Indigo

THIRD QUARTER REPORT FOR THE
13 AND 39-WEEK PERIODS ENDED
DECEMBER 26, 2020

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 4, 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 and 39-week periods ended December 26, 2020 and December 28, 2019. 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 2020 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 52-week period ended March 28, 2020 and the MD&A included in the Company's fiscal 2020 Annual Report. The Annual Report and additional information about the Company, including the Annual Information Form, can be found on SEDAR at *www.sedar.com*.

Overview

Indigo is Canada's largest book, gift, and specialty toy retailer, operating stores in all ten provinces and one territory and offering online sales through the *indigo.ca* website and the Company's mobile applications. The Company also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. As at December 26, 2020, the Company operated 88 superstores under the banners *Chapters* and *Indigo* and 94 small format stores under the banners *Coles*, *Indigospirit* and *The Book Company*.

The Company is inclusive of its wholly-owned subsidiaries; Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), along with its 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 across the country through donations from Indigo, its customers, its suppliers, and its employees.

Statement on COVID-19

As previously discussed in the fiscal 2020 Annual Report and fiscal 2021 Quarterly Reports, the Company has taken proactive measures in response to the COVID-19 pandemic to protect the health and safety of its customers, employees and communities, and to ensure the continuity of the Company's business operations with a focus on preserving cash to manage liquidity.

In the first three quarters of fiscal 2021, the Company undertook the following actions:

- Recognized $15.1 million of COVID-19 occupancy expense abatement year-to-date as a direct response to the economic impact of the COVID-19 pandemic, including amounts recognized in accordance with the IFRS 16 *Leases* ("IFRS 16") practical expedient for COVID-19 rent concessions. The Company continues to negotiate with landlords regarding abatement to share the financial burden of COVID-19.
- Reduced forward inventory purchases and processed returns on unproductive book purchases to suppliers at full credit, while maintaining an optimized assortment.
- Accelerated its digital road map and launched curbside pick-up and a partnership with Instacart to alleviate demand on the Company's distribution centres, and to protect the health and safety of the Company's customers, employees and communities.
- In response to capacity constraints at national carriers due to sustained e-commerce delivery volumes, in particular throughout the holiday period, the Company significantly increased the number and network of parcel carriers it employs to deliver e-commerce orders.
- Commenced the phased re-opening of its retail stores on May 19, 2020, in accordance with the directives of local government and public health authorities, with all but one of its 182 stores re-opened by the end of the first quarter. Recalled substantially all retail leadership and hourly employees from temporary layoff concurrent with these store re-openings.

- Began the re-closure of stores in Manitoba on November 12, 2020, following local government mandates, followed by re-closures in certain markets within the Greater Toronto Area on November 23, 2020. By the end of the quarter, closures were province-wide in Ontario, Quebec, and Manitoba. The Company shifted its operations to its omnichannel curbside pick-up capabilities at these closed locations in an effort to serve its customers through the holiday season. As at December 26, 2020, the Company had 48% of stores opened.
- Applied for the Canada Emergency Wage Subsidy ("CEWS") program and recognized payroll subsidies of $22.9 million year-to-date, $3.2 million of which was recognized in the third quarter.
- Entered into a $25 million related party revolving line of credit to enhance the Company's liquidity.
- Regularly reviewed the Company's COVID-19 protocols, at times implementing practices above the standards set out by public health authorities, in response to the rising COVID-19 cases across several regions and the beginning of our critical holiday period. These include enhanced cleaning and social distancing protocols, mandatory masks for all employees and customers, the closure of washrooms in stores, and temperature checks across all the Company's distribution centres, among others.
- Due to global ocean freight constraints and port congestion, the Company has adjusted its overseas vessel booking approach by offering premiums to carriers and increasing its inbound timeline expectations, both of which increase the likelihood of procuring space for product.

The Company anticipates challenging conditions for the remainder of fiscal 2021; however, investments made in the Company's digital infrastructure and distribution networks in recent years provide the agility to serve customers in many ways.

Results of Operations

The following table summarizes the Company's consolidated results of operations for the periods indicated. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended December 26, 2020 and December 28, 2019.

(millions of Canadian dollars)	**13-week period ended December 26, 2020**	**% Revenue**	13-week period ended December 28, 2019	% Revenue	**39-week period ended December 26, 2020**	**% Revenue**	39-week period ended December 28, 2019	% Revenue
Revenue	**365.4**	**100.0**	383.7	100.0	**705.8**	**100.0**	779.7	100.0
Cost of sales	**(217.9)**	**59.6**	(216.9)	56.5	**(440.8)**	**62.5**	(444.1)	57.0
Cost of operations	**(69.4)**	**19.0**	(77.8)	20.3	**(154.2)**	**21.8**	(197.4)	25.3
Selling, general and administrative expenses	**(23.9)**	**6.5**	(29.2)	7.6	**(57.2)**	**8.1**	(79.8)	10.2
Depreciation of right-of-use assets	**(10.2)**	**2.8**	(10.0)	2.6	**(31.7)**	**4.5**	(30.0)	3.8
Finance charges related to leases	**(6.2)**	**1.7**	(6.5)	1.7	**(19.1)**	**2.7**	(18.9)	2.4
Adjusted EBITDA[1]	**37.8**	**10.3**	43.3	11.3	**2.8**	**0.4**	9.5	1.2
Depreciation of property, plant and equipment	**(4.1)**	**1.1**	(5.7)	1.5	**(13.0)**	**1.8**	(17.5)	2.2
Amortization of intangible assets	**(3.2)**	**0.9**	(3.4)	0.9	**(9.7)**	**1.4**	(10.0)	1.3
Gain on disposal of capital assets	**–**	**–**	1.4	0.4	**0.9**	**0.1**	0.5	0.1
Net interest income	**0.2**	**0.1**	0.5	0.1	**0.6**	**0.1**	1.6	0.2
Share of loss from equity investments	**–**	**–**	–	–	**–**	**–**	(1.6)	0.2
Earnings (loss) before income taxes	**30.7**	**8.4**	36.3	9.5	**(18.4)**	**2.6**	(17.5)	2.2

1 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. 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.

Adjusted EBITDA includes certain impacts of IFRS 16, which represents a change in calculation methodology from fiscal 2020. All prior period numbers have been consistently stated. For further information regarding this metric refer to "Non-IFRS Financial Measures".

A reconciliation of adjusted EBITDA to loss before income taxes, the most directly comparable measure determined under IFRS, is presented above for informational purposes.

Revenue

Total consolidated revenue for the 13-week period ended December 26, 2020 decreased $18.3 million or 4.8% to $365.4 million from $383.7 million for the 13-week period ended December 28, 2019. This reflects a decline in the retail channel of 26.5% due to temporary store closures as a result of the ongoing COVID-19 pandemic, partially offset by exceptional growth of 91.6% in the online channel. The Company successfully executed on its plan to pull sales forward this holiday season, a deliberate strategy to manage anticipated capacity restraints in the Canadian parcel network, throughput in retail stores in light of mandated capacity restraints, and the ongoing risk of COVID-19 temporary store closures. The Company's omnichannel express pick-up capabilities also performed ahead of expectations, reaching a peak of over 35% of e-commerce demand in late December. These efforts absorbed much of the significant impact of temporary store closures in Manitoba and Ontario during the quarter's critical sales weeks. Demand for categories that lend themselves to the current climate remained strong, led by the success of bestselling title *A Promised Land*. The Company also experienced double-digit growth in its baby and wellness categories, and saw continued strength in its new proprietary *OUI*™ lifestyle brand despite macroeconomic headwinds from COVID-19.

Historically, the Company has reported on comparable sales, which in the past has been a key performance indicator for the Company. Due to the temporary store closures from COVID-19 and strict social distancing requirements limiting capacity in stores upon reopening, the Company believes comparable sales is not currently representative of the underlying trends of its business. The metric has therefore not been discussed in this MD&A.

Online revenue increased by $60.0 million or 91.6% to $125.5 million for the 13-week period ended December 26, 2020 compared to $65.5 million in the same period last year. The online channel delivered exceptionally strong results, with triple-digit growth in October and November as a result of encouraging customers to shop early and continued engagement with the Company's digital platforms. Online sales moderated to strong double-digit growth in December as customers leveraged the Company's omnichannel fulfillment methods.

Retail revenue, which is inclusive of orders fulfilled through omnichannel express pick-up, decreased by $83.0 million or 26.5% to $230.4 million for the 13-week period ended December 26, 2020 compared to $313.4 million in the same period last year. The decline in revenue was a result of mandated store closures in key geographic regions and the other ongoing impacts of COVID-19, which drove a significant decline in retail traffic in the third quarter. As anticipated, opened stores saw softer traffic than pre-pandemic levels, with COVID-19 continuing to have effects on shopping behaviour. Despite traffic being down, conversion and average transaction values improved prior to the second wave of store closures in Manitoba and Ontario.

Revenue from other sources includes café revenue, revenue from unredeemed gift cards ("gift card breakage"), revenue from unredeemed *plum*® points ("plum breakage"), *plum* PLUS membership fees ("*plum* PLUS revenue"), irewards card sales, corporate sales, and revenue-sharing with Rakuten Kobo Inc. ("Kobo"). Revenue from other sources increased $4.5 million or 90.0% to $9.5 million for the 13-week period ended December 26, 2020 compared to $5.0 million in the same period last year, driven by *plum* PLUS revenue as more customers had signed up to the program.

On a fiscal year-to-date basis, total consolidated revenue decreased by $73.9 million or 9.5% to $705.8 million compared to $779.7 million for the same period last year. The decrease reflects the impact of COVID-19 related temporary store closures in the first and third quarters, partially offset by the exceptional online channel growth and the year-to-date influx of customers new to the Indigo brand.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended December 26, 2020**	13-week period ended December 28, 2019	% increase
Superstores[1]	**196.1**	264.3	(25.8)
Small format stores[1]	**34.3**	49.1	(30.1)
Online (including store kiosks)	**125.5**	65.5	91.6
Other[2]	**9.5**	5.0	90.0
Total	**365.4**	383.7	(4.8)

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

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

Revenue by product line is as follows:

	13-week period ended December 26, 2020	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Print[1,4]	**52.6%**	50.6%	**57.1%**	55.6%
General merchandise[2,4]	**44.8%**	48.1%	**40.4%**	42.8%
Other[3]	**2.6%**	1.3%	**2.5%**	1.6%
Total	**100.0%**	100.0%	**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 Indigo cafés, irewards, gift card breakage, *plum* breakage, *plum* PLUS revenue, corporate sales, and Kobo revenue share.
4 Certain comparative information relating to eReaders has been reclassified to conform to the current year's presentation.

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 $1.0 million to $217.9 million for the 13-week period ended December 26, 2020, compared to $216.9 million for the same period last year. As a percent of total revenue, cost of sales increased 3.1% to 59.6% compared to 56.5%. This was primarily a function of shipping costs associated with the substantial shift to online; the channel experienced sales penetration more than double in light of rolling store closures and overall reduced store traffic in response to COVID-19. While this introduced downward pressures to total margin, efficiencies realized to the Company's online fulfillment processes, stronger inventory management, and lower online promotional activity led to year-over-year margin rate improvements in the online channel.

On a fiscal year-to-date basis, cost of sales decreased by $3.3 million to $440.8 million compared to $444.1 million for the same period last year. Year-to-date cost of sales as a percent of total revenue increased 5.5% to 62.5% compared to 57.0% for the same period last year. As discussed above, this was driven by a shift in the sales channel mix, with a strong pivot to the online channel since the start of the COVID-19 pandemic. The Company remains focused on long-term strategies to optimize margin, efforts which were furthered by the accelerated shift toward e-commerce across the retail industry.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations decreased by $8.4 million to $69.4 million for the 13-week period ended December 26, 2020, compared to $77.8 million for the same period last year. As a percent of total revenue, cost of operations decreased 1.3% to 19.0%, compared to 20.3% in the prior year. The Company realized $9.7 million in reductions to its cost of operations relating to COVID-19 occupancy expense abatement, which is inclusive of amounts recognized in accordance with IFRS 16. The Company also realized $1.8 million in benefit from the CEWS (partial benefit attributed to operating costs), which offset labour charges in the retail and online networks. The Company realized additional savings from labour efficiencies associated with store closures and volume declines throughout its retail network and retail distribution centre. These cost containment efforts were partially offset by increased variable costs in the Company's online distribution network.

On a fiscal year-to-date basis, cost of operations decreased by $43.2 million to $154.2 million compared to $197.4 million for the same period last year. Year-to-date cost of operations as a percent of total revenue decreased by 3.5% to 21.8% compared to 25.3% for the same period last year. This decrease was primarily driven by the noted reduced store operating costs from COVID-19 disruptions, furthered by $15.1 million of COVID-19 occupancy expense abatement and $12.8 million of CEWS recognized in cost of operations to date.

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 $5.3 million to $23.9 million for the 13-week period ended December 26, 2020, compared to $29.2 million for the same period last year. As a percent of total revenue, selling, general and administrative expenses decreased 1.1% to 6.5%, compared to 7.6% for the same period last year. Through an increased focus on cost containment during this COVID-19 economic climate, the Company realized savings of $4.7 million in selling, general and administrative expenses in the quarter. Specifically, this was achieved through the temporary reduction to paid marketing with an emphasis on bringing marketing costs in-house, a rationalization to the head office workforce, a reduction in travel expenses, and more focused spend on strategic projects. The Company also recognized $1.4 million of benefit from the CEWS (partial benefit attributed to selling, general and administrative expenses), which offset head office labour charges.

On a fiscal year-to-date basis, selling, general and administrative expenses decreased $22.6 million to $57.2 million compared to $79.8 million in the same period last year. Year-to-date selling, general and administrative expenses as a percent of total revenue decreased 2.1% to 8.1% compared to 10.2% in the same period last year, for the reasons discussed above. Year to date, the Company has recognized $10.1 million of the CEWS (partial benefit attributed to selling, general and administrative expenses), which offset head office labour charges.

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 $0.1 million to $16.4 million for the 13-week period ended December 26, 2020, compared to $16.5 million for the same period last year. This was primarily a result of rent concessions which offset the increased charges from lease renewals recognized over the past four quarters.

On a fiscal year-to-date basis, lease charges increased by $1.9 million to $50.8 million compared to $48.9 million in the same period last year, as a result of the lease renewals recognized over the past four quarters, partially offset by rent concessions recognized.

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 decreased by $5.5 million to $37.8 million for the 13-week period ended December 26, 2020, compared to $43.3 million for the same period last year. Adjusted EBITDA, as a percent of total revenue, declined by 1.0% to 10.3% this quarter, compared to 11.3% for the same period last year.

Lower Adjusted EBITDA was driven by the top-line decline resulting from the impacts of COVID-19, including the temporary store closures in the quarter. A focus on cost containment, the negotiated occupancy expense abatement and government support programs partially offset the adverse COVID-19 top-line impact to EBITDA.

On a fiscal year-to-date basis, Adjusted EBITDA decreased $6.7 million to $2.8 million compared to $9.5 million in the same period last year. Year-to-date Adjusted EBITDA as a percent of total revenue declined 0.8% to 0.4% this year compared to 1.2% for the same period last year. Lower Adjusted EBITDA was driven by the year-to-date decline in revenue, largely a result of adverse impacts of COVID-19, which was partially offset by the above noted cost reductions. A reconciliation of adjusted EBITDA to earnings (loss) before income taxes has been included in the "Results of Operations" section of this MD&A.

Capital Assets

Depreciation and amortization of capital assets, excluding right-of-use assets, for the 13-week period ended December 26, 2020 decreased $1.8 million to $7.3 million compared to $9.1 million for the same period last year. The decrease in depreciation and amortization was driven by the impairment charge taken on capital assets in the prior year, which reduced the Company's capital asset base. Capital expenditures in the third quarter of fiscal 2021 totaled $3.9 million compared to $0.8 million for the same period last year. Capital investment made in the quarter was primarily to support the increased demand on the online channel. Capital expenditures for the third quarter of fiscal 2021 included $2.4 million primarily for digital application software and internal development costs, $1.1 million for technology equipment and $0.4 million for furniture, fixtures and equipment. None of the capital expenditures were financed through leases.

On a fiscal year-to-date basis, depreciation and amortization decreased by $4.8 million to $22.7 million compared to $27.5 million in the same period last year, for the reasons discussed above. Year-to-date, the Company spent $10.2 million on capital expenditures compared to $9.9 million in the prior year. Capital expenditures for the current year included $6.6 million primarily for digital application software and internal development costs, $1.9 million for technology equipment and $1.7 million for furniture, fixtures and equipment. None of the capital expenditures were financed through leases.

Net Interest Income

Net interest income, excluding finance charges related to leases, decreased $0.3 million to $0.2 million for the 13-week period ended December 26, 2020, compared to $0.5 million for the same period last year. The Company nets interest income against interest expense. Compared to the prior year, the Company earned lower interest income as a result of a continuing decrease in interest rates, as well as the temporary discontinuation of its use of short-term investments to maximize liquidity during the ongoing COVID-19 pandemic.

On a fiscal year-to-date basis, net interest income decreased $1.0 million to $0.6 million compared to $1.6 million in the same period last year, for the same reasons discussed above.

Equity Investments

The Company uses the equity method to account for its investment in Unplug, and its previous 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. In the third quarter of fiscal 2020, the Company sold its equity investments in Calendar Club to Paris Southern Lights Inc. (a minority partner in the partnership). Prior to the fiscal 2020 transaction, the Company recognized a net loss from Calendar Club of $1.6 million for the 39-week period ended December 28, 2019.

Earnings from Unplug were immaterial for the 13 and 39-week periods ended December 26, 2020 and December 28, 2019.

Income Taxes

The Company recognized no income taxes for the 13-week period ended December 26, 2020, compared to recognizing a non-cash income tax expense of $10.4 million for the same period last year. Income taxes in the quarter were offset by a corresponding income tax recovery from the recognition of deferred tax assets, which were previously not recognized. Since March 28, 2020, the Company has not recognized any future tax assets, influenced by the Company's current operating loss, and uncertainty surrounding future profitability introduced by 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 carryforwards, and other deferred tax assets which do not expire.

On a fiscal year-to-date basis, the Company recognized no income taxes compared to recognizing a non-cash income tax recovery of $3.8 million for the same period last year. This is a result of deferred tax assets not being recognized by the Company, for the same reasons discussed above.

The Company used a statutory income tax rate of 26.8% for the quarter, and 26.7% in the prior year. The Company does not expect to pay cash income taxes for the current year.

Net Earnings (Loss)

The Company recognized net earnings of $30.7 million for the 13-week period ended December 26, 2020 ($1.11 net earnings per basic common share), compared to net earnings of $25.8 million ($0.94 net earnings per common share) for the same period last year. This improvement was a result of the year-over-year change in income taxes.

On a fiscal year-to-date basis, the Company recognized a net loss $18.4 million ($0.67 net loss per common share), compared to a net loss of $13.7 million ($0.50 net loss per common share) in the same period last year. The higher year-to-date net loss was primarily a result of no income taxes recognized in the current year, compared to $3.8 million of income tax recovery recognized in the prior year, in addition to the downward pressures from COVID-19, as discussed.

Other Comprehensive Loss

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

During the 13-week period ended December 26, 2020, the Company entered into contracts with total notional amounts of C$22.5 million to buy U.S. dollars and sell Canadian dollars, compared to entering into contracts with total notional amounts of C$32.9 million in the prior year. On a fiscal year-to-date basis, the Company entered into contracts with total notional amounts of C$69.7 million, compared to entering into contracts with total notional amounts of C$90.7 million in the same period last year.

As at December 26, 2020, the Company had remaining contracts in place representing total notional amounts of C$55.1 million and an unrealized net loss of $1.7 million, compared to total notional amounts of C$68.2 million and an unrealized net loss of $0.8 million as at December 28, 2019.

During the 13 and 39-week periods ended December 26, 2020, the Company had net losses (net of taxes) from the change in fair value of outstanding cash flow hedges of $3.2 million and $4.7 million, respectively, compared to net losses of $0.5 million and $0.8 million in the same respective periods last year. The Company reclassified net gains (net of taxes), from settled contracts out of other comprehensive income to inventory and expenses, of $0.9 million in both the 13 and 39-week periods ended December 26, 2020, compared to nominal reclassified net losses and net gains (net of taxes) of $0.6 million in the same respective periods in the prior year.

This resulted in an other comprehensive loss of $4.6 million and $6.1 million for the 13 and 39-week periods ended December 26, 2020, compared to an other comprehensive loss of $0.5 million and $1.4 million for the same respective periods in the prior year.

Seasonality and Third 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. For fiscal 2021, revenue and net earnings 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), basic and diluted earnings (loss) per common share for the preceding eight fiscal quarters.

	Fiscal quarters							
(millions of Canadian dollars, except per share data)	**Q3 Fiscal 2021**[1]	Q2 Fiscal 2021[1]	Q1 Fiscal 2021[1]	Q4 Fiscal 2020[1]	Q3 Fiscal 2020[1]	Q2 Fiscal 2020[1]	Q1 Fiscal 2020[1]	Q4 Fiscal 2019
Revenue	365.4	205.3	135.1	178.1	383.7	203.4	192.6	199.2
Total net earning (loss)	30.7	(17.5)	(31.6)	(171.3)	25.8	(20.5)	(19.1)	(23.8)
Basic earnings (loss) per common share	**$1.11**	($0.63)	($1.15)	($6.22)	$0.94	($0.74)	($0.69)	($0.86)
Diluted earnings (loss) per common share	**$1.09**	($0.63)	($1.15)	($6.22)	$0.94	($0.74)	($0.69)	($0.86)

1 The Company implemented IFRS 16 on March 31, 2019 using the modified retrospective approach. As a result, the Company's fiscal 2021 and 2020 results reflect lease accounting under IFRS 16, while the prior quarters have not been restated. Refer to Note 4 of the consolidated financial statements in the Company's fiscal 2020 Annual Report for additional information.

Overview of Consolidated Balance Sheets

Assets

As at December 26, 2020, total assets decreased $209.4 million to $956.6 million, compared to $1,166.0 million as at December 28, 2019. The decrease was primarily driven by decreases in deferred tax assets, capital assets and inventories, partially offset by an increase in net cash, cash equivalents and short-term investments and accounts receivable. The balance of deferred tax assets was not recognized in the fourth quarter of fiscal 2020, due to the Company's operating loss recognized and uncertainty surrounding future profitability as a result of the COVID-19 pandemic, among other factors. This resulted in a decrease of $89.8 million in deferred tax assets compared to the same quarter last year.

Capital assets decreased by $102.2 million, which primarily related to impairment charges recognized in the prior year. Inventories decreased by $29.1 million, a result of deliberate efforts by the Company to maximize its liquidity during the initial stages of the COVID-19 pandemic and the decision to strategically reduce unproductive inventory. Accounts receivables increased $6.6 million, primarily driven by amounts for the CEWS not yet collected by the end of the quarter. This was furthered by timing differences associated with the proximity of this quarter's period-end date to peak holiday sales days and the corresponding settlements with its payment processer and credit card issuers. Net cash, cash equivalents and short term investments increased $5.5 million as a result of the Company's response to COVID-19 and measures taken to preserve its cash.

On a fiscal year-to-date basis, total assets increased by $73.6 million to $956.6 million compared to $883.0 million as at March 28, 2020. The increase was driven by cash and cash equivalents and accounts receivable, partially offset by decreases in inventories and capital assets. The increase in cash and cash equivalents of $109.0 million and the increase in accounts receivable of $18.8 million were primarily driven by sales generated during the fiscal 2021 holiday season. Inventories decreased by $23.6 million, a result of deliberate efforts by the Company to reduce unproductive inventory. Capital assets decreased by $29.4 million due to lease renewals and capital investments being outpaced by the impact of amortization in the first three quarters.

Liabilities

As at December 26, 2020, total liabilities decreased $19.0 million to $895.9 million, compared to $914.9 million as at December 28, 2019. This was driven primarily by a decrease in long-term lease liabilities and accounts payable and accrued liabilities, partially offset by an increase in deferred revenue. The decrease in long-term lease liabilities of $18.3 million primarily reflects the impact of repayments of interest and principle on lease liabilities outpacing lease renewals in the period. Accounts payable and accrued liabilities decreased by $11.4 million, which is consistent with the year-over-year decline in inventories. Deferred revenue increased by $6.6 million, driven by *plum* PLUS membership sign ups since the national launch in fiscal 2020.

On a fiscal year-to-date basis, total liabilities increased by $96.9 million to $895.9 million, compared to $799.0 million as at March 28, 2020. The increase was driven by increases in accounts payable and accrued liabilities of $85.9 million, and an increase in unredeemed gift card liabilities of $17.0 million, which are consistent with the seasonal nature of a retail business during the holiday season. These drivers were partially offset by a decrease of $8.8 million in long-term lease liabilities resulting primarily from repayments of the Company's lease obligations, complemented by the impact of negotiated rent concessions which met the IFRS 16 COVID-19 practical expedient for recognition.

Equity

Total equity at December 26, 2020 decreased $190.4 million to $60.8 million, compared to $251.2 million as at December 28, 2019. The decrease in total equity was driven by a change in retained earnings (deficit) of $189.7 million over the last four quarters, which was largely driven by prior year impairment losses and deferred tax expense from derecognizing the Company's deferred tax asset balance in fiscal 2020.

On a fiscal year-to-date basis, total equity decreased $23.2 million to $60.8 million as at December 26, 2020, compared to $84.0 million as at March 28, 2020, primarily due to the year-to-date net loss recognized.

The weighted average number of common shares outstanding for the third quarter of fiscal 2021 was 27,697,527 compared to 27,520,290 for the same period last year. As at February 4, 2021, the number of outstanding common shares was 27,273,961 with a book value of $227.0 million.

Working Capital and Leverage

The Company's working capital position usually declines from the end of its fiscal year until the third fiscal quarter due to the seasonal nature of the business. The Company relies on cash and accounts payable to fund the business before generating a disproportionate amount of cash during the holiday season. For fiscal 2021, working capital may not follow historic patterns of seasonality due to the impacts of the COVID-19 pandemic.

The Company reported working capital of $82.8 million as at December 26, 2020, compared to $98.3 million as at December 28, 2019 and $85.2 million as at March 28, 2020. The decrease in working capital compared to the same period last year was driven by the discussed decrease in inventories, partially offset by the decrease in accounts payable and accrued liabilities, and the increase in cash, cash equivalents and short-term investments.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $91.9 million for the 13-week period ended December 26, 2020 compared to an increase of $169.6 million in the same period last year. The increase in the current period was driven by cash flows generated from operating activities of $108.2 million, partially offset by cash flows used in financing activities of $13.2 million and cash flows used in investing activities of $3.7 million.

On a fiscal year-to-date basis, cash and cash equivalents increased $109.0 million, compared to an increase of $174.9 million in the same period last year. The increase in cash flows in the period was driven by cash flows generated from operating activities of $162.5 million, partially offset by cash flows used in financing activities and investing activities of $45.0 million and $9.5 million, respectively.

Cash Flows From Operating Activities

The Company generated cash flows of $108.2 million from operating activities in the 13-week period ended December 26, 2020 compared to generating cash flows of $173.9 million in the same period last year, a decrease of $65.7 million. This was primarily driven by $54.9 million of cash generated from working capital, compared to the $113.3 million generated in the prior year. The decrease in cash generated from working capital was primarily the result of the sale of less inventory, the timing impact of the quarter-end date to settlements of accounts receivable, and a change in payables relating to a planned reduction of inventory on hand. The reduction of cash flows from operating activities was furthered by the decrease in adjusted EBITDA earned in the quarter.

On a fiscal year-to-date basis, the Company generated cash flows from operating activities of $162.5 million compared to $153.9 million in the same period last year, an increase of $8.6 million. This was a result of the increase in cash generated from working capital, partially offset by the decrease in year-to-date adjusted EBITDA.

Cash Flows From (Used for) Investing Activities

The Company used cash flows of $3.7 million for investing activities in the 13-week period ended December 26, 2020 compared to generating $12.6 million of cash flows in the same period last year, a change of $16.3 million. This was primarily driven by the maturity of $12.8 million of short-term investments in the prior year. In response to the global COVID-19 pandemic in the current year, the Company has implemented a protectionist treasury strategy, which resulted in the temporary discontinuation of its use of short-term investments.

On a fiscal year-to-date basis, the Company used cash flows of $9.5 million for investing activities compared to generating $70.9 million in the same period last year, a change of $80.4 million. The change was driven by the discussed COVID-19 treasury strategy.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended December 26, 2020**	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Construction, renovations, and equipment, net	**0.4**	(1.3)	**1.7**	2.3
Intangible assets (primarily application software and internal development costs)	**2.4**	1.9	**6.6**	6.8
Technology equipment	**1.1**	0.2	**1.9**	0.8
Total	**3.9**	0.8	**10.2**	9.9

Cash Flows Used for Financing Activities

The Company used cash flows of $13.2 million for financing activities in the 13-week period ended December 26, 2020 compared to using cash flows of $16.6 million in the same period last year, a change of $3.4 million. This was driven by lower repayments on the Company's IFRS 16 lease obligations, a direct impact of rent concessions.

On a fiscal year-to-date basis, the Company used cash flows for financing activities of $45.0 million, compared to $49.6 million used in the prior year, a change of $4.6 million. This change was driven by the reasons discussed above.

Liquidity and Capital Resources

The Company has a highly seasonal business that generates a significant portion of its revenue and cash flows during the holiday season. The Company has minimal accounts receivable 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, 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.

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 with the COVID-19 pandemic, as discussed.

In the prior quarter the Company entered into a $25 million related party revolving line of credit to enhance its liquidity. As of the date of this MD&A, this facility has expired without any 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 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 the Company's fiscal 2020 Annual Report.

Accounting Policies

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 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.

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 was effective for annual reporting periods beginning on or after January 1, 2019 and superseded 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. 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 the day one right-of-use assets ("ROU assets") performed in connection with the adoption of IFRS 16 as at March 31, 2019. The net effect of these errors resulted in the following impacts to the December 28, 2019 consolidated balance sheet: an overstatement of the ROU assets of $19.0 million, an overstatement of $24.4 million to long-term lease liabilities, an overstatement of $1.4 million to deferred tax assets and an understatement of $4.0 million to retained earnings.

Additionally, there was an error with the classification between short-term and long-term lease liabilities of $22.7 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 has a non-cash impact on the ROU assets, deferred tax asset balance, short and long-term lease liabilities and opening retained earnings balance, and will result in lower depreciation of the ROU assets going forward.

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 expected future cash flows from CGUs; 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 2020 Annual Report.

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

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

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

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

Changes in Internal Controls over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on September 27, 2020 and ended on December 26, 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, acknowledging that 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 earnings (loss) 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. This represents a change in calculation methodology from the prior fiscal year, and all prior period numbers have been consistently stated.

Reconciliations between adjusted EBITDA and earnings (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 the 4th day of February, 2021.

Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	**As at December 26, 2020**	As at December 28, 2019	As at March 28, 2020
ASSETS			
Current			
Cash and cash equivalents (note 5)	**229,424**	216,198	120,473
Short-term investments (note 5)	**–**	7,750	–
Accounts receivable	**26,395**	19,755	7,640
Inventories (note 6)	**218,163**	247,261	241,812
Prepaid expenses	**7,937**	6,604	6,062
Income taxes receivable	**138**	138	138
Derivative assets (note 7)	**–**	19	3,794
Other assets	**3,202**	4,185	2,320
Total current assets	**485,259**	501,910	382,239
Loan receivable (note 14)	**446**	926	446
Property, plant, and equipment, net	**80,982**	110,455	91,215
Right-of-use assets, net	**366,104**	430,994	382,146
Intangible assets, net	**21,475**	29,351	24,571
Equity investment, net	**2,350**	2,611	2,353
Deferred tax assets	**–**	89,782	–
Total assets	**956,616**	1,166,029	882,970
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**249,992**	261,281	164,294
Unredeemed gift card liability	**68,626**	65,676	51,673
Provisions	**2,185**	180	2,034
Deferred revenue	**16,880**	10,234	10,682
Short-term lease liabilities (note 8)	**63,022**	65,454	68,402
Derivative liabilities (note 7)	**1,716**	803	–
Total current liabilities	**402,421**	403,628	297,085
Long-term accrued liabilities	**1,371**	1,476	1,196
Long-term provisions	**696**	45	469
Long-term lease liabilities (note 8)	**491,378**	509,708	500,215
Total liabilities	**895,866**	914,857	798,965
Equity			
Share capital (note 9)	**226,986**	226,986	226,986
Contributed surplus (note 10)	**14,075**	12,463	12,822
Retained earnings (deficit)	**(177,202)**	12,522	(158,801)
Accumulated other comprehensive income (loss) (note 7)	**(3,109)**	(799)	2,998
Total equity	**60,750**	251,172	84,005
Total liabilities and equity	**956,616**	1,166,029	882,970

See accompanying notes

On behalf of the Board:

Heather Reisman

Heather Reisman, Director

Anne Marie O'Donovan, Director

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

(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended December 26, 2020**	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Revenue (note 11)	**365,426**	383,737	**705,786**	779,657
Cost of sales	**(217,940)**	(216,872)	**(440,773)**	(444,119)
Gross profit	**147,486**	166,865	**265,013**	335,538
Operating, selling, and other expenses (note 11)	**(110,843)**	(124,641)	**(264,948)**	(334,233)
Operating profit	**36,643**	42,224	**65**	1,305
Net interest expense (note 8)	**(5,921)**	(5,964)	**(18,466)**	(17,234)
Share of loss from equity investments	**–**	–	**–**	(1,588)
Earnings (loss) before income taxes	**30,722**	36,260	**(18,401)**	(17,517)
Income tax recovery (expense)	**–**	(10,411)	**–**	3,842
Net earnings (loss)	**30,722**	25,849	**(18,401)**	(13,675)
Other comprehensive loss (note 7)				
Items that are or may be reclassified subsequently to net earnings (loss):				
Net change in fair value of cash flow hedges [net of taxes of 0 and 0; 2019 – 190 and 283]	**(3,151)**	(520)	**(4,654)**	(771)
Reclassification of net realized (gain) loss [net of taxes of 0 and 0; 2019 – 0 and 215]	**(861)**	2	**(856)**	(586)
Foreign currency translation adjustment [net of taxes of 0 and 0; 2019 – 0 and 0]	**(597)**	–	**(597)**	–
Other comprehensive loss	**(4,609)**	(518)	**(6,107)**	(1,357)
Total comprehensive earnings (loss)	**26,113**	25,331	**(24,508)**	(15,032)
Net earnings (loss) per common share (note 12)				
Basic	**$1.11**	$0.94	**($0.67)**	($0.50)
Diluted	**$1.09**	$0.94	**($0.67)**	($0.50)

See accompanying notes

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, March 30, 2019	225,531	12,716	131,311	558	370,116
Adjustment on adoption of IFRS 16 *Leases*	–	–	(105,114)	–	(105,114)
Balance, March 31, 2019	225,531	12,716	26,197	558	265,002
Net loss for the period	–	–	(13,675)	–	(13,675)
Directors' deferred stock units converted (note 9)	1,455	(1,455)	–	–	–
Share-based compensation (note 10)	–	980	–	–	980
Directors' compensation (note 10)	–	222	–	–	222
Other comprehensive loss (note 7)	–	–	–	(1,357)	(1,357)
Balance, December 28, 2019	226,986	12,463	12,522	(799)	251,172
Balance, March 28, 2020	**226,986**	**12,822**	**(158,801)**	**2,998**	**84,005**
Net loss for the period	**–**	**–**	**(18,401)**	**–**	**(18,401)**
Share-based compensation (note 10)	**–**	**1,031**	**–**	**–**	**1,031**
Directors' compensation (note 10)	**–**	**222**	**–**	**–**	**222**
Other comprehensive loss (note 7)	**–**	**–**	**–**	**(5,510)**	**(5,510)**
Foreign currency translation adjustment	**–**	**–**	**–**	**(597)**	**(597)**
Balance, December 26, 2020	**226,986**	**14,075**	**(177,202)**	**(3,109)**	**60,750**

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended December 26, 2020**	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
OPERATING ACTIVITIES				
Net earnings (loss)	**30,722**	25,849	**(18,401)**	(13,675)
Adjustments to reconcile net earnings (loss) to cash flows from operating activities				
Depreciation of property, plant, and equipment	**4,129**	5,651	**13,020**	17,475
Depreciation of right-of-use assets	**10,183**	9,980	**31,728**	30,002
Amortization of intangible assets	**3,187**	3,393	**9,718**	9,971
Gain on disposal of equity investment (note 14)	–	(1,484)	–	(1,484)
Loss on disposal of capital assets	–	70	**247**	1,021
Share-based compensation (note 10)	**425**	359	**1,031**	980
Directors' compensation (note 10)	**74**	65	**222**	222
Deferred income tax expense (recovery)	–	10,411	–	(3,842)
Rent concessions	**(462)**	–	**(4,141)**	–
Other	**(787)**	278	**(899)**	634
Net change in non-cash working capital balances related to operations (note 13)	**54,853**	113,337	**111,540**	93,806
Interest expense (note 8)	**6,154**	6,466	**19,107**	18,867
Interest income	**(233)**	(460)	**(641)**	(1,633)
Share of loss from equity investments	–	–	–	1,588
Cash flows from operating activities	**108,245**	173,915	**162,531**	153,932
INVESTING ACTIVITIES				
Net purchases of property, plant, and equipment	**(1,543)**	1,098	**(3,528)**	(3,134)
Addition of intangible assets	**(2,385)**	(1,879)	**(6,635)**	(6,804)
Change in short-term investments	–	12,750	–	79,400
Interest received	**233**	587	**641**	1,413
Cash flows from (used for) investing activities	**(3,695)**	12,556	**(9,522)**	70,875
FINANCING ACTIVITIES				
Repayment of principal on lease liabilities (note 8)	**(7,052)**	(10,137)	**(25,890)**	(30,752)
Interest paid (note 8)	**(6,154)**	(6,465)	**(19,107)**	(18,867)
Cash flows used for financing activities	**(13,206)**	(16,602)	**(44,997)**	(49,619)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**559**	(286)	**939**	(280)
Net increase in cash and cash equivalents during the period	**91,903**	169,583	**108,951**	174,908
Cash and cash equivalents, beginning of period	**137,521**	46,615	**120,473**	41,290
Cash and cash equivalents, end of period	**229,424**	216,198	**229,424**	216,198

See accompanying notes

Notes to Consolidated Financial Statements

December 26, 2020
(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 2020 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 2020 Annual Report.

The unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended December 26, 2020 (including comparatives) were approved by the Board of Directors on February 4, 2021.

COVID-19 Pandemic

Commencing from the declaration of COVID-19 as a pandemic, to the release of these statements, the Company has been responding to the repercussions of the global crisis on 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. At the start of the third quarter, all previously closed retail stores had been re-opened and the Company recalled substantially all of its retail employees. Commencing November 12, 2020, following local government mandates, the Company re-closed all stores in Manitoba, followed by re-closures in certain markets within the Greater Toronto Area on November 23, 2020. By the end of the quarter, closures were province-wide in Ontario, Quebec, and Manitoba. As of December 26, 2020, the Company had 48% of stores open.

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

The Company's operations were significantly impacted by the COVID-19 pandemic during the first three quarters of fiscal 2021.

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.

The temporary retail closures as a result of COVID-19 and the associated revenue decrease during the 13-week period ended June 27, 2020 were considered to be an indicator of impairment during the first quarter of fiscal 2021. The Company performed a recoverability assessment for its capital assets as at that reporting date and determined that that there was no impairment. The extent of the impact of COVID-19 on future periods and for the fiscal year ending April 3, 2021 will depend on future developments which are uncertain and cannot be predicted. Further or prolonged closures of the Company's stores could result in the reassessment of impairment of the Company's capital assets.

3. CHANGES IN ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements have been prepared using the accounting policies as outlined in note 4 of the fiscal 2020 Annual Report. 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

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.

Classification of Liabilities as Current or Non-Current (Amendments 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.

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 was effective for annual reporting periods beginning on or after January 1, 2019 and superseded 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. 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 the day one right-of-use assets ("ROU assets") performed in connection with the adoption of IFRS 16 as at March 31, 2019.

The net effect of these errors resulted in the following impacts to the December 28, 2019 consolidated balance sheet: an overstatement of the ROU assets of $19.0 million, an overstatement of $24.4 million to long-term lease liabilities, an overstatement of $1.4 million to deferred tax assets and an understatement of $4.0 million to retained earnings.

Additionally, there was an error with the classification between short-term and long-term lease liabilities of $22.7 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 had a non-cash impact on the ROU assets, deferred tax asset balance, short and long-term lease liabilities and opening retained earnings balance, and will result in lower depreciation of the ROU assets going forward.

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 and 39-week periods ended December 26, 2020 and December 28, 2019 are not indicative of the results of other periods.

For fiscal 2021, 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, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	**As at December 26, 2020**	As at December 28, 2019	As at March 28, 2020
Cash	**229,006**	214,849	48,955
Restricted cash	**390**	1,212	1,212
Cash equivalents	**28**	137	70,306
Cash and cash equivalents	**229,424**	216,198	120,473

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

As at December 26, 2020, the Company held no short-term investments (December 28, 2019 – $7.8 million; March 28, 2020 – no 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, and therefore they are classified separately from cash and cash equivalents.

6. INVENTORIES

The cost of inventories recognized as an expense during the 13 and 39-week periods ended December 26, 2020 was $206.8 million and $409.8 million, respectively (2019: 13 weeks – $219.7 million; 39 weeks – $444.4 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 and

39-week periods ended December 26, 2020 were \$0.4 million and \$5.0 million, respectively (2019: 13 weeks – \$0.5 million; 39 weeks – \$5.9 million). The amount of inventory with net realizable value equal to cost was \$3.2 million as at December 26, 2020 (December 28, 2019 – \$5.1 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 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 evaluators with experience in financial markets.

During the 13 and 39-week periods ended December 26, 2020, the Company entered into contracts with total notional amounts of C\$22.5 million and C\$69.7 million, respectively, to purchase U.S. dollar/Canadian dollar currency pair forwards (2019: 13 weeks – C\$32.9 million; 39 weeks – C\$90.7 million). As at December 26, 2020, the Company had remaining contracts in place representing total notional amounts of C\$55.1 million (December 28, 2019 – C\$68.2 million) at an average forward rate of 1.32 (December 28, 2019 – 1.32). These contracts extend over a period not exceeding 12 months.

The total fair value of the contracts as at December 26, 2020 resulted in the recognition of no derivative asset (December 28, 2019 – below \$0.1 million; March 28, 2020 – \$3.8 million), and a derivative liability of \$1.7 million (December 28, 2019 – \$0.8 million; March 28, 2020 – no derivative liability).

During the 13-week period ended September 26, 2020, the Company terminated derivative instruments based on the heightened credit risk of one of its counterparties during the COVID-19 pandemic; consequently, hedge accounting was discontinued and a gain of \$0.3 million as at that date was deferred in other comprehensive income. This gain has since been recognized in earnings and loss in the 13-week period ended December 26, 2020, concurrently with the related hedged transactions. There were no other forecast transactions for which hedge accounting had been used in the previous period, but which were no longer expected to occur, or hedging relationships discontinued and restarted during the 13 and 39-week periods ended December 26, 2020 and December 28, 2019.

During the 13 and 39-week periods ended December 26, 2020, the Company had net losses (net of taxes) from the change in fair value of outstanding cash flow hedges of $3.2 million and $4.7 million, respectively (2019: 13 weeks – net losses (net of taxes) of $0.5 million; 39 weeks – net losses (net of taxes) of $0.8 million). The Company reclassified net gains (net of taxes) from settled contracts out of other comprehensive income to inventory and expenses of $0.9 million in both the 13 and 39-week periods ended December 26, 2020 (2019: 13 weeks – net losses (net of taxes) below $0.1 million; 39 weeks – net gains (net of taxes) of $0.6 million).

This resulted in an other comprehensive loss of $4.6 million and $6.1 million for the 13 and 39-week periods ended December 26, 2020 (2019: 13 weeks – other comprehensive loss of $0.5 million; 39 weeks – other comprehensive loss of $1.4 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, as well as any realized foreign exchange amounts as a result of derivative financial instruments were both immaterial in the 13 and 39-week periods ended December 26, 2020, and December 28, 2019.

8. LEASE LIABILITY

The following table reconciles the change in lease liabilities:

(thousands of Canadian dollars)	**13-week period ended December 26, 2020**	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Balance, beginning of period	**549,465**	546,236	**568,617**	533,367
Lease renewals included in the scope of IFRS 16	**12,449**	39,062	**15,814**	72,547
Accretion of lease liabilities	**6,154**	6,466	**19,107**	18,867
Repayment of interest and principle on lease liabilities	**(13,206)**	(16,602)	**(44,997)**	(49,619)
Rent concessions	**(462)**	–	**(4,141)**	–
Balance, end of period	**554,400**	575,162	**554,400**	575,162

For the 13 and 39-week periods ended December 26, 2020, the Company has applied the practical expedient offered under the amendment to IFRS 16 for COVID-19 to all rent concessions that met the criteria. The Company recognized $0.5 million and $4.1 million in these respective periods in its Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss) to reflect the changes in lease payments that arose from COVID-19-related rent concessions.

9. SHARE CAPITAL

Share capital consists of the following:

	39-week period ended December 26, 2020		39-week period ended December 28, 2019		52-week period ended March 28, 2020	
	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**	27,136,386	225,531	27,136,386	225,531
Issued during the period						
Directors' deferred stock units converted	–	–	137,575	1,455	137,575	1,455
Balance, end of period	**27,273,961**	**226,986**	27,273,961	226,986	27,273,961	226,986

10. SHARE-BASED COMPENSATION

As at December 26, 2020, 2,552,950 stock options were outstanding with exercise prices ranging from $1.00 to $18.40. Of these outstanding stock options, 1,167,825 were exercisable at a weighted average exercise price of $13.42. As at December 28, 2019, there were 2,333,038 stock options outstanding of which 1,087,238 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 and 39-week periods ended December 26, 2020, the pre-forfeiture value of options granted was less than $0.1 million, and $0.3 million, respectively (2019: 13 weeks – no options granted; 39 weeks – $1.3 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 December 26, 2020	13-week period ended December 28, 2019
Black-Scholes option pricing assumptions		
Risk-free interest rate	**0.3%**	1.3%
Expected volatility	**72.6%**	32.9%
Expected time until exercise	**2.5 years**	2.6 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**25.3%**	26.7%

Directors' Compensation

The Company has established a Directors' Deferred Stock Unit Plan ("DSU Plan"). Under the DSU Plan, Directors annually elect whether to receive their annual retainer fees and other Board-related compensation in the form of deferred stock units ("DSUs") or receive up to 50% of this compensation in cash. All Directors' compensation during the 13 and 39-week periods ended December 26, 2020 were issued in the form of DSUs, with the exception of cash awards of less than $0.1 million (2019 – all DSUs).

The number of shares reserved for issuance under this plan is 500,000. During the 13 and 39-week periods ended December 26, 2020, the Company issued 21,760 DSUs with a value of $0.1 million and 146,071 DSUs with a value of $0.2 million, respectively (2019: 13 weeks – 15,514 DSUs with a value of $0.1 million; 39 weeks – 39,165 DSUs with a value of $0.2 million). The number of DSUs to be issued to each Director is based on a set fee schedule. The grant date fair value of the outstanding DSUs as at December 26, 2020 was $3.2 million (December 28, 2019 – $4.3 million) and was recorded in contributed surplus. The fair value of DSUs is equal to the traded price of the Company's common shares on the grant date.

11. SUPPLEMENTARY OPERATING INFORMATION

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

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	**13-week period ended December 26, 2020**	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Print[1,4]	**192,221**	194,185	**402,997**	433,397
General merchandise[2,4]	**163,642**	184,595	**285,110**	333,700
Other[3]	**9,563**	4,957	**17,679**	12,560
Total	**365,426**	383,737	**705,786**	779,657

1 Includes books, magazines, newspapers, eReaders, and related shipping revenue.
2 Includes lifestyle, paper, toys, electronics, and related shipping revenue.
3 Includes Indigo cafés, irewards, gift card breakage, *plum* breakage, *plum* PLUS revenue, corporate sales, and Kobo revenue share.
4 Certain comparative information relating to eReaders has been reclassified to conform to the current year's presentation.

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	**13-week period ended December 26, 2020**	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Superstores[1]	**196,077**	264,272	**351,952**	542,859
Small format stores[1]	**34,297**	49,052	**57,304**	100,528
Online (including store kiosks)	**125,489**	65,456	**278,851**	123,710
Other[2]	**9,563**	4,957	**17,679**	12,560
Total	**365,426**	383,737	**705,786**	779,657

1 Includes sales on orders placed on *indigo.ca* and fulfilled through express-pick up.
2 Includes Indigo cafés, irewards, gift card breakage, *plum* breakage, *plum* PLUS revenue, corporate sales, and Kobo revenue share.

Supplemental operating, selling, and other expenses information:

(thousands of Canadian dollars)	**13-week period ended December 26, 2020**	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Wages, salaries, and bonuses	**52,816**	54,858	**108,131**	146,327
Short-term benefits expense	**4,590**	5,124	**12,250**	15,556
Termination benefits expense	**1,603**	1,266	**4,014**	4,210
Retirement benefits expense	**428**	433	**1,296**	1,325
Share-based compensation	**425**	359	**1,031**	980
Total employee benefits expense	**59,862**	62,040	**126,722**	168,398

The Company has recognized payroll subsidies from the CEWS program of $3.2 million and $22.9 million in the respective 13 and 39-week periods ended December 26, 2020. 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, $4.0 million remains outstanding in accounts receivable as at December 26, 2020.

Termination benefits arise when the Company terminates certain employment agreements.

12. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is calculated based on the weighted average number of shares outstanding during the period. In calculating diluted earnings per share amounts under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculations as the assumed exercise of the Company's stock options do not result in adjustment to net earnings. The reconciliation of the denominator in calculating diluted earnings per share amounts for the 13 and 39-week periods ended December 26, 2020 and December 28, 2019 is as follows:

	13-week period ended December 26, 2020	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Weighted average number of common shares outstanding, basic	**27,697,527**	27,520,290	**27,644,551**	27,508,106
Effect of dilutive securities – stock options	**409,631**	–	**–**	–
Weighted average number of common shares outstanding, diluted	**28,107,158**	27,520,290	**27,644,551**	27,508,106

For the 13 and 39-week periods ended December 26, 2020, 1,737,950 anti-dilutive stock options (2019: 13 weeks and 39 weeks – all outstanding stock options were anti-dilutive) were excluded from the computation of diluted net earnings per common share.

13. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended December 26, 2020**	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Accounts receivable	**(14,373)**	54	**(18,755)**	(9,212)
Inventories	**34,307**	51,429	**23,649**	5,280
Prepaid expenses	**1,306**	885	**(1,875)**	(802)
Income taxes recoverable	**–**	502	**–**	345
Other assets	**(1,434)**	(2,516)	**(882)**	(2,612)
Accounts payable and accrued liabilities (current and long-term) and other	**10,532**	38,028	**85,874**	81,142
Unredeemed gift card liability	**22,076**	22,689	**16,953**	16,947
Provisions (current and long-term)	**(13)**	180	**378**	120
Deferred revenue	**2,452**	2,086	**6,198**	2,598
Net change in non-cash working capital balances	**54,853**	113,337	**111,540**	93,806

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 December 26, 2020**	13-week period ended December 28, 2019	**39-week period ended December 26, 2020**	39-week period ended December 28, 2019
Wages, salaries, and bonus	**1,386**	1,650	**3,689**	4,845
Short-term benefits expense	**25**	32	**73**	100
Termination benefits expense	**–**	–	**–**	793
Retirement benefits expense	**16**	16	**48**	52
Share-based compensation	**132**	214	**598**	541
Directors' compensation	**74**	65	**222**	222
Total remuneration	**1,633**	1,977	**4,630**	6,553

Transactions with Shareholders

During the third quarter of fiscal 2021, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. During the 13 and 39-week periods ended December 26, 2020, the Company paid below \$0.1 million and \$0.2 million, respectively for these transactions (2019: 13 weeks – \$1.2 million; 39 weeks – \$1.9 million). As at December 26, 2020, Indigo had a nominal amount payable to these companies under standard payment terms (December 28, 2019 – no outstanding payable). In prior periods, an amount of restricted cash has 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 December 26, 2020 (December 28, 2019 – \$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.

During the second quarter of fiscal 2021, 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 has a maturity date of February 1, 2021, and was issued on favourable commercial terms to Indigo. The purpose of this credit facility is to allow the Company to manage the seasonal nature of cash flows in the most effective manner. As at December 26, 2020 there were no advances or repayments under 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 and 39-week periods ended December 26, 2020, and the comparable periods in the prior year.

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

15. SUBSEQUENT EVENTS

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 second wave of COVID-19 related store closures, which have extended into its fourth quarter. The inability to enter into a suitable relief arrangement or any dispute under these leases may result in litigation with the respective landlords.

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