) under the *Indigo* and *Chapters* names, as well as 108 small format stores (2019 – 115) under the banners *Coles*, *Indigospirit*, and *The Book Company*. The Company also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. Online sales are generated through the Company’s digital platforms, its [www.indigo.ca](http://www.indigo.ca) website and the Company’s mobile applications, where it sells an expanded selection of books, gifts, toys, and paper products. The Company offers a marketplace assortment of giftable products, experiences, services, and subscriptions on [www.thoughtfull.co](http://www.thoughtfull.co).

The Company defines an operating segment on the same basis that it uses to evaluate performance internally and to allocate capital resources. At Indigo, this is done on an enterprise level. This holistic managerial approach is reflected in the Company’s reimagined new store concept. The new store design emphasizes a central focus on enriching the lives of book lovers with core print and general merchandise products. Therefore, the Company reports as a single segment.

The Company supports a separate registered charity, 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.

## 3. BASIS OF PREPARATION

### Statement of Compliance

These 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”). 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 4 for further information.

These consolidated financial statements were approved by the Company’s Board of Directors on June 23, 2020.

### Fiscal Year

The fiscal year of the Company ends on the Saturday closest to March 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The years ended March 28, 2020 and March 30, 2019 both contained 52 weeks. The next 53-week period will be for the fiscal year ending April 3, 2021.



## COVID-19 Pandemic

Commencing from the declaration of COVID-19 as a pandemic, to the release of these statements, the Company has been dealing with the repercussions to its business, operations and performance. The impact of the outbreak on the financial results of the Company will depend on future developments, including the duration and spread of the outbreak and its impact on the overall economy and related advisories and restrictions.

In response to the COVID-19 pandemic, the Company announced the temporary closure of its retail locations on March 17, 2020 and made the difficult decision to temporarily lay-off 5,200 of its retail employees. Commencing May 19, 2020, as permitted by federal and provincial regulations, the Company began the phased re-opening of its retail stores. As of the date of this fiscal 2020 Annual Report, the Company has re-opened 172 of its previously closed retail stores, and recalled 2,878 of its retail leadership and hourly employees.

The Company has also leveraged applicable government business support programs for COVID-19 subsequent to year-end, including the Canada Emergency Wage Subsidy, and will continue to do so subject to eligibility.

## Use of Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make judgments, apart from those involving estimation, in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the judgments made by the Company. Information about judgments that have the most significant effect on recognition and measurement of assets, liabilities, revenues, and expenses is discussed below. Information about significant estimates is discussed in the following section.

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The extent to which the impacts of the COVID-19 pandemic affect the judgments and estimates described herein depend on future developments, which are highly uncertain and cannot be predicted. Management will continue to monitor and assess the impact of the pandemic on its judgments, estimates, accounting policies and amounts recognized in these consolidated financial statements, including but not limited to Impairment of Assets.

## Impairment

An impairment loss is recognized for the amount by which the carrying amount of an asset or a cash-generating unit (“CGU”) exceeds its recoverable amount. Impairment losses are reversed if the recoverable amount of the capital asset, CGU, or group of CGUs exceeds its carrying amount, but only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. The Company uses judgment when identifying CGUs, when assessing for indicators of impairment or reversal, and when estimating the recoverable amount for its CGUs in impairment testing.

## Intangible assets

Initial capitalization of intangible asset costs is based on the Company’s judgment that technological and economic feasibility are confirmed and the project will generate future economic benefits by way of estimated future discounted cash flows that will be generated.

## Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised. The Company has the option under many of its leases

to lease the assets for additional terms of five years, and applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. The Company considers all relevant factors that create an economic incentive for it to exercise the renewal, including store performance, expected future performance and past business practice. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

#### Deferred tax assets

The recognition of deferred tax assets is based on the Company's judgment. The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on management's best estimate of future taxable income that the Company expects to achieve from reviewing its latest forecast. This estimate is adjusted for significant non-taxable income and expenses and for specific limits to the use of any unused tax loss or credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses and unused tax credits can be utilized. If estimates of future taxable profit change, unrecognized deferred tax assets can be recognized again in a future period. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties are assessed individually by the Company based on the specific facts and circumstances.

#### Use of Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make estimates and assumptions in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the estimates made by the Company, and actual results will seldom equal estimates. Information about estimates that have the most significant effect on the recognition and measurement of assets, liabilities, revenues, and expenses are discussed below.

#### Impairment

To determine the recoverable amount of an impaired asset, the Company estimates expected future cash flows and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, the Company makes assumptions about certain variables, such as future sales, gross margin rates, expenses, capital expenditures, and working capital investments, which are based upon historical experience and expected future performance. Determining the applicable discount rate involves estimating appropriate adjustments to market risk and to Company-specific risk factors.

#### Inventories

The future realization of the carrying amount of inventory is affected by future sales demand, inventory levels, and product quality. At each balance sheet date, the Company reviews its on-hand inventory and uses historical trends and current inventory mix to determine a reserve for the impact of future markdowns that will take the net realizable value of inventory on-hand below cost. Inventory valuation also incorporates a write-down to reflect future losses on the disposition of obsolete merchandise. The Company reduces inventory for estimated shrinkage that has occurred between physical inventory counts and each reporting date based on historical experience as a percentage of sales. In addition, the Company records a vendor settlement accrual to cover any disputes between the Company and its vendors. The Company estimates this reserve based on historical experience of settlements with its vendors.

#### Property, plant, equipment, and intangible assets (collectively, "capital assets")

Capital assets are depreciated and amortized over their useful lives, taking into account residual values where appropriate. Assessments of useful lives and residual values are performed on an ongoing basis and take into consideration factors such as technological innovation, maintenance programs, and relevant market information. In assessing residual values, the Company considers the remaining life of the asset, its projected disposal value, and future market conditions.

## Leases

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Company's incremental borrowing rate ("IBR"). The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities.

The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity and asset-specific estimates (such as the subsidiary's stand-alone credit rating).

## Revenue

The Company recognizes revenue for the estimated value of gift cards that are not expected to be redeemed by customers ("gift card breakage") in proportion to the pattern of rights exercised by the customer. The resulting gift card breakage revenue is recognized over the estimated period of redemption based on historical redemption patterns commencing when the gift cards are sold.

The Indigo *plum* rewards program ("*plum*") allows customers to earn points on their purchases. The allocation of transaction price to the *plum* loyalty obligation, which is the estimated reward tier value of a future redemption net of points management expects will go unredeemed, is based on a relative stand-alone selling price basis. The Company continues to monitor trends in redemption patterns (redemption at each reward level), historical redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed. Points revenue is included as part of total revenue in the Company's consolidated statements of earnings (loss) and comprehensive earnings (loss).

## Share-based payments

The cost of equity-settled transactions with employees is based on the Company's estimate of the fair value of share-based instruments and the number of equity instruments that will eventually vest. The Company's estimated fair value of share-based compensation is calculated using the following variables: risk-free interest rate; expected volatility; expected time until exercise; and expected dividend yield. The risk-free interest rate is based on Government of Canada bond yields, while all other variables are estimated based on the Company's historical experience with its share-based payments.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### **Basis of Measurement**

The Company's consolidated financial statements are prepared on the historical cost basis of accounting, except as disclosed in the accounting policies set out below.

### **Basis of Consolidation**

The consolidated financial statements comprise of the financial statements of the Company and entities controlled by the Company. Control exists when the Company is exposed to, or has the right to, variable returns from its involvement with the controlled entity and when the Company has the current ability to affect those returns through its power over the controlled entity. When the Company does not own all of the equity in a subsidiary, the non-controlling interest is disclosed as a separate line item in the consolidated balance sheets and the earnings accruing to non-controlling interest holders are disclosed as a separate line item in the consolidated statements of earnings (loss) and comprehensive earnings (loss).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Once control ceases, the Company will reassess the relationship with the former subsidiary and revise Indigo's accounting policy based on the Company's remaining percentage of ownership. All intercompany balances and transactions and any unrealized gains and losses arising from intercompany transactions are eliminated in preparing these consolidated financial statements.

### **Foreign Currency**

The functional currency for each entity included in these consolidated financial statements is the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Assets and liabilities of the Company's U.S. operations have a functional currency of U.S. dollars and are translated into Canadian dollars at the exchange rate in effect at the reporting date. Revenues and expenses are translated into Canadian dollars at average exchange rates during the reporting period. The resulting unrealized translation gains or losses are included in other comprehensive income (loss).

Monetary assets and liabilities denominated in foreign currencies that are held at the reporting date are translated at the closing consolidated balance sheet rate. Non-monetary items are measured at historical cost and are translated using the exchange rates at the date of the transaction. Non-monetary items measured at fair value are translated using exchange rates at the date when fair value was determined. The resulting exchange gains or losses are included in earnings.

### **Equity Investments**

The equity method of accounting is applied to investments in companies where Indigo has the ability to exert significant influence over the financial and operating policy decisions of the company but lacks control or joint control over those policies. Under the equity method, the Company's investment is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the investment, distributions received, and for impairment losses after the initial recognition date. The Company's share of losses that are in excess of its investment is recognized only to the extent that Indigo has incurred legal or constructive obligations or made payments on behalf of the company. The Company's share of earnings and losses of its equity investment are recognized through profit or loss during the period. Cash distributions received from the investment are accounted for as a reduction in the carrying amount of the Company's equity investment.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments that are readily convertible to known amounts of cash with original maturities of 90 days or less at the date of acquisition. Cash equivalents of fixed deposits or similar instruments with an original term of longer than three months are also included in this category if they are readily convertible to a known amount of cash throughout their term and are subject to an insignificant risk of change in value assessed against the amount at inception.

### **Short-term Investments**

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.

### **Inventories**

Inventories are valued at the lower of cost, determined on a moving average cost basis, and market, being net realizable value. Costs include all direct and reasonable expenditures that are incurred in bringing inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business. When the Company permanently

reduces the retail price of an item and the markdown incurred brings the retail price below the cost of the item, there is a corresponding reduction in inventory recognized in the period. Vendor rebates are recorded as a reduction in the price of the products and corresponding inventories are recorded net of vendor rebates.

### **Prepaid Expenses**

Prepaid expenses include store supplies, software subscription fees, and insurance. Store supplies are expensed as they are used while other costs are amortized over the term of the contract.

### **Income Taxes**

Current income taxes are the expected taxes payable or recoverable on the taxable earnings or loss for the period. Current income taxes are payable on taxable earnings for the period as calculated under Canadian and U.S. taxation guidelines, which differ from taxable earnings under IFRS. Calculation of current income taxes is based on tax rates and tax laws that have been enacted, or substantively enacted, by the end of the reporting period. Income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of loss and comprehensive earnings loss.

Deferred income taxes are calculated at the reporting date using the liability method based on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax assets and liabilities on temporary differences arising from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination, will not be recognized when neither accounting nor taxable profit or loss are affected at the time of the transaction.

Deferred tax assets arising from temporary differences associated with investments in subsidiaries are provided for if it is probable that the differences will reverse in the foreseeable future and taxable profit will be available against which the tax assets may be utilized. Deferred tax assets on temporary differences associated with investments in subsidiaries are not provided for if the timing of the reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective periods of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset only when the Company has the right and intention to set off current tax assets and liabilities from the same taxable entity and the same taxation authority.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized. In this consideration, the Company evaluates forecasted earnings, future market growth, future sources of taxable income, the mix of earnings in the jurisdictions in which the Company operates, and prudent and feasible tax planning strategies. To the extent that uncertainty exists surrounding the probability of utilizing such deferred tax assets, they are no longer recognized. Likewise, these assets can be recognized again should it be probable that sufficient taxable profit will be available against which they can be utilized.

### **Property, Plant, and Equipment**

All items of property, plant, and equipment are initially recognized at cost, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company. Subsequent to initial recognition, property, plant, and equipment assets are shown at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset begins once it becomes available for use. The depreciable amount of an asset, being the cost of an asset less the residual value, is allocated on a straight-line basis over the estimated useful life of the asset. Residual value is estimated to be nil unless the Company expects to dispose of the asset at a value that exceeds the estimated disposal costs. The residual values, useful lives, and depreciation methods applied to assets are reviewed based on relevant market information and management considerations.

The following useful lives are applied:

Furniture, fixtures, and equipment	5 – 10 years
Computer equipment	3 – 5 years
Equipment under finance leases	3 – 5 years
Leasehold improvements	over the shorter of useful life and lease term plus expected renewals, to a maximum of 10 years

Items of property, plant, and equipment are assessed for impairment as detailed in the accounting policy note on impairment and are derecognized either upon disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition is included in earnings when the asset is derecognized.

#### Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards related to ownership of the leased asset to the Company. At lease inception, the related asset and corresponding long-term liability are recognized at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets that are legally owned by the Company. If there is no reasonable certainty that the Company will obtain ownership of the financed asset at the end of the lease term, the asset is depreciated over the shorter of its estimated useful life or the lease term. The corresponding long-term liability is reduced by lease payments less interest paid. Interest payments are expensed as part of net interest on the consolidated statements of earnings (loss) and comprehensive earnings (loss) over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Company performs quarterly assessments of contracts that do not take the legal form of a lease to determine whether they convey the right to use an asset in return for a payment or series of payments and therefore need to be accounted for as leases. As at March 28, 2020, the Company had no such contracts.

#### Leased premises

The Company conducts all of its business from leased premises. Leasehold improvements are depreciated over the lesser of their economic life or the initial lease term plus renewal periods where renewal has been determined to be reasonably certain. Leasehold improvements are assessed for impairment as detailed in the accounting policy note on impairment. Leasehold improvement allowances are depreciated over the lease term. Other inducements, such as rent-free periods, are amortized into earnings over the lease term, with the unamortized portion recorded in current and long-term accounts payable and accrued liabilities. As at March 28, 2020, all of the Company's leases on premises were accounted for as operating leases. Expenses incurred for leased premises include base rent, taxes, common area maintenance, and contingent rent based upon a percentage of sales.

#### Intangible Assets

Intangible assets are initially recognized at cost, if acquired separately, at fair value, or as part of a business combination. After initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses.

Amortization commences when the intangible assets are available for their intended use. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life. Intangible assets with indefinite lives are not amortized but are reviewed at each reporting date to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Residual value is estimated to be zero unless the Company expects to dispose of the asset at a value that exceeds the

estimated disposal costs. The residual values, useful lives, and amortization methods applied to intangible assets are reviewed annually based on relevant market information and management considerations.

The following useful lives are applied:

Computer application software	3 – 5 years
Internal development costs	3 years
Retail lease	over the lease term
Domain name	indefinite useful life – not amortized

There are no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of the domain name to the Company. Therefore, useful life of the domain name is deemed to be indefinite.

Intangible assets are assessed for impairment as detailed in the accounting policy note on impairment. An intangible asset is derecognized either upon disposal or when no future economic benefit is expected from its use. Any gain or loss arising on derecognition is included in earnings when the asset is derecognized.

#### Computer application software

When computer application software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Computer application software that is integral to the use of related computer hardware is recorded as property, plant, and equipment.

#### Internal development costs

Costs that are directly attributable to internal development are recognized as intangible assets provided they meet the definition of an intangible asset. Development costs not meeting these criteria are expensed as incurred. Capitalized development costs include external direct costs of materials and services and the payroll and payroll-related costs for employees who are directly associated with the projects.

#### Retail lease

Amounts paid as a premium to gain access to a property located in a specific location, inclusive of any associated professional fees, are treated as an intangible asset.

### **Impairment Testing**

#### Capital assets

For the purposes of assessing impairment, capital assets are grouped at the lowest levels for which there are largely independent cash inflows and for which a reasonable and consistent allocation basis can be identified. For capital assets that can be reasonably and consistently allocated to individual stores, the store level is used as the CGU for impairment testing. For all other capital assets, the corporate level is used as the group of CGUs. Capital assets and related CGUs or groups of CGUs are tested for impairment quarterly and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Events or changes in circumstances that may indicate impairment include a significant change to the Company's operations, a significant decline in performance, or a change in market conditions that adversely affects the Company.

An impairment loss is recognized for the amount by which the carrying amount of a CGU or group of CGUs exceeds its recoverable amount. To determine the recoverable amount, management applies the higher of the CGU's value-in-use or fair value less costs to dispose. Value-in-use calculation quantifies the present value of the expected future cash flows from each CGU or group of CGUs based on the CGU's estimated growth rate. The Company's growth rate and future cash flows are based on historical data and management's expectations. Impairment losses are charged pro rata to the capital assets in the CGU or group of CGUs. Capital assets and CGUs or groups of CGUs are subsequently reassessed for indicators that a previously recognized impairment loss may no longer exist. An impairment loss is reversed if the recoverable amount of the capital asset, CGU, or

group of CGUs exceeds its carrying amount, but only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### Financial assets

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Evidence of impairment may include indications that a debtor or a group of debtors are experiencing significant financial difficulty, default, or delinquency in interest or principal payments, and observable data indicating that there is a measurable decrease in the estimated future cash flows.

A financial asset is deemed to be impaired if there is objective evidence that one or more loss events having a negative effect on future cash flows of the financial asset occur after initial recognition and the loss can be reliably measured. The impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The impairment loss is recorded as an allowance and recognized in net earnings. If the impairment loss decreases as a result of subsequent events, the previously recognized impairment loss is reversed.

#### Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events for which it is probable that the Company will be required to settle the obligation and a reliable estimate of the settlement can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account risks and uncertainties of cash flows. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money. Examples of provisions include decommissioning liabilities, onerous leases, legal claims and other accrued liabilities where there is uncertainty regarding the timing or amount outstanding.

#### Total Equity

Share capital represents the nominal value of shares that have been issued. Retained earnings include all current and prior period retained profits. Dividend distributions payable to equity shareholders are recorded as dividends payable when the dividends have been approved by the Board of Directors prior to the reporting date.

#### Share-Based Awards

The Company has established an employee stock option plan for key employees. The fair value of each tranche of options granted is estimated on the grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model is based on variables such as: risk-free interest rate; expected volatility; expected time until exercise; and expected dividend yield. Expected stock price volatility is based on the historical volatility of the Company's stock for a period approximating the expected life. The grant date fair value, net of estimated forfeitures, is recognized as an expense with a corresponding increase to contributed surplus over the vesting period. Estimates are subsequently revised if there is an indication that the number of stock options expected to vest differs from previous estimates. Any consideration paid by employees on exercise of stock options is credited to share capital with a corresponding reduction to contributed surplus.

#### Revenue Recognition

The Company recognizes revenue when control of goods has been transferred at the amount of consideration to which the company expects to be entitled. Revenue is recorded net of sales discounts, estimated returns, sales tax, environmental fees and amounts deferred related to the issuance of *plum* points. Revenue is recognized when control of goods has been transferred (as described below) for each of the Company's revenue generating activities.



### Retail sales

Revenue for retail customers is recognized when the product is delivered to the customer, which for the majority of retail transactions this occurs at time of purchase.

### Online and kiosk sales

Revenue for online and kiosk customers is recognized when the product is shipped to customers.

### Gift cards

The Company sells gift cards to its customers and recognizes the revenue as gift cards are redeemed for merchandise. A customer's non-refundable prepayment to the Company gives them a right to receive product in the future. However, historically customers do not exercise all of their contractual rights, which is referred to as breakage.

The Company determines its average gift card breakage rate based on historical redemption rates. Breakage income represents the estimated value of gift cards that is not expected to be redeemed by customers and is determined in proportion to the pattern of rights exercised by the customer. Gift card breakage is included in revenue in the Company's consolidated statements of earnings (loss) and comprehensive earnings (loss). Changes in estimated breakage should be accounted for by adjusting the contract liability to reflect the remaining rights expected to be redeemed.

### Indigo *plum* rewards program

Indigo's loyalty program, *plum*<sup>®</sup> rewards has two tiers: *plum*, a free points-based tier; and *plum PLUS*, an annual fee-based discount tier. The Company launched the *plum PLUS* membership program in fiscal 2020, replacing its former annual fee-based *irewards* program. The *plum rewards* program is an omni-channel program that allows members to earn and redeem points online and in-store, seamlessly. This program engages members through mass promotions and targeted one-to-one promotional offers, as well as invitations to exclusive events and member-only shopping experiences. *plum PLUS* offers its members an immediate discount on eligible products, free shipping and the ability to earn points on almost every dollar spent at the Company's Canadian stores, as well as at [www.indigo.ca](http://www.indigo.ca).

When a *plum* member purchases merchandise, the Company allocates consideration received between the loyalty program points and the merchandise on which the points were earned based on their relative stand-alone selling prices. The portion of revenue attributed to the merchandise is recognized at the time of purchase. Revenue attributed to the points is recorded as deferred revenue and recognized when points are redeemed.

The stand-alone selling price of the points issued is determined based on the estimated reward tier value, net of points that management expects will go unredeemed. The Company continues to monitor trends in redemption patterns (redemption at each reward level), historical redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed to reduce estimation uncertainty in the consideration allocated to the loyalty contract right. Points revenue is included as part of total revenue in the Company's consolidated statements of earnings (loss) and comprehensive earnings (loss).

### Interest income

Interest income is reported on an accrual basis using the effective interest method and included as part of net interest in the Company's consolidated statements of earnings (loss) and comprehensive earnings (loss).

### Vendor Rebates

The Company records cash consideration received from vendors as a reduction to the price of vendors' products. This is reflected as a reduction in cost of sales and related inventories when recognized in the consolidated financial statements. Certain exceptions apply where the cash consideration received is a reimbursement of incremental selling costs incurred by the Company, in which case the cash received is reflected as a reduction in operating, selling, and administrative expenses.

## Earnings per Share

Basic earnings per share is determined by dividing the net earnings attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated in accordance with the treasury stock method and is based on the weighted average number of common shares and dilutive common share equivalents outstanding during the period. The weighted average number of shares used in the computation of both basic and fully diluted earnings per share may be the same due to the anti-dilutive effect of securities.

## Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expires. Where a legally enforceable right to offset exists for recognized financial assets and financial liabilities and there is an intention to settle the liability and realize the asset simultaneously, or to settle on a net basis, such related financial assets and financial liabilities are offset.

Non-derivative financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method if both of the following conditions are met and they are not designated as fair value through profit and loss (“FVTPL”):

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

All financial assets not classified as amortized cost as described above are measured at FVTPL.

Non-derivative financial liabilities are initially measured at fair value, less any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method.

The Company designates its derivative financial assets and liabilities under a cash flow hedge program for its foreign currency exposures on a portion of its U.S. dollar denominated cash outflows. The forward contracts used for hedging are recognized at fair value. Subsequent to initial recognition, the forward contracts are measured at fair value and changes therein are accounted for as described in the derivative disclosure below.

Financial Asset/Liability	IFRS 9 Classification and Measurement
Cash and cash equivalents	Amortized cost
Short-term investments	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Derivative instruments	FVTPL

Financial assets and financial liabilities are measured at fair value using a valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy of a particular asset or liability depends on the inputs used in the valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs based on a company’s own assumptions about market participant assumptions using the best information available.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2: Valuations based on quoted inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to market data and other valuation techniques, as appropriate:

- (i) The initial fair values of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values given their short maturities; and
- (ii) The fair value of derivative financial instruments are estimated using quoted market rates at the measurement date adjusted for the maturity term of each instrument. The Company's portfolio of derivative financial instruments as at March 28, 2020 are classified as Level 2 in the fair value hierarchy.

#### Derivative financial instruments and hedge accounting

The Company enters into various derivative financial instruments as part of its strategy to manage foreign currency exposure. All contracts entered into during the year have been designated as cash flow hedges for accounting purposes. The Company does not hold or issue derivative financial instruments for trading purposes.

All derivative financial instruments, including derivatives embedded in financial or non-financial contracts not closely related to the host contracts, are measured at fair value. The gain or loss that results from remeasurement at each reporting period is recognized in net income immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in net income depends on the nature of the hedge relationship.

At the inception of a hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item along with the Company's risk management objectives and strategy for undertaking various hedge transactions, together with the methods that will be used to assess the effectiveness of the hedging relationship. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Accordingly, the effective portion of the change in the fair value of the foreign exchange forward contracts that are designated and qualify as cash flow hedges is recognized in other comprehensive income (loss) until related payments have been made in future accounting periods. The Company has not made an election to exclude the time value component of forward contracts designated as cash flow hedges from the hedging relationship. Associated gains and losses recognized in other comprehensive income (loss) are reclassified to earnings in the periods when the hedged item is recognized in earnings. These earnings are included within the same line of the consolidated statement of earnings (loss) as the recognized item. However, when the hedged forecast transaction results in the recognition of a non-financial asset, the gains and losses previously recognized in other comprehensive income (loss) are transferred from equity and included in the initial measurement of the cost of the non-financial asset. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of earnings (loss).

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. If the forecasted transaction is no longer expected to occur, then the balance in accumulated other comprehensive income is recognized immediately in net income.

#### Retirement Benefits

The Company provides retirement benefits through a defined contribution retirement plan. Under the defined contribution retirement plan, the Company pays fixed contributions to an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The costs of benefits under the defined contribution retirement plan are expensed as contributions are due and are reversed if employees leave before the vesting period.

## 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.

During the course of the Company's financial statement close process for the year ended March 28, 2020, accounting errors were identified in the assessment of the modified retrospective application of day one right-of-use assets ("ROU assets") performed in connection with the adoption of IFRS 16 as at March 31, 2019.

In particular, there were errors identified in performing the likelihood assessment on extension options for one lease contract, and in applying historical data to retrospectively construct the ROU assets for a select number of leases. These errors produced an overstatement of the ROU assets of \$24.4 million, and an understatement of the ROU assets of \$5.4 million, respectively. When appropriately performing the quantification of the ROU assets as at March 31, 2019, the net effect of these errors result in the overstatement of ROU assets recognized on IFRS 16 adoption of \$19.5 million, requiring an associated increase of \$24.4 million to long-term lease liabilities, a charge of \$4.0 to opening retained earnings and an increase of \$1.4 million to the deferred tax asset balance recognized.

Additionally, there was an error with the classification between short-term and long-term lease liabilities of \$25.1 million as a result of implementing an amortization approach rather than the present value of lease payments due within twelve months of the reporting date.

Correction of these errors (which appeared in the unaudited condensed interim consolidated financial statements and related note disclosures for the quarters ended June 29, 2019, September 28, 2019 and December 28, 2019) has a non-cash impact on the ROU asset, deferred tax asset balance, long-term lease liabilities and opening retained earnings (deficit) balance, and will result in lower depreciation of the ROU assets going forward.

Correction of these errors would have also impacted working capital disclosures in the referenced quarterly reports. However, the Company provided commentary in its Management Discussion & Analysis which accurately reflected the liquidity position of the Company.

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
<b>Assets</b>			
Right-of-use assets (as restated)	–	388,492	388,492
Deferred tax assets	47,940	37,498	85,438
<b>Liabilities</b>			
Accounts payable and accrued liabilities	179,180	1,207	180,387
Short-term lease liabilities (as restated)	–	68,138	68,138
Long-term accrued liabilities	4,698	(3,471)	1,227
Long-term lease liabilities (as restated)	–	465,229	465,229
<b>Equity</b>			
Retained earnings (as restated)	131,311	(105,114)	26,197

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 ROU 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	376,795
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
<b>Lease liabilities recognized as at March 31, 2019</b>	<b>533,367</b>

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.

## 5. IMPAIRMENT OF ASSETS

Assets are assessed for impairment at the CGU level, except for those assets which are considered to be corporate assets. As certain corporate assets cannot be allocated on a reasonable and consistent basis to individual CGUs, they are tested for impairment at the corporate level. A CGU has been defined as an individual retail store, as each store generates cash inflows that are largely independent from the cash inflows of other stores. CGUs and groups of CGUs are tested for impairment if impairment indicators exist at the reporting date.

Recoverable amounts for CGUs being tested are based on the higher of the value in use and the fair value less cost of disposal, which is calculated from discounted cash flow projections and the amount obtainable from the sale of a CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal.

### Retail Store Impairment

Impairment indicators were identified as at March 28, 2020 for certain retail stores. Accordingly, the Company performed impairment testing, which resulted in the recognition of impairment losses of \$15.3 million for the 52-week period ended March 28, 2020 (2019 – no impairment losses), spread across a number of CGUs. Of these impairment losses, \$9.4 million was recognized against the right-of-use assets, \$5.0 million against property, plant and equipment and \$0.9 million against intangible assets.

In all cases, the impairment losses arose due to these stores having lower-than-expected profitability and the impacts of the current macro-economic environment as at March 28, 2020. The impairment loss was recorded as the carrying amount of these CGUs exceeded their recoverable amounts, which were determined as the higher of their value in use or fair value less cost of disposal.

The key assumptions, where the recoverable amount was measured as a CGU's value in use, are those related to uncertainties around the impact of COVID-19 on projected sales, as well as the discount rate. Management's estimate of the discount rate reflects its weighted average cost of capital, which intrinsically considers the current market assessment of the time value of money and the risks specific to the CGU. The recoverable amount is based on an average discount rate of 13.5%, which is reflective of concentration and geographic risk premiums.

Where the recoverable amount of a CGU was measured at its fair value less cost of disposal, the fair value is categorized as level 3 in the fair value hierarchy. Management's fair value estimate was based on prevailing commercial rent rates, management's judgment on the comparability of these market inputs, and management's estimate of the risks associated with brick-and-mortar retail properties in the current COVID-19 pandemic.

### Corporate Asset Impairment

As at March 28, 2020, the Company also identified impairment indicators relating to its corporate assets. Corporate asset testing calculates discounted cash flow projections over a five-year period plus a terminal value, and resulted in the recognition of impairment losses of \$41.2 million for the 52-week period ended March 28, 2020 (2019 – no impairment losses). Of these impairment losses, \$31.5 million were recognized against the right-of-use assets, \$7.5 million against property, plant and equipment, \$2.0 million against intangible assets, and \$0.2 million against the equity investment.

The recoverable amount was determined using the value in use methodology. Key assumptions were the cash flow projections, terminal growth rate, and the discount rate. Cash flow projections were based on financial forecasts approved by management, and covered a five-year period. The cash flows represent management's best projections based on current and anticipated market conditions, however, these projections are inherently uncertain due to the recent and fluidly evolving impact of the COVID-19 pandemic. The cash flows beyond the five-year period for Corporate asset testing have been extrapolated using a steady 1.0% terminal growth rate, which management has assessed to be the projected long-term average growth rate. Consistent with retail store impairment, management's estimate of the discount rate reflects its weighted average cost of capital. Management's estimate of the discount rate is assessed as at March 28, 2020, reflects the current market assessment of the time value of money, enterprise market risk and the risks specific to the Company. The recoverable amount is based on a discount rate of 12.5%. Although the Company believes the assumptions and estimates made are reasonable and appropriate, different assumptions and estimates could materially impact its reported financial results.

## 6. CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	As at March 28, 2020	As at March 30, 2019
Cash	48,955	39,466
Restricted cash	1,212	1,593
Cash equivalents	70,306	231
<b>Cash and cash equivalents</b>	<b>120,473</b>	<b>41,290</b>

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

As at March 28, 2020, the Company held no short-term investments (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.

## 7. INVENTORIES

The cost of inventories recognized as an expense was \$550.0 million in fiscal 2020 (2019 – \$616.4 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 was \$10.2 million in fiscal 2020 (2019 – \$11.2 million). The amount of inventory with net realizable value equal to cost was \$4.4 million as at March 28, 2020 (March 30, 2019 – \$4.2 million).

## 8. 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. There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). Furthermore, the Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange forward contracts are identical to the hedged risk components.

The fair values of derivative financial instruments are determined based on observable market information as well as valuations determined by external valuers with experience in financial markets.

During the fiscal year ended March 28, 2020, the Company entered into forward contracts with total notional amounts of C\$118.8 million to purchase U.S. dollar/Canadian dollar currency pair forwards (March 30, 2019 – C\$153.1 million). As at March 28, 2020, the Company had remaining contracts in place representing a total notional amount of C\$66.2 million (March 30, 2019 – C\$66.9 million) at an average forward rate of 1.32 (March 30, 2019 – 1.31). 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 ended March 28, 2020, as well as in the prior year.

The total fair value of the contracts as at March 28, 2020 resulted in the recognition of a derivative asset of \$3.8 million (March 30, 2019 – \$1.1 million), and no derivative liability (March 30, 2019 – no derivative liability).

During the fiscal year ended March 28, 2020, the Company had net gains (net of taxes) from the change in fair value of outstanding cash flow hedges of \$2.5 million (2019 – net gains (net of taxes) of \$2.4 million). During the same period, the

Company reclassified net gains (net of taxes) from settled contracts of \$0.5 million from other comprehensive income to inventory and expenses (2019 – net gains (net of taxes) of \$2.5 million). This resulted in other comprehensive income of \$2.0 million for the fiscal year ended March 28, 2020 (2019 – no other comprehensive income).

Potential causes of mismatch between the hedging instrument and hedged item which would generate ineffectiveness include changes in credit risk, a timing mismatch between the maturity of the instrument and the future transaction date, and/or the hedged transaction does not occur. 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 fiscal year ended March 28, 2020, as well as in the prior year.

## 9. PROPERTY, PLANT, AND EQUIPMENT

(thousands of Canadian dollars)	Furniture, fixtures, and equipment	Computer equipment	Leasehold improvements	Total
<b>Gross carrying amount</b>				
Balance, March 31, 2018	83,211	16,543	64,501	164,255
Additions, net	29,437	3,081	34,987	67,505
Disposals	(2,920)	(185)	(2,097)	(5,202)
Assets with zero net book value	(7,288)	(2,268)	(17,106)	(26,662)
Balance, March 30, 2019	102,440	17,171	80,285	199,896
Additions, net	<b>4,169</b>	<b>1,234</b>	<b>(3,180)</b>	<b>2,223</b>
Disposals	<b>(1,446)</b>	<b>(204)</b>	<b>(2,274)</b>	<b>(3,924)</b>
Assets with zero net book value	<b>(7,431)</b>	<b>(2,498)</b>	<b>(10,592)</b>	<b>(20,521)</b>
Foreign currency adjustment	171	–	336	507
<b>Balance, March 28, 2020</b>	<b>97,903</b>	<b>15,703</b>	<b>64,575</b>	<b>178,181</b>
<b>Accumulated depreciation and impairment</b>				
Balance, March 31, 2018	38,728	6,290	36,923	81,941
Depreciation	8,970	3,116	9,834	21,920
Disposals	(1,436)	(108)	(1,665)	(3,209)
Assets with zero net book value	(7,288)	(2,268)	(17,106)	(26,662)
Balance, March 30, 2019	38,974	7,030	27,986	73,990
Depreciation	<b>10,149</b>	<b>3,118</b>	<b>9,738</b>	<b>23,005</b>
Disposals	<b>(745)</b>	<b>(133)</b>	<b>(1,165)</b>	<b>(2,043)</b>
Impairment losses	<b>4,884</b>	<b>649</b>	<b>7,002</b>	<b>12,535</b>
Assets with zero net book value	<b>(7,431)</b>	<b>(2,498)</b>	<b>(10,592)</b>	<b>(20,521)</b>
<b>Balance, March 28, 2020</b>	<b>45,831</b>	<b>8,166</b>	<b>32,969</b>	<b>86,966</b>
<b>Net carrying amount</b>				
March 30, 2019	63,466	10,141	52,299	125,906
<b>March 28, 2020</b>	<b>52,072</b>	<b>7,537</b>	<b>31,606</b>	<b>91,215</b>

For further information regarding impairment losses recognized against property, plant and equipment refer to note 5, “Impairment of Assets”.



## 10. LEASE BALANCES

The following table reconciles the change in right-of-use assets for the year ended March 28, 2020:

(thousands of Canadian dollars)

<b>Gross carrying amount</b>	
Balance on transition, March 31, 2019	388,492
Additions	74,642
<b>Balance, March 28, 2020</b>	<b>463,134</b>
<b>Accumulated depreciation and impairment</b>	
Balance on transition, March 31, 2019	–
Depreciation	40,101
Impairment losses	40,887
<b>Balance, March 28, 2020</b>	<b>80,988</b>
<b>Net carrying amount</b>	
<b>March 28, 2020</b>	<b>382,146</b>

For further information regarding impairment losses recognized against the right-of-use assets refer to note 5, “Impairment of Assets”.

The following table reconciles the change in lease liabilities for the year ended March 28, 2020:

(thousands of Canadian dollars)

Balance as at March 31, 2019	533,367
Lease renewals included in the scope of IFRS 16	75,641
Accretion of lease liabilities	25,585
Repayment of interest and principle on lease liabilities	(65,976)
<b>Balance as at March 28, 2020</b>	<b>568,617</b>

During the year ended March 28, 2020, the Company expensed \$2.9 million of base rent payments relating to short-term leases for which the recognition exemption was applied and these payments were not included in the lease liabilities.

As at March 28, 2020, the Company had leases in respect of its stores and support office premises. The future undiscounted minimum lease commitments for the Company’s leases for its premises, excluding other occupancy charges and variable lease payments, are as follows:

(thousands of Canadian dollars)

	Total
2021	67,933
2022	64,949
2023	58,938
2024	55,305
2025	48,525
Thereafter	162,289
<b>Total obligations</b>	<b>457,939</b>

## 11. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer application software	Internal development costs	Domain name	Retail lease	Total
<b>Gross carrying amount</b>					
Balance, March 31, 2018	20,222	13,229	3,462	1,207	38,120
Additions	12,461	6,595	–	–	19,056
Disposals	(171)	–	(75)	–	(246)
Assets with zero net book value	(4,004)	(4,338)	–	–	(8,342)
Balance, March 30, 2019	28,508	15,486	3,387	1,207	48,588
Additions	<b>3,831</b>	<b>4,566</b>	–	–	<b>8,397</b>
Disposals	<b>(23)</b>	<b>(4)</b>	–	–	<b>(27)</b>
Assets with zero net book value	–	<b>(3,012)</b>	–	–	<b>(3,012)</b>
<b>Balance, March 28, 2020</b>	<b>32,316</b>	<b>17,036</b>	<b>3,387</b>	<b>1,207</b>	<b>53,946</b>
<b>Accumulated amortization and impairment</b>					
Balance, March 31, 2018	7,948	5,936	–	21	13,905
Amortization	6,452	4,074	–	124	10,650
Disposals	(151)	–	–	–	(151)
Assets with zero net book value	(4,005)	(4,338)	–	–	(8,343)
Balance, March 30, 2019	10,244	5,672	–	145	16,061
Amortization	<b>8,199</b>	<b>5,051</b>	–	<b>124</b>	<b>13,374</b>
Disposals	<b>(13)</b>	–	–	–	<b>(13)</b>
Impairment losses	<b>1,056</b>	<b>713</b>	<b>259</b>	<b>938</b>	<b>2,966</b>
Assets with zero net book value	–	<b>(3,012)</b>	–	–	<b>(3,012)</b>
<b>Balance, March 28, 2020</b>	<b>19,486</b>	<b>8,424</b>	<b>259</b>	<b>1,207</b>	<b>29,376</b>
<b>Net carrying amount</b>					
March 30, 2019	18,264	9,814	3,387	1,062	32,527
<b>March 28, 2020</b>	<b>12,830</b>	<b>8,612</b>	<b>3,128</b>	<b>–</b>	<b>24,570</b>

The useful life of the domain names have been deemed to be indefinite because there are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful lives of these assets to the Company.

For further information regarding impairment losses recognized against intangible assets, refer to note 5, “Impairment of Assets”.

## 12. EQUITY INVESTMENTS

During the year, 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 March 28, 2020, the proceeds to be received are \$0.9 million, to be paid in installments over the next two years.

Prior to the sale, the Company used the equity method of accounting to record Calendar Club results. In fiscal 2020, Indigo had recognized a net loss from Calendar Club of \$1.7 million and received no annual distribution (2019 – equity income of \$0.9 million and distribution of \$0.8 million).

The Company holds an equity ownership in Unplug, which operates meditation studios in the U.S., resulting in a 20% voting interest and representation on the board of managers. The Company uses the equity method of accounting to record Unplug results. The Company did not receive a distribution from Unplug during the period.

Changes in the carrying amount of Unplug were as follows:

(thousands of Canadian dollars)	Carrying value
Balance March 31, 2018	2,676
Share of loss from Unplug	(66)
Balance March 30, 2019	2,610
Share of loss from Unplug	<b>(63)</b>
Impairment of investment	<b>(194)</b>
<b>Balance March 28, 2020</b>	<b>2,353</b>

For further information regarding impairment losses recognized against the equity investment, refer to note 5, “Impairment of Assets”.

### 13. INCOME TAXES

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. The Company recognizes deferred tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized. As at March 28, 2020, the Company has recognized no net deferred tax assets (March 30, 2019 – \$47.9 million of net deferred tax assets).

Significant components of the Company’s net deferred tax assets are as follows:

(thousands of Canadian dollars)	As at March 28, 2020	As at March 30, 2019
Reserves and allowances	1,777	1,452
Non-capital loss carryforwards	20,413	21,613
Capital loss carryforwards	319	–
Corporate minimum tax credit	3,379	3,379
Book amortization in excess of capital cost allowance	36,359	21,783
Lease liabilities	148,551	–
<b>Total deferred tax assets</b>	<b>210,798</b>	48,227
Right-of-use assets	(100,310)	
Cash flow hedges	(1,017)	(287)
<b>Total deferred tax liabilities</b>	<b>(101,327)</b>	(287)
<b>Net deferred tax assets</b>	<b>109,471</b>	47,940
Value of deferred tax assets not recognized in the current period	(109,471)	–
<b>Recognized net deferred tax assets</b>	<b>–</b>	47,940

Net deferred tax assets of \$109.5 million have not been recognized in the current period (March 30, 2019 – no net deferred tax assets were not recognized). This decision was influenced by the Company’s current operating loss, and uncertainty surrounding future profitability as a result of the COVID-19 pandemic, among other factors. As such, uncertainty exists surrounding the probability of sufficient taxable income being available to utilize all deferred tax assets within the time line

of management's forecasts. The time period of future projected taxable profits used to assess the recognition of deferred tax assets was shorter than the expiration period of the non-capital tax loss carryforward, and other deferred tax assets which do not expire.

As at March 28, 2020, the Company has Canadian non-capital tax loss carryforwards of \$64.2 million that expire in 2031, \$8.3 million that expire in 2039, and \$0.5 million that expire in 2040, and capital losses of \$2.4 million. The Company also has \$4.5 million of both U.S. federal and U.S. state non-capital losses in the states which it operates. The federal losses have no expiration, and the state losses expire between 2039 and 2040.

Significant components of income tax expense (recovery) are as follows:

(thousands of Canadian dollars)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Current income tax expense	–	–
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	(25,588)	(8,170)
Deferred income tax recovery relating to change in non-capital loss carryforwards	(174)	(4,669)
Deferred income tax recovery relating to change in capital loss carryforwards	(319)	–
Adjustment resulting from a change in substantively enacted tax rates and expected pattern of reversal	1,423	(65)
Adjustment for deferred tax assets not recognized	109,471	–
Other, net	(101)	64
<b>Total income tax expense (recovery)</b>	<b>84,712</b>	<b>(12,840)</b>

The reconciliation of income taxes computed at statutory income tax rates to the effective income tax rates is as follows:

(thousands of Canadian dollars)	52-week period ended March 28, 2020	%	52-week period ended March 30, 2019	%
Earnings (loss) before income taxes	(100,286)		(49,638)	
Tax at combined federal and provincial tax rates	(26,838)	26.8%	(13,303)	26.8%
Tax effect of expenses not deductible for income tax purposes	573	(0.6%)	629	(1.3%)
Adjustment to deferred tax assets resulting from reduction in substantively enacted tax rates and expected pattern of reversal	1,423	(1.4%)	(65)	0.1%
Adjustment for deferred tax assets not recognized	109,471	(109.2%)	–	
Other, net	83	(0.1%)	101	0.2%
	<b>84,712</b>	<b>(84.5%)</b>	<b>(12,840)</b>	<b>25.7%</b>

## 14. PROVISIONS

Provisions consist primarily of amounts recorded in respect of decommissioning liabilities, legal claims and other liabilities where there is uncertainty regarding the timing or amount outstanding. The Company is subject to payment of decommissioning liabilities upon exiting certain leases. The amount of these payments may fluctuate based on negotiations with the landlord. Legal claim provisions fluctuate depending on the outcomes when claims are settled.

Activity related to the Company's provisions is as follows:

(thousands of Canadian dollars)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Balance, beginning of period	105	211
Arising during the year	2,398	–
Utilized / released	–	(106)
<b>Balance, end of period</b>	<b>2,503</b>	<b>105</b>

The Company reviews the merits, risks and uncertainties of each provision, based on current information, and the amount expected to be required to settle the obligation. Provisions are reviewed on an ongoing basis and are adjusted accordingly when new facts and events become known to the Company.

## 15. COMMITMENTS AND CONTINGENCIES

### (a) Commitments

The Company generates sublease income in respect of some of its premises leases. As at March 28, 2020, the Company's expected sublease income for the next five fiscal years and thereafter is as follows:

(thousands of Canadian dollars)	Total
Less than 1 year	1,846
1-5 years	20,128
After 5 years	10,938
<b>Total</b>	<b>32,912</b>

### (b) Legal Claims

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at March 28, 2020 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position or financial performance, except for those amounts that have been recorded as provisions on the Company's consolidated balance sheets.

## 16. SHARE CAPITAL

Share capital consists of the following:

	52-week period ended March 28, 2020		52-week period ended March 30, 2019	
	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
Issued during the period				
Directors' deferred stock units converted	137,575	1,455	4,021	60
Adjustment for share exchange per 2001 merger agreement	–	–	519	–
Options exercised	–	–	331,237	3,617
<b>Balance, end of period</b>	<b>27,273,961</b>	<b>226,986</b>	27,136,386	225,531

## 17. SHARE-BASED COMPENSATION

The Company has established an employee stock option plan (the “Plan”) for key employees. The number of common shares reserved for issuance under the Plan as at March 28, 2020 is 3,591,094. Most options granted after April 1, 2012 have a five-year term and have one third of the options granted exercisable one year after the date of issue with the remainder exercisable in equal installments on the anniversary date over the next two years. Stock options granted in August 2019 vest over a two-year period, while all other outstanding options vest over the above referenced three-year period. The vesting schedule for the August 2019 grant was changed to reward and retain plan participants. Each option is exercisable into one common share of the Company at the price specified in the terms of the option agreement.

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. During fiscal 2020, the pre-forfeiture value of the options granted was \$1.3 million (2019 – \$1.8 million). The weighted average fair value of options issued in fiscal 2020 was \$1.49 per option (2019 – \$3.19 per option).

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:

	52-week period ended March 28, 2020	52-week period ended March 30, 2019
<b>Black-Scholes option pricing assumptions</b>		
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	–	–
<b>Other assumptions</b>		
Forfeiture rate	26.7%	26.4%

A summary of the status of the Plan and changes during both periods is presented below:

	52-week period ended March 28, 2020		52-week period ended March 30, 2019	
	Number #	Weighted average exercise price C\$	Number #	Weighted average exercise price C\$
Outstanding options, beginning of period	1,737,593	15.34	1,788,875	14.36
Granted	905,000	6.74	560,000	14.75
Forfeited	(306,205)	14.73	(280,045)	15.40
Expired	(117,900)	10.46	–	–
Exercised	–	–	(331,237)	9.02
<b>Outstanding options, end of period</b>	<b>2,218,488</b>	<b>12.21</b>	<b>1,737,593</b>	<b>15.34</b>
<b>Options exercisable, end of period</b>	<b>995,913</b>	<b>15.73</b>	<b>841,253</b>	<b>14.67</b>

A summary of options outstanding and exercisable is presented below:

Range of exercise prices C\$	March 28, 2020				
	Outstanding			Exercisable	
	Number #	Weighted average exercise price C\$	Weighted average remaining contractual life (in years)	Number #	Weighted average exercise price C\$
6.60 – 6.92	672,000	6.60	4.4	–	–
6.93 – 13.95	388,663	8.90	2.3	193,663	10.58
13.96 – 15.38	324,350	14.75	3.4	116,450	14.75
15.39 – 17.38	342,375	16.01	2.4	244,200	16.02
17.39 – 18.40	491,100	18.12	1.8	441,600	18.09
6.60 – 18.40	2,218,488	12.20	3.0	995,913	15.73

### 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 year was in the form of DSUs (2019 – all DSUs).

The number of shares reserved for issuance under this plan is 500,000. The Company issued 76,269 DSUs with a value of \$0.3 million during the year (2019 – 27,844 DSUs with a value of \$0.4 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 March 28, 2020 was \$4.4 million (March 30, 2019 – \$4.1 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.

## 18. 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)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Print <sup>1</sup>	531,437	580,654
General merchandise <sup>2</sup>	409,221	451,499
Other <sup>3</sup>	17,064	14,671
<b>Total</b>	<b>957,722</b>	<b>1,046,824</b>

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)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Superstores	655,844	711,360
Small format stores	122,138	144,844
Online (including store kiosks)	162,676	175,948
Other <sup>1</sup>	17,064	14,672
<b>Total</b>	<b>957,722</b>	<b>1,046,824</b>

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)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Wages, salaries, and bonuses	172,597	196,183
Short-term benefits expense	20,807	20,589
Termination benefits expense	6,027	6,262
Retirement benefits expense	1,774	1,863
Share-based compensation	1,268	1,514
<b>Total employee benefits expense</b>	<b>202,473</b>	<b>226,411</b>

Termination benefits arise when the Company terminates certain employment agreements.

Contingent rents recognized as an expense during fiscal 2020 were \$1.5 million (2019 – \$1.9 million).



## 19. LOSS PER SHARE

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 periods presented is as follows:

	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Weighted average number of common shares outstanding, basic	27,515,109	27,354,358
Effect of dilutive securities – stock options	–	–
<b>Weighted average number of common shares outstanding, diluted</b>	<b>27,515,109</b>	<b>27,354,358</b>

The Company's stock options were anti-dilutive as the company reported losses for the 52-week periods ended March 28, 2020 and March 30, 2019, and therefore were not included in the diluted loss per share calculations.

## 20. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Accounts receivable	2,903	(3,796)
Inventories	10,729	12,045
Prepaid expenses	(260)	(1,678)
Income taxes recoverable	345	(483)
Other assets	(1,467)	12
Accounts payable and accrued liabilities (current and long-term) and other <sup>1</sup>	(16,126)	4,251
Unredeemed gift card liability	2,944	4,511
Provisions (current and long-term)	2,398	(106)
Deferred revenue	3,046	607
Income taxes payable	–	(152)
<b>Net change in non-cash working capital balances related to operations</b>	<b>4,512</b>	<b>15,211</b>

<sup>1</sup> This change has been impacted by the adoption of IFRS 16. Refer to Note 4 "Summary of Significant Accounting Policies" for additional information.

## 21. CAPITAL MANAGEMENT

The Company's main objectives when managing capital are:

- Ensuring sufficient liquidity to support financial obligations and to execute operating and strategic objectives;
- Maintaining financial capacity and flexibility through access to capital to support future development of the business; and
- Minimizing the cost of capital while taking into consideration current and future industry, market, and economic risks and conditions.

There were no changes to these objectives during the year. The primary activities engaged by the Company to generate attractive returns for shareholders include transforming digital platforms and driving productivity improvement through investments in information technology and distribution to support the Company's sales networks. The Company's main sources of capital are its current cash position, short-term investments, and cash flows generated from operations. Cash flow is primarily used to fund working capital needs and capital expenditures. The Company manages its capital structure in accordance with changes in economic conditions.

## 22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including risks related to foreign exchange, interest rate, credit, and liquidity.

### Foreign Exchange Risk

The Company is exposed to foreign exchange risk on foreign currency denominated transactions, monetary assets and liabilities denominated in a foreign currency, and net investments in foreign operations located in the United States. The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollars. Decreases in the value of the Canadian dollar relative to the U.S. dollar could negatively impact net earnings since the purchase price of some of the Company's products are negotiated with vendors in U.S. dollars, while the retail price to customers is set in Canadian dollars. The majority of the Company's foreign currency risk is concentrated in this area, as a significant amount of the Company's general merchandise inventory purchases are denominated in U.S. dollars and the Company had a New York office and a New Jersey retail location that incur U.S. dollar expenses. The Company's New Jersey retail location generates sales in U.S. dollars, reducing the Company's overall net exposure.

The Company uses derivative instruments in the form of forward contracts to manage its exposure to fluctuations in U.S. dollar exchange rates. As the Company has hedged a significant portion of the cost of its near-term forecasted U.S. dollar purchases, a change in foreign currency rates will not impact that portion of the cost of those purchases.

In fiscal 2020, the effect of foreign currency translation on comprehensive earnings was a gain of \$0.4 million (2019 – loss of \$0.2 million), and the effect of foreign currency transactions on net earnings was a gain of \$0.5 million (2019 – loss of \$0.2 million).

### Interest Rate Risk

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on the Company's cash, cash equivalents, and short-term investments. The Company has minimal interest rate risk and does not use any interest rate swaps to manage its risk. The Company does not currently have any debt.

### Credit Risk

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. Credit risk primarily arises from accounts receivable, cash and cash equivalents, short-term investments, and derivative financial instruments. Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

Accounts receivable primarily consist of receivables from retail customers who pay by credit card, recoveries of credits from suppliers for returned or damaged products, and receivables from other companies for sales of products, gift cards, and other services. Credit card payments have minimal credit risk and the limited number of corporate receivables are closely monitored.

The Company limits its exposure to counterparty credit risk related to cash and cash equivalents, short-term investments, and derivative financial instruments by transacting only with highly-rated financial institutions and other counterparties, and by managing within specific limits for credit exposure and term to maturity. The Company's maximum credit risk exposure if all counterparties default concurrently is equivalent to the carrying amounts of accounts receivable, cash and cash equivalents, short-term investments, and derivative financial instruments.

### Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its obligations relating to its financial liabilities. The Company manages liquidity risk by preparing and monitoring cash flow budgets and forecasts to ensure that the Company has sufficient funds to meet its financial obligations and fund new business opportunities or other unanticipated requirements as they arise.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, including the currently known impacts of COVID-19, it is expected that the Company's current cash position and future cash flows generated from operations will be sufficient to meet its working capital requirements for fiscal 2021. However, the Company's ability to fund future cash requirements will depend on its future operating performance, which could be affected by risks associated by the COVID-19 pandemic, as discussed. The Company could seek to raise additional funding in the event it fails to maintain sufficient liquidity, as it currently has no outstanding debt financing, and reduce capital spending if necessary. However, the COVID-19 pandemic creates a number of additional risks such as the negative impact on debt and equity capital markets, including the ability to access capital at a reasonable cost and the trading price of the Company's securities, which could impact future capital raising efforts if required by the Company.

The contractual maturities of the Company's current and long-term liabilities as at March 28, 2020 are as follows:

(thousands of Canadian dollars)	Payments due in the next 90 days	Payments due between 90 days and less than a year	Payments due after 1 year	Total
Accounts payable and accrued liabilities	149,085	15,209		164,294
Provisions	1,688	346	–	2,034
Current portion of long-term lease liability	17,185	51,217	–	68,402
Long-term accrued liabilities	–	–	1,196	1,196
Long-term provisions	–	–	469	469
Long-term lease liability	–	–	500,215	500,215
<b>Total</b>	<b>167,958</b>	<b>66,772</b>	<b>501,880</b>	<b>736,610</b>

## 23. 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)	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Wages, salaries, and bonus	3,612	5,626
Short-term benefits expense	154	207
Termination benefits expense	793	1,997
Retirement benefits expense	68	86
Share-based compensation	767	1,110
Directors' compensation	293	350
<b>Total remuneration</b>	<b>5,687</b>	<b>9,376</b>

### Transactions with Shareholders

During 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. In fiscal 2020, the Company paid \$2.2 million for these transactions (2019 – \$3.5 million). As at March 28, 2020, Indigo had \$0.1 million payable to these companies under standard payment terms and \$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 (March 30, 2019 – \$0.2 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 18 "Supplementary Operating Information". The Company has not entered into other transactions with the retirement plan.

### Transactions with Associates

As noted, the Company sold its equity investments in Calendar Club of Canada Limited Partnership and Calendar Club of Canada Ltd. (the general partner of the partnership) to Paris Southern Lights Inc. (a minority partner in the partnership). During the year, the Company loaned \$6.6 million to Calendar Club which was repaid on the close of the sale transaction.

The Company had immaterial transactions with Unplug during the period.

## 24. SUBSEQUENT EVENTS

The Company has ceased its normal rent payments as of April 1, 2020 and is in negotiations with its landlords regarding rent abatements to address the financial impacts of COVID-19. The inability of the Company to enter into suitable rent relief arrangements could potentially have a cumulative material financial impact, depending on the number of locations impacted, the materiality of such locations to the overall business, and any dispute under these leases that may result in litigation with the respective landlord. In May 2020, the Company made the decision to not renew the leases for 15 small format stores beyond June 2020.

# Corporate Governance Policies

A presentation of the Company's corporate governance policies is included in the Management Information Circular, which is either mailed directly to shareholders or made available through the Notice and Access process. If you would like to receive a copy of this information, please contact Investor Relations at Indigo.

# Executive Management and Board of Directors

As at June 23, 2020

## EXECUTIVE MANAGEMENT

Heather Reisman  
*Chair and Chief Executive Officer*

Kirsten Chapman  
*President*

Gildave (Gil) Dennis  
*Chief Operating Officer*

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

Bahman (Bo) Parizadeh  
*Chief Technology Officer*

Nathan Williams  
*Chief Creative Officer*

## BOARD OF DIRECTORS

Frank Clegg  
*Volunteer Chairman and Chief Executive Officer*  
C4ST (Canadians for Safe Technology)

Jonathan Deitcher  
*Investment Advisor*  
RBC Dominion Securities Inc.

Mitchell Goldhar  
*Executive Chairman*  
SmartCentres REIT and  
*Owner*

Penguin Group of Companies

Howard Grosfield  
*Executive Vice President and General Manager*  
*US Consumer Card Services*  
American Express

Robert Haft  
*Managing Partner*  
Morgan Noble Healthcare Partners

Andrea Johnson  
*Chief Executive Officer*  
Rally Reader, LLC

Anne Marie O'Donovan  
*President*  
O'Donovan Advisory Services Ltd.

Heather Reisman  
*Chair and Chief Executive Officer*  
Indigo Books & Music Inc.

Gerald Schwartz  
*Chairman and Chief Executive Officer*  
Onex Corporation

# Five-Year Summary of Financial Information

For the years ended (financial information in millions of Canadian dollars, except per share data)	March 28, 2020 <sup>1</sup>	March 30, 2019	March 31, 2018 <sup>2</sup>	April 1, 2017 <sup>2</sup>	April 2, 2016 <sup>2</sup>
<b>SELECTED STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION</b>					
Revenue					
Superstores	655.8	711.4	728.6	702.1	695.3
Small format stores	122.1	144.8	143.6	140.7	140.2
Online	162.7	175.9	176.8	148.2	133.3
Other	17.1	14.7	30.6	29.0	25.6
Total revenue	957.7	1,046.8	1,079.6	1,020.0	994.4
Adjusted EBITDA <sup>3,4</sup>	58.4	(19.1)	55.2	52.4	43.3
Earnings (loss) before income taxes	(100.3)	(49.6)	30.7	29.2	22.3
Net earnings (loss)	(185.0)	(36.8)	21.9	21.0	28.8
Net earnings (loss) per common share	(\$6.72)	(\$1.35)	\$0.82	\$0.80	\$1.11
<b>SELECTED CONSOLIDATED BALANCE SHEET INFORMATION</b>					
Working capital	85.2	164.1	258.8	248.9	218.6
Total assets	883.0	610.5	634.0	609.3	584.6
Total liabilities	799.0	240.3	231.6	236.8	240.0
Total equity	84.0	370.1	402.4	373.3	345.3
Weighted average number of common shares outstanding	27,515,109	27,354,358	26,849,418	26,384,775	25,949,068
Common shares outstanding at end of period	27,273,961	27,136,386	26,800,609	26,351,484	25,797,351
<b>STORE OPERATING STATISTICS</b>					
<b>Number of stores at end of period</b>					
Superstores	88	89	86	89	88
Small format stores	108	115	123	123	123
<b>Selling square footage at end of period</b> (in thousands)					
Superstores	1,941	1,962	1,887	1,953	1,925
Small format stores	279	287	308	304	305
<b>Comparable sales growth<sup>4</sup></b>					
Total retail and online	(7.9%)	(1.1%)	6.2%	4.1%	12.9%
Superstores	(8.2%)	(1.8%)	4.0%	2.9%	12.8%
Small format stores	(7.4%)	1.2%	2.4%	0.9%	10.9%
<b>Sales per selling square foot</b>					
Superstores	338	363	386	360	361
Small format stores	438	504	467	463	460

1 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 years have not been restated.

2 The Company implemented IFRS 15 Revenue from Contracts with Customers, in fiscal 2019 using the full retrospective transition method. As a result, certain prior year balances were restated.

3 Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments.

4 See "Non-IFRS Financial Measures" in the Company's Management Discussion and Analysis section of the Annual Report.

# Investor Information

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## STOCK LISTING

Toronto Stock Exchange

## TRADING SYMBOL

IDG

## TRANSFER AGENT AND REGISTRAR

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Canada H3B 3K3  
Telephone (Toll Free) 1-800-387-0825  
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Fax: 1-888-249-6189  
Email: [inquiries@astfinancial.com](mailto:inquiries@astfinancial.com)  
Website: [www.astfinancial.com/ca-en](http://www.astfinancial.com/ca-en)

## AUDITORS

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Toronto, Ontario  
Canada M5H 0B3

## ANNUAL MEETING

The 2020 Annual Meeting of Shareholders of Indigo Books & Music Inc. will be held on August 18, 2020 at 10:00 a.m. via live audio webcast at: <https://web.lumiagm.com/126476142>

Shareholders are encouraged to attend and guests are welcome.

Une traduction française de ce document est disponible sur demande.



# Indigo's Commitment to Communities Across Canada

The Indigo Love of Reading Foundation (the “Foundation”) exists to promote children’s literacy in high-needs communities across Canada. Through the donations of Indigo, its leadership, its customers, its employees, and suppliers, the Foundation provides transformational grants to high-needs elementary schools across Canada and helps put books into hands of children in need. Since 2004, the Foundation has committed over \$32 million in more than 3,000 high-needs schools, impacting over one million children. The Foundation runs two signature programs each year, the Literacy Grant Fund and the Adopt a School program, and strives to meet the urgent needs of high-needs communities as they arise. Every fall, the Indigo Adopt a School program unites Indigo staff, local schools, and their communities to raise money for new library books for their local schools. In October 2019, the Indigo Adopt a School program contributed over \$650,000 to more than 180 schools across Canada, impacting more than 100,000 children. On Giving Tuesday in December 2019, the Indigo Love of Reading Foundation provided two high-needs elementary schools with transformational grants to rebuild their school libraries after devastating fires. Most recently in April 2020, in the wake of the COVID-19 pandemic and the unprecedented nation-wide school closures, the Indigo Love of Reading Foundation committed \$1.0 million to provide books to families in need.

## Our Beliefs

- We exist to add joy to customers' lives – when they interact with us and, when they interact with our products.
- Each and every person in the company should understand how his or her work contributes to the creation of joyful customer moments.
- We owe to each other, irrespective of role or position, the same level of respect and caring as we would show to a valued friend.
- We have a responsibility to create an environment where each individual is inspired to perform to the best of his or her ability.
- Passion, creativity and innovation are the keys to sustainable growth and profitability. Each individual working at Indigo should reflect this in his or her work. Our role, as a company, is to encourage and reward the demonstration of these attributes.
- We have a responsibility to give back to the communities in which we operate.



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