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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at August 12, 2021 and is based primarily on the unaudited interim condensed consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 13-week periods ended July 3, 2021 and June 27, 2020. The Company's unaudited interim condensed consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." Except as otherwise noted, the same accounting policies and methods of computation as those used in the preparation of the fiscal 2021 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes contained in this Quarterly Report, the audited annual consolidated financial statements and accompanying notes for the 53-week period ended April 3, 2021 and the MD&A included in the Company's fiscal 2021 Annual Report. The Annual Report and additional information about the Company, including the Annual Information Form, can be found on SEDAR at *www.sedar.com*.

Overview

Indigo is Canada's leading book and lifestyle retailer and was formed as a result of the August 2001 amalgamation of Chapters Inc. and Indigo Books & Music Inc. The Company offers a curated assortment of books, gifts, baby, kids, wellness and lifestyle products that support customers by simplifying their journey to *Living with Intention*™. The Company operates retail stores in all ten provinces and one territory in Canada, and also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. The retail network includes 88 superstores under the *Indigo* and *Chapters* names, as well as 88 small format stores under the banners *Coles* and *Indigospirit*. Retail operations are seamlessly integrated with the Company's digital channels, including the *www.indigo.ca* website and the mobile applications, which are extensions of the physical stores and offer customers an expanded assortment of book titles, along with a meaningfully curated assortment of general merchandise. The Company also offers a marketplace assortment of giftable products, experiences, services, and subscriptions on *www.thoughtfull.co*.

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 material to high-needs elementary schools and children across the country through donations from Indigo, its customers, its suppliers, and its employees.

Statement on COVID-19

The Company, and the retail industry, continue to navigate the impacts of the COVID-19 pandemic, including government imposed restrictions, such as closures, quarantine policies and social distancing measures that negatively impact the Company's retail operations, distributions centres, head office operations and supply chain.

The Company undertook the following actions in the first quarter of fiscal 2022:

- Participated in rolling closures of its retail network, as directed by local governments and public health authorities. This notably included province-wide closures in Ontario that negatively impacted the Company's retail operations through the majority of the quarter; store locations with external entrances re-opened on June 1, 2021, with remaining store locations in the province having re-opened on June 29, 2021.
- Successfully executed on the reopening of 93 closed retail stores with a focus on driving operational effectiveness. The Company continues to deliver results amidst a dynamic set of health and safety protocols and a rapidly evolving retail climate.
- Recognized $0.8 million of COVID-19 occupancy expense abatement as a direct response to the economic impact of the COVID-19 pandemic. The Company continues to negotiate with landlords regarding abatement to share the financial burden of COVID-19.
- Applied for the Canada Emergency Rent Subsidy ("CERS") program and recognized rent subsidies of $2.8 million.
- Applied for the Canada Emergency Wage Subsidy ("CEWS") program and recognized payroll subsidies of $3.7 million.

- Monitored the impacts of higher inbound freight costs and constrained shipping capacity as a result of disruption to the global supply chain and forecasted inbound inventory receipts to account for modest delays.
- Entered into a $25 million related party revolving line of credit to enhance the Company's liquidity. No advances were made on the non-interest bearing facility, which matures on February 1, 2022.

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 that meet or exceed the guidance and direction from public health authorities.

Future Developments

The COVID-19 pandemic has negatively impacted the economy and consumer spending, disrupted 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 vaccination rates and efficacy, disease immunity, the recurrence of waves of significant infections, as well as ongoing consumer fears about the disease that could adversely affect traffic to Indigo's stores and demand for its products, among others.

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 and Uncertainties" section in the Company's fiscal 2021 Annual Report.

Results of Operations

The following table summarizes the Company's consolidated results of operations for the periods indicated. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the unaudited interim condensed consolidated financial statements for the 13-week periods ended July 3, 2021, and June 27, 2020.

(millions of Canadian dollars)	**13-week period ended July 3, 2021**	**% Revenue**	13-week period ended June 27, 2020	% Revenue
Revenue	**172.1**	**100.0**	135.1	100.0
Cost of sales	**(101.6)**	**59.0**	(96.9)	71.7
Cost of operations	**(47.0)**	**27.3**	(32.1)	23.8
Selling, general and administrative expenses	**(22.0)**	**12.8**	(12.6)	9.3
Depreciation of right-of-use assets	**(10.1)**	**5.9**	(10.7)	7.9
Finance charges related to leases	**(6.3)**	**3.7**	(6.5)	4.8
Adjusted EBITDA[1]	**(14.9)**	**8.7**	(23.7)	17.5
Depreciation of property, plant and equipment	**(4.0)**	**2.3**	(4.6)	3.4
Amortization of intangible assets	**(3.3)**	**1.9**	(3.2)	2.4
Loss on disposal of capital assets	–	–	(0.2)	0.1
Net interest income	**0.3**	**0.2**	0.2	0.1
Loss before income taxes	**(21.9)**	**12.7**	(31.6)	23.4

1 Earnings before interest, taxes, depreciation, amortization, asset disposals, and share of loss from equity investments, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. For further information on the key metric and its computation, 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. For further information regarding this metric refer to “Non-IFRS Financial Measures”.

Revenue

Total consolidated revenue for the 13-week period ended July 3, 2021 increased $37.0 million or 27.4% to $172.1 million from $135.1 million for the 13-week period ended June 27, 2020. The Company experienced a double-digit rebound

in revenue across its print and general merchandise businesses, in both core categories and new product assortments, signaling an emergence from the COVID-19 pandemic. Notably, this included strong demand for print, fueled by a younger demographic and the popularity of reading on TikTok (#BookTok), which drove a sales resurgence in previously released titles. Revenue was further buoyed by the success of an expanded assortment under the Company's proprietary lifestyle brand OUI, lifting category sales above pre-pandemic levels.

Retail revenue, which is inclusive of orders fulfilled through omnichannel store pick-up, increased by $48.2 million or 114.8% to $90.2 million for the 13-week period ended July 3, 2021 compared to $42.0 million in the same period last year. Customers' desire to shop in-store drove a rebound in retail revenue as COVID-19 containment measures eased in many regions. While province-wide closures in Ontario proved less disruptive than nation-wide closures last year, they largely endured the quarter; store locations featuring external entrances opened in the tenth week of the quarter ahead of remaining locations opening on June 29, 2021. Other localized rolling closures and capacity constraints impacted stores across the country in the 13-week period ended July 3, 2021, delaying an anticipated full recovery. The Company was well prepared for this dynamic retail environment with an omnichannel strategy. The flexibility to serve customers however they chose to shop resonated, with revenues through store pick-up capabilities growing nearly five times from the same period last year.

Online revenue decreased by $15.8 million or 17.5% to $74.5 million for the 13-week period ended July 3, 2021 compared to $90.3 million in the same period last year. A decline from the height of COVID-19 lockdowns during the same period last year represents the channel shift made by customers now comfortable to shop in-store and the concurrent rebound of the Company's retail network. The online business sustained sales over three times pre-COVID fiscal 2020 levels, and continues to be a lever of growth and investment focus for the Company.

The Company has historically reported on comparable sales, a key performance indicator in prior years. Due to the rolling store closures from COVID-19 and the impact of social distancing and government-mandated capacity constraints in reopened stores, the Company believes that comparable sales are not currently representative of the underlying trends of its business. Due to the diminished relevance of this key performance indicator, comparable sales are not further discussed in this report.

Revenue from other sources includes corporate sales, *plum*® PLUS membership fees ("*plum* PLUS revenue"), revenue from unredeemed *plum*® points ("*plum* breakage"), revenue from unredeemed gift cards ("gift card breakage"), revenue-sharing with Rakuten Kobo Inc. ("Kobo"), and irewards card sales. Revenue from other sources increased $4.8 million or 177.8% to $7.5 million for the 13-week period ended July 3, 2021 compared to $2.7 million in the same period last year. The increase was driven by *plum* PLUS revenue as the paid loyalty tier program continued to attract new customers over the course of the year.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020	% increase (decrease)
Superstores[1]	**80.2**	37.6	113.3
Small format stores[1]	**10.0**	4.4	127.3
Online (including store kiosks)	**74.5**	90.3	(17.5)
Other[2]	**7.5**	2.7	177.8
Total	**172.1**	135.1	27.4

1 Includes sales on orders placed on *indigo.ca* and fulfilled through store pick up.

2 Includes corporate sales, *plum* PLUS revenue, *plum* breakage, gift card breakage, Kobo revenue share, and irewards.

Revenue by product line is as follows:

	13-week period ended July 3, 2021	13-week period ended June 27, 2020
Print[1]	**60.8%**	62.3%
General merchandise[2]	**34.9%**	35.7%
Other[3]	**4.3%**	2.0%
Total	**100.0%**	100.0%

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

2 Includes lifestyle, paper, toys, electronics, and related shipping revenue.

3 Includes corporate sales, *plum* PLUS revenue, *plum* breakage, gift card breakage, Kobo revenue share, and irewards.

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 increased by $4.7 million to $101.6 million for the 13-week period ended July 3, 2021, compared to $96.9 million for the same period last year. As a percentage of total revenue, cost of sales decreased 12.7% to 59.0% compared to 71.7% in the prior year.

Excluding the impact of online shipping costs, cost of sales increased by $9.1 million to $88.9 million for the 13-week period ended July 3, 2021, compared to $79.8 million for the same period last year. As a percentage of total revenue, this represents a decrease of 7.4% to 51.7% compared to 59.1% in the prior year, a result of improvements in the Company's margin rate. These improvements were partially driven by the rebound of the Company's retail channel, which typically has a higher margin profile, as well as omnichannel merchandise margin improvements. Merchandise margin improvements were achieved in response to the strength of the Company's assortment and the success of efforts to be less promotional. The Company remains focused on long-term strategies to optimize margin, a strategic priority given the recent accelerated shift toward e-commerce in the retail industry.

Online shipping costs decreased by $4.4 million to $12.7 million for the 13-week period ended July 3, 2021, compared to $17.1 million for the same period last year, largely in response to tempered demand in the online channel, as discussed. This was furthered by improvements in online shipping unit economics driven by the diversification of final-mile carriers and the reduced impact of COVID-19 on the Company's distribution centres.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased by $14.9 million to $47.0 million for the 13-week period ended July 3, 2021, compared to $32.1 million for the same period last year. As a percent of total revenue, cost of operations increased 3.5% to 27.3% compared to 23.8% in the prior year. This was primarily driven by a reduction in external COVID-19 support recognized in cost of operations, which totaled $5.7 million in the 13-week period ended July 3, 2021, compared to $12.4 million in the same period last year. In the current period, the Company realized $2.1 million of benefit from the CEWS (partial benefit attributed to operating costs), which offset labour charges in the retail and online networks. The Company also realized $2.8 million of reductions from rent subsidies from the CERS program, and $0.8 million in reductions to its cost of operations relating to COVID-19 occupancy expense abatement. The Company is still in negotiations with its landlords regarding rent abatement to address the financial impacts of the most recent wave of COVID-19 related store closures. Cost of operations was further impacted by the variable costs associated with higher sales volumes as stores re-opened.

While the Company realized an overall increase to costs of operations as a percentage of revenue, leverage on retail fixed costs from the discussed sales rebound drove improvements in the retail channel rate.

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 increased $9.4 million to $22.0 million for the 13-week period ended July 3, 2021, compared to $12.6 million for the same period last year. As a percent of total revenue, selling, general and administrative expenses increased 3.5% to 12.8% compared to 9.3% in the prior year. This increase was primarily driven by a reduction in the external COVID-19 support from the CEWS program recognized in selling, general and administrative expenses, which totaled $1.6 million in 13-week period ended July 3, 2021, compared to $7.4 million for the same period last year. The increase was furthered by a reinstated paid-marketing program as the Company emerges from the pandemic and looks to build on the e-commerce momentum it generated.

Lease Charges
Lease charges associated with IFRS 16 include the depreciation of the right-of-use assets, and finance charges associated with the lease liabilities. Lease charges decreased by $0.8 million to $16.4 million for the 13-week period ended July 3, 2021, compared to $17.2 million for the same period last year. The decrease was primarily a result of the winding down and expiry of leases, and foreign currency translation.

Adjusted EBITDA
Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of loss from equity investments, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. Adjusted EBITDA improved by $8.8 million to a loss of $14.9 million for the 13-week period ended July 3, 2021, compared to a loss of $23.7 million for the same period last year. Adjusted EBITDA, as a percent of total revenue, improved 8.8% to a loss of 8.7% this year, compared to a loss 17.5% in the prior year. Higher adjusted EBITDA was driven by higher sales in the quarter, a result of a strong product assortment and an early recovery in retail with COVID-19 containment measures lifting and customers demonstrating a renewed desire to shop in-store. As retail revenues improved, the Company's eligibility for government subsidies was impacted, partially offsetting the top-line growth realized.

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

Capital Assets
Depreciation and amortization of capital assets for the 13-week period ended July 3, 2021 decreased $0.5 million to $7.3 million compared to $7.8 million for the same period last year. The decrease in depreciation and amortization was a result of a lower capital asset base in response to historical decisions to defer capital investments in light of uncertainty surrounding COVID-19 and the Company's strategic redirection. Capital expenditures in the first quarter of fiscal 2022 totaled $2.8 million compared to $2.2 million in the same period last year, and were primarily to support the Company's strategic plans for e-commerce growth. Capital expenditures included $2.0 million primarily for digital application software and internal development costs, $0.7 million for furniture, fixtures, equipment and leasehold improvements and $0.1 million for technology equipment. None of the capital expenditures were financed through leases.

Net Interest Income
Net interest income, excluding finance charges related to leases, remained relatively constant, increasing $0.1 million to $0.3 million for the 13-week period ended July 3, 2021, compared to $0.2 million for the same period last year. The Company nets interest income against interest expense.

Equity Investments
The Company uses the equity method to account for its investment in Unplug, and recognizes its share of equity investment earnings and losses as part of consolidated net earnings and losses. Earnings from Unplug were immaterial for the 13-week periods ended July 3, 2021 and June 27, 2020.

Income Taxes
The Company recognized no income taxes for the 13-week periods ended July 3, 2021 and June 27, 2020. The Company has not recognized deferred tax assets in reported periods, influenced by current operating losses and uncertainty surrounding future profitability as a result of the COVID-19 pandemic, among other factors.

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 carryforwards, and other deferred tax assets which do not expire. The Company used a statutory income tax rate of 26.5% for the first quarter of fiscal 2022, and 26.8% in the prior year. The Company does not expect to pay cash income taxes in the current year.

Net Loss

The Company recognized a net loss of $21.9 million for the 13-week period ended July 3, 2021 ($0.79 net loss per common share), compared to a net loss of $31.6 million ($1.15 net loss per common share) for the same period last year, an improvement of $9.7 million. This was fueled by strong sales, a well-received product assortment and the beginnings of a recovery in the Company's retail channel given the improving pandemic conditions. These impacts were partially offset by a reduction in external COVID-19 support.

Other Comprehensive Income (Loss)

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

During the 13-week period ended July 3, 2021, the Company entered into contracts with total notional amounts of C$42.1 million to buy U.S. dollars and sell Canadian dollars, compared to entering into contracts with total notional amounts of C$6.8 million in the same period last year. As at July 3, 2021, the Company had remaining contracts in place representing total notional amounts of C$56.1 million and an unrealized net loss of $1.6 million, compared to total notional amounts of C$52.1 million and an unrealized net gain of $1.6 million as at June 27, 2020.

During the 13-week period ended July 3, 2021, the Company had net losses (net of taxes) from the change in fair value of outstanding cash flow hedges of $1.3 million, compared to net losses (net of taxes) of $0.9 million in the same period last year. During the same respective periods, the Company reclassified net losses (net of taxes) from settled contracts of $1.3 million from other comprehensive income (loss) to inventory and expenses, and net gains (net of taxes) of $1.3 million in the same period last year.

The Company also recognized other comprehensive income of $0.1 million from foreign currency translation adjustments on consolidation of its foreign subsidiaries for the 13-week period ended July 3, 2021, compared to nominal amounts in the same period last year.

These resulted in total other comprehensive income of $0.2 million for the 13-week period ended July 3, 2021, compared to an other comprehensive loss of $2.2 million for the same period last year.

Seasonality and First 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 sales season. A disproportionate amount of revenues and earnings 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 the Company's fiscal 2021 MD&A, would have a disproportionate impact to the Company's financial performance should any such events occur during the holiday sales season. For fiscal 2022, revenue and earnings (loss) may not follow historic patterns of seasonality due to the impact of the COVID-19 pandemic.

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

	Fiscal quarters							
(millions of Canadian dollars, except per share data)	**Q1 Fiscal 2022**	Q4 Fiscal 2021	Q3 Fiscal 2021	Q2 Fiscal 2021	Q1 Fiscal 2021	Q4 Fiscal 2020	Q3 Fiscal 2020	Q2 Fiscal 2020
Revenue	**172.1**	199.0	365.4	205.3	135.1	178.1	383.7	203.4
Net earnings (loss)	**(21.9)**	(39.5)	30.7	(17.5)	(31.6)	(171.3)	25.8	(20.5)
Basic earnings (loss) per common share	**$(0.79)**	$(1.42)	$1.11	$(0.63)	$(1.15)	$(6.22)	$0.94	$(0.74)
Diluted earnings (loss) per common share	**$(0.79)**	$(1.42)	$1.09	$(0.63)	$(1.15)	$(6.22)	$0.94	$(0.74)

Overview of Consolidated Balance Sheets

Assets

As at July 3, 2021, total assets decreased $68.9 million to $780.7 million, compared to $849.6 million as at June 27, 2020. The decrease was primarily driven by decreases in capital assets, cash and cash equivalents and accounts receivable, partially offset by increases in inventories and prepaid expenses. Capital assets decreased by $38.7 million, as depreciation surpassed additions over the past year, while the Company committed to a more conservative capital asset investment program in response to COVID-19. Cash and cash equivalents decreased

by $29.2 million as a result of the operating loss sustained over the past year. Accounts receivable decreased by $4.6 million as the Company collected amounts outstanding from the CEWS program. This was partially offset by an increase of $3.3 million to prepaid expenses associated with the timing of quarter end and an increase of $3.3 million to inventories as the Company processed returns on unproductive book inventory and minimized purchasing at this time last year, in response to uncertainty surrounding the COVID-19 pandemic.

On a fiscal year-to-date basis, total assets decreased $18.8 million to $780.7 million from $799.5 million as at April 3, 2021. The decrease was driven by decreases in capital assets, cash and cash equivalents and accounts receivable, partially offset by an increase in inventories. Capital assets decreased by $16.2 million, which was driven by the depreciation recognized in the quarter. Cash and cash equivalents decreased by $3.5 million, which is consistent with the seasonal nature of the business, and accounts receivable decreased by $2.7 million as the Company collected amounts outstanding from the CEWS program. This was partially offset by a $6.3 million increase in inventories as the Company increased its inventory position in anticipation of store openings.

Liabilities

As at July 3, 2021, total liabilities decreased $19.4 million to $779.6 million, compared to $799.0 million as at June 27, 2020. This was driven primarily by a decrease in lease liabilities, and accounts payables and accrued liabilities, partially offset by an increase in unredeemed gift card liabilities and deferred revenue. The decrease in lease liabilities of $20.0 million primarily reflects the impact of repayments of interest and principal on lease liabilities outpacing lease renewals in the period. This decrease was furthered by negotiated rent concessions that met the IFRS 16 COVID-19 practical expedient for recognition in fiscal 2021. Net accounts payable and accrued liabilities decreased $14.5 million; this reflects an elevated prior year balance as the Company had extended payment terms with many of its vendors during fiscal 2021 to manage liquidity at the onset of the pandemic. These decreases were partially offset by an increase of $8.0 million in unredeemed gift card liabilities, primarily driven by lower redemption activity in fiscal 2021 due to COVID-19 disruptions in the retail network, and an increase of $5.4 million of deferred revenue driven by *plum*® PLUS membership sign ups.

On a fiscal year-to-date basis, total liabilities increased $2.7 million to $779.6 million compared to $776.9 million as at April 3, 2021. The increase was driven by an increase to accounts payable and accrued liabilities, partially offset by the decrease in lease liabilities. Accounts payable and accrued liabilities

increased $14.2 million during the quarter, which was consistent with the increase of inventories on hand. Lease liabilities decreased by $12.4 million for the reasons discussed above.

Equity

Total equity at July 3, 2021 decreased $49.5 million to $1.1 million, compared to $50.6 million as at June 27, 2020, driven primarily by the net loss of $48.2 million recognized over the past four quarters. This was furthered by a decrease of $2.2 million in accumulated other comprehensive income, primarily due to the change in fair value of outstanding cash flow hedges.

On a fiscal year-to-date basis, total equity decreased $21.5 million to $1.1 million, compared to $22.6 million as at April 3, 2021, primarily due to the year-to-date net loss recognized.

The weighted average number of common shares outstanding for the first quarter of fiscal 2022 was 27,737,475 compared to 27,573,730 for the same period last year. As at August 12, 2021, the number of outstanding common shares was 27,283,461 with a book value of $227.0 million.

Working Capital and Leverage

The Company's working capital position usually declines from the end of its fiscal year until the third fiscal quarter due to the seasonal nature of the business. The Company relies on cash and accounts payable to fund the business before generating a disproportionate amount of cash during the holiday season. For fiscal 2022, working capital may not follow historic patterns of seasonality due to the impacts of the COVID-19 pandemic.

The Company reported working capital of $28.2 million as at July 3, 2021, compared to $59.7 million as at June 27, 2020 and $46.1 million at at April 3, 2021. The decrease in working capital compared to the same period last year was driven by the discussed decreases in cash and cash equivalents and increase in unredeemed gift card liabilities and deferred revenue, partially offset by the decrease in accounts payable and accrued liabilities.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased $3.5 million for the 13-week period ended July 3, 2021 compared to a decrease of $9.9 million in the same period last year. The decrease in cash flows in the period was driven by cash flows used in financing activities and investing activities of $17.0 million and $2.0 million, respectively. This was partially offset by cash flows generated from operating activities of $15.2 million.

Cash Flows From Operating Activities

The Company generated cash flows of $15.2 million from operating activities in the 13-week period ended July 3, 2021 compared to generating cash flows of $8.1 million in the same period last year, a change of $7.1 million. This was primarily a result of an $8.8 million increase in adjusted EBITDA, compared to the prior year, partially offset by a decrease in cash generated from working capital of $2.3 million from the noted inventory increase in the quarter.

Cash Flows Used for Investing Activities

The Company used cash flows of $2.0 million for investing activities in the 13-week periods ended July 3, 2021 and June 27, 2020.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020
Construction, renovations, and equipment, net	**0.7**	0.2
Intangible assets (primarily application software and internal development costs)	**2.0**	1.7
Technology equipment	**0.1**	0.2
Total	**2.8**	2.2

Cash Flows Used for Financing Activities

The Company used cash flows of $17.0 million for financing activities in the 13-week period ended July 3, 2021 compared to using cash flows of $15.7 million in the same period last year, a change of $1.3 million. This was driven by higher repayments on the Company's IFRS 16 lease obligations, a direct impact of rent concessions recognized in the prior 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 receivables and the majority of book products are purchased on trade terms with the right to return to suppliers at full credit. The Company's main sources of capital are cash flows generated from operations and cash and cash equivalents. Cash flows from operating activities could continue to 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.

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 2022. However, the Company's ability to fund future operations will depend on its operating performance, which could be affected by risks associated with the COVID-19 pandemic, as discussed.

During the quarter, the Company entered into a $25 million related party revolving line of credit to enhance its liquidity. As at July 3, 2021, this facility had no amounts withdrawn by the Company. 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 may create 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 the Company's fiscal 2021 Annual Report.

Accounting Policies

Accounting Standards Implemented in Fiscal 2021

Amendment to IFRS 16 *Leases* – COVID-19-Related Rent Concessions

On May 28, 2020, the International Accounting Standards Board ("IASB") issued an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession that is being offered as a direct response to the economic impacts of COVID-19 is a lease modification, which would have capitalized the benefit received. The Company is applying the practical expedient and has accounted for any eligible change in lease payments resulting from a COVID-19-related rent concession in profit or loss in the period the deal was executed.

Critical Accounting Judgments and Estimates

The discussion and analysis of Indigo's operations and financial condition are based upon the unaudited interim condensed consolidated financial statements which have been prepared in accordance with IAS 34. The preparation of these unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses. These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable under the circumstances, acknowledging that 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 unaudited interim condensed consolidated financial statements, including but not limited to impairment of assets. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates.

Material judgments and estimates are made with respect to: revenue recognition from unredeemed gift cards ("gift card breakage"); revenue from unredeemed *plum*® points ("*plum* breakage"), *plum*® PLUS membership fees ("*plum* PLUS revenue"); fair value of *plum*® points; inventory shrinkage; reserves for slow-moving or damaged products and products that have been permanently marked down; vendor settlements; fair value of share-based instruments and number of equity instruments expected to vest; identification of cash generating units ("CGUs"), indicators of impairment and the valuation of property, plant and equipment, right-of-use assets, and other non-financial assets, including the respective valuation model assumptions (i.e., expected future cash flows from CGUs, discount rate); depreciation and amortization periods; lease recognition and measurement; and recognition and valuation of deferred tax assets; among others.

The Company evaluates its judgments and estimates on an ongoing basis and methods used to calculate critical accounting estimates are consistent with prior periods, except as noted. The significant accounting policies and significant judgments and estimates of the Company are described in notes 3 and 4 of the consolidated financial statements contained in the Company's fiscal 2021 Annual Report.

New Accounting Pronouncements

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-Current*, which amends IAS 1 *Presentation of Financial Statements*. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

Changes in Accounting Policies and Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB issued amendments to IAS 8 *Accounting Policies, Changes to Accounting Estimates and Errors*, to introduce a new definition of accounting estimates. This was endorsed by the Accounting Standards Board of Financial Reporting & Assurance Standards Canada on June 1, 2021. The amended standard explains how entities use measurement techniques and inputs to develop accounting estimates and states that these can include estimation and valuation techniques. To provide additional guidance, the amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments; however, does not anticipate to implement the amended standard using a retrospective application methodology as the IASB Board concluded that the benefits of doing so would be minimal, and have not made such application required.

Costs Necessary to Sell Inventories (IAS 2) Agenda Decision
At its June 2021 meeting, the IFRS Interpretations Committee finalised an agenda decision about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realizable value of inventories. The Committee concluded that when determining the net realizable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business, which requires the exercise of judgement. The Company is assessing the impact of this agenda decision on its results of operations, financial position and disclosures.

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

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

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

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

the Committee of Sponsoring Organizations of the Treadway Commission.

Changes in Internal Controls over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on April 4, 2021 and ended on July 3, 2021 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. The extent to which the impacts of the COVID-19 pandemic affect the factors described herein depend on future developments, which are highly uncertain and cannot be predicted. However, whether actual results and developments will conform to the expectations and predictions of the Company is subject to a number of risks and uncertainties, including the general economic, market, or business conditions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this discussion are qualified by these cautionary statements and there can be no assurance that results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

Non-IFRS Financial Measures

The Company prepares its unaudited interim condensed consolidated financial statements in accordance with IFRS. To provide additional insight into the business, the Company has also provided non-IFRS data, including adjusted EBITDA, in the discussion and analysis section above. Such measures are specific to Indigo and have no standardized meaning prescribed by IFRS. Therefore, such measures may not be comparable to similar measures presented by other companies.

The Company believes Adjusted EBITDA is a useful measure of operating performance as it provides a relevant picture of operating results. Certain effects of financing and investing activities are excluded by removing the effects of interest (excluding those related to lease liabilities), depreciation and amortization expenses (excluding those related to the Company's right-of-use assets), impairment, asset disposals, share of losses from equity investments and income taxes. As retail occupancy leases represent a material component of the Company's cost structure and are managed with its operating costs, an adjustment was made for lease-related expenses in the calculation of Adjusted EBITDA. As a result, IFRS 16 right-of-use asset depreciation and associated lease finance costs are reflected in the key metric.

Reconciliations between adjusted EBITDA and loss before income taxes (the most comparable IFRS measure) were included earlier in this report.

The Company typically believes that investors would find comparable store sales and total comparable sales useful in assessing the performance of the business. However, due to the temporary store closures and store traffic restrictions associated with COVID-19, the Company believes comparable store sales and total comparable sales are not currently representative of the underlying trends of the business, and as a result, these metrics have not been reflected in this MD&A.

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NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Heather Reisman
Chair and Chief Executive Officer

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

Dated as of August 12, 2021.

Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	**As at July 3, 2021**	As at June 27, 2020	As at April 3, 2021
ASSETS			
Current			
Cash and cash equivalents (note 5)	**81,412**	110,563	84,935
Accounts receivable	**20,253**	24,872	22,976
Inventories (note 6)	**221,389**	218,124	215,114
Prepaid expenses	**10,005**	6,747	12,278
Income taxes receivable	**–**	138	–
Derivative assets (note 7)	**–**	1,622	–
Other assets	**1,752**	2,271	2,120
Total current assets	**334,811**	364,337	337,423
Loan receivable (note 14)	**–**	446	–
Property, plant, and equipment, net	**73,925**	87,008	77,131
Right-of-use assets, net	**350,207**	372,360	361,864
Intangible assets, net	**19,604**	23,055	20,916
Equity investment, net	**2,156**	2,353	2,156
Total assets	**780,703**	849,559	799,490
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**159,931**	175,130	145,193
Unredeemed gift card liability	**59,300**	51,320	58,053
Provisions	**2,455**	2,203	2,365
Deferred revenue	**16,139**	10,718	16,486
Short-term lease liabilities (note 8)	**67,240**	65,260	67,603
Derivative liabilities (note 7)	**1,572**	–	1,622
Total current liabilities	**306,637**	304,631	291,322
Long-term accrued liabilities	**1,615**	950	2,090
Long-term provisions	**678**	672	827
Long-term lease liabilities (note 8)	**470,684**	492,701	482,671
Total liabilities	**779,614**	798,954	776,910
Equity			
Share capital (note 9)	**226,999**	226,986	226,986
Contributed surplus (note 10)	**14,066**	13,197	13,782
Retained deficit	**(238,614)**	(190,404)	(216,668)
Accumulated other comprehensive income (loss) (note 7)	**(1,362)**	826	(1,520)
Total equity	**1,089**	50,605	22,580
Total liabilities and equity	**780,703**	849,559	799,490

See accompanying notes

On behalf of the Board:

Heather Reisman, Director

Anne Marie O'Donovan, Director

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020
Revenue (note 11)	**172,080**	135,081
Cost of sales	**(101,643)**	(96,944)
Gross profit	**70,437**	38,137
Operating, selling, and other expenses (notes 8 and 11)	**(86,424)**	(63,456)
Operating loss	**(15,987)**	(25,319)
Net interest expense (note 8)	**(5,959)**	(6,284)
Loss before income taxes	**(21,946)**	(31,603)
Income tax expense	**–**	–
Net loss	**(21,946)**	(31,603)
Other comprehensive income (loss) (note 7)		
Items that are or may be reclassified subsequently to net loss, net of taxes:		
Change in fair value of cash flow hedges	**(1,278)**	(909)
Reclassification of realized loss (gain)	**1,328**	(1,263)
Foreign currency translation adjustment	**108**	–
Other comprehensive income (loss)	**158**	(2,172)
Total comprehensive loss	**(21,788)**	(33,775)
Net loss per common share (note 12)		
Basic	**$(0.79)**	$(1.15)
Diluted	**$(0.79)**	$(1.15)

See accompanying notes

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, March 28, 2020	226,986	12,822	(158,801)	2,998	84,005
Net loss for the period	–	–	(31,603)	–	(31,603)
Share-based compensation (note 10)	–	300	–	–	300
Directors' compensation (note 10)	–	75	–	–	75
Other comprehensive loss (note 7)	–	–	–	(2,172)	(2,172)
Balance, June 27, 2020	226,986	13,197	(190,404)	826	50,605
Balance, April 3, 2021	**226,986**	**13,782**	**(216,668)**	**(1,520)**	**22,580**
Net loss for the period	**–**	**–**	**(21,946)**	**–**	**(21,946)**
Exercise of options (note 9)	**13**	**(4)**	**–**	**–**	**9**
Share-based compensation (note 10)	**–**	**288**	**–**	**–**	**288**
Other comprehensive loss (note 7)	**–**	**–**	**–**	**50**	**50**
Foreign currency translation adjustment	**–**	**–**	**–**	**108**	**108**
Balance, July 3, 2021	**226,999**	**14,066**	**(238,614)**	**(1,362)**	**1,089**

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020
OPERATING ACTIVITIES		
Net loss	**(21,946)**	(31,603)
Adjustments to reconcile net loss to cash flows from operating activities		
Depreciation of property, plant, and equipment	**4,039**	4,591
Depreciation of right-of-use assets	**10,121**	10,652
Amortization of intangible assets	**3,303**	3,208
Loss on disposal of capital assets	**14**	247
Share-based compensation (note 10)	**288**	300
Directors' compensation recognized in contributed surplus (note 10)	**–**	75
Rent concessions (note 8)	**–**	(2,411)
Other	**(753)**	259
Net change in non-cash working capital balances related to operations (note 13)	**14,193**	16,466
Interest expense (note 8)	**6,257**	6,498
Interest income	**(298)**	(214)
Cash flows from operating activities	**15,218**	8,068
INVESTING ACTIVITIES		
Net purchases of property, plant, and equipment	**(839)**	(498)
Addition of intangible assets	**(1,991)**	(1,705)
Proceeds from disposal of equity investment (note 14)	**516**	–
Interest received	**298**	214
Cash flows used for investing activities	**(2,016)**	(1,989)
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities (note 8)	**(10,705)**	(9,232)
Interest paid (note 8)	**(6,257)**	(6,498)
Proceeds from share issuances	**9**	–
Cash flows used for financing activities	**(16,953)**	(15,730)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**228**	(259)
Net decrease in cash and cash equivalents during the period	**(3,523)**	(9,910)
Cash and cash equivalents, beginning of period	**84,935**	120,473
Cash and cash equivalents, end of period	**81,412**	110,563

See accompanying notes

Notes to Consolidated Financial Statements

July 3, 2021
(Unaudited)

1. CORPORATE INFORMATION

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

2. BASIS OF PREPARATION

Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." The same accounting policies and methods of computation as those used in the preparation of the fiscal 2021 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's fiscal 2021 Annual Report.

These unaudited interim condensed consolidated financial statements for the 13-week period ended July 3, 2021 (including comparatives) were approved by the Board of Directors on August 12, 2021.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, significantly impacting the Company's operations during the first quarter of fiscal 2022, most notably by numerous temporary mandated store closures.

The impact of the outbreak on the financial results of the Company will depend on future developments, including the duration and spread of future waves of the outbreak and its impact on the overall economy and related advisories and restrictions. Further or prolonged closures of the Company's stores could result in the reassessment of its significant accounting estimates, including but not limited to impairment of assets.

The Company has suspended normal rent payments on certain leases as of February 1, 2021, making partial payments. The Company is in negotiations with its landlords regarding rent abatement to address the financial impacts of the most recent wave of COVID-19 related store closures.

Significant Judgments and Estimates

The preparation of these unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses. These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable, acknowledging that 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 unaudited interim condensed consolidated financial statements, including but not limited to impairment of assets. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates.

Material judgments and estimates are made with respect to: revenue recognition from unredeemed gift cards ("gift card breakage"); revenue from unredeemed *plum*® points ("*plum* breakage"), *plum*® PLUS membership fees ("*plum* PLUS revenue"); fair value of *plum*® points; inventory shrinkage; reserves for slow-moving or damaged products and products that have been permanently marked down; vendor settlements; fair value of share-based instruments and number of equity instruments expected to vest; identification of cash generating units ("CGUs"), indicators of impairment and the valuation of property, plant and equipment, right-of-use assets, and other non-financial assets, including the respective valuation model assumptions (i.e., expected future cash flows from CGUs, discount rate); depreciation and amortization periods; lease recognition and measurement; and recognition and valuation of deferred tax assets; among others.

3. CHANGES IN ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements have been prepared using the accounting policies as outlined in note 4 of the fiscal 2021 Annual Report, with the exception of the accounting policies for the new Directors' Deferred Share Unit Plan for Cash Redemption, issued on June 1, 2021 and described in further detail in Note 10. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Changes to significant accounting policies are described below.

New Accounting Pronouncements

Classification of Liabilities as Current or Non-Current (Amendment to IAS 1)

In January 2020, IASB issued *Classification of Liabilities as Current or Non-Current*, which amends IAS 1 – *Presentation of Financial Statements*. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

Changes in Accounting Policies and Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB issued amendments to IAS 8 – *Accounting Policies, Changes to Accounting Estimates and Errors*, to introduce a new definition of accounting estimates. This was endorsed by the Accounting Standards Board of Financial Reporting & Assurance Standards Canada on June 1, 2021. The amended standard explains how entities use measurement techniques and inputs to develop accounting estimates and states that these can include estimation and valuation techniques. To provide additional guidance, the amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments; however, does not anticipate to implement the amended standard using a retrospective application methodology as the IASB Board concluded that the benefits of doing so would be minimal, and have not made such application required.

Costs Necessary to Sell Inventories (IAS 2) Agenda Decision

At its June 2021 meeting, the IFRS Interpretations Committee finalised an agenda decision about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realizable value of inventories. The Committee concluded that when determining the net realizable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business, which requires the exercise of judgement. The Company is assessing the impact of this agenda decision on its results of operations, financial position and disclosures.

Accounting Standards Implemented in Fiscal 2021

Amendment to IFRS 16 *Leases* ("IFRS 16") – COVID-19-Related Rent Concessions

On May 28, 2020, the IASB issued an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession that is being offered as a direct response to the economic impacts of COVID-19 is a lease modification, which would have capitalized the benefit received. The Company is applying the practical expedient in the current period and will account for any eligible change in lease payments resulting from a COVID-19-related rent concession in profit or loss in the period the deal is executed.

4. SEASONALITY OF OPERATIONS

The business of Indigo historically follows a seasonal pattern, with sales of merchandise being highest in the third fiscal quarter due to consumer holiday buying patterns. As a result, a disproportionate portion of total annual revenue is typically earned in the third fiscal quarter. Therefore, the results of operations for the 13-week periods ended July 3, 2021 and June 27, 2020 are not indicative of the results of other periods.

For fiscal 2022, revenue and net earnings (losses) may not follow historic patterns of seasonality discussed above, due to the impact of the COVID-19 pandemic.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	**As at July 3, 2021**	As at June 27, 2020	As at April 3, 2021
Cash	**76,664**	110,295	84,516
Restricted cash	**4,720**	241	391
Cash equivalents	**28**	27	28
Cash and cash equivalents	**81,412**	110,563	84,935

Restricted cash represents cash pledged as collateral with its financial institution in support of certain purchasing obligations and credit card program, as well as certain deposits related to utilities contracts.

6. INVENTORIES

The cost of inventories recognized as an expense during the 13-week period ended July 3, 2021 was $95.2 million (2021 – $82.3 million). Inventories consist of the landed cost of goods sold and exclude inventory shrink and damage reserve and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost during the 13-week period ended July 3, 2021 was $0.7 million (2021 – $0.9 million). The amount of inventory with net realizable value equal to cost was $2.5 million as at July 3, 2021 (June 27, 2020 – $0.9 million, April 3, 2021 – $5.4 million).

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, such as foreign exchange forward contracts, to manage the currency fluctuation risk associated with forecasted U.S. dollar payments, primarily for general merchandise inventory purchases. These contracts have been designated as cash flow hedges for accounting purposes. 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 is 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 evaluators with experience in financial markets.

During the 13-week period ended July 3, 2021, the Company entered into contracts with total notional amounts of C$42.1 million to purchase U.S. dollar/Canadian dollar currency pair forwards (2021 – C$6.8 million). As at July 3, 2021, the Company had remaining contracts in place representing total notional amounts of C$56.1 million (June 27, 2020 – C$52.1 million) at an average forward rate of 1.27 (2021 – 1.32). These contracts extend over a period not exceeding 12 months. There were no forecast transactions for which hedge accounting had been used in the previous period, but which were no longer expected to occur, or hedging relationships discontinued and restarted during the 13-week periods ended July 3, 2021 and June 27, 2020.

The total fair value of the contracts as at July 3, 2021 resulted in the recognition of no derivative asset (June 27, 2020 – $1.6 million, April 3, 2021 – no derivative asset) and a derivative liability of $1.6 million (June 27, 2020 – no derivative liability, April 3, 2021 – $1.6 million).

During the 13-week period ended July 3, 2021, the Company had net losses (net of taxes) of $1.3 million from the change in fair value of outstanding cash flow hedges (2021 – net loss of $0.9 million, net of taxes). During the same period, the Company reclassified net losses (net of taxes) from settled contracts out of other comprehensive income to inventory and expenses of $1.3 million (2021 – net gains of $1.3 million, net of taxes). This resulted in an other comprehensive income of $0.1 million for the 13-week period ended July 3, 2021 (2021 – other comprehensive loss of $2.2 million).

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 and realized foreign exchange amounts as a result of derivative financial instruments were both immaterial for the 13-week period ended July 3, 2021 (2021 – $0.3 million and $0.4 million, respectively).

8. LEASE LIABILITY

The following table reconciles the change in lease liabilities:

(thousands of Canadian dollars)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020
Balance, beginning of period	**550,274**	568,617
Lease modifications included in the scope of IFRS 16	**(1,155)**	987
Accretion of lease liabilities	**6,257**	6,498
Repayment of interest and principal on lease liabilities	**(16,962)**	(15,730)
Rent concessions	**–**	(2,411)
Foreign currency adjustment	**(490)**	–
Balance, end of period	**537,924**	557,961

For the 13-week period ended July 3, 2021, no contracts met the criteria for recognition under the IFRS 16 practical expedient for COVID-19 rent concessions (2021 – $2.4 million).

9. SHARE CAPITAL

Share capital consists of the following:

	13-week period ended July 3, 2021		13-week period ended June 27, 2020		53-week period ended April 3, 2021	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**27,273,961**	**226,986**	27,273,961	226,986	27,273,961	226,986
Issued during the period						
Options exercised	**9,500**	**13**	–	–	–	–
Balance, end of period	**27,283,461**	**226,999**	27,273,961	226,986	27,273,961	226,986

10. SHARE-BASED COMPENSATION

As at July 3, 2021, 3,259,025 stock options were outstanding with exercise prices ranging from $1.00 to $18.40. Of these outstanding stock options, 1,582,150 were exercisable at a weighted average exercise price of $1.81. As at June 27, 2020, there were 2,784,613 stock options outstanding, 883,738 of which were exercisable.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period. During the 13-week period ended July 3, 2021, the pre-forfeiture value of options granted was $1.3 million (2021 – $0.3 million).

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

	13-week period ended July 3, 2021	13-week period ended June 27, 2020
Black-Scholes option pricing assumptions		
Risk-free interest rate	**0.4%**	0.3%
Expected volatility	**77.1%**	62.4%
Expected time until exercise	**2.5 years**	2.5 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**25.2%**	26.0%

Directors' Compensation

The Company has a Directors' Deferred Stock Unit Plan ("legacy DSU Plan") for Directors' annual retainer fees and other Board-related compensation up to the end of fiscal 2021. Pursuant to the legacy DSU Plan, participating Directors annually elected whether to receive these fees in the form of equity-settled deferred stock units ("legacy DSUs"), or to receive up to 50% of this compensation in cash. The Company ceased issuing DSUs under this plan in fiscal 2022; however, legacy DSUs issued and outstanding under this plan have not been modified and the number of shares reserved for issuance under this plan continues to be 500,000. Upon the resignation of a participating director, each legacy DSU granted to such Director will be convertible into one common share of the Company. The fair value of legacy DSUs is equal to the traded price of the Company's common shares on the grant date, and recorded in contributed surplus until conversion. The grant date fair value of the outstanding legacy DSUs recorded in contributed surplus as at July 3, 2021 is $3.2 million (June 27, 2020 – $3.0 million).

The Company established a new Deferred Share Unit Plan for Cash Redemption ("New DSU Plan") on June 1, 2021, to grant cash-settled share-based instruments ("cash-settled DSUs") for participating Directors' annual retainer fees and other Board-related compensation for fiscal 2022 onwards. When exercised, participants will receive a payment in cash equal to the fair market value of the common shares represented by the cash-settled DSUs on the date of redemption. The New DSU Plan continues to allow participating Directors to annually elect to receive up to 50% of their compensation in cash. Cash-settled DSUs represent a liability, which is recorded in current liabilities

on the Consolidated Balance Sheets at an IFRS 2 fair value, determined using an option pricing model to reflect the traded price of the Company's common shares as at each reporting date. All changes to the fair value of the cash-settled DSUs is recorded in the Consolidated Statements of Loss and Comprehensive Loss.

All Directors' compensation during the 13-week period ended July 3, 2021 was issued in the form of cash-settled DSUs, with the exception of cash awards of less than $0.1 million (2021 – all legacy DSUs).

The Company issued 14,584 cash-settled DSUs with a value of $0.1 million during the year (2021 – 89,286 legacy DSUs with a value of $0.1 million). The number of cash-settled DSUs to be issued to each Director is based on a set fee schedule. The fair value of outstanding cash-settled DSUs recorded in current liabilities as at July 3, 2021 is less than $0.1 million (June 27, 2020 – nil). During the periods ended July 3, 2021 and June 27, 2020, the Company did not record any changes to the fair value of cash-settled DSU obligations.

The DSU Black-Scholes option pricing model has the following weighted average assumptions during the periods presented:

	13-week period ended July 3, 2021
Black-Scholes option pricing assumptions	
Risk-free interest rate	**0.7%**
Expected volatility	**72.0%**
Expected time until exercise	**3.0 years**
Expected dividend yield	**–**

11. SUPPLEMENTARY OPERATING INFORMATION

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

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020
Print[1]	**104,556**	84,105
General merchandise[2]	**60,070**	48,276
Other[3]	**7,454**	2,700
Total	**172,080**	135,081

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

2 Includes lifestyle, paper, toys, electronics, and related shipping revenue.

3 Includes corporate sales, *plum* PLUS revenue, *plum* breakage, gift card breakage, Kobo revenue share, and irewards.

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020
Superstores[1]	**80,158**	37,638
Small format stores[1]	**9,981**	4,429
Online (including store kiosks)	**74,487**	90,314
Other[2]	**7,454**	2,700
Total	**172,080**	135,081

1 Includes sales on orders placed on *www.indigo.ca* and fulfilled through store pick up.

2 Includes corporate sales, *plum* PLUS revenue, *plum* breakage, gift card breakage, Kobo revenue share, and irewards.

Supplemental operating, selling, and other expenses information:

(thousands of Canadian dollars)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020
Wages, salaries, and bonuses	**40,810**	16,550
Short-term benefits expense	**4,848**	4,070
Termination benefits expense	**280**	1,572
Retirement benefits expense	**493**	417
Share-based compensation	**288**	300
Total employee benefits expense	**46,719**	22,909

In the first quarter of fiscal 2022, the Company recognized payroll subsidies from the COVID-19 Canada Emergency Wage Subsidy ("CEWS") program of $3.7 million (2021 – $16.8 million). These subsidies were recorded as a reduction in the associated eligible salaries and wage expenses recognized in cost of operations and selling, general and administrative expenses. Of the amount recognized since the program began, $4.2 million remains outstanding in accounts receivable as at July 3, 2021 (June 27, 2020 – $12.5 million).

Termination benefits arise when the Company terminates certain employment agreements.

12. LOSS PER SHARE

Loss per share is calculated based on the weighted average number of shares outstanding during the period. The Company's stock options were anti-dilutive as the Company reported a loss and, therefore, were not included in the July 3, 2021 and June 27, 2020 diluted loss per share calculations.

13. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020
Accounts receivable	**2,723**	(17,232)
Inventories	**(6,275)**	23,688
Prepaid expenses	**2,273**	(685)
Other assets	**368**	49
Accounts payable and accrued liabilities (current and long-term)	**14,263**	10,591
Unredeemed gift card liability	**1,247**	(353)
Provisions (current and long-term)	**(59)**	372
Deferred revenue	**(347)**	36
Net change in non-cash working capital balances	**14,193**	16,466

14. RELATED PARTY TRANSACTIONS

The Company's related parties include its key management personnel, shareholders, defined contribution retirement plan, equity investments in associates, and subsidiaries. Unless otherwise stated, none of the Company's related party 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 Committee. Key management personnel remuneration includes the following:

(thousands of Canadian dollars)	**13-week period ended July 3, 2021**	13-week period ended June 27, 2020
Wages, salaries, and bonus	**1,650**	1,125
Short-term benefits expense	**64**	24
Retirement benefits expense	**16**	16
Share-based compensation	**199**	249
Directors' compensation	**37**	75
Total remuneration	**1,966**	1,489

Transactions with Shareholders

During the first quarter of fiscal 2022, 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 the quarter, the Company paid $0.1 million for these transactions (2021 – $0.1 million). As at July 3, 2021, Indigo had less than $0.1 million payable to these companies under standard payment terms (June 27, 2020 – less than $0.1 million). In prior periods, an amount of restricted cash had been pledged as collateral for letter of credit obligations issued to support the Company's purchases of merchandise from these companies; however there was no amount pledged as at July 3, 2021 (June 27, 2020 – $0.1 million restricted cash). These 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.

During the first quarter of fiscal 2022, the Company entered into a secured revolving credit facility of $25 million with a company controlled by Mr. Gerald W. Schwartz. The non-interest bearing facility was issued on favourable commercial terms to Indigo. The purpose of the credit facility was to allow the Company to manage the seasonal nature of cash flows in the most effective manner. As at July 3, 2021, no amounts were withdrawn on this facility.

Transactions with Defined Contribution Retirement Plan

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

Transactions with Associates

The Company had immaterial transactions with Unplug during the 13-week periods ended July 3, 2021 and June 27, 2020.

On October 22, 2019, the Company sold its equity investment in 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).

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